

# 2011 Automotive News World Congress - Jim Lentz

January 13, 2011

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Good evening everyone and welcome to 2011.

You know... there's always something invigorating about being in Detroit in January... and no, I'm not talking about the nearly freezing temperatures.

It's the warm glow of optimism in the air.

It's the feeling of rejuvenation.

It's about a new life for the auto industry.

And this year is particularly special because it follows two VERY rough years.

When I look back on 2009 and 2010, both can best be summed up with the immortal words of Charles Dickens... "It was the best of times; it was the worst of times." Or... something shorter by Dickens... 'Bah, Humbug!'

All of us faced many challenges... and some of us faced many, MANY challenges. But, we also learned a lot and are much better for the experience...

- We learned that we're capable of great resourcefulness in difficult situations...
- We learned to become more efficient, productive and responsive...
- And, we learned to never, ever stop listening to our customers.

After all, we're in this business to meet and exceed THEIR expectations... and keeping the lines of communications open with our customers and society will fuel our future growth.

So, let's start tonight with our view for this year and Toyota's forecast for the auto industry.

For the first half of the year, we do see the U.S. economy improving, but at a slower rate than we would like or many analysts expect.

We believe ongoing high unemployment and a weak housing market will continue hindering consumer confidence and spending on big-ticket items like cars.

But, the news isn't all that grim. Holiday shoppers were out in full force. In fact, on Cyber Monday after Thanksgiving, ONLINE shoppers spent over ONE-BILLION DOLLARS in just ONE day... ONE DAY!!!

And,...according to the Associated Press...retailers reported a 5 and a half percent surge in spending during the holidays over 2009, despite an uncertain economy and a rise in thrifty habits.

Shoppers said they decided to splurge and spend a little more because they felt better about their financial prospects for 2011... and as labor and market conditions improve...we expect faster growth for the second half of this year.

As a result... we forecast annual auto industry sales will improve by 9% or about another million units to 12.5 million.

So...we expect a BETTER year with the promise of continuous improvement into 2012 and beyond.

At Toyota, we're also optimistic that our OWN sales will enjoy healthier times this year.

In fact, due to a strong product year, including the arrival of several new volume models... like the Prius V that we premiered yesterday...we believe our sales volume will grow at a slightly faster rate than the overall

industry.

And, we're even more bullish about the long-term prognosis for the auto industry. In fact, we see a very bright future ahead

For starters... demographics are in our favor.

IHS Global Insight is forecasting that between now and the year 2020... the U.S. population will grow by an additional 31 million people or about 10%. That's like adding 8,500 people PER DAY for the next 10 years.

And, the driving age population will increase by 24 million to 263 million by 2020... 24 MILLION... that's equivalent to the entire population of Texas... ...and you thought gridlock was bad now!

In addition, by 2015, Generation Y... those 70 to 75 million consumers currently 16 to 30 years old... will be fully maturing into adulthood...job-hood and family-hood...creating the need for more vehicles.

So vibrant U.S. demographics will play a big role in driving demand for vehicles.

But that's not all pointing to a brighter future.

Scrapage rates have outnumbered new vehicle registrations... and consumers are holding onto their cars a lot longer.

Right now, the average age of vehicles on the road is just over 10 years ... that's the highest it's been in 13 years.

On top of that, there's a scarcity of used cars. In fact, the supply of one to five-year-old vehicles has been declining for several years... and around 2013... will hit its LOWEST level in 27 years.

This lack of supply is already causing used car prices to increase to an all time high... which typically leads to stronger new car sales.

For all these reasons... we believe the "new normal" means better, more prosperous years ahead for automakers, suppliers and others associated with our industry.

Unfortunately, that growth won't come easily. In fact...to realize that bright future...I believe we have to overcome challenges from three major changes in our business...

First...changes in our industry...

Second...changes in our customers....

And...third...changes in the cars we put on the road.

Let's start with the changes facing our industry.

In just five short years, new government regulations will require all manufacturers' fleets to have an average fuel economy of at least 35.5 miles per gallon.

That won't be easy... especially with this country's love of trucks and SUVs.

As a global company, Toyota has a huge portfolio of vehicles. Across our entire U.S. fleet, we have enough small, fuel-efficient cars... and hybrids... to meet the 2016 new national standard without significant changes.

But, some brands may need to spend a great deal of money to improve their lineup.

Others may need to seek alliances with other companies to spread the cost of complying.

Still others may have to bend their image to meet the new regulations by bringing to market cars that may not live up to their luxury or performance image.

I have no doubt we will all get there, but it will be quite a balancing act to keep image, costs and the quality of materials in check while reaching to meet much higher standards.

And if that wasn't enough on its own... competition among all auto manufacturers is stronger than ever.

