

stimulated by the highballs, if they hope to maintain their current fortunes. For a company setting its sights on the world, they must start at home and get a firm grip on the domestic market before they can expect to become one of the world's leaders in whisky. Although their hopes are high, Suntory's quest is only just beginning, and their true test lies ahead of them.

QUESTIONS

1. Which strategies can the company develop to implement a long-lasting consumer attitudes change?
2. Will the introduction of the highball also be successful in other Asian markets?
3. Which particularities of the Japanese consumer market can you recognize?
4. Can Japanese marketing practices also be successful in Western countries?

A Tale of Three Companies: The Survival Strategies of Sony, Hitachi, and Canon

David Trappolini

After World War II, Japan was still developing economically and nobody could have predicted the economic success that the country would go on to achieve.

A major player in this process of development was Japan's electronics industry. After the war, many firms were created in the field of technology, and they started to develop consumer electronics products. They quickly became large exporters, beating their foreign competitors with hardware breakthroughs and high-quality products. They have been responsible for huge advances concerning such things as lasers, diodes, screens, and semiconductors. By driving down their manufacturing costs thanks to cheap labor, and copying the designs of Western products, these companies overpowered the US consumer electronics industry.

By 1985, Japan was exporting more color televisions than the US. The Japanese companies pushed the limits of technological development by creating the most advanced products while moving the manufacture of basic components to developing countries. In the late 1990s, the demand for electronic gadgets was very high. The Internet and personal computer use were exploding all over the world. This

trend, combined with a depreciating yen, saw Japanese firms earning fortunes. Thus, Japan became the world hub of high-tech electronics.

THE JAPANESE MANAGEMENT SYSTEM

The success of these electronics companies was based on traditional Japanese management practices, which differ greatly from Western business approaches. The main objectives of Japanese firms are stability and cooperation. Japanese corporations also have a strong focus on processes and procedures, which should be performed as carefully as possible. This idea is based on the traditional samurai code of *Bushido*, in which performing one's task at the highest level is considered a virtue.

The principle that processes must be performed with great care and patience was very useful for Japanese firms during the period of rapid economic development. Since many Japanese firms were only just starting out in manufacturing, they had the opportunity to improve and perfect operation and production processes.

In Japanese, the term "manufacturing" translates as *monozukuri*, literally "making things." Many Japanese corporations, for example Toyota, have become world leaders in cost-effective and high-quality production. This dedication to process has also helped Japan's electronics firms to create outstanding products that are often the world's thinnest and smallest.

Monozukuri is a source of national pride and the spirit of craftsmanship is held responsible for the post-war success of large Japanese firms such as Panasonic and Sony.¹ However, many Japanese corporations are thought to focus too much on producing the best quality, and are criticized for losing track of consumers' wishes with regards to newer designs and innovative products.

Another aspect of Japanese human resource management is lifetime employment. Japanese people employed under this system enter a life of dedicated service to one company, and job transfers are neither socially acceptable nor desirable. Many Japanese believe that

¹ D. Wakabayashi, and M. Inada (2010). Questions grow on Japanese manufacturing quality. *Wall Street Journal*, 29 January 2010.

this approach is also responsible for the impressive rise of Japanese firms as world-class competitors.² For example, all workers start by solving problems at a grass-roots level, which provides them with useful basic knowledge, and the involvement of employees in the company is subsequently boosted *via* specific training. This philosophy also encourages information-sharing between different generations and hierarchical levels; but lifetime employment is by no means an unmixed blessing for firms.³

Lifetime employment has also resulted in another aspect of Japanese corporate culture: seniority-based wages. As the name suggests, the salary of workers increases on the basis of age and not merit. Unfortunately, however, this system does not reward employees who perform better, and in a world where emerging countries are becoming very aggressive, this is a competitive disadvantage. Reform here could enhance the competitiveness of Japanese firms.⁴

A central pillar of the Japanese economy and perhaps its most defining characteristic is the *keiretsu* structure of many manufacturing firms. *Keiretsu* is the term for a conglomerate or financial group. Traditionally, *keiretsu* are vertically organized, consisting of many small- and medium-sized businesses that come together to form one unified company. The firms are often centered around a large bank.

Keiretsu have been a key element of Japan's rapid industrial development and transformation since the early 1950s.⁵ A *keiretsu* consists of a set of companies with interlocking business relationships and shareholdings. The companies each own a small portion of the shares. The result is the creation of a huge conglomerate that grows slowly, and by taking few risks. Its structure protects the members from foreign takeover and market fluctuation; since they have tied their fates together,

² R. Kambayashi and T. Kato (2008). *The Japanese Employment System after the Bubble Burst: New Evidence*.

³ H. Tabushi (2009). *In Japan, Secure Jobs Have a Cost*. (www.nytimes.com/2009/05/20/business/global/20zombie.html?_r=2&c). [14 June 2013]

⁴ K. Endo (2006). *Pay System and Employment Practice of the Japanese Firm in Transition*.

