



THE SECRETS OF LEXUS' SUCCESS: HOW TOYOTA MOTOR WENT FROM ZERO TO SIXTY IN THE LUXURY CAR MARKET

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Back in the 1970s and 1980s, Toyota Motor's image in the United States was one of a reliable, yet cheap, carmaker. If you had little money, but wanted minimal breakdowns with the vehicle that you drove to work every day, you bought a Toyota. Thanks to the introduction of the automaker's Lexus line in the 1990s, that image has now changed. The Lexus brand is now synonymous with the world of luxury, even though car enthusiasts and purists would argue that Lexus is more of a middle-market luxury car line. However, Lexus sales surpassed Mercedes Benz and Cadillac sales—the two granddaddies of luxury cars—in the United States quite easily, thanks to Toyota's brilliant and methodical marketing strategy. The firm's philosophy of conducting meticulous research over much time and money has been widely admired and studied by other automakers and college students alike and has cemented Toyota's position as one of the most successful carmakers in the world.

*For a firm that entered the luxury car market late in the game, how did Toyota jump over its competition? What was the difference in strategy between its domestic rivals Honda and Nissan and its U.S. competitors, like Ford and General Motors? To answer these questions, the Center on Japanese Economy and Business of Columbia Business School invited **Chester Dawson**, editor at Business Week magazine and author of a new book, *Lexus: The Relentless Pursuit to speak* on September 22.*



HUGH PATRICK

Director, Center on Japanese Economy and Business, Columbia Business School

There are now three winning Japanese automobile manufacturers of note: Toyota, Honda, and—now that it’s been restructured and revitalized—Nissan. In a global sense, Toyota is the most remarkable of these. I first visited Toyota in the mid-1980s, and back then, I had the sense that I was meeting with a somewhat parochial group of people who didn’t know a great deal about the rest of the world except that they were selling a whole lot of cars. In 1980, Toyota didn’t have any factories outside Japan, but it was exporting a third to a half of its output. Over time, it has grown into this global powerhouse. You can’t say today that Toyota is a parochial organization by any means. In 1980, most of their team didn’t know any English. Most of them had not worked abroad. That’s no longer true. Toyota has quick learners, and we see that it has been involved in an incremental, continuous improvement process. We saw it in the way

the Board of Directors behaved, operated, and utilized the information they were gathering, because they decided that they didn’t need people like me talking to them about Japan’s role in the world. What they needed were engineers and other strategic planners, which was graduation in and of itself. My personal view is that Toyota is the best automobile company in the world, certainly the most profitable by far. I think its profits last year equaled the sum of Ford, General Motors, and Chrysler.

I’m delighted to introduce Chester Dawson because he knows a great deal about the automobile industry and about Lexus. He is the Asian, European, and Emerging Markets Editor at *Business Week*, and he worked in Japan for ten years. Before that, he did an undergraduate year in Japan. I guess that’s where he got hooked and why he brings a lot of practical experience from working in Japan. He’s written extensively on the Japanese automobile industry, although his focus is mostly in finance, securities, markets, and banks.

Lexus is an example of a new automobile luxury market that Toyota has developed quite successfully. Mr. Dawson has written, *Lexus, The Relentless Pursuit*, a fascinating book that utilizes a combination of internal documents that somebody

leaked to him, oral interviews, and other information. I now turn it over to him.



CHESTER DAWSON

Editor, Business Week

Thank you for that warm introduction, Professor Patrick. I am here today to talk about Lexus and what made that brand such a success for Toyota. Some history is in order on how this brand came to be. Lexus was born out of a brainstorming session of Toyota’s chiefs on a hot August day in the summer of 1983. At that point, even the most zealous proponents of a Japanese luxury car program could scarcely imagine what Toyota would unleash upon the market a decade later. Lexus has grown from a little more than an oxymoron when it debuted in 1989. Think of it—a Japanese luxury car! It was laughable at the time; now it is the leading luxury brand in the U.S. for the past five years running. That means Lexus has greater sales than Cadillac, Lincoln, BMW, and, yes, that former benchmark of luxury, Mercedes Benz.

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—Hugh Patrick

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Sales rose from less than 20,000 units in the first year to just under 300,000 units last year, up 10 percent over the previous year. There are more than a million Lexus vehicles being driven on the roads of America today. That's a testament not only to their marketability, but also to their durability. You still see a lot of the very first models being driven today. Lexus is synonymous with the word "luxury," from which it was derived. Like Kleenex, it's another "X" word that's crossed the divide between corporate jargon and into the popular lexicon. These days, people think nothing of describing things as "the Lexus of espresso makers" or, mundanely, "the Lexus of vacuum cleaners." Recently, I met a young woman whose first name was, yes, Lexus. In fact, the *Wall Street Journal* has reported that Lexus has surpassed Mercedes and Chanel as the most popular luxury brand name for newborns. Now THAT's power branding!

Even though I'm an employee of *Business Week*, I will tip my hat to *Fortune*, a rival publication. *Fortune* wrote something with great insight fifteen years ago, in an article titled, "The Inside Tale of How Lexus Came into Being Is Rich in Lessons for Anyone Who Yearns to Develop Up-Market Products." Of course, *Fortune* doesn't always get it right. It hedged

those prescient remarks by saying, "Getting the Lexus out of Toyota, whose forte is rolling out wheels for the millions, is like producing Beef Wellington at McDonalds." But before I go into the details of how Toyota succeeded in making Beef Wellington for the masses, I'll speak briefly about why Lexus was created by Toyota in the first place. With that insight, it's easier to grasp the marketing success that came with these cars.

