The pursuit of digital technological innovation and the co-creation of value with our customers to improve productivity and thereby contribute to the realization of a sustainable society
Yokogawa’s value creation process

Based on our founding principles, the Yokogawa Philosophy declares that the Yokogawa Group’s role is to “contribute to society through broad-ranging activities in the areas of measurement, control, and information.” As such, we have been working to resolve social issues through our business activities. Our customers in the oil & gas, chemical, power, water, materials, food, pharmaceutical, and other industries provide essential infrastructure that we all depend on in our daily lives. Our mission is to partner with them in resolving issues that impact their overall business, thereby helping to optimize and ensure safe and stable operations of their plants and facilities. We believe that fulfillment of this mission will contribute to the realization of a sustainable society.

An essential factor in our creation of value has been our formation of deep and lasting relationships with customers around the world who have come to trust us to provide solutions for plant facilities with lifecycles spanning as long as 30 years. These relationships are the wellspring of our competitive advantage. Over the years, we have won the trust of companies in many different industries all over the world by working with them to start up and achieve stable operations at their plants and by offering maintenance and other support services to improve their efficiency. Serving this customer base, we leverage our digital technologies to augment the value of our solutions and resolve a wide range of issues, and in so doing help our customers enhance their productivity. This enables the creation of greater added value with fewer resources, which both contributes to the realization of a sustainable society and generates greater economic value. The value that we co-create with our customers has a positive impact on their own customer base, and ultimately benefits society. This is our value creation process.

The issues that Yokogawa must address continue to evolve. In response to the escalating importance of
addressing matters of global concern such as the need to reduce greenhouse gas emissions, the United Nations has adopted the Sustainable Development Goals (SDGs) to guide the efforts of the global community and indicate where corporations should target their activities. The Yokogawa Group’s ongoing efforts to enhance the productivity of manufacturing operations are generating new value both for our customers and the broader society that we all are part of. Keeping in mind the relationship between our business activities and issues that concern all in our society, we have articulated a vision for the year 2050 and have set specific sustainability goals (the “Three goals”) to make the world a better place for future generations. And in addition to identifying a number of ways in which Yokogawa will need to transform itself in order to achieve these goals, we have set quantitative targets for 2030 and key performance indicators (KPIs) for 2020, and are promoting initiatives that are consistent with our mid-term business plans.

Review of TF2017 strategies

With our Transformation 2017 mid-term business plan (TF2017), whose final fiscal year concluded on March 31, 2018, we indicated three areas for transformation that were needed to lay the groundwork for reaching the goals set out in our long-term business framework. The first was a transformation of focusing on customers in which we aim to expand our business by concentrating resources on industries that can take full advantage of our diverse knowledge and expertise and by capitalizing on our deep and lasting customer relationships. The second was creating new value, which involved expanding the scope of our solution proposals to provide increasingly sophisticated solutions. The third was becoming a highly efficient global company by globally optimizing our cost structure and managing operations with an emphasis on profitability and efficiency.

With respect to focusing on customers and creating new value, Yokogawa’s acquisition of the UK firm KBC Advanced Technologies has dramatically enhanced our ability to provide consulting services to our customers. Thanks to KBC’s cultivation of a wealth of strong relationships in the highest management ranks through its provision of strategic consulting services, this acquisition has also expanded the Yokogawa Group’s customer base. In addition, our development and Japan launch of the GRANDSIGHT cloud-based environment for collaborative value co-creation has enabled our customers and business partners to securely and efficiently design, develop, and continuously operate their own solutions. GRANDSIGHT also boosts project efficiency by providing access to Yokogawa’s problem-solving methodologies, tools, and know-how. And with the aim of establishing a new architecture for the industrial Internet of Things (IIoT), Yokogawa is collaborating with Microsoft, FogHorn Systems, Bayshore Networks, and Telit IoT Platforms. FogHorn and Bayshore are technology startups, while Telit is an established provider of integrated IoT products and services.

