

CASE STUDY

Why Toyota Survived the Recall Crisis? An Analysis of Consumer Based Brand Equity for Toyota

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PROBLEM STATEMENT

Toyota, a brand name that stands out in the automobile world, offers interesting insights in brand building. The years 2006 till 2010 will always be remembered as the make-or-break years for Toyota. A little over 15 million vehicles were recalled by Toyota due to quality issues, mainly due to accelerator pedal causing unintended acceleration of its automobiles resulting in abrupt incursion and chances of accidents. What happened to the customers' affiliation with Toyota? The answer to this question lies in the brand equity of Toyota and the impact of the brand building efforts that Toyota had made since its inception in 1937. The following text aims to explore and describe the effectiveness of the brand building elements of Toyota in light of why Toyota survived this crisis.

INTRODUCTION OF TOYOTA BRAND

Toyota Motor Company was founded in Japan in 1937. It expanded its operations globally and is now the 3rd largest automobile manufacturer. Its product line includes cars, minivans, crossovers and sports utility vehicles (SUV), hybrids and Electric Vehicles (EV). The Toyota Motor Company produces automobiles under five brand names, namely, Toyota, Lexus, Daihatsu, Scion and Hino. Without knowing Toyota, a reader might be surprised to know that in 2013, Toyota stood out as the most valuable automobile brand in the world. Its brand worth is stated to be US\$ 29.6 billion according to 100 BrandZ Study in 2013. Brand worth determines the monetary value of the brand by taking into account its tangible as well as intangible benefits. The higher the brand worth, the stronger is the brand equity. Customer based brand equity is the differential effect that brand knowledge has on customer's response to marketing efforts of the brand. Before building brand knowledge, a marketer has to decide upon the brand elements that identify and define the brand. A reader will appreciate how Toyota became the most valuable automobile brand by first understanding the brand elements of Toyota.

Brand Elements

Name

The name 'Toyota' is derived from 'Toyoda' the name of the founder of the company. The number of strokes that are required to write Toyota in Japanese is eight and based on the positive and lucky associations of the digit eight, the company was named Toyota instead

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of Toyoda. In addition, it was realized during the naming process that in terms of commercial design, Japanese characters for "Toyota" were visually simpler and less cluttered. The name also sounded more pleasant to the ear.

Furthermore, trading off the name Toyoda with Toyota also implied the company's growth from a family business into a broader-based global and social entity.

The name of the company itself became the name of the first set of automobile brands that the company manufactured. Keeping up with the vision to grow into a global business, Toyota started exporting its models to America in 1957. In 1984, it established a joint venture company in America for the assembly and sale of Toyota vehicles in America. Since then, there was no looking back. Expansion into European market followed in 1987. Globally, Toyota is a well-recognized name. Its overseas production is 50% of its total global production and its overseas sales are 75% of its total sales. These figures show that the name Toyota is a well-known name all across the world.

Logo and Symbol

The logo of Toyota is a logo that the customers recall easily. Most customers recall that the logo of Toyota is the letter 'T'. In the automobile industry, the logo is called an emblem. The original emblem of Toyota is shown below in picture



Source: Google Images (2015)

Picture 1: Classical Logo and Symbol of Toyota

In 1989, the company redesigned its emblem using three ovals to make the letter 'T'. The two ovals that are perpendicular to each other represent the relationship between the company and the customer. The outer and larger oval represents the global expansion of the company. The brand name was registered in capital letters as shown below. Since then, all the models of Toyota carry this emblem on the vehicle. The placement is on the grill and on the rear exterior of the vehicles as well. The picture 2 displays the current logo and symbol of Toyota.



Source: Google Images (2015)

Picture 2: Current Logo and Symbol of Toyota Slogans

Throughout its history, the slogans that Toyota developed revolved around the positive brand experience that it promises to its customers. From 1975 till 1979, the slogan of Toyota was "You asked for it! You got it!" In 1979 it was changed to "Oh, what a feeling!" In 1985, it was changed to "Who could ask for anything more?" From 1989 till 1997 the slogan was "I love what you do for me, Toyota!" From 1997 till 2001, it was simply "Everyday" From 2001 till 2004, the slogan was "Get the feeling!" From 2004 till 2012, it was "Moving Forward" and currently it is "Let's Go Places" These slogans excite the 4 types of the brand experiences, namely the sensory experience, the affective experience, the intellectual experience and the behavioral experience.

"You asked for it! You got it!" This logo scaled well in sensory, affective, intellectual as well as behavioral brand experience.

"Oh, what a feeling!" focused more on affective brand experience.

"Who could ask for anything more?" evoked affective as well as intellectual brand experience.

"I love what you do for me, Toyota!" described the affective and intellectual brand experience. "Everyday" reflected behavioral brand experience.

"Get the feeling!" again refers to the affective brand experience.

"Moving Forward" and "Let's Go Places" both again involve the customer in sensory, affective, intellectual and behavioral brand experience.

