

# Structural Change Required in the Asian Automotive Industry

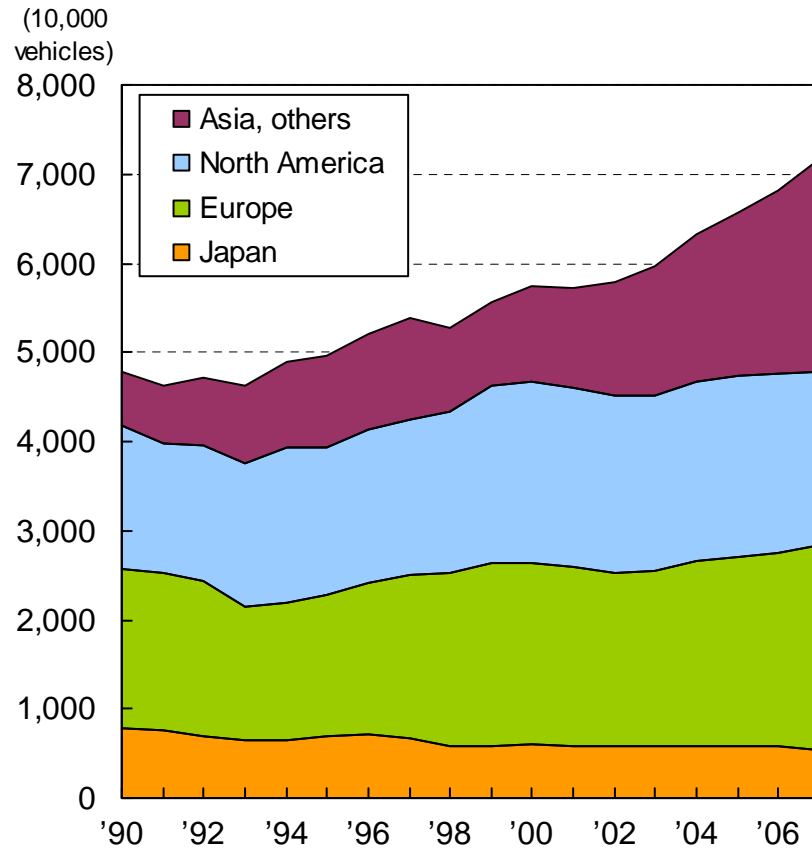
Akira Okabe  
Toyota Motor Corporation  
February 18, 2009

- 
1. Introduction to Toyota's Asian operations
  2. Recent changes in business structure
  3. Short-term response to recent market conditions
  4. Perception of the medium and long-term environment and coming paradigm changes

