

**Developing Japan's first office coffee business.**

***My father taught me "business is done by heart, not by the brain".***



The most advanced coffee machine, referred to as "Rolls Royce".

Office coffee is a popular way to relax during the workday and to help stay awake. Daiohs was the first company in Japan to offer office coffee service, which is also an important method for improving employee satisfaction.

Shinichi Ohkubo, President and CEO of Daiohs, has been developing his business for over 50 years since he started business in 1969, capturing the needs of the times. What he cherished is his father's words saying "business is done by heart, not by the brain."

Ohkubo was born in 1941 as the first-born son of a rice shop in Asakusa, Tokyo. From the time he was in elementary school, he was helping the family business as a successor.

"In those days, it was common for rice merchants to visit regularly, receive request orders, and make deliveries. In our small rice shop, my father delivered rice while hearing customer's requests, and my mother kept the store and milled rice. We had a lot of customers, so usually, there was a call at late night after work saying, "I don't have any rice to eat tomorrow morning, so I need it delivered right away". My father was often drinking at night, so I delivered the rice instead.

His father began working as an apprentice at a rice shop in Asakusa after graduating from elementary school and after a few years, he established a branch of same shop and started working independently. He sent his son to an abacus cram school, saying, "He only needs to learn abacus and bookkeeping, which

are necessary for business," but he never mentioned anything about his studies.

Ohkubo also thought that after graduating from junior high school, he would follow his father's advice and work as an apprentice at a rice shop. As he helped out day in and day out, he began to feel the satisfaction of the business.

He said that "It made me happy to see how happy the customers were when I went out late at night to deliver rice for my father. When I received orders for mochi (rice cakes) for New Year's, they would say, ' Thank you so much for all your help, we will order mochi for all our relatives ' At that time, rice shops had to operate in a controlled economy, but they could take orders for mochi regardless of the area. I feel that I was able to receive orders because I served customers with heart and soul on a daily basis. That was the moment I understood what my father

always said business is done by heart, not by the brain."

Ohkubo attended Asakusa Elementary School and then Kuramae Junior High School (now Asakusa Junior High School), both local public schools. After graduating, Ohkubo attended a local public school, and according to his father's wishes, he planned to study in Osaka, a city of merchants. However, in his third year of junior high school, his plans were put on hold when his mother began to insist that he should go to high school.

"There are many wholesale stores in Kuramae, and all students are children of merchants. At a parent-teacher association, the parents talked about how it was time for merchant families to go to high school. My mother was a studious person who went on to all women's high school (which was rare in those days), so she wanted her son to complete his studies as well. After discussion between my parents, my father agreed that a public commercial high school would be a good place for me to study, considering that I would be taking over the family business, so I decided to take the entrance exam. "

Ohkubo himself was not interested in going on to higher education, but he took the entrance exam to respond to his mother's wishes. As a result, he passed the Tokyo Metropolitan Kyobashi Commercial High School (now Harumi Sogo High School). In this way, his life as the 2nd successor of rice shop gradually began to change.

(To be continued)

## Passed the Faculty of Commerce at Chuo University using his specialty in bookkeeping (accounting) .



While at university, he was a member of the photography club

Even Ohkubo went to the high school, but he has still planned to go to Osaka to serve his apprenticeship after graduated from high school. However, as he went through high school, he changed his mind: "I went to a commercial high school, so I had to take bookkeeping class, but I had been helping out in the family business for a long time, so it went smoothly. I always came out on top in my tests, and I was sometimes praised for pointing out the teacher's mistakes. It was as if my abilities were being recognized, and it gave me confidence."

Meanwhile, in club activities, he established a photography club with other photography enthusiasts, which he was learning about at the time. Because of his

achievements, he served as the president of the literature clubs and also became the chairman of the student council.

However, in his third year in high school, suddenly a trouble occurred.

"There was a bribery that vice principal was receiving money from the lodge where we stayed during the summer vacation. As chairman, I denounced the vice principal. However, instead of admitting any dishonesty, the vice principal reprimanded me, saying, 'You have dropped the school's credibility down to earth.'"

