“Happiness and Harmony in our Community”: Lawson’s Response to the Tohoku Earthquake

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Introduction
In the aftermath of the Great Tohoku Earthquake on March 11, 2011 which consequently led to massive tsunamis that wiped out many coastal towns and a near nuclear meltdown at the Fukushima Daiichi Nuclear Power Plant owned by the Tokyo Electric Power Company (TEPCO), Lawson, Japan’s second largest convenience store chain, responded more quickly than its competitors and in some cases the Japanese government to bring relief to Tohoku.

From December 19th-23rd, 2011, the Center for Japanese Economy and Business (CJEB) at Columbia Business School sponsored our research trip to interview Lawson senior executives as well as a one day trip to Tohoku to speak with employees and franchise owners who experienced the devastation and subsequent recovery first hand.

Originally we had expected to get a glimpse into the management struggle in the hours, days and weeks following the earthquake. What we learned, however, was that Lawson’s preparedness was a factor of initiatives that had started decades before.

This paper is broken into four parts. The first two focus on the major factors for Lawson’s rapid recovery: 1) The cultural transformation, “shishasei”, enacted by Lawson’s CEO, Takeshi Niinami, when he assumed the position in 2002. 2) The emergency manual and procedures that were developed after the Hanshin-Awaji earthquake in 1995. The third part will focus on how these factors drove Lawson’s reaction to the Great Tohoku earthquake. In the final part we will reflect on our experience and lessons for management.

Part 1: Lawson’s Transformation

Beginnings
Lawson is Japan’s second largest convenience store chain with just under 10,000 stores and 1,682 billion yen in annual revenue (fiscal year ending February 2011)\(^1\). Although originally a US chain from the state of Ohio, Isao Nakauchi, who founded the Daiei group, opened the first Lawson store in 1975 in Osaka. Around the same time, other large players such as 7-Eleven and FamilyMart began operations as well as many regional players. Over the next 35 years the market grew rapidly and reached 8 trillion yen (approximately 12 billion USD) in 2011\(^2\).

\(^1\) Annual Reports
\(^2\) http://www.lawson.co.jp/company/corporate/history.html
By 1996 Lawson had expanded to 6,000 stores operating under a franchise model, and it opened its first store outside Japan in Shanghai. Daiei, however, struggling after excessive expansion and diversification initiated the sale of Lawson shares to external parties. In 2001, Mitsubishi Corporation bought more than 30% of Lawson’s shares, taking over from Daiei as the parent company. In 2002, Takeshi Niinami, who had been the lead of the Mitsubishi investment team, assumed the role of CEO. By that time Lawson had grown to over 7,000 stores.

From “Top down” to “Bottom up”

“Lawson was a 100% central (centrally controlled) organization.” Niinami described how Lawson’s organization looked to him when he came to Lawson. A senior vice president who’d been with Lawson since the Daiei days explained as follows.

“Mr. Nakauchi (who founded Daiei, the original parent company) was such a charismatic figure that most of people under him were used to being given orders from the top. And because Lawson was a subsidiary of Daiei, employees sent from Daiei tended to be underperforming exiles from Daiei. Concerned with making mistakes, they were less forward looking and just waited for orders, which was easier for them.”

In addition to this follower mentality, traditional convenience store models called for centralized operations in order to maximize economies of scale and rarely allowed for localized marketing, product development or store roll-out. However, after visiting offices and stores in different areas of Japan, Niinami realized that Tokyo based management had a hard time understanding the specific needs of local customers. The 1,900 miles of land and sea that separated the northern and southern tip of Japan resulted in geographic, climatic and cultural diversities that only local management could capture. As a strong believer of leadership at any rank in the company, Niinami came to realize that this top down culture must be changed into a more autonomous one. To tackle the challenge, he implemented three initiatives targeting organization, training, and corporate philosophy.

Organization

Under the old organization, decisions made at headquarters were executed by local district offices. These district offices were responsible for daily operations and communication with store owners and managers yet very much of this was one way and not done effectively. In 2003, Lawson consolidated the district offices and set up seven regional offices (shisha) overseeing more extended areas than each district had covered. Unlike the old district office managers, regional general managers were entrusted

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3 Takashi Nishimura. 2010. Business Case: LAWSON. Inc: A convenience store from "shop" to "company"
with more control over corporate level functions such as merchandising, sourcing and store development. As such, experienced and knowledgeable leaders who exhibited the “you’ve gotta decide” mentality were chosen to run the offices. Reporting to the regional managers were multiple local branch offices (shiten) that were responsible for specific localities. The number of branches assigned to a region ranged from four (Hokkaido) to twenty-two (Kanto). Supervisors at the local branch offices were responsible for daily communication and coordination with store owners and managers and provided and important feedback loop to upper-management.

