

# Strategic alternatives and recommendation strategy



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A cost leadership strategy is an integrated set of action designed to produce and deliver products at the lowest cost relative to competitors with features that are acceptable to the target markets. (Thomas & David 2004, p. 118)

The company is usually selling the price in relatively lower than its competitors and the products are usually standardized to fit the broad mass market. Costs driven down through investment in the efficient -scale facilities and tight overhead and cost control in areas such as service, sales force, etc.

#### Pros

âžł Attract price sensitive customers

âžł Continuous efficiency improvements serve as a barrier of entry to potential entrants

âžł They may also enjoy the advantages of the bargaining power of supplier as the costs of the margins are higher than its competitors.

#### Cons

âžł Competitors imitate cost leader's strategy requiring cost leader to increase value by reducing price and/or adding valued features at same price. It would not be sustainable in Short-term.

#### Differentiation

A differentiation strategy is an integrated set of actions designed to produce and deliver products that customers perceive as being different or unique in ways that are important to them. Moreover, it is characterized by offering

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products at premium prices with unusual or customized features, responsive customer service, and rapid product and after sales services. (Thomas & David 2004, p. 118)

#### Pros

• For the rivalry with existing customers, the brand loyalty and lower price sensitivity helps to insulate from the competitive rivalry.

• The bargaining power of buyers would also be an advantage, as the lack of perceived acceptable alternatives with comparable combinations of features and cost increases the firm's power over customers.

• The uniqueness of the differentiated product creates substantial entry barriers such as the environmental friendly car.

#### Cons

• Imitation by competitors which can not be sustainable. (Ford, General motors)

#### Cooperative strategies

There are two types of cooperative strategies including Collusion and Strategic alliances. Collusion is the active cooperation of firms within an industry to reduce output and raise prices in order to get ground the normal economic law of supply and demand. (Thomas & David 2004, p. 126)

They may also consider using more strategic alliances; it is to develop the business partner to achieve the significant objectives that are mutually

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beneficial. Strategic alliances could help Toyota to obtain technology and manufacturing capabilities. It could also gather the stronger technology to improve its production.

## Corporate Strategic Alternatives

### Directional Strategy

#### Concentration Growth - Internal

##### Vertical integration

This is a strategy which a company operates vertically in multiple locations on an industry's value chain from extracting the raw materials to manufacturing to retailing.

##### Pros

• Using full vertical integration in China's market in order to reduce the dependency on external stakeholders for buying and selling.

##### Cons

• Increase the risk of Toyota by increasing the fix cost.

##### Geographical Horizontal Growth

This is a strategy which expanding the company's products in other geographical locations.

##### Pros

âžł For Toyota, it is an opportunity to enter the immature China Market for increasing its product sales in the short term.

âžł According to its philosophy, ' Where product sell, where production place', Toyota should plant a new base in China for long term production.

#### Cons

âžł Investing a wrong city in China will seriously waste huge resources as well as the time spends.

#### Production Horizontal Growth

This is a strategy which means increasing the company's product or services offered to the existing markets.

#### Pros

âžł For Toyota, it is also an opportunity to increase its competition advantages in order to increase the market share in short term.

#### Cons

âžł Higher the risk of providing or producing unprofitable products/services.

#### Diversification

#### Concentric Growth

By this strategy, the company's growth will be expanded its related industry when it has a strong distinction competence position as the attraction of its industry is low.

#### Pros

âžł Toyota has many strong distinction competences like its knowledge, HR management, marketing skills, R & D, and operation and logistics. As a result, at this part will increase the market share.

#### Cons

âžł At this part, might cost Toyota a lot of money and time-consuming.

### External Growth Strategies

#### Acquisitions

To adopt this strategy, it will buy a company which benefits its interest and strengthen its market positioning and/or increase diversification.

#### Pros

âžł Toyota can reduce its cost of new development as well as time-consuming of R & D.

#### Cons

âžł Inability to achieve synergy in short term which leads toward more time-consuming.

## Stability Strategy – Pause

Pause strategy is suggested in order to let the company have a time break for stopping current growth activities or retrenchment strategy.

