2012 Center for Automotive Research (CAR) Management Briefing Seminar - Jim Lentz

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Teamwork: Opening Doors for a Better Tomorrow

Thank you Sean, and good morning everyone!

Let me start by asking a question…"How can GEESE make us a better industry?"

Yes, I said "geese"…as in flying birds.

Geese do some amazing things when they fly… and we can be a better industry by learning from their example. .

You see, when a flock of geese fly together, their flapping wings create an uplift for the bird following.

So, by flying together in a 'V' formation, their range is 71% greater than a bird flying alone.

In other words, their TEAMWORK helps them travel on the energy of each other and propels them to their destination more quickly. .

That same kind of TEAMWORK can propel us to do better and thrive together in the future.

And, when I say 'teamwork,' I mean suppliers, dealers, associates, law makers, researchers, engineers, auto makers, and yes, consumers, too.

Let's face it, the days of one company doing it all are gone forever.

The challenges we face are FAR too great to go it alone.

Companies are increasingly joining together to build better cars, develop better in-car connectivity, and reach for sustainable mobility.

And, this collaboration–this teamwork–comes at a great time because this industry is headed in the right direction, and it's an ideal time to get our act "together."

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So, let's talk about what's helping our industry move in the right direction.

First, our economy is slowly, but steadily improving.

I know some days it doesn't feel like it, but there is gradual improvement.

Although there could be some setbacks due to financial issues in Europe, the slowdown in Asia and post-election policies after November, the consensus among analysts is our economy will show some growth this year, nearly two percent.

Even better, auto demand has been relatively strong. For the total U.S. market, our annual sales forecast is at 14.3 million vehicles, or about a million and a half units higher than last year.

And the forecast looks even better in the following years because there are many fundamental elements supporting healthy new vehicle sales, including:

- strong U.S. population growth…
- the high average age of vehicles on the road…now 11 years…
- continued high prices of used vehicles…
- and available credit to purchase cars.

These elements, and more, are creating a solid foundation for industry growth.

But to fully achieve future success, we need to overcome two key challenges:

- meeting tough government regulations…
- and getting Gen Y excited about cars

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First, let's talk about regulations.

In just four years, every automaker's fleet must have a combined average fuel economy of at least 35-and-a-half miles per gallon. By 2025, it increases to 54-and-a-half.

We're already seeing brands, like Ford and BMW, replacing V6 engines with 4-cylinder turbo charged power trains that are more fuel efficient and still have strong performance.

But let's not kid ourselves. It's going to be a huge challenge for ALL brands to reach these regulations without making big investments in new technologies.

That's where teamwork and collaboration come into play.

At Toyota, we used to be the lone wolf and tried to do everything ourselves.
But that's changed BIG TIME.

Over the past few years, we've developed multiple partnerships and alliances that fall into three broad categories:

- engine development..
- manufacturing…
- and in-car technology

For instance, we've teamed with Ford to work on hybrids for trucks and SUVs so we can do a better job of meeting new industry regulations.

We're also working with BMW on diesels, hybrids, electric drive, fuel cells, lightweight materials and other environmentally advanced technologies.

In addition, we've teamed with the California-based electric car maker, Tesla to introduce this fall, the ONLY all-electric SUV on the market, a high-utility RAV4-EV with an EPA estimated driving range of about 100 miles. Your mileage may vary. I know some of our engineers are achieving a range even higher than that.

These alliances will help us and our partners move closer to meeting the new fuel standards.

But Toyota is also fortunate because we developed our first Prius hybrid over a decade ago, and that gamble has paid off.

Throughout the years, we've improved hybrid technology and made substantial improvements to our gas engines. So much so, that today, Toyota is the most fuel-efficient full-line auto maker in the U.S.

But, we're not standing still.

We realize there's no guarantee that one particular technology is the answer for all consumers, so we're taking a broad portfolio approach to the future and letting customers decide what works best for them.

Specifically, we're developing a lineup that includes:

- lighter conventional cars with more efficient gas engines…
- a wider variety of hybrid vehicles and plug-in hybrids…
- a choice of pure electric vehicles…
- advanced batteries, exceeding the performance of today's lithium ion cells…
- and introducing a hydrogen fuel-cell sedan in 2015.

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Along with new fuel economy standards, we must work with the National Highway Traffic Safety Administration to develop distracted driving regulations, allowing customers to safely stay connected to their world while in their cars.

