

Nissan Japan Pk1

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PRIME MINISTER

You might like to see this article by Bob Lutz, the Chairman of Ford of Europe. I draw it to your attention because of the section on page 35 about comparative productivity in Japan, Europe and Britain. It says that on taking account of the degree of integration of the car plants concerned, Japan produces 30-40 cars per employee; Ford in Europe about 15, VW 13 and Renault 12; and Ford in Britain about 7.

It seemed to me that you might be able to make use of these figures in a speech or in the House.

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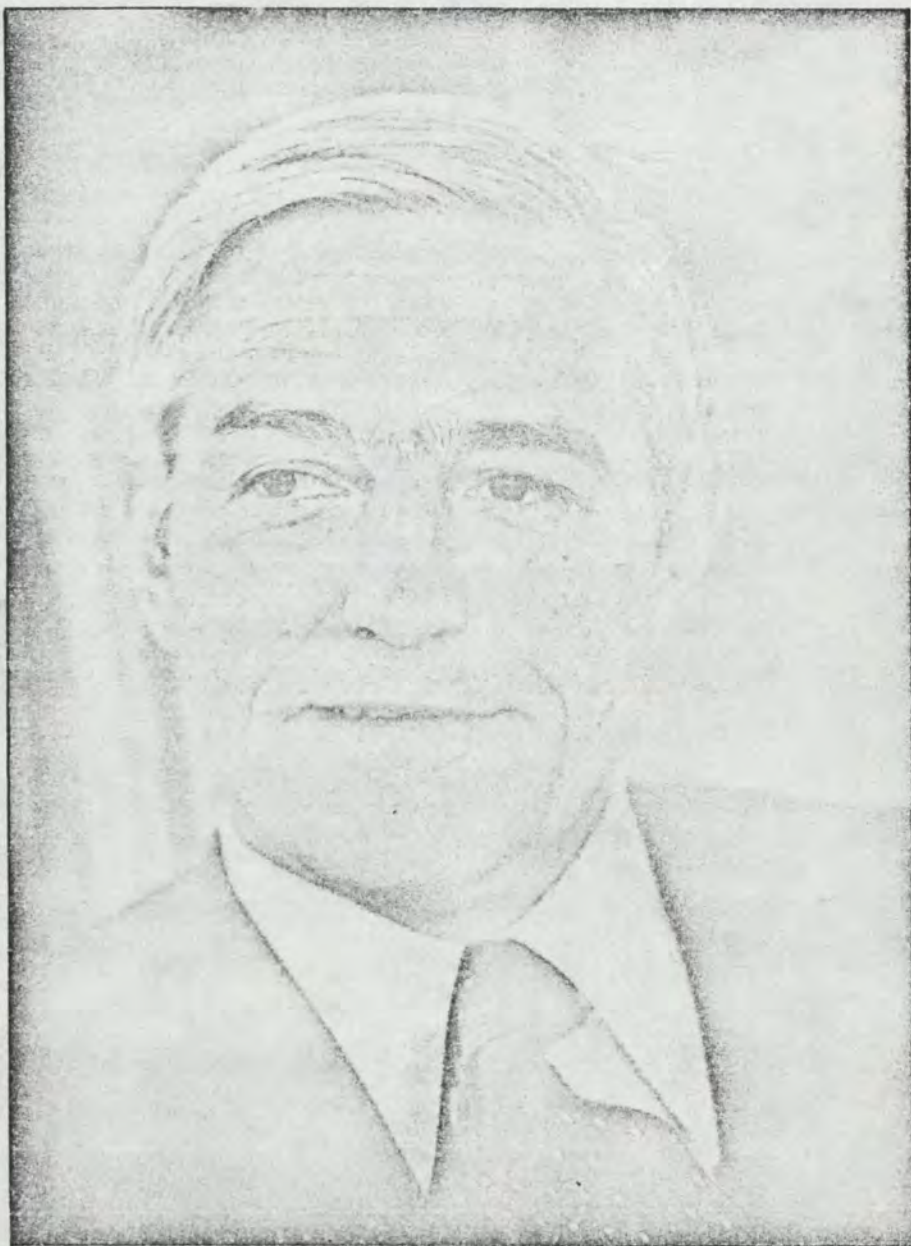
In candid conversation: Bob Lutz

Ford of Europe's Chairman talks frankly to VISION's John O'Neill in an exclusive interview about... productivity in the car industry... the outlook for that industry in Europe... the Japanese counter-strategy... and his own aspirations.

