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SPOTLIGHT ON OUTSOURCING

Boeing Scrambles as Toyota Triumphs

COVER IMAGE: The company was founded by Kiichiro Toyoda in 1937 as a spinoff from his father's company Toyota Industries to create automobiles. Three years earlier, in 1934, while still a department of Toyota Industries, it created its first product, the Type A engine, and, in 1936, its first passenger car, the Toyota AA. Toyota Motor Corporation group companies are Toyota (including the Scion brand), Lexus, Daihatsu, and Hino Motors, along with several "nonautomotive" companies. TMC is part of the Toyota Group, one of the largest conglomerates in the world.

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SPOTLIGHT ON OUTSOURCING

Boeing Scrambles as Toyota Triumphs

Richard S. Levick

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Monday's announcement gives cause for wonder: Toyota is now the world's largest-selling automaker, recapturing that title from General Motors. The honorific is particularly impressive when you consider the intense public attention of the last two years on the unintended acceleration (UA) recalls and litigation, perhaps the biggest product issue that a major car company has faced since the Pinto.

In fact, it's only been one month since Toyota inked a $1.1 billion settlement to resolve litigation related to the UAs. Yet many of the news reports of Toyota's current revenue successes only describe the crisis in generalizations as "massive recalls" and without referencing the settlement at all.

The UAs obtruded on Toyota's reputation for quality but it was only a temporary glitch—a fact that offers, not just lessons in crisis management and litigation communications, but testimony as well to just how powerful the Toyota brand was before the round of recalls and Congressional appearances ever began. And, while companies that build reputational equity during peacetime have a leg up during crises, Toyota's success in doing so involved a lot more than aggressive PR.

To best understand that success, consider the timing of the announcement, which came even as Boeing continues to struggle with the highly publicized safety issues related to the 787 Dreamliner. The Toyota and Boeing stories underscore starkly contrasted approaches to outsourcing, supply chain management, and the quality management needed in a marketplace where public fears fester each time a serious product risk is traced to a foreign source.

As we noted in this column last week, the Dreamliner may be the most outsourced—and offshored—aircraft ever designed and, as it happens, Boeing's current woes began with a Japanese supplier (now exonerated). As we pointed out, isolated problems are more tractable than systemic deficiencies that can permanently scuttle the ship and its manufacturer's reputation.

However, as Boeing and the regulators continue to search for the offending malfunction, another specter haunts the public imagination: Can we trust any high-risk, truly high tech product that relies on parts made by who-knows-who doing who-knows-what, who-knows-where. In Boeing's case, the question is even more challenging because the company drew on numerous secondary and tertiary partners, as well as primary suppliers, for the Dreamliner project.

If Toyota now scores conspicuously higher on the trust meter, the company has three natural advantages that Boeing does not. First, plane crashes are far rarer than auto crashes. Also, there are many auto product recalls that do not involve life-threatening defects. All aviation recalls do, or at least that's the perception.

Second, Toyota is largely "outsourcing" to U.S. suppliers, which means that, from the perspective of a U.S. consumer, it's not outsourcing at all. Of course there's no guarantee of quality simply because suppliers happen to be in the U.S., but it does mean engineers are close by, headquarters inspection is not far off, and a common language and common regulatory regimes apply. Not to mention less xenophobic marketplace perceptions; the years since the 2007 toy recall have not abated nightmares of Chinese manufacturers stinting on minimal safety requirements.

Third, Toyota has had major plants in the U.S. since the mid-1980s. Not just the goodwill that accrues during a crisis because you happen to employ 40,000 or so natives (not counting dealerships), the company has, perforce, also learned how to bridge the cultural synapses that plague other companies, including Boeing, in their relationships with foreign suppliers.

For the specifics on Boeing's apparent outsourcing miscalculations, Forbes readers are indebted to Steve Denning whose articles here powerfully disclose the troubled narrative. For Boeing, as for many companies, offshoring has been seen as a handy way to cut costs and accelerate development. But Boeing did not listen to one of its own aerospace engineers, Dr. L. J. Hart-Smith, who warned as early as 2001 that, without onsite quality management and technical support for suppliers, "the performance of the prime manufacturer can never exceed the capabilities of the least proficient of the suppliers."

You're only as good as your weakest link, yet Boeing was virtually forced to delegate this support function to sub-contractors who, in turn, sometimes relied on secondary sub-contractors with whom Boeing did not always have trusted relationships. When onsite quality management was not provided, Boeing had to jump in anyway, dispatching hundreds of engineers to try and solve supplier-level problems delaying production. The extent of the mess is suggested by the fact that Boeing had doubled the outsourcing for the Dreamliner over the 35%-50% with the 737s and 747s.

