Toyota's Resurgence Hinges On Supplier Ties

The Associated Press

TOKYO, May 12 (Kyodo) — Having been battered by the yen's historic ascent against the dollar and the adverse impact of the Great East Japan Earthquake, Toyota Motor Corp. suffered drops in both consolidated revenue and earnings in the year that ended March 2012.

Toyota Motor also lagged behind its rivals both domestic and foreign in penetrating emerging markets such as China. It slipped to No. 4 among all the world's carmakers in the number of cars sold, having held the top spot in 2008.

In the current year through March 2013, the Japanese automaker is expecting a strong recovery but its revival appears to hinge on whether it can implement structural reforms that involve revamping its relations with subcontractors in Japan.

At a news conference on May 9 for the earnings announcement, President Akio Toyoda vowed the firm would emerge from a long period of struggle. "After three years of spadework, we will this year release a series of appealing products in both industrial and emerging markets," he said.

Toyoda, a member of the automaker's founding family, took the helm in 2009 when the global economy was still feeling aftershocks from the financial crisis of the previous year.

Toyota Motor under his reign has experienced a series of hardships such as a massive recall of cars over an axel pedal problem in the United States that severely tarnished its otherwise strong brand image, as well as last year's Great East Japan Earthquake followed by flooding in Thailand, one of its key production bases.

In the meantime, automotive sales hardly expanded in industrial economies but grew rapidly in China and Brazil. Germany's Volkwagen AG and South Korea's Hyundai Motor Co. responded swiftly to structural changes in these expanding markets.

A top official at Toyota Motor admitted that it has been left in a difficult situation. Toyota Motor is being "forced to fight an uphill battle in the global market," he said.

Toyota Motor has often been cited as a typical example of a company practicing the so-called Japanese style of management with a particular focus on domestic production and tight relations with components manufacturers.

But some are now questioning whether this "focus" has morphed into a drag on earnings.

The rapid ascent of the Japanese currency against the dollar has far outpaced

Toyota Motor's specialty of rigorous cost cutting efforts. Some analysts said Toyota Motor has been slow in implementing structural reform.

Toyota Motor's answer to such criticism is a new strategy dubbed "Toyota New Global Architecture." It aims to spare no efforts in promoting common use of components across different model platforms to take advantage of economies of scale in achieving substantial cost reduction.

The conventional focus on relations with affiliated parts makers is no longer a given for Toyota Motor. The company is keen on procuring components from overseas manufacturers as well in order to "enhance product competitiveness and cost reductions at the same time," Executive Vice President Takeshi Uchiyamada said.

Parts makers in Japan who have been supporting Toyota Motor, however, are getting apprehensive. While they themselves can expect a larger volume of orders if they are more competitive than others, they also stand the chance of losing contracts if they turn out to be less competitive.

The president of a midsize parts maker affiliated with Toyota Motor said, "We can no longer count on the conventional business relationship. It's now a match with international competitors."

Nissan Motor Co. has already done away with the traditional Japanese style of keeping close ties with affiliated parts suppliers.

Under the leadership of Chief Executive Officer Carlos Ghosn, Nissan Motor has formed strategic partnerships with manufacturers worldwide and is providing products catering to each market.

Just earlier this month, Nissan Motor and its business alliance partner Renault SA of France decided to buy a controlling stake in Russia's largest carmaker Avtovaz.

In 2011, the Renault-Nissan alliance sold a total of 8.02 million cars, outnumbering Toyota Motor with 7.95 million. Nissan Motor also outperformed Toyota Motor in consolidated net profit in fiscal 2011, which ended in March 2012. Nissan Motor was the best-performing Japanese automaker with 341 billion yen in net profit, compared with 284 billion yen for Toyota Motor.

Satoshi Nagashima, senior partner at consulting firm Roland Berger, said, "At Nissan Motor, things move quickly in management. It has turned out to be an advantage that it severed relations with parts makers early."

More than any other Japanese company, Toyota Motor had been particular about maintaining its core operating bases in Japan. But exposed to intensifying competition around the world and the strong yen, it has now started steering away from its traditional stand to follow a rival.