The command of the English language is masterful, the navy blue suit is impeccable, as the 48-year old Swiss-born Bob Lutz shoots from the hip behind puffs of the choicest Havana cigar. Lutz has a certain false air of smugness about him - Ford in Europe, despite a declining profit graph in '80/'81, is still propping up the American operation financially and, of course, they have just been given the coveted Car of the Year Award for their new Escort. But all is not well with Ford in Europe; they are battling to keep their market shares against a very stiff Japanese advance and in certain areas they are losing ground. However, Ford is not the only manufacturer to be shell shocked at the moment. As one observer succinctly put it, diagnoses differ but the fact remains: the patient is sick. Over a pleasant lunch (sans alcohol - a rule laid down by a Lutz predecessor 20 years ago) VISION bowls and Robert A. Lutz bats at Ford's H.Q. in London.

VISION: "Whether you might of might not agree, Japan has brought Ford to its knees. What is your attitude to this trauma and how do you think Ford will cope in the future?"

B.L.: "Let me say, firstly, Ford is not at its knees; a company like Chrysler is, but Ford is not. Ford has been the recipient of some very strong blows and I think we are reeling a little but we are not down on our knees. I think we have got the worst behind even though the Japanese competition shows no sign of abating. If Ford at the moment is having difficulties, it is partly as a result of adverse market conditions due to the U.S. Government sending completely the wrong signals to the market place in the form of excessively low fuel costs and failing to induce the American motorist to buy small cars. So it is only natural that a private enterprise company, faced with the inability to sell small cars but with an excessive demand for large cars, should orient itself to that end of the market; that's just normal behaviour. We got where we did by virtue of the American Government and the 50-cents-a-gallon fuel but also by our own decisions. I would also say that a



certain degree of management change and management turmoil that we've had in the last few years has not helped.

The worldwide recession has got to everybody simultaneously but I think it is fair to say that, on balance, we have been hit harder by the Japanese phenomenon than others. Why? Because the Japanese car appeal is in exactly the area where Ford

used to stake its claim to the marketplace; that is, efficient, no-nonsense, no-frills, high-value-for-money, reliable transportation with good resale value. So, you could say that companies like General Motors, Fiat, Ford and the products of British Leyland which are at the volume end of the market were the most susceptible to damage by the Japanese." >



VISION: "Surely, because of the Ford strengths just mentioned, you should have been better able to counter the Japanese than evidenced in the erosion of your market share in countries like Germany?"

B.L.: "You may have misinterpreted me. We are not prepared in the US with small cars to counter the Japanese, and in Europe the very traditional strength of the Ford products, the Leyland products or the Fiat products (to take the three companies who have suffered most from the Japanese onslaught) was that they had no specific image in the marketplace other than to be maximum value for money cars, good solid reliable transportation. In that, one has to admit, the Japanese do at least as effectively as we do. Therefore, it is only logical we would be hit harder by the Japanese than, say, BMW, Mercedes-Benz, Saab, Volvo, Jaguar or Rover would be. But I think that this is a temporary phenomenon, frankly. I think it will not be very long, as was the case in motor cycles, before the Japanese are in up-market executive cars. I just saw that Toyota are contemplating a sports coupé with a 2.8 litre, six cylinder twin-cam fuel-injected engine with 170 horse-power - you can guess what that's going to do to BMW and others!

We can compete in the future as well as anyone else in Europe in terms of economy of scale and I think the same is true worldwide. Our survival strategy in Europe is to be by far the most efficient producer in Europe because if there is going to be big attrition in the European car market then I want to continually be in the position where we can go into the vacuum created by the failure of companies who have disappeared from the marketplace because of the Japanese onslaught.

