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Special
Feature

Global Vertical-Horizontal Matrix Management

Striving to Create New Value through Linkages down Business Lines (Vertical) and between Corporate Headquarters and Business Divisions (Horizontal)



Competition is growing more intense in global markets, particularly in emerging economies. To more firmly establish its competitive advantage, the Omron Group is forging stronger vertical team relations down its business lines and horizontal linkages between corporate headquarters and business divisions with the aim of accelerating management. This section looks at the strengths and strategies of each of our businesses through the lens of matrix management and introduces the roles of our head office divisions.

(Interviewer: Satoshi Ando, Executive Officer, Senior General Manager, Investor Relations Headquarters)

Industrial Automation Business (IAB) — Further Reinforcing Operations on the Basis of Three Core Strategies

—To begin, could you please outline IAB's strengths and competitive advantages?

Fujimoto: We are working to boost competitiveness through three core strategies: "No. 1 in control," "No. 1 in product lineup," and "No. 1 in the future."

For our "No. 1 in control" strategy, the key is changing the culture of controls. Under this strategy, we are promoting machine controls that are faster, more precise,

and safe. Our strength in this area is robust machine-focused engineering. The "No. 1 in product lineup" strategy emphasizes extending our product lines by reducing costs on general-purpose products and through radical changes on a variety of fronts. Our "No. 1 in the future" strategy refers to anticipating customer needs and offering proposals that meet those latent demands, such as by addressing the issue of conserving energy. Demand for power-saving solutions is increasing throughout the manufacturing sector, and we have specific expertise in this area.



—— What are IAB’s core products?

Fujimoto: Last year, we launched Sysmac NJ Series controllers that are based on an automation platform for connecting ultrahigh-speed, high-precision machinery and controlling them via a single software program. In the current fiscal year, we expect to expand this series further as one of our “No. 1 in control” products. Global standard products are the concept behind our “No. 1 in product lineup” strategy. In line with this approach, we plan to steadily roll out products that match the needs of emerging and other world markets. We are also cultivating environment-related equipment, such as electricity sensors and their controllers, as “No. 1 in the future” products.

—— Could you describe IAB’s core technologies?

Fujimoto: Our core technologies provide functionality that competitors are unable to match. These technologies effectively utilize general-purpose products and elements and take advantage of the capabilities of software, and are the product of countless development processes conducted in the pursuit of higher levels of functionality. Moreover, these technologies enable us to create products more inexpensively, holding down costs without sacrificing quality.

Aiming to Heighten Our Engineering Prowess through Means such as M&A and Collaboration

—— What are the issues you face in enhancing competitiveness further?

Fujimoto: Strengthening our ability to provide proposals related to sophisticated control products is extremely difficult, and we face the issue of how to cultivate sales engineers (SEs) who are well versed in various equipment in a short period of time. Another important issue lies in being responsive cost-wise in global markets across our product portfolio. We are working to hold down development costs by standardizing product development and creating system platforms that utilize our products in a standard manner.

—— To bolster your engineering and strengthen your ability to provide higher added-value proposals, do you intend to continue pursuing a strategy of increasing the number of SEs and acquiring companies in China?

Fujimoto: In the previous fiscal year, we increased the number of SEs in emerging markets by approximately 50%; the question now is how to enhance their capabilities further. We will also continue looking at M&A and collaboration opportunities in fields that we are unable to develop on our own.

—— Please explain more specifically what is meant by Omron’s “ability to connect” in ways that other companies cannot.

Fujimoto: One good example is to connect all the highly sophisticated products on the same network. Through our Sysmac NJ Series, which I described earlier, we aim to change the culture of controllers. Going forward, we also plan to connect to an increasing number of safety-related products that could not be connected in the past.

Electronic and Mechanical Components Business (EMC) —— Monozukuri (Product Creation) Is a Competitive Advantage That Other Companies Cannot Emulate

Industrial Automation Business (IAB)

Shigeki Fujimoto

Senior Managing Officer
President, Industrial Automation Company



The above-mentioned title is as of the date of this dialogue (June 20, 2012).

Electronic and Mechanical Components Business (EMC)



Koichi Tada

Managing Officer
Company President,
Electronic and
Mechanical Components
Company

— Next, please outline the strengths and business strategies of EMC.

Tada: In fiscal 2012, we plan to aggressively develop our business in components for industrial equipment, centered on rapidly growing emerging markets, thereby recovering our growth and profitability. We will also concentrate initiatives in the energy and environment field. In particular, electric vehicles and solar power generation systems. We intend to enhance competitiveness by taking advantage of the broad and finely gauged global sales network that Omron has built to date and utilize our manufacturing capabilities, including proprietary product design capabilities, materials technologies, and optimizing technologies based on *monozukuri*.

