

Master of Innovation

Interview with Norimasa Furuta, president of Mazda Motor Corp., by Toshio Iwasaki, editor of the Journal of Japanese Trade & Industry

Buoyed by strong domestic demand, Japanese automakers have been doing extremely well recently. And none stands out more than Mazda Motor Corporation.

Only a few years ago, Mazda was rumored to be in trouble. Now it is in third place in the industry after giants Toyota Motor Corp. and Nissan Motor Co., overtaking rivals Honda Motor Co. and Mitsubishi Heavy Industries Co. after years of intense competition.

At the helm of high-rolling Mazda is Norimasa Furuta, formerly an elite bureaucrat in the powerful Ministry of International Trade and Industry. Furuta left government service in 1981 after serving as director general of MITI's International Trade Administration Bureau. Invited to join Mazda in 1985, he took over the presidency two years later at a time when a high yen had plunged the Japanese auto industry into crisis. He was Mazda's trump card in a high-stakes economic game.

The gambit worked. Mazda is looking good, and Furuta is aiming to boost the company's annual domestic vehicle sales to 800,000 by 1992, double the 1987 figure.

How is he going to achieve that goal? Furuta recently outlined his strategy in an interview with the *Journal*.

Question: *The business environment has changed dramatically in the four and a half years since you joined Mazda. How do you view these changes?*

Answer: I joined Mazda in 1985, the same year that the G-5 nations reached the Plaza Accord. So I came to the auto industry just as the yen began to appreciate in value. The higher yen dealt all Japanese export industries a severe blow, and among automakers it was Mazda that bore the brunt of it. We relied on exports more heavily than other companies. Our current profit sagged from a record ¥70 billion in the 1985 business year to ¥20 billion in 1987. In the 1988 business year they were down to ¥10 billion.

The crisis came just as we were coming out of the long doldrums after the first oil crunch, which left us with a ¥17.3 billion current loss in 1975. All I could do was try to minimize the damage from the strong yen and help our business performance to turn up again as quickly as possible. I was in a real predicament.

Mazda had been studying ways to cope with the situation even before I joined the company but it took until 1988 to put together a concrete five-year business plan. Since most of the deterioration came from our heavy reliance on exports—at the time some 70% of total sales—we deemed it essential to focus on the domestic market. Fortunately, domestic demand picked up just as we launched our new policy. Thanks partly to that tail wind, our performance turned around, and in 1989 we achieved our goal of capturing third place in sales (excluding micro-mini vehicles). We are now working to solidify our position.

Q: *No matter how good your luck was, Mazda could never have advanced to third place without effective action by management. Could you elaborate on the five-year plan?*

A: The five-year plan, which we called the "Mazda Innovation Plan," had three pillars.

First was the principle of making "customer satisfaction" our highest priority throughout the organization. It's only natural for a company



Norimasa Furuta

manufacturing and selling goods to serve its customers. But often we forget that this isn't just a matter for the sales staff dealing directly with customers. All of us have to be aware that we are only there for our customers. When we come up with a new car concept, design and develop it, we can never forget the customer.

The second pillar was the establishment of a solid financial structure strong enough to withstand changes in the economic environment. This was the biggest challenge we faced in working up the plan.

Third was the revitalization of our own corporate atmosphere. This was necessary to unleash our full corporate potential and encourage freer thinking and better understanding among our staff. If we had clung to our old work styles and ideas, we would not have been able to implement the new customer-first principle or solidify our financial structure.

Of course, the innovation plan has concrete targets. We are aiming for minimum sales of ¥2 trillion and current profits of ¥100 billion by 1992, even if the yen appreciates to ¥100 to the dollar. That requires reducing our reliance on exports and expanding our domestic sales capability. To be precise, we plan to boost domestic sales to 800,000 vehicles in 1992, double our 1987 figure, and sustain overseas sales at the 1987 level of 800,000 vehicles. Eventually, we hope to boost our domestic sales to 1 million vehicles, raising our share of the domestic market to upward of 10%. Judging from our current performance, the targets are set quite high. We won't be able to reach them unless we innovate everywhere in the company. That's why we called it the Innovation Plan.

Q: *Doubling domestic sales in just five years is very ambitious. How will you do it?*

A: We have added two new sales channels. We used to have three channels—two handling Mazda vehicles and one, the Autorama channel, for selling cars from Ford, with which we're affiliated. Last year we inaugurated two channels, Eunos and Autozam, giving us five sales channels in all. The two new channels have three characteristics. First, the emphasis is on showroom sales instead of the traditional door-to-door sales. Second, we are inviting companies outside the auto business to invest in them. And third, we are selling imported cars to correspond with the diversified needs of consumers. All of these strategies have been tested out in the Autorama channel which was established seven years ago.

Let me take the Eunos channel as an example. The Eunos channel was established to market our European-taste luxury cars and imports. This channel was conceived in view of the new willingness of consumers to pay high prices for stylish, high quality products.

Car sales in Japan are changing radically. Sales companies used to have their sales people canvass prospective customers door-to-door. Now, just as in America, they let prospective customers visit their showroom and choose the car they like firsthand instead of from a catalog. To keep abreast of this trend, we've decided that Eunos will only sell in the showroom. We are establishing our outlets to attract customers and make them receptive to buying our cars.

