

2018 NADA J.D. Power Automotive Forum - Bill Fay

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As prepared for:

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Introduction: Wes Lutz, NADA Chairman

Thank you, Wes.

And thank you to everyone for joining us today. I want to give a special shout-out to all the Toyota and Lexus dealers who came to the city just to hear me talk.

New York is my favorite city for a lot of reasons. Coming back always re-energizes me, and reminds me of the start of my career.

It's humbling to get back to your roots and rediscover how you got to where you are.

For me, all it takes is a couple steps down to the subway, and taking in a deep breath of that stale air... and I'm back.

And while New York stays the same in some respects, like most cities, it's always changing. Nothing in this world is immune to change, especially the auto business.

And there's nothing wrong with a little change!

I'm sure you all remember when we turned on the TV in the morning to check the weather for the day. Now... you don't even have to get up. All you have to do is say... "Alexa, what's the weather?" From anywhere in the house, a nice lady from Amazon will give you the forecast.

Disruptors like Alexa are a product of innovation ... and a catalyst for change. They force us to stay on our toes, and ultimately, we're better for it.

In the same way, the automotive industry is facing constant and changing disruptions – there's no denying that.

So today, I'm going to focus on some of the main disruptors making waves in our industry like: changing consumer preferences, mobility as a service, and autonomous driving systems.

Now, some of these will have a significant impact on our immediate future, while others are still on the horizon.

In the near-term, the changing dynamic of our customers is a major disruptor.

Let's start with "who they are."

The millennial generation is expected to represent forty percent of new car buyers by 2020. And we all know that their expectations are different than the generations before them. They want a car that can do it all.

For them, convenience is king, but safety and technology are the kingdom. And they are multi-taskers, who want to make the most of their time.

How they shop and buy is also changing. They do their research online, and by the time they get to the dealership, if at all, they know what they want.

It's a whole different ball game.

Research into their expectations has been consistent. They want a process that is timely, transparent and trustworthy.

And at Toyota and Lexus, we know the best way to meet and exceed consumer expectations is by partnering with our dealers.

For both brands, we realize our approach needs to be more than just selling cars online. Regardless of whether they are shopping, buying, or already own the car, we want to be there for our guests.

For example, we launched our Lexus Plus pilot more than a year ago, which is delivering on its goal of creating a more transparent, customer-focused purchase and ownership process.

This solution offers up front, negotiation-free pricing, and a single point of contact, out of respect for the guests' time.

And for Toyota, we are currently testing different solutions in multiple markets, including easy, transparent pricing online, in-store sales via tablet, online scheduling for service appointments and e-commerce for parts.

This digital process enables us to honor the time our guests have spent online and ensures that their information is seamlessly transferred to a dealer before they arrive.

Our ultimate goal is still to be flexible for our guests and our dealer partners, and to create a seamless process that facilitates a lifetime relationship between the two.

In addition to the purchase experience, the preferences of today's customers are rapidly changing.

In just the last four years, we saw 2-point-5 million consumers make the switch from cars to light trucks. This 15-percent shift in-market is a huge transformation, and one that we have never seen before.

As a result, this caused a major paradigm shift in the entire value stream. From vehicle design to planning and production, the industry is still adjusting to meet the changing desires of the customer.

But we have seen this trend coming for some time, and enhanced our product mix to meet consumer demand for mainstream and luxury vehicles.

In fact, we introduced the first car-based SUV – RAV4 – back in 1994, which provided the amenities of a sedan with the driving experience of an SUV.

In today's market, RAV4 is exceeding our expectations, becoming our sales leader last year, with more than 400-thousand sales.

Which is great timing, because tomorrow we will debut the all-new fifth-generation 2019 RAV4, and we can't wait to give our customers more of what they want.

Just like when they told us, "We love the Lexus RX, but we'd love it EVEN MORE if it had a third row!"

We responded with the all-new third-row RX-L, which went on sale last month!

And while some of our competitors are signaling a disinterest in sedans, we chose to double-down and reinvest by improving our sedans to make them even better to meet our guests' expectations.

After all, Camry has been the number one passenger car for 16 years in a row.

And we are continuing to push the needle with innovative and emotional cars, like the all-new Avalon, Lexus LS and Lexus LC 500.

So as a full-line automaker, no matter how our customers change, we'll work hard to meet their needs. Because innovative products built with industry-leading quality, reliability and safety will always be one of the best defenses against disruptors.

Now, software and technology – or more specifically – mobility as a service are major topics of disruption in our industry, and they are driving opportunities for growth in the near-term future.

Software and technology have the capability to drive the value of our products through features like active safety and infotainment.

Most important, they improve the overall vehicle and ownership experience for our customers.

