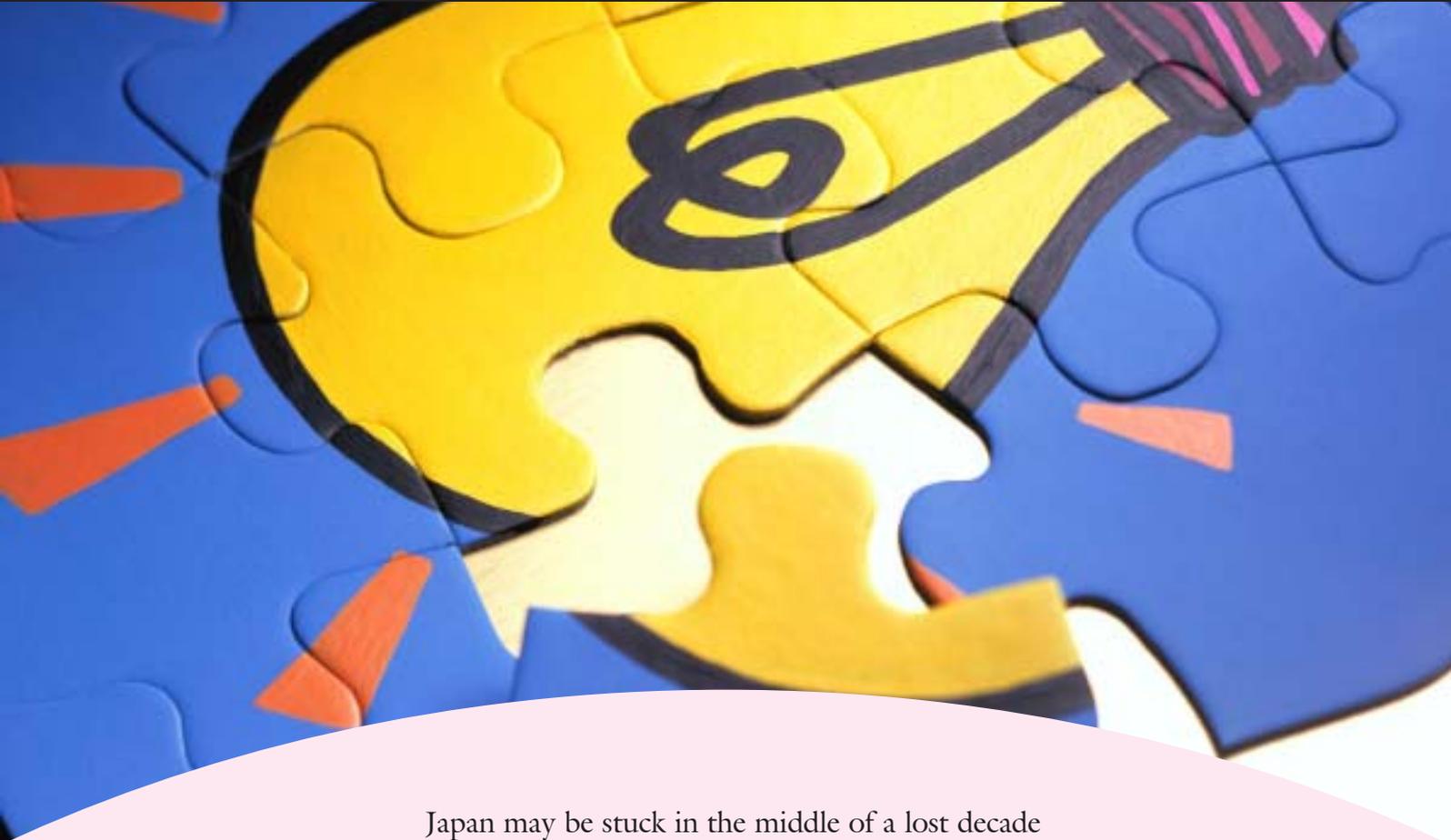


Business Builders

SPONSORED SECTION



Japan may be stuck in the middle of a lost decade (and a half), but every now and again a maverick bucks the downward trend and creates a company which is both world class and profitable. We call such CEOs “Business Builders” and we’ve made it our mission to find them and analyze what makes them different. In this sponsored series, we begin with an innovative company in the highly competitive networking devices industry.

