

# Applying the finishing touches to the “Value Networking” design, we are building momentum to make great strides going forward.

In addition to having completed the construction of innovative logistics hubs, such as *Haneda Chronogate*, *Atsugi Gateway*, and *Okinawa Southern Gate*, the Yamato Group is pushing ahead with its “Value Networking” design, which was announced in 2013. I would like to take this opportunity to explain the specific path and what moves the Company will now be making for that future leap to be a sure-footed one.

**The fiscal year ended March 31, 2016, was a year in which we steadily addressed the tasks that needed to be done, and the change was noticeable.**

Looking back, the fiscal year ended March 31, 2016, was a year in which the Yamato Group enabled three changes to take shape. The first was progress with the “Value Networking” design, which the Company has positioned as its “third innovation.” By innovating our network and spurring logistics to evolve from a focus on cost to the means for generating new value, we are making progress with our avowed vision of realizing logistics reform for our customers, no matter the nature or scale of their businesses. In addition to establishing the new Okinawa global logistics center *Southern Gate* in 2015 as a geopolitical strategic hub connecting Japan with Southeast Asia, the “Value Networking” design is making steady progress, reflected by the opening of *Chubu Gateway* in October 2016 and *Kansai Gateway* in 2017.

The second change was the Company’s launch of new *TA-Q-BIN* services. When we discontinued the previous *Kuroneko Mail* service and launched *Kuroneko DM-Bin*, we introduced our new strategic products, *TA-Q-BIN Compact* and *Nekopos*, whose main target is the still-burgeoning e-commerce (EC) market.

The third change was the development of globalization. As always, the Company has been aiming on a daily basis to make its *TA-Q-BIN* services more deep-rooted in every part of Asia. At the same time, efforts have been made to focus on expanding the network, such as *Haneda Chronogate* and the *Okinawa International Logistics Hub*. Especially in the fiscal year under review, we made proactive efforts to expand and upgrade in

particular *International Cool TA-Q-BIN*, which delivers Japanese agricultural and fishery products to Asia. After adding Hong Kong and Taiwan, where sales had commenced in the previous fiscal year, our latest efforts resulted in the start of sales to Singapore and Malaysia. In January 2016, we concluded a business collaboration and capital alliance agreement with GD Express Carrier Bhd., one of the leading parcel delivery companies in Malaysia. Seizing the opportunities that this collaboration will present to us, we will raise our presence in Malaysia by expanding across the entire country the network that up until now has been centered on cities as well as by responding to high-quality small parcel transportation needs.

In contrast, regarding the Company’s financial results, there was a decrease in earnings over the year. In addition to results for the new *TA-Q-BIN* services being unable to make up for the effects of discontinuing the *Kuroneko Mail* service, costs were incurred in advertising the new services and in switching systems. When dividing results into the first half and second half of the year, however, business performance in the latter marked an all-time high in terms of operating income. The major contributory factors to the record-high operating income in the second half were not confined solely to the steady growth of the new services; in addition to realizing further growth by skillfully capturing business from the expansion of e-commerce with our existing *TA-Q-BIN* services, added impetus was provided by lower crude oil prices and the precise accomplishment of cost improvements through cost controls. My assessment is that we have achieved changes in a form that bodes well for the future.



Masaki Yamauchi

---

Representative Director,  
President and Executive Officer

### **What sets us apart from competitors are different types of added value**

A variety of moves, including business collaborations, are evident in the logistics industry. However, the “*Value Networking*” design for which we are aiming represents an unprecedented concept. For example, in the standard service for third-party logistics, or 3PL, customers’ packages are received, stored, and delivered in this order. This is a service that, so to speak, undertakes logistics management directly. In contrast, by fusing the added value of information technology (IT), logistics technology (LT), and financial settlement technology (FT) in the “last mile” network that is regarded as our strength, the “*Value Networking*” design is able to provide benefits—including “parcel shipments and storage locations are not selected,” “costs that do not go up, even if speed and quality do,” and “no distinction made on account of a customer’s business scale and distribution volume”—to multiple customers at the same time, which represents a service that has clearly set itself apart from conventional 3PL services. With the extension of the “last mile” network via approximately 4,000 stores that are spread across Japan, the impression is made of “last mile” as a cloud-based network, meaning customers can use the stores for the amount they need when they need it, regardless of location.

Meanwhile, in the case of a conventional 3PL service, the location and function are fixed, thus there is the possibility that any changes, such as adjustments in procurement channels or an increase in the number of suppliers, will require time and incur costs.

I am confident that the “*Value Networking*” design, which is capable of utilizing the network for just the amount needed and at the required location, will match the needs of many different customers, including manufacturing industries where mixed model/low volume production is demanded, and e-commerce (EC) businesses that ship various amounts in unspecified numbers. With the added value that the “last mile” network offers, I am expecting the Company to evolve into a high-profit structure by asking for appropriate fees commensurate with this added value.

### **Business opportunities that grow due to changes in the world and society**

I believe the Company’s business opportunities can be broadly divided into two types.

First, there is a global shift toward borderless logistics. I think this will increasingly develop

**I believe the Company’s business opportunities can be broadly divided into two types.**

**First, there is a global shift toward borderless logistics. The second business opportunity is the informatization of society.**



primarily in Asia and represent a major business opportunity for us. This is an area that is already being addressed, but by leveraging the high-quality, meticulous services that we have built up in Japan, we will steadily make inroads and expand in the growth markets of ASEAN.