Targeting an Unshakeable Lead in Global Market Share

— What are the core technologies that support the mainstay relay component segment?

Tada: We hold the top share of the global market for relay components. Our market share in this area was more than 20% in the previous fiscal year,* but we are the leader by only a small margin.* We will work at increasing our lead.

* Based on Omron's estimates

In EMC, most of our products end up inside our customers' products, so prices are heavily influenced by fluctuations in the market prices of final products. The key therefore becomes how to meet our customers' needs as reasonably as possible. Furthermore, we must ensure stable product quality. In the past, half of the relay products that we manufactured in China and other

Asian countries were labor-intensive, which means they were variable in quality. Now, we are introducing automated equipment to handle this production in a bid to make quality more consistent.

— You have described the Company's competitiveness and sales and technological capabilities in key product areas. What are your thoughts on the business environment?

Tada: The current business environment is tight, but at the same time it offers opportunities. For example, in Asia, social security expenses are expected to rise in the neighborhood of 15% to 25% per year, on average. From a manufacturing viewpoint, this means higher labor costs. However, if customers further automated their operations to counter these labor costs, this presents a business opportunity for our industrial automation and electronic components businesses. It is important to take advantage of the opportunities created by demand trends driven by changing business environments in China and other Asian countries.

Healthcare Business (HCB) — Expanding Four Core Categories through an Extensive Sales Network

— Next, would you explain the Company's strengths and competitiveness in HCB?

Miyata: Our sales network is made up of some 300,000 pharmacies throughout the world. In the field of home healthcare instruments, no other company has a network that can match ours. We are utilizing this strength to expand our business in four core categories: blood pressure monitors, thermometers, blood glucose monitors, and nebulizers. We are also developing new technologies that allow bio data to be measured at home, formerly a procedure that could only be done at medical institutions. The key is to make the best use of our competitive edge in sales and R&D.

— Global competition seems to be less pronounced in HCB than in the IAB and EMC. What will be the keys to winning out against local competition?

Miyata: The other day, I went to India, where some 50 competitors provide blood pressure monitors. This situation brought home to me anew the importance of Omron's brand penetration. In addition to measurement precision, we will work aggressively to disseminate other informa-



tion on product quality that is only available through Omron, thereby ensuring the reliability of our brand.

— One of your core products is blood pressure monitors, and according to your own estimates you have shares of around 50% of the global market, approximately 60% in Japan, and more than 60% in China. What is the core technology that supports this strength? Also, what are your strategies for further increasing this market share?

Miyata: For blood pressure monitors, on the hardware front measurement precision and ease of use are paramount. For example, to reduce the impact that such conditions as arm thickness and softness have on measured results, we have developed a sensing and control technology that responds to individual differences. We also continue to pursue efforts that improve ease of use, such as narrower cuffs that are easier to wrap around the arm. Based on the concept of providing products that are easy for anybody to use to provide accurate measurements, we are accelerating the popularization of the “Medical Link” system for providing blood pressure data measured at home to healthcare institutions, where it can be assessed by physicians and other specialists. In this way, we are building up an unassailable business base from the perspectives of products as well as services and systems.

— HCB is driving one of the VG2020 strategies, “growth in emerging markets.” Have horizontal and vertical relationships in this business changed?

Miyata: Operational speed has picked up through proactive contributions on the horizontal axis from corporate headquarters. Nowadays, we are able to make effective use of information on other business lines’ products and technologies, whereas we were unaware of this information in the past. For example, we are moving forward with production line automation at a rate that development personnel in the healthcare sector would have been unable to handle in the past by taking advantage

of the production technologies of the Electronic and Mechanical Components Business. Forging links such as this have been extremely effective. Also, the corporate headquarters public relations division has supported efforts to boost our brand recognition on a global level, which has made our activities easier.

Global Strategy Headquarters — Maximizing Management Resources by Combining Vertical and Horizontal Elements

— Please explain the Global Strategy Headquarters’ mission and role in implementing vertical and horizontal strategies.

Miyana: We adopted a system of business companies more than 10 years ago, making our business divisions autonomous. The goal behind this move was to accelerate business operations. This move has been successful to some extent, but VG2020 calls for us to make greater leaps forward. To achieve this, we will need to utilize the strengths of our global businesses through connections that go beyond the vertical and horizontal barriers.

The Global Strategy Headquarters carries out the following three roles in attaining this goal.

