

opinion

Time for a Change

Richard Kracklauer, president of Sachs Automotive Japan, argues the case for changes in the way automakers in the country do business with European suppliers.



The structure of vehicle manufacturing in Japan has changed from a uniform *keiretsu* style to one with as many different approaches as there are participants. At one extreme, some *keiretsu* networks have become more entrenched; at the other, ties are much looser. Suppliers need to understand this complex picture just as much as the increasingly global nature of the industry.

Those Japanese automakers that are integrated into global alliances cannot be treated in isolation because supplier performance (price, quality, capacity, delivery etc) in one market immediately becomes a known quantity through the wider structure. The trend towards global assessment means mistakes and sub-par performance can be disproportionately damaging to the supplier.

But despite the growth of these international networks the expectations of Japanese makers have not really undergone a paradigm shift. Suppliers are still expected to just "build-to-print" the traditional Japanese way, which does not see the benefit of having strong development partners. Cost, quality and efficiency are heavily influenced by specifications and the most effective approach is to evaluate whether the OEM's specifications are really required or whether standard global specification would provide better value and similar – perhaps even better – performance.

Similarly, OEMs need to involve suppliers early in the development process if they are to take advantage of modular systems. While suppliers don't expect the OEMs to buy 'black boxes' of technology and systems, they have to let go of certain activities that were traditionally handled in house.

But while globalisation and intense competitive pressures have forced Japanese manufacturers to reassess their procurement strategies, European suppliers continue to face difficulties stemming from a persistent reluctance to outsource product development on a global basis. Japanese firms are still uneasy about divulging proprietary information to outsiders.

It's also still necessary to provide "Japanese solutions" to customers in order to adhere to company-specific specifications, defying the global move towards single platform development and volume production. Many companies report that while Japanese OEMs have indeed shown more interest in procuring from European suppliers over the past few years, this interest

has not translated into significant business development.

Face-to-face meetings between the European Association of Automotive Suppliers [members include BASF, Faurecia, Freudenberg, Siemens VDO, Bosch, Behr, HP Pelzer, Osram, A. Raymond, Herberts, ZF Sachs and, interestingly, Delphi] and Japanese automakers have proved to be extremely effective venue to discuss products, platforms, regulations and global strategies. The European parts industry must continue to work hard to increase mutual understanding with Japanese firms.

Maintaining an on-the-ground presence is vital to mutual understanding but the environment for foreign direct investment in Japan is unattractive. FDI will never approach the levels seen in other industrialised nations unless Tokyo makes more of an effort in this area. In November, the European Business Community in Japan presented its annual report on the country's business environment. A journalist quipped that nothing had changed from the previous report. That is exactly the point.

Initiatives such as the creation of special deregulated zones and other structural reforms such as the beginnings of privatisation of state-owned companies have done little to address the problems European and other foreign firms face doing business in Japan. It is still impossible, for example, to conduct a cross-border stock swap on a tax-neutral basis. In some respects, when one looks at the recent decision to increase telecom interconnection rates and to levy corporate enterprise tax on criteria other than profits, the situation has in fact worsened.

At the last EU-Japan summit, government leaders promised to promote mutual FDI. At the business roundtable that followed we asked the EU to put its money where its mouth is and develop a more structured framework to promote FDI, including the elimination of all forms of double taxation. The US and Japan have signed a new bilateral tax treaty which eliminates withholding tax on repatriated dividends. I hope the EU and Japan can do better than that.

The truth is that we, as representatives of European companies in Japan, are rowing in the same boat as our Japanese friends. It is in all our best interests that headquarters in Europe and elsewhere do not lose sight of Japan's enormous potential. ●

68

AUTOASIA Q1 2004