

PIM801 Strategic Analysis – INTERVIEW

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Interviewee name: Masayasu Saito

Title: President & CEO

Company name: Aisin Holdings of America (AHA)

Aisin World Corp. of America (AWA)

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Location: Seymour, Indiana

Present: Masayasu Saito and Diwakar Prasad

Executive summary

In the automotive business context, engaging in a sequence of actions is always better than a standalone action. Aisin continuously evaluates external and internal circumstances and adjusts our strategy accordingly. Our philosophy emphasizes a long-term sustainable business model rather than short-term revenue targets. Simply put, managing profits is more important than increasing revenue.

The global marketplace has become very polarized between advanced economies and the developing countries. Growth in developing countries will have a major impact on both the world economy and society. From an expanding sales and market share standpoint, we have started a By-Customer, By-Product and By-Vehicle sales strategy activity. From a profitability standpoint, we have been focusing on cost reduction thorough localization and improvement of manufacturing efficiency. Often times, we have been compared to the Wal-Mart of auto parts suppliers. This product diversity, on one hand a major strength turns into a major weakness due to lack of focus and stretched resources. Even though we command a respectable market share, we have few high-tech, value-add products. Due to this, our ability to demand a premium price is limited. Not to our liking, often times, we end up competing on price.

From our company's perspective, the intensified competition between suppliers is the greatest threat. Specifically the suppliers from developing countries like China, India and Brazil. Not only do we have to defend our home turf from the threat of new suppliers, we must put strategies in place to effectively compete with the mega-suppliers like Bosch and Denso in the global marketplace. To remain viable and competitive, we need to urgently develop human

resources in the emerging markets and Europe. Furthermore, we need to clarify and establish flexible management and support systems for global customers and vehicles.

Interview transcript

Question # 1: Do you think of single competitive actions (i.e. new product introductions, price cuts) as stand-alone events, or do you think of them as a repertoire, or sequence actions? Do you feel pressure to quickly respond to strategic actions carried out by rivals?

Answer: In the automotive business context, of course standalone actions are never enough. Generally speaking, a repertoire or sequences of actions are always better. We are continuously evaluating external (overall market, customer expectations, consumer preference and more importantly competitor actions) and internal circumstances and adjusting our strategy. Our philosophy is to compete based on the best technology and quality and not on price. We feel comfortable with this approach since we are confident we have the best products in the marketplace. Considering we are constantly studying and adapting to the external environment, and most of our products lifecycle is three to five years, we are usually aware of competitor actions and have time to adjust our strategy accordingly and appropriately

Question # 2: Do you think that certain combinations of actions work better than single actions ... like a “one-two punch” in boxing? ...do you plan the order of multiple actions? If so, how does this process work?

Answer: I will answer this question by explaining how we recently executed the new sunroof structure in the North American (N.A.) market. As you know our latest structure is called AEGIS. Even though the product itself is comparable to the competitors, I feel our product development methodology is somewhat unique. We follow a “platform” approach. Some

customers and competitors might follow the same approach however I feel we are more disciplined. So rather than developing unique vehicle specific sunroofs, we started with a base core structure. This approach allowed us to maximize the use of common parts. Once we had the basic structure optimized for design, quality, cost and process, we scaled it to fit the needs of different customers. During product development, we studied many competitor products. AEGIS structure incorporated several cost reduction ideas from previous generation and feature/function enhancements as a result of competitor benchmarking. Product development and introduction takes several years. As you can see, we start by understanding customer and consumer needs, evaluate competitive environment, and formulate our strategy to compete effectively.

Question # 3: Do you feel “pressure” from board members, outside analysts, etc. to carry out certain competitive actions or meet certain earnings targets? If so, how does pressure impact competitive strategy or behavior?

Answer: As you know, Aisin is not publicly traded in the U.S. Even though our parent company Aisin-Seiki is listed on both Nagoya and Tokyo stock exchange, from the N.A. business standpoint, outside analysts are not relevant but we do have expectations from the executive management at headquarters in Japan. My last assignment in Japan was in the corporate planning department. As the Managing Officer, I had to provide monthly progress updates to the chairman, president and other executive members. I do not have that kind of pressure here in the United States (U.S.). Japanese culture in general and Aisin in particular is not based on chasing short-term targets. Our philosophy is to have a long-term sustainable business. We do not put much emphasis on short-term revenue targets. Managing profits is more important than increasing revenue. Of course my sales team, including you, is always looking for new business

opportunities and increasing revenues, but from an overall N.A. operations standpoint, my job is to make sure we grow profitably.