![Diagram of organizational structure]

**Training**

Spreading the new model across the Lawson network with around 9,000 stores, 5,000 employees and 250,000 store staff required a new breed of leader at all level of the company from supervisor to executive. Fifteen leaders, made up of both old and new executives brought in from the outside were chosen to participate in “boot camps” where Niinami shared his vision and ideas asked them to think about Lawson’s competitive strategy for the next 2-3 years. This was the birth of “Lawson University”, a corporate wide program developing self-sufficient leaders. Existing training programs tended focus on operational skills for store managers and supervisors but Lawson University highlighted leadership development and strategic thinking. By 2011 leadership programs had grown to include franchise owners and crews.

**Philosophy**

Lastly, to be better aligned with the idea that Lawson contributes to local communities, the company changed the corporate philosophy into “Happiness and Harmony in our Community” which stressed the importance of front-line management and serving the customer. In order to permeate this notion to all ranks several initiatives were started: “Lawson Seminar” which takes place once a year in eight locations across Japan, serves as one of the most important lines of communication between the headquarters, franchise owners and crews. In these seminars Niinami explains corporate strategies, core merchandising to franchise owners, and participants can ask questions to Lawson’s management. At the

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4 As of April 1, 2012, Kanto has separated into north and south with 9 and 14 branches respectively.
regional level, “Shisha Seminar” (twice a year) and “Shiten Seminar” (monthly or every other month) are held. Furthermore, weekly management meetings between Niinami and regional general managers and between regional general managers and branch managers are held. As a result, communication evolved from unilateral to bilateral and fostered a deeper understanding of the corporate philosophy across the company.

**Successes and challenges of the organizational change**

In the five years prior to Niinami’s arrival, operating revenues (commissions from franchise stores and sales from company operated stores) had decreased 15.7% while the number of stores increased 17.0%. Operating profit was stagnant over the same period. The numbers slowly turned and from FY2002-2010 (ending Feb 2011) revenue increased by 1.7 times and operating profit by 1.6 times. Even as the world markets plummeted during the financial crisis in 2008, Lawson showed its staying power. From March 2008 to February 2011 Lawson’s return to shareholders grew while Japan’s GDP was stagnant, its population shrank, and major competitors and the Tokyo Stock Exchange had negative returns⁶.

Upon reflection of the change a manager stated, “In daily conversation, we came to hear managers asking subordinates ‘what do you think you should do?’ and ‘what do you want to do?’ more often than before.” Slowly supervisors became more empowered and built stronger relationships with the franchise owners who had historically only been on the receiving end of company directives. Under the new company philosophy, Lawson recognized that owners were closest to the customers and as such understood the needs of customers the most. A franchise owner who’s been running Lawson stores for more than a decade said, “Every supervisor became an active listener to my requests.”

The change also drove more positive feedback and personal development. As leaders became more positive and proactive in their management style, subordinates became more motivated to build their career in Lawson. A manager who joined Lawson as his first company said that he had a role model he aspired to be like.

The feedback from store owners and heightened regional authority allowed for more flexible and faster turnover of product lines. Locally sourced merchandise helped strengthen relationships with local suppliers and the mix shifted to 70% nationally sourced by headquarters and 30% sourced locally by regional and branch offices. In addition to local marketing, Lawson also started to target newer demographics. Store models that solely targeted middle aged men brached out to offerings for elderly

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⁶ Annual Reports
and female customers to meet the changing socio-economic trends. The result was a closer connection to the customer base and greater recognition as a neighborhood store for everything.

Although the transformation called for more individual decision-making, many support processes went through consolidation and integration. The call for enhanced customer management also required streamlining of the supply chain and closed-loop connection between stores and product development. This need led to the development of the PRISM analytics and replenishment system and proliferation of Ponta loyalty cards. This improved Lawson’s ability to identify customer needs and purchasing patterns and act accordingly. Furthermore, Lawson was able to leverage capabilities and competencies from the Mitsubishi Corporation to better manage procurement processes.

