

## Tenposbusters` renovation and its second stage of growth

Tenposbusters has set its targeted sales at 25 billion yen and I would like to explain its background as follows;

1. Reason of our past success and its current situation in these 4 years
2. Trend of whole industry and its direction
3. Trend of our industry and its way to oligopoly
4. Why we must double our sales and how we succeed in it
5. Our weakness and our strength
6. How we fight for it
7. Tenposbusters` new strategy

1. Reason of our past success and its current situation in these 4 years

Tenposbusters succeeded in listing its stock in the stock market in just 5 years after its start of business in 1997. We did not earn a good profit just having been recycling kitchenware and equipment. There has been a lot of companies in recycling business and the case was true with kitchenware and equipment industry. In fact, we got our training in recycling business by the company named Yamato and Yamato supplied us our inventory when we start our business.

What made us different from others was that our line-up of goods covered not only kitchen equipment but also all related items such as tableware, kitchen goods, chairs and tables. Another reason was that we discounted brand new goods when we could not find used items. In fact, we sold brand new goods at bargain prices or even sometimes at a loss, making the best of our good margin from sales of used goods.

In those days, recycling process was not well organized and when restaurants were closed, used goods were brought to us as junk for our disposal thus giving us big profits.

There were not many who came to know such business opportunity and even those who found such business opportunity simply had not system to work for it.

Tenposbusters was different. We had system for our staff to work for under such simple slogans as “what we get for a good price, we sell it at such a good price as well” or “we earn profit but not so much to make it unreasonable”. And that made it possible for us to list our stock in the stock market so quickly.

The first branch in Kawaguchi in Saitama Pref. took 14 months to reach its targeted sales of 20million yen but the second one in Makuhari in Chiba, starting its business on August 24<sup>th</sup> recorded its sales of 21million in September, and 24million yen in October, opening the door for our speedy network expansion.

after a decade, however, when we started our expansion into the regional cities instead of the major Metropolitan areas, we found that such speedy sales increase was not possible there, partly due to the fact that in such cities, circumstances would not allow potential restaurant owners to open up business so freely.

Also such business model of ours which brought us big success simply could not function so well in the face of our competitors having started coping our business model. It looks like a patent expiring its licensing period in 15 years, however important such patents are.

In short, Tenposbusters simply had to change. Those four years after the decade of the initial period was the one we had to find out new strategy for further expansion.

From the simple recycling business to restaurant management and its related business, we moved in, as the result. “Information and Service” was the key words at that stage which included that of real estate, discounted interior decoration and reviving of restaurants. M&A was the major instrument for our speedy expansion.

It was, also, the time for reorganization of Tenposbusters` branches including decision in regard to 10 of them which were losing money. We shortened office hours in some cases, moved to the smaller locations in other cases or reduced personnel expenses. We finished such business reorganization with the closure of the branch in Hachioji.

After four years of operation, we decided to close down several companies obtained through M&A for speedy expansion and we reestablished smaller business with those staff who earned knowhow in those years of operation. One of which, the company called Tenpos Studio for interior decoration business made profit from the outset and would likely be an asset to our current “FBP” (Food Business Producers) campaign.

## 2. Trend of whole industry and its direction

All businesses in the world are now going through a major change, having been involved in the world-wide competition and in addition, the companies in Japan face other challenges such as upward evaluation of Japanese Yen and shrinking younger population and expansion of elderly one.

Supermarket industry has undergone the changes where the bigger ones swallowed up the smaller, leaving shopping arcade with lots of closed down outlets.

Then came the stage of oligopoly and now we have only Ito-yokado and Ion as the surviving giants.

Likewise, in the Banking Industry, 13 city banks have been merged into 3 mega-banks, symbolizing globalization of the business environment.

The same changes are happening in every industry such as Menswear, Spectacles and Electric Appliances, though the timing of such changes differs from each other.

## 3. Trend of our industry and its way to oligopoly

Our kitchenware & equipment industry consists of 13 companies with sales of more than 10billion yen with Hoshizaki Electric Co. of 170billion yen as the top runner. If you call those companies as major competitors in the industry, Tenposbusters is the last one to have joined the rank.

Some time ago, there were wide range of participants in this industry, some with background of its staff working for kitchen equipment manufacturers such as Maruzen and Taniko, some with expertise in local gas or electricity supplier, and some with local kitchenware supply experiences. They were actively selling goods to hospitals, schools, local companies, restaurants and hotels for their cooking facilities.

But due to keen price competition, kitchenware and equipment manufacturers tried to establish direct supply channels of their own, eliminating those intermediaries and smaller participants in the industry. And now comes a time for major competition among the bigger ones.

