

TOYOTA: ACCELERATOR PEDAL RECALL (B)

Paul Bigus wrote this case under the supervision of Professor Jana Seijts solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was Sunday, February 6, 2010, and Jim Lentz, president of Toyota Motor Sales U.S.A. Inc. (Toyota), awaited feedback to measure the initial public reaction of the second recall letter Toyota had released just days earlier (see Exhibit 1). The second letter had been released in an attempt to improve upon the content of the first letter, which had failed to quell the public's concerns as to what action Toyota was taking to solve the faulty-accelerator situation. It was important for Toyota to ensure that the second letter effectively communicated the company's ongoing actions to the public. At the same time improving Toyota's public image as a safe and responsible car company.

COMPLAINTS ABOUT THE FIRST LETTER

One of the largest complaints about the first letter was that it failed to get directly to the point, instead using the opening lines to talk about company history. Feedback also showed that customers were offended that Toyota had avoided accepting direct responsibility for the accelerator problem, opting simply to let customers know how to schedule an appointment to bring their vehicles in for service. Scrutiny continued to centre on the language used in the letter, which focused more on making the correct legal statements instead of clearly saying what customers needed to hear in order to be reassured that Toyota was taking the correct action.

MEDIA STORM

Over the past week, Toyota's accelerator-pedal recall had become the focus of the mainstream media in the United States. Everything from the evening news to business analysis shows made Toyota the lead topic in its reporting. Even late-night comedy show hosts were using Toyota jokes in their opening monologues. All that media attention was not helping the situation, as reports continued to release additional negative information. The Los Angeles Times published detailed information, stating that Toyota vehicles had been blamed for at least 19 fatalities and 815 vehicle crashes in the United States since 1999.¹ Additional

¹ R. Vartabedian and K. Bensinger, "Doubt Cast on Toyota's Decision to Blame Sudden Acceleration on Gas Pedal Defect," *Los Angeles Times*, January 30, 2010, <http://articles.latimes.com/2010/jan/30/business/la-fi-toyota-pedal30-2010jan30>, accessed June 18, 2011.

statistics were also discovered by the U.S. National Highway Traffic Safety Administration (NHTSA), which released information, revealing that, since 2000, 37 deaths had been alleged in the United States because of Toyota vehicle accelerator problems. The NHTSA data also revealed that, in 2009, there had been a total of 596 Toyota accelerator complaints.²

From the beginning of the accelerator-pedal recall, Toyota had shut down production of the affected models, halting all sales of these models until further notice. However, reports were growing in the media that the only reason this shut-down had occurred was because the NHTSA had asked Toyota to do so. Top U.S. automotive safety official, Ray LaHood, publically stated that Toyota had to be “woken up to the danger of runaway cars” and “without government prodding doesn’t know if the recall would be taking place.”³ LaHood further commented to the media that the U.S. government had sent transportation officials to Japan in December of 2009, to remind Toyota of its legal obligation to stop selling models on a recall list.⁴

To make matters worse, former administrator of the NHTSA, Joan Claybrook, stated during a televised media interview that “Toyota has long been resistant to regulation,” referring to the general company’s hesitance to recall vehicles and to her own viewpoint that Toyota had deliberately delayed the recall process in this instance.”⁵ The U.S. Government was in the process of considering civil penalties or fines and had launched its own investigations, forming various committees to study the situation.

CTS Corporation, the pedal manufacturer that had supplied the Toyota production facilities involved in the massive recall, also released a public statement to the media in an attempt to distance itself from the negative interest (see Exhibit 2). With production halted and sales of certain models on hold, estimates of Toyota’s recall-related losses stood at US\$900 million to fix the affected vehicles and lost sales amounting to US\$155 million dollars per week.⁶

THE NEXT LETTER

From the online media reports and blogs, public feedback comments recognized that Toyota had taken a more straightforward approach with the second letter, correcting the type of language used to sound less legal and more to the point. However, critics were quick to point out that Toyota had still not taken direct accountability for the accelerator problem. In an attempt to keep communicating to the public and provide accurate information on the recall situation, Toyota management planned a communication strategy that included the release of additional letters in the coming weeks as a way to show progress and provide timely updates. With Toyota losing millions of dollars each week from lost sales, it was critical for the company to utilize more effective communication going forward in order to reassure current and potential customers that the organization had a plan in place to deal with the recall situation.

With its reputation on the line, Toyota was under tremendous pressure to find the right content to communicate to the public, before its present negative brand image and loss of reputation accelerated out of control.

² D. Reynolds, “Toyota’s Response Criticized,” CBS News, February 2, 2010, <http://www.cbsnews.com/video/watch/?id=6167838>, accessed June 18, 2011.

³ *Ibid*

⁴ *Ibid*

⁵ *Ibid*

⁶ *Ibid*

Exhibit 1

**SECOND LETTER TOYOTA RELEASED TO THE PUBLIC
February 5, 2010**

There's been a lot of talk about the recall. Here are the facts for our Customers.

