

# Special Feature –Employee Roundtable Discussion–



Business Development Department  
Tetsuhiro Uesugi

Sanda Sales Office  
Yoshiharu Nioka

Kansai Division IV, Hitachi Transport System West Japan  
Atsushi Watanabe

Business Planning Department  
Yusuke Kiritoshi

## “Present” and “Future” of the HTS Group’s “Gemba” Power

“Gemba” Power is one of the sources of the Group’s value creation and strengths.

In order for the employees working at the front line to move toward “Our Future,” what kind of motivation should they have and issues should they recognize?

For this report, we held a discussion with key members of the project to launch Kansai II Medical DC (Sanda City, Hyogo Prefecture) which started operation in 2018 with a number of new technologies and the GDP certification\* which has a growing need in the pharmaceutical logistics that we cannot stop as our social mission.

\* GDP (Good Distribution Practice): “Appropriate distribution standard for medical supply” to ensure strict quality control to prevent quality deterioration during transportation and storage.



Kansai II Medical DC  
(Operation started in February 2018)

### Attendees in the discussion

Manager, Sanda Sales Office,  
Kansai Division,  
Nishinippon Area  
Headquarters

**Yoshiharu Nioka**

Manager, Kansai Division IV,  
Kansai Area Headquarters,  
Hitachi Transport System  
West Japan

**Atsushi Watanabe**

Manager, Business  
Development Department,  
Nishinippon Area  
Headquarters

**Tetsuhiro Uesugi**

Senior Engineer, Business  
Planning Department,  
Nishinippon Area  
Management Headquarters

**Yusuke Kiritoshi**

Senior Engineer, Logistics  
Technology Department, Logistics  
Solution Business Development  
Headquarters, Business  
Management Headquarters

**Takaaki Konno**

Senior Engineer, Smart Logistics  
Development Department,  
Logistics Solution Business  
Development Headquarters,  
Business Management  
Headquarters

**Shohei Kaeriyama**

Manager, GDP Management  
Group, Business Management  
Headquarters

**Torao Kawaguchi**

\*Names of organizations and positions are as of the date of the discussion

**Kansai II Medical DC (“the DC”)** has been operating stably since it started operation by a vertical startup in 2018. Please tell us how each of you were involved in the launch of the DC, along with your current duties.

**■ Kawaguchi:** I was in charge of quality control of pharmaceutical logistics and other practical work at Maishima Sales Office in Osaka for about 10 years. I joined the GDP Promotion Team in 2017, and I’ve been working exclusively on GDP ever since. In the launch of the DC, I was mainly in charge of responding to the GDP inspection by foreign pharmaceutical manufacturers.

**■ Kaeriyama:** I was in the Logistics Technology Department and in charge of introducing automated forklifts. Now, I’m in the Smart Logistics Development Department and promoting the implementation of new technologies into the logistics sites in collaboration with external collaborative innovation partners.

**■ Konno:** At that time, I was in the Business Planning Department and worked on the business plan of the DC. After the project started, as a member of the Logistics Technology Department, I worked on the introduction of the Company’s first rotary piece sorters and the warehouse design and engineering, etc. for domestic generic drug manufacturers. Currently, I’m in the Logistics Technology Department and in charge of warehouse design and engineering, launch, follow-up, and introduction of new technologies, etc. for new projects.

**■ Kiritoshi:** Like Mr. Konno, I was in the Business Planning Department and worked on the overall process of the project from the proposal of the DC through the launch of operations. I was mainly involved in designing the buildings and facilities of the DC and in charge of temperature mapping and air conditioning system for the storage of medical supplies.

**■ Uesugi:** I was in the Business Development Department and in charge of negotiations with customers over the contracts and prices.

**■ Nioka:** I was a site manager and in charge of coordinating the overall launch project. Although I had worked with customers in retail industry for a long time since I joined HTS, I was new to the pharmaceutical industry where quality control is particularly strict, so I studied quality control for medical supplies and worked with other members toward the launch of the DC. I’m still working as Manager of the DC.

**■ Watanabe:** I am an employee of HTS’s group company, Hitachi Transport System West Japan, joined the project team about a year before the launch and worked as Manager for about a year after the launch. I mainly worked on preparing the environment for on-site operations and recruiting employees.



Logistics Technology Department  
Takaaki Konno



Smart Logistics Development Department  
Shohei Kaeriyama



GDP Management Group  
Torao Kawaguchi

Please tell us about the background of launching the DC and what you kept in mind when identifying customer needs.

**■ Nioka:** In the western Japan area, Maishima Sales Office and Kita-Osaka Sales Office in Osaka Prefecture had been functioning as medical DCs. And when they reached their full capacity, customers requested to increase capacity, and there was also an increasing need for pharmaceutical distribution management conforming to GDP. HTS also had its own plan to build a new logistics center in an inland location with a view to maintaining and increasing pharmaceutical customers and enhancing BCP.

