



NO LONGER THE BEAST, TOYOTA AIMS FOR BEAUTY

Toyota Motor President Akio Toyoda in an interview with Reuters concedes his company is no longer “the Beast” that used to intimidate rival automakers. Trying to turn the corner on a series of setbacks, the Japanese carmaker is striving to be the beauty, by making sexier cars.

By **CHANG-RAN KIM**, ASIA AUTOS CORRESPONDENT
NUEBURGRING, Germany, Nov 7

AS TOYOTA Motor President Akio Toyoda passed the banged-up Aston Martin Zagato in his Lexus LFA on the Nuerburgring race track last month, he figured that was it for the British race car.

Toyoda and Aston Martin CEO Ulrich Bez, both recognised for their contribution to motorsports by the German auto industry this year, were meant to switch cars later and cross the finish line side by side Bez in the Lexus, the Toyota chief in the Zagato.

“I thought, ‘that doesn’t look good,’” Toyoda, an amateur racer, recalled after the four-hour endurance race at the track, in Germany’s Eifel region. “I think everybody did.”

The mishap seemed like a metaphor for the road his company has travelled since Toyoda took over more than two years ago.

His appointment in June 2009 came as the \$115 billion company

reported its first loss in decades, after the global financial crisis forced it to idle the many factories it had built over a decade of relentless expansion. That growth in pursuit of profits came at the expense of quality and innovation, critics said.

Akio Toyoda, the first member of Toyoda family to take the helm since 1995, vowed at the start to take the automaker founded by his grandfather “back to the basics” of building cars that made people happy.

Barely six months later, the company plunged into its worst quality crisis in decades. Toyota took a firestorm of criticism over the slow response to recalling millions of cars to check for faulty accelerators in the United States. The safety crisis, which forced Toyoda to testify before Congress in February last year, threatened Toyota’s reputation and continued success in its most profitable market.

Today, even as the world’s biggest automaker is turning the corner on that crisis, with new evidence indicating human error and not faulty electronics was the cause behind most of the cases of unintended acceleration, things hardly look any better.

The yen, hovering around record highs, is hurting its price competitiveness. Japan's once-in-a-millennium earthquake and tsunami and Thailand's historic floods have caused severe supply chain disruptions.

But perhaps the biggest challenge for a company Nissan chief executive Carlos Ghosn used to call "the Beast" is Toyota's brand image as a maker of durable and environmentally friendly cars -- but not much else.

Once the world's most envied car maker, Toyota is no longer the benchmark for rivals such as Volkswagen AG or Nissan Motor Co. That honour these days goes to a fast-rising Hyundai Motor Co, whose stylish cars are making Toyota's look blander than ever.

"Toyota can't get by with its quality reputation alone anymore," said Kurt Sanger, a Tokyo-based auto analyst at Deutsche Securities.

"Fairly or unfairly, that's been tarnished by the recalls. But even before that, the other guys were getting better while introducing more interesting products. For Toyota to just continue to do what it was doing was not an option. It ignored that for awhile."

Toyoda, a self-proclaimed 'car guy', acknowledges in an interview with Reuters at the race track in Germany that his company may no longer be the beast, but it can still try to be the beauty.

His quest is to reboot the culture of a company that hasn't been sexy for years. He wants investors to give him a longer time-frame to do that -- even if it takes another decade or so.

