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"Gaining Traction on Collaboration – Roadmap to Profitability"

Introduction – The Golden Age

Good afternoon. And thank you for that warm welcome!

It's great to be in Dearborn again. I almost feel as if I'm stepping on hallowed ground, so much automotive history was made here.

I'm very honored to be speaking to this audience. The members of OESA have played a big part in making Toyota a success. And I'd like to thank all of you for your efforts over the years. We couldn't have done it without you.

Today, I'd like to talk about the future. How we see it. How we plan to get there. And what we think it's going to take to make it a successful one.

And in covering that ground, I'd like to make three major points.

One – despite all you've heard and read about in the news lately, the automobile industry is on the cusp of a new Golden Age the likes of which we've never seen before.

Two – we believe that our values at Toyota will enable us to thrive in that environment. And I'd like to share with you some of the secrets of our success, as well as some facts about our company's past that may surprise you.

And three – there are some speed bumps on the way to this Golden Age. But if we have a fix on them, we can rise to the challenge.

First, though, I'd like to share a story, one that illustrates what the car means to the typical person.

It's about an acquaintance of mine who doesn't take many business trips. When he does travel, he always drives to the airport and parks in the long-term lot. He could just as easily take a taxi. It'd be cheaper and less hassle, and it'd take him right to the terminal. But he drives his own car because when he gets back from a long, tiring trip, the moment he steps into his car, he feels at home.

He still has a long commute down the San Diego Freeway. And he works out of his home, so he knows what the real home feels like. But his car is such a personal part of his life that it's like seeing the faces of his children. After days of being away – dealing with travel connections and security checks and all the business pressures – once he's back in his car, he's back in his environment again.

That's what cars mean to the average person. It's more than a mode of transportation. It's a touch of the familiar, of comfort, of home. And in this ever more volatile world, that's one thing we prize as much as anything else.

And that's one reason – though certainly not the only one – that we see a Golden Age coming. Because people are not going to give up their personal space even if they work from home, even if they take public transportation five days a week.

Ralph Cohen
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Industry in Comeback Mode

To be sure, we're seeing a lot of negative headlines lately about the car business. But the underlying market for motor vehicles is as strong as ever.

In fact, 2005 was the U.S. auto industry's third best year in history.

It's true that this year the industry is off by about 3.7% through September. But considering that we're going against record 2005 incentives, sales for 2006 so far are quite respectable.

Overall, we expect sales of about 16.7 million vehicles this year for all makes and models, which is still one of the seven best years on record.

Long term, we foresee industry sales growing by 100,000 to 200,000 per year, reaching 18 million around 2010.

To put that figure in perspective, that's nearly one and a half million more vehicles than automakers are selling today.

And we fully expect General Motors and Ford to help drive this growth curve.

GM and Ford are taking bold steps to recover, and already there are signs that good things are happening.

In China, for example, GM's sales are up 38 percent, and Ford's are up 105 percent. China, as many of you know, is rapidly becoming the world's second largest auto market. As a result of such numbers, the financial firm Credit Suisse now predicts that GM will post a profit in the third quarter.

It will take some time, but we firmly believe that GM and Ford will both come back stronger than ever. And that's important because they are vital to our industry and our national economy.

But it's also important to understand that what we're seeing is not the demise of the U.S. auto industry. What we're seeing is its globalization. Companies are restructuring and redeploying their resources to meet the needs of markets around the world.

As proof of this, last year, for the first time in its long history, General Motors sold more vehicles OUTSIDE the United States than it did in America. And we'll see more of that in the future. Emerging economies are growing dramatically, much faster than developed economies.

Four of them – China, India, Russia and Brazil – already rank among the top 10 economies in purchasing power, according to a study by investment bank Goldman Sachs.

Helpful Demographics

But the U.S. market itself presents a wonderful opportunity. Why?

Well, let's look at the numbers.

