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Insights of top management

05 Interview

## **Secret of Aoyama Trading Co., Ltd. Growth**

Goro Aoyama

(Aoyama Trading Co., Ltd. President)



Goro Aoyama

1930: Born

Graduated from Hiroshima Prefectural Fuchuu Junior High School (Currently Fuchuu High School).

1964: Founded Aoyama Trading Co., Ltd. and appointed to Representative Director (present).

From the late 1965, the company started to run suburban franchises of men's clothing and created a new market.

In this interview, we had President Goro Aoyama from Aoyama Trading Co., Ltd. (Aoyama Trading). Aoyama Trading is well known as a company that has grown rapidly for a short period of time by franchising men's clothing stores, or as the champion of the new businesses in the world of economic recession of the Heisei period (The Japanese era that started from 1989). So maybe it is not necessary to explain. While many companies have experienced income and profit reduction, the sales of Aoyama Trading was 200 billion yen, that is 32.5% increase, and the ordinary profit was 35 billion yen,

which is 15.9% increase in 1993. The relatively high growth rate still remains. The management of the company is centered on promoting the price, which is a low margin, high volume management. So there is a tendency to imagine the low rate of return, but the company is characterized to be a rare company with a high rate of return. In this interview, we would like him to talk about the secret.

This script is based on the keynote lecture at the second Research Institute of Advanced Management symposium held at the Federation of Economic Organizations (or Keidanren) Hall in Tokyo. The lecture of the day was highly appreciated and we received many requests for the lecture record. We had to reject such requests due to the meaning of the lecture. However, because of the strong requests from our members, we decided to print it under the agreement with President Aoyama. This script is done by editing the keynote lecture in order to be read easily.

This interview was conducted in 1994. So, what Mr. Aoyama talked in this interview and his background are original. In addition, Mr. Aoyama died in 2008.

### **Background of Aoyama Trading**

The Headquarters of Aoyama Trading is located in Fukuyama City, Hiroshima prefecture, with the population of 380,000. The company itself was founded in a city called Fuchu City that is about 20km away from there. It is inland so there is no sea. This city is an industrial city. Even though its population is about 50,000, there are three listed companies. It is an exceptional city. There are three listed companies on the first section of the market, Ryobi of fishing tools, Kitagawa Iron Works Co., Ltd. and Aoyama Trading. And also the city self-claimed that it is the Japanese No.1 furniture manufacturing site centered on furniture and a set of wedding ceremonial goods. In the clothing industry, the city has sewing plants centered on work uniforms. So the number of listed companies in Fuchu with the population of 50,000 is greater than the number of those in Fukuyama with the population of 380,000. Our company was founded in such city where many corporations were developed.

In May, 1964, I and my brother who is Vice President now and two of my wife's brothers who are Managing Directors now started this company.

Our first store was about 33 m<sup>2</sup> that we remodeled from my own house. We celebrated the foundation of the company after we closed the store on the starting day in May 1964. Four of us went to a *yakitori* (grilled chicken) restaurant and drank sake out of cups. We promised each other that "we were going to be the No.1 clothing shop in Japan". It is ridiculous of us to have become No.1 in Japan where our shop was 33 m<sup>2</sup> big and we were in the city of 50,000, but every corporation has at least some kind of philosophy in some aspects, I think.

Behind the background of thinking that we were going to be No1 in Japan, there is nothing impossible in what human can think of. This made us to decide to be No. 1 in Japan. So the thought that we are going to be No.1 in Japan creates many problems which let us think about management philosophy.

If you do not think that you are going to do it, you cannot do it. There is always some way out of a difficulty if you really look for one. The tenacity to become No.1 in Japan kept us going in hard times. If we did not try to be No.1 in Japan, we did not have to strive. Leaders are the one who have strived or who hold against suffering. Leaders are owners. If a boss is useless, his employees are most unhappy, I think the reason why they are unhappy is that useless bosses make their employees lazy. If the bosses are respectful, their employees will have a habit of industriousness. If you do what everyone does, it is impossible to become No.1 in Japan. Tenacity and striving to be the No.1 clothing shop in Japan creates ideas that no one else can think of.

