



# CHANGING THE RULES OF THE GAME

Successful latecomers: Toyota in Europe

By Professor Kazuo Ichijo and George Rädler, Research Associate (November, 2006)

IMD

Chemin de Bellerive 23  
PO Box 915,  
CH-1001 Lausanne  
Switzerland

Tel: +41 21 618 01 11  
Fax: +41 21 618 07 07  
info@imd.ch  
<http://www.imd.ch>

**“It is not the strongest of species that survive, or the most intelligent, but the one most responsive to change.” Charles Darwin**

Does your company operate in a mature market? Are you a latecomer in certain parts of the globe? Is your business model requiring adjustments? Let's look at how Toyota dealt with these issues in Europe.

### **The possibility of profitable growth**

- Don't be afraid of change
- Don't be satisfied with status quo

Between 2001 and 2005, Toyota's global sales increased from 5.5 million units to 8 million units. Within the industry, Toyota had an excellent balance of cost-effectiveness and quality. Although recent recalls may have effected their reputation, they did not impact financial results. In 2005, Toyota was one of only two manufacturing companies being a member of the "\$10 billion club" – reporting a net income in excess of \$10 billion. With this performance, Toyota is widely seen as the most successful automobile company and has become the benchmark for the global automotive industry. But, in the view of Katsuaki Watanabe, President of Toyota, there was no reason to relax:

“Everyone should be dissatisfied with the present situation and constantly try to improve or change things. It's important to realize that there is always something more we need to aim at. That's what needs to be recognized by every individual. When you are growing you are satisfied with the status quo, and that's no good.”

## It's about ambition

- Set your goals
- Keep your company focused

“Our goals are not directly positioned against competitors. Our goals are around customers.” Toyota initiated a goal of 15% global market share by 2010 (up from 11% in 2005). In order to reach 15%, international growth was of utmost importance, particularly in Europe. Although Toyota recorded its ninth consecutive sales records in Europe in 2005 - and outsold its Japanese and Korean competitors by far - much more was expected from the company. It held a European market share of only 5.1% in 2005, compared to 13.7% in the USA for the same year.

Europe started to play an important role within Toyota. A European design center was established in Nice. A range of new factories brought the number of locally produced vehicles up to 60% and much needed diesel engines were installed in about 40% of all vehicles.

## New approaches for latecomers

- Think beyond your existing methods
- Check your competition

With the launch of the Aygo minicar, Toyota challenged many of its traditional views, its traditional Toyota way of doing business. It decided to enter the hugely competitive minicar segment, even after several competitors withdrew due to lack of sales and profits. For Toyota to successfully enter this segment, existing assumptions of the business model had to be changed. Given the cost pressure, Toyota joined forces with Peugeot/ Citroën (PSA). The joint factory in the Czech Republic started operations in 2004 and had a production capacity of 300,000 units. It was producing three cars on the same production line: the Toyota Aygo, the Peugeot 107 and the Citroën C1. This was the only way for Toyota to reach the minimum efficient scale and be cost competitive right from the beginning.

## Getting a joint venture right from the start

- Don't be afraid to innovate
- Develop do's and don'ts

Toyota was prepared to go innovative ways with this co-operation. While PSA was responsible for purchasing parts, Toyota had the overall responsibility for the development and the production of all three models. Peugeot and Citroën were known for their clever marketing and diesel engines, but both brands fared less well on the quality dimension. The initial decisions included separation of tasks between Toyota and PSA and the associated responsibilities. By Toyota taking over both development and production, they could build-in Toyota's quality standards. Together, they developed a set of do's and don'ts, such as clear guidelines regarding outsourcing.

## Managing people issues

- Communicate
- Visualize

The overriding principle for operating the factory was focus on "cost reduction." Utmost attention was given to HR issues and adjustments necessary for operating in the new environment. Although there was a minimum of four languages spoken in the factory (Czech, French, Japanese and English), communication was not a problem. Why? In order to overcome the language barrier, Toyota visualized everything by setting up graphical displays to an extent never seen before. A standardized model for the allocation of working shifts did not work in the Czech Republic, as it led to unusually high absenteeism rates on certain days of the week. Soon, the entire shift allocation system had to change.

## Identifying your customer

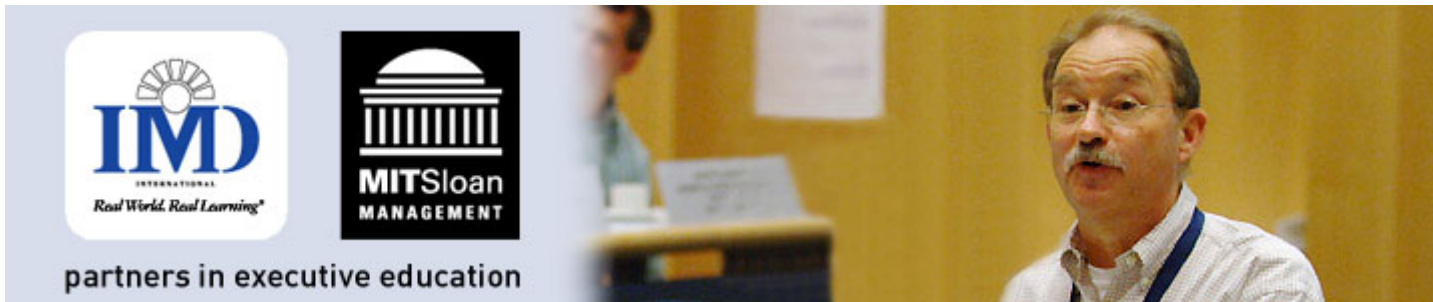
- Know your target market
- Try new approaches

Toyota identified generation Y (customers born after 1976) as the target market and organized its market launch accordingly. It had no experience selling to these customers and was willing to try new approaches. Besides the internet, Toyota targeted customers directly at the places they frequented, and conducted a lengthy pre-launch campaign.

The Aygo model was well received and contributed to Toyota's sales growth of 10% in the first half of 2006. European consumers turn Toyota's commercials into reality: "Today. Tomorrow. Toyota."

Professor Kazuo Ichijo teaches in Orchestrating Winning Performance (OWP) and Driving Strategic Innovation (DSI).

## RELATED PROGRAMS



### **DRIVING STRATEGIC INNOVATION - <http://www.imd.ch/dsi>**

#### **Faster Innovation Across the Value Chain**

Program Directors William A. Fischer and Charles H. Fine

- For senior executives or teams who are crafting innovation strategies and putting them into action
- Speed up market commercialization of innovative ideas that are strategically important
- Identify innovation opportunities in your value chain and learn how to better manage ideas and knowledge professionals, inside and outside your company



### **ORCHESTRATING WINNING PERFORMANCE - <http://www.imd.ch/owp>**

#### **The 6-day global business program - The fastest way to bring yourself up to date and stay ahead**

Program Directors Peter Lorange, Bettina Buechel and Dominique Turpin

- For individuals and teams who seek the latest management thinking and practical, innovative solutions for their business
- A unique energizer: boost your performance, broaden your perspectives and expand your global network
- Network and design the program that suits you