

# The key strategic suppliers within Toyota's global supply chain

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## Abstract

The expanding importance of supply chain management shows a challenge for firms to beneficially operate their supply chain partnerships. Especially, international operations must be able to resource equivalent suppliers anywhere in the world. Such thought is leading global supply chain management (GSCM) to involve thinking about the principles of the relationship between buyer and supplier.

The Toyota way is a model for making the buyer and supplier relationship efficient within GSCM. The study established by a "win-win" condition to discuss the relationship based on trust and commitment with strategic key suppliers. Dyadic firms learn new skills and rewards based on geographic and cultural borders. Toyota's methodology of trust and commitment which was applied to gain the growth of the community and the development of the individual is expressed in many different languages.

The Toyota explores how the managerial scheme is moving towards successful GSCM. Toyota Corporation has adjusted its management to adapt all over the world. The vision of Toyota is to generate new Toyota GSCM with their way.

Keywords: Global supply chain management, Key strategic suppliers,  
Toyota supply chain management

## **Introduction**

Enterprise globalization has dramatically transformed the way in which products are moving around the world. These develop a new framework that is to say, a global supply chain that takes advantage of differing countries (Prasad & Sounderpandian 2003), producing a network, which includes material sourcing over the world (Klassen and Whybark, 1994).

Global supply chain management (GSCM) is based on corporations exploiting the competitive advantage surrounded by the international background, which is different from the local supply chain. Globalization trade activities are inspired by the increased benefits, substantial materials, lower labour costs, and collaborations with local suppliers. For example, there is the transfer of manufacturing “know-how” and lower local taxes for global business firms who invest in other countries (Motwani *et al.*, 1998). Strictly speaking, the global supply chain achieves a competitive advantage which produces lower costs and efficient supply chain processes and keeps up a correspondence between the suppliers and buyers.

This study seeks to explore the key strategic suppliers within Toyota’s GSCM. Indeed, Toyota has developed a unique, highly integrated and balanced management practice that influences the ability of the key suppliers to extend their global business (Emilliani, 2003). Johanson and Medbo (2004) commented that “*the suppliers are also increasingly acting on a global market*”, since the suppliers have been involved in product development and required to produce not only separate components but also whole modules.

This research reviews the literature base and development of GSCM leading to the path that eventually shows the modern era of a holistic and strategic approach to do the global supply chain operations. Thus, this study is to survey Toyota’s GSCM in different countries in order to discuss their key strategic suppliers. Then, the attempt is to investigate the firm by connecting the theoretical argument and case study realities.

## **Literature Review**

### **Global supply chain management**

Globalisation is a strategy for amalgamating geographically widespread businesses to defend global compositeness and a multifaceted environment (Stonehouse, 2000). Supply chain management (SCM) involves many organisations in the integration of raw materials, the transformation of goods and the delivery of final products to customers in order to support all sections of the industry to create an efficient supply chain channel (Stonebraker & Liao, 2004).

Furthermore, the effects of business firms in their search for globalization, and the “*supply chain*” are a significant key in universal operation (McAdam & McCormack, 2001). Therefore, according to Christopher *et al.*, (2006) “*Today’s market place is characterised by heightened global competition often against*

*a backdrop of an excess of supply over demand*”, when GSCM runs a well-organized within the supply chain then grasps the competitive opportunities to extend their business territory worldwide. Youngdahl and Loomba (2000) stated that to understand the global competition is a complex production. The global supply chain is also capable of transferring the material and information between the suppliers, transportation sources, distributors and customers.

The rise of global sourcing researched by Christopher *et al.*, (2006) referred to the old firms’ style of “local of local” having being changed to the development of a “*global village*”. In their analysis, East-West trade has benefited from low transport costs through being underpinned by steady oil prices for many years. Then, due to the oil market before and after the US-led invasion of Iraq in 2003, the oil price rose to express the global supply chain channel transport cost and lead time problem in the long-term relationship. In recent years, firms like to move to or invest in China, and always use seasonal shipping instead of freight in order to reduce the transport costs (Johnson, 2001).

In addition, Prasad and Sounderpandian (2003) conclude that the factors that influence the global supply chains can be divided into country (endowment issue, cultural variations, arbitrage and leverage, government incentives and regulations), industry (the type of industries), and management of supply chains (markets, transportation, technology, financial, organization behaviour and human resources) characteristics.

