

# Envisioning A Transformation

IN 2016, **CANON** ESTABLISHED THE LAST OF FOUR NEW CORE BUSINESSES DESIGNED TO DRIVE THE COMPANY’S NEXT PHASE OF EXPANSION. THE COMPANY EXPECTS ANNUAL GROWTH OF 6%.

**FUJIO MITARAI BECAME THE PRESIDENT OF CANON**, the camera and printer company, in 1995. In the 22 years since, markets and Canon’s own business portfolio have both changed a great deal. One thing that remains the same? “A company must grow or it will cease to exist,” Mitarai says. “Growth is a must.”

When Mitarai took the reins at Canon, for example, he found an indebted company whose major business lines—analogue cameras and office products—faced market saturation. Mitarai promptly withdrew from unprofitable business areas and aggressively cut production costs by switching from a conveyor-belt system to a cell-production one, thereby boosting profitability.

As a result, Canon was financially robust when the great market switchover from analogue to digital devices began gathering steam in the late 1990s. “Digitization set off a wave of buying as people traded up,” Mitarai explains. “Thanks to the ‘replacement demand’ boom, we recorded eight consecutive years of rising sales and profits, from 2000 to 2007.”

In the years leading up to the financial crisis, however, Mitarai could sense that the market was about to turn again—by their nature, after all, upgrade cycles peak and decline—and he went on the lookout for new businesses to drive Canon’s future growth. He decided that what made the most sense strategically was for Canon to expand laterally into fast-growing areas that had an affinity with the company’s existing technologies, thus enabling it to exploit synergies.

### ASSEMBLING FOUR GROWTH ENGINES

Mitarai’s first lateral move was the acquisition of Océ, a Netherlands-based production printing company, in 2010. Océ is well-positioned to benefit as digital disruption shakes up the printing industry. “The large-lot com-

mercial printing market was traditionally dominated by offset printing,” explains Mitarai, “but now, digital printing has caught up with offset in terms of image quality, plus it gives you the ability to do small-lot, customized orders at high speed—something that offset cannot do.”

No wonder demand is growing. The commercial printing market is reckoned to be worth around 80 trillion yen per year. Within that, digital printing is growing at an incredible rate. In 2016, digital’s share of the total was 16%, but that figure is expected to rise to 21% by 2020. Canon is now looking to go beyond document printing and make inroads into package printing too.

Another area where digital technology is visibly transforming our lives is electronic touchscreen devices like smartphones and tablets. Here, by his own admission, Mitarai got lucky. In 2007, Canon acquired Tokki, a Japanese company that specializes in the manufacture of vacuum evaporation equipment used in the application of organic light-emitting diodes, or OLEDs.

“We originally acquired Tokki to manufacture OLED screens for our cameras,” Mitarai notes, adding that OLED is superior to liquid crystal display (LCD) because it is easily visible, even in bright daylight. “The purchase just happened to coincide perfectly with the start of the smartphone boom. We are successfully riding that wave.” The OLED market is expected to surpass the LCD market in size in 2018, and Canon Tokki (as the company is now called) is currently doubling produc-



FUJIO MITARAI,  
Chairman  
and CEO,  
Canon

tion capacity to reinforce an already dominant position.

Canon’s strength in industrial equipment also goes behind the screen and down into the heart of devices. The company has a long history of manufacturing steppers, devices that use light to create microscopic circuit elements on silicon chips. Yet, with integrated circuit (IC) chips becoming ever smaller, traditional manufacturing equipment is hitting a technological ceiling as it grows bulkier and costlier.

That impasse inspired Canon’s April 2014 acquisition of Texas-based Molecular Imprints and its imprint lithography technology. Molecular Imprints—now Canon Nanotechnologies—possesses world-class nano-imprint technology that realizes cost-effective, ultrafine and precise patterning. “The company will be shipping its first machines this year,” Mitarai notes. As IC chips become increasingly ubiquitous thanks to the Internet of Things, Canon Nanotechnologies is well-placed to serve a fast-growing market.

### ADDRESSING MEGATRENDS

In order to find the next avenues of growth for the company, Mitarai took a step back and pondered the state of the world. “The global population is growing, and societies everywhere are becoming more complex. What do people want more of in these circumstances?” he asks rhetorically. “More safety and security in their everyday lives.”

One logical way for Canon to address this need was to leverage its optical and sensor technology and know-how and move laterally into network cameras—the cameras used for things like surveillance, market research, and factory automation. The secret to success here, Mitarai sensed, would be the ability to offer a total package: camera hardware plus software, analytics, and a global sales network.

