

Auto Parts Makers Accelerate on Japan Freeway

By Hayden Stewart

North America. Europe. Asia. South America. Australia. And Africa. In order to best serve overseas customers and to win the support of foreign governments who worry about their country's trade deficit in automobiles, Japanese firms build cars and trucks on six continents.

While running assembly plants worldwide has proven beneficial, the practice has also raised questions about where and how the Japanese firms should purchase components for their "transplant" factories. This debate has been especially passionate in the United States which is the largest foreign market for Japanese automobiles and the biggest overseas production base for Japanese automobile manufacturers.

Honda was the first Japanese company to produce cars in the U.S. in 1982. Says corporate spokesman Roger Lambert, his firm did have trouble sourcing local components in the early days. He surmises that most suppliers in North America were reluctant to deal with Honda because it required different designs and lower volumes than domestic competitors.

Toyota, Nissan, Mitsubishi, Isuzu, Fuji Heavy Industries, Suzuki, and Mazda soon followed Honda to North America. Spokespeople with a few of these firms report having had similar sourcing problems.

Transplant factories produced automobiles that contained mostly Japanese-made components until the late 1980s when critics began pressuring Japanese parts suppliers to open their own factories in North America. These critics included government offi-



Workers assemble automobiles at Nissan's plant in Smyrna, Tennessee. Such cars used to contain mostly imported components. They now contain larger—and larger quantities of North-American-made auto parts.



cial and industry leaders in the U.S. who wanted to create jobs in this country and to protect American companies from Japanese rivals. It was commonly argued at the time that Japanese workers earned low wages. And if Japanese suppliers were forced to open plants in North America, the "playing field" between them and U.S.-based firms would be "leveled."

Japanese suppliers did build factories

in North America which helped to raise the domestic content of Japanese brand, North American-made cars. Indigenous suppliers hardly increased their sales to transplant factories, however.

North American governments and auto parts suppliers welcomed Japanese firms to their soil, although they did not believe that they were responsible for the continuing difficulty which U.S.-based firms faced in supplying

transplant factories. They argued that Japanese automobile makers were not buying "local" components because of their loyalty to traditional suppliers in Japan.

The picture is not entirely different today, says industry consultant William Raftery, but it is improving rapidly. Raftery is a former president of the Motor and Equipment Manufacturers Association. He currently advises a number of U.S.-based firms on several issues, including their business with Japanese customers. On his view, *keiretsu* ties do not currently play a dominating role in the purchasing decisions of Japanese automakers; rather he emphasizes that North American-based firms can win sales contracts. And many are doing so.

Better-and-better customers

Members of the Japan Automobile Manufacturers Association (JAMA) have increased their purchases of North American-made auto parts from \$9.07 billion in fiscal 1990 to over \$21 billion in fiscal 1995. Although these statistics do not distinguish between purchases of parts from North American- and Japan-based suppliers, insiders are confident that rising sales by North American-based companies account for a significant portion of the increase.

Partly because they plan to further expand automobile production in the U.S. and Canada, Japanese firms are expected to purchase larger-and-larger quantities of North American-made auto parts from all suppliers in the future. Transplant factories on this continent already assemble over 2.5 million cars and trucks annually—around one-fifth of the total vehicles produced in North America. Among the numerous plans to further increase production at transplant factories are Honda's plan to rev up production of a luxury car and a minivan. Toyota is also preparing to launch production of a truck. And Nissan is moving build a sports utility vehicle in North America.

Not only do Japanese companies produce many cars in North America, but local auto parts account for over 70 per-

cent of each vehicle's components on average.

Rising local content may further increase parts purchases, too. For instance, Honda already maintains a local content ratio above 90 percent and has announced plans to expand engine production at a U.S. facility from 500,000 to 900,000 units each year. The company will then be able to supply all of its transplant operations in the western hemisphere with American engines. The company furthermore plans to increase local sourcing of transmissions and driven components.

According to Japanese car makers, *keiretsu* relationships do not play a role in their purchasing decisions. And Raftery agrees somewhat. "Japanese suppliers have an advantage when there is a pre-existing relationship between them and the automaker," he says. "However, the Japanese have proven that they are willing to buy from other sources, too. They will buy from the best supplier wherever he is based."

If not *keiretsu* ties, what drives the purchasing decisions of the Japanese automakers? Spokespeople with the companies give a roughly similar answer: quality, delivery, price, and development potential.

Quality, delivery, and price

Although Japanese firms are increasingly important customers in the North American market for auto parts, Raftery doubts whether most U.S.-based companies are as interested in serving them as in doing business with domestic automakers. A survey by Raftery Consulting revealed in 1994 that just 29 percent of American suppliers considered selling to Japanese firms a "high priority."

