

SUMMARY OF PRESIDENT KAWAMOTO'S REMARKS
TO VISITING MEDIA GROUP HONDA HEADQUARTERS, JUNE 10, 1994

Today I would like to explain our understanding of current conditions in the world automobile industry, and the direction in which Honda is moving.

During the late 1980s, the auto markets in Japan, U. S. and Europe expanded significantly. Japanese auto manufacturers were especially supported by their expanding domestic market and their increasing competitiveness in international markets.

Along with this business expansion, they expanded investments in production capacity.

In the early 1990s, the world economy began to decline. Demand for automobiles also declined. At the same time, customer needs also changed dramatically, in Japan, the U. S. and Europe. In Japan, we think the market has entered a mature phase, as in Europe and the U. S.

In addition to this change, Japanese auto manufacturers also experienced a significant decline in their international competitiveness because of the appreciation of the yen. As a result, Japan's auto industry currently suffers from a production overcapacity.

In 1990, total auto production in Japan peaked at 13.5 million units. In 1993, it declined to 11.2 million units. This represents an excess capacity in Japan alone of 2 million units, so if you look at total global capacity, the figure is even higher.

During this period, market needs in Japan also have changed dramatically. Japanese customer tastes have become more sophisticated and diverse. For example, car owners now tend to keep their cars longer, thus reducing demand. There also are new customer trends toward demanding better value for their money, as well as demand for such new models as wagons and RV-type vehicles.

In view of all these changes, it is essential that Japan's auto industry restructure to adapt itself to this new situation. I want to explain how Honda has taken action to cope with these new conditions.

First, looking at Honda's sales growth, in 1980, our consolidated sales were valued at 1.3 trillion yen. By 1990, that figure had nearly tripled, to 3.85 trillion yen. This shows that Honda dramatically expanded its business operations during that period.

During this period of expansion, Honda took a leadership role in expanding its overseas production, establishing a foundation for a global operation with roots in each major region.

Domestically, we established a three-channel auto sales organization and expanded our model lineup. Entering the 1990s, as Japan's auto industry began to mature and experience structural changes, Honda again took the lead in adapting to these new circumstances. We were the first Japanese auto company to take action to restructure our operations.

These actions were taken with the ultimate objective of achieving maximum efficiency and effectiveness, improving the flexibility of our corporation, and establishing a true global organization based on localized operations.

We already are seeing good results from these actions. We have pursued greater efficiency starting from the very beginning phase of product development. This has made us more cost competitive.

One major example is the new Accord, which was introduced in Japan and the U. S. last September. This model was developed using this new system.

The objective was to develop a product with a better value for the money. The key concept in this development was 'market in,' which focused on how to provide better value to the customer at a reasonable price.

By emphasizing a much greater level of detailed preparation in the early stages, we dramatically improved the efficiency level at the preparatory stage before mass production began. The process involved close collaboration in the planning stage among people in Honda's R&D, factories, and suppliers. Many Honda suppliers participated in the design-in process.

To improve production coordination efficiency between our Japan and U. S. operations, about 70 engineers from Honda of America Manufacturing came to Japan for about three years.

All these actions allowed us to reduce the total capital investment, for the new Accord, including that of our suppliers, by one-half compared with the previous model. We also achieved a local content ratio of 82 percent for Accord production in the U. S., which improved our cost competitiveness, as we are now less vulnerable to yen/dollar fluctuation.

In 1992, auto operations were separated into four regions, which made each of them more self-reliant. It has been four years since I began trying to change Honda's direction so as to adapt to these new conditions. Circumstances surrounding our company are still very severe, but I see positive signs that we are heading in the right direction.

As we continue to pursue this course of action, we recently announced another corporate reorganization. The objective is to reorganize Honda's total business -- autos, motorcycles, power products and parts -- into four regional operations. These regions are The Americas, Europe/Middle East/Africa, Asia/Oceania and Japan.

This will strengthen Honda's 'market-in' approach to customers in each market by providing more autonomy and maximizing our resources in each region. These efforts to increase our corporate efficiency have put us at a turning point in improving our financial performance.

We also have established three operations (motorcycles, automobiles and power equipment) whose function is to suggest and coordinate business planning from a global point of view, to maximize our global resources. Honda will enter a new stage of operations under this new structure.

Now I would like to explain Honda's strategy in each of the four regions. First of all, the Japanese auto market, as I mentioned earlier, is experiencing a structural change, and is becoming mature, as in the U. S. and Europe. Demand has finally hit bottom this year, and a gradual recovery is expected, but inevitably, we in the auto industry must pursue a new strategy, appropriate to a mature market.

Honda has been improving the efficiency of its domestic production, so that it will be profitable even at an annual production level of 1 million units, compared to the peak of 1.4 million units.

