

Interview with the President

Business Refinement to Become a ¥ 1 Trillion Company in 10 Years



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■ **Q: Looking back at the G-21 Medium-Term Business Plan, what were the concrete achievements and what issues remain?**

A: We prepared G-21 based on a reassessment of business conditions in light of the increasingly adverse effects of deflation. Under the previous Medium-Term Business Plan, we strengthened competitiveness by adhering to our growth strategy while stepping up the pace of business development, profit structure improvements, and the reorganization of businesses with low profitability.

Under G-21, we improved our business, asset, and regional portfolios. In our business portfolio, we expanded core material businesses and rebuilt mature businesses to enhance profitability. In assets, we reduced inventory assets, financial assets, and such non-operational assets as land while increasing operational assets through capital investment and M&A. In our regional portfolio, we grew overseas operations through the expansion of core material businesses in Europe and North America and the establishment of a processing base in China. In Japan, revenues decreased.

Meanwhile, as part of structural reform efforts aimed at speeding up management we introduced an in-house company system and an executive officer system. These changes have fostered a more rounded approach to business management because the head of each in-house company considers issues from the three perspectives of marketing, development, and production. Nevertheless, it became evident that a lack of perspective or sectionalism was negatively affecting some operational areas, evidenced, for example, by a reluctance to release personnel. These issues resulted from splitting operations into sections that were too small. To rectify this, in April 2006 we reorganized the Group into three companies responsible for specialty resins and films, fibers and textiles, and chemicals. This new structure will enable us to manage business from a medium- to-long-term perspective, accelerate our responses to demand, and enhance the effective use of management resources. As for future issues, we need to step up the speed of our responses in relation to such areas as reducing inventory months, reflecting increases in raw material and fuel costs in product prices, realizing the benefits of capital investments, and bringing new products to market.

■ **Q: Could you explain the backdrop to your structural reform efforts to date in more detail?**

A: The 1990s are referred to as Japan's lost decade. But I do not necessarily see it that way. Most Japanese business managers had never experienced the business conditions that followed the collapse of the bubble economy and the onset of deflation. As in the period after the first oil shock, companies took belt-tightening measures, including cost reductions and personnel rationalizations. However, faced with stagnant sales due to deflation, business managers realized that simply expanding market share through increases in price competitiveness or offerings of general-purpose products were no longer effective. Japan's business leaders saw that to survive in world markets they had to build up corporate strength, not downsize. Furthermore, today's companies cannot keep business strategies close to their chests and move forward in whichever direction they please. They have third parties assess management strategies objectively and change their strategies if needed. To realize such checks, the establishment of relevant company structures is the first priority. Accordingly, we have bolstered our audit system and created a management advisory council. We consult with outside experts on important management issues two or three times a year. Although we came through tough times in the 1990s, the experience shook up our business management and has set us on the right track for the future.

■ **Q: Why did you prepare both a three-year Medium-Term Business Plan and a 10-Year Corporate Vision?**

A: Under our past two five-year plans, operations diverged from the proposed plans, forcing us to review plan targets. Considering the fast-paced changes of the current era, discrepancies between operational developments and plans are almost unavoidable. Therefore, we decided that a three-year period was more practical. At the same time, we wanted to clarify the Company's orientation over the longer term, based on the assumption of changing business conditions. Taking an overview of business conditions in the coming decade, the main changes we anticipate are the further manifestation of global environmental issues and the rapid curbing of economies' volume-based expansion. Because natural resources are finite, the global environment and sustainable economic growth will likely become major issues. Other large trends will include intensified global competition among companies and markets' accelerated regional expansion and change. As a result, the life spans of businesses and products will shorten, and the development of new products and applications will determine companies' survival. Only high-quality businesses and products that are internationally competitive or that have particular advantages in their markets will win out. In light of these trends, we believe companies must shift the focus of management strategies from quantity growth to quality enhancement. With our sights set on becoming a world-class company with net sales of ¥1.0 trillion, in 10 years we want to make the Kuraray Group a sustainable and growing diversified specialty chemicals company aimed toward exciting innovation and outstanding earnings and recognized throughout the world. In an era that values quality over quantity, the Kuraray Group will draw on a long-standing corporate culture that values

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“contributing to the world and individual well-being through actions that others are unable to produce” to make a concerted advance toward the achievement of its 10-Year Corporate Vision.

■ **Q: In an age calling for quality rather than quantity, what do you think the key focuses of corporate management should be?**

A: Among the five basic strategies for the realization of our 10-Year Corporate Vision, I place particular weight on “refinement.” We do not intend to pursue general-use products as mainstay business areas. Rather than becoming caught up in the price competition that such business areas entail, we will succeed by adding value in quality, functionality, benefits, and beauty. Our pursuit of quality will involve the “streamlining” and “refinement” of a wide range of operations. By “streamlining,” we mean conserving management resources by reducing volumes and enhancing efficiency. Meanwhile, we use “refinement” to refer to intelligence as well as high quality that is more sophisticated and precise. As a company, we will pursue growth and expansion. However, we will give priority to enhancing the quality of business development rather than increasing overall business size. In other words, our goal is to realize volume growth by garnering high quality.

■ **Q: Why have you included two levels of targets in GS-21?**

A: While taking on ambitious targets is beneficial, I think failing to attain targets renders them meaningless. On the other hand, I feel we should avoid overly conservative targets that we reach ahead of schedule or even surpass. It is important to have a firm grasp of market information and the degree of maturity of each business and resolutely strive to achieve targets. Therefore, in GS-21 we established two levels of targets: commitment targets that we must reach no matter what happens and ambitious targets that we will reach if new businesses and M&A prove successful. Revenues from new ventures are always difficult to predict. There may be times when we cannot make the necessary technological breakthroughs. However, if we achieve these stretch targets, our 10-Year Corporate Vision’s ¥1.0 trillion net sales target will be within reach.

