

# The toyota joint venture



**Introduction**

Globalization narrowed down the distance between different countries bringing the commonality of the people to serve on the same platform. Though this trend brings in more opportunities for the company's which are entering are considering to enter a new host country also had to face fierce competition. Companies usually go into other countries due to survey results like to avoid existing rivals in the home country, to exploit the low cost of the resources and the host country, a pound of business strategy to boost up the demand of their product etc. However, the process of internationalization is a complex phenomena in which a small simple mistake can lead to fatal of the company. The sale is taking the decision to go internationalization companies also decide upon choosing a suitable entry mode which can favor the decision of entering a new country. The selection of entry mode is decided day Saddam the type of business environment prevailing in the host country into which the company is entering. Critical care should be taken by the managers who are dealing with the internationalization, to a wired making mistakes of using same type of entry mode for all the countries into which they are entering. This can really be avoided by having an in-depth study of the country into which the company is trying to enter.

As per Johanson and Vahlne (1977) internationalization is the process which takes place gradually keeping the business environment of the host country into which a company is entering. Uppasala model is such process of internationalization in which a company gradually enters into different markets, in several states getting access and control on several aspects of the business environment, Johanson, J., and Mattsson, L-G. 1988

In 1960's to that are simply imported its cars into European countries with a distribution agreement with Denmark (Key Dates Toyota, Europe 2008). Initially Toyota concentrated on the niche market which resulted that he hoped to be the second biggest market in overseas for Toyota (Toyota in Europe 2008). Later with a licensing agreement with , Toyota Caetano Portugal, Toyota assembled all its course at Portugal and produced the joint branded commercial vehicles like Caetano, Dyna and Hiace. (Toyota Caetano Portugal, SA 2008).

Before going to open a manufacturing plant in Europe toyota started a technical centre in Belgium, which took care at the whole research and the dollar plan to a compatible with all European countries. Later with the construction of the toyota manufacturing company in UK in the year 1992, that are actually started its production in Europe. This is how Toyota gradually entered its business into the European countries.

Coming to the latter stages of its expansion globally due to several business conditions it has become strategic partner to several existing local companies to form joint ventures, to share the market expertise, technological capabilities, to comply with the government policies, and also to address several issues in different countries to form the joint ventures.

There are several reasons why Toyota formed joint venture with PSA instead of going alone into new European market. For more than thirty years Toyota is known for its cooperation agreements, it had joined with Renault to develop and produce mechanical components, joined with Fiat for commercial vehicles and MPVs, with Ford for diesel engines. Here it joined

hands for a fast , low-cost response to the fast growing market place. Toyota (2010)

**Barriers to entry:**

Year 2001 is the year when Toyota entered Czech where already several other players are competing so cost advantage is very important for it and so it paired up with PSA. There are three major reasons to choose the Czech republic for the car manufacturing companies to enter. First it had a long tradition of developing industries in Czech. The engineers and technicians from here are taking few months to achieve the technical and quality parameters while others are taking years, Drahomíra Dubská(2007).

Though qualified workers are available, the labour cost here is very low 34% when compared to other European countries average is 67% of the highest labour costs in Europe, while the productivity is 39% , the tax wedge is 43%, where OECD average is 38%, corporate income tax is 31% where OECD average has 34% when compared to the maximum figures of the respective parameters, OECD economic survey(2008).

And the third is Czech decided to provide the incentive for the investors, allotting properties for the foreign investors and alleviating the tax and granting subsidies in connection with the engagement of new labour, Drahomíra Dubská(2007). Govt is supportive to the small cars as they are fuel efficient and also the car made by Toyota is environment friendly.

As the joint venture discusses of producing 300000, units of which 100000 will be marketed by Toyota and the remaining by PSA. Due to this high

volume production the economies of scale is achieved, George Radler and Kazuo Ichiji (2006).

