2015 Center for Automotive Research (CAR) Management Briefing Seminar - Jeff Bracken

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Introduction: Jay Barron, President and CEO, Center for Automotive Research

Good morning everybody, and thank you Jay and Sean for this invitation.

You know, I suspect all of us carry memories of very special places we've lived or visited. For me, it's Michigan, and specifically Petoskey, Michigan. Growing up, it was our family's summer retreat destination and, coincidentally, about 65.8 miles from this stage… not that I checked or anything. And if you love this industry, any visit to the hub of the automotive universe… Michigan… is always a guaranteed adrenaline rush.

And today, being in Michigan takes on even MORE meaning for me.

Thirty-seven years ago, my father, Hal Bracken, who was Toyota's Vice President of Sales at the time, also spoke here in Traverse City at the Management Briefing Seminars. I actually remember the title of his presentation: "The Vanishing Import."

The central theme of his speech all those years ago was: The day would soon come when consumers would place significantly less emphasis on the time-worn labels of "foreign" vs. "domestic" autos, and instead demand… of all OEMs… the highest quality vehicles with exceptional brand value. And they'd want to do business with dealers who provide premier customer care.

In 1978, that seemed farfetched to some, but my father… and a few others who believed the same… pretty much hit the nail on the head.

In today's market… foreign and domestic labels have become much less relevant. That line has definitely blurred. In fact, recently Cars dot com named the Toyota Camry and Sienna the top two most American-made cars in its annual index.

And last year, 70 percent of the Toyota and Lexus vehicles sold in the United States were manufactured in our 14 North American plants, including our RX luxury utility vehicle assembled in Cambridge, Ontario. And soon, our ES sedan will be the first U.S., assembled Lexus when most of the ES production moves to our Georgetown, Kentucky plant.

The vanishing import, in many ways, is a reality now. So what are today's customers looking for?

They have thousands of choices on dealership lots. The competition is fierce, as it usually is. But as today's theme states… Competition Rules. It drives all automakers, including Lexus, to continuously improve just to stay in the game.

Over 25 years ago, Lexus entered the automotive race and targeted a sweet spot in the luxury market… to provide high value luxury cars with benchmark quality and dependability.

From the onset, we were able to start our brand off with 81 hand selected dealers and have grown to 236 now. These dealer partners provide unmatched customer service to establish an industry high water line for premier care.

We're proud of the many awards our company, our vehicles and our dealers have won throughout the years. But counting awards is risky business. It can take your attention away from the core of your business… and losing that drive for even one moment can compromise your advantage. It's that drive all automakers have, including Lexus, to continuously improve… and quite frankly, stay ahead of the competition… creating innovation in our industry.

So, instead of counting our awards… we simply prefer a strategy to stay close to our dealer partners, team members and of course, our customers… and embrace the notion… there's always, always room for improvement. And these strong relationships have helped Lexus improve from day one.

For example… a while back our dealers and customers were asking us for a car-based utility vehicle. As a result, in 1998, we launched the first luxury crossover SUV, the RX… defining a new segment. And 17 years later, RX continues to be our number one volume vehicle, and the best selling luxury SUV in America.

Our customers and dealers have also pushed us for higher MPG on our products… and all OEMs will be affected by the 54.5 MPG CAFE requirement. So, in 2005, we introduced the very first luxury HYBRID with the RXh. Today, our line-up includes six HYBRIDS… the most of any luxury automaker… accounting for almost 60 percent of all luxury hybrid volume.

Now, at Lexus, the definition of product expands beyond vehicles and parts to also include 'premier customer care'… to treat customers like a guest in our home. That may sound all too easy or ordinary… but all of us at Lexus know and believe… anything less makes us… quite common.

When you witness this spirit in action, it's a game changer. Our dealers get this… they live and breathe it every day… 24/7.

From shoveling snow from a customer's side walk… to taking a soon-to-be-grandmother to the hospital to be with her daughter… to picking up a customer stranded at the airport at midnight… and a thousand other examples. We… and our customers… feel our dealers are AMAZING… books are literally written about this stuff.