Introducing, **Planex Communications Inc.**

Network Democracy

An intimate discussion with one of
the leaders in Japanese networking hardware

BY HENRY SCOTT-STOKES

Planex Communications Inc. (PCI) is a dynamic, young company blazing trails in the Internet devices sector. Founded in 1995, it listed on Jasdax six years later. It is now fighting it out for position and market share in a very competitive sector. So far, PCI is holding its own, analysts say, and it has the potential to grow by double digits in the years ahead.

PCI posted net sales of ¥5.8 billion in 2001, its last full business year, and ¥809 million in ordinary income, a year-on-year leap of 106%. Net income was ¥470 million, up 180% from the 2000 level.

PCI is led by Katsu Kubota, a careful, experienced manager who got his start in the fashion industry with Issey Miyake. Regular contributor to J@pan Inc Henry Scott-Stokes met with Kubota and prepared the following profile of the CEO and his exciting, young company.

Katsu Kubota has good hands. It is one of the first things you notice about him when you meet him. When he picks up one of his devices and holds it, he is very natural. It is a useful attribute in a salesman.

He has always been good with his hands. When he was a very young man, Kubota went to work with one of the most famous fashion designers in the world — Issey Miyake.

He was 20 and he dreamed of being a world-class name.

If you look up the website of his company — www.planex.co.jp — there is a photograph of Kubota-san that gives you a clue what he looked like in his Issey Miyake

International years. He looks not a day older than 23. Today, he is a mature man of 40. The passage of time has given his face a certain strength.

“What led you to go to work there?” I asked him.

“The business world was so conservative in those days,” he responded. “My father worked for Kanebo all his life. I wanted to do something different. I had a great desire to go to work — not go to a university at all, but start work straight out of high school. I settled on Issey Miyake. At that time Issey had sales of ¥2 billion, and they were in the red.”

“What did you actually do there?” I inquired.

“I made clothes. I was on the production side,” he said.

Kubota-san travelled to Paris for the collections. It was a great life. Those were the booming 1980s. Issey Miyake sales shot up to ¥15 billion a year by the time Kubota-san left fashion in search of pastures of his own. The experience of working with Issey Miyake left a lasting impression on Kubota-san.

“I got used to thinking ahead,” he said. “The autumn collection, then the spring collection, always half a year ahead.”

Today Kubota is constantly pondering what will come next in network devices. “Over the next half year, so much will change,” he said during a chat in his office in downtown Tokyo, not far from Akihabara.

The most basic thing of all about a company is its name.

“How did you decide that name?” I ventured to ask.



"I started off with the name 'Planet Japan Inc,'" Kubota recalls. "The problem with that was that it sounded like a subsidiary of another company with that 'Japan' in there. So 'Japan' had to go," he said. In came "Communications" instead.

"But then I made a second change, it's true," he said, anticipating my next question.

"This arose when we opened shop in America. We discovered that someone else owned the name 'Planet.' It would cost us ¥300 million to buy the name. So we changed it to Planex."

Kubota is a man who acts quickly when money is at stake. He is flexible as they come when the situation demands it. He has come up with a tidy expression for what he wants his company to be known as. "The Internet device company." I am reminded of that splendid slogan coined by Fuji Xerox. "The document company." Every time I see that somewhere there is a click in my head. "Right," I say to myself. "The folks over at Fuji Xerox know how to put three words together."

Kubota-san's company is basically a marketing outfit. "The Internet device company," then, makes a lot of sense as a slogan. But it's easy to see that this is a business which can't survive on slogans alone. What's needed is an ear close to the street, an almost suicidal sense of bravery and a willingness to duke it out with competitors. Kubota comes across as just such a person. Every five minutes or so, he's taking another call on his cell-phone — buy this, sell that. His senior sales guys obviously have a direct line to their boss — both literally and subconsciously. He clearly wants to know what is going on; he's the "networking hub" for the company. Of course, this makes investors nervous — one-man company, they think — but Kubota is already a step ahead of the competition.

