

“Selection & Concentration”

Interviewer: Hirose Keiichi

“Selection & Concentration” Strategy Helps Canon Keep the World’s Top Market Shares in Digital Cameras and Other Products.



BOASTING the world’s highest market shares in digital cameras and projectors, Canon is performing strongly. President and CEO Mitarai Fujio has always attracted strong public interest for his unique corporate strategy and remarks. Specifically, he has decided to pull out of personal computer-related business areas under the so-called “selection and concentration” strategy, and has hammered out a policy of winning cost-cutting competition with Asian rivals by taking such measures as the introduction of fully automated, unmanned production facilities. He is now regarded as a symbolic corporate manager in Japan’s manufacturing sector. In this interview, he responded to various questions, including tips on how to maintain strong competitiveness in the world marketplace. He also discussed Japan’s manufacturing industry and Japan-China relations.

Photo : Kyodo News

Canon has been enjoying robust sales and profits for years. What is the secret of maintaining strong competitiveness?

Mitarai: We are just doing what we should. We have pushed ahead with “selection and concentration” since 1995, with personnel and capital focused on our strong business areas. In order to bolster the competitiveness of our products, we introduced 3D computer-aided design (CAD) systems to slash huge costs and save time for making numerous prototypes.

The growth of digital camera sales is slackening, apparently casting a shadow over digital equipment-led economic growth. Don’t you fret about the environment surrounding your management?

Mitarai: We would have been at a loss facing a mountain of dead inventories if that occurred decades ago. Today, we are not beset with excessive inventories due to the cell production system which is meant to respond to customers’ needs for small lots and quick delivery. The digital camera market is certainly entering the phase of maturity, indicating that some makers will be forced out of the market. I have seen markets maturing many times since I started working in this industrial sector 43 years ago –



from the days of analog cameras. I believe growth in sales of digital cameras as well will slow down rapidly and that the market will mature in three to five years. Sales of digital cameras have shown annual growth of more than 50% in recent years. But such a high growth rate is not expected for the years to come even if economic activity remains relatively robust.

At stake under such circumstances is how to maintain our strong earnings. Our basic strategy is to shift our focus to

high value-added products. Competition is expected to revolve around the performances and specifications of high-end cameras although the sales growth of digital cameras is projected to slow. The digital single-lens-reflex (SLR) camera is expected to expand its market share at an accelerated pace. We are resolved to win a fierce race with a thorough cost reduction. It’s a competition in high technologies as well. Our company commands the outstanding position in the SLR camera market mainly because we have self-manufactured CMOS sensors. On the strength of such a point, we intend to win the race.

Canon has released the SED, or Surface-conduction Electron-emitter Display, a new panel for TVs, as one of its new business areas. What is your corporate strategy concerning new businesses?

Mitarai: I place great expectations on the SED. We are aiming to put our SED products on the market from 2005 and foster the SED division into a full-fledged one in few years. I’m confident we stand a fair chance of success. My policy is to pull out as soon as possible if the odds are against us. We are quite confident about having an advantageous position in the SED area because our product’s power consumption is one-third of the plasma display panel (PDP) and two-

thirds of the liquid crystal display (LCD) panel. Also, our SED far exceeds LCD panels in response time. At present, the SED is superior to PDP and LCD panels in power consumption, running costs and image sharpness. The remaining task facing us is how to reduce manufacturing costs. That requires more time. Also promising are the medical care and biotechnology areas, specifically digital X-ray devices and fundus (back of the eye) cameras. Moreover, areas related to the environment and human sciences are expected to grow steadily.

How do you address the question of sharing domestic and overseas production?

Mitarai: In principle, we are planning to locate our production facilities at the most appropriate sites in the long term. Because the labor cost gap among countries is still wide, there is a tendency for production facilities to be located at sites where labor costs are low. The global trading system, however, is aimed at narrowing the wealth gap among countries as much as possible. Trade is under way in the world to that end. Today, developing countries are being industrialized at a much higher speed than before. In the long term, therefore, manufacturers will undoubtedly adopt a policy of producing and selling goods in the same market, although they may temporarily use some countries as their export bases. The long-term strategy, I believe, calls for leaving production of high value-added goods in Japan while turning out products fitted for local needs abroad. Some low-value products may continue to be manufactured in developing countries with low labor costs, however, local manufacturing for local selling will become the mainstay strategy among Japanese manufacturers in the long run.

