

Crisis Management in Social Media and Digital Age: Recall Problem and Challenges to Toyota

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Social media, such as Facebook and Twitter have added new meaning to spreading news and information. While the traditional information channels such as newspapers, radios, and TV, are one-way mediums, the dawn of the Internet and social media have made communication a two-way extravaganza. The lack of any official control, supervision, or regulation has fueled a social media frenzy, which has proved to be a very effective method of rallying around a mass on any significant or even not so significant issue.

The recent banning of Facebook, and others alike, by certain governments is proof that social media cannot be ignored. Though authoritarian governments can resort to such drastic methods, public corporations cannot afford to do so. Corporations have no other way than to live with social media phenomenon -- either countering effectively, when a crisis starts brewing or suffering the consequences when it grows out of proportions.

Under this light, it is interesting to explore how the recall-troubled Toyota has handled the social media and what options are available for Toyota in order to prevent the situation go out of control and harming the worldwide reputation it has strenuously built over the decades as a top quality auto maker.

Toyota's recall has exposed a bit of "digitization in automobile" industry as well. The digital technology in music and video industry, along with its exploitation by Apple using Internet and social media, basically pushed the

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old industry heavyweight Sony to the sideline. Could the same thing happen to Toyota? Can a new comer exploit the digitization in automobile, in conjunction with Internet and social media, to dethrone an established giant such as Toyota?

The Recall Crisis at Toyota: Rise and Fall

Since its founding in 1937, Toyota Motor Corporation has strived to build quality automobiles. Capitalizing on the Japanese concept of *Kaizen* or continuous improvement and Just In Time or JIT, the company has built a worldwide reputation for manufacturing affordable quality automobiles. Considered a conservative company, Toyota was capitalized on quality and competed directly with the established and well-known brands in Europe, US and elsewhere (Ref: Morgan and Liker, and Magee).

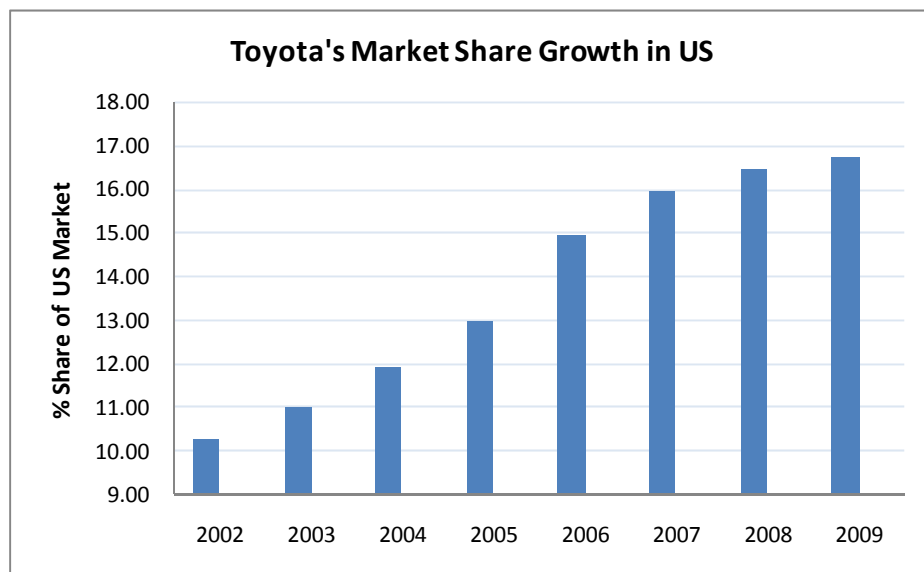


Exhibit I: Last Decade, Toyota Grabbed Market Share Faster

Source: WardsAuto

Tough it took more than 40 years to grab a 10% share of its most important US market, Toyota seemed more focused on rapid growth since the beginning or last decade (Exhibit I). Almost fifty years after entering the US market, the Japanese company surpassed Ford and Chrysler, in 2007, to become the second most popular automotive brand in America. The year 2007 is also a landmark year for Toyota since the company earned \$15.1 billion in profits –

the largest amount ever in company history and the largest ever for a Japanese company.

The next year, 2008, was a recession year, all over the world; automobile sales dropped everywhere. However, Toyota managed to increase its global market share and became the biggest auto maker in the world – a record GM held for 77 years (Ref: Time, Feb 22, 2010).