Jingles

Toyota jingle, based on the slogan, 'Oh! What a feeling' was aired on radio in USA market in 1984. This was rated as one of the top ten commercials at that time. Its recall is so strong that even today, the customers fondly remember the catchy jingle that they heard for the first time in 1984.

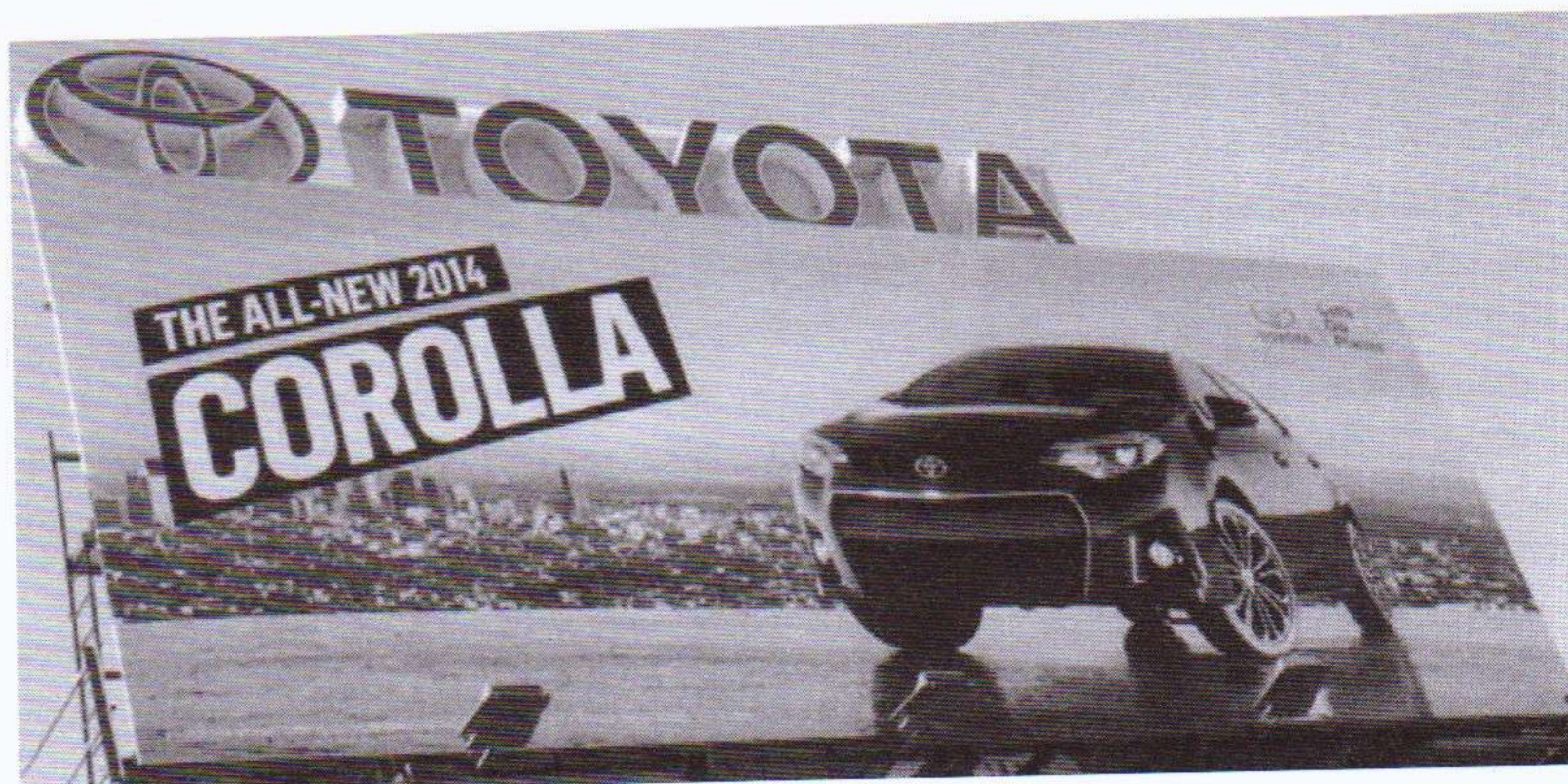
Spokesperson and Brand Ambassadors

Toyota's brand ambassadors include Jonathan Sexton, Paul O'Connell, Katie Taylor, Fionnuala Britton, Micheal O'Muirchertaigh, Virat Kohli and A. R. Rehman. Jonathon Sexton, an icon of Irish rugby, has won a Six Nations title, three Heineken Cup medals and an Amlin Cup medal. Virat Kohli is an Indian cricketer. Amy Purdy, the Team Toyota brand ambassador, is an incredible athlete and equally amazing person. Her story is both touching and motivating. She lost both legs when she was a teen due to bacterial meningitis. Prior to losing her legs, she was told she would no longer be able to snowboard, a sport she loved. She then decided that she would indeed snowboard again and was determined not to miss a season. She even built her own prosthesis to fit the snowboard. Amy is a true testament to deciding what you want, no matter what, and going after it. Again her selection as the brand ambassador for Toyota highlights the brand strength of Toyota and evokes positive emotions about the brand. The associations of these brand ambassadors reflect the winning streak of the Toyota brand.

