

Woes of Toyota & Chrysler

Dear friends,

This is week three of our series of articles designed to address the difference between perception and reality relative to the myth of import vehicles, or any vehicles, foreign or domestic, being better than G.M. vehicles.

Two weeks ago we printed an article that clearly shows more Americans buy GM products than any other make. Last week we published various articles about some foreign manufacturers who have experienced problems that you may not have read about anywhere else. It seems that bad news about large well-known American companies often makes the headlines while news about smaller companies does not draw the same media attention.

Today we are reprinting various articles about Toyota and Chrysler who are no different than any other manufacturer in that they also face quality issues. I think you'll find some of this information interesting. And for more information about "today's GM vehicles," stop by and let us show you "the rest of the story." You'll be impressed.

As always, if you have any questions or comments, please feel free to e-mail me at chuck@nicholsonauto.com.

Thanks, Chuck Nicholson



Chrysler loses \$1.4 billion

On November 3, 2006, the Chrysler Corp. has posted a \$1.4 billion loss for the third quarter. Chrysler CEO Tom LaSorda admits a big part of the problem is a failed summer-selling season. Chrysler was the only domestic automaker to reinstate the "employee pricing for everyone" promotion that set industry sales afire in summer 2005. This time, consumers didn't bite.

Sales were down 34 percent in July and 3 percent in August from last year. Chrysler had hoped to match its average summer sales for the past five years but missed by nearly 80,000 vehicles.

"We had a plan, and it didn't work," LaSorda says. "I take responsibility for the plan not working."

To casual observers, Chrysler's woes might be a surprise. Just a few short years ago, Chrysler was seen as the automaker to emulate. The edgy-looking Chrysler 300 sedan was a hit, and critics praised the company for forging ahead with daring design and for cutting costs while making its plants more efficient.

But insiders have seen Chrysler's problems brewing for months. While much of the media heat was on General Motors and Ford Motor for their poor financial performances, Chrysler's inventories were slowly growing and the automaker was ratcheting up incentives to keep customers buying.

"GM was trying to be public with their problems, while (Ford and Chrysler) were trying to hide from it," Cole says. "This was a problem that was absolutely going to (happen)."

The only way you can deal with it effectively is if the people in the organization face up to it."

Chrysler's near-term situation isn't likely to be any better because of the large number of unsold vehicles dealers have in inventory. Adding to the problem: 80 percent of that inventory is 2006 models, not a good sign this late in the year when other automakers are pushing 2007 models. Automakers record profit on vehicles when they ship them to dealers.

But Chrysler's dealers already have enough cars and trucks on their lots to last 80 to 126 days, compared with an industry average of 63 days. They are reluctant to order more. In addition to what's at the dealers, Chrysler admits it has 50,000 vehicles sitting on random storage lots.

Those cars and trucks are in what Chrysler calls its "sales bank." It's a practice—abandoned by most automakers more than 25 years ago—by which Chrysler produces cars that no one has ordered and waits until dealers have space on their lots and are willing to take them on. Chrysler, now part of Germany's DaimlerChrysler, has been using the sales bank to keep its labor force working.

Under its contract with the United Auto Workers, it has to pay union workers most of their salary even if they are idle. So the automaker has kept on pumping out cars and trucks even as demand softened. The other piece of Chrysler's puzzle is labor costs, which are the highest in the industry. Chrysler's costs for active and retired employees come to about \$1,000 per car.

Toyota dinged by recalls

In 2002 Toyota recalled 496,000 vehicles for safety issues.

In 2003 Toyota recalled 212,000 vehicles for safety issues.

In 2004 Toyota recalled 1,132,000 vehicles for safety issues.

In 2005 Toyota recalled 2,225,000 vehicles for safety issues.

Source: National Highway Traffic Safety Administration

For Shinichi Sasaki, it was a baptism by fire. A month after being named Toyota Motor Corp.'s new quality czar, Sasaki spent two hours last week telling reporters how he was responding to a safety recall that has Japanese police threatening criminal charges against Toyota managers.

The recall is just the latest event threatening the company's reputation for quality. Shaken, Toyota is reorganizing, reviewing its quality processes, stepping up its review of aging vehicles' service records and urging customers to report any problems to their dealers.

