

Winning the global challenge

The Japanese electronics companies' race to innovate

In the past, Japanese electronics companies (JECs) were able to maintain their competitive advantage in the global marketplace by focusing on product innovation. However, competitors in other parts of the world are now outperforming JECs in terms of productivity, financial performance and brand value. To win the global challenge, JECs need to race toward becoming global innovators and focus on a five-pronged transformation.

For decades, Japanese electronics companies have dominated the global electronics industry. Their brands were hallmarks for quality, style and especially innovation. In fact, looking back over the top ten U.S. patent holder lists since 1999, at least five of the ten companies recognized each year have been JECs.¹

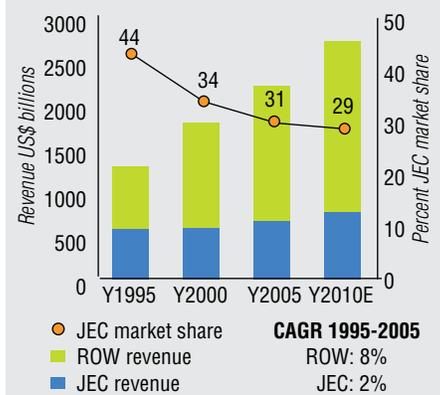
Unfortunately, technological prowess in product innovation alone has not been enough to keep JECs ahead of their global competitors. Globalization, electronics industry trends such as product commoditization, and increased global competition are reshuffling the industry's leading contenders, with fewer JECs remaining in the top tier.

Though this situation is obviously difficult for the JECs involved, its impact may reach much further – upstream to suppliers as well as across the national and global economies. Currently,

electronics is the leading contributor to Japan's gross domestic product – even higher than the automotive industry; the Japanese economy, in turn, is the second largest in the world.² The ripple effect of a continued decline could be staggering.

JECs face a tremendous global competitive challenge. Rivals across the rest of the world (ROW) are currently outperforming them in terms of productivity, financial performance and brand value. Across each measurement area we examined – including productivity, financial performance and brand value – JECs trailed their counterparts in other parts of the world. For example, although JEC revenue continues to grow incrementally year to year, the ROW's revenue is growing four times as fast (see Figure 1). That means, JECs' share of the global electronics market is shrinking, falling 13 points over the last decade.

FIGURE 1.
ROW revenue is growing four times faster.



Source: IBM Institute for Business Value analysis of Thomson financial data.
Note: Y2010 forecast based on 1995-2005 CAGRs.

During our analysis, we observed instances where an individual JEC was outperforming its global peers. However, when evaluated as a group, JECs are clearly losing their edge. The top spots vacated by JECs leave room for competitors – often South Korean ones – to surpass JECs, taking on more prominent positions in the industry.



Five focus areas for winning the global challenge

For JECs to counteract these trends and become global innovators, we believe five areas of focus will be key:

- Customer insight – Develop a deep understanding of both the domestic and international customer to create strong value propositions.
- Business model innovation – Implement new or updated business models that help them achieve greater value propositions.
- Global business portfolio management – Establish the ability to shift resources among lines of business (LOBs) and enter/exit businesses fluidly.
- Global governance and communication – Make decisions efficiently and communicate clearly with stakeholders.
- Global human resource management – Attract and retain top global talent at a competitive price.

Given their current condition in comparison to competitors worldwide, JECs face a challenging race ahead. Over the past few years, global competitors have learned from watching the strengths – and weaknesses – of their Japanese rivals. It is time for JECs to also learn from the strengths and weaknesses of their global competitors.

JECs have an important advantage over other companies in the electronics industry – their experience and track record in product, technological and manufacturing innovation. But they must build on this core strength. For those JECs that commit to the fundamental changes required to become Global Innovators – and take action now – we see a very bright future. They will be the ones that outpace their global competitors and maintain a formidable advantage in the continuous race to innovate.

© Copyright IBM Corporation 2009

IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
January 2009
All Rights Reserved

IBM, the IBM logo and ibm.com are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "Copyright and trademark information" at ibm.com/legal/copytrade.shtml

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products and services do not imply that IBM intends to make them available in all countries in which IBM operates.

To request a full version of this paper,
e-mail us at iibv@us.ibm.com

How can IBM help?

- **Strategy and Change:** Help to define your strategy and manage change
- **Component Business Modeling (CBM) tools and Service-Oriented Architecture (SOA):** Help with selecting where to focus your organization and building flexible IT infrastructures
- **Selected Electronics Industry Solutions:** Sales and service management, Product lifecycle management, Value chain management

Key contacts:

IBM Institute for Business Value: Waishan Leung, waishan.leung@us.ibm.com

Electronics Industry:

Global	Sungyoul Lee, syl@us.ibm.com
Americas	Kenneth Englund, kenneth.englund@us.ibm.com
Northeast Europe	Américo Machado, MACHADO@de.ibm.com
Southwest Europe	John Burt, john.burt@nl.ibm.com
Japan	Toshiyuki Zama, ZAMA@jp.ibm.com
Korea	Jeen-young Kang, kangjy@kr.ibm.com
China	Jerry Wen-Tien Hsu, wthsu@cn.ibm.com

References

- 1 IBM Institute for Business Value analysis of IFI's annual top patent company lists from 2000 through 2005. http://www.ificlaims.com/press_releases.html
- 2 The IBM Institute for Business Value calculated the 2007 GDP contributions using statistical data published by Japan's Cabinet Office.