

Japanese Electronics Companies: Challenges and Countermeasures

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Changing Operating Environment

1. Evolving demand mix—focus shifting:

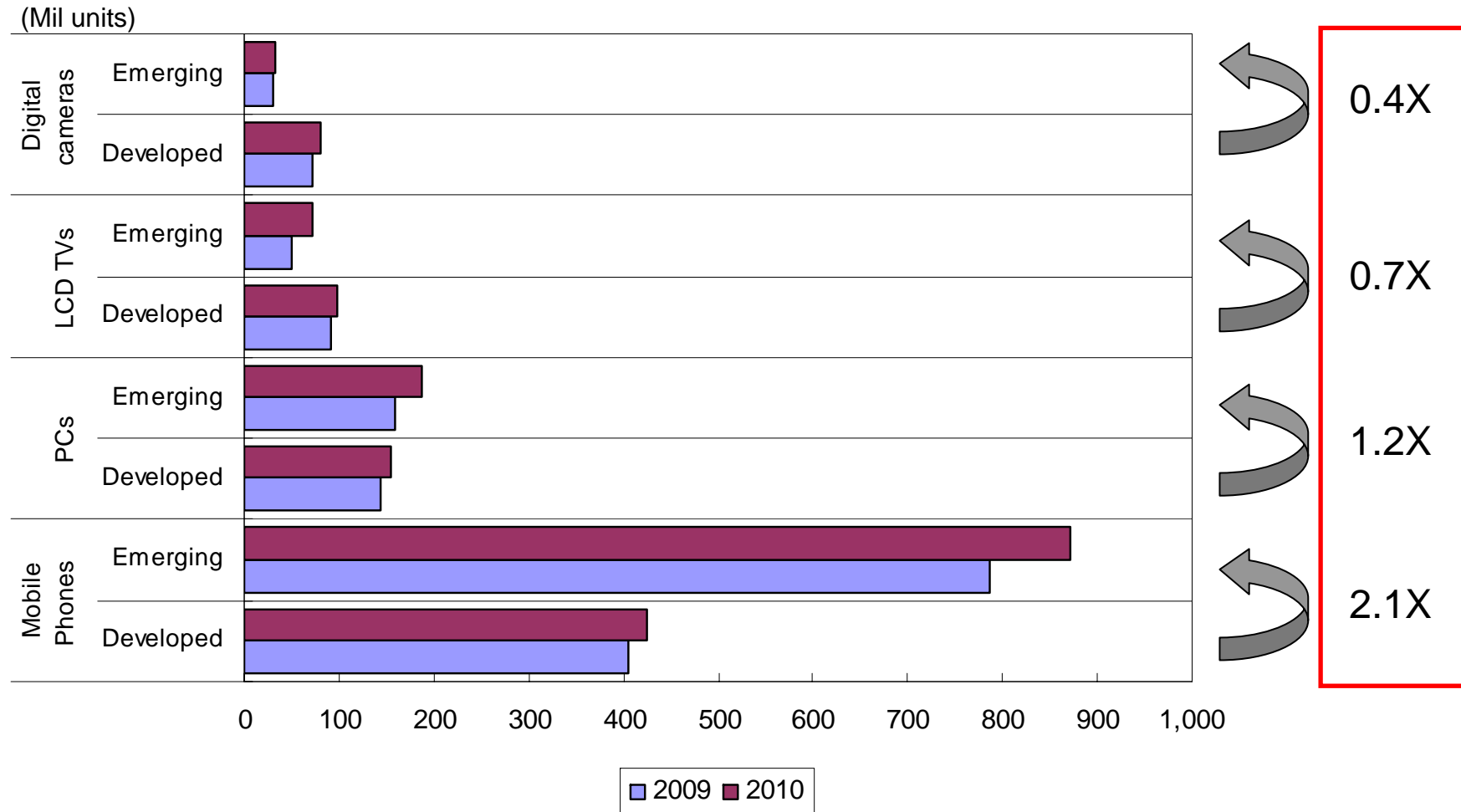
- Japan, US, and Europe → Asia
- Low-volume high-end models → High-volume low-end