GRAND ENTRANCE

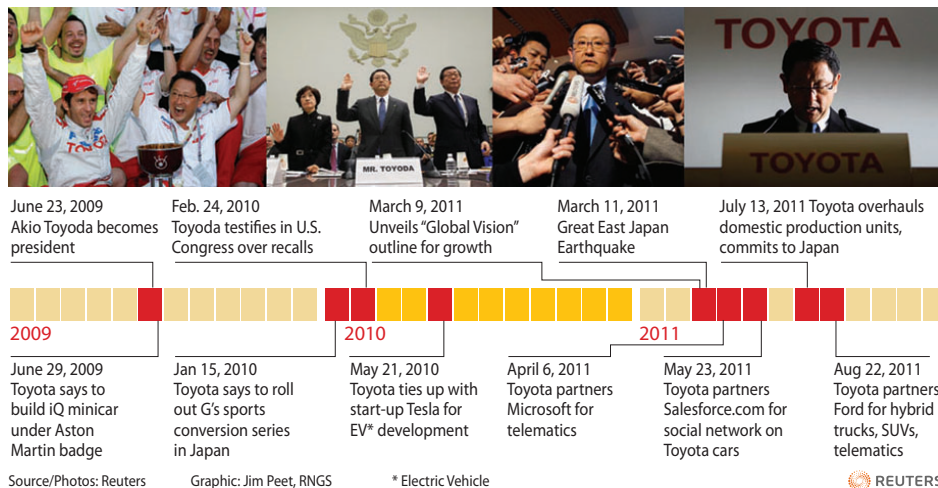
At media events, the 55-year-old Toyoda is known for his grand entrances driving a car, whether it's in the all-new Camry at Toyota's factory in Kentucky or a 30-year-old Kijang truck in Jakarta. At staid company functions, he brings in an LFA and starts the engine, filling hotel banquet rooms with the smell of petrol and the rumble of the supercar's V10 engine.

"By the next day, no one will remember the speech I made," Toyoda, dressed in a red racing suit, said before the Oct. 15 race at Nuerburgring. "But they'll never forget that sound and smell."

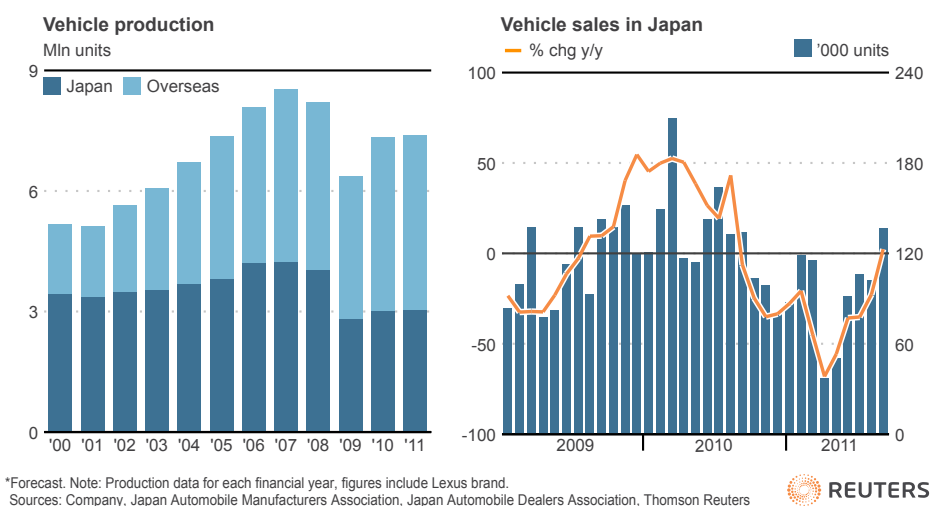
Earlier this year, young men and women offered a job at Toyota in Japan were invited to the company's test track to celebrate. As they stood facing a stage to be introduced to Toyota's race car drivers, Toyoda circled the track on an LFA for sound effect.

"Nobody knew it was me. After the introductions, I pulled up to make my remarks," he said proudly, flipping through photos from that day on his iPad. "In those remarks, I asked

AKIO TOYODA TIMELINE



Toyota's sales and production



them if they liked cars and that if they didn't, they shouldn't bother joining."

Toyoda's campaign to inspire the group's 300,000 employees to build more exciting cars was strengthened, he said, when he appeared on CNN's Larry King Live after the grilling from U.S. lawmakers last year. The turning point from that trying saga, Toyoda said, came when King posed his final question: What car do you drive?

