

Toyota cars recall essay

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Toyota Cars Recall The recent global recall of Toyota cars adds to the list of Toyota vehicle recalls dating back to September 1986, when the National Highway Traffic Safety Administration recalled the first Toyota cars due to problems with speed control (Steinmetz, 2010). Steinmetz goes ahead and points out that in April 2010, the National Highway Traffic Safety Administration (NHTSA) received a petition to investigate the throttle control in Toyota vehicles, a problem aggravated by an accident that kills a family due to “ uncontrollable acceleration”. She goes on to note that in December 2009, the NHTSA met with the Toyota to plan on the process of vehicle recall which started in January 2010. Since then, more cars with brakes and anti-lock system problems have been recalled and the Toyota’s North American president and other company officials set to testify before the House Oversight and Government Reform Committee (Steinmetz, 2010). Wearden (2010) notes that Toyota has been asked to pay a fine of ? 10.

8m. Manufacturers have in the past considered product recall as the last option. This is because the implications of product recall are extensive. However, with the ever increasing litigious environment and increased awareness by the consumers on the potential liability claims have led to recall becoming a common move even when the risk is minimal. This article will look at the short and long term effects on demand of the Toyota vehicles. In analyzing these effects, the article will apply the economic theories of supply and demand, price elasticity, competition, and the market structure. Toyota Global Market Share.

A survey carried out by the International Organization of Motor Vehicle Manufacturers (OICA) in 2007, Toyota Motor accounts for 11. 8% of the

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vehicle production second to General Motors (Figure 1). The company produced a total of 8, 534, 690 vehicles representing all types and models (Table 1). Fig.

1: Global Vehicle Market Share (OICA, 2007). Rank Company Total Vehicle Output

Rank	Company	Total Vehicle Output
1	General Motors	9, 349, 818
2	Toyota Motors	8, 534, 690
3	Volkswagen	6, 267, 891
4	Ford Motor Company	6, 247, 506
5	Honda Motor Company	3, 911, 814
6	Peugeot Citroen (PSA)	3, 457, 385
7	Nissan Motor	3, 431, 398
8	Fiat SPA	2, 679, 451
9	Renault	2, 669, 040
10	Hyundai Motor Company	2, 617, 725
11	Suzuki Motor	2, 569, 316
12	Chrysler	2, 538, 624
13	Daimler A G	2, 069, 977
14	Bayerische Motoren Werke AG (BMW)	1, 541, 503
15	Mitsubishi	1, 411, 975

Table 1: Vehicle Production per Company (OICA, 2007). From the above data, Toyota Motor is a major vehicle producer with its market spreading to all parts of the world. Supply and Demand Theory The theory of supply and demand basically points out that in a liberalized competitive market; the quantity supplied by the producers will interact with the quantity demanded by the consumers to determine the price of that particular commodity (Henderson, 2004, 12) as shown in the figure below.

From the interaction of the three economic aspects, an economic equilibrium is attained in the market for the commodity. Fig. 2: Supply and Demand Curves (Joyce, 2009). The theory states that a decrease in supply will result in an increase in demand and the price will shift as shown in the figure below. However, as Gooden (2008) notes, product recall affects company reputation and bottom line (298) and this in turn affect the demand for the commodity. Fig. 3: Shift is Supply-Demand Curve (Joyce, 2009).

In the case of Toyota, the reduced supply of their vehicles will not result into an increase in the price of the cars. Product recall and the much publicized automobile accidents attributed to defective Toyota vehicles will cause a significant decrease in the quantity of Toyota vehicles demanded. In the short term the demand for Toyota vehicles is almost zero with many dealers halting their business.

Rana (2010) notes that the car rental company Avis Budget Group had stopped hiring out its more than 20, 000 Toyota vehicles until when they will be satisfied that the vehicles are safe. Similarly, Toyota dealers all over the world have put off business until when the vehicles are certified to be safe for use. The vehicle recall and the accidents that are attributed to defects in the vehicle are likely to affect the demand for the Toyota vehicles. As Rana (2010) notes, the recall has dented Toyota Motor's reputation and this may have a long term effect on the company's bottom line as well as the industry.

The damaged reputation and the negative publicity may also affect the demand of used Toyota vehicles. As USA Today reported, the Toyota recalls were likely to cost Toyota vehicle owners lower resale values (2010).

However, it is important to note that despite the previous Toyota vehicle recalls, the market of Toyota vehicles has not been seriously affected.

