

# Fujitsu Pursued by Chinese Companies

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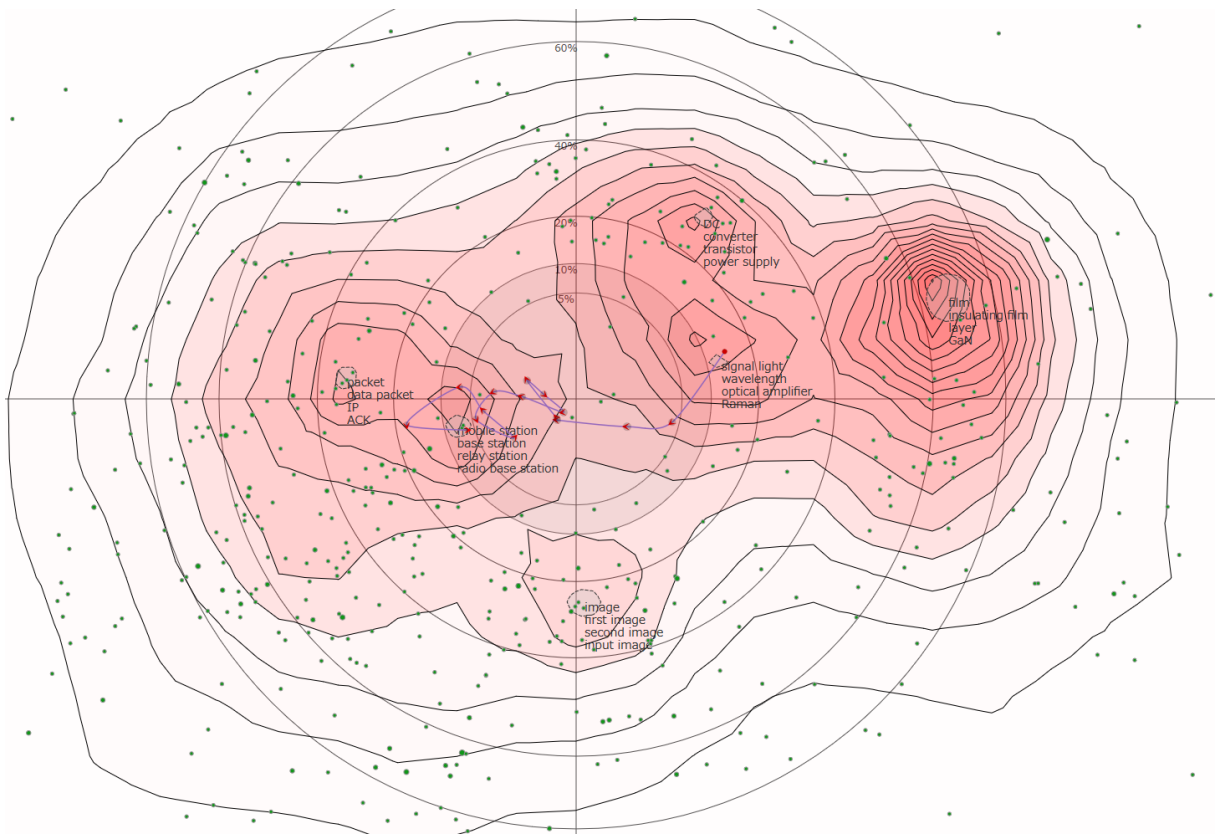
It is often said that one of the reasons the Japanese electronics industry is fighting a hard-fought battle in the global marketplace is the presence of rising companies in emerging markets, including China. There is also the historical doctrine that says the flying geese paradigm repeats itself in industrial growth curves, no matter the time or place. However, although it took Japanese household appliances 20 years to gain the lead in global market share, the roughly five-year period that it has taken Chinese companies to do the same is extremely fast. One of the features of these companies is that they are led by extremely cosmopolitan young people who have earned MBAs at American business schools. These young people take a market-driven approach to management, and they quickly turn to global expansion. Take Xiaomi as a case study of this phenomenon. Xiaomi is a general electronics manufacturer that was founded in Beijing in 2010. It has expanded its market share and increased earnings with its low-priced, stylish smartphones that are aimed at young people. At present, it is losing market share because other major producers of inexpensive smartphones, such as Vivo, Huawei, and Meizu, are using the same approach. Thus, Xiaomi is beginning to expand its business to become a general electronics manufacturer. Since its inception, Xiaomi's CEO, Lei Jun, positioned the company not only as a device manufacturer but also as a network company. Therefore, as the IoT market has expanded, the company has continued its aggressive global expansion. LeEco is another company that has taken the same route from smartphone manufacturer to rapid expansion in the US through the development of its household electronics business.

## PANORAMIC VIEW ANALYSIS

### Fujitsu and Xiaomi focus on different aspects

As a backdrop to this rapid development, Xiaomi has imported technology, combined with the powerful economic clout it has earned within China. Xiaomi's approach to catching up technologically is simple: get patent licenses, or acquire companies and

technologies. Xiaomi has the rights to roughly 617 patents in the US, and 62% of these were transferred from outside rights holders. In order to compare Xiaomi's technological position with that of Fujitsu (TYO: 6702), Japan's leading telecommunications manufacturer, we created a panoramic chart using unexamined patent applications in the US. It shows very interesting results: Fujitsu has multiple regions in which it has accumulated patents, mainly focused on radio communication systems, OFDM, and mobile wireless terminal apparatuses. The chart clearly shows that its research and development is aimed at its core technologies, both in name and in substance. In contrast, Xiaomi is acquiring patents that appear to surround each of the core technology groups formed by Fujitsu (Figure 1).

