

Porter's marketing mix: toyota



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Information technology (IT) is any computer-based tool that people use to work with information, and supports the information and information-processing needs of an organization. IT can be an important tool of business success and innovation if the right people know how to use and manage it effectively (Phillips, 2008). It is changing the way companies operate internally, as well as altering the relationships among companies and suppliers, customers, and rivals. Moreover, the information revolution is effecting competition in three vital ways: changing industry structure, creating competitive advantage, and spawning whole new businesses (Porter & Millar, 2001).

Changing Industry Structure

The structure of an industry is embodied in five competitive forces that collectively determine industry profitability: the power of buyers, the power of suppliers, the threat of new entrants, the threat of substitute products, and the rivalry among existing competitors. The strength of each of the five forces can also change, either improving or diminishing, the attractiveness of an industry (Porter & Millar, 2001).

Creating Competitive Advantage

Information technology has a powerful effect on competitive advantage in either cost or differentiation. It allows companies to gain a competitive advantage by exploiting change in the competitive scope. For example, a company can use information technology to lower cost in any part of the value chain. Moreover, differentiation is another key point that a company uses to strengthen its value chain of products (Porter & Millar, 2001).

Spawning New Businesses

The information revolution is giving birth to completely new industries in three distinct ways. First, it makes new businesses technologically feasible. Second, it can spawn new businesses by creating derived demand for new products. Third, creates new businesses within old ones (Porter & Millar, 2001).

Three Strategic Significances

Companies know how to use information technology to create value for their customers. On the other hand, the “value chain” is an important concept that highlights the role of information technology in competition.

Transforming the value chain

Transforming the value chain changes the way activities are performed and the nature of the linkages among them. It is also affecting competitive scope and reshaping the way products meet buyer needs. Value chain includes both physical and an information-processing component. The physical component includes all the physical tasks required to perform the activity. However, the information-processing component encompasses the steps required to capture, manipulate, and channel the data necessary to perform the activity (Porter & Millar, 2001).

Transforming the product

Most products have both a physical and information component. The buyer needs to obtain the product and use it to achieve the desired result. On the other hand, products include information about its characteristics and how it should be used and supported. The information technology makes products

feasible to supply far more than information, along with the physical products (Porter & Millar, 2001).

Direction and pace of change

In different industries or products, the role and importance of the technology are different. "The information intensity matrix" relates intensity in the value chain to information content in the product and illuminates the differences in the role and intensity of information among various industries (Porter & Millar, 2001).

Implementation with Toyota

Generic strategy

Differentiation

Toyota is building cars that Americans want to buy, and is rated number one in producing and introducing new models in the automobile market. Toyota produces high quality products for their customers. There are several advantages for driving their models, such as fuel efficiency, low car repair rate and several models and options that you can choose to build your own car. Toyota also has close relationships and mutual cooperation with their supply chain members that follow Toyota's way in order to produce the products efficiently. Toyota also provides financial services and produces robots in the different types of business. The different types of business can support each other, which makes their company stronger and allows them to share information. Toyota is building the most efficient vehicles in the world and provides the best quality products to their customers.

Blue Ocean Strategy

Toyota first introduced their hybrid car, called the Prius, in 2001 worldwide. The Prius is the most fuel efficient gasoline car currently sold in the U. S. It is a full hybrid electric mid-size car. In the 2010 models, the price is starting at \$22, 800 and the result of fuel efficiency is around 50 mpg. Toyota is creating the new trend in the market of hybrid vehicles instead of the traditional gasoline vehicle. There are more and more people who want to buy hybrid cars because of fuel efficiency, providing a gasoline alternative, reducing air pollution, and because it is a new trend in the market.

Porter's five force model

The Bargaining Buyers Power (High)

The buyer power of Toyota is high because there are numerous competitors among the automotive industry, such as Ford Motor, General Motors, and Honda. Consumers have many choices when they are planning to buy cars. Toyota's Hybrid Model, Prius, which brings an eco-friendly image for Toyota; also, its reliable brand image and high quality make Toyota high consumers loyalty. However, the massive recalls in 2010 strongly destroyed Toyota's image. It also resulted in dropping its position in the market (Borowski, 2010).

The Bargaining Suppliers Power (High)

The supplier power is high because Toyota's purpose is to reduce the number of suppliers and long-term partnerships by fostering existing suppliers to expand and grow with Toyota instead of growing the number of suppliers to induce competitive price bidding. A study showed that a typical Toyota plant had only 125 suppliers compared to 800 for the General Motors
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plant. Moreover, Toyota had 224 suppliers compared to 5,500 suppliers for General Motors at the corporate level. Buyers do not have too many choices, so the supplier power is high (Toyota supply chain management, 2009).

Threat of New Entrants (Low)

The threat of new entrants of Toyota is low. Although the massive recalls in 2010 destroyed its brand image seriously, the high entrance barriers still exist, such as economies of scale. Also, auto manufacture is a high technological industry, which means new entrants need to have huge capital to operate. Thus, it is difficult for new business to enter (Borowski, 2010).

