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ABeam Consulting Ltd.

Marunouchi Eiraku Building, 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
100-0005, Japan

Tel. +81-3-6700-8800 (main switchboard); fax +81-3-6700-8801

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ABeam Public Relations Report 2016-17

CONTENTS

Message from Management	4	Leveraging the massive hidden potential of digital technologies Achieving corporate transformation: Game Change by Digital Innovation Toshinori Iwasawa President and Chief Executive Officer, ABeam Consulting Ltd.
6 ABeam Consulting's Perspectives What kinds of digital transformation are Japanese companies looking for?	8	ABeam Consulting's Perspectives Preface [Staying at the forefront by creating systems for value co-creation] Superior competitive positioning in the digital area springs from mastering value chain innovation Masato Miyamaru Executive Officer, Principal Head of Strategy Business Unit
	11	ABeam Consulting's Perspectives 1 [Spurring transformation with Lean Startup 2.0] The three conditions for achieving innovation in the B2B Field Gaku Saito Executive Officer, Principal Strategy Business Unit Business Strategy Sector Leader
	14	ABeam Consulting's Perspectives 2 [The role of marketing in the digital era] Strengthening marketing organizations and maximizing experience value for individual customers Mitsuru Homma Director Digital Transformation Business Unit Digital Marketing Sector Leader
	17	ABeam Consulting's Perspectives 3 [Machine learning-led AI will transform business] Leveraging the potential of practical application-level AI in value chain reforms Junichi Murozumi Executive Officer, Principal Digital Transformation Business Unit BI Sector Leader
	20	ABeam Consulting's Perspectives 4 [Implementing transformation that reflects the rise of FinTech] Finance & industry innovation opening the door to the potential of new financial services Gen Koyama Director Financial & Social Infrastructure Business Unit
	23	ABeam Consulting's Perspectives 5 [Switching from products to services The shift to manufacturing as a service] The Service-centered strategy of the Japanese manufacturing industry, creating added value with digital technology Satoshi Tachibana Director Digital Transformation Business Unit IoT Sector Aki Ando Manager Digital Transformation Business Unit IoT Sector Atsushi Watabe Senior Consultant Digital Transformation Business Unit IoT Sector

26 | Special Feature
Providing both speed and quality,
the cloud is accelerating global
business management

Case Study
A success story of a Cloud-based
SCM reform

28

Part 1

The perfect balance between offense and defense: what is the optimal solution for current global sourcing strategies?

Masaki Tomida Executive Officer, Principal Process & Technology Business Unit SCM Sector Leader
ABeam Consulting Ltd.

30

Part 2

**Three-way conversation House Foods China Inc.
ABeam Consulting (Shanghai) Co., Ltd. (ABeam China)
Establishing a global SCM infrastructure that uses ABeam
Cloud and Supply and Demand Template**

Tsuyoshi Nakashima Executive General Manager Administrative Dept. House Foods China Inc.
Yosuke Nakano Managing Director ABeam Consulting (Shanghai) Co., Ltd.
Koichi Katsurayama Senior Manager ABeam Consulting (Shanghai) Co., Ltd.

Regional Report

36

From Mexico
From the frontline in Mexico

Japanese companies seek success in Mexico as the starting point for a global development "offense"

Koh Watanabe Managing Director ABeam Consulting(USA)Ltd.

40

From Thailand
From the frontline in Thailand

Acquisition of multinational human resources is essential for survival in the Greater Mekong Subregion

Ichiro Hara Managing Director ABeam Consulting (Thailand) Ltd.

42

From Yamagata, Japan
Contributions to Regional Revitalization

The goal of Yamagata Prefecture—using a professional soccer team to engage in regional revitalization

Tomoyuki Matsuda Executive Officer, Principal Head of Public Business Unit ABeam Consulting Ltd.

ABeam Consulting Digest

44

**ABeam Consulting Digest
2015.04-2016.09**

CSR Report

46

CSR at ABeam Consulting

About ABeam Consulting

As a global consulting firm founded and based in Asia, ABeam Consulting provides high value added consulting services that support clients in their efforts to achieve global expansion. ABeam consulting proposes best practices for each client based on an understanding of the market needs specific to individual industries and businesses as well as the differences in culture and business practices that mark specific countries and regions. ABeam is backed by a wealth of experience drawn from across all its service domains, ranging from corporate strategy to business innovation, IT development, operations, and maintenance. All told, ABeam Consulting is the ideal real-world partner for customers seeking to realize management-led transformation.

This document reports on the state of ABeam Consulting today.

Leveraging the massive hidden potential of digital technologies

Achieving corporate transformation: Game Change by Digital Innovation

Companies exist in business environments which continue to change with immense speed, and which require difficult management leadership.

The question is this: how can companies use the potential of digital technologies to achieve corporate transformation in a speedy and sustainable manner?

Based on its basic concept of being a Real Partner to its customers, ABeam Consulting promotes the concept of Game Change by Digital Innovation.

Toshinori Iwasawa

President and Chief Executive Officer
ABeam Consulting Ltd.



Increasing the speed of transformation to survive in this age of obsolescence

As a Real Partner, at ABeam Consulting we become members of our customers' teams, share their pain until they achieve success, and continue to provide consistent support. This approach has been highly valued by a large number of customers.

Companies exist in business environments which continue to change increasingly quickly. As a result, companies are facing more complex issues that require difficult leadership decisions. Start-ups with zero assets, for example, are taking advantage of digital leverage to create cutting-edge business models. These business models conquer existing markets and threaten the very livelihoods of traditional companies. This type of innovation is found in various industries, perhaps typified by two companies: Uber is the world's largest taxi company, yet does not own a single vehicle; Airbnb is the world's largest hotel company, but does not own a single piece of property.

The composition of global competition is also undergoing significant change. Until recently, Japanese companies viewed European and U.S. companies as their chief rivals; now, however, companies from emerging countries are also generating increased competition. Indeed, one well-known electrical appliance manufacturer has recently been bought out

by a company from an emerging country—this and other such events, which would have been unthinkable just a few years ago, are growing in frequency.

One of our customers noted: "In order to both increase our competitive advantage, which is essential to survive in this age of obsolescence, and to secure sustainable growth, we must accelerate the rate at which we are transforming by ourselves." ABeam Consulting feels this sense of urgency and danger acutely.

Changing the game together with our clients through digital innovation

As various digital technologies continue to launch, they transform the very roles of businesses and companies. It is no exaggeration to suggest that the companies implementing the type of open innovation that effectively uses digital technology in every aspect of their business—including value chains, marketing and manufacturing—will be successful in changing the game in global competition. For this reason, together with our customers, ABeam Consulting is also changing its business direction to focus on Game Change by Digital Innovation. By actively engaging with the innovations engendered by digital technologies, and by implementing immediately effective measures in short-term cycles, it will be possible for companies not only to achieve corporate

transformation, but also to seize the initiative as rapidly evolving businesses.

Of course, while technologies are of great importance, it is essential not to be controlled by them. In recent years, an immense variety of new technologies have launched, based on artificial intelligence (AI), the Internet of Things (IoT), and new financial services that use IT (FinTech).

However, many make the mistake of believing either that the use of these new technologies will produce innovation, or that the rapid implementation of these new technologies is necessary to remain ahead of the times. Yet companies must not be beguiled by these rapidly changing technologies; rather, they must ascertain the true merit of these technologies and use them to differentiate and to enhance their competitive edge.

In order to usefully exploit and fully implement digital advantages, a careful and thorough examination of the available technologies is essential. Companies must first draw up their overarching vision, select technologies according to what is necessary for their vision, and finally apply these technologies in such a way that they will support the generation of new services and business models. And this is where ABeam Consulting steps in—we have taken the initiative and are able to execute the processes outlined above.

Seeing the value of your own company from the perspective of the end user and generating new value

It may well be the case that companies can effectively use technology to automate routine tasks and visualize complex data flow in factories. However, as the rise of digital technology leads to increasingly fierce competition that crosses industry borders, it becomes more and more important for companies to reconsider the value they provide from the viewpoint of the end user—in this case the consumer—and to generate new value. A prime example is the development of manufacturing as a service. A case study is offered in this publication regarding Epson Sales Japan, who strategically altered their business model from sales of printer "products" to sales of metered billing "services." It is the ability to rapidly incorporate digital potential into actual models that results in increased corporate competitive advantage.

ABeam Cloud consistently provides the knowledge and know-how essential for innovation

Technologies, applications, and cloud services are springing up in every part of the world including, of course, Silicon Valley. ABeam Consulting acts as a guide for its customers to investigate, carefully select, and verify the effects of these technologies using its own business processes. Finally, we customize the technologies and itemize them on the cloud so that they can be immediately used by our customers.

We have also created a platform to achieve corporate transformation called ABeam Cloud, through which we provide templates for different industries and business processes. These templates are an accumulation of the knowledge and knowhow we have cultivated through supporting the reforms of a large number of customers. ABeam Cloud is already being used by more than 20 customers, including the House Foods Group. It is particularly highly valued by customers who wish to rapidly establish management foundations as part of their global strategies.

The idea of Game Change by Digital Innovation uses the potential of digital technology to achieve corporate transformation. This publication explains this concept from a variety of different perspectives. We hope you will take the time to read on.

ABeam Consulting's approach of becoming a Real Partner that is always intimately linked with our customers has remained constant throughout our history. We have stayed abreast of the trends through the years, and continue to provide "value plus alpha." While seeking to make sense of an unpredictable future, at ABeam Consulting we will work together with our customers to draw up grand designs and identify how to incorporate innovative digital technologies into businesses, and so transform the very companies themselves.

ABeam Consulting's Perspectives

The rise of various cloud-based digital technologies is transforming business and the very nature of companies.

It's no exaggeration to say that companies who can effectively use digital technologies to implement open innovation in every aspect of business, from value chains to marketing and manufacturing, will become game changers competing on the global level.

It is vital that companies not drown in rapidly changing technologies, but discern their essential nature and use them to differentiate themselves and strengthen their own competitive positions.

— Companies need to carry out digital transformation with a vision of the future.

What kinds of digital transformation are Japanese companies looking for?

Game Change by Digital Innovation



Preface

Staying at the forefront by creating systems for value co-creation



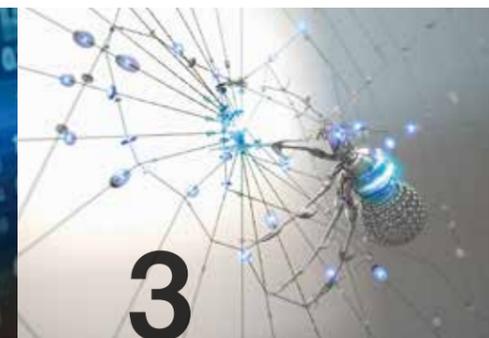
1

Spurring transformation with Lean Startup 2.0



2

The role of marketing in the digital era



3

Machine learning-led AI will transform business



4

Implementing transformation that reflects the rise of FinTech



5

Switching from "products" to "services" The shift to manufacturing as a service

Summary

Japanese companies must take the lead by establishing systems for co-creating value with customers. This will be the source of competitive superiority in the digital age.

Companies that use digital technology to continually innovate across the entire value chain will drive Game Change by Digital Innovation.

Those companies that become proficient at creation, expansion, and refinement continually carry out lean, open, and agile innovation.

The shortcut to success lies in value chain co-creation by a team of people from both inside and outside the company, rather than in leaving it all in the hands of a single expert.

Masato Miyamaru

Executive Officer, Principal
Head of Strategy Business Unit
mmiyamaru@abeam.com

Masato Miyamaru began his career in the financial industry with involvement in large-scale structured finance deals and numerous mergers and acquisitions. He has also headed the corporate planning and corporate strategy divisions at a publicly listed company. He joined ABeam Consulting in 2012 after serving as chief finance officer (CFO) of a boutique investment bank. In February 2013, he launched the new Strategy Business Sector, and he has headed the Strategy Business Unit since April 2014. He now leads a team of over 130 strategy consultants.



Preface

Staying at the forefront by creating systems for value co-creation

Superior competitive positioning in the digital area springs from mastering value chain innovation



In this issue's ABeam Consulting's Perspectives feature, we take the perspective of a management consultant working on the front lines as we introduce the ways in which digital innovation can be a game-changer. Why is the world's attention turning to the innovation brought on by digitization? The reason is that the tide of digitization is transforming systems for creating value (business models) and systems for delivering value to customers (value chains) that have been created by companies in the past. The age of full-fledged digitization has arrived, and Japanese companies need to have the ability to repeatedly carry out value chain innovation. ABeam Consulting's Masato Miyamaru discusses value chain innovation, the source of competitive superiority in the digital age.

Companies that continually transform value-creation systems drive Game Change by Digital Innovation

The 2009 Times bestseller *The New Age of Innovation*, was written by C.K. Prahalad and his University of Michigan Business School colleague M.S. Krishnan. Prahalad was named the world's most influential management thinker in The Times' Thinkers50 ranking in both 2007 and 2009. In the book, he writes the following:

What consumers want now are not "products," but individually tailored "experiences," co-creating value with companies. In order to meet that demand, companies must use global resources, both inside and outside their companies, straddling national lines. The revolutionary transformations brought about by digitization, communication environment improvements, and globalization, have dramatically changed the meaning of "products," how value is created, and the very reason companies exist. This tremendous tide requires the reformation of existing personnel management, product development, pricing, distribution, marketing, brand management, and business operator and manager workstyles and concepts.

Seven years ago, Prahalad perfectly predicted the major changes in how companies take on innovation brought about by advances in digitization and globalization. Now, in 2016, the new age of full-fledged innovation, Japanese companies must take the lead in establishing systems for co-creating value together with customers. We believe this will be the deciding factor in who become the victors of the digital era.

In order to lead the establishment of systems for co-creation of value with customers, we have focused on the old yet new framework of "value chains." Companies that use digital technology to continually carry out value chain innovation will change the game

by digital innovation and gain a position of competitive superiority in this new age of innovation.

So what are the capabilities of these companies that use digital technology to engage in continuous value chain innovation? Needless to say, they must be well-versed in digital technology, but that alone is not enough.

Let's look at the three capabilities needed by companies that engage in continuous value chain innovation.

The three necessary capabilities Value chain creation, expansion, and refinement

ABeam Consulting focuses on the following three capabilities that companies need to have in order to continually engage in value chain innovation in the digital age.

The first is value chain creation. Not only does this include rapid design of business models and the creation of new value chains in startup companies, but also the disassembly and rapid reassembly of existing value chains for large companies. Companies need to be capable of lean creation of new systems that effectively deliver solutions to customers as experience value, reflecting a thorough grasp of customers' jobs (importance), pains (severity), and gains (necessity).

The second is value chain expansion. This is the ability to expand environments for co-creation with other companies, spanning industries, business areas, and countries, in order to maximize the value delivered to customers. Up until now, Japanese companies have created closed environments, such as industrial groupings and supply chains. What they need to do instead is to maximize utilization of open ecosystems to increase their capabilities to expand co-created



“We are continuous innovation partners for Japanese global companies attempting to enter new fields”

value through value chains. Another important element of expansion capabilities is the ability to create discrete value chain growth by skillfully engaging in M&As, venture investment, and so on.

The third capability is value chain refinement. Value chain refinement naturally entails the ability to repeatedly engage in business process reengineering (BPR) by visualizing value chain processes from end to end. But it also consists in repeated upgrading and refining experience values in an agile manner using digital technology.

Companies that have acquired a facility in this creation, expansion, and refinement will be capable of continual innovation through lean, open, agile value chains.