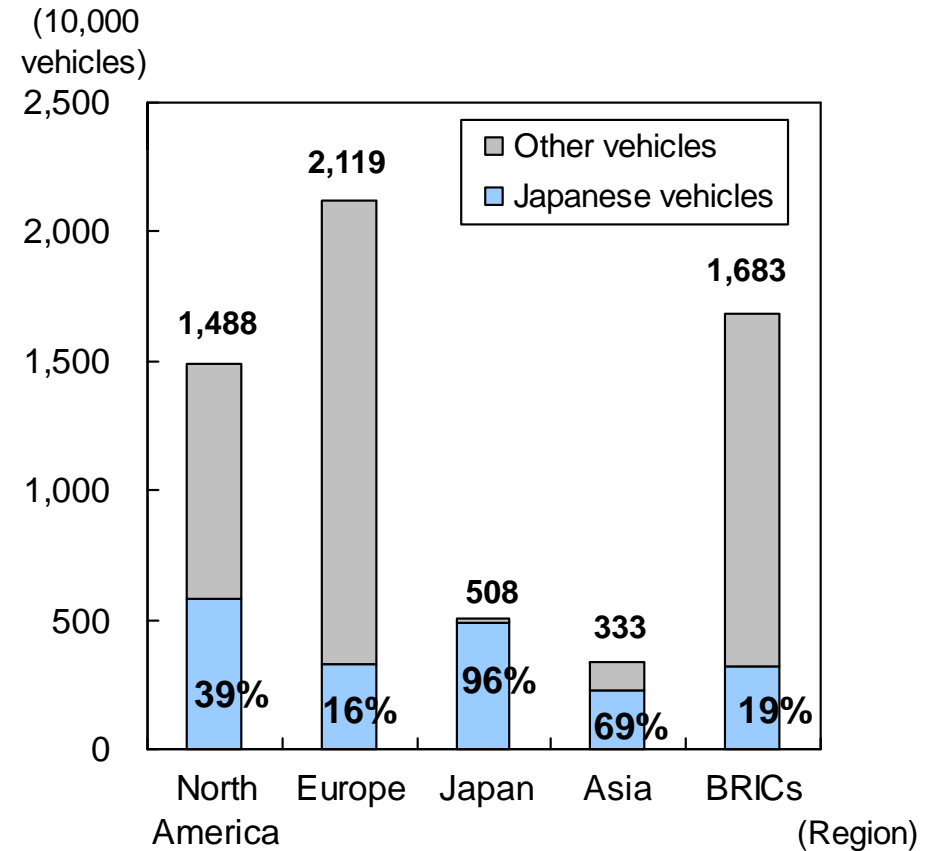
# 1-1

## Position of the Asian region (global/regional market trends)

<Global/Asian market trends>

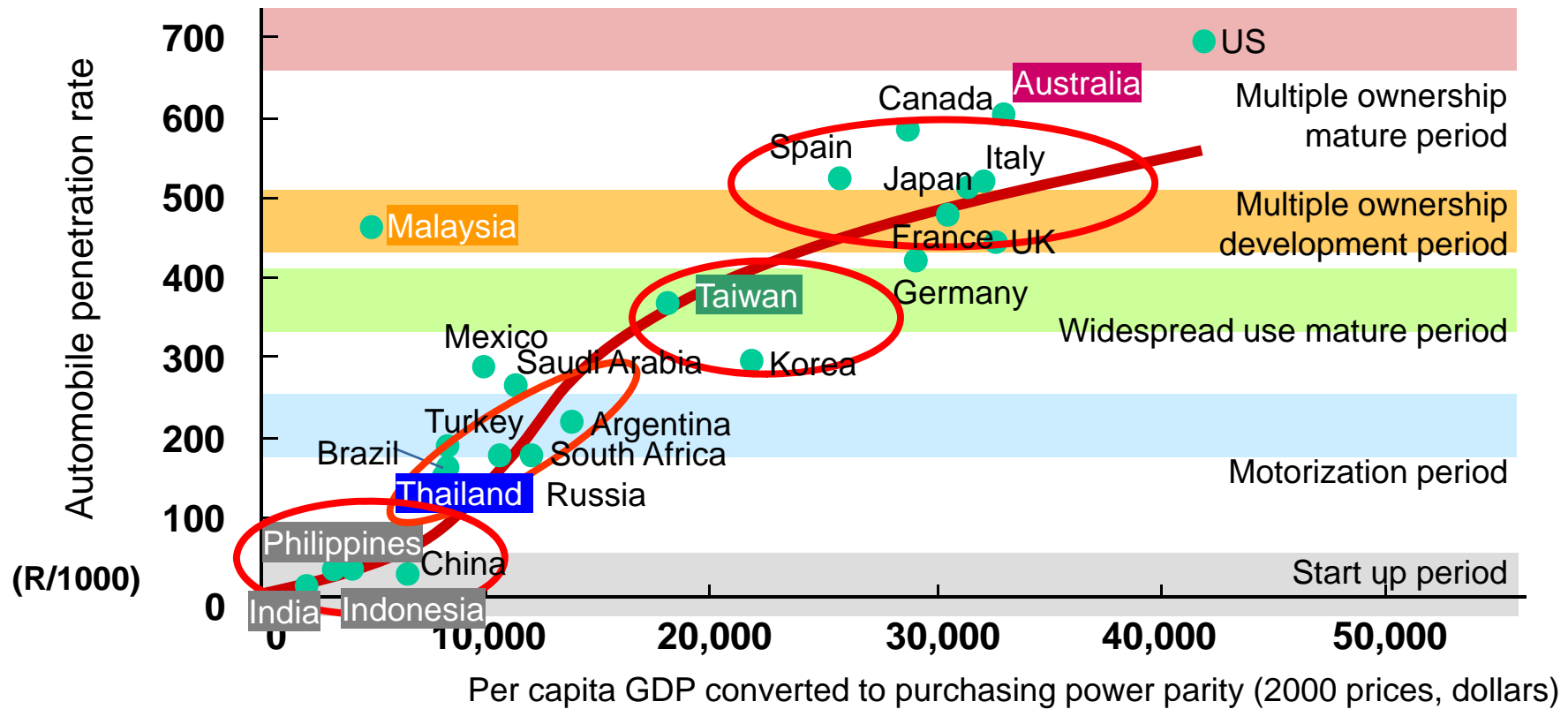


<Share of Japanese cars in 2008 regional markets>



- Position of Asia and other regions vis-à-vis other regions in the global market is on the increase
- Japanese vehicles account for 69% (Japan enjoys the closest ties with this market)

## 1-2 Positioning of the Asian region (automobile penetration rates)



- Automobile penetration rates are still low compared to advanced countries
- There are differences within the Asian region

