

# Hitachi Smart Transformation Project

**March 27, 2012**

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**Chief Transformation Officer (CTrO)**

**Hitachi, Ltd.**

# Hitachi Smart Transformation Project

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- 1. Background to Start of Project**
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## Contribute to the development of sustainable social infrastructure

### Accelerate Social Innovation Business

Global

Fusion

Environment

- Leverage Hitachi's strengths to promote a global growth strategy
- Focus business resources on the Social Innovation Business
- Strengthen the business structure to stabilize profitability

### Shift from competition focused on the Japanese market to emphasis on true global competition

- Establish an earnings platform for competing effectively with leading global corporations
- Shift to a cost structure that allows Hitachi to compete effectively with companies from emerging markets

# 1-2 Benchmarking Global Competitors

FY 2010

Unit: %; Figures in parentheses represent indexed figures with Hitachi equal to 100.

	Hitachi	A (Japanese)	B (Japanese)	C (non-Japanese)	D (non-Japanese)	E (non-Japanese)	F (non-Japanese)	G (non-Japanese)
Cost of sales	(100) 74.8	(102) 76.5	(96) 72.0	(87) 65.2	(94) 70.0	(93) 69.8	(72) 53.9	(89) 66.4
Selling, general and administrative expenses	(100) 16.2	(91) 14.7	(108) 17.5	(96) 15.6	(86) 14.0	(90) 14.6	(135) 21.9	(105) 17.0
R&D expenditures	(100) 4.2	(119) 5.0	(100) 4.2	(112) 4.7	(126) 5.3	(81) 3.4	(143) 6.0	(140) 5.9
Operating income	(100) 4.8	(79) 3.8	(133) 6.4	(302) 14.5	(263) 12.6	(246) 11.8	(410) 19.7	(233) 11.2

**Reform the cost structure across the entire Hitachi Group**

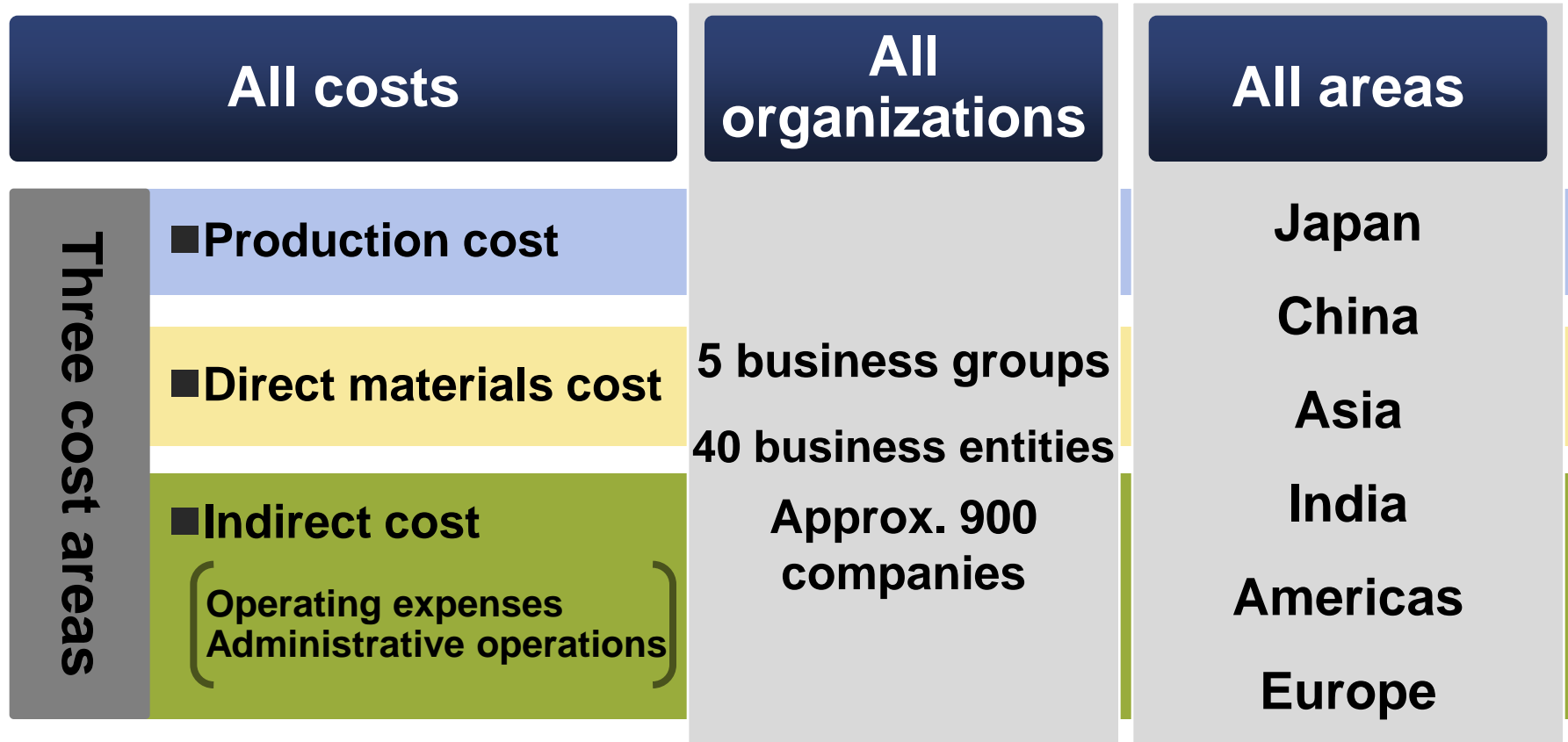
## Developing a global growth strategy for the Social Innovation Business

- High cost structure dependent on domestic resources
- Inefficiencies and redundancies of resources due to multiple businesses, large organizations, and optimization at the individual company level
- Excessive focus on doing things internally

