

2010 Center for Automotive Research (CAR) Management Briefing Seminar - Steve St. Angelo

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Traverse City, Michigan

Steve St. Angelo, Toyota Chief Quality Officer

Thanks, David

Even though I'm Toyota's Chief Quality Officer and Executive Vice President for North America, I still walk the shop floor.... as often as I can – watching the process up close and talking with the North American team members who build our cars and trucks. It's not only important to me, but one of my most favorite things to do. There's no better way to get a true understanding of what it takes – up close – to build great vehicles. Also, honestly it is my STRESS reliever.

As many of you know, the quest for continuous improvement is one of the cornerstones of Toyota's manufacturing success – and empowering our people to ensure an even sharper focus on quality assurance is now..... one of my key responsibilities.

Our recent recalls have made all of us extremely focused on enhancing quality. That's true up and down our assembly lines. Here is one example: We typically have 500 or so quality circles during a year, but this year we already have nearly twice as many, not because we have twice as many problems, but because so many team members are taking personal responsibility. About 40-percent of our North American team members have volunteered..... to take part because they take this personally and they want to help.

Obviously, it has been a trying few months for our company.

When our president, Akio Toyoda, met with Congress earlier this year, he pledged that Toyota would listen more closely to the concerns of our customers and respond more quickly.

Akio also called me. He asked me to be his quality voice in North America. He told me to be bold....., frank..... transparent..... and very direct ... you know these are the traits that have been getting me in trouble all these years.....because we will never...and I mean never... compromise the safety of our vehicles.

We are here today to discuss the future of our industry. I firmly believe that the steps we are taking at Toyota to strengthen the quality and safety of our vehicles.... are a fundamental part of that future. I am confident these steps will be reflected in even higher quality.... safer..... and more reliable vehicles that better fulfill the needs and expectations of our customers.

I also believe these steps have broad implications for all automakers.

Indeed, history shows that out of extraordinary circumstances like our own, better practices often emerge. A new chapter is being written right now..... at Toyota, and our goal is to lead the way for our industry.

I want to focus on three specific areas where the lessons we've learned will help our entire industry as it gains strength over the next few years.

- First, we are listening much more closely to our customers and responding more quickly to their concerns on everything from design and vehicle testing to after-sales service and support.
- Second, we are doing more to communicate with our customers about the advanced technologies which make our cars safer. This is an issue for our industry as a whole...YES All of us ... particularly in view of some of the unwarranted speculation about automotive electronics.
- And third, we are making a major investment in advanced safety technology that will give consumers greater confidence.

So let me talk a little more about each of those areas one by one.

First, we learned some important lessons at Toyota about the need to listen to our customers. The results of that are reflected in everything we're doing differently and better today.

At a global level..... we have made significant improvements to our quality assurance processes. And we will continue to implement improvements that enhance our ability to think from the perspective of our customers.

For example:

We are allowing for more testing during the development phase of new vehicles in order to incorporate important feedback based on customer usage before mass production begins.

Globally..... we are dedicating..... 1,000..... additional engineers to quality activities and analysis.

And, we are actively seeking input from respected independent experts in Japan, the United States and elsewhere as we work to further improve our quality assurance processes and procedures.

But we understand that one size doesn't fit all. So we are giving more autonomy to our various regions. For example.....North America now has more authority on recalls and other safety-related issues. We also further localized our North American manufacturing and engineering leadership.

Norm Bafunno, who spoke here Monday, was just appointed president of our Indiana plant.

Chris Nielson, our former head of purchasing, was just named president of our Texas plant. Both Norm and Chris replace Japanese presidents.

Meanwhile, Wil James has taken over as president at our Kentucky plant, where I am now chairman.

And....Brian Krinock has been named president of our Cambridge and Woodstock lines....replacing Ray Tanguay who is now Chairman.

This past month, we also named an American – Mike Sweers – as our new chief engineer for the Tundra. He becomes the third American to hold such an important position joining Greg Burnas, chief engineer of Venza and Randy Stephens, chief engineer of Avalon. These are all..... local executives who know their local markets.

To strengthen our ability to detect, analyze and respond to customer and quality issues in the field, we're expanding our Product Quality Field Office program to six additional locations across the U.S. and Canada. Each office will investigate specific field quality concerns related to unique regional, geographical or environmental conditions in each area. For example, the New York region office was developed to investigate

vehicle performance in cold weather climates.

We're also moving faster and more aggressively to conduct recalls. And the evidence, according to the Detroit News..... is that other automakers..... are doing the same. According to that report, our industry.... is on course this year to recall more than 20 million vehicles, the most since 2004.

Let me make this clear. "Recall" is not a four-letter word. Of course, it's never good news when a safety issue emerges regarding ANYONE'S products. But real-time quality support after sale is just as vital as quality in design and quality in manufacturing. At Toyota, we're keenly aware of this. And it's my job to make sure we act on this in North America.

Our record of safety, reliability and quality is very strong.

For example, during the past decade, Toyota, Scion and Lexus products have earned more than 70 top safety ratings from the Insurance Institute for Highway Safety and other organizations.

But, if any problems emerge, our customers should have confidence that Toyota will act swiftly to ensure their safety.

Cost has never been a factor. For example, prior to announcing the sticking pedal recall, we had a meeting with our North America leadership team..... Within 15 minutes we made a decision to stop production on 11 assembly lines for one week....so we could focus on a plan to make things right with our EXISTING owners.....AND remember...we don't layoff our Toyota team members.

As a manufacturing guy, I don't have to tell you that shutting down that many production lines was very expensive. It cost us millions of dollars each day. Yet the issue of cost NEVER once came up in our meetings. We were focused on one thing...taking care of our customers as fast as possible.

