

TOYOTA'S STRATEGY AND INITIATIVES IN EUROPE: THE LAUNCH OF THE AYGO

Research Associate George Rädler prepared this case under the supervision of Professor Kazuo Ichijo as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

Since 2000 the output of the global [auto] industry has risen by about 3 million vehicles to some 60 million: of that increase, [more than] half came from Toyota alone. While most attention over the past four years has focused on a spectacular turnaround at Nissan, Toyota has undergone a dramatic growth spurt all round the world.

The Economist, January 29, 2005: 61.

For Toyota Motor Europe (TME), locally designed cars and the availability of diesel engines led to impressive results: 2005 was the ninth consecutive year of record sales for Toyota in Europe. Sales grew by almost 50% from 2000 to 2005. The new strategy paid off financially, too. According to *Business Week*, the operating profit increased nine-fold to \$654 million in 2003.

After plant openings in France, Turkey, Poland and the Czech Republic, local production was expected to reach 60% in 2006. This lowered exposure to exchange rates and import tariffs. Within Toyota, sales increases from Europe were needed to meet ambitious global sales targets.

But for the European marketing team of Toyota's Aygo minicar, the challenge continued. In a fiercely competitive market they had to find 100,000 buyers annually for the 3.41-meter Aygo. This segment was seen as a difficult market: low prices meant low margins. Mercedes-Benz's "MCC smart" recorded losses of €4 billion between 2000 and 2005.¹ Other competitors also had difficulties making money in this segment.

With the launch of the Aygo, Toyota challenged many of its traditional views: the car was specifically designed for the European market and exclusively sold there. The factory was a 50/50 joint venture with the Peugeot/Citroën Group (PSA) in the Czech Republic. But for the marketing managers of the Aygo, the challenge was how to sell the 100,000 units annually they guaranteed to buy from the factory in the Czech Republic.

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Toyota Global: Becoming Number 1²

Toyota Motor Corporation (Toyota) maintained its record growth. Sales reached 7.97 million units, an increase of about 2.5 million since 2000 (*refer to Table 1*).

Table 1: Vehicle Sales of Toyota Motor Corporation

	1999	2000	2001	2002	2003	2004	2005
Global sales (million units)	5,182	5,526	5,543	6,113	6,719	7,400	7,970

Note: Toyota publishes its numbers for the financial year ending March 31.
Source: Various annual reports, press reports

For Toyota, North America remained the most important international market and its market share was increasing rapidly. In 2005 sales hit the 2 million unit level for the first time and Toyota held 13.7% of the important US market (up from 9.3% in 2000). 60% of the American demand was satisfied by 12 plants in the NAFTA region.

For 2006 Toyota was expected to reach 9 million units in production – with luxury brand Lexus reaching the 500,000 units mark for the first time (up from 400,000 units in 2004). Between 1990 and 2005, the number of Toyota plants increased from 20 factories in 14 countries to 47 factories in 26 countries. Within Toyota, there was concern that such rapid expansion could hurt the company. Toyota president Katsuaki Watanabe explained:³

Everyone should be dissatisfied with the present situation and should 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.

A European supplier, listening to a presentation by former chairman Fujio Cho in 2004, later remembered:⁴

Listening to them [the top management], you get the impression that Toyota is facing its biggest crisis in history.

The company was one of nine members of the “\$10 billion club,” indicating a net income in excess of \$10 billion (2005: net income of \$12.35 billion on revenues of \$189 billion; revenue grew by 14%). Toyota was one of two manufacturing companies on that list, the other seven companies were in either oil/gas or financial services. In order to avoid complacency, Toyota set the ambitious goal of reaching 15% global share by 2010 (up from 11% in 2005). On the financial markets, Toyota had the reputation of delivering on its ambitious goals. As of March 2006, Toyota accounted for 35% of the total market capitalization in the global automotive industry (*refer to Table 2*).

Table 2: Shares of Global Sales and Market Capitalization (2006)

	Share of global vehicle sales	Share of global market capitalization
Toyota	11%	35.0%
Honda	5.2%	11.0%
Nissan	5.4%	8.5%
DaimlerChrysler	7.7%	7.5%
Ford	11%	2.9%
General Motors	13%	2.2%

Note: According to this study, Asian manufacturers accounted for no more than 43% of all passenger cars sold in the world but for 73% of the worth of all car makers. GM's sales data is likely to include volume from foreign manufacturers, in which GM holds a minority stake.

Source: Wall Street Journal Europe, March 23, 2006: 4.

It was expected that as early as 2006, Toyota could overtake General Motors (GM) as the world's largest car manufacturer. But Jim Farley, Toyota's VP of marketing in the US was cautious:⁵ "And if we do become No. 1, we'll still act like we're No. 3 or 4, because that's the Toyota Way." A spokesperson explained: "Our goals are not directly positioned against competitors. Our goals are around customers." However, in order to reach the 15% share by 2010, continued growth in Europe was essential.

***Toyota in Europe: "We Are Growing Step-by-Step"*⁶**

With the launch of the Yaris model in 1999, Toyota's sales took off. The initial goal of reaching a European sales volume of 800,000 units was reached two years ahead of time – in 2003 instead of 2005 (refer to **Table 3**).

Table 3: Key figures for Toyota in Europe (Western and Eastern Europe)

	2000	2001	2002	2003	2004	2005
Sales (thousand units)	656	666	756	835	916	964
Market share	3.56	3.58	4.4	4.7	4.9	5.1

Source: Toyota in Europe (2005): 15; Toyota website www.toyota-europe.com

Besides attractive models from the design center in Nice (France), Toyota benefited from the much better availability of diesel engines (starting in 2002), which reached penetration rates of almost 40% in 2005.

