

THE 1300  
IN COLOR!

MOTORCYCLIST



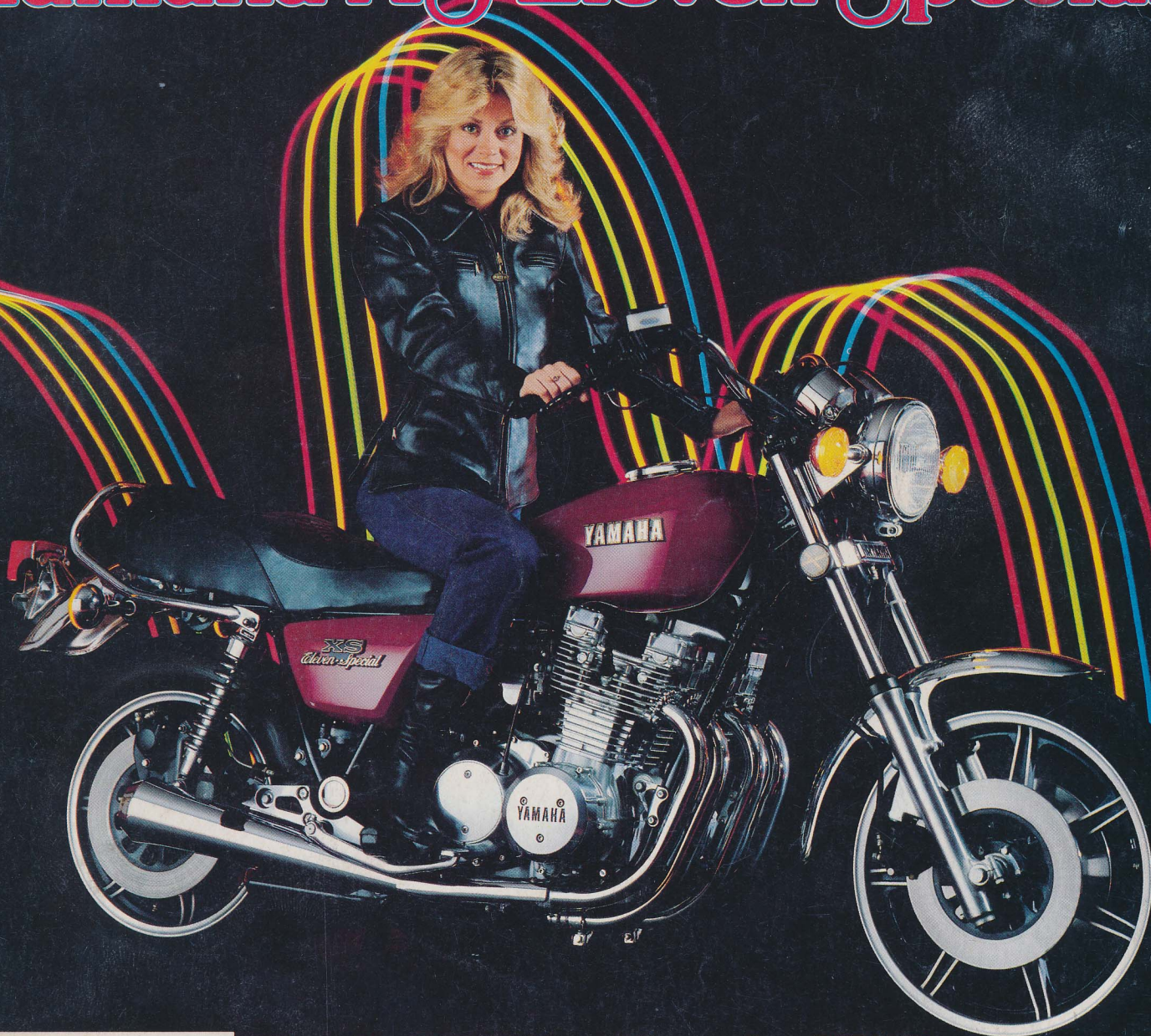
Riding Kawasaki's Monster Six

FEBRUARY 1979

# Motorcyclist

\$1.25  
In Canada  
\$1.50

## Yamaha XS Eleven Special



Honda XR185 vs. Yamaha IT175

Battery HowTo • Maico 400 Enduro

son: Detachable Saddlebags

KOLNCA4R0063098 MAY80  
SID LONCWEILL



## COVER

Yamaha's top 1979 machine features the XS Eleven motor, the styling of the Specials and other goodies as well, including model Dawn Clark. The background pyrotechnics were conceived by photographer Mike Levasheff and executed by Art Director Jervis Hill. The test begins on page 20 with another full-color photo of Dawn. Our special 8-page color coverage of Kawasaki's new 1300cc Six starts on page 48.

