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OTSUKA KAGU LTD: SAVING THE FURNITURE BUSINESS[[1]](#endnote-1)

Andrea Santiago, Fernando Martin Roxas, and Karina Iris Yuvallos wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On August 14, 2018, the publicly listed Japanese furniture company Otsuka Kagu Ltd. (Otsuka Kagu) released its six-month financial statements ending June 31 that reflected a ¥2.3-billion[[2]](#endnote-2) loss, a drastic disparity from the projected ¥1.4 billion in profits for 2018. The financials were accompanied by a statement that the company would undertake countermeasures to address its poor performance.[[3]](#endnote-3)

Kumiko Otsuka, president of the company, had been optimistic in her 2017 message to shareholders. She stated at the time, “We will increase our corporate value by discussing strategies to maintain appropriate capital, enhance shareholder returns, and improve profitability in a well-balanced manner.”[[4]](#endnote-4) The large losses, however, belied the strength the company had once had, of being Japan’s largest furniture retailer catering to the high-end market.[[5]](#endnote-5) What are the next steps to protect the interests of the shareholders?

A Rude Awakening

The quiet release of the mid-year financial report was in contrast to Otsuka Kagu’s usual style of news conferences. The difference revived the much publicized drama of the high-end furniture store’s takeover from the founder, Katsuhisa Otsuka,[[6]](#endnote-6) by his daughter Kumiko. The takeover was described as a drama fit for Kabuki theatre, as father and daughter wrestled for board control, each with a different platform for saving the company.[[7]](#endnote-7) The daughter had won the struggle for control, with 61 per cent of the votes, during the March 27, 2015 shareholders meeting. The decision had allowed her to increase the number of independent directors from two to six, and to steer the company toward becoming more customer-centric. “Offering high-quality products at reasonable prices is our reason for being,” Kumiko had said at the time.[[8]](#endnote-8) This appeared to be her strategy to increase revenues and improve stock prices.

Two years later, the company’s 2017 financial statements and stock price told a different story. Despite renewed customer strategy and entry into a new market for refurbished furniture, company revenues continued to decline, hitting an all-time low since the company first went public (see Exhibit 1). The company reported an unprecedented operating loss of ¥5.1 billion by the end of December 2017,[[9]](#endnote-9) with the stock’s performance following the same pattern. On the last trading day of 2017, the company’s share price closed at ¥845, compared to the closing price of ¥1,566 on March 27, 2015. Treasury shares had doubled from 800,000 in 2015 and accounted for 9 per cent of total shares issued.[[10]](#endnote-10) When the mid-year financial statements were released, share prices dipped further to ¥389[[11]](#endnote-11) (see Exhibit 2).

The year before, Otsuka Kagu investors had continued to receive dividends, despite negative earnings. The company’s investor profile had changed in the previous three years, with its ownership spread over triple the original number of shareholders and with individual investors owning 57 per cent of the stocks. After founder Katsuhisa had unloaded all of his shares, the top 10 shareholders owned only 35 per cent—in 2015, by comparison, they had owned 57 per cent of shares[[12]](#endnote-12) (see Exhibit 3).

The company was rumoured to be in discussion with Abico Group, a Taiwan-based company.[[13]](#endnote-13) TKP Corporation, a Japanese meeting room rental service and third-largest owner of Otsuka Kagu, was also apparently planning to invest in additional shares through a third-party allotment.[[14]](#endnote-14) Was this the best direction for the company to stop financial losses? Or would it be wiser for Otsuka Kagu to review its strategies, especially approaching the company’s 50th anniversary? Could the decline in business performance be a sign of customer rejection resulting from the public takeover drama, which some shareholders felt was distasteful?

From Humble Beginnings to Leading Furniture Company

Katsuhisa was a 25-year-old cabinet salesman when he founded Otsuka Furniture Center Co., Ltd. in March 1969. One month later, he opened his first retail store.[[15]](#endnote-15) At the time, small businesses were flourishing in a growing economy. The furniture and interior accessories company, which catered to the high-end market due to its fine craftsmanship, soon became one of the best-known furniture stores in Japan.[[16]](#endnote-16)

As part of its value chain strategy, upscale furniture was purchased directly from domestic and international sources, significantly reducing costs by eliminating intermediaries.[[17]](#endnote-17) Business grew steadily until June 1980, when the founder decided to list the company’s 19.4 million company shares on the Tokyo Stock Exchange under the company name Otsuka Kagu Ltd. Soon after the listing, the company branched out into areas outside Tokyo. The number of company showrooms across Japan peaked in 2007 at 19, making Otsuka Kagu one of the biggest furniture retailers in the country.[[18]](#endnote-18)

