Toyota is making the best production car

auto talk

Dan McCosh

There is an old story about a drill company that thought it had just made the smallest drill in the world and sent it off to a competitor along with a note that it was so small it took a microscope to see it.

It came back with a hole drilled in it.

The anecdote came to mind as I fiddled with a cup holder on the new Lexus LS400, Toyota's new luxury car. The LS400 isn't exactly a household word. In fact, it will be a while before you hear one of those guys at the State Fair saying anything like "This little number is the LS400 of steak knives." It is, however, the best car made in the world today.

I say this fully realizing it will start an argument with somebody. In fact, I don't think I ever put the statement in print before — since I learned long ago never to say "first" and never to say "best," unless you want to lose a lot of arguments.

REGARDLESS, I think it was the cup holder that persuaded me. To begin with, the LS400 has a cup holder, and BMWs don't. Until the LS400, the best cupholders were on Chrysler products, and luxury car owners, particularly German luxury car owners, mainly have to settle for a lot of wet spots between their legs — the dreaded commuter coffee crotch.

The Lexus cup holder is concealed in the armrest between the seats. At a touch it kind of snicks out in a fluid motion, with two polished arms unfolding like a satellite catcher in a James Bond movie. Then comes the grabber, as you notice two rubber flaps unfolding neatly into place, which are there to keep the cup from rattling.

The car is just full of this kind of stuff — the kind of neat things you used to depend on Cadillac for to amuse and impress your neighbors. But on top of the amusement value comes the realization that every one of the gimmicks has this quiet, fluid mechanical motion that is the result of the best mix of engineering and fine craftsmanship: an amusement park with rides by Rolex.

THE BIG pieces are obvious — notably one of the smoothest, most efficient and most powerful V-8s ever stuffed in a luxury car. The ride is silky, smoother than any other car I have ever driven — while extraordinarily stable at high speeds and cornering.

"It doesn't have a power ashtray," someone jokes as he touches a memory button and the power seat adjusts in three dimensions to fit the driver, the headrest moves into proper position, the seat belt anchors slide to customize against the driver, the outside rear view mirrors change angle, and then the steering wheel changes angle and telescopes to the proper reach. All with that same uncanny smoothness, all automatically.

With its $40,000-plus price tag, the discussion of this car so far mainly has centered around its effect on the luxury market, and whether the Japanese can "catch up" with the ultra expensive German makes. After spending a couple of days scrutinizing the car, I think most of the analysts and car critics have missed the point.

I SUSPECT that this car never was conceived as a way of catching up or matching another company. It was more likely the result of a self-initiated directive to do the absolute best every facet of the company knew how to do. An easy enough thing to say, but as it turns out, it led to refinements and improvements in areas I assumed had reached their maximum state of development years ago.

The price tag is misleading, since it implies the car is the result of throwing money at a problem. Frankly, I think the car demonstrates that almost any mid-range car could be mass-produced by this company on the same level.

It's a sobering thought, because I suspect that the LS400 represents such a tour de force of mass-produced precision, innovation and elegant industrial design that very few companies today, if any, have the technical resources to duplicate it, at any price.

The new hole in the twist drill is very small indeed.

Mass marketing isn't the answer

By Mary DiPaolo
special writer

Zeroing in on key customer groups is crucial for any company. Business owners who believe that their products and services appeal to everyone are kidding themselves.

This "mass marketing mentality" assumes that anyone can become a regular customer.

No where has the ineffectiveness of mass marketing been more apparent than in prime time television advertising. Ten years ago, 92 percent of prime time viewers watched commercials; today audience share has dropped by nearly 30 percent.

A RECENT Business Week article points out that even Proctor & Gamble, "the king of mass marketers" is experimenting with various micro marketing techniques to better identify, locate and satisfy new customer markets.

"Mass marketing" attempts to attract lots of people at the same time. Differences between customer groups is unimportant; the goal is to get as much "bang for the buck" as quickly as possible.

Micro marketing techniques treat the total market as being made up of small segments with different needs and wants. So it is more effective to develop numerous promotions that appeal to each of these segments and subsequently "pay off" in small increments.

