

Reviewing the Production System for Global Sales – Record Profit Seen After Years of Foul Wind –

Interviewer: Masuda Kazunori

MAZDA Motor Corp. is expected to post a record-high profit for FY 2005, thanks to brisk auto sales. Mazda's fully remodeled Roadster sports coupe was chosen as the Car of the Year Japan 2005-2006, an award given to the best vehicle in terms of design and performance. Mazda overcame unfavorable situations such as a fire at its flagship plant and a slump of capital alliance partner Ford Motor Co., one of the US Big Three automakers. The President and CEO of Mazda, Imaki Hisakazu, discusses the future of Japan's auto industry, which is one of the driving forces for economic recovery, and the challenges confronting Mazda.



Photo : Mazda Motor Corporation

Falling Birthrate Bars Sharp Rise in Domestic Market

Mazda has posted brisk sales on the domestic market. What is your projection for the auto market in 2006 and your enthusiasm for it?

Imaki: At the end of 2005, the new Roadster won the Car of the Year award, and our sales increased well over the market average. The new model Premacy minivan marked robust sales. The domestic auto market is expected to level off as a whole in 2006. Competition on the domestic market has been intensifying because no sharp growth can be anticipated amid the ongoing decline in the birthrate. Japanese automakers are reinforcing their dealerships as Nissan Motor and Honda Motor started reorganizing their sales channels. Mazda has already integrated them into one to offer all types of vehicles at the same dealer.

How do you review Mazda's production system and capacity amid steadily growing global sales?

Imaki: Mazda has faced a chronic shortage in production capacity for some models like the Axela whose global sales are brisk and has failed to meet demand fully. We are considering expanding our production bases, but it may end up in failure unless we work out plans with an



eye on a decade ahead. Domestically, Mazda increased the production of mainstay medium-sized engines for such vehicles as the Axela and the Premacy from the former 650,000 to 705,000 units a year, starting this year. This is to respond to the ongoing increase in sales, but we need to review our production bases from a long-term perspective.

Sales of Mazda vehicles are steadily increasing in the growing Chinese market. What is your business strategy in China where a future boost in sales can be expected?

Imaki: China will continue to be the most promising market in 2006 as well. In a joint venture with Ford and ChangAn Automobile Group based in Chongqing, China, Mazda is currently building an auto plant in China. We are

also building an engine plant at a nearby site. If the facilities are completed in 2010, we can accomplish the target to establish production and sales capacity of 300,000 vehicles a year. Mazda-brand vehicles have so far been sold by dealers under China FAW Group Corp., which has so far been commissioned to produce Mazda-brand vehicles in China. From now on, however, Mazda's sales networks will be reorganized under a newly formed overall marketing company. With these and other steps, we will aim for the establishment of the Mazda brand and a sales increase in China.

Demand for Eco-cars to Grow in the United States

Compared with Europe and some other markets, Mazda is fighting an uphill battle in the United States. What is your future strategy on the US market?

Imaki: We will introduce a new crossover sport-utility vehicle, the CX-7, which stresses the dynamics and amusement of the sports car, into the North American market in the spring of 2006. We have high expectations because we never had this type of car before. In the United States, there has been a shift in demand from large cars to fuel-efficient small vehicles because of higher crude oil prices. I guess this trend will continue for some time. The CX-7 is not mount-

ed with a large engine, and meets the market trend. Although we have not intended the timing, I think we can release it in a very favorable situation.

Mazda needs to strengthen its dealer network to spread its brand in the world's No. 1 US auto market.

Imaki: We would like to raise the ratio of Mazda-only dealers from the present 40% to 50% at an early date. We are sure that we can achieve the target one year ahead of schedule, by the end of 2006. Mazda-only dealers are in fact more dependable than mix-sale dealers, so we would like to speed up efforts to establish a firm brand image. I am determined to visit dealership offices both at home and abroad as much as possible. In May 2005, Mazda invited overseas dealers to provide a chance to visit our auto plants in Hiroshima Prefecture where Mazda is headquartered. We showed them under development new models, and deepened relationships of trust. We would like to work by sharing a sense of unity.

Synergy Effect with Ford Is Important

Was Mazda able to minimize the damage on its performances from the fire that broke out at the Ujina No. 1 plant in Hiroshima at the end of 2004?

Imaki: I was really scared by the fire that suddenly stopped production at our flagship plant, but could respond in a cool-headed manner after convincing myself that there would be nothing worse any more. We could smoothly alternate production at the adjacent Ujina No. 2 plant, which was resumed in May 2004 to cope with an increase in demand after the shut-down in September 2001. We had anticipated dealers' concern about supply shortages,

but to prevent the spread of a possible panic I declared clearly that Mazda cars would never be in short supply. Mazda minimized output decline by boosting production at other plants and by fully using undamaged facilities at the fire-damaged plant. I think I could issue exact instructions because I, coming from the production sector, had a full knowledge of plant facilities in detail.

Ford Motor, which holds almost a one-third equity stake in Mazda, has been suffering from a slump. Don't you think this will adversely affect Mazda's business strategy?

Imaki: Mazda needs to generate synergy effects with Ford for its survival. We have promoted cooperative ties in various aspects. At this moment, we have seen no adverse effect from Ford's slump. We would like to study what we can do to help Ford after it compiles its restructuring measures, but we will never do anything that goes against our interests. Mazda aims at expanding auto output in the United States, so if Ford's plants are shut under its restructuring package, it will be an option for Mazda to use them to produce our vehicles. Mazda is now studying its responses to Ford's upcoming streamlining measures, but nothing specific has been decided for the present.

Mazda made its business reconstruction efforts under Ford's wing. Is there any possibility for Mazda to provide some assistance to Ford?

Imaki: Ford can be described as a big "elephant" in terms of its global sales. Even though Mazda is in favorable business conditions, a "mouse" cannot carry an "elephant" on its back because there are huge gaps in the business and corporate scales. Mazda is not in a position to help Ford, but will continue to promote existing cooperative ties. I am confident that Ford will recover from the current doldrums if it makes restructuring efforts with a focus on the United States and improves its management practices.

Such unfavorable factors as high raw material prices have hit automakers. Do you think the targets in Mazda's midterm management plan, the "Mazda Momentum," can be achieved?

Imaki: The "Mazda Momentum" envisages achieving such targets as annual shipments of 1.25 million vehicles, an operating profit of ¥100 billion and a capital adequacy ratio of less than 100% in order to maintain sustainable growth. The capital adequacy ratio was already achieved by the end of September 2005. Other targets are most likely to be accomplished as well. We are managing to stave off the pinch from price surges on raw materials. Our business performance has gradually improved, but it is partly because of foreign exchange effects stemming from the yen's fall against the US dollar, so we should never be off guard.

What do you think are future tasks for the Japanese economy on its recovery track, and what will Mazda have to keep up in this respect?

Imaki: Stock prices are rising sharply, but the future of the economy is difficult to forecast. Mazda is a leading business corporation in the Chugoku region in western Japan. The auto industry has a vast supporting base under its wing and occupies a major weight in the regional economy. In that sense, I would like to strengthen Mazda's corporate quality so it will become capable of resisting unexpected changes in the business climate such as foreign exchange fluctuations. Mazda will at all times put an emphasis on improving technological capabilities and developing human resources in order to continue its growth. An automaker is required to give top priority to human resource development which is the starting point for manufacturing. As a company that has a high regard for human resources, Mazda would like to contribute to economic development. **JS**

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