

# Japan's Ultimate "Eco-car" to Be Commercialized in 10 Years

## – Discount Tactics Mean the Loss of Customers' Trust –

Interviewer: Yamaga Junichi

**B**ACKED by brisk overseas sales in North America and China particularly, Honda continues to post solid earnings records. Along with Toyota, the company leads the world's automakers in the development of next-generation motor vehicle technology such as a fuel-cell vehicle or "ultimate ecologically-friendly car" that does not emit toxic exhaust gases. The President and CEO of Honda, Fukui Takeo, discusses his company's future business strategies.



Photo : Honda Motor Co., Ltd.

### Not to Discount, But to Increase Added-Value

**In North America, the Big Three automakers have launched major discount campaigns in the aftermath of sluggish sales. Do you think such a strategy will affect Honda's North American business?**

**Fukui:** Such large-scale discounts were unexpected. The campaigns are leading to brisk sales of large pickup trucks despite the sharp rise in gasoline prices. I do not think this kind of major discount campaign will continue for a long time though. We must be patient for some time. We will lose the trust of our customers if we follow suit and offer unreasonable discounts simply to boost our sales volume. If the current situation continues, American makers may be forced to conduct production adjustment or suspend plant operations. Employers still have to pay salaries even when workers are laid off temporarily. The Big Three will find no advantages. It is important to sit down and hold talks with the United Auto Workers union, and at the same time develop higher value-added products as soon as possible.

**In the past, trade friction ensued after Japanese automakers boosted their market share in the United States, and it became a bilateral political issue. Do you see any similar risks at present?**



**Fukui:** We have promoted our business in the United States under the lead of local staff and raised the local supply rate for parts. I do not think a rise in the market share of Japanese automobiles would develop into a major dispute as long as consumers appreciated their competitiveness and chose Japanese products. However, concern about a trade dispute will remain if the market share of Japanese manufacturers increases as a result of exchange rate fluctuations.

### Honda Will Never Rely on Other Makers for Fuel-Cell Vehicle Development

**Expectations for fuel-cell vehicles are mounting with the sharp rises in crude oil prices and growing concern over global warming. How will Honda develop fuel-cell vehicles? What prospect does Honda have to commercialize them?**

**Fukui:** This will depend on how quickly the infrastructure can be developed to provide hydrogen as fuel for the vehicles, but speaking from an automaker's point of view, we would like to make our production style commercially viable within a decade. A 10-year period will permit us to resolve most of the current problems such as cost, environmental efficiency, durability and cruising range. Because the issue of infrastructure development is an area beyond the reach of automakers, Honda is experimenting in the United States to produce and compress hydrogen with equipment installed in ordinary homes to supply fuel-cell vehicles. It is our hope to spread fuel-cell vehicles as quickly as possible. Honda will spare no efforts to improve the efficiency of the hybrid gas-electric system as well as internal-combustion engines. We believe this will benefit the global environment.

**Huge costs are required in the development of cutting-edge technologies. Is Honda considering cooperating with other makers?**

**Fukui:** Honda is not thinking about relying on other companies at this point, because we see no benefit in such partnerships. Honda is providing engines to General Motors and we intend to promote cooperation not only in the fuel-cell

area but in all other advanced technological fields if we can find something in common. We are ready to study it positively if GM offers any proposal regarding fuel-cell technology. We have received no proposal from GM yet, though. For hydrogen-storing-methods, currently there are two different types – liquefied and compressed. Our company is promoting development of the compressed type. As liquefied hydrogen needs to be cooled down, it is unsuitable for motor vehicles which are often parked in closed spaces.

## Yuan Revaluation Exerts Positive Effects

**China revalued its currency, the yuan, shortly after Honda launched operations at its export base in China. The appreciation of the yuan is expected to continue in a phased manner. What kind of impact will this have on your company?**

**Fukui:** Our Chinese export base was established on the assumption that China will eventually adopt a floating exchange system. My impression is that the yuan revaluation was relatively smaller than expected this time. Honda plans to export around 10,000 vehicles a year from China initially, and its maximum output capacity is set at 50,000 units. All Acura brand, high-end cars sold in China are imported from Japan. A lot of parts are supplied from Japan for cars produced in China for local sales. The yuan revaluation has a more positive aspect for Honda when all these things are taken into account.

**Is Honda seeking to position China as an export base in the future?**

**Fukui:** Our basic policy is to produce vehicles in places where demand exists. Our business in China is basically responding to domestic demand. The reason we established an export base there is to raise

the level of international competitiveness of our vehicles produced in China to prepare for market liberalization in the near future. As the wave of anti-Japan movements has been contained quickly, the Chinese market is moving upward this year although a tightened grip on credit supply has cooled down market sentiment. In my view, our business in China will proceed as planned on the whole.

**How do you view the impact of the demonstrations by your employees in India?**

**Fukui:** We have had the perception that India is a country where workers strike. This time, regrettably there were clashes between demonstrators and police while talks were under way over the establishment of a labor union involving an improvement in working conditions. There will be no change to Honda's business strategy for India, where democracy and transparency are established and the popular sentiment toward Japan is neutral.

## Brand-Enhancing Strategy

**You have called for "strengthening the headstream" as your management philosophy. What do you mean by this specifically?**

**Fukui:** In essence, this leads to a strengthening of human resources. In domestic sales, we have launched a campaign to educate and foster front-line sales staff and to improve the quality of services. Boosting sales in major urban areas is a challenge for Honda. We want to make aggressive investment to increase our sales footholds, but it is very difficult to acquire the necessary land. It is nonsense unless we can recover the investment and post profit, and we will do our business within that framework. It is also necessary to raise in-house awareness. I feel the attraction of "good, old Honda" is somewhat fading a little although this is a general tendency when a corporation grows bigger.

**Honda's rival Toyota has launched the domestic sale of its Lexus luxury brand. How do you respond to the high-end car market?**

**Fukui:** I do not see any major effects because only the Legend is in direct competition with the Toyota Lexus. The baby boomer generation is expected to emerge shortly as buyers of upscale cars, but Honda has been slow to respond. We are required to develop higher-grade cars, even though we may not go as far as high-end, luxury models.

**As president of Honda, what do you think about your brand image?**

**Fukui:** In 2000, I put forth the slogan of "advanced creativity" as Honda's brand strategy. We would like to promote our advertising activities along that line. If the brand value improves, more customers will purchase our products even if they are expensive. If products do not sell well without a discount, it means a fall in the brand value. The focus of American customers' appreciation of the Honda brand is "reliability" in every aspect. We would like to develop our brand strategy by adding the "advanced creativity" concept to "reliability."

**What is your business strategy for your light aircraft the "HondaJet"?**

**Fukui:** The jet is mainly targeted at the US market. In the future, the plane may be sold in China, other Asian countries and Europe. We can utilize Honda's know-how as an automaker in the navigation system and interior technologies. It may be difficult in reality, but we are aiming to establish both engine and aircraft fuselage divisions as separate viable businesses. We have banned the two divisions from exchanging information because we think leakage to each division's customers is undesirable. **J.S.**

Yamaga Junichi is a reporter for the Economic News Section of Kyodo News.