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Research Paper

"The Analysis of the Toyota's Success in the US Auto Industry"- A Case Study

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ABSTRACT

In the dynamic business environment of the twenty first century, continual transformation has become the mantra for success. While the progress in information technology and the advent of globalization, business need to realize the importance of competitive advantage and select superior functional strategies that add value to the business, the customers and the stakeholders.

Strategic management means a management activity that involves making decisions based on various analyses and taking relevant action aimed at achieving long-term competitive advantages. Strategy is the channel or direction adopted by an organization with a view to changing its resources with the changing environment and modifying markets and customers in a manner that will benefit the shareholders. Strategy also implies the path adopted to achieve organizational goals.
The detailed purpose of the strategic management is-

Strategic Position	Scanning the external environment
	Meeting stakeholders expectations
	Utilizing resources and competencies
Strategic Choice	Identifying alternative strategies
	Evaluating the alternatives
	Selecting the strategies
Implementation of Strategic	Modifying the organization structure & design
	Planning and allocating resources
	Managing strategic change

In any industry, competition depends on several factors and the success of a company depends on how efficiently it handles these factors and survives in the face of stiff competition. The risk of potential entrants, the degree of rivalry among the existing players in the industry, the threat posed by substitute products as well as the bargaining power of buyers and suppliers influence a company's performance in an industry.
How Toyota's success in the US Auto Industry?
Toyota is a Japan-based leading automaker worldwide which offers a product portfolio of passenger cars, trucks, sport-utility vehicles and minivans. It also manufactures automotive parts, components and accessories. The case talks about the dynamics of the US auto industry as of 2006-07 and the position of the major players in the US market-the US Big3-General Motors [GM], Ford and Daimler Chrysler. The big three were experiencing huge losses by 2006-07and closing down some of their US manufacturing plants and rationalizing their staff. In contrast, Toyota was flourishing in its business and expanding its operations in the US. It had become the second largest player in the US in 2006. It also manufactured automotive parts, components and accessories. In 2006, the $ 178.9bn Toyota Motor Corporation was a leading auto manufacturer in the world with manufacturing facilities in twenty-seven countries and sold its vehicles in more than 170 countries across the world, but its primary markets were Japan, North America, Europe and Asia. Valued at $ 27.94bn, Toyota was the seventh [ninth position in 2005] most powerful brand in the world in 2006. It was the eighth a d twelfth largest respectively in the lists of Fortune and Forbes.
As 2007 dawned, Toyota's senior management took stock of its hitherto successful strategy and wondered if they should continue on the same lines or launch a new strategy to become the largest automaker in the US?
The Company was organized into three business segments i.e. automotive, financial services and others.
It produced automotives in two categories-conventional vehicles and hybrid vehicles under both the Toyota brands and non-Toyota brands. Toyota's car portfolio included Camry, Corolla and Avensis. Toyota offered the Corolla sedan and Yaris under its subcompact and compact cars segment while under the SUV and pick-up trucks category. Toyota's offerings included Tacoma and Tundra. In the mini van category, the Alphard, the Noah, Sienna and Regius Ace were some of the popular models. The Lexus was the Luxury car division of Toyota, and was operated as a non-Toyota brand. Under the Lexus division, the company offered sedans, coups, SUVs and hybrids targeted at the premium segment of the market in the price range of $37,000 to $71,000.
Toyota's other businesses comprised telecommunications, intelligent transport systems and a Japanese e-commerce marketplace called Gazoo.com. Gazoo.com provided its members with information on new cars, used cars and related services. When Toyota entered the American market, it was not preceived as a threat by the American auto industry because it was believed that its cars held little appeal for the American consumers. Toyota began manufacturing spare parts in California in 1972. Meanwhile, due to problems such as the 1973 Oil Embargo, environmental regulations, and quality control issues with American cars (Ford pinto),car

consumers in US started searching for alternatives to polluting cars. In response to these changes, Toyota aggressively marketed it offerings as being fuel-efficient, environment-friendly, and having better quality than American cars. In addition, Toyota marketed their cars as being hip and fun with memorable slogans like, 'you asked for it, you got it, Toyota' and with commercials involving young Toyota drivers jumping in the air.

By the 1970s,Toyota was the best-selling imported brand in the US and had captured about 20% of the US car market by 1980. During the 1980s Toyota began manufacturing vehicles in the North America. In 1982, Toyota Motor Co. Ltd. and Toyota Sales Co. Ltd. were merged into Toyota Motor Corporation. In 1984, the Japanese auto company entered into a joint venture with General Motors [GM] in the US and the new entity was called New United Motor Manufacturing

In 1988, [NUMMI] Toyota extended its manufacturing activities in the US by starting the Toyota Motor Manufacturing, Kentucky, Incorporation. In 2000, Toyota Financial Services Corporation was established to control and execute Toyota's finance companies worldwide. In 2002, It adopted the 2010 Global Vision, a vision for meeting mobility needs in a way that was beneficial to nature and consumers. By 2003, Toyota expanded its manufacturing operations in the US at Texas and Alabama for the production of its vehicles Tundra and Sequoia.

