A Brief Understanding of International Business Strategy

--A Case Study of Toyota

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Introduction

Any ambitious enterprise that is going to achieve and sustain profitability and profit growth, no question, would have to expand business abroad, to gain extra market and sales, and profit in result, by employing benefit of location and large scale economies, experience and learning sharing effects. However, as it has been self-proven to countless firms, foreign markets are never a flat plain field without trap, instead absolutely represent an adventure. The adventurers would face immense issues like cross-border management coordination, unions, local consumer taste and preference over products and services, local government regulations, majority among which stem from the environmental divergence in different markets, legally, economically, or culturally. Automotive industry is born for global market, due to the intrinsic pressure for cost reduction, as the initial high cost per unit retards the market expansion to great degree. Meanwhile, most of time, cars are consumer products whose markets are filled with local taste and preference, and local government regulations because the industry is never too little for local government to neglect the influence of automotive industry over whole local economy. This paper will go through the basic thinking of international business strategy concept, and focus on the current world largest automaker Toyota's strategy, in the context of the past and ongoing environments.

Basic Concept of International Business Strategy

Facing the firms with foreign market orientation are two apparently contradictory goals, to reduce cost by product standardization and, subsequently, central production at optimal location in the world and to cater to local demands for customization by product differentiation, localized marketing mix and so on which unquestionably tend to raise cost. In order to deal with these two opposing ends, four international business strategies have been worked out, empirically and/or theoretically, namely global standardization strategy, localization strategy, transnational strategy, international strategy. Global standardization strategy focuses on increasing profitability and profit growth by reaping the cost reductions that come from economies of scale, leaning effect, and location economies. The strategy applies best when there are strong pressures for cost reductions and minimal demands for local responsiveness, mainly where products that service universal needs prevail. A localization strategy practitioner increases profitability by customizing the firm's goods or services so they provide a good match to tests and preferences in different national markets. Localization is most appropriate where consumer tastes and preferences differ substantially across nations and cost pressures are not too intense. Conversely, a transnational strategy is aiming to simultaneously achieve low costs through location economies, economies of scale, and learning effects; differentiate their products offering across geographic markets to account for local differences; and foster a multidirectional flow of skills between different subsidiaries in the firm's global network of operations. Finally, many enterprises pursue an international strategy, taking products first produced for their domestic market and selling them internationally with only minimal local customization.

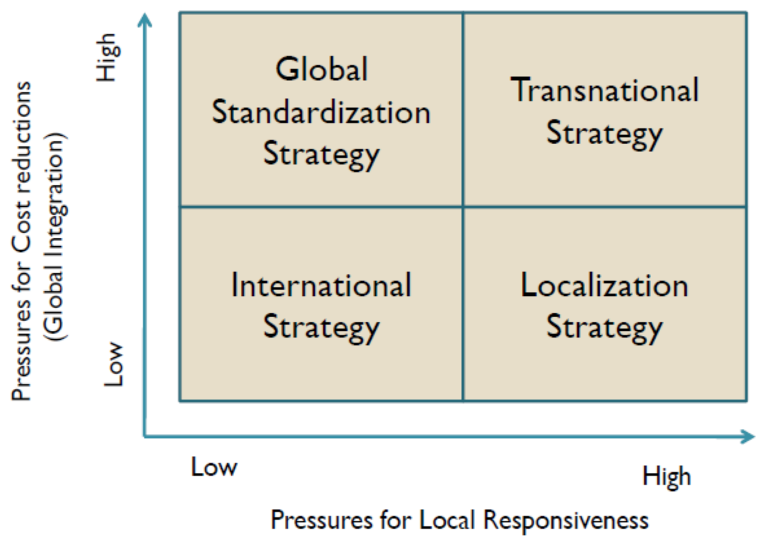

Figure 1.0

Four Basic Strategies

Brief Background of the World Auto Industry

Since the landmark innovations such as moving assembly line by Ford (Bak 2003), Kanban production system by Toyota (Liker 2004), the automotive industry has been improving tremendously in terms of cost reduction and quality upgrade, in turn, has been enlarging the market scale in developed markets including USA, Europe and Japan, and also paving way into emerging and promising markets like China, India, Brazil and Russia. The major car makers in the world are Toyota, General Motors, Volkswagen, Ford, Honda, Nissan, PSA, Hyundai, Suzuki, Fiat, Renault, Daimler, Chrysler, in order of vehicles produced in 2008 from 9,237,780 to 1,893,068 units respectively including cars, light/heavy commercial vehicles and heavy buses (OICA 2009). However, quite interesting, much of the biggest manufacturers do not necessarily produce all the products in home country; instead, many of them have active production in countries to employ location economies and/or to save transportation cost, or circumvent local content regulation and other barriers. In 2009, the top 10 motor vehicle producing countries are China, Japan, USA, Germany, South Korea, Brazil, India, Spain, France and Mexico, from 13,790,994 to 1,557,290 units produced by each country (OICA 2010).

