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## Revenue leaders hold their ground

By John Edwards -- 8/1/2006  
Electronic Business

"Stability" has never been a word closely associated with the electronics industry. Yet looking at this year's EB 300, it's difficult not to be impressed by the general lack of movement among the list's leaders between 2005 and 2006.

IBM, Hewlett-Packard and Matsushita Electric Industries once again hold the EB300's top three positions this year. Meanwhile, Samsung, Dell and Siemens—five, six and four, respectively, in 2005—hold the four, five and six slots this year.

In fact, you have to move your finger all the way down to the No. 19 entry, Hon Hai Precision Industry, in order to find a company that moved more than two or three positions from last year's list.

Hon Hai, based in Taiwan, skyrocketed a remarkable 19 spots, from No. 38 in the 2005 EB 300. Philip Marshall, a mobile technologies analyst at market research firm Yankee Group, attributes the company's gain to its manufacturing flexibility and diversity and its giant customers.

Hon Hai builds everything from PCs for HP to cell phones for Nokia (No. 13, down two positions) to PlayStation game consoles for Sony (No. 8, up two positions). "Hon Hai has \$2 billion annually from Dell, \$2 billion annually from HP, \$2 billion annually from Cisco," says Marshall. "Those are huge customer accounts."

Another Asian company, Sanyo Electric, also soared to new heights this year. The Japanese firm snared the No. 25 post on the 2006 EB 300, climbing an impressive seven positions. The company benefited from a wide base of products, including semiconductors, consumer electronics, mobile phones, computers and home appliances, which enabled it to prosper despite sluggishness in two key business units.

"Sanyo suffered negative growth in its consumer and semiconductor businesses," says Maruyama Yusuke, an analyst at iSuppli. "This was due to average selling price erosion because of keen competition."

### Spoils of war

For companies producing defense electronics, troubled times can mean good business. With the United States and other nations ratcheting up their defense spending, companies that produce military systems and components, ranging from avionics to satellites, are reaping the benefits. **"With a newfound enemy, the need for electronic systems has increased substantially,"** says Rich Pettibone, an aerospace and defense analyst at market research firm Forecast International.



EB 300 newcomer SAFRAN, created by the mid-2005 merger of communications equipment maker Sagem and aircraft engine manufacturer Snecma, debuts at No. 56 on the 2006 EB 300. Other EB 300 companies that benefited from increased global defense spending include Italy's Finmeccanica (No. 128, up 14 positions), EADS-European Defence and Space (No. 84, up 14 positions), Lockheed Martin (No. 53, up five positions), Raytheon (No. 28, up five positions) and Northrop Grumman (holding steady at No. 47).

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Yet defense market participation isn't a sure-fire ticket to revenue growth, a point proven by Thales, France's largest defense company. Thales, which is 31 percent owned by the French government, managed to fall nine positions on the EB 300, winding up at No. 45 this year. **Thales' problem is that while it is highly diversified, it lacks the development and marketing muscle of some of its larger competitors, says Pettibone.** As a defense pure-play, Thales' interests span the defense gamut, including intelligence/surveillance technologies, aircraft and ship systems, and IT and network services.

Spreading its activities so thinly over so large an area has left Thales vulnerable to competition from savvier, more tightly integrated competitors. This situation has forced the company's directors to ponder a possible merger, with EADs and Finmeccanica most often mentioned as potential candidates. **"The more likely choice might be an electronics tie-up with Finmeccanica, just to get a little more strength in [the defense] market,"** says Pettibone.

Other defense-related losers on this year's EB 300 include General Dynamics, (No. 76, down two positions), General Electric (No. 46, down three positions) and Boeing (No. 94, down seven positions). Like Thales, some of these companies suffer from overdiversification, while others took hits in non-defense electronics-related areas.

### **Network loss**

Another big French company that lost its EB 300 footing in 2006 is Alcatel (No. 35, down seven positions). The company suffered from the effects of shedding its mobile phone business in March 2005, as well as stiff competition from other telecom equipment firms. Jack Gold, founder of and principal analyst at J. Gold Associates, a technology market research firm in Northborough, Mass., claims the company suffers from laid-back management and a low profile.

"The biggest problem for Alcatel is just making people aware of what they're doing," Gold says. "They haven't been as aggressive in the market as they could have been." Yet Alcatel could be a radically different company by this time next year, when it will have completed its acquisition of Lucent Technologies (No. 62, down two positions).

Beyond Alcatel, the rest of the telecom equipment market held relatively steady over the past year, including Cisco Systems (unchanged at No. 20), Nortel Networks (No. 54, up two positions) and Siemens (No. 6, down two positions). Yet those numbers may move dramatically over the next few years as Chinese competition builds. China's Huawei, for example, is intent on transforming itself from an obscure ODM into a widely recognized brand name. "They're changing the landscape of the traditional equipment market," says Marshall.

In other words, stability, at least in the electronics industry, usually doesn't last very long.

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