

# Toyota: sustainable strategies and global success



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The global auto industry is a key sector of the economy for every major country in the world. A huge invests in research, development and production result in gaining high industry performance (OICA, 2010). The high competition of key players in automotive include; BMW, FIAT, Ford, General Motor, Honda, Mitsubishi, Nissan, Peugeot Citroen, Toyota, Renault, Volkswagen, Hyundai and Daimler .....(Datamonitor, 2010).

Toyota Motor Corporation has become one of the most successful companies in the world today. In 2010, Toyota was ranked number 5 of the world's largest corporations (Fortune, 2010) and number 11 of the best global brands (Interbrand, 2010). It is also considered as the most profitable organisation of automobile (Datamonitor, 2010). For almost 15 years J. D Power and other research firms have consistently rated Toyota and its luxury line, Lexus, among the top automotive brand. Over 50 years automotive operation worldwide and its launched the world first commercial hybrid car, Prius, enhance Toyota more strengthen and gaining high competitive advantage over the rivals in term of its reputation and reliability, initial quality, and long-term durability (J. D Power, 2010; Stewart and Raman, 2007).

Thus, study of Toyota international business operation could be provided distinctive knowledge for researcher in term of strategic implementation from some well-known literatures and an investigation of some facts and information could enhance more analytical skills.

Therefore, this report will start with the analysis of automobile industry including; market overview, market size and it competition situation. Follow

by the reviews of Toyota Motor Corporation. Then, its strategic management will be examined. After that, Toyota performance assessment will be scrutinized. Strategic analysis will be provided in order to obtain deep analysis of the corporation. Finally, the conclusion part will be summarised all information according to the researcher's study.

## **1. Automobile Industry**

### **1.1 Market Overview**

Due to the progressive globalization, the climate change and the idea of air quality improvement, automobile manufacturers have put more efforts to create sustainable development which is to minimise fuel consumption and exhaust emission (UNEP, 2002). They have also made use of advanced technological solutions to reduce waste and emission in the factories as well as to improve the vehicle safety and recycling ideas (Oliver Wyman, 2010; UNEP, 2002). Moreover, it is very crucial for the industry to continue the concept of great product design and innovative development such as the initiative in hybrid technology (Sturgeon, 2009, Oliver Wyman, 2010).

In addition, Sturgeon et. al. (2009) explained four characteristics of the automobile industry which are:

A small number of huge firms have more power than small companies.

Eleven huge and dominant companies from three countries including Japan, Germany, and the USA.

The automobile industry has developed strong regional structure along with globalisation integration.

The final product assembly of vehicle has been moved to the home market due to political sensitivity issues.

There are only few generic parts and component systems that can be fit to all products. Therefore, it has to be customised before production.

The automobile market's condition has also been driven by globalization which can be divided into four categories – Market globalisation drivers, Cost globalisation drivers, Government globalisation drivers, and Competitive globalisation drivers (YIP, 1992). The firms should understand and recognize these drivers in order to evaluate and gain their competitive advantages. Analysis of the globalisation drivers for the automotive industry is demonstrated in Figure 1.

Figure 1: Yip's globalization drivers of automobile industry

Source: Author's own

## 1. 2 Market Size

The global market of new cars has been recovered from a decline in value in 2008. In 2009, the market rose by 2. 7% and reached a value of \$1, 019. 2 billion while its combined annual market growth rate was just 2. 1% during 2005 – 2009. According to the pie chart shown on Figure 2, Toyota Motor Corporation took a 15. 3% share of the market's volume being a leader in the market, compared to Volkswagen (14. 2% ) and Ford (8. 1%) (Datamonitor, 2010).

Figure 2: Market size and share of automobile

Source: Adapted from Datamonitor (2010)

### 1. 3 Porter's Five Forces

Porter's five forces (Porter, 1980) is the crucial tool to be used to analyse the important forces that determined the competitive power of automobile industry as illustrated in figure 3

understand both the strength of your current competitive position, and the strength of a position you're considering moving into.