There were a lot of reasons for the creation of Lexus, including that it was a logical next step for Toyota. By the early 1980s, it had cleared an 8 percent global marketing share. The types of cars it was most successful with were initially the sub-compact and compact cars, or the Tercels and Corollas of the 1970s, which were something the baby boomers came to feel that they had discovered. As the baby boomers moved past college, from single, first-time car buyers, to getting married and having settled careers, they were buying mid-sized cars like Camrys. However, by the early 1980s, they were leaving the brand entirely because Toyota didn't have an equivalent to a Jeep Cherokee or a BMW 3 Series. To keep the loyalists who'd supported the brand's growth through the 1970s and 1980s, Toyota felt it needed to go to a new level.

Another reason was trade sanctions. You may not recall this, but in the 1980s, there was a lot of pressure on the Japanese to adopt Voluntary Export Restraints because there were so many cars flooding onto the U.S. market. In fact, there was a period when there was an informal quota on how many Japanese cars could come in. Thus, if you're thinking about how to grow the products of a company at a time when exports are under strict limitations, one way to go is value, rather than volume. From quantity, Toyota went to quality. If they could sell just as many or even fewer cars but charge more per vehicle, then it was a way to clear the hurdle for profit growth. And Toyota was keeping up with the Joneses. Nissan was developing its own luxury line called Infiniti. Honda had its Acura, which debuted three years before Lexus in 1986. Toyota certainly didn't want to be left behind. When Toyota first came to the U.S. in the late 1950s, they tried to sell their Crown line. They actually opened up a showroom in Beverly Hills with a lot of fanfare, but the car was so underpowered that it was quickly dismissed by the auto press. Toyota had to turn tail and head back to Japan. It wasn't until twenty years later that they came up with a product that could really stand up to

the competition in the U.S. Management was pretty consistent during that time, and there was little turnover. The Toyoda family retained hold of the company, and they wanted to show technology that competed with the very best in auto making. Going to luxury automobiles was one way to do that.

Lastly, they sensed a vacuum. There was an opportunity for Toyota to do something that it had always done well: stress “Value for the Money,” give people a bargain, make people feel like they’re getting a better deal than anywhere else. In the 1980s, Mercedes, BMW, and Cadillac all had very few model changes. They weren’t very responsive to customer complaints, which in the industry is known as “suffering for the brand.” If you want to own a Mercedes, you’re going to have to put up with long waits at the shop and maybe not the ideal setup for the engine you want. So Toyota sensed that there was an opportunity there. The companies that had dominated luxury brands had grown fat and lazy. They put through price increases every year regardless of a lack of value added in the car. So when Toyota launched its first Lexus, it sold for \$10,000 less than the E-class Mercedes and the 5 Series BMW. The auto press said that the Lexus was very much the equal of the top-level

S Class Mercedes or the 7 Series BMW, with roughly a \$30,000 savings. For people who weren’t interested in brand value, that wasn’t important. But for people who were interested in getting a good deal, of which there are quite a few, Toyota hit the market dead on.

What was the secret?

There’s no magic formula for how they did it. Without any doubt, Madison Avenue had a lot to do with it, but at the root, it all comes down to the product. No matter how great an ad campaign is, no amount of snake oil is going to sell a product unless you have a product to crow about. Toyota was not the first to step into the luxury market. Honda was pushing Acura first, which fits the pattern of how Toyota has done things. It wasn’t first to have plants in the U.S. It waited for Honda to do that, and then Nissan. It wasn’t the first into a lot of markets, including pickup trucks. Now it’s building a plant down in Texas years after Nissan went into that market. But once it latches onto something, it usually does it very well.

For its first Lexus, Toyota basically gave its engineers a blank check. There were 450 prototype cars developed for the first Lexus, using 1,400 engineers, and 2,300 technicians. It was developed over a six-year period at a cost of a billion dollars, which is several

times the amount spent on a usual model in the development phase and seven times the number of dedicated employees. Quite an effort went into this. Just to put that into some perspective, the number of people that Toyota had assigned to work on the first Lexus in the 1980s was a little over half the number that Boeing assigned to build its first 777 jumbo jet in the 1990s. When I had the opportunity to speak to the Chairman of Toyota a couple of years ago, I asked him about expenses. He said that he told his crew to spend as much money as they needed to, but the company would not be willing to put a dime into building a maintenance network in the U.S. because it expected the car to never break because of all the funds that were being put into it. That was obviously an overstatement, but it reflected this kind of thinking. They plowed all kinds of money into it and they took apart the competition. Literally. They went into every car—the S Class, the 7 Series BMW—broke them down into each component and then set strict parameters for meeting or exceeding the quality of each and every part at a far cheaper cost.

I have talked to several Americans who were brought into Toyota at a very early stage. They remember walking

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—Chester Dawson

by these rooms in the Toyota Development Center and seeing these BMWs literally laid out as if a bomb had dropped, a million parts all over the floor. Each had detailed diagrams about how it was made, what it was made out of, who made it, and how much it cost to make it.