**■ Kawaguchi:** In terms of GDP, we had to carefully identify customers’ demands. So, we conducted a survey in an effort to identify the details of the demands on the “tangible aspects (e.g. facilities)” and “intangible aspects (e.g. quality)” of GDP and find out what was best for the customers including “whether we should move them to a new center” or “whether we should continue to provide services at the existing sales office.” As a result, we concluded that it was best to build a new center to further improve customer satisfaction and maintain and expand transactions.

The DC started operations after relatively short preparation period of ten months from the start of the project. Please tell us “what you found most challenging” and “what you focused on most” during that period.

**■ Nioka:** When the project first started, there were only two dedicated members including me, and as we spent time to examine introduction of new technologies and “visualization” with digitalization, other tasks did not make much progress. In addition, because the project involved a transfer from existing sales offices (Maishima and Kita-Osaka) and customers and our members needed to work on both the existing operations and the project at the same time, it was hard to arrange meetings for the new center. Sometimes, we even had to meet on weekends. Moreover, since the center’s location was far away from the urban area, we had a hard time developing a distribution network. We transferred operations of each customer with a cycle of “prepare,” “transfer,” and “stabilize operation,” and April 2018 turned out to be an extremely busy month because we transferred three customers’ operations to new DC at the same time. I think we were able to get through such hard work because of the strong motivation of all members thinking that “if we are going to do it, we want to do it excellently,” along with the generous supports from the Group.

**Watanabe:** What I focused on most was to introduce a new technology, rotary piece sorters. When I introduced such new technologies in the past, it was quite difficult to achieve the productivity target. So, I had a strong determination to achieve the target this time and carefully prepared with the help of other members. Although there was a little confusion at first, it is now operating smoothly and has achieved the productivity target.

**Uesugi:** I was a sales representative and in charge of coordinating various matters with customers and drew up a carefully thought-out plan to transfer customers' operations in the short term. But because a customer also requested measures against troubles such as delay in the transfer process, we re-developed another transfer plan along with a backup plan, which were presented to and approved by the customer. That was the most challenging part.

**Kiritoshi:** As for me, when designing the buildings and facilities of a GDP-compliant center, we acquired insights and know-how by studying in-house cases as well as using external expert knowledge and network, shared a rough draft of specifications with the sales team and customers and repeated sincere exchange of opinions to brush it up. That's what I remember most.

**Konno:** I placed the highest priority on "creating a culture" in the DC. The Company has a good tradition that the founding members of each site create the culture. "Quality is vital" in pharmaceutical logistics, and even a scratch on the box could make customers raise concern about contamination. Accordingly, our task was how to embed cardinal rules such as "handle products as carefully as possible" and "never make a shipping error" in every single worker's mind as the DC's culture. Human resources development was especially important for this project as we had to demonstrate the same level of performance as the existing center from the very first day of operation. So, we sent workers to the existing center about a month and a half before the operation started to take a two-week training while actually experiencing the pharmaceutical logistics in terms of level of quality and operation, productivity and speed, followed by careful



Part of this discussion was held online in order to prevent the spread of the COVID-19 (held on June 10, 2020).

education for a month at the DC. As a result, I believe we were able to start the operation of the DC without any major troubles. We were also able to make an "achievement" of dealing with a failure of the rotary piece sorters on the first day with our additional staff assigned to prepare for an emergency. I believe such response capability is one of our "Gemba" Power that the Company has accumulated over the years.

**Kaeriyama:** I was in charge of introducing automated forklifts and faced mainly two challenges. Firstly, automated forklifts were already widely used in factories, etc. but not in large-scale logistics warehouses like the DC. So, it was the first challenge for us and material handling equipment manufacturers. The adjustment work was especially difficult. For example, if the warehouse has 3,000 units of storage space, we need to input data, such as the height and locations of the shelf, into the automated forklifts for all 3,000 units in advance, and it took us two and a half months to do so. Moreover, because other works were being done at the site during the day, we had to do the advance adjustment work at night by coming to work early evening and going home in the morning.

Secondly, we had to deal with some failures after the operations started. Although we had some adjustment period before the operation started, various failures were identified and it took around a year before the operation became stable. Because someone had to rush over to the DC when a failure occurred even in the midnight, we asked Mr. Niioka several times, and I really appreciate his help. The operation is now stable, but we continue to take every possible means to ensure safe operation. The center operates unmanned during the night, but the area for unmanned operation is clearly separated during the day to prevent a collision accident with workers.