Brief Background of Toyota

Since establishment in 1933 as a division of Toyoda Automatic Loom Works, Toyota developed from plain field, through many legendary well-known creative managements including production setup time reduction, grouping the front workface into teams, decentralizing the responsibilities of identifying and fixing defective parts to the whole team during assembling, developing Kanban system on which the famous

Just-In-Time inventory practice heavily relies, innovatively organizing suppliers by incorporating them into the enterprise value chain of Toyota with long term relation development, building unique distribution and customer relation with focus on building long term ties with customers and bring their feedback on quality, styling, prices and other features into Toyota's design and production process. By these distinct managements, Toyota has achieved remarked advantages in production cost, product quality, wide range of models on a limited range of platforms (Cusumano 1989, Womack, et al 1990).

Though Toyota had disastrous experience when setting up an independent production subsidiary in California with ambition to seize the small car market in USA, Toyota learned and improved a lot in quality to suit the local conditions, in result made a triumphal turnaround in US market in late 1960s. Moreover, the following oil price rise unexpectedly boosted the demand for Toyota's cars which are light and fuel saving. Since then, worldwide exporting business of Toyota had been a steady growth. In order to get around import barriers such as local content regulations and import quotas, Toyota established a 50/50 joint venture named New United Motor Manufacturing, Inc. (NUMMI) with General Motor in USA in 1983, and a wholly owned manufacturing facility in UK in 1989 and another in France in 1997, and a 50/50 joint venture with French automaker Peugeot in Czech Republic in 2002. Brave strides also have been happening in China, now the world's fastest growing car market. Now Toyota has become the largest car manufacturer in the world, 320,808 people employed worldwide in 2010, 52 production facilities in 26 countries except in Japan, 12 product design and research and development centers in 7 countries (Toyota 2010).

IBS of Toyota

Any firm that aims to expand foreign market initially intends to gain benefits of economies of scale and location and learning effect which could be realized by and boost product and service standardization. However, here unavoidably arise problems of localization due to demand for response by the firm to local conditions like customer taste and preference, local government regulations and cultural traits, etc. In the international business strategy matrix along two dimensions of pressure for cost reductions and pressure for local responsiveness, transnational strategy has the highest degrees along both dimensions.

Among the four typical international business strategy postures, Toyota, like many other multinational enterprises (MNEs), chooses transnational Strategy. How best to implement a transnational strategy is one of the most complex questions that large multinationals are grappling with today. The need to compete with international competitors like GM and Ford forced Toyota to look for greater cost economies. However, variations in consumers taste and government regulations across countries mean that Toyota also has to be responsive to local demands. Therefore, Toyota confronts significant pressures for cost reductions and for local responsiveness. To reduce cost by standardizing, Toyota has been accelerating the process of moving toward fewer vehicle platforms, with goal of building a wide range of models on a limited range of platforms that share many common components parts or modules. The company is reportedly working toward a goal of having just 10 platforms, down from over 20 in 2000 (Hara 2004). To the almost finished products with many common component parts, Toyota adds local product features, tailoring the finished product to local needs. Thus, Toyota is able to realize many of the benefits of global manufacturing while reacting to pressures for local responsiveness by differentiating its product among national markets.

Entry to US Market

Toyota’s early way into market was quite struggling. In 1957, Toyota tried to enter the US market, by establishing a subsidiary in California. Later, it proven to be a nightmare; the Toyota cars performed poorly in road tests on US highways. Obviously, Toyota people had not did enough homework on the basic local conditions in US market, simply how Americans used cars. Due to lack of local responsiveness, Toyota closed down its US subsidiary and withdrew from the market. Back home, the company started to study the feedback from American consumer surveys and US road tests, redesigned several of its models accordingly, and reshaped its market reputation considerably in US market late 1960s, selling well with welcomed product characteristics and consistently falling production cost and retail prices. Thanks to the oil price rise following the Israeli/Arab conflict, US consumers shifted to small fuel-efficient cars in droves. Toyota was among the main beneficiaries. Though this desire for small fuel-efficient cars in US market happened without Toyota’s prediction, it conformed to the traditional demand for this nature due to the lack of natural resource at home, in Japan. This could be viewed at kind of learning effect and knowledge transfer within global markets, that is, transfer of cumulative knowledge achieved at Japanese operation to US market. However, market changes. In early 1980s, import quotas imposed by United Stated over Toyota stagnated export growth substantially. To cope with this problem, Toyota’s first overseas operation, NUMMI, was born. This step could be taken as a strategic entry of Toyota in US market further. In this deal, Toyota designed the product and designed, equipped, and operated the plant, while GM’s role was marketing and distributing the plant's output. By this, Toyota obtained a chance to see whether it could build quality cars in the US using American workers and American suppliers, to experience dealing with an American union. All this knowledge later proved to be invaluable. Meanwhile, the joint venture reduced the risk of jumping into a yet unknown market by decreasing the investment scale and borrowing knowledge from GM. Encouraged by its success at NUMMI and already having obtained knowledge of marketing, sales, service, etc in US market, Toyota established its first wholly owned product facility in US in 1986, followed by plants in California, Indiana, Texas and Ontario, Canada.