Another key to their success was the use of focus groups. They really wanted to make a car that suited an existing need and not the other way around. Surprisingly, a lot of cars are still made today by automakers with *hopes* of finding an audience for a car it is building. As I mentioned, Toyota really went through to see how the competition built their cars, but they also wanted to know what the drivers thought. They had extensive use of focus groups, often times behind a one-way glass. So you would have Toyota engineers sitting in a room behind mirrored glass taking notes as a moderator, very often an American, talked to Jaguar, Mercedes, and BMW owners and asked what they liked and did not like about their cars. From that, hundreds of people drew detailed lists on areas that needed improvement. Also, teams of technicians were sent out from Japan to survey parking lots of upscale restaurants, garages, and neighborhoods. They wanted to have cars that would fit in well in terms of its design. They

wanted to know how valets parked cars; where did the Benz go in relationship to the Cadillac Seville or the Tercel? They found that there was a very strict pecking order. If you drove up in a 7 Series BMW, you got a primo spot up front near the entrance. If you drove up in some kind of junker, it was parked somewhere around the dumpster out back.

This team wanted to have a detailed sense of how people assessed a car's value; it had a lot to do with the look, the brand, and the image. Where did Lexus fit in this pecking order? What they found was that the type of people who would most likely buy a Lexus were not necessarily the most the well-to-do; they were those obsessed with a brand image. They were what *New York Times* columnist David Brooks later defined in his book *Bobos in Paradise*, as bobos—bourgeois bohemians. He described them so: “These are highly educated folks who have one foot in the bohemian world of creativity and the other foot in the bourgeois world of ambition and worldly success.” To reach them, Toyota needed to produce a car that would reach a top speed of 155 mph, faster than the top-of-the-line BMW 7 Series or Mercedes S Class; a vehicle that weighed less than 4,000 pounds in order to avoid a gas-guzzler tax that BMW and

Mercedes owners had to pay; a car with cabin noise of just 60 decibels at cruising speed of 62 mph; and an aerodynamic ratio of 0.32, far lower than any of the German competition and about the same as sports cars available at that time.

Extra care was also taken during the manufacturing of these vehicles. Once they had determined what kind of car they wanted to produce, they were very careful with how they produced it. They noted that a lot of people complained about the finish and the fit of top-of-the-line cars like Mercedes and certainly Cadillacs. They were very careful to have a uniform seam for the panels that were “no greater than a uniform 7 mm wide.” Even today, you can go to the factory in Japan and see guys with rulers measuring the seam around the entire circumference of the car. If there is a car that has a panel that is jarred or crooked, it is sent back to be refitted. It's that kind of attention to detail that car buyers really appreciate. There is even a place on the assembly line where workers have to take off their shoes and put on special soft-soled slippers when they're working on the interior, like installing the radio or glove compartment. If that seems excessive, it probably is. But I draw your attention to Nissan: when it built its plant in

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—Chester Dawson

Mississippi a couple of years ago, it had big quality problems. The cars had lots of nicks and scratches, and management couldn't figure out what the problem was. So they hired a big consulting agency to come in and try and figure out what was going wrong. What they determined was the problem was caused by the workers on the line—their bracelets, jewelry, and necklaces were banging up against things and scratching the car. It was something as simple as that. Of course, Nissan then restricted workers from wearing jewelry on the line, and the quality problem disappeared.

Another important point about why Lexus was able to succeed was the product range. For the first couple of years, they came out with sedans that kind of mimicked BMWs and Mercedes in their look and feel. It wasn't until 1996 or 1997 that the brand really began to take off. Actually in 1994, sales started to dip, which coincides with the time period of heated trade talks. Lexus was threatened with sanctions from the U.S. government as part of the trade talks with Japan, and the yen shot up to an all-time high against the dollar. There were a number of reasons why sales dipped, however. The biggest problem was that the product line stagnated. They came out with these great cars that com-

peted very well, but they only had two or three varieties.

It wasn't until the late-1990s that things started to soar. The biggest reason for that was the RX series, which is Lexus's SUV. Up to that point, no one had really thought of taking the strengths of an SUV and combining that with the quality ride of a luxury car. The RX is the first product to really do this. It saved the brand's bacon in the 1990s because Toyota managed to tap into a niche market that no one followed for several years. In fact, Mercedes did come out with its M Class series of SUVs, but it was very last moment and it was dogged by quality problems for years. It wasn't until the latest version came out this year that they nailed down most of the quality problems. That car is selling very well for them, but for years, Lexus had this huge segment to itself. In fact, it's the top-selling Lexus car. Last year, it sold 106,000 RX vehicles, an increase of 15 percent over the previous year. But it was also the first Lexus vehicle to go over the 100,000 mark. So that one car counted for one-third of all Lexus sales last year... they really hit a sweet spot. Who was the target buyer? It was well-heeled soccer moms who, up to that point, didn't have a car they felt was right for them. They wanted a car that had a high-seating posi-

tion, lots of space in the back, but had a comfortable ride like a luxury car. So Lexus has done well by going into niche markets where people wanted something specific but for years were forced to buy cars that they didn't want—because of a lack of choice.

I'll talk a little bit about advertising. Ads are very critical in getting things started. The whole ad campaign for Lexus has generally been very successful and now is used as a model in the industry. Of course, there have been some ads that haven't been as successful as others, but one reason they were able to be so dead-on with so many ads is that Toyota went to Saatchi & Saatchi, a top ad agency, very early on—even before the Lexus went on sale. Toyota asked Saatchi & Saatchi to do something special and to separate the Toyota account from the Lexus account so the two brands wouldn't compete. Saatchi & Saatchi agreed to do this, and they set up an entirely separate unit called Team One, which, to this day, is committed to doing nothing but Lexus commercials. They have 240 employees in El Segundo, California, on the other side of the country from Saatchi & Saatchi's headquarters in New York. They did this because they didn't want any people who were working on Toyota to be working on Lexus. They

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wanted a clean break. And they also wanted people dedicated to doing just Lexus ads to figure out what it was that would turn people on to the brand. I think if you look at all the Lexus ads and try to boil it down to one word or two words to define why they've been so successful, it's all about "aspiration."