As a symbolic first step, Toyota executives are apologizing repeatedly. CEO Katsuaki Watanabe says the recalls and a sexual-harassment case in the United States are "leaving people to wonder if Toyota remains sound." He bowed deeply at a press conference in Tokyo to "express my earnest apologies." Sasaki and three other managers in charge of quality also bowed at a separate press conference after meeting with government regulators.

"I'm ashamed as a carmaker that we caused worries among our customers," says Akio Toyoda, executive vice president for purchasing and quality and a scion of the company's founding family. "These are the customers who selected Toyota thinking that Toyota vehicles would be safe."

Lately, customers have had cause to doubt Toyota's quality. Last week, the company recalled 418,570 cars worldwide, all made in 2001, includes 34,700 Priuses, Echos and

other cars sold in the United States.

Among other U.S. quality issues: Toyota this spring recalled 170,000 Priuses, or two of every three it had sold, because a portion of the steering shaft assembly could become loose or crack.

The National Highway Traffic Safety Administration is investigating Toyota Scions after receiving complaints that the cars' glass sunroof can shatter.

Toyota is recalling 376,600 Toyota Highlander and Lexus RX SUVs in the United States because of an interference with the accelerator pedal.

More woes

In Japan, Toyota has recalled 1.1 million vehicles this year through Thursday, July 20th. That's in addition to the Toyotas recalled in the USA, and is a big increase since 2002, when Toyota recalled 485,000 vehicles worldwide for the entire year.

One particular recall now haunts Toyota. It involves a defect in the steering assembly of 4Runner SUVs and T100 and Tacoma pickups. That problem caused a "Hilux Surf," the Japan market's name for the 4Runner, to swerve and strike a car in the prefecture of Kumamoto in 2004. Five passengers in the other vehicle were injured. Toyota had investigated the steering assembly in 1996. It altered the assembly for future vehicles but decided no recall was necessary.

After more complaints surfaced in 2004, Toyota reopened its investigation and issued a recall that year. The company recalled similar vehicles in the United States last September.

On Friday, July 21, Japan's Ministry of Land, Infrastructure and Transportation ordered Toyota to report by Aug. 1 on steps it is taking to improve its monitoring of defects. The ministry's regulators did not fine Toyota or rule that it had broken any laws. Separately, though, Kumamoto police have asked prosecutors to issue warrants against the managers involved in the 1996 investigation.

Engine nightmare

Toyota motors is the largest of three major automakers who have faced a significant number of engine oil sludge problems over the last few years. At least 3.3 million Toyota vehicles are at risk. There may be more. As a April 18, 2005 article in The Automotive News stated, "it's impossible to know how many sludge complaints have been made. Reporting is imprecise, and automakers in many cases aren't eager to provide details."

What is certain is that the problem is expensive and frustrating to consumers when the manufacturer refuses to repair under warranty—is expensive to the manufacturer when they do—and forever erodes consumer confidence in the manufacturer.

Rami Amaro, a lawyer in Coeur d'Alene, Idaho, said she has talked to "literally thousands" of consumers with engine sludge problems. Amaro, whose 1998 Toyota Sienna croaked because of sludge, is attempting to get a class-action lawsuit organized against Toyota—despite the automaker's decision to extend its warranty. Meanwhile, Internet chat rooms are ablaze about claim denials by automakers.

Several Internet respondents said they unloaded their cars when given the bad news by mechanics, leaving the new owners in the dark about the problem. Some sludge victims have resorted to more intriguing methods to get satisfaction.

After fighting Toyota for six months about a sludged 2003 Corolla with 26,000 miles, Mazie Passeri vowed to picket the local dealership and drive the car with the words "Toyota Sludgemobile" painted on it. Within days, the claim to rebuild the engine was authorized.

"I will never buy another Toyota," says Passeri, of Jacksonville, Fla. "The funny thing is, the car trouble itself never shook my confidence in Toyota. It was Toyota's poor customer service and their unwillingness to accept responsibility and make things right that did it."

Dave Camden, vice president of dealer operations for Toyota Customer Services, admits that some claims have been "mishandled" and that others "slip through the cracks."

Why sludge happens

1. Engine breathing. Oil vapor and combustion gases that develop inside an engine must be purged, "usually by burning" in the cylinders. If the gases and oil vapor are not disposed of, sludge can form. Toyota will not say what causes sludge in some of its V-6 and four-cylinder engines.

