



By restructuring our value chain, we will work with customers to move towards a sustainable society.

Kotaro Hirano
Representative Executive Officer,
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Deepening our value chain business in response to changes in customer awareness

In the past few years, I have sensed a rapid change in customer awareness in the market. The three primary needs for construction machinery manufacturers with regards to construction and mining sites are “improved safety”, “improved productivity” and “reduced life-cycle costs”. What we have observed recently are growing efforts to link these needs to global themes and demands. These include working to achieve SDGs (Sustainable Development Goals) and support ESG (Environment, Social, and Governance). For instance, safety on-site is directly linked to worker satisfaction. And when on-site productivity is improved, so that work that used to take five days to be completed in three or four days, resources like water and electricity can be conserved. Reducing life cycle costs such as fuel consumption by dump trucks or hydraulic excavators is directly tied to reducing CO₂ emissions.

We have also noticed changes in awareness with regards to the way construction machinery is used. For instance, in the past it has not been uncommon for customers to use their own con-

struction machinery on jobs even when they were a bit too large for the site. However, recently we have seen a marked increase in cases in which customers rent small or medium-size construction machinery to match the size of the site. We have begun to see this kind of change in awareness towards the way construction machinery is used not only in Japan, but also in rapidly developing countries like China.

In order to respond to these global changes, since FY 2017 the Hitachi Construction Machinery Group has been working to deepen business other than products (value chain business) through our mid-term management plan “CONNECT TOGETHER 2019”. The target under this mid-term management plan is to deliver “Reliable solutions” that exceed customer expectations in the value chain extending across the entire life cycle of construction machinery. For example, we provide solutions that allow customers to use machinery in good condition longer by replacing or remanufacturing parts. We propose more efficient ways to utilize machinery by understanding the conditions in which machinery is operating. And we maintain a rental system (rental business expansion) that enables us to supply customers with optimal machinery in a timely manner when they need it.

Moreover, this mid-term management plan has allowed us to begin reorganizing our primary factories in Japan. Our goal in

this is to put in place a system for development and production aimed at strengthening our global competitiveness, while also promoting diversity and work-style reform. In recent years, the shortage of younger workers has become a serious problem. We urgently need to create a safe and worker-friendly environment that encourages participation of both men and women up into their 50s and 60s on the front lines of production sites. First of all, we want to take the experience we have built up in Japan and extend it to our overseas production sites in China, Indonesia, etc.

We believe that deepening these efforts, effectively dealing with SDGs and ESG, will in turn lead to solving the issues required by society.

Collaborating with customers to generate solutions to environmental and social issues

Looking back over FY 2018, the first thing that comes to mind is the frequent worldwide occurrence of natural disasters caused

by climate change. How we should guard against threats like earthquakes, tsunamis, typhoons and torrential rain is a big theme for both our customers and nations. The effects of natural disasters on regional life and economies are so large that it takes a considerable amount of time to recover. It is important not just to deal with disasters after they occur, but to enact measures that enhance disaster management before the fact. In FY 2019 Japan is increasing its budget for public investment to this end. Moving forward, it will become increasingly necessary not just to rely on creating new infrastructure, but to improve that which already exists to make it more robust. I believe the HCM Group should hurry to develop and supply products and services that can support infrastructure maintenance, repair and reinforcement.

In this kind of social environment, construction machinery manufacturers like us are tasked with improvements beyond what extending current technology can offer. In short, rather than improve, I believe we must innovate. From each of the targets advanced through SDGs, through measures to combat climate change, the demands of society are ever higher and require even greater speed. For example, even if we seek to electrify construction machinery we will be asked when it will be developed and when it will be brought to market. So in order to respond

Message from the President

with speed, we have begun to innovate the development process itself. Specifically, in October 2018 we established a German marketing and development firm. We used this to test introducing a development process in which customers actually use compact electric-drive machinery and development evolves based on their on-site feedback and requests. In our conventional traditional development process, our R&D department in Japan would spend years creating products that would then be delivered to customers around the world. But in some cases this has not been fast enough. Fundamental parts like foundations and components will continue to be thoroughly researched and developed in Japan. But from here out we believe it will be necessary to carry out speedy development together with customers all around the world.

Moreover, development takes too long using only our own engineering. For example, it is difficult for construction machinery manufacturers alone to advance development of foundational technology like lithium-ion batteries and hydrogen fuel cells in a speedy manner. For this reason, the key to swiftly achieving technological innovation is for the entire industry to keep pace with automotive and trucking industry technology in particular, and skillfully integrate it. In addition, construction machinery can

succeed in applying new technology in the field even more quickly than general automotive can. Using autonomous driving technology as an example, it is likely to be difficult to allow vehicles to travel on public roads without the driver ever touching the wheel, or without a steering wheel at all. However, trials of autonomous dump trucks are already under way in Australia. This is because they operate in a designated area within which safety can be ensured.