ADVERTISERS WHO spend lots of money on mass advertising are not realizing what their small business counterparts have known for years. Management must be able to identify who its customers are, where they come from, and what they want and expect when buying goods and services.

Once this information is collected, promotional efforts may then be structured to reach specific customer groups through the right variety of both media and non-media sources.

Discovering customer markets does not require fancy research. There are three methods to identify how customers may be segmented: demographic, benefits-related, and lifestyle characteristics. The goal is to identify your key customer groups in ways that are meaningful to the business while understanding each group's similarities and differences as much as possible.

Next week: customer identification techniques.

Divert income to reduce tax bite

Second of five parts

finances and you

Sid Mittra

The second strategy of tax reduction is diversion. Diversion of income refers to the steps a taxpayer can take to channel investment returns into money that will (1) be taxed at lower rates, (2) offer higher deductions, or (3) completely avoid taxation.

Home ownership

The most significant benefit to home ownership as a tax-avoidance strategy, of course, is the ability to postpone almost indefinitely the recognition of gains on the sale of the principal residence.

As long as the proceeds from the sale of the residence are used to buy or build a residence within two years, and the cost of the new residence equals or exceeds the sale proceeds from the old residence, no capital gains are recognized.

Capital can be accumulated in a principal residence without tax consequences. This retains the original basis of the first home plus improvements.

A taxpayer is 55 or older completely avoids tax on profits up to $125,000 when he finally sells and does not reinvest in a primary residence. This delaying feature shelters $125,000 of capital accumulation from taxation.

Matching incomes and losses

Another strategy, matching incomes and losses, can also minimize the tax liability.

The passive-loss limitation does not permanently disallow losses and credits from passive activities but rather determines how and when the losses and credits can be claimed by the taxpayer.

Losses from a passive activity are deductible only against income from that or another passive activity. Unused losses can be carried forward indefinitely and can be used to offset passive income realized by the taxpayer in subsequent years.

While the current law permits the postponement of current losses, a taxpayer is better off deducting the losses during the current year.

For instance, if a taxpayer has significant capital gain in one tax year and has a potential loss on an investment, he can reduce his overall tax liability by selling the losing investment and realizing the loss in the same tax year as the capital gain to offset the gain and reduce tax liability.

Tax shelters

The change in tax law requiring that passive losses may only offset passive income has dramatically changed the use of tax shelters.

Tax shelters have historically been investments designed to create accounting losses that could be used as deductions against taxable income from other sources. Investors did not materially participate in the management of these investments, hence the designation "passive activity."

Most shelters were set up to generate the biggest deductions in the first few years so investors could get their money back quickly in the form of tax write-offs. If the investment went well, it eventually turned profitable.

Some investments never did, partly because relatively few economic benefits were expected from them. With the change in tax law, the write-offs generated by such tax shelters are no longer deductible against any income except income from a passive activity.

To soften the blow to individuals who have invested heavily in tax shelters before Oct. 23, 1986, write-offs are being gradually phased out and will no longer be available after 1990.

The change in tax law shifted the emphasis in tax shelter investment from tax write-offs to making money. As a planning strategy, taxpayers should look to tax shelters to help them appropriately time or offset their passive gains and losses.

While investors who have significant passive income will still seek passive losses, most investors with existing tax shelter investments and passive losses should seek to generate additional passive income.

Seminar: "Planning Strategies for the Young and Successful," "How to Tame the Volatile Market," "Long-Term Health Care," "Annuities — the Only Tax Shelter Left?" and "Retiring — Your Best Financial Choices."

The seminar, sponsored by the Observer & Eccentric Newspapers and Coordinated Financial Planning, will be 7-9 p.m. Tuesday, Sept. 12, in the offices of Coordinated Financial Planning, Sheffield Office Park, 3250 W. Big Beaver, Suite 540, Troy.

For reservations, call 643-8888.

Sid Mittra is a professor of finance, School of Business at Oakland University and owner of Coordinated Financial Planning.