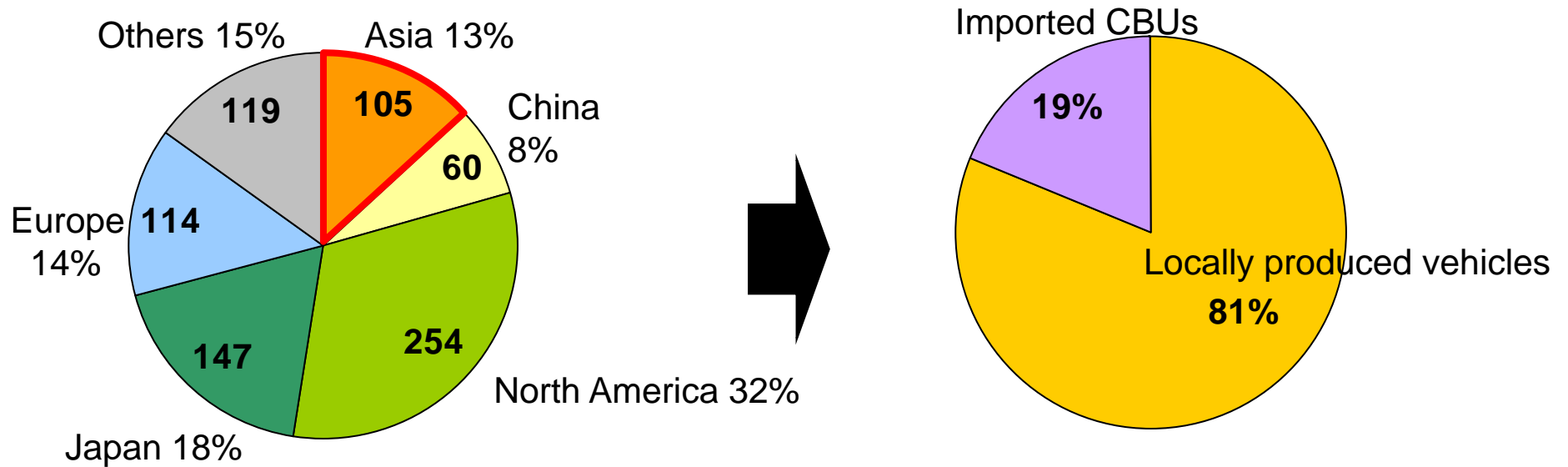


Strong potential for future growth

## 1-3 Position of the Asian region for Toyota

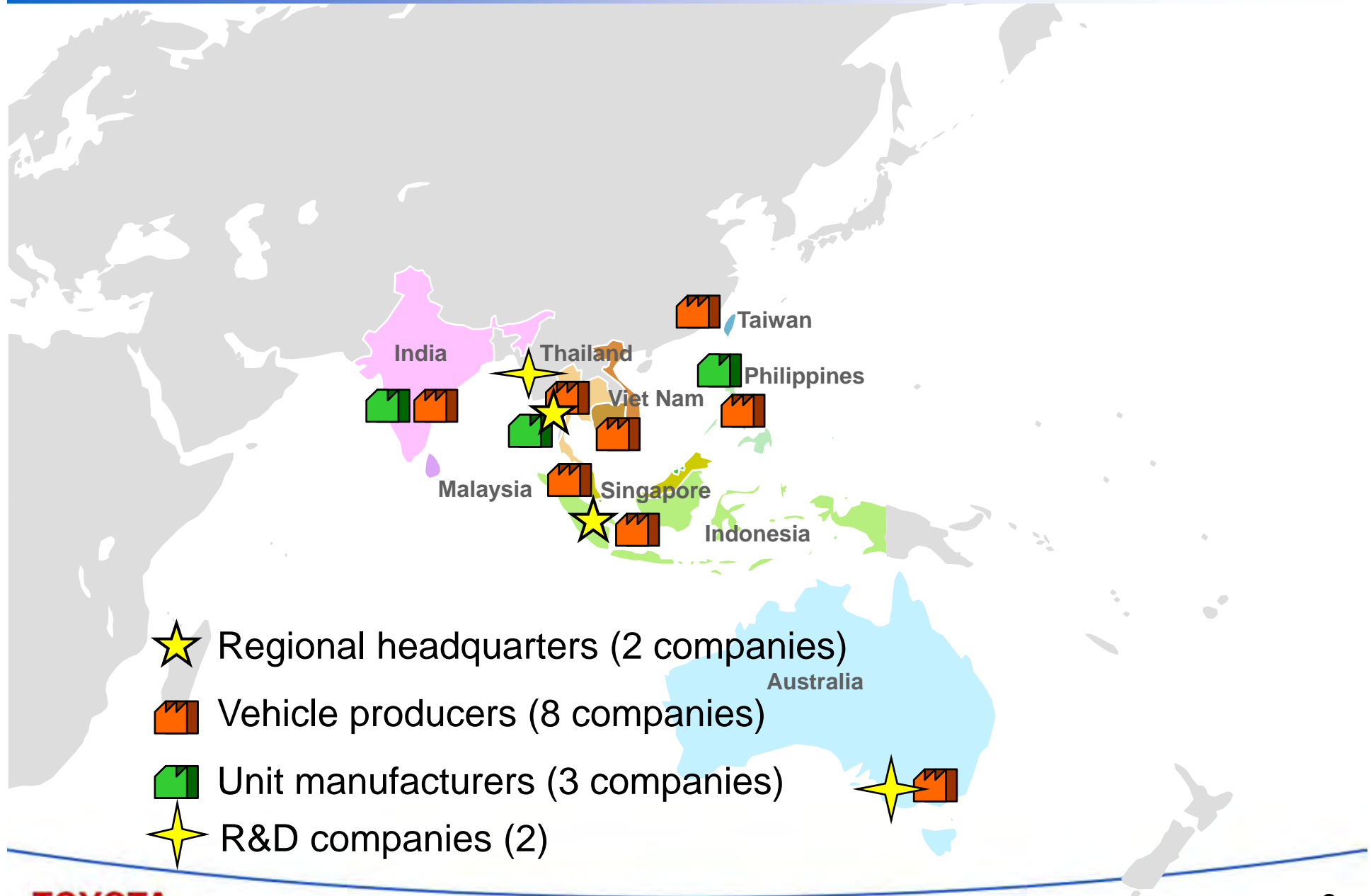
### <Sales>

(Global sales results: 7.99 million vehicles) (Breakdown of sales)



- Important region accounting for 13% of global Toyota sales
- Locally produced vehicles account for 81%

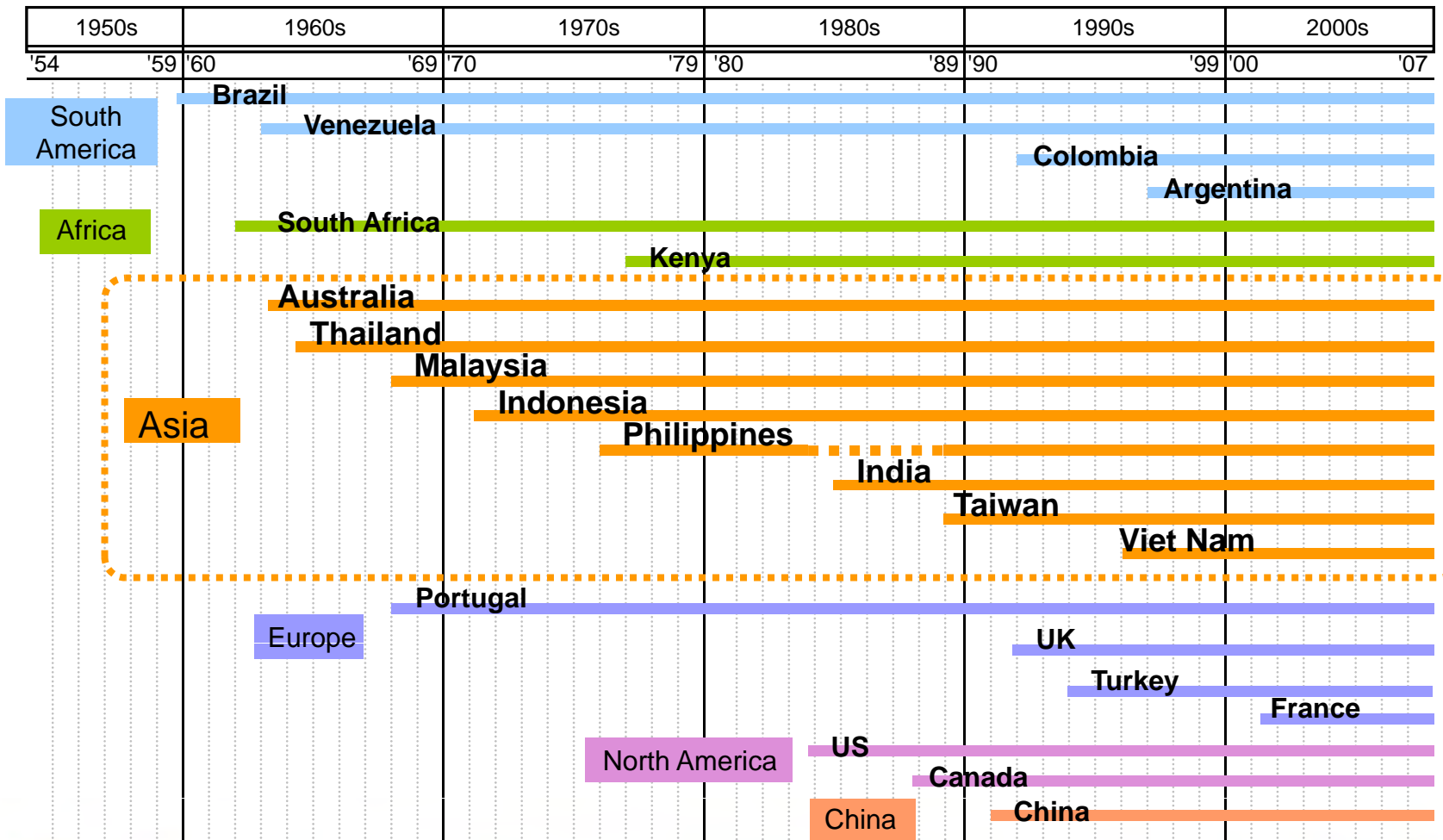
## 1-4 Overview of operations in the Asian region



