

Reduced Speed Zone Ahead

**Interview with
Shoichiro Toyoda,
president of Toyota
Motor Corporation
by Shozo Hochi, editor
of the Journal of
Japanese Trade &
Industry**

He is a frank, unpretentious man, not at all what one would expect of someone who commands Japan's largest manufacturing company. With total sales of ¥6,304.8 billion (about \$40.7 billion at the rate of ¥155/\$) in the 1985/86 business year (ended June 1986), the Toyota Motor Corporation ranked first in Japan and among the world's top automobile manufacturers.

The Toyoda brothers, Shoichiro and his younger brother Tatsuro (start-up president of Toyota's NUMMI [New United Motor Manufacturing, Inc.] joint venture in Fremont, California and now senior managing director of Toyota Motor in Tokyo), are the sons of Toyota Motor Corporation founder Kiichiro Toyoda and the grandsons of inventor and Toyoda Automatic Loom Works founder Sakichi Toyoda.

Shoichiro Toyoda was born in February 1925 and graduated from Nagoya University's Engineering Department in 1947. In 1955 he completed postgraduate study at Tohoku University, writing his doctoral thesis on high-speed liquid particles. "That sounds like a complicated subject, but all it was was a study in sprays and mists. The technology developed through my thesis is now used in car carburetors and diesel engine fuel injections," says the engineer-turned-executive.

The year Shoichiro graduated from Nagoya University, 1947, was a mere two years after Japan's World War II defeat, and Japanese industry was only just then getting back onto its none-too-steady feet. This was no time for automobile production. Instead, Shoichiro

went to work at a food processing company run by some relatives in Hokkaido, where he wasted no time applying his talents to the invention of equipment for automatically broiling *chikuwa* (a kind of fish paste).

Shoichiro Toyoda joined the Toyota Motor Co., Ltd. in 1952. He gradually worked his way up in the company, becoming a managing director in 1961, a senior managing director in 1967 and executive vice president in 1972. In June 1981 he became president of the Toyota Motor Sales Co., Ltd., and on July 1, 1982, he was appointed president of the newly formed Toyota Motor Corporation (currently capitalized at ¥133.2 billion and with 64,000 employees) created by these

two companies' merger. In recognition of Toyota's position within the industry, Shoichiro was elected chairman of the Japan Automotive Manufacturers Association, Inc. this May.

One of the most immediate set of problems facing the Japanese auto industry is that created by the very abrupt yen appreciation agreed upon at the September 1985 G-5 meeting of finance ministers and central bankers. For an industry dependent upon exports for more than 50% of its sales, the situation is fast becoming critical. Toyota is no exception.

What is Toyota doing to meet the crisis? What is the outlook for North American production? What are the possibilities for increasing domestic sales? How will the companies change as they outsource more and more of their production? And where is research and development headed?

Question: *This January the 50 millionth vehicle rolled off Toyota production lines. This is more than a million cars a year, and puts Toyota right up there with the U.S. Big Three (GM, Ford and Chrysler). Since the total to 1962 was just slightly over one million, this means Toyota has turned out more than 49 million cars in the last 24 years.*

The past year has been good to Toyota and the other 10 Japanese automakers. Total annual production volume went up 7% over the previous year to 12.27 million (7.65 million passenger cars, 4.54 million trucks and 80,000 buses), exports were up 10.2% to 6.73 million, and domestic sales up 2.25% to 5.56 million. These record figures have made Japan the world's leading auto exporter for the sixth consecutive year and its leading exporter for the twelfth straight year.

Yet the rapid appreciation of the yen following last September's G-5 meeting has slashed export profits and torn up the road for all of Japan's automakers. Toyota has 33.6% of Japanese passenger car production volume and 23.3% of truck production. How do you see this situation?

Toyoda: As you know, Japan went along with the G-5 meeting's decision to let the yen appreciate in the hopes that this would reduce Japan's trade imbalance. But this appreciation has been much too fast, shooting from ¥240/\$ to ¥150/\$. And because of the J-curve effect and other reasons, the yen's appreciation has yet to affect Japan's nominal trade imbalance with the United States. It should be clear by now that we cannot solve the trade imbalance with currency realignment alone.

The yen is appreciating too quickly for manufacturers to handle. Since the beginning of this year, we have raised the prices on our export vehicles by around 10%, but all to no avail. The



Shoichiro Toyoda

industry as a whole is looking to the government to help us find some way of coping with the rapid yen appreciation.