2. Changes in how value is added

- Changes in function: Hardware → Software/services
Product advancements accelerating
- Time-based changes: More volatile
Large-scale changes over short periods of time

Growth Potential in Emerging Economies

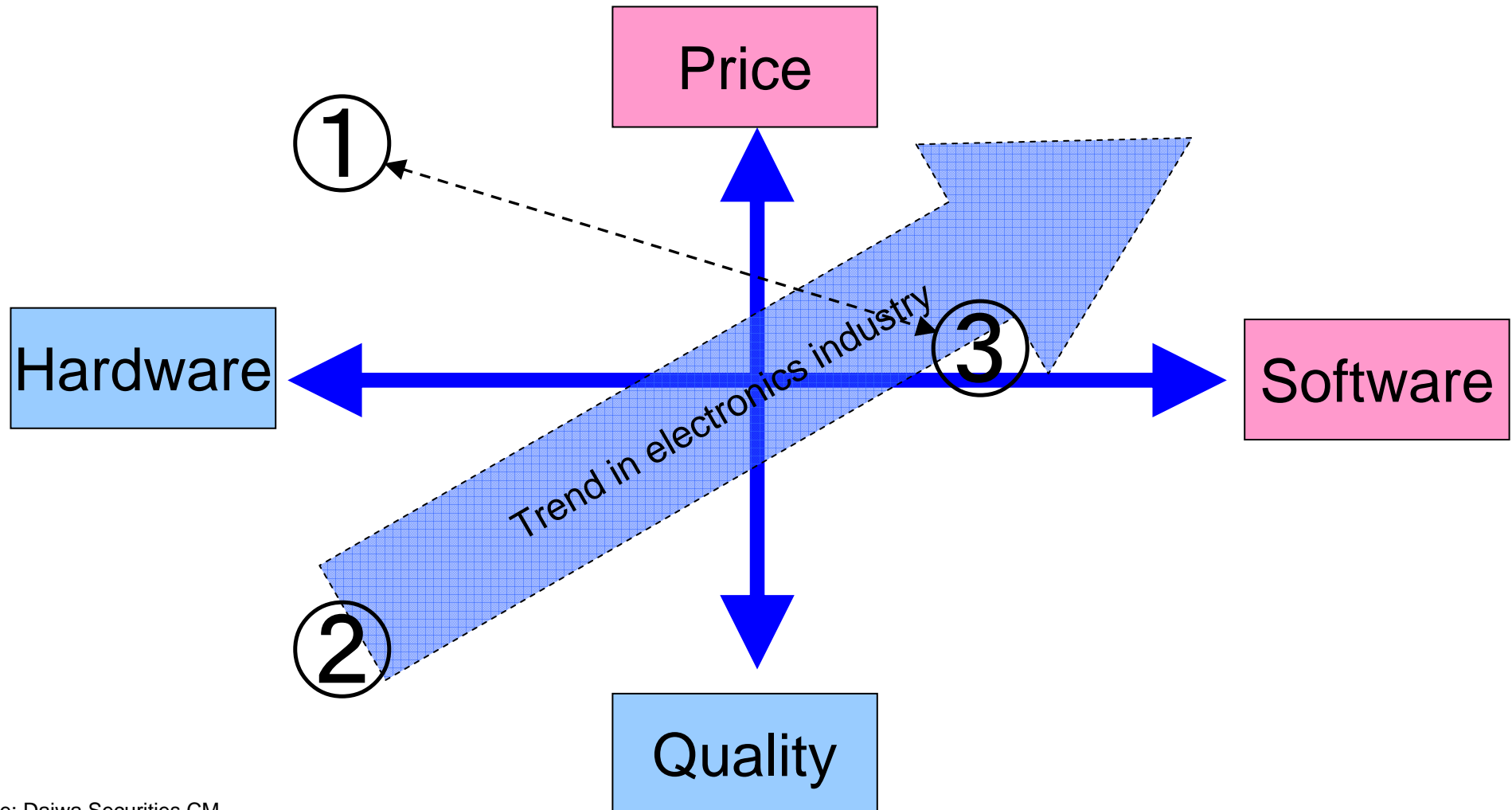
➤ Higher volume needed (also more volatile)



Source: Compiled by Daiwa Securities CM.