**Hitachi Smart Transformation Project launched**

# Hitachi Smart Transformation Project

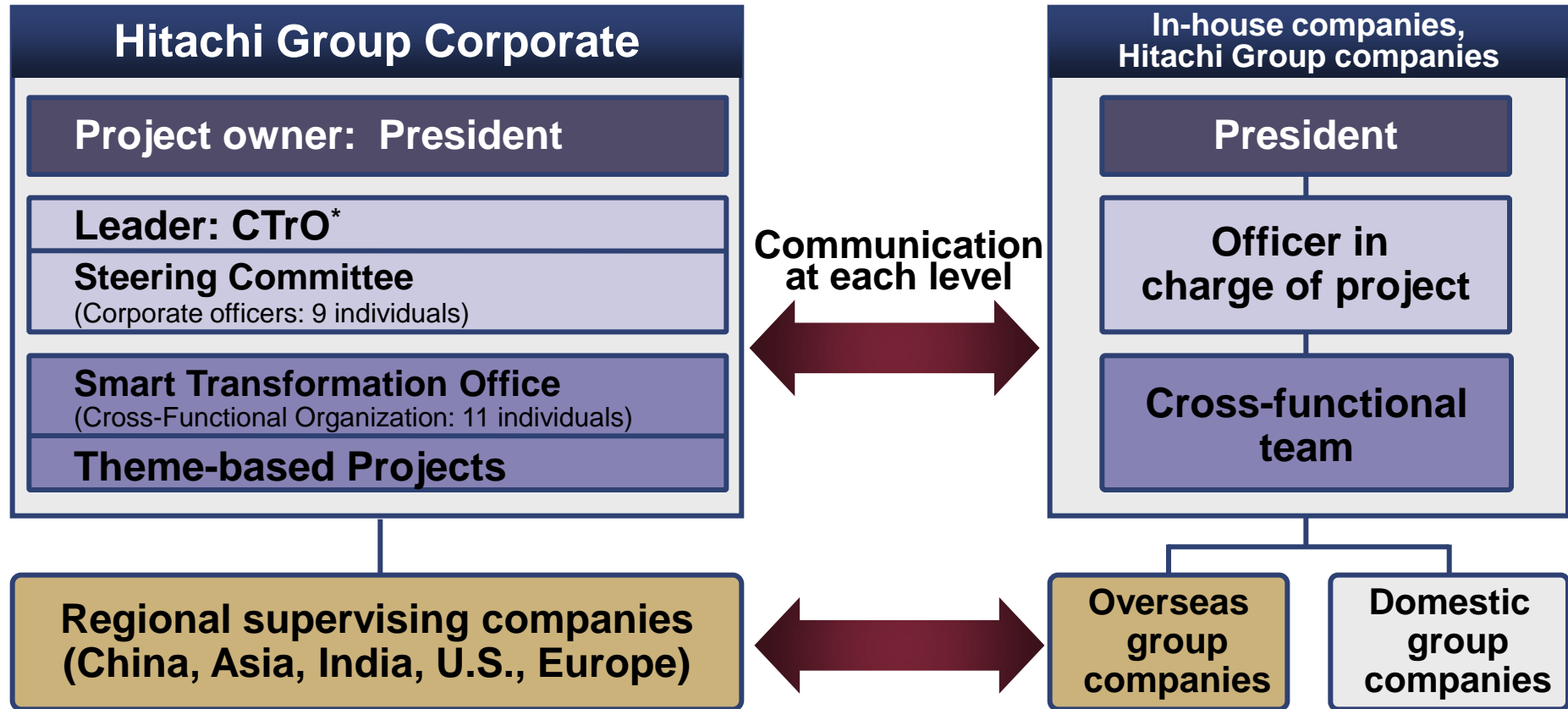
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■ Global business strategy   ■ IT strategy   ■ Human capital strategy



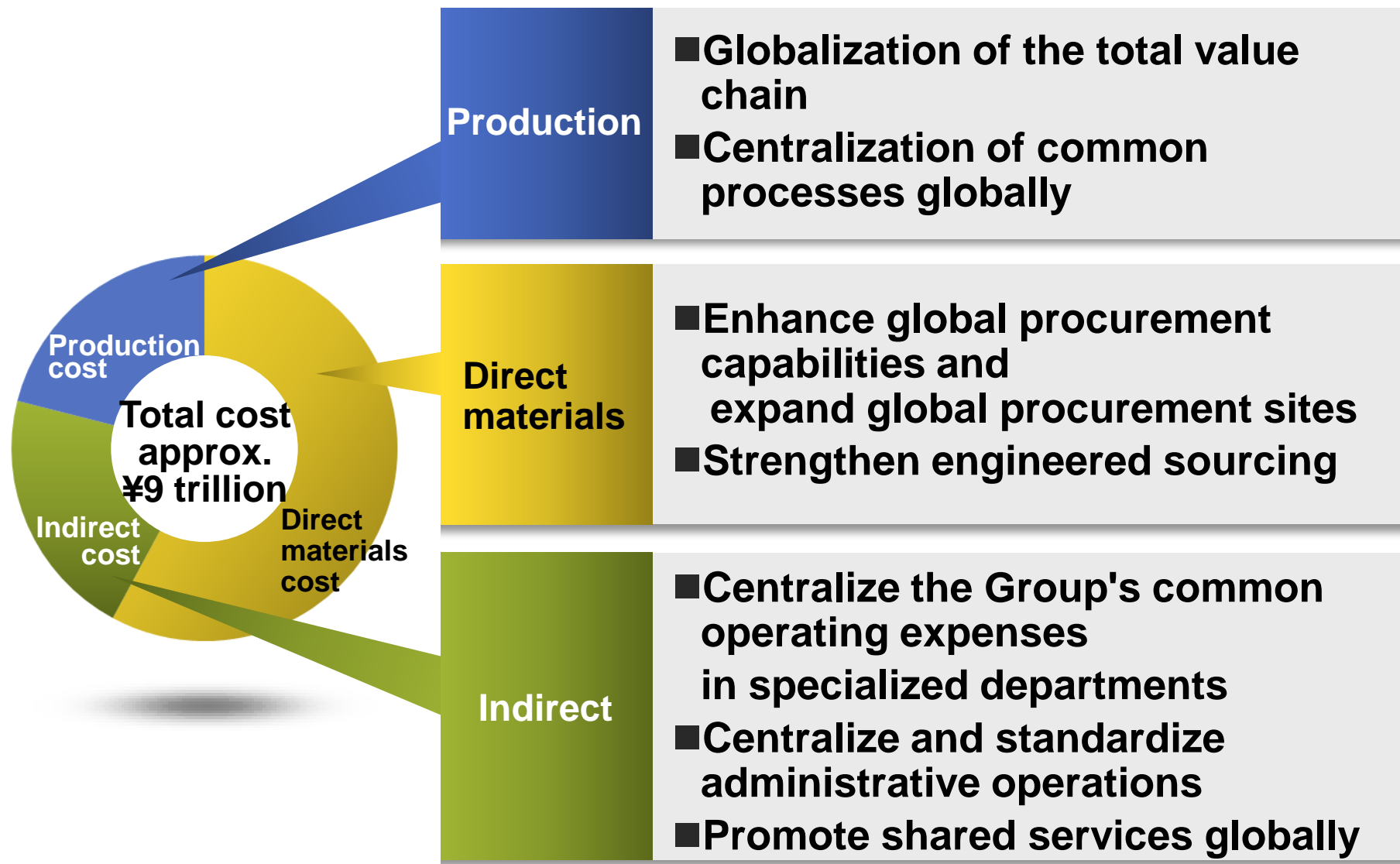
# 2-2 Project Structure and External Coordination