Americanization as A Way of Localization

An important trend in Toyota management deserving high priority notice is steady and firm Americanization. The company now sells more cars and trucks in North America than it does in Japan, and over 60% of Toyota's global profits come from North America due to the richer market mix of sport-utility vehicles and trucks. In adaption to this geographic sales shift, Americanization has been increasingly evident in Toyota. First, American designers have influence much more than before since they successfully convinced their Japanese managers to produce a V8 pickup truck and redesign the hybrid car, Prius, for the American market; the two marques later turned out to be big success in US and global markets. On the personnel front, more Americans (or Japanese who have spent time in the U.S.) are climbing the corporate ladder. And new ideas about designs, marketing, and innovation have has permeated the upper levels of the company and are seeping down to everyone else (Taylor 2003). This is a good example of global strategy adaption to changing market mix.

Recommendations

Looking back to Toyota's NUMMI with GM, though significant knowledge and experience about local conditions like marketing, unions were achieved, Toyota paid extremely high price for these benefits. In return for the benefits Toyota gained, GM had an opportunity to observe in full detail the Japanese approach to manufacturing which is part of the core competencies of Toyota, including Kanban system, JIT inventory organization and relationship development with suppliers. Once commanded by competitors, these competencies will become backfiring weapons in enemy's hands; the productivity and quality gap between Toyota and its global competitors has narrowed. GM and Ford have both made significant strides in improving their quality and productivity in recent years (Hill 2009). It is recommendable that Toyota be more careful of cooperating with competitors. The benefits initially thought to be gained via that cooperation might be obtainable via other ways, e.g. in the case of NUMMI, Toyota would have setup wholly owned facility for production hiring senior veteran from the Big Three to help deal with local unions, while opening joint venture with local big professional auto dealers for marketing and sales. For long term, this is conservative, but less risky.

The 2009-2010 Toyota's recall crisis has been attracting worldwide eyeballs (Valdes-Dapena 2010). Though people believe it is partly due to political pressure, it does reflect some unnegligible quality problems. According to news reports, the recall crisis partly lies in Toyota's radical ambition over cost cuts and growth. In line with Toyota's companywide obsession with continuing to lower cost, an ambitious initiative known as "Construction of Cost Competitiveness for the 21st Century", or CCC21 was launched in 2000. That project has a goal of slashing component part costs by 30% on all new models (Toyota 2002). To go further, at a 2006 invester conference in London, eliminating vehicle parts and pushing suppliers to adopt lighter and cheaper materials was discussed as way of exceeding the cost reduction results achieved in CCC21. On 24 Feb, 2010, at a hearing in the US House of Representatives, Akio Toyoda, the President and CEO of Toyota, acknowledged their growth pace has been too quick, priorities became confused for Toyota (Ohnsman, et al, 2010). Seemingly, it is not too late for Toyota to improve quality and restore image in markets. But it is good example for every automaker to learn that going forward is favorable only at right pace. To cut cost must be accompanied by strict quality control system to prevent quality being compromised.

Conclusion

International Business Strategy is a homework any firms aiming to expand international market must take seriously. After carefully scaling the pressures for cost reduction and local responsiveness, firms are to finely position their international business strategy: international strategy, global standardization strategy, localization or transnational strategy. With its transnational strategy, Toyota has been quite successful becoming the biggest carmaker in the world. Nevertheless, the current recall crisis imposed extreme pressure on Toyota market image, while the ongoing financial crisis since late 2008 has been representing a hard external environment to Toyota. Both take wisdom for the giant Toyota to handle. In fact, more challenges exist, as the US Big Three are narrowing the quality and cost gap with Toyota, South Korean competitors like Hyundai-Kia has been growing steady and encroaching market share from the bigger players with advantages of low price, fuel-efficiency, nice design and generous warranties. On the other hand, opportunities are everywhere, with growing market in emerging countries like China and India, growing world demand for more environment friendly vehicles which are more fuel-efficient and hybrid. But chance favors only the prepared mind.

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