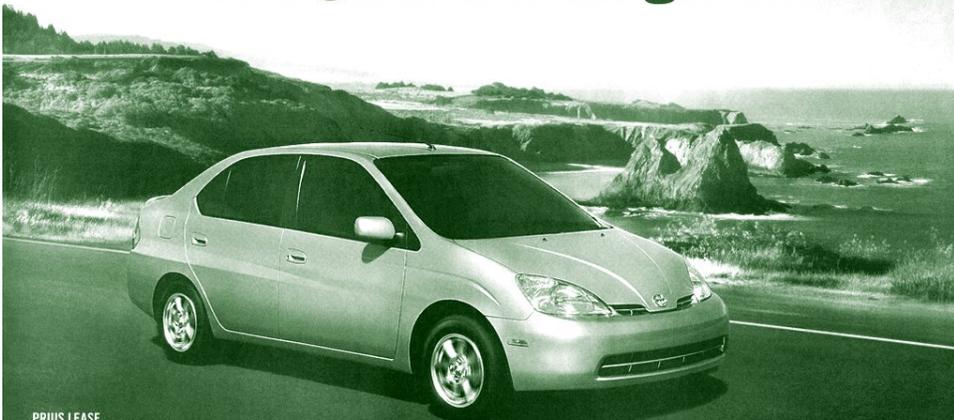


# Case Study: The Toyota Prius

## Lessons in marketing eco-friendly products

more green for **less green.**



**PRIUS LEASE**  
**\$269/MO.** for **36 MOS.**  
**\$1968 DUE AT SIGNING.**  
 On approved credit.  
Includes security deposit but not applicable taxes and fees.

OR  
 UP TO **\$2000 TAX DEDUCTION**<sup>1</sup>

**GAS ELECTRIC HYBRID PRIUS**  
 It runs up to 90% cleaner for smog-forming emissions than most vehicles. It gets up to 52 miles per gallon and 566 miles per tank.<sup>2</sup> And now, it comes with two more ways to save. The gas and electric Toyota Prius. The car that makes an environmental statement without hurting your bank statement. Visit your local Toyota dealer for a test-drive today.

**GET THE FEELING**  


Only a limited number of customers will qualify for the advertised terms. See your participating Toyota dealer for lease program qualifications. <sup>1</sup>2007 Prius with credit control, floor mats and Destination Running Lights, plus delivery, processing and handling fee. A total of \$1,968 will be due at signing including the first month's payment, \$99 down payment, \$200 security deposit and \$800 acquisition fee. Your payment may vary depending on your final price. <sup>2</sup>30 monthly payments and total \$9,864. Your lease-end purchase option will be \$11,847, plus taxes and fees. Lease includes complimentary roadside assistance and three years of free scheduled maintenance. You pay for excess wear and tear (not \$0.25 per mile over 12,000 miles per year). To qualified customers through Toyota Financial Services and participating Toyota dealers. Similar offer through Sustainable Toyota Finance. Not available in Hawaii. Must take delivery by 10/31/07. IRG news release dated Mar 21, 2007. One-time federal tax deduction available to owners of Prius. Must be claimed in the 1st year of use. See your tax advisor for details. <sup>3</sup>2007 EPA estimated 51/48/48 city/highway/combined mpg. Actual mileage may vary. Based on EPA estimated city driving. ©2007 Toyota Motor Sales, U.S.A., Inc.

Rudi Halbright, Max Dunn  
 Managerial Marketing (SUS 6060)  
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## **Introduction**

“If you owned [a hybrid car], you could feel good about using less gasoline and being a trendsetter, but you couldn't expect the fuel savings to make up for the thousands of extra dollars that the hybrid cost. There was no financial reward for environmental virtue.” (Leonhardt, 2006)

This quote neatly presents the tradeoffs in marketing a green product like hybrid cars; often they are not competitive by themselves in terms of prices or features. So how do you market a product like this? Can you convince a lot of people to forgo features or pay more money in order to be eco-friendly?

In general, the answer is no. While certain market segments will show a preference for eco-friendly products, those attributes alone are not enough for a product to gain widespread acceptance (Power, 2008). The Toyota Prius provides a concrete case study of this truth. While the biggest product differentiation of the Prius is a fuel efficient, hybrid engine, most people don't buy it because it is eco-friendly.