This kind of technological innovation in construction machinery, as well as i-Construction*1, will not only make on-site work more efficient, but will bring about various changes. We are hearing from customers that, "Companies which do not seriously engage with work site automation and computerization cannot attract or retain top talent." Up until now, construction sites have had an environment that women have found it hard to break into. But now women are able to play large roles operating drones to gather data, and analyzing the data gathered. The adoption of new technology leads to solving problems such as hiring new talent and employee training. We will provide customers with new value by accelerating "Solution Linkage"*2 using ICT and IoT solutions to solve problems on construction sites together with customers.

*1 i-Construction

The Ministry of Land, Infrastructure, Transport and Tourism aims to apply ICT to increase efficiency and productivity at civil engineering and construction work sites. It hopes to create appealing construction sites through improving the corporate management environment.

*2 Solution Linkage

HCM's ICT/IoT-based solutions that help to improve safety, productivity, and reduce life-cycle costs together with customers. In finding solutions to challenges, HCM will take the lead in using the "One Hitachi" approach to deliver the Hitachi Group's wide ranging technologies and propose solutions that utilize open innovation combining the expert technologies of business partners.

Creating business opportunities from an outside-in perspective

In April 2019 we carried out organizational reform with the goal of speeding up value chain reform. First we established the Sustainability Promotion Division to promote integrated company-wide measures relating to CSR, environmental and social issues. Moving forward, it will be increasingly vital to incorporate ways of thinking that emphasize approaching all important managerial matters from a societal and environmental point of view. In the past dealing with social issues was seen as costly, but this is now an integral part of business. Now we are beginning to see a change in thinking, wherein efforts to deal with SDGs and ESG are perceived as business opportunities. Moreover, the Corporate Quality Assurance Division (which had been under the Development and Production Department), and the Marketing Strategy Group Division (which handles work related to product strategy) have both been placed under the direct control of the president. We aim to further strengthen governance related to quality and swiftly reflect world trends and customer feedback



"Maintenance & Resilience TOKYO 2018" held at Tokyo Big Sight in July 2018

Ideology of the 3Cs

3C

Challenge
Customer
Communication

in our business. We believe it is important to reform our business with an outside-in perspective that recognizes our company's role in social issues. We also think it vital to keep a perspective of expanding together with customers and to stay even one or two steps ahead in handling issues.

Of course, we expect employee awareness to change through this organizational reform. But what is important is to actively bring in outside opinions. One of the 3 C's in the "Kenkijin Spirit" (the HCM Group's standard of value and code of conduct) is Communication. It will be increasingly important at each stage of the value chain to always maintain a high level of sensitivity, listen to others, make your own hypothesis, consider it on your own, and incorporate this into your own work. I believe that if each and every one of our employees adopts this kind of process, then HCM this group will have unlimited potential.

Contributing to a sustainable society together with all stakeholders

The market scale for construction machinery is expanding globally. This is because for the past ten of twenty years China and India have experienced rapid economic growth and pressed forward with infrastructure expansion investment in areas like roads and railways. You might think that this kind of growth has peaked, but not yet. There are still many regions that it has yet to touch. There are still countries and regions in places like Africa and central Asia that will develop from here out.

Lately the HCM Group has striven to increase the performance of construction machinery, make machinery more com-

pact and unceasingly worked to protect the environment. Also, we have not only pushed to increase the efficiency of each and every machine, have devised solutions that we can provide to further increase profit and value for customers when they have 10 or 100 machines. We must ensure that construction machinery demonstrates adequate performance, and provide consulting that is environmentally and economically efficient for customers to use. This represents a business opportunity, of course. And we believe it will naturally lead to value creation through things such as engaging with SDGs and ESG.

In the future, when construction machinery has proliferated in regions where infrastructure maintenance is still not as advanced, we will be able to apply the expertise we have built up through efforts in developed countries and expand it to initiatives in emerging nations. Thus, we will be able to provide deeper value chains and business models. And this cannot be accomplished by construction machinery manufacturers alone. It can only be accomplished through cooperation with our customers, and all stakeholders who share the common goal of achieving a sustainable society.

I feel that construction machinery is a familiar element of our lives. All around us countless people are using construction machinery to create the buildings and infrastructure essential to our daily existence. That is why the impact we have on society is so large. 2020 marks 70 years since the HCM Group began development, manufacture and sale of construction machinery. And it marks 50 years since we became independent of Hitachi, Ltd. We are determined to look past 2020 and take on challenges that we have never encountered before. The Hitachi Construction Machinery Group is ready to work with all our stakeholders around the world to create the future together.