

Fujio Cho
President
Toyota Motor Corporation
Traverse City Remarks – Re-inventing Toyota
August 3, 2004

Good morning!

It is wonderful to be back in Traverse City again. I cannot believe it has been ten years since my last visit! In fact, a friend pointed out the other day that Toyota's business in America really took off AFTER I left my job as president of our Kentucky plant.

And I said "That is OK with me. I still get the credit...even when I am not here."

Yes... thanks to our customers...business is good for us right now. So you might find it surprising that today I want to talk about re-inventing Toyota. Did I get your attention?

Why in the world would we want to re-invent ourselves when business is good? Because any company not willing to take the risk of re-inventing itself is doomed. The world today is changing much too fast.

If you are not busy re-inventing your company I guarantee you are falling backwards. Even worse, your customers are probably looking elsewhere.

When re-invention works, it can be great. Think about James Bond movies – the Bond character is re-invented every few years to the delight of audiences. It has created an amazing franchise that has stood the test of time.

But, of course, re-invention is not without risks. So, why should Toyota...or any auto company re-invent itself now? Because our industry has never been more competitive in history.

Examples are everywhere. Hyundai has quality and prices that have caught customers' attention...not to mention ours...General Motors now has plants and products that are standouts...Ford has great trucks and turn-around profits... Chrysler's new 300 is flying out of showrooms... Honda has top quality and new hybrids coming...And Nissan is on fire with the fastest growth of anyone in the business.

Is this highly competitive market stressful for us? Most certainly! Is it good for us? Absolutely! Does it lead to better products for the customer? Without a question!

In a sense, the idea of "re-invention" is similar to the concept of "kaizen," or continuous improvement that is a cornerstone of The Toyota Way philosophy.

But a few years ago, we realized we needed to develop a greater sense of urgency in our business. Steady success is good, but it can foster serious weaknesses. Complacency sets in...customer focus declines...creative ideas dry up...and... before you know it...you are in trouble.

So, two years ago, Toyota announced a long-range plan to re-invent ourselves. We called it "Global Vision 2010." Developing a new "Global Vision" was actually an admission on our part that we faced a crisis.

There used to be a time when we could handle everything from Japan. But starting in the 1980s, our own business started to move at turbo speed, and it has been accelerating ever since.

The sense of crisis we feel... despite increasing sales and profits...stems from our fear that we have not kept up. And particularly fears that we have NOT kept up with environmental issues...the demands of globalization...and the need to develop our people for the future.

Identifying these three priorities is easy enough. But instituting the necessary changes in a big company like ours is another matter. New approaches are necessary in every area of our business, from R & D and purchasing...to production and marketing.

Change is never easy...particularly when things are going well. But I would like to tell you about some of the progress we are making in these three vital areas.

First, the environment. There used to be a point, when being an environmentally conscious company was a luxury...but not anymore. Everything has changed.

In our case, in the early nineties, it became clear to us that it was time to re-invent the very way automobiles are powered. Our engineers were told: “Go out and develop a vehicle for the 21st century.” Nobody knew what they would create.

The result was a hybrid powertrain and the Prius, which has been warmly accepted in both its first and second generations. In May, we achieved a significant new milestone for the Prius as we passed two-hundred thousand in total global sales.

And yet, we still get questions on why we developed the Prius. The simple answer is we developed this new technology because it will make a big difference. First as a specialty vehicle... and later in a wide variety of mainstream vehicles.

We like to think of it as “enlightened self interest.” Because...if automakers don’t reduce smog-forming emissions... greenhouse gases... and the need for petroleum... I believe we won’t be in business!

We all have a financial –as well as a social –reason for developing these types of vehicles. So, how did Toyota develop a profitable business model for hybrids?

From the beginning, we decided that every bit of design, engineering, parts production, and assembly would be done almost entirely in-house. The downside of this strategy was

that such a project would not only be very expensive, but it also would drain our corporate engineering resources.

And...recovery of our investment would take time, requiring patience and commitment from senior management. Today, nearly 7 years after the first Prius rolled off the line...we have achieved all our initial goals on the project.

We have also set the stage for future hybrid progress. In fact, we will soon introduce two new hybrid SUVs here in the U.S. –the Lexus RX 400h and the Hybrid Highlander. And others will follow.

Our hybrid system will also make up the heart of our hydrogen fuel-cell program of tomorrow. And, when I say “tomorrow” please don’t take me literally!

It will still be some time before we see commercial fuel cell vehicles. But our concern for the environment goes beyond our vehicles. We also want to make sure our manufacturing facilities reduce their impact on the environment as much as possible.

Here, in North America, we have set some very aggressive targets for reducing water, energy use, emissions, substances of concern and landfill waste. I’m pleased to say that we are ahead of schedule for ALL those targets we set for 2006.

In fact, energy use at our North American plants is down 17 percent since 2000. And...four of our engine and parts plants are now at “zero landfill status”.

Sometimes, the best ideas are the most simple ones. For example, our plant in Cambridge, Ontario recently introduced coffee cups and take-out containers that can go right to a local compost facility.

That may not sound like a big deal, but all the composting activities in cafeterias, washrooms and meeting rooms...keep over 23,000 pounds of waste out of landfills every month!

The second key issue we have been tackling is globalization. When Toyota was established in 1937, no one could have imagined the expansion to come!