## **Thesis**

We assert that Toyota succeeded by marketing the Prius on multiple factors including the potential for gas savings, appeal to those who desire the latest technology, crossing into multiple market segments, and keeping the car practical, attractive, and functional. If they had appealed solely on impact to the environment, they would have failed to generate significant market penetration.

## **Background**

Toyota didn't set out to create a hybrid car. Rather, then Chairman Eiji Toyoda was concerned about the increasing popularity of larger cars and of the effect it would have on pollution levels in increasingly congested cities. He was concerned about the threat of peak oil looming and believed that the traditional internal combustion engine would not successfully carry Toyota into the next century. It was a year into that effort that Toyota decided to adapt a hybrid approach to creating a car with a lower impact on the environment. Toyota was cautious in entering the American market (Itazaki, 1999).

## **Initial Trial**

Toyota's first step was to ship the original Prius that had been sold in the Japanese market beginning in 1997 to the U.S.



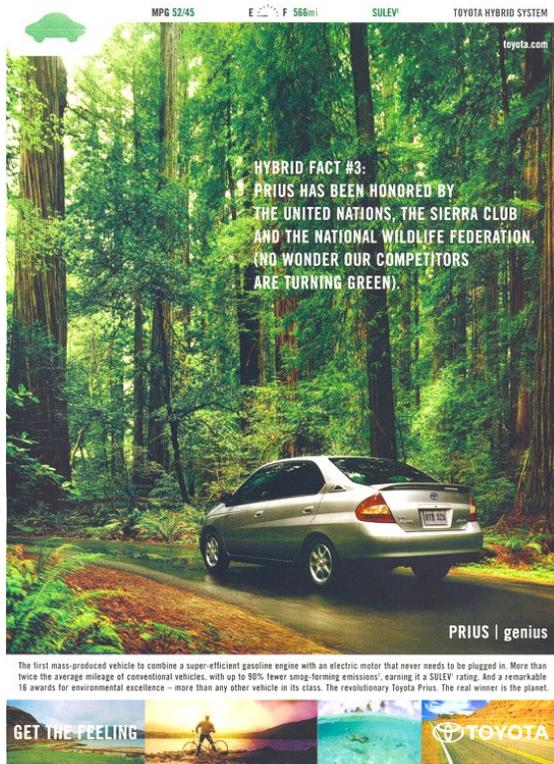
First generation Prius NHW10

(Source: [http://wikicars.org/en/Toyota\\_Prius](http://wikicars.org/en/Toyota_Prius))

These Prius' were right hand driving models as no left hand models had yet been produced. The car was shown to potential customers in Southern California who complained that the interior seemed cheap, the rear seats couldn't fold down, and it wasn't even possible to fit a baby stroller in the trunk (Taylor, 2006). Toyota quickly learned that their first Prius was a poor fit for the U.S. market.

## 2000 Marketing Campaign

The first generation Prius for the U.S. market was released in 2000 with increased power to both the internal combustion engine and electric motor. This new Prius met California emissions standards and included a lighter battery pack. U.S. consumers still found it to be underpowered and burdened with other limitations including rear seats that did not fold down (Taylor, 2006).



(Source: [http://john1701a.com/prius/scans/Prius-Ad\\_19.jpg](http://john1701a.com/prius/scans/Prius-Ad_19.jpg))

Toyota hired Saatchi and Saatchi LA and Oasis Advertising of New York to help them advertise and position the new Prius. Working with these firms, Toyota realized that they needed to communicate not only the Prius' environmental advantages but also communicate how desirable and practical it was for regular, everyday transportation. The "PRIUS/genius" campaign launched as the result of this combined effort. (Geller, 2000).

Starting two years before the Prius was available in the US, the campaign began by creating a dialogue with customers that resulted in 40,000 people expressing an interest in the Prius. These prospects were given early access to a private web site and were able to pre-order the Prius, which 1,800 did. (Geller, 2000). The campaign then continued onto a more traditional form using broadcast and print advertising and continued to combine interactive, outdoor and lifestyle marketing (Geller, 2000).

Toyota also worked with MindArrow systems to replace printed brochures with interactive, multimedia "eBrochures". This was very successful as 46% of the people that viewed the eBrochure clicked through to the Prius site and 36% requested additional information (Geller, 2000). While we are used to social media marketing today, Toyota was ahead of its time in using it back in 2000, and it's not surprising, that they succeeded in attracting innovators and some early adopters.