Even though Toyota became the world's biggest auto maker, the No. 1 spot somehow did not bring much solace to the company. After reporting a record profit the year before, the global recession of 2008 brought bad news to Toyota – the company reported the first ever loss, 1.5 billion US\$, in its corporate history.

Financial loss aside, the bigger shock for Toyota was the seemingly unstoppable stream of recalls that accompanied a streak of emotional accidents, including 52 deaths allegedly attributed to sudden acceleration problem alone (Ref: CBS News, Mar 2, 2010).

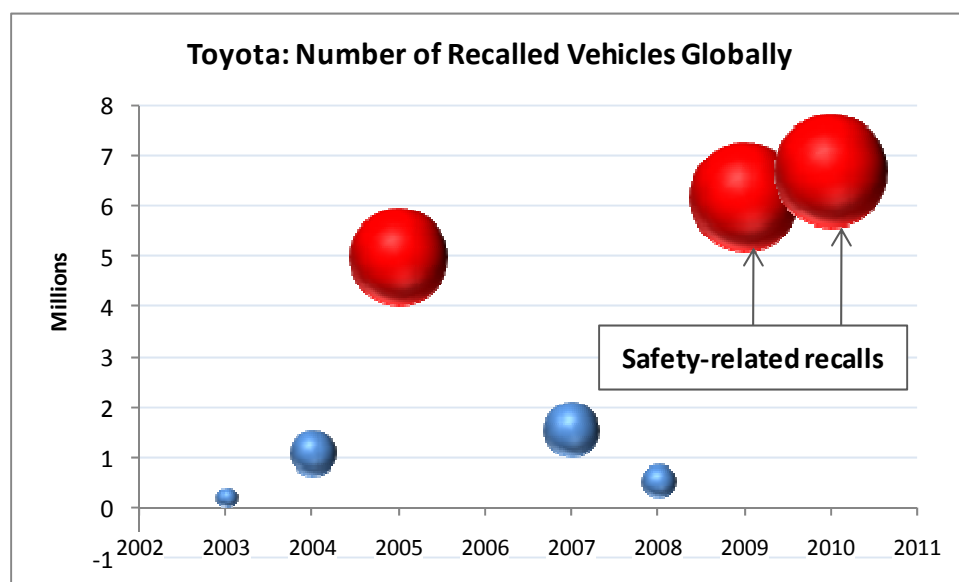


Exhibit II: Sudden Jump of Toyota's Safety Related Recalls

Source: Financial Times and author's research

Indeed recalls are nothing new to the automotive industry, especially in the US, where the first recall law went into effect in 1966. Over a time span of

about 40 years, 400 million of motor vehicles -- cars busses, and motorcycles etc. -- had been recalled in US alone, according to US government data (Ref: NHTSA). Thus, roughly 10 million or so vehicles are recalled every year, on the average for various reasons. But, what made Toyota case special was the significance of image that the company had synonymously associated with itself over the years and the damage to the perceived notion that the name Toyota meant Quality.

It was almost 50 years ago, in 1961, that Toyota saw the importance of product quality when it adopted “Total Quality Control” as a way to compete against the already well established car manufacturers (Ref: TMC, 1961, and Ohno). Damage to the reputation that Toyota horned since that time has stunned the general public; especially Japanese, for whom Toyota clearly is the commercial face that proudly represents the country to the outside world.

The vehicle recall law in general breaks the recall into two categories, caused by the type of defect – a *defect related to safety* (one that can cause injury or death) and a *defect not related to safety* (like a defective radio, or air-conditioning system). The defects in Toyota vehicles, which allegedly caused a number of deaths, were related to safety and thus are considered serious (Exhibit II). What brought unprecedented media coverage around the world were Toyota’s brand name, its newly acquired title as the “No. 1 automaker in the world,” and its rather lethargic response time to the incidents, some of which reportedly happened several years ago.

Once the media around the world started flashing the stunning news of the big recall of 2.9 million vehicles, on January 21, 2010, which was on top of the 3.9 million recalled just a few months prior, the reaction from all the corners, including Toyota’s own customers, the general public, the politicians, and the financial markets was unprecedented in Toyota’s history (Exhibit III). The total number of Toyota’s recalls related to the serious safety defect connected to sudden acceleration would eventually climb up to 8.6 million globally.

