

Toyota's structural flaw

The company's focus on a master-brand means that if one of its models faces problems, they all do

This week Toyota's Japanese president, Akio Toyoda, will face a US-style dressing down when he appears before a Congressional hearing in Washington DC.

However, irrespective of how well Toyota answers his critics, and even if all Toyota's design flaws are remedied, its problems are only beginning.

Once one of its main advantages, Toyota's brand architecture is about to become its biggest strategic problem. Like many other Japanese companies, Toyota has built its business from an almost exclusive focus on a single corporate brand. It also markets Lexus and Scion, but most of the company's sales are derived from Toyota sub-brands.

That concentrated approach has distinct benefits. It fostered the single, united culture that was so important to Toyota's success. It also allowed the company to pump all its marketing investment into the Toyota master-brand rather than its sub-brands for greater marketing efficiency.

Perhaps best of all, the single brand reduced the number of components needed, as its sub-brands shared a significant number of common parts. Compare this approach with US rival GM, which, until recently, was operating a house of brands structure with 11 distinct marques, and the reason for much of Toyota's success and GM's decline, becomes apparent.

Every brand architecture, however, has strengths and weaknesses, and Toyota is about to learn the downside of

the one it has adopted. Focusing on a sub-brand approach, in which most of its cars are linked to a single corporate brand, means that a problem with any vehicle at Toyota will not only affect sales of the model in question, but also spread across the whole range.

We have known this since 1990, when Professor Mary Sullivan used quantitative modelling to demonstrate the impact of brand architecture on automotive sales. Then, Audi was struggling with its accelerator problems. Sullivan showed that the resale value of the Audi 5000, which had been involved in a number of fatal accelerator accidents, declined significantly as a result.

No big surprise there. However, she went on to show that the other brands in Audi's stable were also affected to varying degrees, depending on how close they were to the 5000 in the

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company's brand architecture. Despite never having a quality problem, the Audi 4000 lost significant resale value and so, to a lesser extent, did the Audi Quattro. Crucially, despite being part of exactly the same company, VW's sales in the US were not affected at all.

The lesson for Toyota is that every one of its sub-brands, even ones it has yet to launch, will now be tarred with the same brush. This is not just a matter of perception. Because the marque has led the world in using shared parts and technologies across multiple models, a technical hitch with one car also means problems with others. Suddenly putting all its proverbial eggs in the same basket is looking like a really bad move.

There is one more lesson from the Audi experience for Toyota. Audi's US sales dropped by almost three-quarters and, despite massive sales promotions, remained below their pre-crisis levels for the next decade. Even after research confirmed that Audi's accelerator problems were caused by driver error and not manufacturer mistakes – the brand still struggled to recover its position.

For Toyoda, fixing his products' problems is a big job. Handling the fallout from angry consumers even bigger. However, because of brand architecture decisions made more than 60 years ago by his grandfather, his toughest job still awaits him.

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30 seconds on... Toyota's hardest week

- Akio Toyoda, nicknamed 'Toyota's prince' by Japanese media, is the grandson of the brand's founder. He holds an MBA from Babson College in Massachusetts and perfected his English during several years working in the US.
- Toyoda's appearance at the Congressional hearing this week has illustrated Toyota's shaky decision-making. First



Toyota carmaker has been hit by fresh revelations regarding an earlier pedal-related recall

the company said he would not attend, but then seemingly thought better of this.

- The appearance comes amid further negative revelations about the marque. Papers released to the committee, in which Toyota's US management boasts of saving \$100m through a 'negotiated' recall for a previous pedal-related issue, have been described as

'very telling' by the US Department of Transport.

- Many analysts expect Toyoda's appearance to be a disaster, given his lack of experience of Western-style confrontation, and the likely vindictive nature of the questioning from US congressmen keen to be seen criticising Toyota and supporting domestic US carmakers.