



## Putting on the Right Moves for Profitability

**Nissan North America, including the Nissan and Infiniti divisions, sold well over a million cars in fiscal 2005, which represents 6.1 percent growth year over year. What's most impressive about this was that we didn't have any new product launches, and did it in an industry environment that wasn't particularly strong.**

The total industry volume for fiscal 2005 was around 16.7 million. That sounds pretty good, but for part of the year our domestic competitors were driving sales with heavy incentives, which overheated the market. One of the things we were proudest of is that after they began pulling back on the incentives we didn't have a significant hangover. Sales were a bit soft for about a month, and then we got right back to hitting our targets and had a good year.

The fuel price situation has naturally affected sales. In October and November we had a spike in gas prices similar to what we're seeing now. The Armada and the full-size SUV segment suffered more than the conventional pickup segment did, since many people are buying because their work involves their vehicle.

So, while there was a temporary downturn in conventional pickups, they came back quicker than the full-sized SUVs. People are choosing different and smaller SUVs. You still see that change in the SUV mix.

With fuel prices rising, we are coming in with a fuel-efficient, entry-level car. One of Nissan's key advantages since the turnaround is that our profitability allows us to address these segments faster than we could before—if we even could have before.

During this period we were relocating our headquarters to Tennessee. While this has been characterized primarily as an improvement in our cost efficiencies, there are many other operational benefits for us. We're taking it department by

department, and should be in place by the end of July. Because we're moving thousands of miles across the country, not just moving up the street, people had to make life decisions. However, a substantial number of our employees decided to come along. If you look at the marketing and sales staff, product planning staff, and parts and service staff—our faces in the field—it's around 50 percent.

We're pretty pleased about those figures, especially when we compare them to what other companies have experienced when making a move of this magnitude. We have actively recruited to fill the vacancies, and because of the strength of Nissan we received more than 40,000 resumes from people inside and outside the auto industry even before the move actually began. I believe we will benefit from the new blood in a lot of ways.

The U.S. market should remain strong in fiscal 2006, and I estimate the total industry volume will be between 16.5 and 16.9 million. We're projecting a little over 2 percent growth for Nissan and Infiniti combined. The first six months will probably be flat or slightly down, but we'll have new products coming out virtually every month in the latter half of the year and should begin showing our year-over-year gains.

Like Nissan is doing globally, NNA is seeking out segments where we aren't a factor yet and going after them systematically. But we have to do it in a Nissan way and an Infiniti way. That means making sure customers will welcome the product, and that the product is unique in some way that blends with our brand. Versa gives us an opportunity to do this, and we believe the advantages of that vehicle over even our Japanese competitors will serve us well in the marketplace.

It's the same in every segment. We've got opportunities for line extensions with some of our products. We haven't finalized anything yet, but we think there are areas that present interesting



possibilities, such as light commercial vehicles, which we haven't exploited yet.

The Nissan brand and Infiniti brand each have their own distinct positioning, but the common denominator is edgy, dramatic design and performance. Every Nissan and Infiniti product has its own distinct advantages. For example, the Versa gets excellent gas mileage but is one of the biggest cars in its class, so you can actually carry your family in it comfortably. What we bring out is always a little off to the side in each segment, and that's what makes a product much more successful.

Since the turnaround, I believe we've rediscovered the DNA of the Nissan brand. One of the best examples is the new Altima that's coming out soon. The previous model set itself apart from the pack, and we went on to sell a quarter of a million of them. It's the first Nissan model we've ever sold so many of in the U.S. Recent moves by our competitors have opened some space for us in the sporty design arena of this segment, and we're going to grow the space even bigger.

Looking a little farther ahead, although the GT-R won't be a major volume segment when it arrives in the U.S. in 2008, it will create a lot of buzz in the marketplace. We got a glimpse of that recently when we gave our U.S. dealers a surprise look at the car. We'd brought all five of the new vehicles for fiscal 2006 out one by one and done our marketing spiel

to get the dealers pumped up. As they were walking out through the stage to the place where the drinks and food were laid out, there was the GT-R, up on a riser. There was a real buzz in the room.

The GT-R has enormous appeal for a finite audience, but what it will do for the brand is get lots of people talking about Nissan. The GT-R is already recognized globally as a tremendous performance car. And it's known as a Nissan, linked to the Z. It's going to be a wonderful "halo" car for us. It gives us an opportunity to extend the buzz surrounding the Z, which is a brand icon for us in the States. We'll be able to take that up a level, solidifying the brand's performance aspect. We're looking for it to boost showroom traffic, too, and expect to see Z sales affected positively when people visit the dealerships.

When we were doing the Quest and Versa ride-and-drive in Nashville there was one quote in the speech that really struck me. The observation was that many companies making the kinds of changes we are such as moving across the country—are doing so during times of crisis, but we're making them in a time of strength. The company has graduated. Before, we were in crisis, and then in the comeback mode. Now we're stable and profitable. It demonstrates that we're not only competitive and strong today but positioning ourselves to have sustained growth in the U.S. in the future.