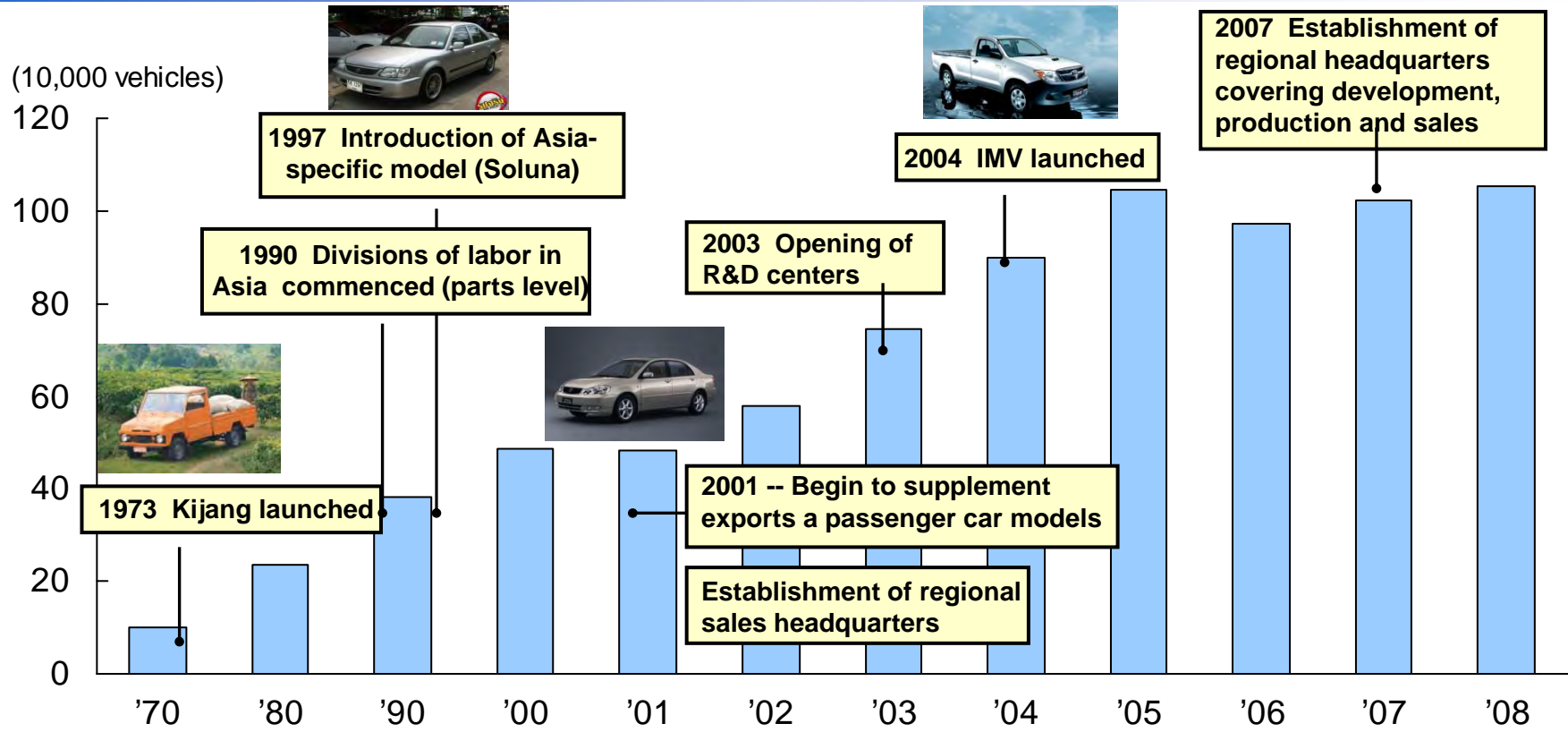
# 1-5 History in Asian region

The history vehicle production in Asia is longer than either North America or Europe

History of Toyota's overseas vehicle production

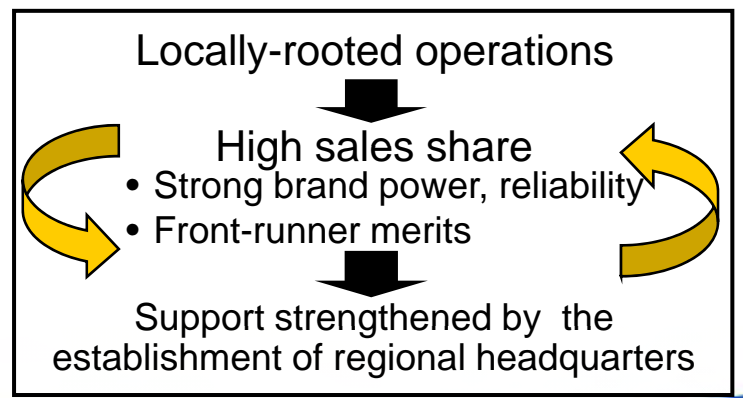


# 1-6 Asian region sales



<2008 sales volumes and shares>

Country	Sales (1000 vehicles)	Share
Indonesia	209	35.1%
Thailand	262	42.6%
Philippines	46	36.9%
Malaysia	102	18.6%
Taiwan	79	35.0%
India	52	2.6%
Australia	246	24.3%



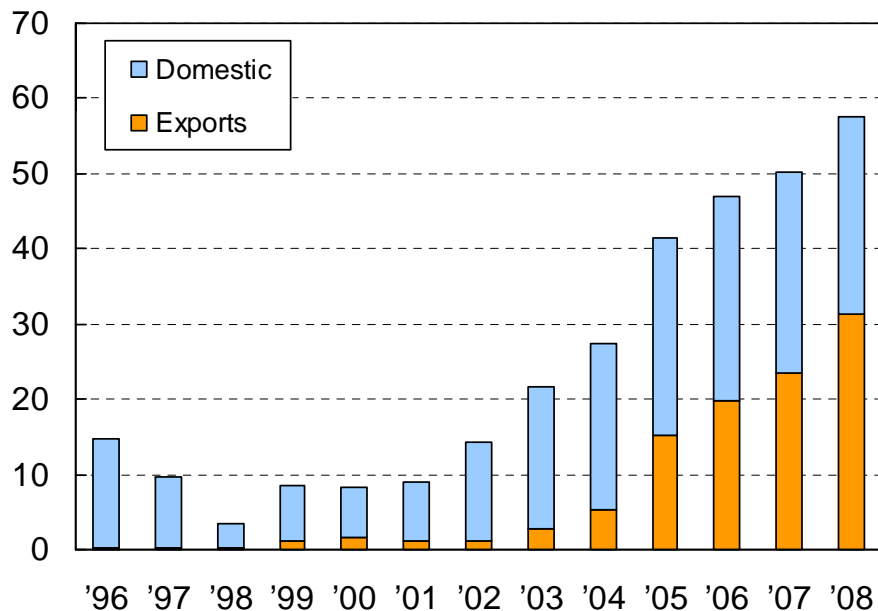


# 2-1

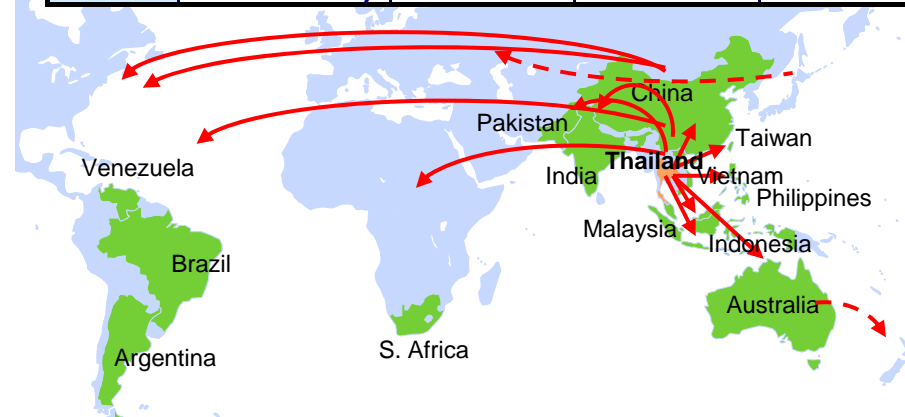
## Recent changes in business structure (expansion of intra-regional divisions of labor for CBUs)

