

Could You Handle Toyota's Problems?

Source: National Underwriter, 2/22/2010

Gripping your steering wheel as if your life depended on it, using every ounce of strength to push the brake pedal through the floor of your car while flying down a San Diego freeway at ninety-four miles an hour sounds like an Alfred Hitchcock movie. It wasn't. It was the scene a few days ago in Southern California.

If you survived that nightmare what are the odds you would ever drive (or let your family drive) the same make of vehicle. Heck, I don't even know the guy involved and I'd be hard pressed to get into a Toyota at this point.

Products do fail all the time. Mistakes do happen and accidents do occur. The question is; what can we learn from Toyota's challenges and how can we make our businesses and lives better as a result? Let's look at some of the damage done and find what you can do to prevent a repeat of the same scenario.

Individual events: In February the Federal Transportation Department linked 34 fatal crashes to defects in Toyota vehicles. For some perspective, however, Toyota sold 9+ million cars last year (according to thetorquereport.com). That is a small percentage overall but anytime a faulty product kills a person the cost is too high.

Suggestion:

1. A quality control program can be simple and strategic (random sampling according to mathematic models) or expensive and in-depth (ISO 9001). Doing what you can will help you prevent the problems and protect you in the event of a product failure.

Damage to reputation: It took 30+ years to build Toyota's reputation as a quality company but it was severely damaged in only a few weeks. Bloomberg reported a 16% decline in sales for the company during early 2010.

Suggestion:

1. Communicate early and often. If you keep accurate records of who bought (or distributed) your products you can let them know about a problem, share your solutions and let customers ask questions or ask for help. Few things scare people more than uncertainty and being able to keep your clients comfortable will help keep you in business.

Product recall costs: A recall usually won't trigger your insurance. Can you afford to find every customer, reimburse their purchase price, and absorb the costs of the whole ordeal?

Suggestions:

1. Electronic monitoring of what was sold, where it was sold and to whom it was delivered will make getting the items back much easier and the costs much lower than you will see with a mass media appeal.
2. Product Recall coverage (insurance) will help defray the cost of the recall.

Directors and officers on the line: Class action suits are coming for Toyota. If there is any proof that the people in charge knew of the danger (or should have reasonably known) they are in trouble and that is where punitive damages suits tend to appear. Ironically, D&O insurance policies can exclude coverage for suits brought by shareholders so be very careful in clarifying what protection you have in place.

Suggestions:

1. Keep you directors/owners engaged in the operations of your business and take advantage of their judgment and expertise. If they are all aware of what is happening on a regular basis they can help identify problems your managers may miss.
2. Confirm you have the coverage you need to protect your owners and directors (and the company). It is very reasonably priced and worth every penny.

Summary:

My grandfather always used to say “if you’re going to run trains, you’re going to have train wrecks.” The key is to keep your eyes open and learn from disasters that strike (you or those around you). Through this continual improvement hopefully you’ll be able to miss more than your share of challenges.

I hope this helps but if you need more don’t hesitate to contact me directly:

Direct phone: (406) 457-5165

E-mail: tmcgree@pfgworld.com.

Thanks,

Tom McGree