Figure 3: Porter's five forces

Source: Author's own

### **Threat of New Entrants**

It can be said that there is low threat of new entrants in the automobile industry since it has reached the mature stage of the product life cycle. If a new company wants to enter the market, it needs to achieve economic of scale – cost reduction and mass production. Consequently, the new comer is required to have a huge amount of capital in order to own its automotive manufacture and innovative technology. Moreover, it is quite difficult for a new player to have its distribution channel and dealers due to the strong channel of the key companies and their reputation.

### **Bargaining Power of Suppliers**

In order to produce a vehicle, it consists of many components perform final product assembly. A lot of suppliers are then involved in production process. They are very similar due to the fact that raw materials are not different. As

a result, it will be very easy to change suppliers since they have low bargaining power.

### **Bargaining Power of Buyers**

Consumers are the main players in this industry since the automotive business depends on them. It is not difficult for them to switch the brands if they are not satisfied. However, in order to purchase a new car, they have to deal with a dealer only. Therefore, it can be said that there is moderately high bargaining power of the buyers in the automotive industry.

### **Threat of Substitute Products**

Public transport, walking, cycling etc. can be substitute products for automobiles. Also, the geographic location has considerable effect on consumers' purchasing decision. People in Venice, for example, travel by boat only. However, it will be more convenient to use automobile in order to go to most places. Consequently, threat of substitute products is moderately low.

### **Intensity of Rivalry among Competitors**

There is very high intensity of rivalry among competitors due to a lack of product differentiation. It is found that the key players in the industry are fairly balanced; therefore, one can easily gain the others' market share. As a consequence, in order to advertise a product, the company has to consider and compare all aspects including quality, price, durability, and others to its competitors.

#### **1. 4 Strategic Groups Analysis**

Porter (1980) defined a strategic group as a group of companies in an industry which implement similar strategy. According to figure 4, it can be seen that the mass market follows cost leadership strategy while differentiation strategy is implemented by the luxury group (Peng, 2009). The ultra-luxury group generally utilises focus strategy (Peng, 2009). For Toyota Motor Corporation, Toyota and Scion brands are developed by cost leadership strategy to compete in the mass market whereas it distributes Lexus brand for Luxury market (Toyota, 2010).

Figure 4: Strategic group analysis

Source: Adapted from Peng (2008) and Henry (2008)

Furthermore, Oliver Wyman (2010) suggested that the automobile industry can be split up onto two different types of companies including mega groups and independent champions. Mega groups have their own manufacturers, technologies, platforms, and engines whereas independent champions depend on channel resources and their networks. Consequently, Toyota has been considered as mega groups due to the reasons above. This can be illustrated by successful OEM (Original Equipment Manufacturer) paradigm as shown in figure 5.

Figure 5: Successful OEM diagram

Source: Adapted from Oliver Wyman (2010)

## **2. TOYOTA Motor Corporation**

### **2.1 Company Background**

Toyota Motor Corporation, a Japanese automaker, was established in 1937 by Kiichiro Toyoda (Toyota, 2010). Owing to its solid finance and an increase in demand of vehicles, it had become one of the strongest carmaker around mid-2008 (IHS, 2010). This is also because of its potential business strategy focusing on product innovation and its production efficiency (Takeuchi, Osono, and Shimizu, 2008). Finally, in 2010, Toyota was ranked number 5 of the world's largest corporations (Fortune, 2010) and number 11 of the best global brands (Interbrand, 2010)

## 2. 2 TOYOTA Global Vision 2020

Toyota's vision is to investigate and balance the relationship between the cycles of nature and the cycles of industry. Thus, its slogan is "Open the Frontiers of Tomorrow" which expresses the desire of Toyota and the efforts of its employees toward the realization of society's dreams in order to build a way to a new world. The Toyota group believes that it can be accomplished though "the energy of people and technology" (Figure 6) (Toyota, 2010).