They've been able to tap into the desire of American drivers who aim to join an elite club of vehicle owners whose cars are tailored to their every whim.

The entire ad campaign is built around the idea that the cars are your personal valets, which is why you won't see too many chase scenes or gorgeous models in the ads. They focus on the cars and their specific attributes. This is because during the very early stages of test marketing, Toyota found that there were consumers who wanted to buy a car like Lexus but were afraid to buy one.

This was because the customers were afraid that they would have to defend owning a car like Lexus at the golf course or the office, even if they liked the car's value proposition, quality factor, and Toyota in general. So in order to give people an easy set of talking points to defend their purchase, the ad campaign focused on things like aerodynamics, the quietness of the cabin, or the fact that the air bags had gold-plated sensors. Actually, there's

an interesting story behind this. One of the ad guys was in Toyota City in Japan, and the engineers gave him a briefing. They happened to mention that the air bags had gold-plated sensors, and the ad guy latched onto this and created a commercial, which in turn created a buzz in the car world at the time. People thought, "Gee, wow," that really shows that—as the ad voice-over says—"of course, we could have used a less expensive material, but it wasn't *money* we were interested in saving." And that's very powerful. But what the ad didn't say is that ALL cars with air bags have gold-plated sensors, since they're needed for conductivity. Saatchi & Saatchi was just smart enough to grab on to that, and it became watercooler talk for the next few months.

Another characteristic of the ads is the absence of mean spiritedness. You'll rarely see a Lexus ad that criticizes the competition, even in a jocular, fun way. There have been a few ads that teased the tightly wound German engineer or the befuddled Jaguar technician who's in the back of the RX. But generally, they don't go negative on the competition like some other carmakers do. That was something that came directly from Toyota. They wanted to be upbeat. They wanted a sense of consumers being uplifted in buying a

Lexus. They didn't want it to be a lowest common denominator proposition. Now the ad folks didn't get that message early on. They came up with a lot of ideas the never saw the light of day. One was called "The Last Supper." It showed rich German socialites partying in a castle with a voice-over that said: "The Europeans have dominated high-performance cars for 58 years. They now have 30 days left to enjoy it." This is an ad that was designed to come out alongside a big marketing push. It never saw the light of day.

Another thing Toyota didn't do was go for "Rocks and Trees." I say that because that is a derisive name for a campaign cooked up by an American ad guru that was selected by Nissan for its Infiniti line of luxury cars, the competing brand that also debuted in 1989. This guru was on a bullet train trip through Japan on his way to a business meeting, and he was apparently struck by the fact that, as the scenery was buzzing by at about 200 mph, you didn't really have to show the car. He felt you could basically succeed with a campaign of impressionistic images. So they devised this very Zen campaign of stark landscapes—and no cars. It was designed to be very cool, but it didn't work. People wanted to see the car because it was a brand-new vehicle. By hiding the car, it actually back-

fired and worked against them. That campaign went on for a couple of years, and Nissan didn't really figure out what was going wrong until it was almost too late. This also influenced how the showrooms were designed in the U.S. It was only a few years ago that Nissan got rid of these so-called "Contemplation Areas." They were like Zen chambers that you walked through before you got to the showrooms, and the sales people—in the earliest days, at least—were dressed in these kimono-like tunics. It just didn't go over very well. The idea was that Nissan wanted to project this as a Japanese luxury brand. But Toyota did exactly the opposite. There is never any sense indicating that a Lexus car is an Oriental or Japanese brand. Toyota wanted to show that this was a brand that is globally competitive. It does not want to identify itself primarily as a Japanese brand for people who like Japanese cars, even though that's also part of it. Since they wanted to compete at the top end of carmakers, they made a conscious decision NOT to go Japanese. And let's not forget that memorable tag line that's worked so well for fifteen years and still going. The tag line that *BrandWeek* magazine called one of the most effective of the twentieth century. Altogether now: "The relentless pursuit of

perfection." Those five little words say it all.

Toyota has also been very protective of the brand image of Lexus. Jim Press, the former head of the Lexus division and now head of overall U.S. sales operations, once told a reporter: "We think of our brand equity like it's a bank account. You're either making deposits or withdrawals." In other words, it's a zero-sum game. It is very much into marketing, so the ads either help you or hurt you. And in the few instances where the ads have not worked, they've been very quick to pull them and move on. They constantly go back to the same theme. I think you've all seen the ad with a Lexus in a wind tunnel to show the aerodynamics of the car. That ad was playing on TV six months ago. But it is also nearly identical to one of the very first ads they used in the early 1990s, and it's very effective. They go back to the same themes demonstrating the features of the car and why this car is better than the competition. And, of course, let's not forget those J. D. Power awards. Lexus has topped these awards for ten years running in terms of the best overall car, the best resale value, and all these other metrics. So of course, Toyota shamelessly promotes that. Whenever you have the news release from J.D. Power, the next day all the

major newspapers carry full pages ads saying that Lexus is at the top in all these categories. That's something that GM has copied. You may have noticed that the latest round of ads trumpet the fact that GM cars have come up quite a ways in the quality rankings.

