Toyota International Expansion in Iran

Name

Institutional Affiliation

Executive Summary

In the current business world, internationalization or global expansion has been at the core of every organization's strategy due to the desires of increasing their overall revenues, performance as well as building their brand beyond the borders. The advancement in technology has also fostered the achievement of the above objective providing the basis to perform market research, advertise products and recommended different international business strategies. The ability of an organization to operate internationally promotes its competitive position; however, appropriate entry strategies must be developed in each selected country of investment to enhance the success of the investment options (Clohosey, 2007). Additionally, considering the critical modern economic theories as well as issues relating to international business. The paper presents Toyotas proposed operations and strategic approach to address global competition as well as the risks involved in their planned investments in Iran.

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Background of the Study

Internationalization is not an overnight process; it is a gradual process that starts from committed management who see the potential of a company and its unlimited expansion possibilities. For a company to be able to open operations in a foreign country a lot of considerations need to be made some of which act as proactive motivators others which act as discouragers. Toyota Motor Corporation based in Japan is a multinational company which is in the automobile industry and also provides financial services to its customers. Toyota is the largest auto company in Asia and aims to become a global leader in the automotive industry. Toyota has its operations all over the world; some of the countries where it operates include the USA, Pakistan, India, and South Africa among others. In these manufacturing plants, there is the assemblage of automotive parts, and the automobiles are sold to local and international markets. Most of the market is concentrated in Europe, and the USA Toyota has maintained an excellent reputation for its products as it believes quality is what creates and build the trust of its market; this has led to its local and international prosperity. A recent interest to expand has emerged targeting Iran for the expansion. For Iran to be qualified some considerations had to be made, the risks and the potential of the venture to bring benefits to the company. Toyota needs to develop a localized strategy and business approach that will drive its success in the country; stay integrated with the countries culture and still is in line with its objectives and goals (Clohosey, 2007).

Theories and Key Events Affecting International Business

The Uppsala model is a line of thought that attempts to explain the growth of companies in the foreign markets. The theory states that firms need to first intensify their activities locally and create a local market first before moving on to a foreign market the firms first learn about the local markets or the markets that are culturally and geographically nearby then move on to more distant areas and cultures (Chia-Chi, 2013). Once the firms move to a new country, they start with the traditional products and then move on to the more sophisticated products once they have created a name for themselves. The model has contributed to firms getting knowledge of their markets and thus making it possible to meet their needs and has also made the internationalization process follow a systematic process. Internationalization is a process that requires a step by step implementation, and this theory suggests the same, a company guided by this theory avoids rushing into the global market without having enough knowledge of his local market needs. The theory, however, has received criticism over past years. The theory places no value on management and does not provide a good framework for a company's entry into a foreign country (Fleck, 2001).

The theory of foreign direct investment is another theory discussing aspects of the globalization of business. John Dunning is the majority contributor to this theory. The theory attempts to explain the benefits a company received by multinational companies by having their physical presence in various countries (Allman, 2003). The theory assists firms interested in globalization. The theory is sometimes called the eclectic paradigm and transaction cost analysis theory. To Dunning not only the organizations structure is important. The competitive advantage of a company which refers to how a firm is endowed and how well it can compete in the market also boosted the company's performance both locally and internationally. Location of a firm advantage was another boost to a company if the location was favorable; this was regarding political environment and also the economic policies of its location. The theory helps the companies choose their locations and ownership correctly so as to get maximum returns from their investments. The theory is criticized because it assumes that geographical locations and ownership contribute directly to production which they do not (Schulte & Jackson, 2007).

Comprehensive Business Model of Foreign Market Entries

Toyota Company entry in Iran is based on seeking an appropriate entry strategy into a foreign market as well as the considerations on the positive impact of the choice about the disadvantages. The company must make decisions regarding the location, mode of entry into a foreign market and the timing of the venture. Underlying each is a group of strategic approaches drawn from the three major decisions.

Industry based considerations- are the strategies the company will employ to survive. The company is likely to face competition from already established companies like the Khodro and LG companies based in Iran. Firms, especially in the oligopoly market structure, usually match, and so Toyota needs to develop some form of uniqueness to stand out from all the rest of the companies. Toyota needs to analyze the economic barriers of Iran and access if they are favorable for its operations. Iran economic activities are centrally planned, and thus there is a lot of government involvement in the economy, plans are however underway to make it market oriented but still if Toyota is going to choose its venture timing to be soon then they need to consider the economy and how it operates. The market potential of the Toyota products is also another industry based decision under consideration. Toyota needs to look at the use of automotive sin Iran and sustainable in the country. It would be useless to produce something that the Iran people do not use (Ziegler, 2004).

