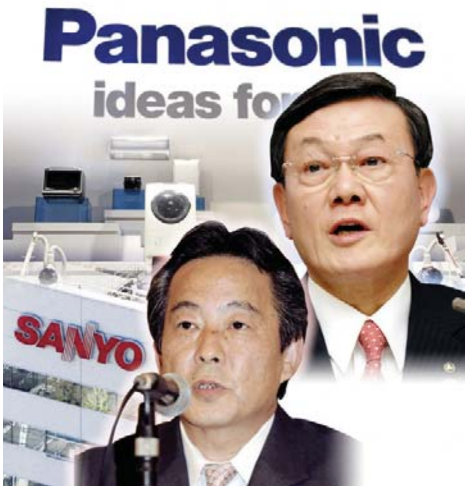
TOPICS

Panasonic to Buy Out Sanyo

Electronics Industry in Sweeping Shakeup

By Hiroshi OKABE

Photo: Kyodo News



Panasonic Corp. President Fumio Otsubo (right) & Sanyo Electric Co. President Seiichiro Sano

Japan's electronics industry now finds itself on the verge of drastic realignment. Panasonic Corp. has decided to turn Sanyo Electric Co. into a subsidiary, making it certain to give birth to Japan's biggest comprehensive electronics manufacturer with sales of ¥11 trillion. The latest financial crisis has dampened personal consumption in the United States, dealing a telling blow to Japan's exports to that country and forcing Japanese electronics makers, heavily reliant on sales in the US market, to revamp their business strategies.

Panasonic, determined to "climb to the top of the world's electronics industry 10 years hence," as President Fumio Otsubo has put it, has come up with an aggressive M&A strategy to reinforce its growth potential for the "next age" by making the best of the current predicament. The Japanese electronics industry is marked, in effect, by a state of "saturation" with about 10 giants, each boasting sales of more than ¥1 trillion, locked in fierce competition. But the large-scale Panasonic-Sanyo merger, now in the making, could trigger a succession of moves for sweeping realignment.

Panasonic, which shed the previous name of Matsushita Electric Industrial Co. last October, boasts a wide-ranging product lineup, including home appliances, personal computers, digital cameras and semiconductors, under the catchphrase "Panasonic for the entire home." Nonetheless, Panasonic has yet to draw up a full growth strategy in the sphere of eco-friendly energy such as solar cells. It ranks only fifth in the world in the field of lithium-ion batteries, which are considered to hold the key to the development of next-generation eco-friendly automobiles such as hybrid cars.

Therefore, the absorption of Sanyo, a top firm in this field, will arm Panasonic with a powerful competitive edge at one stroke. Moreover, Panasonic, which earlier withdrew from the solar cell business, will be able to approach its target of "Panasonic for the entire home" if it takes in Sanyo's solar cell operations as its subsidiary.

Sanyo, meanwhile, has continued to scale back its operations due to the persistent deterioration of its business performance. It has not only sold its mobile phone division to Kyocera Corp. but has also been forced to gradually reduce the home appliance business, once the mainstay of Sanyo. Three financial institutions – Sumitomo Mitsui Banking Corp., Daiwa Securities SMBC Co. and Goldman Sachs Group Inc. of the United States – pitched in to support Sanyo's drive for rehabilitation as major shareholders by accepting preferred shares. But this also posed a troublesome question for Sanyo – when the three financial groups dispose of their preferred shares, who should be chosen as buyers?

Sanyo set out to weigh the advisability of two main alternatives – whether to purchase the preferred shares on its own account or to choose a third party, "which would respect the independence of Sanyo's management." As it turned out, however, the outbreak of financial turmoil, spreading from the United States, brought about a drastic change in the market environment for electronic products, prompting Sanyo's decision to come under the wing of Panasonic.

Of late, the Japanese electronics industry has been marked by stepped-up realignment in particular business fields. For instance, Sony Corp. has allied with Toshiba Corp. and Sharp Corp. in regard to liquid crystal displays for flat-panel TVs, while three firms – Panasonic, Hitachi Ltd. and Canon Inc. – have formed a partnership in the sphere of plasma display panels. Such realignment in particular businesses has also been witnessed among semiconductor and mobile phone makers. The respective electronics makers involved have concentrated resources in the particular fields where they have proved strong, while cutting off less competitive businesses. They have thus pushed ahead with a "selective concentration" strategy.