⁵ K. E. Calder (1993). *Strategic Capitalism: Private Business and Public Purpose in Japanese Industrial Finance*. Princeton: University Press.

when stocks for one company in the group grow, they will all grow, and when losses are incurred, they can be split between all the members. However, such structures are very static and are slow to react in a crisis.⁶

Another important factor in the rapid economic development of Japan and its electronic firms is the Japanese work ethic and focus on achievement. One of the highest virtues is that of doing one's best, persisting, and working hard. *Gamburu* is an active process wherein one works hard in pursuit of a goal, strives to overcome difficulties that might arise, and takes on difficult tasks even though they might be arduous. It also embodies the philosophy of transforming one's future and status by one's own efforts, regardless of personal background.

THE PRESENT JAPANESE ELECTRONICS INDUSTRY

Since the start of the 21st century, many Japanese electronics companies have struggled with financial problems. Foreign companies from South Korea and Taiwan are capable of improving their products more quickly and are able to manufacture more user-friendly goods. Thanks to a more effective marketing strategy, they now lead in many sectors, including Japan's former fiefdoms of TVs and computers. In 2009, after the financial crisis, Samsung Electronics had an operating profit twice as large as the combined profit of nine of Japan's largest consumer electronics companies.

Sharp is a good example of this decline. The company that invented LCD technology announced record losses for 2012, and the chairman expressed severe doubts about the survival of the company. Similarly Renesas, the Japanese manufacturer of semiconductors, will have to be bailed out by the Japanese government to avoid bankruptcy. Finally Nintendo, the legendary videogames company, announced the first loss in its history in 2012.

Much ink has been spilled in the attempt to explain this decline. Japanese managers are inclined to blame the strong yen, which makes

it more difficult to export goods. This is a problem that does not affect Korean firms, which have fewer problems with a strong currency. They can manufacture products almost as well as their Japanese counterparts, but at a much lower price. Other factors such as the Fukushima disaster, and the flood in Thailand, where many Japanese factories are located, are also considered factors in the decline. More recently, territorial tensions with China led to a boycott of Japanese products that affected the turnover of many electronics firms.

Despite this deterioration, in 2013 Japan is still a pillar in the field of technology. Japanese companies no longer dominate the sector as they did before, but some remain significant players in the electronics industry. These include Hitachi, Sony, Nikon, Canon, NEC, Nintendo, Panasonic, Olympus, Sharp, Toshiba, and many others. It would be too simplistic to say that these companies, with their glorious histories, are now simply outdated. Indeed, a recent study conducted by an electronic appliances analyst concluded that Japanese firms make more than half of the components used in the iPhone 5. Sony, Toshiba, and Sharp provide goods such as camera image sensors, memory devices, and display panels to the world leader in technology, Apple.

JAPANESE CRISIS MANAGEMENT

Nevertheless, we cannot deny that the Japanese electronics industry as a whole is on a downward slope. Most firms in Japan share the features mentioned above, and so have been exposed to the same problems in recent years. However, they have not all reacted in the same way. The world economic crisis has made Japanese business leaders think about new ways to adapt in a world where the competition is increasingly global. Japanese firms all prefer Japanese management styles, but many of them have realized that they need to change and adapt faster to the rapidly evolving international business environment.

And they have not all chosen the same strategies. The next sections will describe the cases of three major players in the Japanese electronics industry, as well as their survival strategies: these are Sony, Hitachi, and Canon. Despite similar roots, they are all attempting to adjust their businesses in different ways in a global market full of challenges and opportunities.

⁶S. Howard *et al.* (2002). Global strategy lessons from Japanese and Korean business groups. *Business Horizons*, March–April 2002.

SONY

History

On May 7, 1946, Masaru Ibuka (an engineer) and Akio Morita (a physicist) invested the equivalent of 190,000 yen to start a company with just 20 employees. It was called "Tokyo Tsushin Kogyo" and was established in Nihonbashi in Tokyo. The company initially specialized in research and manufacturing of telecommunications and measuring equipment. The name "SONY" came later and was created by combining *sonuus*, which is Latin for "sonic," with "sonny," meaning a youthful boy with a free and innovative spirit. It was chosen for its simple pronunciation that could be easily articulated in any language. The new name perfectly suited the company, which wanted to project the image of a group of young people with energy and passion for unlimited creation.

Sony developed strongly after 1954, when the company obtained a license to produce transistors, a basic electronic component which had been invented in America six years before. The following year it began selling the first radio receptor made entirely with transistors. In 1960, Sony America was created, and shortly after, the company opened subsidiaries in Hong Kong and Switzerland. Six years later, as a symbol of power, the Sony building was opened in the luxurious Ginza district of Tokyo: this was a showroom dedicated to the products of the brand.

In terms of innovation, the decades that followed made Sony a global leader. In 1971, the company launched the first color video-cassette, and in 1975 the video recorder Betamax. Amongst Sony's greatest inventions is the famous Walkman, invented in 1979, which led to a real change in music listening habits. For the first time, music became easily portable. It also introduced the idea of miniaturization and high technology, an image that would later become strongly associated with Japan. Some years later, Sony also released the Betacam, the first camcorder for the general consumer. In 1985, the company started to sell the first digital video recorder and in 1994 it became the world leader in the video games industry with the launch of the PlayStation. In 2004, Sony's turnover reached 69 billion euros

and its share in the global consumer electronics industry was more than 14%. More recently, in 2006, the company succeeded in implementing Blu-Ray as the standard high-definition format and three years later released the world's first OLED TV. Today, Sony is still one of the most prominent manufacturers of electronics products for consumers and professionals. The company remains very active, launching many new electronics devices every year. Its headquarters are based in the Minato district of Tokyo.