Question # 4: How do you see our industry changing over the next 3-5 years? What are the current indicators or historical trends that have shaped your opinion?

Answer: Since the global recession that began in 2008, the automotive industry has experienced dramatic changes in the business environment. The global marketplace has become very polarized between advanced economies (like U.S., Japan and Germany) and the developing countries (BRIC nations). Growth in developing countries will have a big impact on the world economy and society. We are stepping into a new era of tougher competition and choices. From the automobile standpoint, strong emphasis on fuel economy, safety and value (low cost + best quality) is increasing. Rising fuel prices and a need for sustainable energy is driving vehicle hybridization and electrification. From our business standpoint, I foresee intense competition between suppliers. Historically we have been able to compete on the regional basis (for example U.S. and/or Japan market/s). With rapid globalization, we now have to consider world-wide transactions. In addition, exchange rate fluctuations are impacting our business negatively.

Question # 5: What is your corporate vision and how is this tied to our strategic plan?

Answer: As you know, we are currently working towards our 2015-Vision. It states – “Become a Major Player in N.A. Auto market while building trust and solid relationships with customers through offering excellent QCD (Quality, Cost and Delivery) and innovative products”. Alongside this vision, we have targets for increasing sales, market share and improving profitability. To realize this vision, we have certain strategic initiatives. From an expanding sales

and market share standpoint, we started a By-Customer, By-Product and By-Vehicle sales strategy activity. From a profitability standpoint, we have been focusing on cost reduction thorough localization and improvement of manufacturing efficiency. We have been utilizing a cross functional team based methodology for both strategic initiatives and so far have been successful with good results. Very recently we have been working on Aisin Group Vision 2020. This vision will be officially released in June, 2012. The Aisin Group Vision 2020 framework consists of three components. The first component is a “Target Vision”. This target vision indicates what Aisin pursues as a group and the financial and managerial goals to be accomplished. The second component is “Key Subjects”, which highlights the key issues to be worked out in order to realize the target vision. The third component is “Missions and Actions”, which consists of concrete measures to be taken with each theme. Our vision 2020 is to be an “Irreplaceable Global Partner” with regards to our global customers, markets, communities, suppliers, stockholders, employees, and everyone else related to us.

Question # 6: How is our strategic plan developed? Who is included in the planning process?
What are the most critical components of our strategic plan?

Answer: Aisin-Seiki (headquarters) creates and distributes the long term policy, generally referred to as the “Aisin Group Vision.” We are responsible for assisting Aisin-Seiki by providing relevant information on N.A. markets as an input into the development of the global corporate vision. The purpose of the long term plan/vision is to define the general corporate direction and set goals and objectives for the organization. The long term plan is generally for a range of five to ten years into the future. Once we receive the “Aisin Group Vision,” the planning department creates a draft of our vision that is reviewed and approved by the Officers.

Once approved, the vision is distributed to the organization. From the strategic planning standpoint, executives from each division (sales, design, manufacturing etc.) create activity plans to support the overall vision. The most critical components of our strategic plan include, long term organizational goals and objectives, resource needs to support current and new business, investment needs, and risk assessment.

Question # 7: Relative to our competition, what do you feel are our primary strengths? What do you feel are our primary weaknesses?

Answer: In addition to having a very diverse product portfolio, Aisin's strength lies in our ability to be an effective system integrator and our never-ending commitment to quality. We are capable of assembling an entire car if we wanted to. However, I consider this as a weakness as well. There are many specialized suppliers in the industry. For example – Webasto (Sunroof), Seats (Lear), and Electronics (Denso) etc. are experts in few product categories. We have been compared to the Wal-Mart of auto parts suppliers. This product diversity, on one hand a major strength turns into a major weakness due to lack of focus and stretched resources. We have many talented design engineers but we are always struggling to find a good balance between the number of products and an efficient resource allocation. For example, we have 200 engineers in the electronics parts division. In comparison, Denso has almost 10,000. I realize the scope is somewhat different but this highlights Denso's strong product focus. Another major weakness is our over reliance on commodity mechanical parts. As you know, except for a few products like the sunroof, power-back-door, and power-slide-door systems etc..., most of our products are stampings and castings. Even though we command a respectable market share, we do not have many high-tech, value-added products. Due to this, our ability to demand premium price is

limited. Not to our liking, often times, we end up competing on price. We are very good at “system integration” but we end up relying on outside vendors for some core technologies.