From the literature review, as can be seen, the model of GSCM provides the direction to run the global supply chain operations and influencing factors of global supply chain efficiency.

### ***The predictable argument by means of “win-win” in dyadic relations***

*“Win-win...means... a situation in which each issue requiring resolution has been settled in a way which meets the needs of both parties, even though either, or both, may have been hoping for more”* ( Carlisle and Parker, 1989, pp. 35-6). The argument is how to identify the exchange transaction engages products and procedures between the buyer and supplier bargain. Basically, the dyadic relationship builds up deals with buyer desiring goods or services and to exchange their currency with their suppliers. Nevertheless, the value of the exchange relations not only talks about the money or may come from the suppliers’ services. In other words, Spekman (1988) pointed out that it is important to develop the buyer-supplier relationship relying on short-term contracts, price driven negotiations and the implicit threat of future supply allocation adjustments then to gain the competitive advantage.

The supply chain starts from suppliers providing products or services to their buyer. If the buyer does not trust their supplier, even though they have an agreement, they need to monitor their supplier all the time. Svensson (2004) defined five elements that influence trust within business relationships: reliability, honesty, competence, buyer orientation and friendliness. Reliability is based on loyalty and respect in order to have a good co-ordination in the

buyer and supplier relationship. Competence includes ability, expertise and integrity, and then also asserts the power contained by the buyer and supplier relationship. On the other hand, when buyers pay a higher buying price and are then cheated by their suppliers, the suppliers must lose their reputation to gain future business by word of mouth from their buyers (Rao and Bergan 1992).

### ***Strategic supplier selection within GSCM***

Hsu *et al.*, (2006) said that “*Supplier selection is a crucial process that addresses how organizations select strategic suppliers to enhance their competitive advantage*”. The organization purchaser hopes that the suppliers can continue to improve their supply all the time (Dwyer *et al.*, 1997), especially while the costs are reduced in the long-term. This factor is more important and has to consider the best measurement of supplying a base relative to the buyer base (Olorunniwo & Hartfield, 2001), contained by GSCM.

Therefore, the suppliers' selection is a strategic decision within supply chain management. In particular, Prahalad and Hamel (1990) described how manufacturers are moving from vertical integration to build up their core competencies on leaner and smaller firms. The firms only focus on their strategic suppliers who have more efficient leverage capability and technologies (Tully, 1995). Copacino (1996) pointed out that this is different from the traditional buyer and supplier relationship, which only have a mutually beneficial relationship with their deliberately vital suppliers.

The critical question is why the suppliers choose to let buyer firms gain a competitive advantage and how they have the ability to support their value creation efforts. Kannan and Tan (2002) suggested several features that should be considered when choosing a strategic supplier, such as quality, quick response to demand, and price. The quality of the suppliers has constantly been a main point in choosing a strategic supplier. The supply quality includes supplier capability, expertise, technology, capacity of resource, industry professional knowledge, commitment, supplier's process ability, and improving the produce and process skill (Churchill, 1979). Next, the quick response to demand is the ability to face buyer's need immediately. This also emphasises the importance of supplier responsiveness to know buyer's demand, shorter product life cycles, and the descending product lead time. The supplier expecting to establish a long-term relationship with their buyer must improve their service in response to buyer needs changing. The other reliable factor also needed to consider is the price of materials and services.

In contrast, Olorunniwo and Hartfield (2001) pointed out that the critical issue is that most buyers have the same opinion in mind that partnership can provide benefits, such as shorter lead time, more investment, and better services from their suppliers but most buyers presume that they are losers. The reason for this is that the suppliers think they can provide those benefits without forming an agreement or partnership with their buyers. That is why Akakum and Dale (1995) supposed that it is extremely difficult for very small

firms to increase their partnership with their suppliers who are large organizations and famous brands without further power than them.

### **Research questions**

This study questions drawn from the literature review start with the key supplier's selection and then can drive efficient global supply chain management. The research questions are:

1. What kind of suppliers' variation lets the buyers decide a key supplier based on satisfying the delivery, quality and prices requirements?
2. How have firms changed their business behaviour in an integrated global supply chain environment?
3. Has the firm developed a management programme tied with a world-class manufacturer, ready and willing to defend the globe competition?

