

Showcasing the New Legacy

Delivering True Customer Value on the World Stage

— The new Legacy provides an “enriching experience” to all drivers and passengers —



An Interview with the Project General Manager for the New-Generation Legacy

Q: Could you please tell us about the positioning of the Legacy within FHI's medium-term management plan?

The Legacy accounts for a quarter of Subaru's total unit sales (560 thousand vehicles in FY2009); the ratio is even higher in terms of revenues and profits. Benefiting from the launch of a new model in 2009, Legacy sales are projected to make an increasingly important contribution to FHI's overall sales volume and mix over the next 12 to 18 months. On a geographic basis, North America—where the model is manufactured locally by Subaru of Indiana Automotive, Inc. (SIA)—accounts for approximately half of all Legacy sales, with the remainder spread throughout Japan and other markets. As identified in our medium-term management plan, wider market acceptance of the Legacy in the world has a significant impact on Subaru's ongoing growth.

Q: What effect did the adoption of this global perspective have on the development process?

The Legacy was historically built as a vehicle of the Japanese, by the Japanese, for the Japanese. However, in the coming months and years, it is imperative that the new-generation Legacy not only competes but also excels on the world stage. We have thus taken comprehensive steps to extend our design, product planning and development processes beyond the limitations of the domestic market. In addition to identifying the product features of competing vehicles in the U.S. market, we have endeavored to ascertain the

expectations, requirements and causes of dissatisfaction among current Legacy owners. Once putting aside our idea just focusing solely on the manufacture of quality—in other words, on engineer oriented vehicles should satisfy our customers—we took into consideration how our products are viewed and worked diligently to address each aspect of the high function and performance levels required by customers including the customer's future requirement of the car.

Q: A key theme of the medium-term management plan is to “increase sales globally.” How do you plan to put this into practice? Can you also elaborate on FHI's activities in each of its major markets?

In Japan, the two-liter sedan and station wagon classes, mainstay markets for Subaru's Legacy series, are both showing signs of steady contraction and persistent decline. Despite efforts to clarify the Legacy's target users demographically, this downturn in its customer base is making it increasingly difficult to ensure continuous sales.

Naturally, the Legacy's ideal target base consists of those customers who feel an overall sympathy with its features and concept. Therefore, it is problematic to convey the appropriate appeal of the Legacy when catering solely to the needs of the typical two-liter sedan and station wagon users. Put another way, this particular series continues to attract wide acclaim from current and previous owners as well as generating interest from those who have yet to enjoy the Legacy experience. Over and above a conceptual image, we have thus placed considerable emphasis on identifying the needs of this latent market while at the same time delivering to the future lifestyle requirements of Legacy fans from wide-ranging perspectives, including ride comfort and convenience in the real world.

Project General Manager of New Legacy

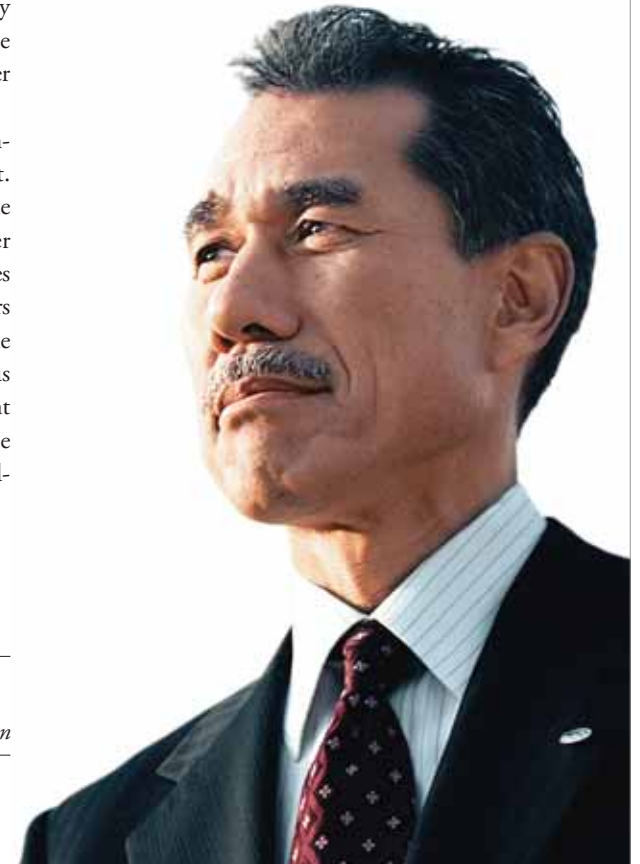
Takeshi Tachimori

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2.5-liter Boxer Engine (Left)
Eco Gauge (Right)

“Delivering to the future lifestyle requirements of customers.”





Lineartronic: a new developed CVT(Continuously Variable Transmission)



Interior: increasing both vehicle height and width to satisfy customers



Cradle structure: newly designed as a powertrain mounting system

As a pioneer in the U.S. crossover vehicle category, our principal focus is on staging a recovery with the Outback, sales of which peaked at between 7 thousand and 8 thousand units per month. Stimulated by Subaru's robust crossover performance, our competitors launched successive series of models exclusive to the U.S. market. A combination of factors—our inability to afford an exclusive body approach and the influx of rival models—meant that our Outback could not keep up with customers' changing needs. To rectify this situation, we took comprehensive steps to identify customers' selection criteria. In uncovering how the Outback is currently perceived—those features in our existing lineup that are considered attractive and those that tend to detract from a potential purchase—we redesigned our criteria, increasing both vehicle height and width.

