

Olympus has been restructuring its Imaging Systems Group, with special focus on digital cameras, in order to improve its profit structure. A new corporate structure went into effect on April 1, 2002. By constructing a new business model that integrates all aspects of the process, from development to manufacture and sales, Olympus has enabled profitable business development with faster turnaround in the turbulent consumer products market. We talk with Hiroshi Komiya, president of the Imaging Systems Group, about the restructuring plan.

**Q:** Olympus announced the restructuring of its imaging products business in January 2002 and the new system went into effect in April. Please explain your strategy in concrete terms.

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Olympus has been reborn as three internal companies: the Imaging Systems Group, the Medical Systems Group and the Industrial Systems Group.

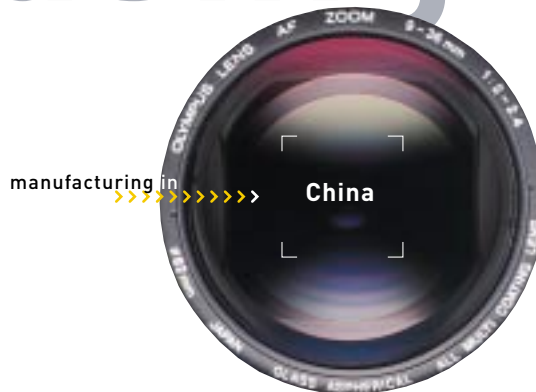
The Imaging Systems Group is primarily responsible for the camera business, and is the only business of the three that has general consumers as its customers. Its focus in the past was on film cameras, but for the last five years or so the market for digital cameras has grown rapidly. With the dramatic rise in demand for digital cameras, Olympus, as one of the pioneers of this technology was able to greatly expand its business.

Competition in the digital camera market is fierce, however, and the fact that the life cycle of a digital camera is said to be only six months does not mesh well with our business strategy. Olympus has built a business strategy around products with long life cycles: 20 years for microscopes, 10 years for endoscopes, and 2.5 years for film cameras. Now suddenly we are caught in the torrent of six-month cycles.

During the period under review, the digital camera business recorded huge losses totaling ¥11 billion on a consolidated basis. This is a crisis for our company. But in every crisis there is also opportunity. The profitability of Olympus has been overly dependent on medical endoscopes, and this is our opportunity to break away from that dependence. We are already realizing profit on film cameras thanks to a reformed business structure capable of producing quality goods at a reasonable price. In this restructuring our facilities in China play a vital role.

I have built a strategy around the idea that creation of a successful product is split into the elements of its “conception” and “production.” “Conception” is the brand strategy, the marketing and accompanying efforts that go into the marketing program, the cutting-edge technological prowess not found at other companies, the manufacturing skills and the technological competitiveness. In other words, “conception” is the creation of value, and “production” is the realization of that value.

# focusing on our



We are realizing profit on film cameras thanks to a reformed business structure. In restructuring of digital cameras, our facilities in China will also play a vital role.

The “conception” will be done in Japan, while our operations in China will focus on the “production.” This pairing of “conception” and “production” I refer to as the “flow cycle.” The flow of product planning up until now has been to develop, manufacture and then offer to customers. In the case of consumer goods, however, the main issue has been the speed of the “flow cycle” as it runs from planning, production and manufacture to customer feedback. This is usually called the “throughput,” but lately it has come to be referred to as “digital throughput” because of the instantaneous way the cycle comes full circle.

The “conception” portion will be pulled together in Japan, reflecting the feedback received from customers, while China will handle the “production.” In order to better clarify these roles, the production organization and infrastructure in Japan has been integrated into a single company, Olympus Opto-Technology Co., Ltd., which began operations on April 1, 2002.

In sales and marketing as well, the approximately 200 employees who made up the imaging information division of Olympus ProMarketing, Inc., the company responsible for marketing in Japan, were integrated into the internal Imaging Systems Group. This integrated organization also began operations on April 1, 2002.

**Q:** Have any positive effects been realized from the reorganization? Also, does it appear that the newly formed Imaging Systems Group is going to achieve its goals?

**W**hen I circulate among retail and other stores, I am consistently hearing how much the atmosphere has improved. Through thoughtful integration of the organizations and their activities we are moving quickly toward the goal of turning the loss-making Imaging Systems Group into a profit-making business.

We are currently working along a strategy that distinguishes core business (film cameras, recorders), new core business (digital cameras) and new business, and with the synergies created, this strategy will without fail make this division profitable.

We have already managed positive results in film cameras, one of our core businesses, and recorders have also become a noteworthy profit-making business. In digital cameras, one of our new core businesses, we intend to bounce back with a profit in fiscal 2003. We have made this commitment both within the company and externally, and in our business plan it states clearly that “we will without fail achieve” our goal. We have increased the speed not just of various functions, but that of the entire organizational structure.





cameras to make them a global major brand. By including digital cameras in this strategy it becomes like two axles on a car working together, with increasing synergy.

I believe that the minimum requirement for a global major brand is a market share of 20%. Our film cameras used to have only a 14% to 15% share of the market, but now command a 24% share, fulfilling this requirement. Olympus digital cameras currently have an approximately 20% share of the market. This meets the minimum requirement, but to make Olympus a global major brand in both digital and film cameras it is necessary to set high targets of 25% or even 30%, and work relentlessly towards that goal.

Specifically, our activity is focused on the dual goals of being a global major supplier and a global major player.

During the two and a half years that I was in Hong Kong, I asserted that Olympus would be a global major supplier, and strove to be the first in the world in cost, quality, manufacture and delivery. Now full-scale production of digital cameras is about to begin. We are now moving forward with the determination to be first in the world in the manufacturing industry.

For example, there was a time when we held 3.2 months of component stock. But today that number is 0.46 month, and I would like to make it 0.1 month. Similarly, our defective ratio used to be around 3%, but today it is less than

0.1%. We are cost competitive so we are able to offer inexpensive products. We have taken the first steps down the road to becoming a global major supplier.

As for being a global major player, in the primary market we will attain the position of number one, or at least a strong second.

By continuing to fight these two battles, the market battle and the supplier battle, in the end we will be a global major business. The result of our efforts so far is that in April 2002 we succeeded in regaining the top position in digital cameras in Japan. The restructuring of the Imaging Systems Group contributed greatly to this success.

**Q:** Finally, please tell us about the outlook for the Imaging Systems Group.

In terms not only of sales but also of profitability, I would like to set clear goals to create a business that can rival the medical endoscope business. If we are able to achieve the targets in the current business plan, the Imaging Systems Group will be strengthened in terms of makeup, structure, and technology. We have risen to the challenge of maintaining our current momentum and meeting our plan for the fiscal year. I believe that we are off to a good start, and as we secure our footing and move forward, all company employees around the world will work together from conception to production.

# major brand status

