



Succeeding Despite Growing Competition



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“To understand the depth of Nissan’s commitment to China, you need look no further than Dongfeng Motor Co., Ltd., our joint venture with Dongfeng Motor Corporation. DFL, as we refer to it, is the biggest JV in China’s automotive industry, representing a 50-50 investment by Nissan and Dongfeng totaling RMB16.7

billion (US\$2 billion). Dongfeng is the major commercial vehicle manufacturer in China, and the Dongfeng brand is famous throughout the country. With 70,000 employees and over fifty subsidiaries, DFL is a strategic alliance for both companies. In China, most joint ventures with foreign makers are small and focus only on producing the foreign partner’s products. In contrast, DFL integrates Nissan’s technology, products and the Nissan Management Way in the production of vehicles under both the Nissan and Dongfeng brands.

Greater competition and a softer economy made 2004 a difficult year in the passenger vehicle market. Yet we sold approximately 92,000 passenger vehicles in China during the last calendar year. That number included 61,000 DFL-produced Nissan-branded vehicles, 21,000 Zhengzhou-produced Nissan pickups and SUVs, and 10,000 imported vehicles. We also sold nearly 88,000 light commercial vehicles under the Dongfeng brand.

Increases in raw material costs and reductions in selling price did affect the commercial vehicle business in fiscal 2004. As a result, operating profit from DFL to Nissan totaled ¥10 billion, which was lower than anticipated. While we work to manage material price increases, we’re still focused on improving the quality and price competitiveness

of our products. We’re also planning to export these models to Africa, South America, and the Middle East.

Two or three years ago, the passenger vehicle market in China was a seller’s market. That reversed during the last half of the year, influenced by macroeconomic controls and more products coming onto the market. As a result, most automakers entered into a price war. We stayed out of that because we didn’t want to damage our brand image. Instead, we found alternative means to adapt to the market. For example, we did not discount the selling price of the Teana during its high-profile launch. In December 2004, we also announced to customers that we would give them a rebate if prices went down after they bought a Nissan. We released a model change for the Sunny, and kept firm on the Teana’s pricing. These actions have helped keep our brand image high, while building customer loyalty, selling cars and reducing inventory.

Calendar year 2005 looks very promising to us. The Teana has been a tremendous success, winning 12 awards—including Car of the Year for 2005 in China—and helping solidify Nissan’s reputation for quality. The car continues to sell well, and opens the door for five models that will be launched in fiscal 2005: the Tiida sedan in April; Fuga in June; Quest in August, which is imported from the U.S.; the Tiida in the second half along; and the 350Z in calendar year 2006. The Tiida has already won two awards at the Shanghai Motor Show for best new model and roominess, and answers the strong demand in China for fuel efficiency.

In June 2005, the China State Administration for Industry and Commerce officially recognized the NISSAN trademark as a “famous trademark.” Only trademarks with superior reputations receive this distinction. Not only does this represent an important milestone in Nissan’s efforts to build its brand in China, it also represents the first time a Japanese automaker has had its trademark acknowledged in China. Currently, Nissan and YKK are the only Japanese companies to be awarded this status. Now that Nissan’s brand image is respected in China, we must improve our

brand awareness. The Teana represents the first step, symbolizing the excellence of our product and reputation to the public.

Despite a tough market in 2004, DFL sold 66,000 DFL-produced Nissan-branded passenger vehicles in the first half of 2005 alone. This was a result of the new lineup, our strong brand image, and a creative pricing strategy. Based on the first-half sales results, DFL has moved to ninth among automakers in China. Our target for this year is to sell close to 170,000 Nissan-branded passenger vehicles. DFL will produce 140,000 of those, which is more than double last year's sales, and approximately 30,000 will be Zhenzhou-produced vehicles and imported vehicles. We also estimate sales of roughly 100,000 DFL-produced light commercial vehicles. It's a big challenge, but we're very confident of achieving this.

There are risks in China, but that is true of any market. Today, I see the country as a regular market for Nissan. The most serious ones are heavy competition, exchange rate fluctuations and possible increased macroeconomic control by the government. To minimize these risks and maximize our opportunities, we rely on two basic strategies: stay market-driven, and turn out excellent products. DFL has the product, sales network, factories and R&D essential to succeeding in this market.

I believe the opportunities in China far outweigh the risks. Despite heightened political tensions last year, orders and dealer traffic remained steady. DFL has set a sales target of 300,000 Nissan-brand passenger vehicles in fiscal 2007. We also began construction on a new engine factory in Huadu that will have a capacity of 300,000 engines per year. This provides new opportunities for cooperation with Renault and increases our localization level to nearly 80 percent.

One of the reasons for DFL's success is that we manage the company based on mid- and long-term plans. In 2004, we developed and implemented strategies for DFL, such as brand building with the Teana. Based on that foundation, we brought more products to market, such as the Tiida in 2005. These cars are targeted at a segment that has huge potential. Given China's own potential, we foresee significant overall growth in the long term. We have set high targets for NISSAN Value-Up and I am confident that we will achieve them.

Nissan has set the standard for establishing operations in China. Now we're analyzing the market as we have done elsewhere. We want to understand the customer and the market better so that we can deliver excellent products. With this approach, we will succeed in the emerging market of China."



TIIDA



TEANA



FUGA