Figure 6: Toyota global vision 2020

Source: Adapted from Toyota (2010)

## 2. 3 TOYOTA Biodiversity Guideline

Biodiversity framework (Figure 7), one of the sustainability principles of Toyota, was developed in order to emphasise on three areas; contributions through technology, collaboration and cooperation with society, and information disclosure (Toyota, 2010).



## Figure 7: Toyota biodiversity guideline

Source: Adapted from Toyota (2010)

### 2. 4 TOYOTA Corporate Social Responsibility

Toyota CSR policy consists of three main areas including social, environmental, and economic aspects (Figure 8). Based on its guideline principle, Toyota implements all business activities in order to create harmonious and sustainable society in each country (Toyota, 2010).

## Figure 8: Toyota CSR policy

Source: Adapted from Toyota (2010)

## **3. Toyota Strategic Management**

### 3. 1 The Toyota Way

In 1935, Sakichi Toyoda, the founder of the company, originally purposed five key principles to develop company and its employees' beliefs (Toyota, 2010). After that, in order to provide rigorous training to the new generation of its employees, the company realised that these five important principles should be documented and divided into two pillars (Figure 9) which are Continuous improvement and Respect for people (Toyota, 2010, Stewart and Raman, 2007). For the first pillar, Continuous improvement can be called "Kaizen" which is Toyota's basic business management (Liker, 2004). It also focuses on individual learning and improvement by evaluating one's self and being creative in order to achieve goals. Also, Toyota presents its second pillar by providing employment security and developing employees'

participation and responsibility in order to build understanding, trust, and loyalty among the team members (Liker, 2004).

Figure 9: The Toyota way

Source: Adapted from Toyota (2010)

### 3. 2 “ New JIT” — a Management Technology Strategy Model of Toyota

A unique business strategy of Toyota called “ New JIT” (Figure 10) has brought about its successful management and operation in the global market. “ New JIT” is a management technology strategy model including three key areas; Toyota Marketing System (TMS), Toyota Production System (TPS), and Toyota Development System (TDS) (Amasaka, 2002, 2007).

Figure 10: A management strategy model

Source: Amasaka (2002)

### 3. 3 Toyota Production System (TPS)

Toyota production System (TPS) is the distinctive production system which enhances Toyota gaining higher competitive advantage over its competitors (Toyota, 2010; Amasaka, 2002; Takeuchi, Osono, and Shimizu, 2008). Taiichi Ohno invented TSP strategy in late 50's. Today this strategy became one of the most production efficiency in the world and many leading company use this platform extensively as an ideal prototype (Toyota, 2010; Takeuchi, Osono, and Shimizu, 2008). TPS designed “ House” platform which means that everyone can understand how it works (Figure 11).

Toyota's global strategy on production is simple: Toyota Production Systems (TPS). TPS was designed by Taiichi Ohno who was in charge of production for Toyota after WWII. Ohno implemented this strategy in the 1950's and '60's and today Toyota is one of the world's most efficient factories because of TPS. The goal of TPS is to provide the " best quality, lowest cost, and shortest lead time through the elimination of waste" (Toyota, 2010, Amasaka, 2002). Below is the actual Toyota Production System layout in its form of a " house."(Figure 11).

Figure 11: Toyota production system

Source: Toyota (2010)

### 3. 4 Key Management Drivers

Takeuchi, Osono, and Shimizu (2008) pointed out the key of Toyota's success called " Toyota six forces". It is influencing contradictions inside Toyota organisation can be divided into three forces of expansion and three forces of integration. Three forces of expansion causes changes and improvements in the company which are include setting " impossible goals" or near-unattainable goals from the view point of senior executives, " local customization" by producing products to suit local market needs and customise business operations under the same platform in each country and region, and " experimentation" that Toyota's eagerness to experiment helps it clear the hurdles that stand in the way of achieving near impossible goals.