Moreover, Toyota's position in the market was different: for the first time the company was able to exploit a more emotional positioning around "green issues." The Prius hybrid model won the coveted "2005 [European] Car of the Year Award." In 2005 Toyota sold around 18,000 units of Prius in Europe (global sales: 180,000 units) and by 2010 was expecting to sell 1,000,000 units

worldwide. Hybrid technology gave Toyota a good opportunity to position itself as a technology leader since the competition had only just started to sell hybrid models. The technology was also launched in the Lexus RX 400h in 2005. The hybrid version fetched a price premium of €6,200* over the gasoline-powered RX 300. In Europe, Toyota was also one of the first to offer its D-Cat diesel engines with a diesel particulate filter. Toyota's environmental initiatives were widely recognized. In a 2006 survey on "who builds the most environment-friendly car," Toyota came first in the five biggest European markets plus Poland.⁷

Toyota drivers were on average around 53 years of age.⁸ Customers were very loyal and Toyota usually topped customer satisfaction indexes such as JD Power. Lexus continued to secure top ratings in JD Power surveys, but its sales continued to be below expectations, with the volume fluctuating around 25,000 units – compared to over 250,000 units in the US. In Europe, Lexus models were sold with extended warranties, including a six-year warranty, three years of free services, maintenance and roadside assistance (compared with two years at most luxury car manufacturers).

Apart from Lexus, Toyota was in the passing lane in Europe. It had considerably increased its sales volumes in Europe, unlike some of the other Japanese manufacturers (refer to **Table 4** for annual sales in Western Europe).

Table 4: Annual Sales of Asian Brands in Western Europe (2000 vs. 2005)

Brand	Country of origin	2000		2005	
		Units sold	Market share	Units sold	Market share
Honda	Japan	181,600	1.2%	238,368	1.6%
Mazda	Japan	181,710	1.2%	226,427	1.6%
Mitsubishi	Japan	160,281	1.1%	127,351	0.9%
Nissan	Japan	393,736	2.7%	343,023	2.4%
Suzuki	Japan	131,587	0.9%	182,415	1.3%
Toyota	Japan	542,771	3.7%	762,736	5.3%
Daewoo	South Korea	202,058	1.4%	12,972	0.1%
Hyundai	South Korea	227,210	1.5%	298,389	2.1%
Kia	South Korea	68,300	0.5%	232,309	1.6%

Note: The Kia numbers are for 2001 (not 2000)

Source: ACEA

In 2005 Toyota's largest markets were: UK (138,500 units), Italy (130,507 units), Germany (130,275 units), France (92,024 units) and Spain (65,498 units). However, Toyota executives believed there was still a huge potential for the brand. Despite record sales in Europe, Toyota made it to the top-10 best-selling list only for Italy (refer to **Exhibit 1** for the top registrations in the largest four markets in Europe).

* Exchange rate: €1 = \$1.27 (May 7, 2006)

But Toyota wanted more: It stated its sales goal of 1.2 million units annually in Europe by 2010. However, the press was already speculating on whether the goal could be reached two years earlier.⁹

Localizing Production in Europe

After the 1992 opening of Toyota's first car and engine plant in the UK, the speed of plant openings accelerated in the new millennium. A car plant in France started production in 2001; in the same year Toyota produced over 200,000 cars in Europe for the first time. Only three years later, the company was already producing 583,000 cars per year in Europe. (Refer to **Table 5** for European production volumes.)

Table 5: Toyota's Production in Europe

UK	245,000 units	Avensis: 180,000 units, Corolla Hatchback
France	204,000 units	all Yaris
Turkey	134,000 units	Corolla Sedan/ Wagon/ Verso
Total	583,000 units	

By 2005 Toyota had produced 638,000 vehicles in Europe and this was expected to increase to over 800,000 units in 2006. **Table 6** gives an overview of the factory openings in Europe.

Table 6: Timeline for Toyota's Factory Openings in Europe

Start of production	2001	2002	2002	2002	2005	2005
Type of factory	Car	Petrol engines	Transmissions, later also engines	Car	Diesel engines	Car (JV with PSA)
Location	Valenciennes, France	Valenciennes, France	Walbrzych, Poland	Adapazari, Turkey	Jelcz-Laskowice, Poland	Kolin, Czech Republic
Capacity	240,000 units		250,000 engines; 550,000 transmissions	134,000 units	180,000 engines	300,000 units, of which Toyota will take 100,000
Total investment	€ 790 m	See 2001	€ 400 m	€ 730 m	€ 200 m	€1.3 billion (Toyota: 50%)

Source: Various Toyota documents

By 2005, Toyota had a total of eight plants in six countries (total investment: about €6 billion since 1990). A spokesperson for the company explained the dilemma they were facing, "We really don't want to be perceived as a Japanese invader."¹⁰ But the question was, how to get round it?

Toyota and PSA Join Forces

The automotive industry was surprised when Toyota and PSA (holding company for the Peugeot and Citroën brands) announced a 50/50 joint venture in late 2001. The factory, to be located in Kolin, Czech Republic (about 60 km to the east of Prague), was planned for an annual capacity of 300,000 units. The joint venture was limited to manufacturing, with cars being sold separately through the Toyota/Peugeot/Citroën distribution channels. Manufacturing, purchasing and R&D accounted for around 70% of value-added in car manufacturing (*refer to Exhibit 2 for the business system*).

The objective was to produce a minicar with 93% common parts between the Toyota, Peugeot and Citroën cars. For Toyota, this was a completely new segment. Peugeot's aim was to produce the replacement model for the Peugeot 106. This model was on sale between 1991 and 2004 and sold a total of 2.8 million units over that period. It was also sold under the Citroën Saxo brand between 1997 and 2003. Until the Kolin factory opened in mid-2005, PSA did not have a replacement for the Peugeot 106 and the Citroën Saxo.