The “Lean Startup 2.0,” “digital marketing,” “artificial intelligence (AI),” “FinTech,” and “manufacturing as a service” portions of the ABeam Consulting’s Perspectives feature of this report each represent methods for transforming systems that deliver experience value to customers. They can also be thought of as methods for achieving value chain creation, expansion, and refinement in the digital era.

Value chain innovation is led by teams both inside and outside the company

Becoming proficient at value chain innovation creation, expansion, and refinement will serve as the driving force that enables Japanese companies to lead the digital era. However, only a limited number of companies can provide all of these capabilities entirely on their own. Although it is extremely important to develop skilled personnel capable of repeated innovation (serial innovators) within a company, it isn’t feasible to leave value chain innovation in the hands of a single person.

As a practical solution to this problem, ABeam Consulting recommends the creation of a team of people from both inside and outside the company. In this way, companies can create “value chain innovator teams” of people with experience in new business incubation, people with track records of investing and partnering (including M&As), people who are skilled at process reform and operation transformation such as BPR, people with agile system development skills, and so on. By engaging in value chain innovation using teams such as these, companies can not only rapidly achieve and maintain competitive superiority, but also cultivate a culture and foundation for co-creativity with other companies.

ABeam Consulting’s consultants always strive to become members of the value chain innovator team within each of our digital-age customers. We will continue to support Japanese global companies as Real Partners that co-create value chain innovation with customers in the digital era.

Summary

As Aristotle taught, “the whole is greater than the sum of its parts.” In the same way, the creation of new value is the true essence of innovation.

The key to stimulating innovation is to have a thorough understanding of what pains customers, and to implement approaches to resolve it.

Ultimately, the ability to innovate comes down to the passion of those working in the field.

ABeam Consulting’s Perspectives

Spurring transformation with Lean Startup 2.0

The three conditions for achieving innovation in the B2B Field



In today’s world, no matter how strong a company may be, it will be left behind if it fails to innovate. Achieving this innovation requires the lean startup approach, which has primarily been used in the B2C market, to be deployed in the B2B field as well. This is the “Lean Startup 2.0” approach. ABeam Consulting’s Gaku Saito explains that innovation comes from thoroughly understanding customer “pain,” flexibly “pivoting,” and always being “passionate.”

Striving for new technologies & solutions

Customer voice 1

“I want to start a new business using AI.”

“I want to start a new business using the IoT.”

Customer voice 2

“I want to transition to a solution-based business model.”

“I want to create a solution business that spans the entire organization.”

“I want to shift from product-focused business to service-focused business.”

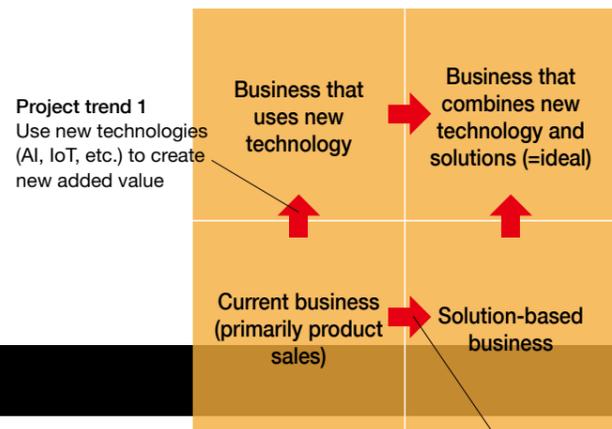
In recent years, we have had many of these two types of consultations with customers. Often, as we have engaged in discussions with customers, we have found that at heart, customers in both of these two categories are ultimately seeking the same thing (see figure below). That is, they share a desire to use AI and other new technologies to build a solution-based business model instead of simply selling physical products, and to continuously generate revenue with a large-scale base. The fact that both themes boil down to the same thing is perhaps to be expected, as the core essence of AI and the IoT is connection and creating new value by fusing elements together.

Achieving this vision by continuing along the lines of one's current business is difficult; instead, it is essential to create new value along a new axis. These ideals cannot be achieved without innovation.

Innovation cannot be created simply by combining parts

Innovation does not come out of the blue—it doesn't suddenly occur one day. It comes from combining assets and concepts developed through steady, constant originality and ingenuity with different assets and concepts.

However, merely combining parts is not enough to ensure innovation. So, how do combination approaches which create new value differ from those which do not?



Project trend 2
From product business to service business:
create new value by fusing organizations

Consider the example of the hamburger. Hamburgers are made by combining the patty (hamburger meat) and the bun (bread). Cooked hamburger meat and bread can each be eaten on their own, but when combined they produce the hamburger, creating new value along a new axis and changing people's lives. This is a combination that produced innovation.

Now let's consider another combination, combo meals consisting of hamburgers, french fries, and drinks. What we expect from a combo meal is “value for money.” This is not a combination that produces innovation.

Aristotle taught that “the whole is greater than the sum of its parts.” This creation of new value is the true essence of innovation.

Responding to customer pain and drawing customers in

So how can companies spur innovation? The key is to have a thorough understanding of customer pain, and to implement approaches to eliminate it. Of course, this is not an easy task. It involves repeated trial and error, issuing proposals and taking risks. You also need to look outside the company for ideas and wisdom lacking within the company. Above all else, it is essential to draw customers into the process.

This process of speedily carrying out a hypothesis and verification cycle is called a lean startup.

The beloved car sharing service Uber achieved its success through repeated hypothesis generation and testing based on customer pain. The pain that led to the company's creation is said to have been revealed in an experience of Uber's founder, who was unable to find taxis in San Francisco, where the taxi industry was collapsing.

Uber created a business model that fully leveraged digital technologies such as mobile phones, location information, and the IoT to connect millions of users with drivers. Through this hypothesis and verification process, Uber realized that application response speed was the key to business success, so it focused its efforts on building a system that offered customers a high level of usability. Because of these efforts, Uber grew rapidly and reached a market value of 5 trillion yen in just five years, despite not owning a single vehicle.

Innovation is essential for traditional B2B companies

Many successful lean startups have been in the comparatively unchallenging B2C market. For traditional B2B companies, attempts to release incomplete services or solutions which haven't been thoroughly discussed within the company are met with internal



Gaku Saito

Executive Officer, Principal
Strategy Business Unit
Business Strategy Sector Leader
gsaito@abeam.com

Gaku Saito joined ABeam Consulting in 2001 after working at a consulting firm. He has led consulting projects for formulating strategies and providing strategy execution support for wide range of industries, including general trading, information communications, service, manufacturing, retailing and wholesaling, and independent administrative agencies. His publications include “Techniques for Always Reaching Conclusions at Initial Meetings” (Toyo Keizai Inc.) and “Logical Selling” (coauthor, Toyo Keizai Inc.).

responses such as “Is it really okay to launch a product that would only score a 50?” or “Do you really think the company can go out and sell products to customers when the products aren't even finished?” There are also business management circumstances that lead companies to strive to maintain and grow their current major business areas rather than invest in businesses with uncertain futures.

However, in today's world, no matter how strong a company may be, it will be left behind if it fails to innovate. In fact, 52% of the companies listed in the Fortune 500 at the turn of the century no longer exist, having gone bankrupt or having been bought out by other companies.

There is a need for accelerators that bring in third-party perspectives from outside

ABeam Consulting defines “Lean Startup 2.0” as measures that traditional B2B companies use to actively stimulate innovation, creating new value and supplying it to customers, instead of being swallowed by the disruptive transformation driven by startup companies.

This involves three key words—the “3 Ps.”

The first is “pain.” If companies do not understand their customers' pains, their new services and solutions will not be accepted. Internal discussions based not on one's own assets, but on customer pain, make it possible to achieve fusion within vertically divided companies. This perspective is particularly important for traditional companies with large amounts of assets.

The second key word is “pivot,” which refers to shifts in strategy. Customer pain does not lie within the company. Companies must always remain connected to their customers, listening to and learning from their feedback, and bringing in outside ideas and wisdom to flexibly decide on pivots. They can also create and verify hypotheses by proposing new value to customers and listening to their feedback, achieving success in their business startups. It is more difficult to identify customer pain and the scale of possible

monetization in the B2B field than in the B2C field, so it is important to immediately discard hypotheses when they prove false.

The third key word is “passion.” In the end, the success of innovation all comes down to people. We surveyed 750 people who have started up new businesses, and found that the passion of business startup leaders was one of the top three factors (of 70) that determined whether a business succeeded or failed (see below).

- A system for continually generating profit has been defined
- The personnel that conduct business operations are assigned appropriately
- Those starting the new business feel passionate about it

Source: ABeam Consulting “New Business Fact-Finding Study—Turning Points for Success and Failure,” an independent study

Traditional large companies with brilliant personnel tend to focus on the quality of the content of the business model itself, but our study indicates that the passion of the people in charge is more important.

Implementing Lean Startup 2.0 based on these three Ps requires the use of outside third-party accelerators with extensive innovation experience. These accelerators create lines of discussion and induce collaboration. ABeam Consulting would like to actively take on the role of accelerator.

To do so, we sometimes abandon the traditional consulting format, providing support instead by focusing on providing training for client members, or using a hands-on approach in which a small number of consultants are positioned on-site long-term. This approach is the result of our own pivot, aimed at helping our clients realize their passions.

Summary

IT tools are, in the end, just tools. The true essence of digital marketing simply lies in the fact that it is the digitization of marketing.

Japan's domestic market is shrinking as the result of a declining birthrate and aging society. Conventional mass marketing approaches are becoming less effective.

The designing of data collection and usage, including touch points, will become the future of marketing strategy itself.

The most important aspect of digital marketing is data utilization that leverages a company's own strengths. Misreading which direction to take this data utilization can cause a company to lose all the brand strength and trust it has developed.

ABeam Consulting's Perspectives

The role of marketing in the digital era

Strengthening marketing organizations and maximizing experience value for individual customers

Digital marketing is not a separate concept from conventional marketing. Instead, its true essence lies in the fact that it is simply the digitization of marketing. Its success, therefore, does not lie in IT tools. Rather, it is important to first understand your own company's strengths, background, and individual customers. This, combined with strategic data collection and utilization, serves as a foundation for the strengthening of marketing organization functions and business processes. ABeam Consulting's Mitsuru Homma explains.

Digital marketing is based on the universal concepts of marketing

Recently, there has been a tendency to see digital marketing as the antithesis of conventional marketing. There is an idea that without using the latest ad technologies to approach customers through various digital touch points, such as web and mobile, it won't be possible to attract new customers or maintain existing customers.

Indeed, various IT tools have appeared which provide support for new marketing techniques, from search engine optimization to data management platforms and marketing automation. Furthermore, these IT tools can be deployed at little cost. This has dramatically changed the marketing environment.

However, these IT tools are, in the end, just tools. Marketing and digital marketing should not be considered in contrast to each other. Instead, the true essence of digital marketing lies in the fact that it is simply the digitization of marketing.

In fact, digitization is taking place in every channel, not just the web and mobile channels. For example, sales in brick-and-mortar stores are still conducted face-to-face, the traditional way, and have changed little, but the customer service history is entered into POS terminals and sales personnel tablets and stored in systems in data form. Telephone correspondence history is recorded in the same way for call centers.

What is important is whether or not you can use this data in your own business, turning it into valuable information, using it in decision-making, and linking it to agile action. Marketing organization functions and business processes must also be strengthened to handle this digitization.

Digital marketing is based on the universal concepts of marketing. In that sense, "digital marketing" is a transitional term. In the long term, I don't think it will be necessary to keep adding the word "digital."

Maximizing experience value for each customer is crucial

What, then, is required to strengthen marketing organization functions and business processes to handle this digitization – in other words, what is necessary to bring about marketing transformation?

If the mass production/mass consumption business of Japan's period of rapid economic growth had continued unchanged, there would be no need to shift to digital marketing. Those businesses didn't require a large amount of data, nor did they require high-precision analysis.

Mitsuru Homma

Director
Digital Transformation Business Unit
Digital Marketing Sector Leader
mhomma@abeam.com

Mitsuru Homma joined ABeam Consulting in 2015 after working at a major consumer-goods manufacturer. He has worked on projects such as digital advertising improvement and web content management system implementation, and has extensive experience with marketing, digital marketing, and data analysis. He is also a visiting professor at the University of Tokyo Graduate School of Mathematical Sciences and at Business Breakthrough University.

However, as everyone knows, the declining birth rate and aging of society is causing the domestic market to mature and contract, and conventional mass marketing is no longer effective.

The problem with the mass marketing that has been conducted in the past by Japanese companies is that it has been performed on a one-segment/one-target basis. Matrix marketing, by male/female or age, is the epitome of this. For example, the conventional wisdom has been that if you are selling childcare products or services, you should target the "F1" demographic (i.e., women aged 20 to 34).

This pushed old-fashioned desires, values, and preconceptions based on marketers' own experiences. Today, life plans, incomes, and tastes vary from person to person, and lifestyles are becoming increasingly diverse. Needless to say, this simplistic, almost autopilot marketing no longer applies to people.

Companies need to respond to the increased diversity of customers using more accurate customer clustering methods which combine multiple attributes, not just gender and age. They must also maximize experience value for each customer.

Building solid connections with customers from first contact

The core of marketing, both in the past and today, consists of gaining a deep understanding of customers. This is essential to improving marketing return on investment (ROI). However, as touched on earlier, marketers' personal gut instincts and experiences aren't enough to understand the diversifying lifestyles, values, tastes, and latent needs of individual customers.

ABeam Consulting's Perspectives

2

The role of marketing in the digital era

Instead, this can be done by gathering a wide range of objective data and applying scientific methods, such as mathematical statistics and analytics. It is vital to recognize that the designing of data collection and utilization, including touch points such as the purpose of data collection, who it is collected from, where it is collected from, and what kind of data is collected, will become the future of marketing strategy itself.

In the past it was possible, to some extent, to collect data “after the fact.” Customer studies and questionnaires were carried out to determine why customers bought specific products and services. However, this approach does not produce results in time, and the increased fluidity of the market has made after-the-fact studies difficult.

The Japanese market is rapidly growing more fluid. The number of foreigners visiting Japan, most of whom are tourists, has grown significantly, reaching 19.73 million in 2015. The “Council for the Development of a Tourism Vision to Support the Future of Japan,” chaired by Prime Minister Shinzo Abe, plans to further increase this number, putting forth a target of 40 million tourists and 8 trillion yen in spending by 2020. This inbound tourism demand now accounts for a fairly large percentage of the sales of many companies.

Needless to say, companies do not consider this a temporary special demand spike, but want visitors to purchase their products and services again when coming back to Japan, and to buy their products and services in their own countries. Doing so requires greater ongoing engagement with customers.

However, when customers buy their products or services and then return to their own countries, companies have no way to maintain contact with them. Every meeting with a customer is a once-in-a-lifetime experience, so companies must establish solid connections from the first contact. This cannot be achieved without first placing touch points to act as data collection sensors.

To drive digital marketing, you must first understand your own company's specialties

The most important part of digital marketing (the digitization of marketing) is using data to leverage your own strengths. Put another way, misreading which direction to take this data utilization can cause a company to lose all the brand strength and trust it has developed.

One example is the use of what is known as “data-driven marketing”: real-time observations of customer location, web-browsing, and other behavior, and recommendation of products and services for which demand is predicted to be high.