<b>Coordinate external resources that will provide insight and support</b>	<b>Implement benchmarking</b>	Global competitors, innovative companies in different business sectors
	<b>Independent consulting</b>	All administrative operations, finance and accounting processes, procurement processes, etc.

\*CTrO: Chief Transformation Officer

## 2-3 Three Cost Areas and Initiatives



## Hitachi Group Corporate

- Establish KPIs for entire Group
- Establish global benchmarks

- **Centralize common processes**
- Support global productivity reforms

- **Develop global procurement infrastructure**
- **Cultivate common suppliers overseas**
- Promote pool purchasing

- **Centralize the Group's common operating expenses through specialized departments**
- **Centralize and standardize common operations**
- **Promote shared services globally**

Strategy

Production costs

Direct materials costs

Indirect costs

## In-house companies, Hitachi Group companies

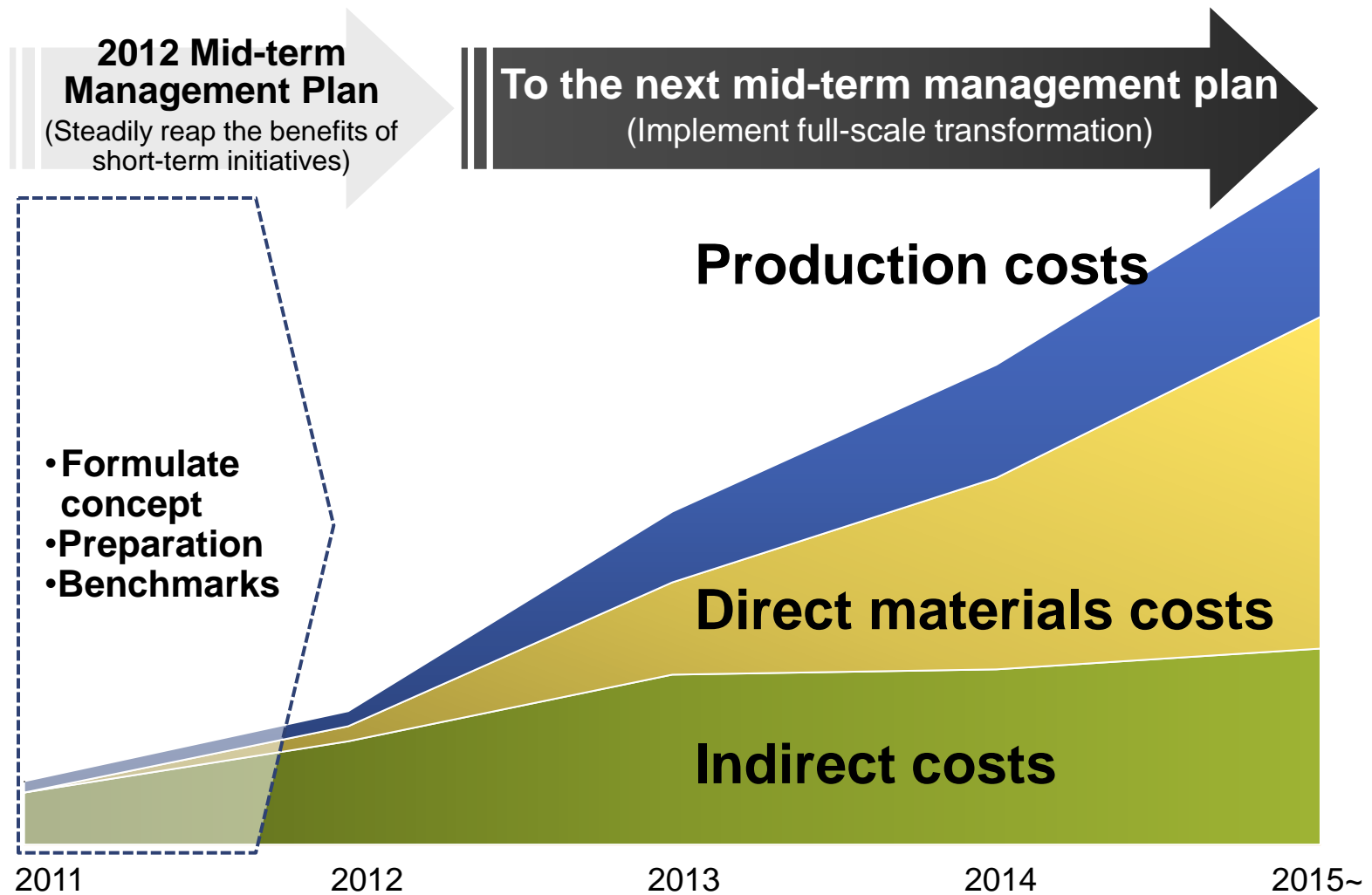
- Formulate and promote global growth strategy
- Benchmarking by individual company

