

# Localized value proposition analysis for toyota



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## **Introduction**

Toyota motor company, who started a comprehensive partnership with FAW (First Auto Works) in 2002, has achieved great success in China, the market share expanding from 2.4% in 2003 to 7.3% in 2004 (data from JACCPCM, Joint Advisory Committee of China Passenger Car Market). The key concept of Toyota's successful strategy in China is "localization" – to generate localized value proposition for consumers, which is different from Toyota's global policy. Localization is the key concept of a multi-national corporation's strategy to enter a new country, which is an important method to establish it. Therefore, how to generate a localized strategy is a priority for these corporations. This essay will define localization which may lead the corporations to success in a new country, then identify the three elements of localization strategy: product strategy, marketing strategy and management strategy, furthermore assess the risks that localized strategy bring out. The core concept of localization is local manufacturing and local sales. When a multi-national corporation enters a country, the primary question is what kind of products they can offer to the local consumers, and whether they will be accepted. Since different countries have different needs, the products can be adjusted according to the local consumers' taste. The following question is how to sell products to local consumers. As the business environment and issues vary from one country to another, the firm's marketing mix may have to undergo significant adaptation and adjustment. Effective marketing in this environment will boost the company's volume sale because of reflecting of local culture in positive way. Product strategy is for developing and supplying locally customized products, which is the foundation of the localization strategy, including three following aspects. First of all, products must be

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manufactured locally, because manufacturing operations in local can take advantage of resources, such as raw materials and human resource; and make the price of product competitive avoiding import taxes or trade barriers. In addition, the company can obtain the support of local government for the contribution to local economies and industrial development, which is also beneficial for local selling. Secondly, more localized exterior and interior design should be adapted to fit consumers' taste. One product is popular in one country, which cannot guarantee that it will be also successful in other countries. Consequently, the company must be aware of the local consumers' preference and taste, and wide coverage of product for diversified consumers' needs. For example, Coca-Cola sells new flavours specifically for Europe: its Turkish division marketed a pear-flavoured drink, while the German division sold a berry-flavoured Fanta (Onkvisit & Shaw, 2004), which are varied according to different customers' tastes. Furthermore, the product should fit for the local culture and traditional. The example of the marketing of fire insurance in different countries can illustrate this reason. For American consumers, it is sensible and practical to purchase fire insurance. However, in Brazil, where people believe that fire insurance may encourage fire accidents, it is difficult to encourage Brazilian consumers to purchase insurance (Onkvisit & Shaw, 2004). Last but not least, purchasing from local suppliers is also a crucial issue for product strategy, which influences the product quality and long term profitability. Suppliers as business partners should be strict selected and sometimes long term patience should be had for improvement of local suppliers to meet corporations' requirements.

## **Strategy**

A successful localized strategy emphasizes not only on product but also on adapted brands and packages to meet the particular preferences and needs of customers. That is, in order to increase selling locally, an efficient marketing strategy is needed, which include advertising, personal selling, and sales promotion. As a new brand enters a market, more intensive marketing is necessary to increase brand recognition and perception which will attract consumers. More specifically, advertising on mass media is an efficient method to increase the brand recognition. Another important factor of marketing strategy is personal selling in which a company can invest. Since satisfaction during the buying process and quality of after services are becoming crucial for company's reputation, the capability of sales rep, professionalism and honest quotation for instance, will influence the branding and sales. Finally, sales promotion contains those promotional activities other than personal selling and advertising, such as coupons, discounting, demonstration and samples, which can push the local consumers to accept new products rapidly. Furthermore, the design of promotional activities should be based on local consumers' consuming behaviour which is determined by local culture. For instance, Suspicion and privacy in some countries can limit the effectiveness of promotional activities, such as door-to-door selling and other direct selling methods. The awareness to local culture can make a firm more customer oriented, and the marketing strategy will be developed more likely flexible and efficient. A company can use localized management to conquer keen competition across regions with local OEM (original equipment manufacturer), especially in risk management, decision making structure and human recourse. Firstly, to

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avoid risk of uncertainty, a company should conduct flexible manufacturing facilities and management. For example, Toyota in China limited the level of mechanism and hired more workforces to keep flexibility, by which Toyota can avoid the investment risk at the early stage. Secondly, decision making structure in local companies is a significant issue of management, which may be delegated to enable quick decision making for local company. Since the keen competitive environment of local regions, the market changes rapidly, the headquarters may not respond timely. As a result, the company may lose its competitive edge or opportunities. Another aspect is human resource management, which is a critical part of management strategy. The company may invest in local human resource education and retaining workforce, which will enhance the capabilities of local workers. Meanwhile, although the managerial level of local staff could be intended to improve, company should still have a certain number of domestic staff, who will keep their core strategy in place.

### **System**

A systemically localization strategy may help an international corporation enter a new country successfully. However, localized strategy may also bring some risks. A firm should be respect and accept local culture; nevertheless, a firm follow the local tradition blindly may lose some market opportunities, while a firm can also create a new business different from local culture. For example, Kelloggs, who sold dry cereal in South America and Asia, successes in establishing the new eating habits which is different from local tradition, and Kelloggs expanded its business network abroad(Onkvisit & Shaw, 2004). On the other hand, in some special industries, especially luxury goods,

localized strategy should be cautioned. When a firm's brand concept clash with localization concept, it is necessary for the firm to make a choice or balance between them. Louis Vuitton for instance, would not be marketed as a local product in China. But at most situation, that choice is difficult to decide because of the following risk. At first, localization strategy can make the local consumer accept the product quickly at the price of damaging the brand image. Moreover, localization strategy implementation need long term preparation and vast investment, which furthermore increase the financial risk. Another risk a firm may face to in the localization's procedure is culture conflict in management. When a firm enter a new country, two different cultures may clash, which may engender low efficiency and internal contradiction, even bankrupt. For example, in a Japanese firm in Europe, the local employees have to face to a totally distinct management model. It is necessary for the firm to decide whether keep its core strategy in place or finding local methods to execute it.

### **Conclusion**

In conclusion, localized value proposition generated by local optimization, which should integrate the product, marketing and management strategy in the local culture background. Product strategy is the foundation of localization for supplying customized products. The marketing strategy is the key of localization for selling and profiting. The management strategy is the way to conduct localization. Furthermore, to increase its efficiency and competitiveness while adding value to its products, a firm should respect and adapt to local culture. However, the opportunities always associate with the

risk. Localization brings certain risks to companies. It is necessary for a firm to consider carefully about the factors of localization strategy.