2. Hot and cold spots. To warm engines quickly and reduce emissions, engineers in recent years have moved the catalytic converter closer to the cylinder head.

In some cars, the converter has been integrated into the exhaust manifold. Both scenarios bring a major heat source closer to the engine, causing hot and cold spots. The temperature difference between the cylinder head and block shouldn't vary by more than 25 degrees Fahrenheit. Hot spots bake oil, causing sludge. Cold spots cause acid sludge. The number of sludged engines will escalate as vehicles age, engineers and mechanics say.

It can cost as much as \$12,000 to replace an engine, sometimes more than the car is worth. Automakers don't want to eat the cost unnecessarily. So they inspect claims very carefully, which often makes them look like Scrooges.

Consumer advocates complain that automakers are not taking their share of the blame. If it were simply a matter of poor maintenance, all engines would be failing, not specific engine families from certain manufacturers.

"Oil sludge is our No. 1 priority this year," said Clarence Ditlow, executive director of the Center for Auto Safety in Washington, D.C. "It's a big-ticket item with a high failure rate."

775,000 Toyotas need ball joints

On May 30, 2005, Toyota Motor North America announced the recall of about 775,000 light trucks to replace front suspension lower ball joints.

Affected vehicles are 2001-2004 Tacoma small pickups, 2002-04 Tundra full-sized pickups and Sequoia SUVs, and 2001-2002 4-Runner SUVs, the National Highway Traffic Safety Administration says.

Toyota told NHTSA the ball joints may wear prematurely and loosen, causing steering problems. Ultimately, the joint could separate, and the driver would lose steering control.

In early 2004, NHTSA opened an investigation of 2002 Tundra pickups after it received several complaints of ball joint failures. Toyota initially contended there was no safety defect. It later determined that ball joint surfaces may have been scratched during assembly.

Documents filed with NHTSA identify the ball joint supplier as Somic Ishikawa Inc. of Japan. Toyota expects to begin notifying owners in July.

In a separate recall, Toyota said dealers will inspect nearly 5,000 Avalon sedans built for the 2005 model year to determine whether the steering yoke was welded properly to the steering shaft. If not, the steering column assembly will be replaced. If the yoke separates from the shaft, the driver would be unable to steer, NHTSA says.

Toyota delays heavy-duty pickups

U.S. automakers can take comfort in at least one thing: The Japanese can't nail the heavy-duty pickup. For all of Japan's skill in identifying and capturing new U.S. market segments, true workhorses such as the Ford F-350 and the Chevrolet Silverado 2500 continue to elude them.

Toyota Motor Corp. was moving in that direction. But Automotive News has learned that Toyota has postponed its plunge into the rich heart of Detroit's truck business. According to suppliers familiar with the heavy-duty truck project, Toyota had planned to launch its new pickup as early as 2009, using a vehicle developed by its Hino Motors Ltd. affiliate.

But now, they say, the project has been halted indefinitely. Nissan also is planning heavy-duty pickups, but it doesn't expect to deliver them to showrooms until 2009 at the earliest. One supplier who participated in the pickup program said Nissan had hoped to obtain a Ford F-250 fighter off of the current-generation Titan.

But engineers determined the current Titan's frame would not meet Nissan's targets for a large payload. The Toyota and Nissan setbacks illustrate the of Detroit's challenge of fully competing in all traditional segment is newer to Asian automakers, whose vehicles have been lighter and more fuel-efficient.

The light-duty Honda Ridgeline pickup, for instance, is based on a van chassis, uses a V-6 engine is more car-like than truck-like. What is at stake is the most profitable piece of the truck business, the big vehicles favored by American homebuilders, bricklayers and plumbers.

Heavy-duty pickups typically have beefier wheels, suspensions and chassis for heavy payloads, and diesel engines with high torque at low speeds. Three-quarter ton and one-ton is industry shorthand for the two grades of heavy-duty pickups. Last year, the segment rose 12 percent. Merkle says the driving force behind the sales of the larger trucks has been the booming home construction.

Trouble found at Scion

Taint for Toyota: Vehicles from Scion, the company's new youth-oriented brand, scored worse than the industry average last year in Power's Initial Quality Study, according to the Automotive News magazine in an March 20, 2006 article.

