Strategic Analysis
Toyota Motor Corporation, Inc.

Business Strategy and Policy (BUS451)

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Introduction

The history of the wildly successful Toyota Motor Corporation (TMC) began in 1933 when the Toyoda family of Japan formed a company called the Toyoda Automatic Loom Works. The original company was formed to produce small motors for cars, but soon found a niche in the Japanese market and began producing entire automobiles. By 2011 Toyota Motor Works was the third largest automobile builder on the planet (behind Volkswagen and General Motors) and still looking to grow.

Toyota's Mission Statement

The mission statement for the corporation is: "To attract and attain customers with high-valued products and services with the most satisfying car ownership experience in America." According to multiple sources, including Bloomberg and The New York Times, Toyota's mission statement varies depending on the country, global region, and culture. For example, in Japan itself, Toyota's mission statement translated from the Japanese emphasizes more the quality and integrity of Toyota workers as opposed to the cars and trucks that the Toyota employees build. This rearranging of the Toyota mission statement reflects more the Japanese culture, which even if the cars and trucks were to malfunction, would still seek to "save face" and always be strong in front of customers and prospects.

Situational Analysis

Strengths

- Strong brand equity: The Toyota Motor Corporation has almost cornered the market on Brand Equity for car manufacturers. This began in the late 1960s here in the United States when gas-guzzling automobiles were all the rage and Toyota was satisfied with merely trying to gain a very small foothold in the US market. According to www.britannica.com , at that time, the big US car manufacturers here in the United States became a little complacent in their marketing and growth plans while turning a blind eye to the political happenings across the globe. Slowly but surely, the price of gasoline began to rise as other world markets began increasing their demand on Middle Eastern oil producers. These events came to a head during the mid-1970s during the Carter Administration when these same oil suppliers decided to hold out on supplies to the US market.
- The resulting gas shortages were a first for the US market. Meanwhile, the Toyota Motor Corporation saw an opportunity and quickly upped their marketing hustle and bustle for the Toyota Corolla and Toyota Corona, two small cars that got essentially double the gas mileage of their US competitors. A new market was born for Toyota (and, of course, other Japanese car manufacturers) and car sales in the US would never again be the same.
- Toyota production manufacturing effectiveness & product quality: Over time, the Toyota Motor Corporation has established an impressive track record for car quality. For many years, according to Consumer Reports.org, the cars and trucks for Toyota Corporation have remained at the very top of the list for quality and customer satisfaction.

- This is even more impressive when one recalls that, over the past decade, the company has had many embarrassing product recalls, including the infamous 2009 unintended acceleration and sticking gas pedal issues. It was asserted that Toyota cars could not brake properly because the floor mats would get stuck under the gas pedal and cause unintended acceleration. This crisis was handled calmly by Toyota officials, who were transparent in their solutions to the problems and restored customer satisfaction. To this day the supposed "problems" with the cars have never been completely proven.
- Diversified product portfolio (subsidiaries: Lexus, Daihatsu, Hino) increasing customer base: Here the Toyota Motor Corporation has again struck gold by having excellent marketing plans and maintaining product quality. The corporation long ago realized that there are markets within markets in every region of the globe and the products and services have to reflect that. An excellent example here in the United States is the Toyota Tundra. If one reads about the truck on (Toyota Motor Corporation), then one rapidly sees that when this truck was introduced into the US market back in the late 1990s, it was to compete with the big US truck manufacturers such as Dodge Ram, Ford F-150, and the entire General Motors truck line. The Tundra is a heavy duty vehicle that boasts a huge engine, power, torque, and better gas mileage than all of its rivals. No other Japanese truck manufacturers have succeeded as well in the US market as Toyota has with the Tundra. According to www.msnbc.com, Tundra sales were 20% of all truck sales in the country, which is certainly impressive.