Take note if you are the CEO of a company (especially in a high-risk high tech industry) that has implemented a significant outsourcing strategy or has considered doing so. Savings calculated strictly on the basis of wage rates obscure the real cost of outsourcing. Boeing's current losses —production delays, planeloads of engineers en route to and from Japan, stock price hits, and the obvious cost of the current grounding—amply underscore that inescapable fact.

Toyota also outsources in the neighborhood of 70% of vehicle production but the company tightly controls design and engineering, using only those suppliers who've proven their ability to deliver on time, maintain quality, control cost, and continue to innovate. There is a level of palpable trust that permeates this network, with rewards for timely delivery instead of just penalties for delay (as at Boeing). Greater efficiency thus gets built into the system in contrast to typical arrangements whereby suppliers are empowered to work at the slowest speeds they can get away with.

As a Japanese company, Toyota has historically been all the more motivated to overcome the problems of language and physical distance. If anything, those challenges only encouraged more face-to-face contractor/subcontractor communications, rather than an over-accentuated reliance on computerized systems as primary communications channels.

As a pointed example of the latter, Boeing depended on suppliers to update work-in-progress on its newly introduced Exostar system, another ostensible efficiency tool. As Denning points out, it backfired in large part because of issues related to trust and culture. They were the kind of issues that Toyota—again, as a manufacturer with significant installations outside Japan—had specifically recognized and begun to address decades ago.

In fact, Toyota's whole reliance on U.S. suppliers is based—not just on saving money—but on the quality advantages that result when suppliers are close to manufacturers. With 500 major suppliers in North America, "we've always had the philosophy that we should build vehicles where they are sold..." says Mike Goss, external affairs manager for Toyota's engineering and manufacturing division in North America. Result: Toyotas are rolling off the assembly line faster than any competitor can match. The supply chain builds for quality even as Toyota still reaps bountiful cost savings at day's end.

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Boeing is a great company that has always put safety first. It has now built an airplane that will change aviation, reducing fuel costs by 20%. But the company is also paying a price for not assessing the true costs and benefits of wholesale outsourcing. Hopefully it's a wake-up call for all businesses.

If so, we've not paid too much for this critical lesson: No crashes, no conflagrations, no crippling airline delays. Just an immense amount of time and money wasted. L

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LABOR UNIONS SEEK TO STOP THE BLEEDING

Dan Rene

Originally Published on Forbes.com

In a disturbing trend for union loyalists, membership in organizations across the United States has reached a 76-year low, as now just 11.3 percent of employees are affiliated with their local unions.

Following a consistent 50-year downward trend, participation has dropped from 11.8 percent last year. That decline of half a percent may not seem too significant, but consider this: The United States created 1.8 million jobs in the private sector alone the last year, but union membership went down by about 400,000 workers.

Further vexing those in the pro-union camp is the fact that the general interest level is up. So what's with the consistent decline?

For unions, the problem is basic. As in, they have forgotten the basic principles which made them a force in the workers' industry in the first place. Membership was at an all-time high in the 1950's, when an average of one out of every three workers joined their local affiliates. The point of being in a union was clear: join together to protect each other from unfair working conditions. Through organized strikes and collective bargaining, workers banded together to shorten work days, increase wages, and gain health benefits.

There is little doubt that labor organizations still perform under these same basic tenants for laborers, the problem is a lack of communication. When performing a quick online search, it is all too easy to see the millions of dollars lost by unions in corruption cases across the country and all the money that has been poured into political campaigns.

For the worker, the question is, "How is the money that is coming out of my paycheck helping me?" When the money is going to a politician, one the individual may not even support, it is easy to see why membership has dropped steadily over the past half-century.

The unions are not only losing out on lifetime members due to retirement, they are failing to replace those workers with fresh faces. The younger generation knows little about unions, and thus has little interest in joining them. Like any company looking for reinforcements, they need to make recruitment initiatives a priority. They need to stress the benefits joining a union has for the individual, rather than the political power they wield.

A quick look at the website unions.org puts the problem in a nutshell: there is a lot of information on the home page, but none of it is particularly useful to a prospective member. There are some links to news about recent union issues, and some tabs on the side like "Add a Union" and "Advertise With Us."