Threat of Substitute products or services (Medium)

Currently vehicles have become the main tool of transportation, which is an essential product. Perhaps the method of transportation will change in the future; however, the car is very difficult to be replaced in the short term (Borowski, 2010).

However, the well-developed transportation systems, such as the subway in New York city, and the buses in San Francisco which bring conveniences for people. Moreover, in Asia, the convenience of public transportation system is much better than in here. Those infrastructures actually made our lives more convenient and even better. Furthermore, the parking spaces in urban cities are not easy to find. Therefore, many car buyers dispel the idea of buying cars. They take public transportation instead. And this becomes a certain threat of the automobile industry.

Rivalry among competitors (High)

The world's financial crisis and the image damage caused by the recalls, Toyota has lost its position as world's most attractive and biggest car manufacturer. So now the company is worried about its position in the eco-friendly and compact car segment. The advancements made by TMC will be equivalent with the competitors like GM, Honda and European manufacturer. The competition is very hard and to keep the position Toyota has to invest in Research and Development (Borowski, 2010).

According to the statistic, Toyota owns 14.9% market share among auto manufacture industry in August, 2010. Comparing with its 17.8% market share in 2009, we can easily know that the recalls actually result in their sales drop. Its top competitor, General Motor, owns 18.6%

market share. Ford owns 15.8% market share. And Honda owns 10.6% market share. From the data shown below, we can see that Toyota has to have more strategies to increase its market share and consolidate its position (Dow Jones & Company, Inc, 2010).

(Dow Jones & Company, Inc, 2010)

Toyota Automated parking System

Intelligent Parking Assist System (IPAS) is the first production automatic parking system developed by Toyota Motor Corporation in 2003 initially for the Japanese market hybrid Prius models and later Lexus models. The technology assists drivers in parking their vehicle. On vehicles equipped with the IPAS, by an in-dash screen and button controls, the car can steer itself

into a parking space with little input from the user (Intelligent Parking Assist System, 2010).

For the system, driver intervention was not required, as the system estimated the size of the parking space and maneuvered the vehicle appropriately. This was done by an onboard computer which used a camera built into the forward and rear of the car. Sensors located at similar locations detected the proximity of nearby vehicles. The dashboard displayed an image of the lot, and the driver would then have to determine the exact position that the vehicle in the lot via the arrows which appeared on the screen. Using the arrows, the user would set the location of the vehicle in the space. When satisfied, the user pressed the " Set" button, which then activated the IPAS. The system then took over steering control to maneuver the vehicle (Intelligent Parking Assist System, 2010).

Early versions of this system had difficulty detecting objects, including cats, baby prams and pedestrians. Secondly, when the driver activated the system in a too small a space, the system constantly flashed warning signals to inform the user of the danger of hitting the vehicle. User assistance is required in such situations. In 2006, a later version of this parking technology added integration with parking sensors. This latest version could calculate the steering maneuvers needed for parallel or reverse parking, and help determine that the car has enough space with colored screen displays which indicated adequate or inadequate space (Intelligent Parking Assist System, 2010).

Figure 2-1 Toyota Prius Sales (Unit= 1, 000 vehicles)

1997

1998

1999

2000

2001

2002

2003

2004

2005

2006

2007

Jan.- Apr.

2008

Cumulative

Total

Total

0.3

17.7

15.2

19.5

29.0

28. 1

43. 2

125. 7

175. 2

185. 6

281. 3

107. 1

1, 027. 7

Japan

0. 3

17. 7

15. 2

12. 5

11. 0

6. 7

17. 0

59. 8

43. 7

48. 6

58.3

24.2

315.0

Overseas

0

0

0

6.5

18.5

21.4

26.1

66.0

131.5

137.0

223.0

82.9

712.7

North

America

5.8

16.0

20.3

24.9

55.9

109.9

109.0

183.8

66.1

591.6

Europe

0.7

2.3

0.8

0.9

8.1

18. 8

22. 8

32. 2

14. 2

100. 7

Other

0. 01

0. 2

0. 2

0. 4

1. 9

2. 9

5. 3

7. 0

2. 6

20. 4

Toyota Motor Corporation (2008).

In figure 2-1, the total sale of the Prius in 2003 is 43. 2 thousand units, until 2004 the sales of the Prius increase to 125. 7 thousand units. From year 2003 to 2004, the total sale of the Prius is increasing 290%. Because of the automated assist parking system developed in 2003 and built into Prius model, the total sales of the Prius continue dramatically increasing from 2003 until now.

On the other hand, as we can see in the Figure 2-2, according to the consolidated financial statement in 2003 and 2004 for Toyota, the net income increasing from 750. 9 (Billions of yen) to 1, 162. 0 (Billions of yen). The percentage of change from FY2003 to FY2004 is 54. 8%.