**Kawaguchi:** The hardest part with GDP was responding to customer inspections. Mr. Kiritoshi took care of the "tangible aspects" such as buildings and facilities as a GDP-compliant center. I was in charge of the "intangible aspects" of the DC including operation quality and quality control and received quite a few requests from customers during a few months of the preparation period leading up to the on-site inspection of around two days. In particular, as customers demanded a very high level of SOP\*, we prepared the SOP which incorporates the entire GDP from Chapter 1 through 9 into each process from management to operation and defined it as the DC's rule as well as the Company's internal rule (GDP standard), in order to receive approval from customers. Currently, we are working to apply this SOP to all sales offices and other centers handling medical supplies.

\* SOP: Standard Operating Procedures



Rotary piece sorters introduced for the first time

Fully automated unmanned forklifts

Hand camera used to check work procedures by workers

**Konno:** This project constantly faced a shortage of human resources during the preparation period as we had to work on transfer and launch while maintaining the operations of the existing center. But we managed to follow through to a successful launch, and I believe it is one of the Company's strengths. However, if we do a similar project, integrate the existing centers or consolidate operations related to the existing customers in the future, I hope we will have a well-prepared structure using our experience in this project.

**Labor shortage has been a long-standing issue in our society, and it seems particularly serious in the logistics industry. What kind of creative ideas have you tried in recruiting human resources for the DC?**

**Watanabe:** The DC was to be built in an area where the HTS Group did not have any sites before, so we started the preparation early as we thought we might have difficulty securing human resources. While we surveyed the local employment situation in cooperation with the recruiting team in the administration division, we posted a preliminary notice on the DC on a local media as a "prior notice" before placing an advertisement for job recruitment with an emphasis on the working environment such as a café-style break room with free Wi-Fi. As a result, we received many applications from those in search of jobs as well as those who had a job at that time, and we were able to successfully secure human resources early. Currently, we recruit human resources as needed with no difficulty so far, except for those with specialized skills such as forklift operation. So, we are making various efforts including training the recruit to become a forklift operator.



Break room with free Wi-Fi for employees

**As mentioned in the Message from the President in the Report, the Group has focused on the "visualization" of the "Gemba" Power through digitalization. Please tell us about the "visualization" in the DC.**

**Nioka:** In terms of enhancement of quality control, for

example, we adopt a "weight inspection system" at the volume inspection to "visualize" weight instead of the number of units to prevent errors. Also, we introduced a video search system capable of searching footage from the workers' hand cameras using a keyword such as a product code for the purpose of investigating causes in case of errors. We installed many monitors (digital signage) to share information in places like each site and a break room to repeatedly display the work progress, enlightening messages on safety and quality and precautions. We share the progress of packing operations via the monitor in a loading dock berth to reduce frustration of drivers at not being able to estimate the waiting time. In addition, we repeatedly display detailed and timely contents such as productivity, safety, and COVID-19 preventive measures to enhance employees' awareness.

**How did the various challenges you took on in this project change you or the "mindset" of the site?**

**Nioka:** In terms of changing the mindset to handle medical supplies, providing the introductory education mentioned earlier and recruiting a pharmacist specifically for the education at the DC produced a great effect. I think the systematic education on pharmaceutical affairs including GDP conformity by the pharmacist helped to make every employee involved in operations aware of "how they should handle medical supplies."

**Watanabe:** As for myself, although I have worked at pharmaceutical logistics centers for years, I was new to GDP compliance, and I am sure this new knowledge will be an advantage for my future career. Currently, the Group is working on changing the mindset to further improve our operation quality as the group-wide theme, and I think we were able to start that in the DC ahead of schedule through this project.

**Kiritoshi:** I rarely installed cameras or monitors in buildings and facilities I designed in the past, but using them in this project made me realized that such new initiatives for "visualization" can provide great supports to the sites. I believe I was able to greatly change my mindset in that sense.

**Konno:** I also think it was a good experience for me to consider and introduce various new equipment. I think that rotary piece sorters and automated forklifts as well as a video search system mentioned earlier and smartphone-type handheld scanners will contribute to further enhancement of the mindset and productivity improvements of the sites in the future.

**Kaeriyama:** In introducing automated forklifts, I made sure that I always remembered “for whom I was doing it.” The longer you work in a specialized domain, the more you tend to become short-sighted and swerve from the purpose. This project made me have a clearer sense that “all we do is for the entire operation and employees in the sites.”

**Kawaguchi:** I worked at the site in Maishima Sales Office before joining the project, but my role in this project was to be in charge of GDP and support the sites, which changed my mindset greatly. My previous work tended to be passive as I basically followed customers’ instruction. Now, I’m focusing on spreading awareness of GDP to the sites by proactively encouraging to promote GDP compliance and relevant education.

