Foreign Car Makers Accelerate on the Japanese Freeway

By Hayden Stewart and Peter Dowling

Automakers from the United States and Europe are enjoying a sales boom. From January to July of this year, their growing imports pushed foreign car sales to 152,390 units, up 41.9% over the same period in 1993.

According to the Japan Automobile Importer's Association (JAIA), foreign-made Japanese vehicles accounted for some of this growth. Imports of Honda's Accord and Civic, Toyota's Scepter, Nissan's Mistral, and others expanded by 40.4% to 35,712 units.

Nonetheless, foreign-owned companies reported the strongest growth. Chrysler grew the fastest by selling 8,465 vehicles (up 211.4%), while other companies also expanded—Ford (up 120.9%), Volkswagen-Audi (47.9%), Volvo (36.5%) and Rover (28.0%).

A legacy of failure

Such success is long overdue. Until recently, foreign companies held only 3% of Japan's auto market. This was not due to protectionism; Japan does not tax car imports. In recent years, Tokyo has even pressured Japanese firms to cooperate with foreign rivals.

According to the Japan Automobile Manufacturer's Association (JAMA), foreign companies are partly to blame. The American Big Three, for instance, pushed large automobiles with engines above 3.0 items (3000cc).

Other factors exacerbated this size problem. General Motors, Ford, and Chrysler did not offer right-side steering, print user-friendly Japanese-language manuals, nor supply spare parts quickly.

European makers did little more to expand their market share in Japan. Although more of their cars were compact, they mainly sold either luxury models priced over ¥4 million, or models of less than 2.0 liters, which were still more expensive than ¥3 million.

According to JAMA, inexpensive compact vehicles account for 80% of the Japanese auto market. These cars cost under ¥3 million and have engine displacement of less than 2.0 liters.

Only recently have foreign auto makers begun to go after the Japanese market. Due to insufficient technical standardization between Japan, North America, and Western Europe, many foreign autos are both expensive and ill-suited to the Japanese market, states the Japan Automobile Standards Internationalization Center (JASIC).

To meet safety regulations, even before reaching a showroom, foreign automobiles must undergo modifications costing several hundred thousand yen for a medium-sized car. Depending on the vehicle, a number of changes may be necessary, says JASIC. For instance, importers must change the headlights on automobiles with a left-side steering system.

Other features, including the position of the steering wheel, do not require changing, but may make the car less attractive to Japanese consumers.

Foreign countries also enforce strict regulations, but Japanese companies have invested in factories which can produce cars to satisfy the regulations of various nations on the same assembly line. Their investment has paid off because they export a large percentage of their production, which keeps the price per car for alterations low.

Not so for many foreign automakers. "We just cannot make those kinds of changes when we only expect to sell around 5,000 cars in Japan," a General Motors spokesman explained in 1993.

A lot has changed in the past year, however. Some foreign automakers, including GM, are redesigning their assembly lines to cut costs and offer right-side steering.

Among the foreign companies enjoying success in the Japanese market, two firms stand out. Of the American Big Three, Chrysler was the first to both cut prices and introduce right-side drive vehicles in Japan. From the European Union, Rover's transformation is the most noteworthy, because it was the first company to slash its prices in response to *endaka*.

In 1992, Chrysler sold less than 1,000 vehicles in Japan. This year, it hopes to sell 14,000 other cars. "Sales have been strong since we cut the price and introduced right-side steering for two of our Jeep models," says Nagata Osamu, General Manager of Chrysler Sales Japan.

A successful association with Honda has helped Chrysler, says Nagata. In 1991, Honda agreed to market Jeeps in Japan, both to compliment its own product line and to assuage trade friction with the United States.

Before beginning distribution, however, Honda asked that Chrysler repackage its car for Japanese tastes. Honda's demands included the introduction of right-side steering, the design of a user-friendly Japanese language instruction manual, and the extension of Jeep's warranty from one to three years.

Chrysler rose to the challenge, says Nagata, by adopting Japanese-style production methods to its factory in Toledo, Ohio. "The Jeep's price and quality is now comparable to that of Japanese-made 4-WD vehicles, such Mitsubishi's Pajero," continues Nagata. "If you include options, our product offers better value for money."

For the Jeep Cherokee, Chrysler has eliminated all disassembly and rebuilding jobs, except the installation of radios and application of Japanese-language stickers.

