

2011 NADA Convention - Jim Lentz

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Good afternoon! It's an honor to be with you today to deliver the industry message.

I know we're all here to find better ways to sell cars...and I'll get to that...but first I want to pay tribute to YOU...America's new automobile dealers.

I've ALWAYS admired car dealers for their unbridled spirit, determination and savvy...but to me...what really sets you apart in the world of business is your commitment to improving the communities you serve.

Even during the depths of the Great Recession, you continued to support your communities, donating time, money, meeting places and a can-do spirit that significantly helped worthwhile causes. And now that business is improving, you're stepping up your efforts to help people in need.

Sure other local businesses help when they can, but not to the degree that you do...year in and year out.

When I think of dealers lending a helping hand, it brings to mind General Manager Chris Ashworth and his associates packing "survival kits" for the homeless in Southern California.

Camy Popiel and Jim Parker providing toy puppies to encourage elementary kids to read in Coeur d'Alene, Idaho.

And Tom Price supporting a technology center for children with disabilities in Northern California.

And then there's Bob Bridge in Renton, Washington, who says he once got a "D" in algebra...but gets an "A" now for supporting math tutoring programs for high school students in his community.

Yes, I can proudly say these are all Toyota dealers, but dealers of ALL brands do similar amazing things in their neighborhoods.

The brand doesn't make the magic...DEALERS DO ... YOU DO...

YOU are the unsung heroes of your communities...and America...and I feel lucky to have spent most of my life working as your friend...and as your partner.

Unfortunately, you rarely get publicly recognized for your community efforts...so today...let me take a moment to acknowledge your extraordinary efforts to make the world a better place.

...CONGRATULATIONS! ...THANK YOU! ...and KEEP IT GOING!

OK...now let's talk about the business.

You know...walking around the Detroit Auto Show last month... I couldn't help feeling the excitement and enthusiasm coming from all brands.

That's because 2011 marks the beginning of a fresh start for our industry.

And the rising optimism this year is particularly refreshing because it follows two VERY tough years.

Now you heard me say this in the opening video, but I think it bears repeating.

We all faced serious challenges recently...but we came through it...learned a lot...and are much better for the experience...

And the lessons we learned will serve us well for the rest of our lives...

- That we're capable of great resourcefulness in difficult situations...
- That we CAN find ways to be more efficient, productive and responsive...
- And, that we should never, ever stop listening to 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 power our future growth.

So today, I want to talk about the "Bright Future Ahead" for our industry... some challenges we must overcome to achieve full success...and ways we can grow and prosper in harmony with society.

Let's start with the U.S. economy since that's the foundation for our success.

The good news is that we expect the economy to grow and gradually strengthen over the course of the year.

The operative word is "gradually" because high unemployment and a weak housing market will continue to put a drag on consumer confidence and spending.

As a result, we think the economy will grow in the first half of the year, but at a much slower rate than we would like or many analysts expect.

However... during the second half...we expect economic growth to gain steam as employment numbers improve.

So... overall... we see a better year with continuous improvement for the U.S. economy... setting up an even BETTER 2012...and beyond.

And along with the economy, we're forecasting gradually improving auto industry sales of another million vehicles this year to about 12.5 million units.

Now, some say we're being conservative... but the country...our industry...and all of us... just came through one of the worst downturns in history, so we think it may take a little more time to get things back to normal.

But 9% growth is certainly positive and welcome. And we believe Toyota will grow at a slightly faster rate than the industry because we're launching 10 new or updated products this year, including some high-volume models.

Even better, we believe 2011 is JUST the beginning of a tremendous new growth period for our industry.

In fact, we see a VERY "Bright Future Ahead"...for ALL of us.

Why?

Well...for starters... strong demographics continue to be in our favor.

IHS Global Insight forecasts 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 by 2020.

Think about that for a minute.... 24 MILLION is 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 maturing into adulthood....job-hood...and family-hood...creating the need for more vehicles.

Ladies and Gentlemen...we've been talking about Gen Y coming online for many years...well they're HERE!

Next year...Gen Y...the largest consumer segment since the baby boomers...is expected to make up 40 percent of the car-buying population...and over half of those recently surveyed expect to replace their cars in the next two years...they just need to get their grandparents to co-sign the loans...

Plus, Americans are living longer and driving longer so they need new cars.

Bottom line...strong U.S. demographics will play an enormous role in driving demand for new vehicles.

We also believe there's some pent up demand.

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

Right now, the average vehicle on the road is around 10 years old... the highest average age 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 the lowest level in 27 years.

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

And...as I love to point out to people...the Comerica Auto Affordability Index show that new cars are a better bargain TODAY than at most times during the preceding quarter century.

So, let's add it all up... we have:

- A record number of drivers in the market... and more on the way...
- lots of vehicles going to the scrap heap...
- cars on the road aging like never before...
- and the supply of used cars dwindling fast...