Before concluding, I'd like to mention something that's extremely important for Lexus—its Certified Pre-Owned Vehicle sales program. A certified pre-owned vehicle is a \$50 word for "used car." Lexus buys up used cars, slaps an extended warranty on them, and polishes them up so they are more marketable. The important factor here is that by doing this, Lexus put a floor on the prices of used vehicles. So if you go out to buy a used Lexus today, you're going to be very surprised to find that the price is not all that cheaper than a new Lexus. It's like the Prius, where the new Prius costs less than the used Prius since there's such a shortage. Lexus has the top resale value of any vehicle line, and that's been true for years and years. So people think of their cars as an investment, especially people who buy cars every two or three years. They get a lot out of a Lexus when they go to trade that car in. A Lexus SC430 retains about 60 percent of its value, which is at the top of its class. So that goes back to the

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—Chester Dawson

original concept of “Value for the Money.” That said, you can’t put too much into this because the biggest critique of Lexus is that the cars are not that sexy. They don’t have that impulse-buy factor to them. They don’t have a real, true sports car. The one sports vehicle they have is the SC series, which doesn’t come in stick shift and weighs about 5,000 pounds. So it’s not truly what any sports car maven would consider a true sports car. But it does have a very good resale value and burlled walnut paneling inside. It does have great leather seats, and that’s what people who buy these cars tend to like.

Going forward, they have a couple of challenges. One is that they are selling so many cars, there’s the risk of diluting the brand. Cadillac sold as many cars in the 1980s, and the bottom fell out for them soon thereafter. So that’s something they have to be very careful about. They also don’t have a halo product at the top end, but that’s something they’ll probably debut within the next few years. Toyota is moving toward debuting a Mount Olympus-like sports car, a 500-horsepower vehicle with a hybrid engine that works out to the same power as the V12 in an F1 race car. This is just a concept vehicle at this point, and they don’t expect to sell a

lot of these cars when they do produce them commercially, but it’s going to sit on the top end of the brand. It’s the cool cars that draw people into showrooms. If Toyota sells even 10,000 of them, I’m sure it’ll be happy and surprised. It will be priced between \$100,000 and \$150,000. It’s designed to put a sense of coolness into the brand that has now become equivalent to what your grandfather drives. It’s aiming to attract a new generation of car buyers.

DISCUSSION

QUESTION

You previously made a statement about Beef Wellington made at McDonalds. It seems to me that this is exactly what Toyota did. Part of their success is taking extraordinary efficiency, the McDonaldization of automobile manufacturing in the Toyota production system, and using it in the luxury market. I’d be interested in your comments if this is an applicable factor. Another thing you didn’t mention is Toyota’s service system, which was also a breakthrough initiative.

CHESTER DAWSON

What I didn’t mention, and was important for the success of the brand, is that Toyota went through great

pains to set up a limited sales network. Even to this day, I think there are only 100 or 120 Lexus dealers in this country. They don’t want one on every corner like Starbucks. That’s another way to limit the growth of the brand and keep that aspirational value. The showrooms also incorporated a lot of nifty gestures. There aren’t any desks in the Lexus showrooms. Instead, there are low coffee tables to prevent hard-nosed bargaining. Basically, by walking in there, you’re agreeing to pay the sticker price, if not more. So they don’t want to give the impression that they are going for the lowest common denominator. The showrooms also are very nice. On the West Coast, the showrooms use a lot of beige and tan; on the East Coast, there’s a lot of black and gold. They’re all very uniform, with lots of plush carpeting. It may seem obvious now, but at the time the Lexus line debuted, it was a revolutionary concept. You didn’t get that in a Mercedes or BMW dealership. It was little things like offering you a cappuccino served in a piece of fine china and not a stale cup of coffee in a paper cup. When you came in for maintenance, they left a rose on the seat. These days they have weekend brunches for their customers who want the latest news on the latest models.

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Another key thing Toyota figured out was that a lot of Mercedes owners were unhappy with the fact that there was something of a “Black Box” effect with Mercedes dealerships. When there was a problem with their car, they took it to the dealer. Even if they stayed around and had a cup of coffee, they were walled off from the repair area, which didn’t make them really feel comfortable. A day or two later, they’d get stuck with this huge bill for stuff they guessed they needed. But there was a real lack of transparency. So one of the things that Lexus did, which is copied by other luxury brands, is in each showroom they’ve got a huge glass wall that separates the sales area from the repair bays so you can see your own car. You may not know what they’re doing, but you can see the repairmen working on it. These are all simple ideas, but the increased transparency took away a lot of the mystery behind marketing, selling, and repairing cars. Toyota was also very careful with which type of dealer got a Lexus franchise. The dealers had to put up a lot of their own money. They only went with certain dealers, with a certain amount of experience, who would be willing to subject their staffs to very rigorous training. No plaid jackets and no hard selling in a Lexus deal-

ership. There was—and still is—intense training offered to salesmen over how they talked and sold cars.

There are some purists that say a Lexus is not a luxury car, since luxury cars are vehicles that are sold above \$50,000. And Lexus is really a middle-class luxury brand. Most of the cars that are sold are in the so-called “entry-level” line. The ES is, in essence, a fancy Camry. This also includes the RX SUV, which is also based on the Camry platform. However, whatever new technology the company has, it first goes into a Lexus and then filters down into other models. In terms of development, Lexus is all part of the bigger Toyota machine. Up until very recently, there wasn’t a separate Lexus engineering department or separate offices within headquarters—until, that is, Toyota realized it needed Lexus to be more than merely an arm of its U.S. sales unit. So up until now, the cars were developed very much like any other nonluxury car sold in Japan. Since the Camry platform is used for Lexus, one criticism is that all Toyota brand cars are bland and appeal to a very broad market. Despite the fact that this doesn’t get them very far with car magazine editors, most people who buy cars want bland cars, not Ferraris or flashy vehicles. When it comes to laying down the cash for the

car, Toyota and Lexus aim for the middle of the bell curve.

