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## Sharp's New Focus

How an also-ran made a bet on flat-panel televisions as the critical path to being a major player in electronics

By JIM FREDERICK/TOKYO

Hiroshi Take, one of the managers of Sharp Corp.'s latest and most advanced television factory, beams like a proud father. The gleaming white \$1.4 billion Kameyama factory, 260 miles southwest of Tokyo, came online last year and is cranking out thousands of Sharp's hot-selling large-screen flat-panel Aquos TVs per month. Flat TVs are going to be critical in the battle for market share among electronics companies this Christmas season, and Sharp is exceptionally well armed.



As a belt carrying newly assembled TVs to their final quality checks churns behind him, Take emphasizes that Aquos is not just Sharp's latest hit product. It is the core of a strategic shift that has transformed the company from a perennial also-ran to Asian rivals like Sony, Matsushita and Samsung into the world's hottest electronics company. "Everybody from 1 to 100 uses a TV, many of them for three to five hours a day," he says, clearly delighted by the thought of all of us plopped in front of so many idiot boxes, each of them potentially bearing a Sharp logo. "Television," he says, "is the monster electronics product."

Sharp got its flat-screen focus from Katsuhiko Machida, the company's president, who for years fretted that his outfit was doomed to be a second-tier player. When he ran Sharp's television business in the 1980s, Machida says, the firm had trouble competing because it didn't manufacture the most important TV component, the cathode-ray tube. Forced to cobble together parts bought from competitors, Sharp was little more than an assembler, cranking out sets that were always a little too expensive and a little too poorly engineered to attract many customers. It was a dispiriting struggle, says Machida, but it taught him an ironclad belief that is now axiomatic throughout the company: "If you are in electronics and you are not strong in TVs, your business and your brand will suffer."

When Machida became president in 1998, he wasted no time acting on his theory. Sharp, he knew, had long excelled at developing products featuring liquid-crystal displays (LCDs). It released the first mass-market LCD calculator in 1973, developed its first flat-panel LCD TV in 1987 and dabbled in LCD televisions throughout the 1990s. Building

on that foundation, Machida moved LCD TVs to the forefront of Sharp's strategy. He spent heavily over three years on the design, manufacture and marketing of a new flagship TV brand dubbed Aquos, and his bet paid off. Launched in January 2001--a moment referred to inside the company as the Big Bang--Aquos quickly became the coolest name in TVs since the Sony Trinitron. Sharp is now the world's biggest seller of LCD televisions, accounting for 1 in 4 of all LCD sets sold.

Sharp's momentum has been a drag for struggling Sony, which recently brought in a non-Japanese CEO, Howard Stringer, to orchestrate a turnaround. Sony also demonstrates Machida's theory: the company has lost its primacy in TVs, and it shows. In July, Sony reported a quarterly loss of \$330 million in its consumer-electronics division. Sharp, meanwhile, posted operating profits of \$138 million for its consumer-products division.

Surprisingly, Machida's strategy of concentrating on businesses in which the company has a significant edge is rare in corporate Japan, where a bias toward bulking up still reigns. Gerhard Fasol, president of Eurotechnology Japan, a tech consultancy in Tokyo, says, "The Toshiba and Hitachi of this world are in about 20 or 30 different industry areas. There is no focus." Even in secondary business lines, Sharp tries to develop what it calls one-of-a-kind products. A recent example: the new Healsio oven that reduces fat and salt content by cooking with superheated steam. The oven is a smash in Japan, even though it is small and retails for nearly \$1,000.