This method may indeed be effective for companies primarily engaged in apparel and sundry sales. However, for companies that provide durable consumer goods, such as high-end furniture and interior decorations, this approach can actually be counterproductive. What customers want from companies like this are lifestyle proposals based on more broad-ranging and long-term perspectives. In this situation, engagement is increased not by making nearsighted recommendations based on individual customer actions, but by collecting data in order to predict changes in trends several years down the line and providing content that takes life events into consideration.

This is why digital marketing cannot be performed merely by relying on tools. Companies must always keep the following three points in mind as they carry out their digital marketing: “Thoroughly understand your own company's background,” “Understand your company's specialties,” “Confirm whether your measures provide what customers want.”

Sometimes, a company's strengths cannot be identified within the company as they are seen as being so “common-sense” that the company fails to see them. This is what makes the ability of consulting firms such as ABeam Consulting to provide strategy formulation support from an objective perspective so valuable.

Summary

AI has made tremendous progress due to advances in technical approaches such as machine learning and deep learning.

AI based on machine learning and deep learning is increasingly being put to practical use in various fields such as finance, law, accounting, medicine, automated driving, and stock trading.

However, AI is expected to bring a future that is not all rosy. AI will also supplant various jobs which until now have been performed by people.

Companies should take the lead in carrying out applied research to accurately evaluate the maturity of AI technology and actively make use of it.

3

ABeam Consulting's Perspectives

Machine learning-led AI will transform business

Leveraging the potential of practical application-level AI in value chain reforms



Advances in technologies such as machine learning and deep learning have led to AI being considered ready for practical application. But is it really ready? What do companies need in order to introduce AI technologies in their own business, use it to differentiate them from the competition, and transform value chains? ABeam Consulting's Junichi Murozumi discusses the importance of staying on top of the latest research results in order to assess the maturity of AI technology.



ABeam Consulting's Perspectives

2

The role of marketing in the digital era

Discovering hypotheses, learning autonomously, and increasing precision

One of today's most closely watched technology trends is artificial intelligence (AI). In recent years, the AI area of machine learning has made particular progress.

What makes this technology revolutionary is that it does not merely analyze data, but discovers hypotheses themselves and learns autonomously, increasing its own level of precision.

One of the most startling examples of this was the news that the Go-playing AI AlphaGo, developed by UK-based DeepMind Technologies Limited, a subsidiary of Google, beat Lee Sedol, a professional Go player from Korea.

There are said to be 10^{360} positions that can occur throughout a Go game, and even the latest supercomputers would be unable to keep up with the approach of simply looking up all available moves, and would be unable to compete against a professional Go player. Because of this, it was thought that it would take another decade before a computer would be able to beat a human at Go. AlphaGo's victory overturned this prediction.

DeepMind Technologies researchers collected over 30 million moves by top Go players and had the AI play against itself, learning from the results. The end result was the creation of software that went beyond set Go sequences and conventional wisdom, developing new and unexpected moves, and was ultimately able to beat a top Go player.

If AI can take care of drudgery for us, we should welcome it

AI based on machine learning and deep learning is finding practical applications in diverse businesses

AI's advances are not limited to games like Go and Shogi. AI based on machine learning and deep learning is starting to be practically applied in various businesses.

One life insurance company, for example, uses AI to handle highly complex payment assessment operations in order to improve business speed and efficiency. AI machine learning was performed on data related to insurance claims, several million of which are issued each year. The software became able to understand the contents of the claims and infer key investigation points, providing claim assessment personnel with past case examples and materials to assist with decision-making. The percentage of correct answers reached by AI has risen to 90%.

Similarly, in fields such as law and accounting, it is essential to rapidly absorb the latest papers, case examples, and precedents, but even experts have a hard time assessing all of this information with their finite abilities. AI can be used to lower the barriers to accessing the information that is needed and make more appropriate decisions based on the latest information.

In the medical field as well, AI usage is rapidly gaining steam. For example, in genomic analysis, which is used in cancer treatment, advances in supercomputers have already brought about the discovery of roughly 2.5 million mutation candidates. However, narrowing down from this set to the specific gene that is the cause of an individual patient's cancer is beyond the capacity of human knowledge and ability.

The Human Genome Center within the University of Tokyo's Institute of Medical Science is using a new approach, feeding over 24 million life science papers registered in a cloud-based knowledge database into an AI system to perform machine learning. The ultimate goal is to identify several possible cancer gene candidates and propose corresponding drug treatments. Clinical testing in the University of Tokyo Institute of Medical Science hospital has already begun to apply these sequences to actual blood and digestive system cancers.

AI holds promise for application in countless other fields as well, such as automated vehicle driving and ultra-high-speed stock trading.

Going beyond compensation for lost jobs by showing humanity new possibilities

The future that AI is expected to bring about is not all rosy. Within companies, some worry about the ease with which AI could be misused, or point out that despite the large amount of verification

Junichi Murozumi

Executive Officer, Principal
Digital Transformation Business Unit
BI Sector Leader
jmurozumi@abeam.com

When working at a credit card company, Junichi Murozumi was in charge of new business, using the findings produced by analysis of large amounts of data to provide value-added services to partner companies. He has used this background to become a consultant, contributing to new growth for a large number of Japanese companies. He offers consulting regarding BI solution development and deployment using big data, the IoT, digital technology and analytics. He has taken part in a large number of projects, especially those relating to the financial and service industries.

testing that is being performed, there are few examples of AI being actually implemented. Perhaps the greatest concern here is that AI, or devices using it, could eliminate jobs, as discussed by Oxford University Associate Professor Michael Osborne.

Associate Professor Osborne suggests that roughly half of the jobs currently handled by people will be replaced by AI in the coming 10 to 20 years. His analysis is strictly focused on the U.S. labor market, but jobs such as retail store sales personnel, accountants, general office staff, sales personnel, general secretaries, food counter attendants, cashiers, ticket sellers, workers such as box packers, loaders, and unloaders, financial transaction recordkeeping personnel such as bookkeeping staff, large truck drivers, call center personnel, vehicle and taxi drivers, top-level civil servants such as central government bureaucrats, cooking staff working under chefs, and building management personnel are ranked as highly susceptible to replacement.

Although it is hard to imagine that people will become completely unnecessary, we must recognize that given the way things are progressing, AI will be used for a great deal of this work, reducing the demand for labor.

That said, it is important to remember that AI will more than compensate for these eliminated jobs by showing humanity new possibilities. Jobs do not exist solely to provide individuals with stability, but to provide some sort of value. If AI can take care of jobs which many people consider drudgery, it should instead be welcomed.

As some of the preceding examples indicated, AI is capable of processing far more information than people, and uses more efficient methods to produce valuable insights. By providing support for things that even human specialists cannot accomplish, AI has the potential to further promote human creativity and create innovative value chains.

Consulting methods that employ AI can swiftly provide fast-acting solutions

In order for companies to accurately assess the value of AI and introduce it into their own systems, it is important that they have opportunities to come into direct contact with basic research on AI. They can confirm the maturity of AI technologies through exposure to cutting-edge research results through exchanges with start-ups, research institutes, and academies, and through participation in international conferences such as the International Conference on Machine Learning (ICML).

For example, in response to a research report stating that a new AI technology had an error rate of 30%, one company might evaluate this positively, saying that a 70% accuracy rate is amazing, while another company might evaluate it negatively, saying that it's useless with an error rate of 30%. Evaluating the maturity of AI technology requires constant contact with raw information. Companies need to stay ahead of the competition with regard to applied research in order to actively make use of these AI technologies.

ABeam Consulting has also begun research aimed at using AI in its consulting operations. Current consulting methods consist of engaging in a cycle of producing hypotheses regarding defined business issues, collecting and analyzing related data, formulating and planning measures, and then implementing those measures. However, this process invites arbitrariness on the part of the consultant, and the results can vary significantly depending on the validity of the hypotheses.

We are introducing machine learning and deep learning in the consulting process, having systems themselves collect data and search for hypotheses. We believe this AI consulting approach will minimize the amount of consultant arbitrariness while also making it possible to swiftly implement fast-acting measures.

For example, in the area of customer loyalty management, AI can identify the root causes of questions such as "Why do customers cancel their contracts?" Customers who are highly likely to cancel their contracts can also be predicted and targeted, enabling companies to make the first move.

Attention is turning to the potential for the use of AI as a consulting method, such as in determining variables (hypotheses) with powerful predictive potential through machine learning and deep learning. AI could make it possible to extract these variables efficiently from large amounts of fact-based data, and applying them to various value chain issues.

Summary

“FinTech” has been discussed from a variety of perspectives. It has proven remarkable in everything from the greater use of technology for financial services to trends which do not fit within the framework of existing financial systems, such as the rise of Bitcoin.

For financial industry players confined and protected by regulations and rules, this presents a whole new dimension of competition, and in many cases the financial world has found itself at a loss regarding what to do. However, blindly collecting overseas case studies and chasing after technology trends is not enough to discover solutions. Companies must calmly evaluate the differences in their home Japanese environment.

For Japanese financial institutions, the key to riding the FinTech wave lies in identifying preconceptions and invalidated rules to carry out transformation, bringing in other parties, redefining one’s own strengths, and taking the next step.

Services and rules are changing, and the stances taken by financial institutions taking on these challenges will serve as guideposts for players in all industries seeking to change the game.

ABeam Consulting's Perspectives

Implementing transformation that reflects the rise of FinTech

Finance & industry innovation opening the door to the potential of new financial services

The trend toward new “FinTech” financial services is expanding as it promotes the entry of businesses that cross industry lines and the rise of new startups. It is going beyond a mere financial IT trend to become the new industry mainstream. What do traditional financial institutions need to achieve transformation in this age? What can other industries learn from this trend in the financial industry? ABeam Consulting’s Gen Koyama discusses FinTech from the perspective of a consultant in constant contact with financial institutions and companies in a variety of industries.

Digitalization is changing the status quo even of the financial systems that have enjoyed government protection

In 2016, FinTech drew increased attention even within Japan. The government also took a clearly forward-looking stance, with the Financial Services Agency introducing legislation aimed at IT investment TGR (transformation/grow/run) and the Ministry of Economy, Trade and Industry’s creation of a FinTech study group.

Originally, the phrase “FinTech” referred to companies providing IT services to the financial industry—that is, IT vendors. However, in the last few years it has come to refer to game-changing players and trends that use new technologies and business models to provide financial services, threatening the positions of existing financial institutions. If blockchains and smart contracts achieve full commercial implementation, they are expected to bring about further changes affecting all financial services. The tides of transformation brought about by digitization and the Fourth Industrial Revolution have reached the financial industry.

One notable example of this is the game changer of retail payment services. The basic business model of retail payment players has been limited to the difference between the amount paid by recipients of goods or services (consumers) and the amount received by their providers (member retailers) to be distributed between card issuers, member store management companies, payment brands, and network providers as “payment fees.” On the other hand, the payment services of platform providers such as Apple and Google can leverage the synergy between the companies’ software and hardware, and serve as information sources for better understanding Web service users. Square Inc. offers the convenience of card payment to small and medium-sized companies, greatly expanding their business base. There are also companies which monetize payment data by aggregating and processing it for use in different finance product credit evaluations, or which charge no payment processing fees, instead using the data they receive for marketing purposes and so on.

It would be fair to say that the recognition of the added value of payment-related information has expanded and changed the definition of “payment” from its traditional one of “the act of using the transfer of currency to cancel out credits and debts” to one of “quantifying lifestyle and commercial transactions and reproducing them as reusable value.” The rules of the payment game have changed.

“It is important not to be constrained by the preconceptions of the financial industry, but to develop the best services based on identifying sources of competitive advantage.”

The three challenges being taken on by financial institutions in order to become “FinTech winners”

Attention is being turned to FinTech because unique players have appeared that use technology in line with user needs and regulatory trends, and these players are rapidly and powerfully changing the game and innovating. Needless to say, different needs and different regulations produce different optimal solutions, so global trends and trends within Japan cannot be simply lumped together. This trend is especially pronounced in the highly regulated financial industry.

For example, in the United States, there is a great deal of start-up investment and it is considered extremely important to appeal to millennials. This is completely different from the situation in Japan. Likewise, differences in regulatory environments and relationships with various players make it difficult to make comparisons between Japan and China, where Ant Financial, part of the Alibaba Group, is engaging in large-scale investment and is the sole supplier for a wide range of financial services. In the EU, there has been notable political and administrative leadership in engaging in extended dialogue to ensure rational economic activity within the region while improving individual countries’ competitive advantages. In Southeast Asia and Africa, FinTech is not a disruptor, but is the exact opposite, providing financial services to people who have never had access to financial services in the past (financial inclusion).

So how should Japanese financial institutions approach the tide of FinTech? We believe there are three especially important challenges.

The first challenge is that of becoming capable of change. When engaged in business process reforms aimed at financial institutions, one often encounters organizational and rule-based barriers that would be hard to imagine in other industries. Suppose, for example, a rule stating that a manager must handle a transaction and stamp the documentation, that another manager must check the transaction and stamp it, and that their superior must then check the entire transaction and stamp it. IT-based business processes would be completely ineffective at reducing this workload. There are even some cases where rules that exist to assist with business processes

ABeam Consulting's Perspectives

4

Implementing transformation that reflects the rise of FinTech



Gen Koyama

Director
Financial & Social Infrastructure Business Unit
gkoyama@abeam.com

Gen Koyama joined ABeam Consulting in 2005 after working on numerous retail payment and finance-related projects at a Japanese consulting company. He has engaged in new business development, business innovation, IT planning, and other projects, primarily in retail payment-related fields, for financial institutions, trading companies, communications companies, transportation companies, distribution companies, and more. He also leads a payment and FinTech-related team at ABeam Consulting, building new products and business models.

have turned into business processes that exist to protect rules. When this is the case, even when a company develops new ideas and services, it will find it difficult to turn this into increased competitive advantage. In Japanese megabanks which have taken the lead in deploying FinTech, system planning and development philosophies and processes are starting to change along with system department organizations. It is essential to not only create departments which specialize in FinTech, but also to create a corporate constitution capable of turning these activities into company-wide power.

The second challenge is taking on open innovation. The financial industry has worked under strict legal regulations and IT checks, so it must be said that compared to other industries it is unaccustomed to initiatives such as collaborations with other industries, the launch of new businesses, and the creation of unique services. It has a closed approach in terms of technology usage as well, from the planning stages to creation and promotion. That said, a look at other industries makes it clear that the methodology that is the best fit for our times is transformation through collaboration with third parties and idea sharing—that is, open innovation. Although they face the rule and process issues already mentioned, I think they should take on new initiatives, using overseas success cases as references.

The last is the challenge of creating new business using FinTech. For example, in the banking industry, revisions to the Banking Act are reducing the regulation of business processes. At the same time, enactment of laws such as the Payment Service Act are opening up some business processes previously permitted only to banks to other industries as well. The role played by financial institutions is becoming more fluid, and I think this should be viewed as an opportunity to secure a new position within society. Financial institutions should use their corporate constitution that is responsive

to technology and capable of innovation, refined through FinTech initiatives, and maximally leverage their own strengths and strategies. There is still debate about the one-way nature of these regulations—why convenience stores and e-commerce malls can launch banks, but banks cannot launch convenience stores or e-commerce malls. However, if they put their minds to it, financial institutions will be able to apply their strengths in areas beyond just convenience stores and e-commerce malls. The first steps are being taken inside Japan in advances into the travel industry and agriculture, with the theme of regional revitalization.

Digitization continues in every industry, riding the tide of regulatory relaxation, which is expected to continue. I believe that the digitization of the financial industry, essentially an information industry, lies in redefining one's own company strengths and businesses.