How can we tackle the Japanese perse? Can we achieve their costs? Can we compete with them on a cost and price basis? The answer is that unless things change radically we cannot. Nor will we be able to, because the Japanese problem is essentially one of extremely high productivity. That high productivity is brought about partly by structural, social and cultural variables. For instance, the average purchased content of the European car is perhaps 50 per cent; the average purchased content of the Japanese car is about 80 per cent. The Japanese auto company with its so-called life-time employment only has a modest percentage of the total workers engaged in the actual production of the car. Now all these terrific employee benefits like company housing, company stores, life-time employment, everybody wearing the same smock and baseball cap - that does not go all

the way down the pyramid; that is restricted to the so-called big groups or big company groupings with, invariably, a bank at the centre. And so, as you get out to the suppliers, you may still have this to a degree, but when you get to the suppliers of the suppliers you are really dealing with the social conditions, the working environment and hire-and-fire temporary employees coming and going, which would be intolerable in our society. But it gets their costs down.

The average Japanese motor company produces anywhere between 50 and 55 cars per employee per year. The most efficient European producers, namely Renault, Volkswagen and ourselves on the continent,



produce in the order of between 12 and 15 per year. We're about 15 on the continent, VW is about 13 and Renault is about 12. These are 1979 figures. In Britain we're terrible - we're about seven cars per person per year which leads you to justifiably raise the question of what's the future for car manufacture in Britain and the answer at this juncture, I have to tell you, is not very bright.

If, however, you begin to adjust the Japanese car output per employee per year to allow for the fact that they are not as integrated as far back as we are, you probably still wind up with 30 to 40 cars per employee - again far more than us. But then you ask yourself about the fact that they are more automated than we are. Ok. I'll give you, let's say, five to six cars per employee per year for automation; not much more, because if we automate everything that is technologically capable of being automated today we are still not going to get near Japanese productivity levels. People are being misled into believing that the salvation is in automation; this is not so, as there is a limit to automating - you cannot get a machine to get inside a car to put in the headliner, or screw on the steering wheel or inspect the paintwork.

So, even if we automated everything, you are still going to be staring at about 25 to 30 cars per employee per year as still against, say, the 15 for us. But what is the rest of the difference? It is the low absenteeism in Japan which in Europe runs anywhere between 10 and 25 per cent, working hours per week, willingness to work overtime, willingness to work extra shifts, number of working days per year, willingness to sacrifice vacation in order to get the production up - so when you get down to it, the Japanese worker actually participates in trying to make his company successful. He runs on the assembly line. Why does he run? Well, I think it is entirely possible that the Japanese have conceivably found a superior social cultural system to get the people at the bottom of the pyramid to produce at high levels. If this is so, then the automobile industry cannot solve this problem because this is a social cultural difference with the Western world - the Japanese inter-relationships between companies, interlocking directorates between the banks and the companies, the companies and their suppliers and the way they work with Government. Even when the unions have a gripe they say why hurt the company - 'let us strike for a day and show we mean business and the next day we'll put in some extra hours for the losses we made on the strike'. Now, this attitude, or mentality, or consensus of everyone working together for the common good - in essence is the Communist ideal superimposed on private enterprise society and it happens to work. Unless we can fundamentally re-gear Western man with his drive for individuality, desire to be master of his own destiny, not wanting to subordinate himself to an authoritarian structure, be it the Government, company or, in some cases, the union... unless we can modify all that we literally cannot compete with a society that's organised along entirely different lines which obviously from a stand-point of getting output out of people is far more efficient.

So, I am saying it isn't the Western automobile industry that has got a problem; it is the Western way of life that has got a problem vis-a-vis Japan and nobody can point to the auto industry and say, hey you guys, solve it in your sector - it is bigger than that.

