

Suzuki Motor: An “SME” Controlling Giant India – Seizing More Than 50% of a Fast Growing Market –

Interviewer: Masuda Kazunori

SUZUKI Motor Corp. has seized a share of more than 50% of India's passenger car market, where automobile sales are rapidly expanding, backed by the country's brisk economic performance. Suzuki shows overwhelming strength in India, one of the world's fastest growing economies, outrivalling such renowned giants as Japan's No. 1 automaker, Toyota Motor Corp., and the world's largest automaker, General Motors Corp. (GM) of the United States. Suzuki Motor Chairman Suzuki Osamu, who has long served as head of the Japanese automaker, discusses not only the history of the company's success in India and the background to it but also the future course of the Indian market and the firm's sales strategy.



We Wanted to Become No. 1

India, where sales of motor vehicles almost doubled in the last 10 years to about 1.5 million units in FY 2005, has drawn the most attention among the four rapidly growing BRIC countries (Brazil, Russia, India and China). In October 1982, Suzuki Motor formally signed an agreement with the Indian government on joint automobile production which made Suzuki the first Japanese automaker to set up operations in the fast growing Indian market.

Suzuki: Our mainline products were small vehicles and we were strong in that field. That was our distinctive feature compared with other Japanese automakers. The Indian government-led national car project was designed to establish a joint venture (JV), which was very convenient for us as we were smaller in corporate scale than major makers and faced difficulties in setting up overseas operations on our own. Suzuki was a small and medium-sized enterprise (SME) whose fundraising capacity was limited. Suzuki did not waste resources and had always thought really hard. For the Indian project, we thought it should be safer for us to link up with the government than with a private firm, a partnership with which would pose major risk.



Photo: Kyodo News

Your decision was quick. You thought it more beneficial to promote a highly profitable business project abroad than to compete with such larger automakers as Toyota Motor and Nissan Motor on the Japanese domestic market. Suzuki's top executives did not hesitate to launch an in-house team to promote the India project.

Suzuki: We ranked at the bottom among Japanese automakers 24 years ago. It was my fourth year as the president of Suzuki. I was very serious about how to improve the company's earnings.

In 1981, Suzuki gained the backing from GM through a capital alliance. I had a strong desire to acquire the top position for Suzuki wherever it might be. It was impossible for us to become No. 1 in any prefectures of Japan. But I thought it might be possible in a foreign market without other major automakers. If Suzuki could become the No. 1 automaker, it would raise the employees' morale, I thought. We already started production in Pakistan in 1975. I judged that India with much large population than that of Pakistan had potentially huge demand for motor vehicles.

Suzuki Personally Escorted Indian Delegation

Many major Japanese automakers showed their willingness to become a partner of India's national car project. India chose as its partner Suzuki, much smaller than major automakers like Toyota which had already won global appreciation. One of the reasons for the Indian decision was your sincere response as you were well versed in forefront matters.

Suzuki: Suzuki was the last to file its applications, just ahead of the deadline. Later, an Indian survey mission came to

Japan for a round of visits to Japanese automakers. Suzuki was also the last of the makers to receive the Indian delegation, which had already visited Toyota and other automakers. I met with the delegation in Tokyo, but could not provide enough time for the session because I was scheduled to leave for the United States for talks with GM. In such a limited time, I did brief the delegation by myself about our plant layout and our plan for the management of the Indian project. The Indian delegation had been scheduled to leave for home before I was to return to Japan. Yet they had remained in Japan until I returned home. Next, we met at our head office in Hamamatsu, Shizuoka Prefecture. I heard, after India picked Suzuki as its partner, that the Indian delegation was impressed with Suzuki because only senior officials showed up at other automakers but the chief executive treated them in a polite manner at Suzuki. I think the two sides had objectives in common as we excelled in small vehicles while India wanted to produce fuel-efficient small cars.

Hardships in Procuring Auto Parts

Suzuki's earnings performance was not necessarily favorable at that time. Suzuki's investment capability was limited in the Indian JV project. You promoted talks with the Indian side energetically while stressing the company's desire to launch business operations in India.

Suzuki: Frankly speaking, Suzuki was small in scale in those days and had not been in a financially favorable situation. India first asked us to provide about ¥7.7 billion, or 40%, of the investment needed. It was out of the question for us. I said to the Indian side, "It is better to forge a partnership with a major automaker if you need both money and

technology. Suzuki has no sufficient funds but can transfer its technology politely and with heart and soul as it is a local company." Finally, we reached an agreement for Suzuki to invest about ¥5 billion, or a 26% equity stake which, under the Indian law at that time, provides the investor with the right to veto. Even so, Japan's automobile industry viewed our Indian project as a major gamble.