Question # 8: What are the greatest threats to the Company over the next 5 years?

Answer: From an overall industry standpoint and directly related to one of our group companies, Aisin-AW business, I feel the growing proliferation of IT products like iPhone, iPad etc. pose a major threat. As you know, the navigation system is one of the core businesses for Aisin-AW. I can pay one dollar to download a navigation app on my phone and an additional \$25 annual fee for this service. This is a very economical, comfortable and convenient option vs. paying around \$2,000 for a factory installed navigation system. In addition, these devices have word processing capability which is not available on a navigation system. The convergence of IT and automotive products is accelerating so we must treat this as an opportunity and look for ways to be a successful part of the new marketplace. From our company’s standpoint, the intensified competition between suppliers is the greatest threat. Specifically the suppliers from developing countries like China, India and Brazil. Due to the growing economies of BRIC nations, and the tremendous growth of the automotive market, local and low-cost suppliers in these countries are flourishing. By gaining more business with global automakers in their regional markets, these suppliers are gaining experience and catching up technologically quite rapidly. There is a very high possibility that these suppliers will start making inroads in developed countries (our home turf). On the other hand, mega-suppliers like Bosch and Denso have accelerated their presence globally. So not only do we have to defend our home turf from the threat of new suppliers, we must put strategies in place to effectively compete with the mega-suppliers in the global marketplace.

Question # 9: What NEW resources and capabilities must we develop to meet our goals for the future?

Answer: Since we have been developing business mainly in the markets of advanced countries such as Japan and the U.S., business infrastructure in the markets of developing countries is still weak. Major automakers now are global players with global platforms. As you know Toyota is our main customer. Toyota accounts for 65% of our global and 85% of our N.A. sales. Over the last decade, we have enjoyed high growth due to our close relationship with Toyota. However it is becoming difficult for Toyota to maintain the same growth rate. Toyota is relatively weak in the emerging markets. Toyota has very few global platforms and most of the design and development is done in Japan. I believe only 30% - 40% of Toyota's worldwide production is off global platforms (for example – Camry, Corolla, Rav4 etc.) compared to 60% - 70% for General Motors (GM). In addition, most automakers like GM develop these global vehicles in different regions, such as a small car in Korea and China, Mid-size car in Europe, and small trucks in Brazil. Our sales and product development activity/ability in regions outside of Japan and U.S. is weak. To remain viable and competitive, we need to urgently develop human resources in the emerging markets and Europe. Furthermore, we need to clarify and establish flexible management and support systems for global customers and vehicles.

Question # 10: How important are strategic partnerships to the current and future success of our firm?

Answer: As I indicated earlier, we have been compared to the Wal-Mart of auto parts suppliers and that most of our components are commodity mechanical parts like stampings and castings. Due to strong industry focus on fuel economy, we must enhance our core systems and

components in the Hybrid/Electric vehicle powertrain domain. We might have to introduce external technologies to speed up development. This will necessitate us to seek out strategic partners. For us, forming strategic alliances outside of working closely with the customer is not typical but we need to consider such partnerships to be competitive. For example, 20 years ago when I was in the U.S. for the first time, I worked with Sanyo Electric Co. (now part of National Electric Co.) to set up electronics for the engine management chamber. Sanyo had good power-electronics capability and we needed high resistance against high temperature and vibration for transmission and ABS (Anti-lock Braking System) ECU (Electronic Control Unit). Such partnerships are important, but we need to be careful on the selection criteria. We need to study and consider the best way of forming strategic alliances.

Question # 11: What are the key factors that you would look for in a business that you may consider for acquisition?

Answer: I personally have never considered Merger and Acquisition (M&A) as a strategy. Aisin's culture is "do it yourself" like a carpenter. As stated earlier, we are in the process of creating our 2020 vision. We have aggressive sales targets towards year 2020. Based on our current product portfolio (mainly commodities) and limited resources, we might have to consider such a strategy. It is a possibility, however due to Aisin's lack of M&A experience, much detailed investigation and study is needed before even considering this option.