Bus 478 – Strategic Management

Section: D200

Case Synopsis For:
Toyota

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Firm History

The Toyota Motor Corporation is a large automobile manufacturer that was built in Japan in 1937 by founder, Kiichiro Toyoda, and it has 76 years of history (Toyota Global, 2013a). The spirit of innovation in operating and carrying the business comes from Kiichiro's father, Sakichi Toyoda, the most important person who encouraged, facilitated, and influenced Kiichiro to establish the automobiles business (75 Years of Toyota, 2012). In 1924, Sakichi Toyoda developed the Toyoda Model G Automatic Loom, and after 9 years, he set up an Automobile Department (Toyota Global, 2013a). Based on his successful experience, Sakichi supported Kiichiro to establish Toyota Motor Co., Ltd., and began manufacturing products in 1937 (Toyota Global, 2013a). The first subsidiary of Toyota was founded in the United States in 1957, which was the initial step for Toyota to expand its business outside of Japan (Toyota Global, 2013a). Later on in 1985, Toyota continued exploring markets and built Toyota Motor Canada Inc. in Ontario, Canada (TMMC, 2013). The corporation has invested $9 billion to support the business operations, hired almost 20,000 employees, and produced more than 4 million vehicles within these 20 years in Canada (Toyota Canada, 2013a). Based on Toyota's efforts and nonstop movement forwards, it reached 100 million unit sales in the Japanese local market in 1999 (Toyota Global, 2013a).

Timeline Tables:

Year	**Development**
1924	Toyoda Model G Automatic Loom
1933	Automobile Department
1937	Toyota Motor Co., Ltd.
1957	Toyota Motor U.S.A., Inc.

1985	Toyota Motor Canada Inc.
1999	100 Million Unit Sales in Japan

Current Situation

Toyota's markets are located around the world, including Asia, Europe, North America, the Caribbean, Africa, Latin American, and Oceania (Toyota Global, 2013c). Out of all of these regions, the United States of America (USA) is the most successful and significant market for Toyota's expansion. In the USA, Toyota has become a top-selling company with diverse products and insists for the development of a sustainable environment (Toyota America, 2013a). In addition, Toyota America has set up a $20 million TogetherGreen program, which cooperates with all kinds of organizations in order to promote and encourage the environment's protection (Toyota America, 2013b).

Currently, Toyota has a diverse range of vehicles in its worldwide markets. These include cars, vans, SUVs, trucks, and hybrids that meet different customer preferences (Toyota Canada, 2013b). In addition, all Toyota vehicles are of high quality that guarantees its owners at least twenty years of use without any safety issues (Toyota Canada, 2013c). In order to help customers save money, Toyota also acts as a dealer of used cars that has the same quality assurance and warranty benefits as its new cars, but sold at a discount (Toyota Canada, 2013d).

Based on Toyota's successful business operations, recent profits have increased more compared to the past several years. Its net revenue has reached over 22,000 billion Yen in 2013, an increase of over 1,500 billion Yen since 2009 (Toyota Global, 2013b). In addition, Toyota's operating income has significantly increased as well, from -600 billion Yen in 2009 to 1,321 billion Yen in 2013 (Toyota Global, 2013b). Toyota's net income has also increased from -600 billion Yen in 2009 to almost 1000 billion Yen in 2013 (Toyota Global, 2013b). Its current Return on Equity (ROE) is 8.5%, a great increase compared to the ROE of 2.1% in 2010 (Toyota Global, 2013b).

General environment

- ***Political:*** The end of the "green car" subsidy program in Japan has caused demand in Toyota's home market to decrease, with unit sales in the first quarter of 2013 decreasing by 1.6% compared to the same period in 2012 (Mihaylov, 2013). In 1998, the United Nations Economic Commission for Europe (UNECE) has adopted the global agreement on vehicle regulations, which leads to limitation of the emissions of CO_2 that a car can eject in the atmosphere. Toyota benefited from this due to their know-how of developing hybrid cars. Finally, political instability in main oil-producing countries has led to higher oil prices that indirectly lead to a decrease in demand for automobiles.
- ***Economy:*** The falling power of the yen devaluated the prices of Toyota's shares in the stock exchange. However, it has helped increase the yen value of Toyota's foreign earnings as shown by the Toyota's net profit which nearly doubled in the quarter to June despite the slight drop in unit sales (Mihaylov, 2013). The lower value of yen can also allow Toyota to obtain greater market share by cutting the prices they charge foreign customers. The beneficial effects of the fall of the yen have been magnified by cost cuts implemented by Toyota during the currency's relentless climb between 2007 and 2012. The growing demand and recovery in the US market has also triggered some gains.
- ***Sociocultural:*** More people are choosing to use alternative means of transports other than cars due to environmental concerns or to save money. This might lead to excess production capacity.

- ***Technology:*** Toyota has been able to stay in tune with technological changes. It has one of the most efficient production processes, the Toyota Production System, which follows a lean manufacturing system that minimizes waste and maximizes efficiency (Toyota Motor Corporation). With this system, Toyota has managed to keep costs low and use their technology to stay ahead of their competition in the US who still relies on mass production and assembly lines.
- ***Global:*** Toyota conducts its business worldwide with 52 overseas manufacturing companies in 27 countries and regions. Toyota's vehicles are sold in more than 160 countries and regions (Toyota Motor Corporation, 2012). Their company supplies trucks, luxury vehicles, cars, and compact cars to fit the ever-changing needs of the global market. Their global operations have also allowed them to exploit the supposed disadvantage of the falling power of the yen, as it has helped increase the yen value of foreign earnings.
- ***Demographics***: Currently in North America, the ageing population has led to a foreseeable decrease in demand of cars. Baby boomers, born between 1945 and 1963, pushed annual new vehicle sales to a peak of 17.4 million in 2000 from about 10 million a year in the 1960s. However, the baby boomers are starting to retire, and retirees drive much less than people still working (CBC News, 2010).