Signage

The signage of Toyota clearly shows the different brand elements along with the image of the product itself. As is the norm in automobile industry, the signage show the angular 3/4th image of the product along with the brand logo and slogans. The picture 3 below exhibits billboard of Toyota.

Picture 3: Billboard of Toyota



Source: Google Images (2015)

Target Market of Toyota and Customer Profile

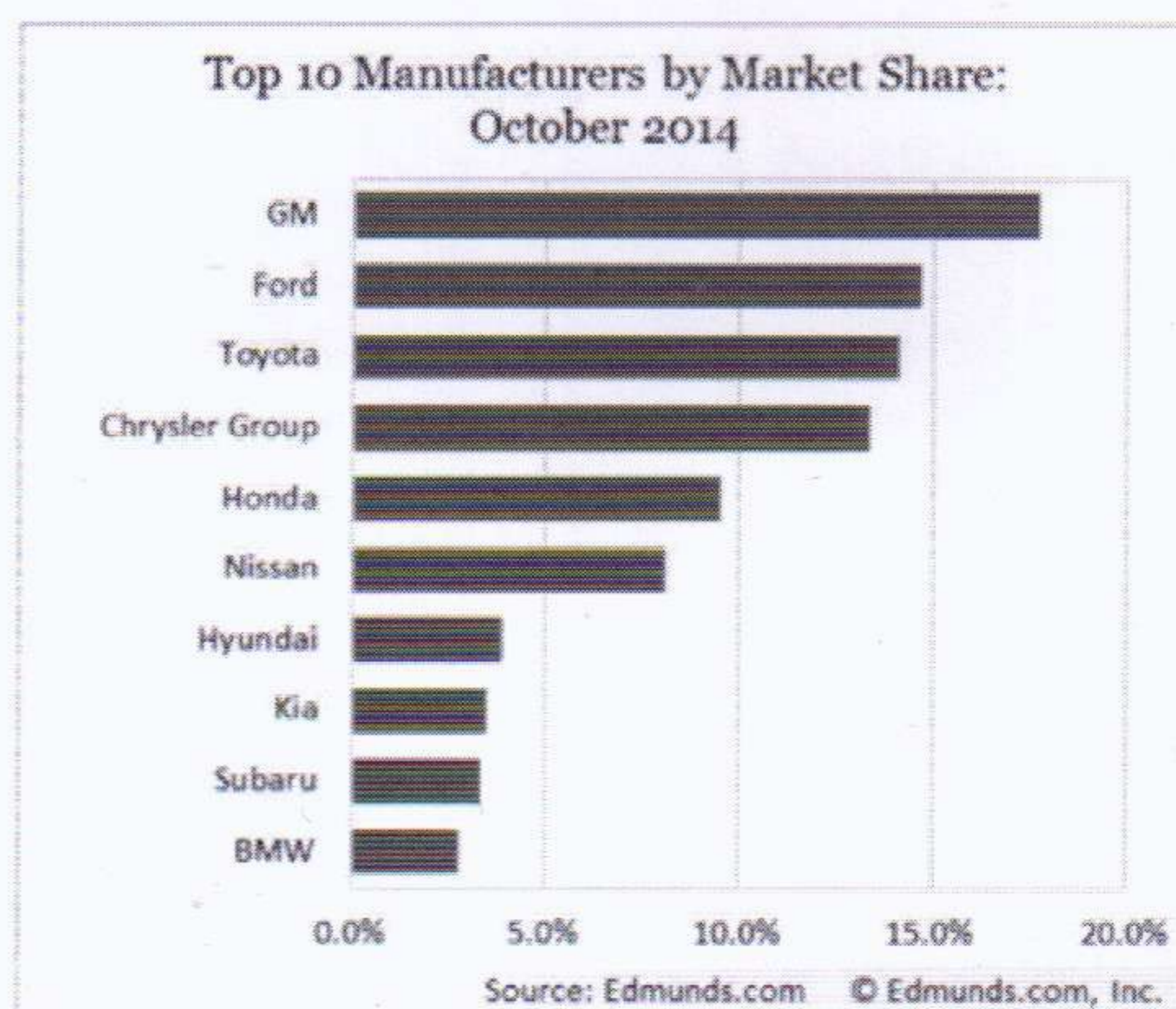
Toyota has targeted a mass market across the globe and is following cost leadership business level strategy. Hence it is able to produce a competitive product at the lowest cost. Since cost is lowest as compared to other automobile manufacturers, Toyota enjoys a high cost margin, which is the difference between price and cost. Toyota has been targeting customers across the demographic segments and the psychographic segments. In the global market, Camry, Prado, Land Cruiser, Lexus are targeted towards affluent class. Toyota Corolla is targeted towards middle income class whereas Vitz is targeted towards young customers. Toyota is using "Adjacent Segment." It is a segmentation strategy which allows a company to continuously increase its market share and grow its customers.⁴ At the start, subcompact cars were the targeted as strategy adopted by Toyota, which were small and easy to buy vehicles. Now, with the use of adjacent segmentation strategy, Toyota is able to move from one specific car manufacturing to another, relative to large cars, such as a station wagon. Toyota first expands its market by introducing Sedan cars which are large and luxurious than its previous cars.⁶