### **Three Promises to Be No.1 in Japan**

Four of us made a promise to be No. 1 in Japan. But it is hard to be No.1 in Japan with having only that thought. So I said, "I will make promises to become No.1 in Japan". I suggested three things here.

First of all, do not enter the business community. Secondly, do not play golf. And thirdly, do not ride a car. I made these three promises. I make myself suffer.

Let me tell you about not entering the business community. The business community is a very commonsense place and innocuous. Everyone listens to the same lectures, talks about the same things and has meetings with the same theme. So those who are in this business community are supposed to be No.1 in Japan. Being in such a normal community, I wonder if we can be No.1 in Japan. At the same time, I wonder if we can become No.1 in Japan with common sense. Then if we question ourselves a company should be non-commonsense or commonsense, inventions and findings should be non-commonsense. Inventions, findings and patents in non-commonsense make a company grows. Perhaps, these things cannot be crated from those who are members of the business community. The ideas are out of the common. Unbelievable ideas and ideas out of the common are not very welcome in the business community, I think. So we do not become a part of the business community. Of course, it was a part of our methods to be No.1 in Japan.

The next one is not to play golf. But it is not just simply to not play golf. I also started from the Monopoly Bureau of the Finance Ministry. I was a member of the account section for a long time at Japan Monopoly Corporation, now it is Japan Tobacco, Inc.. Bankers often came to our section. So I asked bank branch managers a lot of times, "Do you play golf with owners or presidents of companies during the weekdays because you loan a lot of money to them?" They always answered, "I do not loan one to one apart from business." That means playing golf is just to have fun. While they are playing golf during weekdays, there are many employees working very hard. We declare that the owners and presidents of companies should lead others in their business by this promise, to not play golf.

The third promise, not to have a car, also has a similar meaning to the second promise. I have had a car since 1954, so it had been 10 years when I founded the company in 1964.

At that time, there was a method of sales called *gaisho*, going round for orders. In our business, it was a system where we went on the road with suits in the back of the car and sold them. The issue here is whether or not there would be sales people who drive a Mercedes. In a sales process, we have to give our customers a sense of superiority. Sales people must give their customers an impression that they are feeling a sense of inferiority. At least that leads to a sale. Therefore, if we drove a Mercedes to sell, we would make our customers feel inferior. There is a van with the same functions for sales. And a van can carry a lot of things. So we do not drive a car except a van. What I want to say here is to be prepared to do business all the time.

## The Era of Shopping Centers

By the way, around 1968, high volume retailers such as Daiei made shopping centers. We also have six stores in shopping centers and two of own stores. Shopping centers run their business using the drawing power of high volume retailers. The aim of customers at shopping centers is not to actually buy. If they see something good walking around in a shopping center, they buy it. The aim is to look around. Therefore, when serving customers who come into our store, only about one out of three buy our product. The products they buy are also those on display shelves, by looking at them and liking them. In other words, it is an impulse purchase. An impulse purchase occurs at least when economy is good. When husband get a bonus next summer, I will buy him a suit. That is a purposive purchase. I think this occurs when economy is bad. Around 1968, shopping centers were popular due to their drawing power and the drawing power of the main body, high volume retailers. But the popularity was going down around 1971.

When shopping centers become unpopular, it means the economy is bad. So I think when shopping centers are doing well, that means the economy is good.

Around 1965, voluntary chain stores started. We still have those now. Clothing shops like us, basically I, created 280 voluntary chain stores from Asahikawa to Kagoshima including No.1 shop in each city. Those voluntary chain stores did purchase of stock, promotion, and research and finance altogether.

These chains still exist. And the directors and I went on a business trip to USA in 1972. I think this business trip was a trigger for our company to grow. We had a plan to go to a shopping center in San Francisco when we went to the West Coast. As you know America is huge so those 200m wide roads are crossing each other. It is non-stop ways. We decided to go to the shopping center by bus. I thought that we were going to see something like Ala Mona Shopping Center in Honolulu. But all I saw was grassy plains all the way. No houses at all. Then I saw a building like a hat from Arabian Nights as we went about 100km. Then I thought it was weird to see a castle, because America does not have a long history. Then we went to the place wondering what it was. When we went in, there were many people. A radius is 100km so the diameter is 200km. That means there were no houses from Hiroshima to just before Himeji. The directors were talking with the owner of the shopping center about indexes related to the management and the number of people and the efficiency and so on. I rather wondered why they built a shopping center where no houses were around.