While I have no knowledge as to why industries differ each other as to when they were entering into the "Competition Age", I am certain as to the reason of the delay of our

industry having entered into its “Competition Age” among its major players. It is due to the fact that those factors such as globalization, evaluation of Japanese Yen and Shrinking of young population and expansion of elderly one, did not much affect our industry. As a matter of fact, in kitchenware & equipment industry, there were no oversea products nor manufacturers winning the competition over those of Japanese ones.. Also all Japanese manufacturers were producing their products in Japan and even Hoshizaki Electric presumably exporting lots of its products, has only 20 billion yen of export of its total sales of 170 billion yen and its sales of original products “Ice Manufacturing Machine” was not affected by Japanese Yen evaluation. Even under such shrinking younger generation and expansion of elderly ones, demand was rather strong due to opening of new school lunch facilities as the result of merger of local elementary schools.

The big population group of elderly around 60 still drinks a lot and they eat out often sustaining product demand of our industry so far. But impact of aging society are to be slowly but steadily felt in our industry as well.

Yen upward evaluation was forcing Japanese companies to move overseas to produce their goods. Then the surrounding bars, restaurants, lunch box venders and hospital and school related food businesses would be affected due to the population decrease. And the said group of people aged 60 would not be going around so much when they get 65 depending only upon their pension.

As the result, our kitchenware & equipment industry, already in such keen competition, would soon find itself in much harder competition, leading it to the oligopoly of the market through integration and merger from the current 12 major players into 6.

#### 4. Why we must double our sales and how we succeed in it

It is quite difficult to keep its place on the slope pulling your cart. It would be even harder to do the same, watching others going by. You would most likely to be pushed aside making way to the others losing your control eventually. Competition is as such. You cannot keep your position, just putting yourself outside of it.

As the market is not growing, you must work much harder to keep your current position but you just cannot keep on doing what you have done in the past, Though we became No.1 in retail business discounting goods, we would surely go broke unless we find other

fields. The other industries find themselves with 3 or 4 players after some time when they had 10. We had to work our way to be in the group of 6, if not we would end up being underdog sooner or later.

We have good models in our industry for us to double our sales. Maruzen and Taniko have their sales staff selling twice of ours, namely 70 million yen per head. If their sales staff could sell twice of ours going around the market, not being stuck with the branch stores, we must study possibility of separating those sales staff entirely for outside sales activities and those work force receiving clients at the branches. We must train our part-time staff for that purpose and give our full-time staff program to train them into FBP(Food Business Producers). Sales dialogue training, clients relations management and free-advice programs are also important tools for such purpose.

Another good model is our Kumamoto branch with its sales ranking only 3<sup>rd</sup> or 4<sup>th</sup> smallest among our 45 branches. It sells twice of average sales per head of all our branches and twice of average profit ratio reaching 16.3%. We are making our best efforts to train ourselves to be FBP and Kumamoto branch is doing exactly what is expected of being FBP. It is hosting seminars getting backups by Izakaya-koshien group and organizing Kumamoto Food & Beverage Grand-Prix program hosted by local outlets and supported by Kumamoto City Government. It is now more than just a discount store, it has become an indispensable partner for the local restaurants and other outlets. It simply does not sell refrigerators for discounted prices, it has become a kind of adviser giving tips as to how the restaurants should be run.

Here we see what direction we should be taking. Doubling our sales would not be difficult as we simply follow what others did. We can and we will do it!!

## 5. Weakness and Strength of Tenposbusters

### Weakness

#### ① Lack of systematic approach

At the outset of business, to lessen indirect expenses, we did not have headquarter personnel and every decision was made by branch managers and overall control was made solely by President himself. Now that our annual sales is in the range of 10 billion yen with branch numbering more than 40, we strongly feel needs for effective purchasing based on uniform inventory policy and systematic and effective sales approach as each branch still makes their own purchases and sales staff with different

ability makes their approaches individually.

② Shortage of sales tools to expand client bases

With expansive network of branches having inventories for display around Japan, we are very strong to deal with newcomers who are to open up restaurants but we are not very successful in having major restaurant chains or active owners who are opening up new restaurants as our clients. Just offering discounted prices and large inventory to choose from is simply not good enough for our further expansion.

Strength

① Freedom of purchase as being non-manufacturer

Stagnation of Japanese economy lasted more than 10 years and nobody knows when this stagnation comes to end. To make the situation worse, we had devastating earthquake hitting eastern part of Japan last year, Yen evaluation and EU economic crisis. But despite of those negative circumstances, importers such as Nitori and Uniqlo are enjoying steady growth. Being a non-manufacturer, Tenposbusters, also, can purchase inventory from any sources as we wish, just like Nitori and Uniqlo.

② Big margin (or gross profit) from sales of recycled products

Though our sales of recycled products now amount to only 30% of our total sales, still we earn more than 50% of our margin from the sales of such recycled goods. Selling recycled goods at such margin, in fact, keeps us going and therefore doubling recycled goods sales and increase of margin as the result of it, would our target to go after.

