

Analysis of Toyota's Marketing Strategy in the UK Market

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Abstract:

This is a study on Toyota automobile industry, especially on Toyota GB Plc. The work mainly focuses on the strengths and weaknesses as well as the company's way of keeping competitive advantage. The purpose of the study is to explore the marketing strategy of Toyota GB Plc. in UK market. It is an explorative study in nature. Both primary and secondary data are used to get the insights about the market. The study concludes with the understanding and recommendation of how Toyota's marketing mix is contributing to obtain a substantial market share and brand image for its innovative technology.

Key words: customer, marketing mix, strategy, innovation

1. Introduction

The automotive industry is the world's largest manufacturing industry by volume, capital, employees and annual turnover. Hundreds of companies have jumped over to grab their own provision in this industry. Toyota among them is a story of the difficulties faced and hurdles overcome to getting a far eastern Asian product into the global market. Toyota Motor Corporation is the world's third largest car manufacturer. GM and Ford occupy the first and second position respectively according to the annual sales. The company recorded revenues of \$202, 864000 in the year ended on 31-03-07 (Yahoo Finance, 2007), which is 13.28 percent higher than the previous year. The operating profit of the company was \$189, 64000. Toyota sells its vehicles in more than 170 countries, producing more than 5.5 million vehicles per year, equivalent to one every six seconds. Toyota has broken the traditional narrow marketing framework. Toyota transformed its marketing tactics into a company-wide discipline practiced by anyone. Simply, marketing became a coordinated cross-disciplinary function in Toyota. For Toyota, customers are not the sole responsibility of the marketing department but of the company as a whole. These factors have together stalled marketing from becoming a coordinated activity that involves other functions such as finance, operations, human resources and strategy within any company.

2. Objectives of the Study

The primary objective of this study is to analysis the marketing strategy of Toyota Corporation in UK market. The specific objectives are:

- i) To analyse the strengths and weaknesses of the company.
- ii) To scrutinize critically practice of marketing mix with extended three Ps.

3. Methodology

This is an exploratory case based research on Toyota Corporation. However, this study is focusing on Toyota's UK operation. This qualitative research was conducted through face-to-face interviews with different respondents of the sample organization. The respondents of the study include marketing manager, production manager, brand manager, sales executives and customers. Non-probability convenience sampling technique was taken to interview respondents. For secondary information recognized available journals, reports, newspaper & magazine articles, and relevant websites have been gone through. We have gathered plenty of necessary data through formal interviews with selected respondents and from different secondary authentic sources. For analysing data, instead of depending on more statistical tools, we follow general analysis.

4. Toyota Motor Corporation

Toyota is a very innovative, customer oriented, well-organized company. Although Toyota is the third largest car manufacturer in the world, its market share in the UK does not seem lucrative. It's probably for the customer's loyalty to the local or continental manufacturer. In this circumstances Toyota's marketing objective could underpinned by the intention of achieving larger market share. Toyota believes in the relentless pursuit of excellence in every operation so Toyota's marketing objective is mirrored by the philosophy of providing the best customer experience along with the relationship marketing. A strategic marketing objective should always

be in the core of an organization as Jobber (2006) observes ‘The strategic marketing objective is to build sales by expanding the market for the product’. It’s not only enough to have a marketing objective but also the maintenance and implementation of the marketing objective yields sweet fruit for the company. Toyota strategically moved towards product branding from the corporate branding concept and Lexus is the out come of this strategy. Toyota responded to the micro and macro stimuli earlier than anyone else and obviously it doesn’t necessarily mean that companies only respond to the various stimuli they could create the taste for new product which is pretty evidential in case of hi-tech product. The brand objective will be to create product (as well as brand) awareness so that customers will become familiar with generic product benefits (Jobber, 2006). The bottom line of Toyota’s promotional activity is aligned to the concept of creating needs for its hybrid and Lexus brand. The way of marketing has undergone a substantial change for the last three decades. Selling product is not enough now a days; retaining customers is the prevailing phenomenon of the 21st century marketing strategy. Successful companies have already moved from the obsession of selling product to the philosophy of customer service. Toyota introduced relationship marketing to create brand loyalty for its product along with technical and financial support to the customer. Toyota is proceeding with its marketing strategy and already set up 227 dealerships across the UK. The present scenario is the harbinger of recalling Toyota myth in the UK car market.

4.1 Toyota GB Plc.

Toyota’s UK operation is known as Toyota GB plc. Toyota has setup its own production plants in the UK near Derby. Production on this site began in 1992. The plant makes 1.4-1.6- and 1.8-litre petrol engines and 2.0-litre diesel engines for vehicles manufactured in the Burnaston plant. In addition, parts for engine assembly at the French and Turkish plants and others worldwide are made here. Over 2 million engines have been produced since the start of production [Toyota UK, 2007]. The UK car market is mature and almost totally dominated by foreign owned groups. Different manufacturers offer their productions in the UK market. Among these Ford leads the market with 21 percent share; the share of Japanese manufacturers is increasing gradually after the lift of the EU import quotas in 2000. Among the Japanese manufactures, Toyota’s share is 4 percent.