First, people are living longer and driving longer. CNW Research found that more than half of the 13 cars the average American buys over a lifetime are purchased AFTER the head of the household turns 50.

Sixty percent of the U.S. population will be 50 or older in the next five years, and Baby Boomers won't reach the peak of their spending power until 2009. So, there are enormous opportunities for growth ahead.

Add to that the fact that the next generation – Generation X – is maturing and moving into their prime income-earning years. Today, they're buying more than a fifth of all new cars. And they're also purchasing cars for their children.

But the real whammy is the generation that follows – Generation Y. They're now 12 to 26 years old. They represent the second-largest generation of all time, 63 million strong! Gen Y consumers first started getting their driver's licenses in 1996, and the last of them won't turn 16 until 2010.

That's an average of 4.5 million new drivers per year over a span of 14 years!

They already have more than 200 billion dollars in buying power, and that's before many of them have even entered the workforce!

They also stand to inherit an estimated $17 TRILLION dollars from their parents.

So, in four short years, Gen Y will be buying one of every four new cars.

But Gen Y is just part of the rising tide of future customers.

Right behind them is another amazing group – Generation Z.

It's hard to believe, but the oldest members of Gen Z are now 11 years old, just 5 years away from driving themselves.

They're already 48 million strong. That's a third larger than the population of California. And they're growing at the rate of over 4 million a year.

Even more astounding, these young Americans already have an estimated $18 BILLION in direct buying power, not to mention powerful influence over their parents' buying decisions.

Along with natural population growth, immigration will be strong during the next decade because America is still the land of opportunity for people all over the world.

All told, these demographic trends will create a unique opportunity. During the next 19 years, the U.S. population will explode and give America the best growth rate of any developed country on the planet.

And census projections call for us to stay at that pace for at least 50 more years!

Other Drivers of Growth

Along with these favorable demographics, other market drivers are also on our side.

Our gross domestic product is growing. Consumer spending is positive. Jobs are increasing. And productivity is rising.

Plus, there are many experts who believe a new tech boom will significantly stimulate our economy as information technologies continue to develop.

We all know what the Internet did to expand our economy. Well, think of the Internet on steroids. That's what the Information Age will look like as it matures, as cell phones become TVs, and as TVs become computers. And these are just the things we know about.

Add to that the coming revolutions in biotech and nanotech, and it all creates the critical mass for a robust economy in the coming years.

Which brings me to my second major point – how Toyota seeks to thrive in this future environment.

We're currently having our best year ever. Through September, Toyota, Scion and Lexus sales increased 11 percent over last year, and that was in an industry down 3.7 percent.

Best of all, we achieved these results with incentives that were a fraction of the industry average.

But we want to do better, much better. We've established a goal of three million vehicle sales by 2010. And we have every confidence we will make it.

The Toyota Way

How can we be so sure? Because of our key values, which we call The Toyota Way. The twin pillars of The Toyota Way are continuous improvement and respect for people. But we didn't just dream those up.

They go to the very heart of our existence, of our foundation as a company.

It may surprise you that Toyota actually started as a textile loom maker. The company was founded by an inventor.

He watched his mother's frustration with broken threads while weaving. So, in 1924 he invented a revolutionary automatic loom that shut down if it detected a broken thread. In this way, he saved time and materials and improved on quality.

He later sold his invention and gave the money to his son to start an automobile company. That was 1937, and the company became Toyota Motor Corporation.

The father also passed along the key principles that are still our central values. And we believe that these two values – continuous improvement and respect for people – go hand-in-hand.

Partner Collaboration

We believe in working closely with our business partners and finding joint solutions that benefit both manufacturer and supplier.

For example, one of our parts distribution centers needed to manage its inventory more efficiently. To do this, it was crucial for its rail transporter to standardize the lead times of its shipments.

But for the rail line, it meant added costs. So, we worked with the rail line to reduce its costs by scheduling shipments earlier in the day.

