

2010 Original Equipment Suppliers Association - Yoshi Inaba

November 10, 2010

Good afternoon and welcome to the 12th Annual Conference of the Original Equipment Suppliers Association.

When I saw that this was the 12th meeting of the OESA, I took a look back to see what was going on back in 1999 when the first conference was held.

Latin pop singer, Ricky Martin was living La Vida Loca! Pokemon was showing up on everything from toothbrushes to trading cards. And of course, everyone was preparing for Y2K and all of the doom and gloom that was suppose to come with it!

1999 was also my first year as President of Toyota Motor Sales in the United States. And times were great.

Annual U.S. auto industry sales improved by almost nine percent in 1999, hitting 17 million for the year. And it would never fall below 16 million for the next eight years! And Toyota started a streak that would see its market share grow for the next ten consecutive years. Ahhh...the good old days....

Then came 2008 and 2009 when the world as we know it changed forever.

Credit markets collapsed, banks failed, bankruptcy for two of Detroit's Big three...it was as if Y2K showed up eight years late! And of course, my luck... I returned to the auto industry in the United States right in the middle of it! I really need to work on my timing!

The last couple of years have been very difficult for all of us. But guess what? We survived! The economy threw every punch it had at all of us, but we're still standing. I congratulate all of you for helping guide your firms through one of the most chaotic times in our history.

Neil, I want to give special thanks to you and your team. OESA has been a very important partner for Toyota. Town Hall meetings, joint efforts on Terms and Conditions, intellectual property; and so much more. Your organization represents the collaboration we all need.

I also want to thank and congratulate all of the Toyota supplier business partners here today. We know how hard it has been for all of you over the past few years. We truly appreciate the support you have shown Toyota and the strong commitments you have made and are continuing to make on our behalf.

While we should never forget the past, I do not want to dwell on it. Instead, let's talk about the future of the auto industry...the need for manufacturers and suppliers to work together so we can make the most out of the coming opportunities.

You know, a few months ago, industry analysts were very optimistic for a strong sales recovery this year... maybe too optimistic. Some said the industry would reach 12 to 13 million units by the end of this year.

The truth is the industry IS on the mend, but the economic recovery is much slower than many forecasted and certainly slower than many of us would have liked.

The good news is that personal consumption...capital spending...and residential investment ARE inching up.

The bad news is that lingering high unemployment and erratic stock prices are restraining consumer confidence and spending. And that impacts auto sales...BIG TIME!

Yet, despite the conflicting indicators, Toyota remains confident that industry sales will be around 11.5 million in 2010. And while that's a far cry from the 16 and 17 million levels from a few years ago, it's more than 10 percent better than last year.

And given the painful... but necessary... adjustments all of you have made to survive over the last two years, this type of growth should translate into healthy profits for most suppliers.

In fact, according to the third quarter UBS US Auto Supplier survey, nearly 80 percent of suppliers expect higher long term profits due to the structural changes taken by the industry.

And...at Toyota...we continue to be bullish on the long-term prognosis for the auto industry. With the nation's aging fleet, high scrappage rates and strong U.S. population growth, we believe there is increasing pressure on consumers to buy a new car. In fact, we see the auto industry reaching more than 15 million sales by mid-decade.

So, the industry will get there...it's just a matter of time.

Now as we prepare for that growth it is also important to keep in mind that the auto industry is entering a regulatory era that is much different than what we are used to.

In fact, we believe the regulatory environment for the automobile industry will be among the most challenging in our history.

So it is critical that we work together to not only survive...but THRIVE... in this new era.

As we saw in the recent revision of the NHTSA crash test ratings, achieving the highest possible safety rating is far more difficult than it used to be.

And the industry is currently on pace to recall the highest number of vehicles in history this year for everything from hood ornaments to glove boxes. Whether you call it the "Toyota effect" or something else, vehicle safety is definitely under more scrutiny than ever before.

Unfortunately, people sometimes forget that building automobiles is a really amazing, complicated process. Some 30 thousand parts from thousands of suppliers and sub suppliers come together under one factory roof...and through the magic of the manufacturing process...a functioning vehicle rolls off the line.

