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How Toyota Created Lexus

—The Development of Luxury Cars and the Cross-organizational Development of Brand Marketing—

"A Japanese Premium Brand." The Toyota Motor Corporation (hereinafter, Toyota), with a turnover in the vicinity of 24 trillion yen, operating profit of approximately 2.3 trillion yen and worldwide car sales figures of 8 million in 2007, launched the Lexus brand onto the Japanese market in August 2005. There were two reasons behind this. The first was the sense of impending crisis that emerged in 2000 about what the future held in a decade's time. One cause of this sense of foreboding was the polarization of consumption in the Japanese market; that is, the tendency for medium-sized car customers, traditionally a Toyota stronghold, to be more inclined to "slightly smaller" or "slightly larger" cars. Another reason was the ascendance of imported cars on the luxury car market which saw the share of this market held by Japanese cars slump to approximately one-third in the five year period from 1990. The third factor was the declining preference for Toyota cars in the 30–40 year age group, and a fourth element was the feeling of helplessness that arose from the preceding factors.

The second reason for the launch was the need for the Lexus on the Japanese market. Born and developed over 16 years in the United States, the Lexus had a special image in that country that "it's not a Toyota, it's a Lexus." In Japan, however, the same cars were on the roads, not as Lexus cars, but bearing different names and a Toyota badge. For example, the LS was known as Celsior, the SC as Soarer, and the ES as Windom. The Lexus brand, however, needed to be created afresh in the Japanese market, rather than it simply being a reverse import from the United States.

This case has been compiled by Professor Haruo Takagi and Professor Akihiro Inoue of the Graduate School of Business Administration, Keio University, based on "Toyota wa Doyatte Lexus wo Tsukuttanoka—"Nihon-hatsu Sekai e" wo Jitsugen shita Toyota no Soshiki Noryoku" [How Toyota Created Lexus—Toyota's Organizational Ability for Realizing a Launch from Japan to the World], (Diamond Inc., 2007), published data and the results of their own surveys. It is a teaching material prepared to facilitate class discussion and, as such, is not a commentary on the quality of management in any way. Our gratitude to Akihiro Nishimoto, Ph D candidate in the Graduate School of Business Administration, Keio University, for his cooperation in the collection and collation of published materials.

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From the Vice-President down, among managing executive officers for the domestic market there were both those who voiced their agreement with, and those their opposition to, the launch of the Lexus brand. The main argument on the "for" side was that it was the only market remaining for Toyota, and it was evident from trade-in data for Celsiors and Crowns that once customers in the luxury market switched to an imported car, many of them tended not to return to Japanese made cars. Another argument was that there were many excellent domestic dealers with surplus staff and capital, and the third point made was that the challenge had already begun with the time being ripe for the technical division to bring about further evolution of Lexus.

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In contrast, those opposed held the opinion that: 1) there was no precedent for a mass-producer of cars 10 creating a premium brand; 2) those dealers selling Celsiors, the source of profits, that did not become Lexus dealers may not be able to maintain the profitability of their dealers, and; 3) it may not be possible to make a return on investment for establishing dealers in premium areas befitting the luxury brand. Nevertheless, "the feeling is we resolved to go ahead with it with a ratio of about 52 to 48" (Mr. 15 Sasazu).

August 2000 saw the formation of the Business Reform (BR) Mid- and Long-term Planning Section, a problem-solving organization of limited life that takes a cross-section of the existing organization that is organized as a group or section. At a meeting of this BR organization, Managing Executive Officer, Mr. Kaneko, referred to four issues regarding the introduction of Lexus into the Japanese market. One was that they would not be starting from scratch—there was the inherent difficulty of having to perform a brand changeover in respect of the existing Lexus that took shape in line with the commencement of sales of the LS in the United States. Another issue was that while there was a market segment of baby-boomer young executives when the Lexus was being launched, there was no such affluent class among 30-40 year olds in Japan. The third issue was that, because the after-sales service of dealers in Japan was already of a high standard, it was unlikely that the innovation of after-sales service that was one of the keys of success in the American market would function sufficiently as a point of differentiation. And lastly, while the American market is prepared to accept products as long as the quality is good, there remains a dedication in Japan to European brands.

The Luxury Car Market sample

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Mercedes-Benz

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- When viewing the luxury car market in Japan, in addition to Lexus, there are two European car makers that can be considered. One of those is Mercedes-Benz Japan (established January 21, 1986; capital—400 million yen; http://www.Mercedes-Benz.co.jp/index.html). As of 2008, this company deals in three brands in the Japanese market—Mercedes-Benz, Maybach and Smart.
- The Mercedes-Benz brand has the following classes of cars: A-Class, B-Class, C-Class (including sedans, station wagons and sports coupes), E-Class (including sedans and station wagons), S-Class, SLK-Class, SL-Class, CLK-Class (including coupes and cabriolets), CL-Class, CLS-Class, M-Class, R-Class, GL-Class, G-Class, V-Class, SLR Roadster and AMG. Of these, the C-Class (excluding

AMG) has 1.8 ℓ to 3 ℓ engines and retails in a price bracket of approximately 4.2 million to 6.7 million yen. E-Class sedans (excluding 550 Avantgarde and AMG) have engines of 2.5 ℓ to 3 ℓ and retail from approximately 6.4 million to 8.9 million yen. With engines ranging from 3.5 ℓ to 5.5 ℓ , the retail price of S-Class sedans (excluding AMG) ranges from approximately 10 million yen to about 20 million yen, with long bodied specifications also available in the S550 and S600. The non-sedan, sports type SLK-Class (excluding AMG) is available in a 1.8 ℓ or 3.5 ℓ engine, retailing for around 5.6 million yen and approximately 7.4 million yen, respectively.