■ **Q: What types of businesses are you targeting for M&A?**

A: Until now, our M&A initiatives have sought to strengthen the profitability of existing businesses by increasing market share and expand our operational area by developing downstream businesses. At this juncture, we need to pursue M&A that will supplement management resources for the creation of new businesses as well as midstream and downstream M&A that will accelerate our development activities. One of our targets is the IT-related industry, which is very fast moving. If we cannot keep up with that pace, we will not deliver results, no matter how much effort or talent we apply. I think it will become ever more important for us to broaden points of contact with the outside to find out where we are lagging behind and where we are making good progress.

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■ **Q: Would it be correct to say that new business creation is the key to achieving net sales of ¥1.0 trillion?**

A: The keys to achieving this target are the creation of new businesses for such products as inorganic electroluminescence (EL) materials and the expansion of businesses in new growth fields, including optics, automobiles, and energy related materials. I had the figure of ¥550.0 billion set out in GS-21 as a stretch net sales target in mind for some time. However, we have not been able to reach that level due to the downsizing of polyester fibers and textiles businesses and other factors. Now, circumstances are different because we have almost completed the reconstruction of our business portfolio. Among Japanese specialty chemicals manufacturers, ¥500.0 billion or more is high for net sales. But by 2015, it will no longer seem such a considerable amount. As a first step toward becoming a ¥1.0 trillion company, we aim to take net sales past the ¥500.0 billion milestone in three or four years. Although three years is a tight schedule, I think this target is attainable.

■ **Q: Regarding the expansion of businesses in growth fields, will you change your current business portfolio?**

A: Historically, our earnings mainstays have been upstream materials businesses. However, in the coming decade we will increase the proportion of revenues generated by operations that involve high levels of processing, such as intermediary materials and components businesses. If we capitalize on our expertise in high precision molding and processing technologies and other areas to add value and quality, volume will follow naturally. Volume increases that are detrimental to earnings, in response to price competition for example, are undesirable. I think the economy as whole has reached a turning point and is beginning to move from quantity to quality. Although we now have a strong business portfolio in place, businesses always mature and decline. Therefore, we must constantly identify and further strengthen businesses' earnings structures while reorganizing and culling businesses that have become unviable. Selection and concentration will continue to be important management issues.

■ **Q: Rather than a central R&D division, why does Kuraray spread its R&D activities across various operational divisions?**

A: The objective of our R&D activities is the creation of new businesses. Accordingly, in April 2006 we established the New Business Development Division, which integrates new business development functions, including M&A transactions and alliances, into the existing R&D section. The Group has approximately 800 researchers and engineers. However, until now we had too many development themes for our personnel to handle. Consequently, even when we commercialized R&D achievements, in many cases they did not generate substantial earnings. As part of measures to rectify this situation, we drastically narrowed down our development themes. Under this initiative, we established strategic R&D themes to enable us to concentrate the deployment of management resources on themes that promise significant earnings. The president of a major

sensor manufacturer commented that his company was able to win in competition with large companies that had 1,000 researchers because the large company allocated 10 researchers to sensor R&D whereas his company dedicated between 50 and 60 researchers. In other words, clarifying overall direction and consolidating research themes increase development speed and produce results. Furthermore, failing to keep abreast of the latest developments can result in situations in which technology that you thought was outstanding is in fact out of date. If we cannot see the world outside because we are absorbed in research, our efforts will be fruitless. This does not only apply to R&D; we have to make greater efforts to foster outside relationships, particularly with customers. The success or failure of our GS-21 Medium-Term Business Plan depends on our ability to gather outside information accurately and heighten profitability by discovering business chances based on combinations of our resources with those of other companies. It is important for those involved in R&D to be familiar with the market. Even if we focus efforts on the development of optical applications as a chemicals manufacturer, chemists alone cannot develop new products. We have to forge alliances with universities and companies to help guide our R&D activities while dispatching our personnel to absorb technology. For example, we are speeding up the development of inorganic EL through the operational dovetailing that has resulted from an alliance.



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■ **Q: Lastly, what does Kuraray’s corporate culture of “contributing to the world and individual well-being through actions that others are unable to produce” mean, and how will you exploit it in the 10-Year Corporate Vision?**

A: The Company began 80 years ago by commercializing rayon. Our 1950 commercialization of vinylon – the first synthetic fiber manufactured in Japan – was the first step toward becoming a specialty chemicals manufacturer. Feeling a strong social obligation to help repair the devastation that war had wreaked on the lives of the Japanese, we spared no efforts in commercializing vinylon. Furthermore, we overcame significant hurdles in developing *CLARINO* and isoprene, which we subsequently commercialized as substitutes for limited natural resources. Since our development of *EVAL*, we have single-handedly led the world in the development of new markets for food packaging. These commercialization initiatives have formed two values. First, we believe in addition to being profitable, our businesses must benefit consumers. In other words, companies have not only financial responsibilities but also social responsibilities. Second, to benefit society we have to create businesses based on revolutionary technologies. “Contributing to the world and individual well-being” refers to social responsibility, while “through actions that others are unable to produce” indicates the development of unique technology and the innovation of adopted technology. These two unchanging values in relation to management and technology will be the most important factors supporting the sustainability of Kuraray’s operations. Aiming to respect this corporate culture in the next decade and beyond, we will create numerous high-quality businesses and products that contribute to the realization of a sustainable society.