Katsuhisa attributed much of the company’s success to the 1993 introduction of a members-only system for buying furniture from the showrooms.[[19]](#endnote-19) Under the members-only scheme, customers had to register to become members and would then receive a special rate on furniture and interiors purchases.[[20]](#endnote-20) A dedicated interior specialist would accompany customers, who were often newly married couples, throughout the store as they browsed. The members would then be offered special rates not displayed in the store,[[21]](#endnote-21) but guaranteed to be the lowest in Japan, in accordance with strict quality controls.[[22]](#endnote-22)

The ability to offer highly competitive prices required the company to dramatically increase its direct importing of foreign-made furniture to about 50 per cent of net sales, compared to only 6.4 per cent imports in 1993.[[23]](#endnote-23) The company’s sales doubled after implementing the membership scheme and eventually hit a peak of ¥73.0 billion in 2003.[[24]](#endnote-24)

Change in Leadership

The membership approach introduced by Katsuhisa in 1993 seemed to work well. Despite an economic recession that began in the late 1990s, the company continued to generate revenues, more than tripling its 1993 figure by 2003. By contrast, the market shrank by about 13 per cent over the same period. The growth in sales allowed Otsuka Kagu to increase dividend payouts in 2004 to ¥20 per share from the ¥15 per share amount when it was first listed.[[25]](#endnote-25)

Revenues remained steady until the Asian financial crisis hit businesses in the region beginning in July 2017. Consumer market demand shifted to more affordable goods, and furniture sales were not exempt from the shift.[[26]](#endnote-26) The ¥6-trillion furniture market of 1991, with only 10 per cent imported furniture, had dropped to approximately ¥3 trillion by 2017, with one-third of the market covered by imported furniture.[[27]](#endnote-27) However, despite considerably lower profit levels, the company continued to declare dividends, which had risen to ¥40 per share[[28]](#endnote-28) (see Exhibit 4).

And then, in 2008, the company’s leadership suffered a major blow. Just before the 2008 dividend announcement, it was discovered that Katsuhisa had engaged in insider trading. He was found guilty and fined about ¥30 million.[[29]](#endnote-29) It was under these circumstances that Kumiko, the eldest of five children of Katsuhisa and his wife (Chiyoko), took over the leadership of the family business (see Exhibit 5). Kumiko, who was approximately the age of the company itself, had formally joined the business in 1994. Before that, she had worked for Fuji Bank for three years, a job she had started immediately after graduating from Hitotsubashi University, which was considered one of the most prestigious schools in Japan.[[30]](#endnote-30)

Kumiko made the following statement about her appointment: “Rather than having the goal of being a career woman from childhood, I decided that I just wanted to be able to support myself, to be independent. Being in a family operating a business—my mother was working as a cofounder—it was probably quite natural for me.”[[31]](#endnote-31)

Kumiko was initially assigned a position in business planning, but was appointed director of sales management two years later. In 2005, she left the company temporarily to start Qualia Consulting Inc., but retained her presence at Otsuka Kagu as a business advisor. When she became president of the company in 2009, she immediately saw areas for improvement in the sales department, having had four years of exposure in the sales field.[[32]](#endnote-32)

Kumiko had had a rough start in the position, being a woman leader in a male dominated society.[[33]](#endnote-33) She was also much younger than most corporate presidents or typical board members in publicly traded firms in Japan—and certainly younger than the executives at Otsuka Kagu.[[34]](#endnote-34)

By 2000, Otsuka Kagu was already experiencing the effects of the recession in Asia. Sales revenues were not meeting their targets. Kumiko, who was executive director for sales at the time, explained that the relatively minimal shortfall was easily offset by the appreciation of the yen against the U.S. dollar and the euro. Nonetheless, sales projections had to be adjusted to match the lower levels.[[35]](#endnote-35) A decade later, when the economy had not yet improved, Otsuka Kagu had no choice but to discount European furniture pieces by up to 22 per cent. The value of the euro was at its lowest point since 2000.[[36]](#endnote-36) By offering discounts, the company was able to recover from the ¥1.4-billion loss in 2009 to register a much smaller loss of ¥255 million the year after.[[37]](#endnote-37)