Kyobashi High School of Commerce (high school where Ohkubo has graduated) was highly trusted by top-tier companies such as Mitsubishi Corporation, Mitsui Bussan Corporation and other trading companies and banks, and number of students were employed every year. The vice principal claimed that Ohkubo's action would cause negative effects when their students are looking for a job, as "This is a school where students claim their teachers."

"I've decided that try to join top-level company by myself from the vice principal's attitude. I decided to apply for a job at Mitsukoshi, the top company in commerce at the time."

### Acquired a job offer from Mitsukoshi, however...

The school had a quota for recommendation from Mitsukoshi, but he could not enter because of the incident with the vice principal. Ohkubo went to Mitsukoshi many times to directly ask them to let him take the entrance exam. At first, Mitsukoshi rejected him, but later on, they were impressed Ohkubo's enthusiasm and they agreed to let him take an interview. In the end, he received a job offer from a top company.

"An acceptance into Mitsukoshi gave me more confidence. At that time, it was rare for a student from a high school of commerce to enter a university, and I had not studied for the entrance exam. However, when I looked into the subject needed for entrance, I found out Chuo University's Faculty of Economics had bookkeeping as one of the subjects for the exam, and if he could get a perfect score in bookkeeping and mathematics, which I have confidence in, I might be able to pass the exam even if I scored low in the other two subjects.

With this in mind, Ohkubo studied hard for the exam and he was able to pass.

"I chose Chuo University with my future in mind, but after passing the exam, I did not want to go for apprentice in Osaka. My father was disappointed, saying, 'The rice business will end after my generation.'"

At university, Ohkubo joined the photography club and was in charge of public relation with other universities. With his leadership skills he had cultivated since high school, he rose to prominence and selected as the chairman of the All-Japan Student Photography Federation, containing around 70,000 members.

"There was also a nationwide photography competition, and I traveled all over the city for meetings. I was still interested in business, so I visited the Daiei housewife's store in Osaka and the Okadaya department store in Mie (both now part of the AEON Group). I scrapped articles from economic newspapers and magazines, and especially read the articles on foreign companies in the magazine "Shougyoukai"(meaning the world of business). And gradually, I began to wish on working abroad."

(To be continued)

## "Went to the United States since Ohkubo could not give Learned the local distribution system."

After graduating from university, Ohkubo began to think he wanted to work overseas. However, in the early 1960s, the only companies that had overseas operations in Japan were trading companies.

"This is why I only applied to trading companies when I was looking for a job, but they didn't hire me because my English did not surpass their expectation. At that time, I saw a recruitment at the Yomiuri Advertising Agency in my university's recruiting department. I thought it would be interesting to work for it, due to the commerce will not be possible without marketing in future, so I decided to apply."

After working in the sales department for two years, then he was transferred to the marketing department, which he had always wanted to work in.

At that time, the Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry) was promoting the voluntary chain system to the retail industry and regularly held seminars with foreign managers. A voluntary chain is a business structure in which independent retailers with the same goal organize themselves to develop chain operations. Ohkubo attended every seminar and sat in the front row, listening intently to each and every word of the foreign managers had to say.

Worked at Seven-Eleven in the United States before first landing in Japan.

"The lecturers were heads of joint purchasing organizations in the U.S. and retailers' cooperative in Germany. After the seminar, I asked the MITI representative to introduce me to the lecturers and sold myself as someone who wanted to learn about overseas retailing. Even after they returned to Japan, I kept



He went abroad on a cargo ship (Ohkubo is on the far left)

sending letters to them and was able to get their consent for overseas training."

Once he decided to go abroad, Ohkubo worked hard to learn English (his weak point) by listening to English conversation programs on TV and radio, attending English conversation schools, and even accepting homestays from foreigners visiting to Japan. After receiving introductions to local experts from MITI (Ministry of Economy, Trade and Industry) officials and the editor-in-chief of the magazine "Shougyoukai" (world of business), Ohkubo set off for the United States on the bottom of a cargo ship in 1967.