"I thought to myself, should I say Prius? Would that sound good?" he remembered. "But then I decided to just let go and I felt a smile return to my face. I told him, 'I drive about 200 a year. I love cars.'"

Toyoda said the incident made him realise that focusing on the product is what saved him from a crisis he had assumed would lead to his early resignation to take responsibility for the recalls.

He renewed his vow to lead Toyota into a new chapter with cars as the leading protagonist, declaring the day of the U.S. congressional hearings -- Feb. 24, 2010 -- the beginning of a company renaissance.

HYUNDAI THREAT

But making good cars requires profits, and profits have been tough to come by lately.

The yen's persistent strength has been especially tough for Toyota, which exports about 1.5 million vehicles from Japan, nowadays at a loss. Even though the dollar is now near the 90 yen Toyoda says is appropriate, he has vowed to keep building at least 3 million vehicles a year in Japan --

COVER PHOTO: Toyota chief Akio Toyoda, who races under the codename "Morzio", inside an Aston Martin V12 Zagato car at the Nuerburgring circuit October 14, 2011. **REUTERS/Alex Domanski**

three times that of Nissan or Honda Motor Co. Toyoda says the company has a social obligation to protect jobs and keep a strong manufacturing base in Japan.

That commitment only strengthened after the March 11 disasters, and became the source of a public "debate" earlier this year with his chief financial officer, Satoshi Ozawa, who noted that building all those cars in Japan defied logic.

All the while, Hyundai has been borrowing from Toyota's business model to become a global powerhouse, helped in part by various free trade agreements Seoul has signed and a relatively cheaper currency.

While motor journalists such as Tetsuya Kato welcome Toyoda's new focus on making hotter cars, he said success wasn't guaranteed.

"The Koreans are really coming at them," said Kato, publisher of Japan's Car Graphic magazine. "If Japan keeps going at this snail's pace (with free trade deals), there's a real possibility that Japanese automakers will lose."

Toyoda has no qualms about putting the front-runner label on Hyundai, and isn't interested in the noise about losing the title as the world's top-selling automaker – something that could go back to General Motors this year.

"I think Hyundai is making great cars, and in some ways I think we're trailing them," he said in the interview.

"We have so much more room to improve. But as long as you know that – it's like Steve Jobs said at the end of that speech: 'Stay hungry. Stay foolish.' Those words really spoke to me," he said, referring to the commencement address the late Apple CEO delivered at Stanford University in 2005.

"In the short term, you win some and lose some. But we're working hard to build Toyota into a company that attracts investors who would look back 15 years and be glad they owned our shares. It's the difference between thinking of 10 years in the span of 10 years, versus 10 years as a part of 100 years."

For now, though, investors aren't impressed. Toyota's shares are down 20 percent so far this year while Hyundai's have surged 25 percent.