FinTech as seen from other industries—a guidepost for changing the game

There are an increasing number of “Techs” in various industries, such as AdTech, EduTech, AgTech, MediTech, and CarTech. The efforts to use technology to create new facets in existing industries face various hurdles to differing degrees. There are many which are specific to Japanese companies, which, as discussed earlier, have a different societal background and industry history than the United States, China, or Africa. Meanwhile, financial institutions face the rising tide of FinTech, reexamining their traditional values and codes of conduct, and searching for future direction. As these other industries take on these same issues and strive to become game-changing companies, the challenges and struggles faced by financial institutions, as well as the know-how developed to tackle them, will prove to be a helpful reference.

It is also becoming extremely important for companies to have chemistry—presenting the world with unprecedented new value using perspectives and activities that span conventional industry and business category lines, using technology as a lever to create innovation. This requires supporting actors who can connect with financial institutions, FinTech players, and companies in other industries as they change the game. I believe that this will be a new *raison d'être* for consulting companies, where consultants with specialization in diverse industries collaborate together.

Summary

As manufacturing continues its worldwide shift toward service-based industry, Japanese manufacturers face an unprecedented crisis. Many companies, however, see this as an opportunity.

Manufacturing companies with diverse technologies and expertise can work together to discover new value.

In the platform business, companies tend to focus on leading the way in fields with massive markets, but there are also high potential areas in niche fields.

It is important that companies avoid exclusively hedging themselves in as manufacturers. Instead, they must learn from the perspectives of those outside their own industry, absorbing diverse wisdom and values.



ABeam Consulting's Perspectives

Switching from products to services The shift to manufacturing as a service

The Service-centered strategy of the Japanese manufacturing industry, creating added value with digital technology



The business environment that surrounds the manufacturing industry is in the midst of great change. The new industrial revolution, known as “Industry 4.0” in Germany or the “Industrial Internet” in the United States, is accelerating the transition of manufacturing to a service-based industry. Whether it wants to or not, Japanese manufacturing must also face this change in the times. The question is whether it can discover added value and emerge victorious over global competition. Three members of the ABeam Consulting IoT Sector, Satoshi Tachibana, Aki Ando, and Atsushi Watabe, discuss this topic.

Issues facing the Japanese manufacturing industry as quality products alone are no longer enough

—The Japanese manufacturing industry is also accelerating its IoT efforts. What challenges does it face?

Tachibana: Currently, the majority of Japanese manufacturing industry IoT efforts are aimed at manufacturing. They are just an extension of existing improvements such as enhancing quality or cutting costs. If they stop to think how they will make money in the future, though, this kind of use is not enough. What is needed is a further evolution in the use of digital technology, namely the shift to manufacturing as a service.

Ando: So far, The Japanese manufacturing industry has focused on making quality products, and making them efficiently. However, when they look at what added value they offer, taking competition with foreign companies into consideration as well, they are generally unable to determine what future direction to take.

Tachibana: Looking at global trends, we see, for example, the U.S. company GE, which has established its “Future of Work” business strategy supported by the three pillars of the industrial internet, advanced manufacturing, and the “global brain.” Led by this strategy, it is transitioning from a hardware-based technology company to a hardware and software-based solution company. In Germany, under the government-led Industry 4.0 initiative, manufacturing companies such as Siemens and BMW are taking the lead in networking supply chains and value chains using digital technology. The question is how Japanese companies will compete against them in the global market. The Japanese manufacturing industry is filled with a sense of unprecedented crisis.

Watabe: That said, not only is there a sense of crisis, but there are also rising expectations. Through activities of auxiliary organizations, I’ve had opportunities to talk with many different manufacturers, from small firms to major companies. I’ve felt a strong sense of enthusiasm that they still have a chance to become digital technology pioneers.

A mashup of highly sensitive companies and engineers

—What kind of measures can the Japanese manufacturing industry, which is filled with both a sense of crisis and a sense of expectation, use to bring itself back from the brink?

Tachibana: In the Japanese manufacturing workplace, there are many people who are sensitive to global movements. That’s why there are so many manufacturing companies that, despite being small, have a top share of the global market for specialized parts.

Watabe: The question, then, is how this latent Japanese manufacturing industry power can be brought to bear on the field of manufacturing as a service. It’s hard for individual companies to take on this challenge on their own, so schemes for collaboration and co-creation are essential. I think that manufacturing companies with diverse technologies and expertise can work together to discover new value. In fact, one of the things that has impressed me in my dealings with various manufacturing companies is that they show their hand even to rival companies. Through their digital technology efforts they are demonstrating an earnest approach of learning from each other’s strengths, identifying their own problems and points for improvement, and moving forward.

Tachibana: The same movement can be seen within major manufacturing companies as well. It appears that Japanese manufacturing worksites have established a common culture spanning company and executive lines, in which engineers share the same sensibilities and language. For example, the world’s largest automobile parts manufacturer is implementing an IoT strategy of creating ultra-smart factories, which are more than mere extensions of current factory approaches. Related automobile companies are learning from this parts manufacturer and using what they’ve learned to build their own foundation. Furthermore, electrical equipment manufacturers outside the auto industry are also noting this trend and calling for a similar approach to be used within their own industry. There are quite a few cases like this where major manufacturers are, under the surface, loosely linked.

Ando: I think so, too. Creating mashups of highly sensitive companies and engineers can bring Japanese manufacturing back from the brink. Put another way, there is no other way for Japanese manufacturing companies to succeed in the face of future global competition based on services.

Tachibana: Realistically speaking, however, even if companies take on platform businesses head-on, it’s highly doubtful that they will be able to emerge victorious against massive companies such as GE and Siemens, which enjoy full government support.

Ando: Personally, I don’t think that competition needs to be restricted to platform businesses. Another strategy would be to use their platforms to compete on the grounds of eco-systems. For example, if digital technologies were applied to the craftsmanship of experienced Japanese engineers, they would be able to produce highly competitive content.

There are also areas with potential in niche fields

—That said, I don’t think you can completely avoid platform business either.

Tachibana: Of course not. In the global service-oriented market, the Japanese manufacturing industry needs to have service platforms in order to maintain their presence and initiative.

Watabe: In the platform business, companies tend to focus on leading the way in fields with massive markets, but there are also areas with potential in niche fields.

Tachibana: What are some examples of measures targeting these areas?

Watabe: I’ve been closely watching an IoT business that uses sensors to capture human movement. An engineer in one major manufacturing company started up a unique internal venture project, and is attempting to develop it into a business. At the moment, it is trying to commercialize wearable devices for healthcare purposes and to support athletes, but in the future it holds great potential for use as a service in a wide range of fields, such as

process management, labor management, and health management at production sites and maintenance facilities.

Tachibana: In that sense, Epson Sales Japan’s “Smart Charge” is another success case worthy of note. It shifted the business printer business model, which was principally focused on physical product sales, to an IoT-based billing business model that fuses products and services.

Ando: People have said that Japanese companies have difficulty turning ideas into realities (businesses), but that’s not true. There are lots of these budding ventures.

The prospects of manufacturing as a service will be brightened by companies taking an aggressive approach

—What roles do consulting companies such as ABeam Consulting need to fill to support these reforms by the Japanese manufacturing industry?

Ando: As I mentioned earlier, the Japanese manufacturing industry, which has focused exclusively on creating and selling products, has a hard time finding its own added value. What they need is the ability to create major concepts, figure out the process that leads to achieving these concepts, and assemble scenarios that turn them into reality. This trial-and-error process must discover added value that can earn public acclaim by bringing in many different related parties, and by connecting people and expertise that aren’t connected in existing business processes. People within the manufacturing industry don’t recognize their own features as strengths, so they need to learn from perspectives outside the industry and absorb various wisdom and values.

Watabe: I agree completely. I think it’s hard to have a clear vision, identify added value, and launch a business right from the start. For example, the initial concept behind Airbnb, which has taken the world by storm through its accommodation rental services, was “renting out rooms and making friends while making money,” and that’s what led its service rollout. The future expectations on consulting firms will be that they provide support by offering technologies and opportunities for co-creation leading to fresh insights.

Tachibana: Through this discussion, what I’ve really felt acutely is that companies can’t find new directions if they just focus on maintaining their current positions. ABeam Consulting’s core may be supporting customer problem resolution, but it also must actively present visions for encouraging customers to take aggressive approaches. That is certain to brighten the prospects of manufacturing as a service.



Atsushi Watabe
Senior Consultant
Digital Transformation Business Unit
IoT Sector
awatabe@abeam.com

Atsushi Watabe joined ABeam Consulting after working as an SI vendor of mission-critical systems for manufacturing company use. He entered the IoT sector after taking part in SCM reform projects and business innovation consulting using enterprise mobile technology. He is responsible for formulating business models for the IoT, which uses data from a diverse range of sensors.

Satoshi Tachibana
Director
Digital Transformation Business Unit
IoT Sector
satachibana@abeam.com

Satoshi Tachibana worked at a manufacturer SI company before coming to ABeam Consulting. He has provided consulting to a wide range of customers, including distribution, service, manufacturing, communications, and financial companies, regarding business plans, business management, companywide BPR, business process improvement, system implementation, and IT operation. He then expanded his consulting scope to include enterprise mobile framework formulation and business innovation, and has led the IoT Sector since it was established.

Aki Ando
Manager
Digital Transformation Business Unit
IoT Sector
aando@abeam.com

Before joining the IoT Sector, Aki Ando provided consulting primarily for the distribution and retail fields, and business innovation consulting using enterprise mobile technology. She provides support for the formulation of new business models which use the IoT, IoT usage scenarios, and manufacturing industry management reforms backed by data analysis.

The background of the page is a complex, abstract digital visualization. It features a dark, textured surface with various geometric shapes, including clusters of light-colored, faceted polyhedrons. Overlaid on this are several data-related elements: a circular gauge or chart with a needle, a network of interconnected nodes and lines, and various icons representing communication (envelopes) and data. The overall aesthetic is futuristic and technological, with a color palette dominated by greys, whites, and light blues.

Special Feature

Providing both speed and quality, the cloud is accelerating global business management

Priorities are changing from “cloud first” to “cloud only.”
The cloud is no longer one of several IT system operation options, but is becoming an integral part of global management infrastructure. What should companies focus on? What should they take into consideration? We discuss optimal cloud usage solutions as well as actual initiatives within leading companies.

Part 1

The perfect balance between “offense” and “defense”

What is the optimal solution to current global sourcing strategies?

Part 2

Case study: a success story of a cloud-based SCM transformation
House Foods Group House Foods China Inc.

Three-way conversation: establishing a global SCM infrastructure that uses ABeam Cloud and Supply and Demand Template

The perfect balance between offense and defense: what is the optimal solution for current global sourcing strategies?

In order to capture new markets in new countries and regions, it is necessary to establish a global management infrastructure as promptly as possible. In doing so, the use of the cloud is critical. ABeam Cloud is a business innovation platform which promotes both “offense,” meaning a shift to a digital business, and “defense,” meaning business continuity.

The key to future global management infrastructure is a flexible response to business expansion and contraction

According to the “2014 Annual Survey of Corporate Behaviors” carried out by the Cabinet Office, the number of Japanese companies strengthening their global production systems is soaring. While just 36% of companies had expanded overseas in 1989, in the manufacturing industry this figure now exceeds 70%.

On the other hand, the way in which Japanese companies are globalizing is also undergoing change. In the 1980s, this globalization was focused on the manufacturing industry; in the 2000s, however, globalization also increased in the service, distribution and financial industries, while target markets also diversified to include China, Southeast Asia (Thailand, Vietnam and Indonesia), India, and South America.

Of particular note is a shift in the goals of globalization. Previously, the majority of companies targeted reduced production costs; now, however, the number of companies globalizing with the aim of establishing themselves in new markets exceeds 40%.

These changes necessitate a global management infrastructure which integrates approaches to multiple countries

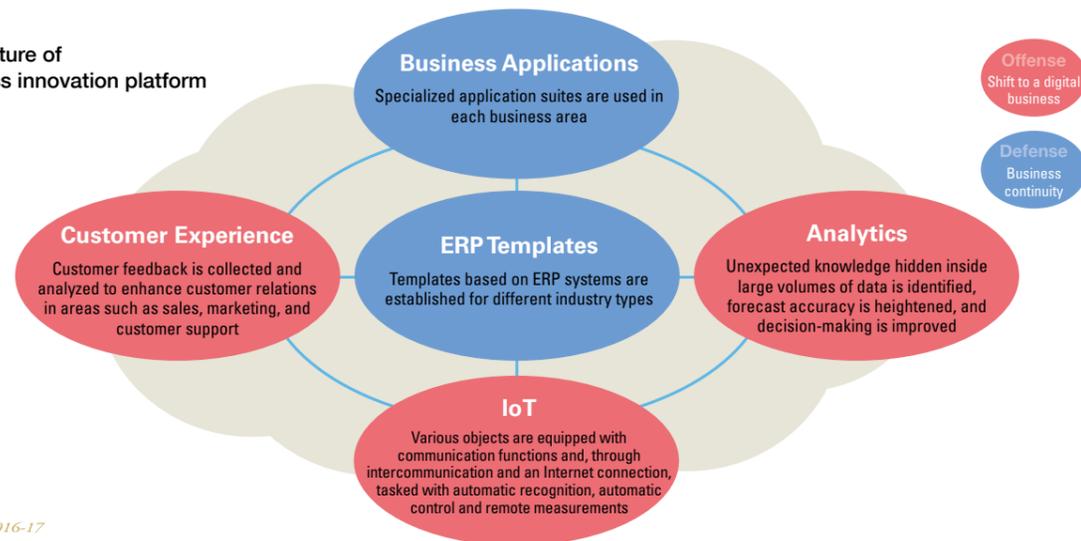
and regions to enable swifter decision-making.

But what is meant by “global management infrastructure?” Masaki Tomida, principal of the Supply Chain Management Sector at ABeam Consulting’s Process and Technology Business Unit, explains: “As the phrase suggests, it is an infrastructure aimed at promoting a global-level PDCA cycle.” As well as defining globally shared KPIs for each level of business, business processes are enacted based on rules and codes which have been standardized in order to achieve these KPIs. The business processes are subsequently stored as ERP business performance data, visualized through the use of BI tools, after which checks and actions are taken as required.

In this way, the rapid establishment of a global management infrastructure is required for the acquisition of new markets. However, when expanding overseas, it is extremely difficult for a company to accurately forecast when and to what extent its business will expand. It is also crucial for companies understand that in some cases they may be forced to reduce the scale of their business or even withdraw altogether.

“In the future,” suggests Tomida, “a global management infrastructure will ideally no longer be an on-premise ERP,

The structure of a business innovation platform



Masaki Tomida
Executive Officer, Principal
Process & Technology Business Unit
SCM Sector Leader
ABeam Consulting Ltd.
mtomida@abeam.com

but a cloud-based business innovation platform with a flexible approach to business expansion and contraction.”

Supporting business continuity through templates that comprehensively cover business processes

For a global management infrastructure, it is important that use of the cloud is promoted for both “offense,” meaning a shift to a digital business, and “defense,” or business continuity.

“It is essential,” says Tomida, “for a business innovation platform that supports global management infrastructures to have a secure ERP. In addition, the platform’s infrastructure must facilitate the acquisition of new markets and the generation of new business, based not only on the visualization of enterprise data, but also on information made clear through the analysis of large volumes of data, including customer data.”