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# Motorcyclist

Magazine

PUBLISHED MONTHLY • NUMBER 980

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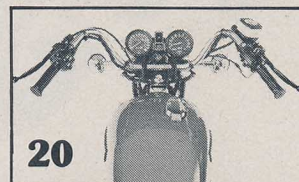
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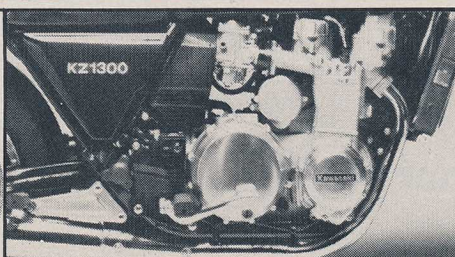
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# Hodaka At The Crossroads

## Will The Fall Of The Dollar Squash The Road Toad?

By C.D. Bohon

**I**s Hodaka dead? Not yet, but its future is uncertain. That's the substance of a tangled economic yarn ensnaring Oregon, Japan, Pennsylvania and Taiwan. Hodaka's Nagoya factory stopped building Road Toads and Dirt Squirts last summer. Pabatco, Hodaka's traditional U.S. importer, folded at the end of 1978. Why? "It's the yen/dollar thing," says a Pabatco executive.

When Pabatco first began importing Hodakas from Japan in the early 1960s, the dollar was worth 360 yen. By 1971 its value had dropped to 308 yen. After the oil crisis of 1973 the dollar began a slide against the yen from which it has never recovered. In the fall of 1978 a dollar would buy only 175 yen. This means, without adding on cost rises from inflation, that everything made in Japan now costs an American twice as much to buy as it did just a few years ago. This has hit Japan's export-dependent industry hard. Japan has been described as having a bicycle economy: as long as it keeps moving, it keeps moving, but if it stops it will fall. As long as business can be generated and the cash flow kept going, Japan, Inc. is okay. But if business drops off for very long—disaster. The main purpose of industry in Japan is not to make money, but to create jobs to support the country's 110 million people. Profit margins are slim. Companies, even the largest, are under-capitalized by American standards and, as it were, over-mortgaged; they borrow the money to produce the goods which are sold to pay off the loans. It's an endless cycle which works fine as long as sales are high.

The skyrocketing value of the yen has meant many small companies with limited volume have not been

able to realize enough sales to meet costs and pay off creditors. That is Hodaka's situation. The wombats just can't pedal fast enough to keep the bicycle going. "The collapse of the dollar has hurt Hodaka terribly," says Alex Hata, president of Sanko International, Hodaka's Japan-based export agent. "It will sometime kill us. We do business on a yen basis. The dollar drops. We sweat." If it costs 125,000 yen—\$1500 at an exchange rate of 250 yen per dollar—to profitably build a Road Toad, and a year later the dollar is down to 175, selling that Road Toad for \$500 brings in only 87,500 yen (\$350). "We can't raise prices and stay competitive, so we cut costs 20, then 30 percent. And still the dollar drops."

Since 1964 Hodaka has built 150,000 motorcycles. Any other Japanese motorcycle maker could turn out that many machines in a few weeks. Any other maker could cut costs, raise prices, find a balance and survive on sheer volume. But Hodaka is just too small. "Our last full year of production we stretched out from January, 1977 to May, 1978," says Hata. "We built 9000 motorcycles. Our last shipment was

in June. Since then we have done only spot business when a particular distributor orders machines. We have no yearly plan." Can Hodaka survive? "It's very risky, frankly speaking, very shaky right now." In fact Hodaka was saved from bankruptcy in 1977 by an emergency loan from the Japanese government. Since then the company's long-time relationship with Pabatco, its Oregon-based distributor and oft-times financial backer, has come to an end. "We don't like to cut the strings," says Hata, "because we have been working together for more than 15 years, but we can survive without them."