Sony has diversified into several types of activity over time. Figure 1 shows the weight of each business unit in 2012.

SONY TODAY

"That's our coming back." These few words were uttered at the Consumer Electronics Show in Las Vegas — the world conference on electronics — by Kazuo Hirai, the CEO of Sony. The Japanese company delivered a demonstration of advanced technology during the conference by presenting its new Xperia Z', a powerful Android smartphone offering technical features to rival any of its competitors. Sony has put all its technological know-how regarding cameras, full

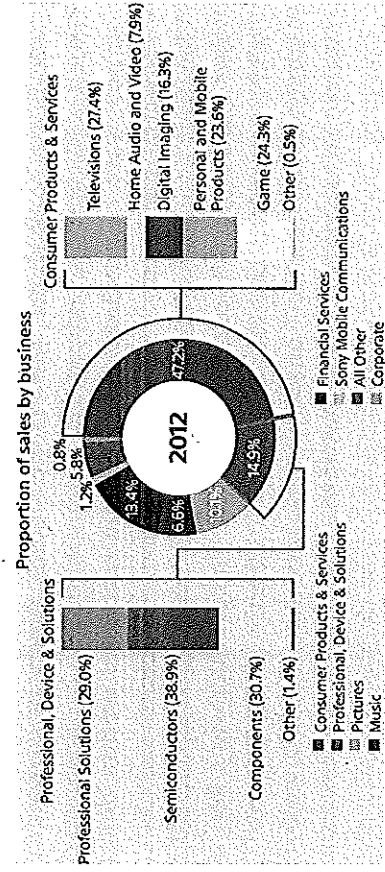


Fig. 1 Sony's business units.

(Source: Sony's annual report 2012)

⁷ See Appendix for more details.

HD screens, and NFC⁸ into its new flagship device. Sony is determined to scare its biggest rivals, Apple and Samsung. However, so far the US and South Korean giants do not have much to fear from Sony. Indeed, they are making record profits year after year, while Sony is losing market share in many sectors and is facing major financial problems. Looking at the evolution of Sony's stock, its price recently hit its lowest point in 30 years (see Appendix). Sony's market valuation is now at \$11 billion, a lightweight compared to Apple and Samsung, which are respectively worth \$480 and \$176.5 billion. The group has also made a net loss in the past four years, with a net deterioration since 2011 (see Appendix), mainly due to the poor performance of the TV department. The aggressive price war led by South Korean companies has resulted in losses for eight consecutive years in this division. Despite these results, Sony has no wish to abandon its TV activities and the management is targeting a return to profitability in the short term. In 2012, Sony shares were downgraded to junk status by rating agency Fitch.

An interesting anecdote about Sony

In 2004, the group, in an attempt to be innovative, launched the first e-book reader, the "Librie." Some American analysts, such as Michael Gartenberg, saw this invention as a harbinger of a new wave of products that could be successful worldwide. However, the product suffered from many problems such as language limitations (the product was only available in Japanese) and a small selection of available books. The product was a flop and Sony halted the project in 2007. Shortly after, Amazon launched the "Kindle," an easy-to-use product offering a wide variety of content. Success was immediate for the American company. Sony is now launching successor devices to make a comeback, but will have to fight to keep a thin market.

⁸ NFC: Near Field Communication is a set of standards for smartphones to establish radio communication with each other by bringing them into close proximity.

Survival Strategies

In order to become profitable again, Sony is making changes to its business units. A new plan is intended to cut 6% of the total employees of the group before March 2013. Kazuo Hirai wants to focus on three activities and increase the interconnectivity between the consumer goods of the company. Digital imaging, games, and mobile technology will be the spearheads of the group in the upcoming years. They are projected to generate 85% of the company's operating income in 2015. As for the other sectors, the firm plans to either abandon them or create partnerships with other companies.

On October 27, 2011, Sony took full control of Sony Ericsson, a joint venture producing mobile phones, created 10 years earlier by the then-separate companies, Sony and Ericsson. They plan to move the subsidiary from Sweden to Tokyo in order to speed up the decision-making process. The group wants to take a major role in the smartphone market, led by Apple, of which it missed the start. To achieve this, Sony will rely heavily on its smartphone line, "Xperia." The name is derived from the word "experience," and the first phone in this line was released in 2008. The start of the Xperia line was rather disappointing, but Sony is now developing the connection between its smartphones and other forms of media to increase the attractiveness of the phone. By transferring Sony Entertainment Network to its Xperia line, Sony will be able to promote its movies, music, and games to the users of the phones.

Concerning its TV division, Sony ended the joint venture in LCD technology with Samsung in December 2011. This operation is part of a plan to drastically reduce the costs of the TV branch. The company is also making strategic alliances to develop new technology quicker and more efficiently. On June 25, 2012, Sony announced a partnership with Panasonic to jointly develop the next-generation display OLED.⁹ This uses less power while providing a better quality image.