In 2005, Toyota produced more than 1.55 million vehicles, more than 1.3 million engines and nearly 400,000 automatic transmissions at its North American manufacturing facilities. In April 2006, Toyota Motor Manufacturing North America, Incorporation, and Toyota Technical Center consolidated to form Toyota Motor Engineering and Manufacturing North America Incorporation [TEMA]. TEMA was responsible for Toyota's North American engineering design and development, R and D and growing manufacturing activities in the US, Canada and Mexico.

The US auto industry mainly consisted of the US Big three i.e. General Motors [GM], Ford and Chrysler and Japanese automakers such as Toyota, Honda and Nissan. Ford with its product portfolio-Escape, Explorer, Explorer Sport Trac, Freestyle, Expedition, Lincoln, Mercury and Mustang brands was also competing in cars, trucks and SUV segments. General Motors was also competing in the above three segments with its brands-Buick, Cadillac, Chevrolet, Hummer and Saturn. Honda with its Accord, Civic, CR-V, Odyssey Minivan, Pilot SUV and Ridgeline Truck was also competing in the car, trucks and SUV segment. Nissan, another Japanese competitor of Toyota in the US had a diverse portfolio of vehicles cars i.e. Versa, Sentra, Altima, Maxima; Trucks-Frontier, Titan, SUVs and Minivans-Xterra, Murano, Pathfinder, Quest and Armada. By 2006, interest rates in the US had gone up and gasoline prices [gasoline was used as a fuel for automobiles] were also on the rise.

Domestic US automakers- GM, Ford and Chrysler which had lower emphasis on the fuel-efficient and environment friendly hybrid cars and more emphasis on gasoline powered vehicles, were going through tough times. They were experiencing huge losses and to keep up with declining market share and declining sales, undertook production cuts and retrenchment of labour force.

During 1990s, Toyota began rationalizing its parts supply operations in the US. It began a system of daily ordering of parts. With daily orders, the company also focused on small batch processing of parts orders rather than handing large batches of orders. This just-in-time method of ordering also helped Toyota's dealers in achieving 20% to 40% savings in floor space utilization and having productivity gains of 20% to 30% in parts management. The company also brought about improvement in its materials handling efficiencies by opening a 770,000 sq. ft., north American parts distribution centre in Ontario, California in 1996.

During 1990-96, Toyota was successful in outpacing its US competitors. Toyota had reduced the defects in its manufactured vehicle parts and reduced the ratio of inventories as a percentage of sales which were considered as measures of efficiency of a manufacturing company.

Toyota achieved these performance advantages despite relying on identical suppliers from the same plants involving the same or similar parts as its US counterparts. Suppliers in North America that provided parts to Toyota's supply chain were required to adhere to standardized processes like electronic ordering of parts, bar code labeling of shipments to Toyota and Advance Shipping Notices [ASNs].

While daily ordering, Toyota's supplier on-time delivery compliance had risen from 76% in 1997 to 93% in 2000. And 66% of suppliers on daily order status delivered within five days or less. Toyota also worked on a strategy of reducing the Purchase Order Unit [POU], for the different parts and Toyota had reduced the POU unit number on more than 1,000 different parts. Toyota critically analysed itself every business process and its competitiveness was based on continuous improvement-called Kaizen. Toyota did not allow its workers to get into complacency mode with respect to their past achievements. Toyota restructured a little bit every day even every shift-e.g. it had brought about improvement in the method of painting cars which saved it time, money and material.

Toyota established institutionalized routines for knowledge sharing across its suppliers. Toyota employed six key institutionalized, organizational approaches to facilitate knowledge sharing – a supplier association; teams of consultants; voluntary study groups; problem-solving teams; inter firm employee transfers; and performance feedback and monitoring processes. Toyota also shared knowledge within the company and also within network of suppliers base and even with those suppliers which were suppliers to the US Big 3. Toyota did not view the production process as proprietary and accepted that in the process of sharing, some valuable knowledge will pass on to its competitors.

By 2003, Toyota was increasing the ratio of built vehicles to import vehicles in the US. According to Automotive News Data Centre, imported vehicles were 39 percent of the US sales in 2003 as compared to 41 percent in 2002, In a bid to capture increasing market share in the US, Toyota had been giving emphasis on building its own vehicles locally in US. In order to overcome the failure of its Product Genesis, in the US, Toyota made another attempt to capture the youth market by launching Scion in 2003. Unlike Lexus, which was positioned as a luxury car, Scion was targeted at6 young consumers by offering it at relatively cheaper prices and after incorporating the preferences of American young customers in car features and design. By 2003, Toyota had replaced Ford to become the No. 2 automaker in US.

Toyota's strategy to become No. 1 player in US

Toyota aimed for the NO.1 position in the US market for which it launched several initiatives in the US market beginning 2004. Toyota had achieved a number of improvements including reducing the lead-time for die-making of large body panels of its vehicles to 1.7 months as compared to three months in 2002 and aimed to further reduce it to 1.5 months by the end of 2004 and planned to implement it in its overseas plants including the US within next two-three years.

Conclusion :-

Thus due to the constant efforts of scanning the external environment and optimum utilization of resources and competencies, while identifying, evaluating and selecting the proper strategies along with modifying the organization structure and design, planning and allocating proper resources and managing the strategic changes, Toyota has gained a superlative position in the market and has met the stakeholders expectations.

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