Japan Disaster Provides Disaster-Recovery Lessons to Hard Drive Makers Reeling from Thailand Floods

Release Date:
Wednesday, December 7, 2011 6:25 pm EST

Terms:
Design & Supply Chain Media  Product Design  Supply Chain  Technology

Dateline City:
EL SEGUNDO, CALIF.

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The swift recovery of the NAND flash market after the Japan earthquake disaster in March is providing some valuable lessons for hard disk drive (HDD) manufacturers now wrestling with the catastrophic flooding in Thailand, according to an IHS iSuppli Mobile & Embedded Memory Market Brief from information and analysis provider IHS (NYSE: IHS).

NAND flash revenue in the third quarter rose 9.9 percent to reach $5.2 billion, reversing the 4.3 decline that the industry suffered in the second quarter, as shown in the figure attached. Illustrating how much the market has regained its footing, revenue during the third quarter was the highest in industry history.

The Thailand flood, which has inundated a large part of the country since July, is the second major natural disaster to hit Asia in 2011 after Japan’s quake and tsunami occurred at the tail end of the first quarter.

“A key takeaway for HDD suppliers now enduring the crisis in Thailand is to study the painful lessons from the Japan disaster, especially on how to be flexible with production capacity,” said Dee Nguyen, memory analyst at IHS. “NAND manufacturers were nimble in response following the quake, stepping in to increase production after the disaster hit one of their own. In the larger high-tech space, the catastrophe also started a conversation among companies about the vulnerabilities of the supply chain and their capability to manage unexpected events—allowing the overall industry to take a step toward disaster preparedness in the future.”

The Thailand floods can only serve to make the lessons learned from the Japan tragedy more relevant, highlighting the need for HDD companies to spread geographic risk by building in redundancies within the supply chain, Nguyen added. The current floods also can help instill awareness for better inventory management throughout the HDD space, in order to mitigate the impact on key customers of any impending calamity.

Comparing catastrophes

Although it is still too early to make a firm estimate of the magnitude of the damage from the Thailand floods compared to that from Japan’s temblor, there are major differences in how the two disasters impacted the NAND and HDD industries, respectively.

For one, the damage from the earthquake in Japan was confined to one key NAND supplier, Toshiba Corp., which at that time controlled 35 to 40 percent of the NAND memory market. But despite the hit to Toshiba, other NAND suppliers—including Samsung Electronics, Micron Technology and Hynix Semiconductor—were able to pick up the slack, increase production to meet demand and continue shipments to key customers. And while Toshiba experienced a direct hit to its revenues and margins in the second quarter because of the disaster, the company has indicated in its latest earnings release that the quake impact was minimal in the third quarter, showing that it has recovered more quickly than initially feared.

As a result, while the Japan disaster took a heavy toll in terms of the human lives that were lost, the recovery on the business side was swift in the NAND industry. And because the NAND supply chain proved agile and flexible, unaffected companies were able to expand production, allowing suppliers and customers alike to rely on inventory management in order to keep the engine running.

Hard realities for hard drives

In comparison, the damage from the floods is spread among several suppliers of the global HDD industry. A quarter of the worldwide HDD capacity is located in Thailand, and three of the top five suppliers have facilities in the affected region. Thus, manufacturing is impacted on several fronts, unlike the destruction borne by just one NAND flash company—Toshiba—in the Japan incident.

Furthermore, production capacity for HDDs outside of the affected region in Thailand is constrained at the moment, given that HDD manufacturing in other parts of the world is already at full capacity, with little room left for ramping up. Again, this is different from the Japan experience, where the fall-off in production at Toshiba was easily shifted to its competitors.

And in one crucial difference between the misfortunes visited on the two countries, companies in Japan were able to regroup quickly, while suppliers in Thailand will need to wait for the floodwaters to subside—a process that could take several months—before damage can be fully assessed.
Learn more about this topic with the IHS iSuppli report entitled: “From Catastrophe to Recovery: NAND Industry Can Learn from the Japan Earthquake.”

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Language:

English