And the consumer expectation for each vehicle is PERFECTION. Toyota believes the same thing and I'm sure all other automakers and suppliers do too.

But to achieve it, we must ALL re-focus on delivering quality at EVERY step in the process.

To do that at Toyota, we've gone back to the basics of listening more carefully to our customers and suppliers

and making SIGNIFICANT changes to become a more responsive, safety-focused organization.

For instance:

? We appointed Steve St. Angelo as North American Chief Quality Officer and Dino Triantafyllos as Regional Safety Executive to represent North America on quality and safety issues.

? We set up a Design Quality Innovation Division in Japan and transferred 1,000 engineers to focus on design of components and other quality issues...

? We expanded our product development cycle by 4 weeks to help ensure high quality and safety...

? We appointed 4 North American leaders to join 5 others as presidents of plants in the U.S., Canada and Mexico...providing more regional autonomy...

? We appointed three American Chief Engineers at the Toyota Technical Center here in Michigan who better understand the American customer.

? And...we are opening up 7 Product Quality Field Offices throughout North America to improve our ability to detect and respond to customer and quality issues.

We're doing even more, but you get the picture.

At Toyota we are not only committed to improving, we're also working hard to set new industry standards in quality, safety and transparency. And we need all of our suppliers to work with us to meet that goal.

As we have seen this year, a minor defect in just one small part can cause BIG problems.

So I urge you to review your efforts to improve quality at every level.

Regulators have raised the bar... so as an industry...we need to jump higher.

Another huge challenge we face is creating cars and trucks with fewer emissions and much more fuel economy. The new national mileage program calls for all manufacturers' fleets to have an average fuel economy of at least 35.5 miles per gallon... a 40% increase... in just six years.

And there are proposals that the next standard...beyond 2016...could be nearly 80 percent higher!

To attain those ambitious goals, it's critical for automakers and suppliers to collaborate on developing even better solutions than we have today.

At Toyota, we are proud to be a leader in innovation in the automotive industry. That's why we invest nearly a million dollars every hour...every day in research and development.

That's what brought us the Prius which just celebrated its tenth anniversary and has achieved more than 2 million sales globally. And our commitment to R&D is what will bring the Plug in Prius to market next year, an all-electric vehicle in 2012 and an affordable fuel cell vehicle in 2015.

But you know what?...we can't do it without YOUR help.

We know that your organizations are full of intelligent, motivated people who want to play key roles in the development of the next generation of cars.

At Toyota, we value the voice of our suppliers and encourage you to continue sharing your ideas with us at every opportunity.

We know we have work to do to become better listeners but rest assured we are committed to building on our relationship with all of you and we look forward to working with you and all of our suppliers to build the best vehicles of tomorrow.

Along with building great cars, Toyota is committed to building stronger relationships in the communities where we live and conduct business.

This means continuing to make steady progress in the areas of diversity and Corporate Social Responsibility.

Toyota believes that a diverse workforce is critical to understanding the needs and wants of our consumers. That's why Toyota formed an external Diversity Advisory Board in 2002.

The Board brings us expert outside perspectives that help us shape and maintain our commitment to diversity. And we are proud of the success we have achieved.

For instance, Toyota has nearly tripled the number of Hispanic Lexus and Toyota dealers since 2000. And...at our plant in San Antonio...more than fifty percent of our team members are Hispanic and several of our on-site suppliers are Hispanic-owned.

But we are not stopping there.

In 2006, Toyota Engineering and Manufacturing in North America established a Tier 1 minority purchase target of 10% of all purchases. Purchasing Tier 1 suppliers, many here in this room, are working to achieve their Minority Business Enterprise spending targets as well. Many of you might be headed to the 21st annual Opportunity Exchange in Cincinnati later this week. That event serves as a business development opportunity for MBE's from across the nation to make viable connections – and land potential contracts – with Toyota's direct suppliers. That is opportunity knocking...and there are more opportunities ahead.

