

The background of the page is a photograph of an Epson building. In the foreground, a blue sign on a metal post features the word 'EPSON' in large white letters. Below it, in smaller white Japanese characters, is 'セイコーエプソン株式会社' (Seiko Epson Corporation) and '塩尻事業所' (Shiizuka Business Office). The building in the background is a modern, multi-story structure with large windows and a grey facade. There are trees and a clear blue sky with some clouds. A large red circle is overlaid on the right side of the image, partially covering the title and the building.

Deconstructing **SEIKO**

*The Seiko Group's structure
makes 3D chess look simple.
Here's how the world's
most complicated watch
company came to be.*

BY NORMA BUCHANAN



*Seiko Epson's
watchmaking
facility in Shiojiri*

The Japanese aren't big boasters, but the Japanese company Seiko has one thing it loves to crow about: it makes more types of watch than any company in the world. In fact, it makes all the types of watch that currently exist: mechanicals, standard quartz, motion-powered quartz, solar-powered quartz, and radio-controlled quartz. It also makes some types that Seiko came up with itself: Spring Drive, a hybrid with a quartz regulator and a main-spring, and Direct Drive, a motion-powered quartz watch that allows you to wind the watch just as you can an automatic mechanical watch.

Not only that, Seiko makes nearly all the components used in these many watch types: from balance springs to quartz crystals, from integrated circuits to the gongs used in its ultra-high-end sonnerie watches. (Jewel bearings and pallet jewels are among the very few watch parts Seiko buys from outside suppliers.) The group's watch-production operations range from vast, robotized assembly lines churning out truckloads of quartz watches to tiny ateliers where highly skilled watchmakers assemble by hand high-complication watches priced at more than \$100,000.

The company has another world championship title, one it doesn't often brag about. Seiko is, hands down, the world's most complicated watch company — a sprawling thicket of companies, really, rather than a single entity, which defies understanding even by many watch-industry veterans. Seiko's billion-dollar-plus watch business is part of a diversified manufacturing and sales colossus with about 90,000 employees worldwide and total sales of roughly \$16 billion.



*The Daini-Seikosha factory
in the 1930s*



*Making pocketwatches at
the Seikosha factory in 1914*

Seiko at a Glance

The Seiko Group consists of two giant, publicly held, separate companies, each with many subsidiaries and affiliates. They make 12 million finished watches and 336 million movements per year.

Seiko Epson. Net sales of \$12.6 billion, 78,000 employees. Biggest product is Epson printers. Manufactures finished watches and watch components, including movements. Owns Orient Watch Co. Watches make up about 5 percent of total sales (not including Orient Watch sales).

Seiko Holdings. Expected consolidated net sales of \$3.1 billion for current fiscal year. Has several subsidiaries, two of them in the watch business:

Seiko Instruments, Inc. (SII).

Acquired last year. Net sales of \$2.2 billion for latest fiscal year, 11,000 employees. Widely diversified. Makes finished watches, watch components and movements. Watches make up 15 percent of its total sales.

Seiko Watch Corp. Net sales, about \$1 billion for latest fiscal year. Markets watches manufactured by Seiko Epson and SII. Does not itself make watches.

In addition, a Seiko affiliate, **Time Module**, markets the more than 300 million watch movements that Seiko Epson and SII make each year for companies outside the Seiko Group.

So if you've ever thrown your hands up at the puzzle of how Seiko Epson, say, is related to Seiko Holdings, or what, exactly, Seiko Watch Corp. does and how it relates to Seiko Instruments, you're not alone.

The best way to understand today's Seiko Group is to travel back more than a century, to a far, far simpler time.

SEIKO WAS BORN when Kintaro Hattori, a former apprentice in a clock shop, set up his own business in Tokyo in 1881. In addition to fixing clocks, he also sold them, buying foreign-made models and selling them to local retailers. He called his enterprise, simply enough, K. Hattori.

In 1892, Hattori began manufacturing clocks himself. He christened his factory "Seikosha," a combination of two Japanese words: *seiko*, meaning "precision," and *sha*, meaning "building" or "factory." He continued his timepiece-trading operations under the name "K. Hattori."