"While working at a supermarket, I visited the headquarters two days a week and visited Professor Maginnis of the University of Southern California, an authority on business administration,

who was introduced to me by the editor-in-chief Shougyoukai magazine. The professor introduced me to distribution companies such as Macy's and Kmart, as well as stores that were the talk of the town, and I studied them. After working at a supermarket for six months, I went to Dallas, Texas, where I also studied at a Seven-Eleven store that had not yet landed in Japan. "

After completing nine months of training in the U.S., Ohkubo went to Europe to study in the U.K. and at the world's largest voluntary chain, EDEKA in West Germany. During this time, he did not stay at any hotels, but stayed with host families all the time, which gave him a chance to see the culture of an ordinary Western family. He began to dream of eventually starting a business in the United States.

However, after returning to Japan after two years of training, he decided to succeed in his father's rice shop. "In fact, my first son was born just before I left for the United States. However, I could not take my wife and children with me because I was not guaranteed a life abroad. I asked my parents to take care of my wife and children, promising to develop the No.1 rice shop in Japan when I returned home. My father accepted the request and even paid for my passage to the United States. "

(To be continued)

To develop family's rice shop to No.1 in Japan, Ohkubo started to prepare even before he went to the United States. He told the headquarters of the National Federation of Food Business Cooperatives (Zenryoren, currently the National Rice Sales Cooperative), an organization of nationwide rice wholesaler, that he wanted to start a new rice shop business after returning from his training in Europe and the United States, and obtained their cooperation.

Ohkubo says, "In business, it is important to set a milestone to promote business to advance smoothly." After returning to Japan, he joined his family's rice shop and founded Komeya Ohkubo (Meaning Rice Shop Ohkubo).

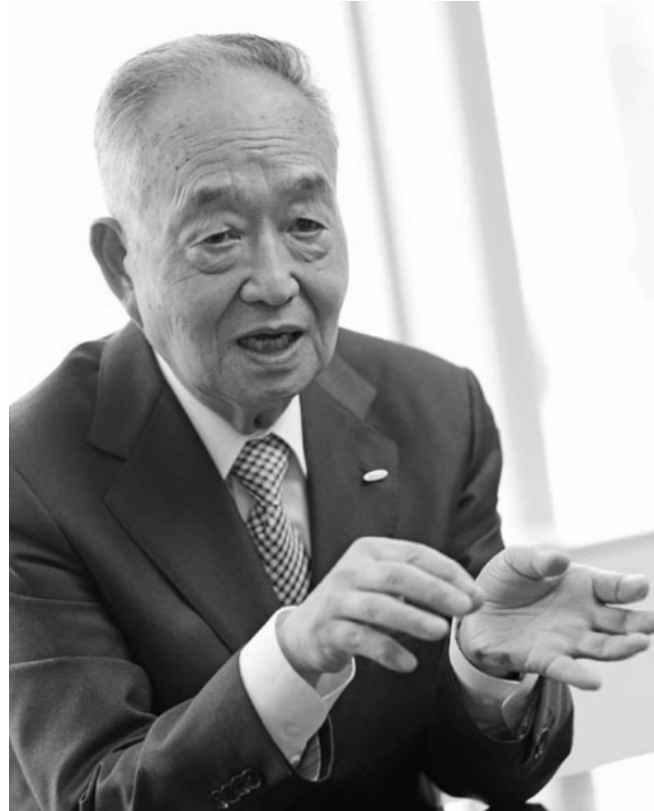
"In those days, rice shops had their own sales areas, so they could not increase their customer base. Many of them were not in good locations because they take orders and deliver them to customers. However, if you change your way of thinking, the mature order-taking and delivery function would lead to great chances. Even though the sales area is fixed, there are no restrictions on the products, so we thought we could use the voluntary chain system to increase sales by purchasing products other than rice in bulk, asking for help, and delivering them."

At that time, shopping was done by bicycle at best, and most people went out on foot. There were no large supermarkets, and people often went to various stores to buy products. Moreover, there were no plastic bottles yet, and soy sauce and oil were sold in glass bottles.

