

Small Meeting on SCSK's New Medium-Term Management Plan — Core Business Innovation —

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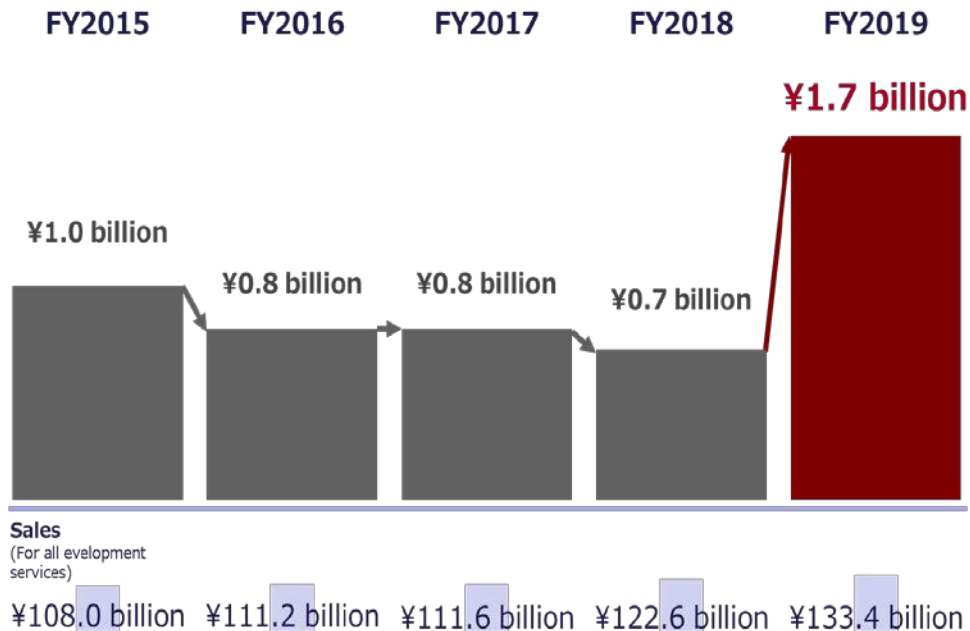
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◆ Unprofitable Projects



SCSK focuses not just on eliminating unprofitable projects but also on preventing lost profit.*

*** Lost profit = Forecast gross profit – Actual gross profit**

Frequently Used Terminology :



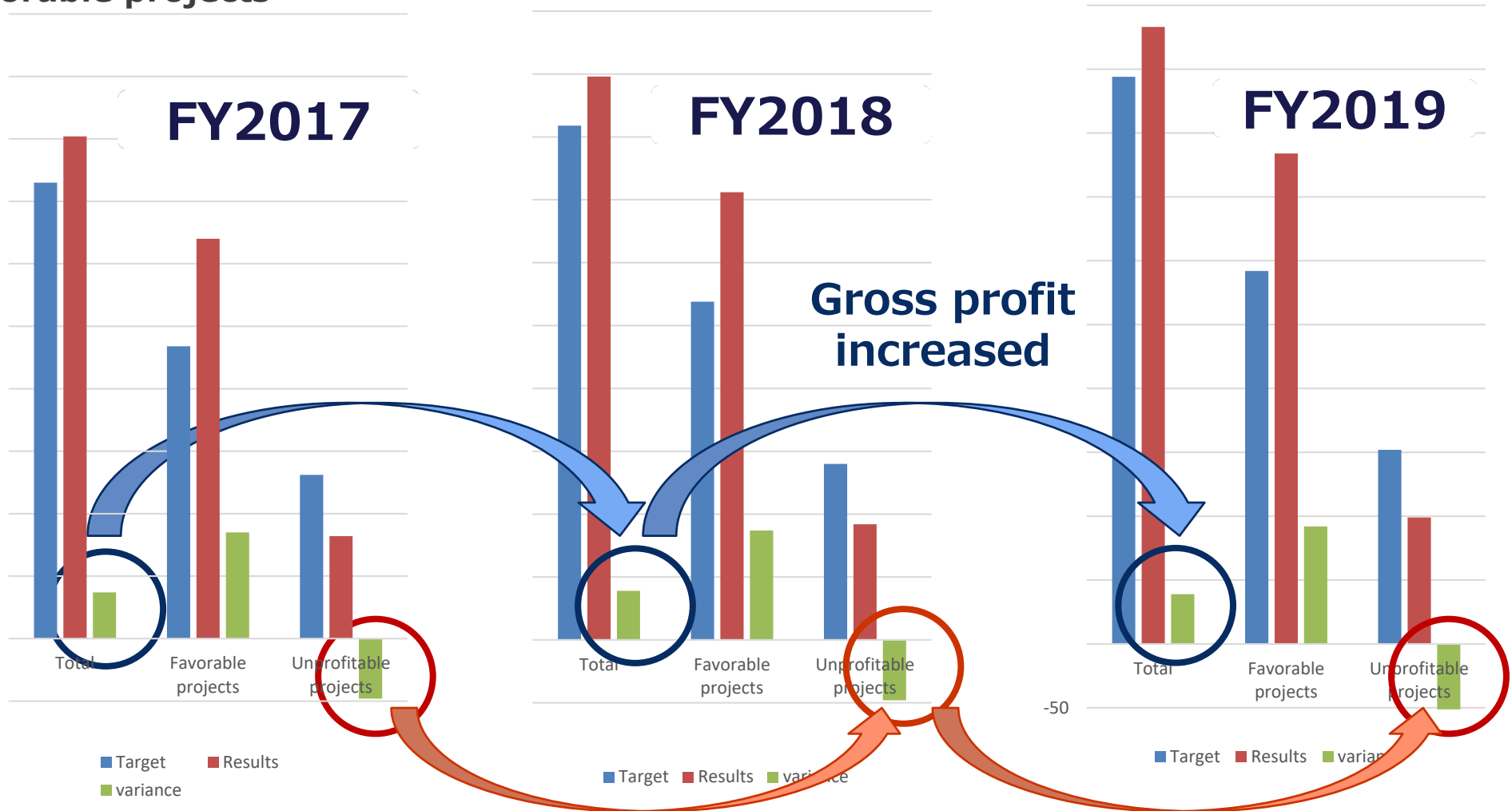
: Standardized management and development methodology platform for advancement of development projects (comprised of management processes and development processes that function through third-party compliance checks)



