

NISSAN'S MODEL GROWTH

A growing portfolio of new cars, rising profitability and no debt are key elements of Nissan's highly successful recovery strategy, president and CEO **Carlos Ghosn** tells Hans Katayama.



High above Tokyo's fashionable Ginza district, Carlos Ghosn settles into a plush armchair. Immaculately dressed and powerfully built, he looks for all the world like a champion thirsting for new challenges. Born in Brazil and educated in France, the 49-year-old president and CEO of **Nissan Motor Company** (NASDAQ: NSANY) has earned the accolades of the press, public and peers for engineering the dramatic turnaround of the once-ailing Japanese carmaker.

Yet for all the kudos, Nissan remains an underdog in a fiercely contested global auto market, pitted against the likes of Toyota, which spent more on R&D last year than Nissan made in profits. "We still have plenty of weaknesses," Ghosn readily admits. "What I'm trying to do is make sure Nissan works on the 'dysfunctions' to help it become the most competitive company in the car industry."

While many of Nissan's flaws were redressed in the first two years of Ghosn's stewardship, it's the second phase that will determine whether the carmaker's karma has truly been reversed. Under Nissan 180, a three-year plan initiated last April, the company not only seeks an operating margin of 8 percent and zero debt, it aims for a million-unit increase in global sales, to 3.6 million, by 2005.

Thirteen months into Nissan 180, the project looks to be well in hand. Fueled

"Under Nissan 180, the revival process is taking place. It is a reality" CEO Carlos Ghosn

by the launch of 12 of the 28 models Nissan intends to roll out under the plan, the carmaker expects to report in April a 47 percent jump in operating income for fiscal 2002 (ended 31 March), or \$5.8 billion on revenues of \$55.2 billion, a 10.6 percent operating margin. Nissan expects to pare its debt by \$2.8 billion, to \$650 million.

Ghosn expects to maintain high profitability right up to 2005. "Even though each product should bring its own contribution," he says, "our profit forecast for the next two-to-three years is not betting on every single car being at its full potential."

Globally, production from April last year to January this year has increased 10.7 percent over the same period the year before. Sales, too, have grown across the board and are divided fairly evenly among regional markets, with Japan accounting for 28 percent, the U.S. 27 percent and Europe 18 percent in the first six months of fiscal 2002.

Among the brisk sellers to date, say analysts such as Chris Richter at HSBC Securities Japan, are the newly resurrected 350Z sports car and the mid-sized Altima sedan in the U.S., Nissan's most

profitable market, which saw operating profits in the first half of fiscal 2002 of 114 percent. In Japan, it's the Moco mini-car and in Europe the entry-level Micra which are selling well. After launching the car in January, Nissan expects sales to rise 50 percent to 160,000 this year. "The revival process at Nissan is taking place," Ghosn says. "It's a reality."

Enter the Titan

The clearest symbol of change is an all-new truck. The Titan full-size pick-up, unveiled at the Detroit auto show four months ago, represents one of Nissan's boldest assaults on the U.S., targeting the market's most lucrative segment long dominated by Ford, GM and Daimler Chrysler. "There has never been a project like this at Nissan," adds Ghosn.

Rather than playing catch-up with rivals, as it once was prone to do, Nissan identified an opportunity and its CEO moved quickly to exploit it. "In the past, we were chasing our competitors too much and not paying enough attention to our customers," Ghosn explains. "Now we've reversed this."

Nissan dealers in the U.S. had been clamoring for a vehicle in Titan's class

NISSAN | 350Z

- Launched in Japan and North America last July, the Z car (left) made its debut in January at the North American International Auto Show.
- With a 3.5 litre, V6 engine, it can go from 0-60 in under 5 seconds.
- The Z car is the fourth all-new Nissan to be launched in the past 18 months.
- Nissan expects global sales to reach 42,000 in 2003.
- The Z car descends from the 240Z, a cult classic which was released in 1970.



NISSAN | TITAN

- The Titan is Nissan's first entry into the full-size pick-up truck market.
- The Titan (below) is powerful – its newly designed 300-horsepower V8 engine can tow up to 9,400 pounds.
- It was conceived, designed, engineered and will be built in the U.S.
- New features include rear doors that open 180 degrees.
- It is scheduled to go on sale in U.S. dealerships in late 2003, with a target of 100,000 sales in the first year.
- Some 2.2 million pick-ups are sold in the U.S. annually.

