

IHS Auto Expert Says – 'Toyota has Lost Its Way'

By DEE-ANN DURBIN
AP Auto Writer

DETROIT (AP) – Toyota should have owned America's road this summer. When gas prices go up, American drivers go for smaller, fuel-efficient cars. The last time prices at the pump spiked in 2008, Toyota captured the title of world's No. 1 automaker – and has held it ever since.

Now gas costs almost \$4 a gallon (3.79 liters) again, but Toyota is struggling. It's been hammered by supply disruptions from the Japan earthquake and can't escape the stigma from its safety-related recalls last year. And its rivals are making flashier cars with great gas mileage.

Toyota said last week that its quarterly profit fell more than 75 percent, mostly because of production problems from the March 11 quake and tsunami. The automaker's CEO, Akio Toyoda, said executives are "gritting our teeth" to keep jobs in Japan.

In the United States, Toyota is losing market share faster than any of its competitors, falling to 14 percent from 17 percent in a little more than a year. North America is Toyota's largest market.

Meanwhile, Ford, Nissan, Kia and Hyundai have all introduced sexier, more chiseled designs. General Motors and Chrysler, out of bankruptcy and healthier than they have been in years, are gaining market share, too.

By its own admission, Toyota lost sight of quality in its pursuit of global sales. Analysts expect GM to retake the world sales title this year.

"They lost their way," said Aaron Bragman, an analyst with the consulting firm IHS Automotive. "They wanted to be GM. But they lost what made them a valued brand and a valued company."

For decades, Toyota's strength was reliability. Other cars may have been flashier or cheaper, but Toyotas were high-quality and retained their value. Then Toyota recalled 14 million cars and trucks last year because of

faulty gas pedals and other problems.

In a J.D. Power and Associates study of vehicle quality, it slipped to sixth place in 2010 from third place in 2009. The study measures problems experienced by the original owners of vehicles after three years.

It has moved up one slot this year, to fifth, but drivers are willing to try other brands.

"You're getting acceptable levels of quality, reliability and dependability from pretty much every manufacturer," said Jack Nerad, editorial director of Kelley Blue Book. "That takes a big arrow out of Toyota's quiver."

Toyotas are also not holding their resale value as well as they did before the recalls. For the 2011 model year, Kelley Blue Book predicts that all Toyota brands will be worth an average of 39 percent of their purchase price after five years. In the 2009 model year, Toyotas were expected to hold 47 percent of their value after five years.

Eric Ibara, KBB's director of residual value consulting, said Toyota could see a short-term gain in values for 2011 models because of earthquake-related shortages, which would push up prices for its used cars. Ibara said such gains would only be temporary, until Toyota is running its factories at full capacity again.

John Murphy, an autos analyst for Merrill Lynch, estimated Toyota will recover only some of the lost market share, probably rising to just over 15 percent, by 2014. IHS predicts it will be around 14 percent as late as 2017 – the equivalent of 300,000 fewer cars a year than Toyota sold at its peak.

"The road ahead is much more difficult than it has ever been for them," said Jeff Schuster, executive director of global forecasting at J.D. Power and Associates.

As competitors have introduced sharper designs, Toyota's have started to look stale. When Toyota unveiled a refreshed 2011 Corolla at the Los Angeles Auto Show last

fall, attendees joked that it was difficult to tell the difference from the 2010 version without looking at the window stickers.

Toyota executives have long acknowledged that their cars are bland but say that's partly why they sell so well, appealing to a wide variety of people. Toyota's U.S. sales chief, Bob Carter, also says that one reason Toyotas seem so familiar to people is that they see so many on the road.

Toyoda, the CEO, is pressing his designers to make Toyota's styling more exciting. In a speech two days before the earthquake outlining a turnaround at Toyota, the chief said he would streamline corporate bureaucracy and give more power to global regions instead of insisting that all decisions be made in Japan.

While Toyota has relied on its reputation, its rivals have become more aggressive about style and fuel economy. Hyundai's Sonata, which came out last spring, costs \$500 less than Toyota's Camry but has a sportier design, more power and better fuel economy, at 35 mpg (14.8 kpl) on the highway.

Alexander Edwards, who heads the automotive division of the marketing firm Strategic Vision, said that in a recent survey of 300,000 new car owners, the Sonata got the highest scores for perceived value and quality that his firm has ever seen. The Camry scored last out of 22 models.

Meanwhile, Chevrolet has moved up the release of the 2012 Malibu, another Camry competitor, to early next year, and it will offer a 35-mpg (14.88-kpl) version, upgraded technology and a more plush interior.

The Camry – which has been the best-selling car in the U.S. for more than a decade – will also be redesigned for the 2012 model year. But Toyota hasn't hinted at what it will look like or when it will hit showrooms. Bragman wonders whether Toyota is frantically reworking it after seeing the competi-

tion. Toyota spokesman Mike Michels says the redesign is on track.

Toyota's compact Corolla is in an even tougher spot. Its redesign is still 18 months away. Meanwhile, it is facing competition from newer compact cars like the Ford Focus, Honda Civic, Chevrolet Cruze and Hyundai Elantra, which hit the market just as gas prices started their steady climb. Elantra sales jumped 88 percent in the first four months of this year, while Corolla sales rose just 10 percent.

While the Corolla also remains a top seller in the U.S., other cars are gaining on it. The Civic and Cruze outsold it in April. Honda sold almost 27,000 Civics, while the Cruze topped 25,000 and Corolla was just above 24,000.

Toyota's problems are magnified by the earthquake. Toyota makes many of its small cars in Japan, Schuster said, so cars that should have sold

better because of high gas prices will soon be in short supply.