- **Globalization of total value chain**
- Expand production at optimal sites globally
- Review internal and external production

- **Strengthen engineered sourcing**
- Refine cost planning for each machinery model
- Expand global procurement of specialized purchased items

- Instill corporate policies at in-house companies and Hitachi Group companies
- Review Group company structure

# 2-5 Project Period and Targeted Cost Savings

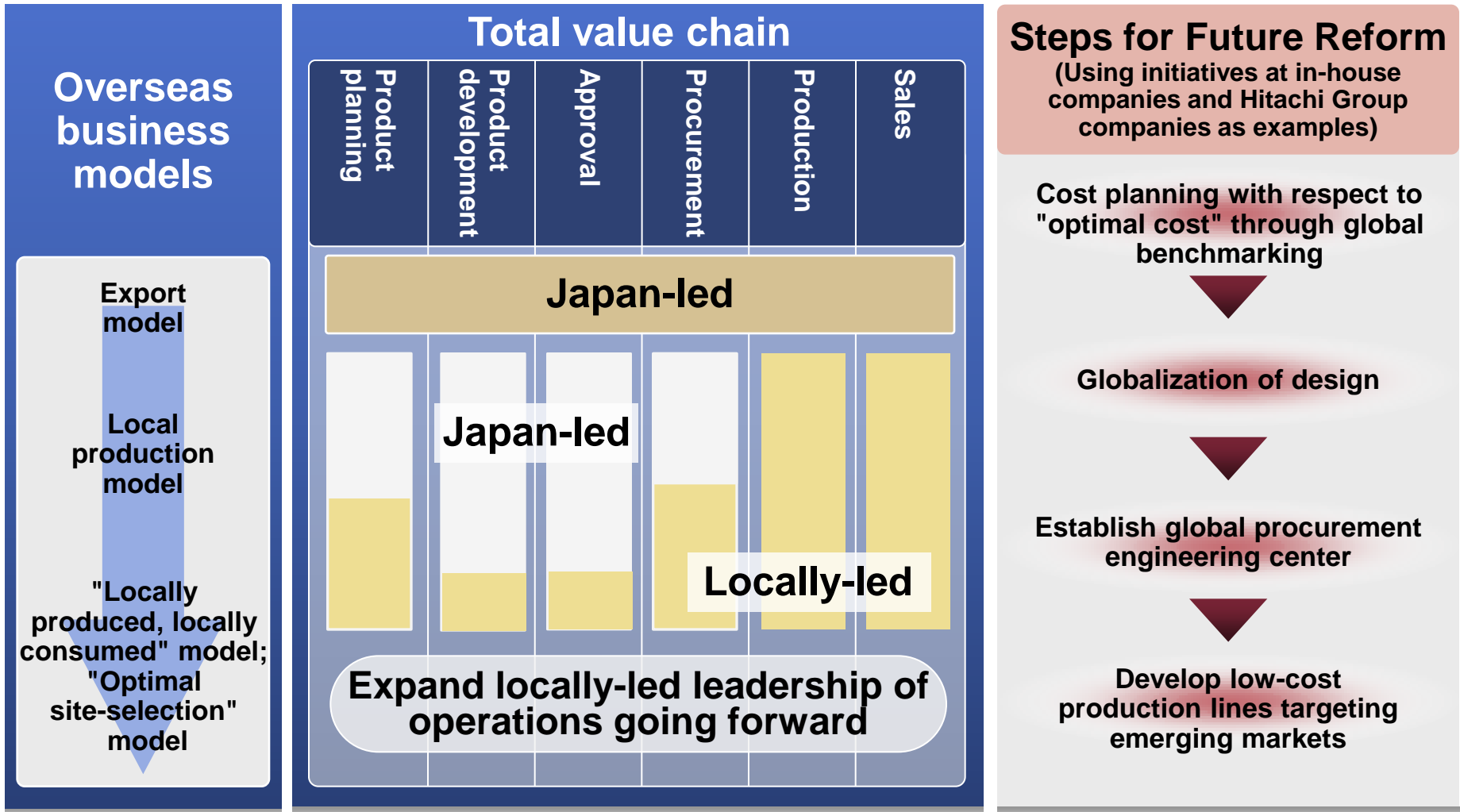


**Achieve a total cost reduction of 5%**

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# 3-1 Production Cost Reforms (1) Globalization of Value Chains