PSA Company Background

Paris-based PSA had been the big success story of the European automobile sector. Although the PSA name was almost unknown to the majority of end customers, the company's two brands (Peugeot and Citroën) were very popular. Sales increased from 2.8 million units in 2000 to 3.39 million units in 2005 (5.5% share globally). Non-European sales surpassed 1 million units in 2005 for the first time ever. The non-European growth averaged 17% up to 2005 (mostly from Asia and South America).

In the five years up to 2003, PSA increased its European share from 12% to 15.5%, but it fell to 14% in 2005. Nevertheless, it remained Europe's second biggest manufacturer (after the VW Group). The company was praised for its good vehicle designs, diesel engines, clever advertising and excellent cost position in manufacturing, but it was disappointed by the results of quality surveys (*refer to Exhibit 3 for an overview of quality ratings*).

PSA strongly pushed its platform strategy. By 2008, the three main platforms were expected to account for 3 million units (up from 1.5 million in 2005). Factories were specializing in platforms and manufactured both Peugeot and Citroën models on the same line. PSA had an annual savings target of around €600 million. In the industry, PSA was known for its various joint ventures: diesel engines with Ford, gasoline engines with Renault and BMW, commercial trucks with Fiat and SUVs with Mitsubishi.

At the same time, PSA was actively involved in Eastern Europe. In addition, the company also opened a new factory in Slovakia (annual capacity: 300,000 units). It was estimated that PSA would source 15% of its total European production from Eastern Europe by 2008, up from 0% in 2004.¹¹ Industry sources were expecting the factory in Slovakia to grow to 500,000 units. This would make it the fifth largest car plant in Europe.

Intricacies of the Minicar Segment

The Challenge: Operating Profitably

The segment for minicars (also referred to as the A-segment in the industry) had existed for a long time, but had only become popular again in recent years. Economic uncertainty, high unemployment and increasingly high fuel prices had led to volume gains in this segment.

Competitors either relied on cars from low-cost countries such as the Fiat Panda (built in Poland), VW Fox (Brazil), Hyundai Getz (South Korea). Some other competitors opted for very long product lifecycles: Renault's Twingo had sold for over a decade without major changes, as had the former model of the Nissan Micra (both models were built in Western Europe). The base price for this category was normally below €10,000, but it could increase with the addition of features.

In the case of MCC smart, the company went furthest in differentiating their offering. The car was positioned as a fashion item. Customers could have the color of the plastic exterior body panels completely changed within 90 minutes at a cost of between €825 and €1,225. However, only 0.8% of customers made use of this option – mostly after accidents or other damage. Most other innovative features around the car such as the mobility concept, for example special rates at parking garages, were either stopped or drastically reduced. Cumulated losses reached in excess of €4 billion between 2000 and 2005 and the future of the car remained uncertain.

Volkswagen Group tried entering this segment by offering the technological advanced aluminum frame for its Audi A2 model and offering a 3-liter version of its VW Lupo minicar with a fuel consumption of less than 3 liters/100 km. However, the Audi model became too expensive and the 3-liter Lupo initially lacked convenience features, such as power windows and power steering in order to keep the fuel consumption low. Neither of the models reached sales targets and both were discontinued in 2004. Soon afterwards, Volkswagen started to import the Fox model as a replacement for the Lupo. BMW's MINI model was relaunched in 2001 and stressed its rich heritage. At average transaction prices in excess of €22,000, it sold around 200,000 units in 2005 (*refer to Exhibit 4 for the actual sales data*).

Minicars Please Regulators

Regardless of the economics around minicars, they were helping car makers to make big improvements with regard to their voluntary target for reducing carbon dioxide by 2008. Under a 1999 agreement with the European Union, the European car industry pledged to reduce the per-car carbon dioxide (CO₂) emissions to 140 grams per kilometer by the year 2008, compared to 175 grams per kilometer in 1999. Japanese and Korean manufacturers also accepted this challenge, but they were given an additional year to implement it. Car makers took this seriously, as such a voluntary agreement could easily find its way into regulations. The best way to reduce CO₂ was to reduce fuel consumption. Minicars usually had small engines and hence low fuel consumption. While the popularity of diesel engines greatly helped (they consumed less fuel), the increasing consumer demand for air conditioning,

more horsepower, big SUVs, as well as new regulations including better protection for pedestrians, often added additional weight to the car and new sources for electricity consumption (hence higher fuel consumption). So fuel-efficient engines became crucial for meeting the needs of this voluntary target. PSA developed a new 1.6-liter engine which consumed 10% less fuel, but this development came at a cost of €610 million.¹² PSA decided to share this cost with BMW.

Toyota Peugeot Citroën Automobile (TPCA) in the Czech Republic*

Set-up: Simple, Slim, Lean

The TPCA factory was the biggest foreign direct investment ever made in the Czech Republic at a cost of €1.3 billion. Located in Kolin, it was about 60 km from Mlada Boleslav, the home town of Skoda Auto (member of the VW Group) and many suppliers.

The factory was set up by Masatake Enomoto from Toyota. A lawyer by training, he led the negotiations that resulted in the establishment of the Kolin plant. The negotiations ended with a clear arrangement on the financial side. Jean-Martin Folz, CEO of PSA, later explained,¹³ “We shared the development cost and we paid for only two-thirds of the new factory in Kolin.” The pillars of the agreement included: PSA would absorb 200,000 units annually and Toyota half of that. Toyota would be responsible for running the factory (according to the Toyota Production System [TPS]) and would be responsible for the development of the three vehicles to be produced at the factory (including the Peugeot 107 and Citroën C1). This helped greatly to build in the 93% parts commonality between the different brands. In return, PSA would handle all purchasing and supplier relations including their selection. Toyota was hoping to benefit from PSA’s experience with European suppliers. Each partner would also bring one engine to the venture with the right [size] specification. Toyota would produce a 3-cylinder gasoline engine (also to be used in the bigger Toyota Yaris model) and PSA would bring a 4-cylinder diesel engine (also used in the Peugeot 206, Citroën C2 and C3). Engines were among the most expensive components of a car, averaging at around 32% of total vehicle cost.¹⁴

Enomoto oversaw the construction and start-up. This could explain why the factory looked very much like a Toyota factory. Automotive News, an industry newspaper, reported:¹⁵

In many ways, the Kolin plant is a typical Toyota factory. The principles of efficient production that Toyota has established over the years are practiced in full at TPCA, including kaizen (continuous improvement), jidoka (fixing problems right away, where they occur), and just-in-time delivery.