In 2010, despite the fact that Americans drove nearly 21 billion more miles, highway traffic fatalities dropped 3 percent to the lowest level in recorded history.

Those results are generally attributed to:

- the vast majority of Americans using seat belts…
- improvements in addressing drunk driving…
- and advanced safety technologies developed by the auto industry

Consequently, fatality rates have dropped to just ONE per 100 million vehicle miles traveled.

Of course, even one death is a tragedy, but we are making progress.

Unfortunately, last year, one-in-six highway deaths was attributed to distracted driving.

One in six!

Why is it so high?

Well, because consumers are accustomed to connecting any time… any where.

And, they want that same ability in their cars. They simply don't seem willing to give it up.

In California, where I live, there are laws prohibiting the use of handheld devices and texting while driving, but you can't drive anywhere without seeing someone talking on their phone or texting.

As a father, when I see young teenagers doing that, I just want to grab that phone and throw it out the window.

So, what we can do as an industry is integrate and adapt in-car technology to minimize distracted driving.

At Toyota, we've tried to do that by developing multi-media systems that allow drivers to stay connected while still keeping their eyes on the road and hands on the steering wheel.

Additionally, we've teamed with Intel, the giant computer chip maker, to develop better in-car touch, gesture and voice technologies that work to reduce driver distraction.

And to extend safety beyond our own cars to the entire industry, we've established the Collaborative Safety Research Center in Ann Arbor to study and share ways of reducing overall U.S. traffic injuries and fatalities

The center has already won an award from the Brain Trauma Foundation, and is involved in 17 research projects with universities, government agencies, and hospitals.

These projects cover a wide spectrum, including driver distraction. For example, we're working with:

- MIT's AgeLab on how in-vehicle voice command systems may affect driver distraction…
- And Wayne State University School of Medicine to get a better understanding of driver behavior and distraction.

With automakers, researchers and government agencies working toward this very important issue, I'm confident we CAN successfully reduce the number of distracted driver fatalities and injuries.

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Now, let's turn to our second greatest challenge, getting younger buyers interested in cars again.

By now, you're familiar with the numbers.

At nearly 80 million strong, Gen Y is the largest consumer segment to hit the market since the Baby Boomers.

And while Boomers saw automobiles as their ticket to freedom and self-reliance, Gen Y seems lukewarm, at best, about cars.

There seems to be a variety of reasons for this…

- the economic slump…
- unemployment is between two and three times higher for 20-somethings than older workers
- the high cost of gas, insurance and maintenance…
- and one of the biggest reasons, the rising cost of a college education

It's tough out there. Gen Y is coming out of college with much higher debt than past generations, and into a much worse economy.

According to the Department of Education, the cost of tuition and fees has continued to increase faster than the rate of inflation, and if this trend continues through 2016, the average cost of a public college will have more than DOUBLED in just 15 years.

But, these economic factors are only partly to blame for Gen Ys lack of desire for cars. There's also…

- a stronger interest in tech gadgets …
- use of social media and texting, reducing the need for face-to-face interaction…
- more stringent driving laws…
- living in urban areas where bikes and public transportation are readily available…
- and the desire for more eco-friendly ways of getting around.

All valid reasons to be sure.

So, you can see as an industry what we're up against. We have a tough road ahead to reach young consumers.

But the good news is…a recent Market Outlook report shows Gen Y is slowly returning to the market.

Why the change in heart?

Well, they're growing up and their priorities are changing. They're starting jobs or families and need some sort of vehicle to get around.

Even better, the Deloitte consulting firm predicts 40 percent of the U.S. vehicles sold in the next decade will be bought by this younger generation.

So we, as automakers and suppliers, need to build cars these consumers want.

And what they want are cars that are fuel efficient and friendly to the environment.

In fact, research shows that nearly 3 out of 5 Gen Y consumers favor hybrids over conventional powertrains.

They also want their cars to be:

- stylish and fun-to-drive…
- easy on their pocket books…
- and loaded with advanced technologies to keep them safely connected

Yes, that's a tall order… but doable IF we leverage teamwork throughout the industry.

And there's strong evidence we've already started down that path.

There are more than 150 models of alternative fuel vehicles now available on dealer lots, and that number keeps growing.