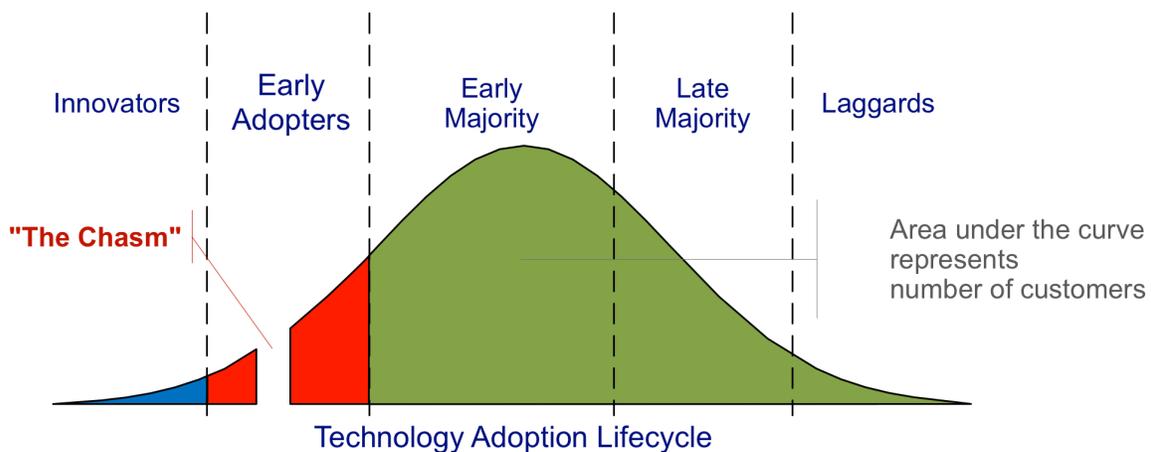
Surprisingly, Toyota found out that the more extreme environmentalists were not interested in the Prius or other hybrids. They were frugal and turned off by the high tech aspects of the cars (Taylor, 2006).

However, this early Prius did not stack up based on either features or price compared to its competitors and the marketing campaign heavily emphasized the car's green aspects. Toyota had only succeeded in selling to an audience of innovators and a limited number of early adopters who were drawn to the technology and willing to take a risk.



(Source: <http://lotusracer.home.mchsi.com/priuscard.jpg>)

As a result these initial marketing efforts failed in their attempts to produce mass appeal and only 15,000 cars were sold in 2001 and approximately 20,000 were sold in 2002 (Vasilash, 2004). Crossing "the Chasm" (see Technology Adoption Lifecycle below) was going to require further innovation and a different marketing strategy.



(Source: <http://www.designitsimple.de/>)

## 2004 Campaign



(Source: [http://www.siliconeer.com/past\\_issues/2004/JULY2004-FILES/july04\\_prius\\_1.jpg](http://www.siliconeer.com/past_issues/2004/JULY2004-FILES/july04_prius_1.jpg))

The marketing campaign focused on the new Prius's larger size and higher power and de-emphasized the fact that it also happened to be environmentally friendly (Rodriguez & Page, 2004)

During this time, the Honda Civic Hybrid actually had higher sales than the Toyota Prius. Instead of focusing on technophiles and early adopters, Honda introduced the Civic Hybrid directly to the mass market by taking advantage of Civic's existing brand equity and marketing it as having the added benefit of increased gas mileage (Rodriquez, 2004).

Beginning in 2007 the Toyota Prius outsold all other hybrids. One reason for this increase in sales is that it had become "cool" to drive a hybrid. While the other hybrids looked just like their non-hybrid counterparts, the Prius was easily recognizable due to its unique body design and distinct identity. When Prius buyers were surveyed in 2007 regarding why they bought a Prius, more than half said it was because it made a statement about them. Three years previously, only one-third had cited that reason. "I felt like the Camry Hybrid was too subtle for the message I wanted to put out there," said one Prius owner. "I wanted to have the biggest impact that I could, and the Prius puts out a clearer message." Another said "I really want people to know that I care about the environment." This cachet of Prius ownership was reinforced by the many celebrities and Hollywood stars that embraced the Prius (Maynard, 2007).