High penetration in key markets Japan, SEA, China, and USA: And this goes for its entire product line. Even when Toyota has phased out old-fashioned models such as the Corona, the newer models seem to immediately catch on with the public. It appears that Toyota studies their existing markets and potential markets to understand what kind of automobiles those markets desire. Toyota then builds a variety of high-quality, high-value automobiles they know their customers will desire and purchase, rather than building the automobile that Toyota wants and then trying to convince the customer to purchase a car that does not meet their needs. An article in Advertising Age stated that Toyota's management philosophy has evolved from the company's origins, and has been reflected in the terms of "Lean Manufacturing" and "Just In Time Production", which it was effective in developing. Both the managerial values and business methods of the Toyota Corporation have been categorized and are commonly known as the "Toyota Way". This managerial philosophy was written about and analyzed in a 2004 book entitled "Toyota: 14 Ways of Management" by its author, James Luka.

The "Toyota Way 2001" was implemented in April 2001. All Toyota employees are expected to follow the values and conduct guidelines that were created in the "Toyota Way 2001." Toyota reviews its values and conducts under the following five principles:

- Challenge (Toyota Motor Corporation)
- *Kaizen* (improvement) (Toyota Motor Corporation)
- *Genchi genbutsu* (go and see) (Toyota Motor Corporation)
- Respect (Toyota Motor Corporation)
- Teamwork (Toyota Motor Corporation)

According to external observers, the Toyota Way has four main area of focus:

1. Long-term thinking as a source for management decisions
2. A procedure for problem-solving
3. Adding importance to the organization by developing its people
4. Distinguishing that continuously solving root problems drives organizational learning

There are 14 “Ways” of Toyota. These ways are as follows (as described by external observers of Toyota):

1. Management decisions are based on long long-term philosophy, even at the cost of short-term goals
2. Generate continuous process flow so problems can be brought to the forefront
3. Avoidance of overproduction by using "pull" systems
4. Equalization of workload
5. Getting things right the first time around instead of constantly stopping to fix them
6. Standardization of everyday jobs as the foundation for employee empowerment and ongoing improvement
7. Apply visual control to ensure that all problems are surfaced
8. Will employ properly tested technology that has been proven to be effective
9. Cultivation of leaders who carefully understand the environment, live by the Toyota values and philosophy, and are able to teach this to their employees

10. Cultivation of dedicated employees and groups who follow the Toyota's philosophy
11. Understand and admire the supply chain including the Toyota's extended network of partners by, continuously engage them in process improvement
12. A culture of engaging first hand in situations so that a full understanding the situation can be achieved. This is called genchi genbutsu
13. Involve consensus in the decision making process. Explore all options and swift implementation of decisions
14. Live and work as a learning organization by engaging in unyielding personal reflection and unceasing improvement

The "Toyota Way" as listed above is said to be responsible for catalyzing the growth of the company and moving it towards greater success. These standards that Toyota has implemented have evolved over time. Nothing more is needed for the purposes of this report but to emphasize the idea that the corporation is very strict and disciplined in its approaches to things, which makes it a great company with great products.

Weaknesses

- Language barriers between worldwide employees and other cultural differences that contribute to problems. This dilemma that the company occasionally suffers from was apparent back in 2009 during the braking disaster. According to www.businessweek.com, between 2009 and 2011, dozens of owners complained that their Toyota Prius cars and Toyota Corolla cars weren't braking right and that these were especially problematic at very high speeds.

The report says that Toyota officials "were a bit slow" to address the problem, thinking that a few disgruntled owners would soon disappear. But then the US Department of Transportation got in on the ordeal and Toyota officials addressed the issue. The corporation settled in court with the plaintiffs for several million dollars, but the entire problem demonstrated an internal communications problem at the upper management level of the corporation.

- Lack of adaptation to cultures. This goes hand-in-glove with the above weakness. The Corporation has been so successful that when a potentially disastrous problem arises, they are not quick to jump. Some cultures expect a problem to be addressed as soon as it is identified. The Japanese culture, and therefore Toyota's culture, appears to be in initially ignore the problem and hope it goes away, especially if there are only a small number of complains. The braking problems might change that. The "problem" was ruled mechanical, not electrical, and blamed for the most part on sticky accelerator pads and floor mats getting in the way of driver feet and shoes.