The study focuses on problems consumers report with their new vehicles during the first three months of ownership. Scion vehicles are assembled in Japan. Some analysts say the highly configurable nature of Scions creates more opportunities for owner complaints.

Cuneo argues that Scion's target audience of tech-savvy young consumers has high expectations. But the quality gap is closing as Toyota's competitors catch up.

And recalls of Toyota cars and trucks spiked during the past two years. Jeffrey Liker, an engineering professor at the University of Michigan, has studied Toyota for 20 years. He says, "There was evidence four or five years ago that Toyota quality was starting to slip."

Yet so far, Liker says, other automakers generally have not duplicated Toyota's record for quality... except one. The one exception he cites is General Motors. "GM has adopted Toyota-like methods successfully," he says.

David Champion, senior director of Consumers Union's auto test department agrees, and stated that quality gaps among all automakers are narrowing.

Camry engine glitch

Just two months into the launch of its redesigned 2007 Camry, Toyota has a problem on its hands.

An October 16, 2006 Automotive News article stated that a fastener in the automatic transmission can loosen, and as a result drivers can lose the use of second and sixth gear. The vehicle still can limp to a dealership, however. The problem applies only to the models with a V-6 and a six-speed transmission. About 90 owners have reported the problem out of 5,800 vehicles so equipped, says Toyota spokesman Mike Michels.

Toyota is treating the problem with a technical-service bulletin sent to dealers, not a recall. As a result, owners must wait for the transmission to fail before it can be repaired under warranty. The incorrectly seated fastener, also called a snap ring, may realign itself during normal driving, Michels said. The same transmission is used in the redesigned Lexus ES 350.

Is Chrysler for sale?

It started October 26, 2006.

The USA Today ran an article that examined the often repeated rumor that Chrysler is for sale. The article stated: "The Chrysler group's drag on earnings of parent company DaimlerChrysler has many wondering if the German automaker is planning to cut Chrysler loose. Comments from its CFO sidestepping the issue didn't help stem the speculation Wednesday."

But if Daimler considers selling Chrysler, that raises yet another question: who would buy it?

"Anything is possible, but realistically, there are a lot of things they have to fix before they'd even be a viable company to sell," said analyst Kevin Reale with AMR research.

Speculation continued November 6, 2006

Talk that DaimlerChrysler might shed its Chrysler group business is still simmering in the German press despite repeated company denials. An anonymous DaimlerChrysler board member told the German magazine Der Spiegel on November 6, 2006, "We would be irresponsible if we did not draw up exit scenarios."

The subject of a potential Chrysler sale took on new currency when DaimlerChrysler CFO Bodo Uebber repeatedly refused to rule it out during the company's third-quarter earnings conference call with analysts and journalists last month. "We don't exclude anything," he said at the time. Chrysler recorded a \$1.48 billion loss in the third quarter. Asked if the automaker would consider selling Chrysler, he said it needs to "safeguard the sustainable profit of the Chrysler group and DaimlerChrysler. We're doing our analysis, and then we'll draw our conclusions."

The United Auto Workers Union said it would not negotiate with Chrysler to reduce health care costs.

Argus analyst Kevin Tynan said the UAW may see Chrysler's German parent is having deep pockets to sustain high labor costs.

"Chrysler could wind up being on the block for sale because of that mindset," Tynan said. Daimler may realize "they're never going to get the cost structure in line as long as they are dealing with the union."

Sell: Chrysler gathers steam December 4, 2006

More DaimlerChrysler shareholders in Europe are calling for a spinoff of the money-losing Chrysler group, which they say is dragging down the company, raising borrowing costs and damaging management credibility. "I would welcome a separation of Daimler from Chrysler," said Ingo Speich, portfolio manager at German fund manager Union Investment, which owns 14 million shares and is among the companies biggest German investors.

He said Chrysler remains a "problem child" that could torpedo future results even if management makes no mistakes. "I think a demerger is very realistic," said Juergen Meyer, fund manager at Sweden's STB Asset Management, which owns 1.2 million DaimlerChrysler shares.