From the point of view of “defense,” speed and quality are of the utmost importance. ABeam Cloud has effected the rapid establishment of businesses not only in Japan but across the globe, and also provides support to meet local regulations and commercial practices. Through the use of a hybrid architecture that has the capacity to link up with on-premise company systems, ABeam Cloud provides high-quality services with minimal risks, and supports the acquisition of a competitive edge.

ABeam Cloud also implements templates for major industries, which combine various applications, and also provides major add-ons for different industry types and countries. We provide proven methodologies and business applications gained from the management transformations of our customers. By using a global production and sales template, for example, we are able to reduce typical time frames for establishing bases from 12 to 18 months to just four to six months.

Integrating various types of digital data and encouraging new challenges

From the standpoint of offense, ABeam Consulting caters to IoT platforms which use sensors and mobile devices, and supports the initiatives of pioneering companies. As an example, let us take a look at the Intelligent Logistics Platform, aimed at optimizing operations through the integration of various types of digital data from warehouses.

At present, the distribution sector is aiming to use various types of digital data gleaned from on-site workers: this entails

the use of smart glasses to provide work support, smart T-shirts to monitor workers’ physical conditions, and the use of location data provided by smart devices. Robots such as Butler, developed by the Indian start-up GreyOrange which can autonomously transport storage racks within a warehouse, are becoming more commonplace, along with arm-style robots that can carry out warehouse picking. Such robots cooperate with existing material handling systems, making it possible to use data through the IoT, including from carts and forklifts. Outside of the warehouse, too, the digitization of trucks and the use of drones is making rapid progress.

“As we enter an age in which various things are connected to networks,” Tomida comments, “the data provided by different devices is no longer managed in isolation, instead being digitized and integrated. This places great importance on the platforms used to manage the data.”

ABeam Consulting also offers a service that provides analysis of the massive amounts of data collected from the above platforms. The BI tool HyperCube, for example, extracts data which can be used to contribute to demand forecast models, and also provides high-quality machine learning scenarios that can be continuously fine-tuned. Where the forecasts deviate significantly from reality, rules for the deviation patterns can be revised through multi-dimensional analysis, enabling the implementation of rapid PDCA cycles which influence demand forecasts in the supply and demand templates. In addition to identifying business impediments, this allows ROI simulations to be conducted to answer the question: what qualitative results can we expect from developing new measures?

In so doing, ABeam Cloud effectively links IT and business departments, increasing business productivity. Tomida discusses the direction that global businesses should aim for: “Maximizing the benefits of the cloud, which is connected via networks, also accelerates collaborations which exceed an individual company’s framework. If multiple companies collaborate and make the most of each other’s strengths, challenges that would have been impossible for one of the companies to tackle alone are made possible, thereby enabling the development of aggressive business approaches.”

ABeam Cloud is already used by more than 20 companies that have placed a high value on the merits outlined above. As use of the cloud becomes more widespread, the number of companies that are entrusting their mission-critical systems to the cloud is also increasing. It bears repeating, however, that it is not easy to ensure that this leads to management transformation. ABeam Consulting has cultivated vast knowledge through many years of consulting with global companies, and this knowledge has been condensed in ABeam Cloud. We are now establishing a system that provides powerful support for increased business productivity and for the creation of innovation.

Establishing a global SCM infrastructure that uses ABeam Cloud and Supply and Demand Template

Three-way conversation House Foods China Inc.

ABeam Consulting (Shanghai) Co., Ltd. (ABeam China)

House Foods China Inc., the Chinese unit of House Foods Group, oversees the Group’s food production and sales business as well as its restaurant business in China. Through these activities, House Foods China is focusing on popularizing Group products, especially its curry roux and retort pouch curry. As a result, Japanese-style curry is steadily penetrating into Chinese households and developing into a national dish. Indeed, House Foods China is currently enjoying a 20% increase in year-on-year sales. However, with the company’s sales and distribution business undergoing drastic expansion, it has become a matter of urgency to establish a system infrastructure that includes standardized operations and brings visibility to business processes. Consequently, House Foods China launched its SCM Mission-Critical Business Reform Project, which was collaboratively implemented by House Foods China’s Tsuyoshi Nakashima, with Yosuke Nakano and Koichi Katsurayama from ABeam China. The three of them gathered to discuss the project.

Business processes lacking essential data— the urgent issue that triggered the establishment of SCM infrastructure

Nakano: We are extremely grateful to House Foods for choosing ABeam Cloud for their SCM Mission-Critical Business Reform Project at their Chinese base. It was an incredibly challenging project—we established systems for both results-based and planning-based SCM mission-critical business processes at the same time, in a period of just four months between November 2015 and March 2016. At ABeam Consulting, we are very relieved that the business processes started operating as scheduled under these new structures.

Nakashima: House Foods is also extremely grateful. Thank you.

Katsurayama: Half a year has now passed since the new SCM infrastructure commenced operations, and today we would like to take a look back over the entire project. To begin with, can you explain why you needed a new SCM infrastructure? What issues were you facing?

Nakashima: Having established a business goal of making curry a Chinese national dish, House Foods began producing curry roux in China in 2005. We took great care to create a flavor suited to local tastes—we used star anise, for example, which is used by our Chinese customers as a spice and as an ingredient in traditional Chinese medicine. As a result, although we were by no means completely satisfied, curry steadily began to penetrate into the Chinese market.

At that time, we only had one plant in Shanghai. However, almost exactly at the same time as I was posted to China, in October 2013, a new plant was established in Dalian, and our production base expanded.

Nakano: It sounds like global business expansion was going well.

Nakashima: Yes, it seems that way. However, when I was first posted here, it was a catalog of nightmares. The reason was that the data that should have been essential to business processes such as production, sales, inventory, and distribution was almost completely lacking. Even though we had gone to the trouble of establishing a second plant at our Dalian base, we were faced with the problem of not being able to deliver products to our customers efficiently.

Nakano: Can you explain the problems you encountered in concrete terms?

Nakashima: China is a vast country, so it goes without saying that, from the standpoint of both distribution and sales channels, it is more efficient to sell products made in the north (in Dalian) in the north, and products made in the south (in Shanghai) in the south. In reality, however, we did not have full control over sales and inventory data, so it frequently happened that products made in the north were sold in the south, and products made in the south were sold in the north—an incredibly inefficient operation.

There were also problems with our pricing strategy. At House Foods, we adjust our pricing according to the region and the business partners involved. However, it often happened that products were sold in certain regions at prices which they should never have been sold at under normal circumstances.

Nakano: That is a major issue. It could have threatened the market position that House Foods worked so hard to establish in China.

Nakashima: Yes, you’re quite right. In addition, we weren’t able to trace the sources of these irregular products or the routes they took.

Katsurayama: Having said that, you did actually have a system that oversaw mission-critical business processes such as sales and distribution, didn’t you?

Nakashima: Of course. After all, business processes cannot be put into effect through paper correspondence and verbal commands alone. But although we had a system of sorts, it was separate between each base. For example, we have sales bases in both Beijing and Shanghai, but a different system was implemented for each base, and there was no data sharing between them. The personnel in charge of sales used tools such as Excel and managed sales data in their own individual ways.

We wanted to escape this state of affairs, establish a system that used integrated master data, and manage and control

this data using rules that were standardized throughout the company.

Katsurayama: And it was this pain which triggered the establishment of the new SCM infrastructure.

Nakashima: Yes.

House Foods placed absolute faith in ABeam Consulting, and each party understood the other’s approach.

Katsurayama: For this SCM Mission-Critical Business Reform Project, you chose ABeam Consulting to be the Real Partner that would work together with you to solve various problems. Why did you choose ABeam Consulting?

Nakashima: As Mr. Nakano mentioned earlier, we wanted to establish a system that combines improvements to both results-based and planning-based mission-critical business processes at the same time. We stated this desire at the request-for-proposal (RFP) stage. Put simply, ABeam Consulting submitted a proposal that carefully satisfied both these conditions. Although we received proposals from a number of other companies, their proposals were heavily biased toward either the results-based business processes or the planning-based business processes. In contrast, the content of ABeam Consulting’s proposal was extremely well balanced.



Koichi Katsurayama

Senior Manager
ABeam Consulting (Shanghai) Co., Ltd.
kkatsurayama@abeam.com

Tsuyoshi Nakashima

Executive General Manager
Administrative Dept.
House Foods China Inc.

Yosuke Nakano

Managing Director
ABeam Consulting (Shanghai) Co., Ltd.
ynakano@abeam.com



House Foods demanded a system that could be easily used, so the Cloud was a requirement for the establishment of this SCM infrastructure

— Tsuyoshi Nakashima
House Foods China Inc.

Another significant factor was that ABeam Consulting had previously collaborated with House Foods' Japanese headquarters on various projects, including an Accounting Business Process Improvement (ERP Implementation) Project and an Internal Control Enhancement Project.

Nakano: Both Katsurayama and I are very grateful that House Foods chose to collaborate with us on those projects as well.

Nakashima: We are grateful, too—you helped us in many, many ways. Thinking about it now, our two companies have worked together for a considerable amount of time. For this SCM Mission-Critical Business Reform Project, we were reassured by the fact that each party understood the other's approach very well. Whenever we work with a new vendor, it is difficult not to feel a sense of anxiety. This is true even in Japan, and doubly so in China. In this sense, it was significant that we

shared a trusting relationship. It was extremely reassuring to know that ABeam Consulting fully understood House Foods' business and philosophy. This time we were particularly keen to complete this project in as short a timeframe as possible, so we came to the conclusion that there could be no better partner than ABeam Consulting.

Nakano: Thank you. After transferring to ABeam China, both Katsurayama and I were grateful to have the opportunity to work with you and House Foods once again. There were a number of chance factors behind our reunion, but it makes me feel extremely honored to think that these factors were only made possible due to the trust established by past successes.

Nakashima: To be honest, when I was first transferred to China, I swore to myself that I would never work on establishing new systems again! Although I gained valuable experience on the earlier SAP implementation project, it was extremely tough. Part of it is that my real job is finance, and so I occasionally feel that systems aren't my line of work.

Katsurayama: Still, you felt a duty to take the lead yourself.

Nakashima: I think people who have been transferred to overseas bases with the aim of securing new markets will understand. The fact is, the infrastructures are not as complete as they are in Japan, and one person has to take on a number of different roles.

Katsurayama: What other roles are you fulfilling at the moment, Mr. Nakashima?

Nakashima: My official title is General Manager of Management Headquarters. However, I also work on finance, human affairs, general affairs, legal affairs, and systems. Of course, this is one of the real pleasures of working for a global business, and it also gives me great job satisfaction. Having said that, so many problems arise in every possible place—it is too much for one person to handle. On such occasions, I am extremely grateful to have a partner with whom I can consult about anything. ABeam Consulting is exactly that.

Implementing new systems in the workplace, beginning with results-based business processes

Katsurayama: Thank you, Mr. Nakashima, for your kind words. If you don't mind, I hope we can change tack slightly and discuss the solutions provided by ABeam Consulting. In order to establish the new SCM infrastructure as quickly as possible, we proposed the use of ABeam Cloud, which you put to use.

Nakashima: Yes, that's correct. Even during the RFP stage, we had outlined use of the Cloud as a prerequisite. Our primary aim was to minimize initial costs. In addition, there is only one IT specialist at our Shanghai base, and we decided we didn't want to take on operational management and maintenance work for the new system.

Moreover, the communications infrastructure in China is still poor. It is not uncommon for lines to cut out unexpectedly or shut down completely. For this reason, we wanted to rely on the Cloud, since it has a dependable VPN-friendly framework and is able to carefully safeguard our data. In any case, we were intent on a system that we could use easily.

Katsurayama: Now that you have actually used ABeam Cloud, what are your impressions?

Nakashima: As expected, not having to install a company server had a big impact. But, to tell you the truth, I thought that maintenance costs would be a little cheaper! But of course, taking into consideration our relatively high data center usage and the strong security measures offered, I'm satisfied that ABeam Cloud is providing cost-effective added value.

Katsurayama: Another significant factor regarding this SCM Mission-Critical Business Reform Project was that at ABeam Consulting we adhered to two basic principles. First, we established a system for planning-based business processes in a short timeframe by using supply-and-demand templates from ABeam Cloud. Secondly, with regard to results-based business processes, we also used supply-and-demand templates to carry out additional system development, standardize operations and bring visibility to business processes. We would be extremely grateful for any feedback you might have.

Nakano: I might add that our supply-and-demand templates

are an accumulation of the knowhow we have cultivated at ABeam Consulting by supporting supply-and-demand reforms at a large number of companies. This means we are able to resolve many issues in a short timeframe. Some examples of these are the standardization and economization of disparate supply-and-demand business processes; the switch from monthly to weekly planning; the creation of highly accurate shipment plans; the automatic interlinking of various plans, and their connection to production plans; automatic generation of center supply plans on a daily basis; bringing visibility to production materials data in associated departments; the forecasting of future congestion probabilities; making KPIs visible, and the rapid implementation of PDCA cycles; and the monitoring of proactive inventory management. Our supply-and-demand templates also include an abundance of best practices from the food industry. We wanted to contribute as much as we possibly could to House Foods' business.

Nakashima: It goes without saying that at House Foods, we are extremely grateful for ABeam Consulting's kind suggestions. But to be honest, it will take a little while longer before we can see results in our planning-based business processes. House Foods' Chinese business continues to enjoy a period of rapid growth, and so we have not yet grasped just how applicable past experiences will be to the future. For example, when I was first transferred to China, there were only about 40 sales





representatives; now there are more than twice as many. This alone has a massive impact on our sales strength. No matter what campaigns we implement, they result in significant changes in our monthly sales. When it comes to inventory forecasting, too, we are at a stage where we don't yet have sufficient data. Consequently, we intend to focus our activities in anticipation of what will happen in two or three years' time.

For this reason, we are currently concentrating on our results-based business processes. We want to develop the ability to grasp accurately, and at any given time, what stock we have where, when its sell-by-date is, and where it was produced. We also want to be able to precisely trace where these products are shipped. In addition, we intend to take control of the

“How should accumulated information and data be used? How should this type of sensitive personnel be developed? These are becoming extremely important questions.

————— Yosuke Nakano
ABeam China



fundamental task of optimizing our internal business processes, up to and including the invoicing stage.

Leading members of each division assembled and began discussing ways to improve business processes

Katsurayama: So, you first prioritized improvements to your results-based business processes. It has only been a few months since the system started operating, but have you started to see results?

Nakashima: For the first few months after system operations commenced, we encountered a number of problems such as network failures or unfamiliarity with operational procedures.

However, after the third month or so, the network and operations started to stabilize and, as a result, our employees now regard the system very highly. I received an email from a Chinese employee in charge of the orders business who wrote: “The new SCM system is incredible! Sending and receiving data between the Shanghai and Beijing offices is now extremely smooth.” I also received a message from a local employee in charge of inventory management and classification at our warehouses. He said: “I am now able to complete my work quickly. Compared to when I was managing inventory using Excel or handwritten forms, now the data I input is immediately registered on the SCM system, and a report is automatically produced. I can also check which products we have had queries about straight away. It is extremely convenient.”

When you think about it, all of these things are common practices. However, it makes me very happy to receive these comments from the actual workplaces involved. I said this earlier as well, but the optimization of internal business processes was a major goal of the SCM Mission-Critical Business Reform Project. In this respect, I believe that we are slowly but surely beginning to see results.

Nakano: The troubles you encountered at the start were partly caused by insufficient support on our part, and we regret this very much. It makes me glad to hear the system is starting to take root in your workplaces. Now that the business processes have been improved, are there any ways in which your employees have undergone a change of awareness?