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In Japan, the dominant distribution channel is authorized Mercedes-Benz dealers. On February 28, 2008, AMG Performance Centers were rolled out at twenty-two outlets, featuring permanent AMG model display cars and demonstrator cars and specially trained "AMG experts" on hand. These commenced business on April 1.

BMW

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Another European car company is BMW Japan (established September 22, 1981; 100% equity investment by BMW AG; http://www.bmw.co.jp/jp/ja/brand/corporation/bmw_japan/overview.html). The cars available in Japan are the 1 Series, 3 Series, 5 Series, 6 Series, 7 Series, X3 Series, X5 Series, Z4 Series, and the M Series. Of these, the 5 Series has engines from 2.5 ℓ to 4.8 ℓ and sells for approximately 6.3 million to 10 million yen. Selling in a price bracket of approximately 9.2 million to 17.6 million yen are the 7 Series cars with engine sizes of 4 ℓ to 6 ℓ . Long-bodied specifications are also available in the 750Li and 760Li. The sports type M Series consists of the Z4 M coupe and roadstar, M3 sedan and coupe, and M5 and M6 coupe and cabriolet lines. With engines from 3.3 ℓ to 5 ℓ , prices range from around 8 million to 16.7 million yen.

As with Mercedes-Benz, the predominant distribution channel is authorized dealers. There are 70 dealers and 187 bases.

Lexus

Lexus made its start in August 2005, with 143 dealers and 3 models (GS, IS and SC). Apart from the IS F, the IS engines range from 2.5 ℓ to 3.5 ℓ and the cars retail from between approximately 3.9 million to 5.2 million yen. The GS models range in price from around 5.4 million to 7.8 million yen, and come in engine sizes of 3.5 ℓ and 4.6 ℓ . With a 4.3 ℓ engine, the sports type SC, is sold for around 6.8 million yen. In 2006, a fourth model, the LS, was brought onto the market, with 4.6 ℓ to 5 ℓ engines and a price tag ranging from approximately 7.7 million to 15.1 million yen. A long body specification, the LS600hL, is also available. The LS and GS line-ups also include hybrid engines in the LS600hL and GS450h.

Sales volumes on a yearly base for these three companies, plus figures for Toyota's luxury car, Crown, are shown in Figure 1. The Figure is based on the "New Car Sales Volumes (Bulletin)" of the Japan Automobile Dealers Association, and the "New Car Import and Sales Volumes (Bulletin)" of the Japan Automobile Importers Association from August 2005 to April 2008, and shows the totals for

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new car sales from August 2005 after the launch of Lexus to December 2005 for FY2005, from April 2006 to March 2007 for FY2006, and from April 2007 to April 2008 for FY 2007.

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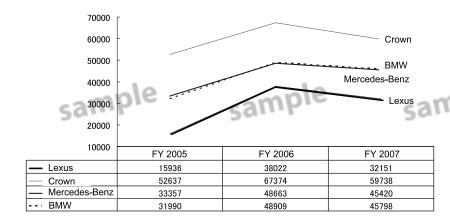
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Figure 1 Trends in sales volumes of new luxury cars in the Japanese market

(Source: totals based on the "New Car Sales Volumes (Bulletin)" of the Japan Automobile Dealers Association and the "New Automobile Import and Sales Volumes (Bulletin)" of the Japan Automobile Importers Association from August 2005 to April 2008)



Survey of Luxury Car Market Customers

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In June 2008, with the cooperation of Goo Research of NTT Resonant Inc., the authors conducted a voluntary internet survey of people who had purchased new Audi, BMW, Volvo, Mercedes-Benz or Lexus vehicles (4 million yen or more) since 2005. The total number of respondents was 128, of which 46 (36%) had purchased a BMW, 35 (27%) a Mercedes-Benz, 21 (16%) a Lexus, and 26 (20%) other makes. The rate of subscription to either Asahi Shimbun, Yomiuru Shimbun or Nikkei Shimbun was 78.9%; the average age was 43.4 years, 76.6% of respondents were married, and the average income was approximately 10.35 million yen. Looking at the figures by make of car, the average age of BMW purchasers was 44.4 years with an average income of around 10.35 million yen; for Mercedes-Benz purchasers the average age was 45.3 years on an average income of approximately 12.3 million yen, while the average age of Lexus purchasers was 39.9 years and average income was about 8.3 million yen.

Figure 2 shows cars that were used as comparisons by BMW, Mercedes-Benz and Lexus purchasers, respectively. Of the 46 BMW purchasers, 22 (47.8%) considered BMW models only; of the remaining 24 people, 11 considered Audi, 9 considered Mercedes-Benz and 5 considered Lexus. Using 46 BMW purchasers as a base figure, in percentage terms that equates to 23.9%, 19.6% and 10.9%, respectively; using 24 (46 – 22) BMW purchasers who considered other makes, the figures are 45.9%, 37.5% and 20.8%, respectively. Similarly, of the 35 Mercedes-Benz purchasers, 12 (34.3%) considered Mercedes-Benz only; 5 of the remaining 23 considered Audi, 13 considered BMW and 2 considered Lexus. In percentage terms using a base of 35 Mercedes-Benz purchasers, that is 14.3%, 37.1% and 5.7%, respectively, or 21.7%, 56.5% and 8.7%, respectively, using a base of 23 (35 – 12)

purchasers who considered other brands. In the case of Lexus, 4 people (19.0%) o

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Mercedes-Benz purchasers who considered other brands. In the case of Lexus, 4 people (19.0%) of the 21 purchasers looked only at the Lexus brand; of the remaining 17, 4 people considered Audi, 9 each considered BMW and Mercedes-Benz, and 5 people considered Toyota models other than Lexus. Using 21 Lexus purchasers as the base, the percentages stand at 19.0%, 42.9%, 42.9% and 23.8% respectively; using 17 (21 – 4) Lexus purchasers who considered other makes, the figures are 23.5%, 52.9%, 52.9% and 29.4%, respectively.