Bob Carter, general manager of the Toyota division in the U.S., insists that once Toyota redesigns the Corolla and Camry, sales will go back up. But he didn't answer when an Associated Press reporter asked if Toyota could regain all the share it's lost since 2009.

"We're not in the business to chase market share. We're in the business to meet consumer demand," he said during a recent automotive conference in New York.

Toyota has tried to capture younger buyers with its Scion brand, but the results have been mixed. Through April, sales of the tC sedan have more than doubled compared with the same period last year. But after nine years in the market, Scion represents less than 3 percent of Toyota's U.S. sales.

Older luxury buyers have been shopping elsewhere, too. Toyota's Lexus brand was overtaken by Mercedes-Benz in the first quarter as the top high-end line in the U.S.

Toyota still has the best hybrid technology, said Gabriel Shenhar, program manager at Consumer Reports' auto test facility. It will have an all-electric RAV4 on the market next year to compete with the Nissan Leaf.

Schuster said Toyota is like an injured star quarterback who is replaced by an alternate who turns out to be just as good.

"You have alternatives and substitutes in the industry that you didn't have before, and then on top of that the recall scare and the earthquake," he said. "These are the kinds of things that can change the game."

AP Autos Writer Tom Krisher contributed to this report from Detroit.

Used Car Prices, Record High

By TOM KRISHER
AP Auto Writer

DETROIT (AP) – It's the best time in years to sell your car.

People are holding on to cars and trucks for about a year longer than they did before the recession, which has created a tight supply of used vehicles. So few are on the market that prices have risen to their highest in at least 16 years.

Dealers are paying an average of \$11,660 for a used car or truck, up almost 30 percent since December 2008.

"You're not going to find a situation like this very often," says Jonathan Banks, executive auto analyst for the National Automobile Dealers Association used car pricing guide.

The run-up in prices for used cars has been so dramatic that it almost doesn't make sense to buy them anymore, says David Whiston, an auto analyst for Morningstar. That's probably a good indication that prices are at or near a peak.

"For just a little bit more I can buy a brand-new car," he says. "There's a tipping point. I think we are getting very close to seeing that."

Take the Honda Accord, known for reliability and holding its value. A dealer would

sell a 2008 four-cylinder Accord LX sedan in good condition with about 45,000 miles on it for \$16,175.

With no down payment and a loan at 5 percent interest, it would cost \$373 a month to pay off the Accord in four years. But Honda is offering a three-year lease on a new 2011 Accord for just \$250 a month. The company will even make the first payment. You still have to pay \$600 up front and 15 cents for each mile you drive over 12,000 a year.

In Greensboro, N.C., Jeremy Barnes and his wife are expecting their first child, so they decided to replace a white 2007 Accord with a bigger, new vehicle. He wasn't sure what they could get for the Accord when he checked prices on the Kelley Blue Book website.

"I was pleasantly surprised," says Barnes, 30, a heating and air conditioning equipment salesman.

He's asking \$15,200 for the car, which is in good shape and has 47,000 miles on it. While waiting for a buyer, the couple are looking at vehicles like the Jeep Grand Cherokee.

The rise in used-car prices is a byproduct of the recession. The average car on the road now is 10.6 years old, according to the Polk research firm. That's up from 9.8 years

in the middle of 2007, a few months before the recession struck and people began to rethink major purchases.

Another source of used cars got choked off when credit tightened during the 2008 financial crisis and car companies cut back on leasing new ones. Companies sell leased cars as used when leases expire.

Japan's earthquake and tsunami are also driving up the price of some used cars. New models of some small cars, such as the Toyota Prius and Honda Fit, are expected to be in short supply. Dealers are buying used ones to sell in their place. That won't last, though.

Manheim, a big auction house where dealers buy used cars, says prices this year are the highest since the company began collecting data in 1995. Tom Webb, chief economist there, predicts that used-car prices will rise for around two more months and then level off. They may fall in 2012 and beyond as more used cars come on the market.

There are already signs that used-car prices will come down. Leasing was 21 percent of U.S. sales in February, which was up from 11 percent in 2009, according to Experian Automotive. That should bring more used cars onto the market as three-year leases end.

Banks and auto company finance arms have also loosened up credit for people with poorer credit ratings, meaning more buyers can get a loan for a new car.

London, Ont. Celebrates the Motor City

The John Labatt Centre in London, Ont., is working with the city of London to salute Detroit, Mich., from May 24-28. During a week that will feature performances by Detroit rockers Bob Seger (May 24) and Kid Rock (May 28) at the John Labatt Centre, many festivities are being planned.

Talbot Street will be renamed to "Pure Michigan Ave." for the week and a "Motown Block Party" will occur in downtown London on Saturday, May 28.

Also, Global Spectrum Facility Management, operators of the John Labatt Centre, are gearing up to make another Motor City-related announcement on Tuesday, May 24 at 7 a.m.

"For years Londoners have enjoyed the great cars, music, sports and culture of Detroit. The timing of having two legendary artists here the same week with Bob Seger and Kid Rock was perfect to celebrate a great American city that has provided us with so much. When we confirmed that another 'Motor City' announcement was going to be made the same week, we simply had to pay tribute to our neighbor," said Chris Campbell, Global Spectrum's marketing director at the John Labatt Centre.

The Motown Block Party is scheduled for May 28 at 12 noon and will feature live Motown music from Groove Mar-malade, an 8-piece band.



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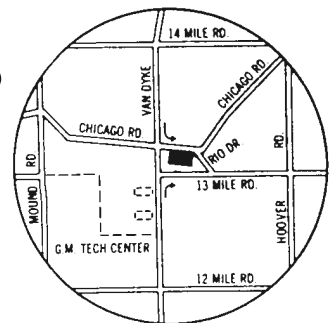
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