Another three forces of integration controls the balance between expansion and transformation. It can be seen this integration from " values from the

Toyota founders" vision commitment and performance, " up-and-in people management", and " open communication" to all level of employee closely.

## **4. Assessing Toyota Performance**

### **4. 1 Brand and Product Performance**

In the market of passenger cars, Toyota owns and operates 3 major brands; Toyota, Lexus and Scion (Toyota, 2010). Toyota offers more than 116 models distributing through different segments and provides customised models to attract local customers of each region in order to increase its sales volume (IHS, 2010). It can be seen Toyota's model strategy as shown in Figure 12.

Figure 12: Model strategy

Source: Adapred from Toyota (2010)

### **4. 2 Global Operation and Expansion**

According to figure 13, on March 31st, 2010, Toyota had got 300, 000 employees and 66 plants in 27 countries and regions with approximately 170 distributors and 8, 000 dealers worldwide (Toyota, 2010). The efficient Toyota Production System (TPS) and high R&D lead Toyota to a stronger position than its rivals in the automobile market (Takeuchi, Osono, and Shimizu, 2008). According to Toyota (2010) the number of vehicle had produced in FY2010 were 6, 809, 000 units. It was decreased slightly when compared to last four years. The major products which distribute worldwide came from Japan plants (58. 1%) follow by Asia (15. 6%) and North America (15. 3%) (Figure 14) (Toyota, 2010). Regarding to distribution strategy, there are two main logistical concepts which are regional bases approach and

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dock-based approach are implemented by Toyota (Toyota, 2010). Despite the fact that Toyota's head office is located in Japan, its subsidiaries were founded over the world in order to create multiple regional headquarters including North America, Asia, Europe, and others ; (IHS, 2010). This means that the company can utilise localisation strategy to satisfy different customers' needs in each country. On the other hand, dock-based operation is used to manage the inspections and quality control before distributing to the regional dealers again (Toyota, 2010).

Figure 13: Toyota operation

Source: Toyota (2010)

Figure 14: Toyota production

Source: Toyota (2010)

#### 4. 3 Financial Performance

During FY 2010, Toyota posted better-than-expected results despite the global massive recall saga, which affected almost 10 million vehicles worldwide. For the 12 months ending 31 March 2010, the automaker returned to profitability on the back of swift cost-cutting measures and strong sales recovery in major markets, including Asia, rebounding from its first-ever annual loss posted during the previous fiscal year. The automaker posted a net profit of ¥209. 4 billion (US\$2. 25 billion) during FY 2010, compared with a net loss of ¥437. 0 billion during the previous fiscal year. Operating profit stood at ¥147. 5 billion, versus an operating loss of ¥461. 0 billion during the previous fiscal year, while pre-tax profit at the company

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stood at ¥291. 4 billion, compared with a pre-tax loss of ¥560. 4 billion, respectively. The significant improvement in operating earnings was largely thanks to ¥520 billion in savings through cost-cutting efforts, and ¥470. 0 billion in savings through a reduction in fixed costs. Revenues at the company declined by 7. 7% y/y, however, from ¥20. 5 trillion to almost ¥19. 0 trillion, as a result of the drop in vehicle demand in major markets, including North America and Europe, and unfavourable currency translation effects.

Figure 15: Financial performance

Source: Toyota (2010)

## **5 Toyota Strategic Analysis**

### **5. 1 Competitive Strategy**

According to Porter's generic strategy (Porter, 1980), it can be said that Toyota is placed in the group of " stuck in the middle". However, Thompson and Strickland (2008) mentioned this strategy could be named as " Best-cost provider" since Toyota offers customers more value for money — low cost products with comparable quality and features. This is because of Toyota's revolutionary lean production system based on product differentiation strategy with understanding of customers, rather than a relentless pursuit of cost reduction in the cost leader category (Thompson and Strickland, 2008). As shown on Figure 16.