The company branched out into pocketwatches in 1895 and, in 1913, wristwatches. In 1917, it was incorporated and became K. Hattori & Co. Ltd. Seikosha was part of the new company. Hattori continued to run his clock store, located in the prestigious Ginza section of Tokyo, selling all the timepieces that Seikosha made. (It's still there, and still owned by Seiko. The store is now called Wako, and its famous clock, high above the street's rushing crowds, is one of Tokyo's most famous landmarks.) In 1923, the Great Kanto Earthquake destroyed the Seikosha factory along with much of the rest of Tokyo, including the K. Hattori office in Ginza. Nevertheless, the next year Hattori introduced the first watch bearing the Seiko brand name. He had moved his company to a temporary location while rebuilding the Seikosha factory, which he finished in 1929.

Kintaro Hattori died in 1934 and his sons took over the business. In 1937, they set up a new company called Daini Seikosha ("second" Seikosha), to take over Seikosha's watch production. The "first" Seikosha would from then on make only clocks and camera shutters, which it had begun producing in 1930.

Five years later, in the middle of World War II, K. Hattori & Co. set up another plant. This one was about 100 miles from Tokyo in the city of Suwa, on Lake Suwa in the Japanese Alps. The Hattoris chose that location because it would be far from the Allied bombing attacks on Tokyo. Watches from both factories, Daini Seikosha in Tokyo and the new factory in Suwa, which came to be known as Suwa Seikosha, were marketed by K. Hattori & Co., the Tokyo-based trading company.

For a time, Suwa Seikosha made only men's watches and Daini Seikosha made only women's. That arrangement didn't last long. As consumer demand began to rise in post-war Japan, the two factories started to compete with each other to make watches to sell to K. Hattori & Co., which would choose which products from the two to bring to market. Each company had its own management and was completely independent of the other. Each was fully integrated, doing its own research and development and making its own components. If one of the companies came up with a promising new watch, the other would

*THE SUWA-DAINI RIVALRY
FORCED BOTH FACTORIES TO
MAKE THE BEST WATCHES THEY
COULD AT THE BEST PRICE.*



The Seiko Instruments watch facility in Morioka



The Credor Spring Drive Sonnerie

find a way to produce a similar one at a lower price or design an improved version of it.

The competition produced great benefits: it forced the two factories to make the best watches they could at the best price. That system continued as the quartz age dawned (it was Suwa Seikosha that developed the Quartz Astron, which in 1969 became the world's first quartz watch to make it to market) and into the '70s and '80s, when quartz watches eclipsed mechanical ones and Seiko reigned as the master of the new electronic technology. Seiko's strategy was to win and keep consumers' attention with a steady stream of new quartz models, propelled by the Suwa-Daini sibling rivalry.

IN THE MEANTIME, the two companies were diversifying their operations. In the 1960s, both began to introduce a wide range of other electronic products. Daini Seikosha brought out measurement and analytical devices, robots and other machines for use in automated factories, and many types of electronic components. Suwa Seikosha also became widely diversified in the electronics category. In 1961, a subsidiary called Shinshu Seiki Co. Ltd. was set up to specialize in various electronic products, including printers. It launched the Epson brand of printers in 1975, and in 1982 was renamed Epson Corp. in honor of it. In 1985, Suwa Seikosha merged with Epson Corp., creating Seiko Epson Corp.

In 1983, Daini Seikosha was rechristened Seiko Instruments and Electronics Ltd. to mark the fact that it now made many types of electronic equipment.

Seiko Epson and Seiko Instruments marketed some of their new products themselves (these included Epson's printers). Oth-



The Micro Artist Studio (part of Seiko Epson's Artisan Time Studio), where the most complicated Spring Drive movements are made

ers, including watches, they sold through K. Hattori & Co. (renamed Hattori Seiko Co. Ltd. in 1983), which served as the sales and marketing arm for the factories but did not itself manufacture anything.

But trouble lay ahead for the group's watch operations. Changes in the global economy and the watch business in the mid-1980s forced Seiko Instruments, Seiko Epson and Hattori Seiko to cut some fat from their watch divisions. Above all, that meant cooling the Seiko Instruments/Seiko Epson rivalry. The competition had indeed produced terrific watches, but it was also wasteful. Its time had passed.

A turning point came in 1985. That's when the Group of Five nations signed the Plaza Accord, agreeing that the U.S. dollar should be weakened against the Japanese yen and the West German Deutschemark. By 1988, the yen had doubled in strength against the dollar: the exchange rate had risen to 120 yen/dollar.