So we've got a very bright future ahead...but to fully realize it... we'll have to overcome some difficult challenges.

To me, those key challenges include meeting new mileage regulations...satisfying the needs of 5 generations of customers...and better managing our online relationships.

Let's take them one by one.

In just five 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 given our country's love of trucks and SUVs.

As a global company, Toyota has a huge portfolio of vehicles. So, across our entire U.S. fleet, we have enough small, fuel-efficient vehicles... and hybrids... to meet the 2016 new national standard.

But, some brands may need to invest a lot of money to bring their lineups into line. Others may need to seek alliances with other companies to spread the cost of compliance.

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

I have no doubt our industry will get there, but it will be quite a challenge to keep image, costs and the quality of materials in balance while reaching to meet much higher standards.

And you will play a critical role in explaining the benefits of these new vehicles to consumers.

On top of meeting new government standards... our customers are more varied and diverse than at any other time in automotive history.

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

Some want to come into your showroom... others do what they can to avoid it.

Some want a one-on-one relationship with your salespeople... others want to do everything electronically.

Some don't mind waiting for their car to be serviced... others can't stand to wait for ANYTHING.

Even more troubling is that many young people don't seem to be as interested in cars as we were at their age.

Now, it's true that economics plays a role here. Gen Y has higher credit card and student loan debts than any previous generation...and they've been slammed by the recession...so it's important we work hard to hit the right price points with this group.

But we should all be concerned that they don't SEEM to be as enthusiastic about cars as we were.

Heck...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!!!

It was big...beautiful...and had every available option...factory air and an 8-Track cassette player!

So I was first in line at the department of motor vehicles on my birthday.

And most of my friends felt the same way. Getting a driver's license was our ticket to freedom!

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

With technologies like Skype, video smart phones and Facebook, it's easier to communicate with friends and family from the comfort of your home. They provide instant information and instant gratification.

So, how do we make automobiles more attractive to young people?

Well...at Toyota...we devised Scion...a series of affordable, fuel-efficient cars and we're selling them in new ways.

For instance, we take test-drive cars to where the customers ARE – outside concerts, restaurants, coffee shops and the other places where young people gather.

And give them the time and space to do business through an innovative website and in-dealer electronic kiosks, assembling their own “customized” vehicle and financing from a list of options

We also stress a “pure price” model so the price that is advertised is the price customers pay at the dealership.

And since young people love their smart phones, we recently added an iPhone app that allows owners to track their vehicle mileage and service history...find a preferred dealer...locate their parked vehicle...download how-to videos...and more.

So far, it seems to be working. Scion attracts the youngest buyers in the industry and 7 out of 10 buyers are “new” to the Toyota family.

Other carmakers...too...are offering smaller, stylish vehicles that appeal to the youthful eye and are filled with the latest electronics that allow passengers to communicate, socialize and be entertained.

The key challenge here...as I mentioned earlier...is providing all these benefits safely at a price that fits modest pocketbooks.

In addition to attracting younger consumers, we need to do a better job working with two other rising consumer groups...women and Hispanics.

Let's start with women...and the fact that traditional roles of men and women have been blurring for some time.

In fact, women are now the majority of college graduates. And...according to the U.S. Census Bureau... more than half of all advanced degrees are now earned by women, so more will become doctors, lawyers and professors.

And as women climb career ladders, Market Outlook predicts their incomes will grow and have much more impact on business. .

As a result of this trend, vehicle demand for women will likely grow faster than average.

On top of that... according to consumer rating site...Women-Drivers dot com... women buy more than half of the new cars in the U.S., AND influence up to 80% of all purchases.

They also request 65% of the service work done at dealerships. 65%!

When you put this all together... women have 200-BILLION Dollars worth of purchasing power.

That's more than the estimated GDP for the entire country of Denmark! (source: CIA's World Factbook, est. 2009)

Yet, according to a recent article in Forbes... women continue having poor experiences when trying to buy a car.

In fact, nearly three-fourths of women surveyed say they feel misunderstood by car marketers.

So, how do we change that?

Well actually, it's pretty simple. Women say the most important thing dealerships can do to bring in more women buyers... is...to LISTEN.

Jody DeVere, president/CEO of 'Ask Patty'... a site staffed by women car experts... said women like to tell stories... and when they bring in their car for service, they want to share the ENTIRE story. But, men tend to interrupt and just cut to the chase... which... I have to admit...my wife Barb accuses me of doing sometimes.

Women want to be respected, and DeVere goes on to say it's important to listen... not only because it's polite... but because "REAL listening will sell MORE cars."

I think that's a good reminder for ALL of us... both professionally... and... according to my wife... personally.

So... let's make sure we don't take this consumer group for granted... women are DEFINITELY a key to the future success of the auto industry.

Now let's turn our attention to the fastest-growing ethnic group...Hispanic consumers.