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Figure 2 Other Cars Considered by Purchasers of BMW, Mercedes-Benz and Lexus Cars (Source: voluntary internet survey by the authors conducted June 2008; N = 128)

c21	nple	Purchasers	No Other Make Considered	Audi	BMW	Volvo	Mercedes- Benz	Lexus	Toyota (ex. Lexus)	Other
50.		46	22	11	30	4	9	5	3	10
	BMW Purchasers	N = 46 base	47.8%	23.9%	_	8.7%	19.6%	10.9%	6.5%	21.7%
	T di ciidisci s	N = (46 - 2)	22) base	45.8%	_	16.7%	37.5%	20.8%	12.5%	41.7%
sar	Mercedes-	35	12	5	13	5	_	2	3	12
	Benz	N = 35 base	34.3%	14.3%	37.1%	14.3%	_	5.7%	8.6%	34.3%
	Purchasers	N = (35 - 1)	2) base	21.7%	56.5%	21.7%	le_	8.7%	13.0%	52.2%
	Lexus Purchasers	21	4	4	9	0	9	- 51	5	5
		N = 21 base	19.0%	19.0%	42.9%	0.0%	42.9%	_	23.8%	23.8%
		N = (21 -	4) base	23.5%	52.9%	0.0%	52.9%	_	29.4%	29.4%

Figure 3 relates to the degree of importance (5 = very high; 1 = none) placed on various information sources when purchasing a luxury car, and shows the overall average value and the average values for purchasers of BMW, Mercedes-Benz and Lexus, respectively. Figure 4 relates to the compatibility of the cars to 15 image factors (5 = highly compatible; 1 = not compatible), and shows the overall average value and the average values for purchasers of BMW, Mercedes-Benz and Lexus, respectively. Figure 5 also gives the overall average value and the average values for purchasers of BMW, Mercedes-Benz and Lexus, respectively, in relation to the level of understanding (5 = very high; 1 = none) regarding five characteristics or features of luxury cars. Figure 6 is a brand map based on the answers of all survey respondents created to visualize the results of Figure 4. Figure 7 is a features and image map based on the answers of all survey respondents created to visualize the correlation between the image factors of Figure 4 and the features and characteristics of Figure 5.

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Figure 3 Degree of importance placed on various information sources when purchasing a luxury car

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(Source: voluntary internet survey by the authors conducted June 2008; N = 128)

BMW Mercedes-Benz Lexus Overall **Purchasers Purchasers Purchasers** 1.83 Television 2.04 2.03 2.24 1.97 2.10 **Newspapers** 1.94 1.65 **Fliers** 2.10 2.07 1.76 2.11 Car magazines 2.88 2.57 2.86 3.10 2.38 Other magazines 2.23 1.96 2.23 Car company home pages 3.52 3.41 3.46 3.43 Catalogs 3.95 3.89 3.91 4.14 Direct mail 2.28 2.43 2.52 2.74 Dealers, showrooms 4.27 4.07 4.49 4.33 2.56 2.50 2.57 Acquaintances, friends 2.51

Figure 4 BMW, Mercedes-Benz and Lexus brand images

(Source: voluntary internet survey by the authors conducted June 2008; N = 128)

	nle	Overall	BMW	Mercedes-Benz	Lexus
20	Good interior	3.65	5.70	3.60 50	3.64
	Quiet	3.65	3.20	3.71	4.03
S	Smooth ride	3.83	3.72	3.91	3.87
I	nnovative	3.46	3.60	3.34	3.45
(Good acceleration	3.75	4.09	3.63	3.54
25 <u>E</u>	Environmentally frien	dly 3.04	2.88	2.91	3.33
\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \	Value for money	3.30	3.45	3.26	3.20
and	Good fuel consumption	n 2.70	2.59	2.54	2.98
	Good design	3.61	3.86	3.61	3.35
S	Spacious trunk	3.08	2.95	3.20	3.09
	Good interior comfort	3.71	3.53	3.89	3.72
³⁰ E	Easy to drive	3.70	3.82	3.70	3.58
A	Assured driving	3.93	4.23	3.93	3.65
S	Spacious interior	3.38	3.13	3.57	3.45
an	Very safe	3.88	3.81	4.09	3.73

Figure 5 Level of understanding of characteristics and features of BMW, Mercedes-Benz and Lexus cars

(Source: voluntary internet survey by the authors conducted June 2008; N = 128)

	Overall	BMW	Mercedes-Benz	Lexus
Price range	3.51	3.70	3.59	3.23
Engine displacement	3.42	3.66	3.38	3.22
Driving performance	3.35	3.61	3.34	3.11
Interior fittings	3.36	3.64	3.38	3.06
Exterior design	3.92	4.16	3.94	3.65

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Figure 6 Brand map for BMW, Mercedes-Benz and Lexus

(Source: voluntary internet survey by the authors conducted June 2008; N = 128)