Much of this can be attributed to Satoshi Takae. Takae was a Toyota veteran who started in Kolin as factory manager and was promoted to president of TPCA in

* Readers of this case are strongly encouraged to have a look at the official website of TPCA for a virtual factory tour. http://www.tPCA-cz.com/en/about_factory_how.php#

2005. His goal for the factory was very clear: “To be the number one plant in Europe.”

In order to realize this, he had to work together with not only his 30 expatriate colleagues from Toyota, but also with nine permanent members of staff from PSA. For Takae, this meant exposing the Toyota Way, the “mysterious” Toyota DNA to outsiders (*refer to **Exhibit 5** for the key concepts of the Toyota Way*).

At the same time, this working arrangement implied transferring control of suppliers to PSA.

Role of PSA

With an increasing trend towards outsourcing, PSA’s task to manage all purchasing functions was hugely important to the outcome. Developing the local supply infrastructure, which accounted for 80% of all parts purchased (by value and volume), was seen as a major task. TPCA was directly dealing with around 150 Tier-1 suppliers. These were the big suppliers at the top of the hierarchy and many of them were the Czech or Slovak subsidiaries of the big international suppliers.

Within the automotive industry, PSA was known for its cost focus and its various JVs. Nicolas Guibert, TPCA’s executive VP and highest ranking PSA official in Kolin and previously a plant manager in one of Peugeot’s French factories, explained:

PSA is one of the most joint-ventured companies [in the industry]. But this JV is different from other JVs. Usually, the responsibilities are clearly shared and each company works with high autonomy for what it is in charge. PSA has two JVs with Fiat – one in Italy and one in France. In Italy, Fiat does the design, process engineering and production operation and PSA pays for each car. In France, it is the contrary. Our engine JV with Ford is structured in a similar way: PSA is in charge of some engines from design to manufacturing and Ford of others. In our engine JV with BMW, they do the design and we do the industrialization. But here it is slightly different. We also share the tasks within the production operation. In TPCA we are not only spectators but also actors.

The level of difference could be seen in Guibert’s role. He was reporting to Takae. Guibert was also responsible for accounting and finance functions of the factory.

Supplier Selection

European suppliers were very eager to supply TPCA since this was seen as the entry point for supplying Toyota. European suppliers were struggling, as many of their traditional customers had cut their production volumes considerably in recent years. Therefore, by supplying TPCA they hoped to grow with Toyota in Europe. TPCA was quite clear on what it would not do. The company did not outsource external surfaces and key structural parts for quality reasons.

While supplying Toyota was an excellent reference in the industry, dealing with the company was not seen to be easy. Toyota’s search for simplicity and economic efficiency was still a big question mark for many suppliers. Takae explained:

We are relationship-oriented with regards to the suppliers. We were surprised to see this transaction orientation with some of the suppliers here.

Suppliers to TPCA could also qualify for PSA's factory in neighboring Slovakia, about 250 km from Kolin. PSA had big plans at this factory, too.

Running TPCA

Toyota's Production System (TPS) was running all over the world, but in each market, it needed some minor adjustments. In the case of TPCA, the rapid ramp-up worked well (reaching full production capacity in less than 12 months). The factory produced four body types (both Toyota and PSA had a 3-door and 5-door version of their respective models) on the same line. TPCA had around 3,000 employees. Extensive training took place at various European factories and in Japan for the senior positions. The trainings sessions lasted for a anywhere between one month and six months.

The normal shift system saw employees working for four days (10 hours each) and then they were off for three days. Newspapers reported:¹⁶

Few line workers have cars. Many live far from Kolin, often staying locally during the workweek and returning home only on days off.

Management at TPCA soon started to wonder about high absenteeism among employees. A detailed analysis showed that in some cases, employees were asked to work six days in a row. And often, they did not show up on the sixth day. TPCA's management soon changed the allocation of shifts and it lowered absenteeism. But turnover remained an issue.

Regarding talent management, the question was, what would happen once competitor Hyundai Motor started hiring for its new Czech factory? Would employees switch to the new factory or would they stay with TPCA?

Overall, the management made every effort to embed the TPS at TPCA. It was willing to make some of the displays (ANDON) showing the status of the plant operation using pictures only, with no text, unlike in Japan and the US. With regard to running TPCA, Takae explained:

Of course, we had to overcome cultural and language barriers. We are dealing here with three national cultures – Japanese, French and Czech – and two company cultures with very different histories and production systems. But we found an overriding principle – cost reduction. Everything would depend on cost. In order to overcome the language barriers, we visualized everything; we never had to do this before [to this extent].

At the same time, TPCA actively tried to work around local regulations. Automotive News Europe reported:¹⁷

To keep a promise it would not bring weekend heavy-truck traffic through town to the plant, TPCA must stockpile extra parts before the weekend starts. (...) It's built a parking lot. (...) The new parking lot can hold up to 180 trailers full of parts and raw materials. Then as the assembly lines move on Saturday and Sunday, logistics workers can move the parts via forklifts and cranes into the plant. It is an indication of how flexible the joint

venture between PSA and Toyota is being to accommodate public feeling in its new Czech home. Because of local political pressures, the automaker gave up its promised exemption to Czech laws that limit weekend truck traffic. These laws ban trucks of 7.5 tons and larger between midnight and 10 pm on Sundays and during the summer months from 7 am to 8 pm on Saturdays.

