

A Comparison of Toyota and Honda Hybrid Vehicle Marketing Strategies

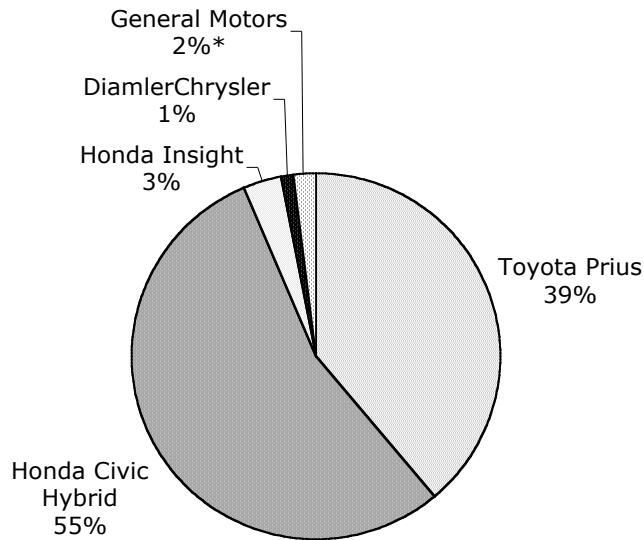
Rocky Mountain Institute
Ann Rodriguez and Chris Page
September 2004

Introduction

Recognizing consumer demand for better fuel economy and reduced emissions, both Toyota and Honda have introduced hybrid vehicles to the American market. Toyota introduced the Prius to the U.S. in 2000. Honda began selling the hybrid two-seater Insight in the U.S. in 1999.

U.S. Sales in the hybrid vehicle industry have increased over 570 percent since model year 2000¹. Today, hybrid vehicles hold a 1% market share in the U.S.,² and there are three models of hybrid vehicles dominating the market: the Toyota Prius, Honda Insight, and the Honda Civic Hybrid.

2003 Hybrid Market Share Breakdown (U.S.)



* Hybrid versions of the Chevrolet Silverado and GMC Sierra are available to GM fleet customers only

3

The Toyota Prius

Toyota's initial marketing strategy for the Prius targeted innovators and early adopters of new technologies.* The 2000 "Prius/genius" campaign focused on highlighting Toyota's

* For a description of the segments of the innovation curve, see the Appendix.

commitment to creating environmentally responsible vehicles⁴ and on using online space to engage technophiles early on in the production process.

Toyota enabled interested customers to visit a special website about Prius development as early as two years before the introduction of the product. Toyota used focus groups and clinics with target consumers to evaluate different aspects of the Prius. Toyota found that the consumers valued high technology, affordable price, clean operation, comfort, quality, convenient design, and safety.

Toyota's television and print ads underscored the evolutionary aspects of hybrid technology and freedom from dependence on oil. Toyota created online e-brochures with a 17-second video clip that were sent to the almost 44,000 people.⁵ In addition, Toyota benefited from various celebrity endorsements that attracted attention to the new Prius.

As a 'purchase accelerator' among its target buyers who requested information on the Prius, Toyota offered these customers the opportunity to preorder cars, which were then finalized by the dealerships. Before the car was even delivered to dealerships in August of 2000, 1,800 units were sold.⁶

A significant portion of the initial advertising budget for the Prius went to materials to help dealers communicate the new hybrid technology to customers. Toyota also coordinated with approximately 900 dealers to execute a 'rental' program, which allowed interested customers to have the car for a one-day, extended test drive.

The first generation Toyota Prius experienced great success in the U.S., with sales growing 32% from 2001 to 2003.

Second-generation Prius

The second-generation of the Prius was introduced in 2004, targeting the 'early majority' of consumers who tend to demand reliable, affordable, proven products, as contrasted to the "early adopters" targeted in the 2000 campaign.

Toyota responded to the American demand for larger vehicles by introducing a roomier 'mid-size' Prius, which could be sold at the same price as the first generation car due to efficiencies achieved in the production process.⁷ Toyota used its television advertising primarily to tout the size and power, along with the environmental benefits, of the second generation Prius to convince the early majority that it was a performance car that happened to be environmentally friendly.