Threats

- Growing competition from other automotive companies. This is by far the biggest threat and the one that never, ever vanishes. The fact that the Toyota Motor Corporation has been on top for so long is really a marketing and business miracle. Look at the competition! General Motors, Mitsubishi, Honda, Mazda, Nissan, Kia, Ford, Chrysler, and others are always on the prowl to take significant market share away from Toyota.

The dilemma grows, in fact, immeasurably, because these other car companies have also been manufacturing quite excellent automobiles over the past decade and don't seem to be slipping. Another amazing factor is yet to even launch: As of this writing, all over China, many factories are being built that will house the first major efforts by the Central Chinese Government to market Chinese cars all over the globe. How these cars and trucks will look and how they will be marketed and promoted remains to be seen, but the entire car and truck business is looking at Beijing now to see when and what will roll off the assembly lines there in the near future. China-based car consultants have hired Detroit car business veterans from General Motors and Ford to help them start the process.

- Resistance to information sharing in an open market. This perceived threat to Toyota stems from the transitions in information and technology that the digital age has wrought. Traditionally, the Japanese culture was a much closed society and not one that would adhere well to the openness that the internet has begotten. To be fair (and accurate for this paper), Toyota has never had a major scandal revolving around a lack of transparency or because they were hiding important information from, say, the government.

  In fact, Toyota worked well with the US Department of Transportation back in 2009 and 2010 during the Prius braking problems. Still, every corporation has to adjust to the new openness that the information age has planted on top of all of us. Toyota will only be as successful and profitable as they are open to new ideas and to change.

Opportunities

- Increased demand for hybrid cars. In today's automobile market, Toyota is one of the largest companies that is making a fervent effort and using a push strategy to get the hybrid electric vehicles to the market. The company was able to seize the opportunity to become the first to automobile company to engage in commercially mass-produced hybrid cars. When the company introduced the Toyota Prius in 1997, it became the first company to sell these types of vehicles. Toyota eventually began providing this option on the main smaller cars such as Camry and the Lexus division, producing some hybrid luxury vehicles. It categorized such technology in Toyota cars as "Hybrid Synergy Drive" and in Lexus versions as "Lexus Hybrid Drive."
- The Unites States is the number one customer for hybrid markets. The number one selling car in this line is the Prius lift back. Internationally, sales of the hybrid vehicles in 2007 surpassed 1.0 million. The Toyota Company reported that by August 2009, over 2.0 million cars were sold internationally in 50 different countries. Along those same lines, there were over 1 million Prius cars sold in Japan by August 2011. Car and Driver magazine reported that as of October 2012 the Prius sold over 2.8 million since it entered the market to become the top selling hybrid car in worldwide." (Toyota) Worldwide sales of these hybrid cars increased to an impressive 4.6 million by 2012.

As reported in Car and Driver magazine, the line of 19 Toyota-produced hybrid passenger car models with one plug-in hybrid vehicle model was made in over 80 countries worldwide. The

report also highlights the relentless efforts of to launch 20 new hybrid models by the end of the year 2015.

With this information at the ready, it is easy to see that Toyota sees the electric car market as a major new opportunity for its products and services. This makes sense as well because the fossil fuel market is under siege from those demanding more clean-burning fuels for cars and trucks. But there is still more:

In 2011, The Toyota Motor Corporation, introduced three new members to the Prius family in Japan, Europe, and the US. These are (1) the Prius v, (2) the Prius c, and (3) the Toyota Prius Plug-in Hybrid (Toyota). During the first sales quarter of 2012, Toyota sold a reported 247,230 vehicles. This made the Prius family of cars the number three top selling nameplate in the world, as measured in terms of total international sales after the Toyota Corolla which sold 300,800 cars; and the Ford Focus which sold 277,000 cars. For 16 straight months, the Prius lift back the number one selling new car on the Toyota market. This was according to the company in September 2012. It was only outsell by another Toyota car, the Aqua (Prius c) in October 2012.