Challenges Facing Japanese Electronics Firms

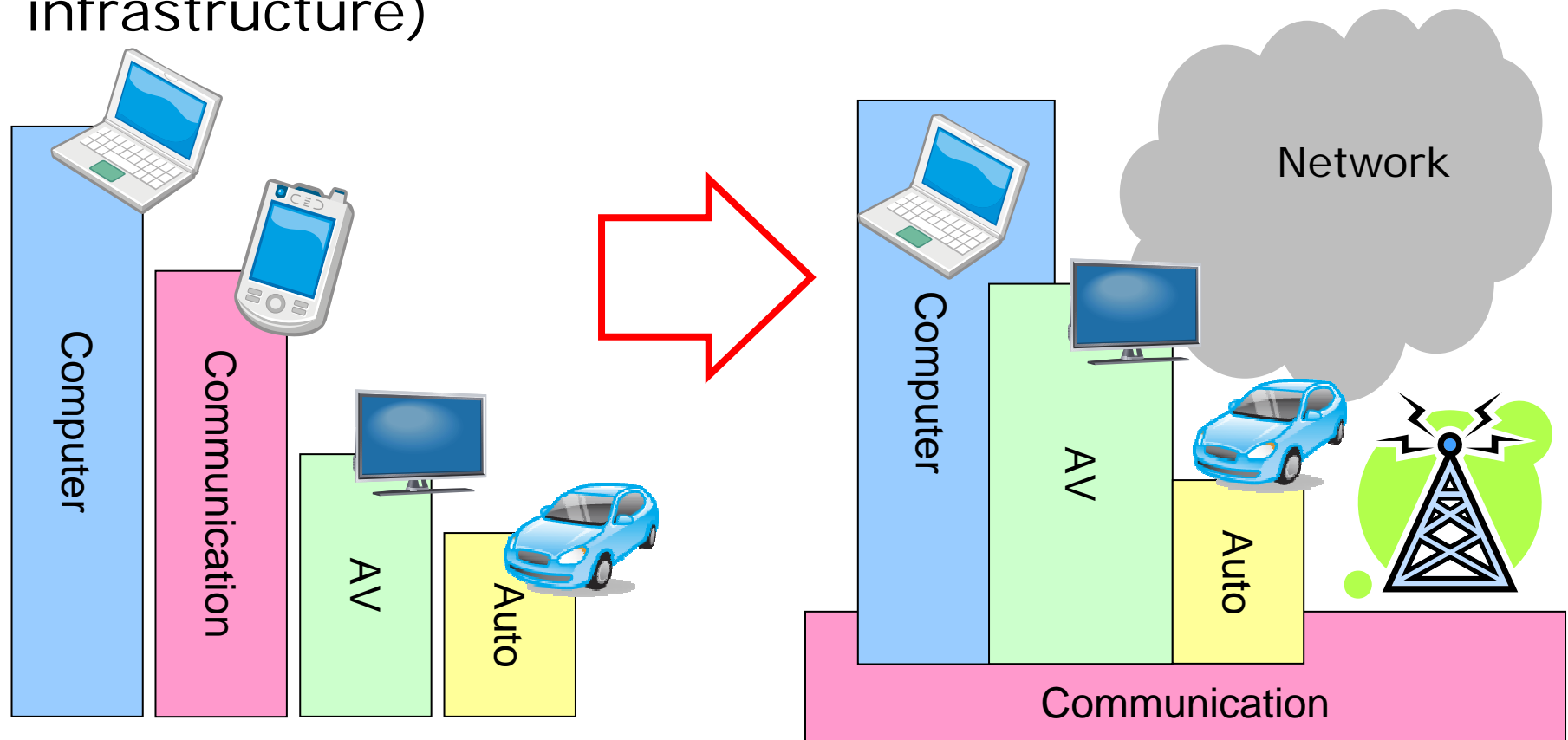
- Japan sandwiched between Asia and US



Source: Daiwa Securities CM

Underlying Conditions of Electronics Market Changing

- Changes in tech environment
 - Cheap, available-anywhere networks (basic infrastructure)