: Framework for increasing productivity while maintaining quality and improving agility in system provision (portions that can be standardized with regard to be processes spanning from development to implementation to be provided as platforms and components and staff for utilizing these platforms and components to be expanded)

Current Conditions (Quality Analysis)

◆ Growth in overall gross profit achieved despite lost profit* thanks to increases in favorable projects



* Lost profit = Forecast gross profit – Actual gross profit (for development and services subject to management)

despite lost profit

Excerpt from Foreword of SCSK no Shigoto Kakumei (SCSK's Work Innovations, published in 2017)

(Beginnings based on accurate understanding of issues facing industry and SCSK)

Many clients do not have a clear image of the systems they seek to develop. In extreme cases, they will hoist the entirety of **the parameter definition process** on a systems development company while constantly making new demands.

On-site engineers that **act at the command of the client** often attempt to address all of these demands, overexerting themselves in the process.

As a result, the requirements for projects can balloon to extent that exceeds initial **estimates**, leading to **failures to define necessary parameters and inconsistencies** that can lead to issues in later processes.

Engineers can be forced to work late night and weekend overtime to address these issues. (Omitted)

Meanwhile, the sales teams of systems development companies **seek to increase sales** and are therefore incentivized to accept orders for even **such challenging projects**, contributing to the burn out of the development team.(Omitted)

This is not the only reason why the IT industry has a reputation for being bad to work in. Other factors behind this reputation include consistently low accuracy of **estimates**, unclear **divisions of labor** between **clients** and engineers, **quality management practices dependent on specific individuals**, **premature work orders without official documented processing**, and low morale attributable to **structure consisting of multiple layers of subcontracting**. These issues create a breeding ground for **problematic, labor-intensive projects**.(Omitted)

SCSK has turned its attention to **lost profit** in its quest to **realize the comprehensive resolution** of these structural issues.

Central to this undertaking are **the SE+ development standard and the SC+ standardized development and operation platform**.

We are confident that quality and subsequently profitability will improve **as a result of all of our measures**.