The quality of vehicles on the market have gotten better each and every year... designs and styling are moving to the forefront again... and every car is chock full of electronics that makes the driving experience safer and more enjoyable.

This is great for consumers... but, it's getting harder and harder for car companies to stand out from the rest of the pack.

On top of that... we have to face the growing reality...that today...young people don't seem to be as interested in cars as previous generations.

When I was growing up, I couldn't WAIT to get my license and buy my dream car... a red, 1971 Mercury Cougar XR-7... with a big V8 engine and 240 horses under the hood... MAN... I loved that car!!! In fact, I think I was first in line at the department of motor vehicles on my birthday.

And most of my friends felt the same way. We wanted to get our licenses as soon as we could because it was our ticket to freedom... a rite of passage to becoming responsible adults! ...Well...adults...anyway....

But these days, many young people care more about buying the latest smart phone or gaming console than getting their driver's license.

With technologies like Skype, video smart phones, iPads and Facebook, it's easier...in their eyes...to instantly connect and communicate with friends and family from the comfort of their home.

Many see cars as a source of cost, congestion and pollution... not freedom or adulthood... and that's a serious problem that... together as an industry... we need to address.

We need to find ways for young people to fall in love with cars the way most of us did in our youth. We have to provide an emotional connection so that cars are seen ...not as utilitarian commodities...but vital to living a fulfilling life.

In short, we need to pool together and develop campaigns that re-build the image of our industry...and our products...in the minds of young people. They are vital to our future as an industry, both as employees and as consumers.

The second key challenge we face as an industry is adapting to changes in our customers.

Today, there are five different generations of consumers in the market... with different needs and wants.

Some want to come into dealer showrooms... others do what they can to avoid it.

Some want a one-on-one relationship with their sales person... others want to do everything electronically.

Some don't mind waiting for their car to be serviced... others view 'time' as their most important resource not to be wasted.

So, how will we meet all these needs?

The best advice I can give to our dealers is to be flexible AND be prepared to do business in non-traditional ways, including beefing up the internet side of the business.

We learned a great deal about this with our launch of the Scion line in 2003. It was aimed at the youth market, and breaking into it required that we do business in very different ways.

Through non-traditional, guerilla marketing, we took the cars to the customers wherever they gathered...we gave them the time and space to do business through an innovative website and in-dealer electronic kiosks and we delivered the vehicles ready for the owner's customizing.

We also stressed a "pure price" model so the price that was advertised would be the price customers paid at the dealership.

And it's working. Since its launch, Scion line has had the youngest buyers in the industry. So we're transferring much of what we learned from Scion to our Toyota and Lexus operations.

In addition, we're consolidating all of our customer databases into one website so our dealers have access to the total history and background of each customer ... we're supporting regional e-commerce analysis audits to improve online relations ...and even using the Internet to mystery-shop our dealers so we can show them how they perform better in the eyes of online customers.

That becomes EVEN more critical for auto dealers with the recent changes Goggle made to pull dealership reviews from ALL websites that carry ratings then post the number of reviews along with a 1-to-5-Star rating based on the consolidated results up to that minute.

And we all know you can run, but you can't hide from Google. So, it's critical for automakers and dealers to successfully manage online relationships.

Along with generational changes, we're also seeing a shift in consumer VALUES.

A recent study by DYG concluded that the U.S. is now going through a new era which they coined the "Responsibility Revolution."

DYG says...that as America emerges from the recession, consumers are determined to regain control of their finances and their lives.

What's materializing is a consumer that is more thoughtful and responsible... carefully considering what they can afford and what is really important.

So, value for the money is the key ingredient.

And because consumers want the best deals available, they're more willing to switch brands to get the value they want.

They are also more willing to do their homework... to look for the best deals... to find companies that they can trust ... and to read opinions from friends, family and other consumers.

These days it's easy to get information or speak to hundreds of people at once ... it's all at your finger tips... whether you use a computer, laptop, or mobile device... it's info in an instant.

And... it's convenient.

I'm a Boomer and this holiday season I did most of my shopping online. It's quicker... easier... I was able to read reviews about the product and stores... I didn't have to wait in long lines... and it saved me a LOT of time.

That's why online will play an increasingly vital role in our business for ALL generations.

Another thing we learned from Scion is that we have to respect people's time... and that still applies to ALL our brands.

And, many of our dealers are already responding to this challenge.

For instance, Pat Lobb from Toyota of McKinney in Texas recently noted that the dealership's top performer was an internet sales person... and that more than half of its sales now come from the internet.

So it truly pays...at all levels in our industry... to be prepared and ready to work with today's knowledgeable and tech-savvy customers.

The third challenge we face as an industry has to do with the way our cars must change to meet the future needs of people and society.

In this new "Responsibility Revolution" era, consumers expect a lot more from companies and products.