### Pros

âžł Provides Toyota have a break, a time for consolidation of its resources after the rapid growth.

### Cons

âžł Increase the competitors' time for taking an advantage in China Market.

## Functional Strategic Alternatives

### Marketing Strategies

#### Market Development

Economic recovery of Japan and other countries especially China (after entry WTO) raises the demand for automobiles. Toyota should hold the chance and capture the large share especially greener cars. It needs to keep the high quality and low cost of its products to maintain its competitive advantages.

#### Product Development

The focus would be investing aggressively in future technologies in order to develop automobiles that are greener, safer and more fun to drive.

### Push Strategy

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It fortifies its sales network in regions worldwide and strengthens sales capabilities through brand realignment. Besides, it should raise awareness by giving more promotion.

#### Pros

âžł Increase awareness and goodwill.

âžł Increase total sales and profit.

âžł Build a good relationship between suppliers and retailers.

#### Cons

âžł Set up a high-quality sales network need a lot of resource and time that increase the cost and the workload of staff.

âžł Too many promotion audience may feel clutter.

#### Pull Strategy

Spending more on consumer advertising and give them more premium to attract them to pay attention Toyota products.

#### Pros

âžł Build up a good relationship between buyers and customers.

âžł Increase total sales and profit.

âžł Enhance brand awareness.



## Cons

âžł Too many premiums might depreciate Toyota brand image. So, premium may use for the old model.

âžł Production cost will increase when too many advertising and premium.

## Price skimming

When a new product comes out, Toyota should set it in high price and lower when the product out or may be sell the whole model to others (Some developing countries still using some old model) when the product is out.

## Pros

âžł Profit will be increase

## Cons

âžł It may decrease the image of Toyota when its products always in high price or old model still sell in market

## R & D Strategies

### Technological leader

Toyota is a large in automobile industry and the huge manufacturers in the world. It does more research and always enhance its technology including safety, electronics, performance, and fuel economy.

## Pros

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âžł Increase the market shares because its products always keep innovation and new.

âžł Build the goodwill and awareness.

Cons

âžł Keep the products innovation must pay more resource on R&D that lead the product cost increase.

âžł High risk when new products launch if the product are not ideal.

Logistics Strategies

Toyota uses “ Just in time” method to handle its products. But some suggestion can use on it.

The use of internet

Internet commonly applies nowadays. More promotion on using internet for customers to choose the preference model and the logistic process should use more through internet

Pros

âžł Increase productivities because save time and procedure.

âžł Reduce production cost by employ less people

Cons

âžł Elderly customers might not know how to use computer and internet.

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## HRM strategies

### More training

Provide more training for staff and with high salary to employ high quality employees.

#### Pro

âžł Increase productivity and keep on the sustainable skills.

#### Cons

âžł Increase cost of production by providing more trainings

## B. Recommendation Strategy – Business

### Differentiation focused

To a large extent, Toyota is using the differentiation strategy. They are mostly focus on the customization rather than standardization. They have different products line for the broad mass market. They are customized its products towards different market. For example, Toyota Camry is one of the customization for it market. Toyota's Camry was the most ideal for vehicle customization from Aftermarket Business in 2005 by Chris Miller

Also, Toyota is developing the unique features – the environmental friendly car. This product is an environmental friendly concept and this is the high technological product to minimize the air pollution to the environment. Also, this product could decrease the use of oil and gas in replace of the

electronics. It is expected that the environmental friendly car is Toyota unique feature and would be popular in the future. It also reflected that Toyota is focus on the differentiation rather than cost leadership. Toyota is also used focused differentiation strategy, the Lexus car providing free city parking and focus on time poor and high income clients.

In the Toyota case, the prices of its products are increasing and the cost of production is also raised. Besides, Toyota has lots of product lines for different target segment. They cannot standardize all their cars to fit broad mass market. For example, Lexus line is for upper class segment and the prices are higher. The Crown and Corolla Lines are for middle class and young driver segments and the prices are relatively different.