J.P. Morgan said in a report: "We remain convinced that management patience towards underperforming assets like Chrysler has worn thin and increases the likelihood that DaimlerChrysler will reduce exposure to Chrysler." Falk Frey of Moody's, which cut DaimlerChrysler's rating in September after Chrysler predicted losses, said dumping Chrysler would cut DaimlerChrysler's borrowing costs. He said, "We would certainly have to consider a different credit rating for DaimlerChrysler if Chrysler were no longer in the group."

Chrysler cuts

Chrysler may be laying plans to slash production further in the first quarter of 2007 as it struggles to contain bloated inventories. "We've already got the shut-downs for November and December," Buzz Hargrove, president of the Canadian Auto Workers, said in a November 13, 2006 Automotive News telephone interview last week. "We should anticipate more in the new year. We've been forewarned there will probably be some down weeks in Windsor and Brampton in the first quarter."

Meanwhile, a Tier 1 supplier to Chrysler said it expects the vehicle volumes already cut by the carmaker never will be restored. "For our planning purposes, we're looking at the volumes they've reduced as permanent," said the supplier official, who asked not to be identified. Chrysler cut roughly 160,000 units in the third quarter of 2006 compared with the third quarter of 2005.

The Brampton, Ontario, factory makes the Chrysler 300, Dodge Magnum and Dodge Charger. The Windsor plant makes the Chrysler Town & Country and Dodge Grand Caravan minivans and the Chrysler Pacifica crossover.

"I think they may have to shut down some of the plants for weeks" in 2007, said Sean McAlinden, analyst for the Center for Automotive Research in Ann Arbor.

Avalon's quality problem

Alan Seider has owned 11 Toyotas since 1982, but his 2006 Avalon likely will be his last.

He says quality glitches have bedeviled his Toyota sedan, which he has driven less than 6,000 miles since he bought it last July. His dealer could not solve the car's problems.

Toyota headquarters stonewalled his appeals, he says. "There have been significant throttle control and transmission hesitation issues," says Seider, 45, a computer consultant from Roswell, Ga. "I've isolated 15 different rattles in the body work."

Seider is far from alone. Internet chat rooms, such as <http://Edmunds.com> Edmunds.com Town Hall are littered with complaints from Toyota loyalists about the redesigned Avalon, which went on sale in February 2005.

The Avalon's launch problems point to a larger issue. To meet demand, Toyota has added factories in North America and thousands of new employees. Executives are worried that Toyota's rapid growth may dilute its quality standards.

The quality gap is closing. And Toyota recalls have spiked in the last two years. Toyota has issued a string

of technical service bulletins to dealers to fix Avalons on the road. Now the Avalon redesign is showing that even mighty Toyota can slip up.

Kevin Clingenpeel, a 37-year-old from Fort Mill, S.C. loved his Avalon for the first 2,000 miles. Then the transmission shifts became erratic, especially in cold weather. The engine developed a persistent knock, which could not be cured by changing grades of gasoline or by using a fuel injector cleaner.

"I pulled up next to a diesel truck, and I could hear my valve train clicking louder than his diesel," said Clingenpeel, whose Avalon is his family's third Toyota.

Clingenpeel says his dealer gave the car "a wink and a nod" when he brought it in three times for repairs. Clingenpeel then appealed to Toyota headquarters to send out a District service manager. Toyota refused. Now Clingenpeel is looking to sell the car. "This is not up to snuff from what I would consider from Toyota."

The Avalon's problems have drawn notice from consumer reports magazine. Anita Lam, data program manager for Consumer Reports' Auto Test Center, said problems with the Avalon cropped

up in steering, suspension and body integrity. Toyota spokesman John Hanson acknowledged that Toyota has been concerned with the initial wave of quality problems for the car.

The Avalon's transmission lurch is especially noticeable in low-speed crawls during rush hour, Hanson said. Previous Avalons had problems shifting smoothly at high speed with high engine revs.

Some customers are voting with their feet. Said Seider: "I am so disappointed in Toyota. I've had previous first-year vehicles, but nothing like this ever happened. Toyota's build quality has declined in recent years, and there seems to be nothing the dealer can do. Toyota has reached a size that they've lost sight of the individual customer."

Quality glitches Since the Avalon's 2005 redesign, Toyota has issued service bulletins to dealers on these topics:

- Bad U-joint welds
- Faulty catalytic converters
- Leak in oil-supply line for variable valve timing
- Poor door seals
- Vehicle drifting

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Next week in this space we'll discuss other carmakers' issues.