

Innovation for Our Future

The Yamato Group's Unique Strategies toward Sustainable Development

1919
Founded



1929
First innovation



1976
Second innovation



2013
Third innovation

SPECIAL FEATURE

Since its foundation in 1919, the Yamato Group has continued to create innovative services and value that have met society's needs. Underpinning that growth have been unique innovations in which the Company has been engaged over many years.

For the shipping line business of 1929, our first innovation, the Company succeeded in bringing more convenience to customers by transporting consolidated goods that were delivered to different customers by truck. The second innovation was the *TA-Q-BIN* business that was started in 1976. By updating the systems that had been utilized up until that time for transporting shipments between individuals and companies and, over and above that, by responding to the variety of customer needs,

the Company built up *TA-Q-BIN* services as a form of lifestyle infrastructure that cannot be done without, in the same way electricity and running water are needed. The Company is currently promoting "*Value Networking*" design, its third innovation.

In this section, we focus on the "*Value Networking*" design, which will drive the growth that will bring to fruition an improvement in the Yamato Group's medium-to-long-term corporate value. We will outline "*Value Networking*" design and explain its initiatives, the human resource training that will underpin those initiatives, and also the corporate image for which the Yamato Group is ultimately aiming.



Toward an Innovative Infrastructure to Underpin Japanese Corporate Growth Strategies

By causing logistics to evolve into a “means for generating new value,” the Yamato Group will realize logistics reform

In July 2013, the Company commenced the “Value Networking” design. By implementing domestic and overseas network innovations, the Company will cause logistics to evolve into a “means for generating new value” not only through costs, contribute to Japan’s economic growth strategies, and engage in logistics reform.

Against this backdrop lies the issue of customers’ logistics costs and logistics associated with changes in the market environment. For distribution industry customers, logistics costs are increasing due to the high-frequency transportation of small lots arising from the burgeoning e-commerce market. In the case of manufacturing industry customers, increases in total distribution costs brought about by the separation of the manufacturing base and product shipment destination, and increases in inventory are being cited as a cost pressure issue. The Company launched its “Value Networking” design to address these very issues. While keeping down customers’ logistics costs, “Value Networking” design brings improvements in logistics speed, a dramatic rise in quality, and fulfills the aim targeted from the outset of the bottom-up growth of Japanese companies as a whole. Seamlessly integrating its nationwide “last mile” delivery networks in Japan and in other Asian countries—networks that boast the Company’s unique information technology (IT), logistics technology (LT), and financial settlement technology (FT) functions as well as core competencies—with the unparalleled speed provided by *Haneda Chronogate*, *Atsugi Gateway*, and the *Okinawa International Logistics Hub*—

the Company is promoting the provision of innovative solutions to raise the bar in all three areas: logistics speed, cost, and quality.

Implementing “Value Networking” Design Plan Based on Five Engines of Reform

1. Non-stop logistics network

Full-scale operation of the multifunctional Haneda/Atsugi/Okinawa super-hubs that integrate speed and value-added features (Please refer to “Logistics Reform Case Studies” on pages 24 and 25.)

2. Cloud-based network

FRAPS* rapidly and reliably “consolidates, controls, and optimizes while delivering to multiple locations,” interfaced via a cloud-based network

3. The world’s first integrated delivery network of international refrigerated packages

Start of *International Cool TA-Q-BIN* (Please refer to “Logistics Reform Case Study” on page 24.)