Now, here's what we cannot do in the West. We cannot stand around and pay each other for ever-shorter working weeks, pay each other ever-higher prices for goods and services, pay each other more social security, hand out these pay increases despite a declining economy and talk about a shorter week, more and more health and safety legislation, paint the inside of the factory in bright colours, let everybody knock-off for ten minutes an hour and all that jazz... and they were even talking about sabbat ->

Japan 1 empl^{ic} 50-55 cars per year 30
Europe Renault 12-15
Volkswagen
Ford Europe
Ford Britain 7 cars.

icals for workers, for Pete's sake, here. We cannot talk about all that and treat each other luxuriously and then all of us turn around with all this money we are making for less work and buy the products that are built by this highly efficient society. If we want to operate this sort of comfortable close society then we are going to have to buy our own products which reflect the costs of the wages that we are paying each other. But the day we take these salaries and turn around and buy the stuff from that efficient society then we are haemorrhaging and our industrial base is eroded."

VISION: "Do you think Western management is blameless in all this?"

B.L.: "I would gladly and gleefully accept shortcomings in Western management. We are over-structured, overly bureaucratized and overly analytical. I think Western management is too short-term finance oriented, we have forgotten to some extent what it means to do business by instinct and we've forgotten to some extent what it means to take entrepreneurial risk. I think the Japanese are teaching us once again how simple business actually is: it's identifying a market need, engineering the product, figuring out the cheapest way to produce it and go out and market it without all of the problems, subsystems, controls, checks, balances and so forth which we have become accustomed to having as a normal part of doing business in the Western world."

VISION: "Has the consumer not shown the motor industry that cost is not everything when it comes to a purchase decision, reliability is just as important if not more so?"

B.L.: "Performance and economy are not the strongest points of Japanese cars in Europe. I think it is quite right when you say that Japanese cars have a reputation for reliability and durability and it's right when you infer that this is more so in the U.K. than in Germany since German cars including Fords have a reputation for durability, quality and reliability. While for German cars the absolute levels of D, Q, R are not quite the same as for Japanese, the absolute difference is fairly narrow so that I doubt that that, as a factor would sway the buyer. By the way, our on-going research indicates that there is very little difference in D, Q, R between various German makes - they're all clustered with the same magnitude with differences of five to ten per cent between makes with the exception of one make which is clearly and consistently better than all the others - I won't name it and it's better



than the Japanese. But what you must consider is that those Japanese cars compete on a specification adjusted basis of 20, 30, or even 40 per cent below an equivalent German-made car. In Holland, Belgium, Norway and elsewhere we're not being underpriced by five or ten per cent; we're being underpriced by 30 and 40 per cent. Now at 30 and 40 per cent price differences the customer has to start asking himself: 'well, despite all my love for Brand X, yeah, I know it probably holds the road a little better and probably has slightly better brakes, maybe a snappier engine, perhaps it uses a ½ litre less fuel but, holy smoke, you know I'm staring at several thousand dollars difference here.' I think if the Japanese priced at the same levels as we do, I think the slight difference in durability, quality and reliability that still remains between, say, a German Ford, VW or Opel and the Japanese car would be more than offset by the other appeals of the German made car."

VISION: "If, therefore, you say it all boils down to a matter of price, do you not come into your office every day in fear and trepidation if your competitor who is undercutting you by 30 to 40 per cent is making a nice profit with a very healthy balance sheet chock full of cash and you, especially in America, are dangerously in the red. In other words, who is your biggest problem at the moment: General Motors or Japan?"

B.L.: Oh, General Motors you can forget -

in the hierarchy of our worries they are so far down at least in Europe (they loom large in the States). But in Europe I've got to put the Japanese first, Renault second, Volkswagen third and General Motors in fourth place in terms of how worried we are about things."

VISION: "But General Motors came out ahead of your Escort with their Kadett by at least eighteen months?"

B.L.: "I don't think it really matters when somebody comes out with what because you always expect that people don't always come out with the same products at the same time. Likewise where is GM's answer to the Fiesta? That's going to come out in 1983. The Fiesta together with the Renault 5 is one of the three most successful B class cars on the market - the other is the Fiat/Seat 127. If you look at it in terms of profitability, the Fiesta is probably one of the few highly profitable small cars ever produced in the world."