There is not a tab for the benefits of joining a union, which, in spite of its declining membership, are still vast. For example, on average, union members make 28 percent more than non-union members.

The benefits are even greater for those who may need the most protecting: Female and mi-

On average, union members make 28 percent more than non-union members.

AVERAGE UNION MEMBER WAGE BENEFITS

WOMEN WORKERS	AFRICAN-AMERICANS WORKERS	LATINO WORKERS
+34%	+29%	+59%

nority workers. For them, that wage benefit jumps to 29 percent for African-Americans, 34 percent for women and a whopping 59 percent for Latino workers. The advantages do not stop with salaries, as they extend to health care and pensions for the union member compared to the non-union member.

These statistics need to be presented loud and proud on every union website, FaceBook page, and twitter profile. They need to make bumper stickers and hand them out to every member at every meeting, free of charge.

There is nothing wrong with being involved in politics. Those actions should continue to be encouraged. But if the unions do not get back to the roots that made them a force in the first place, they will shrivel up from the inside and lose the political might they have enjoyed for so many years—a trend that has already started.

In the past year, unions have taken two monumental defeats on the chin. A union-led strike of a Hostess bakery crippled the company and led to a declaration bankruptcy. In that instance, the union negotiated its workers right out of their jobs, as Hostess is now in the process of liquidating its assets.

Labor organizations invested millions in Wisconsin, where they pushed for a recall of Republican Governor Scott Walker, only for Walker to win by a bigger margin than the original victory. That loss could point to why unions in Michigan called off a recount of Rick Snyder before it ever got past the petition phase. Michigan has since become the nation's 24th Right To Work state, yet another blow to unions in that labor-intensive region.

For unions, it is time to get back to basics. It is time to communicate their advantages. And they better hurry, because the time is also running out. L

Dan Rene is a Senior Vice President at LEVICK and a contributing author to LEVICK Daily.

THREAT MANAGEMENT with GLENN WARE and SANJAY SUBRAMANIAN

In this LEVICK Daily video interview, Glenn Ware, a Principal and Practice Leader in PwC's Threat Management Group, discusses how companies can best mitigate the risks that come with introducing new products, entering new territories, and initiating new partnerships. Amid numerous threats in areas of corruption, regulation, cyber security, and even local politics, it those executives with a complete and comprehensive view of the "threat spectrum" who are best positioned to remediate issues before they evolve into all-out crises.

In this LEVICK Daily video interview, Sanjay Subramanian, a Principal and Co-Leader in PwC's Threat Management Group, discusses the dangers of "siloed" data in the context of risk management. Today, too many companies find that they don't know who owns the diverse array of data maintained by their organizations. When one entity is responsible for consolidating threat information across all departments and business functions, companies provide themselves a horizontal picture of the myriad risks they face and, thus, the perspective needed to address them at the earliest possible point.

Handicapping the Technology Brand Wars

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James Gregory

Founder and CEO of CoreBrand

It is no secret that competition among the consumer tech industry has never been greater as companies such as Apple, Google, Amazon, and Samsung battle it out (literally) in an ongoing technology turf war (i.e., Apple Inc. v. Samsung Electronics Co., Ltd.—the beginning of a series of ongoing lawsuits between the two companies regarding the design of smartphones and tablet computers). The rise of mobile computing has only built upon the existing tension, and, as of now, we see no signs that this trend will be slowing anytime soon.

Clearly the technology battle lines are drawn. But now the question is this: Who has the brand momentum going into this confrontation? CoreBrand tracks these companies in a continuous research study of business decision makers called the Corporate Branding Index®. This Index provides insights into the strengths and vulnerabilities of corporate brands with two measurements: 1) Familiarity: A weighted percentage of survey respondents who are familiar with the brand being evaluated; and 2) Favorability: A combined score of overall reputation, perception of management, and investment potential.

What is obvious from our research is that these companies are all nearly universally recognized. The Familiarity enjoyed by Microsoft, Google, and Apple are all in the 90s on a 100-point scale. Drilling down, one will notice that only Microsoft has not grown in Familiarity, while all the competitors have grown significantly with both Samsung and Amazon having

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grown the most over the past five years. Growing Familiarity at these heights is very difficult to do and has a diminishing return for the effort. However, holding onto the Familiarity you have achieved is important for managing your brand while keeping your competitors at bay. Clearly Microsoft is more vulnerable than it was just five years ago and has more competitors elbowing them for competitive awareness.