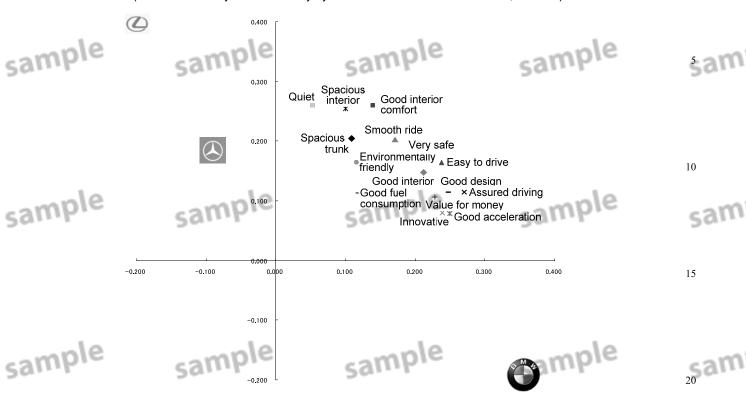
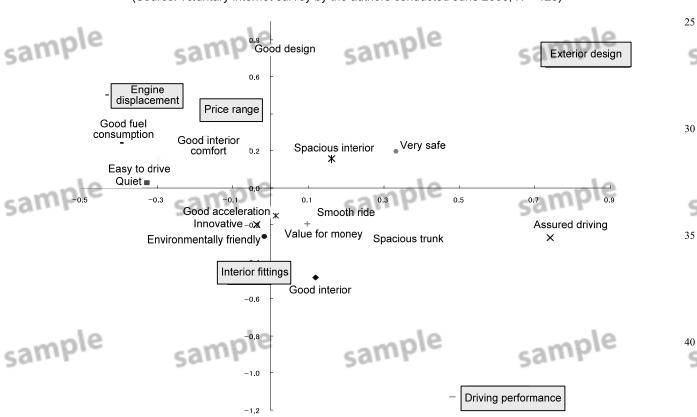


Figure 7 Map of the correlation between level of understanding of characteristics/features and image

(Source: voluntary internet survey by the authors conducted June 2008; N = 128)



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The Design and Philosophy of the Lexus Brand

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The Pursuit of Perfection

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5 That which Lexus pursues is perfection, and this "Pursuit of Perfection" is at once the apex and the core of the Lexus brand. This "perfection" is sustained by "the highest quality" and "the best sales and service." The challenge for the technical division has been to pursue the best products, and continue to deliver answers. Even if they are the best, however, perfection cannot be achieved with the product alone. In addition to the tangible product, it was necessary to be the best in the intangible aspect of sales and service. 10

Figure 8 The structure of perfection

sample (Source: "Toyota wa Doyatte Lexus wo Tsukuttanoka— "Nihon-hatsu Sekai e" wo Jitsugen shita Toyota no Soshiki Noryoku" [How Toyota Created Lexus—Toyota's Organizational Ability for Realizing a Launch from Japan to the World] (Diamond Inc., 2007), page 157)

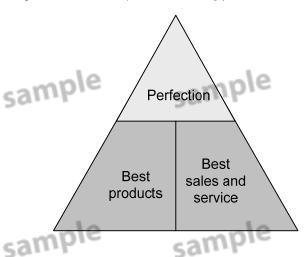
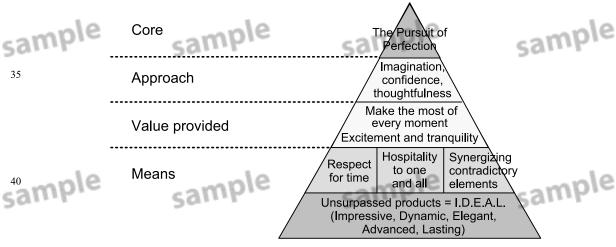


Figure 9 The Lexus brand pyramid

(Source: "Toyota wa Doyatte Lexus wo Tsukuttanoka—"Nihon-hatsu Sekai e" wo Jitsugen shita Toyota no Soshiki Noryoku" [How Toyota Created Lexus—Toyota's Organizational Ability for Realizing a Launch from Japan to the World] (Diamond Inc., 2007), page 65)



The Lexus Brand Pyramid

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The Lexus brand pyramid shown in Figure 9 has as its apex the pursuit of "perfection," which is its core. The response to "what is this perfection?" that Toyota has pondered with the Lexus, is a car in which "the most wonderful time can be spent," a car in which the customer can "make the most of every moment." This meant minimizing wasted time and unpleasant time of the customer and making the time spent in a Lexus rich in "excitement" and "tranquility." This is the source of the brand value that Lexus pursues.

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Make the Most of Every Moment: Excitement and Tranquility

Lexus, the lovingly created car that provides owners and passengers with a time of "excitement" and "tranquility," values time.

And the concrete realization of the luxury that Lexus pursues, the Lexus Philosophy, is "continuous foresight," the "foreknowledge gained from preempting the feelings of the other person" that is essential in achieving a spirit of hospitality. Mr. Matsumoto, General Manager of the Lexus Design Division, explains that using "continuous foresight" to lead people to a unique experience for each and every owner is at the heart of Lexus design. Apart from "preempting," there are two other key phrases associated with Lexus styling—incisive simplicity and intriguing elegance. The goal is something that is elegant to the point of intrigue, while at the same time super-advanced and bold.

Always accompanying the development of a car are contradictory aspects such as horsepower and fuel consumption, ride and handling, etc. But rather than seek a point of compromise for these contradictory elements, the catch phrase of the Lexus development team is "synergizing contradictory elements" as they raise the level of both aspects. Difficulties have been surmounted by responding to the source of the issue, such as during the development of the V8 engine that is superbly quiet, not through the use of sound-dampening materials, but by using only parts with ten times the precision of conventional parts to make the source of the noise, the engine itself, quiet.

I.D.E.A.L. and L-finesse

As product development as a specific means, "Unsurpassed Products" = I.D.E.A.L., an acronym of Impressive, Dynamic, Elegant, Advanced and Lasting, was established as the Lexus design philosophy. Side by side with this, was another philosophy forming the basis of product development—"L-finesse." In order to counter the powerful design identity that European cars have that identify them at a glance, it is necessary for there to be a readily identifiable "Lexus-like quality," and the theme that the designers emphasized was "L-finesse." The "L" stands for leading edge, and "finesse" is a French word meaning craftsmanship or adept skills, with the combination denoting "freshness as an expression of technological progress" and "subtlety born of Japanese sensibility." The important "J factor" was also proposed, and while the "J" stands for Japan, it goes beyond the simple meaning of "Japanese style" to emphasize an essentially Japanese spirituality and is the result of careful research into the Japanese values that have been accepted by the world.

