



**THE UNIVERSITY OF THE WEST INDIES  
FIVE ISLANDS CAMPUS**

Semester II

**Examinations of APRIL/MAY 2023**

**Course Code:** MGMT3031  
**Course Title:** Business Strategy & Policy  
**Date of Assessment:** May 5, 2023  
**Time:** 1:00pm  
**Duration:** Two (2) Hours

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**INSTRUCTIONS TO CANDIDATES:**

This paper has 4 pages and 4 questions.

**YOU ARE REQUIRED TO ANSWER ALL FOUR QUESTIONS.**

**THIS ASSESSMENT IS WORTH 60 % OF YOUR FINAL GRADE.**

**ASSESSMENT DETAILS FROM INSTRUCTOR(S): Please READ the case data provided and answer ALL FOUR questions that follow.**

## The Case of Lexus

Japanese multinational automotive manufacturer Toyota Motor Corporation introduced its luxury car under the brand Lexus in 1989 in the United States, the largest market for luxury cars. At that time, a Japanese luxury car would have been considered an oxymoron. Toyota had been known for making reliable, durable cars: its value propositions were quality and value. Major competitors in the luxury car segment, such as Mercedes, BMW, Cadillac, and Lincoln, did not even take notice of the new kid on the block.<sup>1</sup> To their surprise, Lexus became a strong competitor within just a couple of years of its launch. Toyota's strategy of creating an upmarket brand through Lexus was a classic case of product positioning. It created an altogether separate unit to market the new brand.

For starters, Toyota clearly defined the core value proposition of the Lexus brand as "a luxury product that provided a luxury experience". The key components of this value proposition were strong tangibles in the form of engine performance and reliability, and intangibles that rested on product design, branding, and customer service. The tangibles were the core competencies of the parent organization and were borrowed from Toyota's engineering units. However, the intangibles required separating the Lexus brand from Toyota's other brands, which were popular for their mass market appeal.

The Lexus subsidiary forked away from the rest of the organization; it had a separate P&L account, clear mandate, and individual reporting lines with the subsidiary head directly reporting to the president of Toyota. It did not share resources with any of the company's other divisions. Toyota moved its top engineering talent to the Lexus division, and they were given a free hand in designing the engine from scratch. The Lexus division also deployed the operational best practices of Toyota. However, the Lexus value chain was largely separate from the value chain from Toyota's existing products, with only minor overlaps.

Lexus's product development teams relied on data and feedback from a market research team working only for the Lexus division. Market research identified gaps in the current luxury offerings. One of these gaps was that while competitors were on par with Lexus in product performance, they did not offer much by way of customer service during and after the purchase

of the car. This is where Lexus created its niche. It effectively used Toyota's engineering and aerodynamic expertise to create and manufacture the luxury vehicle, but its marketing and after-sales were vastly different from its parent. The product development team combined "the strength of an SUV ... with the quality ride of a luxury car .... Since they wanted to compete at the top end of carmakers, they made a conscious decision not to go Japanese". That meant no Zen gardens, kimonos, rocks, or trees in the marketing campaign. Toyota wanted Lexus to be a global brand. Lexus was first introduced in the US in 1989, then in Europe in 1990, and only much later in Japan in 2005. The only aspect of the brand that hinted at its Japanese roots was its tagline "the relentless pursuit of perfection", which reflected a focus on quality control and management that was synonymous with Japanese manufacturers, including Toyota.

Lexus's national account was subdivided into regional accounts with dedicated customer relationship teams. The teams carefully chose and designed the local dealerships that would exclusively sell Lexus models. The dealerships had a relaxed ambience with low coffee tables and cushioned upholstery. The layout, with its lounge feel, was in stark contrast to the formal, traditional layout typical of car dealerships, featuring desks where customers bargained, and strait-laced salespeople focused on their commissions. The dealerships, with the support of Toyota, sponsored opera performances, jazz concerts, fashion shows, and wine tasting events, and organized special events exclusively for existing and potential clientele. Other perks enjoyed by customers included the use of a replacement Lexus while their vehicles were being serviced and free lifetime car wash and detailing services.<sup>8</sup> Lexus was the first firm to offer its latest model for a trial period that stretched to one month in key upscale markets, such as Beverly Hills, California, and New York's Upper East Side.

Market research also shed light on the consumer behavior of luxury automobile buyers. Most of these customers owned a luxury vehicle for just a couple of years before trading it in for the latest, technologically advanced model. This made customer retention critical to ensure repeat purchases. Lexus management tackled this issue in three ways. First, the product development teams were quick to introduce improvements in the new models. Second, the local dealerships and dedicated account managers were in constant touch with existing customers, informing them of impending arrivals. The approach of the customer account managers was similar to that of a financial advisor: they communicated frequently with their clients and were highly

knowledgeable. And third, the firm created a certified pre-owned vehicle sales program to create a floor on the prices of used Lexus models. This program made it much easier for an existing customer to upgrade to a new model, by enabling them to trade in an older Lexus model conveniently rather than attempt to sell the car in the open market. The firm refurbished the older models that were traded in and sold them through this channel. The certified used vehicle was not exactly cheap for buyers, but it came with the assurance of quality and upgrades.

By creating customer experiences that exceeded expectations and strategically positioning Lexus as a separate entity from the parent organization, Toyota achieved its aim of claiming a place in the luxury car market.

#### **QUESTIONS: ANSWER ALL FOUR QUESTIONS**

1. Assess Toyota's /Lexus's competitiveness using the VRIO framework. **(15 Marks)**
2. a. Explain the two generic competitive strategies. **(4 Marks)**  
b. With reference to the two generic strategies, explain Toyota's rationale for making Lexus an independent subsidiary, with minimum overlap with the parent. **(16 Marks)**
3. Outline the most relevant international entry modes for Toyota's entry into the luxury car market category in the USA and Europe. **(15 Marks)**
4. Use the Business model Canvas, to outline the most important components of the Lexus brand's operation. **(10 Marks)**

**END OF QUESTION PAPER**