Over the past few days, there has been a lot of speculation about our sticking accelerator pedal recall. Our message to Toyota owners is this – If you are not experiencing any issues with your accelerator pedal, we are confident that your vehicle is safe to drive. If your accelerator pedal becomes harder to depress than normal or slower to return, please contact your dealer without delay.

At Toyota, we take this issue very seriously, but want to make sure our customers understand that this situation is rare and generally doesn't occur suddenly. In the instances where it does occur, the vehicle can be controlled with firm and steady application of the brakes.

Here's the latest update on the recall:

1. We're starting to send letters this weekend to owners involved in the recall to schedule an appointment at their dealer.
2. Dealerships have extended their hours – some of them working 24/7 – to fix your vehicle as quickly as possible.
3. Trained technicians have begun making repairs.

We've halted production of these models this week to focus fully on fixing this problem for the vehicles that are on the road.

Our entire organization of 172,000 North American employees and dealership personnel has been mobilized. And we're redoubling our quality control efforts across the country.

Ensuring your safety is our highest priority. I will continue to update you with accurate and timely information about the status of the recall in the days and weeks ahead.

Sincerely,

Jim Lentz
President and Chief Operating Officer
Toyota Motor Sales, U.S.A., Inc.

Source: Toyota Motor Corporation, http://pressroom.toyota.com/article_display.cfm?article_id=2856, accessed June 18, 2011.

Exhibit 2**CTS CORPORATION PUBLIC STATEMENT
January 27, 2010****CTS Comments on Toyota's January 21 Safety Voluntary Recall**

Elkhart, IN...CTS Corporation (NYSE: CTS) today provided comments on Toyota's recent accelerator pedal recall. As previously announced by Toyota, the January 21 voluntary recall results from what Toyota described as "a rare set of conditions which may cause the accelerator pedal to become harder to depress, slower to return or, in the worst case, stuck in a partially depressed position." Toyota said this condition "is rare and occurs gradually over a period of time."

As has been publically stated by Toyota, we have no knowledge of any accidents or injuries that have resulted from this rare potential condition. Based on information that Toyota has provided us, we are aware of fewer than a dozen instances where this condition has occurred, and in no instance did the accelerator actually become stuck in a partially depressed condition.

As Toyota stated, this recall is different from and unrelated to the "sudden, unintended acceleration issue" which was the subject of the November 2009 Toyota recall. In the November recall, the pedals in Toyota models dated back to model year 2002. CTS became a pedal supplier in 2005. Accordingly, our products are not implicated by the November 2009 recall. The products we supply to Toyota, including the pedals covered by the recent recall, have been manufactured to Toyota's design specifications.

Toyota is a small, but important, customer of CTS, representing approximately 3% of our annual sales. CTS has been actively working with Toyota for awhile to develop a new pedal to meet tougher specifications from Toyota. The newly designed pedal is now tested and parts are beginning to ship to some Toyota factories.

About CTS

CTS is a leading designer and manufacturer of electronic components and sensors and a provider of electronics manufacturing services (EMS) to OEMs in the automotive, communications, medical, defense and aerospace, industrial and computer markets. CTS manufactures products in North America, Europe and Asia. CTS' stock is traded on the NYSE under the ticker symbol "CTS."

Safe Harbor Statement

This press release contains statements that are, or may be deemed to be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, any financial or other guidance, statements that reflect our current expectations concerning future results and events and any other statements that are not based solely on historical fact. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based on various assumptions as to future events, the occurrence of which necessarily are subject to uncertainties. These forward-looking statements are made subject to certain risks, uncertainties and other factors, which could cause our actual results, performance or achievements to differ materially from those presented in the forward-

Exhibit 2 (continued)

looking statements, including, without limitation: changes in the economy generally and in respect to the businesses in which CTS operates, including those resulting from the current global financial and credit crisis; pricing pressures and reduction in demand for CTS' products, especially if economic conditions do not recover or continue to worsen in CTS' served markets, including but not limited to: the automotive, computer equipment or communications markets; disruption, uncertainty or volatility in the credit markets that could adversely impact the availability of credit already arranged by CTS and the availability and cost of credit in the future; the financial condition of our customers, including the ability of customers (especially those that may be highly leveraged and those with inadequate liquidity) to maintain their credit availability or ongoing viability; risks associated with CTS' international operations, including trade and tariff barriers; currency fluctuations and their effects on our results of operations and financial position; changes in performance of equity and debt markets that could affect the valuation of the assets in CTS' pension plans and the accounting for pension assets, liabilities and expenses; political and geopolitical risks; rapid technological change in the automotive, communications and computer industries; reliance on key customers; CTS' ability to protect its intellectual property; and the outcome of the recent Toyota recall. For more detailed information on the risks and uncertainties associated with CTS' business, see the reports CTS files with the SEC, available at http://www.ctscorp.com/investor_relations/investor.htm. CTS undertakes no obligation to publicly update its forward-looking statements to reflect new information or events or circumstances that arise after the date hereof, including market or industry changes.

Source: CTS Corporation, Publications, 2010, http://www.ctscorp.com/publications/press_releases/nr100127.htm, accessed June 18, 2011.