Firstly, there is evidence from the literature as researchers provide the evidence of supplier selection for definition. Furthermore, there has been concentration on supplier selection both by practitioners and academics, but there is no evidence about expanding a supplier selection regulation (Hsu *et al.*, 2006). Beyond any manner of doubt, effective supplier selection plays a critical role in complete surroundings within global supply chain management.

The second question also judges the environmental conditions with the considerable institutional and cultural differences, and the ability of local suppliers to adapt to buyer requirements (Millington *et al.* 2006). On the one hand, how can the buyer's non-local supplier maintain the relationship and become adversaries to their local suppliers. Subsequently, how can the buyers change their business behaviour to retain a relationship within their suppliers all over the world?

Thirdly, the advantage of GSCM allows diversity in the international situation by distinguishing and using local differences, such as: product and process technology "know-how", labour capability, and local tax rates (Cohen and Maillik, 1997). The firm used the GSCM system to build itself into a world-class manufacturer in order to organize GSCM to manage it in a global supply chain management.

### **Methodology**

In this study, the question is how the firms run their GSCM with their suppliers, and then decide their key suppliers in order to maintain their relationship to develop the global business. Nevertheless, the case study is an empirical investigation that examines a current phenomenon within the actual business background. The case study design, according to Yin (1994), includes data collection, analysis and conclusion.

The data collection also considers the documentary sources and how researchers collect and analyze the evidence from the 'primary' and 'secondary' sources. The secondary resources, by contrast, discuss the period studied but are behind in time and some are removed from the actual events. The secondary source reproduction, interpretation or critical material is established by the primary sources (Sapsford & Jupp, 1996). And then (Matthew and Carole, 2004, p.25) said that "*Depending on the area of research and research question, it may be appropriate to consider using and searching for existing data. This data can then be examined and analysed, a technique called secondary analysis*". Hence, the secondary data come from the previous scholars and published from the literature. This study is doing the literature review in order to find the relate topic to do the survey for the Toyota.

This study explores how Toyota and their global suppliers work together and manage GSCM in different countries. It used the secondary data to analyse Toyota and their suppliers, and then compare the different countries and a period of phenomena for Toyota and their suppliers. The object is to investigate the modern GSCM operations within key strategy suppliers since the literature is replete with buzzwords that address elements or stages of this management philosophy.

### **Case study: Toyota**

According to Donnelly *et al.*, (2002) Toyota's development history is as follows:

In 1943, during World War Two, Toyota has a good relationship with their suppliers to develop a streamlined supply chain. At the beginning, Toyota connected a supplier association (renamed thereafter Kyoho Kai) to collaborate with their subcontractor suppliers in the Toaki area to improve their products together. It was a start to build up the supplier network between Toyota and their suppliers. A key feature of GSCM in Toyota, according to Donnelly *et al.* (2002) is that it is not only high quality and lower cost but also the time taken to build them was far shorter than in Europe or the USA.

Winfield and Kerrin (1996, p.49) indicated that Toyota developed their global market from the 1960s to the 1970s as the first step in Toyota's inner investment in manufacturing in both Europe and the UK. However, in the late 1970s and 1980s, US firms faced competition from their Japanese counterparts, especially in the automobile industry, where the Japanese car manufacturer, Toyota, utilized JIT delivery to achieve efficient inventory management (Mount and Caulfield, 2001). Donnelly *et al.*, (2002) found that Toyota plants' build time was about half the time taken in America. From the 1980s to the 1990s, the second wave was in South-East Asia, when Toyota invested in their local markets. However, the buyer and supplier relationship was not participating extensively before the 1990s. This agrees with Wagner (2006), who said the firms in the automotive industry were required further to advance the supply chain presentation after the 1990s in Western industries.

Recently, according to Liu and Brookfield (2006), China has developed into a “*workshop to the world*” and also had become the most important area in the world for Toyota to increase their market share in order to extend their GSCM there.

Toyota set up their branches overseas, and they frequently keep their own standard as a world-class manufacturer. That is why European suppliers would like to cooperate with Toyota and become accustomed to Toyota model management. Consequently, Toyota’s supplier also support this point to be a global standard level in order to gain a significant market share through their buyer and supplier relationship (Fabbe-Costes *et al.*,2006).