There were, however, challenges in the course of organizational change. Not all managers and employees could accept and function within the new culture. A long time Lawson executive described the situation, “There were managers who mismanaged empowering subordinates by just delegating without taking enough responsibility.” Additionally, shifting corporate functions to regional branches led to resistance from people in the headquarters who used to have 100% control over now decentralized functions. These growing pains were natural in the transformation of any company and Niinami and his team kept moving forward.

Part 2: Emergency Preparedness

Great Hanshin-Awaji Earthquake

During the Hanshin-Awaji Earthquake, among 343 Lawson stores in Hyogo prefecture, 272 stores were damaged and 21 stores were closed. Because of the Daiei influenced top-down culture at the time, Lawson quickly coordinated the recovery effort from the headquarters.

There had been emergency manuals but they were not in-depth enough to effectively respond to the disaster, and as a result ad-hoc decision making was pervasive. Mr. Nakauchi himself rushed into the devastated areas three days after the earthquake and spearheaded the disaster recovery effort. He quickly decided to send 360 staff from Tokyo and Fukuoka to the damaged area but once they arrived they found themselves without directions or guidance. Luckily, although the number of affected stores was vast, the impact area of the quake was relatively limited. Nearby distribution centers and vendors could cover for lost production and Lawson was able to quickly re-establish operations.

Manuals and emergency drills

Following the recovery, Lawson conducted a thorough revision of its emergency response manual and pushed to raise the level of preparedness. It instituted the practice of conducting two companywide emergency drills a year; one on September 1st (the date of Great Kanto Earthquake) and the other on January 17th (the date of Hanshin Earthquake). Coordinated by the compliance and risk management

7 http://homepage2.nifty.com/quake/shiryou/shiryou34.html
8 http://cafesta.jugem.jp/?eid=1107
9 http://blog.goo.ne.jp/mailtotaro/e/050e7b1269204c2e4fe4a310596ae2f
division, these drills provide a platform to evaluate and revise procedures. Now the emergency manuals cover several possible scenarios and include details articulating who is responsible for initial actions at each function and level in the company.

After the regional office system was implemented in 2003, the vice head of each regional branch was designated as the leader in risk and compliance management and directly responsible for coordination with the risk and compliance office at headquarters. In order to better reflect different possible emergency scenarios each region faces, each region comes up with emergency drill scenarios under coordination with the headquarters. As the system has developed through the years, it has become more and more important for headquarters and regional branches to communicate well and develop mutual trust so that they can respond effectively and efficiently to any situation. The 2007 Niigata earthquake was one of the early tests of the new emergency preparedness program. Relief and recovery efforts went smoothly as power was out for only two days and only six stores were damaged. Nonetheless, new lessons for dealing with rural areas rerouting goods were incorporated into the manual.\(^\text{10}\)

Part 3: The Great Tohoku Earthquake

The first day

Within five minutes of the initial quake, emergency command centers in both Tokyo and Tohoku had been set up and Niinami’s Chief Compliance Officer, Manabu Asano, was in charge of coordinating relief activities. Per the manual, this was automatic procedure for any earthquake above M6.0. Members at both centers had already started to determine the safety of owners and employees as well as the status of distribution centers and supply lines that served the 913 stores in Tohoku and Ibaraki. But from the start response teams were at a disadvantage. With electricity and communication lines down, the emergency response system employees had been trained to use to check in was unavailable. Furthermore, the computer system that connected all stores showed there was no signal from nearly 90% of the stores in the region.\(^\text{11}\)

Another complication was that the regional general manager in Tohoku, Hisashi Yasuhira, was not at the Tohoku Regional Branch Office. A 30 year veteran of Lawson management, Yasuhira had deep knowledge of all aspects of store operations and had been a pivotal leader in the recovery efforts after the Hanshin and Niigata earthquakes. In fact, he was considered one of the most experienced of all managers in disaster response. If there was anyone Niinami would want to lead the efforts, it was

<table>
<thead>
<tr>
<th>Location</th>
<th>Number of Stores</th>
</tr>
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<tbody>
<tr>
<td>Aomori pref.</td>
<td>171</td>
</tr>
<tr>
<td>Akita pref.</td>
<td>154</td>
</tr>
<tr>
<td>Iwate pref.</td>
<td>161</td>
</tr>
<tr>
<td>Yamagata pref.</td>
<td>61</td>
</tr>
<tr>
<td>Miyagi pref.</td>
<td>165</td>
</tr>
<tr>
<td>Fukushima pref.</td>
<td>96</td>
</tr>
<tr>
<td>Ibaraki pref.</td>
<td>105</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>913</strong></td>
</tr>
</tbody>
</table>

