

Volvo: Getting into Gear To Speed Up Sales

By Darryl Gibson

In April 1986, when Ralph Johansson was appointed president of Volvo Japan Corporation, the Swedish automaker was selling less than 1,600 cars a year in Japan.

Two-and-a-half years later, after increases of 46.7% in 1986, 47.4% in 1987 and a projected increase in the same region this year, more than 4,000 new Volvos are expected to hit Japanese roads in 1988. The increase has been impressive, but Johansson, a 55-year-old career executive with more than 30 years as a Volvo Car Corporation employee, is not resting on his laurels.

In an interview with the *Journal*, Johansson said he is naturally pleased with the growing presence of his company's cars on Japan's highways and byways, but stressed that performance is planned to improve considerably as time goes on.

"Everything is okay at the moment, but we would like to have more. That does not happen simply by snapping your fingers, but we believe you have to try to make a reasonable increase year by year.

"I believe we are learning and that awareness of Volvo cars has gone up, but we do plan to reach higher volumes and we are certain we must continue to increase awareness in Japan of our cars."

Potential to grow

Now, two-and-a-half years since Volvo Car Corporation, capitalized at ¥2 billion, bought out its Japanese partner and formed a 100 percent-owned company in Tokyo, Johansson is the hands-on leader of Volvo's thrust into a domestic auto market with more potential to grow than perhaps any other in the world.

"In 1985, automobile import penetration in Japan was 1.6% of the total Japanese market; in 1986 it was 2.2%; in 1987 it was about 3% and was 3.4% to August this year. But it is a long road before you come to 30% as in the United States, 30-35% as in most European Community markets, 62% in Britain and 72% as in my



Ralph Johansson: Safety and high quality are the road to success in Japan.

own country, Sweden, where we have two auto manufacturers of our own.

"Clearly increases of 0.5 percentage point are not enough, but I'm not saying we're not on the right track. We are on the road, but it is a relatively narrow road and road construction takes time."

To help speed the construction process, Volvo bought out its partner Teijin on April 25, 1986 and began going it alone in the Japanese auto market. The decision, Johansson said, was made not only because other foreign auto manufacturers such as BMW and Austin-Rover have decided to go it alone as well, but because Volvo had decided it was going to capture a larger share of the Japanese market and that was going to take money its partner was not prepared to put up.

"Beginning from the 1960s, Volvos were imported by Yanase and Co., a major foreign car importer, but in 1974 it was apparent that Yanase was not going to improve much on annual sales of about 800 cars. We then decided to set up a 50-50 joint venture, Teijin Volvo, in 1974."

Teijin Volvo continued until April 1986 and managed to bring annual sales to more than 1,000 cars, but volume decreased after the 1979 oil crisis to the

800-per-year level and only reached about 1,500 cars before Volvo Car Corporation decided to increase spending in 1984 in an effort to improve penetration.

"We always had very good cooperation on the board of the old company, Teijin Volvo, but we wanted to expand business and we discovered Volvo would have to spend a considerable amount of money to do that. Our partner felt if that was the case, then they would let Volvo make the investment itself and it was easily very clear we must take over the company."

The hands-on approach of the new fully owned company set up in April 1986 has meant decisions are more easily reached, Johansson said, adding that figures to date indicate the move was the correct one.

"From my point of view, the most important way to look at performance of the new firm is in volume and money, and volume in the first two years more than doubled, so we are beginning to reach toward our goals.

"I believe that buyers of cars here are becoming ever more safety- and quality-conscious—looking at many more aspects of an automobile and buying not just with their eyes, but with their brains and as well as their eyes."

As more than 80% of Volvo owners are believed to be university graduates, Johansson believes the "brains" are being attracted to his company's vehicles in Japan.

"It is of tremendous importance to us to have high quality and we believe we are working very hard not only on the hardware, but that the total experience of a Volvo car be of high quality."

The "Volvo Advantage" program, which is designed to provide customers with the services of highly skilled maintenance specialists who have undergone extensive training in auto repair and care, offers a VIP insurance program which ensures "very much better" benefits in case of an accident when passengers, in rear as well as front, are wearing safety belts—all

Volvo cars have belts front and rear—and provides replacement cars on loan free of charge when any problems occur, including accidents, whether attributed to the Volvo owner or to a second party.

"We are trying harder to improve even those programs, are training mechanics, expanding our branches and sales and service points and improving our networks to have the 'Volvo Experience' continuously monitored," he said.

But the best laid plans are subject to the vagaries of the marketplace and government regulations, and Johansson points out that although foreign auto firms are much better served in Japan than they were only a few years ago, there is still room to make the competition between Japanese and foreign makers more equitable.

Shaken safety checks, required in Japan in the third year of ownership and every two years thereafter, are not a problem for Volvo nor for other makers, Johansson affirmed, saying Sweden has even stricter regulations, but the tax system which discriminates against "3-plate" cars by imposing much higher taxes and insurance rates is a problem, he said.