Regarding the transformation of becoming a highly efficient global company, we have centralized our engineering functions with the aim of globally optimizing the deployment of engineers, enhanced efficiency by increasing the facility utilization rate and integrating the functions of offices outside Japan, and globally optimized the production, logistics, and procurement functions to reduce costs.

Although these initiatives to transform our company have yielded results, we have not hit all the envisaged goals and must conclude that we have not acted quickly enough. Regarding KBC, the establishment of synergy and development of the solutions business in new regions and industries have taken longer than anticipated. As for earnings, we have fallen short of our targets because of drastic market fluctuations: our TF2017 assumptions on crude oil prices and exchange rates were inaccurate. We recognize that our greatest challenge will be to find ways in which we can be profitable even when we face such challenges in our business environment.
Changes in our external environment / the long-term business framework

In its formulation of a new business plan, Yokogawa’s management team has focused on identifying new opportunities, while recognizing that the environment in which we operate gives few grounds for optimism. In the energy industry, a sector in which Yokogawa has considerable expertise, the outlook for crude oil prices is unclear and competition is intensifying, with companies curtailing their investments due to the slowdown in the growth of emerging economies and the changing positioning of energy resources as moves are made toward a carbon-free society. On the other hand, spurred by innovations in digital technology, ever more companies are turning to AI and big data, and this is having a great impact on the types of solutions that our customers expect from us. This new wave of technological innovation is stimulating the appetite for investment as companies look to enhance productivity by introducing the latest digital technologies. This factor, together with the increased attention that is being paid to pressing global issues such as those highlighted by the adoption of the SDGs, is creating new opportunities for Yokogawa to make use of its sophisticated problem-solving capabilities. In order to complete tasks that are left over from TF2017, namely, the realization of robust earnings, we must review our traditional growth model, which is largely dependent on the energy industry and is susceptible to changes in crude oil prices and exchange rates. We have come to the conclusion that further efforts to transform Yokogawa are dictated by changes in our business environment.

In recognition of our current situation, we have made changes to the long-term business framework that was first formulated in fiscal year 2015. These changes reflect our changing perception of where we, the Yokogawa Group, wish to be ten or more years from now. The vision statement remains unchanged: Through “Process Co-Innovation,” Yokogawa creates new value with our clients for a bright future. We have reinterpreted this, however, to emphasize our strong commitment to maximizing economic value for our customers and addressing social issues through the provision of solutions to our customers, and to the creation of value both for society and the environment through our customers’ businesses. Moreover, we have added the bioeconomy to those business fields that Yokogawa will focus on with a long-term perspective. This decision took into consideration various countries’ formulation of bioeconomy strategies and implementation of initiatives that seek to utilize renewable biological resources, which was prompted by the 2009 publishing of a report titled The Bioeconomy to 2030 by the Organisation for Economic Co-operation and Development (OECD). Momentum in this field is building, and this can be attributed to the rapid progress in genome-related and digital technologies that has been achieved in recent years. At the same time, many new issues related to the development and manufacturing of new bioproducts have come up that will need to be addressed. Yokogawa has gained considerable experience, knowledge, and know-how through its provision of solutions that enhance productivity at every level of a company’s operations, from the factory floor to the boardroom, and we believe that this can be utilized to resolve these issues. Our intention is to first expand this business in the pharmaceutical and food industries, which are both growth markets, and then expand it to other fields such as biomaterials. In these fields Yokogawa will work with its customers to achieve major advances in productivity, with the overall goal of contributing to the attainment of a sustainable society.

The new mid-term business plan (TF 2020)

In a dramatically changing business environment, Yokogawa has formulated the Transformation 2020 (TF2020) mid-term business plan to address outstanding issues and achieve the goals set out in the long-term business framework. This is based on the recognition that Yokogawa needs to fundamentally transform the structure of its business, and take the transformation targeted in TF2017 to a new level. The ideal that Yokogawa aspires to is expressed as follows in the TF2020 plan: A company that seeks to build a sustainable society by using its core
measurement, control, and information technologies and pursuing digital technology innovation and co-innovation with its customers that revolutionizes productivity in a wide range of business processes. To achieve this, Yokogawa will implement key strategies to achieve the following three transformations.