This strategy has helped our brand for over 25 years. And just like Lexus… many of our competitors won't settle for second or third, and their efforts have pushed our brand even further.

In fact, a few years ago, we knew to be a complete and even more competitive luxury brand, we needed to add performance to our lineup of sedans and SUV's. And I'm not talking about performance like a Sunday at the

ballet. I'm talking about a surge of adrenaline like you'd get trying to out run a grizzly bear on the Alaskan frontier with a salmon in your back pocket… something Lexus really wasn't known for.

As you may know our Global President Akio Toyoda has a passion for this business, including hands-on racing at Nurburgring and other global tracks. And he whole-heartedly agreed that Lexus needed a shot in the arm with great looking performance products. As a result, he rolled out our V-10, 560 horsepower LFA exotic. A vehicle that … with its 200 miles per hour… 0-60 in 3.7 seconds stats… would fit right in with just about any muscle car on Woodward Avenue.

The problem was … we only built 500 and tagged it with a price few could shell out.

So to give more people a taste of Lexus luxury performance, we expanded our lineup with our F-brand at competitive pricing.

Lexus F brand adds emotional styling, enhanced driving dynamics and high performance to the quality and craftsmanship our customers expect, creating a driving experience to compete on the street… and the track.

Additionally, earlier this year at the North American International Auto Show, we revealed a plan to go racing. And just a few weeks ago, our RCF GT Concept had a strong finish up Pikes Peak International Hill Climb. This race against the clock tests driver and machine with the changing elements, altitude, and a treacherous 12 mile, 156 turn course that begins at about 9-thousand feet, and winds up to a 14-thousand plus foot summit.

Of course… for Lexus… it's more than just a race.

Being a part of Pikes Peak helps us develop key components such as engines and transmissions, and allows our engineers to experiment with prototype components, tuning ideas, settings, and software development that may be incorporated into future models. Just as elements… like the four-link active rear wing technology and instrument panel in the LFA… found their way into our newest performance coupe, the RC F. And for the record, this October, we'll formally announce our race team, driver and sponsors.

Our F Brand and other performance efforts are helping to change the perception of Lexus… attracting a new generation of younger buyers to the brand who may not have considered us before.

Of course, we continue to relentlessly push ourselves towards even higher levels of product quality, as our lineup expands to now include performance powertrains.

In fact, recently we embarked on the second leg of a Five Continent Driving Project that began in Australia last year.

For the North American leg, we're calling it… Ever-Better Expedition.

This global driving project will help us further understand how our customers use their vehicles and the various road conditions they face daily. For 110 days and 16,500 miles, a convoy of team members, including our product and technical engineers will drive across North America's highways, byways, and backstreets listening to the voices of our customers and manufacturing teams. It's a real world R&D laboratory in action. Even New York City cab drivers are providing us valuable feedback for future product enhancements.

No rest to remain competitive… RIGHT?!

So, I've shared with you some of the things we're doing to continuously improve our products, but what about our Lexus customer experience?

Our dealers are definitely in this to win.

Their confidence in our brand and their passion to do what's right for their customers is helping drive their dealership facility investments.

These examples are just a few of the 400-Millon Dollars spent by Lexus Dealers over the last four years. And there are plans for another 800-Million Dollars over the next three years.

Even more amazing than their reinvestment, is the fact that we often have to caution our dealers NOT to overspend. Can you imagine an OEM worrying about their dealer partners spending TOO much? … What a wonderful challenge to have.

These reinvestments are raising the customer care bar even higher… providing a customer, community, and team member experience second to none.

And our investments are going beyond brick and mortar. We're also strengthening our customer care with something we call Lexus Service Connect. It's an on-board diagnostic system that provides a Vehicle Health Report.

Basically, the vehicle transmits a variety of information including:

- alerts,
- if maintenance is required,
- if engine oil is low
- even if the battery in your Smart key is low.

The report goes to our customer call center, our dealers, and if they opt in, our customers can receive it via email… or they can easily access it on our dedicated website.

Our dealers have been asking for this for some time now. This will help strengthen their relationship with their customers… and should positively impact service retention.