Before the Asian Currency Crisis	1997 → After the Asian Currency Crisis
<ul style="list-style-type: none"> <li>• Response to countries' domestic production regulations</li> <li>• Parts/unit level divisions of labor within region</li> </ul>	<ul style="list-style-type: none"> <li>• Commencement of intra-regional divisions of labor for CBUs</li> <li>• Establishment of regional headquarters</li> <li>• Launch of strategic models (IMV)</li> </ul>

(10,000 vehicles) <Example: Vehicle export trends in Thailand>



		2000	2007	2007 Vs 2000
Parts Exports	Amount	400 million dollars	1.1 billion dollars	3 times
	(40 ft. Containers)	7,000	28,000	4 times



Expansion of intra-regional divisions of labor

## 2-2

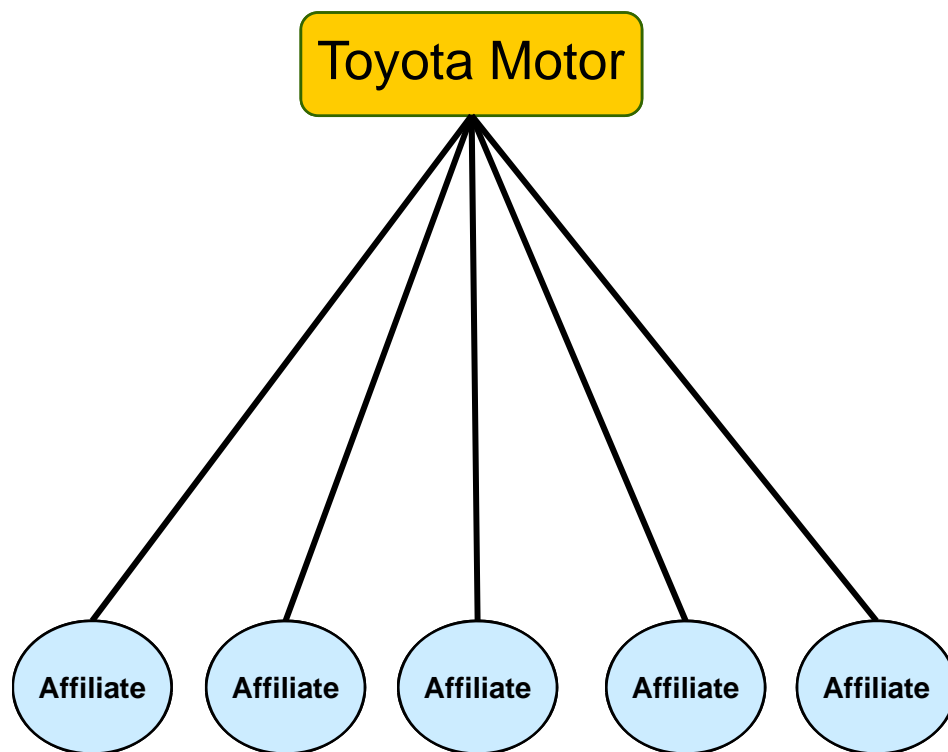
# Recent changes in business structure (establishment of regional headquarters)

- Limitations on numbers of processes due to globalization of Toyota operations
- Growing demand for localization and independence

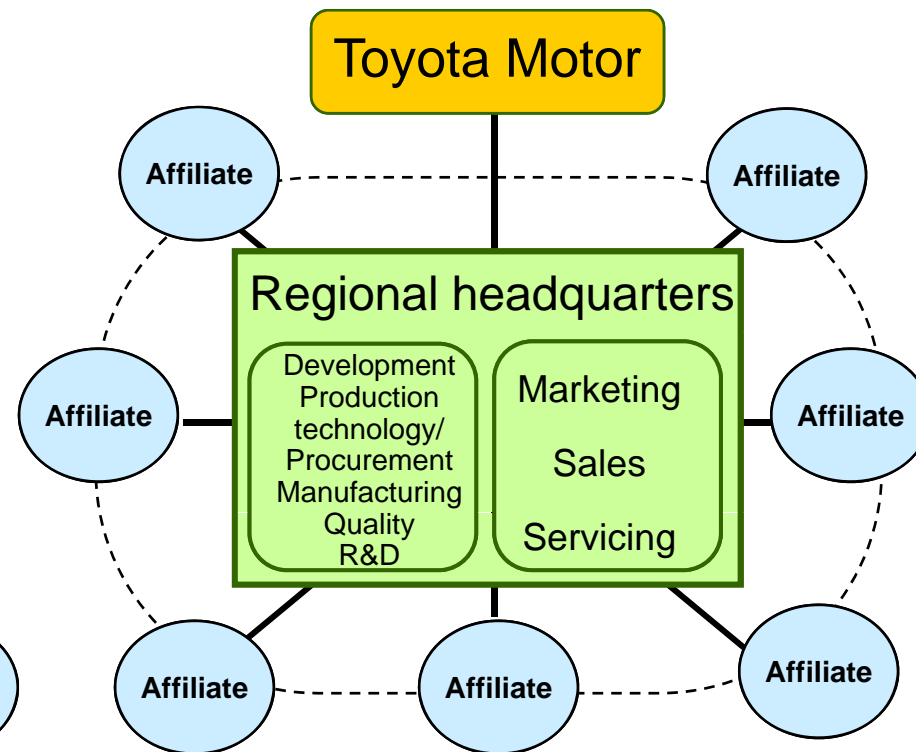


Establishment of regional headquarters

<Prior to establishment>



<After establishment in 2007>



Building of integrated system to manage development, production, procurement, sales and servicing in the region

## 2-3

# Recent changes in business structure (history of regional headquarters)

## History of regional headquarters

	'90	'00	'01	'02	'03	'04	'05	'06	'07
Sales/ distribution related	Parts/unit mutual support for supplement		Vehicle mutual support for supplement Sales/marketing support						
Model			Launch of Asian-taste passenger cars			IMV launched			
Development related					Development and evaluation of locally produced vehicles				
Production related								Production support /Procurement	
									Integrated administration






## 2-4 Recent changes in business structure (IMV development)

Launch of strategic models (IMV: Innovative International Multi-purpose Vehicle)

What's an IMV?