4. Logistics visualization

Seamless digital informatization enabling both senders and receivers to visualize logistics from shipment to arrival

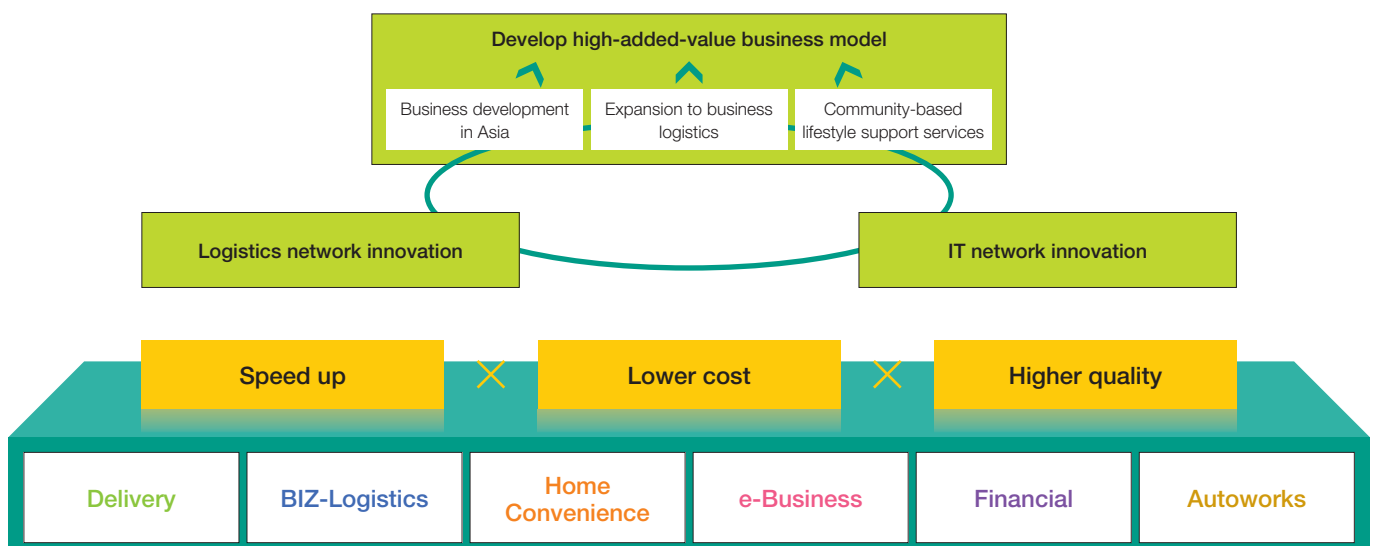
5. Demand chain-perspective innovation

Satisfying the needs of both purchasers and suppliers

By completing *Haneda Chronogate*, Japan’s largest logistics terminal, in September 2013 as the core, the Company was able to build the foundation of a non-stop logistics network that will generate speed and added value. In the years to come, the Company will leverage and work on enhancing the networks that have been built up over many years and realize improvements in customer value by providing optimal solutions to a variety of customers that transcend the nature or scale of their businesses. Furthermore, the Yamato Group’s human resources that have developed over the years will be nurtured through logistics reform under the “Value Networking” design and efforts thereby made to improve the Company’s management resources and, going forward, corporate value.

* FRAPS is an acronym for the *Free Rack Auto Pick System*, a cloud-based setup that can use “last mile” networks. This picking system uses proprietary flow-through racks.

Overall Diagram of “Value Networking” Design





SPECIAL FEATURE 01

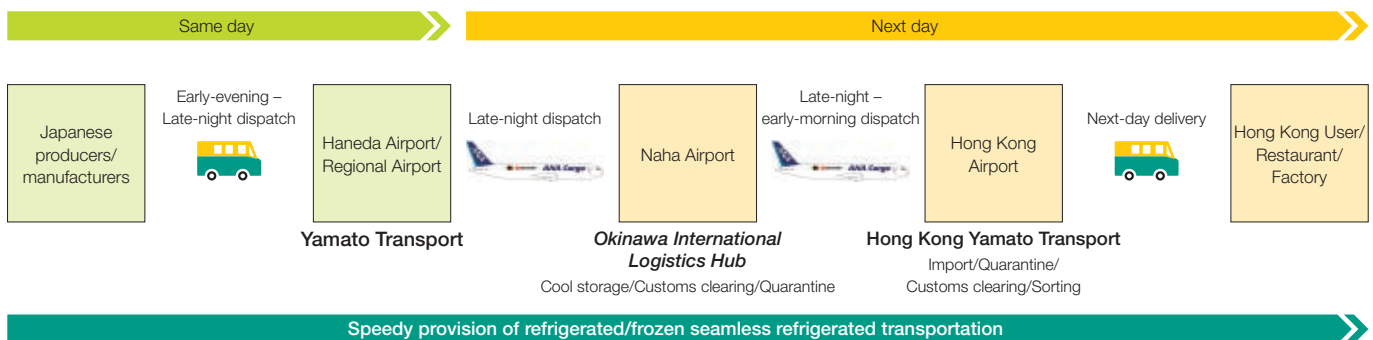
Providing Optimal Solutions with “Value Networking” Design

