

# Analysis of toyota motor corporation



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Toyota Motor Corporation was a best known automobile manufacturer founded in year 1937. It performs both automotive, which under the brand Toyota, Lexus, Hino, Daihatsu, along with several non-automotive. Toyota, n. d.. Moreover, Toyota Corporation across the world predominantly locates in North America, Europe, and Asia. Toyota mainly aims at localization and joins with automobile companies in foreign market in order to be the leadership in automobile market.

Toyota had used different mode of entry in every part of the world which are the China Brazil, United States, and Thailand. To discuss further the entry modes chosen by Toyota, let's take the latest market it enters as an example, Thailand.

Toyota began operating in Thailand as Toyota Motor Sales in year 1956. (Toyota Motor Thailand Company Limited, 2004). Toyota started exporting to avoid competitors from gaining first-mover advantaged in new markets since export is the fastest and lowest risk mode. However, Toyota Japan chose FDI as a strategy via assembly plant in Thailand in year 1964 because Thailand was not only lower cost location but also lower tariff. At once, Toyota exported auto parts to assemble vehicles in Thailand. This aimed at an assembly centre rather than a manufacturer. On the other hand, Thailand has indicated rapid growth with a stability of political situation, small religious gap, relatively sufficient technological assets and cheaper labor cost. Therefore, Toyota concentrate on taking advantage of lower labor cost to gain their product competitive advantage over the competitor's product.

Furthermore, Toyota then enrolls to become Toyota Motor Thailand (TMT) in 1962 with a joint venture 70-30 joint venture to run and extend factories in Thailand in order to increase production capacity. (Toyota Motor Corporation History, 2001). In addition, Toyota going into new market and expand potential market to another region and enhance efficiency of product life cycle. As in year 2002, Toyota Japan chose Thailand as production bases by using wholly owned subsidiaries manufacture to export more than 90 countries because pickup truck market in Thailand is one of the biggest markets. This global decision is to reduce transaction and production cost. Moreover, Toyota Motor Thailand has built network supplier locally as a source of competitive advantage in terms of parts development capability, material substitution, lower cost, efficient supply chain, and reduce working capital. This was by funding their operations, shifting technology, offering design patents, deputing advisors and training in manufacturing techniques. Besides, Toyota subsidiaries in Thailand have transformed a centre for production, supplier, and research, training as well as potential market. Also, Thailand has acquired the technology transfer for more than 30 years. However, Toyota Motor Thailand exports its vehicles and all parts all over the world to increase Thailand's prestige as a base of excellent automotive manufacture. (Toyota Motor Thailand Company Limited, 2004)

Consequently, Toyota started enters foreign markets with exporting which is the fastest and lower risk mode, in order to launch their products into broad markets and establish their brand recognition. Moreover, with the constraints such as high transaction costs, import restriction policies, and exchange rate volatility. Toyota regulated their entry strategies with FDI, joint venture and <https://assignbuster.com/analysis-of-toyota-motor-corporation/>

wholly-owned subsidiaries. With the different modes of entry in each country, Toyota is still facing limitations such as cultural differences and political risks.

Toyota has acquired economy of scale and labor cost advantage from their expansion. Toyota had expands their sales network worldwide in their production and increased their production capacities in their production centre in many countries. Since there is no best entry mode for Toyota, therefore it is a challenge for Toyota to choose a suitable mode of entry in their industry and be the leader in automobile industry.

## **2. 0 Current Expansion Strategies**

### **2. 1 Strategy Alliance**

The importance of corporate to cooperate can bring many benefits to aligned parties which have been learned by the players in the automobile industry. Thus, Toyota is currently engaged in a forged alliance with BMW, the German Luxury Automobile Manufacturer. The purposes of this new synergy between two automakers are to strengthen and form a long-term strategic collaboration in four areas which are the joint development of a fuel cell system, architecture and components for a future sports vehicle, collaboration on power train electrification and joint research and development of technologies leading to reduced weight of the vehicles (Keegan, 2012).