They want cars that have better fuel economy... better styling... and better value...plus be better for the environment.

One way to accomplish the fuel economy and environmental part of that is through a technology that's been proven for nearly a decade and a half... hybrid systems.

That's why...at Toyota this year...we're launching several new hybrids.

Yesterday, we unveiled our newest edition to the Prius family... the Prius V. It's an unparalleled combination of versatility and fuel efficiency in a midsize package with nearly 60% more cargo room than the current Prius and exceptional fuel economy.

In addition, our luxury division... Lexus... will bring its fifth hybrid to market... the 2011 CT 200h...this spring.... It's the only dedicated hybrid in the premium compact segment, and will have the highest combined fuel economy of any luxury vehicle.

And that's just the beginning.

Including the Prius V and CT 200... Toyota will launch ELEVEN new or redesigned conventional hybrids to our global lineup by the end of next year.

But, we know hybrids ALONE won't meet all the needs of consumers in the future... so we're researching and developing additional vehicles, technologies, fuels and support networks to meet tomorrow's demands.

Our plans include:

- continuing to fine tune internal combustion engines for more mileage and fewer emissions...
- further reducing vehicle weight...
- developing low-carbon, synthetic fuels...
- introducing a plug-in Prius hybrid next year...
- launching TWO battery-electric vehicles...an urban commuter and a 100-mile... plus... range SUV powered by Tesla in 2012...
- working on advanced solid-state and metal-air batteries that could possibly double the performance of today's lithium ion batteries...
- and selling a zero-emission, hydrogen fuel cell sedan in 2015

In addition to HOW we power our vehicles, we're also changing WHAT we use to build our cars.

Toyota has developed an eco-plastic made from sugar cane and will use it to line the interiors of our cars. In fact, its first use will be on the new CT 200 for its luggage compartment.

And, before you ask... I have no idea what it tastes like if you lick the compartment, but I wouldn't advise it.

We also recently made a breakthrough in sugar cane DNA-mapping that can be used for better bio-fuel development... I know... it sounds complicated, but essentially it will help natural crops grow faster and larger so they can be used in place of oil to power cars.

And for Toyota, our commitment goes beyond cars.

We believe we have an obligation to share back some of our success with the communities where we work, play and conduct business.

So...this year...we're introducing two programs to do that in a big way.

The first is a Toyota Dealer Charity Match program. Pure and simple, Toyota will provide matching funds up to \$10,000 to each Toyota dealership across the country to support local community groups and causes our dealers and their customers feel are important.

The other is what we're calling... '100 Cars for Good.'

We plan to give away 100 cars in 100 days to deserving charitable organizations. But WE'RE not going to decide who gets the vehicles...consumers will. Winners will be determined daily by popular vote on Facebook...with the winning organizations receiving a Toyota vehicle to enhance their community efforts.

It's a great way to support worthy organizations and bring attention to their causes, so I hope you and your neighbors participate when we launch the program later this year.

In addition to these charitable programs, we're very proud of our new Collaborative Safety Research Center we announced a few days ago.

Based at the Toyota Technical Center in Ann Arbor, Michigan... this new, advanced safety research center will collaborate with leading North American universities, hospitals, research institutions, federal agencies and other organizations on projects aimed at reducing the number of traffic fatalities and injuries on America's roads.

This new initiative builds on Toyota's ongoing commitment to safety and quality leadership. We're also looking into ways to improve many other areas of life. For example, our researchers and engineers are also working on:

- vehicles for aging consumers and people with special needs...
- intelligent roads and highways...
- housing with solar and fuel cell chargers for electric cars and plug-ins...
- personal transporters...
- home smart grids that can cut CO2 by 75%...
- better battery recycling...
- plants and trees that absorb more CO2...
- microbes that treat contaminated soil...
- and humanoid robots that will serve people in homes and hospitals

In short, at Toyota, we want to play a key role in creating a more exciting... smart... and sustainable world of tomorrow.

But, we know we can't do it alone... no... ONE company can.

We need the collective power of all of us in this room to bring back the spotlight on this mighty industry.

We also need to cooperate and collaborate with state and local governments, state agencies, universities and other entities to fully move our society forward.

So, when you add it all up... we're a great industry on its way back... and we have a fantastic future if we overcome some difficult... but not impossible... challenges.

But frankly...those challenges are what makes this industry so fascinating... and why many of us got into in the first place.

When faced with a big challenge... the auto industry always seems to find ways to adapt to the changing world and come out stronger. We always have...and we'll do it again this decade.

So...as we start a promising new year...let's work together to bring out the best in all of us.

Let's work together to meet the changes required of our industry...

Let's work together to help consumers fall in love with cars again.

And let's work together to build the cars that meet the long-term needs of our customers and society.

Thank you... and let's all have a great year!



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