"It is hard to buy heavy and bulky things to take home, so it would be nice if we could ask around and have them delivered. I thought that if we could reduce costs

## A plan to make the family business No.1 rice shop in Japan

# Concept of Delivery Supermarket



by purchasing in bulk and selling at the same price as in stores, we would surely get orders. "

With the cooperation of Zenryoren, Ohkubo first started a supermarket delivery service in Tokyo with a group of young businessmen who agreed with him. The idea was a hit and the business was very popular. However, profits did not

increase as much as expected, because the margins on food and sundries essential for daily life, such as soy sauce and oil, were low due to price competition among stores.

"We decided that in order to make more money, we needed to offer new and attractive products that were not available anywhere else. As we tried out various products, we focused on Duskin's Chemical Absorbing Cloth"

### Focus on Duskin's Chemical Cloth

Duskin's Chemical Absorbing Cloth launched in 1964, was the most advanced products of their time, with special adsorbents that removed dirt without the water. However, since its effectiveness of a new product was not recognized, it was necessary to persuade consumers to purchase. Duskin, still a small company, signed a franchise agreement with a store that would sell the product.

"There are other places that have the same system, such as liquor stores and dry-cleaning stores, but it is difficult to sell new products and it was common knowledge in those times that rags were made from used cloth. People would not pay money to buy them. However, we were making our customers happy at the delivery supermarkets, so they listened to us and said, 'We'll go out with you because you've always been so helpful to us,' and they signed the contract."

Just as he did with rice cakes when he was a child, Ohkubo was convinced that "business is all about the heart. The sales of the rice shop gradually increased." (To be continued)

# The key to victory was focusing on the office market

No. 1 in sales among Duskin Franchise Group

Ohkubo, who had increased his store's sales by becoming a Duskin franchisee, saw the potential in Duskin products. However, as long as the sales area was determined by the rules of the rice shop, there was a limit to how much he could sell to existing customers. How could he increase the number of customers without breaking the rules? Ohkubo focused on the commercial market.

"At that time, Duskin products were mainly for home use and although Duskin had rental products for business use, such as mops and entrance mats, they did not put much efforts. However, I thought there would be demand from small and medium-sized businesses that do not have cleaning companies like large companies. The rice shop rules did not apply to business use, so I tried to do business by myself and finally earned a contract," Ohkubo said.

Ohkubo created a system where he could earn two to three times the market rate based on the performance of the contract, and hired students from top universities as part-time workers. When they graduated, he persuaded them to become his employees, and the company expanded in size and sales. Five years after joining the Duskin franchise, the company ranked No.1 sales out of 2,000 franchisees.

Ohkubo said, "I am thankful to my employees who came to a start-up company like ours, even though they could have found jobs at large companies. It is my duty to give them a new dream. Now that we have succeeded as a franchisee, let's start a business where we can become the headquarters of the franchise. That is what I told my

employees, and we held a series of meetings to formulate ideas for new businesses.



From his experience at Duskin, Ohkubo set three conditions for the new business: One, the new business must be anticipated the needs of the current age. Two, the new business had to utilize the BtoB network he had cultivated. Three, it has to be a business which could be used continuously.

"Duskin's business products were sold on an annual contract basis.

Once a contract is signed, sales are guaranteed for at least one year. I thought in order to achieve stable income, the business needs to be continued, not a one-way business that ends after the instant sale. Based on these conditions, I suggested the Office Coffee Service (OCS) to everyone, which rents out regular coffee machines to offices.

During his training in Europe and the U.S., Ohkubo had seen that in the local offices always have been placed regular coffee machines and employees were drinking freely. In Japan, on the other hand, the office beverage market was dominated by Japanese tea. If you wanted to drink coffee, it was either instant coffee or delivery from a local coffee shop.

"However, as McDonald's and other American fast-food restaurants entered the Japanese market, the culture of drinking regular coffee was spreading, especially among young people. I was convinced that the time would come when people would drink regular coffee in their offices in Japan. I was convinced of this."



Daiohs vehicles can often be seen on the streets

Ohkubo has researched and found companies that which the OCS business had been established in the United States. Ohkubo sent letters to the world's largest OCS company and other successful American companies to get appointment to visit, and then went back to the United States to learn the successful methods of the OCS business and brought it back to Japan.