4.2 The Effect on the Organisation’s Orientation

Organisations have traditionally emphasised either profitability or market share (growth) as their guiding orientations. As the fundamental responsibility of any organisation is to maximize shareholder value, such an orientation does not seem wrong. Toyota has done all these as a company to make investors happy along with a very high emphasis on products. Consumer behaviour in buying cars has changed significantly in recent years, they visit show rooms and study the features and performance of cars, and further, with the globalisation and increasing competition and market saturation, the automobile industry became very competitive. Murray & Sarantis (1999) observed the customers perspectives in purchasing cars, these are: comfort, durability, economy, manoeuvrability, performance, safety, and luxury. Toyota is emerging with cutting edge technology innovations to face the utter competition (Shimokawa, 1994). As an organisation, Toyota is oriented to customer and product. Product development is always the foremost activity in Toyota, which eventually relates with Toyota’s customer focus and marketing orientation. A marketing orientation is the recognition by the organisation of the primacy of customer values in exchange and the focusing of organisational thinking and activities on exchanges with customers. Paul Philpott, marketing director of Toyota GB, believes there are four key things that should be in the core of a business function: i) Marketing is the number one priority of a company; ii) Putting customers view on top; iii) Investment on the future; iv) Patience

Considering all of these points, Toyota’s customer perception has moved from “cheap and reliable” to a “quality car at competitive prices”. This consumer-perception rewarded Toyota with a 5 percent rise of market share over the past five years, together with a healthy rise in profit margins. The brand loyalty of Toyota has reached to 50 percent, making it the market leader in retained business (Simms, 2002).

The long time paradigm of marketing which guided the implementation of this customer-focused exchange was based on the concept of the “transaction” – the tasks of creating, communicating and delivering customer values were aimed at successfully completing a transaction with the customer. Although Grönroos (1994) questioned the relevance and dominance of the transactional approach, the emerging paradigm of relationship marketing has created significant changes in the way that marketing can be implemented effectively. A major change has been the shift in emphasis from the functional approach of transactions marketing to the process approach of relationship marketing. It is this change that created the opportunity to successfully develop synergies between marketing and total quality management (Grönroos, 1994).

According to Grönroos (1994), the distinctive characteristics (in comparison to traditional transactional marketing) of relationship marketing specifically are:

- Focus on customer retention;
- Orientation to customer value;
- Long timescale;
- High customer service orientation;

- High customer contact;
- Quality is the concern of all.

Toyotas focus on these distinctive features of relationship marketing is the obvious effect of the company's customer focused orientation of putting customers first.

5. Strengths and Weaknesses of the Organisation

Toyota is a leading automobile company and is exporting their vehicles all around the world. Toyota has generated heavy revenues in recent years, which have helped the company gain a dominating position in the market. The success of Toyota is evident in the last year's top brand rankings by Business Week, where Toyota was ranked at 7. However, Toyota has shown a decline in the energy and marketing segments, weak performance in Asia and poor performance of financial services. Moreover, the increase in the cost of raw material can pose a serious threat to future profitability. The stronger yen is another threat to Toyota's profit margin.

5.1 Strengths

Toyota has some strengths such as reliable and high quality image R&D, biggest spent amongst car manufacturers, innovative & just in time production, TQM, Lexus and other strong brands which make it a strong competitor in the market.

Toyota has huge financial capability which known as Toyota bank (Aghazadeh, 2003). Toyota has shown outstanding financial growth in revenue and profitability in recent years. Toyota Motor's revenues have increased at a CAGR (Compound Annual Growth Rate) of 11.5 percent during 2004-2007. The company's revenues have also outperformed the industry average of 1.8 percent for the same period. The revenues of the company grew at a rate of 13.8 percent (Datamonitor, 2007). The company's operating profit has also increased by a CAGR of 10 percent. The net profit of the company also grew at a CAGR of 12 percent. This impressive financial performance has put Toyota in a dominant position (Datamonitor, 2007).

Toyota Motor Corporation is showing rapid growth in the European market. The unit sales have increased by almost 20 percent, which has increased the regional revenue by 29.9 percent, which brought the operating regional profit to a massive 46 percent (Datamonitor, 2007). Toyota recorded robust revenue growth rates in North America also, which is the company's second largest market (Datamonitor, 2006).

5.2 Weaknesses

Toyota is a huge company and being huge has its own drawbacks. Car manufacturers at present are producing a high number of cars so the company needs to make sure that it's their car that the consumer wants to buy. Toyota's main markets are the US and Japan, so the company is constantly being affected by the changing economical and unstable political scenarios. Any major or minor change in the currency exchange rates can create a reduction in profit margin for the company.