Both automakers are targeting for “ mid-to-long-term” ramifications for battery construction in their production. Other than that, they are trying to seek for new heights in battery performance and capacity which may reduce

the impact towards the environmental (Nagy, 2012). This cooperation would yield great opportunities since Toyota is strong in environment-friendly hybrids and fuel cells vehicles while the BMW's strength is in developing luxury and sports cars.

There is an evident to state that the alliance is able to provide a better window into the skills and the knowledge from other firms to learn and create the powerful tools. The cooperation between Toyota and Fuji Heavy Industries Ltd. inc contributes effort to keep their prices low and to able to stay firmly of evolving technology. This strategy has enabled both companies to provide affordable vehicles and to gain and stay competitive advantages in the automobile industry (Hill, 2010).

## **2. 2 Region Centric Approach**

Furthermore, Toyota is practicing the region centric approach to deliver its vehicles globally. This approach is about segmenting the markets on the basis of regional similarities such as economic, political, cultural and geographic similarities (Paul & Kapoor, 2008). Toyota was pre-assessing the economies and culture in that particular region before offering its vehicles to different countries. For example, the same product and services might be provided to the region amongst the ASEAN such as Singapore, Malaysia, and Thailand and so on, because the ASEAN may have similar economic conditions and they may share the similarity such as the consumers' value, culture and behavior. For instances, Toyota launched Etios in South Africa whereas the Toyota introduced affordable car for Brazil and China Market. This approach has been adopted by a few automobile makers such as Honda, BMW, and Volkswagen and so on.

## **Product Development**

### Innovation

Toyota is the first to commercialize hybrid cars but Honda was the first who enter to the market hybrid to the U. S in 1997 and quickly Honda has won accolades. However, Toyota's hybrids vehicles stress on low carbon emission whereas Honda hybrids vehicles are focused on fuel efficiency. Even though for low speed urban traffic, Toyota's Prius met its engine design's goal of reduced emissions, with better mileage ratings than the Honda's Insight. However, Toyota's hybrid vehicles were not as well known as Honda's.

In order to transcend the successfulness of Honda's hybrid in globally, the most recent strategy implemented by Toyota is the development of plug-in hybrid vehicles which continues to commit its efforts towards eco-friendly cars which focus on the pure electric driven, high fuel efficiency and low carbon emission. Therefore, Toyota is innovating its products and developing its new products and services which is low-carbon mobility, new styles, broad application of environmental technologies and infrastructure for the safer mobility (Annual Report, 2011).

### Toyota Safety Technology

In the year 2011 Toyota established Collaborative Safety Research Center in North America as their new base for accident analysis and problem resolution. The purpose of Toyota's Safety Technology is to pursue real safety and make the vehicles less likely to be involved in accidents. Toyota developed effective safety technology through accident reconstruction and analysis. This involves the analysis of the crash data; determining why it

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occurred and what kind of injury would be suffered by occupants. After that they will simulate and apply these technologies and test the vehicle whether their goals are achievable (Toyota Annual Report , 2011).

Technology such as VSC (Vehicle Stability Control) enables braking to be automatically applied to all four individual wheels and engine power reduced when the driver system sensed that the car is on slippery road condition(Toyota Annual Report , 2011). Furthermore, Toyota has also developed Emergency Response Technology. This technology is able to predict danger prior to emergencies that are caused by driver due to losing of awareness such as steering wheels equipped with cardiovascular monitors that check for abnormalities while the steering wheel is being gripped(Toyota Annual Report , 2011).

### **Toyota New Global Architecture (TNGA)**

Toyota had develop a new strategy framework named Toyota New Global Architecture or called TNGA. Under this framework it aimed to make the vehicles to be more appealing in terms of styling and handling. The core element of this new strategy is to develop new global vehicle designs that are able to be shared across the world (Kim, 2012).

Toyota will develop multiple models at once to increase the number of common parts. The strategy is for these similar models to be sold across global markets. This strategy lowers the production cost at least 30 percent through using the most of shared parts and reducing the development time and increasing profitability by sharing of technologies and components (Toyota Announces New Global Architecture -Will Be Used Worldwide, 2012).

These include the Camry, Aurion, Kluger and Tarago, along with Lexus RX and ES models (Flynn, 2012).