That insight prompted two rapid acquisitions, first of Denmark-based Milestone Systems, the global leader in video-management software, in 2014, then of Sweden-based Axis Communications, the global frontrunner in network cameras, in 2015. Canon’s resulting network camera business is now the largest in the world and the market is growing at a rate of 10% a year.



CANON HAS BECOME A MAJOR PLAYER IN HEALTH CARE WITH THE ACQUISITION OF TOSHIBA MEDICAL.

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Mitarai reserved his boldest lateral move for his “safety and security” theme for the health care business. Health care, he points out, is a business that Canon has been involved in since its inception. The company’s first president was an obstetrician and Canon developed Japan’s first indirect X-ray camera in 1940, before going on to build a relatively modest business in digital radiography and ophthalmic diagnostic equipment.

This meant that acquiring Toshiba Medical Systems Corp., a leading manufacturer of medical imaging devices, in 2016 for US\$5.47 billion (¥665.5 billion) was a natural fit. “Health care addresses a fundamental human need,” Mitarai notes. “Demand is never going to go away. In fact, expected

increases in global population should lead to the market getting bigger.”

### BREAKING INTO THE TOP THREE

Founded in 1930, Toshiba Medical is a world-class manufacturer renowned for its R&D capabilities that dominates the Japanese domestic market for X-ray, CT (computed tomography), MRI (magnetic resonance imaging), and ultrasound devices. However, its biggest opportunities lie overseas. “Globally, Toshiba Medical is the No. 4 player for medical devices,” says Mitarai. “Our

challenge is to get into the top three.”

How is Canon going to make that happen? Mitarai outlines a clear, three-pronged strategy. First, he wants to bring Toshiba’s R&D capabilities to bear on Canon’s proprietary technologies. “Image processing technology is one obvious area of synergy,” he points out. “MRI and ultrasound images are generally still quite hard to decipher. Canon’s technologies could help change that.” Other Canon technologies that Toshiba Medical can leverage include dynamic X-ray imaging sensors, photoacoustic tomography, medical robotic systems, and minimally invasive surgical technologies.

Second, Canon’s proven expertise in microfabrication, precision design, and production equipment optimization should help raise the quality and price-competitiveness of Toshiba Medical’s devices. A joint task force is currently examining every aspect of Toshiba Medical’s production process to see where improvements can be made.

Finally, Mitarai means to leverage Canon’s expertise in strategic investment and M&A to expand the group’s combined presence in promising new fields, from hospital IT networks to in vitro diagnostics and DNA diagnostics.

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“Toshiba Medical will officially be renamed 'Canon Medical Systems Corporation' in early 2018,” explains Mitarai. “With its superb product development capabilities, the firm opens up new possibilities to us.” The long-term plan is to make health care one of Canon’s core business. To that end, experts from both companies are discussing

how to capitalize on synergies as a combined entity, while a new division, Medical Systems Operations, was set up within Canon this April. Says Mitarai: “We’re pushing ahead with concrete policies to drive our healthcare business forward. My expectations are high.”

GOALS FOR 2020

In 1996, one year after being appointed president, Mitarai launched Phase I of his Excellent Global Corporation Plan, a series of rolling five-year plans designed to make Canon “a truly excellent company admired and respected around the world.” The goal of the current phase—Phase V, which kicked off in 2016—is to “embrace the challenge of new growth through a grand strategic transformation.” Mitarai has successfully assembled his four transformative new businesses—commercial printing, industrial equipment, network cameras, and health care—but can he deliver on



CANON MOVED INTO PRODUCTION PRINTING IN 2010 WITH THE ACQUISITION OF Océ.



THE NETWORK CAMERA MARKET IS GROWING AT 10% A YEAR.

the financial side, too?

Canon’s results for FY2016—profits of US\$1.3 billion (¥150 billion) on sales of US\$29.3 billion (¥3.4 trillion)—were the worst in a decade, excluding only FY2009, when the financial crisis was at its height. This was primarily due to the dramatic appreciation of the yen against other currencies.

But Mitarai points out that sales only dipped a few percentage points, calculated on a local currency basis, and that most Canon products remain in the top three in their categories, with cameras firmly in the No. 1 slot. And now, with his new growth engines in place, Mitarai is upbeat about Canon’s prospects.

“Last year we completed the strategic changes to our business portfolio,” he declares. “This year we are going to start expanding based on those changes. Our four new core businesses accounted for 26% of total revenues last year. This share will rise to 35% by 2020 and higher in the years beyond. I expect our existing businesses to grow at around 3% annually and the new ones at an average of 15%. Overall, that means that Canon can expand at 6% a year.”

Mitarai’s aim is to achieve group revenues of ¥5 trillion by 2020, with operating profit margins of 15% and net profit margins of 10%. That will be a grand transformation indeed.●