Canon continues to boost capital spending, with outlays for 2004 up around 20% from the previous fiscal year. Plant and equipment investment in Japan by Canon and other Japanese manufacturers has underpinned the nation's economic activity and helped

Table 1 Sales by Area

	million yen			
	2000	2001	2002	2003
Total	2,696,420	2,907,573	2,940,128	3,198,072
Domestic Total	779,366	827,288	732,551	801,400
Overseas Total	1,917,054	2,080,285	2,207,577	2,396,672
America	889,764	982,104	1,010,166	1,045,166
Europe	757,942	806,104	857,167	969,042
Others	269,348	292,077	340,244	382,464

Table 2 Research and Development (R&D) costs

	million yen			
	2000	2001	2002	2003
R&D costs	194,552	218,616	233,669	259,140
R&D costs-percentage of total sales	7.2%	7.5%	7.9%	8.1%

Source: Canon Inc. (Table 1 & 2)

boost employment in Japan and abroad. We invest not only in Japan but in other countries as well. Total overseas investment accounts for 41-42% and in Japan for 58-59%. These figures have remained unchanged for the past few years. Domestic investment focuses on high value-added products. You can say we are replacing factories with the primary aim of raising products' value. We need to set up SED panel TV manufacturing plants based on the new technology. We are constantly transferring production lines for low-value products, including those of our subsidiaries, to China and other countries while filling the vacant lots in Japan with factories for the manufacture of high value-added products. This move does not directly affect the domestic employment situation. In total, we have 10,000 plus several thousand outside workers, including those dispatched by temporary manpower agencies, and thus face a labor shortage rather than a surplus.

Baby-boomer workers are going to start retiring around 2007 in Japan. Will the mass retirements affect Japanese manufacturers?

Mitarai: At Canon, a number of employees continue working with our company even after they retire, although whether they will stay on or not depends on the company's judgment. We have skilled workers aged from 63 to 65. We conclude advisory contracts with them

after their retirements, with the contracts to be renewed annually. We have also introduced a "Meister system" and an "Expert system" so that techniques can be handed down to the next generation. Those who have won the title of meister are entitled to enjoy French cuisine with the president. They are also given watches and pay hikes. Meanwhile, they are obliged to nurture the next generation. There is also a "silver plan" in which senior employees work for three days a week after retirement. We intend to promote this plan. In order to slash personnel costs, we have a large number of temporary workers. Such workers currently account for approximately 70% of the total factory workforce. They stop working when their contracts with our company expire. Our policy, however, is not to employ such workers for technological development. They work mainly at production sites or are engaged in desk work.

The Japanese manufacturing sector is said to have come back after having undergone the so-called "lost decade." What are your thoughts on the current state and future of the manufacturing sector?

Mitarai: The Japanese manufacturing sector has recovered on the strength of the restructuring that had reduced its burden. I think the current recovery means that the restructuring has run its course. I believe it is important for

Photo: Canon Inc.



SED (Prototype)

industry, government and academia to cooperate in creating new high value-added products under a “national policy.” The United States beat Japan in the 1990s mainly because President Ronald Reagan reinforced the US manufacturing sector in the 1980s with the cooperation of industry, government and academia and with national projects, while Japan saw a huge amount of money flowing into the non-manufacturing sector such as real estate, resulting in the collapse of the economic bubble. The United States restored its production

capabilities by implementing a variety of measures after having lost to Japan in the 1970s. Japan, on the other hand, had a spree talking about slowing down for years. As a result, Japan was outpaced by the United States in the 1990s. I don’t think that Japan has lost its potential. There is no doubt that Japan will come back if an appropriate system is established. In the 1970s, Japan’s total hours worked reached 2,200-2,300 annually, compared with 1,900 hours for the United States. Today, working hours for the two countries are almost

the same at 1,800. The United States made efforts to reduce total work hours by 100 hours while Japan saw its total hours worked fall to 400 without making efforts. It’s natural that Japan should lose its strength. We don’t need to feel disappointed. We need to make efforts to regain lost ground once again.

Companies from other Asian countries are gaining power. How do you plan to cope with them?

Mitarai: We’re in the age of globalization. I don’t feel any special sense of competition because a rival company is from a foreign country such as South Korea or China. The crux is products. Rivalry revolves around products. We have defeated our German rivals after 50 years of competition. Japanese consumer electronics makers also beat American rivals, forcing, for instance, General Electric out of the home appliance market. The nationality of companies has nothing to do with global competition.

The Japanese government is to introduce an equity-swap system in 2006 in a bid to boost M&A by foreign businesses. Analysts say some Japanese companies will be acquired by foreign firms.

Mitarai: Friendly M&A is good because it helps revitalize the Japanese economy. But hostile M&A is, I think, against the

Canon Inc.

Canon started out as the Precision Optical Instruments Laboratory in 1933. A handful of young engineers set up the laboratory in Tokyo with a burning passion for outranking German makers of high-grade cameras. Mitarai Takeshi, then a medical practitioner, extended financial support to the laboratory, in response to the young engineers’ wishes to establish a precision instrument sector in Japan. He later became president.

Canon developed markedly after the end of World War II. It resumed production of high-grade cameras and introduced lower-priced products as well. As a result, the company’s sales grew strongly. The company then branched out into office equipment such as photocopiers as part of efforts to expand its business area. It has promoted the development of digital products in recent years. Today, it commands one of the world’s highest market shares in digital cameras, digital copiers and projectors.