Though there is little concern on the capital requirements joint ventures will be always handy while investments are shared here, 1/3 of investment is from PSA and 2/3 from Toyota, George Radler and Kazuo Ichiji (2006).

### **Supplier Power**

Czech has an advantage position, due to its geographical location with several European countries are surrounded by. The annual average growth rate of Czech recorded +20. 5% with the production of cars have become drafter to the economic development in Czech during 1997-2005, Drahomíra Dubská(2007). Hence the suppliers are concentrated very closely which is useful for Toyota to practice JIT.

82 % of the parts sourced are cost relative to the small car industry and 45% of parts are supplied by the different suppliers , and PSA is know for its supplier relations in the European union, and so selection of supplier, making tie ups with them and purchases are handled by it, George Radler and Kazuo Ichiji (2006).

European suppliers are eager to supply to tpca as this is the entry point where they can get access to Toyota , when the whole European suppliers are struggling as all their European clients cut their volumes. At the same time they can get an excellent refernce in the industry being supplier to Toyota.

**Threat of Substitutes**

There are already several small cars in the market being produced by Mercedes, Smart, Audi's A2, Volkswagen's Lupo are doing considerably well but not all are comfortable. At the same time buyers inclination is towards small cars from low cost countries, so Fiat panda from Poland, Hyundai Getz from South Korea are famous choices, George Radler and Kazuo Ichiji (2006).

To tackle all these companies which are present in the European markets, Toyota planned a jv with psa as it is famous for its designs, diesel engines but it failed in quality ratings at the same Toyota is meant for quality and hence they joined hands. In its case small car means not a low end car but a lean car equipped with the latest generation engines, computer controlled gearbox, advanced technologies for safety, reliability and environment friendliness (Toyota, 2010.)

**Degree of Rivalry**

The total number of cars sold in the year 2005 are 2423990 against 2089253 in the year 2000 which is a 86% growth. And it is expected to grow 20% year on year.

so though there are several companies already present in European market Toyota wanted to enter looking at this potential.

At the same time it want avoid the perception of Japanese invasion on the European car industry and hence joined hands with PSA Kanter and James(2005).

The above are all the reasons why Toyota joined hands with psa while entering Czech.

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Also there are several automobile industries in Czech Republic of those skoda is a very big competitor for Toyota in Czech , to compete with all these economies of scale , knowledge of local markets, the only solution forming JV with PSA.

### **Buyer Power:**

People from the European countries are looking towards the cars coming from the cheap asian countries. And they are showing interest in the fuel efficient small cars only, George Radler and Kazuo Ichiji (2006).

### **Capabilities of Toyota and PSA**

There are several identifiable components from each partners culture to contribute to this joint venture of Toyota with PSA group. This will really enhance the competitive advantage of the resultant TPCA. Each of the companies have their own value chains till the joint venture but after the joint venture they combine their individual value chains to formulate a single effective value chain. The strengths of each company individually brought together to become more stronger.

The resultant value chain formed from the combination of Toyota and PSA is

### **Infrastructure**

Infrastructure is 50: 50 partnership between Toyota and PSA .

### **Human Resources**

Employees are from both the companies and three different countries(Japanese French and Czech)

### **Technology**

Fuel efficient hybrid engines are from Toyota and diesel engines from PSA

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**Technology :**

Toyota diesel engine has 50% penetration in the European markets this technology is an added value in the value chain. The design aesthetics are very fine as they were being designed in France as it is renowned to be the birth place of the automobile designs. Also Toyota is from Japan , where people believe in the Japan technology efficiency, also Toyota itself is very dominant in the technology front with its diesel gas chamber engines , which are the part of the hybrid car models. Toyota produces Prius car which is a hybrid which is technologically advanced , which made Toyota a environment friendly car manufacturer. Toyota had bagged many awards on this issue and this is also one of the main factors customers are attached to the Toyota cars in European union where pollution has become a big concern. This hybrid technology in the small cars made the TPCA technologically ahead when compared to their competitors. Here the whole plant is maintained by Toyota as its process are well formulated, the 3 cylinder gasoline engines and the 4 cylinder diesel engines are manufactured on the same production line. This is one of the effective usage of the technology in the TPCA plants. This is how two different companies coming together and bringing the technologies giving value to the final products.