It seems that this also created a lot of goodwill within the company.

Meeting Structure

Managers at TPCA had to represent the interests of both TPCA and their employers. In order to minimize miscommunication, TPCA had a systematic meeting structure:

- Daily production meeting: This meeting took place every morning at 8:30. At this meeting, most managers were present in order to discuss quality, absenteeism and announce major decisions.
- Project Leaders Meeting: Managers from both companies originally met on a monthly basis and then only once a quarter. These meetings were attended by 10 to 20 managers from PSA and around 30 to 40 from Toyota.
- Steering Committee – TPCA's highest decision-making committee: Critical decisions were discussed here. There were five members from each side including Takae and Guibert. The meetings took place either at Toyota's HQ in Tokyo or PSA's HQ in Paris. This committee met twice a year.

Kolin, the New Travel Destination

Kolin became the new travel destination for plant managers and other executives from both Toyota and PSA. The factory was of interest, as it was a place for both companies to try new things. Generally speaking, with only 100,000 square meters, this factory was seen as having very little space. Guibert commented:

In this project we see interesting new methodologies compared to PSA's production system. But first, the TPS is a lot more than what we see and secondly, we cannot modify deeply our system because it is coherent and it has also its strong points. While both systems have their qualities, they are above all different.

Nevertheless, within TPCA there were a few things that were off-limits to managers from the parent companies, as they were protected by patents or seen as proprietary.

Understanding the Market Space

As the construction of the factory was progressing, marketing managers at Toyota were getting ready for the positioning of the Aygo. The marketing challenge for selling the Aygo was considerable:

- How could a car with 93% standardized parts be differentiated in the marketplace from its two siblings? Colors were one differentiator, but only to a limited extent. There were six shared colors among the three brands and two colors were specific to each brand.
- Toyota also launched the new Yaris in 2005. The car was a bit bigger than the Aygo, but €3,000 more expensive. Sales representatives were likely to push the more expensive Yaris, as commissions were normally based on transaction prices.
- The plant set-up with fixed volumes of 200,000 units for PSA and 100,000 for Toyota was unusual. In comparable joint ventures, there was normally a transfer pricing agreement, so the production volumes could be determined according to the market situation.
- The average age of Toyota's customers was relatively high (50+ years in Europe). The dealerships were not really accustomed to serving younger clients.
- Toyota had neither a recent history of selling cars in the A-segment nor a loyal customer base in that segment.
- The agreement with PSA prohibited the use of car pictures until the launch of the car.

For marketing managers working on the launch of the Aygo, this was a tough list to work on. For Andrea Formica, marketing manager at Toyota's European HQ in Brussels, these constraints were seen as a challenge:¹⁸

We will take the car out of the traditional showroom and bring it to the customer through special events, experience centers and concept cafes.

But would younger customers select the Toyota?

Knowing Younger Customers: What makes Generation Y different?

Roughly speaking, Generation Y were those customers born after 1976 and was expected to be bigger than Generation X (1965-1976). Market research revealed major differences for Generation Y:

1. Consumers were more individualistic. Cars were not just transportation, they were another form of fashion apparel – it's about "making it mine."
2. Young consumers were internet-savvy – generally they had done their homework online before physically inspecting the car.
3. This group was immune to traditional advertising. Members of Generation Y were not likely to sit in front of the TV. A study by McKinsey¹⁹ found that American teenagers spent 2.4 hours per day online, about six times the average of the overall population. By contrast, teenagers spent less than half the time watching TV compared with the overall population.

Generation Y was definitely attractive size wise, but reaching them would require many changes to the existing ways of doing things.

Launching the Aygo

Given the challenge of entering a new segment, there were different approaches for launching the Aygo in Europe. As one manager put it, “It is difficult to coordinate between the different countries. And what is good for one country may not necessarily be good for another.” To capture the European spirit, Toyota asked ten artists from different European countries to redo the outside of an Aygo. These cars could be seen at many European car shows. Although the European HQ provided some background marketing material, the approaches for launching were different.

In Sweden, initially it was not even possible to buy the Aygo. Until May 2006, customers could only lease it as part of a mobility package, for €190 per month, including insurance, service and repairs. This was seen as a way to make the cost of owning the car more transparent.

An Example from the German Market

Markus Schrick, managing director of Toyota in Germany, outlined the initial situation:

With Aygo we had a historic opportunity: Targeting young people who were new to Toyota with a completely new and appealing product in a [for Toyota] new segment of the market.

The launch was phased in several steps, of which the first ones were the most important and maybe also the most impressive ones: (1) Identifying trendsetters amongst young people, (2) getting in touch with them personally to “promote” Aygo via (3) so-called “players.” These players followed the trends discovered and created by the trendsetters and brought them to a broad young mainstream audience.

This is what “viral marketing” is all about - but we needed to remain credible with our brand and product in order not to fail or to be misunderstood.

“Go to where the people are” was one of our central ideas - and all together it worked well. And of course the fact that we discussed our strategies prior to our actions with these respective people helped a lot in understanding their lifestyle, attitudes and dreams.

Soon, it became apparent that the 18–30 age group was going to be the target market. Michael Potthast, Toyota’s product manager for the Aygo in Germany, remembered the beginning:

In hindsight, this was the most exciting launch I have done in my career.

We wanted to sell into a market that Toyota did not know but, as always, understanding the customers was important. We had to make the car attractive to young, first-time buyers. We wanted to position ourselves as young, but we had to be credible in what we do.

[Generation Y] was definitely a good target group, but they were difficult to get in touch with. Our dealers were not used to them as customers, except when the parents were buying a car for their children. We had a similar reaction in focus groups. One of our main findings, which became a motto for the Aygo retail experience was the Generation Y attribute: “Don’t sell to me, make me buy.”