\(^\text{10}\) Interviews
\(^\text{11}\) http://www.lawson.co.jp/campaign/static/shinsaitaiou/index.html

Source: Lawson Press releases.
Yasuhira. But at the time of the earthquake Yasuhira and his senior managers were at a strategy meeting at the Akita local office and only a skeleton crew remained at the regional office. None of the emergency drills had prepared Lawson for this magnitude of devastation, not to mention three disasters happening at the same time and the regional office being leaderless. Nonetheless, Niinami quickly established ground rules.

**First decisions**

1) **Prioritize Tohoku relief and restoration efforts over Kanto even though Kanto had less damage, served more customers, and was geographically closer to functional areas of the country.** It would have been a logistically easier solution to stabilize the Kanto region, allow some of the disarray in the Tohoku region to die down, and then focus on rebuilding Tohoku, but from day one it was clear that serving the customers who were experiencing unimaginable strife and hardship was a far greater priority. At the risk of lost sales in its largest revenue base in Kanto, goods were re-routed from western Japan, bypassed Tokyo, and sent northward. As explained by Niinami:

> “I took the executive decision to send supplies from Tokyo to Tohoku; this action brought a shortage of inventory to Tokyo causing complaints from customers there. I still believe that decision was correct though we lost some sales in the Tokyo area.”

2) **Let Yasuhira and his people determine what they need and headquarters must be ready to support.**

> “I delegated additional authority to the regional general manager in Tohoku. This kind of chain wants to control from Tokyo, but the Tokyo people don’t know what’s happening in detail. So, I told him, ‘You just do whatever you want. Do not consider costs. You just talk to the Tokyo people to get support. The Tokyo head office will become the support center for Tohoku regional headquarters.”

3) **Separate “disaster relief & restoration” and “every day business”.** Niinami knew that his people in the Tokyo headquarters would have a difficult time separating the two and did not want people working on the respective aspects of the company to have their attention divided. To physically and mentally separate them, he delegated command of the everyday operations to the Kinki Regional Headquarters in western Japan and put his COO, Genichi Tamatsuka, in charge.

4) **Do everything in the company’s power. Don’t worry about the cost.** In the initial hours of the restoration, managers had made progress but at the same time were limited by their perception of what was “feasible” or “reasonable”. Niinami raised the bar by clarifying his position on feasibility.

> “Do whatever it takes. No matter what the cost.” This mandate proved powerful in mobilizing the company’s response time and activities and at the same time showed Niinami’s trust in the

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13 Niinami @ Japan Society: http://www.japansociety.org/lawsons_business_strategy__response_to_the_quake

empowered organization that had been created over the past decade. He trusted them to do what was right, but not be irresponsible about it\textsuperscript{15}.

**Yasuhira returns**

When Yasuhira returned to the Tohoku Regional Headquarters in Sendai at around 3pm on March 12\textsuperscript{th}, his staff continued to carry out their two top priorities: 1) Confirm the safety and whereabouts of Lawson owners and employees 2) Ascertain the physical status of stores, vendors and distributors.

**People**

With power and phone lines down, it took three days to confirm the whereabouts of owners and staff. In a dark office lit by lanterns, reports were tallied on a white board as they came in by text message, phone or runners sent to the field. As of April 14, 2011, a little over one month after the quake, the tally stood at 2 owners, 2 managers and 6 staff members dead with 2 owners, 3 managers and 38 staff missing. Many of the stores in the region were mom & pop shops and some owner/manager teams were husbands and wives. The earthquake and tsunami had not only wiped out their businesses but it had taken their families as well\textsuperscript{16}.

**Stores**

Initial reports suggested that over 40\% of the stores in the region were non-operational with Iwate and Miyagi prefectures the hardest hit (99.4\% and 72.1\% stores closed respectively). 20 stores had to be permanently closed due to excessive damage and numerous others faced power outages, stock outages or structural outages. Seven stores were inside the 20km mandatory evacuation zone around Fukushima Daiichi and one other within the 30km recommended evacuation radius. Many of the stores that could open were unable to sustain Lawson’s normal 24-hr practice and instead had enough merchandise for a handful of hours\textsuperscript{17}.