I went outside and looked to the right. I saw a lady coming down from a private jet.

After she finished shopping, she went back on the jet and flew away. At that time, Japan was 6 years behind America. So I thought Japan would be like this in 1978 since I was there in 1972. Each shop was very spacious and they had clowns and an orchestra as the attraction to entertain their customers.

However, I did not understand why they built this shopping center in a place like this. Since we had to stick together as a group, I came back to Japan with this question unsolved.

I just could not let it go, so I went back to the shopping center by myself. San Francisco has the sea at the front and the plateau at the back. That is similar to Nagasaki, Japan. We often see the trains running in San Francisco on TV, don't we? That is a plateau. Then I first understood that there was no land for a shopping center in San Francisco. And also they go grocery shopping once a week. They buy groceries at once. Since they buy food at once, they go to a shopping center despite its distance. And the shopping center has anything. It has products so they can buy weekly groceries. The one thing I realized the most was that it was a car-oriented society. In 1972, we did not have that trend in Japan. In the car-oriented society, cars make distances shorter.

### **The Car-Oriented Society and Suburban Shops**

I came back to Japan after I found those answers. Then I researched a trend of the increasing number of cars by drawing a parabola through 1974, 1975, and 1976. The increase was five-fold during the three years.

And about 1973 there was a change. The center of big cities like Tokyo became business district and residential areas moved to the suburbs. Recently those apartments are built in suburbs. This phenomenon occurred around 1973.

And farmers were specialized in agriculture. But they gradually became part time farmers and now they become salaried person. This change occurred around 1973. Those farmers lived where they had to pass suburbs to go to the cities. That kind of change occurred.

But it was very risky to move all the 8 shops to the suburbs due to those three or four reasons. So we conducted a survey in terms of "what kind of place would you buy suits?". Since we had our shops between Hiroshima and Amagasaki, we conducted the survey in these business areas. We sent out 2000 surveys and got 1500 responses. The result was "buy at a shop with a good range of goods" got 36%, "easy place to access" got 26%, "quality" got 17%, "human relation" got 13%, and "low price" got 8%.

A good range of goods means colors, patterns, looks and sizes. When we actually displayed products according to those, we needed 1,100 suits at the minimum range. We needed 1100 suits. If we have 1100 suits, we can deal with most of the demands.

We thought about the convenient places by mode of transportation. We researched by train, car, walk and private car. If by train, around stations would be the best place. However, our research result was walking. If walking is the best way, the convenient place is local shopping areas. But as I mentioned, there were five-fold increases for three years in the number of the cars. According to this data, in 1974, cars would be more convenient. In that case, the best place should be the suburbs.

We placed a suburb store in Higashi Hiroshima City next to Hiroshima City. This place would be turned into an academic city and become the fastest growing city in Hiroshima. However, once we opened the store, we could not sell at all. It was a stormy day and advertising balloons flew away. We could not sell our products. We thought there was something wrong or we might have miscalculated something. We thought we studied and planned this suburb store well but in reality we could not sell. So I stayed there for about a week and researched the store itself. I went outside and sat on a chair. There were only cars of sales people passing by. And the drivers were wearing work uniform. Also long distance trucks were passing by. The drivers were wearing work uniform. Then I realized that those who wore work uniform passed by in front of our shop. It was actually normal because our shop was located in the middle of rice fields. Only those who wore work uniform passed by there.

Then I realized, “we have to let people know the place when building a suburb store”. The normal consumers had a preconceived idea that they could only buy suits in the local shopping areas. But we had a store in the middle of rice fields. The consumers had to let them know where we were located first; otherwise, we could not sell. We had to tell them the location, so we distributed fliers. We did it every week. At that time, fliers were not as common as now, only two or three fliers were distributed. So, distributing one flier had a great impact. It was very efficient.

Around six months after distributing fliers, we hit the breakeven. And we made a profit. From there, we opened suburb stores in Hiroshima prefecture, Yamaguchi prefecture and Okayama prefecture centered on Hiroshima prefecture.