Despite the several vehicle recalls and numerous safety issues inquiries (Steinmetz, 2010), sales for Toyota vehicles has over the years increased especially in the United States. A survey by Standard and Poor's showed that Toyota sales had increased and by 2005, it was second in global light vehicle

sales as shown in the figures below. Fig. 4: Global Light Vehicle Sales for 2005 (Standard and Poor's, 2005).

Fig. 5: United States Vehicle Market Share 2005 (Standard and Poor's, 2005).

From the information above, it is evident that the previous inquiries on Toyota vehicles' safety and recalls did not affect the market demand of the vehicles. Price Elasticity According to Taylor (2006) price elasticity (of demand) is an economic measure of the responsiveness of the quantity of a commodity demanded to a change in the price of the commodity (85).

He adds that it is the percentage change in the quantity demanded divided by the percentage change in price as shown below. $d = \frac{\Delta Q_d}{Q_d} \times 100 \frac{\Delta P}{P}$

Conversely, price elasticity of supply is the measure of responsiveness of the quantity of a commodity supplied to the market to a change in the price of the commodity. $s = \frac{\Delta Q_s}{Q_s} \times 100 \frac{\Delta P}{P}$ These two measures are used to determine the reaction of the market to price, demand, and supply changes.

When the price elasticity of demand coefficient is greater than -1 ($E_d > -1$), the demand of that commodity is said to be inelastic and if it is less than -1 ($E_d < -1$), demand is said to be elastic. On the other hand, when the coefficient of price elasticity of supply is less than 1, supply is inelastic and if greater than 1, supply is elastic (Taylor, 2006, 91-92). In the case of Toyota vehicle recall, the change in demand is extremely high and the quantity demanded is almost zero. The case presents a difficulty in analyzing the price elasticity of both demand and supply. Toyota Motor stopped all supplies and production of the affected vehicles and hence supply change was enormous. The situation can however be summarized as follows. The price elasticity of

demand is highly inelastic because even a relatively big decrease in the price of the Toyota vehicles is not likely to increase the demand for the vehicles. Similarly, price changes may not have an effect on the quantity of vehicles supplied by Toyota Motor.

Competition and Market Structure Competition drives the economic forces in a market. As noted earlier, in a competitive market, demand and supply of a commodity interact to determine the price of that commodity in the market. As Gluckman (2010) points out immediately after the massive recall of their vehicles, their competitors, notably General Motors, Ford, Chrysler, and Hyundai, came up with strategies aimed at capturing the market share that had previously been occupied by Toyota Motor. Gluckman notes that the four auto companies offered \$1000 rebates to Toyota vehicle owners who were willing to trade in their vehicles for some of theirs. In the short term competition is likely to come in and fill the void left by the recall of the Toyota vehicles. Toyota had occupied a large share of the market and the competitors are bound to come up with innovative measures to expand their share. Once the competitors capture the market, it may result in further decline in the demand for Toyota vehicles.

Toyota Motors may have to undertake marketing strategies to recapture the market after the safety issues are addressed. In conclusion, the demand for Toyota vehicles may be affected in ways that are unforeseeable at the moment. The short term demand has evidently decreased with competitors gearing up to take advantage of the damaged Toyota reputation.

The fact that Toyota sales have grown in the past in the midst of safety issues makes the long term implications difficult to assess. However, the magnitude of the recall may prove to be a cause for reduced demand of Toyota vehicles in the future. References Gluckman, D. (2010) Chrysler, Ford, GM, Hyundai Taking Advantage of Toyota Recall Frenzy with new Incentives. Car and Driver. 1 February, 2010. [Online] Available at: <http://blog.caranddriver.com/chrysler-ford-gm-hyundai-taking-advantage-of-toyota-recall-frenzy-with-new-incentives/> [Accessed: 5 May 2010]. Henderson, H. (2004) Supply and Demand. Whitefish, MT: Kessinger Publishing. Joyce, T. (2009) Get Paid your Value, not your Price. [Online] Available at: <http://www.elasticmind.ca/innerpreneur/index.php/2009/02/27/get-paid-your-value-not-your-price> [Accessed: 5 May 5, 2010]. OICA (2007) World Ranking of Manufacturers. [Online] Available at: <http://www.guardian.co.uk/business/2010/apr/19/toyota-pay-record-fine-safety> [Accessed: 5 May 2010]. Rana, O. (2010) The Effects of Toyota's Sticking Accelerator Pedal Recall. EgmCarTech. 27 January, 2010 [Online] Available at: <http://www.egmcartech.com/2010/01/27/the-effects-of-toyotas-sticking-accelerator-pedal-recall/> [Accessed: 5 May 2010]. Standard and Poor's (2005) Automotive Industry Survey. [Online] Available at: <http://www.duke.edu/web/soc142/team1/sales>.

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