QUESTION

Why did they choose to rebadge the Land Cruiser, which seems to be the only model they rebadged. Did they rush this car to market?

CHESTER DAWSON

Yes, you’re right about it being rushed to market. However, it’s not the only Lexus car that’s been rebadged. Purists will say the ES is basically a Camry with a few more bells and whistles. If you’re interested in the ES, you should take a hard look at the Toyota Avalon, because you’re going to save yourself about \$15,000. For the Land Cruiser, it was rushed into production because trade sanctions seemed almost inevitable. In 1995, the Clinton administration was under pressure to limit the number of Japanese cars imported, since American cars were not being sold in comparable numbers. To make a long story short, the sanctions were never imposed, but it went right down to the wire. Toyota had to plan for the sanctions, which meant a 100 percent tariff on luxury vehicles. Of course, out of all the luxury Japanese vehicles that were sold in the U.S., Lexus had the highest sales. However, the tariff was only

Toyota was also very careful with which type of dealer got a Lexus franchise. No plaid jackets and no hard selling in a Lexus dealership.

—Chester Dawson



out that the car was being sold on Asian “gray” markets. Many luxury Toyotas would be bought in northern Japan, shipped out to Thailand, rebadged as Lexus, and sold back to Japanese customers. Japanese dealers even sold kits that changed your Toyota Celsior, the exact equivalent of an LS 430 in the U.S., into a Lexus because the latter’s brand image was higher and more popular.

QUESTION

What are the challenges you foresee for Lexus?

CHESTER DAWSON

One of the biggest challenges is with the IS series, the sportier sedan. It’s designed to compete with the BMW 3-Series, which would make some people laugh because it’s really not everything that the 3-Series is in terms of brand image. For Toyota, one of its biggest problems is the fact that it has the highest average age group of buyer of any luxury brand, even higher than Mercedes and Cadillac. This is obvious because the type of people who buy luxury cars tend to be people who are already established in the world. But it’s worrying because they don’t have a lot of younger people aspiring to own a

on luxury *sedans*, not on luxury SUVs. So Toyota rushed out the Land Cruiser, which is a much bigger SUV than even the subsequent RX. They took a car that they had been selling in Japan and a few other markets and slapped in leather seats and a few other nice touches, like wood paneling, precisely because it would not be subject to the impending tariffs as an SUV. And lo and behold, there was a market for this that they hadn’t anticipated. That’s when they started thinking about a low-end vehicle that married the merits of the “entry-level” ES with an SUV—what became the RX. But in general, I think Toyota succeeded with its luxury line because they have fewer Lexus models that are rebadged when compared to Nissan’s Infiniti and Honda’s Acura. A lot of car buyers can see that some of the Infiniti and Acura

models are very similar to its cheaper counterparts, and yet they’re sold for a few thousand dollars more just because of a fancier badge on the tail.

On a side note, Toyota finally opened the first Lexus dealership in Japan this August. I think the biggest reason why Toyota waited for so long is that they wanted to go global with the brand. They wanted everyone in the company to think about Lexus as a core division of Toyota, not just as an afterthought of the U.S. market. It also took Toyota fifteen years to build consensus internally, to come up with a new brand sales channel. Because Toyota already has five domestic sales channels, which is way too many, it was hard for the company to settle with dealers over which ones would sell the Lexus brand. Another reason for finally selling the Lexus in Japan is that the firm found

Toyota finally opened the first Lexus dealership in Japan this August. I think the biggest reason why Toyota waited for so long is that they wanted to go global with the brand.

—Chester Dawson

Lexus, at least, not as many as they have had in the past. So to deal with this, Toyota is trying to get a little more sporty with the IS. Toyota is trying to get past mimicking Mercedes and develop its own brand identity. If you notice the newer IS cars, they've got this shimmering blade look running down the edges of the bonnet that was intentionally designed to look like the blade of a Samurai sword. You might not have noticed this until I said something, but Toyota wanted something that Mercedes or BMW didn't have; their own brand identity that's a little hipper and younger.

Toyota also has to separate itself more from Mercedes, and one way to do that is by integrating a lot more hybrid technology. There's the Toyota brand Prius, but the newer Lexus cars are all going to be hybrid-option cars. The RX SUV is already being sold as a hybrid, a big selling point since there isn't any other luxury brand that has hybrid technology. And even if you don't buy a hybrid, it's nice to know that the option is there; the consumer thinks that they are buying a brand that has a hybrid car, which makes Lexus look very progressive and forward thinking. This is tapping into the bobo mentality I mentioned earlier. It makes people feel good about the brand.



If you buy a Cadillac Escalade, you may love it, but it's a guilty pleasure. Whereas if you buy an RX 400h hybrid, you're paying a lot over sticker price for a vehicle that in fact doesn't get that much better fuel mileage than a nonhybrid RX, but you can have your cake and eat it too; the perception is that it's an SUV that gets great fuel mileage. So even if the technology is not revolutionary in what it does with fuel mileage, it certainly helps build up the Lexus brand image as environmentally friendly. Of course, both the hybrid and regular version of the Lexus RX SUV do get much better fuel economy than an Escalade.