Toyota had 210 suppliers in 11 European countries, of which 50 percent were UK-based in 1996 (Winfield and Kerrin, 1996). It emphasizes lean production, efficiency and quality, and provides an exemplary model of best practice for other firms. The Toyota UK Company is one among many Japanese automotive manufacturers which claim new specific developments in customer-supplier relationships (Wickens, 1987). In other words, when firms join the Toyota supply chain, they need to adapt to the Toyota production method and the social demands.

Winfield and Kerrin (1996) indicated that, when Toyota moved to the UK set up their plant and joined the UK suppliers, their aim was for Toyota (UK) to be a world-class manufacturer. They also made a successful point that Toyota was enthusiastic about modifying their technology to acclimatize to the local cultural, social and industrial environment of the UK. Furthermore, Toyota continued to modify their programmes and, reportedly, held more regular of team meetings and training for the suppliers in key identifies interpersonal skills. In addition, Winfield and Hay (1997) stated that Toyota also chooses their key suppliers who had preventative behaviours about the way to adjust, perhaps requesting detailed contingency plans and knowing how to take advantage of “*learn as you go*”especially the buyer and supplier relationship. To encourage a close relationship with their suppliers, Toyota also invites their suppliers to contribute ideas towards product design (Ohno, 1988).

Toyota, through their suppliers’ relationship, not only builds up an efficient supply channel in terms of their products design or expertise transfer and training, but also supports their suppliers in terms of economic and various suggestions, involving Just in time (JIT) manufacturing systems (Winfield &Hay ,1997,p.458). The critical point is how the firms in Toyota’s UK supply chain have changed their working attitudes towards management and have broadened this into the suppliers’ organizations. Winfield and Hay (1997) said that there was a generation gap between Toyota and their suppliers when the latter were arranging training courses in interpersonal communication and problem solving. In contrast, the Toyota suppliers not took on the “*whole package*” of change, but also changed the effect on the manufacturing progress within the supply channel in support of Toyota (Winfield and Hay, 1997).

However, Toyota in Europe has constructed a collaborative relationship with their suppliers. It is attractive to share expertise and knowledge between firms compared with the traditional buyer and suppliers' relationship whose only focal point was on the trade processes in Europe. This is not only critical in terms of cultural difference but also Toyota managerial methods in Europe.

Wakabayashi and Graen (1991 cited in Cheng 1996) investigated Toyota in the USA in terms of the organization's operation and cultural collision. Further, they referred and explained six aspects of the Toyota management model as follows:

1. selection and placement
2. organization growth stages
3. performance appraisal
4. promotions
5. rewards
6. adopted Japanese management practices

The first issue is to choose the key suppliers, then transfer and train professional knowledge in order to make judgements and solve problems together. Nevertheless, the Toyota management model is focused on the organization development between the buyer and suppliers. Performance judgment images in Toyota's modernistic organization stress continuance, which is required to avoid poor performance. In other words, good performance is needed to do promotional activities in the new business marketing in the USA. The rewards must be very fair among Toyota's suppliers in order to adopt a Japanese management reproduction in the USA.

Awuah (2001) studied the Australian supplier John and Bryce (J&B), who have a relationship with Toyota in Australia. J&B is a supplier who sells pneumatic air tools to Toyota in Melbourne, Australia. Toyota is famous for insisting on product quality, quick responses, aggressive prices, technological support and a management system. These elements are common directions for J&B in doing business with Toyota.

The impact of these elements on Toyota and the J&B supply chain members' development is focused on the quantities of the products and connected accessories, a total of over 100 items to Toyota regularly. In addition, the J&B managers always visit Toyota four times per week, attend meetings and solve problems together, but the manager contacts Toyota every single day. This is a step by step way to build up and maintain the buyer/supplier relationship.

As a result, a lengthy and steady's buyer and supplier relationship in order to know equally the firm's needs and how to exploit each other's balancing ability in meetings is required. Awuah (2001) reported that J&B said "*They know us; they trust us. If they ask us for something, they are pretty sure that they are going to get what they want. If something is wrong at Toyota, someone is there straight away. We supply goods; we back that up with reliable services – and if there are problems, we will help solve them*". The Toyota and J&B relationship offers a basis for how a firm can represent its exterior capability.