Figure 2-2 the Consolidated Income Statement of Toyota

Value Chain of Toyota

Primary activities

Inbound Logistic

Logistic is an extremely important success element for Toyota. The inbound logistics is responsible for transporting vehicle parts or raw materials from tier 1 suppliers to OEM (Original Equipment Manufacturer) plants. The inbound logistics have two different operations for Toyota: the first one is transport the parts from local suppliers to local plants. The second one is global inbound logistics, for example like transport the parts from Japan to others North American and European plants. The reason Toyota's success in supply chain is they transported the parts from suppliers very efficiently and timely. Toyota also establishes a partnership with third-party logistics providers (3PLs) to deliver logistic service. In the Figure 8-1 show the

network logistic for Toyota, there are two clusters of suppliers, two cross-ducks, and two plants. Truck T1 delivered parts from suppliers S1, S2, S3 to CD1. Then, the truck 3 delivered parts from CD1 to plant P1, and so on (Toyota supply chain management, 2009).

Operations

The vehicle is assembling in the assembly plant and the plant usually has one or more separate operating lines. The plant is subdivided into shops. The body shop is where the vehicle's body and frame are formed. After the body is assembled, then the vehicles deliver to the paint shop. When the vehicle finished the painting, it moves down to the line to the final assembling. At the same time, the rest of the supplier-provided parts are installed to make a finished vehicle. However, this is not the finished product, the vehicle will go through the final inspection before it released from factory to the dealer (Toyota supply chain management, 2009).

Outbound Logistics

The function of outbound logistics is to deliver finish vehicles from OEM plant to the retailers. Toyota uses different 3PL for outbound logistics from that for 3PL for inbound logistics. Toyota uses common carriers, railroads and truck to deliver its vehicles from assembly plants to dealers (Toyota supply chain management, 2009).

Marketing & Sales

Toyota is also carry out the awareness of environmental technologies. The Toyota Prius and the Lexus RX400h, featuring on the Hybrid Synergy Drive which emphasize on reducing the greenhouse gases and make protection of

the environment the top priority. One aspect of the Toyota is arises the awareness of the in general of the environment impact of automobiles and how Toyota is going to reduce the impact. The most important is collect and analysis the customer-satisfaction data that help company to better understand the purchasing decisions of customers. Sales division determine the volume of vehicle that are going to produced each month by analyzing recent sales and stock inventory. Sales division has also take into consideration about marketing promotion and seasonality changes.

Service

Toyota's philosophy is " the customer always comes first". Toyota collects customer evaluation data through information collection activities, including directly through consultations with customers, complaints from customers, and also through quality reports from dealers and questionnaires given to purchasers of new cars, as well as from the results of studies by third party institutions such as J. D. Power. Furthermore, Toyota collects information indirectly from dealers and suppliers within the Toyota Group. In order to have the results of data analysis reflected as soon as possible in vehicle production, Toyota is strengthening internal coordination with research and development related divisions (Relations with customers, 2003).

Support activities

Firm infrastructure

This activity includes and is driven by corporate or strategic planning. Toyota motors implemented Management Information System (MIS), and other mechanisms for planning and control in different departments (Value chain analysis of Toyota, 2009).

Human resource management

Employees are an expensive and vital resource. Toyota motors manage recruitment and selection, training and development, and rewards and remuneration. Toyota motors consider their employees as human capital (Value chain analysis of Toyota, 2009). The mission and objectives of the Toyota motor is the driving force behind the HRM strategy. Toyota motors uses following techniques to retain their employees:

Recruitment

Selection

Training and development

Compensation

Maintenance

Technology development

Toyota contributes to develop the new technology system to create the brand value for the company. For example, the wide implementation of technological innovations such as mass manufacturing of hybrid cars, and the automated parking system which enhances the leading position of the company in the world market.

Procurement

Toyota procures the necessary parts, materials, and equipment from different suppliers all over the world. In some cases, suppliers are selected because their innovations that improve processes or decrease costs. Along

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with requiring suppliers to provide quality items at a low price and in a timely manner, Toyota cooperate with their suppliers to promote environmental preservation and meet the other demands of society. In addition, they take a long term view toward the relationships with suppliers with an aim to realize an amicable relationship of mutual prosperity based on fair business practices. Toyota's goal is to minimize the number of suppliers and create long-term partnership by fostering existing suppliers to grow with Toyota instead of growing the number of suppliers to induce competitive price bidding (Toyota supply chain management, 2009).

Information Intensity Matrix

An information intensity matrix is proposed the use of to assess IT's role. It relates information intensity in the value chain to information content in the products, illuminates the differences in the role and intensity of information among various industries. (Porter & Millar, 2001) On the other hand, information intensity matrix is distinguished by high information intensity in both the value chain and the product. Toyota's Intelligent Parking Assist System has high information-technology content in both product and process. For example, before this parking system, users park the car by hands. However, Toyota has created this new version of automatic parallel parking to improve the convenient parking without controlling of the steering. It not only has high information content, but also it uses high information process by producing this system. It brings high value to Toyota and his customers.