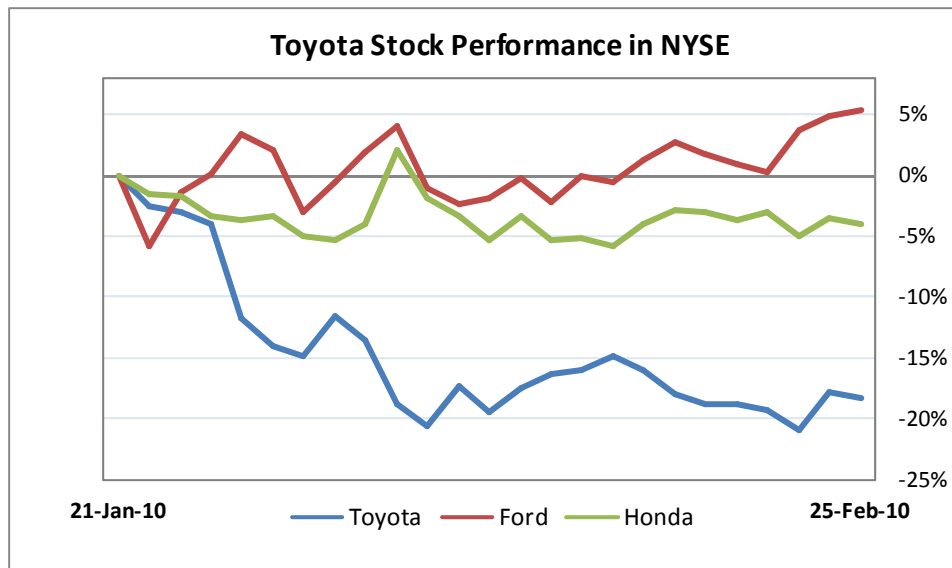


Exhibit III: Recalls Cost Toyota 20% of Market Value

Source: NYSE

Toyota, the company which made “Total Quality Control,” “Quality Circles” and “Toyota Way” the mantras for any CEO, suffered a severe setback to its long cultivated image.

In the US, where recalls of all types, from drugs to baby foods to dog foods were nothing new, the media were quick with sensational stories linked to the now-infamous “sudden acceleration” problem.

With Internet and social media such as Facebook and Twitter in full form, the negative news spread at unprecedented speed to Europe, China, and around the world, including Toyota’s home market of Japan. Toyota is perhaps facing the biggest challenge to its future. The consequences could be severely damaging, unless of course Toyota reacts prudently.

What Toyota Has to Protect

Indeed this is a time where the world automobile industry is undergoing historic changes. In the US, the big story is the bankruptcy of two of the “Big Three” amid a historic recession – Both GM and Chrysler are operating under US government control. For decades, those two companies, along with

Ford, defined America's manufacturing prowess. However, after almost half a century since entering the US market, Toyota had become the top auto manufacturer globally and was at the threshold of becoming the market leader in the US by overtaking GM.

The whole industry had become extremely competitive with new low-cost automobile manufacturers, like Chery and Tata, entering the scene from China and India respectively. Korea's Hyundai had built new factories in the US and is competing aggressively with the established Japanese auto makers.

With sales down significantly due to global recession, there is no room for any maker, no matter how well positioned it had been, to make a mistake. With Toyota sitting on top as the global leader, it has the most to lose from a recall as severe as the one that had just occurred.

In the US, where hoards of lawyers could be in the waiting eagerly to help any victim or their families go up against Toyota, financial and punitive damages could be severe.

The usual apologies, characteristic of Japanese companies, can go only so far. As soon as the big recall of 2.3 million vehicles was announced on January, 2010, Toyota ordered the dealers to temporarily suspend the sales of eight models involved in the recall for sticking accelerator pedal. Moreover, to keep balance of inventories, several factories had to be closed down for specific periods.

Nonetheless, the biggest challenge for Toyota is to maintain the public trust. Indeed, voluntary recalls, if done in a timely manner, can help boost the trust of a company, as had happened in previous Toyota recalls. However, the situation was different this time, because the company was in a way forced by the US government, which had received a significant influx of complaints. This forced-recall definitely did not create a positive image for Toyota's reputation which had been meticulously created over several decades through a carefully planned strategy and public relations campaigns.

Since the days of so-called “Japan Bashing” in the US during the 1980’s, Toyota had endeavored to create an image of an all American company by designing and building its cars right in the American heartland. Toyota’s factories provide direct employment to 35,000 Americans. The indirect employment through its 1,400 dealerships is about 115,000, according to company information (Ref: Toyota, USA). Over a fifty year period, Toyota claims to have invested \$17 billion in the US; and its dealerships have invested another \$15 billion.