QUESTION

What would be your suggestion for GM, Cadillac, Ford, and Jaguar to compete better with Toyota?

CHESTER DAWSON

Well, one thing is quality, and GM has gone a long way toward addressing that. In fact, it's ironic that Mercedes is dropping like a stone in the rankings. They're basically in a free fall in terms of J.D. Power rankings, whereas GM has moved up quite a bit. And their vehicles' quality has improved dramatically. It's going to be years before car buyers equate GM with the same type of quality that Lexus has come to be associated with. But that's probably the biggest factor of all. The other thing would be the type of product. I think GM, like it or not, has been designing its cars with geometric shapes that embody a rougher, more aggressive style. It's cut out a new identity for them. For Jaguar, it's the same thing—the quality problems and cost problems. A Lexus is no longer

Toyota's goal is to grow as fast as the overall luxury market, but not faster.

—Chester Dawson

the bargain that it once was, but it is still competitively priced. The exchange rate can monkey around with that a little bit, but, in general, Lexus tries to underprice the top-of-the-line Mercedes and BMWs. And in terms of performance, speed, fuel savings, trunk space, and things like that, Lexus is actually equal or better. It may not have the image that an S-Class has, but in many ways, it is still a great value. Also, listening to customer feedback is really a big part of what makes Lexus successful. This is not just a Toyota philosophy, but the company believes that you've never reached an "optimum" level. There's always a little bit more that you can do each year. So I think that has started to filter through to even places like GM, which for years would send teams of engineers to Toyota City and read all the books on the "Toyota Way" to no avail. And a lot of people at the top of Toyota Motor Sales in the U.S., I would say about 60–70 percent that work for Lexus, formerly worked at Ford or GM. A lot of these employees are guys who felt like they were banging their heads against the wall for years until they basically gave up and decided to go to a Japanese carmaker. I think that's changing these days, but it's been a long time coming.

QUESTION

You mentioned that during the mid-1990s and over the past two years, Lexus saw sales flatten a bit. Do you think the introduction of hybrid cars to their core line is going to be Toyota's next saving grace? Also, since Toyota and Honda have quite a leg up in the hybrid market, do BMW and Mercedes have a chance at catching up?

CHESTER DAWSON

Sales have flattened a little bit. One misleading thing is that as Toyota's share of the market grew; it continued to see double-digit gains. But they have ridden a growth wave in luxury cars overall. The percentage of luxury cars sold compared to the total market grew very rapidly throughout the 1990s and that is something the automaker expects to continue. There is a concept called the "democratization of the luxury market," which means that more people than ever are buying luxury cars. Now the auto market as a whole has been growing pretty rapidly, up to about seventeen million vehicles per year. It wasn't that long ago that thirteen or fourteen million was considered a good year. So more cars are being sold, and, of those cars, there are more luxury cars being sold than

ever before. People are deciding they are going to save to buy a luxury car even if they don't typically fit into the luxury car buyer demographic. Also, when the cost of living fell in the 1990s, people were saving more, and that excess savings went into luxury cars. The company is debating today about whether it should continue to push for double digit growth, or whether it is time to start dialing back a little on the volume and instead sell more expensive vehicles. The hybrid RX is a perfect example of that. It sells for four or five thousand dollars more than the standard RX, but it's basically the same vehicle. It has a little more horsepower and gets you a few more miles to the gallon, but it's not a dramatic change. Or is it better to sell more cars by offering 0 percent financing like GM? But I think what they would like to do is to retain price increases, which they do steadily every year, and integrate more expensive models. I've been told that Toyota's goal is to grow as fast as the overall luxury market, but not faster. So if the luxury market actually starts to fall, I don't think Toyota would be that disappointed if Lexus sales started to fall as well, as long as the profit-making capacity kept going. In the 1980s, Toyota aimed for volume.

With the introduction of Lexus, the company went in another direction, and I believe it will probably continue to do so. It'll be interesting to see what happens by the end of the year since Toyota raised its prices at a time when everyone else cut them.

QUESTION

There's a belief among many Chinese and Japanese producers to send their top-quality products to the U.S. market and leave the second-rate products to the rest of Asia because they think Asians don't appreciate, or don't have the money to buy, a top brand. Is this the case for Toyota and Lexus in particular?

CHESTER DAWSON

You're absolutely right, but only until two or three years ago. There was a sense that the newest, priciest products were often only debuted in Japan or North America, and companies only sold older and second-tier cars to other markets. However, the Internet changed that. These days, if you ask any top Japanese car manufacturer what they are selling in China, it's not that different from what they are selling in other markets. Sure, some of the cars have slightly different designs and color that are tailored to

each market, but essentially, the car is made with the same platform and core technology. It is now so easy to check with a couple of mouse clicks to see if the car sold in your country is the same as the one sold in the U.S. From the automaker's point of view, that's tough, actually, since it's easier for them to debut the newest technology in Japan first, then the U.S., and then take it to other markets. Now they have to do it all simultaneously, and that is a big challenge. It is true that the vehicles made in China are not at the same quality level of the vehicles that are made in Japan and the U.S., but that is changing quickly, too. Every vehicle maker, not only the Japanese, has a goal to get the vehicles made in China up to the standard of the vehicles made elsewhere within five years. One reason for the lower quality in China is that the materials that are secured locally come from suppliers that are still new to the market, and workers don't have the training like the workers in Japan and the U.S. The situation was also true when Toyota first started making cars in the U.S. in the 1980s.