For example, with our Toyota Safety Sense suite of safety components, we're giving our guests features that support better driver awareness, decision making and vehicle operation.

And as cars become more integrated with the connected world, consumers view these features as required components of their ownership experience.

In fact, a recent study by the McKinsey Institute found that 37-percent of consumers would CHANGE BRANDS for a more connected car.

And it is important to note that a decade ago, most consumers based their purchase on their experience while driving the vehicle. But today, the in-vehicle experience is just as important.

That's why we recently created Toyota Connected, a standalone company that functions like a startup. The mission of Toyota Connected is to use the power of data to deliver new services that help make life easier for drivers, and to make driving more safe, convenient and fun.

One of the most popular forms of mobility as a service is ridesharing and car sharing.

Toyota Connected is one of the first to introduce a new round-trip, station-based car share program in partnership with our distributor in Hawaii, Servco Pacific.

Through an app on your smartphone, this system manages driver identification, payment, fleet management and a "smart key box" that lets users lock and unlock the vehicle.

Not only are we providing a helpful mobility service through this pilot, we are exposing consumers to Toyota and Lexus products through a new and easy process.

There is SO much to be excited about in our industry in the near-term. And the future is even brighter.

You can't talk about disruptor without mentioning Autonomous Driving Systems.

Now, some will tell you that they will sell you a fully-autonomous vehicle as soon as next year. But we take a more realistic approach.

Don't get me wrong, we have been working on automated vehicle technologies for a very long time. We secured our first U.S. patent in the field of automated vehicles in 2006, and we hold more than 1,400 patents in automated-vehicle technologies.

And because of that, we know that self-driving vehicles will take time and careful collaborative efforts to overcome critical safety and performance challenges.

Oh, and the government has yet to really weigh in, and we know they will take their time to carefully establish the regulatory landscape.

The Toyota Research Institute, or T-R-I, was established to provide leadership in automated mobility. Our realistic approach will introduce consumers to automated driving systems gradually, like steps up a ladder.

And we want to ensure that by the time we get to the top, we will deliver an amazing automated ownership experience for our guests.

Which is why safety is paramount to the success of our automated driving program.

We have partnered with several test facilities across the U.S. to support the development of innovative, connected and automated vehicle technologies in a safe, controlled environment.

Our Mobility Teammate concept is our differentiator. It allows us to use the same technology stack to take two different approaches to automated driving.

As you can see... "Chauffeur" mode is responsible for all driving tasks.

"Guardian" mode acts as a safety net for the human driver to help prevent an accident.

And if you have Toyota Safety Sense in your vehicle, you're already seeing the initial Guardian technology at work. Small steps toward safety like Automatic Emergency Braking and lane departure alerts are leading us toward a safer, more automated world.

In our business, rapid disruption from all sides is our new normal. But no matter the monumental changes happening around us, our company can point to some essential mainstays.

It can't be said enough. At Toyota ... our dealers are our partners for success and sustainable growth. We will always trust our dealer partners to sell our products and take care of our customers. They truly are the best in the business.

The same can be said for our manufacturing facilities. Manufacturing is at the core of what we do, and we will always strive to improve every product and process.

Which is why we continue to invest in our manufacturing facilities and their processes, research and development and our operations in the U.S.

Finally, we'll never change our global vision to lead the way to the future of mobility.

And we have always believed that our mobile society should be respectful of our planet. Since 2000, Toyota has put more vehicles with electrified powertrains on U.S. roads than any other automaker, 3-point-2 million units

to be exact.

And at the end of last year, Toyota and Lexus sold 42% of all electrified vehicles in the U.S.

Some might even call Toyota and Lexus “the kings” of hybrid.

And since we set the bar, we can raise it.

I mean we even designed a hydrogen fuel cell system for a class-8, heavy-duty truck.
And of course, we drag raced it!

Take a look.... Pretty cool, huh!

Our mission to create mobility for all goes beyond cars. As humans, movement is a right, which is the premise for our position as the Worldwide Mobility Partner of the Olympic and Paralympic Games through 2024.

As a mobility company, we support human movement whether it is across the country, across town, or across the room.

Our inspiration and dedication to these efforts is amplified by the incredible, courageous athletes we’ve met through this partnership.

Like eight-time Paralympic gold medalist Lauren Woolsten-croft, who is no stranger to challenges or personal disruptions in her life. Take a look...

The disruptors in Lauren’s life didn’t get in her way. It really makes you feel like anything is possible.

So, while the world is changing at an alarming pace, the disruptors in our industry are driving innovations and advancements that will change our world.

And we are lucky enough to be part of it.

Anything is possible when we keep an eye on the future and focus on today.