⁹ OLED: Organic light-emitting diode.

On July 2, 2012, Sony announced that it had acquired Gaikai Inc., the world leader in cloud-gaming. According to Andrew House, CEO of Sony Computer Entertainment, this acquisition was made to combine the technological strength of Gaikai with Sony's gaming platform to provide new experiences for consumers. This partnership may be profitable for many Sony products such as the Playstation, Playstation Portable, and the smartphones.

In September 2012, Sony bought shares of 11.46% in Olympus, a major player in the digital imaging sector. The objective was to gain access to the technology of its medical equipment division, a market expected to reach 7.5 billion euros within 10 years. Hirai wants to continue to pursue merger and acquisitions opportunities in the medical sphere. Sony can benefit from its strengths in digital imaging technologies in order to gain a significant competitive advantage in this sector.

Sony's smallest business units have also been included in the restructuring. For example, Sony's chemical products business was recently sold off, and similarly, in the field of automotive battery and energy storage, Hirai said that the group needed to change the current situation because it had several shortcomings.

The group is also increasing its presence in emerging countries. For example, in Brazil, Sony is an official partner of the 2014 World Cup. The objective is to improve brand awareness in a country where consumer electronics sales are expected to increase sharply. In India, Sony Pictures Television is already the provider of some of the top-rated television channels in the market. Hirai also wants to use the BRIC economies as a base to strengthen Sony's supply chain.¹⁰

HITACHI

History

Hitachi was founded in 1910 by Namihei Odaira, an electrical engineering graduate of Tokyo Imperial University. The company was initially a shop that repaired electrical equipment. The origin of the name

is a combination of the two *kansjis*, *hi* (meaning sun) and *tachi* (meaning rise). It took inspiration from the Rising Sun Flag, the military flag of Japan. Hitachi's first product was a five-horsepower induction motor that was mainly used in copper mining. In 1924, the company manufactured Japan's first large-scale electric locomotive. In 1932, Hitachi started to produce elevators and completed its first electric refrigerator. In the 1940s, the company developed water turbines and power excavators. The Second World War slowed the activities of the group, but it recovered quickly and in 1958 the company was awarded the grand prize for its electron microscopes at the Brussels World Fair. A year later, Hitachi America was established. During the 1960s, Hitachi was Japan's industrial and technological backbone. The company developed an experimental nuclear reactor and constructed the first cars of the famous Japanese high-speed train: the *shinkansen*. It also launched consumer products such as air conditioners and washing machines. In 1971, the company developed the Igo storage unit and, soon after, built one of the most powerful nuclear power stations in Japan. At the end of the 1970s, Hitachi succeeded in trialing the world's first optical transmission system.

Due to its success, the company was listed on the New York Stock Exchange in 1982. Two years later, it started mass-producing the famous 256-kbit DRAM. In order to maintain its technological dominance, in 1989 the company opened four large R&D centers, two in the US and two in Europe. In the 1990s, it launched a subsidiary in China and established a new record with a computer that had the world's fastest processing speed. Another record was broken during the same decade with the *shinkansen*, which could reach speeds of up to 270 km/h. In 2002, it was the first company to develop a silent laptop with a cooling system, and in 2007, Hitachi developed EMIEW2, a small robot capable of interacting with its environment. In addition, in order to reduce Japan's dependence on rare metals, the company developed a method of recycling them. The company employs approximately 323,000 people around the world and its headquarters are located in the Chiyoda district of Tokyo.

Like many Japanese corporations Hitachi has always been eager to diversify into different business fields. Figure 2 shows the weight of each Hitachi business unit in 2012.

¹⁰ BRIC: Brazil Russia India China.

Revenues by Segment

Year ended March 31, 2012

¥ 9,665.8 billion

16%	Information & Telecommunication Systems ¥ 1,764.2 billion
8%	Power Systems ¥ 832.4 billion
11%	Social Infrastructure & Industrial Systems ¥ 1,204.9 billion
10%	Electronic Systems & Equipment ¥ 1,101.7 billion
7%	Construction Machinery ¥ 798.7 billion
13%	High Functional Materials & Components ¥ 1,437.1 billion
8%	Automotive Systems ¥ 811.5 billion
7%	Components & Devices ¥ 768.0 billion
8%	Digital Media & Consumer Products ¥ 858.8 billion
3%	Financial Services ¥ 353.2 billion
9%	Others ¥ 951.6 billion
	Eliminations and Corporate Items ¥ (1,216.8) billion

Fig. 2 Hitachi's business units.

Note: IoT Systems: Software, servers, ATMs, system integration *Power Systems:* Nuclear/Thermal/Hydroelectric power plant, wind power generation systems *Social IoT Systems:* Railway, escalators, elevators, industrial machines *Electronic S&E:* Semiconductors, medical electronics equipment, LCDs *Construction Machinery:* Hydraulic excavators, wheel loaders, mechanical cranes *High Functional M&C:* Wires, cables, magnetic components *AS:* Car information systems, engine management systems *C&D:* Batteries, information storage media *Digital M&C Products:* Refrigerators, washing machines, air conditioning *Financial Services:* Leasing, loan guarantees *Others:* Logistics, property management.