For Aygo’s product managers in Europe, reaching the customers would require new approaches (*refer to **Exhibit 6** for pictures of the car*). At the same time, they could not change everything. For example, Toyota did not want – under any circumstances – to alter its reputation of having sufficient safety equipment on board. Starting with the first Aygo models sold, the standard equipment included six airbags, ABS and power steering at price points below €9,000.

Early Promotional Activities

For the executives around Potthast and the agencies involved, it became clear that Generation Y could not be reached through “traditional marketing” practices. They would rely on very little traditional advertising, opting instead for direct contact with potential customers at the places they frequented:

- **Phase 1** (*about 9 months prior to the launch*): Toyota started communication with potential customers very early on. They created an interactive “Aygo online community” without the Toyota name. Visitors to the website wondered: who/what is Aygo? At that point, there were no answers to that question. The goal was to get into dialogue with this market. The website included, among other things, videogames.
- **Phase 2** (*a few months before the launch in July 2005*): Aygo trendscouts arrived at discotheques and pointed visitors to the Aygo booths inside the venue. There, booths for playing videogames were set up. The highest scorers of the evening would get attractive prizes, including leather cowboy hats, which were very popular at the time. Visitors could also continue their game from home via the Aygo website. Inside another booth, pictures and video messages of visitors were taken. The pictures were posted on the website; the video messages could be sent to any e-mail address. The cowboy hats and other prizes were marked, “Aygo by Toyota,” with “by Toyota” in a much smaller font size. Other prizes included mints in the shape of “ecstasy” drug pills and were also marked, “Aygo by Toyota.”

Toyota also became involved in sponsoring rap concerts, among others a popular rap band – Fantastischen Vier. While the rappers did not actively promote the car during the concert, an Aygo poster was hanging on the stage. By sending text messages from their mobiles, visitors could win tickets to an after-hour VIP party with the band, which was sponsored by Toyota. The band also produced four video clips and a music contest. Here the public could send in their music files and the best one would then be recorded professionally. This partnership attracted a lot of attention by the media, and eventually led to an open-air concert, which was also sponsored by MTV, a popular TV station among teenagers.

Getting closer to the Launch

Besides the website, Toyota put great emphasis on other ways of communicating with potential customers. The goal was to launch Aygo as a lifestyle vehicle.

Besides a thorough dealer training, there were several innovative ways to reach customers:

- **Dealer Training:** As dealers did not have much experience with young customers, they were sent to an extensive dealer training. The location, an unused subway station in the centre of Berlin, provided an unusual location. The subway station was remodeled into a living room. The goal was to get the dealers in the minds of the core customers in the 18–30 age group. This covered everything from how do these people live to what kind of technologies were important to them, for example MP3 players. The subway station was also used for the press launch.
- **Aygo Nights:** The launch was on a Friday night in early July 2005 and it was intended to be something special. The logic was to take the car to where the customers were. The dealers either picked their showroom or, if they felt that their location was unsuitable for the target group, various other locations where young people would go. Some organized beach parties/volleyball tournaments, disco nights and concerts.
- **Aygo Lifestyle Magazine:** On the one hand, this was a car brochure dealing with the Aygo, but on the other hand, it was a real lifestyle magazine covering typical topics such as fashion, travel, food and sports. The lifestyle side also included commercials from Calvin Klein, Samsonite and Fossil watches. It was also used for communicating product news, such as the arrival of new colors. The magazine was initially published every quarter and subsequently twice a year. It was produced on a European basis, with some variation according to countries.
- **Aygo City Tour:** to the biggest universities. This was a way for university students to test-drive the Aygo. But it was far from a normal test-drive. The Tour consisted of several renovated caravans from the 1970s. One caravan was for booking test-drives. Another caravan was converted into a lounge, another one was set up for sending video messages via the Internet.
- **Mobile Services:** Potential customers could have car specifications sent to their mobile phones and register for brochures via SMS, a technology heavily used by members of Generation Y.

Features of the Aygo

The Aygo had emission rates that were among the lowest – only 109 grams per kilometer. This was an important argument for the target market. The car came with a full warranty for three years or 100,000 km. But here the commonalities with other car manufacturers stopped. The interest rates for the cars were calculated according to the age of the driver. An 18-year old customer would pay 1.8% interest, a 30-year old customer had to pay 3.0%. The positioning of the Aygo was quite different from its siblings (*refer to **Exhibit 7** for pictures and different positioning of the vehicles*).

Customers could also opt for a package including insurance and service contracts; they could get better rates on the insurance if they joined a one-day driving training.

Accessories

It was possible to select from a wide range of accessories including window covers in “crazy” colors, costing €179. Covers for the side were available at €215.