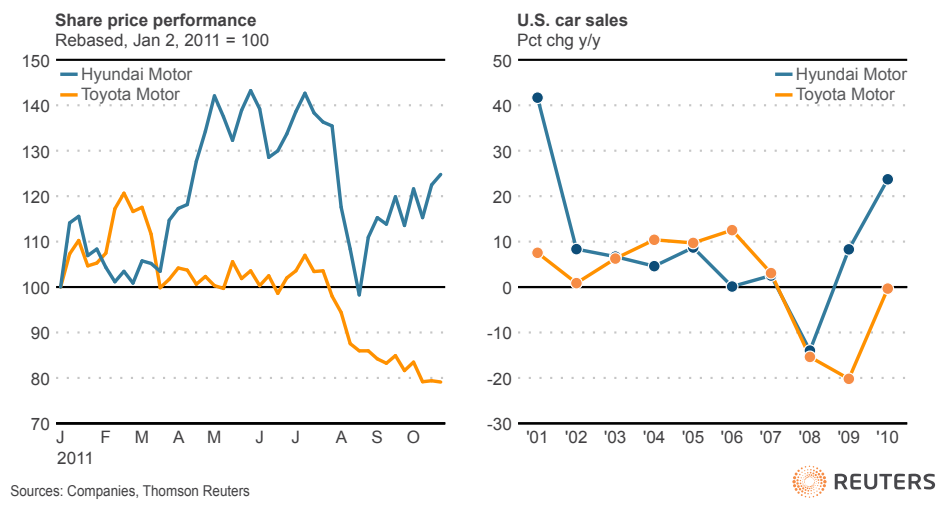
CHANGE AGENT

While Toyoda may want to be judged over the long term, those who know him say he is constantly challenging the status quo and grows irritable when he senses resistance to change.

He holds weekly meetings with his five executive vice presidents in a free-flowing style with no prepared documents -- a departure from past practice.

Soon after the recall debacle, Toyoda gave

Toyota vs Hyundai



ELECTRIC CHARGE: Akio Toyoda gets out of a Tesla Roadstar electric car with Tesla Motors Chief Executive Officer Elon Musk (behind car) upon their arrival at a news conference in Tokyo November 12, 2010. **REUTERS/Issei Kato**

regional operations more autonomy to make the company more nimble. In a management shake-up this year, he slashed the number of directors to 11 from 27 to speed up decision-making.

A few of his own speedy decisions, though, have raised concerns in some quarters that Toyoda was perhaps flouting Toyota's process-driven, consensus-building culture. One employee wondered whether Toyoda's was a top-down management style -- like Apple's Jobs -- and whether he had it in him to take the blame for any major missteps he might make.

"I get the sense that he listens carefully to people when the subject is outside his comfort zone," said the employee, who declined to give

his name or rank. "What I'm not sure about is whether he'll do the same in areas he's familiar with. And when he makes that executive decision on a car, for example, and it turns out to be a flop, would he take responsibility?"

Toyoda surprised even his chief engineer, Takeshi Uchiyamada, with last year's shock tie-up with Tesla Motors Inc after only a month after hitting it off with the electric vehicle start-up's young founder, Elon Musk. In the end, the executive vice president credited Toyoda for achieving his main goal of having the Silicon Valley company's entrepreneurial spirit rub off, at least on a small scale.

When the Tesla team came up with an



TAG TEAM: Gazoo Racing driver "Morizo", or Akio Toyoda, in an Aston Martin Zagato (R), and Aston Martin CEO Ulrich Bez in Gazoo Racing's Lexus LFA (L) are seen crossing the finish line together at the VLN9 four-hour endurance race at the Nuerburgring circuit in Nuerburg, Germany. **REUTERS/Gazoo Racing/Handout**

electric prototype of Toyota's RAV4 crossover in just three weeks to display at the Los Angeles auto show, young Toyota engineers challenged themselves to do it faster.

"They used their own free time and converted an old (Toyota) MR-S sports car into an electric car in 16 days," Uchiyamada recalled earlier this year. "If we did things the old way, we wouldn't even have a proposal in that time."

Another executive said the skepticism will never end because of the baggage that comes with Toyoda's name.

"He'll just have to be judged on his achievements when his tenure is over, whenever that may be," he told Reuters by telephone, requesting anonymity.

"But from my perspective, he's already got a proven track record. All the big decisions in the past two years have been his; pulling out of Formula One, for instance, and the various tie-ups with other companies such as Tesla. I think he's a talented leader, and a decisive one."

Analysts said it's too early to say whether Toyoda will succeed.

"But back in the day, they used to say that Ford went downhill because the company grew too big, and the bean counters became too powerful," said Tatsuo Yoshida, an auto analyst at UBS Securities. "If he can really steer the focus back to products in areas that aren't directly involved with making them, like R&D, I think it would be good for Toyota's corporate culture."

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REVAMPING LEXUS

Toyoda is focusing first on his premium line, hoping to seduce customers with a revamped Lexus.