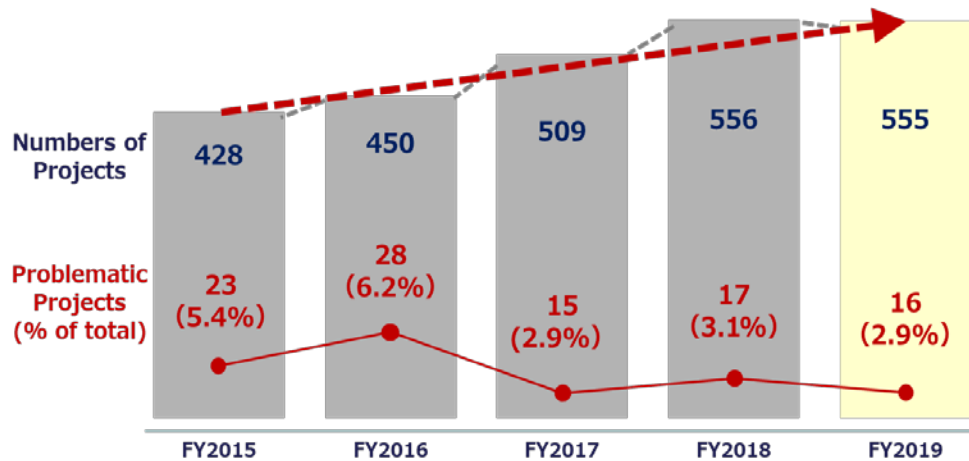
Moreover, SCSK wants to boldly tackle the challenges presented by new changes in the environment (new technologies, standards, etc.).

Reference: Current Conditions and Changes

Importance of Ongoing **Reflection on Problematic Projects**:

Increases to underlying strengths must be realized through ongoing effort as opposed to by focusing purely on individual projects.

◆ Numbers of Projects and Problematic Projects



- 30% rate of growth in project numbers

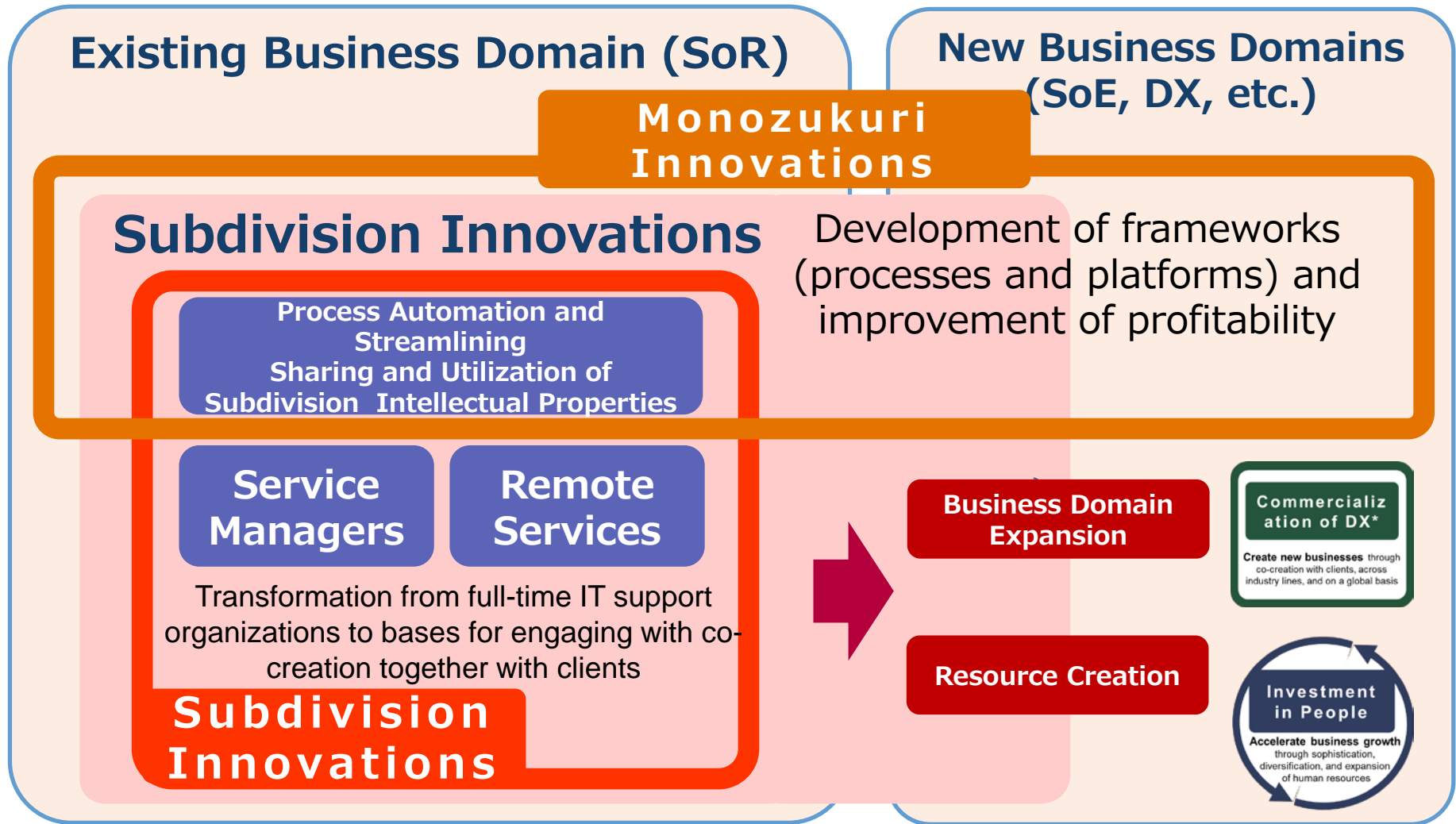
- Consistently low ratio of problematic projects

