



THE CONNECTION BETWEEN MARKETING AND INNOVATION: TOYOTA CASE STUDY

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Abstract

The aim of this research paper is to describe how Toyota has made a huge impact in automotive industry by applying unique and innovative programs and processes through its journey and expansion globally. The interlinking innovative systems of TPS, JIT and Lean Thinking with marketing tools led Toyota to become the leader of car industry with its remarkable produced cars and services despite many challenges faced on the way. In addition, Toyota Way with its components 'continues improvement' (Kaizen) and respect for people, started to be applied in the car industry globally, thus, many other businesses started to apply it because it showed to be very successful. Businesses that are applying it are: Ford company, Nestle, Starbucks, Lockheed Martin, Myo Clinic and so on. Furthermore, this paper will try to explain how Toyota tend to focus on differentiating their goods and services from their competitors by product or service quality to capture consumer choice and as an important type of strategic interaction that is how they choose a differentiated product.

Keywords: Differentiation, consumer choice, innovative programs, continues improvement, just in time, quality



INTRODUCTION

Business has only two functions - marketing and innovation (Peter Drucker)

Although Peter Drucker is widely regarded as a marketing genius, etymologists claim that the term marketing is centuries old, first appearing in dictionaries in the sixteenth century to describe the act of buying and selling in a market. It comes from the Latin word “*mercatus*”, which means a market place or trader (Collins English Dictionary, 2012).

According to American Marketing Association the definition has changed and evolved over time. Now, as of 2013, “*marketing is activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large*” (American Marketing Association, 2013).

With the transition from a small local market to a global market environment, firms are required to provide high-quality goods and services if they wish to compete successfully and worldwide. According to McFarlane and Britt (2007), these substantial changes in the newly established marketing environment are requiring organizations to find effective methods to adapt to changes while giving optimum consumer value and gratification. Companies must have essential success characteristics such as innovative goods and services, quality, image, customer understanding, value, and technology in order to prosper. Developing a plan to compete effectively in a global market is a daunting task on itself. Product differentiation is essential for gaining a competitive edge (Kotler and Keller, 2006).

Product differentiation may be provided in five dimensions: features, form, performance, durability, dependability, and design; services (customer service, maintenance, and repair); personnel, channel, and image. As a result, organizations with greater innovation skills are more likely to satisfy the requirements and desires of their consumers (Sok et al., 2013). Furthermore, organizations must have superior marketing abilities in order to join the market sooner with their unique items and deliver better services to clients than their competitors.

Likewise, when correctly adjusted, the capacity to innovate, market orientation, entrepreneur skill sets, and marketing competencies interlink, resulting in sources of competitive advantage (O’Cass and Ngo, 2011). Initially, firms should test innovation by acquiring various suitable inventive abilities, as using it competitively leads to corporate growth in a highly competitive market environment.

Second, successful businesses combine marketing and innovation operations in order to achieve superior market performance. This link between marketing and innovation is crucial. While innovation allows businesses to create value (customer base), marketing on

the other hand, leads to capturing value (preserving customer base) (O'Cass and Ngo, 2011).

The purpose of this study is to show how Toyota made a great impact on auto industry and other global successful companies by applying unique and innovative programs and processes through interlinking systems of TPS, JIT and Lean Thinking with marketing tools that led Toyota to become the greatest car manufacturing industry.

LITERATURE REVIEW

Toyota car industry is Japanese multinational company founded in 1937 from Kiichiro Toyoda with its headquarters in Aichi, Japan. As of 2016 Toyota is the largest manufacturing automotive industry in the world with its production output of 17 million units, €213 billion revenues and net profit of €17.3 billion (Toyota Global, 2017). History of Toyota's march initially as a textile company to the top leading car manufacture is a remarkable example that many other car industries strive to follow. Although, in the 1970's and 80' Ford and GM marketed better looking cars, stronger and more fuel efficient, the Japanese manufacturer was closing the gap by improving every year. Moreover, it increased its double-digit market share from 2 percent in the 80's to 13 percent in 2006 causing GM losses of market share from 40 percent down to 26 percent. This ascension process is famously known in Japanese word as *jojo*: "slowly, gradually and steadily"(Stewart and Raman, 2007). On the other hand, American manufacturing companies faced by fierce competition initiated a variety of activities to improve their manufacturing strategy by adapting programs such as TQM (Total Quality Management) and JIT (Just in Time), (Hayes and Pisano, 1994).