- Developed, procured and produced entirely locally (local development, no base car)
- Global strategic model to be produced in Thailand for export around the world
- Variations geared to local needs (derivation models)

<IMV series>

Pickup			SUV	MPV
Single cab	Extra cab	Double cab		
				

<Countries producing the IMV series>

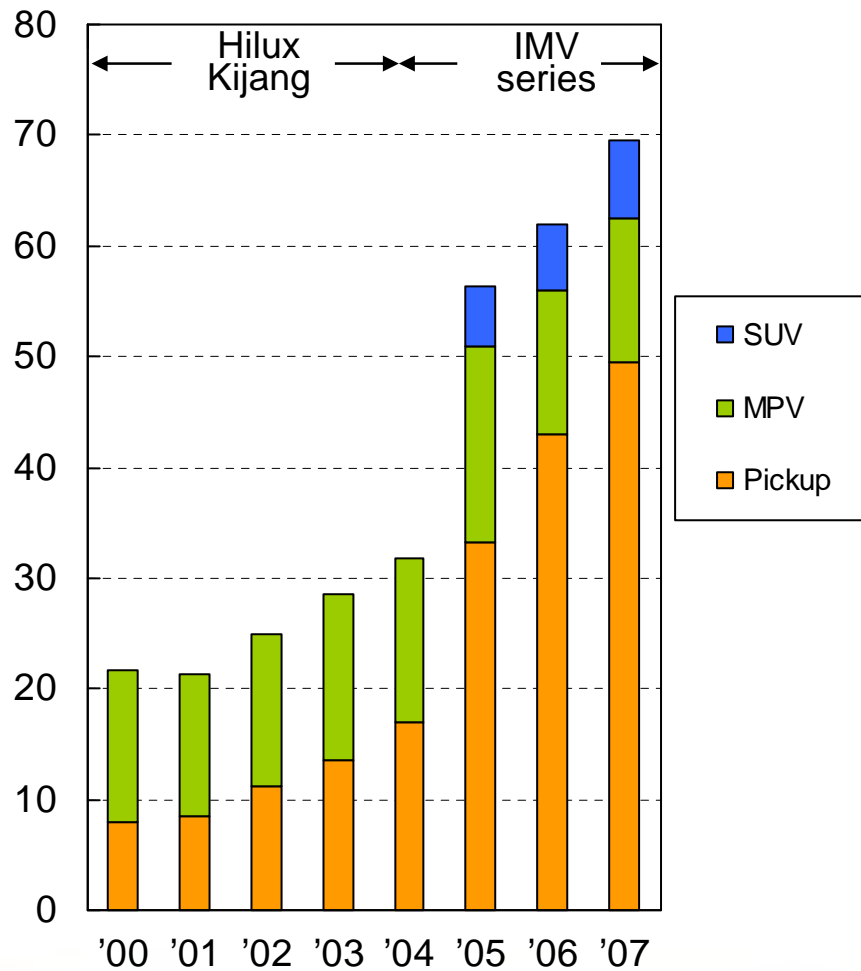


## 2-5

# Recent changes in business structure (IMV production)

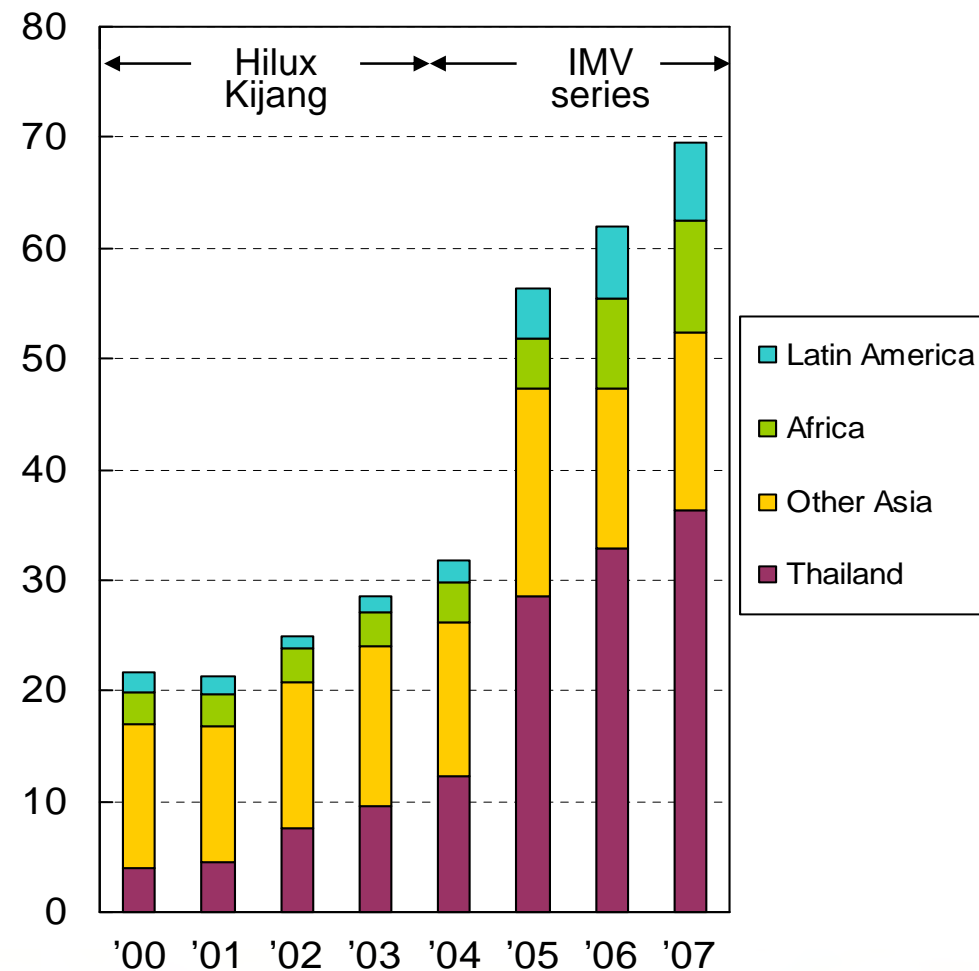
<By series>

(10,000 vehicles)



<By production region>

(10,000 vehicles)

