

# Rapid Penetration Into The Emerging Markets – The Toyota Way

By Professor Kazuo Ichijo



The Toyota Motor Corporation is currently one of the most successful automotive companies in the world. With the largest market capitalisation in the global automotive industry, Toyota has built a strong reputation for the high quality, durability and reliability of its cars – and, owing to this widely recognised competence, Toyota has steadily been developing its business globally.

Initially, Toyota developed and produced cars only in Japan and exported them abroad in order to ensure high quality and to maintain customer trust in the brand. Then, because of increasing overseas demand, the need to tailor production to local needs, the opportunity of tax breaks, and in order to save shipping costs, Toyota evolved to the second stage of its manufacturing model: it started to produce vehicles where the market is. This model has been working well in established mass markets such as North America and Europe, because the high sales volume justifies the production overhead.

Recently, like other global companies, Toyota has identified attractive business opportunities in other developing markets such as BRICs (Brazil, Russia, India, and China). Each has huge growth potential. The strategic challenge to Toyota now is whether the *previous* manufacturing model used in the North American and European markets will apply equally well in emerging markets. In these emerging markets, local demand sometimes fluctuates widely, or may vary greatly from that in Japan, Europe, and the US. Equally, demand is usually not high enough to achieve optimal production, as shown in **Table 1**.

The solution for globally operating companies – including Toyota – has, in the past, tended to be to build manufacturing facilities in developing markets (such as Asian regions) mainly owing to their cheap labour costs. However, in developing and producing cars for these regions, Toyota used to stay reliant on Japanese designers and engineers, rather than exploiting local talent. The problem is obvious. People who are not familiar with local tastes and local unique customer needs are probably not the best to develop and produce cars which will satisfy unique local customer needs! Growth rates in emerging markets are significant and a growing number of companies are trying to gain and sustain competitive advantage. The victors in this tough competition are likely to be those companies able to satisfy unique customer needs efficiently and effectively - and to



	Number of plants	Number of vehicles produced in 2004 ('000 units)	% of vehicles produced in 2004	Number of vehicles sold in 2004 ('000 units)	To bridge the gap
Japan	12	4,284	65.8%	2,303	Export
North America	11	1,034	15.9%	2,103	Import
Europe	6	515	7.9%	898	Import
Other Regions	34	680	10.4%	1,415	Import
Total	63	6,513	100.0%	6,719	

Source: Company information, Toyota

Table 1.

achieve this, a new way of developing business in emerging markets might be necessary. Innovation in the business model for such emerging markets has emerged as an important agenda point for Toyota.

**TOYOTA'S BREAKTHROUGH GLOBAL INITIATIVE: THE IMV PROJECT**  
**Innovation in Developing Business in Emerging Markets**

The emergence of free trade agreements in different parts of the world has presented tremendous opportunities for Toyota to allow its manufacturing model to evolve to its third stage: a global production and supply network that will solve, efficiently and effectively, the problems of local production in emerging markets.

In 2004, Toyota announced a break-through initiative called the 'Innovative International Multi-purpose Vehicles ('IMV') Project'. At its heart, this model increases the self-reliance of overseas manufacturing facilities in such a way as to optimise overall worldwide production, especially in emerging markets, by both understanding *common* needs and paying sufficient attention to unique *local* needs.

**THE PROBLEM IS OBVIOUS. PEOPLE WHO ARE NOT FAMILIAR WITH LOCAL TASTES AND LOCAL UNIQUE CUSTOMER NEEDS ARE PROBABLY NOT THE BEST TO DEVELOP AND PRODUCE CARS WHICH WILL SATISFY UNIQUE LOCAL CUSTOMER NEEDS!**

The initiative is led by Toyota's subsidiaries, and in this business model, Toyota upgraded and expanded plants in Thailand (Toyota Motor Thailand Co. Ltd. 'TMT'), Indonesia (PT Toyota Motor Manufacturing Indonesia: 'TMMIN'), South Africa and Argentina, and turned them into assembly and export bases for a line of Innovative IMVs. This project is dependent upon close collaboration between Toyota in Japan and its subsidiaries in emerging markets. Instead of importing major components from Japan, these manufacturing and export bases use engines produced in TMT and TMMIN, and components produced by other Toyota plants and suppliers in Asian and Latin countries outside Japan. The aim is to increase the ratio of parts imported from these Asian and Latin American countries from 60-70% to as close as possible to 100% in order to enhance the self-reliance of local Toyota subsidiaries and to accomplish lower procurement costs.

**LEARN LOCAL, ACT GLOBAL**

The plants for the IMV project were chosen as assembly and export bases because they have both sufficient manufacturing experiences and skilled and experienced managers and labour force. They focus on producing one or more of the five IMV models:

- 'Hilux' pickup trucks of three different body types: standard cab, extra cab, and double cab
- 'Fortuner' sport utility vehicle
- 'Innova' minivan

The focus of new IMV car development is not on passenger cars for developed markets in which much more varied consumer preference demands differing levels of comfort, styling and handling. These IMV cars are specifically



created for emerging markets with their particular needs and demand for more competitive pricing. Indeed, IMV cars are *only* for emerging markets and will not be sold in other regions such as Japan, the US and Europe. For the first time in its history, Toyota is producing and selling cars which are not produced and sold in Japan! In this respect, the IMV initiative is very innovative for Toyota.