Of the customers that utilize *Haneda Chronogate*, which forms the core of the “Value Networking” design, the backbone is formed by overseas companies. Here we outline case studies of the logistics reform provided by the Yamato Group.

Case Study 1 *International Cool TA-Q-BIN* (Next-day delivery of fresh products to Asia)

Customer	Domestic primary industry/producers	Solution	Domestic producers in Japan are connected with the rest of Asia via the <i>Haneda Chronogate</i> and <i>Okinawa International Logistics Hub</i> operations. The shortened lead times and safe refrigeration technologies have enabled very fresh products to be delivered as they are to overseas customers.
Issue	Since international refrigerated transport services for small-lot shipments previously did not exist, domestic producers were limited to developing foodstuffs such as fresh products to be produced in overseas markets.	Added value	Domestic Japanese producers: Expansion of sales channels in Asia, no need for investment in logistics, quality maintained, logistics visualization Purchasers: Quality maintained, early receipt of orders, transportation visualization

“International Cool TA-Q-BIN” Japan to Hong Kong Delivery



Case Study 2 Parts Supply/Procurement

Customer	Machinery manufacturers developing business in Asia
Issue	In the case of the procurement of parts from suppliers scattered across Japan and other countries in Asia to manufacturers that have developed their business in Asia, time was lost due to customs clearance and the time needed for companies to send consignments to their own work sites.
Solution	The Company has established a Parts Center within the International Logistics Center adjoining the <i>Okinawa International Logistics Hub</i> . The Parts Center supports speedy parts supply and procurement for companies that have developed their businesses overseas by enabling daily, round-the-clock customs clearance and an extensive network of nighttime cargo flights serving points in the rest of Asia.
Added value	Manufacturers: Shortened lead times, procurement visualization, minimization of inventory and space taken up by inventory, negated need for logistics investment Suppliers: Reduction of operational pressures, extended production time, logistics visualization, ensuring of production lead times

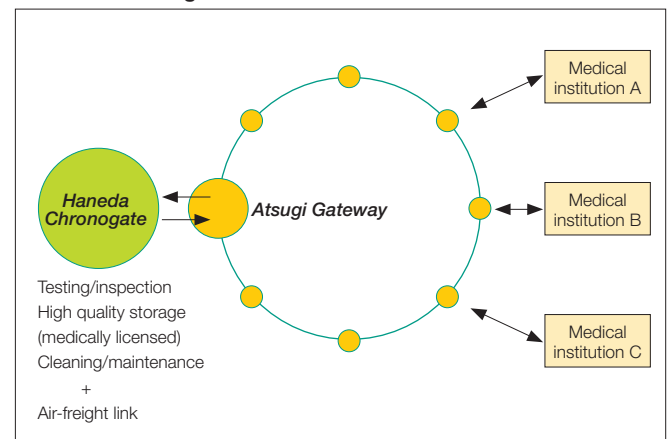
Parts Supply/Procurement between Japan and Asia Utilizing Okinawa International Logistics Hub