**Finally, please tell us about your future aspirations.**

**Kawaguchi:** A project to launch a new medical DC is underway, and I believe our experience with Kansai II Medical DC can be useful for the project. As for GDP, I will try to accelerate the implementation of the common SOP across the Group while revising it as necessary, with an aim to maintain and improve quality of pharmaceutical logistics of the entire Group. To that end, I think we need to meet customer needs even more and evolve GDP services.

**Kaeriyama:** As a member of the technology division, I will try to implement new facilities to support the sites as early as possible. Automated forklifts are operating stably in the DC, but there are still issues to be solved before they can be implemented in other sites, so I will work on them one by one.

**Konno:** Rotary piece sorters, which were introduced in the DC for the first time in the Company, are increasing as they are scheduled to be introduced in several other centers, so I will

focus on their stable operations. In the long term, I am hoping to construct a “super labor-saving logistics center” someday and making preparations as I watch for an opportunity. For example, I’m thinking about a super labor-saving site whose operation is fully automated from receiving to storage and shipping. In order to realize it, I will try to expand collaborative innovation with external partners and an ecosystem in addition to our own resources.

**Uesugi:** This project made me feel once again the strength of the Company’s organization power that each team of “site,” “facility,” “GDP,” and “sales” ensures to fulfill their roles. I believe it contributes to realizing our advantage stemming from high logistics quality and low-cost operation. Although the severe business environment including a labor shortage and intensifying competitions is expected to continue, I will work on differentiation through new technologies and the “Gemba” Power. As a GDP-related ministry ordinance is expected to be released in a few years, I intend to use it as a new business opportunity.

**Kiritoshi:** The DC has received the in-house award as a success model. I will draw on this experience to actively propose to build new warehouses and introduce new facilities, under the motto of creating an environment easy for site workers to use and comfortable to work in.

**Watanabe:** The new facility (rotary piece sorters) in the DC has achieved productivity target (saving 10 workers’ labor), but I believe we can do better. I will try to value communication at the sites so that I can make suggestions as a person familiar with the sites when launching new centers in the future.

**Nioka:** As a large investment was made in this project, I will ensure strict budget control to recover the investment. In terms of the initiatives in anticipation of the release of a GDP-related ministry ordinance, I will work on raising the overall level of the sales office to reinforce the structure. When we expand the Company’s pharmaceutical logistics business on a full scale, we will also further enhance human resource development.



Weight inspection system



Digital signage



Monitor placed in loading dock

Independent Director Dialogue

# “History” and “Future” of the Evolution of Governance



Outside Director  
Chair of the Compensation Committee  
Member of the Audit Committee  
**Sayoko Izumoto**

Outside Director  
Chair of the Board of Directors  
Chair of the Nominating Committee  
**Mitsudo Urano**

**Amid drastic change in society and economy, the HTS Group focuses on value creation through “LOGISTEED,” “collaborative innovation,” “expansion of ecosystem,” and “Gemba” Power . How has the underlying corporate governance changed so far and how will it evolve in the future to support sustainable increase of corporate value? Two independent outside directors held a dialogue.**

**Mr. Urano and Ms. Izumoto have served as the Company’s independent outside directors for six years and three years, respectively. What do you think of the characteristics of the Company’s current governance?**

**Urano:** I think it’s easier to understand the characteristics of the Company’s current governance if we learn its history. The Company was established as a logistics subsidiary of Hitachi, Ltd., which still owned more than 50% of sharers when I became outside director in 2014. At that time, it had been over ten years since the Company transitioned to a Company with Committees in pace with Hitachi, Ltd., but the system was not fully functioning. However, as a result of our efforts to drastically change that for the past six years, I believe it is now effectively functioning. For example, based on various opinions from our stakeholders, the Compensation Committee successfully aligned the compensation plan for officers with the level required by the Corporate Governance Code in FY2020. The Nominating Committee also organized the

“Vision” of the Company’s board directors and executive officers and operates a system to objectively evaluate CEO. The Audit Committee inherited the excellent system of the Hitachi Group, which is functioning well.

**Izumoto:** As I concurrently hold a position of outside audit and supervisory board member in other company with an audit and supervisory board, I get the impression that in the Company, being a Company with a Nominating Committee, etc., each of the three Committees is clearly functioning. Resolutions at these Committees would never be altered by the Board of Directors, and each Committee is functioning quite well, ensuring the effectiveness.

**Urano:** On the premise that the three Committees are functioning well, I believe the core of governance lies with the Board of Directors. I’ve been saying at the Board of Directors meetings that “the Company’s growth strategy should aim to satisfy all stakeholders including the capital market.” If we can achieve this, I think we can say, “our governance is effective.” Because the Company was a