It was not easy for Suzuki to begin production in India where the automobile industry had yet to be established and India did not have the necessary infrastructure. Notably, you faced great difficulties in procuring auto parts in India where the manufacturing industry was undeveloped.

Suzuki: Many Japanese parts makers are active now in India. But we experienced extreme hardships in procuring auto parts there. Many parts makers declined our requests to produce parts in India because there was no guarantee for us to be successful. Many parts makers did not believe that motor vehicles could be produced in India. We first applied the so-called knockdown production formula under which key parts were imported from Japan for assembly in India. Production in India managed to begin. Annual output reached 50,000 vehicles in 1985 and was doubled in 1988. Then, Japanese auto parts makers came to produce in India gradually. Other Japanese and foreign automakers began production in India around 1995 after the Indian government lifted its economic control measures in 1991. I think those latecomers found it much easier to launch production because many parts makers had already been active in India.

Trust Is Basis for Human Relationships

Suzuki made the same production formula take root in India as that for its domestic plants in Japan. That led to its success in that country. However, the introduction of the Japanese-style production formula ran into difficulties that stemmed from India's unique obstacles like the caste system.

Suzuki: Before launching the JV, I told the Indian side that Suzuki has no knowledge of Western-style management and will introduce Japanese-style one. They agreed cordially. But various differences emerged between the Japanese and Indian styles just before commencing the operation of the Indian auto plant. For example, Indians are traditionally individualistic and often resisted such Japanese practices as requiring employees to wear workers' uniforms and providing both cadres and rank-and-filers with meals of the same quality at the canteen. We could not gain an understanding of the Japanese style so easily in India, once a strong class-based society, when we attempted to strengthen unity among the Indian employees or to raise their sense of loyalty to the company. But many Indian cadres at that time helped us by taking the initiative of wearing uniforms. I nearly wept for joy when I saw all the Indian employees with the same uniforms attend a ceremony marking the start of auto production in 1983.

Securing human resources was a key point for Suzuki to complete preparations for production in a short period and get its Indian business on track. You needed to make Indian employees experience production at domestic plants in Japan in order to gain broader understanding from among them of Japanese-style management, although it cost a great deal.

Suzuki: Key members of the Indian survey mission joined the JV, giving a major helping hand for Suzuki. I think encounters with local people are very important in any foreign project. In a society of different manners, customs,

environment and languages, there are many matters that cannot be understood only with the knowledge from books. Establishing reliable human relationships with local people is extremely important for a business company to take root in another country. If both sides are in perfect harmony, one can delegate authority to the other. About 3,000 employees have come to Japan from India so far on training programs. At first, Suzuki taught the Japanese style in India. But the Indians did not understand it easily. Now, employees who had actually worked at the Japanese plants are back at home teaching their fellow Indians how to do the work effectively.

Suzuki Visited India More Than 100 Times

You visited India many times after reaching agreement on the JV project. Your energetic activities are said to have helped you establish smooth relationships with the company's Indian executives.

Suzuki: I have been to India more than 100 times. I did go, see it, and decide everything by myself. It probably helped the project that the top manager spearheaded it. I have persisted in my strong belief that I will push through at any cost as long as I decided to begin production in India.

The first product of the JV was a minivehicle called Maruti 800, known as Alto in Japan, which exerted a revolutionary impact on the Indian automobile industry. Suzuki marketed Maruti 800 at about half the price of an ordinary vehicle in India at that time. As Maruti 800 was not only low-priced but had excellent performance, the number of would-be buyers showed a marked increase. But after Suzuki got its production in India on track, its ties with the Indian

government threatened to deteriorate and Suzuki continued to experience difficulties.

Suzuki: Keeping pace with the JV's growth, our equity stake in it went up gradually and reached 50% in 1992. But in 1995, Suzuki and the Indian government disagreed over an expansion of the plant. The Indian government one-sidedly designated a new president of the JV in 1997. We filed a suit with the International Court of Arbitration, a dispute-settlement panel under the International Chamber of Commerce. After seeing it was in an unfavorable situation, the Indian government proposed a compromise settlement. There appeared to be disunity on the government side behind the proposal. After that, we have come off well. Suzuki raised its stake in the JV to 54% in 2002 to seize its control. After the Indian government sold a part of its shareholdings in the JV, we gained a freer hand over the venture's management. We could reorganize the Indian sales network and revise the employment system at our own initiatives. This led to strengthening the JV's competitiveness. In India, generally speaking, the government reduced its involvement in corporate activities and helped open its economy. This had helped to create a more favorable environment for foreign investors.

Suzuki in Crucial Stage with Rivals' Entry

South Korea's Hyundai Motor Co. and India's local automaker Tata Motors Ltd. are trying to catch up with Suzuki in the Indian auto market recently. Among major Japanese automakers, Toyota and Honda are going all-out to seize a share of the Indian market. It appears it will not be so easy for Suzuki to maintain the 55% share of the Indian market recorded in FY 2005.