Figure 16: Toyota's competitive strategy

Source: Author's own

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## 5. 2 Core Competency

One main characteristic that Toyota always emphasises is “ Quality”.

Consumers make their decision to buy this brand because of its reliability and its durability. Moreover, in order to stress its quality, it has been said that the vehicles are “ Made by Toyota”. This means that the quality of its vehicles is exactly the same even though they are produced from different part of the world (Toyota, 2010).

However, there is another remarkable feature that Toyota has made efforts to create and present in order to change consumers’ perception. It is “ Innovation”. In 2000, Toyota launched Pirus Hybrid to introduce its sustainable technology (Toyota, 2010). This product gained customers’ attention and were sold out about a million in the mid of the year. As a result, “ Full hybrid” has become its core competent technology in 2010 (Toyota, 2010).

Last but not least, it is its unique production system called “ Toyota Production System (TPS). This system includes Just-In-Time (JIT), one-piece flow, Kaizen (continue to improve), Jidoka (automotive stop), and Heijunka (leveled production) leading Toyota to provide the best quality, the lowest cost, the shortest lead time, and the best safety (Amasaka, 2002).

Consequently, Toyota can achieve highly competitive advantages over its competitors.

## 5. 3 SWOT Analysis

## **Strengths**

The strong reputation and brand image is a significant competitive advantage to boost company's sales in both domestic and international market. Consumers recognize Toyota brand and its popularity so they are more willing to pay for its premium products.

Research and Development (R&D) has been emphasised to ensure and enhance its quality and its safety. Also, Toyota always pays more attention on environmental compatibility when developing new products.

With its strong and powerful distribution channel and dealer network, Toyota can distribute and sell its products through 170 distributors and 8, 000 dealers across the world.

Toyota Production System (TPS) has been successfully developed leading Toyota to gain efficient production with the best quality, the lowest cost, and the shortest lead-time.

## **Weaknesses**

Due to two safety recalls announced by Toyota, consumers have less confidence in its products and its brand image. This also has a significant impact on company's share price causing a drop of stock exchanges in Japan and overseas.

Employees' pension fund has been decreasing owing to the financial instability. Toyota has been forced by regulation about unfunded pension; therefore the company cannot control its liquidity position.



## **Opportunities**

Regulation about energy saving and emission provides a great opportunity to Toyota since it has been developed Prius, a hybrid vehicles over the years. Hybrid technology is one of the most valuable competitive advantages of Toyota enhancing it to gain higher market position.

In the next ten years, China, India, and South East Asian countries are forecast to be a key driving automotive market. Therefore, Toyota should take this opportunity to obviously present its brand in the Asian markets which could help increase its market share effectively.

Due to many new cars launched by Toyota during 2009-2010, the company will be able to gain higher customer interest contributing greatly to company's sales growth.

The global automobile industry has been recovered from the economic recession and is expected to gradually accelerate in next year. Toyota's products and service can be expanded since they can be sold and distributed through its distribution network over the world.

## **Threats**

Since there is high competition in the automobile industry, sale of Toyota's vehicles may be low and affect the company's finance and operation.

Due to the different emission standard in different country, Toyota who sells and distributes products and service to more than 100 countries has additional cost in order to test, develop, and manufacture each product for each country.

Toyota's financial status is quite sensitive to foreign currency exchange fluctuation, especially the Euro, and the US dollar affecting material cost and price of products sold in foreign currencies.

## **Conclusion**

The key success of Toyota based on the integration of its competitive advantage and its business philosophy of understanding people as well as balancing cycles of nature and industry.

The constant R&D and excellent product innovation have a massive effect on Toyota's performance — its market growth and its market share. The operational excellence is implemented as a strategic weapon in order to improve its products and quality through its production strategy. The Toyota Production System (TPS) is efficiently developed and effectively integrated with Toyota Marketing System (TMS) and Toyota Development System (TDS). Local customisations and multi-segmentations build Toyota more powerful than its rivals and gain positive perception from local consumers.