(To be continued)



Ohkubo was preparing for the first office coffee service (OCS) business in Japan. He had planned to import the coffee machine which would be the key of the business from the United States. However, it turned out the machine needed to be modified to Japanese specifications in accordance with the Electrical Appliance and Material Safety Law, which

would cost huge amount. In light of the maintenance issues, Ohkubo decided to make its original product in Japan.

"Instant coffee was 10 yen per cup, and the market price for delivery from a coffee shop was 200-300 yen at that time. Therefore, I thought if I could prepare regular coffee at a cost of about 30 yen per cup, it would be accepted. If we could sell hundreds of cups a day like McDonald's, the imported machine would be profitable, but for a small office, it would probably be 10 cups a day at most. That is why it was necessary to develop the coffee machine in Japan."

## This is how Japan's first office coffee service was born.

With Japan's technological capabilities, it was not difficult to find a company that could manufacture the machine. However, in addition to the development cost, we had to find a customer who would contract us for a lot of 2000 machines, Ohkubo recalls that this was solved by the trust given to him. "The bank gave us a loan to cover the development costs because we had a good track record. On the other hand, when it came to developing customers, I had originally planned to start a franchise, so I approached my acquaintance and they said, 'We would love to start a business with you, Mr. Ohkubo. Later on, we started the business with total of four stores, two directly managed and two franchised.'"

### "Changing the Company Name to "Daioh" in Order to Become "Daiei"

In 1977, when Ohkubo was 36 years old, the first OCS business in Japan was launched. Since he had many customers at his office, he was able to acquire contracts for more than one thousand and a few hundred units in one year. He said, "This is also because of our existing customer network. The customers also listened to the explanation of

OCS because they have a regular relationship with us. They said they would give it a try if they could drink it for one-tenth the price of delivery, and they signed the contract.

In 1978, he established the Daiohs OCS franchise chain. Office coffee became a hot topic in the mass media, and the company steadily built up its track record. In 1976, the year before he started this service, Ohkubo changed the company name to Daiohs Corporation. In 1983, he changed the company name to Daiohs Corp. because he wanted to become a company like Daiei Inc. which was

gaining momentum in the distribution industry at that time, and the "オ" (The fifth Japanese character) came after "エ" (The fourth Japanese character).

It was in 1988, 20 years after the company's establishment, that Daiohs entered the US market. "It was my dream since I went to the U.S. for training. But we started as a small rice shop in Asakusa and became the top Duskin franchisee, and our OCS business in Japan was on track. When I thought about what to do as the third pillar of our business on the 20th anniversary of our founding, I knew I wanted to challenge the OCS business in the United States, the home of OCS."

That is what Ohkubo said. As a matter of fact, he had already made the preparations to enter the US market at that time.

(To be continued)

## Entered the U.S. market, expanding business through M&A and he focused on "forging the solid footing."

In order to develop the OCS business in the U.S., Ohkubo established Daiohs USA at California in 1988. However, in reality, he had been looking at the OCS market in the US for 10 years before.

"In 1977, I became a regular international member of

the National Office Coffee Service Association (NCSA) after visiting the OCS business in the United States. Since then, I traveled to the U.S. three or four times a year with my employees to learn about the U.S. market, and I invited NCSA members to Japan every year to solidify our friendship."

Ohkubo, who was well aware of the American market, was convinced that Japanese methods would not be accepted in the US, where the market was more mature than in Japan.

"What should we do to succeed in the US? The first thing I decided to do was to merge and acquire an OCS company with a proven result."

Ohkubo chose Southern California because there was a company there that caught his attention. The owner of the company was still young, in his 40s at the time, but it was an excellent company that had received several national awards as the best operator from the National Office Coffee Service Association.

"The company was well known in the industry, so after the acquisition, I asked the owner to acquire other companies in the same industry in Southern California. So that we could expand our business through a series of mergers and acquisitions with good companies at the core."

Ohkubo did not leave Southern California for a while, since he would be weeded out if he tried to expand unnecessarily in a mature market, so he focused on solidifying his footing.