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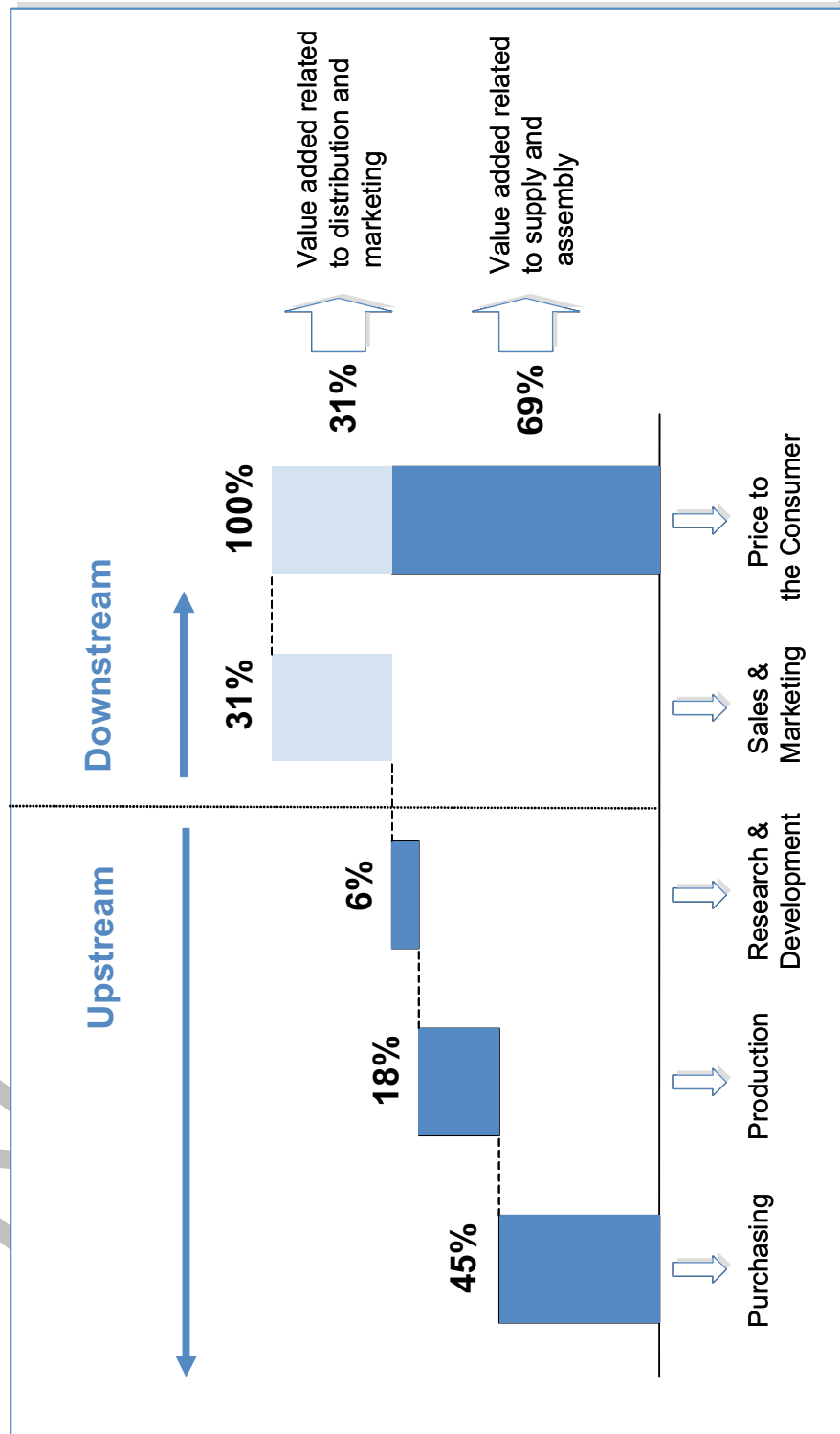
In early 2006 Aygo was doing extremely well on the forecasted resale values of the major leasing companies. This limited the risk Toyota had to take when financing the cars. The launch was widely seen as successful and Toyota won the coveted “best media strategy award” in Germany. This was the trophy everyone wanted to have, but for managers at Toyota in Europe in 2006, the question was, how to keep up the momentum?

Exhibit 1
Top-10 Car Registrations in Europe in 2005 in the Biggest European Market (model, units)

France		Germany		Italy		United Kingdom	
Renault Megane	188,373	VW Golf	237,990	Fiat Punto	173,502	Ford Focus	145,010
Renault Clio	132,982	Opel Astra	122,841	Fiat Panda	130,972	Opel Astra	108,461
Peugeot 206	119,907	Audi A4	100,910	Ford Fiesta	69,946	Opel Corsa	89,463
Peugeot 307	113,484	VW Passat	98,136	Toyota Yaris	66,271	Renault Megane	87,093
Citroën C3	79,259	BMW 3-series	96,311	Lancia Ypsilon	64,436	Ford Fiesta	83,803
Peugeot 407	68,130	MB A-Class	85,691	Ford Focus	63,050	VW Golf	67,749
Citroën C4	63,798	Ford Focus	78,899	VW Golf	60,004	Peugeot 206	67,450
Renault Modus	61,877	MB C-Class	77,845	Renault Megane	58,896	Ford Mondeo	57,589
Ford Focus	48,930	VW Touran	76,077	Citroën C3	58,152	Renault Clio	56,538
Renault Twingo	45,594	VW Polo	71,061	Opel Astra	54,972	BMW 3-series	44,844

Source: Auto Motor Sport 3/2006: 12.

Exhibit 2
Business System in the Automotive Industry



Source: McKinsey, ATKearney

Exhibit 3
The Perception of Various Car Brands in Europe (as seen by drivers of the brands)



Exhibit 4
New Vehicle Registrations in Europe in the Minicar Segment (2001-2005)

Brand, Model Name	2001	2002	2003	2004	2005
Toyota Aygo	0	0	0	0	21,224
Peugeot 107	0	0	0	0	19,552
Citroën C1	0	0	0	0	17,730
BMW Mini	24,980	144,119	176,465	184,357	200,428
Chevrolet Matiz	0	0	0	22,066	53,247
Daewoo Matiz	91,476	72,232	59,176	36,528	1,879
Citroën Saxo	243,962	164,477	71,478	1,737	19
Fiat Panda	101,924	117,959	131,677	224,055	228,106
Hyundai Atos	60,606	40,130	19,679	37,186	37,450
Kia Picanto	0	0	0	58,135	83,076
MCC smart	115,000	120,000	123,000	152,000	125,000
Mercedes A-Class	165,915	151,646	132,911	125,950	172,539
Opel/ Vauxhall Agila	86,236	79,218	74,518	55,237	37,143
Peugeot 106	109,244	67,764	38,656	1,919	11
Renault Twingo	168,358	143,441	116,472	85,580	76,853
VW Fox	0	0	0	0	50,862

Note:

The data covers 19 European countries.