Suzuki: More than 10 automakers, including US and European ones, have set up operations in India. Competition has definitely intensified. Suzuki is entering a crucial stage in India from now on. Suzuki urgently needs to beef up its production capacity to catch up with India's auto market growth. Our production was 570,000 vehicles in FY 2005. A new auto plant is due to begin operation at the end of 2006. The new plant is expected to produce 250,000 vehicles from FY 2008 onward. Our output capacity in India will top 800,000 vehicles. We have acquired a vast tract of land around the new factory, which will enable it to produce 750,000 vehicles a year in the future. We can expect the new factory to serve as a key base for exports to Europe.

With a population of over 1 billion, India is drawing global expectations that it will become a major auto market. If the Indian economy continues to grow at the current high pace, the number of automobile buyers will definitely increase and their needs will vary accordingly.

Suzuki: On top of its huge population, India has achieved nearly double-digit economic growth. As the income levels of Indian buyers of Maruti 800 vehicles grow further, we will be required to produce a full line of automobiles ranging from mini-vehicles to larger cars. Other automakers might seize customers from us unless we offer a wider variety of models. Our main products are currently small cars, but we will be required to produce all types of vehicles, including those with larger engines. Suzuki's total power will be tested. We will be unable to maintain our current market share unless we cope with the tough situation with totally firm determination. It is something like the fable of the hare and the tortoise. The loser is the one who took breath in midcourse. Suzuki has so far been engaged in a battle with weak manufactures. We can never relax our guard after the world's top-level automakers have entered India.

Photo: Suzuki Motor Corp.

Royal Road for Safety, Environmental Measures

Indian automaker Tata is trying to expand its market share with vehicles at lower prices than those of Suzuki's. Each rival automaker is aiming to catch up with Suzuki.

Suzuki: Tata says it will release a model priced at around ¥300,000, a level between a motorcycle and a Maruti 800 car. I wonder whether Tata will be successful if safety and environmental aspects are taken into consideration. We will never ignore technological aspects of safety and environmental measures and will follow the royal road for manufacturers. Tata is a giant business concern and its capability cannot be taken lightly. We need to pay sufficient attention to Tata and to compete with it.

Some people say that Suzuki needs to tighten its sense of caution against employees who they say are too proud that the company has long remained the top automaker in the Indian market.

Suzuki: Employees at the JV may feel contented because they have been producing the same models for more than 20 years. It is obvious that those old models bring huge profits because they are produced at facilities whose depreciation has been completed. From now on, the JV must release attractive models in tough competition with powerful rivals. But the JV apparently lacks a sense of competitiveness. Therefore, I am planning to make a new plant compete with the existing one. India's domestic law prevented the new plant from being operated by a new independent management entity. But we will let the two plants compete head-on with each other without allowing any personnel exchanges.



Maruti 800, known as Alto in Japan, is one of the best selling cars in India

Suzuki to Cooperate with Nissan and GM

As Suzuki beefs up its alliance with Nissan there has emerged a plan to produce Nissan vehicles at Suzuki's plants in India. Nissan has so sharply fallen behind other major makers like Toyota in setting up operations in India that it expects cooperation from the front-running Suzuki in the Indian market. The plan is beneficial for Nissan which does not need to find a new production base and can keep its financial burden to the minimum.

Suzuki: That plan emerged by chance after Nissan revealed its desire to produce small cars in India as Suzuki has provided Nissan with its mini-vehicles under the Nissan brand. We talked about a plan for joint production if Nissan wants to produce cars of the same size as Suzuki's. This will lead to a reduction in costs, and an output increase will also help to boost our earnings performance because profits from small cars are limited. So, the talks went smoothly. This stemmed from the idea that the two makers should utilize each other's capabilities. Suzuki will continue its cooperative ties with GM, even though GM has sold most of its shareholdings in Suzuki. A corporation of our size cannot survive without cooperation with various companies.

Many Japanese corporations are considering branching out into India due to the recent India boom. Suzuki was the first Japanese automaker to begin production in India and has been successful. Suzuki's experiences are precious for Japanese firms of various industries.

Suzuki: As there are differences in the business cultures between Japan and India, an equity stake of more than 51% is desirable to launch a JV in India and to take management initiatives. Business opportunities are expanding in India with its economic development. However, it is important to conduct feasibility studies fully to advance into India and find out both merits and demerits. This is true not only for automakers but for other industries. You may fail if you are pulled by others to follow suit blindly. It is important to consider what you can do and to find out what you should do. In India, the automobile industry will absolutely face intensified competition but at the same time an expansion in national income will increase the number of customers. Such a trend will continue for some time. Suzuki must never be on the defensive but it needs to continue efforts to gain its strength. We will continue to remain on the offensive. **JS**

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