

CEO: Toyota's Slice Of U.S. Market Is About Right

Tom Krisher, AP Auto Writer

NEW YORK (AP) -- After five up and down years, Jim Lentz thinks Toyota is right where it's supposed to be.

Five years ago, the company unseated General Motors as the world's biggest automaker and its cars dominated much of the U.S. market with a reputation for bulletproof reliability.

Toyota even weathered the Great Recession with relative ease.

Then came a series of embarrassing safety recalls and a devastating 2011 earthquake and tsunami in Japan that shuttered the automaker's parts suppliers and left it short of cars to sell.

Today, sales have rebounded and Toyota is again making big profits.

Through it all, Lentz has been at the top of Toyota's organizational chart in America. He was the public face of the company as it recalled millions of cars for sudden acceleration. Now he's the North American CEO and a senior managing officer. He says U.S. sales are meeting expectations, and he likes Toyota's position in the market.

That's not to say there aren't new challenges.

The company's bread-and-butter vehicles, the midsize Camry sedan, the Corolla compact and the RAV4 small SUV, are under attack from new models introduced by revived Detroit automakers and newly energized brands from South Korea. And there's the question of whether younger generations want to buy cars.

In an interview at The Associated Press headquarters in New York, Lentz talked about the economy, Toyota's position in the U.S. market, young people's car-buying habits, gas prices, and how the company plans to handle tremendous competition. Below are excerpts, edited for length and clarity:

Q: In August of 2008, your U.S. market share was 16.8 percent. Now you're around 14.4 percent. To what do you attribute the decline and will you ever get back to where you were?

LENTZ:I think at the bottom, after the tsunami and everything else, our share dropped to 12.8, something like that. We were as high as 17 percent in 2009, in the midst of the financial crisis, when many of our competitors didn't have access to capital. They couldn't wholesale cars to dealers, they couldn't provide retail financing, they got out of the lease business altogether. At the same time we had a spike in fuel prices. So we had a lot of tail winds. So I think we were never as good

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as 17 percent. I can tell you we're much better than 12.8. We're on target to hit our sales plan this year. If the industry comes in at about 15.5 million (annual car and truck sales), our share will be 14.4 to 14.5. So I think we're in good shape.

Q: Do you attribute some of the drop to more competitive cars in your bread-and-butter markets?

LENTZ: Yes. There are much better cars on the market today than there were five years ago, and compared to 10 years ago, it's a night-and-day difference. One reason the average age of a car today is 11 years is the quality's gotten better. Look at the midsize segment. If you go back 15 years, there were really two major players, Accord and Camry. Today there are arguably five or six really good options.

Q: Why do you think the U.S. auto industry has come back as strong as it has? Did the comeback surprise you?

LENTZ: I don't think it's a surprise. The industry has historically been driven by low interest rates and (strong) consumer confidence. Today, interest rates are still at historical low levels. Consumer confidence, it's wobbling its way back up. Part of that's being driven by housing, which is making its way back. People's 401(k) statements, for the most part they've recovered. So I think they feel relatively confident. On top of that the average age of the vehicle today is over 11 years old. You have a lot of needs-based buyers now.

Q: How long will pent-up demand last?

LENTZ: Probably through 2014. If you look at the total number of cars on the road, it typically averages around 250 million. Of that, the cars that are 1-to-5-years old typically are 82 to 85 million of that. The deep, deep recession the automobile industry went through reduced that number down to about 62 to 65 million. It hasn't been that low in terms of raw numbers since the early '80s. Typically a new buyer that's in the marketplace, if they're shopping new or used, they're shopping that certified used 1-to-5-year-old vehicle. Because of the limited supply, the cost of those vehicles is quite high today. On a monthly payment basis it's almost the same to buy a new vehicle. So in time, as that 1-to-5-year-old base builds its way back up, I think we're going to reach that equilibrium probably sometime near the end of 2014.

Q: What happens to the market then?

LENTZ: The market then has to work off of a much better economy and improving economy. If we don't have that I think the market may flatten out.

Q: The economy, it seems, is in a stall. If you were king for a day, what would you do?

LENTZ: It's a tough one because we have this stubborn issue of unemployment. We have federal debt, we have state debt, we have city debt. The good news is consumers, they've gotten their fiscal house in order. In hindsight, I probably would

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have attacked the housing issue much faster. That might have brought consumer confidence back faster. I think it's going to be very slow growth in the next few years, but there will be growth. Unemployment will continue to drop, but slowly.

Q: You've come through the tsunami, the recalls, manufacturing issues. What lessons have you learned both as an executive and as a company?

LENTZ: I think if you look at the recalls, we learned to listen much better, we learned to act much faster, and we learned to be much more transparent. And that has to do with dealing with regulators and dealing with customers. The tsunami was a great challenge for us. Our supply chain collapsed, literally within about two hours, and I think we really learned to understand it much better.

Q: Is the recall situation fully behind you?

