

Bob Carter EVP – Sales, TMNA Remarks at Center for Automotive Research Management Briefing Seminar

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As prepared for:

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Thanks, Dave.

And I want to thank the Center for Automotive Research for asking me to join you all today.

If you're wondering why you didn't see me at the golf tournament playing 18 on Gary Player's Wolverine course... those who know me, know that my talents are best served with a wrench in the garage – even if it is a beautifully designed course.

Gary Player once said... “Golf is a puzzle without an answer. I've played the game for 40 years, and I still haven't the slightest idea how to play.”

Well I, too, have been “in the game” for close to 40 years, and there are times that I feel the automotive industry can be a puzzle. But events like this present opportunities for thought leaders in the industry to come together and figure out “how to play.”

Last year, automakers saw record all-time sales and a historic seventh consecutive year of growth.

And for this year, we should still settle in around a respectable 17-million mark. Our outlook for the future is still strong for the U.S., and right now, we're seeing indications that we will be near the mid-to-upper 16-million mark in the future.

Today, I'm going to break our industry puzzle down to four major pieces.

I. The first piece is our corporate vision and strategy...

At Toyota, no matter the state of the industry, one piece of the puzzle that never changes is our corporate vision. We remain steadfast and committed to operating on two pillars that keep us grounded...

- Respect for people...
- And continuous improvement.

These pillars can be found at the heart of any corporate strategy or decision we make.

As you may know, we are on the home stretch of moving our North American Headquarters to Plano, TX.

This new campus is a living example of our commitment to our vision, as it is designed to remove inefficiencies in our business by consolidating our affiliates in one location.

Two-thirds of our workforce decided to uproot their families to move with us to Texas. This impressive retention

rate is a credit to our leadership and their commitment to doing the right thing for our employees.

At the same time, we opened a new direct procurement center in Michigan, and relocated our production engineering team to work onsite at our Georgetown, Kentucky plant.

Each of these locations has a strategic purpose that will improve our team members' ability to collaborate, innovate and excel.

I mean it when I say: the true DNA of any company is the people who create the products. Before you can create a successful business... you have to take care of your employees.

But as you know... some pieces of our industry puzzle are at times... in-flux... or out of our control, which can ultimately impact our future.

II. Which brings me to piece number two: economic factors

One of the bright spots right now is the economy. Since the last election, the stock market is up, and unemployment is down. GDP is up, and inflation is under control. In fact, the US has been recession free for eight years.

That's all good news for our industry, because when the economy is strong, people buy more vehicles.

To keep the momentum going, we need to reform our tax system. The 35 percent corporate rate is the highest in the world, and it undermines our competitiveness.

The Administration and leaders in Congress all agree that tax reform is critical to keep the economy moving forward.

Now, it's no secret that Toyota, along with our dealers and suppliers, worked hard to kill the Border Adjustment Tax, or BAT. It was a bullseye on the American consumer, and would have hammered the automobile industry. It was a divisive issue for the business community, and it kept us from coming together to push for tax reform.

Last week, the White House and Congressional leaders announced that the BAT was not going to be part of tax reform... and of course... were pleased and relieved.

But we didn't pop any corks.

Instead... we'll keep the champagne on ice as we work to get tax reform back on track. Lowering the corporate rate and simplifying the tax code for all Americans will be the next big push.

And when that is done, we'll have a reason to celebrate.

III. The third piece of the puzzle relates to "disruptions to our business."

I'm sure some of you remember a time when the idea of buying a car through a computer while sitting on the couch at home was ludicrous. But that is our new reality.

The world of business is always changing, and so are the players. Not only are the OEMs forced to compete as peers, but as the competitive landscape evolves, so does our competition.

New players like Uber, Apple, Google, and Amazon have entered our market and diversified the game – and many believe that these groups are just the beginning.

Technology is quickly changing our industry and influencing consumer preferences just as fast.

Amazon's entering the auto business in a couple of ways. Through "Amazon Vehicles," customers can gather vehicle information and reviews.

And through "Amazon Automotive," customers can register their vehicles online and shop directly for vehicle parts and accessories. While they aren't selling cars in the U.S., yet... they're preparing to start in Europe.

Today, mobility is more than just providing vehicles for consumers. Mobility is an all-encompassing service, which forces the OEMs to compete in more than one space.