The company has to produce high number of cars to maintain its strategic advantage and operational efficiency. That requires more investment in the shape of factories, labour, raw material and other costs. But, at the same time, the company has to be aware of the fact that a change in market trend can lead a company to over-produce. Toyota Motor recorded a weak-operating performance in the Asian region. The revenues of the company in this region grew at a rate of 9% for the financial year ended March 31, 2007. Though the revenues of the company in this region grew at a moderate rate, the operating profit of the company declined significantly. In this region, the company registered an operating profit of approximately \$0.9 billion for the financial year ended March 31, 2007, a decrease of 19% from the operating profit of approximately \$1.23 billion in 2006. In addition to this, the vehicle sales of the company in Asia region decreased by 10% to reach 789,000 units for the financial year ended March 31, 2007, from the unit sales of 880,000 in 2006 (Datamonitor, 2007). Toyota, like most others, tries to localize whenever they step into a new market. They start assembling their products in the local region. This may reduce the cost but this may also result in the decrement in the standard of those products. The drop in sales and profits incurred by Toyota Motor in Asian region does not only represent the weakness of the company but also a loss of opportunity.

Toyota's financial services include loan and leasing for both the customers and dealers. These operations recorded a decline in profitability in 2006. Operating income from Toyota's financial services operations reached \$1.3 billion in financial year 2006, a decrease of 22.4% over the previous year. With worldwide operations, the financial services segment consumes considerable resources of the company. Poor profitability of the financial services division is likely to pull down the overall financial performance of the company (Datamonitor, 2007).

6. The impact, positive and negative, of the organisation's marketing mix

Marketing mix is one of the best known concepts in modern marketing. Kotler (2007) stated as "The marketing mix is the set of controllable, tactical marketing tool that the firm blends to produce the response it wants in the target market". The marketing mix is the united whole the firm can do to influence the demand of its products.

The many possibilities can be collected into a group of variables known as the four Ps: Product, Price, Place, & Promotion (McCarthy, 1978). Later on another 3Ps were added and they represent People, Physical evidence, and Process.

6.1 Product

Toyota has already launched a wide range of products in the UK market. Toyota Aygo, Yaris, Auris, Corolla, Prius, RAV4, Avensis, Verso, Land Cruiser and obviously Lexus are some of Toyota's proud presence on the UK motorway. The upsurge of fuel price and growing environmental concern along with market saturation are posing potential threat to car manufacturers. Toyota understood the gas-guzzlers will be in nowhere in the market horizon in future and accepted the challenge of product development to satisfy customer expectation. The result of the huge cost and years of hard work is the legendary Prius. It is the pioneer of the hybrid genre and the most innovative product Toyota has launched so long. Hybrid engine works on the dual power of petrol engine and electric motor, the electric motor works on a battery and the battery charges itself automatically from the surplus engine power. The competitive advantages of low fuel, zero emission, pioneer product, and fabulous design offering make a huge potential market for Prius. The Prius is the best-selling hybrid vehicle with 758,000 sold since its launch in 1997.

In the UK, Toyota has sold 20,388 hybrid vehicles since 2000, with 13,826 Prius, 5,582 Lexus RX 400h and 980 Lexus GS 450h sales. Toyota segmented the market according to demographics, psychographics, and economical point of view. Each customer segment has its own unique demand function based on price, physical product characteristic and non-physical attributes reflecting image and performance (Hollenson, 2006). According to the segmentation, the broad range of products is offered for different customers. The price range of Toyota models are set in a way to cover up all the potential customer segments. This huge variety of available product creates a positive image for Toyota to becoming everyone's car.

6.2 Price

As the UK is enjoying a strong economy, the buying capacity of the population is comparatively high. Toyota sets the price of product range considering the different income level as the best way to hold the customer is to constantly figure out how to give them more for less. Starting from £6500, price touches £50,000. There might be two sets of price strategy: i) Car for the low-income people, ii) Car for the people intended to be distinguished from the general.

Pricing strategies usually change as the product passes through its life cycle. The introductory stage is especially challenging. Companies bringing out a new product face the challenge of setting prices for the first time. They can choose between two broad strategies market-skimming pricing and market-penetration pricing (Kotler, 2007). In the case of Prius, Toyota set a price that falls in the middle of Toyota's price range. This pricing strategy kept Prius in the reach of buying capacity which will also guard the product from nail biting competition that might be created if a certain product skim price. This price is synthesized by the price, demand and supply. Due to such a massive response like 111% increase in sales illustrates that Prius pricing strategy is right choice to make maximum profit and competitive advantage.

