

The Big Three Head Overseas

By Hideyuki Hasegawa

Toyota Motor Corp., Nissan Motor Co., and Honda Motor Co., Japan's so-called automotive Big Three, intend to accelerate their advance overseas in the latter half of the 1980s through the 1990s. With trade friction a looming issue between Japan and the United States, it has become impossible to expand exports of finished cars to the U.S. and advanced European countries in view of aggravating their trade deficits with Japan. Exports of cars to developing countries are also becoming difficult as more and more governments move to develop their own automobile industries. In order to accommodate these countries' domestic production policies, Japanese automakers have begun to replace finished car exports with knock-down assembly kits, or are cooperating with developing countries in promoting their own domestic car production.

Fully aware of the changing times, Japan's Big Three are trying to increase their direct investment abroad and expand foreign assembly. What strategies are they following as they move overseas?



Toyota president announces plans to advance into North America.

Toyota: the investment leader

On July 23, 1985, Toyota simultaneously announced its plans to advance into North America at the Keidanren (Federation of Economic Organizations) Press Club and other press clubs in Tokyo and Nagoya. Toyota said that it would build an assembly plant with an annual capacity of 200,000 cars either in the Midwest or the southern United States. It also announced it would produce 50,000 subcompacts, beginning in 1986, at NUMMI (New United Motor Mfg. Inc.), its Fremont, California joint venture with General Motors (GM), for distribution to its affiliated dealers in the U.S. At the same time, Toyota announced plans to produce 50,000 compact cars annually in Canada.

Most noteworthy is Toyota's plan to construct its own U.S. assembly plant. Although such details as location, car models, and size of investment were not disclosed, it is known that the first car to be produced will be a subcompact with 2,000-3,000cc engine displacement. In short, Toyota is moving upscale to compete head on with the Big Three American automakers in a car type they consider their forte. Says a Toyota executive: "Subcompacts have high value-added. They can bring in more than enough profit to cover the high cost of producing cars in America."

The investment required by Toyota to carry out its three big North American projects is widely expected to reach \$700 million to \$1 billion. This is not very much in light of the company's ¥648 billion (\$2.7 billion at the exchange rate of ¥240/\$1) profits for the fiscal year ending last June. However, compared with the plans of other Japanese automakers for direct overseas investment, Toyota's commitment is immense. It underscores Toyota's unprecedented enthusiasm for advancing into North America.

Toyota has so far been very cautious



Toyota plans to produce 200,000 subcompacts annually with GM at the NUMMI plant in Fremont, California.

about production overseas, and particularly about direct investment in advanced countries. Executives of the old Toyota Motor Co. (before the merger of Toyota Motor and Toyota Motor Sales) avoided risky direct investment and adamantly stuck to the more profitable export of finished vehicles. Since the merger, however, Toyota's overseas strategy has changed dramatically.

Toyota's simultaneous announcement of its three big North American projects also reveals the company's vexation at having been outpaced by Honda in the U.S. market. With these projects, Toyota is determined to establish in a single stroke its position as the top Japanese car maker in the United States, the most lucrative market in the world for Japanese automobile manufacturers. Other Japanese automakers have also given top priority to the American market in drawing up their overseas strategies. It is evident that Toyota executives now believe that the automaker which conquers the American market will also dominate the market at home. Toyota Chairman Eiji Toyoda has shown his strong resolve to prevail in the United States, declaring that, "Some Japanese automakers will probably drop out of the competition in the American market as a result of our advance into the U.S., but we shall be there to the very last."

For the present, Toyota will continue to

pursue an overseas strategy that assigns top priority to North America. The company carried out feasibility studies on production in the United Kingdom and Spain, but in the end it may give up on advancing into Europe in view of the chronic surplus in European car supply capacity and conflicts of interest among EC countries.

Thus Toyota puts North America first, China second, developing countries third, and East European countries last. Toyota is now drawing up a "Global 12 Plan" designed to secure 12% of the world car market by the start of the 21st century. Although Toyota used to lag behind other Japanese automakers in the race overseas, there is no doubt that its future overseas strategy will be aggressive indeed on the strength of its enormous accumulated internal reserves.

Nissan: local production to survive

The top management of Nissan recently underwent a complete reshuffling. Takashi Ishihara, who lorded over the company as president for eight years, became chairman of the Board of Directors, and former vice-president Yutaka Kume succeeded him as president. While Ishihara was president, Nissan's overseas strategy blossomed overnight. Ishihara believed that, in his words, "Local production is the only way Nissan can survive in the auto industry," and he sowed the seeds for various overseas production projects.