**Human Resources:**

The dna of Toyota lies in its culture, and people are heart and soul of the Toyota way. Supporting two critical value streams , product and people, Toyota turned around from bankruptcy. Section 3 , of the fourteen point Toyota key principles is dedicated for people. It urges develop the people



who follow your company philosophies and grow leaders among them, and respect the extended network of partners and suppliers.

TPCA had 3000 and more employees working in three shifts. These include 30 expatriates from Toyota and 9 from the PSA in The top management. They conduct extensive training programmes for them and all other employees at various European factories and in Japan. Each training program is formulated with several issues which boosts the interest of TPCA , and they last for several weeks to six months. This enables the employees to become proactive highly productive.

TPCA had healthy human resource management practices in place. TPCA is the place where three different cultures come and join for work viz Japanese, French and czech, utmost care had been taken to deal with all these cultures. Almost all the instruction to the employees are in pictorial format instead of following the conventions of either of the working cultures.

### **Operations:**

Toyota is excellent in lean production system which eliminates the time and resource wastages through out the production sytem. It also practices just in time of production system. And the plant at TPCA is maintained by TPCA as it looks after the whole production system.

Peugeot and Citroen, joint ventured to form PSA . PSA is the leader in joint ventures and it strongly pushed its platform strategy, where two or more model cars manufactured on the same line. Factories were specialized in platforms and both the Peugeot and the citroen model cars are manufactured on the same line. PSA had an annual savings target of around

600 million euros every year using this operational efficiency. And now this was transferred to the TPCA culture also to increase its combined efficiency

After joining hands complimenting each others ways of manufacturing a car, they modified their production system as they both are always open for continuous changes. open coming to this TPCA venture all the three models of cars either AYGO OR YARIS for Toyota , Peugeot 206 model for Peugeot and C2, C3 models for Citroen are now manufactured on single line which enables them to cut down the operational costs drastically. for this they designed the parts to be 95% in common

**Procurement:**

For the TPCA joint venture all the required parts are purchased by the PSA only . Cost focus is the key success factor of the PSA in European countries. PSA is known for its aggressive in sourcing of the spares parts from the suppliers at a very cheap cost . it usually sources all the required parts usually 45% of the parts are required to be purchased , from 150-Tier-I suppliers.

They usually buy 80% of the material required from outside only that too from those suppliers who are already supplying to PSA. PSA is very stringent in quality at the same time it asks for a very competitive price from the suppliers. Cost is the basic factor in sourcing the parts and hence some companies which are 250Km away from Kolin2 also qualify to supply to the company.

Though the bidding price is very low, all the European suppliers are very much interested in supplying to the TPCA as this was seen as the entry point

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to supply to Toyota also. Through this they are building their brand image also. Therefore by supplying to Toyota they also want to grow in Europe.

**Inbound logistics:**

Here stamp shop is the key place where 51 types of parts are stamped using 121 tools at speed of 14 strokes / min. that is the fastness of the inbound logistics carried out here this saves so much time and increases the productivity of the whole company. As the whole plant is run in the Toyota way, the supply chain is managed by PSA as the whole inbound logistics is taken care by it as this is the global sourcer for TPCA.

**Production:**

The plant in kolin was built as a joint venture between Toyota and PSA(holding company for Peugeot and Citroen brands). This is a 1.3 Billion Euro venture which is aimed at producing 300000 units a year. Here in the production line the 3 cylinder gasoline engines and the 4 cylinder diesel engines both are manufactured on the same line. This increases the efficiency of utilisation of line instead of keeping it ideal.