Hodaka is the last of more than 100 small motorcycle makers which blossomed in Japan in the 1950s. Most were memories by the early Sixties. It was only through the tie-up with Pabatco that Hodaka has managed to survive for so long. Pabatco (Pacific Basin Trading Company), a division of Western Farm Services, Inc., a subsidiary of Shell Oil, was formed at Athena, Oregon in 1959 and over the next four years imported about 5000 Yamaguchi motorbikes. Many were traded for Oregon wheat. Hodaka supplied Yamaguchi's



engine/transmission package, an arrangement which had been going on since the early Fifties when Hodaka stopped making complete motorcycles itself. A factory team of early Hodakas won a manufacturer's prize at the Nagoya TT in 1953. When Yamaguchi went bankrupt in 1963, Hodaka and Pabatco got together to produce and market a new motorcycle. The combination has worked for a decade and a half. Were it not for the decline in value of the American dollar on world money markets, it probably could have continued indefinitely.

But Pabatco executives explain a breakdown between Japan and Oregon had been brewing for a long time. The collapse of the dollar acted as the final catalyst. "Hodaka seemingly didn't really want to make motorcycles. We got by on minimum factory production. They just wanted to keep grinding out the same old stuff. We had to push them... put pressure on them to make engineering improvements. Our R&D department designed one of the first reed-valve induction systems but it took us years to get Hodaka to build it for us. It was three years after everybody else had it before we convinced them we needed primary kickstarting. Same thing with oil injection. We had to make a virtue of mixing oil and gas in our ads because we couldn't get Hodaka to build an oil-injection engine. All they wanted was to make current production motorcycles—and get their money."

The Pabatco men go on to explain that they managed to stay in business by operating with a "super low" overhead and spending several millions of dollars to advertise their product and give it a national image. "We spent a lot of money on promotion we really couldn't afford." Everything went along well enough, however, until the Big Four muscled in on Hodaka's special turf. "The Hon-

da MR series really hurt us," Pabatco complains. "You could buy a Honda for \$200 less than a Hodaka." Of course, Honda's volume production lowered its manufacturing costs far below those of the Nagoya company. Too late Hodaka realized it had to expand production to stay alive. It asked Pabatco to buy 30,000 units a year of each of the three models it made. Pabatco refused.

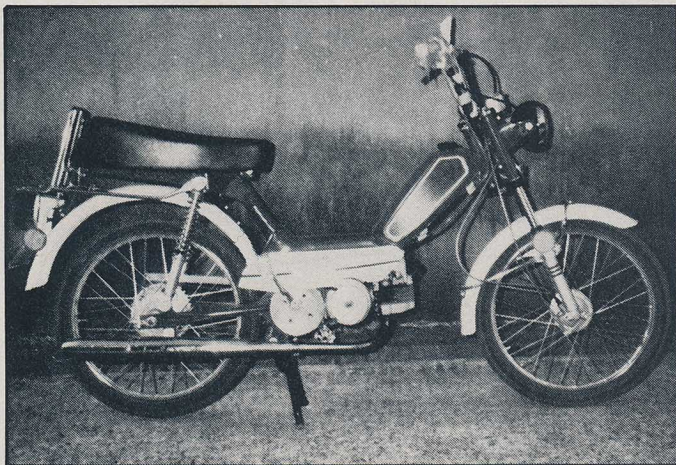
"We were a specialized house with a specialized product," explain the Pabatco execs. "We didn't have 25 models, only three. There was no way we could sell that many of each type." They estimate 15-18,000 units per year is the maximum capacity per model of the Hodaka sales network in North America. "We tried to get them to expand their line-up years ago. We tried to put money in them. In 1967 we went to Japan to make a major investment in Hodaka—not just buy jigs and molds but actually buy part of the Hodaka company—at Hodaka's request. They needed money. But when we actually got down to negotiations at the conference table, they refused us entry." At that time the Japanese government was unconditionally opposed to any penetration of the domestic motor industry by foreign capital. Not until Mitsubishi bolted the ranks in 1971 and joined Chrysler did this attitude begin to change. Perhaps Hodaka, being small, had not the courage to defy the agencies which granted it an export license. If, in fact, it was the actual or feared wrath of the Japanese government which cooled Hodaka's yen for dollars a decade ago, then that government must now bear at least a portion of the blame for Hodaka's current plight.

