

Creating New Value



We are establishing a mechanism in Nichirei for instilling a mindset of value creation. By promoting this mechanism, we will work to create new markets and customer value.

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The New Value Creation the Nichirei Group Is Working Toward

I would like to begin by looking back over Nichirei's history of innovation. Nippon Reizo, which is Nichirei's former name, was established at the end of World War II, in 1945. Its predecessor was Teikoku Marine Products Control Company, which the Japanese government created in 1942. We made a new start as a private company with the aim of delivering a stable supply of fresh foods and ingredients to people who were suffering from the postwar food shortage. Our next major turning point was around 1960, when we began selling frozen foods that had been pre-processed to a limited degree. Thus, we began helping to eliminate the various inadequacies of at-home food preparation: the inconveniences, impossibilities, insufficiencies and dissatisfactions. Even before the establishment of a cold chain logistics network encompassing food freezing methods and distribution, Nichirei has consistently taken on new challenges aimed at helping eliminate society's challenges and inadequacies using its own technologies.

Now that today's society has secured the amount of food and water necessary for life and there are no obvious inadequacies, it has become harder to discern peoples' desires, and what they consider "inadequacy" to be. Nevertheless, it is possible to innovate even in an era of diversifying values. To make a croquette that offers the taste and texture of freshly fried food without using oil, we prepared a seemingly countless series of prototypes using multiple microwave ovens with different specifications made by various manufacturers. The result was a blockbuster product. Later products such as *Honkaku-Itame Cha-Han* (fried rice) were also the result of our employees' persistence in resolving the issues customers face. These products were the outcome of Nichirei employees' steady and ceaseless pursuit of their goals, over and over again. I believe that is what innovation is.

The word "innovation" means different things to different people. Some think it entails developing new technologies to do something unprecedented. However, given the various regulations and restrictions on food products in the Nichirei Group's main business areas, and numerous customers with conservative views, employees sometimes show little interest and are

Conceptual Diagram of Innovation Management System (IMS)

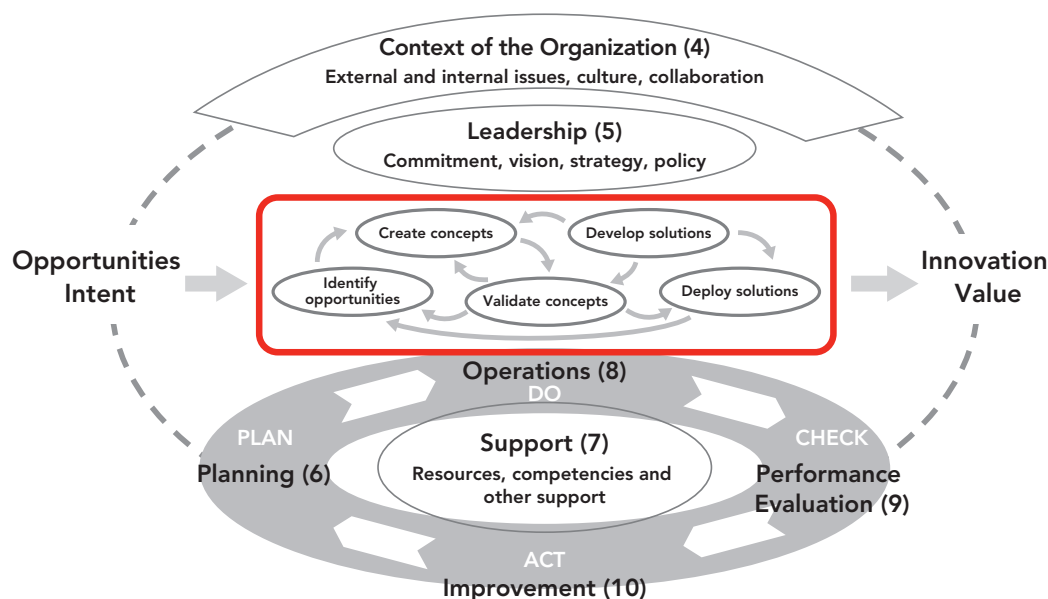


Diagram Explanation

Innovation activities (identifying opportunities, creating and verifying concepts, developing and implementing solutions) are shown in the central red frame; uncertainty is reduced through hypothesis testing by rapid trial and error, back and forth, within the frame, leading to the creation of value. In addition, we aim to more smoothly promote these activities through organizational support. Human resource development, which we are focusing on at present, is an initiative related to the competence of the support system.

Source: ISO 56002 Innovation Management—Innovation Management System Guide
 Note: The numbers in parentheses in the diagram indicate ISO 56002 chapter numbers.

disinclined to get involved when I mention the word. Therefore, at Nichirei, innovation refers not just to breakthroughs, but also to combining existing knowledge and resources to generate new economic and social value, either through changes in our core businesses (business models) or the creation of new businesses (new opportunities). In other words, we define innovation as delivering the value of new experiences to our customers, a concept we call “new value creation.”