VISION: "In the case of the Escort you must be trimming your price to hold your market share against the Japanese?"

B.L.: "Well, no. We are in the market with the Escort definitely overpriced against competition and we have just accepted that as a necessity - we've priced it against the European competition and they are overpriced against similar Japanese competition."

VISION: "But you could not afford to put

BERT A LUTZ

BORN:

Feb. 12th 1932 in Zurich, Switzerland.

EDUCATION:

B.Sc. and MBA from University of California at Berkeley.

CAREER:

1954 - US Marine Corps

1959 - Lecturer at Imede, Lausanne.

1963 - General Motors, New York (Planning Department).

1965 - Adam Opel, Germany.

1966 - General Motors, France (Director of Sales).

1969 - Adam Opel, Germany (Assistant General Sales Manager).

1970 - Member of Board of Management.

1971 - Joined BMW as Vice President-Sales and member of Board of Management.

1976 - Joined Ford of Germany as General Manager.

1976 - Vice-President, Ford Motor Company in U.S.

1977 - President, Ford of Europe.

1979 - Chairman, Ford of Europe.

He is a superb mimic, likes jogging, dislikes team games, and has been seen on continental holiday on his BMW motorbikes with his wife. He has four daughters and is a voracious reader.

the new engine into the 1.1 litre Escort..."

B.L.: "No, that was a capacity problem; in most countries the new engine is also available in 1.1 form. Frankly, the U.K. is a slightly less critical market when it comes to technological innovation and British fleet owners like the mechanicals to be as simple as possible. No, it was definitely not a question of affordability. If you want to look at it that way, the great preponderance of Opel Kadetts are in fact sold with the old cast iron push rod 1.2 litre engine in all markets. At least, we, for capacity reasons, use the 1.1 Valencia engine only in Britain, Italy and one or two other markets but not in France and not in Germany."

VISION: "It appears you are going to have a negative cash flow on a worldwide basis for 1980/81 - surely that puts you in a horrifyingly non-competitive situation for the next year or so?"

B.L.: "No, because in the first place our balance sheet was in pretty good shape before we went into this; we had drastically improved our so-called times interest earned ratio; we had very much improved our debt to equity ratio; we had in fact a triple A credit rating which has gone to double A now. So while we have had to go more heavily into borrowing and probably over the next year or two will have to go more heavily into borrowing still, there is nothing terrifying about the debt and equity ratio we're going to wind up with.

I think all our current forecasts are that a negative cash flow is a one-time

phenomenon - it may be several years before North America returns to profitability. I think we have an excellent chance of a break-even or better in 1982 and as I say this I have to qualify it as being my personal judgment. I haven't seen a pull-through of the worldwide 1981 budget, and if I had I would not be at liberty to talk about it.

VISION: "If that is the case, why the panic in America of Ford cutting back on its investment programme?"

B.L.: "I think that was prudence because in a time of drastically reduced profitability and negative cash flow you obviously don't want to get your borrowings too far out of line - it's a question of balancing the long versus the short term and while you don't want to mortgage the long-term, on the other hand you have got to stay alive in the short term. A pruning of the model line is no harm anyway. There was such a bewildering array of bodies and models and engines that I think the consumer was genuinely getting to the point where he was confused. A model line-up such as that of the Japanese which is easier to understand is probably more effective in the marketplace.

We did defer one European programme and that was a potential all-new assembly plant somewhere between Austria, France, Portugal or Spain. And quite simply that is deferred because right now the last thing in the world we need is to start work on an assembly plant."

VISION: "Why do you find Renault your number two headache?"