Toyota has enormous brand value in the US. The reputed JD Power often ranks Toyota vehicles near the top in terms of quality. Even in its most recent ranking, Toyota received four 1st place awards - more than any other automotive brand. Furthermore, the US is also Toyota’s most profitable overseas market. Consequently, Toyota has a lot to lose if the recall is not handled carefully.

Crisis Management

Since its founding in 1933, Toyota has withered numerous crises. Even though the present crisis did not force the resignation of Toyota’s president, previous predicaments have indeed led to the downfall of company’s upper management – the founding president Kiichiro Toyoda resigned in 1950 to take responsibility over a labor dispute and sagging sales during a severe Japanese recession (Ref: Nikkei Business, 2009, and Magee). In addition, another crisis – Toyota’s first corporate loss since 1950 crisis – forced the departure of the then president Katsuaki Watanabe, bringing Akio Toyoda, the current president to the top post in Toyota.

With only one year job experience as president, Akio Toyoda, armed with an MBA from a US Business School, perhaps faced the most difficult task in his business life when he was called to testify before the US Congress on February 23, 2010. Already under fire by the US media for not apologizing early and also not sufficiently, his performance, broadcasted live around the world, was a defining moment for Toyota and for corporate Japan. Did he apologize enough? Was his performance sincere? Did it look like he was trying to conceal something? The verdict is perhaps yet to come because the

response is not delivered by just TV or by newspapers.

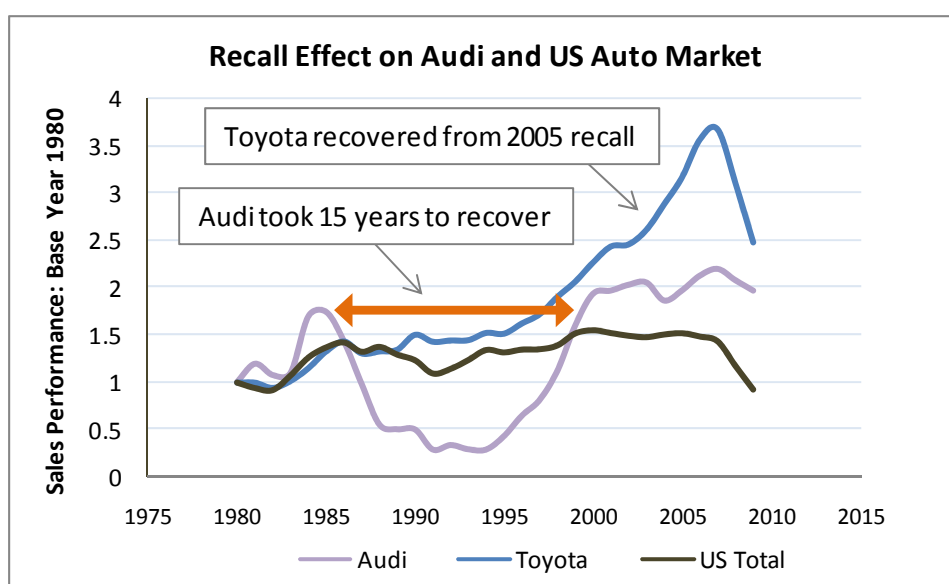


Exhibit IV: Audi Took 15 Years to Recover from US Recall

Source: WardsAuto and author's research

On a survey conducted by TV broadcaster CBS News in the US, following Mr. Toyoda's testimony, the public did not rate Toyota's explanation very positively – overall only 27% believed that Toyota was telling the truth; almost 50% said Toyota was hiding something (Ref: CBS News, Mar 2, 2010) .

In a case reminiscent to the Toyota crisis, Audi, the high-end German auto maker, had to handle a serious recall catastrophe in 1986 caused by sudden acceleration of its automobiles sold in the US. Of course Internet was non-existent at that time and TV was the prominent media. It is said that Audi did not handle the media properly and the public became distrustful of the company. It took fifteen long years for Audi to pick up sales to the same level that it had prior to the recall (Exhibit IV).

Toyota of course is a quite different company compared to Audi. Toyota is well established in the US market. Toyota has a loyal customer base in the millions. With thousands of Americans designing and building automobiles right inside the US, Toyota had cultivated a loyal following that includes some key politicians from the heartlands. In fact, several of these politicians came forward during this crisis to tone down the US government outcry

against a slow response that Toyota had allegedly exhibited.