Examples of Changes at Japanese Firms (1)

Changing demand mix

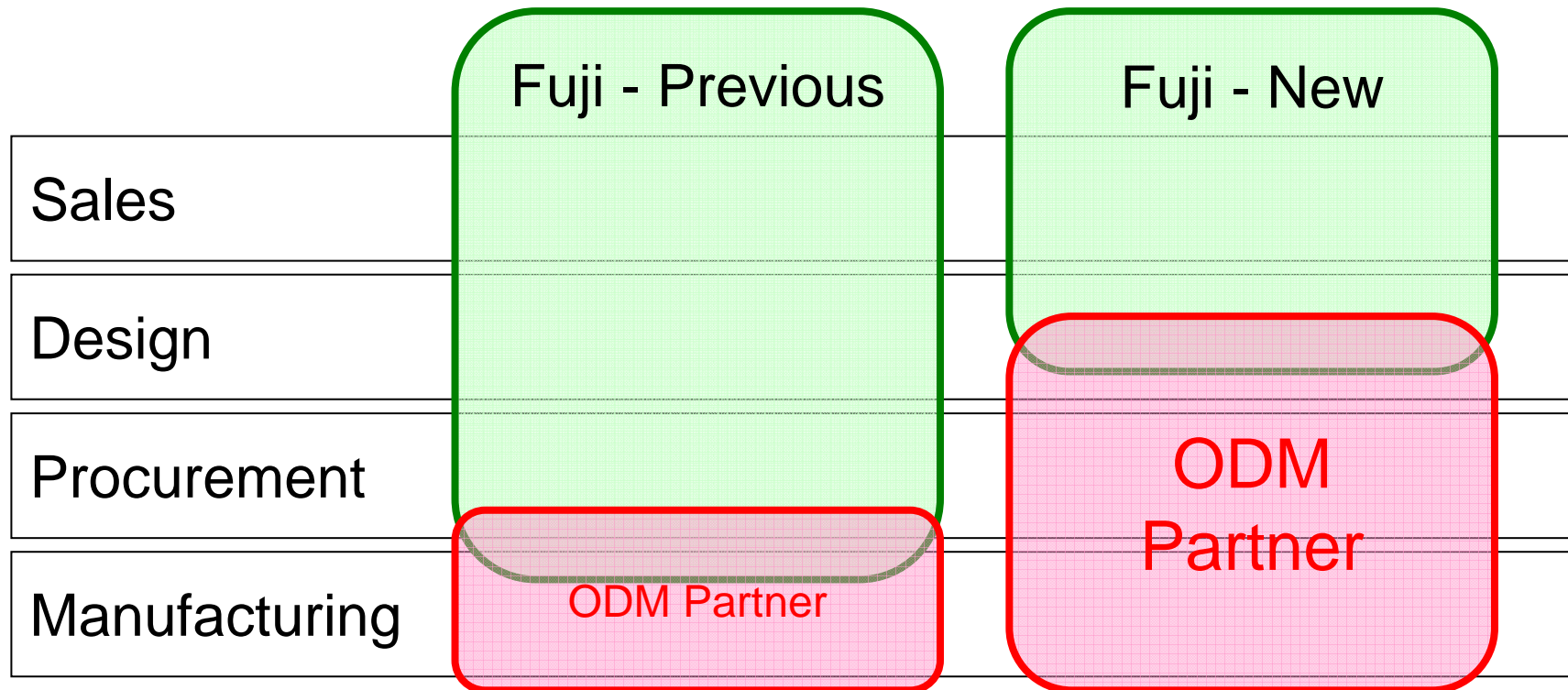
- Operations more thoroughly localized
 - Local production alone not enough
 - Local base needed for all ops—design, R&D, production and sales

- Shimadzu
 - Planning and designing spectrophotometers in China; achieved low price by paring functions
- FujiFilm Holdings
 - Improved earnings in digital cameras; actively uses ODM partners (making friends out of enemies)

