REBOUND **KING**

Toyota Recalls Pose Little Risk to Wholesale, Residual Values

BY MARY WISNIEWSKI

A Toyota Yaris sailing through the auction lane.

Compliments of the millions of Toyota vehicles recalled since January, Central Auto Auction had noticed downward pressure on Toyota's models for many weeks. But that tension has already melted away with the snow.

By mid-May, the values "seem to have rebounded," says Peter Saldamarco, president of the Hamden, Conn.-based auction.

Why the swift recovery? Brand loyalty, quality products, tripled with consumers' bad memories: "All recalls seem to be devastating when they are going on," says Saldamarco. "Whatever happened a couple months ago, it's [history]."

Saldamarco is one of many industry players who believe any downward pressure on Toyota's values has already gone bippity-boppity-boo.

"Toyota came up with a remedy," says Warren Banard, legal services director at the Used Car Dealers Association of Ontario. "To be perfectly frank, there has not been a huge effect since then [on the resale side]. It has been a nonissue since winter time."

And economists forecast that the recalls will have little effect on Toyota's residual values, citing the carmaker's solid reputation as the primary reason.

"I think what we have been saying all along is we are less concerned with the impact of the recall," says Eric Ibara, director of residual value consulting for Kelley Blue Book. "We are aware that recalls occur all the time in the auto industry, and for the most part, vehicles aren't severely impacted — or impacted at all — by the recalls."

Yet, the caveat to this mentality is the media frenzy surrounding the Toyota recalls. "Awareness with Toyota was much higher than normal," Ibara says. "However, it was interesting to see that the value on Toyota recalls — both for the used car and with the new-car values — was impacted temporarily. When Toyota offered incentives on new cars, customers returned in fairly large numbers. The message that we got is customers haven't given up on the Toyota brand."

Black Book's Managing Editor Ricky Beggs shares Ibara's take, seeing no wholesale or retail risk for Toyota products moving forward, despite the negative attention blitz: "An awful lot has been forgotten about it," Beggs says.

Toyota's reputation certainly played a role in the company's emerging fairly unscathed from the ordeal. "Not every brand would have survived as well as Toyota has," Ibara says. "The fact that they came into the situation with such high brand equity played in their favor."

Why? Much like a brother's loyalty to his siblings, shoppers stay faithful to their favorite brands.

"Consumers tend to hold onto longstanding beliefs of a brand," says Jonathan Banks, senior director of editorial and data services at NADA Used Car Guide. "Toyota has really enjoyed perception of high quality. A consumer will hold onto these beliefs and won't punish Toyota for the long term."

Additionally, Toyota has promoted a media campaign to lure back its fan base. "They can afford advertising campaigns and marketing campaigns to get customers back," Ibara says. "It helps people forget."

GETTING LUCKY

The soaring values of used-car prices are also helping Toyota's values hold their own. Indeed, the Manheim Used Vehicle Value Index reached 120.7 in April, the highest level in the index's 15-year history.

"In a way, Toyota is kind of lucky [the recalls] occurred in a time when used-car prices are increasing," says Banks. "Toyota values haven't been plummeting."

With new-car sales lagging for some time, quality used cars are few and far between. Simply put: "It's tough out there to find a good used car," says Black Book's Beggs.

Yet, unattended acceleration certainly has repercussions, although apparently temporary for Toyota. The model to suffer most was the Camry, says Banks, noting that the Rav4 and the Corolla have also been underperforming, while Lexus has been holding steady. Specifically, Camry models lost about 10% of their price competitiveness to models in their league, according to March data from NADA's AuctionNet wholesale auction database.

"The retention of used-car values is one of the big drivers in how consumers perceive a brand," Banks says. "The Toyota brand isn't as bad as its perception."

Plus, the worst is already over, Banks says. To that end, Toyota's Perceived Quality Score, a score created by Automotive Lease Guides Inc., fell 20% from fall 2009 to spring 2010. Yet, "because Toyota had the trust of consumers for so many years, with the correct actions, restoration may come quickly, as evidenced in previous Toyota recalls in 2006," according to ALG's Spring 2010 Automotive Consumer Attitudes Survey.

And ALG Chief Economist Matt Traylen says Toyota has been taking the right actions. "They should continue the path they are on," he says, noting this means carrying on with publicity investments to build back lost loyalty.

Additionally, Traylen recommends that the manufacturer ease off incentives to prevent residual value harm. "The sooner, the better," he says.

Indeed, with rolling out a number of incentives — including 0% financing — Toyota's deals have hit historical highs. The manufacturer "created a stimulus to come back to the Toyota brand," says Banks, explaining this has upped its spring sales, but the long-term implications could poise downward pressure on wholesale values by shifting consumers away from buying used cars to purchasing new models.

"Incentives need to be moderated and go away," Banks cautioned.

RISK RADAR

Additional risk for Toyota lies with those consumers who never had an attachment to Toyotas.

"What has happened is Toyota has opened the door with people on the fence, who never owned a Toyota," Banks says. "A person who doesn't have familiarity with the brand will cross-shop with domestics. That, to me, is the big deal for Toyota."

Why? Consumers will be shopping for deals, rather than for specific brands. "If it's a non-Toyota buyer, the perception is probably lower," says Banks. In other words, a non-buyer's philosophy is: Why should I pay more for a Toyota than a Ford?

Ultimately, the recalls' value consequences lie with the repair job. In a nutshell: "What it all comes down to in the end is whether Toyota has fixed its mechanical problems," says Banks. "If they have, it should pan out OK."

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— Eric Ibara, Director of Residual Value Consulting, Kelley Blue Book