Resource-based consideration-Toyota is a very rich company; the value of a company and its resource capabilities plays a major role in its success anywhere in the world. If Toyota is going to start operations in Iran, then it needs to have the economic capabilities and resources to do so. Also if Iran has a history of expropriation and dissemination, then Toyota needs to watch out in order not to put its assets and property at risk about property rights. Toyota needs to access its value and thus know the risk they will be getting themselves into. The recourse base of a company favors and enhances its capabilities and encourages them to venture into new countries (Amaio, 2009).

Institutional based considerations-these refer to informal considerations that a company needs to make. This may be the most important one of them. For a company to be part of culture, then it needs to live the culture. This makes them part and parcel of a country's people. The institutions may act as a barrier or may enhance a company's operations. Cultural distances are a barrier for example. Iran is a Muslim-dominated state, and so if Toyota is going to survive its life in the country, then it needs to respect the Muslim cultural practices about dressing, etiquette, and trade customs among other practices that make up the Muslim culture. Cultural practices are both material and abstract (attitudes).For Toyota to make a good base for its operations, it needs to look favorable to the citizens of Iran (Muralidhar, 2010).

Some of the things to do are to embrace the local culture, build friendly relationships with the local companies and citizens, employ the local people, build the understanding of the employees, adapt products that the locals prefer and also coordinate its activities in an orderly manner. The company also needs to access the regulatory risks put by the government of Iran such as the tariffs and non-tariff barriers. Also, there are the local requirements that are required to be met by a new company seeking residence and market in Iran. The general tariff in Iran is 15.2 percent, and new companies are allowed to start residence and do their businesses after the government assesses the economic benefit of the venture to the country (Wariboko, 2006).

Toyota also needs to consider the currency risks it will be facing in the country; currency risks are a product of economic uncertainties and political instability that bring about fluctuations in the exchange rate of the currency causing uncertainties in the value of the investment. When the domestic currency depreciates against the foreign currency, then there is a change in the decrease in the value of the investment and this may lead to losses. It becomes hard to speculate future trends in the individual company, and so it leads to uncertain future. Iran currency is not stable and has a history of fluctuating from time to time compared to the Japanese Yen which is more stable the company needs to have an insurance against such uncertainties. Again to avoid the losses from the currency fluctuations then the company can hedge where there is a spread of activities in some countries in different currency zones offsetting the currency loss in another country (Wariboko, 2006).

Market Entry Strategy

The way in which the Toyota Company establishes itself in the country will not only enhance its operations but will also create friendly relations with the local members of the automobile industry like the LG company. There are equity and non-equity modes of entry into a market. The most appropriate one for Toyota is the equity mode where it can establish its operations through a joint venture with one of the companies or agree to share its profits with another. It is not obvious that the company will receive overwhelming support in the beginning, so a good entry strategy is important. A joint venture with an already established company will enable the company to not only share its initial costs and risks but also access the partner’s knowledge and assets (Jurse & Vide, 2010). The ethical considerations of the new environment will not be easy to learn but with the help of a partner, the Toyota Company will learn ethics and social requirements. Apart from that, it will be politically accepted as it will not look like an attempt to kill the local industries. However by a joint venture the company will suffer from divergent goals and interests of the company and also sharing of the profits (Ziegler, 2004).

Iran and Its Business Environment

Iran is a country in Asia that has in the past years been a victim of terrorism and political wars. The government of Iran cannot be said to be stable and starting a business venture here can be a hazardous endeavor. The economy of the country is recovering from the effects of terror attacks and unstable governments. Its population is seventy-eight million, and the country's GDP is recorded as growing at a 3.0% rate. This shows positive growth thus it is favorable for investment despite the terror and currency fluctuation risks. The annual foreign direct investment inflow amounts to about 2.1 billion showing a lot of potential for investors as those already there are making profits. Inflation is set at 15.5% and is said to go down if the current market and government situation continues (Ziegler, 2004). Military from foreign countries has been sent to the country on a peacekeeping mission thus the issue of insecurity may be a thing of the past in future.

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