QUESTION

When people in the financial sector calcu-

late corporate value, they often include the value of a particular brand. What's Lexus's value to Toyota in those terms?

CHESTER DAWSON

Let me answer this in two parts. First, valuing intellectual property has been going on in the U.S. for about ten years, if not longer. Whenever there is a merger, for example, analysts have to assign value to these intangibles. This concept is only coming to Japan right now. For example, Toyota's cars are sold worldwide, yet all the earnings are booked in Japan. So, there is a weird situation, where almost all the Lexus cars are sold outside of Japan, but for statistical purposes, the profits are booked in Japan because most of them are made in Japan, except for a few in Canada. Toyota has been very reluctant to shed light on how much money they make on Lexus. Part of it is for tax reasons and corporate competitiveness, but I don't think they have come to grips with viewing their brand as intellectual property that needs to be calculated.

レクサス成功の秘密:トヨタの高級車市場参入戦略

ビジネスウィーク誌ニューヨーク本社編集者

チェスター・ドーソン氏

2005年9月22日

(抄訳)

1970年代や80年代当時、米国でのトヨタのイメージは故障の少ない安い車のメーカーというものであった。お金の余裕はほとんどないが、毎日の通勤用に故障が最小限の車が欲しい場合の選択肢といえばトヨタだった。そのようなイメージも、90年代に登場したレクサスのおかげで今や一変している。自動車愛好家の間には中間層向け高級車との見方もあるが、現在ではレクサスは贅沢品と同義語といえる。レクサスの米国での売り上げは、高級車市場の重鎮であるメルセデス・ベンツやキャデラックを軽々と上回り、その背景にはトヨタの優れた秩序だったマーケティング戦略があった。時間と資金を豊富に投じて綿密なリサーチを行うという同社の哲学は賞賛され、広く他の自動車メーカーや学生らの研究対象となり、世界で最も成功した自動車メーカーのうちの1社としてのトヨタの地位を確固とした。

高級車市場への遅参者であるにもかかわらず、トヨタはどのようにして競争に打ち勝ったのか？ホンダや日産といった日系の競合相手、およびフォードやゼネラル・モーターズ等の米系の競合相手と比較した際の戦略の違いは何か？これらの疑問に答えるために、コロンビア大学ビジネススクール日本経済経営研究所はビジネスウィーク誌の編集者で米国にて9月22日に発売された新刊書『Lexus: The Relentless Pursuit』（邦題:レクサス—完璧主義者たちがつくったプレミアムブランド、2005年6月発行、東洋経済新報社）の著者でもあるチェスター・ドーソン氏を招き講演会を催した。このプログラムはコロンビア大学ウェザーヘッド東アジア研究所と共同で開催された。

80年代前半までに世界の自動車市場で8%のシェアを確保したトヨタにとって、レクサスの開発は論理にかなった展開だった。主に独身で最初の車を買おうとしている米国の消費者向けに低価格車を大量に販売したトヨタは、これらの顧客が年齢を重ね、結婚し、安定した職業を得て収入が増加するにつれ、顧客をつなぎとめることの必要性を認識した。こうして同社は、カムリを土台に、通常はBMWやメルセデス・ベンツ等の車にしか装備されない追加機能を兼ね備えた高級車の研究開発を開始した。ドーソン氏は、トヨタは文字通り何百名ものエンジニアや技術者を登用し、各部品にいたるまで同等、またはより良いものをより低価格で製造すべく研究を重ねたと説明した。トヨタはまた、フォーカス・グループを幅広く利用してドライバーの高級車に対する嗜好を調べ、調査結果を最初のレクサスの開発に反映させた。

(次頁へ)

(前頁へ)

トヨタはレクサスの異なるモデルを発表する際に幸運にも恵まれた。同社は高級 SUV を開発した最初のメーカーとなり、現在でも高級 SUV は子供のいる中産階級世帯に圧倒的人気を誇る市場となっている。ドーソン氏はまた、トヨタは常にライバル車種よりも品質に優れ、しかも低価格の自動車を提供することで、ブランド意識が高く、同時に値頃感も求める消費者を引き付けることに成功したと語った。高級車としてのイメージを維持するために、レクサスの広告では価格ではなく車のデザインやスタイルに焦点があてられた。ドーソン氏はまた、トヨタの経営陣がディーラーの販売手法をトーンダウンさせ、国内全体のディーラーの数を限定したことも、高級イメージにつながったと指摘した。

米国で過去15年間レクサスのスローガンだった「The relentless pursuit of perfection (完璧への飽くなき追求)」は、他の自動車メーカーのみならず、そのほかの製造業者にも浸透したようだ。レクサスの開発のために何百名もの技術者やエンジニアが行った徹底した研究は、トヨタの競合他社、特にゼネラル・モーターズに模倣されている。ゴールは常に達成されないとするトヨタのモットーは、おそらく昨今の経営戦略のなかでも最高の決定打といえる、とドーソン氏は述べた。

ドーソン氏はまた、今後数年間にわたりトヨタはいくつかの課題に直面するだろうとも指摘。米国の平均的なレクサス購入者はかなり高齢なため、若い世代をどうやって引き付けるか、という課題がある。レクサスには現在のところセクシーで若々しいイメージが無いが、若い消費者の関心をひくには今後そのような変化を取り入れていく必要もあるかもしれない、と述べた。

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