Responding to a Changing Environment

Japan was one of the world’s oldest societies. It was once considered a place where a seller could take advantage of consumers by inflating prices.[[38]](#endnote-38) For many decades, the economy was limited to domestic producers, which provided little incentive to control prices. Affluent business owners seemed to find it easy to generate excess wealth, particularly in the years between 1985 and 1990, a time of aggressive speculation in the domestic stock market and real estate industry.[[39]](#endnote-39) However, in the 1990s, the Japanese government tightened its monetary policies, which led the country into a deep and long economic crash.[[40]](#endnote-40)

From that time on, the Japanese economy grew sluggishly.[[41]](#endnote-41) New foreign companies began entering the country, which affected the competitiveness of local firms in all industries, including the furniture and interiors market. Nitori Holdings, a Japanese furniture retailer that targeted the lower end of the market, was not as strongly affected by the country’s economic hardships. In fact, it was recognized as the biggest interior retailer in the country. Another furniture retailer, Mujirushi Ryohin (Muji), diversified its product line with various other products, which helped cushion the company against changing consumer habits.[[42]](#endnote-42) In 2006, the Swedish company IKEA re-entered the Japanese market, after a failed attempt in the 1970s. The company introduced modularized, do-it-yourself furniture that appealed to the younger demographic of the market. These consumers were more interested in individual pieces, rather the entire set of furniture that Otsuka Kagu was used to selling (see Exhibit 6).[[43]](#endnote-43)

A magazine report indicated that Japan’s interior retail market had dropped by a third in the 10-year period between 2001 and 2011. The ¥3-trillion market of 2011 was seen as an effect of changing housing units that incorporated built-in cabinets, which rendered some older types of furniture obsolete. Also, with its fine craftsmanship and imported hardwood, Japan-made furniture was considered a luxury product that did not effectively meet current consumer tastes. The superiority of Japanese carpentry was also beginning to be called into question,[[44]](#endnote-44) which explained why imported furniture grew to account for about 40 per cent of the market.[[45]](#endnote-45)

Another observation was the decline in the construction of new housing units, indicating that people were staying in older homes longer and choosing to update their homes by replacing only some furniture pieces rather than the complete set. Therefore, the demand for the whole furniture concept that Otsuka Kagu offered was seen as inappropriate for these customers.[[46]](#endnote-46) Kumiko realized that “in order to build on the strengths of the past 40 years as a business, we need to implement some reforms to keep up with today’s consumers.”[[47]](#endnote-47)

In response to the changing environment, Kumiko began to innovate. To address a need to be closer to the customer, she ended the membership scheme that her father had established, removed the imposing reception desk at the store’s entrance, and allowed customers to roam freely around the showrooms.[[48]](#endnote-48) Her strategy was to go beyond newlyweds and affluent customers, to reach middle class consumers looking for individual pieces of furniture and interiors rather than complete sets.[[49]](#endnote-49) Kumiko invested in renovations for the stores and introduced lower-priced outlets to encourage more customer visits.[[50]](#endnote-50) Therefore, in 2014, capital expenditures rose, as did personnel expenses. However, revenues slowly increased and shareholders were happy to see the stock value almost double, in comparison to the March 2009 value when Kumiko took over as president.[[51]](#endnote-51)

Differences in Opinion

The changes Kumiko instituted did not seem to meet with Katsuhisa’s approval, who stated that his daughter’s strategy did not provide Otsuka Kagu with a distinct advantage.[[52]](#endnote-52) Some reports claimed that he became enraged, and in mid-2014, he went as far as to remove his daughter from the position of president and resume the post himself. He then attempted to reverse the actions his daughter had imposed and shut down the lower-priced stores she had opened. [[53]](#endnote-53)

Katsuhisa, who owned the largest block of shares (18.88 per cent), was acting as the sole owner of the business, without the need to be accountable to the board of directors.[[54]](#endnote-54) However, board members did not share his view on the company’s leadership and reinstated Kumiko to her position as president on January 2015.[[55]](#endnote-55) The board’s decision forced Katsuhisa, the company’s founder, to campaign for proxy votes, which was considered a rare action in Japan.[[56]](#endnote-56) In the shareholders’ meeting of 2015, Katsuhisa sought to remove his daughter from her position as president.[[57]](#endnote-57) In a further rare and “un-Japanese” action, Katsuhisa publicly aired on television his displeasure over his daughter’s performance.[[58]](#endnote-58)

