Strategies for Success

By Atsuyuki Suzuta

Nippon Steel: Future Vision

The announcement of a capital linkup between Nippon Steel Corp. (NSC) and Sankyo Seiki Mfg., a leading maker of music boxes, this July surprised Japan's industrial circles. But while the announcement may have startled more conventional businessmen, it made excellent sense to NSC. The tie-up enables Japan's biggest steelmaker to tap Sankyo Seiki's technological prowess in electronics and information-processing equipment.

This spring NSC expanded into data communications systems by establishing no less than four new companies: Nippon Steel Information & Communication Systems, a wholly owned subsidiary, handles the development, maintenance and operation of data communications systems; NS and I System Service, a joint venture with IBM Japan, provides general services for small computer systems; Nittetsu Hitachi Systems Engineering, a 50-50 joint venture, resells office automation systems; and NCI Systems Integration, a joint enterprise with C. Itoh & Co., is working to develop the system integration business. Five years from now, says a top NSC executive, the four companies should be racking up annual sales of ¥140 billion.

These aggressive moves are all part of a grand restructuring strategy based on what NSC calls its "Medium- and Long-range Vision for Diversification" formulated in February 1987. Under this plan, total sales are projected to hit ¥4 trillion in fiscal 1995, nearly double the ¥2,147 billion posted in the year ending March 1988. Moreover, half of those sales, ¥2 trillion, are to come from non-steel operations, including electronics, data communications, urban development and new materials.

The Japanese steel industry, apparently on its last legs only a few short years ago, went back into the black in fiscal 1988 thanks to the robust expansion of domestic demand. But steelmakers are not kidding themselves. Over the long term, steelmaking in Japan is bound to decline. There is only so much cost-cutting that can be done, while the industry faces growing competition from steelmakers in Korea and other newly industrializing economies. All Japanese steel companies including NSC are trying to diversify into new fields of business.

Data communications systems made by a Nippon Steel company under its restructuring strategy

For NSC, restructuring means retrenchment in steelmaking and diversification into non-steel areas. Five blast furnaces across the country, including those in the once-key mills in Muroran and Kamaishi, will be shut down by fiscal 1990—a move that alone will slash 19,000 workers from the work force. At the same time, efforts continue to exploit new business opportunities.

The diversification plan is the culmination of various preliminary stabs at shifting away from steelmaking. In June 1985, NSC established NSC Electron Corp. to produce silicon wafers for semiconductors. In May 1986, Concurrent Nippon Corp. was formed in a joint venture with Concurrent Computer Corp. of the United States to sell minicomputers. NSC also began selling work stations made by Sun Microsystems of the United States on an OEM (original equipment manufacturer) basis.

Hurdles to cross

Despite these many preparations, NSC faces many hurdles in implementing its plan to develop ¥2 trillion worth of new non-steel business in just eight years. For the fact remains that, prepared or not, NSC is getting into fields in which it has no experience.

Outwardly, NSC appears confident. As its chairman, Yutaka Takeda, says, a major steel company like NSC can do business in any field because "steelmaking is a giant integrated industry using the full range of industrial technology." Computers, for example, are widely used in steelmaking. NSC has some 2,000 systems engineers and 1,200 electronic control engineers, while the NSC group, including affiliates and subsidiaries, has about 4,000 electronic engineers.

Yet the fact that NSC has great potential for growth in non-steel fields does not necessarily mean it will succeed. Its many tie-ups and joint ventures with companies in prospective fields—fields NSC wants to enter itself—show that it is well aware it cannot achieve its target by fiscal 1990 on its own. In fact, says an NSC manager in charge of a new project, "If necessary, we'll take the M&A (mergers and acquisitions) road."

NSC also plans to enter into large-scale projects in such fields as services, leisure, resort development and convention facilities. The company is even getting into the hotel business, in a round of social development projects that should account for about 10% of the ¥2 trillion sales projected for fiscal 1995.

NSC is said to have huge reservoirs of talented manpower. It has also achieved a very high level of technological competence through its long and extensive experience in steelmaking. Making such a complete about-face will still be no easy task for a mammoth corporation with 64,000 employees under its wing.

The Japanese economy is experiencing a period of structural reform that will leave it producing goods and services with higher value-added than ever before. What is happening to NSC, one of the representative corporations of Japan, is a striking example of how these macro changes are filtering down to the microeconomic level. How NSC changes over the years ahead is a question of burning interest not only to its executives and rank-and-file, but to the rest of Japanese industry as well.

Yamaha: Electronic Maestro

This high-tech electronic Yamaha piano automatically plays programs originally performed by world-famous musicians.

Yamaha, which celebrated its 100th anniversary in October 1987, is aiming to become the IBM of the musical instrument industry. Its basic strategy, says Hiroshi Kawakami, its president, is globalization. IBM, of course, is the giant computer maker that leads the world computer industry. By the same token, Yamaha is an international enterprise that is already a leader in its field. IBM's business arena is the whole world, not just the U.S. domestic market. And increasingly, the same goes for Yamaha.

In fact, Yamaha is already a global enterprise. Yamaha executives divide the world market into four regions—North America, Europe, Asia and Oceania, and Japan. Each region even has its own headquarters. At a time when the globalization of Japanese corporations is picking up momentum, many have already set up subsidiaries in the United States, Europe and other regions. But few have located head offices overseas to promote localization. Yamaha's decision to decentralize its head office functions worldwide has made it a trailblazer for other Japanese corporations, and has not surprisingly made it the center of attention in Japan's business community.

In the spring of 1971, Yamaha got into electronics in a big way. That was when the company started producing its own LSIs, key building blocks for a new generation of electronic musical instruments. Yamaha's microchips found extensive use in Electones and audio systems early on, then later in synthesizers and audio-visual equipment. Today the company has technology and production capacity in this challenging field that surpasses even that of specialized electronics makers.

Yamaha's most important market is the United States, which has a huge demand for a wide variety of musical instru-