Examples of Changes at Japanese Firms (1)

➤ FujiFilm Holdings

- Improved earnings in digital cameras; actively uses ODM partners (making friends out of enemies)



Source: Daiwa Securities CM

Examples of Changes at Japanese Firms (2)

Changes in how value is added

- Combinations of specialized parts → combinations of standard parts plus software/services

➤ Hardware manufactured with focus on service offerings

- Hardware tech + networks → improved service functionality

➤ Topcon

- Measuring instruments + GPS → auto controls for agricultural, construction equipment

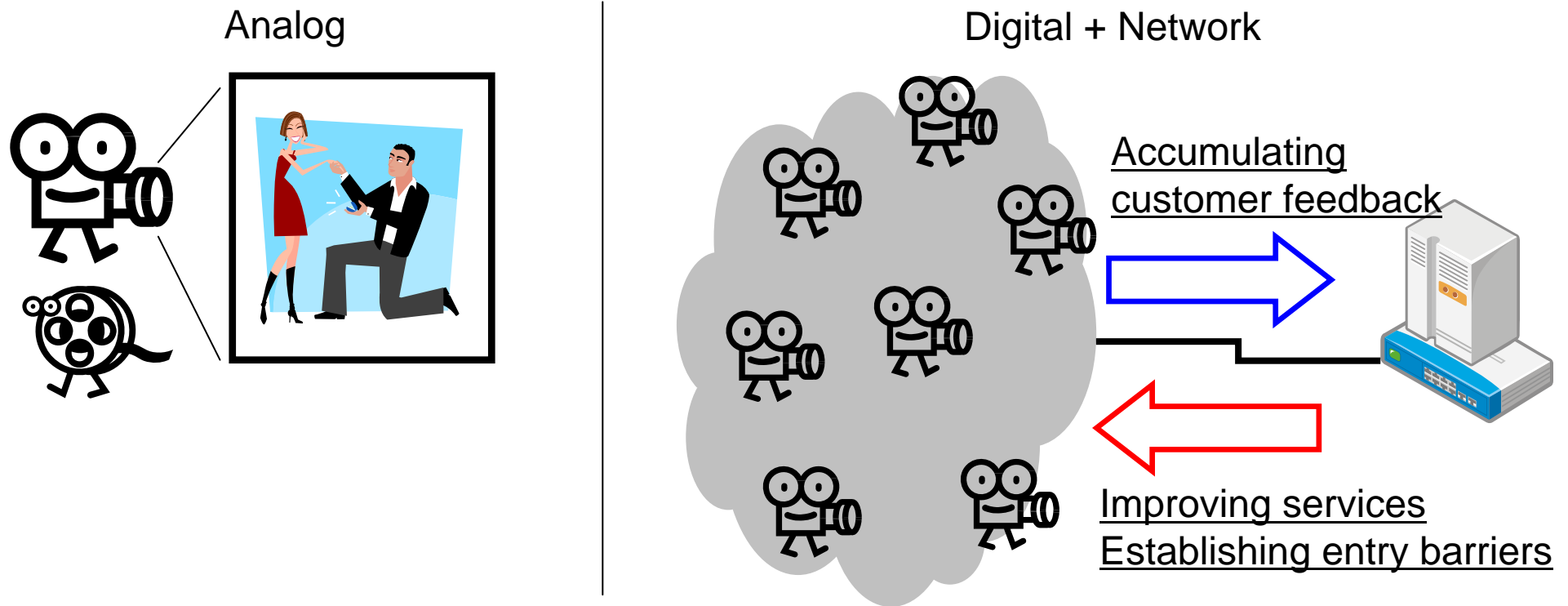
➤ Ushio

- Projectors + networks → advance warnings of breakdowns thru maintenance services

Examples of Changes at Japanese Firms (2)

➤ Ushio

- Projectors + networks → advance warnings of breakdowns thru maintenance services



Source: Daiwa Securities CM

Examples of Changes at Japanese Firms (3)