As president, Ishihara concentrated on Europe, where other Japanese automakers had not yet ventured. Beginning with the production of Nissan's commercial vehicle, the *Patrol*, in Spain through a capital tie-up with local truck manufacturer Motor Iberica S.A., Nissan established a joint venture with Alfa Romeo of Italy and a tie-up with VW (Volkswagen) of West Germany in a succession of quick moves designed to establish footholds in Europe. The company's plan to start knock-down production in Britain, which divided management and triggered a labor-management feud, will finally get under way in mid-1986.

Nissan's plant in Cuernavaca, Mexico. Nissan places top priority on local production, in both developed and developing countries.



As if to chase after Honda, which led all other Japanese automakers in advancing into the U.S. market, Nissan started manufacturing one-ton pickup trucks in Smyrna, Tennessee in June 1983. Moreover, it started American production of the *Sentra* passenger car, known as the Sunny in Japan, this spring.

In Mexico, Nissan built an engine manufacturing plant after constructing a passenger car assembly plant, thus completing an integrated production system in that country. In the developing world, Nissan has invested in Taiwan's biggest automaker, Yue Loong Motor Co., while producing trucks in India and cooperating with Egypt, Iran and other Mideast countries in their governmental policy to promote domestic auto production. Nissan also strongly hopes to enter China. In a tie-up with Nissan Diesel Motor Co. of the Nissan Group, the company is now studying a large-scale project to manufacture vehicles ranging from heavy-duty trucks to passenger cars in China.

Nissan's overseas strategy is wide-ranging, embracing not only advanced countries but the newly industrializing countries and developing nations as well. The company's policy is to eventually generate one-third of its total output overseas. But this strategy is not without problems. One of the biggest is the weakness of the company's financial position, which is evident from its profits last year—only one-fourth those of Toyota. Another problem is that most of Nissan's overseas projects are still in the development stage. Some Nissan people are having second thoughts about the company overextending itself.

The new Kume management is giving top priority to nurturing the seeds sown in the Ishihara days and ensuring that they bear fruit. President Kume intends to make the company's North American operations, inclusive of Mexico, the nucleus of Nissan's globalization strategy. Like Toyota and Honda before it, Nissan will soon announce plans to advance into Canada, and Nissan appears likely to decide within a year to raise output in Britain to the full production stage. Nissan's biggest problem, ironically, is how to prioritize its many overseas options.

Honda: No.1 in U.S.

"At one time we even seriously studied the advisability of relocating our head office to the United States," says Kiyoshi Kawashima, former president and now supreme adviser of Honda. Certainly Honda has so far focused its overseas



Honda's Marysville, Ohio plant. The company even thought of moving its head office to the U.S.

strategy almost exclusively on the United States. It led off by starting production of its subcompact Accord car in Marysville near Columbus, Ohio, as early as 1982, ahead of other Japanese automakers. Honda overtook Toyota in the number of cars sold in the U.S. inclusive of imports from Japan, thereby capturing the No.1 position among Japanese automakers in the American market. Honda has made it its management philosophy to reinvest in the U.S. the profit it earns in that country, and at the start of 1984 announced that it would expand its Ohio plant and start annual production of 150,000 Civics. In May 1984, it announced a plan to construct a passenger car plant in Canada. Honda executives hope the company will be able to sell 800,000 cars in the U.S. annually by the late 1980s. And it is expected to announce new plans, including one to export cars assembled in Canada to the U.S. and to build another American plant. Honda is virtually certain to do all it can to defend its premier position in the U.S. against the Toyota and Nissan offensives.

Another pillar of Honda's overseas strategy is the United Kingdom. At present, Honda has a license production contract with BL (British Leyland). There is a strong possibility this tie-up will evolve into the joint development and local production of new cars. Honda does not attach as much importance to Europe as Nissan does. But the company anticipates that the British government will raise its local content requirements before long, and it intends to secure a production base in the country before that happens.

Honda has also begun at long last to put more effort into the developing countries. It has announced a bold plan to establish a joint venture with a prominent Indian financial group to start production of the Accord in that country. But for the time being, it seems certain that Honda's basic strategy will concentrate on the U.S., where sovereignty risk is the lowest in the world. Of the Big Three Japanese automakers, Honda has the most clearly defined overseas strategy, and it is not about to tamper with it soon. ●