Small-print problem

"Progress in taking away the non-tariff barriers we face has been rather good. There appears to be a willingness, but it takes time and two major problems still remain." The "paragraphs" of small print in Japanese motor regulations lead to production of what Johansson terms "paragraph cars" by Japanese automakers and leave foreign makers unfairly penalized, he believes.

Cars here are taxed on the basis of weight, engine capacity and outer dimensions and the tax burden on the owner of a "3-plate" car, as opposed to a "5-plate" owner, is exorbitant.

"Three-plate" cars exceed maximum weight, engine capacity or outer dimension aspects of a "5-plate" motor vehicle in some manner and the result is that commodity taxes are levied at much higher rates—"including on freight and insurance," Johansson laments.

"These are regulations existing in no

other market in the world. Japanese car manufacturers design their vehicles to fit into these categories, for example maximum width, by making cars 1.69 meters wide to get under the 1.70-meter wide limit of a '5-plate' car.

"Foreign manufacturers cannot do that because these limits exist nowhere else. Most foreign cars exceed the limits somewhere and this creates a market segment that fits Japanese car manufacturers only," he said. Not only do insurance rates on 3-plate "non-paragraph" cars increase more than 130% above those on "paragraph" models, but commodity taxes amount to 23 to 23.5% of the final selling price.

High sales cost

With tax reform, some of the commodity tax inequities are to be reduced—down to 6% on automobiles from more than 23%—and insurance rates are being made "more decent," Johansson said.

"But even then, the changes will be most useful for those with big volumes. We have a very high sales cost per vehicle—our highest in the world for the cars we sell in Japan—and the savings have to be seen by dividing the number of cars sold into the total sales cost. For smaller volumes, the savings are less."

Johansson's second major problem in the Japanese market is getting market information from semigovernmental Japanese agencies. Domestic manufacturers can receive statistical rundowns of every owner of every model of every car sold in the country on a regional, local and even more detailed basis. Foreign manufacturers, however, get bulk statistics only on cars by country of origin and make, and then, on new cars only.

If a manufacturer has to recall a model for modification, foreign makers cannot be sure they are able to reach all the owners of their vehicles directly because only the cars sold by them are registered completely with the maker.

"Sometimes our customers sell our cars to someone else, or buy from a parallel importer, and they don't necessarily tell us all about it. Therefore, it is next to impossible to keep the kind of records we

need as responsible automakers ourselves." Johansson said the reluctance to share market statistics with Volvo and other foreign manufacturers has been explained by saying not all members of the Japan Automobile Importers Association, the import equivalent of the Japan Automobile Manufacturers Association for domestic automakers, are actually producing cars.

"We're ready, in that case, to make an association—call it FAMA (Foreign Auto Manufacturers Association)—of foreign automakers, but it is still taking time to get those statistics."

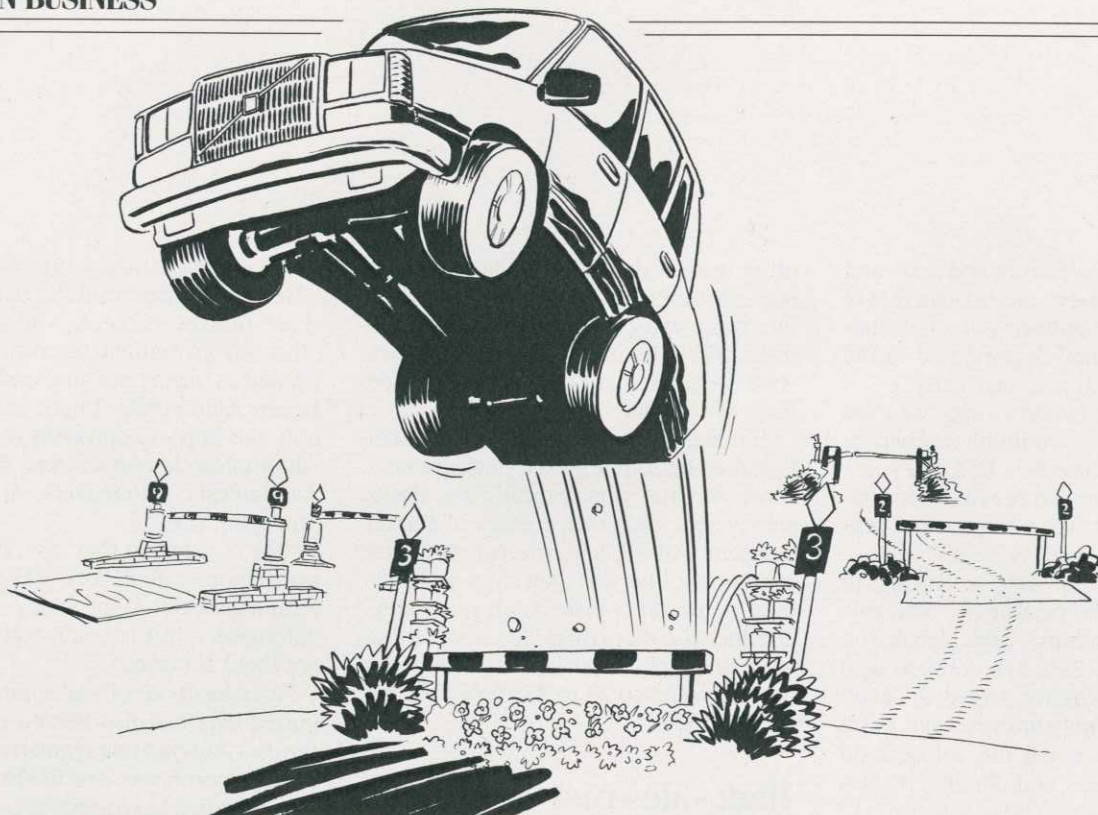
Homologation—official approval—of imported cars has also been a problem in the past, but meeting regulations, obtaining type certificates and finalizing import homologation has improved considerably in the past few years, Johansson said. "Parallel imports are not a big problem for us, but there could be closer watch on the homologation procedures, which are a major part of our work at Volvo Japan, but seem a little less careful for parallel importers."