Then we proceeded to the Kansai area. The west end of Kansai is Himeji so we started from Himeji. Then we moved to Kakogawa, Kashihara, Nara, Otsu, Wakayama and Tsu. That was how we did. At the same time, we went to Shikoku as well. We went to Takamatsu, Matsuyama, Kochi, and Tokushima. Our buildings were all rectangular and had a sign of “Aoyama Suits” on both sides. So the buildings themselves were all signs. The construction cost was about 48 million yen. We surrounded the building with tin plates. We still have five or six such buildings.

We accumulated know-how and made sales of over 100 million yen just during three days of Saturday, Sunday and Monday. Gross profit was 52%, so it was 52 million yen. The construction cost was 48 million yen so it took three days to earn the construction cost. The rest of the year, 362 days, was for only profit. Other people were critical saying, “Aoyama keeps surviving persistently while having stores in the middle of the rice field. They will go out of business soon.” This cannot be understood with common sense. It is non sense to open stores in the middle of the rice field.

In 1982, we had to get listed, so we started to prepare for being listed. Then we noticed

that we had to submit all the financial statements of 1982 to the Ministry of Finance. Then people said, "Aoyama makes a profit!" "It is not Aoyama who will go out of business. It is us." They all did what we did and started opening their stores in suburbs. That was in 1983. They will open one after another so the number of the stores will reach a point of saturation soon. I think it has already reached the point of saturation. In addition, the urban shops such as Taka-Q and Mitsumine also started looking at the suburbs. Currently Taka-Q is making over 50 stores in suburbs. They quit making stores in the urban area and moved to the suburbs. It makes saturation faster. There will be more shops in the suburbs than the urban areas. Then there will be fewer supplies in the urban areas and demand will increase. This phenomenon is seen in Ginza. We did not open our stores in the suburbs because we liked them. We opened the stores in the suburbs because there were no competitors. Ginza as well. The number of stores in the urban areas decreased and the demand increased. That was why we opened a store in Ginza.

### **Distribution Revolution Started by Aoyama Trading**

This threatened department stores. There were two things that were called revolutions in the post-war distribution industry. The first one was self-service at the high volume retailers that Daiei did. And the previously mentioned suburb shops in the middle of the rice field. These are the big distribution revolutions.

The Japanese living cost is increasing. What we, not only as the distribution industry, have to do now is to deal with the world's highest living cost. The economic recession has been continuous. We have to challenge those. In Japan there is a high amount of intermediary costs. If we could deal with only raw cost, a unit price should go down. The department stores are the good example of the intermediary costs. They sell chandeliers or marble pillars. They do not buy suits. When you get into an elevator at a department store, an elevator girl tells you "going up, going down." We have to pay for the girl too. There are many other costs when you buy a product in the department stores. To forget about it, we can nicely say good bye to the economic recession, increase the disposable income of the consumers and can spend a good life. This is our aim this time. I think this links to the third revolution that we are trying to do.

The labor cost of the suburb stores is not a lot at all. I told you that only one out of three makes a purchase at a store in a shopping center, but since there are no houses or other businesses 100 out of 100 customers at the suburb stores buy something. If this is the case, the labor cost can be a third. Three major costs in the distribution industry are labor cost, advertising cost, and rent. With a shop in a local shopping area, they charge every 3.3 m<sup>2</sup>. In the suburbs, they charge every about 992 m<sup>2</sup>. It cannot be one three hundredth cheaper, but the land is really cheap. The adverting cost is bit higher in the suburbs. However, "labor cost plus rent minus adverting cost" is about half in the suburbs. If the cost is cheap, it is possible for us to sell suits cheaper in the suburb stores.

Thinking like that, we opened the suburb stores, and by doing so our sales was 200 billion yen, and gross this year and ordinary profit was 35 billion yen this year. We are

not just thinking about profit. We start from what makes consumers happy. And because they are happy they purchase. This becomes a support from the consumers. If we tried to make more profit, there will be definitely a counter-attack from the consumers.

