

Current status and future prospects of the motorcycle & engine business



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Preface

For over 50 years, our motorcycle & engine business has been centered on products developed and manufactured in Japan for export and sale in advanced countries. Since the Lehman Shock, however, the structure of our business has been changing in response to the new financial and economic environment. Today it is not just our sales activities that are important. Rather our product development, QDC (Quality, Delivery, Cost), and supply-chain balance must reflect the market so that our business is better attuned to market changes. The current status and future prospects of our business are discussed in this article.

1 Current status

(1) Two-wheel vehicle (motorcycle) business

(i) Advanced country markets

Our company refers to markets in the U.S., Canada, Europe, Australia, and Japan as advanced country markets. Since the sub-prime lending crisis of 2007, demand in these markets has shrunk considerably due to financial instability and its impact on the real economy. The added impact of the strong yen has also lowered cost competitiveness against European and American manufacturers, making it difficult for businesses to achieve high profitability.

Thanks to financial deregulation and economic stimulus actively undertaken by these countries, change became visible beginning in 2013. While recession continues to plague the European market, the U.S. market has bottomed out and is recovering, albeit modestly. In Japan, the market has been improving with the economic upswing, and there are now quantitatively hopeful signs. At the same, however, weak employment and asset contraction has driven consumer tastes toward low-price products, revealing a trend toward categories not previously seen in advanced countries.

Despite this, our company has retained a high market share through the ongoing introduction of new models and support of our sales network. At the same time, by optimizing development including in our Thai R&D division and transferring production to our Thai plant (KMT*) (Fig. 1(a)), we have increased our cost competitiveness, which has contributed significantly to sales, through low-cost procurement and manufacturing of our entry models.

*KMT: Kawasaki Motors Enterprise (Thailand) Co., Ltd.

(ii) Emerging country markets

Emerging country markets, which include ASEAN, China, India, and Central and South America, represent the largest chunk of global demand for two-wheel vehicles. Unlike our competitors, we are not known for low-price, mass-marketed products like mopeds and scooters. Rather, our sales are driven by the sports category focused on our Ninja Series and the recognition that Kawasaki stands for “high-performance premium motorcycles.” While demand in advanced country markets has slumped, it has increased steadily with economic growth in emerging country markets. That said, as capital has flowed backwards into advanced countries and credit uncertainty has prevailed, growth has slowed in some markets recently. Despite all of this, demand for our premium products remains as solid as ever and sales continue to grow.

(2) Four-wheel business

In our main market, the U.S., we have seen a shift from ATVs (all-terrain vehicles) to two or four-seater SxS (Side by Side) utility vehicles and sport vehicles. This trend has become especially noticeable in recent

years, with competitors actively continuing to enter the market. Kawasaki too has actively introduced new models for the growing SxS market and is engaged in initiatives to increase our recognition in the market and strengthen revenue.

(3) PWC (personal watercraft) business

Because the main market for our PWC business is the U.S., our U.S. plant (KMM*) (Fig. 1(b)) specializes in the production of Jet Ski personal watercraft developed in Japan. The market is dominated by large 1,500 cm³ models. Like other companies, Kawasaki makes continuous improvements to its products to maintain product competitiveness.

*KMM: Kawasaki Motors Manufacturing Corp., U.S.A.

(4) General-purpose engine business

The main products in our general-purpose engine business are engines used in professional equipment such as lawnmowers and agricultural tractors. In contrast to our two-wheel vehicles, everyday consumers will rarely have direct contact with our general-purpose engines, yet we still provide highly reliable engines at a reasonable cost.



(a) Kawasaki Motors Enterprise (Thailand) Co., Ltd.



(b) Kawasaki Motors Manufacturing Corp., U.S.A.

Fig. 1 Global network

2 Near-term business operations

Our efforts are focused on improving business profitability in advanced countries, and on capturing demand and strengthening our business foundation in leisure motorcycle market in emerging countries. Sales of the Ninja 250 Series are very healthy and production has been partially transferred back to Japan as part of our strategy of “global production without lost opportunities.” Our current revenue sources lean toward emerging countries, but our goal is to build a business in which advanced and emerging countries are balanced.

Overseas production for our general-purpose engine business is centered on our U.S. and Chinese (CK&K*) plants, reflecting significant changes to our business structure over these past three years. Even with changes to our production system and the role of our “mother factory,” the Akashi Works in Japan, our operations will aim to strike a balance in QDC.

We are currently reorganizing the Akashi Works and reviewing its facilities in view of global production so that it will continue to be a factory where coming generations can work with confidence.

*CK&K: Changzhou Kawasaki and Kwang Yang Engine Co., Ltd.

3 New models for 2014

Our 2014 models, which were announced beginning summer of last year, have been extremely well received. The 2014 Ninja 250 makes minor changes that incorporate various improvements. Because our production capacity in 2013 was inadequate, we have also made improvements in production that enable us to make sales without lost opportunities. On the Ninja ZX-14R, Ninja 1000 (Fig. 2), and Z1000 (Fig. 3), we strengthened features to create products that reflect the “voice of customers” and offer them more attractive products. We also introduced the four-wheel Teryx4 SxS (Fig. 4) and Jet Ski ULTRA 310 Series (Fig. 5).



Fig. 2 Ninja 1000



Fig. 3 Z1000



Fig. 4 Teryx4

4 Future business prospects

Our first goal is “to further strengthen our brand.” Even after the Lehman Shock, our company actively continued to introduce competitive new models in advanced country markets despite the recession. We also enlisted various marketing techniques (racing activities, new store designs) with the aim of strengthening our brand. It is fair to say these efforts elevated our brand image in emerging countries as well and contributed to increased sales. Looking ahead, we will continue to use our advanced craftsmanship to introduce “strong models” that strengthen our brand.

Our efforts will also stress “environmental compliance.” Because noise and emissions regulations are getting stricter every year and an increasing number of customers are concerned with fuel efficiency and environmental performance, electric is one direction we are considering. Because this market is expected to grow with improved battery performance and advances in control technology, we will continue to concentrate our efforts on research and development.

5 Globalization

We no longer live in an age when the simple overseas export of domestically manufactured products from Japan is enough to generate profits. Under conditions of high yen appreciation, globalization was sometimes equated with overseas procurement. At present, we



Fig. 5 Jet Ski ULTRA 310 Series

believe that “the proper path for globalization is optimally localized procurement and optimally localized production.” The notion of “local production, local consumption” is fundamental to minimizing currency risk and reducing lead times. At the same time, an approach to supply chains that includes nearby production countries—an “Oobeya” approach—can strengthen network effects by limiting capital investment and lowering costs. Today is an age of global procurement, manufacturing, and sales. As such, our goal must be to optimize our business as a whole by solving complex equations daily to strike a balance in QDC.

Closing

Operations at the Motorcycle & Engine Company have been extremely challenging under recent financial and economic conditions, especially in the past five years, as has been the case for many Japanese export firms engaged in manufacturing. Despite the challenges, the experience has been invaluable. During this period, we have undertaken measures not only to increase profit ratios and constrain costs but also to strengthen our brand. As a result, we have increased profitability and will continue to do so in the future.

I express our sincere gratitude to the stakeholders who have believed in and supported our company, and reaffirm our commitment to being a strong company that delivers the Kawasaki brand to customers around the world as a top-class manufacturer.