NNA Headquarters Concept  
(mid-2008 occupancy)



Sentra



Versa

# NISSAN



## A Record Year and a Fresh Look



**BILL BOSLEY**  
Vice President

**Fiscal 2005 was a record year for sales at Nissan North America and the Nissan Division. We gained share and sold over a million units—1,075,000 to be exact. That represented over a 6 percent increase from 2004. I also believe we**

**were the leading contributor in the company's record overall profitability.**

From a market perspective, the U.S. looks stable, although rising gas prices have shifted a lot of consumer demand to smaller, more fuel-efficient cars. However, SUVs and trucks will still play a big role because of characteristics such as towing capability and load capacity, so I think the demand for them will remain strong.

We're bringing five products to market during this fiscal year, which is both a great opportunity and challenge. Two will be significant revamps of existing models, the Maxima and the Quest. And then we have an all-new Sentra and Altima.

The biggest news is that we'll have a brand-new car, the Versa, which will put us into the entry-level segment in the U.S. market for the first time. One big benefit when you bring people into the brand early on is that they can grow with it. The Versa should also bring in some former used car buyers. If they purchase a Versa, we hope they'll progress to an Altima, Maxima, one of our SUV models or an Infiniti as their lives progress.

The average Nissan buyer today is already among the youngest customer segments. One of the biggest challenges we face is retaining that particular segment, because they do tend to change

brands a little bit more often than older consumers. But it also has tremendous benefits because you're bringing in a trendsetter, somebody that's very attuned to emerging brands.

In our dealer network today we have approximately eleven hundred Nissan dealers, and we're pretty happy with that number. A main activity today in the dealer body is the "N-REDI" program, which is the visual branding of our retail stores—new signage and exteriors as well as new interiors, furniture, fixtures and floors. We have about 35 percent finished, and 50 percent under way.

Before the N-REDI program, we hadn't done a new visual identity-branding program for ten or twelve years, so it was time. And we never had standards; every dealership was different. We believe it is important for a strong and consistent brand presence in the market place and that is why we embarked on this activity. The before and after pictures demonstrate the significant differences between the places we're taking out, and the new ones we're replacing them with.

It's exceptional to see this in the marketplace; it's a very big statement. I think you need to have your facility make a bold brand statement when consumers drive by. I'm a bit biased, obviously, but when you drive down auto row and look at the other brands and their facilities, I think ours stands out.

Finally, we've been very consistent in our profitability, so we're a very stable company now. That stability allows us to make the necessary investments in future product and infrastructure, which is essential to staying competitive in this incredibly competitive business. We can also respond faster to consumer trends where other manufacturers may not be meeting their needs. You can see that in the new products we are introducing that are fulfilling unmet customer needs.

# INFINITI



## Pursuing a Global Level of Luxury



**MARK IGO**  
Vice President

**From a profit standpoint 2005 was a very good year, and we met the aggressive targets we had set. Sales were flat, though, with no new models. That was planned. We're moving the brand to the next level, and we need to look at our infrastructure. We've**

**outgrown our dealerships, and we need to expand in order to provide our high level of customer service to our rapidly growing base of new Infiniti customers.**

Basically, we need to grow and reshape our dealership's footprint. When Infiniti was launched in 1989, we had four-car showrooms with six or seven service bays. That's adequate when you're selling forty thousand cars, but last year we sold 133,000, and we will grow tremendously over the next few years. We don't need a big footprint to display and sell our vehicles, but we do for service. Luxury customers won't wait for service, and they shouldn't have to. So we revamped around twenty facilities last year, and plan to have major expansions at about forty dealerships in the coming year. These are major expansions, such as increasing the number of bays by four to five times a dealership's current capacity. When you get all these people coming in for their regular servicing, you need those technicians and bays.

The root of the vine must be strong, and that's our dealer network. We have about 180 dealers now, and see 200 as our limit. In fiscal 2005 our biggest challenge was continuing the launch of the M sedan, which raised our transaction prices from the mid 30,000-dollar range to over 40,000 dollars. We told

the dealers to get ready—that higher transaction price brings higher demands.

The typical Infiniti buyer is one of the youngest and best educated in the luxury market. They don't have a preconceived notion of luxury, and they're as interested in the technology and styling and what it says about them as they are in the badge. I think that's why the G sedan with the Studio on Wheels will be successful, because they'll view it from an audiophile's standpoint. It'll be fun to drive, with great performance, but offer something a traditional luxury car doesn't.

We want to resonate with that younger buyer, and hopefully they'll grow with us. All our brand opinion and awareness metrics have risen consistently.

Our technology edge and younger customer base have made us number one in online shopping. Since our customers know a lot before they visit the dealership, it's not always a ten-step sales process; they may be at step seven. Being able to recognize that is a real key.

We're very bullish on the future of the U.S. luxury market. The quality of our new products is bulletproof. The second-generation G is a beautiful evolution, and it's going to give people driving competitor makes a reason to switch. The crossover segment is the one I'm watching, because it's influenced by gas prices and what's new to the market.

We also now realize that luxury is truly global. People around the world have the same standards and expectations, and that's communicated worldwide. For example, Infiniti went into Korea and we're now seeing benefits in California. Once we're in China and Europe, I think we'll see even better sales along the East and West Coasts. That awareness will boost our image as a global luxury brand.