Competitive Profile of Toyota

The worldwide automobile market is highly competitive since there appears intense rivalry for quality, features, fuel efficiency, price, distribution network, promotions, after-sales services, innovations, etc. Globally the needs and demands of customers are reshaping the automobile industry. In addition, socio-culture and legal-political system, moves toward globalization and technological changes also affect the industry. Toyota commenced global

operations during 1980s and onwards. General Motors (GM), Ford Motor Company, Chrysler Group and Honda Motor Company are the global competitors of Toyota Motor Company. With a wide array of products these companies are competing with Toyota in all the segments in a multimarket domain. The global market share of the major auto brands is shown underneath in figure

Figure 1: Top-10 Automobile Manufacturers



Source: Edmunds (2014)

Table 1: Direct Competitors Comparison

	Toyota Motors	Ford Motors	General Motors	Honda Motors	Auto Industry
Market Cap.	188.83B	55.73B	50.37B	55.89B	33.83B
Employees	343,511	181,000	219,000	198,561	69.00K
Qtrly Rev Growth (yoy)	0.04	-0.02	0.01	0.04	0.13
Revenue (ttm)	226.57B	145.78B	156.80B	105.22B	40.69B
Gross Margin (ttm)	0.19	0.12	0.09	0.26	0.20
EBITDA (ttm)	32.05B	10.46B	8.08B	10.57B	2.74B
Operating Margin (ttm)	0.09	0.03	0.01	0.06	0.05
Net Income (ttm)	16.92B	6.17B	2.61B	5.38B	N/A
EPS (ttm)	10.78	1.54	1.56	3.18	1.95
P/E (ttm)	11.05	9.35	20.15	9.75	10.57
PEG (5 yr expected):	N/A	1.11	0.80	N/A	1.22
P/S (ttm):	0.79	0.37	0.32	0.51	0.71

Source: Yahoo Finance (2014)

The table 1 displayed above exhibits the figures of financial performance of Toyota in relation with its main rivals. It has beat them in terms of market capitalization, number of employees worldwide, revenue, operating margins, net income, earning per share, price-earnings ratio, and price-sales ratio.

Exhibit 1: Consolidated Income Statement, Balance Sheet, Segment-wise Revenues, & Region-wise Vehicles' Sales

	Year Ended March 31.				
	2010	2011	2012	2013	2014
(Yen in millions, except share and per share data)					
Consolidated Statement of Income Data:					
Automotive:					
Revenues	17,197,428	17,337,320	16,994,546	20,419,100	23,781,404
Operating income (loss)	(86,370)	85,973	21,683	944,704	1,938,778
Financial Services:					
Revenues	1,245,407	1,192,205	1,100,324	1,170,670	1,421,047
Operating income	246,927	358,280	306,438	315,820	294,891
All Other:					
Revenues	947,615	972,252	1,048,915	1,066,461	1,151,280
Operating income (loss)	(8,860)	35,242	42,062	53,616	64,270
Elimination of intersegment:					
Revenues	(439,477)	(508,089)	(560,132)	(592,039)	(661,820)
Operating income (loss)	(4,181)	(11,216)	(14,556)	6,748	(5,827)
Total Company:					
Revenues	18,950,973	18,993,688	18,583,653	22,064,192	25,691,911
Operating income	147,516	468,279	355,627	1,320,888	2,292,112
Income before income taxes and equity in earnings of affiliated companies	291,468	563,290	432,873	1,403,649	2,441,080
Net income attributable to Toyota Motor Corporation	209,456	408,183	283,559	962,163	1,823,119
Net income attributable to Toyota Motor Corporation per share (yen):					
Basic	66.79	130.17	90.21	303.82	575.30
Diluted	66.79	130.16	90.20	303.78	574.92
Shares used in computing net income attributable to Toyota Motor Corporation per share, basic (in thousands)	3,135,986	3,135,881	3,143,470	3,166,909	3,168,989

	Year Ended March 31.				
	2010	2011	2012	2013	2014
(Yen in millions, except per share and numbers of vehicles sold data)					
Consolidated Balance Sheet Data (end of period):					
Total Assets:	30,349,287	29,818,166	30,650,965	35,483,317	41,437,473
Short-term debt, including current portion of long-term debt	5,497,997	5,951,836	5,963,269	6,793,956	7,780,483
Long-term debt, less current portion	7,015,409	6,449,220	6,042,277	7,337,824	8,546,910
Toyota Motor Corporation shareholders' equity	10,359,723	10,332,371	10,550,261	12,148,035	14,469,148
Common stock	397,050	397,050	397,050	397,050	397,050
Other Data:					
Dividends per share (yen)	45.0	50.0	50.0	90.0	165.0
Number of vehicles sold					
Japan	2,162,418	1,913,117	2,070,799	2,278,796	2,365,410
North America	2,097,374	2,031,249	1,872,423	2,468,804	2,529,398
Europe	858,390	795,534	797,993	799,085	844,003
Asia	979,651	1,255,016	1,326,829	1,683,578	1,608,355
Other*	1,139,329	1,313,123	1,283,885	1,640,401	1,768,867
Worldwide total	7,237,162	7,308,039	7,351,929	8,870,664	9,116,033

* "Other" consists of Central and South America, Oceania, Africa and the Middle East, etc.