The strong yen (*endaka*, as the Japanese called it), wreaked havoc with Seiko's watch business in the United States, its biggest market. Profits disappeared as Seiko's cost of making watches, measured in dollars, doubled in just three years. Watch inventories piled up because Seiko could not afford to sell the

watches it was making at old, pre-*endaka* dollar prices. *Endaka* marked the birth of a huge gray market for Seiko watches, as Seiko factories, its U.S. subsidiary, wholesalers and retailers sought to unload in unauthorized outlets watches that would have been too expensive to sell in authorized channels with a standard mark-up.

The problem was compounded by the fact that, due to the structure of the group, Hattori Seiko had no power over the factories. The factories produced what they wanted; it was Hattori Seiko's job to sell what they made. It could not force them to curb production even as inventories mounted. The factories continued to grind out watches even though Hattori Seiko could not sell them.

At the same time, Seiko was being clobbered by the onslaught of inexpensive fashion watches coming from the newly emerging Hong Kong watch industry.

And so began an era of adjustment, with the company taking several steps to cut costs and thus avert disaster. It shifted much of its production to Seiko-owned factories elsewhere in Asia where labor costs were lower. It automated watch production to the maximum, further saving on labor expenses. Seiko Epson and Seiko Instruments both agreed to stop their destruc-



Seiko makes its own hairsprings, along with nearly all the other components it uses in its watches.



Quartz watches from the Seiko brand's Coutura collection

tive rivalry. The factories resolved to consult more with Hattori Seiko so they would make watches the market wanted to buy rather than tailoring their production to their own needs.

The recipe worked, for a while. Seiko's watch business improved significantly and showed a profit in 1990. But then, in 1992, *endaka* stuck again. Seiko's troubles were aggravated by greater competition in the global watch market and the fact that some major markets, the United States included, were reaching maturity. The company once again lurched into the red.

IN 1997, the group took another stab at streamlining its unwieldy watch operations. It set up a production division within Seiko Corp. (Hattori Seiko had been renamed "Seiko Corp." in 1990) that would handle product design, parts procurement, and other functions that Seiko Epson and Seiko Instruments had previously performed themselves. (Seiko Instruments and Electronics dropped the "Electronics" from its name in 1987 and henceforth became Seiko Instruments Inc., or SII.) The new unit would determine the overall strategy of the group's watch operations, the first time in decades that Seiko had a central authority deciding which watches it would make and how it would sell them.

In 2001, Seiko Corp. continued its restructuring efforts by spinning its watch division off into a separate subsidiary called Seiko Watch Corp. It had been doing the same thing with its other product divisions — camera shutters, clocks, optical products, sporting goods, timing systems and integrated circuits — since 1996. The idea was that by making the watch division its own, independent, discrete entity, the division would be better able to champion its own interests, rather than having them overshadowed by those of the other divisions. With the splitting off of Seiko Watch Corp., Seiko Corp. became purely a holding company. It was renamed Seiko Holdings Corp. in 2007.

The Seiko Group's latest structural adjustment came last year. And it was a whopper. As of Oct. 1, SII became a wholly owned subsidiary of Seiko Holdings (annual sales before the ac-

**SEIKO IS, HANDS DOWN,
THE WORLD'S MOST
COMPLICATED WATCH
COMPANY.**



*Shinji Hattori,
president of Seiko
Watch Corp.*



*An automatic Grand
Seiko model*

OBSERVERS BELIEVE IT IS ONLY A MATTER OF TIME BEFORE SEIKO CONSOLIDATES ALL ITS WATCH OPERATIONS.

quisition, 174 billion yen, or about \$1.9 billion), and hence a sister company of Seiko Watch Corp. The tri-partite structure (two giant manufacturers and one giant sales and marketing arm) that had shaped the company since 1942 was gone: where there were once three Seiko Group umbrella companies, there are now only two, Seiko Holdings and Seiko Epson.

There are almost certainly more changes to come. Although no one at the Seiko Group will discuss its plans, outside observers believe it is only a matter of time, perhaps not much time, before the group consolidates all its watch operations, creating a single watch manufacturing and watch marketing unit. Last year's restructuring was a step in that direction: it brought SII and Seiko Watch Corp. under the same corporate umbrella, with the same management now governing both of them. Improving efficiency has become even more urgent in light of the severe slump in the global watch industry. In November, Seiko Watch Corp. forecast a 29 percent drop in its sales to 66.5 billion yen, or \$747 million, for the year that will end March 31.