The second business opportunity is the informatization of society. If we reach the point at which more detailed information is passing back and forth at even greater frequency, it follows that we will reach a point at which the speed demanded of logistics will also be even greater than it is now. If this occurs, there should be an increasing need for speedier and, although in small lots, high-frequency transportation, even in conventional B2B logistics. Moreover, I believe that the rate at which various pieces of information are exchanged and the benefits demanded from products will become more complex. For instance, it is conceivable that consumer needs will become even more diversified, such as food harvested in a specific producing area or cosmetics with ingredients in combinations that are ideally suited to specific consumers. In other words, since responding to each and every request will be required more than ever and such requests will be of an even more customized nature, it is expected that we may not be limited to transporting goods, and the necessity of performing a variety of processes will also arise.

As always, we have been expanding and upgrading our IT, LT, and FT functions. Therefore, we take pride in being able to respond fully to these types of customized needs. By demonstrating our comprehensive strengths and steadily riding the informatization of society wave, I would like these efforts to lead to business opportunities.

### **Realizing improvements in service value and productivity by technological capabilities**

Another topic that is attracting attention is the Internet of Things (IoT). A typical example of how to leverage this technology is to embed sensors in equipment to collect and analyze a variety of data and controlling maintenance costs by carrying out maintenance at appropriate times to minimize equipment failures. Efforts such as these are gradually spreading among our customers. Furthermore, services are appearing that include, for example, the utilization of the IoT to determine the amount of toner remaining in a printer and to automatically send more toner directly before it runs out. Before these moves are adopted in earnest, I would like to make steady progress with IT investments in such a way that we can be sure to keep ahead so

that everything can be linked together as a system.

Logistics is not just about transporting packages. For example, in addition to collaborating with manufacturers to ascertain how best to supply a product to consumers, we build up a picture of what types of processes will be performed up until the time that product is delivered into the hands of the consumer. We believe we can establish extremely efficient logistics by building a system together with those manufacturers. This simply means that we will adopt a style that differs from traditional logistics.

There will also be changes made to the efficiency of the Company's *TA-Q-BIN* services by further leveraging information and communication technology (ICT). By increasing the amount of information received prior to delivery, such as the delivery volume, delivery route, and weather, sales drivers can be better prepared for the next day's work, and more meticulous communication with customers regarding such matters as changes in the specified delivery time prior to delivery will also be possible. Even if the delivery is for the next day, interactions with customers will be completed the day before. Such changes are going to happen. As a result, this will lead to a reduction in cases where the customer is not present at the time of delivery, which is a social issue, as if a customer knows in advance the type of package that is coming and to what location it will be sent, artificial intelligence (AI) will make it possible to calculate beforehand the optimal delivery route and storage location. Since this will improve service quality and operational efficiency, and subsequently lead to further improvements in our profit margins, I would like to make steady investments in this area.

#### **To remain as a company that is needed by society**

I believe that the survival of a company rests on whether it is needed by society. In other words, whether a company is capable of continuing to create services in response to change is the key. In order to perceive such change, it is necessary to attach importance to the front line, since if you value the front line, not only the challenges with which deliveries are beset but also the social problems encountered with respect to each region will be visible. Having an awareness of creating shared value (CSV), which is referred to as Project G for "government," we would like to provide new value that revitalizes local economies and brings about improvements in convenience for local residents through corporate activities. The same applies not



**We will launch the next medium-term management plan, *DAN-TOTSU Three-Year Plan JUMP*, in April 2017. The fiscal year ending March 31, 2017, is a year for the Group to make steady preparations for *JUMP*.**

only in Japan but also elsewhere in Asia. The ongoing problems of a decreasing birthrate and an aging population tends to be seen as unique to Japan, but at some point the time will come when other Asian regions will also be faced with the same demographic issues. At that time, we will be able to apply the knowledge we have gained in Japan. As a leading company in resolving social issues, I would like the Yamato Group to be a company that plays an active role globally in this regard.

Another important point concerning the survival of the Company is the strengthening of governance. Of the Company's five directors, two are outside directors. Although the Board of Directors is small in number, the balance of inside and outside directors is exceptionally good, and we pride ourselves in being able to send feedback to management with respect to global trends and changes in society from an objective point of view. The relationship between the inside directors who are well-versed in logistics and the outside directors who offer new perspectives and views functions well.

#### **In conclusion**

We will launch the next medium-term management plan, *DAN-TOTSU Three-Year Plan JUMP*, in April 2017. The fiscal year ending March 31, 2017, is a year for the Group to make steady preparations for *JUMP*. With regard to the "Value Networking" design, following the sequential progression until now of *Haneda Chronogate*, *Atsugi Gateway*, and *Okinawa Southern Gate*, we have expanded and upgraded the base network while accelerating its development across Asia. In addition, the "Value Networking" design is becoming more and more ingrained through the practical use of new services by customers at *Haneda Chronogate* and elsewhere. In the years to come, we plan to complete the domestic gateways linking the Kanto area, Chubu area, and Kansai area, while invigorating cross-border transportation within Asia and aiming for dramatic growth during the course of *DAN-TOTSU Three-Year Plan JUMP*. Looking ahead to the Company's centenary year in 2019, we will add the finishing touches to the measures we have been addressing until now, so please expect great things from the Yamato Group as it rises through the *HOP* and *STEP* stages on its way to the *JUMP* growth stage.

September 2016

  
Masaki Yamauchi  
Representative Director,  
President and Executive Officer