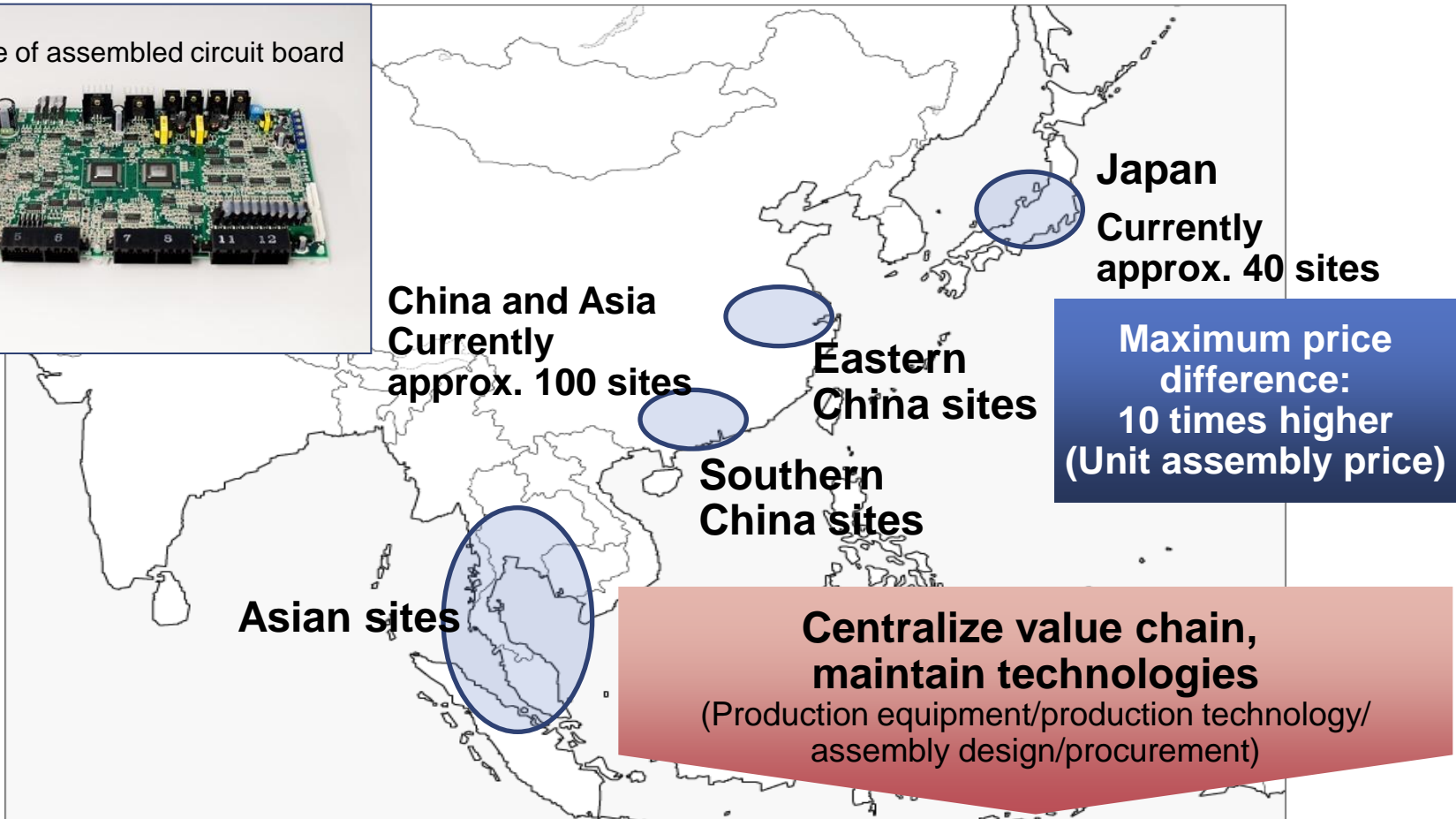


## Globalization of total value chain

## 3-2 Production Cost Reforms (2) Centralization of Common Processes Globally

**Integrate assembly and procurement of parts and materials for small and medium-lot printed circuit boards used by individual businesses**