The turning point for the Prius was triggered by it now being feature competitive with similar cars and by the new marketing campaign that shifted from a focus on early adopters and environmental friendliness to the mass market and economic benefits (Wigder, 2007). "The Chasm" had been crossed and the Prius was in high demand. In a 2007 survey was published that reaffirmed Toyota's new marketing strategy. It had found that 73% of Prius owners acted like mass market consumers and that the Prius appealed to high-income buyers (Klein, 2007).

It wasn't until the next the next generation Prius debuted in late 2003 for the 2004 model year that began to take off. The new Prius was larger, had a more efficient drivetrain yielding improved mileage, and finally responded to earlier demands for a large cargo area with rear seats that folded down. Toyota had listened to its customers and met and exceeded their expectations. (See Appendix for SWOT analysis.)

Segment	% of Sample
Early Adopters	27%
Prius Cost Less	40%
Buyers Calculated ROI Differently	16%
Buyer Bought Prius to Drive in Carpool Lane	12%
Buy Bought Prius as Inexpensive Fun Car	5%
Total	100%

(Source: Klein, 2007)

This was also confirmed by another study by J.D. Power in 2008 that found while many people expressed a desire to buy an eco-friendly car, only 11% of them were "very willing" to pay more for it (J.D. Power, 2008).

## 2010 Campaign

In 2010, Toyota launched their new ad campaign entitled "Harmony Between Man, Nature and Machine." It emphasizes that there are no longer any tradeoffs between getting the features they want in a car, and getting high mileage to reduce CO<sub>2</sub> and save the planet (Hodges, 2009).



(Source: <http://www.toyota.com/prius-hybrid/>)

This campaign aims to reach a wider mass audience than previous campaigns and includes a larger role for social media including Facebook and Twitter. The sales goal for 2010 is 180,000 units, up from 150,000 in 2009 (Bell, 2009), and a huge leap from the scant 15,000 that were sold in 2001.

## **Analysis**

The Toyota Prius holds 50% of the market for hybrid vehicles in the United States. That means that the combination of all other hybrid vehicles including the Camry, Civic, Escape, Highlander and Insight, together just match the sales of the Prius, and Toyota owns well more than half of the total Hybrid market.

### **Why has the Prius outperformed all other hybrid vehicles?**

It stands out that a significant majority of buyers surveyed felt that the Prius was less expensive than alternatives. In fact these respondents were more likely to purchase a BMW, Mercedes or other luxury car if they didn't purchase a Prius. A full 71% of the respondents stated that the fact that Prius was only available as a hybrid was either important or a very important part of their decision process (Klein, 2007).

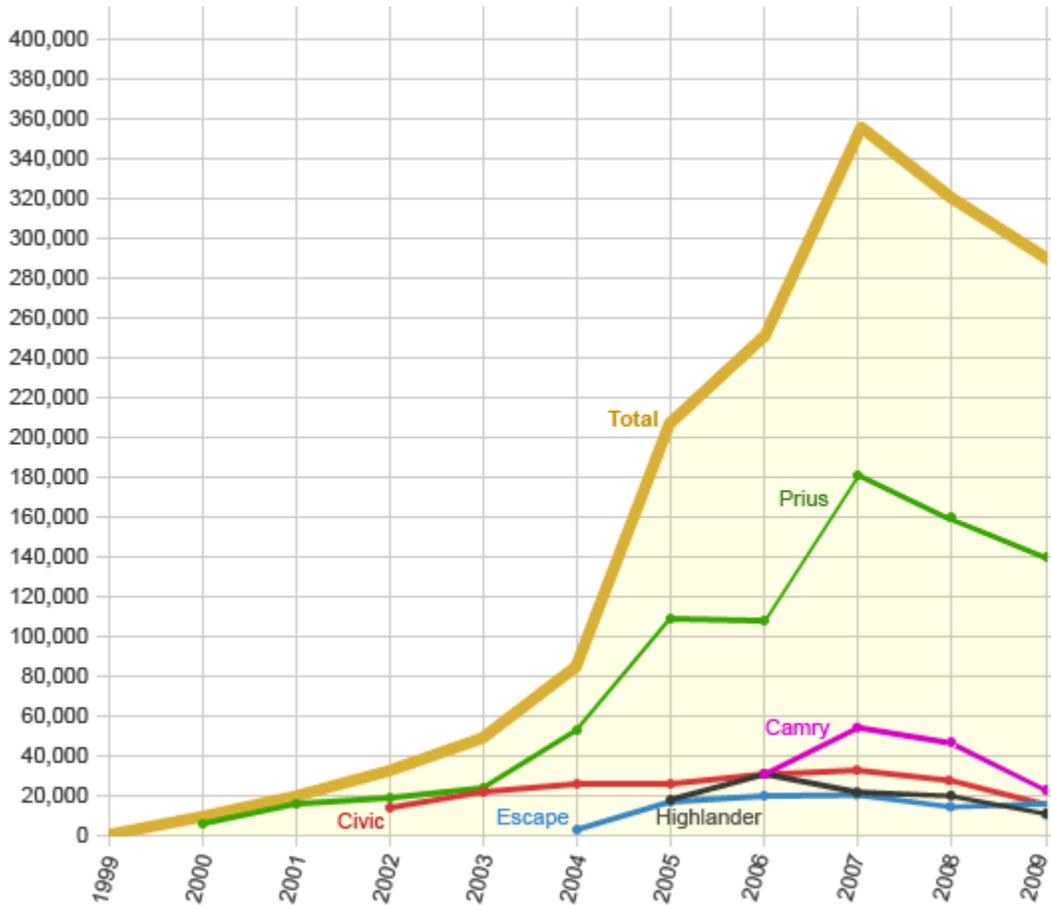
Toyota used penetration pricing strategy in order to build market share rather than skim pricing strategy of setting the price high initially and then dropping it as competitors entered. This was effective in gaining and holding onto market share (Gutsa, 2009).