In comparing with its competitors, Toyota is not selling cheaper. They are focus on long-term rather than short-term result; they are providing commitment to quality. (The Toyota Way 2004, P. 71)

Avoid to follow the leading competitor's strategies may be a good idea sometimes. Different companies would have different culture and background. Mercedes Benz has its own brand equity and special features. The cost of Mercedes Benz is different from Lexus Car and the price and functions could not be followed.

Toyota further develops the environmental friendly car to take advantages of the unique technology. Environmental friendly car could ease the pollution and save the use of oil. It could take the opportunity in the technology factor.

Toyota is focusing on differentiation; they should have special features and complete after-sales services. They could further expand the supporting service. For example, open 24 hours customers' service centre. This service centre provides professional advice to Toyota customers. Customers would be more confident to buy Toyota Car.

Toyota could also provide some individual maintenance to the individual buyers. The maintenances may include modification of the Car style and functions to make the car more durable. Also, provide more accessories a rear spoiler, 18-inch wheels and tires, and various interior trim components for dealer installation.

### Cooperation Strategy

It recommended that Toyota could use the cooperative strategies which are to gain competitive advantage by working with other firms. Toyota could direct communicate with other firms to start the cooperative strategies.

It could reduce the financial and political risks; Strategic alliances could help Toyota minimize the cost of production as the production cost has been shared. An appropriate joint venture could also be easily to avoid the political risk of expansion. For example, Toyota joint with China Motor Car could easily increase the distribution channel into the China Market.

It would also enjoy achieving competitive advantages. A few years ago, general motors and Toyota formed Nummi Corporation as a joint venture to provide Toyota a manufacturing facility in the United States and GM access

to Toyota low-cost, high-quality manufacturing expertise. (Thomas & David 2004, p. 126)

## Recommended Strategy - Corporate

### Geographical Horizontal Growth

As there is a large opportunity in China's entering WTO, Toyota should not miss this bright prospect. China has the world's largest population and one of the fastest growing economic in the world (Howard, 2005) without doubt a lot of new drivers in the coming future. Planting a vertical integration base China is a right choice, because other competitors are surely targeting this enormous profit.

### Product Horizontal Growth

In recent years, the consumer's tastes are continuously changing as becoming more demanding as mentioned initially in socio-cultural, by then they want to have more and more car choices, stylish as well as sophisticated onboard devices, personalization and computerization (Lee and David, 2006).

Therefore, Toyota is recommended to increase the products' features, qualities or services to the current existing markets like in these two large scales, Japan and US. As a result, Toyota could keep on its sustainable competitive advantage through the 26 countries (Toyota Close Up, 2006).

## Recommended Strategies - Functional

## Marketing Strategies

Toyota should expand its markets in the developing countries and Asian countries to gain the market share. Especially in China, its market will wholly open after entry WTO. Besides, Toyota is more popular in Asian. So, it should concentrate the market and promotion

## Product Development

Toyota has developed greener car series. Nowadays, consumers more concern environment protection and hope to save energy. Toyota should hold the trend and improve the technology on this.

## Push Strategy

Toyota should set up more efficiency sales network and open more new market. Distribution channel should consider more economic ways to save time and resource.

## Pull Strategy

Toyota should strengthen its promotion especially PR event. Toyota is lack of charity PR event. It helps to build a positive and good image on it.

## R&D

## Technological leader

Toyota recent year spent a lot of money to do researches. It should enhance its technology including safety, electronics, performance, and fuel economy. It should try to create more new technology to grab market shares.

### Logistics Strategies

#### The use of Internet

Toyota should set up a web site which gives customers to choose and buy product from internet. Besides, Toyota should set a web-site for customers to leave messages and opinions. It helps to check the customers' preference and improve its products. On the other hands, it can keep the " Just in time" system. China is a very large market. Toyota should plan how to use this system perfectly in China, especially in western part of China. It is a new opportunity. This system really can help it to reduce the cost of production

### Human Resource Management Strategy

#### More training

Toyota should give more training for local and foreign staff especially others countries language e. g. English, Cantonese, Chinese. Study their culture and enhance staffs' knowledge. Employ more good quality and experienced leader to prove the team forward.