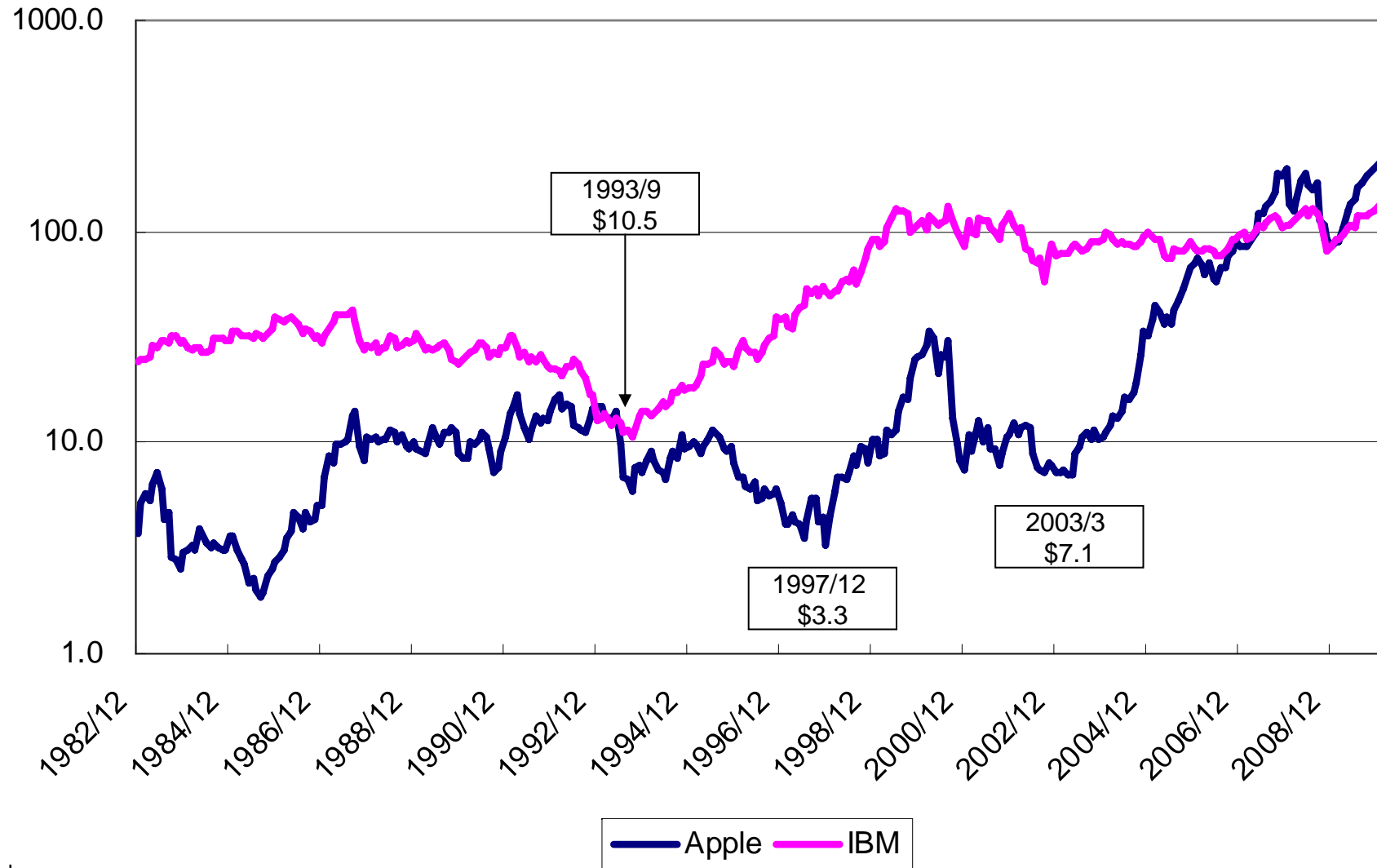
- Moving away from manufacturing mindset
 - Focus on speed, software/service considerations

➤ Changes at Panasonic



Source: Daiwa Securities CM

Example of Stocks Regaining Favor with Investors



Source: Bloomberg



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