**Vendors & distribution centers**

All vendors and distribution centers in the region were non-operational with at least one vendor in Miyagi prefecture and one dry distribution center (DDC) serving the southern part of the region taking on extensive damage. Many locations were able to re-start within a week but were without ample merchandise. Reasons for stoppage included power outages, tsunami related damage, damaged

\textsuperscript{15} Interviews with Yoshida & Asano.
\textsuperscript{16} Lawson Press Releases
\textsuperscript{17} Lawson Press Releases
merchandise, and shortage of goods. In the Kanto area, one major bento and onigiri vendor in Chiba Prefecture was closed due to mud and sludge brought on by the tsunami. 

### Status of Vendors and Distribution Centers in Tohoku and Kanto

#### Tohoku Vendor

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<tr>
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<tbody>
<tr>
<td>Aomori</td>
<td>x</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
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<tr>
<td>Akita</td>
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<td>o</td>
<td>o</td>
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<tr>
<td>Iwate</td>
<td>x</td>
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<td>o</td>
<td>o</td>
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<tr>
<td>Miyagi</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>Δ (red)</td>
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<tr>
<td>Fukushima</td>
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<td>x</td>
<td>x</td>
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#### Distribution

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<td>Aomori</td>
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<td>Akita</td>
<td>x</td>
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<tr>
<td>Miyagi</td>
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<td>x</td>
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<td>o</td>
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<td>Yamagata</td>
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<td>o</td>
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<tr>
<td>Fukushima</td>
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<td>x</td>
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<table>
<thead>
<tr>
<th>DDC</th>
<th>3/11</th>
<th>3/23</th>
<th>Late April (est)</th>
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<tbody>
<tr>
<td>Kita (Iwate)</td>
<td>x</td>
<td>o</td>
<td>o</td>
</tr>
<tr>
<td>Minami (Miyagi)</td>
<td>x</td>
<td>x</td>
<td>Δ (red)</td>
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<tr>
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<td>Iwate</td>
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<tr>
<td>Miyagi</td>
<td>x</td>
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<td>o</td>
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</table>

#### Kanto Vendor

- **Bento/Onigiri**
  - 3/11/2011 1 (Funahashi) of 5 factories closed.
  - 4/4/2011 Chiba operational

#### Distribution

<table>
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<tr>
<th>CDC</th>
<th>3/11/2011</th>
<th>10 centers, no disruption</th>
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<tbody>
<tr>
<td></td>
<td>3/12/2011</td>
<td>Both operational</td>
</tr>
<tr>
<td>FD</td>
<td>3/11/2011</td>
<td>6 centers, no disruption</td>
</tr>
</tbody>
</table>


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18 Lawson Press Releases
Execution
Sending staff to Tohoku

In the first two weeks, four groups of support staff from Tokyo were sent to Tohoku. Starting with seven on March 12, three other groups of 30-34 members were sent a couple days after each other. Unlike the Great Hanshin earthquake where a deluge of staff was sent into the area, these groups were broken into small disbursements with specific tasks assigned to them such as store structure evaluation, re-opening stores, or damage evaluation. Headquarters also waited for Yasuhira and his team in the regional branch office to evaluate and determine the resources that they needed. Even then it was difficult to find food and lodging for the new people entering the area but more manageable than had headquarters sent everyone at once.19

Onigiri through the night

With a shortage of fresh merchandise coming in from the vendors and distribution centers, managers and supervisors put it upon themselves to procure rice and other foods that could be used to make fresh dishes to sell. They contacted farmers and local merchants who had reserves and drew upon their own local supply chain. Fortunately, some stores were equipped to make “onigiri” (rice balls), a staple of the Japanese diet. Although in-store cooking of fresh goods was not commonplace at Lawson, resources were moved to support this function until formal supply chains could be re-established. One store that originally had a capacity of 300 onigiri per day, saw a dramatic increase to 1000 per day. Prior to 3/11, handmade onigiri sales made up only 30% of total onigiri sales in the region. This went up to 100% in the days just after the earthquake and equalized to 50% by the end of the month. Management realized the importance of having in-store capability to make fresh dishes and become less dependent on outside vendors. This became a company policy and considerations have been made to extend in-store capabilities for other fresh products such as bento lunch boxes.20