Nakashima: Yes, undoubtedly. In addition to being able to complete tasks in a shorter timeframe, the leading members of each division have also started to gather together of their own accord. Until recently, employees had little interest in jobs that they weren't in charge of, so this is a dramatic change. These members now also discuss how they can work together more smoothly, and how they can reduce the time required for business flows. Teamwork has improved significantly.

In the end, people cannot generate ideas in a vacuum.

Thanks to the SCM system, individual employees can see for the first time the significance that their own work has in the business processes of the entire company. This has been a catalyst for increased awareness on a variety of matters.

Going forward, our priority will be training the people who operate the system

Katsurayama: This might be a slightly premature question, but how do you intend to develop the SCM system in the future based on these results?

Nakashima: For a food manufacturer like House Foods, sales and distribution are key, even among the many systems we operate. In fact, we are hoping to start construction on a new plant in Zhejiang in addition to our current Shanghai and Dalian plants. If this happens, it will become increasingly important to decide how to optimize production allocations, routes, and distribution among these three plants. Viewed in this light, I have no doubt that our having acted preemptively to establish an SCM system will benefit us greatly. Going forward, we not only want to improve our planning-based business processes, which is the other core component of the SCM system I discussed earlier, but we also intend to enhance the accuracy of our inventory and demand forecasting.

However, the system is just a system—nothing more and nothing less—and people are required to make it work. People are also the source from which data is generated. It follows that one of the major issues we face going forward is how to train these people, and how they will interact with the system.

Nakano: As systems store more and more information and data, it will become possible for companies to conduct their own analyses and predictions. However, in order to effectively use this in their businesses, companies will be required to establish a fundamental hypothesis and test approach. Going forward, it will be important to nurture personnel who possess the sensitivity to do this.

Nakashima: Yes, that's right. So far, growth has been driving an increase in sales, so the opinions of our sales division were accepted almost without fail. If we end up with a shortage of products as a result of reducing production volumes, then the sales division will be furious. Because of this, we currently tend toward ensuring that we have a margin for error in both production and inventory. In recent years, however, even the Chinese economy has been showing signs of a slowdown, and there is no guarantee that our products will continue to sell as well as they have in the past. We must view the figures provided by the sales division with a scientific and objective eye, and keep firm control over production, inventory, and distribution. The SCM system will provide the foundation for this, and we will have to discover the optimal way to use it. We hope to receive



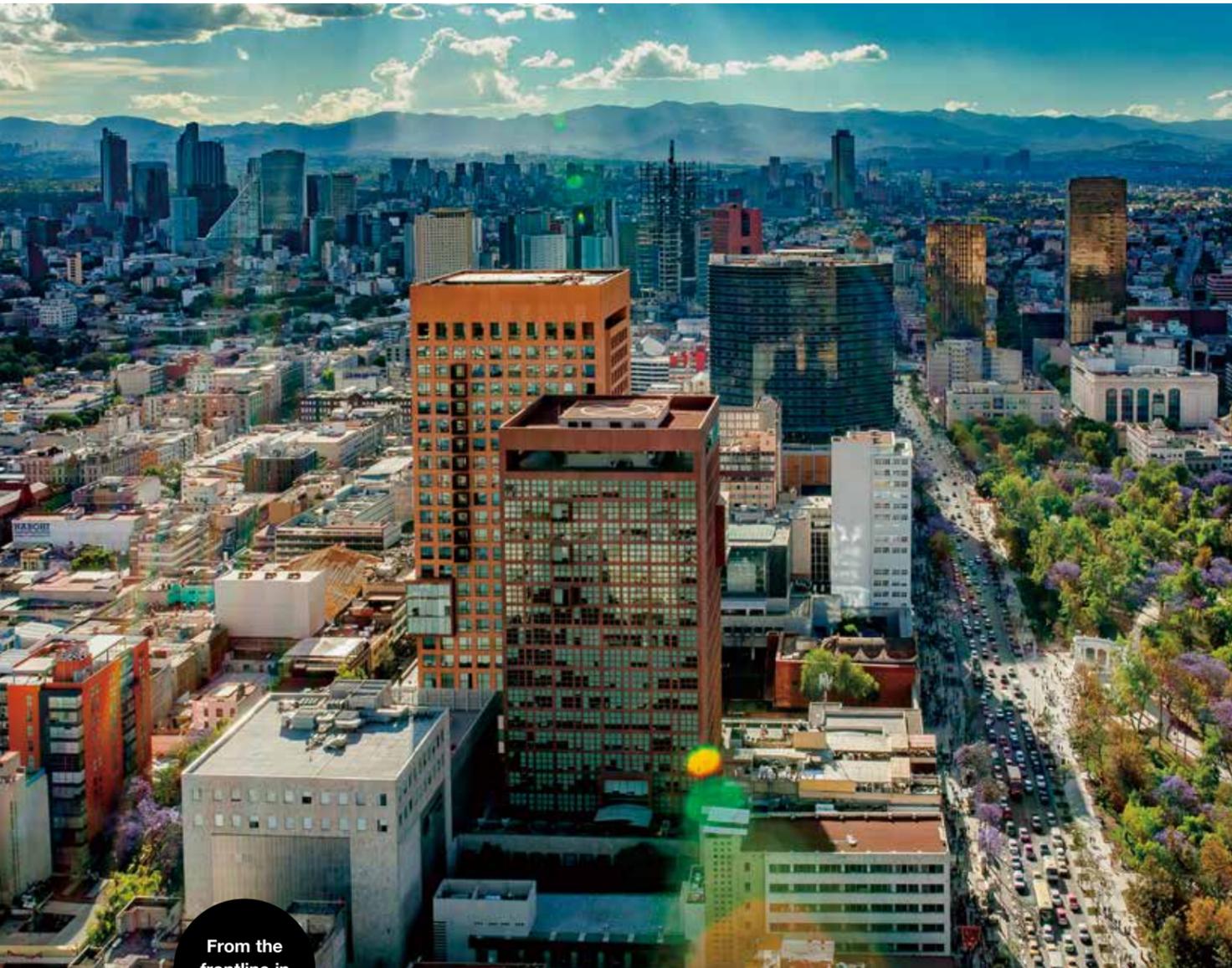
“We used supply-and-demand templates on ABeam Cloud to standardize our operation and bring visibility to our business processes; in addition, the system was established in a short time frame—this was extremely important for us

————— Koichi Katsurayama
ABeam China

even more generous support from ABeam Consulting in the future.

Nakano: Of course. We will do our utmost to meet your expectations.

Katsurayama: Thank you for taking time out of your busy schedule to meet us today. Hearing what you have to say has been an extremely valuable experience.



From the
frontline in
Mexico

**Achieving success
in the thriving Mexican automobile industry**

Japanese companies seek success in Mexico as the starting point for a global development “offense”

Due to its high-quality yet cheap labor force, its proximity to the massive U.S. market, and its expansion of free trade agreements with numerous leading countries, Mexico has thrived in recent years as an automobile production and export base. Eager not to let this opportunity slip, Japanese automakers have also established factory after factory in the country. Following in the footsteps of these Japanese automakers, a large number of principally Tier 1 parts makers (companies that supply parts directly to automakers) are beginning to establish operations in Mexico. Koh Watanabe, managing director of ABeam Consulting (USA), discusses the issues facing these companies wishing to establish new global bases in Mexico, as well as their future prospects.

Following in the footsteps of leading automakers, automobile parts makers are starting to establish bases in Mexico

Mexico shares a border with the United States and strategically links North and South America. The country has container ports on both Pacific and Atlantic coasts, enabling it to trade with Asia, Europe, Central and South America, and Africa without using the Panama Canal. Taking advantage of its geographical location and maintaining a healthy economy, Mexico recorded a GDP of 1.1443 trillion dollars in 2015, placing it 15th among global economies. Its GDP exceeded that of even Indonesia, which has attracted attention as an emerging Asian country, and in Central and South America it is second only to Brazil.

Furthermore, Mexico has acted on its free-trade principles to enter into free trade agreements (FTAs) with leading global countries and regions such as the United States and the EU. This has led to major trade benefits, wherein the majority of products can be imported into and exported out of Mexico tariff-free. Mexico also entered into the Japan-Mexico Economic Partnership Agreement during then Prime Minister Junichiro Koizumi's visit to the country in 2004; Japan secured the elimination of tariffs for steel plates and a tariff-free quota for automobiles. In 2011, revisions were made to further improve access conditions to the Mexican market, and on April 1, 2012, a revision protocol came into effect, further deepening the economic ties between Japan and Mexico.

If the Trans-Pacific Partnership (TPP) is signed and implemented, Mexico's importance to global strategy will without question increase in the near future.

Due to these favorable conditions, a large number of Japanese manufacturers are eyeing Mexico as a new frontier. But it is the automotive industry in particular that is moving with conviction.

“Nissan is a member of the ‘Mexico Big 5’ alongside European and U.S. automakers Volkswagen, General Motors, Ford, and Chrysler. These five were the first automakers to establish large-scale production systems in Mexico. Soon after, Japanese automakers Toyota, Honda, and Mazda also established plants there. Now, following in the footsteps of these finished-product manufacturers, a number of Tier 1 parts manufacturers are also commencing operations in Mexico,” Watanabe explains.

The Mexican automotive industry continues to enjoy spectacular growth. In 2015, total production increased 5.6% year-on-year to approximately 3.57 million units. The country is now the seventh largest automobile producer in the world, behind only China, the United States, Japan, Germany, South Korea, and India.

“Predictions suggest that in just a few more years, Mexico's yearly production volume will exceed 4.6 million units, placing it among the top five automobile producers in the world,” says Watanabe, going on to add that, “An ABeam Consulting customer is also thriving in the Mexican market. While their local sales presently total just under 20

billion yen, the company expects revenues to increase by some 50% over the next two or three years.”

At present, approximately 80% of vehicles produced in Mexico are exported and, of these, roughly 80% are delivered to the United States and Canada as North American Free Trade Agreement (NAFTA) members. As noted earlier, however, by taking advantage of its geographical location, Mexico is easily capable of developing into a global production base that supplies products to a much wider region. Moreover, with a population of roughly 127 million people, the domestic Mexican market is itself an attractive prospect.

Implementing “Japanese quality” in Mexican production bases

While Mexico is thriving and full of promise, Japanese manufacturers nevertheless run into a variety of issues when commencing operations here. First, let us consider the problem of securing and training human resources.

To prevent any misunderstanding, it ought to be stated that Mexicans generally have a reputation as a diligent and high-quality factory labor force. Furthermore, wages are still inexpensive, with the average Mexican laborer earning just one-sixth to one-seventh that of their U.S. counterpart. This is also a major benefit when it comes to automobile production.

However, it is also a fact that, in order to practice *monozukuri* (manufacturing) of “Japanese quality” in Mexico, there are still significant hurdles to be overcome. Perhaps because Mexicans possess a generous and carefree Latin temperament, it can sometimes be difficult to make detailed rules or draw up precise schedules.

“One of our customers is a parts manufacturer which first established a plant in Mexico three or so years ago,” says Watanabe. “The plant employs a workforce of roughly 600 people; however, it is a fact that 10% of these workers—an incredibly high proportion—are Japanese employees on either long or short-term stays, and they are tasked with following up on factory operations with meticulous



Koh Watanabe
Managing Director
ABeam Consulting(USA)Ltd.
kohwatanabe@abeam.com

From Mexico

attention to detail. Although this customer is steadily passing on the skills and ways of thinking required for Japanese quality, they have not yet reached a stage where operations can be entirely entrusted to the local workforce.”

When it comes to the engineers and managers who are in charge of key aspects of the plant’s operational management, there are further limits to the number of personnel who can be sourced locally. Moreover, it is clear that the current business model—whereby complete vehicles are assembled using an inexpensive workforce and exported to major markets such as the United States, just across the border—cannot be sustained indefinitely in its present form.

In fact, in recent years, in the central region of Mexico where a succession of Japanese manufacturers have established themselves, the surge in demand for labor has led to a rise in wage levels, and this is beginning to cause concern. Should increases in wage levels exceed increases in productivity, there is a danger that the key benefit of manufacturing in Mexico will be undermined.

In order to avoid such an eventuality, companies must use local leadership to establish an autonomous system which generates greater added-value. This might entail the launch or design and development of a production line for new models, for example, or planning and marketing.

Responding to Mexico’s unique tax and legal systems that are revised almost yearly

A further issue is how to respond to Mexico’s unique tax and legal systems and business practices.

It should be stated once again that from a global perspective Mexico’s business environment is almost incomparably favorable. Compared to other Central and South American countries, for example, Japanese manufacturers in Mexico encounter fewer instances of difficulties such as the “Brazil cost”—a term which encompasses the complexity of tax systems and procedures, the complexity of administrative procedures, and labor disputes.

Of course, it is difficult for any company operating in unfamiliar cultures, countries, or regions to respond to frequent revisions to tax and legal systems, and companies wishing to establish themselves in Mexico must also be prepared.

What, then, are the legal system revisions taking place in Mexico?

In 2012, a paperless system for customs procedures was implemented. When passing customs, the documents that accompany import and export declarations now have to be sent in advance in PDF format to the relevant customs house’s electronic system. Invoices that certify product prices must also be sent as electronic data prior to import and export declarations. In order to issue these electronic invoices, companies are first required to register with the Tax Authority of Mexico, which issues an electronic signature and a certified digital seal. At the same time, in order to be verified, companies must use the official certification-issuing

organizations. Failure to comply with these regulations is viewed as tax evasion.

Furthermore, the July 2014 edition of the federal government’s official gazette announced regulations for submitting electronic accounting records. Taxpayers subject to these regulations are required to use an XML-compatible system to electronically register their accounting data. As a matter of urgency, companies were required to link and electronically manage account charts designated by the tax authorities alongside standard financial statement account titles, and establish a monthly reporting system.

“Such tax and legal system revisions occur in Mexico on an almost yearly basis. Spanish is the official language in Mexico, which means that naturally Japanese is not spoken, and it is also by no means certain that English will be understood. Consequently, language acts as a barrier to communication. For Japanese manufacturers that have recently commenced operations in Mexico under these conditions, it is not at all easy to blindly gather information on their own, and then read, understand, and respond to it.”

Collaborating with Grupo ASSA to provide a consulting service that fully understands Mexico

As a “Real Partner” that unites with our customers and together confronts the global challenges faced by Japanese manufacturers, ABeam Consulting is strengthening its consulting system in Mexico.

One element of this reinforcement is a business collaboration with Grupo ASSA Corp., a consulting firm that focuses on the Central and South America region but also has bases in the United States and Europe. With a workforce of approximately 1,400 professionals, Grupo ASSA provides a wide range of services, such as business process reforms and IT services, to a variety of companies, including manufacturers, retailers, medical companies, and financial institutions.



From Mexico

“Tax and legal system revisions occur on an almost yearly basis.

Spanish is the official language in Mexico, which means naturally that Japanese is not spoken, and it is also by no means certain that English will be understood.

For Japanese manufacturers that have recently commenced operations, it is not at all easy to blindly gather information on their own, and then read, understand, and respond to it.”

“Collaborating with Grupo ASSA enables ABeam Consulting to provide a consulting service that fully understands Mexico’s unique tax and legal systems and commercial practices, thereby supporting customers’ business expansion. As a Japanese global consulting firm, we will take the lead in strengthening governance based on a meticulous Japanese-style management system,” says Watanabe.