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First, "Impressive": this denotes drawing attention to the synergy of the oneness of the Lexus brand and the individuality of each car. In the first instance, this indicates the succession of the Lexus DNA (elegance and progressiveness: smooth, supple, tranquil, etc.). It also indicates the specialized Lexus components (door-mounted outer mirrors, exclusive colors, steering profile, etc.) for maintaining the esthetic quality, with roles within the brand clearly defined so that the uniqueness of each model can be highlighted. Specifically, the IS is "Experience: an access point to the brand that has condensed into it the Lexus world view," an experiential model to gain broad familiarity with the Lexus world that is themed around "the coexistence of an overwhelming sense of power, light-heartedness and elegance." The mainstream model that is the Lexus pursuit of perfection, the GS, is "Innovation: creating new luxury cars with Lexus essence." The theme for the GS is "the completion of dynamism." The SC is "Jewel: the creation of artistic esthetic value." This model is the embodiment of Lexus esthetic values and is themed as "the jewel of Lexus: the evolution of dynamic quality and driving." Finally, the LS, "Transcendence: the creation of a new generation of luxury car in another dimension," is the Lexus flagship model, the theme for which is "challenging and transcending, the

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dream."

Next is "Dynamic," meaning dynamic quality, to which the sensation of enjoying time has been added to the elements of a sense of security and reliability. One means of achieving this is the latest safety devices, for example, Vehicle Dynamics Integrated Management (VDIM) which provides integrated, seamless control of the entire vehicle and allows the combination of preventive safety capacity and the joy of driving. High power units, platforms and suspension are also being developed and incorporated into each model. Specifically, the following are being developed: a new V6 + 6AT for the IS; a new V6 + 6AT and new V6 hybrid for the GS; a V8 + 6AT for the SC; a new V8 and new AT for the LS, and; a new V8 hybrid and new 8AT particularly for the 600h/600hL.

The next component, "Elegant" is explained as internal and external design that brings together the sense of energy of L-finesse and elegance, and that creates the backdrop for elegantly displaying the movements of the driver. It is the synergizing of contradictory elements.

"Advanced" denotes the embodiment of foresight using new technology and hospitality that goes beyond expectation. At the heart of this is the use of technology in which humans take the leading role, and the utilization of predictive technology.

Finally, "Lasting" refers to absolute trust and affection. This is only realized through ensuring quality, durability and reliability, as well as continuous evolution, and the "Lexus Musts" were conceived to this end. These are the standards, of which there are over 500, that "are different from Toyota vehicles." They include "design musts," "numerical performance musts," "feeling musts," "dynamic musts," "special parts musts," and musts for time-delay roll-out of new technology whereby new technology appears first in Lexus.

In "the pursuit of perfection," customers are promised the best moments in time, rich in excitement and tranquility. At the core of the philosophy of the product development to achieve this are I.D.E.A.L. and L-finesse.

The Brand Concept and Business Reform Organization: Lexus Planning Division

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For the three year period from 2002 to the end of 2005, Akihiro Nagaya, General Manager of the Design Development Department in the Design Division was involved in Lexus branding as the General Manager of the Lexus Brand Planning Section of the Lexus Planning Department. While the LS has always been a personal car in the United States, in Japan the Celsior was driven by chauffeurs. The GS, similarly, was positioned in the Lexus volume zone, while the Aristo had to be "a breakthrough, unconventional sedan."

In order to re-build this kind of Lexus brand, it was necessary to fly in the face of three tenets of accepted wisdom. The first was trying to establish a brand even though it had no history; the second was that a car manufacturer was dividing its brands of its own accord, and; the third was simultaneously establishing the product and the brand. This differed from the common practice frequently seen throughout the history of brand marketing of obtaining an existing brand through merger and acquisition (M&A) to establish a luxury brand.

The main body charged with executing this was the BR organization known as the Lexus Planning Department, which was established within the Lexus Center. It appears, however, that the resources allocated to Mr. Nagaya (General Manager at the time) were few given the magnitude of the project. The orders from above were simply, "just create the brand." It is the forte of Toyota that this somewhat cursory instruction would actually be accomplished; that is, everyone involved, in building the team, in connecting the team and people, and in making use of a variety of other resources, had the skills to devise new ways of doing things.

The Toyota Production Division at the time consisted of the First Center (FR series passenger cars and sports cars), Second Center (FF series) and Third Center (commercial vehicles and SUVs). Although initially Lexus had the GS, IS and ES centered around the LS, once the range increased to include the LX and RX, etc., the development organization became scattered and, with each development center having its own culture, it became necessary to reorganize the production process in the interests of consistency in the Lexus brand. This reorganization, however, was to prove even less simple than the development process.

First, attention was focused on paint and the exclusive Lexus colors. In the production process, paint is the most costly in terms of capital investment, with the painting process accounting for approximately two-thirds of the overall capital investment plan. Asserting that no matter how much effort is put into design, if the production is the same it will end up being the same, Mr. Nagaya brought about the division of the lines.