Hitachi in Recent Years

According to the Fortune Global 500, in 2012 Hitachi was the largest Japanese electronics company in terms of revenue. However, the corporation has recently seen turbulent years and has had to modify its business activities to get ahead in a competitive environment. The evolution of Hitachi's stock price shows that after a net decrease in the value of shares, beginning from 2008, the stock is now on an upward trend (see Appendix). The company saw four consecutive years of losses but returned to profit in 2011 despite a decrease in total revenue (see Appendix). The consequences of the 2007 financial crisis were serious for Hitachi, because there was a sharp decline in demand for most of the company's products.

At the beginning of 2010, Hitachi was experiencing the worst period of its 102-year legacy. In April 2010 Hiraoki Nakanishi became Hitachi's president and he implemented a restructuring of the company that resulted in two years of record profit. Nakanishi declared that to become a global player, the key factor is not revenue, but profitability. This statement serves as a guide to the group's transformation. Indeed, Nakanishi is trying to diminish the importance of consumer-related goods such as computer parts and flat-panel TVs to focus on global infrastructure projects such as power plants, rail lines, and water treatment facilities. Consumer business was forecast to account for less than 10% of Hitachi's revenue in 2012, half of its share the previous year. In parallel, its infrastructure business will account for 80% of its profit this year.

DEPARTING FROM JAPANESE MANAGEMENT TRADITIONS

One of Hitachi's main concerns was its hard disk business. Problems began to arise in 2002, when Hitachi bought IBM's HDD business to merge it with its own HDD division. However, the new unit did not make any profit. This is why in 2004 Nakanishi, a talented manager, was chosen to identify the main reasons why the group was losing money on this division. After two months, he declared that it was badly managed and that the only solution was to manage it himself.

He realized that there were problems with quality and said that 60% of the hard disk drives produced by Hitachi were not suitable for use. He hired experts from a competitor to reorganize the production and manufacturing lines. The business unit became profitable again in 2008.

But in 2010, on becoming president of Hitachi, Nakanishi decided that HDD should no longer be one of the company's core products, despite the fact that it was generating 10% profit margins. In March 2011, he sold the unit to Western Digital for \$4.8 billion. By doing so, Nakanishi showed that all the business units of the group were included in the restructuring. He arranged the sale by arguing that the HDD industry was very fast moving and not well suited to a large conglomerate. Among the Japanese public this deal was not perceived well. According to traditional Japanese ideas, members of a company group (including units and their employees) should be supported for as long as possible. The idea of selling a profitable business was viewed very negatively in the Japanese press and left many observers stunned.

But Nakanishi then took even bolder steps. In order to reinforce its strength in the energy sector, Hitachi bought Horizon Nuclear Power (HNP), the British builder of nuclear power plants, in November 2012. Since the Fukushima disaster, the nuclear market in Japan has been idling. The takeover of HNP is intended to make it possible for the group to expand this activity abroad. Hitachi judges the international potential of nuclear energy to be promising, and Britain is one of the main markets in Europe. Hitachi plans to build two or three 1,300-megawatt plants in England by the mid-2020s.

On November 29, 2012, Hitachi created a partnership with Mitsubishi Heavy to combine their thermal power system businesses. Nakanishi said that this cooperation would help both firms to become global leaders in a tough business climate. Moreover, they want to become big enough to compete against overseas rivals such as Siemens and General Electric. Hitachi will take 35% of the newly created company. It will develop, manufacture, and sell turbines, boilers and other equipment for power and geothermal plants. The deal is supposed to be completed in 2014.

Nakanishi also wants to reduce the costs of the conglomerate. 20% of employees have been let go in under three years, and in April 2012 Hitachi delisted from the New York Stock Exchange because the low volume did not justify the cost.

Hitachi is also looking outside Japan to stimulate growth. Activities abroad now account for 57% of the revenue and 65% of the total employees. The company plans to develop procurement in other countries where prices are about 40% lower than Japan. A high priority for Hitachi is India. The group wants to triple its activity there before 2016. India needs infrastructure and Hitachi is strong in this respect. Hitachi also wants to use India as an export center for Africa and the Middle East, two other places where the demand for infrastructure is supposed to increase greatly in the near future.

CANON

History

Canon was founded in 1933 by a group of young people in a small apartment in Roppongi, a district of Tokyo. They wanted to produce high-quality cameras to compete against the German firms who were leading at that time. They quickly developed a camera prototype called "Kwanon" and a year later the Hansa Canon, Japan's first-ever 35mm focal-plane shutter camera, was born. The company continued its growth over the next few years by continuously developing technologies in the optical sector. In the 1950s, Takeshi Mitarai, the president of Canon, built a corporate culture which took as its key principle human respect and compassion, in dealings both with employees and customers. In 1955, Canon entered the American market, opening an office in New York. Two years later, the company set up its sole European distributor, Canon Europe, in Switzerland. At the end of the 1960s, exports already represented 50% of the total sales of the company. During the same decade, the Japanese firm was looking to diversify in order to reduce risks. In 1964, the company entered the office equipment market with the world's first 10-key electronic calculator. In 1967, the firm introduced a new slogan to

illustrate its activities: “Cameras in the right hand, business machines in the left.” Three years later, Canon developed the first Japanese plain-paper copying machine.