Merchandise allocation

Since the IT system used for ordering and distribution was down in many of the Tohoku stores, procurement and allocation of goods was based on communication and feel. This was complicated by the constantly changing picture and the lag time between requests by the Tohoku regional branch office to fulfillment by headquarters. Many of the items and quantities that were initially requested were no longer needed by the time they arrived in Tohoku. As Yasuhira explained, “Early on we needed water so HQ went to procure water, but two to three days later they’d still be working on water while customers started wanting soda or chocolate. The needs of the customer started changing and support from HQ became out of sync.” This proved to be troublesome for the logistics and supply chain managers in the headquarters who were working with suppliers and other regional managers to fulfill Tohoku’s needs. As a company that had built its supply chain around an automated IT system linking stores and distribution centers, working without a precise understanding of demand and capacity proved to be taxing. According to Hajime Nakai, Senior Vice President of Merchandizing and Logistics, “Headquarters is the

19 Interviews
20 Interviews
only one who knows the whole situation in terms of supplier and distribution status, capacities and how
to best reallocate goods...It was difficult to collect information from all the necessary places to make
decisions. There was confusion everywhere and all kinds of information would come in. Yesterday’s info
and today’s would always be different."

The oil puzzle

Looming over all these activities was the scarcity of oil. Petroleum products from kerosene to diesel
were used in all aspects of the supply chain including running machinery at factories, cooking oil for
bentos and gasoline used by both employees and customers. It was clear that if this shortage was not
solved, all efforts would be a waste. Initially, the distribution department had been in charge of
procuring extra stores of oil however when little headway was made, Niinami turned to Senior Vice
President Norikazu Nishiguchi, Head of the Business Process Re-engineering Office and a trusted go-to
man for special tasks. According to Nishiguchi, “When I took over, there wasn’t a clear idea of daily
demand or current inventory. We had to start from scratch to understand how much we needed to find.
We were also missing info on the best routes or alternatives available to us. Moreover, we needed to
compete with the government because they also started securing gasoline for their actions. But
assistance from the personal network became less forthcoming as the government strengthened the
control over the gasoline supply. Also, since Lawson isn’t a gas company, we had to learn and create
procedures for procuring and transporting on the fly."

Pulling on all levers from his days in store development and various projects involving supply chain
management and business improvement, Nishiguchi and his team procured oil and gasoline but a
second obstacle remained; there was no way to transport it to Tohoku and they were not well versed in
the regulations regarding transport of petroleum based products. It was an owner, Tatsuya Mori, in
Kyoto in western Japan that rose to the challenge. As an owner of both a Lawson and a gas station, Mori
owned a tank lorry and personally volunteered to transport kerosene to Tohoku via Tokyo. When asked
about his reason for volunteering, Mori stated, “When the Hanshin earthquake happened, owners from
across the country helped. I wanted to give something back.” In the meantime, Tohoku owners and
regional staff scoured local gas stations and other possible sources of gasoline, kerosene and diesel to
keep operations going until supply lines were established.

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21 Interviews
23 Interviews
**Disaster drives innovation**

In the heat of the moment, the Tohoku Regional Branch Office established two new means of getting goods to affected areas where stores couldn’t immediately re-open due to damage or accessibility. In mid-April, Lawson launched “Mobile-Lawson”, a mobile food truck that could travel to some of the hardest hit areas and deliver fresh food and other popular goods. Later that month, Lawson created temporary stores using old warehouses, factories or portable offices. In this way, towns where other retailers were slow to re-open or Self-Defense Force (Japan’s military) aid couldn’t reach were able to have fresh goods from Lawson. In the end, five temp stores popped up around the Tohoku area including one in Rikuzentakada City, a city where six stores had been destroyed by the tsunami.24

**The will of the owner**

With over 80% of the stores run by franchise owners, Lawson relied on the will of the owner to get operations back on track. One owner, Yoshishige Matsuda, who had lost one store of the coast of Miyagi Prefecture to the tsunami, continued to open his second store just a couple miles away although he had no merchandise or electricity. In the daytime he would greet customers in his normal way and apologize for having nothing to sell. At night, he would use the headlights of his car to light up the store. Another owner, Etsuko Kato, who lost her home and mother to the tsunami, was staying in one of the refugee centers set up by the government. When the area supervisor came to visit her to persuade her to stay at one of the hotels Lawson had arranged for owners and employees, she refused to leave her staff. Instead, rather than retreat and wallow through all her losses, she decided to reopen. She was determined to bring back a degree of normality to her life and the lives of her customers. A little over a week after the earthquake and tsunami had changed their lives, she and other owners with stores in Iwaki and Soma, two areas near Fukushima Daiichi living with the constant fear of radiation, reopened 13 stores and brought a little comfort back to the community.