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Figure 10 Positioning of the Lexus Center

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(Source: "Toyota wa Doyatte Lexus wo Tsukuttanoka—"Nihon-hatsu Sekai e" wo Jitsugen shita Toyota no Soshiki Noryoku" [How Toyota Created Lexus—Toyota's Organizational Ability for Realizing a Launch from Japan to the World] (Diamond Inc., 2007), page 129)

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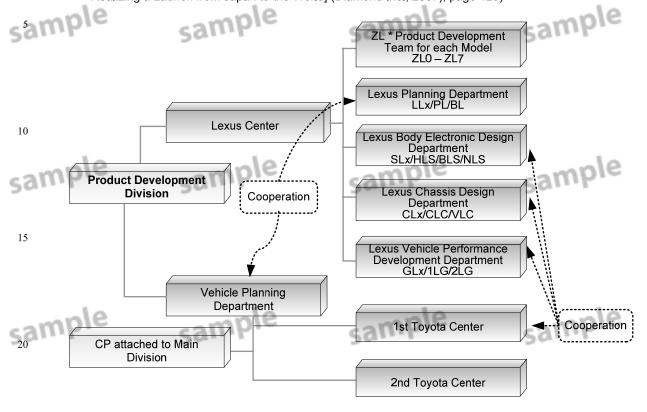


Figure 10 shows the composition of the Lexus Center that was established in June 2003. While there was a Planning Department in each of the previous three centers, under the organizational reform of the Technical Division, the Planning Departments from each center were removed and brought together to form the Toyota Center. For Lexus alone, the Lexus Center has its own independent Planning Department in order to secure its individuality. The Lexus Brand Planning Section was formed within this Planning Department, and Mr. Nagaya installed as General Manager.

With the launch onto the Japanese market decided and the dedicated Lexus line in the manufacturing division determined, a cross-organizational system of councils relating to Lexus was established in 2005 after going through the Lexus virtual company concept (Figure 11). The Lexus liaison committee evolved into the LC Council, the quality improvement committee into the LPC, and a committee for service and sales into the LCC. The LMC is a council that discusses the creation of product strategies and line-ups in the sales and technical divisions in relation to product planning proposals, and determines the course required to ensure consistency from strategy through to operations.

Figure 11 Cross-organizational system of Lexus councils

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(Source: "Toyota wa Doyatte Lexus wo Tsukuttanoka—"Nihon-hatsu Sekai e" wo Jitsugen shita Toyota no Soshiki Noryoku" [How Toyota Created Lexus—Toyota's Organizational Ability for Realizing a Launch from Japan to the World] (Diamond Inc., 2007), page 131)

Function Meeting

Vice-Presidential Meeting

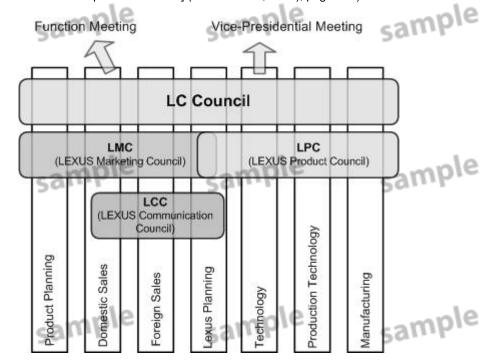
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The DNA of the enormous organization that is Toyota and its strengths are given free play in this systematization. Making up this organizational ability is: 1) the ability to complete tasks through interpersonal connections; 2) the ability to form creations and innovations from activities that encourage links between people; 3) the ability to increase the energy levels of the connections between people through the insight and passion of leaders; 4) the ability for everyone to be able to consider which combination of people will result in the task being accomplished, and; 5) the ability to maintain a common foundation for problem resolution whereby any combination of people will result in the accomplishment of a task. That is, the organization is such that it is visible to all through interpersonal connections, and the task at hand can be understood by all.

Through the cross-organizational Lexus system of councils that is the BR organization, the Lexus brand philosophy and strategy was expanded to encompass product strategy and sales strategy, as shown in Figure 12.

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Figure 12 Cross-organizational system of Lexus councils

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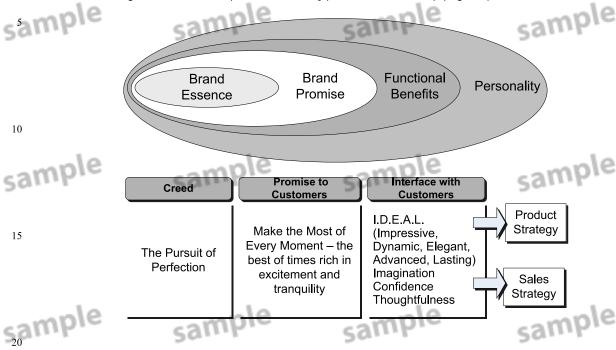
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(Source: "Toyota wa Doyatte Lexus wo Tsukuttanoka—"Nihon-hatsu Sekai e" wo Jitsugen shita Toyota no Soshiki Noryoku" [How Toyota Created Lexus—Toyota's Organizational Ability for Realizing a Launch from Japan to the World] (Diamond Inc., 2007), page 74)



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Product Brand Strategy

Product Line

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- 25 Lexus made its start in the Japanese market in August 2005 with three models (GS, IS and SC) available at 143 dealers. Once the brand was thoroughly defined, rather than adopt an area-based strategy like Toyota, Lexus was launched as a global premium brand.
- In the GS line up was the main GS350, the V8 GS430, with a hybrid version also added. The Lexus brand oneness was incorporated into the design, with the front end design also uniform. As of 2008, 30 the series is available in 3.5 \ell and 4.6 \ell engines and sells in a price range from approximately 5.4 million to 7.8 million ven.
- In addition to the main IS250, the IS series also features in its line-up the high power model IS350, as sal well as the IS F sports package. Naturally, the oneness of design is maintained while this range exudes the youthfulness that reflects the individual ride of the IS. As of 2008, the IS series includes 2.5 \ell and 3.5 \(\ell \) engine models that retail in a range from around 3.9 million to approximately 5.2 million yen. The IS F has a 5 ℓ , V8 engine and a price tag of approximately 7.7 million yen.
 - For the SC, various adjustments were made including changing the front end from that of the Soarer to conform with Lexus cars, amending the wheel design, renovating the tail lamps and adding internal and external embellishments. As of 2008, it has a 4.3 \(\ell \) engine and sells for approximately 6.8 million yen.