Panasonic's acquisition of Sanyo will be far more ambitious in scale than those realignment moves in particular business fields in that a giant with huge sales of ¥9 trillion will absorb its big-name rival with sales of ¥2 trillion. Industry sources view it as certain that the buyout will have an immense impact on the strategies of rival firms such as Toshiba, Sony and Hitachi, which will consequently tumble from the top position in Japan. They even do not rule out the possibility that it will trigger an international chain reaction of shakeup involving such giants as General Electric Co. of the United States, now the topmost electronics firm in the world, and Siemens AG of Germany as well as Samsung Electronics Co. and LG Electronics Inc. of South Korea.

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Japanese Financial Groups Up Global Presence

Led by Mitsubishi UFJ, Nomura

While European and US financial institutions have plunged into financial difficulties and need to get public capital injections amid the US-originated financial crisis, their Japanese competitors have expanded their global presence. Japanese banks, saddled with huge nonperforming loans in the second half of the 1990s, managed to turn around on fund injections by the Japanese government. Along with Middle East nations rich with oil money and China boasting the world's largest foreign exchange reserves, Japan is helping bail out European and US financial institutions.

Some 24 hours after Lehman Brothers Holdings Inc. went bankrupt in September, Nomura Holdings Inc. became the first bidder for the Asia-Pacific and European operations of the major US investment bank. The largest Japanese securities company sought the acquisition to enhance its global investment banking services.

In October, Mitsubishi UFJ Financial Group Inc. invested $9 billion in Morgan Stanley Inc., acquiring a 21% stake in the major US investment bank faced with financial plight and becoming Morgan Stanley's largest shareholder. It is considering merging its Mitsubishi UFJ Securities Co. unit with Morgan Stanley Japan Securities Co. into Japan's largest securities firm in terms of wholesale operations, including M&A arrangements and bond underwriting services. Among other Japanese banking giants, Mizuho Financial Group Inc. has invested some ¥100 billion yen in Merrill Lynch & Co. Sumitomo Mitsui Financial Group Inc. has also injected some ¥100 billion into the capital base of British bank Barclays Plc.

Japanese financial institutions have so far been criticized for their lower profit margins than those for their European and US rivals. Ironically, Japanese financial institutions "can now support their European and US competitors since their past failure to compete with these foreign rivals in the field of sophisticated global financial services has allowed them to limit losses on the subprime mortgage crisis," said an industry source. The real strength of Japanese institutions will be tested when a new financial order comes into being following the collapse of US financial capitalism.

Kabuki-za's Demolition Plan Triggers Controversy

Popular Tourist Spot with 120-Year Tradition

The Kabuki-za Theater has been home to the traditional Japanese performing art ever since it opened on Nov. 21, 1889.

The Kabuki-za Theater, a premier playhouse for Japan's traditional *kabuki* performing art, is to be demolished and rebuilt after performances in April 2010. Located in Tokyo's posh Ginza district, the theater boasts a history of some 120 years and has served as a center for Japan's stage art. Artists and other industry people have expressed regret over the plan to replace it with a theater-office complex because it has been popular as a historic building as well.

In 2005, UNESCO designated *kabuki* as one of the "Masterpieces of the Oral and Intangible Heritage of Humanity." The theater is a popular spot not only for domestic tourists but also for foreign visitors as a place where they can enjoy Japan's leading traditional performing art throughout the year.

Demolition and reconstruction are planned because the building, rebuilt for the third time in 1951, became old and its earthquake resistance is questioned. In a bid to preserve traditional buildings, the Architectural Institute of Japan has submitted a petition calling for the preservation and repair of Kabuki-za as a structure of cultural heritage. The management of commercial theaters faces rough going, but there are examples of preservation such as the Royal Opera House in London. The British theater has had its interiors fully renovated while maintaining its façade. If Kabuki-za is to be preserved, it is essential for the theater's operator to cooperate and for the government to be committed to maintaining tradition while getting public understanding.

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