**Out bound logistics:**

The 3 cylinder gasoline engines are rolled as the Aygo and Yaris models for Toyota which is a small car, these are bought by the Toyota , 100000 in number per year that is agreement made in the joint venture. The 4 cylinder diesel engines are fitted in to the peugeot206 and Citroen C2 and C3 model cars. These are for both Peugeot and Citroen in 200000/per year.

**Marketing:**

Though the PSA as a whole had second largest market in European countries immediately after volks wagon, they positioned their product as brands instead of leveraging on the company name PSA . PSA had laurels in its crown for fantastic designs, diesel engines, intelligent advertising and excellent cost positioning manufacturing but got poor ratings in quality and customers overall satisfaction.

Where as Toyota had topped the charts for its customer satisfactions along with its quality in technology. The combination of all these features in TPCA boosted the sales of the new cars being produced by them.

Now when these two joined hands to produce small cars, they bringing in the aesthetics of PSA and the quality commitment of Toyota to produce the cars with hybrid technology embedded with fuel efficient engines, and environment friendly cars.

**Sustained Competitive Advantage of TPCA**

Competitive advantage is the advantage gained by a company over customers , through its offered added value to the customers and getting advantage through this added value. This copetitive advantage by the companies can be attained through cost leadership, differentiation, and Focus, Michael Porter(1985).

Michael Porter(1985) analysed the baiss of competitive advantage based on the value chain formulated by him, ths also can be used to enhance it.

Several companies in the competitive environment can be able to attain the

competitive advantage but are unable to sustain it. Continuous improvement can make it sustainable.

While forming joint venture the between the resources and capabilities of both the Toyota and the PSA are streamlined to become a cost effective producer of a lean car packed with all the state of the art facilities. This will build a cost advantage in the market as the benefits are passed to the customers while reaping benefits from the increased sales of the cars. If there is a continuous improvement in the joint venture, then they can easily sustain the competitive advantage attained by them.

Toyota is kown for its quality through out the world this is evident from its global sales share of 11% and market capitalization of 35% keeping this ahead of all top automobile companies.

Toyota is the company which invented the lean manufacturing process, which believes that operational excellence can be used as a strategic weapon. Though the lean system is imitable there are very few companies who could apply this system in their production system, similar lean manufacturing system is implemented in TPCA where in wastages either time or resources are eliminated in the production system, through implementation of Just in time approach and Jidoka etc.. Toyota can effectively implement them through out the globe this lean system because it does this the Toyota way of doing it, think locally and act globally, Jeffrey K. Liker(2004).

PSA is leader in producing the vehicle through platform strategy, and all of its factories are specialized in platform setup and they used to manufacture  
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both the Citroen model cars and the Peugeot model cars on the same line, through which they use to save 600 million euros each year. George Radler and Kazuo Ichiji (2006).

Here is one cost advantage gained by TPCA where inimitable lean system which capitalizes on efficiently using the resources and the production lines brought in by PSA where the three models of the cars for Toyota , Peugeot and Citroen are produced on single line in TPCA. This itself is very much cost effective which sustains its cost competitiveness in production.

For the whole production system in an automobile industry the purchasing of components, and other resources will constitute to 80% of the total production purchases which constitute 45% of the total car production. As there is only one single line used to manufacturing three models of cars , TPCA designed all the cars models with 90% of the parts to be in common. PSA carried out the whole sourcing process from the top suppliers who are subsidiaries of world number one brands. PSA is well known for its cheap sourcing. At the same time all the European suppliers are looking towards TPCA which can be able to produce huge volumes while the production in the European union has come down. They are also supplying to TPCA at a low cost as they can quote their relation with Toyota , quality leader, in their other business negotiations. This is another point of attaining cost advantage which can be sustainable with monitoring the whole market for the cheap and best supplier and at the same time reviving the contract terms from time to time with the suppliers with respect to the demand forecasts of the production and the market, Jeffrey K. Liker, Michael Hoseus, 2007.

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