We plan to begin production of Corollas at our new plant in Mississippi next year. The new plant will provide 2-3 Thousand Toyota jobs for Americans, bringing our direct U.S. employment to almost 30 thousand people and indirect employment through supplier partners like all of you, sub suppliers and our dealers, to nearly 200 thousand. And while sourcing is just about complete in Mississippi, Toyota works hard to keep an open door for suppliers and M-B-E's interested in doing business with us. If you are one of those companies, I urge you to visit our special website: www.toyotasupplier.com.

Toyota is working hard to become a more diverse company in an increasingly diverse society. And our efforts are paying off. Black Enterprise magazine and Hispanic Business magazine have both recognized Toyota as one of America's top companies in diversity.

We are also proud members of the Billion Dollar Roundtable, a small group of companies that spends more than one billion dollars per year with minority suppliers. And we were recently honored as one of two Corporate OEMs of the year by the Michigan Minority Supplier Development Council and have been a top five finalist for the National award every year since 2004.

And while we enjoy such recognition...the BEST payoff for our efforts continues to be better ideas and better sales to minority community members.

In 2009, Toyota was the number one brand for Hispanic, African American and Asian car buyers. We believe our success is a direct result of our ongoing focus on diversity in our workforce and supplier base.

Based on our results, we strongly believe that diversity is not only the right thing to do for your community...it's the right thing to do for your business.

Another way to build your reputation and business is by supporting community groups.

I know that's difficult to do during tough economic times, but that's exactly when the need is the highest and people are most grateful for what you CAN do. And grateful people pass on positive news about you and your company.

We certainly found that to be true during the darkest days of our recalls. The community friends we built strong relationships with over the years were some of our most enthusiastic supporters. And they have tremendous credibility.

Historically, Toyota's philanthropic efforts focus on three main areas: Safety, environment and education.

And while we support large, nationwide programs for organizations like the Audubon Society, we direct a large portion of our charity efforts to local, grass-root programs.

For instance, Toyota partnered with the Cincinnati Children's Hospital Medical Center, located near our manufacturing headquarters in Kentucky, to create "Abrochate a La Vida" ... which means Buckle Up for Life.

It's a vehicle safety program designed to educate the Hispanic community on the importance of keeping their families safe while driving.

And the results were amazing.

After participating in the program, the number of adults and children using seat belts and car seats more than doubled. In fact, the results were so encouraging that Toyota is supporting a national expansion of the program to reach even more at-risk communities.

To further support these localized programs, Toyota recently announced it will launch a Toyota and Lexus Dealer Match Program where the company provides matching dollars for our dealers across the country to support programs that are near and dear to people in their individual communities.

As you probably know, car dealers often play a vital role in the communities they serve. They sponsor little league teams, picnics and parades...and they help raise money for worthwhile causes.

This program will provide a match of up to 10-thousand dollars to each of our over 14-hundred Toyota and Lexus dealers around the U.S. to leverage money they are already contributing to make their communities better.

And Toyota funds a similar program with our supplier partners called Community Connection. Since it's inception in 1999, this collaborative effort with our suppliers has provided nearly \$1.2 million dollars in support for local charities at 67 events across 20 different states.

So where do we go from here?

Well, after today, there are only 53 days left in 2010.

As you can imagine, Toyota can't wait for this year to be over!

But...we will enter 2011 with a renewed sense of humility and confidence.

We know we made some mistakes and we will never forget them, lest we repeat them.

But we also take pride in knowing that we took everything that anyone could throw at us, and we survived. And not only did we survive, but we are still the number one retail brand in the country and our Camry is on track to be the number one selling car in the nation for the 13th time in the last 14 years.

All of you should be just as proud of your achievements. You survived one of the worst industry downturns in automotive history. And now...as the economy and industry strengthen...all your hard work is going to pay off.

As the market improves, your more efficient organizations will reap the benefits in both sales and profits.

Will there be challenges?

Of course.

More challenging safety standards...higher mileage requirements...and more environmental regulations...to name a few.

But that's nothing new!

There have always been challenges for us to face...and we've overcome them.

Working together...

- We WILL develop the technologies of tomorrow that enhance our customers' lives.
- We WILL improve the lives of those who live and work in the communities where we do business.
- And, we WILL harness the strength of our talented associates to create technologies of tomorrow that will bring about a stronger and more prosperous automobile industry.

Thank you.

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