The media itself had gone through dramatic changes since the Audi debacle in 1986. With the explosion of Internet, media is much more interactive now; and social media such as Facebook and Twitter had demonstrated that people rely on them during crisis. As a corporate utility, social media is a great way to get company messages out to the public (Ref: Qualman). Alternatively, social media, if properly used, is also a way to keep an eye on the public mood when some significant issue that affects a large number of people occurs, such as the present recall which had raised emotions high in many Toyota customers.

Company's SNS Strategy

With more than 100 million active users in the US alone, Facebook is the dominant Social Network Site (SNS) in America. If Facebook were a country, it would be the third most populated in the world with more than 400 million active users, behind only China and India.

With manufacturing operations in 27 countries, and a dealer network in 170 countries, Toyota is a giant organization. In any large organization, coordinating all the media releases, let them be for news papers, TV, or SNS, such as You Tube, Twitter, and Facebook, must be done carefully in order to prevent public confusion. Indeed Toyota seemed to have realized the importance of SNS early on. As soon as the recall crisis started getting media attention, Toyota quickly put together an "Online Newsroom" and a "social media strategy team" to coordinate all the media releases from different organizations of the company, like public relations, customer services, and dealers.

In addition to Toyota's own efforts, anyone interested in knowing or wanting to express an opinion has the option to get on with any SNS media and exchange opinions.

Among the SNS sites Toyota is operating include:

- Twitter feeds; twitter.com/TOYOTA
- Facebook; facebook.com/toyota
- YouTube; youtube.com/toyota
- YouTube USA; youtube.com/user/ToyotaUSA
- Pressroom Toyota; pressroom.toyota.com/

In reasoning that the company had not had a major backlash from its customers, especially in the US, where media was providing sensational coverage around the clock, Toyota had stated that it had increased number of customers in its Facebook page. That is true, Toyota fans to this SNS site has been growing about 10% monthly. But, the fact of the matter is that all the other major US brands had also been adding fans to their Facebook SNS sites as well (Exhibit V).

Indeed in terms of number of fans, GM is the leader in Facebook, followed by Ford, with Toyota in number three. But, the up and coming Korean maker Hyundai is adding fans at the fastest rate. Thus, Toyota's claim that it sees nothing to observe customers losing faith or abandoning the company might still be a premature judgment.

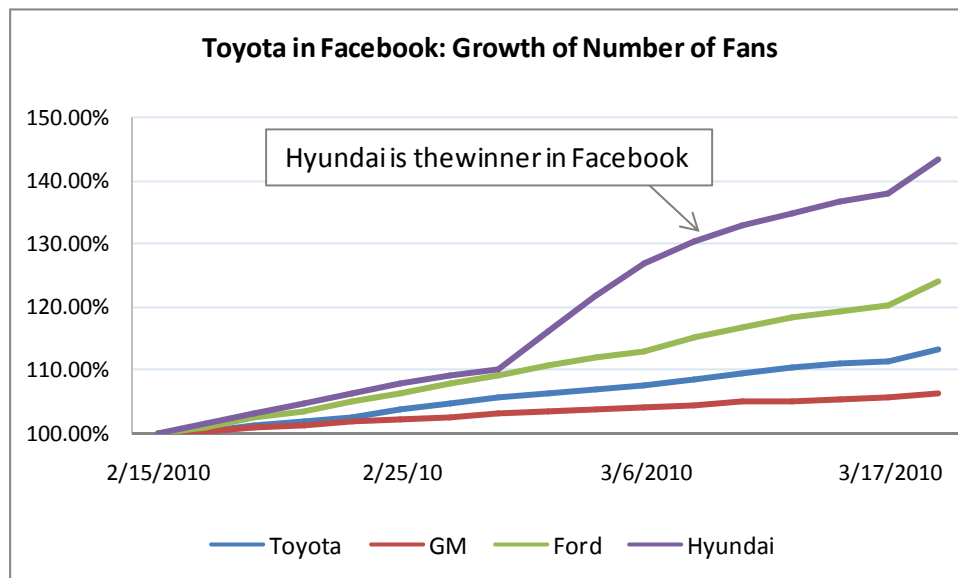


Exhibit V: Ford and Hyundai Adding Fans Faster in Facebook

Source: Facebook, Inside Facebook, and author's research

A key advantage of tapping into SNS is that a company can gather practically real time information about customer feelings or complains. A Toyota fans club, such as in Facebook, may not quite reflect all sides as the people joining it may already have a positive opinion about the brand or the company.