Up until 1970, Canon was achieving incredible growth. However, in 1974 the company struggled with financial problems due to the oil shocks and a defective calculator display component. The year after, for the first time in its history, the company did not pay any dividends. To compensate, Canon unveiled an ambitious project based on innovation that aimed to transform it into an “excellent global company.” Under this plan, the company launched new products that had never been seen before, such as a laser printer with a semiconductor and a Bubble Jet inkjet printer. After its 51st anniversary in 1988, Canon started to promote environmental activities, such as toner cartridge recycling, in addition to globalizing its development sites. In the mid-1990s, Canon was still developing outstanding technologies but its debts became too large. Fujio Mitarai became the sixth president of Canon in 1995, and a year later he launched a new plan to optimize the financial structure of the company. The focus now was not on sales but on profit. In the 2000s, Canon maintained its world dominance in the digital camera market and has stayed profitable every year since. The company currently employs 200,000 people around the world, the vast majority of them in Asia. Figure 3 shows the weight of each Canon business unit in 2012.

Canon dominates the market in most of its activities and has strong brand awareness. According to Forbes, in 2012 Canon was the 35th most powerful brand in the world. It is ranked first among Japanese companies in the field of technology.¹¹ Canon is also a world leader in R&D; the company held the most patents in the US after IBM and Samsung in 2011.

Innovation Leader

As mentioned above, Canon is a global leader, making a profit every year. Due to its cutting-edge products, few competitors — besides its

¹¹ Only Toyota and Honda have a better ranking.

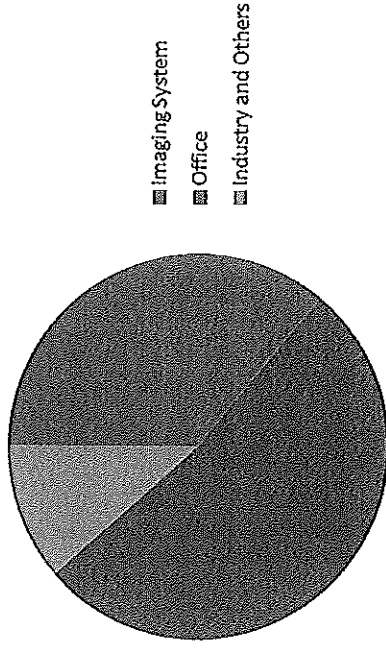


Fig. 3 Canon business units.

(Source: Canon annual report 2012)

Note: IS: Digital cinema cameras, digital camcorders, digital compact cameras and digital single lens reflex cameras.

Office: Office network multifunction devices, laser printers, solutions software, toner, photo-sensitive drums, toner cartridges.

I&Others: Semiconductor lithography, LCD.

compatriot Nikon — can seriously compete. These good results were achieved thanks to a management style based on a culture of excellence. Canon is active in just three different areas, and as such is more reactive to market change. The management of Canon wants to stay strongly focused on its core business. Since Canon only focuses on a small number of industries, the company has no choice but to strive to be number one in all of its endeavors.

In the past few years, Canon has faced decreased revenues due to the financial crisis but has stayed profitable (see Appendix). This contrasts with most of the other Japanese firms active in the electronics sector.

Despite such high aspirations, the group is conscious that it cannot rely solely on its own labs and that it will have to acquire foreign technology. That is why, in April 2012, Canon bought Océ, the Dutch printer maker. This take-over was an ambitious plan for Canon. The company paid \$1 billion, its largest ever purchase. In acquiring Océ, Canon had two main goals. It wanted to strengthen its core activities and to diversify the risk of currency fluctuation. By keeping

the manufacturing base in the Netherlands, Canon would spread the currency risk between the yen and the euro. With the same logic, in September 2012, Canon bought Iris, a Belgian company specializing in software solutions and information scanning.

Canon is also looking to optimize its supply chain by producing outside Japan. In June 2012, the company established a subsidiary in Brazil to manufacture compact digital cameras. Brazil is considered a lucrative place to invest, as it is forecast to grow rapidly due to hosting major sporting events, such as the FIFA World Cup and Olympic Games. Moreover, Brazil has the fourth-largest digital camera market after the US, China, and Japan. Increasing brand awareness in emerging countries is one of Canon's main concerns. In India, which is an important target for the Japanese firm, Canon rolled out a chain of branded retail stores called "Canon Image Square." The concept is very similar to the famous "Apple Store." Customers are able to handle Canon digital cameras and printers to experience them before deciding to purchase them. The group wants to increase the number of these stores in India from 50 at the end of 2011 to 300 in 2014.

Currently, everything seems to be going well for Canon; it is making a profit and is leading in many fields. However, the firm knows that being successful today does not necessarily mean being successful tomorrow. So the management is constantly trying to adjust its business activities to fit current trends. It is also preparing the company in anticipation of future troubles. Even if Canon is not directly threatened by any foreign conglomerates such as Samsung, another threat is already making Canon's strategy change.