This system makes it easier for companies in other industries to invest in our channels. As of March, a year after we established the channel, we had 25 companies—including railway operators, trading houses, department stores and supermarkets—and 96 of our own dealers participating.

Our best-selling sports car, the two-seat Eunos Roadster, was the first car we marketed through this channel. It made its debut at a motor show in the United States in the spring of 1989 under the Mazda MX-5 Miata brand name, and got rave reviews from the leading American auto magazines. We launched it in Japan in the autumn and it became a hit. As of March this year, we'd sold 15,000 in Japan, an average of 2,100 a month.

Q: *It must be hard coming up with cars attuned to consumer tastes.*

A: In the case of the Eunos Roadster, our development staff had already been working on it for years when management came up with the idea of a new sales channel for classy European-taste cars. The timing was perfect. All I can say is we were lucky. We intend to stick by our concept that Mazda cars must have a Mazda identity. Mazda cars must be Mazda-like.

Mazda is not a big maker with vast economies of scale. We have to target a specific stratum of consumers of a certain taste. The Eunos Roadster was designed with the idea that it should not be just a means of transportation, but a way of enjoying life. Since new car development is so costly, there is a lot of corporate risk involved in producing a car for a narrow market segment. Nevertheless, we took that chance, because we believed that Mazda needed a car worthy of Mazda. We succeeded. Our judgment was right. But I don't think things will always go so well.

Q: *While establishing the Eunos channel for*

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up-scale cars on the one hand, on the other you have reentered the micro-mini car market with the Autozam channel. What was the idea behind this?

A: We reentered the micro-mini car market because of the recent growth in demand for such cars. The micro-mini market has grown quite big, with annual sales running around 1,700,000 vehicles. Micro-mini cars used to be purchased by first-time car buyers, but now people are turning to them for second cars. The Autozam channel is mainly targeted on young women, and will be selling Carol micro-mini cars. This move shows our readiness to offer as many types of car as possible to meet any demand. But more than that, it underscores our hope that Carol users will eventually switch to bigger Mazda cars, and that other Mazda users will choose the Carol for their second car.

Initially, we were sending 3,000 Carols to market monthly, although we weren't sure we could really sell that many. Fortunately, it's been a big hit. We've raised monthly production to 6,000, but we still can't keep up with orders. We now have a backlog of 12,000 orders.

The strong start of both our new channels, and a bit of good luck, has enabled us to regain third place for the first time in three years. Our domestic sales in 1989 topped 480,000.

Q: *You're also marketing imported cars through these channels?*

A: Mazda has a capital tie-up with Ford. We've been marketing Ford cars, including those we build for them ourselves, through the Autorama channel for years. At the same time, we're selling French Citroëns through the Eunon channel, and the Lancia built by Fiat of Italy through the Autozam channel. No other Japanese automaker sells so many kinds of imported cars through their own sales channels.

Q: *What is Mazda doing in the United States?*

A: We opened our plant with an annual capacity of 240,000 cars in Flat Rock, Michigan in September 1987. But only a third of those are Mazda cars. The rest are Ford's Probe, which comes off the same assembly line. Since our total annual U.S. sales are only around 230,000 vehicles, we cannot keep the Flat Rock factory in full operation just manufacturing our own cars. Our relationship with Ford allows us to make up the gap. We've had a good start, mainly due to brisk sales of the Ford Probe, and Flat Rock has been running at almost full capacity since July 1988.

Q: *Japanese automakers setting up in the United States have to deal with the powerful United Auto Workers labor union. Different automakers*

have taken different approaches to dealing with the UAW. How does Mazda do it?

A: When we decided to move into the United States, we knew that we would have to work with the UAW. So, we started by concluding an agreement with the UAW before starting operations in Flat Rock.

We want the good points of the Japanese production system to take root in the United States and contribute to increasing U.S. productivity. The UAW has expressed its readiness to cooperate with us. Basically, we have maintained a good relationship with the union, even though minor labor problems occur from time to time. The UAW used to classify autoworkers on the assembly line into 20 categories. We brought them around to our view that if workers remain that fractionalized, they can't do highly productive work. We struck an agreement to classify workers into just two categories: production and maintenance. I think this has opened a new door for labor relations in the United States.

Q: *How much does Mazda's U.S. strategy revolve around its tie-up with Ford?*

A: Our capital tie-up with Ford already goes back 10 years. The basic idea behind the tie-up is that we will respect each other's independence while working in each other's interest. The production of Ford cars at Mazda's Flat Rock plant and Mazda's marketing of Ford cars in Japan are just a part of the tie-up. We also cooperate in other fields, like our supply of vehicles and parts to Ford. The cooperative relationship will expand further in both scope and scale. We are now negotiating on the possibility of joint operations in Europe, which could be one direction of future cooperation.

Q: *Tell us about Mazda's strategy in Europe.*

A: For better or worse, Mazda's name is actually better known in Europe than it is in Japan. In fact, Mazda has the highest market share of any Japanese car in West Germany and Austria. Since our brand image is favorably established in Europe, we must take good care of that market. However, the prospects for Europe after the 1992 integration of the European Community are still unclear. So at this point, we are concentrating on raising the value added of each model in all the categories we export to that region rather than boosting our overall export volume. We do hope to manufacture in Europe eventually, but since we export only 280,000 vehicles to the region altogether, we will not be able to have plants all our own. At this time I think cooperation with Ford would be the best idea. ■