"Last year was a tough one," he writes on the company's website. "We had to contend with an influx of new entrants from other industries, and resulting severe price competition." That's why PCI made lots more money in the first half of 2001 than it did in the second half — and is now fighting to increase market share.

But Kubota and PCI already have some key components in place. For a start, Kubota has set up his international operation out of Taiwan, allowing him to both buy from and sell to the major sources there. Taiwan also has cheaper overhead and a pool of

talented bilingual workers; it makes a lot of sense for Kubota and company to avoid cost-ridden Japan wherever possible. This operation is moving quickly into markets around the world, and within 18 months, PCI will look a lot less like a Japanese company and more like the multinational that Kubota wants it to be.

Kubota has big goals for the future. In fact, while PCI is still small, he's already eyeing the larger fish in the Internet device market. Sitting with Mr. Kubota for an hour — my eyes drifting to the models of Formula One racing cars that he loves to adorn his office with — I kept hearing him refer to one particular rival. "Cisco... Cisco... Cisco."

To me it's nothing more, in context, than a company name. But to Kubota-san it is a mantra, a dirge — a name that keeps sprouting from his lips. They are a bother, this Cisco. They keep hitting the Japanese market with products that compete with Kubota's.

In a sense, though, he has only himself to blame. He was doing so darned well as "the Internet device company." By 2001, he had pushed up sales for his company to close to \$40 million, reaping net profits of several million dollars. How did he do it? By being hard-headed, by knowing what the market wanted and giving it to them. There is a generation of Japanese entrepreneurs of that type and he is one of them.

Of course, there is a bit more to it than that. He also knows how to keep costs down. Part of that is not having too many people on his

payroll. For the record, Kubota-san says that he employs about 100 people. "Not sure, exactly how many," he shrugs.

It's not important to him.

What counts, apparently, is something else.

"The R&D side?" he says responding to a question on that aspect of his business.

"About 20 people."

"Twenty out of 100?"

"Yes!"

So that is how he has operated, to get where he is. He has concentrated his resources on R&D — product development, we would say — and he has farmed out the manufacturing to others.

Small companies are the wave of the future in Japan. If they succeed, the nation will go up. If they fail it will go down. It is

that simple in this country.

The hard part is to get started.

"How did you do it?" I asked, thinking back to 1995.

"With my money. Never with anyone else's."

He fairly shot that out.

"Bank borrowings?" I asked.

"None," he responded, impassive.

He has a beautiful balance sheet, then.

It's no wonder that Cisco and Allied Telesis and a bunch of others got drawn in as competitors. Here was this savvy chap whom none of them had heard of up to that point, who'd created a firm out of thin air.

And PCI made money.

It was not as if, either, he did that by gouging customers.

Rather, as Kubota-san boasted from the start, he liked to offer his hubs and his servers at "reasonable prices." What got him to launch his firm in the first place was the spectacle of established suppliers charging several times as much as in the US.

"This was the driving force behind the foundation of PCI," he says. "Rather than forcing users to accept manufacturers' priorities, we decided to create products geared to users' actual needs."

"It's a simple philosophy," he sums up, "but one that has kept us fully engaged to this day."

That must have been unbearable to the Ciscos of this world. Their upstart rival Mr. Kubota not only showed them how to supply a market with hubs, but he claimed the moral high ground.

"Which competitor do you fear the most?" I asked.

"None of them," Mr. Kubota said.

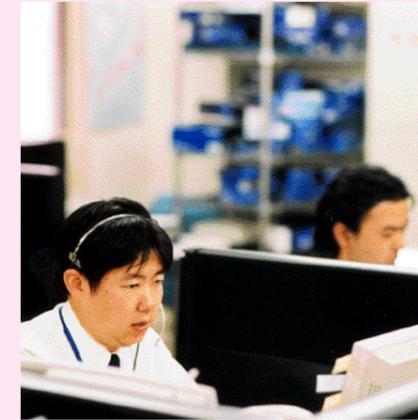
Competitors are not what it is all about, at this stage of his company's existence. What counts at this point is moving his management style one step further up. So far PCI has been a one-man show. The pioneer phase — setting up the company — is now past. It ended when the company went public a year ago, with a listing on Nasdaq.