Without the support from the consumers, there is no increase in profit. If wanted to be supported by the consumers, we must start thinking about the consumers first. By opening the suburb stores, we made an increase in sales and in profit. This is the best. In every company, we have a blind spot and weakness. If companies only think about themselves, they do not realize their blind spots and weaknesses. That is it is an important factor to find out the blind spots and weaknesses in order to make the company grow. It is very important to find out the blind spots and weaknesses and to improve them.

When I was at Japan Monopoly Corporation, farmers used to come with a large cart full of tobacco, negotiate prices, pack them up and send them to the factory. And we paid them cash on the very same day. When I came into the clothing industry, I did not know if the stores loaned or purchased their equipment. The way they do is a consignment system. For example, in September we deal with autumn and winter clothes. Let's say we bought 100 clothes for 20,000 yen. The rate of product return is now 60% at department stores. Only 40% of the products are actually sold. At retailers, 65% is sold and 35% is returned to the manufacturers. After averaging them out, it is 50%. 100 clothes so 50 are sold and 50 are left. They return these to the manufacturers. Then, 50 clothes are coming back next year. Of course, there are 50 new clothes but again 25 are sold and 25 will come back next year. The 50 clothes returned to the manufacturers are unsold products. If we want to buy them, what happens? We can buy them for 60% of the price since they are left over. Since it is 60%, it costs us 12,000 yen. So if we sell 50 clothes for 20,000 yen and the left over clothes are 12,000 yen, the average is 16,000 yen. That is (12,000 yen plus 20,000yen) divided by 2. The answer is 16,000 yen. If we pay the interest of 5% on 20,000 yen is 1,000 yen. It is 16,000 yen minus 1,000 yen 15,000 yen. So if the manufacturers buy them in the first of September, they have benefit by selling them for 15,000 yen.

If the manufacturers sell them for 15,000 yen at the beginning of September, it is more profitable for them. Aoyama Trading realized that and we did the complete purchase from the beginning.

At the beginning, our annual revenue was 10 million yen so it was not big amount. Now our annual revenue is 200 billion so if we want to completely purchase the products, we need 100 billion yen. So once a company gets bigger, it cannot shift from consignment to complete purchase. That is why the consignment system has been continued.

So let's say we made it the complete purchase system. The average gross profit of the industry was 36%. The difference between 20,000 yen and 15,000 yen is 5,000 yen so 5,000 yen divided by 20,000 yen equals 25%. With the complete purchase, it could create more gross profit. If we add it to 36%, it becomes 61%. And make it 10% cheaper so it becomes 51%. That is the gross profit that Aoyama Trading took. This is only to gain higher gross margin ratio.

This time using this gross margin ratio, we could pay the advertising from the difference that was 25% and increase the sales. When making products, about 2975 m<sup>2</sup> is one lot. In about 992 m<sup>2</sup>, they can produce 20 suits. At the minimum lot, they can produce 60 suits. They do not produce less than 60 suits. Then they do color matching when all the patterns are different but even though they are different colors they do color matching. Coloring thread is different, and they have to change at the process of sewing. They have to match the pattern in the sewing process. The color matching takes double time for one lot of suits. The time of sewing 60 suits per lot and the time of color matching is about the same. So if sewing the same suits for 333 lots, they do not have to do 111 times of color matching. They can save time.

So if the sales is big, the lot to purchase gets big. Then they do not have to do color matching, it gets cheaper. This leads to the rate of returns and the amount of profit.

Then what kind of relation do the sales and profit have? We have a high gross profit circulation cycle. What I am going to discuss now is not written in any books because I make them up. For example, the sale of Company A was 300 million yen. And the operating earnings was 30 million yen. If the sales increased 10%, that is 300 million yen became 330 million yen, the difference became 30 million. We do not have any stores operating at a loss. Therefore, previously I said the gross profit was 52%, but if I made it 50% it would be a profit of 15 million yen out of the difference of 30 million. Then 15 million divided by 30 million equals 50% increase. If the sales increases 10%, the profit increases 50%. So the profit increases for gross profit.

On the other hand, if the sales decreased 10%, the difference was still 30 million yen. 270 million yen. The difference was 30 million yen. The gross profit was 50% so it would be a loss of 15 million yen. While wanting to make a profit of 30 million, it would be a loss of 15 million. 15 million divided by 30 million equals 50%. It would be 50% loss. If the sales decreased 10%, the rate of returns would decrease 50%.

