

VITAL SPEECHES

— OF THE DAY —

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Vital Speeches of the Day

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VOL. LXXII

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A 21st Century Approach to Doing Business with the Japanese

FOSTERING A SPIRIT OF PARTNERSHIP

Address by ERIC F. HEARD, *President & CEO, Amtech USA, LLC*

Delivered to the APMA 10th Annual Automotive Outlook Conference, Automotive Parts Manufacturers' Association, Export Development Canada, Double Tree Hotel, Toronto, Canada, November 17, 2005

Thank you, Gerry Fedchun – and good morning. I appreciate your gracious invitation to be here in the beautiful city of Toronto for the 10th Annual Automotive Outlook Conference.

On behalf of Amtech USA, allow me to also thank the Automotive Parts Manufacturers' Association and Export Development Canada for their remarkable hospitality and attention to detail. Judging from the caliber of speakers and participants, this year's gathering is already a success. At this historic juncture for our industry, the challenge of growing and prospering in today's rapidly changing global automotive markets is certainly a fitting theme for this conference.

An ancient Japanese proverb says that you should never rely on the glory of the morning nor the smiles of your mother-in-law. Of course, any morning in Toronto is a beautiful day. And I am sure that each of you looks forward to the smiles of your mother-in-law. But if you think that proverb lost something in the translation, you will also see why Japanese has been called a language so complex that it is the greatest barrier to human communication ever devised.

This morning, I'll do my best to heed some of the wisdom of that venerable old proverb by focusing your attention on the importance of taking on the Japanese – as business partners. At the conclusion of my remarks, I hope you will join me in embracing two very simple ideas:

First – if you are serious about success in the global automotive market, doing business with the Japanese is essential.

And second – a 21st Century approach to doing business with the Japanese means fostering a spirit of partnership.

Henry Ford once said that if there is any great secret of success in life, it lies in the ability to put yourself in the other person's place and to see things from his or her point of view – as well as your own. To my way of thinking – and certainly in my experience doing business with Japanese companies and executives for more than 25 years –

Mr. Ford's observation was very much on the mark.

Putting yourself in the other person's place and seeing things from his or her vantage point is a classic Japanese way of looking at life. In the interest of full disclosure, I say that from personal knowledge. I was born and raised in Japan, and did not even begin to learn English until I was 12 – when my family moved to the Detroit area.

To be invited to talk about creating business partnerships with the Japanese – in the company of Canadians and Americans – has a special meaning for me, and I am honored.

All of us who have worked in this industry or simply watched its growth and development in recent years have been witnesses to a breathtaking number of changes.

When I first moved to the United States, for example, "Made in Japan" was not a label used to increase product sales – and the North American automobile industry was strictly American and Canadian.

In a very real sense, the North American automotive industry and the vast number of businesses that sustained its growth and progress also helped shape and define our conceptions of the 20th Century.

Economic growth, expanded trade, and revolutions in manufacturing, computing, transportation, and communications technologies have combined to bring the world closer together and accelerated change. Those changes have been especially pronounced in the global automotive business – an industry that perhaps more than any other has transformed and helped modernize the Japanese economy and culture.

Many of you will have noted the passing of Peter F. Drucker, last Friday, at age 95. In addition to winning international fame for his pioneering work in social and management theory, Peter F. Drucker maintained a lifetime interest in studying and explaining the automobile industry and Japan to generations of Canadian, American, and Japanese executives. Among his more memorable observations is a statement that I think aptly describes the

subtlety of doing business with the Japanese: “The most important thing in communication is to hear what isn’t being said.”

Along with the legendary Dr. William Edwards Deming and Theory Z author Professor William G. Ouchi, individuals such as Peter F. Drucker helped deepen our understanding of Japanese business practices, cultural traditions, and social mores. We are indebted to each of them for their scholarship and contributions to our industry, and for chronicling its transformation.

By coincidence, we are also fast approaching the 25th anniversary of the first printing of Professor Ouchi’s runaway bestseller, *Theory Z*. In preparing for this conference, I retrieved my copy of the book and was surprised to see that *Theory Z* has the subtitle – *How American Business Can Meet the Japanese Challenge*. That subtitle retains its relevance even today.

Several criteria are essential for doing business with the Japanese. Long-term relationships must be based on integrity, mutual prosperity, and commitment. Quality remains key, as does practicing continuous improvement to achieve a zero-defect goal. Continuous improvement is also central to cost-containment strategies designed to maintain market competitiveness.

Other factors the Japanese seek include development expertise, front-load quality, reliability, and manufacturability in designs. Suppliers must adhere to delivery commitments and satisfy all promises and dates through the full cycle of development and production life. Management must be dedicated to deliver good-quality products on time and challenge the company to achieve excellence.

Suppliers must have a business philosophy that parallels or at least is compatible with the Japanese business philosophy. In all cases, the proper response is to show a cooperative spirit and a willingness to do whatever it takes to get the job done. At the end of the day, suppliers may still ask for premium costs associated with the requested task, but we must show them that our priority is satisfying the customer’s objectives. Perception and delivery of our position are the keys to developing and maintaining a harmonious relationship.