So, actually, Mr. Kubota's biggest concern now is to structure his organization — post going public — and put in a bit more backbone. He told me how he has recruited from big companies, to bring in some veteran blood — some senior, highly-regarded people from top companies, with all the seasoning that lifetime employment in a big firm gives a person.

"I took on this guy of 63 from Toshiba," he said, looking me straight in the eye (I am 64). "Then there's another fellow who retired from Oki Electric, he is joining me."

"Oh, and there's someone coming from IBM Japan — he joins in August."

Hallelujah, I thought, corporate Japan is reacting — so Kubota-san is showing — to the fact that there is a handful of



Tokyo support center.

enormously experienced people coming onto the job market in their sixties. They are people who know the ropes, who have a lifetime of experience. These are the *takaramono* — the crown jewels — that one can pick up by a highly selective approach.

A lot of thinking has gone on behind this. Mr. Kubota has seen his stock price sink. It has come down from ¥900,000 or so to one-third that peak in a matter of a year since he went public in July 2001. Mr. Kubota still owns 80 percent of the company himself. The personal loss is one thing. What hurts is seeing people who bought stock at the IPO taking a tumble.

All Japanese shacho hate that. "Yes, me too," says Mr. Kubota. It is something I worry over. I feel an obligation to the shareholders."

Another point is that Mr. Kubota is learning the hard way that running a listed company is different from running a private one. More people have to be consulted — he frets at long meetings — and more visitors come to the office with basically nothing to do except seek out the shacho. There are lawyers, there are accountants, there are analysts — and there are journalists, too.

Putting some structure into a firm that has never had one is a lot of work. Kubota-san wants to get on with selling his hubs, and instead he has a million little drags on his time.

It's not easy for him. The extent of the challenges he has to meet has totally surprised him. Early on, when PCI was barely a



Twenty percent of PCI staff are in R&D.

year old, he extended the company to other countries — to Taiwan and the US (and later to China and Singapore). He has embarked on bold strategies, notably in China. There, he says, he plans to make devices for sale inside China, competing inside the mainland. Can he really do that? It is an indication of Mr. Kubota's



Katsuaki Kubota, CEO, Planex Communications Inc.

Performance is a Team Effort

Team Planex: *The Internet Devices Company*

Intelligent Switches

Switch/Hubs

Wireless LANs

Network Interface Cards

Print Servers

Cable/Accessories

Broadband Routers

Server Products

Media Converters

Home PNAs

USB/IEEE1394

For any driver, a pit crew's performance is paramount to winning. Like the driver, the performance of your networking infrastructure is paramount to success.

Planex Communications Inc. (PCI), a rapidly growing OEM Internet Devices Company is redefining the market for hubs, broadband routers, USB connectors, and other IP-based devices.

PCI is an outstanding performer, with an astounding track record, and is now the leading Japanese maker/distributor of sub-enterprise class networking equipment.

An extensive product range, exceptional service and support, and an obsession with product R&D and bottom line profitability have made the Planex brand name a trusted partner of some of Japan's largest electronics and computer resellers.

Our goal: to be the leading Internet device company in the world.

As part of our international network expansion Planex is now accepting distributor and agent enquiries. Interested institutional investors please visit www.planex.co.jp/e/

For further information, visit www.planex.co.jp/e/ or fax Tokyo +81-3-5614-1011



enormous self-confidence that he is preparing to compete inside China on Chinese terms, as it were.

Still, he feels that need for "structure."

"Stable profits go hand-in-hand with stable management," he says. "This year will be important for establishing a corporate culture that secures profits."

Along those lines, Kubota has spent a lot of time beefing up resources. He has a very competent CFO — a smart young woman from one of the major auditing firms who makes sure that the invoices get sent out and that the corporate structure stays sturdy.

