Uniden: Moving Factory Strategy

By Takashi Iwamura

Uniden Corporation of the Philippines, located in an industrial complex about 20 minutes by car from Manila airport, started production in May 1988. That was at a time when many Japanese corporations were scaling back their business in the Philippines amid social unrest following the ouster of President Ferdinand Marcos. Thus, Uniden Corporation's decision to build a plant in the country excited a wave of interest. Even Japan's *sogo-shosha* general trading companies, which consider setting up overseas all in a day's work, were astonished by Uniden's daring.

Uniden's aim was to make the Philippines the production center for its mainline products–transceivers and scanners for computer systems. Up until the move, these items had been the province of Uniden Corporation of Taiwan, a production base that had sustained Uniden's growth since its establishment in 1973. Though many Japanese companies are only now relocating production to the Asian NIEs to cope with the strong yen, Uniden has already abandoned Taiwan and resolutely relocated to the Philippines.

The reason for moving out of Taiwan was certainly clear-cut. Between 1986 and 1987, the Taiwan dollar appreciated more than 40% against the U.S. dollar, slashing the profitability of exports to the U.S. market. Increasingly serious labor shortages have further transformed the situation which prevailed in Taiwan when Uniden first moved in. With America's preferential tariff on communications equipment and apparatus imported from Taiwan and other NIEs slated to be discontinued, Taiwan's role in the Uniden scheme of things was just about finished.

Of its two plants in Taiwan, Uniden chose to shut down the Taichung facility, which had about 1,000 employees. The workers, armed with Uniden's quality control know-how, reportedly had no difficulty in finding new jobs, and Uniden gave them bigger severance pay than provided for in their contracts. At one time, Uniden had more than 5,000 workers in Taiwan, but today only a few remain, producing cordless telephone sets, data communications equipment and other high value-added products at its Kaohsiung plant.

Frontier spirit

While anyone can understand Uniden's reasons for cutting back in Taiwan, many are puzzled as to why the company chose the Philippines for its new production base. Of course, Uniden studied numerous options. Thailand, like the Philippines a member of ASEAN, remained on the candidate list to the last. Labor costs in Thailand are less than half those in Taiwan, while the political situation is stable. The fact that Thailand is a Buddhist country like Japan was also attractive, and the rush of Japanese companies moving into Thailand in the previous one or two years made it easier for Uniden to obtain information about the country.

Yet Uniden chose the Philippines, a nation other Japanese companies tend to avoid. And its reasons seem sound. For one, labor costs are expected to rise more slowly in the Philippines than in Thailand, which is moving quickly down the road to industrialization. Moreover, the Philippines currency is closely linked to the U.S. dollar, the currency of international settlement. Uniden felt the Philippines presented better conditions for it to put down its roots in local soil and engage in production for at least the next 10 years.

Another attraction was the fact that the Philippines was better suited for human resources development because English is widely understood and the national religion is Christianity. This seemed advantageous to Uniden, which relies for more than half its total sales on the U.S. market. Again, the prospects of the U.S. suspending its preferential tariff treatment for the Philippines appeared remote.

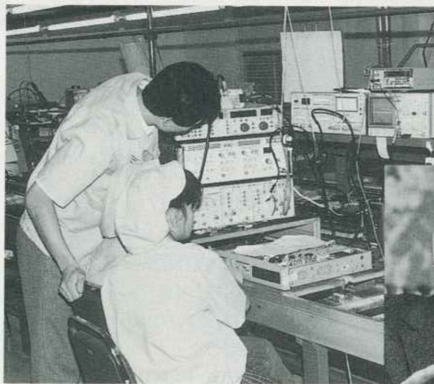
As regards the political situation, which has scared off so many other Japanese companies, Uniden concluded that as long as the Philippines stays under the American umbrella, confiscation of private property is unlikely, and that its staff would also be comparatively safe. Uniden founder and Chairman Hidero Fujimoto's clear-headed analysis was a significant factor in the decision. Demonstrating the quick decision-making characteristic of corporate owner-managers, he decided on the Philippines only six months after the selection process began. Uniden once again displayed the frontier spirit necessary for second-tier and small enterprises to succeed in Japan, just as it had when it became the first Japanese company to locate in Taiwan after the disruption of Japan's diplomatic relations with that country.

Offshore enterprise

Uniden's production in the Philippines got off to a smooth start. Nearly 30,000 Filipinos applied for the 3,500 jobs offered by the Uniden group of companies. The monthly wages per worker are equivalent to only about ¥14,000, one-third that in Taiwan. Of course, Uniden Philippines still has difficulties to overcome before everything gets on the right track. Yet according to Uniden's computation, the annual savings in labor costs alone should be roughly ¥150 million ($1.15 million at the rate of ¥130/$).