TQM is a manufacturing program with a purpose of continues improvement and sustainability of quality products and processes through involvement of senior managers, employees, suppliers and customers in order to exceed customer expectation, while JIT's role is to reduce and finally eliminate all forms of waste through production and human resource involvement. It requires employees to be constantly trained to perform multitask and to improve their performance by putting more efforts into innovation processes (Cua et al, 2001). Although, American car industries Ford and GM adapted these improvement programs, they could only implement them partially. The issue was that these companies were focusing on the aspects of organizational assets - for instance the mechanics of TQM and JIT - instead of focusing on their core substance of improving capabilities and skills in order to achieve desired results (Hayes and Pisano, 1994).

While, on the short run these two-program concept could perform well, Toyota's strategy is built on long run innovation and marketing. Therefore, they developed what is now called

(TW) *Toyota Way* (Jayamaha et al, 2014). In addition, what sets Toyota apart from other car industries is the unique feature Toyota Production System (TPS) and Lean Thinking (Stewart and Raman, 2007). TPS is divided in two categories: continues improvement (CI), and respect for people that together comprise five key features shown in the following below table:

Table 1. Toyota Way – Toyota Production System (TPS).

Toyota Way (TW)	Cat 1: Continues Improvement	Cat 2: Respect for People
Officially invented on 2001 for the purpose of advanced training employees outside Japan.	<p>Challenge - for long term vision. By facing challenges courageously and using creativity to reach our dream.</p>	<p>Respect We respect each other, we make effort to understand each other and build trust on each other.</p>
	<p>Kaizen "Continues Improvement" Through efforts to innovate we improve our goods and services for our customers.</p>	<p>Teamwork We stimulate professional and personal growth, offer opportunities to develop and maximize performance</p>
	<p>Genchi Genbutsu "Go and see for yourself" Visiting the source, checking the facts to reach final decisions, to build consensus, and achieving company goals.</p>	

(HBR: Stewart and Raman, 2007)

The first category *continues improvement* is basically what the company encourages its managers and employees to ask questions all the time, learn new skills by doing and trying different ways for ultimate perfection. By visiting manufacturing sites and looking how assembly lines operate, looking for other unique ways of performance is what TPS program sets them apart from other car companies. Second category, is regarded for Toyota staff to trust each other and rely on each other, in other words teamwork (Stewart and Raman, 2007). In addition, Toyota always takes care of its people by stimulating professional growth, offer career promotion opportunities and other meeting company target perks.

METHODOLOGY

This paper conducted quality research data and analyzes the unique application and innovative programs and processes of Toyota car making industry from Japan through its journey and expansion globally. The interlinking innovative systems of TPS, JIT and Lean Thinking applied by Toyota represent continues improvement and sustainability of high quality of products and services with the involvement of senior managers, employees, suppliers and customers in order to exceed customer satisfaction. In this research paper, Porter's five forces were examined where it highlights:

- a) threat of new companies to enter the market,
- b) buyers power,
- c) power of suppliers,
- d) substitute threat, and
- e) rivalry of competitors in the industry.

In addition, in this research, in order to measure and evaluate overall performance of Toyota and its competitors, SWOT analysis was applied to determine the strength, weaknesses, opportunities and threats of Toyota in comparison with its rivals. Lastly, Toyota 4P's of the marketing mix was analyzed with product, price, place and promotion. They cover a wide range of aspects that are taken into account when marketing a product, such as what consumers want, how the product or service satisfies or doesn't satisfy those wants, how the product or service is perceived in society, how it differentiates itself from the competition, and how Toyota interacts with its clients.

TOYOTA RECALLS

Despite Toyota's incredible long record of manufacturing and selling top quality cars, in 2009 in United States there were many Toyota's customers that complained regarding software technical glitches, sticky pedals and braking issues that lead to a mass recall from the car industry (Cole, 2011). Between 2009 and 2011 more than 7 million cars were recalled due to safety issues. To make matters worse the media exaggerated that lead to a political issue of increasing safety regulations (Liker, 2011). Survey data conducted by Jones (2010) showed 31 percent of Americans believed that Toyota cars were unsafe, 14 percent were among Toyota owners, while for non-owners it was 36 percent, an enormous increase that brought Toyota down from the top selling car industry into 21st place. Although recalls are not new to car industry, Toyota suffered the most because it already established a top-quality brand name in America and the public took it by storm by raising doubts on company's sincerity on social media (Rajasekera, 2013). In Addition, Toyota's failure to review customer complaints on its