So we must think how important sales is. At the morning assembly, everyone shouts “Do not fail to sell. 10% increase.” It will be chaotic if it goes down for 10%. In other words, even though the gross profit is 50%, we will have a loss if the sales decreases 20%.

We did a lot of things and grew big. I wanted to tell you an example that by applying the complete purchase system, Aoyama Trading became very big, and we put value on the sales so the sales increased a lot.

## **The Economic Cycle and Strategic Timing**

We have come this far with the general public. We cut off all the “high grades”. Therefore, we are very strong in the economic recession. If I think about which economic situation companies exists for, the economic boom or the economic recession, in the way we took for the general public, we exist for the economic recession. Even when the economy becomes recession, the wage of the general public does not go down. In the economic boom, businesses are getting better so the profit increases. This is the reason

why Aoyama Trading that has been coming along with the general public is strong in the economic recession. The result of the first half of this year is up now, the sales and ordinary incomes have increased 38.7% and 34.5% respectively. In the earnings of the previous year, sales was 150.9 billion yen and ordinary profit was 30.2 billion yen. If we go as we are now, the sales will go over 200 billion yen and ordinary profit will go beyond 35 billion yen.

Since we have improved with the general public, the economic status does not influence us. We are a very strong company. At the same time, we do not do a tricky business called “high-class brand”. The price should be changed by the quality. For example, high-class brand would sell a 3,500 yen shirt for 13,500 yen by putting a little of crocodile or a little of penguin. We have embroidery machines so we can get it done for 150 yen. Because of such business methods, VAN was gone and Ace was gone. Such business does not have value at all.

Our strategy for this economic recession was that firstly it was important to sense the disaster before it came. There is a saying, “If you borrow money in the year of dog and boar, give it back in the year of dragon and snake. (※Chinese Zodiac)” So the economic cycle is revolved for 6 years centered on snake and boar. We are in the economic recession now because it is rooster this year. So the economy does not recover for another two and a half years. The economy recovers in the year of mouse. It was the year of horse when the economic bubble burst. The best economy was the year of snake.

We must take advantage of this. The year of horse is an indication of the economic danger. So we must sense it in the year of dragon. This cycle does not go wrong. This cycle will continue in decades.

“If you borrow money in the year of dog and boar, give it back in the year of dragon and snake” means that we should borrow money in the economic recession and pay back in the economic boom. There are two years between the year of dragon and the year of ox. This period is economically good. During this time, we should strategically bring ourselves into the unfavorable status that all the companies in the distribution industry do not like such as overstock, low turnover, and low cost. If the number of forward stock increases 1.5 fold from 1,100 to 1,600, it is overstock. And if the price decreases, the low cost can be done. In such case, if we increase 1.5 fold in the number, we can sell from 1.2 fold to 1.25 fold. The sales increases but the rate of turnover decreases 25 to 30%. This structure should be changed in the best economic years, dragon and snake. That is to put the rate of turnover back. If we can increase the sales, even though we have a lot of stock, the rate of turnover should be the same.

When people realize why only Aoyama can sell, that is the time of the economic recession. It is because we increase the forward stock. Then after others have seen our result, they start doing the same things. However, the economic recession is coming next, and they cannot sell their products and the stock will be piled up. This men’s clothing industry is in that double trouble situation. The most risky industry should be this industry. Probably it is said that because the other companies lost to our checkmate, their business was not doing well. In the year of “mouse”, Yoshida Cabinet, Ikeda Cabinet and Tanaka Cabinet were formed. These were formed in the economic boom, of course they could do nice job. It did not matter how much Mr. Miyazawa was good at

economics, when he became the Prime Minister in the economic recession, Miyazawa Cabinet did not do anything, did it? The timing was bad. 100,000 fire engines could not put out the fire in Shimabara. The power of nature is that strong. So I think the same thing can be said to that principle. So if you want to make money by selling and buying stock, you should wait at least another two years. But stock has a characteristic of anticipating the economy, so it may recover in six months or one and a half years. Please remember this and buy some stock in the next economic boom.