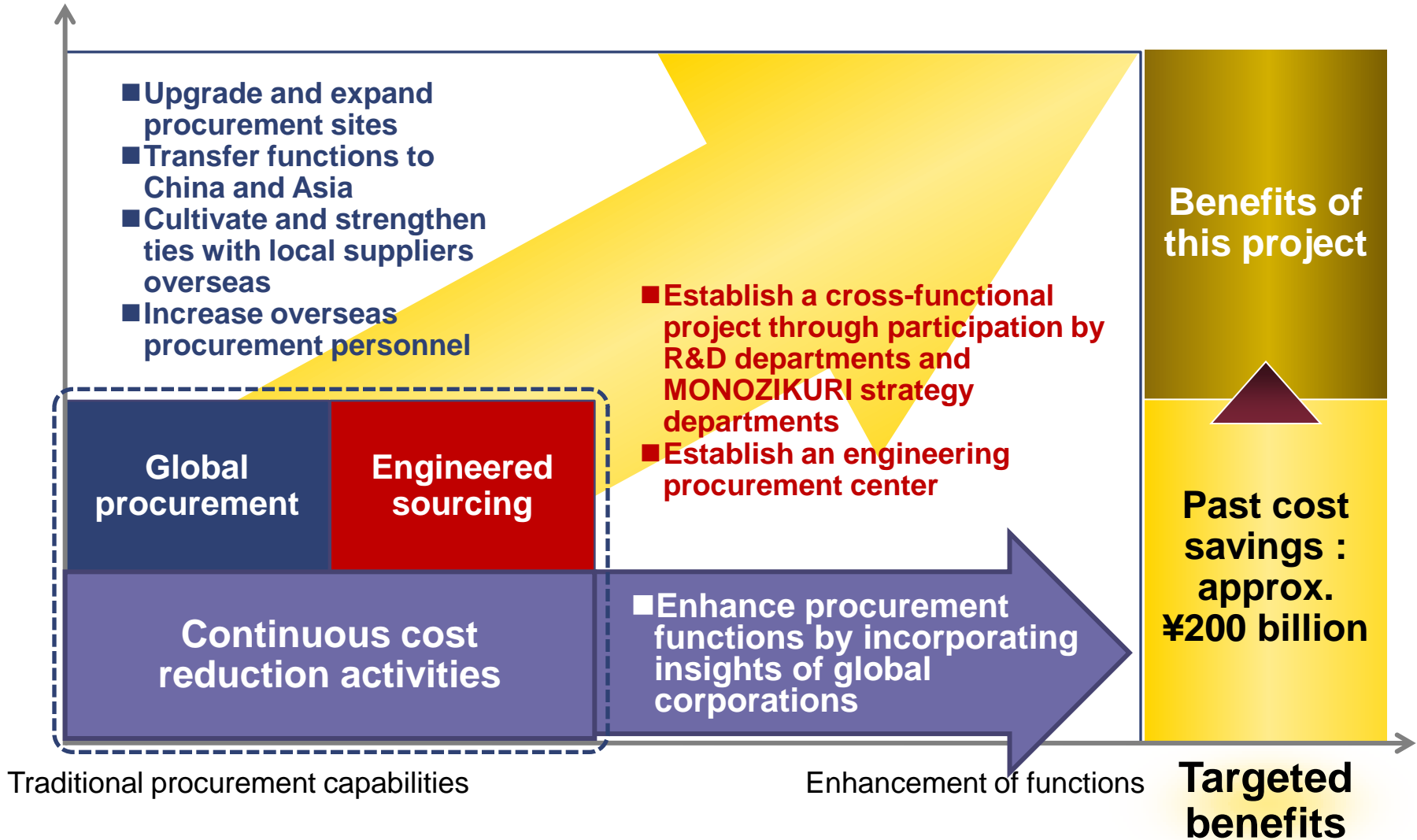
Example of assembled circuit board



**Establish EMS for small and medium-lot production**

# 3-3 Direct Materials Cost Reforms (1) Fundamentally Enhance Procurement Capabilities

Expansion in scope and scale





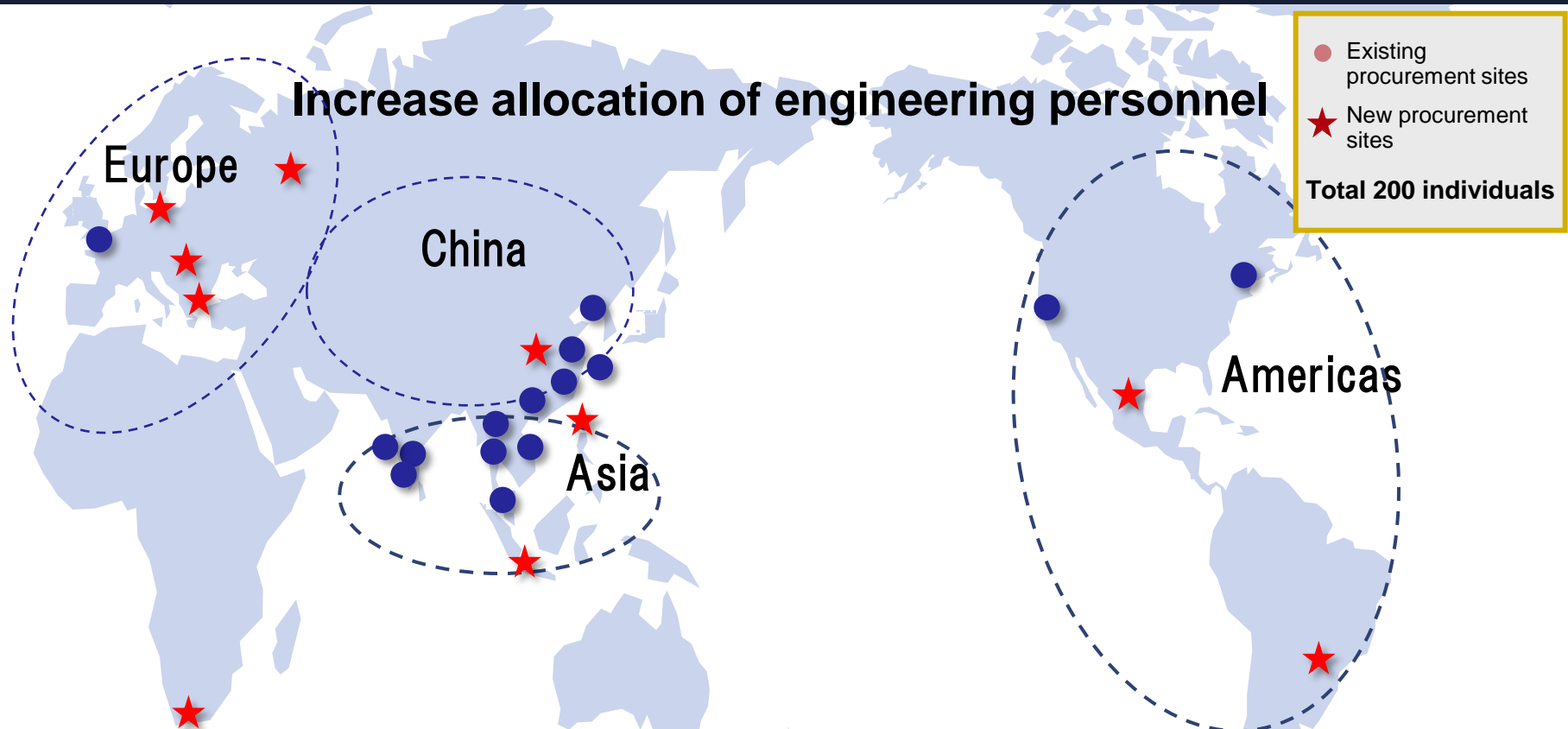
### Hitachi Group Corporate

- **Created new post of Chief Executive Officer for Asia Pacific (April 2012)**
  - **Transfer China/Asian region procurement functions to local operations**
- **Hold supplier meetings in 12 cities worldwide**
  - **Meetings completed in 5 cities since October 2011 (Shanghai, Seoul, Taipei, Bucharest, Warsaw)**
  - **Attended by approximately 20 Hitachi Group companies and 100 suppliers**

### In-house companies, Hitachi Group companies

- **Transfer head-office procurement functions to Asia**
  - **Singapore, Hong Kong, Dalian**

**Upgraded and expanded corporate procurement sites:  
from 15 cities to 25 cities (end of the first half of FY 2012)**



**Establish new procurement sites in emerging markets**

- Poland (Warsaw)
- Rumania (Bucharest)
- Turkey (Istanbul)
- Russia (Moscow)
- Brazil (Sao Paulo)
- Mexico (Mexico City)
- Philippines (Manila)
- Indonesia (Jakarta)
- South Africa (Johannesburg)
- China (Hefei)