For example, J&B contributes an exterior capability to Toyota's cost effective and competitive care production, provided by computer knowledge and know-how that complements Toyota's own internal efforts.

As Awuah (2001) said, Toyota and J&B "*have developed trust for each other and have also come to see each other and its interconnected relationship as an important asset, on which they can draw for help in accomplishing some tasks*". Without doubt, the buyer and supplier relationship has developed very well in Australia.

Toyota's GSCM development also influenced East Asia economic history, even though they cross different countries (Yoshiaki et al., 2000). Looking at the recent East Asian economy, China is to be a world manufacturer, so, without hesitation, Toyota sets up their branch plant in China. The significant issues are how Toyota operates the partnership with the local suppliers and whether this is different than in other countries.

Liu and Brookfield (2006) stated that subcontracting in Toyota has been judged to have three features: the allocation of managerial authority, development competitions and the retention of key suppliers within the buyer/supplier relationship. They found that Toyota also encourages the key foreign suppliers to invest in China to decrease the unsteadiness in its supply chain. In contrast, Toyota takes the lower labour and material advantage, and then collaborates with their local suppliers in order to attract the local market.

Yet, in China, they have the strategy to focus on both the part assemblers and markers. The difference is from whole channel to the spot, as can be seen; it seems that these are further, deeper details for observing the specific supply chain. The reason is similar to the points in the second one, and the police force protects the local market competition. The interaction is between the buyer and supplier relationship, previous to applying a JIT and TQM scheme to control and monitor each other throughout the supply chain management. Currently, in China, Toyota employs short-term acts in response to the localization requirements and confirming the production methods and material suited to the local situation.

## **Discussion and conclusion**

From the above secondary data presented and explanation understand that Toyota has controlled the quality of the automotive components by buying mainly from their own suppliers. That is because Toyota trains their suppliers in order to get advances towards achieving the goal of GSCM. This is in order to answer the research questions for has the firm developed a management programme tied with a world-class manufacturer, ready and willing to defend the globe competition? It can be see, Toyota pays more attention on the suppliers' training in order to confirm the quality of materials and create the innovate products. From this view, the high-quality products can face the competitive market all over the world.

Moreover, Toyota and their global suppliers have a strategy management style, namely, the Toyota way, to teach and train their suppliers about Toyota products in order to solve the problems together, from Toyota in the USA, Toyota in the UK, and Toyota in Australia, except for China. In China, the relationship is only with some of the assemblers and parts markets, and short-term supervision with their suppliers. This is a kind of global supply chain management to ensure the Toyota way to secure that they can use the local direction to defend against the global market competition.

The other question is what kind of suppliers' variation lets the buyers decide a key supplier based on satisfying the delivery, quality and prices requirements? Toyota selects the key suppliers who operate their global business in direct line replenishment agreements and fast response policies. The agreement is based on dyadic firms collaborate in the first step. After they have the formal agreement and then to make the rules between buyer and supplier within Toyota way. The quickly response is also famous within Toyota firms. The reason is Toyota think if they can fast response their customer in order to can their customers' satisfaction and then do the customer relationship management well.

The other question is how have firms changed their business behaviour in an integrated global supply chain environment? This is can be seen from Toyota formulates the partnerships to enjoy the advantages from providing improved product design, technology innovation, and service with suppliers. The results provide important empirical information to better understand the complexity of the buyer and supplier relationships within GSCM while enterprise faces the global competition to achieve a functional and collaborative integration.

From this secondary data survey, even though the Toyota way has become a model within Auto industrial but still need to care about buyer and supplies' relationship ,especially the global market. The commitment is a key point to keep the buyer and suppliers' relationship and then can trust each other firms. Nevertheless, the win-win salutation is based on the key suppliers and their buyer is growing together and overcome the culture problems to get more competitive ability within global supply chain management.

For the future study, the authors recommend the researchers to find out the culture difference between Toyota and their global suppliers. What the motivation for them to co-orientation with Toyota? And then, how can Toyota to treat the local suppliers in order to co-operation? From here, the GSCM will operate more effective and to be a reference for the other buyer and suppliers.

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