Then, in September 2006, the LS460 was released. The chief engineer of this flagship sedan was Mr. Moritaka Yoshida. This LS460 was the fourth generation, with Mr. Yoshida also having been the chief on the third generation LS430 which was released in August 2000. As of 2000, he was slated to be in charge of the minor changes to take place three years later and a full model change six years later. When the development project began in 2001, Mr. Yoshida was of the view that it was necessary to go well beyond the path of the first generation, and that rather than fix their eyes on 2006 some five years hence, they needed to have a vision that stretched further into the future. Contradictory elements arose here too, however. Although a stylish car was needed to boost the brand image, profits do not keep pace with style. This posed a major problem for the LS for which profitability is a central pillar.

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Mr. Yoshida responded by deciding to develop variations of the one-body, one engine LS. His idea was to make a profit-focused model and a stylish, higher class model, making that higher class model in a long wheel base with more interior room. In terms of dramatically boosting power performance, rather than follow in the footsteps of German cars with multi-valve V12 engines, etc., he thought of combining a V8 engine with hybrid technology. The development of a 5 \(\ell \) premium engine was also decided, paving the way for a move from the 6AT to the development of the 8AT, a first for the passenger vehicle market. Appearing on the market from May 2007, the LS600h and LS600hL as they were called, are the pinnacle of the Lexus flagship hybrid car. As of 2008, the LS series features a 4.6 ℓ and 5 ℓ engine, and retails from approximately 7.7 million to 15.1 million yen.

The Brand Book—The Lexus

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The brand book, The Lexus, was completed in October 2004. The Lexus Pyramid appears first in this B6-size, de luxe edition, 44 page book, and is accompanied by the following words.

Each of us, Lexus members all,
Will develop and nurture the Lexus brand

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Under a unified concept through unrelenting

Passion, determination and collaboration.

This Lexus concept is embodied in the

Words of the Lexus Pyramid.

It tells of that which Lexus pursues,

And is the compass for our preparedness and actions that support it.

It is the eternal origin of Lexus

On the last page of The Lexus Brand Book is the Lexus Brand Statement.

© We will deliver the best products with the best sales and service in our relentless "pursuit of perfection."

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- © We will realize the best through fours tenets—respect for time; hospitality to one and all; synergizing contradicting elements, and; transcendent products.
- © We promise that every moment our customers spend with Lexus will fill their hearts with excitement and tranquility.
- We will always display creativity and act with confidence and thoughtfulness.
- We, each and every one of us, are Lexus.

Distribution Channel Strategy

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Although leading local industries with sources of capital different from Toyota, many retailers provided cooperation in the launch of the Lexus onto the Japanese market, not just Toyota Head Office alone. New, detailed simulations were conducted based on a rough concept of a nationwide Lexus dealer network formed in the BR Mid-term Planning Section, and consideration given to the orders coming from the Toyota side to establish completely new dealers for the Lexus all in prime real estate areas.

The requirement from the Lexus Domestic Sales Department was for an approach that differed vastly from conventional approaches, from creating stores to sales approach, the type of person required as the general manager (GM) and other staff, sales strategy that placed primary importance on brand establishment rather than pursuing sales figures, and the creation of a national network rather than regional networks despite the dealers having different capital sources.

After advertising for participants from July 2003, some 109 companies responded. Of them, 107 were domestic Toyota sales companies of which 46 were Toyota dealers, 29 were Toyota dealers, 14 Corolla outlets and 18 Netz retailers; the other 2 companies were Toyota related. The final number became 172, and by August 2005 when business commenced, the number had dropped to 143 due to difficulties in acquiring land, etc.

Differing in style from Toyota, the Lexus Domestic Sales Department tried to close the distance between itself and dealers. In the case of Toyota, the Sales Division enters into contracts with the head offices of each of the sales companies rather than with individual dealers and exchanges various marketing information including location and policies, customer information and needs. In the case of Lexus, for which 84 of the 109 companies have only one dealer, however, this method is problematic, and it was decided that contracts would be concluded with each dealer and that Toyota would deal directly with the dealers on matters from everyday operations such as the development of sales policies and measures and ordering of vehicle products, to staff education (Figure 13). With Lexus being a unified brand, it would be unacceptable for colors in a neighboring prefecture to be different or the quality of service to vary. As such, although the capital came from 109 + 1 different sources, a system was created not unlike direct sales outlets under a single company in which Toyota became the proxy head office for the dealers. This led to the advent of a horizontal type of cooperation vastly divergent from the conventional wisdom to that point, with the General Manager sitting beside you seeking not to gain a customer for himself, but rather a customer for Lexus.

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Figure 13 The relationship between Toyota and Lexus Dealers

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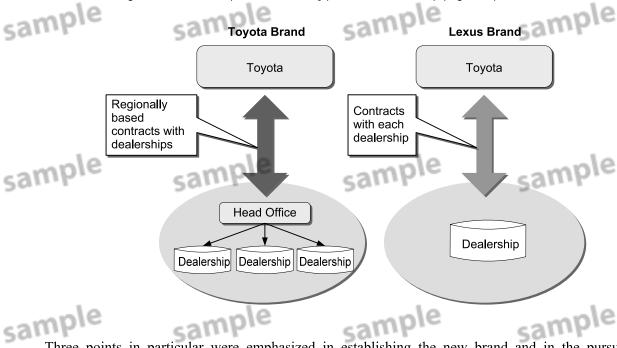
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(Source: "Toyota wa Doyatte Lexus wo Tsukuttanoka—"Nihon-hatsu Sekai e" wo Jitsugen shita Toyota no Soshiki Noryoku" [How Toyota Created Lexus—Toyota's Organizational Ability for Realizing a Launch from Japan to the World] (Diamond Inc., 2007), page 141)

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Three points in particular were emphasized in establishing the new brand and in the pursuit of perfection. The first was the "creation of dealers." In order to realize the concepts of "luxury" and "hospitality to one and all," detailed designs were implemented, not just regarding appearance and showrooms, but also involving the reception area for greeting customers and lounges where customers could wait for service in comfort. Glass-walled showrooms were made so that the Lexus cars were visible even when driving past on the road, and the general reception was placed at the front so that customers could be greeted as soon as they arrived. Exclusive lounge areas for Lexus owners were also reserved in the prime position, and half-wall individual consulting booths added to create a kind of retail outlet not seen before. Furthermore, although existing owned and rented premises were used for approximately 40% of the dealers, the majority of buildings were newly constructed.