In the meantime some American manufacturers have cut their sticker prices, and imports from countries with dollar-linked currencies remain unaffected by the dollar's devaluation, meaning that their prices have not had to be raised. Japanese manufacturers are losing their cost-competitive edge in costs and finding exporting difficult in general. We'd like to raise our prices even more, but we can't.

At Toyota, we have been striving to cut costs in all areas, manufacturing and nonmanufacturing alike, and have slashed our original ¥390 billion budget for plant and equipment investment this year by some ¥30 billion. For our clerical and other office operations, we have initiated a "Challenge 50" campaign—the "50" referring to our targeted 50% savings in office supplies and also to our three 50th anniversaries: of the beginning of truck production (last year) the start of passenger car production (this year) and formal incorporation (next year). The campaign is intended to encourage all employees to present imaginative ideas for cutting costs, stimulate our QC circle activities and otherwise improve efficiency in all of our operations.

Q: *For the year ended June 1986, Toyota has reported exchange losses of ¥290 billion and shown profits down ¥160 billion. The yen appreciation has certainly seemed to hit pretty hard.*

A: The average exchange rate during that year was ¥201 to the dollar—¥48 less per dollar than the previous business year's ¥249/\$. In Toyota's case, we lose about ¥6 billion for every ¥1 the yen appreciates. With a ¥48 difference, we end up with a ¥290 billion loss. Even if we export the same number of cars, our sales are still off ¥290 billion. So you can see why we are making every effort to cut costs and to raise our export prices.

There's no telling what's going to happen next in the foreign exchange markets, but right now the rate is ¥153/\$. If it holds steady at this rate for the next year, it will mean another ¥48 increase over the preceding year and another ¥290 billion loss—with even greater problems if the yen continues to appreciate. I am sure the rest of the Japanese automobile industry joins me in hoping that normalcy will be restored to the exchange markets as quickly as possible.

Q: *Toyota used to have a considerable price advantage over competitive-class cars made by the American Big Three. What is the situation now?*

A: We've already raised our prices three times this year. At the same time, Chrysler has cut its prices and the imports from Korea have held their prices steady. Right now, we're more expensive—and getting more so all the time.

Q: *In addition to NUMMI, Toyota is also looking into North American production on its own. Can you fill us in?*

A: On January 23, 1986, we established Toyota Motor Manufacturing U.S.A. in Kentucky. This

new company is headed by Kaneyoshi Kusunoki, one of Toyota's vice presidents, but the management will be primarily American. We are building a three-million-square-foot production facility on 1,500 acres of land, and expect to hire some 3,000 local employees. Our total investment in this venture is around \$800 million. We plan to produce an annual average of 200,000 vehicles in the two-liter class.

Toyota Motor Manufacturing Canada was established the next day, January 24, and is also headed by Kaneyoshi Kusunoki. This will be a 900,000-square-foot complex on 370 acres in Cambridge, west of Toronto. Total investment will be about C\$400 million and we plan to hire over 1,000 workers. Like NUMMI, this plant is scheduled to produce 1.6-liter vehicles, and we are looking for about 50,000 cars a year.

As with NUMMI, both of these plants will do everything from the pressing on, and around half of the parts will be procured locally. We are currently looking for local suppliers who can meet our quality, scheduling and cost terms.

Q: *How are your relations with the United Auto Workers at these two plants?*

A: Right now, there is nothing. Whether or not these plants will be union or not is up to our employees, not us.

Q: *At last December's press conference announcing the construction of a Toyota plant in Kentucky, you stated that the Toyota kanban (just-in-time) system would be used, that trustful labor relations would be a priority and that the plant would try to contribute to the local economy by employing as many local workers as possible. Is this part of your union strategy?*

A: We have learned from our experience with NUMMI that it is important to become part of the local community, and that one way to do that is to hire as many local people as we can. We want to work in a climate of cooperation and to be considerate of our employees' needs. This we are doing because we believe it is right, not to keep the UAW out. As I said, it is up to the workers whether a plant is unionized or not. That's not my decision and I have no idea at this point what they will decide.

However, we do think that we can take care of our workers and their families even without the UAW. As you may know, NUMMI started Corolla FX 16 production this September and is gearing up to turn out 50,000 a year in addition to the 200,000 Novas NUMMI has been making for GM.