- This line extension is another major opportunity for Toyota. The new technology for all-electric cars is improving by the day, so this is a good fit for global sales and push. The Toyota website details sales and leasing opportunities for customers and sales dealers in every major market. In May 2010, Toyota took the opportunity to develop relationship and partnership with Tesla Motors in the effort to advance towards electric vehicles. As a part of this relationship, Toyota made agreements to acquire US$50 million of Tesla's common stock before the initial public offering. Out of this partnership with Tesla,

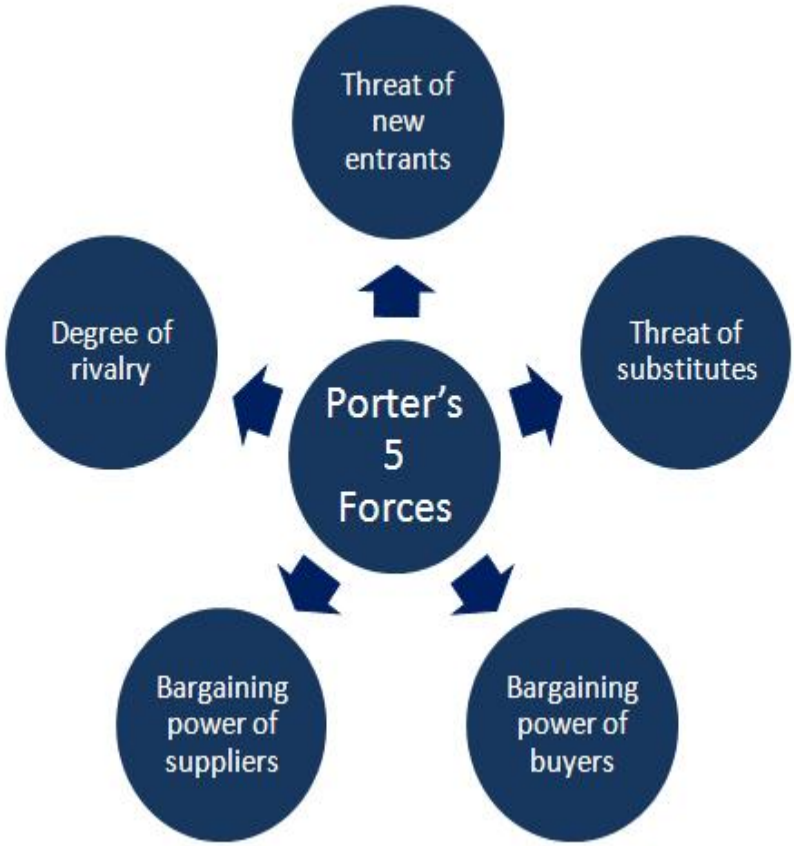
> Toyota came out with the 35 transformed all-electric RAV4s, (Phase Zero vehicles). "Lithium metal – oxide battery and other power train apparatuses were supplied from Tesla Motors" (Tesla Motors).

There are other new plans for Toyota as well, including a plan in the US market to capitalize on the armed forces market and to push the new all-electric Prius on that market. Another angle is to introduce the Scion to markets that might be open to its features, including big pushes in California, where green-technology buyers are living in large numbers.

Other areas which I found no solid information and which might be good markets for Toyota are the taxi cab fleet markets and in the pharmaceutical sales representative market (as well as the rent-a-car market). One doesn't need a source to quote the fact that these three markets are enormous opportunities for Toyota Motor. Traditionally, taxi care fleets were always filled with such cars at the Ford Crown Victoria in the US, or the black London taxi in England. But with the new changes in marketing reflecting the fact that the Toyota Motor Corporation now assembles many of its cars in the United States, US consumers have now taken a more accepting view of "foreign" and "imported" cars. This new view also reflects the global economy and the fact that in the past, companies were either US-based or "foreign." Nowadays companies are really more multinational in nature, and Toyota is no exception. In the end there are plenty of opportunities for Toyota to excel in global markets with new models and new technology. The corporation must focus, however, on its vehicle quality and not be too hasty to push the new models down the throats of prospective buyers. They would be better suited to promote and allow the customers to come around gradually.

Industry Analysis

Porter's 5 Forces Model is a business tool that allows for industry analysis. The analytical points are diagrammed below:



This section of the report on Toyota Motor Corporation looks at the overall global economy, the entire car and truck market, and how Toyota should adjust accordingly based upon the Porter Model. For example, what is the overall future of cars? Will the electric car eventually replace the gasoline engine? Although technology is in place for these things to happen, it is still doubtful that a total shift will occur.