THE GHOSN TOUCH

Before Ghosn arrived, Nissan was "running far below its potential"

	So he cut costs OPERATING MARGIN	...to reduce debt AUTOMOTIVE DEBT	...and grow sales GLOBAL SALES
2000	4.75%	\$7.9 billion	2.6 million
2002 (estimated)	10.6%	\$650 million	2.8 million
2005 (projected)	8%	\$0	3.6 million



for a decade. They believed the company could leverage its success in compact pick-ups, a market segment for young Americans it virtually pioneered in the 1970s. The reason: a generation of Nissan truck fans hungered for a bigger, more powerful alternative as they got older.

Yet at the time, Tokyo demurred. Nissan, after all, was losing \$1,000 on every car it sold, saddled by over-capacity and over-engineered components that drove up costs by as much as 25 percent over what rivals paid. The upshot was that Nissan was dying, buried under nearly \$18 billion in debt that choked off product development.

But that was before Ghosn came aboard in June 1999. Chief operating officer of Renault SA at the time, Ghosn was dispatched to Tokyo when the

French automaker agreed to provide a \$5.4 billion capital infusion in return for a 36.8 percent equity stake in Nissan (now 44.4 percent). Renault wanted Nissan for its strong manufacturing technology. Its U.K. plant, for example, remains the most efficient in Europe.

After playing a pivotal role at both Michelin's North American unit and Renault, Ghosn knew the revival process at Nissan had to occur from within. "Nissan was running far below its potential," he recalls. "My first assessment was that we should be able to do much, much better as long as we could find a way to bring people some self-confidence."

Within three months of his arrival, Ghosn formed nine in-house teams, which remain to this day. He set them loose, not only to identify choke-points,

but also to provide solutions to secure profitability. Based on their recommendations, five factories were ultimately shuttered, 22,900 workers spun off or retired early, and the pool of suppliers halved as Nissan worked with them to achieve a 20 percent cost saving on parts. Also included in the CEO's strategy was the divestiture of non-core assets – raising \$4.4 billion by 2002 – and hiring Shiro Nakamura as his chief designer.

Powerful contender

The go-ahead to build the Titan came in the summer of 2000. "All we needed was the money and the decision," says Norio Matsumura, Nissan's executive vice president of North American operations and global sales. "Under Ghosn, we got both." In fact, the CEO delivered more: a



"The idea we kept in mind in developing the all-new Nissan Titan was simple: big, bold, better"

Larry Dominique, Nissan North America chief product specialist

\$1.43 billion manufacturing facility in Canton, Mississippi which will begin building the Quest and Pathfinder Armada full-size sports utility vehicle – models that target lucrative U.S. market segments – as well as the Titan, this year. Still, Nissan's initial-year sales target is modest: 100,000 units, in part because that's all Canton can produce at this time.

To be sold from the end of 2003 at an as-yet-undisclosed price, the Titan offers a larger size and heavy-duty performance, features that Nissan hopes will enable it to compete successfully against the existing products from the U.S.'s Big Three, led by the F-series trucks from Ford. It boasts a 300-horsepower V8-engine with copious amounts of torque, enough to tow nearly five tons of cargo.

It also has the potential to become profitable. Although in 1998, Detroit averaged some \$7,000 in pre-tax profits for each \$20,000-plus truck sold, lavish sales incentives have slashed that figure by more than half today. While Ghosn would be ecstatic if the Titan yielded similar margins, he is quick to caution against excessive expectations. "Are we counting on the margin staying where it is now? No. There will be competitive pressure as the market grows. But will the Titan be a profitable segment for Nissan? Yes, no doubt about it."

Nevertheless, Ghosn is making sure that Nissan does not fall into the same trap as the U.S. Big Three. "Is the Titan going to be 'the' product? No," he explains. "Everything you are seeing in Nissan 180 is Nissan trying to free itself from an over-reliance on individual products for its success – that's why we have so many products coming out. So far, they have been very well received."