	Familiarity (1-100) 2008	Familiarity (1-100) 2012
Microsoft	92.9	92.1
Apple	87.0	91.1
Google	84.4	90.3
Samsung	77.6	83.6
Amazon	63.6	71.9

Source: CoreBrand's Corporate Branding Index®

While Familiarity is achievable through advertising, public relations and other forms of communications, Favorability requires a higher hurdle to achieve growth. Favorability is more about the alignment of the business process, the culture and behavior, and customer service to

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achieve improvement. Microsoft has improved two-points in five years, but has lost its top ranking to Apple. Google grew nearly ten points and Amazon also grew. Samsung is the only company that remained flat.

2008	Favorability (1-100)
Microsoft	73.1
Samsung	72.3
Apple	69.1
Amazon	61.8
Google	60.2

2012	Favorability (1-100)
Apple	75.6
Microsoft	75.1
Samsung	72.0
Google	70.0
Amazon	65.2

Source: CoreBrand's Corporate Branding Index®

Clearly the top contenders in the technology brand war are Apple and Google. They have what we call "momentum" and that gives them a strategic advantage over the competition.

	Five-Year Growth Familiarity	Five-Year Growth Favorability
Apple	+ 4.1	+ 6.5
Google	+ 5.9	+ 9.8

Source: CoreBrand's Corporate Branding Index®

Who will win in the end? Apple has the strategic high ground with the top spot and a 5.6-point advantage in Favorability and a slight advantage in Familiarity. Google has the advantage of growing faster in both Familiarity and Favorability. 2013 will be a very interesting year!

Methodology – CoreBrand measures Familiarity and Favorability of 1,000 corporate brands across 54 industries in the US. CoreBrand fields continuous quantitative research among a business audience—director level and above at the top 20% of corporations. This research has been continuously conducted with 10,000 telephone surveys completed per year since 1996. In addition to a weighted Familiarity score there are three attributes measured: Overall Reputation; Perception of Management; Investment Potential. These three attributes are rolled into the Favorability score. All measures are reported on a 100-point scale. For more information please contact the author: jgregory@corebrand.com.

James Gregory is the founder and CEO of CoreBrand, a global brand strategy, communications and design firm. He helps clients develop strategies to improve their corporate brands and bottom-line performance. James is credited with developing pioneering and innovative tools for measuring the power of brands and their impact on a corporation's financial performance. He has written four acclaimed books on creating value with brands: Marketing Corporate Image, Leveraging the Corporate Brand, Branding Across Borders, and his most recent work, The Best of Branding. For more information, James can be reached directly at (212) 329-3055 or JGregory@corebrand.com.

SEQUESTRATION with ALAN CHVOTKIN

In this LEVICK daily video interview, we discuss the potential consequences of sequestration and budget uncertainty with Alan Chvotkin, an Executive Vice President and Counsel for the Professional Services Council. With less money to spend and fewer employees to doll out the dollars that remain available, the negative effects of the sequester on government procurement would be vast. The impacts on government contractors—and the economy as a whole—would be just as dramatic.

ATHLETE ENDORSERS

Is There Anyone Brands Can Trust?

Gene Grabowski

Originally Published on LEVICK Daily

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Alex Rodriguez has been linked to steroids, again. While, at this point, the allegations detailed in a recent Miami Times report cannot be categorized as anything more than conjecture, it's beginning to look as if A-Rod's well-publicized confession in 2009 was nothing but another thread in a web of lies.

Back then, Rodriguez confessed to using steroids from 2001 to 2003, a statistically historic stretch of his career highlighted by 156 home runs and one of his three MVP awards. When Rodriguez came clean, the story ultimately became one of redemption, as he helped lead the New York Yankees to yet another World Series championship.

But if these latest allegations are proven true, there will be little to no reason for fans to believe anything he Rodriguez says again. He risks being relegated to Lance Armstrong status—remembered not as one of the game's greatest; but as one of the game's greatest cheaters.

What's more, Rodriguez likely will become yet another example of the increasing risks companies take when hitching their brands to the stars of celebrities and athletes. True, celebrities are a sure-fire bet to attract consumers to products. But today, when celebrities do their own foolish tweeting and camera phones and paparazzi are everywhere, it's very easy for them to fall into ignominy in a matter of days—and take the brands they represent with them.

Nike seems to be the company bitten most often by questionable pitchman selections, as

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they have endorsed the Holy Trinity of athletic scandal: A-Rod, Armstrong, and Tiger Woods. Nike has also trusted Ben Roethlisberger and Michael Vick (twice) to represent the company, only to lose its substantial investment and see its brand tarnished.