Industry environment

- ***Threat of New Entrants:*** The threat of new entrants is low due to the high barriers of entry such as high capital requirements, as well as technology and licensing requirements. Competition between established companies is extremely strong and brand loyalty of customers makes it very difficult to enter the industry.

- ***Bargaining Power of Suppliers:*** Suppliers have low bargaining power, as numerous suppliers rely on some particular auto manufacturer to buy their products. Toyota has many interchangeable suppliers. If a supplier can't provide good quality, low costs and reliable delivery of their products, it is hard for them to survive.
- ***Bargaining Power of Buyers:*** Customers have high bargaining power, as there is a large variety of brand and models of cars in the markets for consumers to choose. With this large number of competitors, consumers have more choices to select a cheaper and better quality car from. Toyota needs to use extra effort to differentiate its product from its competitors.
- ***Threat from Substitutes:*** There is a low threat from substitutes for Toyota. Although there is many substitute modes of transportation to cars, like motorcycles, bicycles, buses, subways and trains, these substitutes are mostly only practical in cities. However, for the majority of the market who lives in suburban areas, cars are the most convenient way of transport.
- ***Rivalry among Competitive Firms:*** A high degree of competition exists between automobile companies. Toyota's strongest competitors are Nissan, Hyundai/Kia, Ford, and General Motors.

Competitive Environment

Strong Competition

There is strong competition for Toyota in the automobile market. Honda Motor Co. led U.S. volume gains for Asia-based automakers in July this year (Ohnsman, 2013). Honda experienced a 21 percent increase and beat analysts' expectations. Deliveries by Toyota, in comparison rose 17 percent, matching analysts' expectations (Ohnsman, 2013). This was the first time in more than three years that Toyota has out-performed domestic competitor Ford in terms of shipping volume. Other strong competitors Nissan and Hyundai Motor Co./Kia Motors Corp. grew 11 percent and 4.5 percent respectively (Ohnsman, 2013). Nissan did not meet analysts' expectations, but Hyundai/Kia had beaten expectations. Strong performance by competitors contributed to a 14 percent increase in industry-wide sales of 1.32 million light vehicles (Ohnsman, 2013). Automakers are creating more competitive cars and diversifying their products. Toyota ranks behind only U.S. automaker General Motors Co. in terms of overall sales (including Lexus and Scion models). Asian automakers have a 47.5 percent market share in July, and there is a high degree of concentration among the big eight competitors in the automobile market (Ohnsman, 2013). There is therefore strong competition within Toyota's competitive environment, from both domestic and international competitors.

Volatility

With a variety of different factors that affect the degree of competition in Toyota's environment, the competitive environment is volatile. Factors that contribute to volatility include the availability of credit, the cost of unleaded gasoline and diesel fuel, and public bailouts of domestic competitors. Many consumer automobile purchases are financed by auto loans, or by other types of loans like lines of credit. The availability of credit depends on the interest rate, which is set by the Federal Reserve. The Fed rate influences the rates on loans offered by financial institutions. A low interest rate makes credit more available by reducing the carrying costs of a loan. Higher interest rates increase the cost, making credit less available. The availability of credit affects the demand for automobiles. The price of gas also affects the demand for automobiles. When the price of gas is high, the costs of driving are high, which in turn reduces demand for automobiles and vice versa. The U.S. government bailed out domestic competitors GM and Chrysler with $17.5 billion in 2008 and $63.4 billion in 2009 (Keane, 2012). These bailouts prevented bankruptcies, and therefore heavily influenced competition.

Strategic Challenges

Economic Crisis

Toyota is affected by economic trends. As a publicly-traded company on Tokyo's Topix index, Toyota stock is traded by investors. Trading influences the company's stock price, and Toyota's ability to raise new funds. Investors see positive potential for Toyota at present, with a 3.4% gain in price in the first half of the year (Ohnsman, 2013). A continuing gain in stock price will require Toyota to maintain investor confidence and carry through its strategies of building morale and improving internal communications channels. These strategies, among others, were developed in response to the dual challenges of economic recession and a global vehicle recall (Kass, 2012). As recent as this October, Toyota has recalled 870,000 vehicles because of a problem with air-conditioners that would cause airbags to deploy unnecessarily if control module short-circuited (Purla, 2013). Market growth continues to benefit Toyota while the company deals with these problems, but there are threats on the horizon. At present, low interest rates and competitive leases, especially on mid-size models like the Camry, help to boost U.S. auto sales (Ohnsman, 2013). Another financial crisis could cause interest rates to rise, hurting demand for Toyota products.

Environmental Trends

As consumer tastes change to reflect growing environmental concerns, Toyota is ahead of the pack in providing alternative fuel vehicles. Toyota offers the popular Prius hybrid and plug-in hybrid models, and is making significant investments in small electric vehicles as well as larger hydrogen fuel cell commercial vehicles (“Toyota's strategy for environmental technologies,” 2013). This product diversification strategy has served Toyota well throughout the global market. An important driver of growth in the market, however, is in fuel-efficient pickups. This is an area where domestic competitors, Ford and GM have a competitive advantage (Ohnsman, 2013). Domestic competitors have a longer and more diverse history in truck production than Toyota. In one way, Toyota's current strategy is suited to taking advantage of environmental trends. The company, however, needs to be concerned with potential substitutes that might reduce the demand for Toyota products. If consumers grow too environmentally conscious, they may choose to give up vehicles all-together and use public transit or other alternative methods of transportation instead. If competitors take advantage of new energy technologies faster than Toyota, they could also take away Toyota's competitive advantage in this area.

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