Despite the public personal attack on Kumiko by her own father, she maintained her position that the company’s membership scheme was outdated, and most customers seemed to agree,[[59]](#endnote-59) as one particular comment from a customer confirmed: “All the salespeople in black suits and the questionnaire you have to fill in before you can have an escorted tour around the shop make it feel more like a religious cult than furniture shop . . . it was creepy and uncomfortable.”[[60]](#endnote-60)

Kumiko stated that the membership scheme may have been appropriate at a time when recently-married couples needed coordinated furniture, but her market research found that this was no longer the case. She explained that “for people on a schedule [like newlyweds in the past], it had made sense, but for people replacing furniture, it’s better to allow self-service.”[[61]](#endnote-61) However, Katsuhisa disagreed: “It’s extremely important that our employees with deep knowledge of such products and customers’ purchase history, offer proper consulting to our customers. Our business is certainly not like IKEA or Nitori—if we follow their business strategy, we’ll be making a big mistake.”[[62]](#endnote-62)

Media Galore

In the weeks and immediate days before the March 27, 2015 shareholders’ meeting, the rivalry between father and daughter escalated, forcing family members to take sides.[[63]](#endnote-63) Katsuhisa had the support of his wife (Chiyoko) and eldest son (Katsuyuki), while Kumiko gained the support of her younger siblings (Maiko and Masayuki). Her brother Maiko headed the family’s investment company.[[64]](#endnote-64)

Katsuhisa had support from his loyal executives.[[65]](#endnote-65) “Employees came to me. They think that only I can revive the company,” he commented.[[66]](#endnote-66) However, it was Kumiko who gained the confidence of institutional investors such as Brandes Investment Partners, which held 10 per cent of the shares at that time, but subsequently reduced its stake to 4.8 per cent.[[67]](#endnote-67) When asked why the company supported Kumiko, Shingo Omura of Brandes Investment Partners responded, “She thinks long term and has been proactively challenging the status quo in light of the rapid[ly] changing industry dynamics.”[[68]](#endnote-68)

Some investors were not prepared to announce their support before the meeting, but Kumiko already had the proxy support of Institutional Shareholder Services and Glass Lewis.[[69]](#endnote-69) With both Kumiko and her father scrambling to secure proxies, Katsuhisa stated, “The only regret I’ve had in my career is appointing my daughter as president. I haven’t made any mistakes as a top executive, but as a parent I failed.”[[70]](#endnote-70)

Despite the painful words of her father, Kumiko claimed that the conflict was not a family issue but a matter of corporate governance. “I became president in 2009 and wanted to add more outsiders to the board,” she recalled. “We had no directors from outside of the Otsuka family until 2007. We often had a clash of opinions and I saw that clearly in early 2013, when we were welcoming three directors from outside.”[[71]](#endnote-71) Kumiko was also quoted as saying, “What’s important isn’t whether I am in charge, but whether we can build a company where someone other than the founder is in charge.”[[72]](#endnote-72) She asserted that “one day, members of the founding family need to leave their company. This is the only way companies can survive.”[[73]](#endnote-73)

The battle within the family had indeed become so newsworthy that it attracted a media frenzy.[[74]](#endnote-74) For a highly hierarchical society, the feud was big news and thus remained in the headlines for weeks.[[75]](#endnote-75) It seemed that the whole country wanted to know the outcome of the March 2015 shareholders’ meeting. Not only was the controversy discussed in business circles, it also became part of gossipy talk shows. Many people, feeling embarrassment for the two people subjected to public accusations, hoped the father and daughter could reconcile. One consumer, siding with the daughter, expressed the following sentiments: “Old man, your daughter is pretty smart. I think she really cares about the company. I would put an ad in the paper, with the two of you shaking hands and saying you’re sorry, and promis[ing] to sell furniture for the best price.”[[76]](#endnote-76)

Reconciliation, however, was far from Katsuhisa’s plans, who chose instead to express his regrets about Kumiko, whom he publicly referred to as his “bad daughter.”[[77]](#endnote-77) Kumiko, visibly upset by the reference, tried to express her feelings: “Can you imagine how it feels to have someone close to you say something like that? I can’t do anything about it,”Kumiko tearfully relayed during an interview. “I was born about a year before the company was established and we had a residence in the corner of a warehouse, where they sold products,” she continued. “I’ve known some of the employees since then. The company is a part of my life. As time goes by, it doesn’t matter whether I am in charge or not, what’s important is whether the company we’ve built up this far can remain for the next generation.”[[78]](#endnote-78)