Case Study 3 Medical Device Cleaning/Maintenance

Customer	Medical device manufacturers
Issue	The lead times required for cleaning surgical medical devices used at medical institutions in Japan had become prolonged due to the need to transport the devices from the medical institutions and on occasion send them back and forth between cleaning/maintenance bases and storage locations.
Solution	The Company has enabled 24-hour cleaning, maintenance, and holding of inventory stock at its <i>Haneda Chronogate</i> facility. By eliminating the previous need for sending surgical medical devices to cleaning/maintenance bases, the number of movements have been reduced and improvements in inventory turnover realized.
Added value	Manufacturers: Inventory turnover improvement, inventory visualization, inventory reduction, logistic cost reduction from eliminating need for cleaning/maintenance base system Medical institutions: Procurement visualization, just-in-time (JIT) procurement, ensuring of safe and hygienic equipment

Medical Device Cleaning/Maintenance Realized by Haneda Chronogate



What Is Haneda Chronogate That Plays a Central Role in "Value Networking" Design?

Completed in September 2013, *Haneda Chronogate* is the largest logistics base in Japan and where the Yamato Group's functions have been consolidated. From its location, scale, and functions, *Haneda Chronogate* is of paramount importance for its central role in the "Value Networking" design.

Directly adjoining Haneda Airport, which serves international destinations, *Haneda Chronogate* serves as a hub connecting the domestic TA-Q-BIN network with the Asia next-day delivery network.

Also in the vicinity are a Japan Railway Company cargo container terminal as well as the ports of Tokyo and Yokohama. Affording excellent highway access, the special feature of *Haneda Chronogate* is that the facility

enables speedy transportation by land, sea, and air.

Shipments that arrive at *Haneda Chronogate* are quickly sorted by destination by means of state-of-the-art material handling equipment, which is capable of round-the-clock sorting, on the first and second floors of the facility. Shipments that require the value-added functions provided at *Haneda Chronogate* are transported via a conveyor belt to value-added-function areas on the third to the fifth floors. By providing customers, no matter the nature or scale of their businesses, with a wide range of value-added functions around the clock—including fast-track customs clearance; bonded storage/localization; cross-merging; medical device cleaning/maintenance, kitting, assembly, maintenance, and repair; and on-demand printing—the Company is bringing innovation to its customers' logistics.



Training and Producing Human Resources Who Will Go Beyond the Boundaries of the Logistics Industry

To continue innovation that is in step with the times, the human resource strategies that raise the competitiveness of the Group as a whole are contributing to corporate value creation from a long-term perspective.

Yamato Group Human Resource Strategies Evolve in Conjunction with Management Strategies

Human resources are needed for the Yamato Group to continue to grow sustainably. These are human resources who will create value in society unfettered by the frameworks known as transportation and gather a wide range of information and opinions.

In the past few years, amid increasing logistics volumes brought about by such factors as the expansion of the e-commerce market and the high-frequency transportation of small lots for B2B logistics, corporate customer logistics costs have been on an upward trend, and keeping costs in check has been cited as a problem area. I believe we will shift toward value-added competition at an early date, raising customer convenience by means of our delivery-plus-something-extra strategy or, more specifically, by achieving logistics reform in terms of cost, speed, and quality. To make this strategy more definite, it will be of the utmost importance that we train and retain



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human resources who are capable of providing value that pushes the boundaries of the logistics industry in its conventional form.

Acquiring Abilities to Fight to Fullest away from Base

There are two key expressions with regard to training the human resources we require: “ability to fight away from base” and “unchanged philosophy.”

First, by “ability to fight away from base” I mean displaying the capabilities of human resources to the fullest extent, even in situations in which they do not have any experience, while overlapping the Company’s management strategies with their own roles and responsibilities, since such capabilities will enable the accumulation of results that will lead the growth of the Company.

The Yamato Group is currently promoting its “Value Networking” design to offer a variety of added value during the process of carrying customer shipments. For example, medical device

manufacturer customers conventionally needed to transport surgical medical devices to several bases for each cleaning. Having the Company assume responsibility for the cleaning operation, however, has enabled the provision of added value from the aspects of speed, quality, and cost, and it has become unnecessary for the devices to pass through cleaning/maintenance bases.