Even in his core business of manufacturing LCDs, Machida is playing to Sharp's strengths and avoiding margin-killing commodity products. Taking on Goliaths like LG Electronics and Samsung Electronics across every LCD product line would be foolish, he says. They're dominant, for example, in mass-market LCD panels used in smaller, cheaper TVs and in laptops. Rather than engage them in a murderous price war, Sharp concentrates almost exclusively on ever larger TVs or on small, high-quality panels found in cell phones, car navigation systems and handheld game players like Sony's PSP and Nintendo's DS. That tactic has enabled Sharp to withstand the margin pressure that's ravaging its rivals. Sharp's small-panel market, says Lehman Bros. analyst Yuki Sugi, is particularly lucrative, since its clients tend to place long-term orders for highly specialized, high-margin goods. Similarly, Sharp has profited richly from being the first company to bring extra-large LCD TVs to market. It rolled out a 45-in. model last year and a 65-in. version last August. While the price of flat-panel TVs overall has tumbled 30% in the past year, Sharp's TV prices have slipped only 3%, not least because margins on those high-end products have not yet been eroded by competition.

The cost of staying ahead in that game is huge, as competitors are pouring resources into the industry. Right next door to the Kameyama plant that opened last year, Sharp is building a larger, more advanced plant, costing another \$1.4 billion, that is scheduled to open in 2006. But Sharp's competitors are also building furiously. In a joint venture, LG Electronics and Royal Philips Electronics are spending \$5.1 billion to create the world's largest plant for LCDs. Sony, whose lack of flat-screen capacity has been a huge disadvantage, is teaming with Samsung in a \$2 billion LCD venture. Hitachi, Toshiba and Matsushita have similarly joined forces. In the U.S., computer maker Dell is getting into the flat-panel game.

For now, however, Sharp is happy to go it alone, hoping that it's strong enough technologically to maintain a leadership position without a partner. It's a gamble but not an unreasonable one, says Gartner analyst Paul O'Donovan. "Sharp is able to stand alone because it has unique intellectual property," he says. "Being that much more advanced, they don't want to share that with anybody else."

The ultimate rewards for the winners in the global TV wars could be vast, as viewers upgrade their old cathode-ray tube sets to flat panels and as broadcasters gradually shift from analog broadcasting to higher-quality digital. Japan has already begun digital broadcasting, and all broadcasts will be digital by mid-2011. In the U.S., every new TV will be required to come with a digital tuner by July 2007, and in Germany digital broadcasts will commence in time for the 2006 World Cup soccer tournament.

During this sea change, Sharp intends to use Aquos as the product that burnishes its reputation as a top-tier global brand. International business already accounts for about half of Sharp's revenues, with buoyant sales of its high-end TVs in the U.S. and Europe driving those gains. The company has also benefited abroad from the launch last fall of a worldwide branding campaign, including ads produced by Wieden+Kennedy, an agency that's famous for managing Nike's advertising. Since the spots began airing, brand recognition for Aquos in the U.S., according to market-research surveys, has jumped from 30% to 57%, say Sharp executives. Sharp's global TV sales have risen 20%, to nearly \$4 billion, and the company expects an additional 30% increase this year.

As limping behemoths like Sony have discovered, staying ahead in electronics is a relentless challenge. A host of new technologies could disrupt LCD's emergence just as easily as LCD has begun to supplant cathode-ray tubes. Even against existing technologies, Sharp faces a formidable battle. Junzo Masuda, director of iSuppli, a market-research firm in Kyoto, says the real test is how Sharp's big-screen TVs ultimately fare against plasma display panels (PDPs), the dominant type of large-screen, flat-panel displays. Sharp may have better technology, but Masuda wonders whether the company can reduce costs enough to defeat the makers of PDP sets, which are significantly cheaper. "There is a real price battle going on," says Masuda, as Sharp jockeys for position. Sharp executives downplay such claims, saying the market is big enough for sellers of both types of large-screen TVs to prosper.

However the contest between PDP and LCD plays out, Machida and his team are--for now--relishing their moment in the sun. Hisakazu Torii, a director of research at DisplaySearch, a consultancy in Tokyo, says Sharp's foresight in LCDs has completely transformed the TV business and Sharp's position in the corporate landscape. "Sharp can sell its TVs for \$200 to \$300 more than Sony, which is a total reversal of the old situation," he says. Sharp's international-business director, Toshishige Hamano, agrees, saying, "In the long history of the electronics market, all companies have their moment of prime time. And for Sharp, I think this is our moment." --With reporting by Jamie Miyazaki/Tokyo and Michiko Toyama/Osaka