- *Threat of new entrants*. LOW. According to a compelling industry analysis compiled by the New York Stock Exchange (www.nyse.com) which profiles Porter's 5 Forces for Toyota, the Toyota Motor Corporation faces several major challenges in the car and truck industry, including (according to(JD PowerInformation Center) the threat of China barging straight into the car and truck market. The JD Power report says that China could establish market share in such places as Asia and Europe within five years, which would be a major problem for Toyota. That is the biggest challenge facing Toyota at the moment. As it is, China already sells more than 20 million light vehicles around the globe. That number will most assuredly rise sooner rather than later. Still, the risk of many new entrants is low. Starting a car company is very difficult. Toyota's strategy here should be to focus more on the already-existing car companies and figure out how to handle the Chinese threat simultaneously.
- *Bargaining power of suppliers*. LOW. The biggest threat according to the NYSE report for investors is the price of steel. No steel? No cars! Since 2010, the report says that the overall price of steel has risen by around 65%, which is a huge problem for car manufacturers such as Toyota. Their options might be to look for other suppliers or to change their buying habits regarding used materials. That is, instead of buying new steel, they might buy second-hand material and use more of that. The bargaining power of suppliers, therefore, is strong now (for steel, anyway) but for most suppliers it is a weak hand. Car manufacturers can easily find other suppliers, according to the NYSE report, because of specification needs in the car industry. Toyota might look for other steel

suppliers or perhaps see if some sort of aluminum alloy can feasibly replace steel in the general makeup of the car and truck.

- *Bargaining power of buyers.* MODERATE. The NYSE report states that although consumers indeed desire more fuel-efficient cars (and Toyota supplies these) they still have the choice of switching with little risk. In the end it is a battle between the option of switching and the option of staying with the quality of a Toyota car or truck. Another option discussed in the NYSE is the used car market. This market is strong at the moment because of a still-unsettled economy in the US, but used car costs are rising for the most part, making a new car lease or buy that much more attractive to the customer in need of a car or truck. I disagree with NYSE here. I would put the bargaining power of buyers as strong with the allowance that Toyota's bargaining power also is strong. They can always adjust accordingly if markets shift.
- *Threat of substitute products.* MEDIUM. As mentioned above, the used car market poses a threat to new cars and leases for Toyota. Still, NYSE states this threat as medium because Toyota has the ability of cutting costs with its economies of scale. Thus this challenge can be overcome. Toyota has no threat from substitutes; but the threats from competing firms are always fierce.
- *Rivalry among competing firms.* HIGH. An examination of the Japanese car industry indicates that there is a major problem here for Toyota. Mazda, Honda, Nissan, et al. are all very high-stakes players on the global car scene and a threat to Toyota at every turn. NYSE places this threat, therefore, as high.

Summary

Toyota Motor Corporation Inc., is a Japanese company mainly involved in automobile and financial businesses. Toyota was founded by Kichiro Toyoda in 1933. Toyota is the third largest automobile builder on the planet behind Volkswagen and General Motors. Toyota has continually evolved and expanded the scope of its business to include aircraft, education scholarships, education and robotics. Toyota has contributed $464 million dollars since 1991 to charitable programs in the United States.

In 2010 Toyota had 317,716 employees, with revenue of $231 billion dollars. Toyota's goal is to contribute to environmental conservation throughout its range of business activities including automobile, industrial equipment and electronic components. The company was able to seize the opportunity to engage in commercially mass-produced hybrid cars. When the company introduced the Toyota Prius in 1997, it became the first to sell these types of vehicles in the international market.

The mission statement of the corporation is short and pointed: "To attract and attain customers with high-valued products and services with the most satisfying car ownership experience in America."

The major weakness of Toyota is cultural, mainly language barriers between worldwide employees and other cultural differences that has and continues to lead to major internal conflicts. The company remains dedicated to the continued development of their business and the steadfast quest of innovation and creativity. Toyota continues to grow as a global leader all over the automotive world while enjoying huge market share.

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