In fact, my management team and I visited some of our dealerships in Kentucky when customers started bringing their vehicles in...

- We cleaned cars
- Talked to customers & technicians
- Answered customer phone calls
- Served refreshments....and we learned

By the way, we are so proud of the way our dealers and their teams have gone above and beyond in servicing vehicles covered by our recalls. To date, they've handled more than four million remedies, including [almost 80 percent] of the fixes for sticking pedals. That's a remarkable achievement in a relatively short period. They are the best!

We're also going the extra mile to conduct on-site investigations of consumer complaints. We've created expert response teams across the country whose goal is to follow up on customer concerns about unintended acceleration as quickly as possible.

We call them SMART teams. These teams are unique in this industry. They are made up of 140 engineers who evaluate quality as well as more than 100 field engineers and technicians who travel to our customer's vehicles, conduct inspections and do follow-up work to determine the cause of any concern.

Our SMART teams and dealers have conducted more than four-thousand inspections to date. In all those inspections, we have NOT found a single case in which the vehicle's electronic throttle control would lead to sudden acceleration. This is good news for ALL automakers.

Our SMART inspection process is also giving us a better understanding of what our customers are experiencing.

Certainly, the presence of double or triple-stacked floors mats and vehicles that have not yet received our recall remedies are among the things our SMART teams have found. But we've also addressed concerns in cases where an increase in engine speed is normal..... such as..... higher engine idle speed after a cold start, a slight increase in engine RPM when the air conditioning compressor cycles on, or a slight surge when the vehicle accelerates..... to the set speed..... once the cruise control is engaged.

Independent scientific evaluation is another way we can give consumers confidence in the safety of their vehicles. We welcome the transparency that comes from studies by the likes of NASA and The National Academy of Sciences. In Toyota's case, our Electronic Throttle Control System..... with intelligence..... is featured in more than 40 million of our cars and trucks since we introduced it in 1998. Our engineers have repeatedly tested our electronics for more than a decade and have never.....never.... found a single case of unintended acceleration due to a system defect. And, Toyota has never been provided with any evidence that our electronics can cause unintended acceleration in a real world scenario.

Never-the-less, we are opening up our company to an unprecedented level of independent review. We've commissioned a comprehensive, independent evaluation of our electronics from Exponent, one of the world's leading scientific and engineering consulting firms. In fact, the U.S. government is Exponent's best customer! Their assessment is ongoing and we've set no limits on the scope of the evaluation or the budget. Exponent has a direct line to me and we will publish their findings.... whatever the results. What's more, Exponent's research will be subject to peer review. That process will be initiated by Toyota's new North American Quality Advisory Panel headed by former Transportation Secretary Mr. Rodney Slater. The panel has a broad mandate to advise us on quality and safety issues and as you can see, it's an impressive group.

We want them asking the tough questions and I can tell you, they do.

- They are hands-on
- Line-side to see our Quality Systems
- Pulled Andon—Drove Cars
- I'm growing personally as a result of being around them

I also believe there's a broader..... industry responsibility..... when it comes to vehicle electronics to continue to develop systems that will further enhance safety and improve the driver experience. It's what our customers expect and they deserve it.

For example, our new models already feature the five advanced accident avoidance technologies in our Star Safety Systems. And..... all of our new cars..... and trucks will have brake override as standard equipment by the end of this year.

Another challenge our industry faces is to provide cleaner, more efficient vehicles that are safer for the environment, and still providing the comfort and convenience of today's cars.

It's a tough challenge and nobody can do it alone, which is one reason why Toyota is partnering with Tesla Motors to develop an electric version of the RAV4 compact SUV. I recently drove it...and WOW.

As you know, hybrid technology has served as the core of our environmental approach.

But we know we can't focus on just one technology. In fact, Toyota filed more than 2,000 patents for alternative-powered vehicles last year and now holds nearly 16 percent of all such patents worldwide. Here's

our plan:

- We intend to further refine our conventional engines ... They're going to be around so let's get even better fuel economy;
- We aim to produce one million traditional hybrids per year later this decade;
- We plan to offer a plug-in hybrid to consumers within two years;
- Our goal is to put a battery-electric car on the market in 2012; and
- We plan to sell zero-emission, hydrogen fuel cell vehicles in 2015.

You know, despite a terrible recession, and while we shut several lines down to focus on our quality, we didn't lay off a single Toyota team member....Globally, not one. That's security for our team members and it alleviates the burden on the states where we do business and more importantly us tax payers.

Over the last several months, we've also made some important moves when it comes to products and where we build them. Our capacity utilization is much improved....about 90-percent. Within a year, we are on target to hit 100-percent.

Most recently..... we announced we're bringing production of the Corolla back to the United States when we line off our new Mississippi plant next year. Mississippi will give us 14 plants in North America representing a 23-billion dollar investment....that's about 25-percent of our global capitol investments.

I also want to personally thank Akio Toyoda and his executive team for their continued confidence in us in North America.

Looking back at the last several months, what I am reminded is the importance of our team members.....*****

(Personal Story)

- The Book
- Quality Month-October (throughout North America)
- Problem Solve-Standardized Work Audits
- Tech Fairs-Warranty Part Displays
- Quality Idol

In short, at Toyota, we intend to play a key role in creating a more exciting, smart and sustainable automotive society. As our 35-thousand North American team members help us realize that goal..... safety, quality and the satisfaction of our customers will always be at the core of everything we do.

That's been the Toyota Way for more than 70 years and it's the bedrock of what we're all about. Safety, quality and a cleaner environment are values I am convinced we all share across our great industry.

So, while it won't be easy, I am confident that our industry has a bright future ahead as we all go about the important task of responding to the needs and aspirations of our customers in a changing world.

Thank you.

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