### Aoyamaism

I thought the management and the way to come up with ideas should be solid, I wrote a book when I was in the hospital. It was about the past Aoyama Trading and the future Aoyama Trading. We contribute to the society through clothing. We make clothing with better quality cheaper. And also we aim at the highest profit in Japan, and at becoming the company with the best benefits. These are our management goals but “Make better cheaper” is nonsense. If the quality is better, it should be more expensive. But we say we make the products with better quality cheaper. On top of it, we pay our employees the most in Japan, and we make the profit the most in Japan.

It is very nonsense, but management is to implement things that do not make sense. So if we cannot manage these two different sides, we cannot become No.1 in Japan. The most important thing is to make the instructions, orders and notices from the Headquarters penetrated vertically down to the end of all stores. Ito-Yokado started this about six years ago and gained high profit. That means what the president thinks and what the other end of the company thinks is the same. We put 2.9 billion yen into this. I think we have to give rewards and punishments to the employees. When punishments are necessary, they should be punished and when they are rewarded, they definitely should be rewarded. And awards should be appropriate and the salary should be decided according to the extent of contribution they have made to the company's profit. We made the incentive system clear, and in order to make the vertical penetration work we gave all the shop managers 1% of the company profit. If I bought this 100 yen pen for 100 yen, it would be all expense. That would be taken off from the profit. The return to the managers was 1 yen, so it would decrease 1 yen from the return. If I did not buy this pen, they could all get 1 yen more. The next month after we decided to proceed this rule, the power bill went down from the average of 500,000 yen to 350,000 yen per month. It is 150,000 yen per month and 1.8 million yen per year. If we had 400 stores, we could make a profit of 720 million yen just by saving the power.

It is to implement the vertical penetration and the return of the profit and the expense saving in the return of the profit. Through this oneness of three and by the company itself returning the profit to the employees, we should think about the way that does not create a loss. I think that is the way companies should do.

By the way, the reason why Taka-Q's business went down suddenly was probably an aspect that they persisted in the turnover of the popular products. By the time they realized, there were unpopular goods in the stock and it became the write-off on the settlement.

So which is correct? Do we have to sell unpopular products first or popular products? In our company, the priority is to find a way to make unpopular products popular. Therefore, even when we sell 200 billion yen product assessed during one year, we do not even have write-down of 10 million yen. We have a manual to sell unpopular products. There are no manuals to sell popular products.

The book I wrote is the teachings of President Aoyama of Aoyama Trading, and is the living manual of Aoyamaism. To make Aoyamaism, I intentionally did not read any books or did not go to any seminars to listen to others. It is because I would become mixed. My way is very stubborn. It is to move forward only with my thoughts. I also say that people should always be incomplete or rough. When mind changes, behavior will change. When behavior changes, custom will change. When custom changes, personality will change. When personality changes, fate will change. In short, when mind changes, fate will change.

We were born and do nothing and die? We happened to be born as human, so there may be something we can contribute to society. And since I believed that if I did not think I would do it I would not accomplish it, I could be No.1 in Japan.

### **[From Editor]**

The rapid growth of Aoyama Trading gives various lessons to us who think about business a lot. Our question, “why did Aoyama Trading grow?” was solved gradually while listening to President Aoyama, such as the history and principles of the company, thoughts toward business, sophisticated insights to the environment, and concrete business methods.

As the question was solved, new questions came up. They were very simple questions. “Why could not other companies learn from and accomplish the low-price business Aoyama Trading accomplished?”, “Why did Aoyama Trading pass by those companies at once even though those companies were already competing in the low price suits field?”, “Why did not those big distribution corporations who were supposed to know how the consumers felt notice this chance of getting into a large market?”, “Why did those young people who lead the fashion accept the proposal of Aoyama Trading?” and so on.

In order to find out the answers to these new questions, it is necessary to know the market environment surrounding Aoyama Trading, the management resources and principles of its rival companies and the trend of consumption and so on. In those various aspects of understandings, we could find “the key of succeeding in business”. I think our understandings against those questions would be deepened by reading this script President Goro Aoyama himself talked and the case study of Aoyama Trading by Mr. Susumu Ogawa, a full time instructor at School of Business Administration, Kobe University placed in the previous issue.