Double challenge

Getting new products on the road is not Ghosn's only concern. "Our efficiency in marketing and sales is not at the level I would like it to be," he admits. To boost customer service and franchise competitiveness, Nissan has been replacing underperforming dealerships with new distributors. Between 50 to 100 dealers are screened each year in the U.S., for

example, while 20 percent of the dealer-showrooms Nissan owns in Japan have been closed since 2000. It also revamped its marketing strategy by handing G1 – a joint venture between advertising agencies Hakuhodo in Japan, TBWA in Europe and Chiat Day in the U.S. – exclusive control over the carmaker's global advertising portfolio.

These changes will prove crucial as more models are added to the line-up over time, some of which are being built under a co-development program between Renault and Nissan. The partners plan to launch as many as ten common platforms and eight engine types by 2010. Two products of this joint venture are already on the market – the March/Micra and Megane subcompacts, the latter sold only by Renault for now.

Last fall, Nissan also agreed to invest \$1 billion in a 50-50 joint venture with Dongfeng Motor, one of China's three leading carmakers. China, where car sales surpassed a million units in 2002, is expected to become the world's third-largest auto market in a couple of years, says the company. Combining Nissan's technological capabilities with the local manufacturing facilities of the Chinese carmaker, the new company will sell both Dongfeng's trucks and commercial vehicles as well as a range of Nissan's passenger cars. "China has the potential to become a big contributor to profit," says Ghosn. "The new company will serve as our core base for fully fledged expansion into this market." Its goal: to develop, manufacture and market some 900,000 vehicles annually by 2012.

Ghosn, of course, is focusing on achieving his goals by 2005, the end-point of Nissan 180. It's also when he's slated to succeed Renault chairman and CEO Louis Schweitzer and assume the alliance's helm, if Renault shareholders approve the move at that time. By then, Ghosn expects to have a chief operating officer in place to manage Nissan's day-to-day operations, while he continues to "decide and supervise the strategies, priorities and critical objectives".

Still, the task of running two companies two continents apart will be

PROFILE | SHIRO NAKAMURA: A PILLAR OF NISSAN



Before he arrived at Nissan, Carlos Ghosn had formed a clear impression of its cars, especially on the way they looked. Nissan, he felt, "could do better". One solution to Nissan's woes would have been to bring a design team from Renault SA, Nissan's majority shareholder. But Ghosn didn't take that course, because he believed it would dilute Nissan's identity. "Design is the pillar of the Nissan brand," he says now. "The head of design at Nissan had to be completely knowledgeable of Japanese culture, as well as having global experience."

Enter Shiro Nakamura. Until he was hired by Ghosn in October 1999 to become senior vice president in charge of design, Nakamura was Isuzu Motor's chief designer.

A face-to-face interview with his prospective boss left Nakamura impressed. "After our talk, I no longer had any doubt that Ghosn was serious, not only about improving Nissan's product design, but also about turning the company around," says Nakamura. "So I took the job."

Exceeding customer expectations

Unlike in the past, when Nissan would often mimic the successful designs of its competitors, customer tastes are given top priority today, says Nakamura. But they don't dictate the process. "Our cars are designed to exceed customer expectations and address unmet needs," he explains. "Our job is to discover and propose what we feel is best for them."

So far, the philosophy seems to be paying off. U.S. magazine *Automobile* raved about the 350Z sports car's exterior, while the Japanese media has also praised Nissan's latest designs.

Meanwhile, Nakamura and his team of some 750 Nissan designers on three continents are already working on the next series of new models and upgrades, due out in 2006 or so.

Given Nissan's broad product line-up – it offers everything from mini-cars to minivans to commercial vehicles – the variation is keeping Nakamura content. "You know," he muses, "if I were working for Ferrari, I'd be bored stiff sketching sports cars every day of the week."

daunting. Ghosn gathers himself, like a boxer drawing on deeply buried reserves. "This is a new challenge," he says after a moment. "I still have a couple of years in front of me to get organized." ■

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North America: The FX45 has helped increase Infiniti sales by 36 percent in fiscal 2002.



Europe: Nissan predicts Micra sales will rise 50 percent to 160,000 in 2003.



Japan: Led by the XTrail, Japanese sales rose 13.7 percent in fiscal 2002.