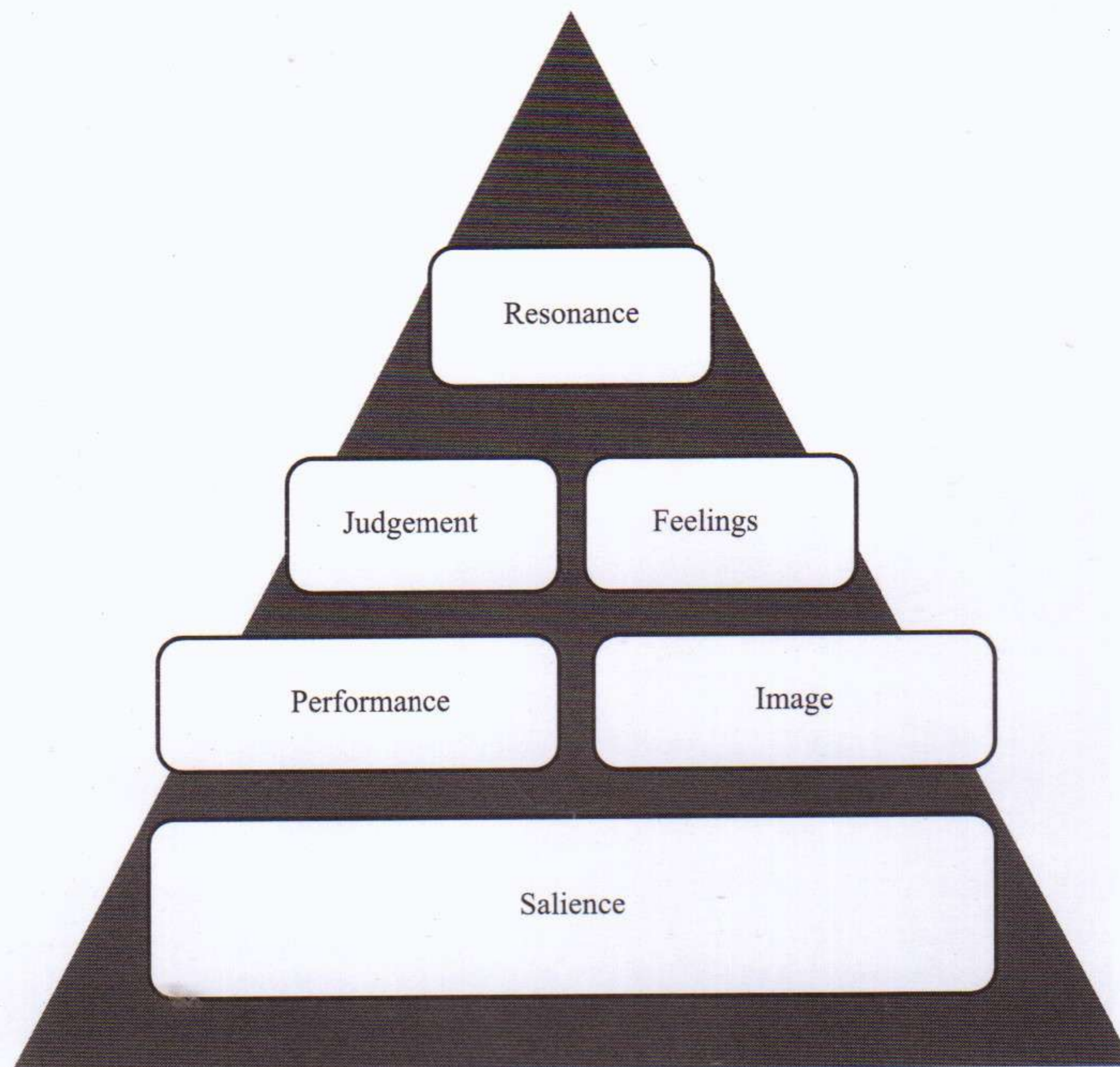
Source: Toyota Motors (2015)

The exhibit 1 above describes the financial performance of the company (taken from its annual report) for the fiscal year 2010 to 2014. The figures are in millions Yens except shares related data. The company's automotive segment's revenues are greater than its financial services segment, but the operating income situation is vice versa. Its financial services subsidiary fundamentally deals in leasing of its vehicles to its show room dealers and customers. Its total assets and liabilities are improving over the period of time. The total assets are almost three times greater than its short and long-term debt. The highest number of its vehicles is sold in Japan and North America, then Asia, Europe, and the rest of the world.