By maintaining relationships with the 'Prius Pioneers' who bought the first generation car, Toyota was able to leverage this connection and a special purchase offer into approximately 1,200 pre-orders for the next generation vehicle. Toyota continued to work to educate the early majority and mainstream consumer on how hybrid vehicle technology works by rolling out television spots reminding consumers that the Prius doesn't need to be plugged in.⁸

Current demand for the Toyota Prius is exceeding supply in areas such as Los Angeles, California, where the current waiting list is over a year long and consumers are paying anywhere from \$3,000 to \$6,000 over MSRP.⁹

Honda Insight and Civic Hybrid

Honda introduced the hybrid Honda Insight in 1999, a two-seater targeted at tech-lovers. The initial marketing strategy for the Honda Insight included a small budget for national television and Internet advertising, most of which was spent on educational and promotional materials for dealers to present regionally to local media.¹⁰ Currently, the Honda Insight is a small proportion of Honda's vehicle offerings: it sells about 80-100 units per month in the U.S..¹¹

The Civic Hybrid, a sedan seating five, has taken off, experiencing a 59% increase from 2002 to 2003. It is now the top-selling hybrid vehicle in the U.S.¹² Honda's objective in creating the Civic Hybrid was to produce a mainstream five-passenger sedan with superior fuel economy and solid performance that was as easy to use as a conventional car.¹³

In contrast with Toyota's efforts to position its hybrid sedan as a unique product initially geared towards technophiles and then move on to pursuing the 'early majority', Honda introduced the Civic hybrid as a product to appeal directly to the mass market, as the traditional version of the Honda Civic is the best selling compact car in America.¹⁴

By leveraging its existing Civic brand, Honda produced a hybrid product that included many of the features that consumers had grown to expect, thereby positioning the car as a standard Civic with the added benefits of increased gas mileage and environmental 'friendliness'. Because of this existing brand equity and differential targeting, Honda did little to link the Insight to the Civic Hybrid.

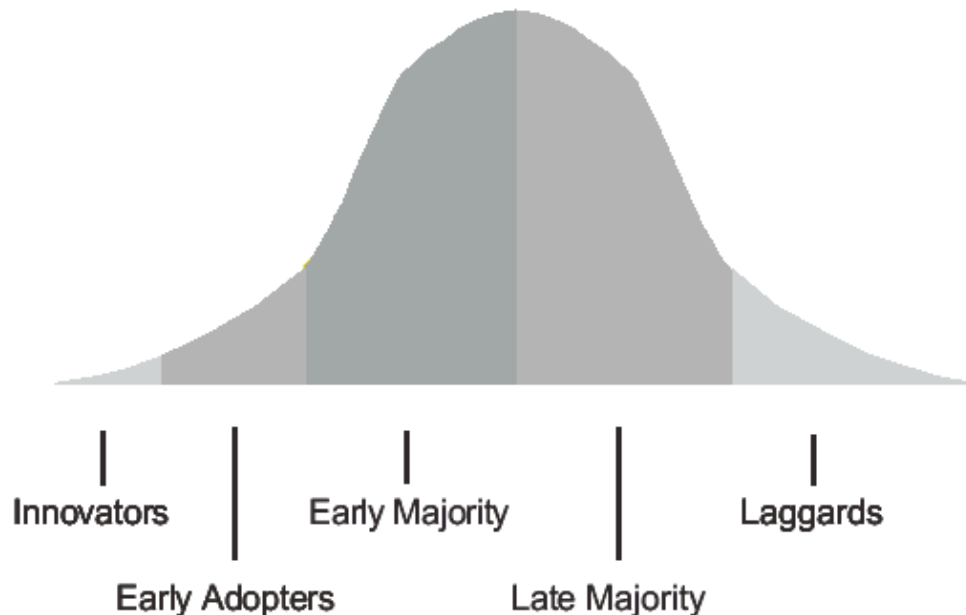
More hybrid vehicles are due out later in 2004. Honda is rolling out a hybrid Accord and Toyota will be producing a Highlander and Lexus RX 400. American manufacturers will begin offering hybrid versions of popular truck/SUV models, with GM introducing the Chevy Silverado, GMC Sierra, and Dodge Ram Pickup and Ford rolling out the Ford Escape (SUV) Hybrid.¹⁵

The Future

Due to impending arrivals of additional competitors, the hybrid market share picture is projected to change dramatically by 2008. In 2008, hybrid vehicle sales are expected capture 2% of the overall U.S. auto market,¹⁶ of which 64% are expected to be trucks.

Appendix: Technology Adoption and Market Segmentation

Market segmentation and strategy for high technology products follows a typical pattern called the “Technology Adoption Life Cycle”. When new technologies are introduced, a typical marketing strategy focuses on attracting the “Innovators” and subsequently the “Early Adopters”.¹⁷



Innovators are defined as those who pursue products with new technology aggressively, consider technology to be a central interest in their life, and buy because they enjoy exploring the new technology features of a product.¹⁸ They represent a small segment of the total market (approximately 2.5%¹⁹) but they are critical to accelerating adoption in later stages. They validate a new product’s functionality and bear the burden of testing for other market segments.

Often the Early Adopter segment, an estimated 13.5% of the market, is pursued in conjunction with the Innovators. Early adopters, perceived as ‘visionaries’ in the market, buy into new products early in the life cycle, are imaginative thinkers who find it easy to envision and use new technology, rely on their own intuition in purchasing, as opposed to depending on references from others, and are more tolerant of bugs or glitches in new products than the average consumer.