In fact the recall process had opened up quite a few SNS groups attacking Toyota. The company may want to tap into such groups as well to follow up on their messages from time to time. In Facebook itself, one can see more than 10 such SNS groups, with revealing names such as “*Anti- Toyota*”, “*Anti- Toyota Prius Group!*” and “*anti prius movement*” (Facebook, data on March 26, 2010). But the total number of members in such groups is quite small -- less than 1% of the number in Toyota’s official Facebook SNS. What sends a signal of concern to Toyota may be the growth of the membership of such SNSs and the rate the members keep posting the messages; plus of course the contents within those messages.

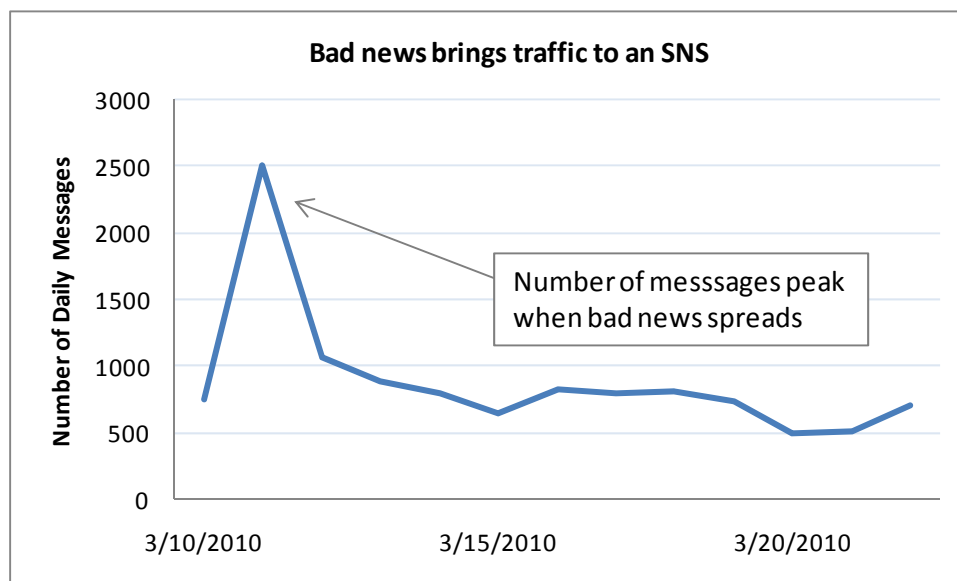


Exhibit VI: Number of Messages Increase with Bad News

Source: PRUISchat and author’s research

One SNS site that had been in operation well before the current round of recalls became a menace to Toyota is a public site called PRUISchat. It is interesting to observe the traffic and the number of SNS groups within this site (Exhibit VI).

The peak in the traffic on this exhibit is a result of a sudden recall announcement associated with one of Toyota's most popular hybrid models, the Prius. A careful analysis of the messages here can explain the seriousness of this concern.

Long-Term Effect of SNS on Toyota

While it seems that Toyota had managed the SNS media strategically with regards to the current recall, the associated problems with the recall has explored a more serious future threat. This threat is directly correlated to the digitization of the automobile.