Customer Based Brand Equity (CBBE) Model for Toyota

Having briefly described the brand elements, the customer and the competitor profiles in the preceding sections, the following section deliberates the Customer Based Brand Equity (CBBE) model for Toyota, as presented beneath in figure number

Figure 2: CBBE Model of Toyota



Source: Keller (1993; 2012)

Brand Salience

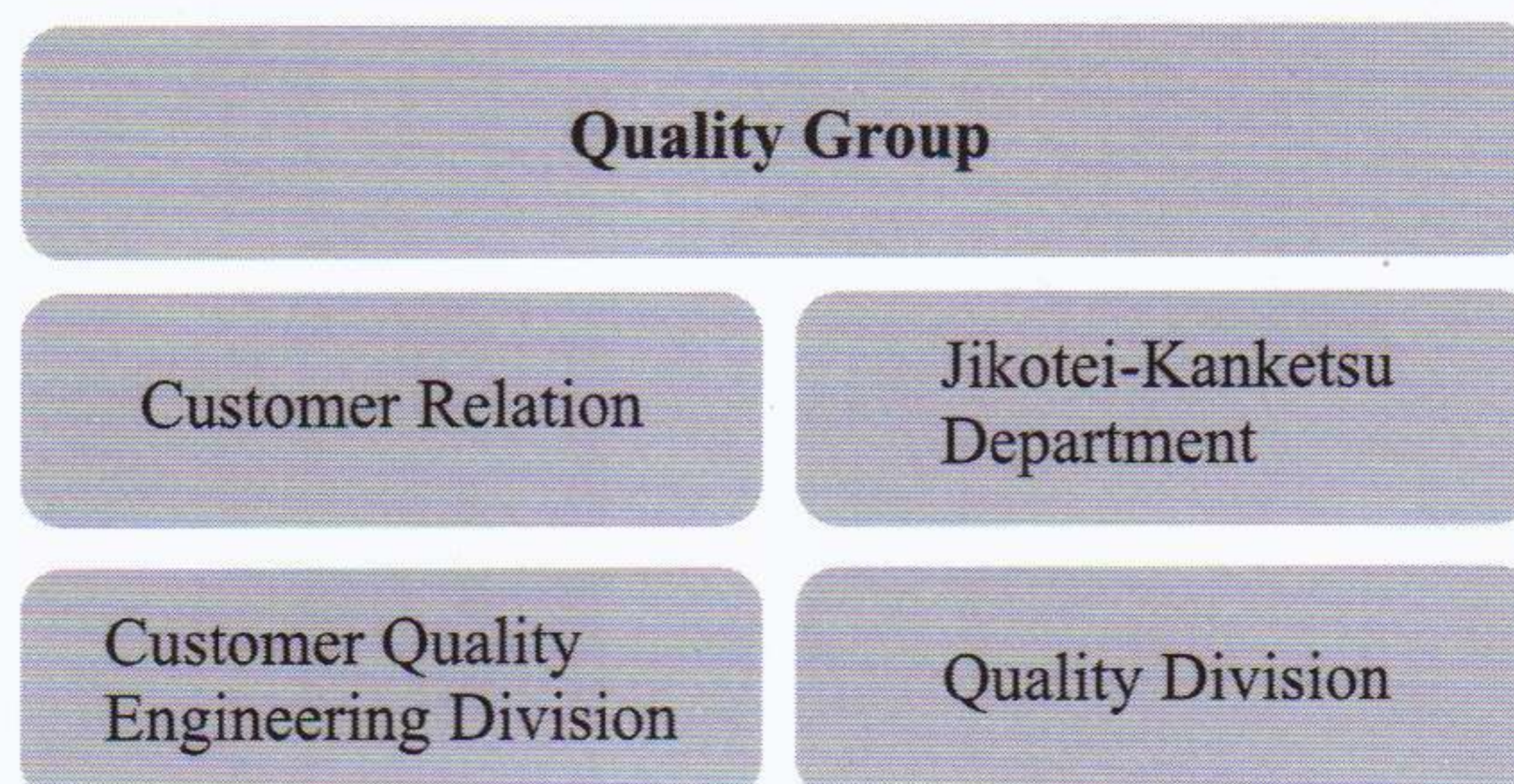
Brand salience measures the brand awareness. It shows how strong the brand recognition and recall are. The recognition of the brand is the expressed familiarity with it at a point of contact between the customer and the brand. Brand recall is the surfacing of the brand

whenever a related category is recalled. Recall will occur when the customer is not physically present at any contact point. Toyota's brand salience consists of brand recall and recognition. The customers hold a strong and deep association with the brand. The most apt example that shows the salience of the Toyota brand is that in October 2010, when Toyota was launching its hybrid vehicle Toyota Prius in USA market, the dealers had received confirmed orders with advance bookings for 10,000 vehicles even before the vehicle had reached the show rooms. This shows that the customers knew the brand so well that physical presence of the vehicle at the showrooms was immaterial for placing an order for Toyota Prius.