It is no longer a problem of the transplants being too small, buy whether foreign suppliers are willing to make the necessary investment. "How can you walk away from this market?" wonders spokesman Randy Boileau of auto parts supplier Donnelly Corp. which is providing components to every major Japanese automobile manufacturer.

Michigan-based Donnelly has been selling mirrors, windows, interior trim,

and interior lighting to Japanese firms for two decades through its sales office in Tokyo. And when Honda opened its first North American plant in Ohio, Donnelly built a special factory of its own in order to best serve the company. "You really have to prove yourself to the transplants," remarks Boileau.

Dealing with Japanese automakers requires not only investing in sales and manufacturing facilities, says Donnelly's spokesman, but changing the way that one does business. "Selling to them has been an evolutionary and revolutionary experience."

Many U.S.-based firms have traditionally been neither internationally focused nor lean manufacturers. A study by the University of California at Los Angeles' Anderson School of Management revealed that American suppliers increased their productivity by 2.6 percent annually from 1980 to 1993, compared with 4.3 percent for their Japanese counterparts.

In order to serve Japanese customers, Raftery and Boileau agree that companies must hold down their costs through lean production techniques, focus on quality, pursue flexible manufacturing, and offer just-in-time delivery to customers. Some are doing it, says Raftery. "The

Lean manufacturing is an integral part of how Donnelly holds down its cost base. "Warehousing affects your cost structure," says Boileau. If we tie up money in warehousing, we cannot compete on price.

Donnelly has also incorporated the Japanese concept of continuous improvement into its own quality control system. "We assume that today is our worst day," explains Boileau. "We work to make ourselves better-and-better in every day that follows. There is no perfect supplier."

In addition to aiding Donnelly's business with Japanese companies, focusing on quality and costs has helped the Michigan company to supply U.S.-based automakers who are moving to reduce their own cost base and raise quality.

Even America's second largest automaker, Ford, seems to agree. The

general manager of Ford's Automotive Components Division, Frank Macher, revealed in an interview with a leading trade publication that Ford is aiming to increase its own sales of automotive parts to Japanese firms. "If you sell to the Japanese, you feel some comfort that you are doing well. For us, it's the best yardstick."

Development capability

Japanese firms used to judge foreign suppliers predominantly on their quality, delivery, and prices. Now one more criteria is increasingly important — development capability.

Japanese automakers have traditionally done the bulk of design work in Japan and then sent nearly complete specifications to their manufacturing facilities overseas, reports Nandu Srinivasan who is the engineering manager of Ohio-based Eaton Corp.'s engine components division. "A lot of the fundamental design work is still done in Japan," says Srinivasan. "But they are increasingly asking us to design components for them."

Srinivasan believes that Japanese firms are changing their strategy partly because they now have mature overseas subsidiaries with capable staff.

Honda seems to agree with Eaton

Corp's prognosis. According to their spokesman, Roger Lambert, Honda's North American subsidiary is now a complete, mature company. "We are no longer a foreign company. We think like a domestic firm. We include local firms in the design process and buy from them."

The design capabilities of North American suppliers are another factor which is compelling Japanese automakers to design more components with local firms. Says Lambert, "North American firms now compare favorably to Japanese suppliers. In fact, we have discovered that they are strong in some fields such as metallurgy and plastics."

The advantages of co-designing with North American suppliers became pointedly clear to Honda when it invited American suppliers to join an engine project at an early stage. Not only was the project completed a year faster than similar programs have taken, but the engine will be cheaper to build.

A total of 55 local firms will build components for the engine, including Eaton which will supply a part of the valve-timing system. Eaton's design consists of three parts compared with competing Japanese models that contain five parts. It is therefore simpler and less expensive to install.

Wisconsin-based Zenith Sintered Products will be another components supplier for the new engine. It has developed powder-metal bearing caps to support the crankshaft. The engine's chief Japanese designer Yasuoka Akimasa reportedly decided to use the component because it requires less milling and thus costs less.

Both Eaton and Zenith Sintered Products are glad to have joined Honda's engine program. Srinivasan says that "It was one of our smoothest and easiest launch programs. Honda is straight-forward and trustworthy."

"There are a lot of nice people at Honda," a member of Zenith Sintered Products's sales team, Colette Kaltz, similarly reports. "Every company is unique. I do not see any big difference between serving American and Japanese customers."

More-and-more foreign auto parts suppliers are benefiting through trade with Japanese automakers in North America, but insiders nonetheless expect that the debate is not yet over. They believe that a number of U.S.-based firms and perhaps the U.S. government itself want to expand the issue where Japanese and indigenous suppliers currently have a domineering position in the market.