Meanwhile, Mr. Kubota is on the hunt for domestic allies — meaning dealers and distributors. Not the least impressive fact about him is that he has built up a list of dealers and distributors — see his website — that reads like a roll-call of honor in Japanese marketing today. His list starts, in alphabetical order, with Bic Camera — the firm has taken on the old Sogo department store building in Yurakucho now, it is right up front in marketing terms. Who comes next? It runs: "Canon, Catena, CSK Electronics, Daiwabo Information System, Dell Computer Corporation (Japan)."



One of the largest retail distribution networks in Japan.

"How did your shacho get into all of these doors?" I asked a PCI staffer.

"Hard work, I suppose."

What else indeed. An amount of shoe leather has gone into this. I read onward: "Fujisoft ABC, Fujitsu, Fujitsu Business Systems, Hitachi, Hitachi Hi Soft, IBM Japan, KAGA Solution Network, Marubeni Infotec."

As I read the list — some of these dealers and distributors are more active than others, I did not doubt; the list is all-inclusive, in other words — it occurred to me that Kubota-san must have had a tremendously wide slate of candidates to draw from in nominating veteran executives from the ranks of the companies that he has worked with during the last few years.

Hear this list! "NEC, NTT East, NTT West, Nissho Electronics, NTT Communications, NTT Data, PC Depot..."

Some of these companies are giants, some were only recently listed. Some are run out of plush corporate settings at the best addresses. Some are fighting it out in Akihabara.

"Sofmap, Softbank Commerce, Sumitomo Densetsu, Usen Broad Networks, Victor Company of Japan, Yodobashi Camera."

to quickly incorporate functions needed by consumers into our products and release them at reasonable prices.

More specifically, our Corporate Sales division will be expanded and emphasis will be placed on improving both the maintenance servicing system and quality of product manufacturing. Although the cost of sales management is expected to increase following these changes, relocation of the delivery center and other methods to reduce physical distribution costs will be carried out to absorb the increased cost. For us, this year will be an important step towards establishing a corporate culture that is capable of securing profits.

Companies aggressive about acquiring new technologies and those with the agility to respond to the rapid changes in the industry are the only ones that are capable of surviving in the highly competitive market. PCI is characterized by the striking speed at which it releases new technology products to the market.

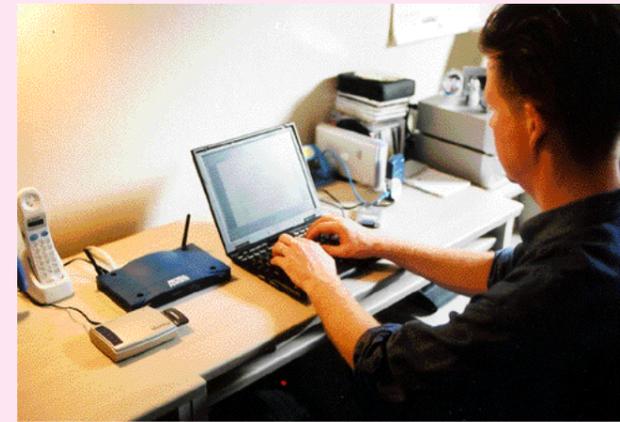
Its "quick release" stance has been keeping the company out of price competition with others, allowing it to always supply new products at fair prices. The corporate style reflects the company's stable profit rate as well. In order to implement a corporate culture that can resist the negative influences of the stagnant economy, PCI will continue to perform uncompromisingly stable management.

Looking Forward A Comment by Katsu Kubota

According to the *Economic Survey of Japan*, the year 2001 is regarded as the start of the Broadband Era. In fact, our business performance improved steadily in that year due to high demand for infrastructure improvement from data centers and communications businesses. Customers especially like the broadband products that were released at low prices and have been made available quickly to meet consumer demand. Sales of products to corporate users also increased significantly, allowing us to achieve a fivefold increase in the sales of broadband products compared to the previous year.

Nevertheless, the year was also marked by tremendous challenges, including the influx of new entrants to the market from other industries as well as severe price competition fueled by the stagnant economy and technological renovation.

