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THE WALL STREET JOURNAL.

Sanyo Ends Era of Family Rule; President Steps Down as Owners Push to Shed Weak Businesses Faster

Yukari Iwatani Kane. **Wall Street Journal, Eastern edition** [New York, N.Y] 29 Mar 2007: B.4.

Abstract (summary)

Yesterday, Sanyo's 44-year-old president, Toshimasa Iue, said he would step down after less than two years because of disagreements with Goldman Sachs and the other financial firms, who have majority control over the company and have been pushing for faster changes. The departure of Mr. Iue, who is a grandson of Sanyo's founder, ends the family's leadership of the company and opens the door to a sale of some units.

Like many Japanese electronics companies, Sanyo is in too many different businesses and can't let go. Since the company was founded 60 years ago as a bicycle-lamp maker, it has continued to add new products and services without getting rid of weak businesses. That is because it didn't want to lay off workers by closing operations. It didn't want to shed businesses that were started by the revered founder, and it wanted to remain in mainstay domestic products such as rice cookers and televisions.

"It was unsustainable for Sanyo to have the same number of products as [bigger companies like] Matsushita," says Tatsuya Mizuno, an analyst with Fitch Ratings. "Sanyo will get cash by selling some of these businesses, so they should take advantage of that while they can and focus its resources on a few products where it can make a difference."

Full Text

Tokyo -- To understand the problems facing Japan's electronics industry, look no further than Sanyo Electric Co.

The midsize electronics company is cracking from the strain of trying to stay in too many businesses. It has a sprawling portfolio of products ranging from chips to batteries to home appliances. It also builds homes, owns an Internet-service provider, offers financial and recruiting services and even operates a retirement home and a golf course. The reluctance to shed weak and noncore businesses has resulted in diluted profit.

Last year, Sanyo received a $2.6 billion bailout from a consortium led by Goldman Sachs Group Inc. Since it began restructuring in 2004, Sanyo has cut more than 15% of its work force, closed factories and shed some minor businesses. Yet the company continues to be unprofitable as it has been unable to stem revenue declines in products such as digital cameras, mobile phones, televisions and home appliances. It is expected to report its third straight year of losses in the current business year ending Saturday.

Yesterday, Sanyo's 44-year-old president, Toshimasa Iue, said he would step down after less than two years because of disagreements with Goldman Sachs and the other financial firms, who have majority control over the company and have been pushing for faster changes. The departure of Mr. Iue, who is a grandson of Sanyo's founder, ends the family's leadership of the company and opens the door to a sale of some units.

"I was unable to gain the trust of the financial firms and investors that are crucial to Sanyo's recovery," Mr. Iue said at a news conference, adding that the slow speed of the overhaul was a major point of contention.

Goldman Sachs declined to comment.

Last week, Sanyo's chairwoman, Tomoyo Nonaka, also resigned. Ms. Nonaka, a former television journalist, had been appointed in 2005 with the aim of bringing in an outsider with a fresh perspective.

Mr. Iue's successor, Seiichiro Sano, 54, currently vice president, is expected to act more aggressively to turn around the company, particularly with divestitures, though he was noncommittal yesterday. "As for the issue of selling our mobile-phone and digital-camera [operations] . . . this is not something that can be decided lightly. I am still settling on a plan for fiscal 2007," Mr. Sano said.

Like many Japanese electronics companies, Sanyo is in too many different businesses and can't let go. Since the company was founded 60 years ago as a bicycle-lamp maker, it has continued to add new products and services without getting rid of weak businesses. That is because it didn't want to lay off workers by closing operations. It didn't want to shed businesses that were started by the revered founder, and it wanted to remain in mainstay domestic products such as rice cookers and televisions.

Having vast portfolios allows companies to take profits from successful businesses to move into new growth businesses, but it also limits the resources that can be devoted to any one product. Meanwhile, the ability to spread losses across the company to minimize the impact also puts off a sense of crisis.

As a result of this grow-at-any-cost strategy, Sanyo has become weak and unfocused. Aside from batteries, of which it has top market share, Sanyo is a small

player in most of its products. It ranks 13th in mobile phones, with less than a 1% global market share, and 29th in flat-panel LCD televisions, according to market-research firm iSuppli Corp. It is losing market share to Taiwanese rivals in digital cameras.

Its sales for the year ended March 2006 were down 3.5%, to about $20.5 billion. In the first three quarters of the current year, which ends Saturday, sales fell 5.7%. Sanyo said in November that it expects to post a loss of about $420 million this year, reversing earlier expectations for a profit.

In mobile phones, an area that Sanyo has identified as crucial to its revival, it was late in launching an ultraslim phone overseas. That hurt Sanyo, which was already handicapped by its size compared with giants such as Nokia Corp., which has more than a 35% market share.

In the flat-panel television market, Sanyo has become an also-ran, squeezed in the middle between low-cost Chinese manufacturers and top companies such as Samsung Electronics Co. of South Korea, Sony Corp. and Matsushita Electric Industrial Co.

The problems facing Sanyo are more severe than those affecting the rest of Japan's electronics industry, but its bigger rivals are facing similar difficulties pulling out of weak businesses. That means Japanese companies end up being too small in each product segment to become a market leader, says Fumiaki Sato, a Deutsche Bank AG analyst who recently wrote a book on restructuring the electronics industry. They are "in an uneasy place in the middle," he says.

Meanwhile, the domestic market is crowded with more than a dozen competitors in a single product. In mobile phones, Sanyo competes with 14 other firms for a small slice of the Japanese market, which is about 5% of the global market. In rice cookers, eight companies are vying for a share of a $100 million market.

Such heavy focus on the hypercompetitive domestic market weakens the companies' ability to compete globally. It has led to a decline in profitability across the industry since the early 1980s, the heyday of Japanese electronics makers, says Mr. Sato.

Analysts say Sanyo still has an opportunity to recover, but it must start aggressively shedding more businesses. Sanyo created a wholly owned chip company last year as a precursor to selling that business. Many industry observers say it should also consider selling its appliance and mobile-phone businesses before they become too weak to attract any interest.

"It was unsustainable for Sanyo to have the same number of products as [bigger companies like] Matsushita," says Tatsuya Mizuno, an analyst with Fitch Ratings. "Sanyo will get cash by selling some of these businesses, so they should take advantage of that while they can and focus its resources on a few products where it can make a difference."

Jay Alabaster contributed to this article.

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Indexing (details) Cite

Subject	Resignations; Corporate presidents; Diversification	
People	Iue, Toshimasa	
Company / organization	Name: Ticker: NAICS: DUNS:	Sanyo Electric Co Ltd SANYY 334210, 334310 69-053-7303
Classification	9179: Asia & the Pacific 8650: Electrical & electronics industries 2130: Executives	
Title	Sanyo Ends Era of Family Rule; President Steps Down as Owners Push to Shed Weak Businesses Faster	
Author	Yukari Iwatani Kane	
Publication title	Wall Street Journal, Eastern edition	
Pages	B.4	
Publication year	2007	
Publication date	Mar 29, 2007	
Year	2007	
Section	Technology Journal	
Publisher	Dow Jones & Company Inc	
Place of publication	New York, N.Y.	
Country of publication	United States	
Publication subject	Business And Economics--Banking And Finance	
ISSN	00999660	

Source type	Newspapers
Language of publication	English
Document type	News
ProQuest document ID	399012588
Document URL	http://stats.lib.pdx.edu/proxy.php?url=http://search.proquest.com/docview/399012588?accountid=13265
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Last updated	2010-06-26
Database	The Wall Street Journal

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