### Hitachi Group Corporate

**"Less engineering"** to mitigate the risk of high resource prices

Launch cross-Group, **cross-functional project**

[ Allocate engineering resources from the Research & Development Group, MONOZUKURI Strategy Division and VEC Promotion Department ]

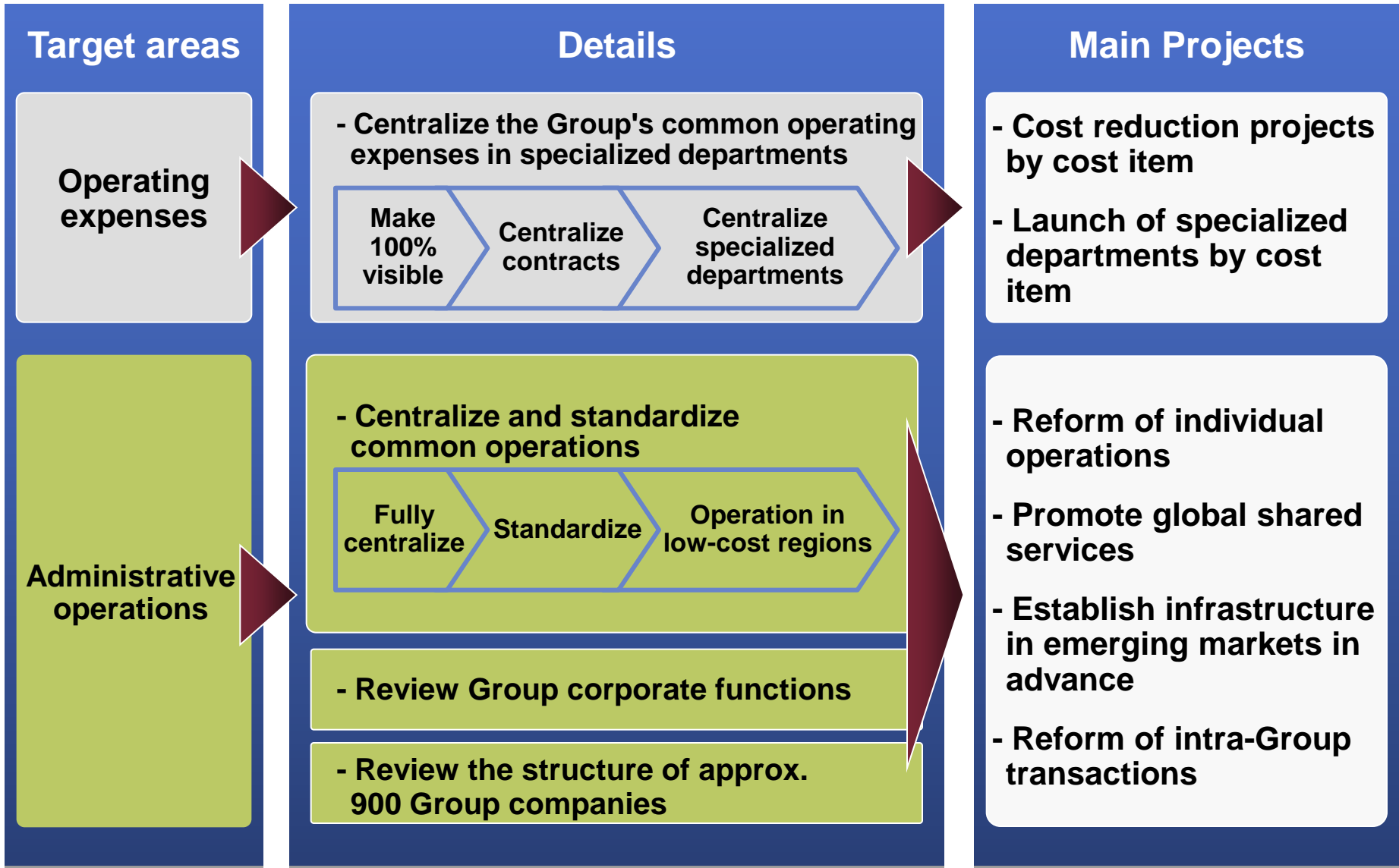
- Develop rare earth-free motors

- Standardize component specifications among different business sectors (Cast metal, die casting, pressed items, molds, sintered items)

**In-house companies, Hitachi Group companies**

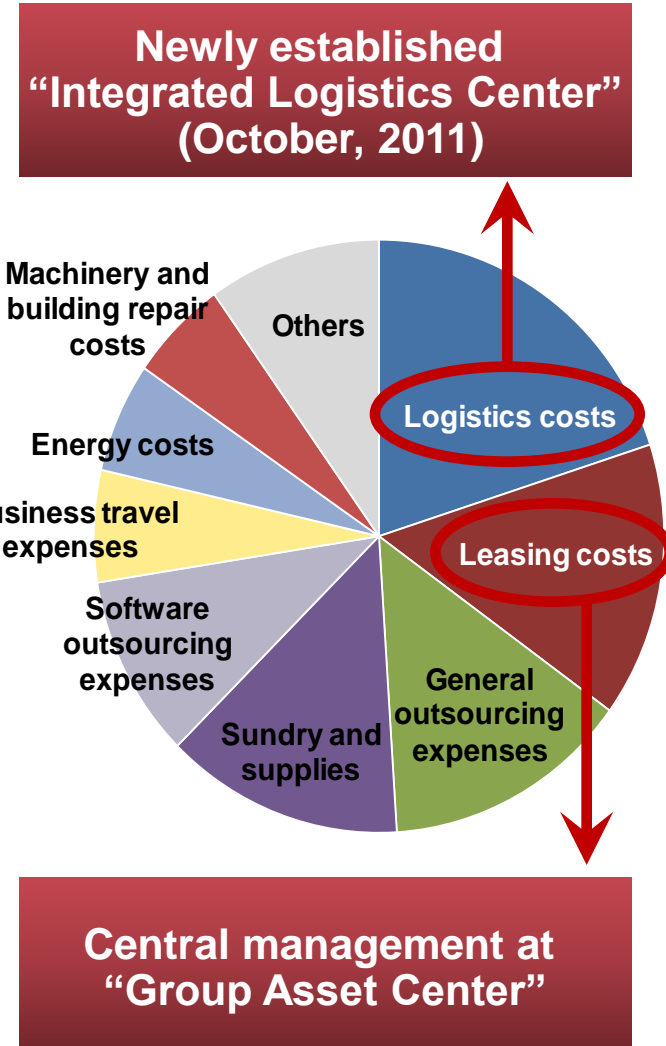
Upgrade and expand the engineering buyer system