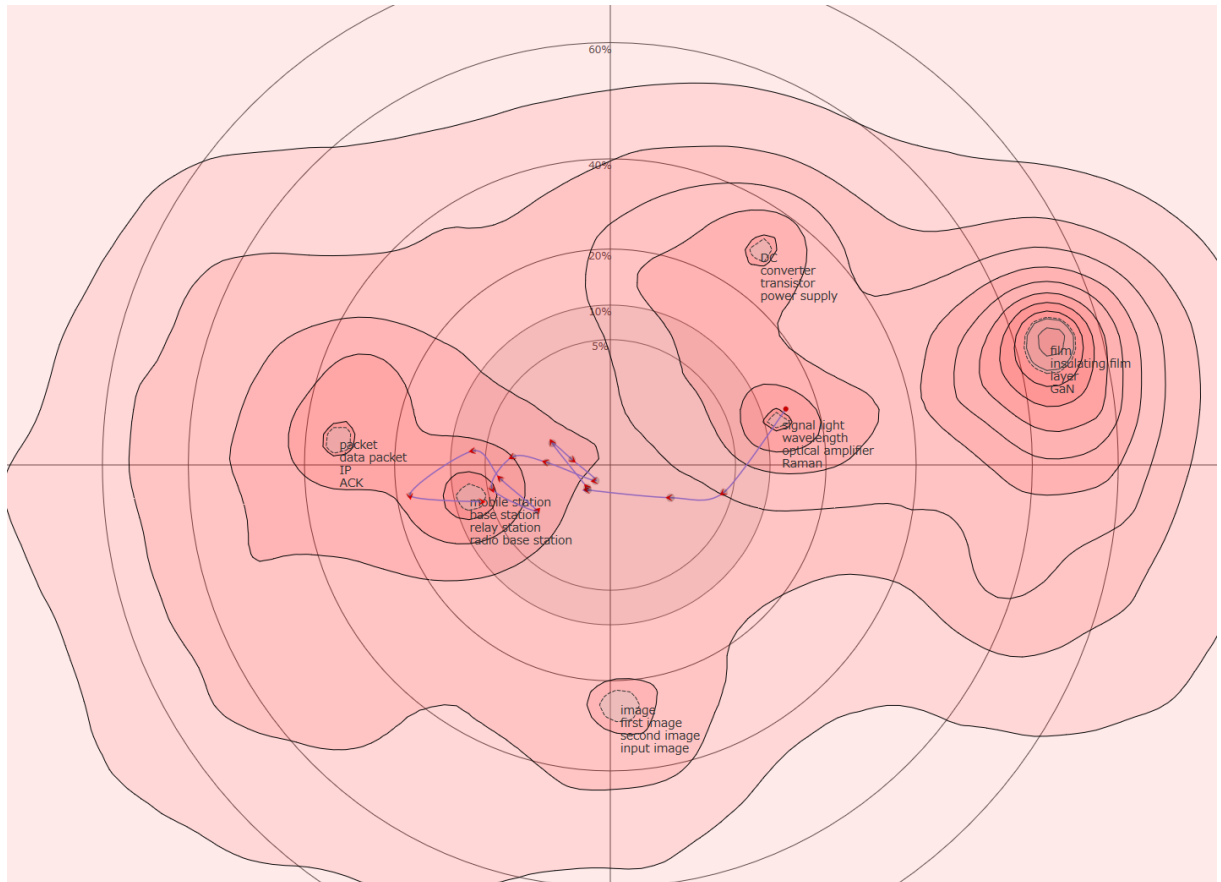


**Figure 1 - Xiaomi's patent position**

In other words, we can see a structure in which Fujitsu develops core technologies, while Xiaomi secures regions for applications for those technologies. Moreover, this movement is a short-term development over a period of one or two years, and this trend is growing stronger every year. Using unexamined patent applications does not show developments during the last year and a half (the time it takes before a patent is published), but undoubtedly, this trend must have grown stronger during this period.

## Rivals or Partners?

When Japanese companies that have core technologies are encircled by Chinese companies that have application technologies, what strategy should they take? Should they be rivals or partners? Unfortunately, Fujitsu was either unable to find an outlet for the horizontal expansion of its core technologies or unable to make the management decisions to do so. It may be imperative for Fujitsu to choose the path of partnership with Xiaomi and build a win-win relationship. However, Fujitsu's R&D focus has followed an unusual expansion path for a Japanese company (Figure 2), specifically that its business core has moved around over the years. If Xiaomi partners with Fujitsu, it will need the development capacity to at least continue to catch up, while anticipating Fujitsu's changing core competence.



**Figure 2 - Changes in Fujitsu's R&D focus over the years**

## CONCLUSION

The second half of the 1980s, when Japan was considered number one, has long since passed. However, it appears that Japanese companies have an unwavering strength that is not found in firms in other countries. This is in core technologies that are based on regions in which scientific results are earned over time. This could be related to the spirit, perseverance, and primary education of the Japanese. If the R&D results of Japanese companies show they are unskilled in application yet superb at research, then perhaps they are best suited to businesses where they can apply the results of their long-term maturation model of science as soft infrastructure for market-driven companies that are managed by intelligent MBA holders. It echoes of the impermanence of all things and is a reminder that pride comes before a fall.

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