LENTZ: We've settled the MDL (multi-district litigation) suits. We are making our way through the rest of the issues. I think from a customer standpoint, it's behind us. Our loyal customers that had an experience with us, I think relatively quickly we were fine with them. The customer that didn't have the experience, that wasn't sure what was going on, has been slower to return. And I would say that today we're probably 80 percent back with that buyer. In total, I would say we're probably 90 percent back.

Q: Do you consider it high that gasoline has averaged \$3.50 for three years, and does it matter anymore?

LENTZ: I think customers have been desensitized to high gas prices. A gas price of \$4 or \$4.25 won't change behavior as it has in the past. What changes behavior is rate of change. So if gasoline goes from \$3.50 to \$4.50 over eight months, I don't think consumers change their buying behavior. But if it goes from \$3.50 to \$4.50 in 60 days, that's when we see change.

Q: What is the long view for Toyota on younger buyers who have a lot of student loan debt and are coming into a lower salary base?

LENTZ: It's a challenge. Despite the debt and despite either underemployment or lower salaries, those under 35 are coming back to the market at a faster rate than any other generation. I think there were a lot of questions in the past, will young people even buy cars? As they start lifestyle changes, married, someday kids, they are coming back. They'll have to deal with their college debt. But I don't think it's going to put that much of a damper on the industry long-term. We are going to have very soon five different generations buy cars for the first time.

Q: If you're looking at five generations of sales what's the impact on technologies inside the vehicle?

LENTZ: I can tell you my dad has navigation. He has no idea what button to push, nor will he ever care.

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The technology we put in cars has to be very, very intuitive so that it's simple to use for elder generations but enough techno for younger generations. But younger generations, I don't think they're necessarily amazed with technology. It's a tool to them.

We view autonomous cars a little differently than some others. We really see it as a co-pilot type car, not as a self-driving car. A car that can really enhance the reflexes and the ability of a driver to continue to drive. That's why I'm excited about those cars. As we look at boomers and they start to retire, the ability to have cars that can enhance their capabilities, it's going to allow them to drive much longer.

Q: For a decade or more, everybody in Europe has had 10 percent market share, and it's a bloodbath. Could that happen in the United States?

LENTZ: I'm not going to chase volume for the sake of volume. In Europe, you had a lot of manufacturers that had set (factory) capacity. Whether the market was high or the market was low, they weren't able to adjust that capacity, and that's where the bloodbath came from. We have the right capacity today to have some more upside as the market grows and comfortably be able to move it down if we move into another recession.

Q: What do you respect or fear most about Ford, GM, Chrysler, Honda?

LENTZ: I have a lot of respect for Alan Mulally and what he's been able to do at Ford. Across the lineup, they've done a great job. That said, there's not a lot of cross-shop that takes place between our buyers and Ford buyers. Some segments there are. So F-series pickup trucks and Tundra, there's cross-shop. But today a Corolla versus a Focus or midsize car, there's not that much cross-shop. Even less with General Motors and Chrysler. Probably the biggest competitor across most series is Honda. If you look at cross-shop, Camry to Accord, it's probably around 25 percent, by far the biggest. That's probably the competitor that we have to really keep our eye on.

Q: What do you see happening in the midsize market? When it shakes out, is the Camry less dominant?

LENTZ: I think both we and Honda over the last 15 years have been less dominant. I tend to always take the customer's point of view, and I'm not sure how important it is that you are the best-selling car. I can tell you from a rallying cry, from the retailer's point of view, and the company point of view, yeah, we love to be No. 1. But we're not going to do unusual things to stay there. We will be competitive in the marketplace and the numbers shake out where the numbers shake out. This year I'm quite confident we'll remain No. 1.

There's great competition. Accord is that much newer in the marketplace than we are. And arguably the midsize market has been changed forever by the Hyundai Sonata. I think Sonata really brought aggressive styling into a segment that had not been that aggressively styled. In future generations of Camry, the styling will get more aggressive. What I call emotional quality is improving on each and every one

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of our vehicles.

The new Corolla has it. I think styling-wise, drivability-wise, interior, infotainment offerings, it's light years ahead of the car that it replaced. You've seen it with Avalon, on the Lexus side and with RAV4. We're going to continue to have that strong foundation of quality, dependability, reliability, value, and safety, but now we're able to add this more emotional component. Akio (President Akio Toyoda) wanted more fun-to-drive cars. He's pushing the styling envelope.

Q: You mentioned you drive the Prius to work every day. What do you drive for fun?

LENTZ: I like to test drive a lot of our vehicles and competitive vehicles. You know, for fun. Obviously LFA is a lot of fun to drive. ISF. FRS I think is a lot of fun to drive. But Prius, my wife's on her third-generation car, Prius is an interesting conundrum because it's fun to drive in its own way.

Q: What's your favorite car of all time?

LENTZ: Probably a '73 911. And the coolest car my parents ever had was a '63 Buick Riviera. So between the 911 and the Riviera, probably the coolest cars I can remember, kind of vintage type cars.

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