According to Pew Research Center... Hispanics account for over half of the U.S. population growth since 2000. And the center predicts...that by the middle of this century, the Hispanic population will TRIPLE to 29% of the U.S. population, or just over 127 million.

And their buying power continues to grow. According to Hispanic Business... Hispanic households spent nearly 22-Billion Dollars on new vehicles five years ago...and that amount was expected to nearly double to \$40 billion last year.

So...like the fast-growing women's market...we must work hard to make sure we're meeting the needs of our Hispanic customers. That's where a lot of growth is...in the future.

Along with new regulations and new customers, we also face the challenge of managing rapidly expanding online relationships.

Many of you are already on top of this.

For instance, at Pat Lobb Toyota in McKinney, Texas, nearly half of the dealership's recent sales came from the internet... and it's not unusual that its monthly top salesperson is from the internet side of the store.

And that trend is playing out nationwide. According to The Dallas Morning Star, industry officials say internet sales now account for about 25% of retail activity... meaning 1 out of every 4 cars sold in the U.S. is through the internet section of a dealership.

And that percentage will grow because more and more people are using the convenience of the web to shop and compare vehicles.

More important, the internet is now playing a MUCH bigger role in shaping the image and reputation of a dealership.

A 2007 survey by Cobalt... R.L. Polk... and Yahoo...showed that nearly three-fourths of vehicle owners planned to consult online dealership reviews and rankings BEFORE making future purchases.

Still think the Internet isn't all that important?

Think again. Online giant Google recently began to pull dealership reviews from ALL websites that carry ratings. It then posts the number of reviews along with a 1-to-5-Star rating based on the consolidated results up to THAT minute.

Trust me...you can run, but you can't hide from Google.

Since these reviews can be easily accessed by millions of people in an instant... if you don't address a concern when it starts... it can fester and go south quickly!

Believe me... that's something we know first hand!

So, it's critical for automakers and dealers to monitor and manage online relationships.

Okay... so, we know our industry's future is bright...and we need to do a better job of managing new rules... new consumers... and online relationships.

But... what do customers REALLY want?

Well... the usual... better fuel economy... better styling... better value... and vehicles that can co-exist in harmony with society and the environment.

After all, what good does it do to make customers happy and sell a lot of cars if it ultimately damages the quality of life on our planet?

That's a no win game.

So we have to find ways to provide what people want in cars that can live in harmony with the environment and the needs of society.

One way to do that is through a technology that's been proven for nearly a decade and a half... hybrid systems. Generally, hybrids offer about twice the mileage and half the harmful emissions of conventional cars without requiring any special treatment. Hybrid systems also adapt well and can make alternative power systems even more efficient.

That's why Toyota is launching several more hybrids this year.

Last month, 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 Lexus luxury division is about to bring its fifth hybrid to market... the 2011 CT 200h. It's the only dedicated hybrid in the premium compact segment, and will have the highest combined fuel economy in the luxury market.

And that's just the beginning.

Including the Prius V and Lexus CT ... Toyota will launch 11 new or redesigned conventional hybrids to our global lineup by the end of next year.

But, we know we can't rely solely on hybrid technology to meet all consumer needs in the future.

That's why Toyota is focusing its industry-leading R & D spending on a wide variety of products, 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 200h 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.

And now that I've mentioned it I can just see someone coming into a dealership and asking for a raspberry-flavored Lexus! ...

Toyota 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 boost the output of crops that can be used in place of oil to power cars.

And for Toyota, our commitment goes beyond cars.

Our engineers and researchers are also looking into ways to improve many other areas of life and society. For example:

- vehicles for aging consumers and people with special needs...
- intelligent roads and highways...
- housing with solar or fuel cell chargers for electric cars and plug-ins...
- smart grid homes that save energy...
- personal transporters...
- 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.

It will take the collective power of all of all automakers and dealers cooperating with governments, universities, energy companies and other entities to fully move our society forward.

And...at Toyota...we stand ready to playing a leading role.

You know...growing up...my grandparents would visit us...and when they got ready to leave ... my grandfather would take me aside and share some words of wisdom.

A few come to mind... he once told me that the only place where success comes before work is in a dictionary.

He also said that life has two rules. Number one... never quit. Number two... always remember rule number one.

But... the one that stuck with me is a quote he shared from Theodore Roosevelt: "The most important single ingredient in the formula for success is...knowing HOW to get along with people."

That's truer today then it was back then.

The auto industry is ALL about building strong relationships... from factory and dealer partnerships... to the relationships you have with customers... this business is about people.

You've already proven you have what it takes to build and nurture those relationships.

And if you broaden your horizons and build relationships with the new customers we talked about ... and develop new ways of selling and servicing cars...I'm confident you WILL succeed and prosper beyond your wildest expectations.

Thanks again for all you do for our industry...our economy...and our communities...and have a fantastic 2011!

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