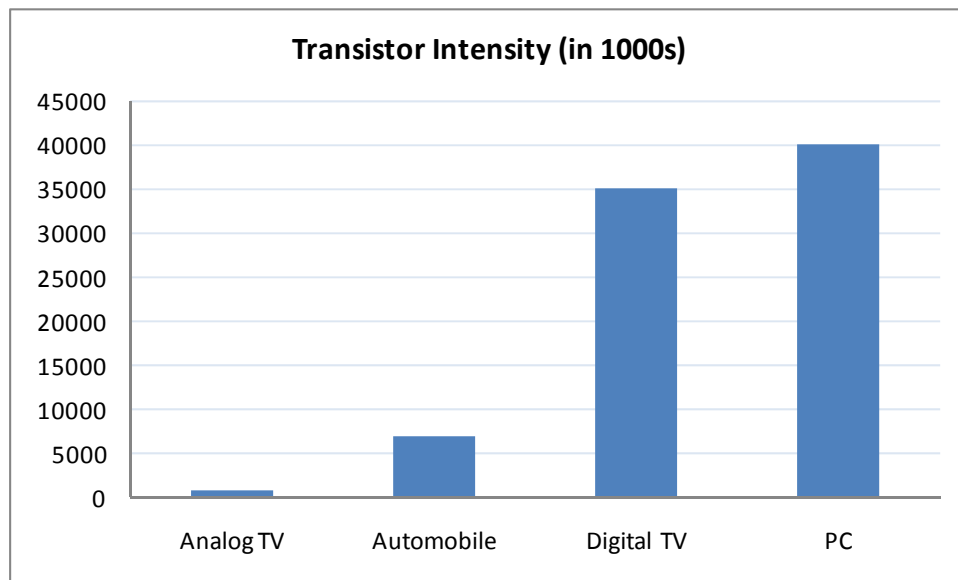


Exhibit VII: Automobiles are increasingly Becoming Digitized

Source: Chang, 2008, Whitfield, 2006 and author's research

With the advances of the computer, automobile manufacturers around the world had adopted many computerized methods to control and optimize the functioning and performance of their vehicles. This is very similar to what happened when the analog music gadgets gradually became digital. Sony was clearly the leader in analog music; but, by strategically exploiting the SNS and software, Apple had come from nowhere to lead the digital music world. Could a similar thing happen to Toyota?

Indeed, despite the long span of time that the recall problem had been

harassing Toyota, the cause of the problem, or the problems, remain somewhat mysterious. Blame had often gone to a faulty electronic system. It has come to a point where National Highway Traffic Safety Administration has sought help of NASA and National Academy of Sciences in the US to find the possible problem (Ref: Time Magazine, Mar 30, 2010).

A modern automobile has several systems that are controlled digitally by computer chips and software; among them are:

- Electronic Throttle Control
- Electronic Stability Control
- Electronic Brake Control
- Electronic Fuel Injection
- Electronic Speed Control

Of course there are many other functions, such as air-conditioning, monitoring safety, etc., that can come under the control of some computer mechanism. It is said that a modern automobile has, on the average, 15 microprocessors.

While there are common electronic parts used across many manufacturers, some key control systems are proprietary. Whether a problem with such systems is hardware related or software related, a customer has no choice but to take the whole vehicle to a dealer. In Toyota's sudden acceleration problem, some experts had opined that the problem could be a software problem. When such software problem occurs in a modern electronic gadget it is often the case that the fix can be downloaded from Internet rather quickly with much ease. While there are onboard diagnostic systems in vehicles, including the problem models of Toyota, accessing them often needs taking the car to a dealership.

If the car behaves like a modern electronic gadget that could be connected to Internet – Indeed automobiles are increasingly becoming web-enabled – the problems can be more or less monitored in real time and the fixes can be done cheaply and swiftly. That is where a big threat to an established player like Toyota could come.

In 2005, Toyota was embarrassed with several recalls. In Japan, the total number of recalls, including Toyota's, multiplied 40 times compared to 2001 levels, bringing serious concern to the Japanese government. The government asked for an explanation from Toyota and the company promised to make a defect reporting database so that it could monitor the vehicle related complaints from customers in a timely manner.

However, the current problems with Toyota revealed that either the company did not create a system to accumulate the data into such a database or that the company did not pay attention to the data gathered in such a database in a timely manner.

Toyota itself, in the testimony to US Congress by president Toyoda, had admitted that the company was growing too fast and that it may have been too focused on selling more cars instead of paying sufficient attention to quality. According to a statement from a Toyota employee union, only 60% of the vehicles are completely tested at the final stage, compared to 100% a few years ago. It is possible Toyota did not pay enough attentions to customer complains in time and may not have analyzed the complain database (if it had one) sufficiently carefully.

Toyota, a company which pioneered the Just-in-Time manufacturing, the response to the faulty problems from customers had been way too far from being JIT. This could open up new opportunities for companies which has the means to observe customer behavior at almost real-time, such as Facebook, Google.

The situation where Toyota is may be somewhat similar to the situation at Sony; it was growing fast in TV, music CD players, and the like; it did not realize the importance of Internet and social media and that its own customers were moving to such sites. Apple saw the opportunity, jumped right in front of it and the rest is history.

Could a similar thing happen to Toyota? Could Toyota avoid getting Sony-decease? Remain open questions.

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