Secretary of Labor Bill Brock was so impressed by NUMMI's excellent labor relations when he visited the plant this summer that he cited NUMMI as a model for management-labor relations at the ILO conference in Turin, Italy, this October. We are pleased at his praise, proud that NUMMI is helping to get the American automobile industry back on its feet and hopeful that it can contribute to solving the balance of trade problem as well.

But NUMMI's real importance is as a show-

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case of what can be done if labor and management will work together in the United States. This is the way to revitalize U.S. industry, not with currency manipulation. Pushing the yen higher and higher is not going to make America's problems go away, and it will only serve to destroy the Japanese automobile industry. That is hardly the road to better U.S.-Japan relations, and it could well jeopardize relations between our two countries.

Q: *In other words, this is basically a problem for American industry?*

A: With the upcoming congressional elections, politicians are finding the trade imbalance a convenient issue to focus on. I understand their concern, but wish they would direct their energies to the real problem instead of its surface manifestations.

Q: *For the Japanese automobile industry as a whole this July, domestic passenger car sales were up 0.2% over the preceding month (to 323,000), domestic heavy truck sales down 10.2% (to 8,000), and exports down 5.3% (to 596,000). Given that you will have to rely upon the domestic market for your growth, what are the industry's prospects?*

A: The deflationary impact of the yen's rapid appreciation is being felt in domestic sales. The only reason domestic passenger car sales were up is that we were doing everything we could to offset the decline in exports. But sales of heavy trucks, which are a better measure of industrial activity, were definitely down because of the deflation.

Exports were down as the collapse in oil prices has eroded purchasing power in Middle Eastern markets, and exports to China are at a virtual standstill. And, of course, exports to the United States and Europe are going to continue to be difficult.

Within Japan, automobile inspection regulations were eased this June and inspections are now required only once every three years. This has helped boost domestic sales somewhat for the January-August period, and we are hoping to top 5.7 million units this year.

But while we are doing our best, we are also looking to the government for much-needed tax reform and special measures to stimulate domestic demand. The automobile industry is an important part of the economy—accounting for 10% of all Japanese industrial employment and 18% of all manufacturing plant and equipment investment. It has ramifications throughout society, and everybody is counting on us to come through this.

Q: *It has been suggested that increased overseas production will lead to a phenomenon referred to with the awkward term "hollowization." What are your views on this?*

A: As more and more Japanese automakers set up production facilities overseas, they are being followed by a growing contingent of parts suppliers. The natural effect of the high yen is to cause Japanese companies to search worldwide for cheaper sources of the high-quality

materials, parts and products they need. This can, of course, lead to the hollowization you speak of if we are not careful.

For our part, Toyota is urging its suppliers to strive for more efficient and rational production at their plants in Japan as well as overseas and to expend greater efforts on research and development for even better quality products. We are also looking to diversification as another means of opening up new markets domestically.

For the Japanese automobile industry as a whole, we feel there is still considerable room for increased demand as the nation's highway network is improved, restrictive regulations are eased, and other market stimulating changes are made. At the same time, we are working on research and development to create new products with greater value added to better appeal to our customers.

As long as we produce attractive cars, I believe there is ample room for growth both in Japan and worldwide. And in the process we will be contributing to higher standards of living for all peoples. This will require more money for research and development to create completely new kinds of cars that take full advantage of the advances in electronics, new materials and other new technologies to meet the diverse needs of a wide variety of customers.

Q: *Speaking of electronics, the CQ-1 concept car Toyota introduced at the Tokyo Motor Show three years ago was packed full of sophisticated communications technology. Does Toyota envision the car of the future as a mobile telecommunications unit?*

A: We want to do more than simply create a highly sophisticated electronic car. Our aim is to use this advanced technology to meet the driver's every possible communications need—including a radio traffic information monitor, a hand-free telephone, a database access system and even a facsimile.

Q: *Where does the Japanese automobile industry go from here?*

A: We need to remember that overseas production is not our only option, and that we have to work to expand Japanese domestic demand as well. Japanese automobile ownership is nowhere near that in the United States or Europe. Germany continues to build *autobahns* every year, and Taiwan is pushing ahead with the building of new expressways.

Japan's expressway network is still inadequate, and I believe we need to build many more and better roads. This will promote mobility and more extensive domestic travel by the Japanese consumer, in turn leading to more leisure activities and enhanced lifestyles. The automobile is an essential part of this development. While industrial restructuring will be a major concern in the years ahead, we intend to develop new products that will better meet diversifying needs, conserve vital resources and meet higher safety standards. There is still much to do, but we have a bright future ahead of us. ●