Canon's Biggest Fear: Smartphones

The main advantage of smartphones is that they remove the need to carry other pocket devices. Unfortunately for Canon, one of the devices smartphones are beginning to replace is the digital camera. By proposing integrated cameras with an increasing number of megapixels, the next generation of smartphones may put fear into Canon's shareholders. The Japanese company has already reduced its forecast in revenue and profit for the coming years, mainly due to competition

with smartphones. For Canon, being focused on fewer areas of business has been a strength until now, because it has been able to maintain and perpetuate its leadership. However, if one of these businesses is doomed, Canon may face huge difficulties in the near future.

Finding New Business Opportunities

However, Canon's management is sharp and has already started to anticipate how the group will adapt to this new threat. This is why the company has intensified efforts to enter into two new business domains: medical imaging and intelligent robots. In 2011, Mitarai, the president of Canon, said in an interview for the Japan Times that the company plans to expend 1 trillion yen in mergers and acquisitions within five years to improve its presence in these two sectors. He explained that he wanted to benefit from the strength of the yen to acquire companies abroad. For its medical division, the company wants to focus on diagnostic devices. The US — specifically Maryland, where one of the top "biotechnology clusters" is situated — will be where the R&D will be conducted. Canon has also launched a collaboration with the University of Maryland to develop an automated system providing infectious disease diagnostics. It will simplify the duties of the clinical staff and significantly improve the speed and efficiency of such activities. The goal of this partnership is to harness the strength of both institutions, to innovate, and to increase Canon's commercial portfolio.

With regards to intelligent robots, the main goal pursued by Canon is the automation of production. Japan is a world leader in robotics and Canon wants to be a major player in this sector. Instead of relocating all activities to countries where labor is cheap, Canon also wants to pursue the robot manufacturing of several products in Japan. The main goal is to cut costs. The company wants to move towards machine-only production in the next few years. However, the chairman has said that jobs will not be cut, and that workers will be transferred to do new kinds of work.

However, even if the fear of smartphones has pushed Canon to find new business opportunities for the future, the company still

believes that the digital camera market remains promising. The belief is that by constantly innovating it can compete against smartphones. During the Consumer Electronics Show in 2013, Canon presented a new version of the digital camera: the PowerShot N.¹² The goal pursued with the launch of this device is to create a new infatuation for consumers who threaten to abandon digital cameras for smartphones. In addition to unique design and ergonomics, the device provides the ability to take high-quality photographs, personalize them, and then publish them directly to social networks via Wi-Fi connectivity. The device also offers iOS and Android support. With the PowerShot N, Canon hopes to reinvigorate the digital camera market, where its popularity is slowly declining.

JAPANESE MANAGEMENT TAKING DIFFERENT ROUTES

As we have seen, Sony, Hitachi, and Canon have similar cultural backgrounds; they are traditional Japanese corporations and are confronted with a world that is becoming increasingly competitive. Despite this they have adopted different business strategies in order to grow.

In conclusion, these three cases reflect the seismic changes that the electronics industry in Japan is undergoing. Panasonic, Sharp, Toshiba and many others are also trying to change their core business strategies because of similar problems. Thus, the general conclusions that can be drawn for the three companies are also valid for much of the sector overall. Being profitable in this new global environment is the main concern of Japanese firms, a factor with which they were not confronted during previous decades. The decline can thus be an opportunity for them to entirely rethink their business model and management style. If they succeed, these companies could emerge stronger and regain their glorious pasts; if they fail, Japan could lose its image as a world hub of high-tech electronics.

¹² See Appendix for more details.

QUESTIONS

1. What are the main reasons for the decline of the Japanese electronics industry?
2. Why do so many Japanese companies find it difficult to succeed in the globalized business world?
3. Which business strategy did each of the companies apply?
4. Are these strategies Japanese or Western?
5. Do you think they will be successful?
6. What management advice can you give to the three companies?

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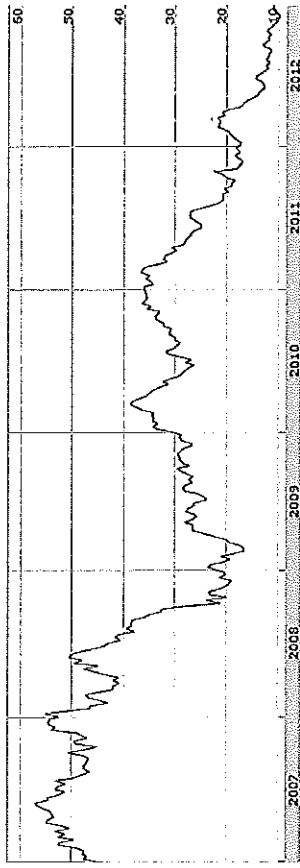
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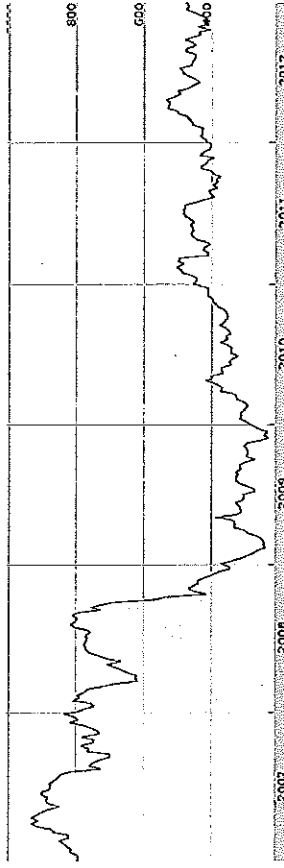
APPENDIX