Moreover, the framework for the vehicle development will affect the models within the group. The strategy will also give more authority to the chief engineer of each program, enabling greater design freedom and speeding up the development process (Toyota's New Development Program To cut Costs , Improve Appeal, 2012). It would help in the creation of better cars .

Toyota New Global Architecture strategy has similarity with Ford Company's " One Ford" strategy. In 2006, Ford CEO Alan Mulally had adopted " One Ford" strategy. Before adopting this strategy, Ford had different operation around the world to develop its own product line. After adopting this strategy, Ford produced better product that can compete with its revival such as Toyota and Honda (Flynn, 2012).

### **3. 0 Future Expansion Strategies**

#### **3. 1 Joint Venture**

The first entry mode that Toyota can apply is joint venture. Joint venture can be defined as a cooperative enterprises entered into by two or more business entities (Murray, 2012). Joint venture differs from strategic alliance as the involved parties come to an agreement to a new joint entity for competitive advantage whereas strategic alliance is a partnership where the involved parties take advantage of each other's core strengths (Thomson, 2009). Toyota should apply joint ventures strategies to expand the future business to international market as it offers many benefits to the company.



The advantages include but not limited to the increased access to the market, be it globally or locally. Partners engaged in a joint venture are able to facilitate each other in terms of marketing and selling of products or services to their respective existing customers. On the global scale, joint venture partners may originate from different geographical locations and hence they are able to facilitate each other to penetrate foreign markets that they are not able to serve previously (Terjesen, 2012). Therefore, through joint venture Toyota is able to reach for foreign market such as Europe or India.

Next up is the easier access to technology and resources. Through joint venture, firms can opt for alternative cooperation with each other to obtain the technology or resources they need rather than to obtain venture capital for technological expansion or such. By accessing into the existing technological knowhow and resources of their partners, firms are able to bypass the setbacks needed to obtain the required technology or resources they desire (Fea, Christian, 2009). Hence, Toyota is able to save a lot of resources and time in pursuit for technological advancement through joint venture.

Moreover, in this era of rapidly changing international business environment, joint venture can provides Toyota with the opportunity to exit from its non-core businesses. Toyota can engage in a joint venture that gradually separates a business from the rest of the organization and finally sell it off its partners in the joint venture (Bah & Zhao, n. d.). Toyota can offer its expertise in automobile and electrical technology to its partners in the joint venture in exchange for their expertise in other fields for example

motorcycle, which Toyota hasn't serve yet. If the joint venture proves to be successful, Toyota can either further expand its business or sell the business to its partners.

Joint venture is a proven entry mode, tested by numerous multinational companies from all around the world and is feasible for Toyota to adopt. One example for successful joint venture of automobile manufacturers is the case of Ford and Mazda. Mazda first rented Ford's manufacturing plant for its expansion program which turned out very well. Ford soon entered an agreement with Mazda to reacquire fifty percent stake in the property. Hence, nowadays the plant now produces both Ford's and Mazda's sports vehicles, with technological and expertise sharing between the two (Fea, Christian, 2011)

### **3. 2 Licensing**

Licensing means the contractual agreement between a licensor and a licensee, giving the later the right to exploit the licensor's product, process, invention or medium and obligating the licensee to pay a royalty fees from the proceeds (Gleeson, 2012). With advanced technology and management knowhow that are desired by others, Toyota should implement licensing strategy to expand their current business. Licensing in its own rights is able to offer Toyota several competitive benefits.

Through licensing, Toyota will be able to acquire information about new markets without having to invest a lot of time and resources (The Methods of International Expansion, 2001). The licensee who is buying the license from Toyota is able to provide market information to the firm. Hence, Toyota does

not need to invest as much time and resources as it supposed to when it is doing market analysis from scratch. This will help Toyota to conserve valuable resources and time and utilize them in more important areas such as research and development.