While corporate employees at the Tokyo headquarters and Tohoku regional branch office and all the local branch offices were working hard to get the behind the scenes work back in place, it was will of the owners and their dedication to their communities that pushed Lawson to towards swiftly bringing service back to their customers. To support the owners, Lawson started such initiatives such as taking the loss of store merchandise as a corporate loss, finding hotel accommodations for owners, providing daily stipends for owners who had lost their stores and finding temporary positions at other stores until stores could be re-opened or rebuilt.

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24 “Sore zore no 3.11”
Don’t let nuclear worries stop us

Due to the radiation fears around the Fukushima Daiichi Nuclear Power Plant, there was a shortage of goods into the area including places outside the evacuation zones. Many local stores of all sorts were unable to remain open and inhabitants started to leave. This deepened Lawson’s commitment to owners like Kato to get stores in Iwaki and Soma re-opened and fully stocked and to reverse the exodus. However, this was easier said than done. There was already a lot of pressure to re-vitalize more populated areas in Tohoku and to divert attention to these two coastal towns would make the workload even heavier. Furthermore, there was a lack of drivers willing to make deliveries to the area. Niinami took it upon himself to call upon his contacts and convince them to make daily deliveries. “I will go with you guys,” he said. “How does that sound? We need your skill to drive trucks.” Soon thereafter, Lawson was able to get goods to the region and reopen stores and keep the community alive.

The Results
Recover faster than the others

As a result of Lawson’s efforts, store operations jumped from 57.4% to 84.7% within four days after the earthquake. Other chains such as FamilyMart, the third largest chain, had a slower start to recovery as their CEO was away from the headquarters at the time of the quake and the company didn’t have the same level of preparedness or automatic deployment of recovery teams. In many areas, Lawson displayed quicker response times. At the Sendai port, a tsunami stricken area densely populated with multiple chains, Lawson reopened stores in mid-April whereas other chains such as Daily Yamazaki and FamilyMart re-opened in June and July respectively. In Minamisanriku, an area that was completely devastated by tsunamis, Lawson was able to set up a temporary store in mid-May whereas competitors set up similar temporary stores much later in August. Lawson’s edge by having strong leadership on the

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25 http://www.japansociety.org/lawsons_business_strategy__response_to_the_quake
ground coupled with a fast and flexible supply chain, gave it the tools it needed to identify and execute actions to meet customer needs faster than the rest.\(^{26}\)

Relief goods

On top of store recovery, Lawson quickly mobilized to distribute relief supplies including food and other necessities such as masks, batteries and blankets. Within one day of the earthquake, they mobilized distributors and relied on their relationship with the government to negotiate with the Japanese Self-Defense Force, and later Japan Airlines, to airlift goods in to Tohoku. During the first week after the

\(^{26}\) Interviews.
earthquake, Lawson made seven deliveries to the area with goods totaling 85,000 rice balls, 55,000 breads & rolls, 5,760 2-L bottles of water and 40,000 cup noodles.

**Financials**

Lawson’s speed in recovery and reaching customers showed in its first quarter numbers. In the first quarter of fiscal 2011 (March 1 – May 31, 2011), operating revenues increased 5.1% and operating income increased 16.9% compared to the same period in 2010. The Tohoku region, after a lackluster March and April, rebounded to 15-20% higher store sales compared to 2010. Net income for the company however decreased ¥6,064 million and Lawson reported a consolidated loss of ¥1,983 million. Much of this was due to a loss of ¥2,841 million, which included losses from activities to support earthquake and tsunami affected stores and store closures as well as extraordinary loss of ¥8,292 million as a result asset retirement. Part of the increase in revenue and operating margin was due in part to panic buying and a rush to build emergency supplies but some sustainable brand equity was built as Lawson rose to third place (first place among convenience stores) in a brand name recognition survey a couple months after the earthquake.

**Looking back**

Lawson’s speed and flexibility to respond to the earthquake and tsunami showed the leadership and decision making culture that had evolved over nearly a decade. Leaders on the ground were more self-sufficient and didn’t need to wait for headquarters to issue orders. Another benefit was the real life experience Lawson leadership had built after experiencing the Hanshin and Niigata earthquakes. As one executive put it, “Hanshin and Tohoku were completely different, but a disaster is a disaster. We knew what the most critical steps were.” Furthermore, the more partner-like relationships with franchise owners and the ability to understand and meet customer needs meant owners trusted Lawson to act quickly to help owners get their businesses back on track. Looking back, however, management still saw opportunities to improve the company’s ability to respond to emergencies.