Another competitor, Rover Japan, was founded in 1988 and has grown into the European Union's fifth largest exporter to Japan, after Germany's BMW, Mercedes Benz, Volkswagen-Audi and Opel. According to David Blume, Rover Japan's sales and marketing director, "Our expanding line of competitively-priced vehicles is fueling this growth."

Although Britons and Japanese both drive on the left-hand side of the road, disassembly and reworking still used to inflate Rover's costs. Japanese regulations have been traditionally more similar to American rules than European ones. Blume notes that both countries have long required catalytic converters, while British rules had been less stringent.

"Now we have adopted Japanese-style production methods," continues Blume. "Except for the installation of radios, we can produce automobiles for the Japanese market without any disassembly or reworking."

Improved production methods "have allowed us take full advantage of the yen's appreciation," Blume believes. Rover cut its prices by an average of 13% in February 1993 and by another 12.7% in April 1994. "Since we cut our prices, our sales have risen about 30%," says Blume.

Harmonizing standards

Reworking assembly lines has required a major investment, but political efforts to merge regulations in Japan, the United States, and Europe have eased the pain.

At the United Nation's Economic Commission in Geneva, JASIC and representatives from other countries are working to develop a worldwide system for standardizing the automobile industry.

JASIC reports that negotiations have been fruitful, if difficult. "Our greatest accomplishments concern braking systems and running gears, such as wheel and steering alignment. Unfortunately, the complete harmonization of international standards will not be realized soon. We have few chances to meet and many regulations to discuss."

While success is being made in other areas, foreign automakers are just beginning to overcome *keiretsu* practices between domestic automakers and dealers. According to the Market-Oriented Sector Specific (MOSS) Motor Vehicle Study, issued in February by the United States Department of Commerce and Japan's Ministry of International Trade and Industry, "The practices of Japanese dealerships and manufacturers discourage Japanese dealers from signing franchise agreements with foreign manufacturers."

The study also concluded that when foreign makers develop their own dealer networks, high prices for land and labor can be a problem.

"Building a dealer network will expand sales, but it is not easy," says Chrysler's Nagata. "You need a high sales volume and full product range. Chrysler dealers would not be profitable with our current line-up." Chrysler vehicles are currently on sale at 102 branches of Osawa Motors, an affiliate of Seibu Motors which specializes in foreign cars. Jeep Cherokees are also on sale at several hundred Honda dealerships.

The reasonably-priced 1994 Jeep Cherokee Limited Edition is equipped with right-hand steering.

Similar to Chrysler, Rover used to share its floor space with Peugeot. The company now offers 10 different vehicles and boasts over 90 exclusive showrooms. "Yet we still need more," says Blume.

FTC takes aim at keiretsu relationships

Chrysler and Rover may be frustrated with keiretsu practices in Japan's auto industry, but they are certainly pleased with efforts by the government to dismantle these barriers.

The Fair Trade Commission (FTC), a government organization to promote anti-trust policy, has been investigating Japanese automakers and dealers. In a 1979 study, it ruled that, "Except in cases where manufacturers had given their approval, most dealers were forbidden ... to sell competing products such as other makers' passenger cars and auto parts."

According to the JADA, the FTC's pressure has recently persuaded many automakers and dealers to rewrite their contracts. Under the new rules, dealers will be free to handle cars from any maker.

Foreign automakers seem to be pleased. Chrysler will soon respond with a campaign to recruit new dealers, says Nagata. Blume reports that Rover has already added some new dealers, but would not release the figures publicly.

Ford has recently scored some well-known successes. Since last year, it has recruited four Nissan dealerships to handle its wares—two in Kanagawa Prefecture and one each in Tokyo and Osaka.

Yet foreign companies will have difficulty recruiting Japanese auto dealers. According to JADA studies, 64.0% of dealers "do not intend to deal in imported cars."

Another JADA seminar, "Sales of American Automobiles in Japan," revealed that dealers were concerned about "the quality of the new vehicles" (48.4%), "the regularity of supply" (56.1%), "the availability of spare parts" (68.4%), and "manufacturer's quick response to handling claims" (77.4%).The JADA did not offer similar statistics about dealer perceptions of European-made cars.

Foreign automakers have worked hard to produce cars for the Japanese market. With the FTC's help, they must now convince skeptical dealers to sell these cars, unless today's import boom is to fizzle. JJTI

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