③ Strength of being a venture business

Venture business goes for new business schemes or business models in spite of its business risk involved with challenging spirit of their own. Tenposbusters, being one of them, tried to be a convenient store of its own for new start-ups of restaurants providing them with all necessary goods, not restricting sales to kitchen equipment as those major manufacturers did. Now we are heading for new direction to make ourselves FBP (Food Business Producers), providing “information and service” to our potential clients. Our strongest point is our challenging spirit, not being afraid of risks involved.

6. How we fight for it (Lanchester strategy)

In the kitchenware & equipment market, Tenposbusters is still one of the weaker players. Being a weaker one, we fight in a local and closed front like a guerilla fighter!!

Here, we concentrate our efforts in roast meat restaurants, noodle shops and pastry and bakery shops as our local and closed front. If we are successful in our sales of non-smoke roasters, noodle machines and ovens, we would be able to sell refrigerators (one of our important sales items) along with them. Those manufacturers of non-smoke roasters and noodle machines are not as large manufactures as Hoshizaki (with annual sales of 170 billion yen), the leading giant of our industry and Kitazawa Industries (with annual sales 14 billion yen). We focus on these products as our fighting grounds.

On the other hand, Tneposbusters is one of the strongest in the recycled product market. The strong one goes for the market up front. The spacious warehouses and complete maintenance and repairs by our purchasing centers and our ability to acquire brand new at discounted prices are our major advantages.

Recycled products...Bit for goods at a higher price till the end to win over the rivals.  
Sales competition...Do not sell recycled goods at a cheaper price. Instead sell brand new  
at a lower rate to win over the rivals!!

We must make the best of our competitive advantage, being the leading company in the recycled goods market!!

① First, we must fortify our position and get ready to meet forthcoming competition with the major rivals.

To further our strength as the leading recycling player...doubling of recycled goods sales.

To insure sales for orders received, increase orders and to increase frequent clients...follow-up of potential clients and business and listing of such clients.

To standardize shop layout and to work out nation-wide inventory policy...policy making by Shop-Policy Department and coding standardizing and concentrated order.

To reorganize purchasing centers...improvement of productivity, closure or betterment of collection and transportation of purchases.

② Fighting grounds

We must concentrate our efforts to such products as roasters and to compete with such manufactures as Simpo and Yamato Noodles Machines by training the specialists of our own and locating them at the branches. (Tenpos Information, our subsidiary is locating staff at branches and Real Estates, Machinery Businesses and Tenpos Finance are doing the same.) If we are successful in selling roasters, we would be working out good human relations with the clients resulting in sales of our refrigerators. Also we should

be No.1 in Real Estate and Interior decorations business where there are only small players.

- ③ FBP (Food Business Producers) Campaign...To support the group of new restaurants owners who are actively expanding their business as our future business partners

All branches must follow the example of Kumamoto...no sales at cheap prices...to lecture at the seminars...to host study groups among the young entrepreneurs.

To be a good adviser for potential clients based on our concept sheets.

To be a good franchiser to promote franchisees around the country.

Our sales staff, Mr. Shiratori at Tachikawa earned gross profit of 1.5 times over the previous year.

## 7. Tenposbusters` new strategy

### Tenposjobs

We will introduce new POS system as of January next year. Then entry to Tenposjobs would be limited to the members as we introduce membership.

As we have 600,000 customers a year, we estimate our membership totals to 150,000.

Turnover at restaurants is quite high and as the result, those restaurants owners are spending several million yen to hire new part-timers.

Our web-site for personnel recruit would be welcomed by those restaurants owners who are our members as we charge only 10,000 to 20,000 yen annual membership fee.

The similar web-site operator with experience of 4 to 5 years is earning 20 million to 40 million yen annually with its membership of 20,000. We believe we are starting the business of 1.5 billion to 3 billion yen with our presumed membership of 150,000 within 2 to 3 years. The project starts October 15<sup>th</sup> this year.

### Asakuma

Having made a good profit over the last year, Asakuma, our subsidiary steak restaurants has entered new era of operation without debt, network expansion and franchise promotion. We plan to list its stock in a stock market in about 3 years.

Network expansion includes its new outlets in food courts, new type of restaurants with Italian food menu including pizza and pasta.

### Overseas expansion

We started recycled goods sales in the Philippines collaborating with the local major corporation as of May this year. We plan to expand our business in Thailand, Vietnam and Indonesia based on this successful business scheme.

Tenposbusters has a strong belief that we should be “ the breakwater for the sake of small businesses against major players in the restaurant industry and to be a company to grow with them”. Based on such belief, we are expanding our business fields to interior decoration, real estate, subleasing, rental and all related restaurant business. We exert our best efforts in the coming years and request your kind support and guidance to us at Tenposbusters.

Thank you for your kind attention.

May 1<sup>st</sup>, 2012

Kazumitsu Morishita

President

Tenposbusters Co. Ltd