Progress of Initiatives

We believe that innovation, or new value creation, at Nichirei is not accomplished by specific individuals with superior skills, but rather generated by all Group employees. By establishing a foundation for everyone in the Group to take part in new value creation, we intend to add examples of new value created as an organization by increasing not only the number of employees who

come up with ideas and take on challenges as leaders, but also employees who support their efforts in various ways. This will require creating a corporate culture that fosters a spirit of taking on challenges throughout the Group. Therefore, the Nichirei Group is tackling new value creation as an organization. We will engage in ongoing communication, including messages from senior management, so that our employees understand and think about what we mean by new value creation. President Okushi and I communicate with employees on the Company intranet via streaming videos, some of which have had 1,000 or more views depending on the content. It is crucial that we present this new approach to Group employees and ensure that they understand it, and to provide specific examples so that they realize what their colleagues have accomplished. This process may not fit the definition of innovation as others understand it, but we intend to be steadfast in our efforts to create new value befitting Nichirei.

Creating New Value

In FY2022, we also established two organizations in Nichirei Corporation, the Nichirei Group's holding company: one to set up the mechanism for our activities, and the other with an incubation function for full-scale commercialization of ideas with business potential. Our main reason for establishing these organizations in the holding company is that because the holding company is not in charge of business operations, it creates an environment where we can promptly and flexibly go through a trial-and-error process to test ideas free of the constraints of our existing businesses.

In setting up the mechanism for our activities, we referred to the ISO 56002 international standards for an innovation management system (IMS), which were issued in July 2019. ISO 56002 contains guidelines for encouraging organizations to innovate, but simply following those guidelines will not result in new value creation. I therefore want to ascertain the true nature of the Nichirei Group in order to create an IMS that is suitable for Nichirei and to see the mechanism through to fruition. In practical terms, we are now implementing two programs: an educational program and a commercialization program for putting that education into practice.

The educational program provides the skills necessary for engaging in innovation activities. Program participants learn about business model construction and design thinking,* which is important for coming up with ideas from the customer's perspective. Participants also learn how to use a tool called Business Model Canvas (BMC) for business model construction, and because BMC can also be used to review and improve existing businesses, we encourage all employees to learn how to use it. When all employees can analyze and plan their businesses using the same tool, BMC becomes a shared Group language. New ideas are difficult to understand, but expressing them through BMC enables both those who propose ideas and those who support them to work together in studying the ideas, and then to identify and correct each other's misconceptions, which leads to the next idea. Even so, BMC is just a tool. The key point is deciding the themes to focus on in coming up with ideas. That is why the design thinking portion of the program teaches how to propose goods and services from the customer's point of view, and provides opportunities to come up with ideas while keeping in mind the inadequacies I mentioned earlier in talking about the commercialization program.

* Essentially another way of describing our IMS, design thinking is a non-linear, iterative process that teams use to understand users, challenge assumptions, redefine problems and create innovative solutions to prototype and test. Design thinking involves five phases—empathize, define, ideate, prototype and test. It is most useful in tackling problems that are latent or ill-defined.



Educational Program Results in FY2021 (Excerpt)

	Content	Frequency	Total Attendees
Business Model Construction (Basic)	Acquire basic knowledge of Business Model Canvas	12 sessions/year	177
Business Model Construction (Applied)	<ul style="list-style-type: none"> • Study the business model patterns of successful companies • Foster thinking about business model innovation by applying it to one's own company 	4 sessions/year	66

We launched our educational program at the beginning of 2020 and it is now in its second year. With a total of just under 400 employees having taken the course to date, we have not yet reached our goal of having all employees take part. As we collect data on the impressions and proficiency levels of the employees who have already participated in the program, I would like to further enhance the content and recommend it to other employees. Going forward, we intend to make it a Group-wide human resources development program.

Our second program (launched in FY2021), the commercialization program, solicits ideas for creating new value in food and health from all Nichirei Group employees. FY2022 is the second year of implementation, but already, many ideas have been proposed by a wide range of employees, from young and mid-career to veteran staff. Themes taken up with the aim of commercialization go through two stages of verification, and employees remain in their current departments during the first stage. We plan to establish a personnel evaluation mechanism that includes consideration of participation in this program. The FY2021 program is now advancing into final verification toward commercialization. Assessments at milestones in each stage are being conducted using our unique KPIs.

Previously, there were no such opportunities for employees to propose their own ideas and engage in innovation activities without being restricted by existing businesses or their day-to-day work. Since starting this program in FY2021, I can say from first-hand experience that it has become a forum for employees wanting to take on new challenges to talk about their ideas and then put them into action. If successes emerge, I am confident that our corporate culture will change further.

Many Nichirei employees are passionate about food. My role is to provide them with opportunities to develop their enormous potential for the future of Nichirei.

Future Developments

The Nichirei Group has made frequent attempts to create value in the past, but many projects have ended unsuccessfully. Before starting these programs, over a period of roughly three months in FY2020, we interviewed about 50 employees who had been involved in some 40 past projects in which they took on new challenges. For successful projects, we asked participants why they went well, and for projects that were discontinued partway, we asked why they did not. In this way, we identified the strong and weak points of innovation activities at Nichirei, enabling us to start with an understanding of Nichirei's true nature. Based on this, by considering the likely pitfalls, we are creating a mechanism that will increase the success rate.

The Nichirei Group's long-term management goals toward 2030 state that "the Company will promote innovation to create new value that solves the problems of customers and society." Creating new value through innovation will also play a large part in achieving our target of ¥1 trillion in net sales in 2030. I want our Group to make united efforts in support of the enthusiasm of employees who have chosen to take on challenges to create new value toward 2030. By cultivating a Group corporate culture in which enthusiastic employees do not hesitate to take on such challenges, we will address social change to offer value that society and consumers demand in a way that only Nichirei can.