Alex Hata explains Hodaka now, with the yen as highly valued as it is, must have a minimum manufacturing volume of 30,000 units per model in order to produce each machine at a competitive cost. "We couldn't sell

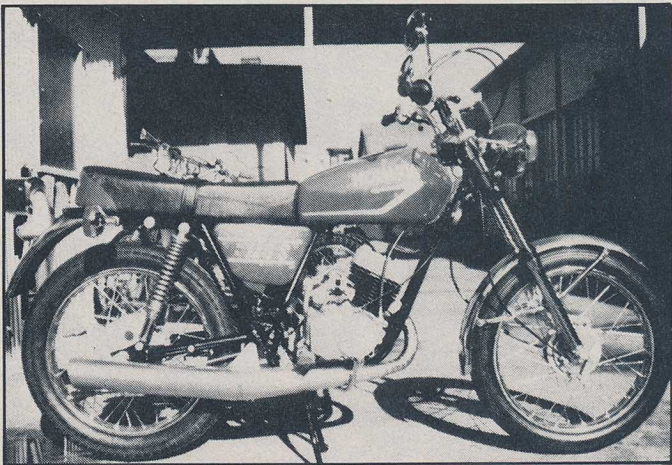
that many each of only three models," reiterate the Pabatco officials. "Hodaka needs more money to be financed—big money," counters Hata. "We've already invested over a million dollars in molds and jigs in Japan," the Pabatco people reply. "We *must* have more money, larger capacity," says Hata. "We couldn't get them to be reasonable," conclude the Pabatco executives, "so we decided to withdraw." In a parting shot they describe Hodaka as only a good machine shop. "They did the actual machining of cylinders and grinding of gears. But (as do many manufacturers) they farmed out most of the production to 147 subsidiary shops."

So Hodaka, which has made gears for Honda, Yamaha, and now Toyota to keep itself busy, is casting about for a new partner, one with a large pocketbook and a willingness to invest in expanding Hodaka production facilities at a time when the uncertain economic climate makes Japan an increasingly less attractive investment arena for foreign capital. Domestic investors also look askance at a small company almost totally geared to exporting a product which even giants like Honda and Yamaha have lost money on recently.

In order to get that vital 30,000-unit sales volume, and the manufacturing capacity to achieve it, Hodaka has been working closely with a Taiwan concern to produce a moped. Nagoya will supply the 50cc motor and transmission, and the rest of the machine will be built in Taiwan. "We would like to export it to the U.S. through the former Pabatco sales network," says Hata. "We plan to make this the highest-performance moped in the world, better than a Puch or a Peugeot, with a variable speed transmission." The prototype looks very Peugeot-like in fact. Except for the laid-down Hodaka motor and a dual seat, the two machines



*A prototype of the Hodaka moped unveiled recently at Anaheim without Pabatco authorization caused a brouhaha which helped break the Nagoya—Athena alliance.*



*The logo is only taped to the gas tank of this experimental street bike. Hodaka is still not sure it can market its proposed new line under its own name—Pabatco owns that.*

# Hodaka At The Crossroads

appear almost identical. "We plan to sell the moped for \$270 FOB Japan, or maybe a little lower. We have to make 1000 a month at this price, otherwise we won't be competitive. Even without the United States there is a big market for such machines. We have contacts in Portugal, Singapore, Indonesia and elsewhere," says Hata.

It's probably a good idea they do. Ed Martin of Wheels of Time has negotiated the use of the Hodaka name (owned by Pabatco) and most of the dealership network. Wheels of Time, based in Lock Haven, Pennsylvania, plans to continue supplying parts to Hodaka dealers "as long as there is a demand." Farther down the road, Martin hopes Wheels of Time will be able to revive and expand the Hodaka motorcycle line. "The prospects are, I think, good," he says. "The Hodaka name is well-established in the U.S. and we have a viable, loyal, dealer network." But not for mopeds. "The moped is an urban-oriented product. The traditional Hodaka has been, and most of our dealers are, rural. It might be all right to import some mopeds just to broaden our range, but we would rather work on improving the Hodaka dual-purpose bikes. The 175 in particular was a good bike and good seller—we'd like to get those coming back in." Martin explains that if the machine shops which formerly made the parts for Hodaka don't want to go back to making motorcycles, Wheels of Time may have to find another company to manufacture the machines. "It would

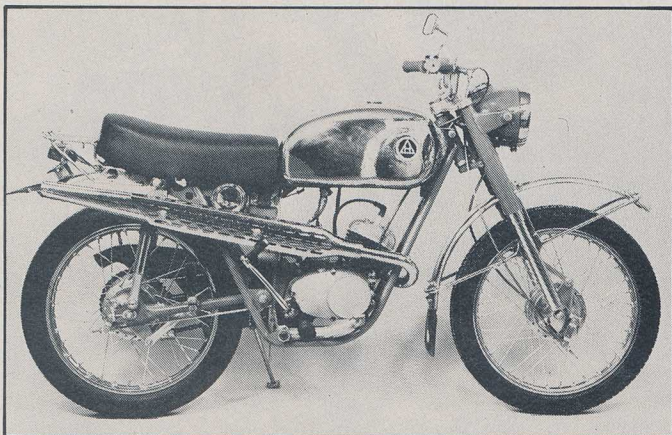
be 'Hodaka by \_\_\_\_\_'—some other maker, then." Alex Hata also mentions this possibility. "We are working on finding someone else to put together our motorcycles," he says. "We are dealing with Komatsu"—a major Japanese earth-moving equipment manufacturer and principal Hodaka stockholder—"to build the bikes. We would manufacture engines only. We are also negotiating with the biggest company in some other country—not Japan, not the U.S.A.—a company bigger than Toyota, to provide backing." (He may be referring to Peugeot, Europe's biggest auto manufacturer and perhaps the largest single moped maker in the world. That company may be interested in the double possibility Hodaka offers for penetration into both the North American and Asian sales markets.)