Turning to the U.S. sedan market, where unlike the Outback our monthly sales have only reached 1 thousand units, we have to deliver products that can compete on an equal footing with other North American models. To position the Legacy as the vehicle users will choose next, we upgraded its capacity, driving comfort as well as fuel efficiency. In addition to delivering superior handling and ride comfort, we have made the Subaru brand image and character stand out from the crowd and reinforced the Legacy's market presence through the use of distinctive styling and design.

In this context, we looked closely at vehicle dimensions. The comparative overall widths of the domestically marketed Legacy sedan/station wagon and the Outback are 1,780mm and 1,820mm, respectively. To have enough size appearance in the United States, we standardized the width of both the Outback and Legacy sedan at 1,820mm. In order to better satisfy the plenty of room requirements of drivers and passengers, we increased their overall height.

Q: Are you selling a two-liter class Legacy in emerging markets?

Historically, Legacy sales in the United States have been based on the 2.5-liter class, while the two-liter class made up the vast majority of sales in Japan, Europe and other export markets. Taking into consideration the product prices and related tax imposts, we have identified the two-liter class as critical to our ongoing marketing efforts in

Europe and such emerging markets as Southeast Asia, the Middle East and South America. In contrast, in Japan, we are focusing solely on the optimally balanced 2.5-liter class.

Ordinarily, the two-liter class outperforms the 2.5-liter in terms of fuel efficiency. Under actual driving conditions, however, thanks to the newly developed CVT (Continuously Variable Transmission), "Lineartronic", which lowers the overall engine speed, the torque-handling capability of the 2.5-liter Legacy dramatically, improves fuel efficiency. Focusing on the actual level of customer satisfaction, we have therefore selected the 2.5-liter class. Based on practical market research and with little or no discrepancy in fuel efficiency between the 2.5- and two-liter classes, customers have shown a clear preference for the former.

Q: What steps have you taken to address the cost reduction issues?

In the case of the fourth-generation Legacy, two factors served to place considerable downward pressure on profits: our inability to fully offset emission and collision safety compliance costs through product price mark ups and the extensive use of aluminum parts designed to improve fuel efficiency.

Learning from past experience, we carried out examinations on an individual market basis to validate that the incurred costs would be recognized by customers as product value. At the same time, we undertook comprehensive comparisons of the equipment and specifications of competing vehicles in the United States to clearly identify distinguishing characteristics as well as essential items. In order to ensure a cost structure commensurate with product value, we worked diligently to reduce costs from the design and purchasing stages and to eliminate all factors that could cause a profit decline.

Q: In the past, production and sales in North America have lagged behind Japan by around a year. What measures were adopted in the lead up to concurrent production?

Following its launch in 2003, the fourth-generation Legacy was acclaimed "Car Of The Year Japan." At the beginning of the follow-

ing year, I was appointed to the position of Project General Manager (PGM) responsible for the development and launch of the next-generation Legacy. In taking on this PGM role, the usual first step would have been to assemble a project team made up of engineering division members and to then consider and determine the contents of vehicle to be developed. In my case, however, I spent the first year evaluating wide-ranging aspects of the U.S. and domestic markets to ascertain those requirements critical to ensuring overall sales success. Before considering the contents of vehicle to develop, I held in-depth preliminary discussions with both manufacturing and sales divisions. With the United States recognized as the best sales area for the Legacy, local sales and marketing divisions insisted that we eliminate the historic one year lag that existed with Japan. Having previously been posted to Subaru's U.S. operations, I could only agree with these sentiments and vowed to make the necessary changes.

A key component of my initial duties was therefore to consider and determine the development and manufacturing process that would most efficiently lead to concurrent production in the United States and Japan. From a cost perspective, a review of the production process was naturally essential to securing further cost reduction. In this regard, we drew from the ideas culled from such wide-ranging fields as procurement and production, fine-tuning overall schedules as delays arose. As a matter of fact, the idea to increase and align the dimensions of the Legacy sedan with those of the Outback in the United States came from a member of our purchasing division.

Q: What was the turning point in the development of the new-generation Legacy?

Even at the conceptual level, the issue was never "What should we improve and how?" but "How should we work with customers?" and "Fundamentally, how should we approach them?" How to approach customers is a critical concept that must be understood from the very beginning of the car development process, be it in product planning or in the engineering division.

My role has therefore been to bring the relevant issues into sharp focus. I have had to think about how to persuade others and to move

forward. In intending to respond to every issue, I have studied each one and asked myself "Is this really impossible? Would doing this make it possible?" While I placed all the project team members in a difficult situation when I commented "Look, we are successful," I invariably received the reply "Yes, indeed we are!"

In fact, if I had to pick the most difficult aspect, I would have to say it was overcoming what we considered to be obstacles, and then thinking about how we could overcome them. I'm not referring here to a naive mentality. It was more the difficulty in transferring this thought cycle and process into action logically, or in other words, applying our minds to accomplish each task.

In order to release products as a truly professional manufacturer, Subaru has therefore changed its conventional ways of thinking, approach its customers and the methods used to develop its products through the project of new-generation Legacy.

Q: Finally, how would you define the "enriching experience" that you sought to deliver with the Legacy?

If I were to explain my interpretation of an "enriching experience," I think that it would definitely involve "grand touring innovation." In the past, grand touring was associated with travel, the idea of "taking a journey on the road of life." Each journey brings with it new discoveries and experiences, which serve as a wellspring for human growth and development. The "enriching experience" that we sought to deliver with the Legacy encompasses pushing boundaries and exploration, to visit new places, make new discoveries and enjoy all those things that are part of life's rich tapestry. The Legacy's "enriching experience" could therefore be regarded as the pinnacle of life's pleasures and rewards.



“Encompass pushing boundaries and exploration.”