database and neglecting minor issues with the sole purpose of fast growth and expansion led to massive recall and moving the company away from its core manufacturing program TPS and Just in Time (JIT). The root cause of Toyota's problems started in 1995 when the company appointed a new CEO Hiroshi Okuda known for his ambitious efforts to remake Toyota with his newly drafted global growth strategy "2005 vision" by increasing its market share from 7.3 percent in 1995 into 15 percent in 2010 (Cole, 2011). Ambitious goals of fast expansion in many locations, hiring many employees with little training, contracting non-Japanese suppliers and employment of many less qualified engineers increased the risk with this strategy of not adjusting to its core system of Toyota. After a huge damage that it was done and late acknowledgement from the top management about safety issues, Toyota was looking for a way to come clean (Johar et al, 2010). To tackle the issue Toyota adapted a new strategy "polish the halo", preventing spillover effects by polishing the image (so that non-customers who do not identify themselves with Toyota brand) become more negative towards the brand or badmouth other features of the brand. Toyota followed this strategy with different campaigns and TV advertisements by reminding its customers about long tradition in safety and quality. Polish the halo has the advantage of convincing customers without extensively processing the message; it also works very well on informing the customers that Toyota's intentions were good despite the issues arisen (Johar et al, 2010).

MARKETING INTEGRATION

In this section, we will discuss about R&D and marketing integration. According to (Gupta et al, 1986) if a company's goal is to be first in the market with new products, services and new technology, it is most likely that such companies should invest heavily on research & development and marketing integration. Ideally, companies use two types of innovation strategies: offensive and defensive. Companies with offensive strategy tend to be more technical and strive through innovation to be market leaders, while defensive strategy approach, companies tend to be left behind, therefore they are reluctant to be first in the market (Gupta et al, 1986).

On the other hand, car industries that were developing new goods and processes through great deal of efforts on their research and development labs started to lose market share by not applying marketing techniques when it comes to placing their new discoveries into their designated market (Onisor, 2015). Incorporating powerful marketing techniques in the process of bringing new discoveries to the market and using the latest opportunities for their customers to benefit, they improve their performance, at least in three categories: a) reduce time to place the product and service in the designated market, b) ability to compete in the long run and to increase its market share, c) reduce costs and make profits.

For a company that wants to analyze the business environment it operates, Porter's five forces is a very important tool, as it provides an image of external forces that impact the company and how they shape its profit. Furthermore, the paper continues with Toyota's SWOT Analysis and 4P's of marketing. Fundamentally, the model shows how the company looks at strategy and its competition by determining the profitability of the company and play a crucial role on strategy formulation (Prasad and Warriar, 2016).

FIVE FORCES OF PORTER STRATEGY IN ANALYZING TOYOTA

Threat of new companies to enter the market - Low

To enter a car industry market, it depends on the entrance barriers such as: product differentiation; cost advantage (already established companies have better access to raw material, favorable government policies, location and so on); distribution channels; financial investment and a high risk of return on investment. Besides high capital investment, new companies are extremely challenged by high competition from already established industries that dominate the market (Prasad and Warriar, 2016).

Buyers Power - Medium

Buyers power results in the following situations: customers purchase in large volumes (government purchase of Toyota cars for official purposes). They have a buyer's power in this negotiation. Another buyer's power is ability to choose between different car industries based on certain factors. Therefore, to meet customer's demand and satisfaction, Toyota has manufactured fuel efficient cars due to high prices of gas. As a result of fuel price fluctuations trends in the last decade, Toyota introduced hybrid cars for potential customers (Toyota Global, 2017).

Power of Suppliers - Medium

If suppliers are powerful they seek to increase prices or reduce the quality of their goods. Toyota has a good reputation of having good relations with its suppliers by complying with standards set from the manufacturer and they created a mutual trust of providing quality goods on time (Stewart and Raman, 2007).

