Toyota Recalls (C): Bumpy Road Ahead

The testimony on Capitol Hill at the end of February 2010 and the 8.5 million vehicles recalled worldwide since October 2009 signaled tough months ahead for Toyota. In the United States, Toyota sales fell 9% in February on top of a 16% decline in January (in Europe the decline reached 20%) compared to 2009.1 Toyota spent approximately $4 billion to repair vehicles in the fiscal year that ended March 31.2

As spring approached, Toyota management moved on three fronts: First, it continued its efforts to repair its worldwide reputation and reassure drivers that Toyota cars were safe. Akio Toyoda, President of Toyota Motor Corporation, flew to China to apologize to consumers there, explaining, “The Chinese market is very important, so I flew here in person in the hope my personal expression of an apology and explanation will give customers some relief.”3 Second, it focused inward. In March, Toyoda began meetings of 70 high level executives from around the globe, focused on improving quality, overseeing safety and listening more closely to customers’ concerns. At a press conference for the event in Japan Toyoda said, “Listening to consumer voices is most important in regaining credibility with our customers.”4 The meeting aimed to signal Toyota’s strong commitment to safety and quality.5 Finally, the company moved aggressively to shore up market share. Toyota rolled out interest-free loans, and special lease deals to attract customers back to Toyota.6 These strong incentives, the most aggressive in Toyota’s history, worked; Toyota saw a 40% increase in month-on-month sales in the U.S. in March 2010,7 with total sales second amongst major carmakers.8

As of April 2010, Consumer Reports in the U.S. was still not recommending any Toyota models involved in the recalls. Lawsuits were piling up and ongoing investigations by the National Highway Traffic Safety continued to make headlines.9 Toyota continued to run two ads that mentioned the recall, one that featured a mechanic speaking about safety, showing various images of satisfied Toyota owners, and thanking owners for their patience; and another that stressed Toyota’s commitment to and investment of one million dollars per day in improving vehicle safety. However, Toyota also spoke of a need to get back to selling cars, and both national sales event and local dealership ads gradually accounted for an increasing percentage of the total messages aired.

More Recalls

On April 15, before Toyota could gain positive momentum, the firm ceased sales of all Lexus GX 460 SUVs worldwide.10 The announcement came on the heels of a rare, “not safe to drive” announcement from Consumer Reports which questioned the stability of the vehicle.11 The next day,
Toyota recalled 600,000 Sienna minivans to combat problems with a cable that held the spare tire underneath the van. On April 17, Toyota agreed to pay a $16.4 million fine to the NHTSA to settle charges of hiding evidence of vehicle defects from regulators. The agreement did not require Toyota admit wrongdoing and was the maximum possible and largest fine ever levied on an automaker. Finally, on April 20, Toyota recalled 34,000 Lexus GX460’s vehicles worldwide. The two additional recalls brought Toyota’s global total to over 9 million since October 2009. Toyota was complimented for its quick reaction to the most recent safety issues. The head of the NHTSA said, “Toyota has definitely been more responsive. That is the kind of response I hope every automaker would take.”

On April 22, the ratings agency Moody’s cut Toyota’s credit rating from AA1 to Aa2 and issued a negative forecast for Toyota. Moody’s analysts stated that Toyota’s recall issues “have created significant uncertainty over whether it can maintain the pricing power it has historically achieved over its rivals.” Six days later, Toyota issued another recall: 50,000 Sequoias, another SUV model.

**Turning the Corner?**

After a few weeks of staying out of the headlines, Toyota announced a $1.2 billion profit for the quarter ending March 31, 2010. The profit lifted Toyota into the black after loss-making years. Akio Toyoda described how the earnings were received at Toyota after such a hectic few months, “We’re still in a storm. There’s been no change on that front. But from the storm, we’ve begun to see glimpses of sunny but faraway skies. I feel that we’re starting to approach safer waters.”

To navigate those waters, Toyota added a chief quality officer, created a new advisory panel on safety, and revamped its reporting system to communicate issues more quickly and efficiently. While some felt the changes were meaningful, others questioned if they would have a lasting impact. Most analysts felt that it was too early to tell.

After seeing a modest month-on-month sales increase of 6.7% in May 2010 and 7% in June 2010 versus 2009, Toyota was faced with yet another recall announcement, this time of 270,000 Lexus vehicles worldwide. The recall hit some of the companies most expensive and highly touted lines including the LS, the top model in the Lexus line. Only days later, the *Wall Street Journal* reported that Toyota had assigned 1,000 engineers to work on quality problems and extended the time allotted to testing new models by a month. One Toyota manager was quoted as saying, “In the aftermath of the recent issues, we have learned many things and some of them have forced us to change our operations.” Toyota did not want to lengthen the time to produce a vehicle but rather worked on shortening process time on non-safety related matters, but lengthening those that would benefit the safety and quality of the car. The company also aimed to reduce the number of outside engineers it used on projects from 30% to 10%.

On July 13, 2010 the *Wall Street Journal* reported that NHTSA preliminary findings found that, in many of the Toyota recall related accidents, accelerators were fully engaged and brake pedals were not being used. These findings tended to point toward driver error as the cause of the accidents, although the NHTSA would not confirm that interpretation. The findings did not completely free Toyota of blame, as incidents of sticky gas pedals and accelerator pedals caught on floor mats were supported in some cases. However, the findings seemed to limit Toyota’s responsibility to those two issues and did not expand the problem scope to include electrical throttle issues. Industry experts saw the findings, albeit preliminary, as positive for Toyota. The firm never blamed Toyota drivers for the accidents but had always insisted that faults in Toyota’s electronics played no part in the recalls.
Endnotes