We plan to introduce new models, including new RV-types which will be unique to Honda. The first of these models will be introduced this autumn. In the U. S., demand clearly has recovered. The new Accord, introduced last fall, has been very favorably accepted. Honda of America Manufacturing, which produces most Accord models, is scheduled to reach its highest production level (500,000 units annually) since it was established in 1982.

Honda has been strengthening its sales efforts in the U. S. by introducing the Passport, a sports utility vehicle supplied by Isuzu on an OEM basis.

On the development side, you probably know that the Accord wagon, which is exported to Europe from the U. S., was developed there. Moreover, we announced at the Detroit Auto Show in January that we plan to develop and produce a new model in the U. S., to be sold through Honda's luxury/sporty Acura channel. More than 500 engineers are involved in the development of this new model in the U. S.

Since we began exports from the U. S. in 1987, they have expanded steadily, thanks to Honda's unique product development capabilities there. This year, we expect to export 75,000 Honda autos made in the U. S. to 28 countries.

Our development, manufacturing, purchasing and export capabilities in the U.S. will support Honda's ability to serve its customers throughout The Americas region. In Mexico, for example, we plan to manufacture autos, and that operation will be supported by our U.S. facilities.

In Asia, in one area -- Southeast Asia-- auto industries already are developing. In China, meanwhile, the fastest-growing personal transportation market is motorcycles, and we see great potential in China's future auto market.

Throughout Asia, Honda already has six automobile production facilities.

Honda's strength in Asia is based on its huge motorcycle sales and strategically positioned local motorcycle production. Our motorcycle production in the ASEAN countries this year will be more than 1.2 million units. In China, we have three joint ventures and three technical collaborations producing Honda motorcycles. This year, production will exceed 800,000 units. We will expand our future auto business in Asia based upon the brand image established through our motorcycle businesses, as well as our basic manufacturing know-how.

In Europe, it looks like recovery of the auto market will take time. Therefore, we foresee more mutual collaboration among manufacturers to cope with environment and safety issues as well as pursuing cost reductions.

Honda, as you know, has terminated its cross-share holdings with Rover in the U.K. and signed a new agreement for licensed production of current models and one future Honda model. As Honda's business relationship with Rover has moved into a new phase, Honda will strongly accelerate the self-reliant strategy which we have been pursuing.

Our mid-term target is to acquire a 2 percent total European auto market share, up from our current 1.4 percent share, by the end of this decade. In units, that means an increase to 300,000 units annually.

To achieve this sales level, imports from Japan and the U.S. will total about 150,000 units annually. The remainder will be supplied by expanding capacity at our Honda of the U.K. Manufacturing facility. We also will build our first pressed parts facility in Europe at HUM, making it a full-fledged auto manufacturing operation.

Thus we will move toward our goal of becoming a self-reliant operation. We will reach our scheduled production capacity of 100,000 units by mid-1995, and by the end of the decade, we plan to expand that capacity to 150,000 units.

We also plan to export HUM-made models to markets in the Middle East and Africa, which now are part of a unified region. Production expansion will mean an increase in employment at HUM to 2,500, and Honda's total investments there by the year 2000

-- including new model retooling investments -- will reach 330 million Pounds Sterling.

We realize that the European auto market is very competitive. We intend to localize operations in each European market, expanding steadily but moderately, in line with our policy of becoming an accepted member of European society.

Honda is open to a variety of possible business collaborations with other European manufacturers. We will pursue our strategy based not only on competition, but what I call co-evolution. By co-evolution, I mean being open to business relationships in which companies find ways to cooperate while at the same time improving their competitive ability.

I also would like to inform you of two important executive changes regarding our European operations. Effective June 29, Mr. Kazue Itoh, who now is Executive Vice President of Honda Motor Europe, will become the new President of that company. He also will be the chief operating officer of the new Europe/Middle East/Africa region. Also, Mr. Ryuichi Tsukamoto, now general manager of our Kumamoto factory, will become President of Honda of the U. K. Manufacturing.

World-wide, four million people purchase Honda motorcycles each year, two million people buy Honda automobiles and another two million purchase Honda power products. That totals eight million Honda customers each year. This customer mix and volume are unique to Honda. This is also our unique strength.

Our future business operations will maximize this strength. The regional operations I have described for you will be the core of our future success. Soon after I became President of Honda in 1990, I held many discussions with Honda people world-wide about our philosophy for the future. Through these discussions, we realized that our corporate philosophy, first set in 1956, still has universal value today.

That philosophy is to maintain an international viewpoint, dedicated to supplying products of the highest efficiency, yet at a reasonable price, for world-wide customer satisfaction.

Using this philosophy, we will implement global operations which are localized in each region with the aim of achieving world-wide customer satisfaction.

Thank you very much.