

THE NO-FAIL BUSINESS MODEL FAILS

Richard Shelby and Bob Corker like to squawk about how the Big Two and a Half have a failed business model as compared to the wonderful Japanese automakers.

Funny. I thought successful business models were profitable.

Toyota Motor will lose money in its core automaking business for the first time in 70 years this fiscal year, the company said Monday, in a sign of how the global economic crisis is hurting even the mightiest carmakers.

I raise this not to gloat over Toyota's misfortune, but to point to some of the issues behind Toyota's setbacks this year. Of course, there's the collapse in the US auto market, which, because it's so large, devastates everyone's global success.

They have also suffered from the recent steep declines in United States auto sales. In November, Toyota saw its sales drop 33.9 percent and Honda Motor 31.6 percent, faring just slightly better than G.M.'s 41 percent decline.

This is a particular problem for Toyota, because the US is usually its most profitable market (by comparison, I'm guessing that China remains GM's most profitable market).

The carmaker's sales in the U.S., traditionally its most profitable market, plunged 34 percent in November.

[snip]

"Japan's economy has never weaned itself off of the overbearing reliance on exports, and especially to the U.S.,"

said Kirby Daley, senior strategist and head of capital introductions at Newedge Group. “Japan did nothing to prepare itself” for the collapse in demand from abroad.

Go here for more details about everyone’s dismal November.

Then, there’s particularly strategic decisions that exposed Toyota to a greater degree than other Japanese manufacturers—notably, its attempt to expand its market share in one of America’s traditionally most profitable segments.

Toyota has been seen as the most vulnerable of Japan’s big automakers because it had been investing heavily in new products, including a full-sized pickup truck for the United States market, just when auto sales started to fall.

But I thought only those failed business model American companies built trucks?!?! Toyota idled its Tundra plant for three months this year, and backed off its attempts to cut into the F150 and Silverado market share.

Finally, though, with the weakness of the Euro and dollar compared to the yen, Toyota’s now on the wrong side of globalized currency exchange, which cuts into Toyota profitability directly.

Compounding the drop in demand is the stronger yen, which erodes overseas profits for Japanese automakers. Every 1 yen gain against the dollar and euro trims Toyota’s annual operating profit by 40 billion yen and 6 billion yen, according to the company. The carmaker is basing its second-half earnings outlook on 93 yen to the dollar and 123 yen to the euro.

The company expects a stronger yen will

cut its operating profit by 200 billion yen for this fiscal year from its November forecast.

The yen is expected to remain strong against the dollar well into 2009.

Again, I don't mean to take pleasure from the fact that Toyota's facing challenges—though by no means as tough as the challenges the Big Two and a Half face. But Toyota's woes demonstrate how ill-informed the debates over the auto relief have been. The foundational assumption of the whole debate in Congress was that the Big Two and a Half were struggling while Toyota and Honda were facing no challenges. Toyota's still in way better shape than GM (mostly because it has relatively little debt, not because of product mix). But even the "no-fail" auto business models are failing this year.