Performance

Performance is a measure of the satisfaction of the functional needs of the customers. It is determined by features, reliability, serviceability, durability, effectiveness, efficiency, price, style and design in the automobile world. The technical experts at Toyota claim that the speed and flexibility of the brand is word class. This claim is seconded by the customers. Toyota strives for zero customer complaints through its stringent quality control standards. The Quality Assurance Group of Toyota is shown below in figure

Figure 3: Quality Aspects of Toyota



Source: Toyota Global (2015)

Within the quality group, customer relations department communicates customer feed-back to the company for enhancing the product and service quality. Jikotei-Kanketsu Department promotes in-house concepts and activities for quality management. Customer Quality Engineering Division conducts early detection and early resolution of quality related (EDER) issues. Quality Division improves audit system for products and organizational frameworks. Based on the efforts to build the performance of the brand, the customer of Toyota is assured that "Toyota doesn't break down." The company delivers its promise with 6-year warranty on its global brands. Quality is the life and blood at Toyota. Although Toyota's production system is unmatched in cost effectiveness and efficiency, yet, its emphasis on quality has given Toyota the leading edge in the customer market. Quality is synonymous with Toyota. A rich heritage of working on continuous improvement and zero tolerance for defects has created a valuable brand positioning in the minds of the customers. Toyota's quality-related doctrine resolves around its pivotal point that is optimum safety technology and quality-durability-reliability priorities. Inside Toyota Japan as well as its overseas plants must satisfy

a uniform set of quality benchmarks. In a bid to receive the best quality input, it has a list of qualified vendors to supply the latest and the next generation components. This list contains only few vendors, while this situation can turn risky in case of delayed supplies or shortages. Toyota's Production System entails a variety of quality standards and systems inclusive of ISO 14001 and 9000 certification, its total quality management (TQM) practices, and particularly product design to functional tests related benchmarks.

Image

Image of the brand refers to how well the brand meets the psychological and social needs of the customers. In American market the customer requires comfort, size and dependability when looking for an automobile. In Europe, the customer looks for details in design, style and brand heritage. Based on the customer feed-back, Toyota knows that the customer associates the image of superior quality and reliability with its brand. These perceptions are long-lasting. Had they not been long lasting, the quality related issues in 2006-2010 would have wiped out the brand from the market.

Judgment

Judgment is the personal opinion and evaluation of the brand based on its performance and imagery. A customer may have his own judgment on brand quality, credibility, consideration, superiority. Toyota invested in building brand salience, performance and imagery and the customer responded positively by judging the vehicle favorably as compared to other alternatives available in the market.

Feelings

The customer surveys conducted by Toyota revealed the feelings that customer harbored for this brand. The customers voiced their feelings e.g. 'I am glad I chose Toyota.' 'I am enjoying my Toyota. That's what I like about my Toyota' these feelings reinforced the positive post purchase behavior and created a pride in the ownership of the vehicle also.