To give another example, as many of you know, the federal government changed the rules on driving hours not long ago. Following this change, a trucking company informed us that the most cost-effective option for making deliveries between Kentucky and New Jersey was to switch from one-day delivery to two days.

That's not something we like to do, as you can imagine. Just-in-time delivery is a manufacturing advance that we made famous. And it still goes right to the heart of our operations and our bottom line.

But we're not in this alone. Our partners have everything to do with our value of continuous improvement. So, instead of imposing a costly fix on this trucking company, we respected this partner's needs, and we adjusted our operations to a two-day delivery schedule.

Collaborative efforts such as these have produced significant results, and not just in profitability. According to an OEM Benchmark Survey, Toyota has earned the trust of suppliers, and we're very grateful for the trust you have placed in our company.

Additionally, Toyota and Lexus vehicles earned 11 of 19 awards in the J.D. Power Initial Quality Survey.

Our manufacturing plants earned awards as well, honors that you helped us achieve.

You also contributed to our strong showing in the 2006 Harbour Report, which measures manufacturing productivity. Among the findings, Toyota still enjoys a four-hour advantage over GM in North American productivity.

We could not have achieved such efficiency without just-in-time delivery of parts. And just-in-time delivery would not be possible without your contributions. All in all, you've played a major role in helping us to increase the value of our brand.

So, that's how we plan to thrive in the upcoming years, which we believe will substantially top all previous sales records. Our vision has always been "to enrich society through building cars." And we intend to do that through our values of continuous improvement and respect for people. And that means all the people we work with, not just our customers.

Guided by these values, we believe we can continue providing the vehicles that a rapidly growing market demands. Vehicles that consumers can identify as their own. That stay within their budgets. That give them a sense of belonging to their social group, to their generation, and to their place in cultural history.

Two-Edged Sword of Growth

And that brings me to my final point.

I've painted a pretty rosy picture so far, and there's a lot to be optimistic about. But we all know the hazards. We deal with them on a daily basis.

Volatile gas prices. Rising interest rates. Costly raw materials. Rising business costs.

Additionally, there are hazards that are not so visible, but that we as a company must come to terms with.

We must cope with our own growth, which can be a two-edged sword. As we grow larger, we become a bigger target with more public scrutiny and more demands by society, regulators and customers.

We must maintain the high-quality standards that we ourselves have set. Our reputation is our greatest asset, and that cannot be compromised.

We must continue to compete in a hyper-competitive market. There are lots of good products out there. Not all of them conceived by us. Not by a long shot. So, we have to stay on our toes design-wise.

And finally, but certainly not least, we must meet and continue to exceed rising customer expectations. They expect more for less. They also expect to be surprised, pleasantly. And we must continue to give them a run for their money.

And the way to do that while staying competitive and profitable is to constantly strive to produce the best value for the customer. In simple terms, that means more car for the least cost.

And here's where we need your continued help. By working more closely together and improving our processes and efficiency, we can boost capacity and increase profitability.

We need to "kaizen" everything we do to make it better, faster, smarter.

Our goal of three million vehicle sales in 2010 is an ambitious one, and to attain it we must do more with what we already have.

And we must do it at every phase of our operations, from the design studios to the assembly plants to the dealerships.

But we are confident that we can. And with your help in delivering more parts more efficiently to satisfy an ever-expanding customer base, we can all be major players in the coming Golden Age.

Conclusion – Success Tied to Collaboration

Well, there you have it – our vision of the future. The demographics are all a matter of record. Anyone can look them up. And the same goes for the growth rates of economies around the world.

So, I don't think we're making any wild predictions here. The numbers back us up. And they show that the future holds extraordinary promise for the automobile industry.

But to take full advantage, we have to stay true to what helped us succeed in the past. And in that regard, you are essential to our future success.

Your products help us maintain quality. Your processes help us maintain our just-in-time operations. And your laser-like focus on reducing costs and maximizing efficiency helps both of us maintain profitability.

By working more closely together, that brighter future I described will be ours for the taking.

Thank you.