First of all, during the organizational transformation, the supply chain was transformed as well. Many of the sources, suppliers, distribution centers and routes were streamlined and a majority of them were located on the pacific coast of Japan. From a risk point of view, further diversification of the supply chain to less earthquake prone areas would need to be considered, even at the expense of adding cost and complexity to the supply chain.

Next, the vertical chain of command and communication “headquarters → regional branch offices → local branch offices → supervisors → owners” worked effectively to revive operations however other horizontal functions such as distribution and logistics weren’t as smooth. This was evident in the difficulty getting a handle on the oil situation and dealing with the quickly changing flow of information. Lawson University and management training programs worked to develop self-sufficient line management but how about support functions?

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27 Lawson press releases.
28 tanshin_h24q1, p3. Flash Report, July 5, 2011
Lastly, Lawson’s emergency manual and drills paid dividends as everyone knew their roles and performed them well. However, it was also clear there were many factors and scenarios they weren’t prepared for. The compliance and risk department responsible for the emergency manual decided it’d be necessary for each region to come up with scenarios indicative of specific geographic locations across Japan. Logistics and distribution also decided to build more in depth contingency plans for loss of operations in different areas of the country as well as severity of damage.

**Back to the Company’s Philosophy**

*Serve the owners. Serve the customer.*

Lawson saw itself as a valuable lifeline to the community. Where direct competitors, other retailers and the government were slow to act, it was compelled to restore services to the affected customers and return a modicum of normalcy.

As stated in their first quarter report, “In this operating environment, [Lawson] focused on achieving a speedy recovery of the product supply system in the disaster-affected areas by maximizing its strengths as a chain store operator with a nationwide network while aiming to realize its corporate philosophy of ‘Happiness and Harmony in Our Community’. As a result, customers in the affected areas praised our efforts to maintain store operations, recognizing our stores as ‘social infrastructure’ that provided neighborhoods with essential items.”

In a speech given in New York in May 2011, Niinami stated, “I believe corporations should assume social responsibility based on their core business. We didn’t sell for free. But opening our stores 24 hours brought a lot of comfort and safety to the people. That’s core business.”

**Part 4: Reflections**

Upon reflection of our experience in Tohoku, it was clear that Lawson employees took great pride in what they had accomplished. While driving around the Tohoku area and looking at the debris and destruction still left behind nine months after the quake, it was difficult to imagine how they were able to accomplish anything. Wreckage of former stores still stands as a reminder of the destructive power nature. Temporary stores are still in operation as communities try to rebuild their lives.

In the early days, completely disoriented, without electricity, without phones, with rumors of a nuclear meltdown, they were able to focus on their roles and the procedures outlined in the emergency manual. Yasuhira was clearly the right man for the job as many of this subordinates commented on his calm demeanor throughout the initial hardship. He himself had two main policies: Keep looking forward and no negativity. Perhaps this was a reflection of pervious earthquakes he’d experienced, or perhaps it was a piece of Lawson’s culture, or perhaps it was just in his character. Regardless, all these traits were needed to keep his team moving forward against a seemingly insurmountable task.

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29 tanshin_h24q1, p5. Flash Report, July 5, 2011
30 Niinami @ Japan Society, June 2, 2011
Through this ordeal we were able to observe the power of motivating all levels of the organization to be the leader. At the same time we saw that to change a culture, it has to begin at the top. Takeshi Niinami held his leadership to a higher bar and expected them to think for themselves. Not only did he preach this behavior, but he set up the infrastructure and opportunities for his team to shine. Most importantly he exhibited the very qualities he demanded of his employees. Should he leave the company, it will be interesting to see if Lawson’s culture really has taken on a will of itself or if it’s just an extension of Niinami’s own personality. Lawson’s conduct in the days following the quake might give us a hint.

Lawson’s ability to deal with disaster was not borne on March 11th as a trial by fire. It evolved over fifteen years of fine tuning emergency procedures. It came from nearly a decade of training leaders, managers, supervisors and owners to be mini-CEOs; to evaluate the situation and make the right decision. It came from a command change that focused on trust and communication in both directions. And above all it came from the belief that Lawson serves as an important lifeline of the community.

“We are what we repeatedly do. Excellence, then, is not an act, but a habit.”

- Aristotle