Based on her actions, it seemed like she had decided to focus on business rather than on family issues.[[79]](#endnote-79) She implied that the shareholders deserved a more transparent and well-governed company, and thus included six names of potential independent directors to her slate.[[80]](#endnote-80) When asked who the better manager was, Kumiko replied with confidence:

When Japan was in a period of rapid growth in the 1970s, the chairman was probably the better manager, in terms of making profits. In those days, the business environment was favourable for more aggressive managers like him. So, there’s no universal management approach we can [refer to as] “what is right.” But under the current circumstance (with the government pushing for improved corporate governance to attract foreign investors), I’m offering a more appropriate proposal to deal with the current challenging environment. [[81]](#endnote-81)

The Controversial Shareholders’ Meeting

At most Otsuka Kagu annual shareholders’ meetings in the past, only about 20 shareholders would attend; at the March 2015 shareholders’ meeting, approximately 200 shareholders attended, which was extremely unusual for a typical company’s shareholders’ meeting. The three-hour, emotionally-charged meeting elicited various types of reactions from the attendees who witnessed the unleashing.[[82]](#endnote-82)

“I had five children,” Katsuhisa said in the meeting. “Kumiko was the first and she was a difficult birth.” Katsuhisa’s comments were followed by his wife’s statements admonishing her daughter. Chiyoko reminded Kumiko that she would never have been able to start a large business such as a furniture store on her own.[[83]](#endnote-83) Chiyoko went on to state that Kumiko’s management team was incapable of running the firm,[[84]](#endnote-84) before she was asked to stop her litany by the shareholders,[[85]](#endnote-85) one of whom emphasized, “I didn’t intend to buy shares for the Otsuka family and we, shareholders, want to hear about what the company will do to grow, not about the family battle.”[[86]](#endnote-86)

When the votes were tallied, Kumiko had gained 61 per cent of the vote, although she indicated that she had garnered 80 per cent of the non-family votes.[[87]](#endnote-87) Following the meeting, she apologized to the shareholders for the fracas and promised, “I’ll do my best to boost the company’s corporate value and restore the trust of our customers.” To questions about her relationship with her father, she responded, “Nothing can change the fact that he is a founder and a shareholder of the company. We’ll consider it properly.”[[88]](#endnote-88) She acknowledged that “from a company and shareholder perspective, I think we’ll need to communicate in a sincere manner.”[[89]](#endnote-89)

Katsuhisa also apologized for the trouble and stated, “I’ll take shareholders’ judgment seriously and make a fresh start.”[[90]](#endnote-90) A short time later, he sold a large percentage of his shares in Otsuka Kuga, effectively reducing his holdings in half. [[91]](#endnote-91) His name no longer appeared as a major stockholder in the 2017 annual report.[[92]](#endnote-92) With his son Katsuyuki, Katsuhisa then established Takumi Otsuka, a retail outlet that marketed European furniture.[[93]](#endnote-93)

Regaining Shareholder Confidence

Kumiko was aware of the importance of corporate image to the company’s bottom line. To help repair Otsuka Kagu’s marred image, she held a “Big Thanks Sale” for two weeks in April 2015, which she personally launched,[[94]](#endnote-94) as her “gesture of apology” for the well-publicized family feud. When the sale received an influx of new customers, it was extended beyond the original two weeks, eventually resulting in a 70-per-cent surge in sales.[[95]](#endnote-95)

Nearly two months later, Kumiko delivered a public presentation where she shared the results of a survey on Otsuka Kagu’s brand and introduced a new company slogan and logo. According to the brand survey, the public’s top three perceptions of Otsuka Kagu (in Japanese) were “独りよがり” (self-importance or conceitedness),

“閉鎖的” (exclusivity or unsociability), and “家具専門” (a furniture specialist). According to Kumiko, the new illustrated logo generally retained the same content and colour scheme as the old logo, but adopted a more modern design. In unveiling her alterations to the logo, Kumiko confirmed that the company history was still important, but that the company would move forward and continue to create, looking toward the future.[[96]](#endnote-96)

Kumiko then highlighted that the company’s old slogan—“確かな価値との出会い” (*tashika na kachi to no deai*), which translated to “an encounter with true value”—reflected a premium on quality goods and services. Kumiko then explained that although the company still believed in providing quality products, its mission would be better embodied in Otsuka Kagu’s new slogan: “幸せをレイアウトしよう” (*shiawase wo reiauto shiyou*), which translated to “a company that proposes home lifestyle solutions.”[[97]](#endnote-97)