Such backing might enable Hodaka to market a line of street bikes, another plan in the works to boost production and make it cost efficient. The company has developed a prototype range of 125, 175 and 250cc two-stroke streeters with specially-designed Mikuni carburetors to help them meet EPA regulations. Martin says Wheels of Time is interested in importing these bikes. "I think the future of motorcycles in the U.S. will be more and more toward utilitarian street use. Land closures and environmental regulations will really cut the off-road market." Martin goes on to say he would like to see Hodaka develop a four-stroke motor. "I think they'll have to. They are tied up with Xenoa (formerly Fuji)—it's their umbrella company—so I think they have the technology." Xenoa is a fairly large Japanese company that makes, among other things, truck chassis, and rebuilds Lycoming and Continental aircraft engines under license. "Xenoa has experience making motorcycle engines, too. They made the engines for the Chapparel, Fox, Rupp and for a bunch of other com-

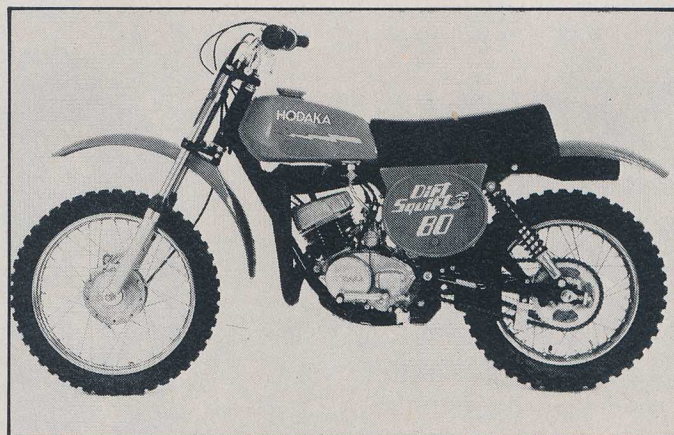
panies. Once Hodaka tied up with Xenoa it was all pretty much the same engine, and pretty much the Hodaka engine. In fact most of the parts are interchangeable between Hodaka and these others. I don't know how they worked that, but it's true. Wheels of Time stocks parts for both the Hodaka and the Xenoa engine and most of them are interchangeable. We've got them cross-referenced in our inventories."

Why did Martin decide to shoulder the task of carrying Hodaka through its present difficulties? "I was a distributor. Most other distributors had other lines to market. Hodakas made up maybe 10 to 30 percent of their volume. But Hodakas made up 99 percent of my volume. I like Hodakas; they're good bikes; I think there's a place for them. I think we can get them coming back into the country.

Perhaps. But the resuscitation won't be easy. In Japan, Hodaka employed only 60 people in the fall of 1978, down from 80 that spring. Recently at the head office—a single room 20 by 20 feet—three people sat waiting for six telephones at six desks to ring. None did. The receptionist had been laid off. Nonetheless, Alex Akio Hata expressed guarded optimism. "Financially, we are like the chicken and the egg. We need to sell more motorcycles to get enough money to expand our facilities so we can sell more motorcycles." He shrugged his shoulders and grimaced. His suit was rumpled. The receptionist had filed some papers he needed and now she was gone and no one knew where she had put them. He rooted through boxes and file cabinets, a small businessman fighting to keep his company afloat. "But we have the know-how; our suppliers have the know-how. That know-how is worth money." He found what he was looking for. "We will pull through. I am confident of that." He smiled. **M**



The first production Hodaka, the Ace 90, introduced in 1964, became so popular that Pabatco was able to establish a network of 1200 dealers in the U.S.A. and Canada.



The last production Hodaka, the 80cc Dirt Squirt was very popular. Wheels of Time hopes to import it again soon. Recent recovery of the dollar should help the chances.