That's one of the reasons why so many companies are taking different directions with advertising spokespeople—both real and fictional. Dos Equis beer created a counter-culture icon out of the so-called, "Most Interesting Man in the World." In reality, he is just Jonathan Goldsmith, perhaps "The Most Average Actor in the World." He is also proof that just about anyone can sell a product—given enough forethought and creativity is behind the process.

In an innovative twist to the "every man" approach, Volkswagen's "get happy" campaign featured a mash-up of ordinary citizens who found viral fame via YouTube. From "Sad Football Fan" to "Video Game freakout," these Internet legends team up to promote the newest version of this top-selling car brand in what proved to be one of the most popular new commercials debuted during the Super Bowl.

With every controversy involving high-profile pitchmen, brands are increasingly becoming more careful about celebrity endorsements. Sure, it's a lot flashier to see the guy that can dunk from the foul line on a box of Wheaties. But more and more companies are asking: if the face of your brand can so easily damage your product's integrity, is it really worth it the millions of dollars it takes to secure the endorsement?

Gene Grabowski is an Executive Vice President at LEVICK and a contributing author to LEVICK Daily.

BLOGS *worth following*

THOUGHT LEADERS

Amber Naslund
brasstackthinking.com
Amber Naslund is a coauthor of The Now Revolution. The book discusses the impact of the social web and how businesses need to "adapt to the new era of instantaneous business."

Brian Halligan
hubspot.com/company/management/brian-halligan
HubSpot CEO and Founder.

Chris Brogan
chrisbrogan.com
Chris Brogan is an American author, journalist, marketing consultant, and frequent speaker about social media marketing.

David Meerman Scott
davidmeermanscott.com
David Meerman Scott is an American online marketing strategist, and author of several books on marketing, most notably The New Rules of Marketing and PR with over 250,000 copies in print in more than 25 languages.

Guy Kawasaki
guykawasaki.com
Guy Kawasaki is a Silicon Valley venture capitalist, bestselling author, and Apple Fellow. He was one of the Apple employees originally responsible for marketing the Macintosh in 1984.

Jay Baer
jaybaer.com
Jay Baer is coauthor of, "The Now Revolution: 7 Shifts to Make Your Business Faster, Smarter and More Social."

Rachel Botsman
rachelbotsman.com
Rachel Botsman is a social innovator who writes, consults and speaks on the power of collaboration and sharing through network technologies.

Seth Godin
sethgodin.typepad.com
Seth Godin is an American entrepreneur, author and public speaker. Godin popularized the topic of permission marketing.

INDUSTRY BLOGS

Holmes Report
holmesreport.com
A source of news, knowledge, and career information for public relations professionals.

NACD Blog
blog.nacdonline.org
The National Association of Corporate Directors (NACD) blog provides insight on corporate governanceand leading board practices.

PR Week
prweekus.com
PRWeek is a vital part of the PR and communications industries in the US, providing timely news, reviews, profiles, techniques, and ground-breaking research.

PR Daily News
prdaily.com
PR Daily provides public relations professionals, social media specialists and marketing communicators with a daily news feed.

BUSINESS RELATED

FastCompany
fastcompany.com
Fast Company is the world's leading progressive business media brand, with a unique editorial focus on business, design, and technology.

Forbes
forbes.com
Forbes is a leading source for reliable business news and financial information for the Worlds business leaders.

Mashable
mashable.com
Social Media news blog covering cool new websites and social networks.

LEVICK IN THE NEWS

ARTICLES

City Biz List | FEBRUARY 6, 2013
Mark Irion New President of LEVICK

PR Week | FEBRUARY 6, 2013
LEVICK Hires Irion as President

The Holmes Report | FEBRUARY 6, 2013
Former Dutko CEO Mark Irion Named President At LEVICK

FOX Business | FEBRUARY 6, 2013
Irion Takes LEVICK Prexy Post

O'Dwyer's | FEBRUARY 5, 2013
Irion Takes LEVICK Prexy Post

SocialMediaToday | FEBRUARY 5, 2013
LEVICK adds Irion, Expands to Issue Advocacy

The HIll | FEBRUARY 5, 2013
Winds of Change on K Street as ex-Dutko Lobbyist Joins Advocacy Firm

SocialMediaToday | FEBRUARY 4, 2013
Crowdsourcing Lessons Learned From GeniusRocket CEO

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OF NOW.