In every other case, buyers have to make a choice between a less expensive standard engine vs. a more expensive hybrid model, and each looks virtually identical. In fact, in some cases (e.g. the Honda Civic Hybrid) the storage space is significantly less than the non-hybrid version, causing the buyer to confront an obvious sacrifice.

### **The Prius Creates High Customer Value:**

- Saves on fuel cost
- Saves time spent filling up with gas
- Generates Peer to Peer Buzz -- as it is immediately recognizable
- Toyota's Reputation for excellent reliability
- Provides public (environmental) benefits without requiring a sacrifice

## U.S. hybrid market historical sales (1999 - 2009)



(Berman, 2010)

## Insights

An insight from this case study is that you can't design an inferior product and expect to make up for it by being eco-friendly. Another is that while marketing to eco-friendly and early-adopter segments can produce some traction, sales won't really take off until there is a compelling message for the mass market. The Prius has also shown that by meeting a wide enough set of customers needs creating a broad appeal, coupled with strong branding, it is possible to cross over and successfully sell a product in multiple market segments.

## Recommendations

When developing a green product, make sure that it is feature competitive even without its green aspects. Then when marketing the product, realize that most sales will be made regardless of its eco-friendliness. However, if you can establish some cachet around the product, people may buy

it as a luxury good for the environmental status it conveys, as long as the product is distinct and highly recognizable.

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## **Appendix**

### **Prius SWOT Analysis**

#### **Strengths:**

- Best fuel efficiency of any midsize car
- Spacious interior
- Good performance compared to non-hybrid vehicles
- Comfortable
- Quiet at all speeds
- Smoother transmission than most other cars
- Appeal of latest technology
- Minimal impact on environment
- Excellent scoring on crash tests

#### **Weaknesses:**

- Fuel economy varies and optimization requires careful driving
- Premium price compared to similar non-hybrid cars
- Other cars are available in the same price range with significantly higher performance
- Requires use (albeit lessened) of a non-renewable resource (petroleum)
- Requires more energy to build than comparable non-hybrid cars

#### **Opportunities:**

- It is likely that petroleum will cost more in the future as supplies diminish which may increase demand.
- New 2011 PHEV (Plug-in Hybrid Electric Vehicle) will extend electric mode range and improve fuel efficiency
- Awareness of environmental concerns is growing
- Sales are likely spread to new markets in developing countries over time.

**Threats:**

- High mileage clean diesel based cars are becoming more available and will grab market share.
- Battery Electric Vehicles are fundamentally "greener" and cheaper to operate than the Prius and other hybrids
- Other hybrids such as the Chevy Volt will soon enter the market
- Toyota's recent negative press and widespread recalls are likely to scare some buyers away. It isn't clear how severe and long-lasting the impact will be to Toyota