

# Marketing Strategy in Action

## Toyota—2008

For 77 years, in good times and bad, General Motors sold more cars annually than any other company. However, in the first quarter of 2007, Toyota sold 109,000 more vehicles than GM to become the largest auto company in the world. There are many reasons why Toyota passed its rivals in the industry. For one thing, it was a more customer-oriented company. A former Toyota marketing VP stated that his job was to find out what consumers wanted and then convince Toyota's product development team to give it to them. This was a radical departure from the Detroit Three (General Motors, Ford, Chrysler) automakers' approach of building cars and trucks and then trying to convince consumers to buy them.

Another reason is that Toyota simply is tops in quality, production, and efficiency. From its factories pour a wide range of cars, built with unequaled precision. Toyota turns out luxury sedans with Mercedes-Benz-like quality using *one-sixth* the labor Mercedes does. The company originated just-in-time production and remains its leading practitioner. It has close relationships with its suppliers and rigid engineering specifications for the products it purchases.

Toyota's worldwide leadership in the automotive industry was built on its competitive advantage across the supply chain. In the 90s, Toyota reduced part defects by 84 percent, compared to 47 percent for the Big 3. It also reduced the ratio of inventories to sales by 35 percent versus 6 percent. These reduction advantages occurred despite the fact that the Big 3 relied on identical suppliers. A study by Jeff Dyer of The Wharton School of the University of Pennsylvania and Kentaro Nobeoka of Kobe University attributed Toyota's success partly to its implementation of bilateral and multilateral knowledge-sharing routines with suppliers that result in superior interorganizational or network learning. Toyota uses six approaches to facilitate knowledge sharing: (1) a supplier association; (2) teams of consultants; (3) voluntary study groups; (4) problem-solving teams; (5) inter-firm employee transfers; and (6) performance feedback and monitoring processes. This effort also involves intense levels of personal contact between Toyota and its suppliers.

Toyota pioneered quality circles, which involve workers in discussions of ways to improve their tasks and avoid what it calls the three Ds: the dangerous, dirty, and demanding aspects of factory work. The company has invested \$770 million to improve worker housing, add dining halls, and build new recreational facilities. On the assembly line, quality is defined not as zero defects but, as another slogan puts it, "building the very best and giving the customer what she/he wants." Because each worker serves as the customer for the process

just before hers, she becomes a quality control inspector. If a piece isn't installed properly when it reaches her, she won't accept it.

Toyota's engineering system allows it to take a new car design from concept to showroom in less than four years versus more than five years for U.S. companies and seven years for Mercedes. This cuts costs, allows quicker correction of mistakes, and keeps Toyota better abreast of market trends. Gains from speed feed on themselves. Toyota can get its advanced engineering and design done sooner because, as one manager puts it, "We are closer to the customer and thus have a shorter concept time." New products are assigned to a chief engineer who has complete responsibility and authority for the product from design and manufacturing through marketing and has direct contacts with both dealers and consumers. New-model bosses for U.S. companies seldom have such control and almost never have direct contact with dealers or consumers.

In one study of automaker competencies in assembly, stamping, and powertrain operations, the top assembly facility in North America (based on assembly hours per vehicle) is Toyota's plant in Cambridge, Ontario. In this plant, a Corolla is produced in 17.66 hours. Toyota was also rated number one in engine assembly, taking just 2.97 hours to produce an engine.

In Toyota's manufacturing system, parts and cars don't get built until orders come from dealers requesting them. In placing orders, dealers essentially reserve a portion of factory capacity. The system is so effective that rather than waiting several months for a new car, the customer can get a built-to-order car in a week to 10 days.

Toyota is the best carmaker in the world because it stays close to its customers. "We have learned that universal mass production is not enough," said the head of Toyota's Tokyo Design Center. "In the 21st century, you personalize things more to make them more reflective of individual needs."

Although the recession in 2008 led to Toyota's first U.S. sales decline in 13 years, the company remained the largest and most successful automotive company in the world. While other companies have tried to copy its strategies, Toyota is clearly the leader in effective consumer marketing in the automotive industry.

Why the drive toward customization of vehicles? Part of this is due to fierce competition that provides consumers with a multitude of choices. The Internet enables consumers to be more demanding and less compromising. They now have access to the lowest prices available for specific models of vehicles with all of the bells and whistles they desire. From the comfort of their homes, they are able to bypass dealers and still find the vehicle of their dreams.

Discussion Questions

1. In what ways is Toyota's new-product development system designed to serve customers?
2. In what ways is Toyota's manufacturing system designed to serve customers?
3. How does Toyota personalize its cars and trucks to meet individual consumer needs?
4. In its price ranges, how do you think Toyota cars stack up against the competition? (You can check out all of its models at [www.toyota.com](http://www.toyota.com).)
5. How has the Internet changed the way consumers shop for and buy cars?

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**Sources:** Alan Ohnsman, "Toyota Scrubs U.S. Dealer Meeting as Slump Triggers Cost Cuts," [www.bloomberg.com](http://www.bloomberg.com), December 11, 2008; James Surowiecki, "The Open Secret of Success," [www.newyorker.com](http://www.newyorker.com), May 12, 2008; Bryce G. Hoffman, "Ford Lures Toyota VP to Bolster Marketing," [www.detnews.com](http://www.detnews.com), October 12, 2007; Micheline Maynard, "Move Over G.M., Toyota Is No. 1," [www.nytimes.com](http://www.nytimes.com), April 25, 2007; Alex Taylor III, "How Toyota Does It," *Fortune*, March 6, 2006, pp. 107–124; Jerry Flint, "Toyota's Onslaught," *Forbes*, December 26, 2005, p. 100; Alex Taylor III, "And It's Toyota by a Nose!" *Fortune*, June 9, 2003, p. 34; Marc Halpern, "Integrating the Supplier Chain, Toyota's U.S. Advantage," *Computer-Aided Engineering*, September 1999, pp. 52–53; Gary S. Vasilash, "Making It: How the Automakers Measure Up," *Automotive Manufacturing and Production*, September 1999, pp. 70–71; Oren Harari, "Kaizen Is Not Enough," *Management Review*, September 1997, pp. 25–29. [www.toyota.com](http://www.toyota.com).