Chevrolet took over Daewoo and is fading out the Daewoo brand.

The numbers for BMW Mini and MCC smart are world-wide sales data.

Source: Toyota, various annual reports, press releases.

Exhibit 5 The Toyota Way

Section 1: Long-Term Philosophy

Principle 1: Base your management decisions on a long-term philosophy, even at the expense of short-term financial goals

Section 2: The Right Process will Produce the Right Results

Principle 2: Create continuous process flow to bring problems to the surface

Principle 3: Use “pull” systems to avoid “overproduction”

Principle 4 : Level out the workload (Heijunka)

Principle 5: Build a Culture of stopping to fix problems, to get quality right the first time

Principle 6: Standardized tasks are the foundation for continuous improvement and employee empowerment

Principle 7: Use visual control so no problems are hidden

Principle 8: Use only reliable, thoroughly tested technology that serves your people and processes

Section 3: Add Value to the Organization by Developing Your People and Partners

Principle 9: Grow leaders who thoroughly understand the work, live the philosophy, and teach it to others

Principle 10: Develop exceptional people and teams who follow your company’s philosophy

Principle 11: Respect your extended network of partners and suppliers by challenging them and helping them to improve

Section 4: Continuously Solving Root Problem Drives Organizational Learning

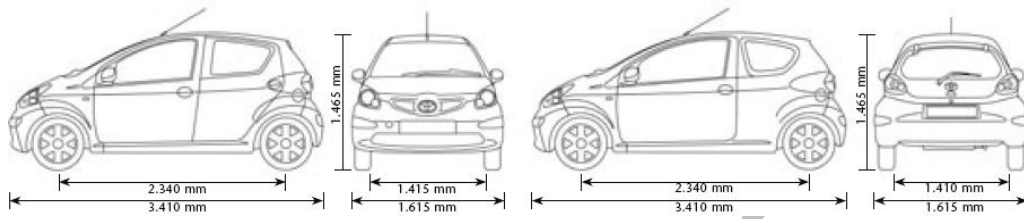
Principle 12: Go and see for yourself to thoroughly understand the situation (Genchi Genbutsu)

Principle 13: Make decisions slowly by consensus, thoroughly considering all options; implement decisions rapidly (Nemawashi)

Principle 14: Become a learning organization through relentless reflection (hansei) and continuous improvement (Kaizen)

Source: “The Toyota Way,” Jeffrey K. Liker, McGrawHill, 2004

Exhibit 6 The Aygo (3-door and 5-door)



Source: Toyota

Exhibit 7 Different Positioning



Model	Toyota Aygo	Peugeot 107	Citroën C1
Sales goal	100,000 units	100,000 units	100,000 units
Predecessor	-	Peugeot 106	Citroën Saxo
Base price	€8,950	€8,890	€8,390
Target market	First-time buyers (18–30)	Women (18–35)	Lifestyle oriented people
Ways of reaching the targets	Non-traditional ways, such as through the internet, SMS, etc.	Mostly in women's magazines, TV magazines	

Source: Krix, Pia. "Von Schweinen, Frauen und Lifestyle." *Automobilwoche*, 11 June 2005

Notes:

- ¹ Hillebrand, Walter. "Zetsche's Schlachtplan." *Capital* 9/2006: 44.
- ² Parts of the global overview of Toyota were taken from IMD-case "Toyota: Repositioning the Brand in Europe (D): Growing Step-by-step" (Case IMD-5-0701), by George Rädler and Dominique Turpin, 2006.
- ³ "10 Questions for Katsuaki Watanabe." Interview in *Time* Magazine, August 22, 2005: 10.
- ⁴ "Formel Toyota." *Manager Magazin*, December 2004. 72 ff.
- ⁵ "Toyota searches for love." *Wall Street Journal Europe*, January 11, 2006. 28.
- ⁶ Toyota press release January 12, 2006. Quote taken from Mr. Shinichi Sasaki, President & CEO of Toyota Motor Europe (TME).
- ⁷ See *Auto Motor Sport* 6/2006.
- ⁸ Krix, Pia. "Von Schweinen, Frauen und Lifestyle." *Automobilwoche Online*, June 11, 2005
- ⁹ *Automotive News*, July 11, 2005.
- ¹⁰ Kanter, James. "Toyota leads Asia drive in Europe." *International Herald Tribune*, July 23, 2005.
- ¹¹ Jonas, Adam and David Cramer. "PSA Peugeot Citroen—The Toyota of Europe." *Morgan Stanley Company Update*, November 18, 2005: 7.
- ¹² *Automotive News Europe*, July 25, 2005: 19.
- ¹³ Eschment, Wolfgang. "PSA plant keine weiteren Kooperationen." *Automobilwoche Online*, March 12, 2005.
- ¹⁴ Radtke, Philipp and Eberhard Abele/ Andreas E. Zielke. "Die smarte Revolution in der Automobilindustrie." *Ueberreuter* (Redline Wirtschaft), 2004: 133.
- ¹⁵ Kochan, Anna. "Toyota transfers high standards to Czech factory." *Automotive News Europe*, July 11, 2005: 26.
- ¹⁶ Frink, Lyle. "Day One at Kolin: Czech plant starts regular output of PSA." *Automotive News Europe*, March 7, 2005.
- ¹⁷ Frink, Lyle. "Add a shift? Build a Parking Lot." *Automotive News Europe*, September 19, 2005: 4.
- ¹⁸ Weernink, Wim Oude. "Toyota taps US Scion brand for Aygo Marketing." *Automotive News*, March 7, 2005: 18.
- ¹⁹ Court, David C., Jonathan W. Gordon and Jesko Perry. "Boosting returns on marketing investment." *McKinsey Quarterly* 2005, Number 2: 37-47.