"For the first ten years, we focused on California, first in Southern California and then in Northern California. Then we expanded to the West Coast area west of the Rocky Mountains. We now have a presence in about 25 states, and have the largest market share on the West Coast and the third largest in the United States. However, since there are 50 states in the U.S., I believe there is still room for growth."

**Withdrawal from Franchise due to Competition with Duskin**

Despite this steady expansion, Daiohs has experienced a period of crisis. In 2000, Daiohs became independent from the Duskin franchise.

"At that time, the number of competitors in the janitorial equipment rental business was increasing, and price destruction, especially in the commercial market, was making it difficult to continue the business. In this situation, Duskin entered the OCS business. Franchise headquarters and franchisees were now competing with each other."

In the midst of this situation, Ohkubo decided to go independent and started his own brand of clean care service business. He worked hard to procure new products, and bowed to customers to gain their understanding.

"After that, products from water dispensers, air purifiers, to green services such as houseplants increased spontaneously. However, all of them are multi-year contract products that meet the needs of customers and make use of the BtoB network. It's a consistent continuous recurring service."

Currently, the Japanese market consists of two major segments: beverage services, mainly OCS, and environmental sanitation services, which include clean care and cleaning services for business establishments. However, this reminds me of the words of the company's founder, "We will turn a small rice shop in Asakusa into the best rice shop in Japan. I wonder what has become of these words. (To be continued)

Returning back to the Origin, Focusing on "Kozo Sushi"

## A promise to his father to become the No.1 rice shop in Japan.

"I think it was around the time when I became the No. 1 franchisee of Duskin in Japan that my father said to me, 'What happened to your plan to become the No. 1 rice shop in Japan? At that time, the company name was Komeya-Ohkubo (meaning rice shop Ohkubo), and I stopped suddenly. And then started thinking of how I could increase the sales of rice."

Ohkubo turned his attention to Kozo Sushi. They were rapidly gaining momentum by franchising take-out sushi. This would allow him to greatly increase the sales volume of rice. A fellow rice shop who owned a Kozo Sushi restaurant introduced me the president of the company, and I succeeded in becoming the headquarters for Tokyo and Chiba, where I developed more than a hundred Kozo Sushi restaurants.

"In 1979, Kozo Sushi ranked first in the nation in the restaurant industry in terms of total annual sales of its member stores. We greatly increased the volume of rice we handled, which made my father extremely satisfied."

In 2007, Daiohs was listed on the First Section of the Tokyo Stock Exchange, and has expanded its business to Beijing, Shanghai, Taiwan, Seoul, and Hong Kong.



Ohkubo explaining  
"business is done by heart, not by the brain"

Daiohs is now focusing most of its efforts on Southeast Asia, where they established joint ventures in Singapore and Malaysia.

"Asia is a market that will grow in the future, but there are no other companies in the office coffee service (OCS) industry in Asia like there are in the U.S. Since we cannot expand through M&A, we decided to form a partnership with a company that is involved in BtoB business after repeated trial and error. We formed a joint venture with a company that deals in office equipment in Singapore and water dispensers in Malaysia. Since we were using their existing network, we were

accepted smoothly and were able to exceed the break-even point in a short period of time."

Although the business is currently suspended due to the effects of the Covid-19, Ohkubo says he would like to continue expanding the business by forming partnerships with local companies. In the past, he used to travel overseas about 200 days a year, but now that the Covid-19 has taken its toll, he visits

domestic sites every day. Instead of announcing that he is the president, he wears the Daiohs uniform and visits 200,000 clients in both Japan and abroad saying, "Please give me a chance to visit and learn."

"Recently, for example, there has been a growing demand for Franke, a top-quality coffee machine made in Switzerland, and "specialty coffee" supervised by Philocoffea representative Tetsu Kasuya, a barista who became a champion in world coffee brewing competition. As more people work remotely due to the Covid-19, there seems to be a desire in the world to improve the environment at work. We have a corporate philosophy of "anticipating the new needs of the times and creating new markets. In order to do this, it is important for us to visit the actual sites."