In April, he created a direct reporting line to himself for the Lexus division, personally testing the latest GS 350 sedan at Nuerburgring many times. The car was then re-engineered for a more rigid body, lighter suspension and reduced body roll, among others.

The 2012 Camry, launched in August, was also sent back for major modifications, especially to improve the interior.

"As a true car guy he really gets into the weeds in design, development and production," Jim Lentz, head of Toyota's U.S. sales arm, told Reuters in an email. "He has our associates and dealers excited about the business and the future again. He is exactly what we need at this point in time to get back on track."

Lentz said empowering each region has allowed for faster decisions to meet local consumers' tastes.

"I think you see evidence of that already in

the Camry and will continue to see it as we launch 20 all-new cars and trucks over the next several years," he wrote.

Toyoda said it was only a start.

"I think we exceeded some level of expectation with it," he said about the remodeling of the Camry, America's best-selling car.

"But I'm talking about much, much more than that. I don't want it to be about rolling out a new car for a scheduled model change. I want people to be wondering, 'What's the next Corolla going to be like?' and be full of anticipation. It's going to take time, but that's the kind of car launch we're aiming for."

Deutsche's Sanger said it will take a few more years to see any transformation because cars typically take three to five years to develop.

"But it's a good thing to see someone who wants to talk about product at Toyota," he said. "If that translates into more engaging vehicles, then ultimately that has to be better for everyone. The people making them should sell more of them, the people selling them should get a better price from them, and investors should see better returns because

of that. The success or failure of the next generation of products will be his legacy."

"WE DID IT!"

Toyota and his company have a ways to go, but they are clearly trying to root their new corporate culture at least in part at the race track.

As Toyota prepares to launch the first Toyota-badged sports car since 2007, it is doing so without top test driver, Hiromu Naruse, who left his mark on some of its most iconic cars such as the 2000GT, Celica, and Supra.

Naruse was also the reason Toyoda gave up his weekend golf routine and hit the tracks more than a decade ago, after he criticised the young executive for being ignorant about the finer points of driving. Toyota's revered test driver died last year just outside Nuerburgring, crashing the LFA he had helped fine-tune.

At the four-hour race, a lesson for Toyota's mechanics came unexpectedly in the form of Aston Martin's crash.

Barely one hour into the race, the Zagato driven by Aston Martin's Chris Porritt was towed back to its tent after getting rear-ended and crashing off the course. The back end was smashed in, the front was banged up and it was leaking fluids. Toyota's Gazoo Racing staff, like Toyoda, figured it was over.

Aston Martin's mechanics didn't. Although the race was lost, they were determined to patch up the car enough to give Toyoda one last lap for the finish.

"They set that goal and reached it, despite the pressure of putting a V.I.P. in the driver's seat," said Toshiyuki Sekiya, a chief mechanic for the LFA. "That's a decision we may not have been able to take. It's given us something to think about."

With just minutes left on the clock, members from both teams rolled the bright-green Zagato, its headlights covered in duct-tape, onto the track for Toyoda's final run.

Against the odds, the LFA and Zagato crossed the finish line at the last straightaway in tandem, as Gazoo Racing and Aston Martin's members cheered from the sidelines.

A beaming Toyoda and jubilant Bez emerged from their machines, embraced, and posed for the cameras.

"We did it!" they kept saying. "We did it!"

Editing by Bill Tarrant



TOYODA CHARGE: President and CEO of Toyota Motor Corporation Akio Toyoda walks through his pit during a free practice session ahead of the 35th DMV 250 miles race within the VLN endurance racing championship at the Nuerburgring circuit October 14, 2011. **REUTERS/Alex Domanski**

FOR MORE INFORMATION, CONTACT:

CHANG-RAN KIM,
ASIA AUTOS CORRESPONDENT
ran.kim@thomsonreuters.com

BILL TARRANT,
ENTERPRISE EDITOR, ASIA
william.tarrant@thomsonreuters.com



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