

Suzuki expands in India: the first to abandon Japan?

By: Dr Michael Wynn-Williams, Thursday, January 06, 2011, AutomotiveWorld.com

Suzuki's announcement that it is to build an additional plant in India is not only a vote of confidence in the local market, it also has ominous implications for its home base in Japan. Other Japanese vehicle manufacturers may follow this lead as the domestic market slips back into a chronic sales depression. Indeed, in October 2010, Nissan's chief operating officer, Toshiyuki Shiga, warned that the troubles faced by Japan's automotive industry in the face of an ever-stronger yen against the US dollar extend well beyond near-term financial losses. Nissan, he said, is implementing various measures to counter near-term currency losses, including wherever possible building abroad cars currently exported from Japan. However, he warned that the competitiveness of Japanese OEMs and suppliers could be weakened should they be forced out of Japan. Toyota, too, has indicated that its Japanese R&D and manufacturing activities are under threat. The question is whether Suzuki's move is a simple readjustment of production capacity, or heralds an automotive exodus from Japan.

A Star in India

At home, Suzuki has always been the junior member of the Japanese industry. It came relatively late to the motor industry and found it difficult to expand outside of its niche in Japan's peculiar mini-vehicle sub-market. Its motorcycle sales were significant but still well below that of another late-comer, Honda, which was able to leverage its greater success with two-wheelers to muscle into the car market. In 1980, Suzuki sold just 72,000 cars in the home market, beating only Isuzu, while Honda achieved 167,000 units.

The common remedy for poor sales at home is to seek out foreign markets to boost production output and benefit from the economies of scale. Suzuki, though, found its salvation in overseas production in the Indian market.

The common remedy for poor sales at home is to seek out foreign markets to boost production output and benefit from the economies of scale. Suzuki, though, found its salvation in overseas production in the Indian market. It was invited to revitalise Sanjay Gandhi's idea of a people's car by entering a production partnership with Maruti Udyog. With the local competition comprising low volume production of ageing European designs, the Maruti 800 version of the Suzuki Alto was a leap into the modern era. In the event it may only have been affordable for the middle classes, but its mass production methods meant a dramatic expansion in the supply industry.

Suzuki's dominance of the Indian market is legendary. Historically there is nothing unusual in one brand dominating its home market and using that strength overseas, but Suzuki is probably unique in being a relatively minor player at home and yet attaining an overpowering presence abroad. Even as the Indian government began to liberalise the economy from 1991, Suzuki was able to fend off new arrivals. In 2001 it held 59.6% of the passenger car market, and by 2009, with the total market having more than doubled in size, Suzuki Maruti still gripped a 55% share. Chairman Osamu Suzuki has declared that the company will defend a 50% share of the market "forever".

To support this market presence Suzuki has intensified its commitment to India. It progressively raised its equity share of Maruti Udyog from the initial 26% to 54.2% in 2002 and thus overall control, changing the name of the Indian operation to Maruti Suzuki. Manufacturing has expanded to keep pace with demand, the original facility at Gurgaon now comprising three plants with capacity for 700,000 units per annum. A second facility at Minesar opened in February 2007 with capacity for 300,000 units per annum. This put the India manufacturing operation near the same level as that in Japan.



With the local competition comprising low volume production of ageing European designs, the Maruti 800 version of the Suzuki Alto was a leap into the modern era.

Another plant is being built at the Minesar location, its production adding another 250,000 units per annum from the end of 2011. The new plant that has been announced is an addition to that, bringing capacity for another 250,000 units per annum by 2013. By then, Indian capacity will have reached 1.5 million units per annum.

To support this capacity, India will need to become an export hub. Overseas sales from India had been a fairly minor concern, but the A-Star has been leading an invasion of new foreign markets. Shipments of the model to Europe began in January 2009 and for the first five months of the current financial year company exports made up around 13% of total sales. From 2013 this will need to increase to around 30% of total production to justify the new plant.