According to current plans, the Philippines will account for about 30% of the value of the Uniden group's total production in 1989. Uniden intends to boost the figure to 40% in the future, making the Philippines its main production base.

Uniden has been known for making and marketing all its products overseas. Now, however, this model offshore enterprise has launched a sales offensive in the



Hidero Fujimoto, chairman of Uniden Corp.
Production lines at Uniden's Philippines plant.

Japanese market. The principal product in its campaign is the cordless telephone set. This is a highly promising product very popular among young people. In the U.S., Uniden already ranks near the top in sales of cordless telephone sets, second only to AT&T, the information/communications equipment giant.

When private companies were authorized to sell cordless telephone sets in Japan in a step toward liberalizing the communications business, Uniden was quick to take advantage, and began marketing its cordless telephone sets in December 1987. On the strength of its sales record in the U.S., Uniden quickly became the pioneer in marketing cordless telephones with a transmission radius of only about 10 meters. The company's ¥29,800 ($230) price tag remains among the lowest on the market, even now that other manufacturers have put out rival products.

The yen's appreciation, a headache for most Japanese manufacturers, was not necessarily a minus for Uniden. True, the yen-denominated value of its U.S. sales slipped. But when it comes to developing the Japanese market, a strong yen is an advantage. Even though the currencies of the Asian NIEs have risen against the U.S. dollar, they are still weak against the yen. As a result, products manufactured in the NIEs have become highly competitive in the Japanese market. Uniden, with no factories in Japan, enjoys the same benefits as other manufacturers in the NIEs. Uniden products made in the NIEs for export to the U.S. can compete equally well in the Japanese market, thanks to the strong yen.

Uniden's Japanese sales of cordless telephones have been fair so far. Although handicapped by low consumer recognition of its name in Japan and the cheaper image of its brand, its cordless telephone is nonetheless gradually penetrating the market on the strength of its low price. The company is also pushing satellite broadcast receiver tuners and antennas. In time, it could possibly capture a significant share of the domestic market for high-tech communications equipment. The company's strategy of manufacturing only in the NIEs, at first regarded with skepticism, has begun to pay off brilliantly thanks to the strong yen.

At present, Uniden has production bases in the Philippines, China's Shenzhen Province, Hong Kong, Taiwan and the United States, of which the Philippine and Shenzhen operations form the core. Will it continue its "moving factory" formula in future to meet new changes in the international economic environment? The answer is half "yes," and half "no."

Strategy review

Uniden reviews its business strategy every 10 years or so. In its first decade, the company concentrated on the domestic market. The NIEs have been at the core of its strategy for its second 10 years. The third decade, which began with the start of production in the Philippines, will concentrate on ASEAN and China.

Yet Uniden realizes that sooner or later it will have to start production directly in consuming centers themselves. It believes that trade friction will eventually make it difficult for even Third World countries to export freely to the U.S. and Western Europe.

Uniden is already taking steps to cope, including production in the U.S., where 70% of its sales are concentrated. In October 1988, shortly after starting up its plant in the Philippines, Uniden began production of mobile telephones in Indianapolis, Indiana in the U.S. Midwest. At present, the company turns out 2,000 mobile telephones a month in the U.S. and has the second-largest share of the market after Motorola. Uniden avoids an 8% import tariff on mobile telephones by manufacturing in the U.S., but production costs are significantly higher. Yet despite the price, mobile telephone production in the U.S. is a crucial part of Uniden's long-term business strategy, with its sights set 10 years in the future.

Fujimoto compares his company's evolution to a corporate survival game. "For us, domestic production was the first elimination match, and production in the NIEs was the second-round elimination. The move into ASEAN represents the semifinals, and the finals will be production in the U.S."

Fujimoto, now 52, has demonstrated superb leadership for 20 years. He says that he wants to fight "the decisive battle" when he is 60 years old, a grand finale to his career as an entrepreneur.

Uniden, which began by seeking markets in the U.S. and Europe and production bases in Asia, is now trying to evolve into a "normal company" marketing its products in Japan and manufacturing goods in the U.S. The path the company has trod from venture business to a corporation with annual sales close to ¥100 billion ($770 million) merits special attention. In order to achieve growth, Uniden has relied repeatedly on its "moving factory" formula, but it has left a rich legacy behind in the places where it once set up production—sophisticated quality control skills and production management know-how.

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