

JAPAN

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Chief Operating Officer



Establishing a Competitive Advantage in Japan

Our sales volume in Japan during fiscal 2006 was 740,000 units, representing a year-on-year decline of 12.1 percent. External factors influencing these results included the drop in total industry volume and a shift in demand to the mini-car segment. Total industry volume was down by 4.1 percent from the previous year to 5.62 million units.

However, internal factors also played a role. For example, we did not launch any new models in major segments such as compacts and mini-vans. While mini-car sales reached an all-time high, the sales of what are referred to as “registered” cars dropped significantly, going below 3.6 million units for the first time since 1977.

As the aging of the population accelerates and customer values change, the reality is that we can no longer expect a big rise in total industry volumes in the future. Competition will continue to get tougher as well. However, we believe that even in this rapidly changing environment Nissan can establish a competitive advantage. Therefore, we have taken a series of corrective actions, as opposed to passively following the market environment and shifts in customer behavior.

One of these essential reforms involved modifying the sales function. Starting in April 2005, we began combining our Red and Blue Stage outlets so that customers would have one-stop access to the entire range of Nissan products. Having multiple sales channels for one brand can be effective in a growing market. But once market growth diminishes, the multiple channel strategy is an inefficient way to run a sales network. That structure also forces you to constantly introduce new models to maintain those channels, which can have a negative impact on investment efficiency. It is time for us to examine how to achieve the highest level of customer

satisfaction, and then accomplish that in the most efficient manner possible.

Our sales network has historically been built on regions and channels. Now we offer customers the full lineup of Nissan products and life-long service support through our rationalized outlets.

In addition, Nissan is the first company to optimize its outlet locations as a way to minimize operational costs and utilize outlet assets more efficiently. In July 2006, we established Nissan Network Holdings to manage our 52 consolidated dealers in Japan. We also split the sales and asset management functions into separate companies. Now we are consolidating sales companies and optimizing our outlets prefecture by prefecture through consolidation, terminations and new sales points. In fiscal 2006, we successfully completed this process in five prefectures and are now working to duplicate that feat in a dozen more.

As we announced in March 2007, the objective of the Nissan network strategy is to further accelerate our restructuring efforts and transform our networks into a distinct competitive advantage. We will focus on the quality of our sales interactions and work to achieve outlet operations with higher customer satisfaction and profitability. We plan to do this by sharing best practices between outlet operations and improving the capabilities of our employees. Given the tougher competitive environment we face, we are working on reducing our indirect activities to improve the cost structure of our sales companies. At the same time, we are committed to supporting the sales staff with better tools and methods.

Maintaining stable sales and higher production in Japan is crucial for us to secure our competitiveness as a global manufacturing company. That is why we need to regain momentum in our domestic operations and improve profitability. We are working



not only on network reform but also a variety of other activities, such as launching appealing new models, developing innovative technologies, and optimizing the manufacturing cost structure in Japan.

The 12th-generation Skyline, which we launched last November, has exceeded our initial forecast thanks to its design, driving performance and technology. Our Dualis, which we introduced in May, is also off to a solid start. While customers are changing their attitudes about car ownership, treating cars more as commodities, we believe we can build a stronger brand and presence in Japan if we provide unique and innovative products.

We believe that the rapid changes in the market and competition are here to stay and indeed, intensify. However, we will seek to boost our competitive advantage in Japan by continuing to revolutionize our operations and products.

Nissan Domestic Sales Network Renovation

In order to develop a more powerful sales network by renovating and empowering our outlets (sales front),

As a first step, NML must alter the whole concept of its Domestic Marketing and Sales Divisions.

◆ Focus on the sales front

Switch from NML-led "Across-the-board" management to "Management that focuses on frontline sales communications"

◆ Change network management

Move from Management by prefecture/dealer to "management by individual outlet" → **High-performance outlets**

Steps to Energizing the Outlets



Dualis



Skyline



Serena