Canon has also moved into medical and biotechnology-related equipment as well as semiconductor-manufacturing equipment. Together with Toshiba Corp., it has developed the next generation of SED flat panels that feature lower power consumption. It is making preparations to mass-produce SED panels as the main rival product of LCD and PDP screens.

Mitarai Fujio became president in 1995. Pushing “selection and concentration,” he decided to withdraw from the PC-related business while focusing on its strong business areas. He is well versed in the American style of management because he served as president of Canon’s US subsidiary and is thus strong in international operations. He set forth an idea of establishing fully automated, unmanned factories in Japan in a bid to compete effectively with other Asian countries in terms of labor costs. He is widely viewed as one of Japan’s most effective business leaders.

national interest because it leads to the outflow of technologies due to the limited scale of Japanese businesses. We should have safeguards similar to those of the United States and European nations. The introduction of an equity-swap system should be linked with such safeguards. The United States has introduced a number of measures, such as “poison pills” to prevent hostile takeovers. Japan also needs to implement such measures, and Nippon Keidanren (Japan Business Federation) is supporting the idea of introducing such measures. As I serve as a chairman of Nippon Keidanren’s Economic Law Committee, I would like to promote such moves.

What do you think of Japan-US relations after the reelection of President George W. Bush?

Mitarai: Basically, there will be no change in bilateral relations. I’m delighted to see Bush reelected. The Republican Party focuses on the promotion of international trade while the Democratic Party prioritizes domestic employment. US economic policy would have been changed under the administration of the Democratic Party. Japan and the United States will maintain their good relations in the political arena, causing no concerns among Japanese businesses. Since the Sept. 11 terrorist attacks, however, the US administration has boosted fiscal spending to keep its economy going, resulting in the large “twin deficits.” China has eclipsed Japan as the cause of the US deficit. This indicates that foreign exchange issues will loom large. The US dollar has been depreciating against other major currencies since Bush’s reelection. The temporary adjustment of the dollar’s value may be necessary. The US trade deficit is so large that a temporary adjustment is inevitable. The adjustment may continue until the first half of 2005. It is widely believed that the dollar will recover from around 2006, and we have no choice but to tolerate such

adjustment. Yet I feel relieved to see Bush reelected in light of global trade and Japan-US relations.

This year marks the 20th anniversary of the Plaza Accord. There are persistent concerns about the dollar’s slide. How do you view its impact on Japanese industry?

Mitarai: Japanese businesses, including Canon, have enhanced their resistance against foreign exchange fluctuations for the last 20 years. The Japanese yen is strong vis-à-vis the US dollar but is weak against the euro. The effect of a weak dollar on our company is limited because the dollar accounts for 60% of our total international settlements of account and the euro accounts for 40%. In addition, a strong yen pulls down domestic prices since imports become less expensive. Japan is importing oil and other raw materials. It also relies on imports for 60% of its total food supply and 90% of its energy supply. The value of such imports goes down in proportion to the yen’s appreciation. This effectively represents a price cut in the interest of Japanese consumers. But Japanese businesses need to secure funds to buy those goods by exporting products. In total, we do not suffer heavily from the yen’s appreciation as long as the Japanese currency does not go up excessively. In principle, people of a strong-currency nation can live a better life than those of a weak-currency nation.

Japan-China relations are hot in the economic area but cold in the political field. What’s your view about that?

Mitarai: Japan-China relations indeed have become a bit cold politically. But in the economic field, bilateral ties are very good. I hope bilateral relations will not deteriorate at the grassroots level. I don’t want to see anti-Japanese incidents such as the one at the Asian Cup soccer game held in China occurring frequently. In that case, the Chinese government would make efforts to ease ten-

sions. Japan-China relations are important bilateral ones, and I firmly believe that the Japanese and Chinese governments share such a view. Canon’s operations in China are free from such tensions. We have completed investment in our factory in Suzhou, leaving no room for further investment for now. In the longer term, however, I think it is necessary to boost investment in China in response to the growing demand there. Once demand starts increasing in China, the pace of growth is much faster than in Japan. As we are aiming at local production for local sales, we naturally need to boost investment if demand grows. Obviously we will face a shortage of production capacity in the years ahead, and we wish for such a shortage.

Speculation is rife that China will move to revalue its currency. Do you have a plan to deal with this?

Mitarai: It’s a very difficult question. Given that China itself is becoming a net importer away from a net exporter, it seems to be coming under burgeoning pressure to revalue the yuan to some extent. China appears to be entering the stage of revaluation in view of its recent hike of interest rates. I think the yuan will go up sooner or later. Our costs at Chinese factories will rise in tandem, but higher costs have already been discounted. Japan doubled its national income during the period of high economic growth. China will never be able to keep wages at low levels for a long period of time. In contrast, China will rapidly become a good market. Although production costs in China will rise, the country will rapidly develop to become a better market. Therefore, we welcome a stronger yuan. A higher yuan, combined with higher living costs, will lead to a greater number of middle-income families and expansion of the Chinese market. We stand to benefit a great deal from such a trend. **JS**

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