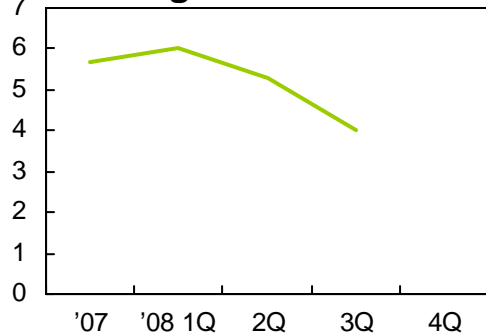


# 3-1 Recent trends (market, sales, key metrics)

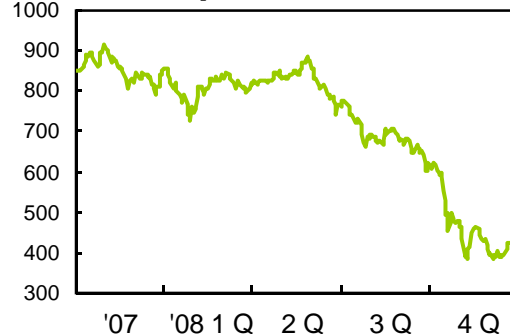
## <GDP/share price trends>

### Thailand

GDP growth rate

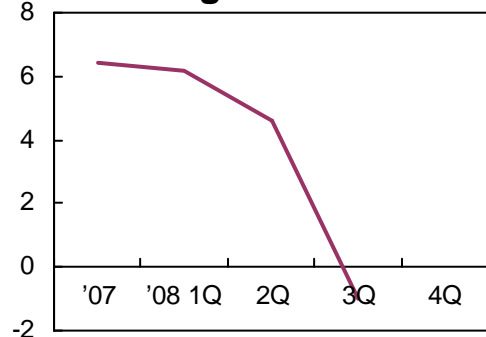


Share price



### Taiwan

GDP growth rate



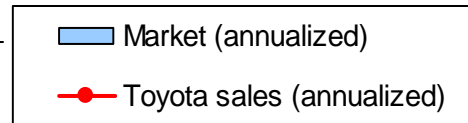
Share price



## <2008 quarterly market and sales trends>

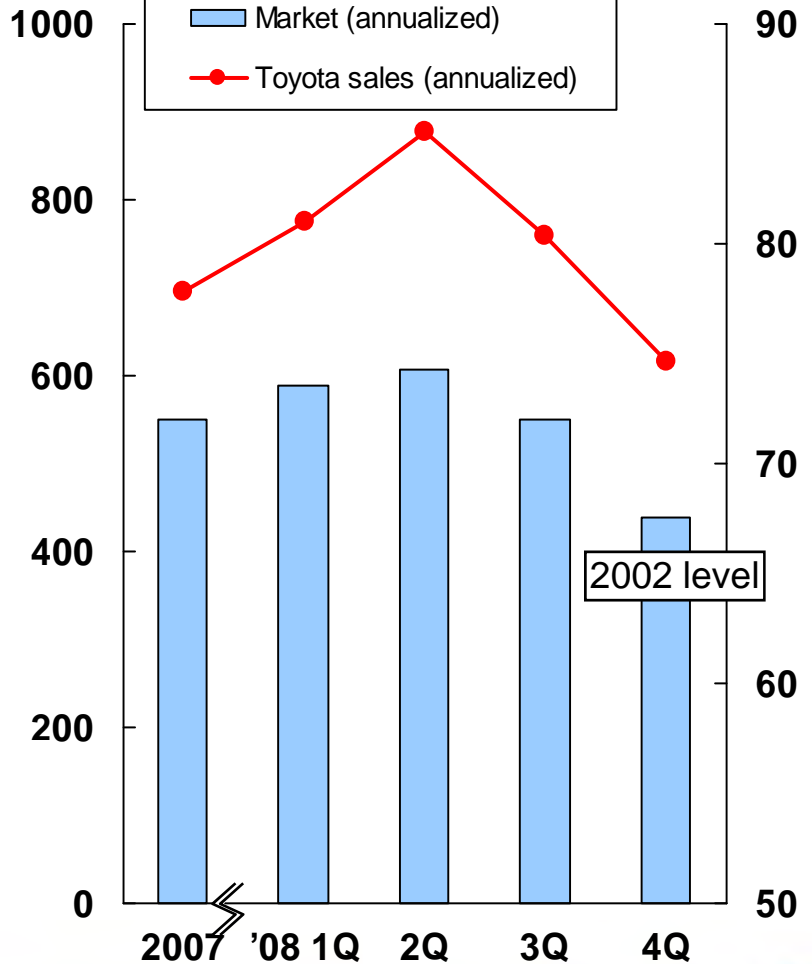
Market  
(10,000 vehicles)

1000  
800  
600  
400  
200  
0



Sales  
(10,000 vehicles)

90  
80  
70  
60  
50



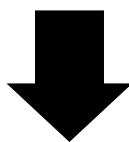
## 3-2 Short-term response

- ① Reduce inventories (Standard of less than 1 month vs. Current 1.5 months)
  - Production adjustments (no production of products that will be wasted)
  - Aggressive programs to boost sales (e.g., special spec cars, higher fleet sales)
  - Rigorous supply and demand management
  - Antennas out high to better read market → Improvements in order precision
- ② Production: Tact time adjustments / 2 shifts → 1 shift
- ③ Surplus staffing: Moratorium on renewals of contracts for non-full-time staff
- ④ Review of new investments (e.g., India, Thailand etc.)
- ⑤ Acceleration of global product development (e.g., Taiwan → Middle East (Corolla); USA → Middle East (Sequoia))



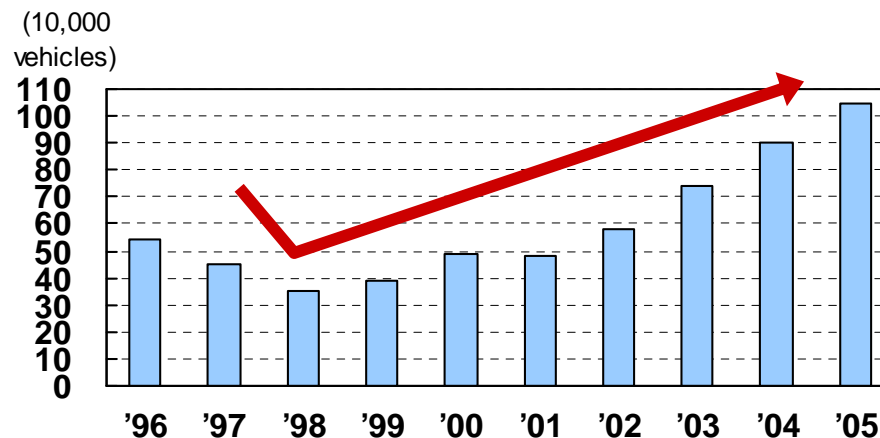
### 3-3 (Reference) Response to Asian crisis (1997)

- Expansion of exports to maintain production
- Lean management (Expense/cost savings; higher local procurement rates)
- Human resources development (assignment to Japan for training)
- High levels of domestic production, development of strategic models