Global expansion for our company –like many others –takes place in three stages. It begins with sales. Establishing a sales network says that you believe people in another country would want to buy your products. In 1957, we set up sales operations here in the U.S. at a former Rambler dealership in Hollywood.

Although those first few years were bumpy, our business has steadily improved and last year we sold more than 2 million Toyota, Lexus, and Scion vehicles in North America for the first time ever!

The second stage is manufacturing. By building where you sell, you further integrate into the communities where you conduct business. As a result, you are able to alter product mixes faster so you can better respond to the changing needs of your local customers.

Earlier this year, I was in California to celebrate the 20th anniversary of the founding of NUMMI, our joint-venture plant with GM. NUMMI has proven to be a terrific “learning laboratory” for Toyota.

It was the cornerstone of new manufacturing growth to come...from Kentucky to Canada to Indiana...and soon... deep in the heart of Texas.

Following manufacturing comes the third stage of globalization – research and development. When a region is so important to you that you want to design unique products for it, then you are truly becoming a global company.

The North American R&D headquarters for Toyota – Toyota Technical Center – is just 240 miles away from here in Ann Arbor. TTC was established in 1977, but the scope of work done at its locations in Michigan, California and Arizona took off in the early 1990's.

More and more, TTC was called on to support our growing manufacturing presence, taking the lead on important upper body product development. And just a few months ago, it took another leap in responsibility. Caltz – the California design studio we established in 1973 – opened a satellite design facility next to TTC in Ann Arbor.

This addition will give Toyota a true national unified effort in designing and building vehicles for the North American market. The result? Vehicles that appeal even more to American tastes and needs.

This shift in vehicle responsibility from Japan to key local markets is also taking place in Europe and other regions of the world.

Really, what it comes down to is that a company achieves globalization... by localization. And successful localization can help with overall globalization. There's so much that we learned from our experiences here in America. Fairness...openness...the right way to treat people...corporate citizenship...diversity...and more.

We have been able to take our positive experiences here in the U.S. and bring that learning to other regions as we expand. So, I would like to offer my gratitude to this country.

As Toyota continues its transition into a global enterprise, we must also pay close attention to a third key business priority...developing the skills and knowledge of our people. This is an area that begs for re-invention because our company is so different now than it was 30, 20, or even 10 years ago.

For instance when I helped start our Kentucky plant in 1986, we were a company that ran almost everything from Japan. We hired a small American management team and spent lots of time teaching them Toyota culture and working through problems on the plant floor. At the same time we were learning so much from our American colleagues about the American way.

I'll never forget the day a huge snowstorm was heading towards Kentucky. We were scrambling to see if second-shift team members would get to the plant in time. But then, several American group leaders came to the plant manager and said, "Don't worry, the first-shift team members have volunteered to stay for second shift if necessary."

But, in the end, they didn't need to. When the second shift team members heard about the snow, they got to the plant several hours early. On that day, I learned much about the American "can-do" spirit.

Looking back now, I realize I was lucky to have that time together with the managers and team members. Today, everything is accelerating much faster.

Instead of one Kentucky plant making 200,000 vehicles per year, we will soon be able to make eight times that many on this continent. Instead of having ample time to work with a small American management team, we are now rushing to add managers to handle new plants in Texas, Tennessee and Mexico.

In sports terminology...you could say we have a "short bench".

So, a vital aspect of our re-invention is changing how we choose and develop our leaders. Obviously, using only Japanese advisors cannot be done any more. We are stretched thin here and elsewhere around the world.

As a result, we are developing some new methods that will help all our key regions be more self-reliant. One is called the Executive Development Program. It invites high-performing General Managers and Vice Presidents from Toyota operations around the world to attend a bi-country two-part workshop. The first week takes place in Japan. Top Toyota executives join me in sessions to help the participants gain a deeper understanding of The Toyota Way philosophy that has successfully guided our company for more than 60 years.

The group also shares business challenges from their regions, and works together to better gain a global perspective of Toyota. The second week is in Philadelphia at the renowned Wharton School. During this session, top business professors and participants actively discuss the best management practices of our time.

This learning from outside sources helps our executives avoid being too narrow in their thinking and sets up life-long company contacts.

And we are also developing new programs for our team members on the plant floor. For example, NUMMI has a large number of new group leaders at the plant. In fact, over 65 percent of the group leaders at NUMMI have less than five years experience.

So, we've implemented the "Group Leader Development Program" for our line supervisors there. The program gives group leaders on the job training and in-depth knowledge on specific areas of the Toyota Production System...even more focus than our usual ongoing training.

We have certified over 60 group leaders so far, and will continue rolling out successful training like this to all our team members. Together, these programs are helping strengthen the bonds of our leaders today and developing our new leaders of tomorrow.

By now, I hope I have given you some insight into why Toyota feels the need to re-invent itself... and how we are going about it. It is very difficult work...to be sure... but absolutely vital for our future.

And...what I have discovered in the process...is one universal ingredient that makes it all work...and that is ATTITUDE.

Until everyone... and I mean everyone... sheds their regional or national label we will NOT be able to reach our true potential as individuals...or as a company.

Japanese? American? European?

Does it really matter these days? We all want to sell globally and grow globally. It is the common bond that binds us all here today...and keeps us vital as an industry.

By re-inventing ourselves...and our companies...regularly...we will better serve our customers...prosper...and preserve our planet for future generations.

Thank you.

###