As the company unveiled its new logo and slogan, it re-opened a renovated flagship store in the Ginza shopping district that was more customer-oriented.[[98]](#endnote-98) Kumiko continued to renovate more showrooms and increase the company’s presence, although the size of the stores was reduced (see Exhibit 7), which was reflected in the company’s capital expenditures budget (see Exhibit 8). To expand the company’s consumer base, Otsuka Kagu began selling directly to businesses and established the wholly owned subsidiary Re-Interia Ltd., which offered restoration services for old furniture to be rendered back to its mint condition.[[99]](#endnote-99)

Financial and Stock Performance Aftermath

After the controversial shareholders’ meeting, Kumiko announced that Otsuka Kagu would be operating under new management and directorship.[[100]](#endnote-100) The company began to use its redesigned logo to reflect a renewed and revitalized organization. Its annual report also featured a new look and provided more information in support of the company’s thrust toward transparency, which was reflected by providing financial statements that showed a continued decline in revenues. In 2017, dividends that were doubled in 2015 to ¥80 per share were returned to the previous ¥40-per-share level.[[101]](#endnote-101)

The 2017 sales figure of ¥41.0 billion was not far from the company’s sales figure from 20 years earlier. Two years after the March 2015 shareholders’ meeting, Otsuka Kagu reported a significant operating loss and a net loss of ¥7.5 billion. Corporate assets had also returned to the 1997 level, having decreased by 36 per cent compared to 2015, and the company’s cash balance was only ¥2 billion.[[102]](#endnote-102) The level of imports for the company were still at the 52-per-cent mark of net sales.[[103]](#endnote-103)

The company’s stock performance continued to deteriorate despite the vote of confidence shareholders had given Kumiko. Trading volumes had managed to stay low, except in August 2018 when shareholders were anticipating the release of mid-year operations (see Exhibit 9). On September 13, 2018, Otsuka Kagu’s share price dropped to an all-time low of ¥260,[[104]](#endnote-104) having fallen considerably compared to the Nikkei 225 index.[[105]](#endnote-105)

In her 2018 annual report message, Kumiko reassured shareholders that management and the board where united in their vision to provide “high-quality lifestyles suited to each individual” and to build long-lasting relationships with Otsuka Kagu’s customers, whose needs had changed in recent years. She was confident that the strategy of being present in several markets would result in improved business performance after solidifying a corporate positioning image. She then presented the company’s four pillars for responding to changing consumer needs: (1) multi-store development, (2) providing professional solution proposals, (3) enhancing relations between product and service channels, and (4) providing new options in addition to purchases. Finally, Kumiko disclosed a partnership with TKP Corporation for the management of redundant areas as event spaces.[[106]](#endnote-106)

Rethinking Investment in Otsuka Kagu Ltd.

There were many events and circumstances to consider in explaining the continued poor performance of Otsuka Kagu. Was it possible that the lacklustre sales figures were attributed to the inability of the company to regain the confidence of its consumers? Was the damage to the firm’s reputation irreparable?

A shareholder suggested that people were unlikely to buy furniture from a company where there was infighting among the owners, commenting,[[107]](#endnote-107) “Do you really think they will purchase products from the store where [the] father and daughter are fighting? You must have forgotten what’s important for the company.”[[108]](#endnote-108) Others agreed that customers were turned away by the infighting: “Consumers, it seems, don’t like to watch family businesses implode in public.”[[109]](#endnote-109)

But there were other considerations for the company’s poor showing. Was the problem structural? Was competition becoming too intense? Was the industry shrinking? Japan’s home furnishing market was expected to surge in the 2016–2020 period due to new housing construction. Various market drivers were identified, including an increasing number of households, population migration, and a rise in consumer expenditure for home furnishing. However, these projections were also likely to fail to materialize due to a decline in marriages, a rising consumption tax, and various business challenges.[[110]](#endnote-110)

**EXHIBIT 1: OTSUKA KAGU LTD. KEY FINANCIAL TRENDS, 1993–2017**

Note: ¥ = Japanese yen; US$1 = ¥110.93 on March 14, 2018.

Source: Prepared by the case authors with information from Otsuka Kagu Ltd., *IDC Otsuka Annual Report 2017*, accessed June 24, 2018, www.idc-otsuka.jp/company/e-ir/data/e\_annual\_report\_2017.pdf.

**EXHIBIT 2: OTSUKA KAGU LTD. 14-YEAR STOCK PERFORMANCE,   
2004–2018 (IN ¥)**

Note: ¥ = Japanese yen; US$1 = ¥110.93 on March 14, 2018.