In fact, it was consumer demand for cleaner, more efficient cars that convinced us to expand our popular Prius into a Prius family.

Customers told us they loved the Prius, but some wanted more room, others wanted more fuel economy at a lower price, while others were looking for a highly efficient plug-in version.

So we answered those needs with our Prius *v*, *c* and plug-in. And so far, the new Prius family is off to a tremendous start.

And, for those wanting a larger sedan with the high efficiency and ultra-low emissions of hybrid technology, we recently announced the launch of our all-new Avalon hybrid… with an EPA estimated rating of 40 miles per gallon in combined driving.

We're so proud of our first sedan designed, engineered and manufactured in North America that we brought one here to show you. It's just outside, so be sure to check it out.

And, if you want more luxury, Lexus will soon introduce an all-new hybrid version of its highest volume sedan, the ES.

Both hybrids have already received great reviews and are highly anticipated by consumers.

In fact, during a recent flight, a man sitting next to me on the plane told me it was about time we got off our corporate butts and built hybrids for bigger, more luxurious vehicles.

He also wanted me to get him the new Avalon at dealer cost. After I said I couldn't do that, he got pretty quiet for the rest of the trip.

But, I'm still happy there's a lot of interest in our new hybrids.

Bottom line, consumers always have … and always will, dictate the market.

And younger consumers will drive the market in the future.

By listening closely to them and teaming together as automakers and suppliers, we CAN deliver the vehicles they want and drive a bright future for all of us.

And to make sure Toyota stays true to that goal as a company, we've made some major changes in how we operate here in North America.

Top leaders from our family of affiliate companies, throughout North America, have come together to set up a new organization to speed decision-making and speak and act with one voice.

Our goal is to create a "Unified Toyota" that will anticipate, answer and serve customers better than ever.

And as we strengthen our operations on this continent, we'll continue bringing more manufacturing here… which is great news for suppliers and many local communities.

In fact, we recently:

- opened a 2,000-job plant in Mississippi to build Corollas….
- announced the expansion of Highlander production in Indiana…
- RAV4 production in Canada…
- Lexus RX production, including the RX hybrid, also in Canada…
- engine production in Alabama…
- transmissions in West Virginia…
- and launched a dedicated office near our high-tech partners in California's Silicon Valley to develop future in-car multimedia systems

In short, during the past 8 months alone, Toyota has hired or announced 3,500 new jobs and invested an additional 1.6 BILLION dollars in North America.

And, we'll have additional announcements down the road as more of our cars are designed, built, sold and serviced right here in North America, just like our new Avalon.

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Earlier, I mentioned that no company can go it alone anymore.

We know that to continue successfully building our business, we need help, and we particularly need the ongoing dedication and teamwork from our suppliers.

Currently, we have around 500 North American suppliers and purchase annually 25 BILLLION dollars in parts, materials and components.

And, as our business grows, our reliance on local suppliers will increase.

Here again, TEAMWORK will ensure both sides are successful and profitable.

That's why, several years ago, we launched…Toyota-supplier-dot-com.

This web site is part of our commitment to building long-term relationships with current and potentially new North American suppliers.

So if you have some great ideas or want to team with Toyota, I encourage you to go to this site first.

You can get information on our purchasing policies, newsworthy articles, and register to tell us more about yourself and what you do.

Like any great team or even that flock of geese I mentioned in the beginning, we can leverage the energy of each other's ideas and knowledge to propel our business further.

At Toyota, we fully realize, if OUR suppliers aren't successful, WE won't be successful. It's that simple.

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Well, we've covered a lot, so let me summarize my thoughts on where we are and where we're going as an industry

My friends, great days ARE ahead for us, but we have to overcome substantial challenges.

So today, I'm asking everyone in this room to start thinking and working as a team.

That's vital because we are all part of a dynamic business sector that is essential to the health of the U.S. economy.

Today, eight million Americans and their families depend on automobiles for their livelihoods.

And as the economy and this industry continues to improve, that number will increase.

In short, what we do MATTERS.

So, let’s stretch our wings and fly together as a team to bring out the best in each other and open the doors to a brighter tomorrow.

And, since we’re in the state where the auto industry began, let me leave you with a quote from the great Henry Ford.

He said…‘Coming together is a beginning…keeping together is progress… working together is success.’

So let’s work together and make great things happen!

Thank you…and good luck!