A member of the Early Majority is considered to be highly practical and watches and waits for proven technology. As a pragmatist, this consumer is disinterested in fads, as they want technological evolution to enhance existing technology. It is estimated that 34%²⁰ of the total market for a given product falls in to the Early Majority segment.

Following them is the Late Majority, 34% of the potential buyers. Laggards are at the tail end of this distribution. Little attention is paid to this segment by marketers due to its refusal to adopt or understand new technologies.

-
- ¹ “U.S. Hybrid Vehicle Sales Increase 25% in 2003”, *Canadian Driver*, April 23, 2004. <http://www.canadiandriver.com/news/040423-5.htm>
- ²² J.D. Power and Associates 2003 Hybrid Electric Vehicle Outlook (Third Quarter) as cited in “Hybrid vehicle sales may be slower than expected”, *CandianDriver.com*, October 28, 2003.
- ³ J.D. Power and Associates 2003 Hybrid Electric Vehicle Outlook (Third Quarter) as cited in “Hybrid vehicle sales may be slower than expected”, *CandianDriver.com*, October 28, 2003.
- ⁴ “Saatchi and Saatchi, Oasis Agencies Team Up for Toyota Prius Ad Campaign”, *Automotive Intelligence*. Feb. 22, 2000. <http://www.autointell-news.com/news-2000/February-2000/February-22-00-p6.htm>
- ⁵ “Hybrid engine cars do better with hybrid marketing tactics”, Margaret Littman, *Marketing News*, Chicago, Sep 25, 2000.
- ⁶ “Innovative Hybrid Marketing Campaign Launches Toyota’s Clean Car for the Future.” *Automotive Intelligence*. July 25, 2000. <http://www.autointell-news.com/news-2000/July-2000/July-25-00-p5.htm>
- ⁷ “Is Toyota Prius the Most Important 2004 Model?”, Gary S. Vasilash, Nov. 11, 2003, www.motortrend.com/roadtests/alternative/112_news46/index.html
- ⁸ *Autotech Daily*, September 25, 2003, www.autotechdaily.com/pdfs/T09-25~1.PDF. Toyota took more than 9,000 preorders for the next Prius – 4,000 of which were fleet sales, both public and private. 3,000 from consumers, ~1,200 from its TRAC rental-car unit, and ~1,200 from its “Prius pioneers”- loyal customers who bought the first model and were rewarded with the opportunity to order and receive their cars first.
- ⁹ “Hybrid Hi-jinks: buyers go to extremes to conquer short supply up Front”, *Floss*, Rebecca, *Los Angeles Business Journal*, July 12, 2004.
- ¹⁰ “Innovative Hybrid Marketing Campaign Launches Toyota’s Clean Car for the Future.” *Automotive Intelligence*. July 25, 2000. <http://www.autointell-news.com/news-2000/July-2000/July-25-00-p5.htm>
- ¹¹ “Hybrid Hi-jinks: buyers go to extremes to conquer short supply; Up Front”, *Flass*, Rebecca, *Los Angeles Business Journal*, July 12, 2004.
- ¹² JP Morgan Asia Pacific Equity Research, *Automobile Industry*, Eiji Kawahara, July 7, 2004.
- ¹³ “2003 Honda Civic Hybrid – Introduction”, *Honda Press Release*, Feb. 6, 2002.
- ¹⁴ “Hybrids Shed Their Wimpy Ways”, *Larry Armstrong*, *Business Week*, September 4, 2003.
- ¹⁵ “U.S. Hybrid Vehicle Sales Increase by 25 Percent in 2003” by Trevor Hoffman, *Automobile.com*, April 26, 2004. <http://automobile.auto123.com/en/info/autonews/index,view.spy?artid=23653>
- ¹⁶ From “J.D. Power and Associates 2003 Hybrid Electric Vehicle Outlook (Third Quarter)” as cited in “Hybrid vehicle sales may be slower than expected”, *CandianDriver.com*, October 28, 2003.
- ¹⁷ Image from “Are You Prepared for CMMI?,” *CrossTalk*, May 2002 Iss. Suzanne Garcia, *Software Engineering Institute*. <http://www.stsc.hill.af.mil/crosstalk/2002/03/garcia.html>
- ¹⁸ Crossing the Chasm: Marketing and Selling High-Tech Products to Mainstream Customers, Geoffrey A. Moore, © 2002, Harper Collins, NY, NY. P.12 –25.
- ¹⁹ The PDMA Glossary for New Product Development. *Product Development & Management Association*. 2004. “Adoption Curve” section. <http://www.pdma.org/library/glossary.html>
- ²⁰ The PDMA Glossary for New Product Development. *Product Development & Management Association*. 2004. “Adoption Curve” section. <http://www.pdma.org/library/glossary.html>