Within these emerging markets, the study of the unique local needs and then the developing, manufacturing and supplying of cars which closely meet them promises competitive advantage. 'Learn local' is the key to local success. But there is a global dimension too. IMV cars assembled in Thailand and Indonesia

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are used both for local consumption and are exported to different countries, particularly emerging markets. Surplus IMV cars assembled in Argentina are exported to Central and South America, and those assembled in South Africa are shipped to Africa. This global, cross-country collaboration is another key to the success of the IMV project. While paying attention to local unique needs in each region, Toyota tries to accomplish effective use of resources worldwide to provide high quality cars with cheaper cost. 'Act global - learn local' is thus another winning formula for the IMV project. Toyota expects that total production in these four assembly and export bases will exceed 500,000 units in 2006, about 8% of global output. About half of the total production will be exported for overseas consumption.

### COMPETING ON PEOPLE

Of the four assembly & export bases, TMT - established in 1962 - is regarded as the key base, for several reasons:

- Thailand has huge local demand for pickup trucks and has become the second largest market for small one-tonne pickup trucks after the US
- Thailand has become the 'Detroit of Asia', with a developed structure and supplier network to facilitate assembly of vehicles
- The Thai government supports the expansion of the pickup truck market segment by offering foreign investment tax breaks and commodity tax rates for pickup

trucks that are lower than those for passenger cars

- Toyota has been developing local human resources in Thailand very earnestly for a long period of time, and, as a result, TMT already has capable designers and engineers

The success of IMV is dependent upon the leadership of local engineers. Historically, Toyota used to recruit only Japanese nationals to be designers and engineers, first assign them to work in mother plants in Japan to gain knowledge and skills, and then transfer them to overseas factories. Product development stayed within Japan. Toyota realised, though, that it did not have sufficient Japanese designers and engineers to be sent to the growing number of overseas plants, and, moreover, that local talent was available that would be helpful for identifying common customer needs in emerging markets. Nowadays, Toyota never underestimates the importance of local knowledge.

The success of the IMV is dependent upon human resource development in Asia and more efforts are being made in this area. The advanced digital technology of the Global Production Centre, established in 2003, is being used to train its managers and workers in the IMV project factories. The merit of this technology is that visual training materials can be accessed by every overseas factory at the same time, thus allowing a large number of employees to be trained rapidly and consistently. Toyota estimates that the Centre can increase the efficiency of workforce instruction by a factor of 6 to 10. Therefore, in addition to improving production efficiency and quality, the Global Production Centre can speed up the preparations for model changes at overseas factories as they respond to changes in customer needs.

### INITIAL SUCCESS AND 'KAIZEN'

In August 2004, the 'Hilux' pickup truck - the first IMV model - rolled off its production line in TMT. The brainchild of a team of Japanese and Thai designers and engineers, it is the first vehicle developed completely outside Japan in Toyota's history. In November 2004, TMT started to export IMV pickup trucks (see **Table 2**).

In September 2004, the 'Innova' minivan rolled off its production line in TMMIN. Immediately afterwards, TMMIN started to



Assembly & Export Base	IMV Model	Commencement of Production	Annual Production	Expected Export
Thailand 'TMT'	Pickup truck Sport utility vehicle	August 2004 November 2004	280,000 units	140,000 units
Indonesia 'TMMIN'	Minivan	September 2004	80,000 units	10,000 units
Argentina	Pickup truck Sport utility vehicle	March 2005 2005	65,000 units	45,000 units
South Africa	Pickup truck Sport utility vehicle	2005 2005	60,000 units	45,000 units

Source: Company information, Toyota

Table 2.

export the products.

In early 2005, Toyota added the plants in India and the Philippines to the list of IMV assembly points, but only for local consumption for the time being. In March 2005, the assembly and export base in Argentina also commenced production of pickup trucks, as scheduled.

Toyota's current success in the global automotive industry is a product of the Japanese 'Kaizen' philosophy, a method that guarantees continuous incremental improvement of existing operations. Impressive though they have been, Toyota will not be satisfied with the early successes of the IMV project.

For example, there is major room for improvement within R&D and Toyota has already started doing 'Kaizen' in this area. Historically, Toyota established R&D centres only in Japan and developed countries in the US and Western Europe. This year, Toyota has two breakthroughs in its R&D. First, in March 2005, it opened an R&D centre in Australia to gain better understanding of local needs in Asia and Oceania. Second, in 2005, Toyota opened its first R&D centre in an emerging market, Thailand. The new R&D base - Toyota Technical Centre Asia Pacific Thailand Co. Ltd. - operates in a similar manner to those in developed countries, taking platforms and base models developed in Japan and modifying them to satisfy the common needs of various emerging markets. This new technical centre will play a bigger role in developing 'local best' rather than 'global best' cars.

#### LESSONS LEARNED FROM TOYOTA

To tap into the business potential of emerging markets successfully, a global company needs

to penetrate into the markets rapidly to secure a leadership position. To do so, two key success factors are required; first, to develop products that are 'local best' rather than 'global best', and second, to establish a global network of overseas plants that are self-reliant and efficient. 'Learn local' allows a company to gain competitive advantages more effectively than competitors. However, at the same time, global companies should be very good at managing global resources effectively and efficiently. If companies excel in global resource coordination, and information, knowledge and resources sharing across regions, they will accomplish operational excellence. Therefore, 'act global' is another success factor. Last but not least, Toyota's IMV project suggests that these success factors must be accompanied by human resource development in emerging markets and in global teamwork. Companies should compete on human resource development to grow business in emerging markets successfully.



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