B.L.: "Renault is a very determined, very well-managed company. I've never been able to find out whether they get any facilities in obtaining finance. I suppose the nationalised French banking system is never going to worry about lending money to a nationalised automobile producer - they probably get a quadruple A rating! But Renault are not also under pressure to pay a dividend; I don't think they ever have to put money back into the Government coffers. So anything they make in terms of profits they really can totally re-invest in the business, in facilities and new products. I think the management team they have now under B. Vernier-Palliez and Bernard Hanon is excellent - they've got some highly skilled engineers - they used to be very weak in product design but that's getting better. And then let's not forget they are operating in the base of a very strong national market where they have a com-



manding share and, key point, where the Japanese have been politely advised that a share of more than three per cent will not be tolerated, which effectively insulates Renault from profit erosion in their most important market."

VISION: "The Japanese have been extremely successful in gaining market penetration here by good dealer networks. European manufacturers have not tried to set up dealer networks in Japan; why is this?"

B.L.: "The only way you'll get good dealers - remember, dealers are private businessmen - is by showing them a good business proposition. The Japanese carved their dealer network out of the Vauxhall dealer network and the Leyland dealer network on the Continent. So a dealer who has a make that is having problems is very susceptible to a better offer. The reason we don't carve out dealer networks in Japan is because who the hell wants to put in an investment to sell \$20,000 Mustangs or \$12,000 Volkswagen Golfs. In other words: you can't offer the Japanese dealer, who today has Datsun, Toyota and Honda, a business proposition he won't laugh at. Because the Japanese aren't dumping; Japanese cars in Japan are about half the price they are here, give or take a few per cent. So when I hear people say that the EC must insist that the Japanese market be open to European cars I can only laugh."

VISION: "What about Leyland's future prospects?"

B.L.: "Corporate policy says I shouldn't talk about the competition. However, I think Leyland will have a very tough time ever achieving a significant volume or share outside the UK ever again. And that is very definitely one more reason why Leyland to survive needs to capture an even larger share of the British market.

VISION: "But you can't do that on one product, i.e. the Metro."

B.L.: "Well, they're going to get the LC10 and the Bounty and someday they'll have a new large luxury car. So if they hang on for a while they'll get some good products; but the problem is that the rest of the automotive industry isn't going to sit still."

VISION: "On a European scale the car industry would operate more sensibly on a much reduced level with four or five major manufacturers producing at least two million cars each with two or three specialist producers. Do you agree, and >



if so, who will survive?"

B.L.: "I agree by degrees. In the first place size alone is not a guarantee for efficient manufacture because there are a lot of manufacturers who are at two million units plus, who are losing money. I think it all depends on how you are organised for the scale of business you are doing, and I would like to point to Morgan Motors with a production of five or six cars a week and is entirely successful and viable. On the other hand I would point to a company like PSA (Peugeot) which by getting larger has actually got weaker. Or a company like Fiat which is close to the two million mark and very clearly they are having profit problems. I don't agree that there is any magic number. BMW for instance, has ceased to be a specialty producer and is today a mainstream producer of automobiles making 300,000 plus cars per year, and yet they are highly profitable. I know that company very well. They are organised, manned, staffed and systemed in such a way as to be profitable at 300,000 units per year. Porsche is having a little trouble right now because the market for V8 sports cars isn't what it used to be. The Chief Executive recently elected for an early retirement - he felt he'd been there too long and he didn't want another five year contract."

VISION: "Will Porsche be around in 1984?"

B.L.: "It will. In the first place Porsche makes most of its money from engineering and not from producing and selling cars. Secondly, up to now the profits in the engineering side have more than offset the losses in the cars. That may not be true this year; I'm not sure. Thirdly, the Porsche family wants to keep making Porsche cars and the family makes so much money from the distribution of VW and Audi for the whole of Austria that the loss at Porsche cars is only petty cash."

VISION: "What about functional mergers for Ford of Europe?"

B.L.: "You mean exchange of parts - yes, very definitely. We are very close to some fairly big deals. We buy Peugeot diesel engines at the moment and put them into Granadas, and we sell a lot to American Motors. We also sell a lot to Ford US and we are engaged in very advanced negotiations which would very greatly surprise you if you heard the names at the other end. We may be able to announce something in 1981. It would involve the sale of Ford components to other manufacturers with perhaps offsetting purchases of components they make but we do not want to tool up for. This is going to be the pattern of the European industry and this is one way to

get economies of scale without having to grow to the size of units we have just been talking about"

VISION: "Does this mean in the future we shall only be buying skindeep cars?"