Healthcare Business (HCB)

Kiichiro Miyata

Managing Officer
President and CEO,
OMRON Healthcare Co., Ltd.



- (1) Strategically distributing and allocating strategic resources
- (2) Creating a system of global vertical-horizontal matrix management
- (3) Communicating our strategies both within and outside the Omron Group

Prioritizing Efficient Investment

— What has changed, or that you are working to change, as a result of your new structure and strategies?

Miyanaga: One element is prioritizing investment. We are earmarking investment for the further development of existing businesses, such as industrial automation and businesses in emerging markets, as well as environmental businesses and other new businesses. We are also thinking of expanding our manufacturing structure to achieve global growth, centered on Asia. By making capital investments that outpace depreciation and amortization, we will augment our growth potential and cost-competitiveness. We are also planning around ¥10 billion in strategic investment, centered on IA. Furthermore, we will overhaul our management council by creating a structure that brings together the heads of our business

divisions and head office divisions to enable swifter decision making.

In the previous fiscal year, we set up a regional headquarters in India. This year, we set up a headquarters in Brazil. Whereas in the past each business line had its own human resources and administrative functions, the new structure will provide a package that offers support for these infrastructure and brand strategy development functions. Initiatives involving these horizontal functions are another major change.

Global Resource Management Headquarters (GRM) — Human Resource Strategy to Cultivate Global Management Resources

— In closing, could you please outline the major initiatives of GRM?

Nitto: Our most important initiatives concern human resources strategy. In addition to rejuvenating our management team, our initiatives will take a bird's-eye view toward the next decade. We will build a structure to cultivate management resources on a global basis for the next generation and the generation after that. We have identified 167 global core positions. We will fill these positions through both internal training and external recruiting by determining who is most suitable for these positions, during what span, and based on what level of experience. Also, the Company plans to move aggressively toward assigning locally hired personnel to core positions.

— What are your other points of focus?

Nitto: My missions include strategic cash management and risk management. In the past, the allocation of funds and real estate tended to be on the basis of vertical management. We will shift to a more centralized financial strategy that includes making more-effective use of management resources. Globally, the risks that we face are growing, including sudden fluctuations in the economic environment and the risk of natural disasters. We will strive to create structures and systems that avoid these risks and minimize the damage they cause to ensure our business divisions can move ahead securely.

Global Strategy Headquarters

Yutaka Miyanaga

Executive Officer
Senior General Manager,
Global Strategy Headquarters





Interviewer

Satoshi Ando

Executive Officer, Senior General Manager,
Investor Relations Headquarters

Cultivating New Markets That Engender Synergies between Businesses

— Please provide some examples of efforts you are making to foster ties between business lines.

Fujimoto: Let us look at relays for solar batteries. These are manufactured by EMC and sold by IAB, so we naturally need to pursue a joint strategy. EMC excels at manufacturing products, while IAB has marketing expertise. By combining these two strengths, we can move into entirely new markets.

As another example, when IAB aims to move into emerging markets, the division can benefit from the solid expertise of HCB, which was an early entrant into these markets, working to firmly established the Omron brand there. This situation is extremely favorable.

— What will be the focuses for the Global Strategy Headquarters going forward?

Miyanaga: When making decisions, I believe we will need to strike a balance between stable, incremental improvement and rapid, drastic progress.

From the standpoint of stable, incremental improvement, from our manufacturing processes to the management of our global operating performance, it is important to make ongoing improvements in various business processes based on the knowledge we gain through our everyday activities. Conversely, in achieving rapid, drastic progress, innovation is needed when delving into altogether new products and businesses and developing the unparalleled cost structures that will be necessary to succeed in global markets and achieve a competitive advantage.

— What will be focuses for the Global Resource Management Headquarters?

Nitto: We need to embrace diversity wholeheartedly. In addition to promoting non-Japanese personnel, the key to our current strategy lies in how to make Japanese people, as well as Japan itself, more global.

At the same time, there is no point in pursuing diversity if this simply results in fragmentation. It will be important to maintain the binding force of our corporate principles. I believe the Company excels in remaining true to its corporate principles, but this is because we have management strategies that are fully based on our corporate principles. Promoting diversity will be a major challenge, but I believe we can achieve this goal as long as we rely on our corporate principles as the binding force.

— We hope these interviews have assisted in deepening the readers' understanding of the Omron Group's efforts to realize the goals of VG2020 as well as the possibilities of vertical-horizontal matrix management.

Global Resource Management Headquarters (GRM)

Koji Nitto

Executive Officer
Senior General Manager,
Global Resource
Management Headquarters