Now, we haven't shared this next process in such a public forum before… but, I wanted to announce today that about a dozen volunteer Lexus dealers will pilot a negotiation-free process for all-departments.

While negotiation-free pricing is not revolutionary, we strongly believe the concept will further elevate transaction transparency and customer care.

Additionally, we know there is significant growth in the purchasing power of women, millennials and minorities. So, we've tailored our sales process to be more conducive to diverse needs and the ever evolving definition of luxury.

That's why last year we launched a pilot program called The Lexus Difference. We know these consumers are looking for a more personalized experience… and the 'one-size fits all' approach doesn't cut it with them. We also know these consumers look to build relationships organically rather than only through sales.

To help build better relationships with our female guests…and I can tell you I've needed a lot of advice from the women I work along with, including our agencies and diverse internal team members, to create meaningful initiatives that resonate with our buyers. For example, hosting 'Ladies Night Out' themed events that provide a relaxing setting to learn more about Lexus vehicle technology.

We also designed events to resonate with women by connecting our dealerships with communities, like: Child Safety Day… Safety for Female Drivers… and Car Seat Installation Days.

These are just a few of the new processes we're introducing for our customers, and we're excited about the possibilities they will bring.

So, as we've expanded our line-up and processes to cross a broader spectrum of appeal… from baby boomers like myself… to Gen X and millennials… our advertising had to expand as well. Take a look…

That one made a few of our traditional owners question our path for Lexus.

Even our spindle grille design has been polarizing to some. But, at the end of the day, the risk is essential for our brand to flourish moving forward.

Now beyond traditional marketing, we added a road less traveled in order to build brand appeal.

One example is Intersect by Lexus. It's a unique space in select global cities where people can experience the brand without getting behind the wheel of one of our vehicles. Guests will be able to engage with Lexus through events, activities, food and culture.

Think high-end boutique with:

- Crafted by Lexus merchandise,
- a library,
- a high-end coffee bar and more,
- and the car guy in me will likely squeeze a concept Lexus into our space as well.

The first Intersect opened in Tokyo, and this year, we'll soon be launching spaces in Dubai, followed by New York City, in the very trendy 'meat packing district' on Manhattan island, in 2016.

Intersect is just one of many non-traditional steps we've taken… from hover-boards… to short films… to 20-foot tall puppets… just to name a few… not exactly an APR or lease incentive, is it? But… they're bringing new awareness to the brand.

You know, sometimes we're asked to explain our market performance… whether it's sales per outlet, market share, owner loyalty, product quality, manufacturing plant quality, dealer profitability… there are so many ways to measure performance.

So, let me share this FINAL perspective.

At the end of the day, for most all of us, strong product value and quality, and of course, premium customer care are expected.

Beyond this ante in the game, we're also driven to deliver:

- emotional styling and performance products backed by track-proven success,
- messaging that reaches a broader audience even if it's risky and a road less traveled,
- And most critical… the commitment to listen to our customers, our dealers and team members, as they're best positioned to optimize product development, sales and service.

I know… nothing earth shattering, right? … and pretty much done by all automakers.

But, one final perspective….
Lexus IS and always will be a high touch brand.

- Whether I'm spending 60 minutes on the phone with one of our traditional LS owners trying to describe our product and marketing shift…
- or one of our dealers building a dealership facility that looks much like a rustic lodge, including 7 wood burning fire places…
- or Lexus dealers providing a culture to communicate to a wide variety of luxury buyers by speaking over 30 different languages…

- or our chief engineers spending one-on-one time with our owners and dealers to better understand the pros and cons of their baby…
- or the thousands of customer care stories.

For Lexus… our drive for success in everything we do… it’s baked into our CULTURE of treating each customer as we would a guest in our home.

It’s a culture of strong relationships… listening to our customers… and getting out from behind our desks to see for ourselves how to exceed our customers’ expectations. It’s a culture that's a living, breathing business model.

Is it perfect? Of course not. But that imperfection is the 'high-octane fuel' we thrive on to continuously improve and better compete.

I appreciate your attention, as I know this is a long day for you…. I look forward to any questions or comments you may have during the Q&A and panel discussion.

Thank you.