Source: Prepared by the case authors with information from “Otsuka Kagu Chart,” Otsuka Kagu Ltd., Markets Insider, accessed September 17, 2108, https://markets.businessinsider.com/chart/otsuka\_kagu\_1.

**EXHIBIT 3: OTSUKA KAGU LTD. SHAREHOLDER DATA, 2015–2017 (IN ¥)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2015** | | **2016** | | **2017** | |
| **Number of Shareholders** | 5,036 | | 11,857 | | 14,331 | |
| **Type of Owner** |  |  |  |  |  |  |
| Financial Institution | 47,602 | 24.54% | 49,983 | 25.77% | 51,760 | 26.69% |
| Securities Companies | 3,331 | 1.72% | 4,745 | 2.45% | 3,722 | 1.92% |
| Other Companies | 29,748 | 15.34% | 28,276 | 14.58% | 22,593 | 11.65% |
| Non-Japanese Investors | 22,640 | 11.67% | 8,058 | 4.15% | 5,324 | 2.74% |
| Individuals, Others | 90,630 | 46,73% | 102,879 | 53.05% | 100,53 | 57.00% |
| **Main Shareholders** |  |  |  |  |  |  |
| Katshuhisa Otsuka | 3,500,000 | 18.88% | 1,863,000 | 9.61% |  |  |
| Kikyo Kikaku KK | 1,892,000 | 10.21% | 1,892,000 | 9.75% | 1,292,000 | 6.66% |
| Nippon Life Insurance | 1,140,000 | 6.15% | 1,140,000 | 5.88% | 1,140,000 | 5.88% |
| Trust Account | 915,000 | 4.94% | 720,000 | 3.71% | 1,488,000 | 7.67% |
| Tokio Marine | 624,000 | 3.37% | 624,000 | 3.22% | 520,000 | 2.68% |
| Trust Account | 570,000 | 3.08% | 570,000 | 2,94% | 570,000 | 2.94% |
| Employee Shareholding | 552,000 | 2.98% | 405,000 | 2.09% | 342,000 | 1.76% |
| Haruo Otsuka | 522,000 | 2.82% | 507,000 | 2.62% | 495,000 | 2.56% |
| JACCS Company | 480,000 | 2.59% | 480,000 | 2.47% | 480,000 | 2.47% |
| Northern Trust | 389,000 | 2.10% |  |  |  |  |
| Chiyoko Otsuka |  |  | 371,000 | 1.91% |  |  |
| Mizuho Securities Co |  |  |  |  | 300,000 | 1.55% |
| Sumitomo Mitsui Bank |  |  |  |  | 351,000 | 1.81% |

Note: ¥ = Japanese yen; ¥1 = US$0.01 on March 14, 2018.

Source: Prepared by the case authors with information from Otsuka Kagu Ltd., *Annual Report 2016*, accessed June 24, 2018, www.idc-otsuka.jp/company/e-ir/data/e\_annual\_report\_2016.pdf; Otsuka Kagu Ltd., *Annual Report 2017*, accessed June 24, 2018, www.idc-otsuka.jp/company/e-ir/data/e\_annual\_report\_2017.pdf; Otsuka Kagu Ltd., *Annual Report 2018*, accessed June 24, 2018, www.idc-otsuka.jp/company/e-ir/data/e\_annual\_report\_2018.pdf.

**EXHIBIT 4: OTSUKA KAGU LTD. HISTORICAL EARNINGS AND DIVIDENDS PER SHARE, 1993–2017 (IN ¥)**

Note: ¥ = Japanese yen; ¥1 = US$0.01 on March 14, 2018.

Source: Prepared by the case authors with information from “Trends in Business Performance,” Otsuka Kagu Ltd., accessed June, 24, 2018, www.idc-otsuka.jp/company/e-ir/e-zaimu.html.

**EXHIBIT 5: TIMELINE OF RELEVANT EVENTS DURING THE TAKEOVER OF OTSUKA KUGA LTD.**

Source: Prepared by the case authors with information from Jason Clenfield, “Japan Can’t Look away from This Wrenching Succession Dispute,” Bloomberg Markets Magazine, June 30, 2015, accessed June 8, 2018, www.bloomberg.com/news/articles/2015-06-30/japan-can-t-look-away-from-this-wrenching-succession-dispute; Atsuko Fukase, “Father Fights to Oust CEO Daughter from Japan Furniture Chain,” *Wall Street Journal*, March 18, 2015, accessed June 24, 2018, www.wsj.com/articles/family-feud-splits-japanese-furniture-chain-otsuka-kagu-1426715809; Tomoko Waksugi, “Otsuka Kagu’s President Puts Father in His Place, Pushes Changes,” *Nikkei Asia Review*, accessed June 16, 2018, https://asia.nikkei.com/Business/Otsuka-Kagu-s-president-puts-father-in-his-place-pushes-changes.