Substitute Threat - Medium

One of the main threats constantly faced Toyota is the reliance of its potential customers on used cars. Due to the financial crisis's effects and many countries still on recession, there is still a tendency on customers side to stick to cheaper used cars. However, in the last few years Toyota is striving to reduce prices of its new cars and narrowing the gap with used cars (Kurtz, 2017)

Rivalry of Competitors in the Industry - High

Perhaps the most significant of Porter's five forces in analyzing an industry when it comes to rivalry between many competitors. Toyota's competitors are: Volkswagen, Ford, GM, Honda, Hyundai and so on. According to Porter this is called high intensity rivalry because it includes numerous competitors within an industry that aggressively fight for market share. However, the profits are very low because of several factors such as: low products differentiation, slow industry growth, competitors of relatively equal size, low customer loyalty and high barriers to exit. For a car industry to be more successful in achieving higher profits they have to focus more on price, quality, image, fuel efficiency and customer loyalty among others (Nkomo, 2013).

SWOT ANALYSIS

Strength

Market position and brand value: Toyota is well known globally with its quality products and processes. In 2017 Toyota sold more than 10.2 million cars in more than 190 countries including regions globally (Schmitt, 2017). Besides Japan, it has established facilities and operations in North America, Europe and Asia. In addition, Toyota's market share for year 2016 increased to 10.9 percent and is still considered a global market leader (Kennedy, 2017). Regarding brand value (Interbrand, 2017) Toyota is ranked the highest valued vehicle for 2017 with brand value of \$50.3 billion, followed by Mercedes Benz \$47.8 billion and BMW \$41.5 billion. In terms of vehicle dependability (Mesa, 2017) "Problems per 100 Vehicles (PP100)" Lexus received the highest score 110, while Toyota is third with a score of 123. Besides dependability, another Toyota's strength is its great reputation of having good relations with its suppliers.

Research and Development (R&D): Toyota has established innovative systems like: TPS, JIT and Lean Thinking with a sole purpose of producing strong and dependable cars. In terms of R&D Toyota is well known for wise spending comparing to other car industries. In 2015, Toyota spent \$9.6 billion, Volkswagen \$15.1 billion, while Daimler Mercedes \$8.8 billion (Besjardins, 2017).

Weaknesses

Recalls: Toyota's image started to deteriorate with vehicle recalls in 2009. Technical glitches and safety problems from customer complaints led to more than 7 million recalls between 2009 and 2011 (Liker, 2011).

Presence in China: Toyota's strategy of not expanding in China, but by focusing more on American market led its main competitor Volkswagen take the crown. As a result of demand for

gasoline VW vehicles, deliveries increased by 12.2 percent in China as its countrymen does not drive diesel cars, but only gasoline (Rauwald and Ma, 2017).

Opportunities

Autonomous vehicles: When it comes to autonomous vehicles, Toyota is in disadvantage comparing to Tesla, Ford and GM. Although Toyota's new research facility establishment in Silicon Valley with \$1 billion investment that started to operate in 2015 (Ohnsman, 2017) the plan of delivering the first autonomous vehicle is yet to be announced.

Joint Venture: Another great opportunity is a joint venture between Toyota and Mazda car plant in Alabama, planned to open in 2021 capable of making 300,000 cars and employing 4000 workers with a sticker Made in USA (Boudette, 2018). In addition, Toyota by 2019 plans to integrate on Avalon two car platforms: Apple Car Play and Android Auto, which brings functionality and feel of a smart phone into car's main screen (Korosec, 2018).

Threats

Competition: Alliance between different car industries is that Toyota currently fears. Joint venture between Renault, Nissan and Mitsubishi with its high-quality cars produced are estimated to be the largest producers with 10.5 million cars, second is estimated Toyota with 10.4 million and third VW with 10.2 million cars (Schmitt, 2017).

Government Regulations: US market plays a significant role for Toyota growth. Withdrawing from North American Free Trade Agreement (NAFTA) urged by President Donald Trump will result on immediate increase of import tariffs between Mexico and USA. Since Toyota has already established manufacturing facilities in Mexico if new regulations are imposed: customs duties and tariffs shall immediately have effects on price increase, loss of market share and less profit for Toyota company (Kiley, 2017).

Exchange Rate: Toyota as a currency uses Japanese Yen, therefore its major concern is the appreciation of the currency as it is exposed to foreign exchange fluctuations against US dollar and Euro. Appreciation of Yen and fluctuations of foreign exchanges could bring material adverse effect on Toyota's operational results and impact on valuation of the company (Nkomo, 2013).