Although the growth of business for the next period is expected to weaken due to the general slowdown in corporate capital investment caused by the stagnant Japanese economy, the government is planning to invest heavily in the IT industry to run fiber optic cables over 60% of the land of Japan by 2008; the industry is thus considered to be a growth area in the long run. We will continue to endeavor to expand sales of broadband routers. To effectively respond to changing market conditions, we will also make maximum use of our advantages



Wireless is a tough market that requires excellent new technology.

For his head office environment Kubota-san has stuck by the unglamorous surroundings of Nihonbashi Ohdenma-cho — a far cry from the haunts of his many dealers and distributors.

"Only companies that are aggressive about acquiring new technology and are agile enough to respond to quick changes in the industry will survive," Kubota notes.

Joining hands with others, Mr. Kubota thinks, can assist in quick development of new products — and "quick release" onto the market. "Quick release" is an expression that comes to his lips all the time.

So what of the future?

PCI, says Mr. Kubota, aims to be "the leading Internet device company ... all over the world."

Boys be ambitious! I love that ambition, but I wonder — as do analysts I spoke to — if it holds up in the light of day?

Mr. Kubota himself admits that the onset of the broadband era last year has not been all sweetness and light for him personally or for his company. Sales were up to be sure, as noted.

"There was high demand for infrastructure improvement from data centers and communications businesses," Mr. Kubota notes, adding that "broadband products were released at low prices and made quickly available to consumers."

He adds: "Sales of broadband products to corporate users shot up fivefold in comparison with 2000."

"However competition increased, with more players entering the market from other industries," he notes, returning to that point. To be sure, there are some markets that promise well. "The government is planning to invest heavily in IT to run fiber optic cables over 60 percent of Japan by 2008," he says. "Thus growth will continue and we expect sales of broadband routers to rise."

But costs are going up, as Kubota-san notes. "To effectively respond (to rivals' challenges) we will... incorporate functions in our products that are needed by consumers and release them at reasonable prices," he says.

"As to high-end users," he continues in a reference to large

companies, "the corporate sales division will be expanded... to improve maintenance and (to beef up) manufacturing quality."

So, as a result, sales costs rise.

This is something that Kubota-san has, by and large, been able to avoid thus far. It may be those higher costs that are giving this notably parsimonious boss a slight touch of grey around the temples.

The sense now is that this is a period of consolidation for PCI. His staff say that they expect overall PCI sales — on a consolidated basis — to change very little between 2001 and 2002, still hovering around the ¥6 billion (\$50 million) mark, or just a bit below. As to pretax profits, the outlook is for a (temporary) fall. The 2001 result — just over \$6.5 million — included a one-time gain on currency transactions.

All in all, net profits could be a couple of million US in 2002. That is not enough for Kubota-san, I could tell, when we were discussing the numbers. He expects more. The man is working at the cracking pace of the Omote Sando-based fashion house where he was first employed — Issey Miyake International.

The analysts' take on PCI

Analysts find the "Internet device company" intriguing because of its potential for strong growth. They note that while PCI held an early lead in price and speed of delivery, some of its competitors are starting to close that gap. PCI's moves in the short term could set the tone in the market for Internet devices as more companies follow PCI's lead and set up quick production routes between Taiwan and China and Japan.

Analysts give Kubota high marks for his managerial skills. He doesn't waste time on things he knows can't be done, says Kota Ezawa of Daiwa Research Institute. "This is not a case of one of those Japanese companies that bends its strategy to fit its targets."

Ezawa calls Kubota a "careful" manager. He says that if PCI is successful in the long term in the Internet device market, it could unleash a revolution in the industry.

PCI "is in the right spot as a growth strategy," says Tetsuro Tsusaka of Deutsche Securities Tokyo. "Kubota has positioned himself in an industry segment growing at about 30% a year (and so) we can expect double digit growth in sales at Planex over the next couple of years if the company can bring the right product at the right timing."

However, Ezawa and other analysts note that PCI is not without its challenges. A more competitive climate since the second half of 2001, as seen from PCI's lower earnings, is bound to cut into the company's profit margin, Ezawa says, and competitors are starting to cut the gap PCI opened in terms of speed of delivery and price.

Overall, PCI is seen as a dynamic young company with plenty of upside potential.