Many non-Japanese suppliers worry about not having a purchase order. In my view, this attitude places too much emphasis on a piece of paper. Yes, a purchase order is an important part of the process. But we should never let it become a roadblock to delivering the best-possible products and services.

To Japanese OEMs, suppliers are their lifeblood – and they place a high value on the relationship that ties the two organizations together. Yes, they can be very demanding and push us to be the best we can be – but no more than what they ask of themselves. Japanese do not

horse-trade – at least not openly. Negotiations are very subtle and done behind the scene. This is where your ability to communicate in Japanese becomes a very important tool.

Some of the comments I get from North American clients bear mention. Here are the seven questions that I hear most often:

Question One: We don’t know where to begin. Which group should we contact first – purchasing or engineering? North America or Japan?

The answer is both. You need to approach purchasing and engineering. Whether you make the approach in Japan or North America will depend on a variety of practical considerations. But it all depends on your value proposition. Is it technology or cost?

First, you have to identify your product target and carefully examine the competitive environment to determine which customer and vehicle model you will focus on as part of your strategy. For example, if you focus on Honda Civic, your planning will flow from the fact that the company recently came out with a brand-new model. That means you may have to wait for the next full-model change, which will be the 2011 model year.

You will also need to take into account the fact that it is a global vehicle. So the lead development is in Japan – and you must be prepared to work with the engineering team there.

Question Two: We hear that the Japanese auto manufacturers are very demanding. Should we even waste our time?

If you are not prepared or are unwilling to work in a thorough and detail-driven environment, do not waste your time – you will not be successful with the Japanese. Japanese OEMs believe in being completely thorough – to minimize potential or actual mistakes later in the process. Their approach is disciplined, measured, and highly focused.

We all understand the expression, “Pay me now or pay me later.” If you have what it takes, and become a viable supplier to Toyota, Honda, and Nissan, you become a stronger supplier for all of your customers.

Question Three: We hear that the profit margins are lower with the Japanese OEMs. Is this true?

Here again, the answer depends on your value proposition. Are you selling a me-too product or me-only product? Are you looking for a short-term gain or a long-term relationship?

Doing business with the Japanese adds considerable stability to your production capacity. What is that worth to your bottom line?

What value can you expect to receive by aligning your company with Toyota or Honda and harnessing their resources to improve your manufacturing efficiencies and capabilities? What is that worth?

Question Four: Should we hire a Japanese person to help us sell to the Japanese?

Having a person who understands the sometimes-complicated Japanese business practices, behavior, and social hierarchy will help you bridge the gap between the customer and your company. That said, however, the person must also have the requisite commercial and interpersonal skills to be fully effective. The communications go both ways.

Ideally, you want an individual who possesses the knowledge and experience of doing business with both Japanese and Western cultures. You should also focus on the importance of contacts and language skills. Strong contacts – in business, government or other institutions – can enhance or expedite the selling process and help overcome obstacles.

A Japanese person with a great personality and weak contacts adds little value to your efforts when working to achieve key business objectives. Having a strong command of the Japanese and English languages can help you convey and receive accurate information. In this regard, allow me to add a caveat: Most Japanese associates prefer not to be entertained by non-Japanese-speaking persons, because speaking English is considered work, not entertainment.

Question Five: Should we open an office in Japan?

Having a presence in Japan demonstrates your commitment to doing business with the Japanese customers. However, there is no escaping the fact that establishing an office in Japan is a very expensive proposition. So it is important to think carefully about the potential opportunities and also examine the risks associated with the investment.

Question Six: How much does it cost to operate an office in Japan?

Costs can vary widely, of course – but typical office expenses will be about \$150,000 per year for rent, a bilingual secretary, phone, utilities, office furniture, equipment, and so forth. Hiring a Japanese engineer will cost you

about \$125,000 per year. Bringing a Canadian ex-pat could involve a \$375,000 annual investment – with travel and entertainment expenses adding another \$100,000.

Question Seven: Should we prepare PowerPoint presentations in Japanese?

As a practical matter, I would consider doing so only if your audience is all Japanese. If you have a mixed audience, you may want to do the PowerPoint in both languages and present it in English. Building successful business relationships with Japanese companies means understanding that long-term partnerships involve far more than technology, financing, productivity or even quality alone. Those factors are indispensable. But they should be seen as a starting point, not the finish line.

From a Japanese perspective, long-term partnerships must also be based on shared objectives and a commitment to working together in a spirit of cooperation and support. Partnerships of this kind can deliver many important benefits. Among them is the chance for all parties to share and harness technical and financial resources for mutual advantage and long-term profitability.

Strategic partnerships can also foster a climate conducive to advances in business processes, manufacturing systems, and other innovations. Finally – and above all – remember that when you conduct business and build relationships with the Japanese, it is a long-term undertaking that leaves no room for shortcuts or myopic thinking.

Thomas Edison once said that thinking is hard work – and I am sure we would all agree. There is no easy road to success with the Japanese. You can achieve your goals if you take on the hard work that goes with thinking strategically about the future of our industry.

As I said at the outset, if you are serious about success in the global automotive market, doing business with the Japanese is essential. By working together in a spirit of cooperation, I am confident that all the participants in our industry – Canadians, Americans, and Japanese – will continue to prosper by creating new partnerships for the 21st Century.

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