B.L.: "I think everybody will always mix and match the stuff differently. For instance take the V6 engine that the Renault 30, the Peugeot and Volvo use - now, you couldn't ask for three more different cars than the Volvo, the 604 and the R30TS. Also in the case of the four-cylinder engine, its north-south rear wheel drive in the Peugeot 505, north-south front wheel drive in the R20 and it's front wheel drive east-west in the Citroen. So I think you can still do a lot of component sharing and still get totally unique cars."

VISION: "The trade unions involved in Ford seem to be getting together internationally to prevent any switching out of high cost to low cost areas. Will this become a greater problem?"

B.L.: "No, because I think this is merely a union reaction to our pressures to try to achieve greater productivity. I think the unions are justifiably concerned that in times of great stress and really too much productive capacity together with a very tight economic situation, because they find their bargaining power decreasing, they therefore try to offset this. I think it is a legitimate goal in their view but I don't think it's going to prevent us from doing what we have to do. Indeed this whole problem is one of the reasons we walked away from the new assembly plant project."

VISION: "Because of the low productivity in the UK, would you ever envisage switching out of there?"

B.L.: "I don't think we would consider switching out of the UK. It would not be desirable from an employment standpoint, or even a market standpoint. But what I would envisage is that over an extended period of time we certainly would not invest in the UK in an assembly capacity, whereas we would invest elsewhere so that as we grow the UK would become percentage-wise a smaller and smaller part of the total."

VISION: "What are Ford of Europe's weaknesses right now?"

B.L.: "A weakness is definitely the UK cost base and the low British productivity. That I consider to be our most serious weakness at this point. And the continued weakness to which we are addressing ourselves, I think, successfully, is our image for lack of technological sophistication

in the German market which has been holding down our German product acceptance. So I think the way our make and our products are received in Germany is a serious problem for us. The reputation of the product is seriously below what it actually has become, but that's a marketing problem - we can handle that. It may take three or four years, but it can be handled. In Britain our problem is that while the acceptance of our products in the market place almost couldn't be better, our ability to produce them is a disaster."

VISION: "If you didn't drive a Ford, what car would you drive?"

B.L.: "That changes from time to time. For the past couple of years we are producing cars that I might buy even if I weren't working for Ford - one of them being the XR3 and the other being the fuel-injected Granada. I actually drive two old MG's, an old Riley and an old Citroen, but if it were to be a modern car I think I would probably either have a BMW 320i or a Volkswagen Golf GTi."

VISION: "Fords profits in Europe in 1980-how were they?"

B.L.: "Considerably down on 1979 but still the envy of our competitors in Europe." (While Ford never disclose their total profits in Europe, best estimates for 1979 put them in the £1 billion bracket before tax)

VISION: "Bob Lutz - 48 years old - Chairman Ford of Europe - what next?"

B.L.: "I don't know. This is the most-senior job in Europe for the Ford Motor Company and I have no place to go in Europe from here. So perhaps they will decide that I am so ideally suited to run the European business that they will keep me here till retirement."

Not satisfied with that we interjected: "But you're the eighth incumbent in this office in 13 or 14 years!" To which Lutz replies laughing heartily: "They've never had a tri-lingual European who also holds an American passport in the job before. So maybe they've been looking for the right guy all these years and they finally got him. That's a hell of a thing to say, since the current Chairman of Ford, Philip Coldwell once had this job!"

And with that Ford's man in Europe bounded off to the waiting Ford jet to wing his way to Germany with bad news for some of the employees there. For Bob Lutz the 'product' man whose passion is for riding BMW motorbikes and jogging before work in the morning, it's an enormous task to keep Ford from succumbing before the Japanese onslaught. ☉