Licensing also enables Toyota to avoid the development costs and risks associated with entering a foreign market (Hill, W. L., & Hernandez-Requejo, 2011). Through licensing, Toyota only provides the license for its licensees without having to actually venture into the foreign market itself. Therefore, Toyota will be free of the costs and risks by not entering the market while at the same time generate substantial amount of revenue through the collection of royalty fees. For example, Toyota can issue license to entry level automobile manufacturer in China without having to enter the market itself.

Furthermore, Toyota will be able to generate additional income aside from its automobile businesses. By issuing license, Toyota can secure instant and guaranteed revenue for itself. The payment of the royalty fees may include several types of payments, including but not limited to a guaranteed license payment or variable payment based on the profitability of the licensees' businesses (Fowler, 2012). With the high reputation and brand equity as well as its renowned technological and management expertise, Toyota will have a high success rate in licensing.

A successful example is the licensing of Toyota's hybrid synergy drive system to Nissan for the later to develop its own hybrid system. Nissan has acquired license for key components of the hybrid drive technology including

electronic controller unit and inverter. Toyota has done this to offset the heavy development cost for the advanced hybrid synergy drive system. It is so successful that Mazda also has engaged in a licensing agreement with Toyota for the procurement of the said technology (Doggett, 2010). Therefore, it is profitable and applicable for Toyota to focus on more licensing effort as its entry mode strategy in the future.

### **3.3 Wholly owned subsidiaries**

The term wholly owned subsidiaries is used when a parent company who owns 100 percent of a wholly owned subsidiary, which usually operates independently with its own senior management structure, products and clients (Basu, Chirantan, 2012). Since Toyota has a stable financial position and strong brand image, it should execute wholly owned subsidiaries strategies when it is expanding the business into foreign market.

Under wholly owned subsidiaries, Toyota only requires a simplified financial report and this enable it to control its own financial sources (Basu, Chirantan, 2012). When Toyota is opening a new sub-market by using wholly owned subsidiaries strategy, it will increase Toyota's parent company financial strength (Miller, 2012). In addition, the extra profit earns by Toyota will enable it to invest in others business areas to generate more revenues (Basu, Chirantan , 2012). For example, Toyota is able to utilize the profit earned from more profitable regions to intensify its marketing effort in more competitive or less profitable regions.

Besides, Toyota will acquire the capability to control its management and operation department by direct or indirect methods. Under direct method,

Toyota can send its own staffs to foreign countries to run their business whereas under indirect method it can hire local expertise to assist in the operation and management of its subsidiaries (Basu, Chirantan , 2012).

Toyota can also use the combined size of its subsidiaries to achieve better negotiation with its suppliers. Also, it can facilitate knowledge transfer between its parent company subsidiaries to achieve better management and technical efficiency as well as reduce the chance for problems to occur.

This entry mode is recommended for Toyota as it already owns a successful subsidiary called Lexus. It is currently an independent division of Toyota which specialized in the designing and manufacturing of its own vehicles. It shares some platforms and engineering resources with Toyota (Beyman, 2012). Hence, by focusing on this entry mode Toyota will be able to acquire more wholly owned subsidiaries which will benefits Toyota in the long term, as well as on the international market.

## **4. 0 Conclusion**

As conclusion Toyota have tried so much in the aspect of its strategy to attack the global market, but its strategy still got a lot of space for improvement. Toyota could improve its strategy as regard the price. Toyota promoted same products to a certain region, but there are huge differences as regard the price. Just take Ireland and Germany as an example that are in the same region and but somehow the Toyota Yaris is less expensive in Germany. The differences of the price is because Germany is one of the most fast developed countries in the European Union and the world, and people at that region have more higher spending power . Ireland has currently known

as an economic crisis, and consumers do not have the same spending power as German people.

The same report can be made as regard South Africa and it is even more revelatory. The Toyota Yaris charge more than 6000 euro in Germany, it is unaffordable to those people in South Africa and Toyota is trying to reach a “affluent” minority to purchase its cars. As a conclusion, Toyota has implemented good strategy that are works, their products are being localization based on the local demand, and the prices are only got a bit differences because it adapted to each regions, These differences are North American not always can be understand. Toyota could improve its strategy by being localized their product that adapted to the local demand and work hard on that to abide as the leader brand within the automotive industry and increase its sales around the world.