

## Lessons to learn from Toyota's meltdown

Once a by-word for manufacturing quality, Toyota has taken a beating over its repeated vehicle recalls. The manufacturing mishaps that struck Toyota in recent months created a nightmare scenario. Several of its products had potentially fatal flaws, customers' lives were at risk and the firm was facing severe damage to its corporate reputation and brand.

From a purely financial perspective, Toyota has estimated it will lose in excess of £1bn in costs and lost sales due to the recall and sales have dropped significantly.

### The timetable

**June 2009** - New CEO Akio Toyoda says the company has "become too big and distant from its customers". Weeks later, a new Lexus is involved in a fatal accident, with a stuck accelerator identified as a possible cause.

**Nov 2009** - Toyota recalls 4m vehicles in the US following concerns that the accelerators could get trapped by loose floormats.

**Jan 2010** – Toyota informs US transport authorities that pedals may have a sticking effect. It announces further recalls and halts the sale of eight models.

**Feb 2010** - 500,000 Prius and Lexus hybrid cars are recalled due to concerns over their braking. The company finally begins to publicly address the issues, including a televised news conference to apologise for the problems and promising that a taskforce featuring independent sources will review quality.

### What went wrong ?

As quality and continuous improvement were so central to Toyota, the recent recalls could shake the bedrock of its brand. But it's the company's slow public response to the problem that has added to the negative impact. Where managers should have sprung into action as soon as the first fatal accident occurred, it took seven months before Toyota acknowledged the problem in public.

Toyota broke the cardinal rule in crisis management, that is, assume the worst. Companies often don't realise they have a problem until it hits the media fan, and nowadays, Twitter, bloggers and YouTube beat most big companies to it. From a disgruntled employee to toxic waste, assume the worst. The fact that the media was able to get hold of this and force Toyota into a defensive position suggests that the company did not understand the scale of the problem or the potential size of the risk.

To retain consumer confidence, product recalls have to be done with purpose, consistency and transparency. If there is one key lesson to learn from this fiasco it is that brands need to apologise quickly and mean it. Consumers are growing increasingly perceptive and can smell a cover-up a mile away. Any delay in coming clean and expressing regret is rightly regarded as evidence of being out-of-touch, uncaring or incompetent.

### **They missed the point**

One of the biggest mistakes Toyota made was to think of the issue as purely an intellectual exercise. There was nothing competent about Toyota's letter to its customers. It seems that the only logical reason for such a poorly crafted letter has to be from allowing too many people, particularly lawyers, playing about with it.

People want to understand technically what is wrong with the brakes and what you're going to do to fix it and what kind of confidence you can give them that the fix will work. But there is also an emotional component with it. People want to feel like you care, you are engaged and that you are sorry. What did the company hope to achieve by starting the letter talking about its heritage. That is not the way to start things and it went downhill from there.

### **Facing the media**

The company's news conference also failed to deliver the contrition or sincerity that the public demanded. There was no deep bow, a standard feature in Japan when a company declares it is responsible for its mistakes, and no apology. Just a little-known Toyota executive in charge of quality, explaining part of the reason Toyota decided to use a US component maker for its accelerators was to help contribute to the local US economy. This came over as an exercise in buck passing.

Public statements by Akio Toyoda were similarly unconvincing, perhaps because of the publicity-shy Toyoda's lack of experience in front of the world's media, while other Toyota employees failed to diffuse the situation. In the UK, a Toyota representative admitted on radio that he couldn't remember the full list of the Toyota models affected. The fact that the meltdown entered a second week, rare in today's corporate world, also shows how unprepared the company was.

On a more positive note, Toyota started to deploy social media tools to communicate with its customer base, including Twitter and YouTube. While product recalls can be extremely challenging, a well thought through approach can actually improve future growth prospects, and if managed professionally, can make the company appear in an even better light.

### **Improvements**

As well as making decisions well in advance of any recall about how it will be dealt with, how communication channels will be used and who will be involved, here are five steps to consider in crisis situations:

1. A product recall should be a part of an organisation's business continuity programme and regularly tested. Many plans focus on traditional risks such as fire or flood, but reputational damage can be far more harmful and should be addressed with appropriate vigour and pre-planning.

2. Mitigating the impact of a product recall is not just about the response, but arguably more a question of preparation, so ensure roles, responsibilities, response structures and logistics channels are in place in advance so that management can communicate and take action the instant a product problem arises.
3. When an incident occurs, it must be escalated quickly. The company needs to confront the situation immediately, understand the legal position, see things from the customer's point of view and ensure that all stakeholder concerns are identified and addressed.
4. Ensure that the precise technical nature of the problem is understood so that what has occurred and how the recall will be dealt with can be explained clearly. This may involve considerable research and use of third parties, which needs to be factored in to advance preparations.
5. Communication must come from the most senior level of the business, and be honest, show concern for those affected and express a strong commitment towards solving the problem. The communication should reaffirm the company's core beliefs and values around quality and customer focus.

### **Too late to save Toyota?**

It will be difficult for the company to recover as the storm continues. Toyota will need to engage with its customers to regain their trust. Opening up the discussion and allowing consumers to have their say, through forums and social networking sites, for example, is a first step in drawing them back into brand Toyota. This needs to be swiftly followed by a demonstration as to how consumer feedback has effected change and how the company will behave going forward.

Safety is a key message for car manufacturers, so the brand will have to revisit its whole communications strategy, both internally and externally, to build up the safety messages and to regain the lost trust from loyal customers. The company probably hasn't done irreparable damage to its brand or customer trust, and that in the long-term it will have learned a painful lesson.

### **REMEMBER!!**

**Toyota is an organisation striving to be true to its brand in the face of a problem and media backlash. It needs solve the problems, but also to understand and manage the public and media concerns with openness, integrity and perspective. If handled correctly, it will take a bit more than this to seriously dent the reputation of the company that has a global reputation for producing what are regarded as the most reliable and dependable vehicles available.**