Sony Stock



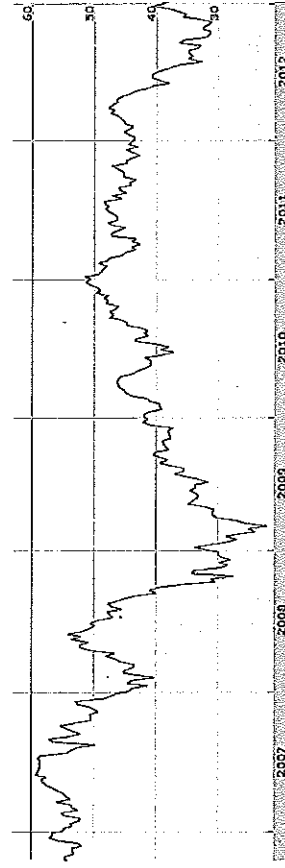
(Source: Google Finance)

Hitachi Stock



(Source: Google Finance)

Canon Stock



(Source: Google Finance)

Sony Results

(In JPY Million)	2008-03	2009-03	2010-03	2011-03	2012-03
Revenue	8,845,747	7,729,993	7,213,998	7,181,273	6,493,212
Net income	368,352	-98,938	-40,802	-259,585	-456,660

(Source: Morningstar)

Hitachi Results

(In JPY Million)	2007-03	2008-03	2009-03	2010-03	2011-03	2012-03
Revenue	10,248,488	11,194,237	10,000,369	8,968,546	9,315,807	9,387,587
Net income	-32,754	-57,932	-787,337	-106,961	238,869	103,958

(Source: Morningstar)

Canon Results

(In JPY Million)	2007-03	2008-03	2009-03	2010-03	2011-03	2012-03
Revenue	4,496,368	4,090,084	3,209,201	3,706,901	3,557,433	3,493,151
Net income	489,997	308,845	131,647	246,603	248,63	224,834

(Source: Morningstar)

Sony Xperia Z

Design:



Characteristics

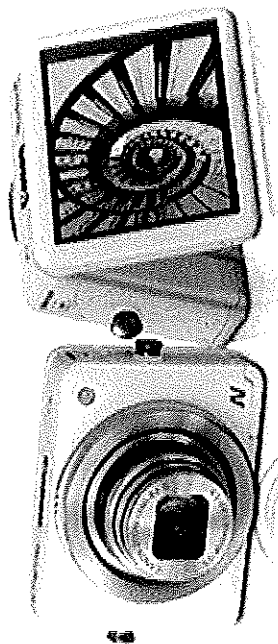
- 5" 1080 x 1920p full HD Reality Display with Mobile BRAVIA® Engine 2
- 13MP Fast Capture camera with Exmor RS for mobile, the world's first image sensor with HDR video for smartphones
- Dust and water resistant (IP55 & IP57) with a durable glass display
- 1.5 GHz asynchronous quad-core Snapdragon S4 processor with 2GB RAM
- Battery STAMINA mode improves your standby time by at least 4 times
- One-touch functions enable consumers to easily share music, photos and videos from their smartphone to an array of NFC-enabled Sony devices

- LTE, 4G for superfast entertainment
- A unique OmniBalance design with subtly rounded edges and smooth reflective surfaces on all sides

(Source: Sony Mobile)

Canon Powershot N

Design:



Features

- Built-in Wi-Fi® allows you to wirelessly transfer your images to social networking sites through CANON IMAGE GATEWAY#; to a PC or upload virtually anywhere on your iOS® or Android™ device* with the free download of the Canon CameraWindow app**.
- The convenient Mobile Device Connect Button allows you to connect to your Android™ or iOS® device* for quick and easy sharing.
- New Creative Shot mode uses composition, color and lighting from your original image to create five unique images with an artistic flair.
- Newly designed 2.8-inch capacitive, tilt, touch panel LCD; lens shutter; and zoom ring offer users a unique and creative way to capture photos.

- 8x Optical Zoom and 28mm Wide-Angle lens with Optical Image Stabilizer reduces camera shake so you achieve brilliant images.
- 12.1 Megapixel High-Sensitivity CMOS sensor combined with a DIGIC 5 Image Processor creates the Canon HS SYSTEM for improved low-light performance up to ISO 6400 and enhanced image quality.
- Capture stunning 1080p Full HD video with a dedicated movie button, plus zoom while shooting.
- Intelligent IS automatically chooses from six different modes to optimize image stabilization for the shooting condition.

(Source: Canon official website)