# 3-7 Indirect Costs (1) Reform In-direct Costs by Demonstrating the Group's Collective Capabilities



# 3-8 Indirect Costs (2) Expand centralization target areas of Group's common operating expenses

	Step 1	Step 2	Step 3
	2003-2009	From December 2009	Smart Transformation Project From April 2011
Target regions	Japan	Japan and certain overseas sites	Entire Group, including overseas
Target amount	¥200 billion	¥600 billion	¥1,000 billion
Promoted activities	<ul style="list-style-type: none"> <li>Commence pool purchasing</li> </ul>	<ul style="list-style-type: none"> <li>Make all cost items visible</li> </ul>	<ul style="list-style-type: none"> <li>Fully centralize through specialized departments</li> </ul>



### Logistics Costs

#### Establish Integrated Logistics Center

Integrate activities with and utilize the expertise of Hitachi Transport System, Ltd.

Integrate management of separate logistics for each company

Maximize the use of the Group's scale  
(International tendering, centralized packaging materials, etc.)

### Asset and leasing costs

#### Centralize and centrally manage at Group Asset Center

Co-locate Group companies' offices,  
optimize the floor space used per person

Integrated management of dormitories and housing,  
reduce vacancies through shared Group-wide use

## Operational reform

### Group centralization and establishment of global shared services (Includes shifting operations offshore)

- Establish at an early stage based on examples  
(Began in fiscal 2012, successive expansion projecting completion in 2015)
- Finance & accounting, human capital, general affairs, procurement, IT, trade-related operations, sales administration

## Review of operation quality

### Review and standardize over-emphasis on operations quality

- Internal costs resulting from such factors as continuation of past traditions, excessive service, and optimization at the individual company level

### Review business structure and business units

- Additional costs arising from the structure of Hitachi Group companies

**Two efficiency-raising measures for administrative operations**

# 3-11 Develop Global IT Platform

Opened Global IT Center in the U.S. to provide IT support to 560 companies globally (April, 2011)

Current global IT services

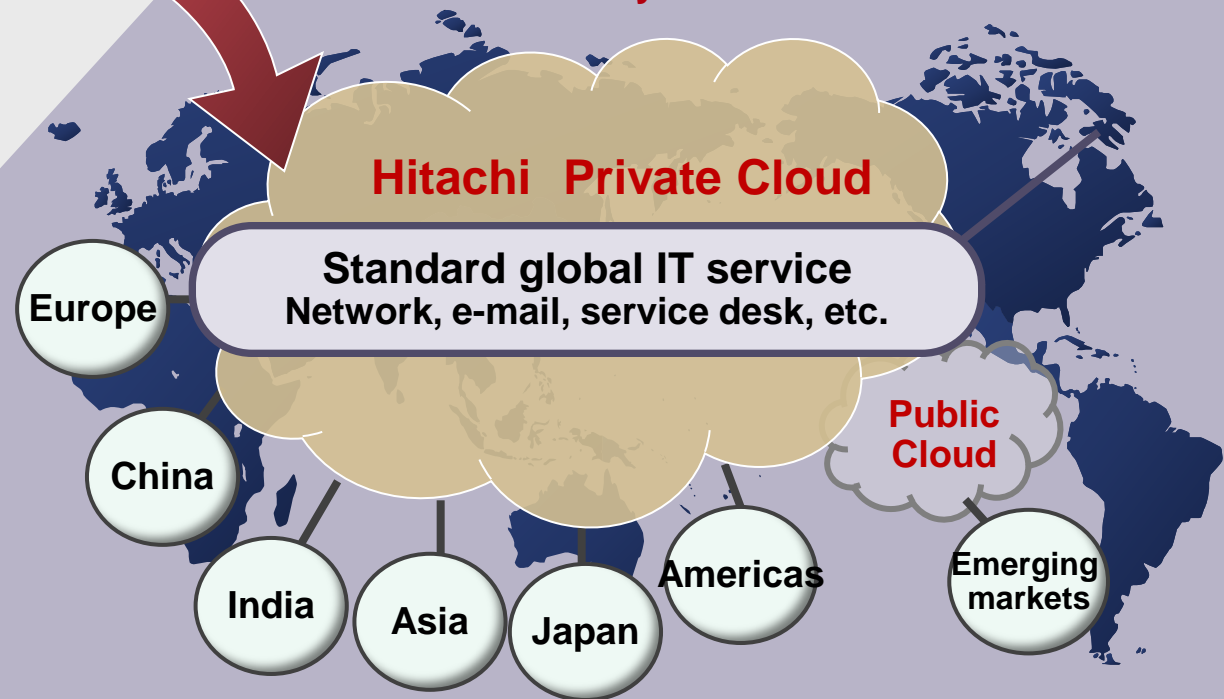
Independent services provided by six regional headquarters

Cannot address global needs due to weak inter-regional coordination

Planned Model

Standardize the services provided by the six regional headquarters

▶ Establish an IT platform swiftly and efficiently



Improve efficiency and reduce administrative costs across entire Group



**Transform to a cost structure  
that can prevail globally**

**Shift the focus of technologies to  
creating high-quality products at low cost**

**END**

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**HITACHI**  
**Inspire the Next**