6.3 Place

Before targeting a market for a product, it's to be understood about the nature and different segments of the market along with the competitive factors. Certain product may have huge success in a certain market but could fail in a different market. The bio-psycho-socio-economical determinants are very influential in case of buying behaviour. Toyota previously didn't see the rocketing success in the UK market, although the company was very successful in most of its markets. Toyota analyzed the British taste regarding cars before launching Prius and this time it's a success. The price range of Prius may not be suitable for the developing Asian or Latin American countries. Toyota's product placing in the UK market is strategically successful as the UK consumers are more sensitive towards green issues and inclined to new technological inventions.

6.4 Promotion

The initial marketing strategy for the Prius aimed the early adopters of new technology. Toyota launched the promotional activity highlighting its commitment to manufacture environmentally responsible vehicles. The company focused spotlight on the green image of the car. Interested customers were given the opportunity to visit a special website about the development of Prius. Toyota used focus groups with target customers to evaluate different aspects of Prius. Toyota found that the consumers valued high technology, affordable price and quality. A significant portion of the initial advertisement budget for the Prius went to materials to help dealers communicate the new hybrid technology to the customers. During 2007, the second generation Prius came in the market. This time Toyota targeted the consumers tend to demand reliable, affordable, proven products (Rodriguez and Page, 2004). Toyota spends £27,218,000 on the promotional activities in the UK. As it was the first vehicle of its kind, due to hybrid synergy, Toyota Prius was supported by UK government that the Prius owner is eligible to not to pay congestion charges in central London which is normally eight pounds per day. Consumers and manufacturers will be given incentives to accelerate the introduction of hybrid cars which

have a petrol engine and an electric motor and those that run entirely on electricity. It is a big advantage for Prius promotion only for its greener image.

6.5 People

In the 7 Ps model, people represent the entire workforce from the production line to the service desk. The work force of a certain company affects its customers. Toyota's organizational culture focuses on the creativity of its workforce. Although human resource (HR) traditionally doesn't relate with marketing but a broader view provide the integral relationship of people management with customer satisfaction. Satisfied work force means better product and better product satisfy customers. The goal of organizational integration and quality is in the main pillars of Toyota's people management. Ian Winfield (1994) in his case study on Toyota's HRM practice says, "It would appear that the self-image which Toyota has of itself is that of a hologram. This is because each individual is expected to function as a problem solver in a system that can sustain and, hologram-like, reproduce it. As with an encoded hologram message, the whole is supposed to be contained within the parts. Each employee is encouraged to become, like the company founder, an inventor and seeker of solutions, yet to absorb company values and maxims. The company self-image of a hologram is worthy of further policy (Winfield, 1994). Toyota management invites suggestion and recommendation on their product development from the employees and it gives the R&D department a broader view about customer's expectation as at the end of the day the employees are consumers as well. This practice motivates the workforce as they are being valued by the top management process. This democratic organizational environment helps Toyota to soar in the sky of success. Consumers now days do consider the image of company from HR point of view examination and are a key to a better understanding of its international human resource as well.

6.6 Process

Toyota's lean production model is well known all over the world. The successful implementation of just-in-time (JIT) and total quality management (TQM) gave Toyota competitive advantage of achieving economy of scale. The efficiency of the workforce along with zero wastage in production line and supply chain management contribute in minimizing the production cost. The adaptation of the effective systems boosts Toyota's pricing capacity, which evidently helped the company to capture bigger market share.

6.7 Physical evidence

The interaction of the manufacturer with the consumer doesn't end when the sale is completed; apparently it is the beginning of the customer-manufacturer relationship. When a product is sold, the tangibility of the product becomes intangible as after the sales activity, service activity starts. Toyota evidenced its tangible presence by establishing dealership across the UK and renaming them in relation to the hybrid technology. It is a sort of customer satisfaction as they would always have the opportunity to get service from the core company in case of necessity. This tangibility presence of service centers would help Toyota gaining customer confidence and enhance the sales.

7. Conclusions and Recommendations

To sum up it could be said that Toyota's organization orientation and marketing mix is developed from the philosophy of its organizational culture. The company always puts quality and customers first. Its product development, marketing strategy, after sales service and every other activity bears the sign of best customer service. Toyota's only weakness so far is not to have a distinctive brand image although this weakness is going to be eliminated by the eventual success of Lexus as time goes by. Localizing, while moving to new markets, should have more focus on quality control. Although the organization cannot control the macro factors which can affect it at any time, still a big organization like Toyota is expected to have enough reserves to tackle any situation of such sort. The introduction of Toyota's hybrid technology has extracted a lot of investment from the company. Now they need to capitalize on the expense they have made. This can be done in a number of ways like Toyota has to make these hybrid products available to as many customers as possible. The balance between low pricing and price skimming is crucial. The growing markets of China and India are one of the biggest opportunities for Toyota. Toyota can have big increment in their profitability if they can win these markets.

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