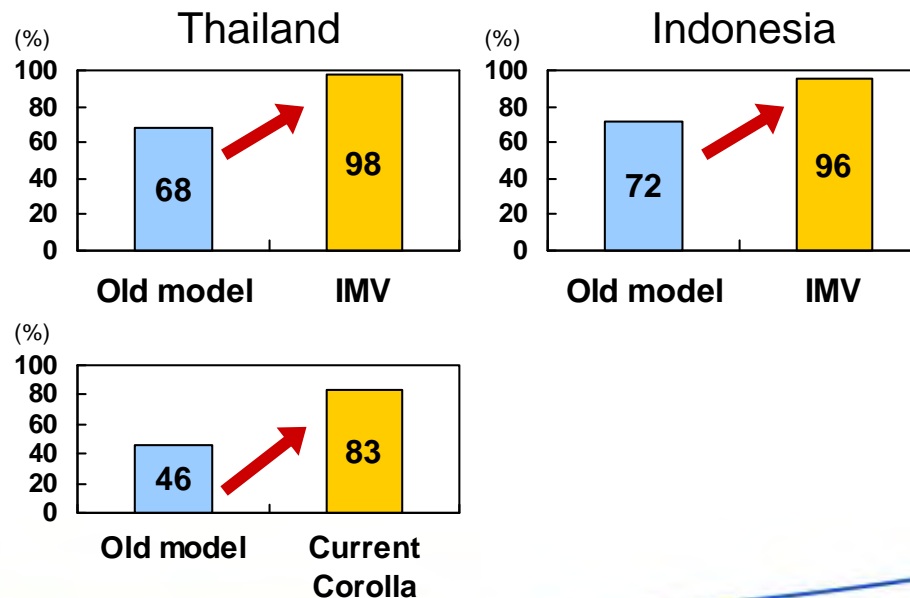


Creation of foundation for future development

<Asian region sales>



<Trends in local procurement rates>





## 4-1 Medium and long-term view of environment (1)

### ◎ Further liberalization

CEPT (Common Effective Preferential Tariff Scheme in ASEAN), progress on FTAs

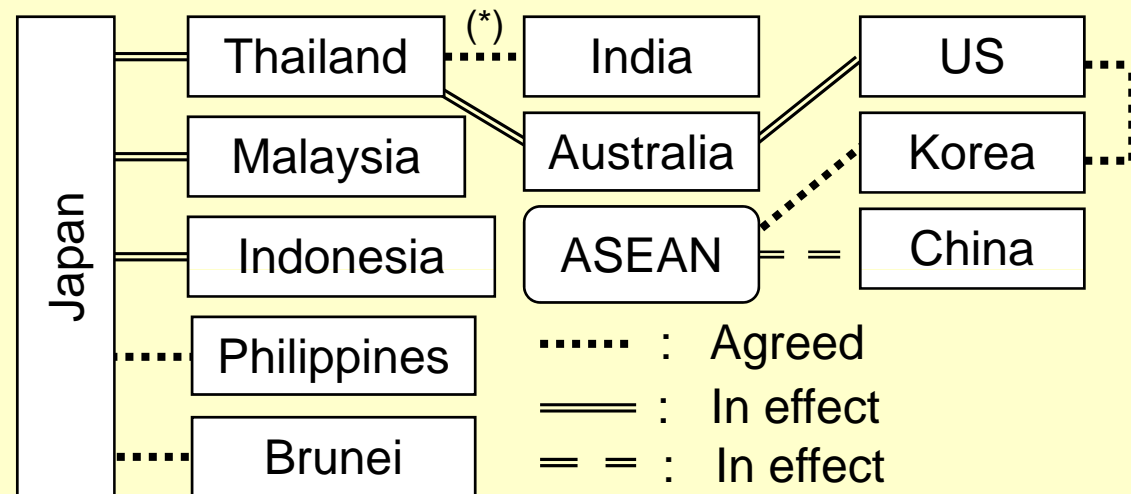
#### CEPT (CBU tariffs)

~ 2009	5%
2010 --	0%

Only Vietnam to achieve 0% in 2018 (currently 83%)

#### Status of FTAs

(proposals with agreements on automotive sector)



(However, exception for CBUs)

(\*): Advance implementation of some items

## 4-2 Medium and long-term view of environment (2)

- ◆ Return to growth market in a few years
- ◆ Expansion of new demand (compact vehicles/fuel-efficient vehicles)
- ◆ Increasing competition from liberalization and borderless circumstances
- ◆ Diversification national fuel sources (CNG/LPG/ethanol etc.)



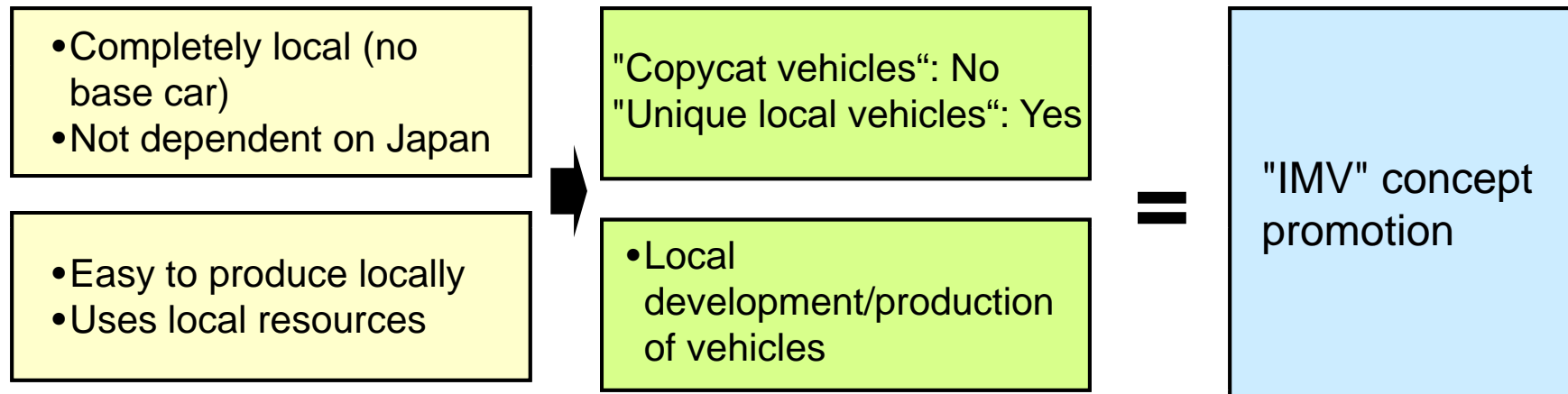
Higher demand for small, inexpensive, fuel-efficient vehicles or alternative fuel vehicles

## 4-3 Medium and long-term view of environment (3)

Business environment	<ul style="list-style-type: none"><li>◆ Enhancements in regional business systems</li><li>◆ Development of support industries</li></ul>
Needs from local communities	<ul style="list-style-type: none"><li>◆ Higher expectations for economy-building as a core industry</li><li>◆ Contributions to local communities</li><li>◆ Expansion of HRD and employment needs</li></ul>

## 4-4 Paradigm changes (1)

### ◆ Future orientation



Promotion of self-sustaining project grounded in Asia

### Reform from vertical integration to horizontal integration

- ◆ "Compact vehicle development" that meets local market needs from local perspectives with approaches different from products for developed countries
  - Review of product planning and design standards (legal, tax, use environment etc.)
  - Active use of local staff and parts
- ◆ Businesses that maximize utilization of local resources (people, goods, money)

Using new technologies to lead sound motorization

(Introduce new technologies at the very start of motorization)

- ◆ Alternative fuels (CNG/LPG/ethanol etc.)
- ◆ Development and spread of ultra-fuel-efficient, ultra-low-priced vehicles (active spread of hybrid models)

Need mechanisms and triggers for more vibrant motorization and industrial development

- ◆ New technologies ↔ Incentive  
(including alternative fuels)
- ◆ Horizontal integration ↔ Infrastructure development
- ◆ Protection of local industries ↔ Balance with liberalization
- ◆ Industrial and automotive policies that are stable over the medium and long terms
- ◆ Reduction of country risks



Coordinated public/private-sector industrial promotion

Thank you for your kind attention.