TOYOTA'S 4Ps OF MARKETING

Product: Toyota has successfully manufactured various cars such as: Lexus, Corolla, Camry, Rav4, Prius, Yaris and so on. It is the first company that started to manufacture hybrid cars in

1997. Toyota's product type includes compact and sub-compact cars, mini-vans, sport cars, luxury, SUV's, pickup trucks and buses (Marketline, 2017).

Price: A product is worth only what customers are willing to pay for it. Price of a car needs to be competitive, and it does not necessarily mean it has to be the cheapest – rather, value added or better value for money (CIM, 2015). Value innovation is a program that Toyota introduced in 2005 by reducing the price of components by incorporating several components into one integrated system and getting rid of unnecessary components (Stewart and Raman, 2007). In addition, it uses the following fundamental pricing strategy: market-oriented pricing and value-based pricing.

Place: Toyota sells cars through its 170 distributors in more than 190 countries and regions. Has operation facilities in Japan, North America, Europe and Asia. The company produces parts and components through 50 overseas manufacturing companies in 28 countries besides Japan (Marketline, 2017).

Promotion: Toyota is considered to be one of the biggest advertisement spenders, and for a fiscal year of 2015 spent 435 billion Yen (€3.2 billion) on advertisement and promotion activities that focus primarily on personal selling through suppliers, advertising channels – media, newspaper, radio, magazines and sales promotions (Parker, 2016). Toyota also uses focus groups to have customers evaluate different brand vehicles and see what they value more. A particular case was with Prius, where customers valued more technology used, affordable price and quality of the car (Hoque et al. 2013).

CONCLUSION

In conclusion, it is safe to say that Toyota has made a huge impact in automotive industry and other global industries by applying unique and innovative programs and processes through its journey and expansion globally. The interlinking innovative systems of TPS, JIT and Lean Thinking with marketing tools led Toyota to become the leader of car industry with its remarkable produced cars and services despite many challenges faced on the way. In addition, Toyota Way with its components continues improvement (Kaizen) and respect for people, what started to be applied in the car industry globally, many other businesses started to apply it because it showed to be very successful. Businesses that are applying it are: Ford company, Nestle, Starbucks, Lockheed Martin, Myo Clinic and so on.

Five forces of Porter strategy in analyzing Toyota show that threat of new companies to enter the market and rival Toyota is low. In terms of buyers power, power of suppliers and substitute threat Toyota's risks is medium. Through years Toyota has showed its buyer power and met customer's demand and satisfaction by manufactured high quality and efficient vehicles. Furthermore, great reputation with its suppliers of having good relations by complying with standards set from the manufacturer and establishment of mutual trust of providing quality goods on time is what sets Toyota apart. On the other hand, rivalry of competitors in the industry is considered high. Toyota's competitors like Volkswagen, Ford, GM, Honda, and Hyundai are considered high intensity rivals because it includes numerous competitors within an industry that aggressively fight for market share.

SWOT analysis show that Toyota's strength is market position and brand value. With its facilities and operations across the world, by incorporating the best innovative systems Toyota has managed to manufacture strong and dependable vehicles. Although a few technical glitches and safety problems from customer complaints led to recalls, which affected Toyota's image, in the following years its sales increased with customer's demand to have this vehicle in their possession.

Toyota 4P's of marketing signify that has successfully manufactured various vehicles with affordable price by reaching its customers in more than 190 countries through outstanding advertisement and promotion activities.

SCOPE FOR FURTHER STUDIES

This research has shown that Toyota has made a huge impact in automotive industry by applying unique and innovative programs and processes through its journey and expansion globally. The interlinking innovative systems of TPS, JIT and Lean Thinking with marketing tools led Toyota to become the leader of car industry with its remarkable produced cars and services despite many challenges faced on the way. There is much work remain to be done with new researches conducted regarding automotive industry that can be used to improve this research. There are several researches works that may be presented as suggested below:

- In recent years, beside hybrid vehicles, many activities and processes of Toyota were conducted on focusing on community technology to improve current driving environment. Toyota smart center collects data online from vehicle users and analyzes them to make driving more secure and convenient for the driver. By measuring current daily driving habits, it anticipates future habits of the driver.

- Another feature of future work to consider is electric and hydrogen vehicles, hence they are considered the future of automotive industry by providing fuel efficiency, with extremely low costs to operate the vehicle, while providing its driver a safer comfortable ride.

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