The first of these transformations is the transformation of existing businesses. Reflecting the shift in investment from the construction of new facilities to the enhancement of productivity at existing facilities, we will globally expand the solutions business by working together with our customers to achieve major advances in productivity through the offering of solutions that enhance the efficiency of both operations and maintenance.

The second transformation is the creation of new businesses and transformation of the company’s business model. To establish a business portfolio that is not dependent on the energy field, which is highly susceptible to changing market conditions, it will be essential to create new businesses in fields that have good growth potential and are areas where Yokogawa can leverage its strengths. The establishment of a life innovation business, a new business targeting the pharmaceutical and food industries, is in line with the focus areas defined in the long-term business framework, and is a theme that is directly linked with our goal of resolving pressing social issues. Moreover, Yokogawa will transform its business model from the simple selling of products and services to a performance-based business that can reduce customers’ initial investments and a recurring business that emphasizes the offering of services.

The third transformation is the improvement of productivity through Group-wide optimization. We will continue to look for ways to reduce costs, mindful that we did not fully achieve this in TF2017, and will speedily implement measures to improve productivity such as the integration of the Group’s support functions.

Digital transformation provides a basis for all these transformations. Leveraging the know-how that we have acquired through the provision of plant control solutions, we will utilize AI and IIoT architecture to create new value for our customers. With this digital transformation as the driving force for value creation, Yokogawa will help its customers achieve a transformation that drives up their productivity, and thereby create new opportunities for growth. Internally, we will lay a foundation for growth by undertaking a transformation of our business processes and strengthening our IT infrastructure, and will make aggressive investments to realize our goals.
Building a stronger foundation for our business to sustain growth

In addition to these three transformations, rapid changes in our business environment require everyone in the Yokogawa organization to improve how we respond to evolving customer needs and adapt to new technologies. One initiative that illustrates our intentions in this area is the establishment of the Yokogawa University, a corporate institution that will design and provide development and training programs to equip our employees with the knowledge and skills needed to cope with a changing business environment and accelerating technological innovation. This is a transformation that will enable our employees to take on new jobs that add greater value. For example, while an engineer working in a manufacturing-related area may not have much need for financial knowledge, that person will need to be able to estimate the economic value created by a system or application with the solutions business that we plan to pursue. While continuing to introduce digital technologies for the automation of manual business processes, we will support our employees in their efforts to achieve personal growth and create greater added value.

On the subject of corporate governance, which provides the foundation for all that we do, including our efforts to carry out the mid-term business plan, we do believe that our efforts to strengthen this function have been successful. In 2003, Yokogawa welcomed its first outside director, and currently over one third of the members of our Board of Directors come from outside the company. For more effective corporate governance, it will be important to enhance not only our systems but also the quality of the discussions that take place at meetings of the Board of Directors. Going forward, we will consider what can be done to enhance Yokogawa’s corporate value over the medium to long term, and this may consider proposals that lead to greater diversity in the composition of our Board of Directors.

Companies whose business results fluctuate with changes in crude oil prices, foreign exchange rates, and geopolitical risks will likely find growth particularly hard to achieve in the years ahead. Under its TF2020 plan, Yokogawa will aim to outperform the market growth rate and increase its profits even if circumstances in its business environment remain unfavorable. It will emphasize visible and substantial activities that will change its businesses and, as a consequence, contribute to the realization of a sustainable society. That in a nutshell is Yokogawa’s approach to meeting the expectations of its shareholders, investors, and other stakeholders. With the exception of the Yokogawa Philosophy, which is based on our founding principles, we are determined to make changes everywhere else with the goal of accomplishing a transformation that enhances our corporate value.