

CASE STUDY 2 Akai Electric France S.A.

Fast Forward in Honfleur

Akai Electric Co., one of Japan's foremost audio and video cassette recorder (VCR) makers, is going full blast to expand production in France. One factory for audio tuners and VCRs is already on stream. This year the value of Akai's production in France is expected to top 250 million francs.

The company's French output is making steady progress in both quality and quantity. It is churning out increasing volumes of parts. And with its products beginning to be exported to other European countries, Akai Electric France S.A. (AEF), which started operation in March 1982, is increasingly regarded as a model of Japanese electric appliance production in France.

Yet Akai's initial decision to advance into France did not necessarily have positive motivations. Of course, Akai knew that it would profit by producing in France, its biggest customer in Europe. The premier purpose behind the founding of AEF in August 1981, however, was to counter French import restrictions that had brought the company's audio tuner exports to France to a virtual standstill. Nor were VCRs immune. The French government had resorted to the "subtle" tactic of shifting its customs clearance operations to the inland city of Poitiers, where huge bottlenecks were effectively keeping Japanese exports out. Akai's only option was local production.

Totally inexperienced in manufacturing in Europe, Akai was extremely cautious in setting up in France. Learning from the old proverb, "When in Rome, do as the Romans do," the company concentrated on giving its management a French flavor. For starters, Akai got Christian Paillot, an influential French businessman, to put up a 14.7% (now 7.3%) stake in AEF, and appointed him president with full managerial responsibility.

Paillot, at the time the president of Akai's sales company in France, enjoyed strong personal ties with French government officials and bank executives. It was Akai's high regard for his managerial prowess and clout that led it to single him out to be its partner in its local production venture. It also appointed a Frenchman—Antonio Correa, a former psychology ma-



Workers on the job at Akai Electric France, which is striving to increase its local content ratio.

jor—to be plant manager. The Japanese parent prized his ability to understand the feelings of local staff.

In parallel with this localization policy, Akai strictly preserved its long-established production line, renowned for its high productivity and comprehensive quality control. The first thing it did was to bring its local employees, both male and female, to Japan in turn for hands-on experience with "Japanese-style" production. Some Japanese maintain that French workers are not conscientious about their work. But work attitudes have never posed a problem at AEF. Says Take-nobu Matsumura, managing director of Akai Electric, "The other day, we asked AEF employees to work on holidays without prior notice. They all agreed. Morale is very high."

Nonetheless, AEF is not yet on a profit roll. This is because of its small production scale. Total production value in 1985 was a scant 96.7 million francs. Now, spurred by tightened controls on electric home appliance imports by the European Community (EC), Akai has begun to augment AEF's production in earnest. VCR production, for example, has been going all out since last year. AEF used to produce only as much as it could sell in France. Now, however, its products are being supplied to neighboring markets. AEF expects annual VCR sales to reach 150,000 units this year. AEF is also striving to increase its local content ratio. This

spring it took another step forward by enlarging the VCR printed circuit board (PCB) production line at a cost of 27 million francs.

Located in Honfleur on the northwestern coast of France near the port of Le Havre, AEF has a geographical advantage when it comes to receiving and shipping its finished products and parts. But as Matsumura puts it, the company's biggest advantage for the plant is the cheerful innocence of the local residents. There has never been a strike at the factory, and the Honfleur citizenry prize AEF as a leading local enterprise that has hired some 300 of their fellows.

The Honfleur city authorities also expect a lot of AEF, as evidenced by the two-year loans they granted the company this spring to pay for construction work. Akai Electric says it intends to use AEF to the full as a strategic production base in Europe. AEF, for example, will supply parts to the European factories of Mitsubishi Electric Corp., one of Akai's most influential shareholders. One problem remains: the supply of parts. In the absence of reliable local parts makers, Akai has had no choice but to bring most of its components from Japan or to make them at AEF. Akai, like other Japanese electric home appliance makers, is eager to see local parts makers grow and flourish. ●

(By Takashi Iwamura, industrial news staff writer, the *Nihon Keizai Shimbun*)