This is just one example, but in the years to come the Company will provide added value to a variety of customers, no matter the nature or scale of their businesses. Marketing capabilities will be indispensable for broadening our customer base and enabling us to subtly detect changes in markets and needs, which will never be detected by remaining only on Company premises. In addition to personnel exchanges with Group companies, the Group is implementing transfers outside the Company, the aim being to acquire wide-ranging ways of thinking, from fields that are not bound by the Company's common practices and culture, by becoming acquainted with and absorbing the organizational cultures of other companies as well as the thoughts of those companies. As a result, I am expecting these moves to lead to the creation of new value that had not been considered previously.

In addition to in-house human resource training, we are focusing efforts on hiring from outside the Company to enhance our "ability to fight away from base." By enhancing the human resources capable of being active in management posts, including at the director level, or globally, we will bring diversity to the Company and create the fertile soil in which a row of seeds of new ideas will germinate and grow.

Factor that Remains Constant Even amid Change

Amid these management strategies and changes in human resource strategies, there is one factor that must remain constant. This is our corporate philosophy, which has been handed down in an unbroken line as our guiding compass of growth since the Company's foundation. In the Yamato Group, all employees, including drivers, collectively have an executive candidate awareness. Since the Company's foundation, the "all-employee management" philosophy of each and every person leading the Company toward the same goals has been passed down consistently. For this philosophy to continue to be passed down in the years to come, the Company has been implementing a job rotation system since 1987, through which employees briefly experience logistics center operations for two years immediately after joining the Company. By experiencing the logistics center on the front



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line at an early stage, young employees naturally understand the core elements of the Company's business model, the aim of which is to cultivate an "all-employee management" attitude that designates the customers as its starting point.

The sharing of the corporate philosophy will not remain solely in Japan. We are also working on ingraining the philosophy among our local employees overseas. As one part of these efforts, we brought together around 20 representatives from Europe, the United States, and Southeast Asia and conducted a training session related to the sharing of our philosophy. Previously, I had visited the sites and explained the philosophy, but it had taken a considerable amount of time for the explanation to be understood at an acceptable level. By gathering representatives from across the world in one place and having them share their similar thoughts and concerns, I believe that even if they are faced with a problem locally that they will immediately recall our philosophy and strive to overcome that problem. I feel there has been a favorable response upon hearing feedback from one training session participant, who said that, "Previously we had the sense of working for an overseas logistics company, but now, through this training, we have reached the stage where we have become more aware of a sense of pride as Yamato Group employees."

What has enabled the Yamato Group to grow to where it is today have been the efforts of each and every employee in Japan and overseas, including the Sales Drivers (SDs) on the frontline.

Amid the ongoing advance of globalization of society, we will aim to remain as ever a company in which our employees can take lasting pride. We will further raise the Group's competitiveness by accurate human resource strategies tailored to business strategies, and by the thorough cross-fertilization of our philosophy that will have remained a constant even in 100 or 200 years' time.

Training and producing human resources who will create value in society unfettered by the frameworks known as transportation and gather a wide range of information and opinions.





SPECIAL FEATURE 03

Ensuring Long-Term Corporate Growth through Accelerated Global Development

The Yamato Group is promoting global development to ensure its long-term growth over the next 20 to 30 years and beyond.



Richard Chua Khing Seng

Executive Officer,
Yamato Holdings Co., Ltd.
Managing Director,
Yamato Asia Pte. Ltd.

Yamato Asia Pte. Ltd.: Assuming Command of Southeast Asia Strategy

Established in Singapore in January 2014, Yamato Asia is an intermediate holding company in Southeast Asia responsible for supervising local subsidiaries that are deployed in the region. The reason for establishing a base in Singapore rather than in Japan was our belief that a system was necessary in the vicinity of our customers to enable rapid responses to diversifying needs. In addition to building networks predominantly in Southeast Asia, Yamato Asia's role is to manage in such a way that the subsidiaries' business management proceeds as planned. Our long-term vision calls for the building of a "last mile" network that covers all of Southeast Asia and the development of global, cross-border small parcel transportation that is connected with Europe and the Americas as well as East Asia and Japan.