The second point of emphasis was "personnel development." Lexus' personnel development was explained at the first Block Meeting of Dealers held in March 2004. To that point, the basic line had been to appoint to the position of dealer manager a person who sold a lot of cars or who was well versed in the work. In the case of Lexus, however, a customer prioritization approach was recommended in which competencies required for Lexus were determined and only those persons meeting those competencies could become not dealer managers, but General Managers. Instead of the previous "quickly and efficiently broadening the customer base," the key words were "gradually and courteously deepening the relationship with the customer."

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Figure 14 The structure of Lexus brand hospitality

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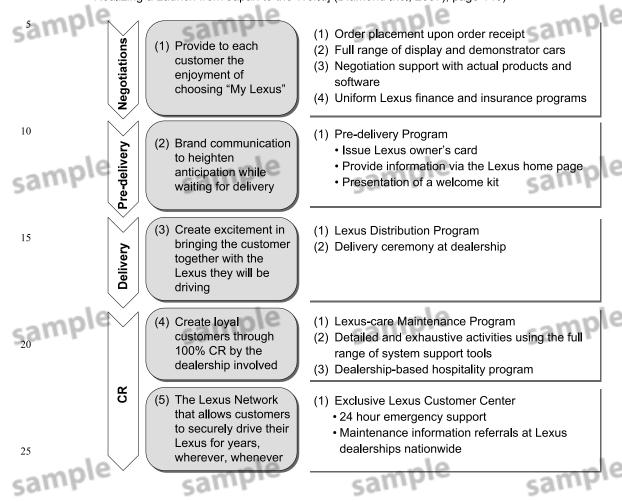
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(Source: "Toyota wa Doyatte Lexus wo Tsukuttanoka—"Nihon-hatsu Sekai e" wo Jitsugen shita Toyota no Soshiki Noryoku" [How Toyota Created Lexus—Toyota's Organizational Ability for Realizing a Launch from Japan to the World] (Diamond Inc., 2007), page 145)

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"Hospitality" is the third point of emphasis. Being hospitality, the focus is on responses provided by humans, conversely leading to efforts being poured into the introduction of IT technology. To support negotiations, a software program known as the Lexus Gallery has been applied to allow simulated images of options and color variations to be seen on a computer screen.

Post-delivery customer relations (CR) services are called "Lexus Total Care," the mainstay of which is the Lexus Owners' Desk. This is a call center for the exclusive use of Lexus owners that is permanently manned and takes on the role of concierge services. For example, the Owners' Desk may set a satellite navigator on behalf of a customer by sending data from the Owners' Desk so that the customer does not have to do it themselves. Destinations and routes can be set and amended through a mobile phone call or a hands-free call while en-route. Staff will also assist with searches of car parks at the destination or making a hotel or restaurant booking, providing a service that will take a variety of requests from owners 24 hours a day, 365 days a year.

Considerable effort was also directed towards the G-Link based G-security. This consists of a variety of sensors and cameras that monitor the vehicle remotely to maintain car security, and a function that

automatically connects to the Help Net Center when the airbags have deployed. This system has already been called into action on several occasions. In one instance, the car engine had been left running while the owner did some shopping, and in the space of a few minutes the car was stolen. By tracing the GPS data of the Owners' Desk, security officers were dispatched to the place where the vehicle had stopped, a call was put into the police and the car was able to be safely recovered. On another occasion, a driver suddenly began to experience breathing difficulties while driving and was barely able to speak. By pushing the Help Net Button, however, the car registration number and current location was instantly relayed to the Help Net Center, which then contacted emergency authorities and asked for an ambulance to be dispatched.

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Advertising Communication Strategy

In the September 2005 issue of Nikkei Design, Mr. Nagaya said that while managing the Lexus-like quality of the product itself, at the same time he was looking for a complete Lexus-like quality at all interfaces with the customer also, and that care was taken to ensure the design concept was directly reflected in the tone and manner of all catalogs, direct mail, and other printed material. On July 26, 2005, a brand announcement was held, not at a hotel, but at a specially constructed venue at the Yoyogi National Gymnasium. A brand new construction was created to imbue the feeling of excitement of a limited-time musical or circus to express the essence of the new brand that differed from the existing Toyota brand. A variety of devices were also employed to appeal to the five senses of visitors to enhance their anticipation toward Lexus. The rolling out of advertising on the boarding deck of Centrair at Chubu International Airport as outside advertising is also extremely interesting.

Figures 15 and 16 show advertisements placed in the Asahi Shimbun for the IS on June 29, 2007 and January 25, 2008. sample sample sample

References

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H. Takagi, "Toyota wa Doyatte Lexus wo Tsukuttanoka—"Nihon-hatsu Sekai e" wo Jitsugen shita Toyota no Soshiki Noryoku" [How Toyota Created Lexus—Toyota's Organizational Ability for Realizing a Launch from Japan to the World], Diamond Inc., 2007. sample

Nikkei Design, September edition, 2005.

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New Car Sales Volumes (Bulletin), Japan Automobile Dealers Association, Aug. 2005-April 2008.

New Automobile Import and Sales Volumes (Bulletin), Japan Automobile Importers Association, Aug. 2005–April 2008.

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Figure 15 Lexus newspaper advertisement (Asahi Shimbun, June 29, 2007)

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Figure 16 Lexus newspaper advertisement (Asahi Shimbun, January 25, 2008)



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