In concrete terms, ABeam Consulting’s Japanese consultants collaborate with Grupo ASSA in a hybrid system to provide support for business process reforms, the implementation of SAP-based ERP systems and operational maintenance services, to Japanese manufacturers that intend to establish bases in Mexico. The two companies work together to realize these operational improvements and quality improvements and, in addition, help resolve issues related to localization and communication.

Toshinori Iwasawa, president and chief executive officer of ABeam Consulting, comments: “By collaborating with Grupo ASSA, which provides high-quality services primarily in the South American region, we are able to better support the business development of Japanese companies in Mexico. At the same time, using the know-how and networks accumulated by Grupo ASSA allows us to provide a wider range of more comprehensive

services for customers who are already established in Mexico. This collaboration enables both companies to demonstrate their respective strengths and generate synergy. This, in turn, enables us to provide our Japanese corporate customers with services that feature even more added value.”

Using ABeam Cloud to provide templates to manufacturers and establish a global management infrastructure in a short timeframe

As global competition intensifies, quality and speed are of the utmost importance when implementing our customers’ global strategies. In markets such as Mexico that are undergoing rapid growth, the importance of quality and speed is further accentuated. Maintaining product quality as close to Japanese quality as possible while swiftly establishing a local infrastructure is critical. ABeam Consulting supports the realization of such key tasks through its unique “templates for manufacturers,” offered through ABeam Cloud. These are ERP templates easily accessible via the cloud. They cover not only the standard manufacturer processes that guarantee Japanese quality, but also country-specific regulations such as tax requirements for approximately 20 countries including Mexico.

Watanabe elaborates: “Our templates for manufacturers cover the standard business processes required by Japanese manufacturers who wish to advance their global strategies. They also incorporate information on Mexico’s latest compulsory tax and legal system revisions, as well as knowhow regarding Mexican business practices. These templates also offer interfaces aimed at satisfying the electronic requirements outlined in recent revisions to the tax and legal systems. Customers who use our templates for manufacturers, including those new to the Mexican market, will not face difficulties such as insufficient specialized personnel, communication barriers in a foreign culture, or a lack of data. Instead, they will be able to rapidly establish a management infrastructure that will put their business on the correct path.”

Using our hybrid system comprised of local staff and Japanese consultants as well as our unique cloud-based templates, ABeam Consulting will continue to support the success of Japanese companies in Mexico by providing both speed and quality.



From the
frontline in
Thailand

Evolution of regional headquarters seen in Thailand's IHQ and ITC

Acquisition of multinational human resources is essential for survival in the Greater Mekong Subregion

Thailand is one of Asia's leading industrial nations. It has attracted so much manufacturing centering on the automotive industry that it is known as "the Detroit of Asia," and has been the destination of a substantial amount of foreign capital. In particular, a large number of Japanese companies are not only entering the Thai market, but have built some of the largest business foundations in South-East Asia there. And now, due to an expansion of its benefits system, such as for international headquarters (IHQ) and international trade centers (ITC), more and more attention is being cast on Thailand as a regional business hub. There is no doubt that an increasing number of Japanese companies want to establish bases in Thailand and enter the Greater Mekong Subregion, which has strong ties with Thailand. But what is needed to succeed there? Ichiro Hara, managing director of ABeam Consulting (Thailand), explains.

Thailand is an Ideal base for ASEAN regional headquarters

For Japanese companies, it goes without saying that the ASEAN region is an extremely attractive market. Yet for long time, many Japanese companies have expanded into and paid close attention to Thailand in particular.

At present, Thailand is at a major crossroads. Compared to its neighbors—Vietnam, Cambodia, Myanmar and Laos—the Thai market is already reaching maturity. Consequently, labor costs continue to rise sharply. It is now difficult for Thailand to compete with other emerging nations purely as a production base, and the

Thai government has issued a statement that "In order to grow from being a semi-developed country to being a developed country, it is imperative that we shift to an economic structure that generates high added value."

The Board of Investment of Thailand (BOI) has implemented corporate tax and personal income tax exemptions for companies with IHQs and ITCs in Thailand. It has, in addition, expanded its benefits system to allow foreigners to own the majority or all of the shares of IHQs or ITCs. The number of companies eligible for these preferential treatments has increased significantly, and they aim to further attract foreign capital.

An IHQ is defined as "a company incorporated under Thai laws that provides managerial, technical, or financial management services to its branches or associated enterprises located in Thailand or overseas, and which engages in off-shore trade activities." Meanwhile, an ITC is defined as "a company incorporated under Thai laws that purchases and sells goods, raw materials, and parts, or that provides international trading-related services to entities incorporated under foreign laws."

These policies are highly valued by global companies that aim either to enter Thai markets or to expand their businesses there.

"For companies that operate regional headquarters such as IHQs and ITCs, Thailand is the ultimate base bar none. The policies from the Thailand Board of Investment are, on the whole, well balanced, and their preferential treatment and benefit system schemes are extremely clear. Singapore has already established itself as a base for regional headquarters. However, not only are Thailand's 'flat' policies easy for global companies to adopt, but the country itself is also uniquely attractive, located in the center of the Greater Mekong Subregion. As a result, it is essential that companies differentiate between the two countries based on what they expect," says Hara.

Employing outstanding global talent regardless of nationality

As can be seen above, there are significant merits to establishing regional headquarters such as IHQs or ITCs in Thailand. However, the idea of a "regional headquarters" encompasses many different meanings.

"Broadly speaking, a regional headquarters provides six functions: regional control, regional governance, trade hub, shared service center, knowledge, and BD and M&A. Depending on whether the regional headquarters operates only within the ASEAN region or also caters to global business, the necessity and weighting of each of these functions begins to change. For a regional headquarters to succeed, it is extremely important to clarify what role you expect it to play," Hara explains.

Another key to the success of a regional headquarters is whether it can secure outstanding talent. It is said that Thailand boasts the greatest abundance of talent of all ASEAN countries, with the highest number of universities in the top 50 of the Quacquarelli Symonds (QS) Asia University Rankings. Nevertheless, the reality is that there is still not enough talent to go round.

For this reason, the majority of Japanese companies fill the gaps by posting Japanese employees overseas. However, this can lead to setbacks.

"The personnel division at company headquarters identifies managers who produce excellent results in Japanese business and who have outstanding English-speaking abilities, and asks them to demonstrate their skills at their regional headquarters in Thailand. When these managers arrive, however, they are confronted with a culture they have never experienced before, and are bewildered

by the transnational world. Headquarters, meanwhile, repeatedly presses them to achieve faster growth. They become mired in fruitless efforts, and things don't work out," says Hara.

What, then, should be done? The simplest answer is to stop fixating on nationalities such as Thai or Japanese, and employ outstanding talent from all over the world.

Hara explains further. "Japanese companies tend to approach business in Thailand from the same angle and using the same reasoning as they do in Japanese markets. It is crucial, however, that they do not lose sight of the fact that they are contending with global companies, not Japanese companies in Thailand. If they want to compete on a level playing field with these foreign entities, then they need to possess outstanding talent that is equal or better. If they send employees from Japan with the naïve idea of expecting them to flourish in the long term, then they will not be able to succeed in the Greater Mekong Subregion or in global markets."

In fact, ABeam Consulting (Thailand) employs a Filipino personnel manager who initially had no connection or relation to Thailand at all. He had previously worked as an HR director at a global company, and although he had no knowledge of the Thai language, he was an immediate asset to the global business.

"There are two key points to consider when using multinational talent in this way. First, you must set wages boldly, in keeping with employee abilities and leverage, and not be swayed by Thai price and wage standards. Second, there must be a thorough transfer of authority to the employee, and you must set them to work promptly," says Hara.

Within Greater Mekong Subregion interest has focused on the "Thailand-Plus-One" business model, and ABeam Consulting has been quick to respond. The company is now concentrating on increasing its ability to provide support to Japanese companies that are establishing operations in Cambodia, Myanmar, Laos and Vietnam.

Ichiro Hara
Managing Director
ABeam Consulting (Thailand) Ltd.
ihara@abeam.com



From Yamagata, Japan



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Contributions to
Regional
Revitalization

Using public consulting skills to
improve support for regional revitalization

The goal of Yamagata Prefecture—using a professional soccer team to engage in regional revitalization

As calls for regional revitalization continue to grow, Yamagata Prefecture is turning to sports development to help reinvigorate the region. Montedio Yamagata, a professional soccer team which competes in the J.League, is a particularly powerful presence in the region. However, it is difficult for regional governments to achieve revitalization without outside help. For this reason, Yamagata Prefecture used the public consulting skills cultivated by ABeam Consulting. Tomoyuki Matsuda, Head of ABeam Consulting's Public Business Unit, discusses the prefecture's initiatives and ABeam Consulting's support measures.

Using a professional soccer team as a catalyst for regional revitalization

The government has made "regional revitalization" one of its core policies. In Japan, regional decline is now a major societal problem due to a decreasing birthrate and an aging population. The population in Yamagata Prefecture continues to decline; by the prefecture's own calculations, its population will fall below 1.05 million people by 2020, and one in three residents will be a senior citizen aged 65 or over.

Consequently, Yamagata Prefecture is drawing up regional revitalization strategies based not only on preserving its resident population, but also on expanding the number of tourists and other non-resident visitors to the region. One of the prefecture's key measures involves sports promotion. Yamagata Prefecture is home to Montedio Yamagata, a professional soccer team that competes in the J.League, and the prefectural government envisioned that this could work as a catalyst for regional revitalization.

However, Montedio Yamagata was uniquely disadvantaged: it was the only J.League team owned by a public interest incorporated association (a type of non-profit organization). J.League regulations

stipulate that each team must be managed by a joint-stock company or a public interest incorporated association. Yet, while the goal of joint-stock companies is to generate a profit, the goal of public interest incorporated associations is to promote the public good.

"For J.League teams, the question of how to raise funds to strengthen the team is of great importance. However, public interest incorporated associations are bound by the nonprofit principle, and this restriction necessarily limits their activities," says Matsuda.

ABeam Consulting, which has used its business consulting skills to support regional revitalization for a number of years, was asked for advice on reforming Montedio Yamagata: "We were approached by the prefectural government itself as well as companies based in Yamagata Prefecture. ABeam Consulting proposed changing Montedio Yamagata's corporate status from a public interest incorporated association to a joint-stock company. This would allow any profit acquired through its profit-making enterprises to be used to strengthen the team, and so create a virtuous circle of investment, success, and increased popularity."

In 2013, Montedio Yamagata Co. Ltd. was established through the equity participation of three parties: the Development

From Yamagata, Japan

Association for Sports in Yamagata through the 21st Century, Yamagata Prefecture, and ABeam Consulting. Management of the professional soccer team was officially transferred to the joint-stock company in 2014. However, the academy in charge of educational businesses, such as the youth team and soccer school, continues to be operated by the public interest incorporated association.

Business growth of more than 150 percent in the year following management participation

ABeam Consulting sent four employees to Montedio Yamagata Co. They currently reside in Yamagata, where they are engaged in the development of business activities as part of Montedio Yamagata's Management Planning Division. To kick off the business activities, Montedio Yamagata Co. was chosen to carry out designated administration tasks for Yamagata Prefectural General Sports Park, which includes ND Soft Stadium Yamagata, the home ground of Montedio Yamagata, and they succeeded in integrating the management business of the professional soccer team and the stadium. This integration was aimed at generating synergistic effects by increasing working capital such as funds for strengthening the team.

Matsuda elaborates on what happened after the integration: "When management of the soccer team was transferred to the joint-stock company in 2014, the size of the business was approximately 1.2 billion yen. The addition of the designated administration business and promotion to the J1 League (the top division of J.League) resulted in business exceeding 1.9 billion yen in 2015. If profits continue to increase in this way, it will lead to strengthening of the team. If the team can become stronger and achieve good results on the playing field, then the number of fans will grow, leading to increased profits. In this way, a virtuous circle can be created. Montedio Yamagata was demoted to J2 in 2016, resulting in an unfortunate loss of profits. Nevertheless, the scale of the business is expected to remain stable at around 1.7 billion yen. The major cause of such an upturn in business is the implementation of planning proposals and execution, and the establishment of a company organization in which the cycle of data-based business planning, management, and improvements is repeated. In other words, the club has changed from an organization that is simply run to one that can be managed as a business."

The immediate task of Montedio Yamagata Co. is to get back into the J1 League and ensure it competes for the title. This will increase the number of fans not only within the prefecture but also from elsewhere, and lead to the further regional revitalization of Yamagata Prefecture.

It is important to note that a large number of different regional revitalization projects have derived from the management of Montedio Yamagata. The Naimono Project provides people who have donated money to strengthen the team with a gift of local produce from Yamagata Prefecture, which is one of Japan's top agricultural regions. Montedio Yamagata players, who have achieved their dream of playing in the J.League, discuss aspirations with children in Yamagata Prefecture in Dream Classes. Fureai Field sends academy coaches to run soccer schools for children in regional nurseries, kindergartens

and elementary schools. Sawayaka Ikiiki Fitness Lessons, exercise classes for senior citizens, are held as part of services to prevent the need for long-term/elder care. Finally, food education services collaborate with nutritionists and centers that supply school meals to deliver "Montedore" (school meals with a Montedio fan-support theme, supplied to schools in Tendo City) and other foods to regional elementary, junior high, and special needs schools.

Blessed with a rich record of consulting in the public sector

Why did Yamagata Prefecture choose to talk to ABeam Consulting in the first place? One major reason is that we have abundant experience and a rich record of providing business consulting services to a large number of regional governments.

"The key idea of regional revitalization was popularized following the establishment of the Local Revitalization Act in 2014. Even before then, however, ABeam Consulting was conducting business consulting tailored to regional governments facing problems such as decreasing populations and stagnating economies. Regional revitalization requires the creation of a 'town-people-work' cycle. In order for a town to develop, it is essential to increase the number of people; and to increase the number of people, it is necessary to generate stable work. ABeam Consulting possesses the knowhow and experience to solve such problems." Matsuda explains.

The Public Business Unit, headed by Matsuda, is in charge of consulting with regional governments. For more than ten years, the unit has provided consulting services to the public administration sector, which includes regional and central governments, to the education sector, such as universities and boards of education, and to the medical, welfare and care sector, including hospitals and welfare facilities. In recent years, it has also been at the forefront of data utilization in the public, education and medical sectors.

Matsuda says, "In the medical sector, for example, we have begun to analyze Big Data acquired from checking vital signs, and have begun to engage in initiatives aimed at preventing the development of illness before it occurs—this is also described as 'pre-pathological' care. Similar data utilization can be applied to various other sectors."

Utilizing data for regional revitalization—this is the true value of ABeam Consulting.



Tomoyuki Matsuda
Executive Officer, Principal
Head of Public Business Unit
ABeam Consulting Ltd.
tomomatsuda@abeam.com

2015>>>

4

ABeam welcomes 46 new employees

The corporate research book 2016, **ABeam Consulting: The "Real Partner" that Achieves Corporate Transformation, is published**

This book discusses ABeam from a variety of different perspectives, including "Corporate Strength," "Management Philosophy (DNA)," "Global Development," "Career Development" and "Recruitment Activity."

5

Exhibit at SAPHIRE NOW & ASUG Annual Conference

Collaboration with NTT Communications on the cloud

ABeam adds NTT Communications' "Biz Hosting Enterprise Cloud" to the infrastructure of the ABeam Cloud. The ABeam Cloud is a business innovation platform that incorporates templates and business application suites for different industries.

6

Launch of SCM course at Rikkyo University

ABeam's course for students attending Rikkyo University's College of Business provides cutting-edge case studies regarding the nature, mechanisms and effects of SCM.