A year and a half has passed since Yamato Asia's establishment, and our strategy has started to produce results. In April 2014, we

inaugurated the Singapore-Malaysia Cross-Border Delivery Service. Combining regular truck services between the two countries with *TA-Q-BIN* networks, customers can now conduct logistics operations between the two countries with ease thanks to the service's consistent performance, from collection to customs clearance and delivery. Furthermore, in July 2014 we acquired TIDIKI EXPRESS (Pte) Ltd., which owns a domestic emergency delivery network in Singapore. We believe this move will enable such services as emergency transportation within a matter of a few hours and large product delivery as well as the provision of more advanced services in the B2B field. In addition, in April 2015, in cooperation of the Singapore Economic Development Board, we established in-house R&D organizations with a view to creating a business model along industry lines in Southeast Asia and an Asia Business Model Innovation Centre within Yamato Asia. The pivotal base of the global strategy at the Yamato Group remains B2B services, but the "2B" can be said to be any

one of a wide range of industries, so it was necessary to create a sound business model through research by industry to know whether providing a particular solution would be the best for that industry. In the environment with which Singapore is blessed, we are working to make effective use of our resources by consolidating those resources that are distributed to each region. In this way, Yamato Asia spans nations and, in addition to putting in place the systems that will enable growth throughout the region, is creating plans to make business inroads in new countries and cities.

An Asset in Overseas Development: “Last Mile” Networks

As you may expect, it is the domestic “last mile” networks, such as *TA-Q-BIN* in Japan, that hold the key to the Yamato Group’s global development. It is our policy to accelerate growth using “last mile” networks as a lever. Why are “last mile” networks important? Despite many corporate customers who want to know reactions of consumers in a timely manner, there are fewer business operators who are experts in the logistics business that can connect corporate customers and consumers. This represents a major business opportunity for the Yamato Group. In an era when consumers select goods, corporate customers that include manufacturing companies, for example, will naturally verify for certain that their products have been delivered, but there is a growing need to instantly catch the reaction of customers (end-users). Possessing the know-how to enable a response to that need,



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I believe the Yamato Group is working to set itself apart from other companies.

Familiar for its black cat brand logo in Japan, where the Company is also the market leader, the Yamato Group is recognized as having the smallest presence overseas. In terms of global development, we are very much aware of the necessity of speed to continue forging ahead in business.

Human Resource Strategy to Accelerate Growth

Language study is necessary to enable human resources at the Yamato Group to develop global business, and those human resources must fully understand local factors and have the courage to take risks. When a company makes inroads overseas, all types of risks may accompany such a move. Under such circumstances, I believe human resources need to eliminate all conceivable risks to determine how big of a risk is worth taking to bring about growth in business, and at times they must be able to judge when to take that type of risk. Moreover, in the sense of business management or operational management and in B2B management, they will need to elicit customer needs when on site, and thus we need human resources who possess the practical skills that will enable them to provide solutions.

I always want employees to give some additional thought as to what form the Yamato Group should take in 30 years’ time. In this time, as the population continues to decline in Japan, business growth is expected to slow. We should be asking ourselves whether we will be satisfied with being No. 1 when the overall market scale is shrinking, or whether we aim to be No. 1 in Asia, growing to where global business accounts for more than half of the Yamato Group’s overall profit in 20 or 30 years’ time, while maintaining our position in the domestic market. All employees are required to have a strong sense of urgency to take immediate action.

My mission is to continue establishing businesses in Southeast Asia according to plan, but I am Yamato Group’s first non-Japanese director. I point out the Yamato Group’s strong points and weak points from a non-Japanese point of view and recognize my own role of proposing enhancements and improvements. Going forward, I will devise strategies from a long-term perspective and promote strategies for Southeast Asia by constantly addressing issues with a sense of urgency.