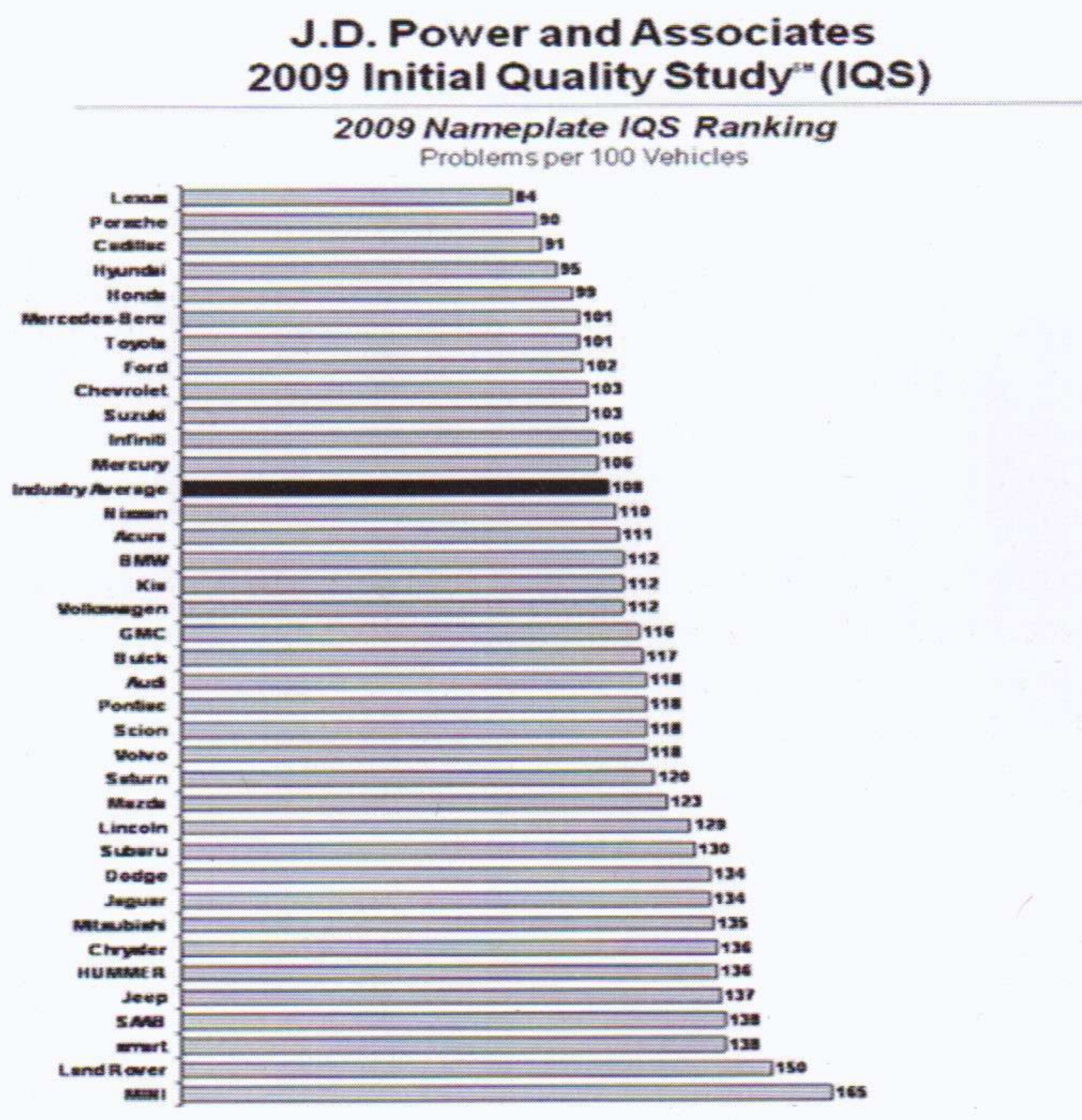
Resonance

Resonance occurs when customers are completely in synch with the brand. It is reflected through intense and active brand loyalty. Attitudinal attachment with the brand shows the strength of brand resonance. The main question that needed to be answered after the quality fiasco at Toyota was, as a senior executive stated, 'You think about Toyota, and quality is in our DNA. We are concerned about looking like the rest of the pack. The market is forgiving because of our long reputation, but how long will they be forgiving?'

The answer to this most significant question lies in the brand resonance, the epitome of the brand building efforts that Toyota had been undertaking since 1937. The technical experts in the automobile industry were cynical about the future of Toyota especially after Toyota announced the recall of the models suffering from quality issues. They forecasted short-term loss in earnings and long-term loss in Toyota's brand equity. Moreover, they prophesized that the image of automotive industry of Japan will be tarnished this way. However, the reputation

of Toyota remained unblemished. This was declared in the J. D. Power Initial Quality Survey (IQS) of 2009, where 10 awards were either bagged by Toyota or Lexus (as shown in figure 4). This was the first time in the history that one automobile manufacturer had grabbed so many awards in a single year.

Figure 4: Quality Study about Toyota



Source: J.D. Power and Associates 2009 Initial Quality Study™
 Charts and graphs extracted from this press release must be accompanied by a statement identifying J.D. Power and Associates as the publisher and the J.D. Power and Associates 2009 Initial Quality Study™ as the source. Rankings are based on numerical scores, and not necessarily on statistical significance. No advertising or other promotional use can be made of the information in this release or J.D. Power and Associates survey results without the express prior written consent of J.D. Power and Associates.

Source: J. D. Power and Associates (2009)

CONCLUSION AND IMPLICATIONS

Now let us briefly analyze what made this miracle possible. As soon as Toyota realized that its production process was leading to seemingly minor issues but the impact of those issues was significant. It decided to take full responsibility of the fault and halt the production till the fault was removed and recalled the faulty models and rectify the fault in them. They bore substantial outlays for transportation and maintenance but boldly accepted that loss. This did not damage the confidence of the customers because they knew that Toyota has not left them in a lurch. Quality problems often occurred in other automobile brands also but what made Toyota different from others was that none of the other brands were pulled off road for

rectification. Hence this bold step went in favor of Toyota itself and falsified the notions that technical experts had voiced. Toyota came out of these crises even stronger than before. The brand mantra, 'All Safety, All the Time,' sums it up neatly.

The readers of this case study may think of several possible situations about what could have happened, if Toyota had not decided about mock recall of millions of its vehicles. The resulting damages could have devastated its brand image, corporate goodwill, sales revenues, customer loyalty, and so on. Why Toyota's quality system and related departments continually failed to address its functional problems despite having several quality-related systems, individuals departments, testing benchmarks, and dedicated professional teams? Should it stick to its existing quality system or install zero-defect system, six sigma, or some other quality techniques and systems? What is the moral of this case study? This case is an exemplary learning to high tech-oriented businesses.

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