Less than Swift in Japan

Suzuki still claims a strong position in the mini-vehicle sub-market in Japan, competing fiercely with the leader, Daihatsu, while Honda is ranked a distant third. However, profit margins on these diminutive vehicles are slight and exports are negligible.



The original Maruti Suzuki facility at Gurgaon now comprises three plants with capacity for 700,000 units per annum.

Suzuki's lowly place in the Japanese market has meant that exports have been a necessary part of its production strategy.

The company would like to expand into the mainstream domestic car market, but here the competition is white hot. It has only managed to put one model, the Swift, into the top thirty rankings during 2010, aggregating at nineteenth position for the first half of the financial year (April to September). The company has attempted to climb further up the market segments with the Kizashi, a new mid-size car, but it is proving difficult to stretch the Suzuki brand up to the higher segment.

Suzuki's lowly place in the Japanese market has meant that exports have been a necessary part of its production strategy. Yet even here it has a poor record. During the first ten months of 2010, the industry average has been to export 49.9% of passenger car production. Mazda is the star performer, having exported 79.5% of its production, while Toyota was slightly above the average at 50.8% and Honda below average at 32.6% of its total car production. Suzuki exported 29.2% of its production during the period, beating only the domestic mini-vehicle specialist, Daihatsu.



The Suzuki Kizashi

During the long period when the value of the Japanese currency was under-priced, Suzuki was missing out on some lucrative gains. Even as the Japanese labour cost advantage was eroded during the post-war expansion of the Japanese economy, the relatively low currency meant that exports could continue to be price competitive. The additional production volumes also brought the cost advantages of economies of scale. The home advantages suited the Japanese automotive industry because it meant it could maintain tight control of its valuable research and development without suffering a cost disadvantage. For example, Toyota's high risk excursions in the premium market segments with Lexus, and hybrid powertrain leadership embodied in the Prius, could all be conducted from Toyota City.

After the global financial upheavals since 2007, Japan's export emphasis may be coming to an end. Over this period, the yen has steadily gained strength from ¥120 to the US dollar to around ¥83 to the dollar during the dying days of 2010. At this level, exporters lose all the currency valuation advantages. This is exacerbated by the restructuring of the crucial US vehicle market where the domestic American brands are in a desperate struggle for survival. To make matters worse, the South Korean manufacturers, principally Hyundai and Kia, are attacking the mainstream market segments once claimed by the Japanese brands. The degree of competition is therefore highly intense in a market that, in any case, can no longer bring the financial returns on exports it once did.

The start of a Japanese exodus?

Although the Japanese car manufacturers revel in their global market coverage, their Japan-centric production strategy has not kept pace. It is true that there are plants distributed around the world, but these are extensions of home operations. It is curious to note, for example, that Toyota's Lexus range is neither designed nor manufactured in the market it was intended for, the US.

In the longer term, future market expansion in countries like India and China could finally entice Japanese OEMs to shift major operations out of Japan.

Up until 2008, Japan was still a target for investment. The emphasis has now shifted to overseas markets where local production results in a kind of currency hedging where both reported revenues and reported production costs move in step as the currency fluctuates, rather than in opposition as they do with exports. Nissan has identified its South Korean partner, Renault Samsung, as a suitable production base and had even speculated on buying SsangYong for its output capacity.

It is unlikely, though, that Suzuki is in the vanguard of a mass automotive exodus from Japan any time soon. The domestic giants (Toyota, Honda and Nissan) will at least retain their massive domestic operations at their current level of capacity for the medium term. The difference between Suzuki and its larger compatriots, though, is only one of degree. In the longer term, future market expansion in countries like India and China could finally entice Japanese OEMs to shift major operations out of Japan.



The Suzuki Swift

Dr Michael Wynn-Williams is the author of Surfing the Global Tide: Automotive Giants and How to Survive Them. He lectures in international business at the University of Greenwich

Published on Thursday, January 06, 2011

<http://www.automotiveworld.com/news/oems-and-markets/85314-suzuki-expands-in-india-the-first-to-abandon-japan>