Consolidation would mean splitting off Seiko Epson's watch operations and merging them with those of SII and with Seiko Watch Corp. It would be the next logical step toward a slimmer, sprightlier Seiko watch business, observers say.

Ultimately, the new shape of Seiko's watch business will be decided by the Hattori family, which has retained a controlling interest in the Seiko Group companies throughout the group's history. (Reiji Hattori, grandson of Kintaro Hattori, is honorary chairman of Seiko Holdings, and other members of the Hattori family hold other top executive posts within the group. Shinji Hattori, for instance, great-grandson of Kintaro Hattori, is CEO of Seiko Watch Corp.)

FOR NOW, THOUGH, the group's watch operations remain splintered. SII and Seiko Epson maintain a division of labor, with each specializing in different types of watches.

SII makes mechanical watches, both high-end ones, like those in the Grand Seiko and Credor brands, and the lower-end Seiko 5 models. The high-end mechanicals are manufactured by an SII unit called the Shizuku-ishi Watch Studio in Shizuku-ishi, a suburb of Morioka, about 300 miles northeast of Tokyo. The Shizuku-ishi Watch Studio makes mechanical-watch components, including hairsprings, as well as hand-assembling and decorating mechanical movements. It is part of the SII affiliate Morioka Seiko Instruments Inc., which also makes quartz

watches and watch movements. Its vast, automated quartz-watch-production facility is among the largest such factories in the world.

The high-end mechanicals, except for those in the just-launched Ananta collection and the automatic chronograph in the Velatura collection, are not marketed in the United States. Most are sold in Japan and a few other countries in East Asia. Some Seiko 5 models are sold in this country, but the biggest markets for them are Latin America, the Middle East and some other Asian markets. (Seiko 5 watches, introduced in 1963, were the first Seiko models the U.S. market had seen; GIs brought them home after serving in the Vietnam War.)

SII also makes some higher-end specialized Seiko-brand quartz models such as the perpetual calendar.

The company has about 11,000 employees. Despite its broad diversification, watches remain a major source of revenue for SII, accounting for about 15 percent of consolidated sales. For the latest fiscal year, SII's consolidated net sales were 199.5 billion yen, or about \$2.2 billion.

SEIKO EPSON, headquartered in Suwa, makes most of the standard quartz, Seiko-brand watches (production of these watches has been transferred from SII to Seiko Epson during the past decade). Seiko Epson also makes the company's radio-controlled, solar-powered models. In addition, it makes motion-powered quartz models, sold under the name "Kinetic," and Spring Drive watches.

In another structural shift in its watch business, Seiko Epson in 2008 completed its acquisition of Japan's Orient Watch Co., in which it had previously held a majority interest. Orient gives Seiko Epson the capacity to make mechanical watches, a category it had abandoned as quartz watches came to dominate the market.

Watches are a much smaller portion of Seiko Epson's business than they are of SII's, accounting for only about 5 percent of the company's annual sales of 1.12 trillion yen, or roughly \$12.6 billion. Seiko Epson employs some 78,000 people.

Both SII and Seiko Epson make watches for the group's Pulsar, Lorus and Alba brands. They also make quartz movements for companies outside the Seiko Group. Together, the two companies make more than 300 million quartz movements per year for third parties. These movements are sold by a Seiko affiliate called Time Module, based in Hong Kong. Time Module was set up in 1987 with funds provided by Seiko Epson, SII and Hattori Seiko (now Seiko Holdings).

Seiko Epson and SII sell all their finished watches, about 12 million in 2008, to Seiko Watch Corp., which markets the watches through subsidiaries all over the world. The U.S. subsidiary, Seiko Corp of America, is based in Mahwah, N.J. Seiko Watch Corp. also handles all watch marketing: advertising, publicity, sports sponsorships, etc. Before Seiko Holdings bought SII, Seiko Watch Corp. was Seiko Holdings' biggest subsidiary, with sales of 93.5 billion yen, or just over \$1 billion.

It's quite simple, really. ○

Orient Watch Co. is a subsidiary of Seiko Epson



Mechanical-movement assembly at the Shizuku-ishi Watch Studio, a unit of Morioka Seiko Instruments