**EXHIBIT 6: COMPARATIVE DATA, FURNITURE INDUSTRY**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **IKEA** | **Nitori** | **Otsuka** | **Ryohin (Muji)** |
| Founding Date | 2008 | 1967 | 1969 | 1980 |
| Japan Headquarters | Tokyo | Sapporo | Tokyo | Tokyo |
| 2017 Number of Stores | 8 | 400+ | 21 | 85 |
| 2017 Revenues (in ¥ Million) | 4,896,558 | 512,958 | 41,079 | 333,281 |
| 2017 Profit or Loss (in ¥ Million) | 333,632 | 59,999 | –7,259 | 25,832 |
| 2017 Total Assets (in ¥ Million) | 7,142,135 | 487,814 | 29,169 | 214,705 |
| 2017 Profit Margin | 6.80% | 11.70% | –17.67% | 7.80% |
| 2017 Revenue Growth | 3.50% | 10.00% | –11.29% | 8.40% |
| 2017 Return on Assets | 4.60% | 13.30% | –24.89% | 12.40% |
| 2015 Total Sales (in ¥ Million) | 78,000 | 458,100 | 58,000 | 307,500 |
| 2015 Furniture Sales (in ¥ Million) | 42,900 | 209,800 | 57,900 | 48,000 |
| 2015 Market Share | 1.2% | 6.0% | 1.7% | 1.4% |

Note: ¥ = Japanese yen; US$1 = ¥110.93 on March 14, 2018.

Source: Prepared by the case authors with information from “Furniture and Floor Coverings in Japan,” Marketline Industry Profile, January 2018, accessed June 24, 2018, https://store.marketline.com/report/ohmf2070--furniture-floor-coverings-in-japan; Otsuka Kagu Ltd., *IDC Otsuka Annual Report 2018*, accessed August 24, 2018, www.idc-otsuka.jp/company/e-ir/data/e\_annual\_report\_2018.pdf; Ryohin Keikaku Co. Ltd., *2018 Annual Report: March 1, 2017–February 28, 2018*, accessed September 15, 2018, https://ssl4.eir-parts.net/doc/7453/ir\_material\_for\_fiscal\_ym9/52702/00.pdf; “IKEA Stores in Japan,” accessed September 15, 2018, https://en.ikea-club.org/category/ikea-shops-in-japan/; Nitori Holdings Co. Ltd., *Consolidated Financial Statements: For the Year Ended February 20, 2018*, accessed September 15, 2018, www.nitorihd.co.jp/en/ir/items/NTR\_201802\_Consolidated%20Financial%20Statements.pdf.

**EXHIBIT 7: OTSUKA KAGU LTD. HISTORICAL AVERAGE STORE FLOOR SPACE, 1993–2017   
(IN SQUARE METRES)**

Note: FY = fiscal year

Source: Prepared by the case authors with information from “Trend in Business Performance,” Otsuka Kagu Ltd., accessed June 24, 2018, www.idc-otsuka.jp/company/e-ir/e-zaimu.html.

**EXHIBIT 8: OTSUKA KAGU LTD. CAPITAL EXPENDITURES, 1993–2017 (IN ¥ MILLION)**

Note: ¥ = Japanese yen; ¥1 = US$0.01 on March 14, 2018.

Source: Prepared by the case authors with information from “Trend in Business Performance,” Otsuka Kagu Ltd., accessed June 24, 2018, www.idc-otsuka.jp/company/e-ir/e-zaimu.html.

**EXHIBIT 9: OTSUKA KAGU LTD. TRADING VOLUMES, MARCH 2015–SEPTEMBER 2018 (IN ¥)**

Note: ¥ = Japanese yen; US$1 = ¥110.93 on March 14, 2018.

Source: Prepared by the case authors with information from “Otsuka Kagu Chart,” Markets Insider, accessed September 17, 2108, https://markets.businessinsider.com/chart/otsuka\_kagu\_1.

ENDNOTEs

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