FY2015–2016: 5%–6%

FYFY2017–2019: 3%

⇒ **Project success rate: 97%**

- Recent rise in project size and complexity creating increasing need for caution with regard to client risks, proposal risks, and upstream process risks
- Need to respond to high demands for productivity and quality



Transform subdivisions into bases for engaging with co-creation together with clients through focus on three priority measures

Service managers

= Leaders for executing subdivision innovations

(1) Strengthening of Client Contact Points

- Resolution of client business issues
- Promotion of sourcing strategies

(3) Introduction of Monozukuri Innovations into Subdivisions



- Implementation of **standardized SCSK rules** and platforms (development, maintenance, and operation)

SCSK

- **Integrated provision** of process, application, and infrastructure services

(2) Innovation of Work Approaches

Business Partner

- Enhancement of relationships with partners (**specialization**)
- Securing of resource **quantity and quality**

Nearshore Development

- Reliable business continuity through **decentralized approach**
- Safe and reliable **remote service enhancement**

Clients

Definition of Subdivisions: Bases positioned on client premises on a full-time basis

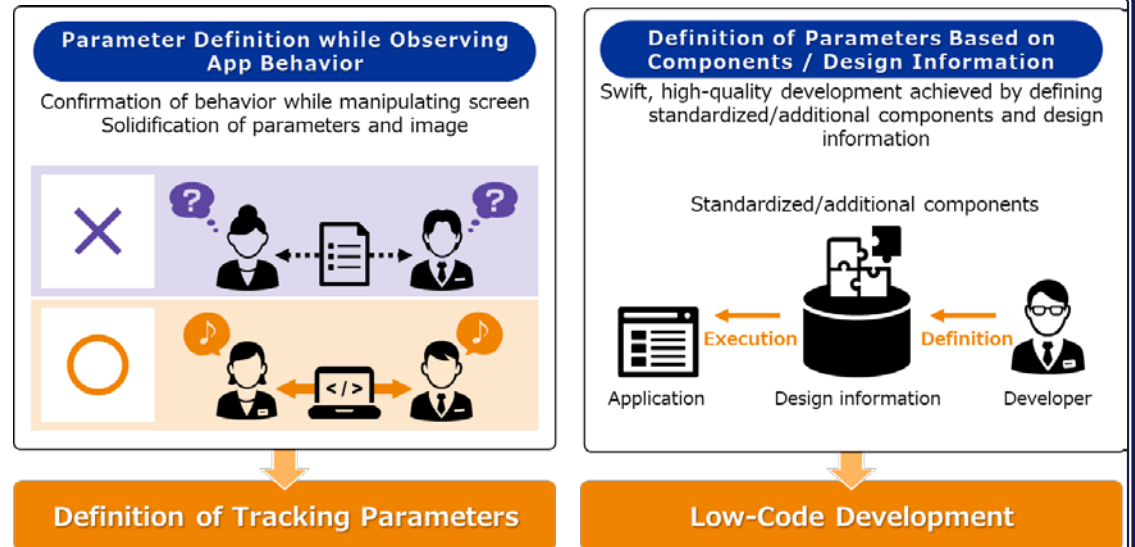
Teams focused on **providing (1) services (development, maintenance, and operation) to (2) individual clients (3) on an ongoing basis over the long term**

		FY2020 (As of July, 2020)	FY2022 (Targets)
1.	Number of subdivision	540	— — —
2.	Number of engineers (of which, SCSK employees)	9,300 (2,850)	— — —
3.	Business scale (Net sales)	¥125.0 billion	— — —
4.	Number of processes performed through nearshore development	650	Over 1,000
5.	Number of service managers cultivated	— — —	200 (of which, senior service managers: 100)
6.	Number of staff members transferred to more sophisticated processes	— — —	800

Overview of Monozukuri Innovations

(1) **Automation** of system platform development and system operation

(2) **Low-code, no-code** development



(3) Standardization of **coordination of development, maintenance, and operation**

(4) **Sharing of system platforms** between SCSK Group and core partner companies

(2) Improvement of profitability in existing conservative IT (SoR) fields