Popular estate car

"It seems a little too easy for catalytic converters or other important equipment to go missing on parallel imports," he said. Most parallel importers use the "one in ten" method of bringing vehicles to Japan in which one of each 10 vehicles is tested to ensure it meets Japanese regulations. "Sometimes the other nine are not quite up to the standard of the one," Johansson said. "We have been promised action on that, but like many things, all these things take time."

"But I must stress, things are improving and we are making progress. I would even like to send a little flower to the Ministry of Transport because they have really made efforts to streamline homologation. It is not harder to bring a car here (in terms of meeting homologation standards) than to the United States or the European Community."

Volvo Japan has already captured the lion's share of the estate car market with its 240 Turbo Estate and through a new venture with Fuji Heavy Industries, will



begin marketing in several new areas through Subaru/Volvo dealers.

That linkup will eventually add much more than the eight new outlets to be opened this year and will increase Volvo's market penetration outside the Tokyo-Nagoya-Osaka corridor. Volvo has done well in other prefectures too, but the majority of buyers are still in the largest urban centers, Johansson said. Volvo Japan currently has 10 branches of its own, while another 40 independents sell Volvo cars and there are more than 150 sales points across the country because some dealers operate more than one sales outlet.

With the market growing for estate cars as more Japanese begin to enjoy more leisure time, and with fashionable larger cars, such as the exclusive Bertone-designed Volvo 780 attracting new customers, Johansson believes his company is on the right road.

Tax reductions and better access to statistics could make things improve even faster and if prices can be brought down as a result of better volumes and lower taxes, market share should grow more in the manner Johansson would like to see. But even without immediate changes in regulations or access to information, Johansson sees a basic change in Japanese consumer habits that will benefit his company and other foreign automakers selling in Japan.

"I don't know any auto market in the world where importers have such a small market share, but that is probably due a lot to cultural and other psychology in Japan which we have to be careful dealing with.

"Before the government began saying 'yes, we shall import, we have to import to have a better trade balance' it wasn't psychologically approved by the government for Japanese to buy imported cars. Now, I think it is, and while that attitude hasn't penetrated to all parts of Japan yet, I think this government approval is very important for us. I think it will help."

Attracting the young

But Volvo Japan is hardly leaving everything up to the Japanese government. Already it has the lowest general auto financing charges—7.5%—of anyone selling cars in Japan and is planning a special promotion offering 3-percent rates for buyers. "We have seen the success of others using this campaign tool and will try ourselves because we too have very good financing abilities."

Volvo owners, particularly of the bigger models, have "very fine financing abilities of their own" and often pay cash, and Volvo has concentrated on the top of the Volvo line in Japan. Loans have been increasing, however, since the company lowered its top rate and Johansson said

the campaign offering a 3% rate will be designed to tap not only the traditional Volvo market, but a new market segment as well.

"There is what I call a small revolution in Japanese society where young people who would like to be a little bit different act a little more like a 'me, now' generation and, although they may not have the cash, are attracted to cars like the BMW 3-series. We are going to test that idea with our 3-percent campaign for Volvo cars."

But the bottom line, for Johansson, is to make Japanese in all walks of life aware of Volvo cars, their durability and their safety. The vast majority of Volvos sold in Japan are specially equipped, including right-hand drive, for the Japanese market and safety and quality are the major points of the company's market programs in Japan. With eight models ranging in price from ¥3.06 million for the 360 to just less than ¥10 million for the 780, Johansson thinks the company has a product mix to meet a wide range of needs.

"Since people are more safety conscious and the total Volvo experience is one of high quality, we think that is our road to success in Japan," Johansson concluded.

Darryl Gibson is Tokyo correspondent of the Canadian Press.