7

Kazuto Doi and Kimihiko Imamura from Team ABeam Men are selected to represent Japan in the 470 Class sailing at the Rio Olympics

Launch of the ABeam Template for SAP Financial Consolidation

In order to support improvements in group management, ABeam launched the ABeam Template for SAP Financial Consolidation. This template automates consolidated account processing across a wider scope than standard methods.

8

The e-book SCM and its Evolution is published

This e-publication focuses on eight SCM themes—including management of overhead costs, S&OP, and distribution center reforms. It provides concrete examples and explanations regarding advanced companies' awareness of the issues they face and how they resolve them.

9

Launch of templates for manufacturers based on SAP HANA® via ABeam Cloud

Covering all the standard business processes required by manufacturers, ABeam added new templates for manufacturers to the ABeam Cloud line-up, conforming to local requirements in over 20 different countries.

10

Commissioned by JEITA to conduct an investigation into the evolution of e-commerce among high-tech companies

ABeam has been commissioned by JEITA (the Japan Electronics and Information Technology Industries Association) EC Center to conduct an investigation into the evolution of e-commerce among high-tech companies against the backdrop of growing digitization of value chains through IoT and Industry 4.0.

11

ABeam and SAP Japan provide support for creating a business infrastructure for Epson Smart Charge

Epson Smart Charge is a new business model launched by Epson Sales Japan Corp. ABeam Consulting provided support for the business launch as well as for the construction, implementation, and operation of its systems.

12

Lecture given at the 15th CFO Forum Japan 2015

ABeam presented a lecture entitled "The Roles of CFOs as Demanded by Next-Generation Business Accounting" at the 15th CFO Forum Japan 2015, hosted by the Japan Association for Chief Financial Officers.

7

Number of SAP Certified Consultants tops 2,000

The SAP Certified Consultant system verifies that an individual possesses the necessary project knowledge and know-how to implement SAP systems. ABeam is the only company in Japan to boast more than 2,000 certified consultants.

8

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9

Team ABeam Men win the All Japan 470 Class Sailing Championship for the second year in succession

Presentation of "ABeam Global Energy Market Insight: Where Retail Liberalization Is Happening"

Via our collaborations with partner companies in North America, Europe and Australia, three regions where liberalization has advanced furthest, ABeam presented materials that distill the history and experience of energy retailers in those regions. In four installments, we provided information that contributes to the activities of energy retailers in Japan, where the market is about to be liberalized.

10

Selected as a member of the 2015 Microsoft Dynamics Inner Circle

ABeam was selected as a member of the 2015 Microsoft Dynamics Inner Circle. The Inner Circle comprises partner companies deemed by Microsoft's headquarters to have contributed to its dynamics business.

11

Sponsor of SAP Forum Tokyo & Osaka

Manami Doi from Team ABeam Women is selected to represent Japan in the Laser Radial Class at the Rio Olympics

Consolidated net sales

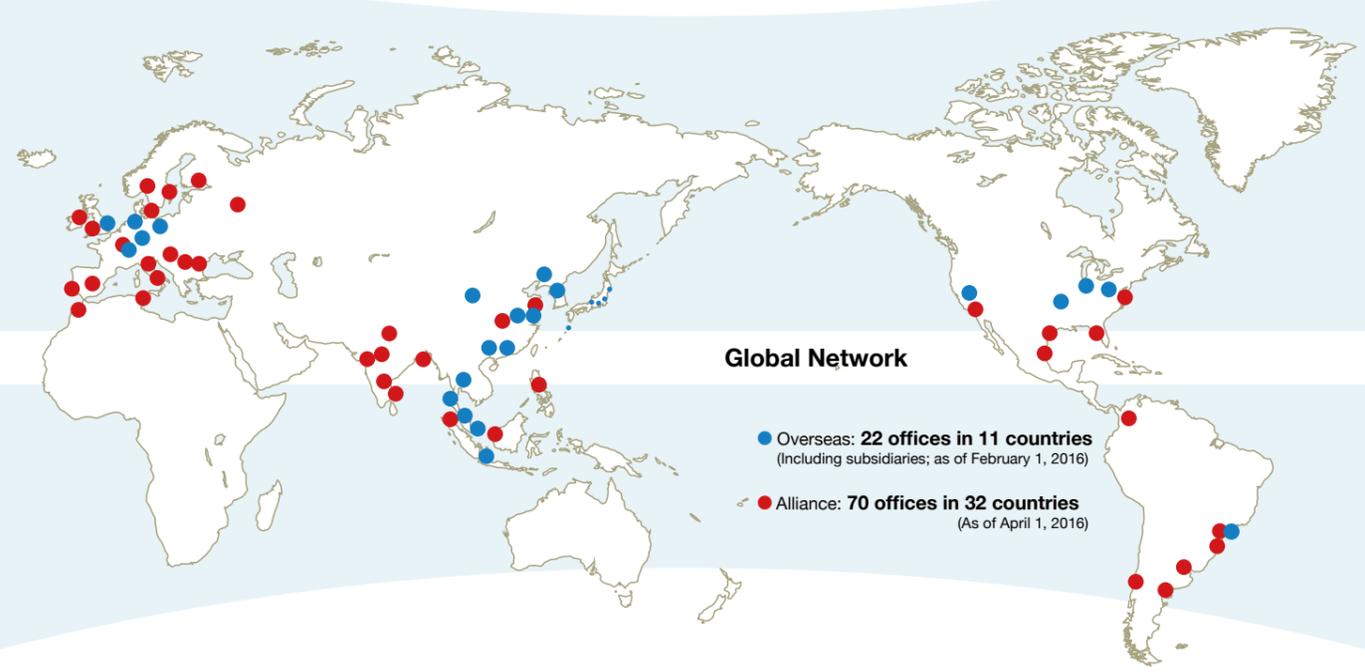
¥67.3 billion

(For the year ending March 31, 2016)

Number of employees

4,351

(Consolidated; as of April 1, 2016)



Results of customer satisfaction survey*1

82.1 points

Average satisfaction score

86.0%

Percentage of customers intending to continue doing business with ABeam*2

*1 Survey of 404 personnel across 81 companies, between April 2015 and March 2016
 *2 The percentage of respondents answering "Agree" or "Strongly Agree" to the question: "Do you agree that ABeam Consulting is a suitable partner for building a long-term relationship?"

2016>>>

1

Launch of Marketing BPR Solution

ABeam launched Marketing BPR Solution. This provides guidance on optimal solutions to company marketing divisions, as well as continuous support for the transformation and improvement of marketing business processes.

2

Establishment of Chicago Office

In order to further strengthen our foundations in the North American region, the Chicago Office was established on February 1.

3

ABeam Japan wins SAP Award of Excellence 2016 in three categories

ABeam Japan won the SAP Award of Excellence 2016. This award is presented by SAP Japan, and commends outstanding partner companies. There are three categories: Project of the Year, which is awarded to the most outstanding project of the year; Best Resource Partner; and Industry Solution Drive.

4

Launch of global sales and manufacturing template for SAP® S/4 HANA Enterprise Management

ABeam launched a global sales and manufacturing template for SAP® S/4 HANA Enterprise Management, SAP Japan's most recent next-generation business suite. The template provides powerful support for the optimization of local business processes by Japanese companies intent on globalization.

5

Exhibit at SAPHIRE NOW 2016 in Orland for the second year in succession

Environmental programs on Mt. Fuji

A total of 166 employees, including 134 new recruits, helped with activities to eradicate specified invasive species in the foothills of Mt. Fuji. ABeam removed 10,500 lanceleaf ticksed plants (about 59 kg) from National Highway 496, which connects a number of World Heritage component sites. Lanceleaf plants are native to North America.

6

Launch of IT Cost Optimization Support Service

This service provides support for realistic IT cost optimization. It makes use of the knowledge cultivated through our rich consulting experience, including the entire IT lifecycle from planning and strategy proposals to operational maintenance.

7

Launch of Information Security Diagnostic Service

Using flexible and balanced methods appropriate to various industries to diagnose security risks, ABeam provided total support for information security, including the implementation of necessary security measures.

8

Risk Appetite Framework—approaches to refining bank business planning is published

Risk Appetite Framework—approaches to refining bank business planning was published by the Kinzai Institute for Financial Affairs, Inc. The publication looks at Risk Appetite Framework (RAF), a method which is beginning to have a significant influence on how companies should approach risk management and governance.

9

Clean-up activities at Mitohama Beach

With the cooperation of the Kanagawa Coastal Environment Foundation, 101 people carried out beach clean-up activities at Mitohama Beach in Miura City, Kanagawa Prefecture. Volunteers included ABeam Consulting employees and their families, final-year students who had received unofficial job offers, and CSR-related personnel.

10

ABeam welcomes 134 new employees

Corporate research book 2017, ABeam Consulting, is published

The book discusses our company from a variety of different perspectives, including "Corporate Strength," "Management Philosophy (DNA)," "Global Development," "Career Development" and "Recruitment Activity."

11

Manami Doi takes part in the Laser Radial Class, and Kazuto Doi and Kimihiko Imamura pair up in the 470 Class sailing events at the Rio Olympics.

12

Special sponsor of "Asia's New Era of Opportunity and Cooperation," a Nikkei forum hosted in Bangkok

Sponsor of SAP Forum Tokyo

4

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6

The ABeam Financial Market Insight report is published

The *ABeam Financial Market Insight* analysis report was launched. This report aims to provide assistance to companies attempting to survive the complex and manifold changes in the economic environment.

7

Results of field study of responses to the My Number system published

ABeam announced the results of a field study of responses to the My Number system carried out between May and June 2016. This study was carried out in order to understand the efforts made by companies responding to the My Number legislation, and to clarify necessary measures. We arranged key points under five different categories so that companies can conduct sustainable security control measures.

8

Knowledge and Business Practices for Market-type Package Selection is published

80% Comes Down to the Decision—the Correct Way to Choose a Market-type Package System, a guidebook for the selection and implementation of market-type package systems, is published by Kinzai Institute for Financial Affairs, Inc.

9

The BtoB Digital Marketing Survey 2016 is published

The *BtoB Digital Marketing Survey 2016* was published. This survey report focuses on BtoB companies.

10

Robotic Process Automation (RPA) Business Reform Service is released

This service uses RPA tools to promote the automation of business processes. It aims to promote increased productivity and to effectively utilize human resources in back-office divisions.

CSR at ABeam Consulting

ABeam Consulting established its Corporate Social Responsibility (CSR) Division, currently called the CSR Unit, in 2009.

After continuously conducting activities while searching for a CSR profile unique to ABeam Consulting, the unit established its CSR policies in 2013 as an essential part of management activities.

At present, ABeam Consulting actively promotes CSR activities through two organizations: the CSR Committee, which acts as an advisory body that proposes policies and action plans to management; and the CSR Unit, which collaborates with relevant divisions to execute the policies and action plans established by the CSR Committee.

Note: For details of our CSR activities, please refer to "CSR Report 2016."



ABeam Consulting's CSR policies consist of a Mission and a Vision. Based on these policies, we conduct a range of CSR activities in five separate areas. In the future, we also plan to focus on activities that leverage unique attributes of our consulting business.

Mission

Through our consulting services, we help our customers achieve new successes and contribute to sustainable societies.

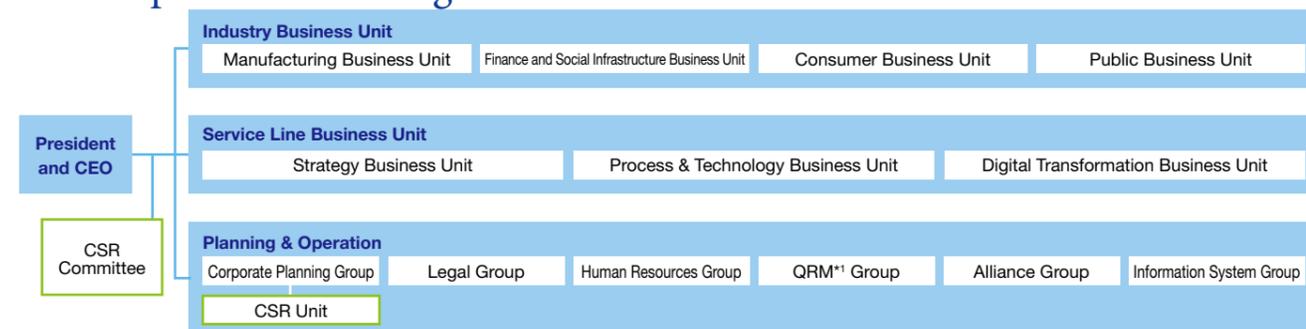
Vision

- 1 We strive to achieve fair and judicious systems of business administration and take great pains to prevent any improprieties before they occur.
- 2 We use our unmatched consulting expertise to deliver high-quality services to our customers.
- 3 As responsible corporate citizens, we work with a wide range of partners to help build and identify solutions to pressing social issues, including those related to poverty and education, without assuming that any one form of contribution is best for all situations.
- 4 Through our services and other activities, we contribute to easing the burdens on the worldwide environment. We constantly strive to improve environmental management and performance in our business operations.
- 5 In addition to creating comfortable, rewarding workplaces for all our employees, we encourage motivated employees to engage in social welfare activities in order to further their personal growth and fulfillment.

CSR activity areas

- A solid business base
- Together with our customers
- Together with local communities
- Together with the environment
- Together with our employees

CSR Implementation Organization Chart



** QRM: Quality Risk Management

ABeam Consulting CSR Report

The CSR report brings together ABeam Consulting's CSR activities.

The report covers various activities across five separate areas based on our CSR policies.

2016 CSR activity areas

A solid business base

Building the foundation for longevity as a company trusted by society

Together with our customers

A consulting service that contributes to society by providing our customers with success

Together with local communities

Supporting local Asian communities and contributing to the creation of a shared future as a Real Partner of the community.

Together with the environment

Promoting activities that lead to the reduction of environmental impact both internally and externally as a partner of the local environment

Together with our employees

Supporting the growth and success of every one of our employees, each of whom is a unique resource



Feature Overviews

Here we provide an overview of our donations to WaterAid Japan, an NGO that works to improve water, sanitation, and hygiene across the world. We also give voice to our employees who engage in sustainable support activities such as pro bono work, and who utilize their consulting skills to contribute to regional revitalization.

Feature 1: Bringing safe drinking water and a sanitary environment to people across the world

WaterAid – an NGO that works to provide people with safe drinking water and a sanitary environment

At ABeam, we have provided support to WaterAid Japan, the Japanese branch of WaterAid, since preparations for its establishment began in 2013. We continue to provide support through monetary donations and pro bono activities.

*2 Pro bono activities: Offering one's own skills and expertise free of charge to meet a social need



In support of WaterAid



Feature 2: Using our consulting skills to support urban planning Supporting urban planning and the implementation of smart communities with local authorities

"Regional Revitalization" is a societal need in present day Japan. It has even become a keyword in national policy. Even before it became a major public concern, however we at ABeam Consulting were already contributing to the creation of autonomous and sustainable societies through urban planning and the implementation of smart communities with a number of local authorities. Our employees, who have promoted these projects and utilized their consulting skills to contribute to regional revitalization, give voice to their experiences.

*3 Smart community: An initiative to control energy consumption and create communities that provide the foundations of sustainable societies

Our CSR website

Additional information on ABeam Consulting's CSR activities is available on the website.

ABeam Consulting's CSR site
<http://www.abeam.com/about/csr.html>