The automotive industry is becoming increasingly complex, and we are now expected to meet fuel and emissions standards, while reducing costs... as per usual... but at the same time, we are also expected to lead the way... or at least compete... in areas like software development, integration, connectivity, mobility services and more.

Software and technology have become one of the most prominent disruptors for our industry. But these disruptors are also an opportunity for growth.

Their capabilities can increase the value of our products, through features like active safety and infotainment.

And as vehicles become more integrated to the connected world, consumers will likely see these features as the standard for their ownership experience.

To help support the development of these technologies, Toyota Motor North America and Toyota Research Institute, or T-R-I, announced this week that we will join the American Center for Mobility with a \$5 million contribution.

We are the first automaker to join this effort, which will support the creation of a large-scale Connected and Automated Vehicle test environment.

As you can see... software and technology are changing the game for our industry. In other words, our puzzle just jumped from fifty pieces to one of those fifteen hundred piece challenges.

And although these disruptions make it difficult to predict the future of our industry at times, there are several ways to stay abreast of inevitable change:

- Understanding and planning for continuous change in our industry... and those competing in it... is our first step.
- Traditional automotive players need to stay on their toes to maintain a current business model and anticipate new market trends as they evolve.

- Staying flexible and open to new alternatives is just as important... while also understanding how alternatives can work alongside our existing business model.
- Transforming the industry by creating partnerships with so-called disruptors.
- Collaborating with new players in the business could be a mutually beneficial partnership...

By accepting and adapting to change, we could ultimately create better products for our consumers... and form a more cohesive industry.

IV. The final piece that completes our puzzle is the most important – our consumers.

They may not be listed on any organizational chart – but the consumer is the CEO of our industry. Consumers are the driving force behind everything we do.

And it is our responsibility to know our consumers... at times... better than they know themselves... to create products that will improve their lives.

Now, consumer preferences are changing at a rate we've never seen before.

In just five years, SUVs and trucks have jumped from 50 percent market share to about 65 percent today. While sedans have dipped to about 35 percent of sales.

But this trend has been on the horizon for some time.

A decade or two ago... there was a stark difference between passenger cars, trucks and SUVs.

If you wanted comfort and amenities – you drove a passenger car. If all-wheel-drive and utility were driving your purchase – you bought a truck or an SUV. There was no real in-between.

The industry saw an opportunity to create a niche with the car-based SUV, or C-U-V.

The chasm between the once-separate markets was closed, as consumers were introduced to a vehicle that was built like a passenger car, with the higher ride of an SUV... with all no amenity spared.

They no longer had to compromise.

And so, the SUV and truck market grew, and we believe it will continue to grow. What our consumers want, our consumers get.

But let's not forget that mid-size sedans are the second largest segment in the industry. And the industry is investing in innovative products in this market for the first time in years, with the launch of several new passenger cars for our consumers.

Through these investments, I believe we will see some stabilization of the mid-size sedan market.

In the spirit of continuous improvement, we're investing 10-Billion dollars over the next five years, which includes the 1.3-billion used towards implementing T-N-G-A in our Georgetown, Kentucky facility.

T-N-G-A will allow our plants to build a greater variety of vehicles with common parts, so we can be more responsive to changes in the marketplace.

This idea of greater flexibility will allow us to quickly adjust to future changes in consumer demand while helping to eliminate confusion, inefficiencies and waste.

But the true competitive advantage of T-N-G-A is found in the consumer benefit. This new platform will enhance our vehicles with:

- More powerful and fuel efficient conventional and hybrid powertrains
- Athletic and aggressive styling...
- A lower and wider stance...
- A lighter and improved ride...
- Class-leading dynamic performance...

And a driver-handling experience that makes our vehicles simply... more awesome to drive.

Like I said... everything we do... is for the consumer.

As I navigate the puzzle of our industry, I'm inspired by another golf giant, Jack Nicklaus.

He once said, "I'm a firm believer in the theory that people only do their best at things they truly enjoy. It is difficult to excel at something you don't enjoy."

And he wasn't just talking about golf.

We wouldn't be here today if we weren't passionate about vehicles, our business and the automotive industry.

With each passing year, there are more challenges and opportunities...

But... who doesn't enjoy the satisfaction of solving a challenging puzzle?

Together, we can put the pieces in place and successfully navigate our industry's challenges to create a bright future of mobility for all.

Thank you.