

Using the SWOT Model and Multiple Enterprise Valuation Method to Explore the Influencing Factors Behind the High Valuation of Toyota

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Abstract. Toyota is the world's largest car manufacturer. It has a chain of companies that provides inputs and services to manufacturing, distribution, and sales. Toyota sells 8 of the world's 10 best-selling cars and it holds a 14% share in the US, its biggest market. By analyzing from swot model, the Toyota Motor Corporation has a high level of brand recognition and market share in more than 170 countries. Additionally, Toyota needs to manufacture more efficient vehicles in order to avoid frequent recalls; it is an expert in the high-end car market but should introduce more cost-efficient/fuel-efficient choices. assess its market value using the approach. Through a multiple-method valuation analysis, it can be seen that Toyota is an overvalued company: it uses cost and pricing strategies that have some instructive value but are still threatened by several challenges in the future auto industry. Therefore, to maximize profits and ensure sustainable growth, Toyota should leverage opportunities in global markets to strengthen production while capturing strategic value chain essentials. A key factor is developing an information technology strategy for the supply chain to reduce operating costs, improve profitability and better respond to future trends in the automotive industry.

Keywords: Toyota evaluation; value chain, swot analysis; multiple methods.

1. Introduction

Toyota has been an admired organization for years, and its lean production strategy is one of the company's strengths. Efficiency in design and manufacturing, combined with careful utilization of resources, are other important factors in Toyota's success. Self-directed work teams and just-in-time logistics, which were introduced in Toyota's early years, have all contributed to the company's success and continue to play a role in present efforts [1]. Although the price of Toyota stock is well known—a result of the expert appraisal—the market is nonetheless dynamic. With that level of volatility, it is worth thinking about how one can tell if Toyota's performance makes its valuation right or not. This paper examines Toyota Motor Company's (Toyota) competitive position in the automobile industry. First, the author will analyze its market strategy using Porter's five forces model. Next, the author will conduct a comprehensive analysis of Toyota using SWOT analysis and apply multiple valuation techniques to determine whether Toyota is overvalued. Finally, this paper draws some conclusions about whether Toyota is a high- or low-value company at present.

2. Basic Descriptions of Toyota

2.1 The operating of Toyota

Toyota Motor Corporation, or Toyota, was founded in 1937 by Eiji Toyoda and is part of the Japanese Mitsui Group. It is one of the world's top ten automobile companies and a typical representative of Japanese automobile enterprises. Toyota has created one industry miracle after another since its establishment in 1937, with systematic planning and dynamic management of its brand system playing key roles in these successes; among these successes are Lexus and Prius [2]. An in-depth examination of Toyota's brand system reveals that it possesses clear hierarchy, clear positioning, clear organization, and system integration characteristics [1,2]. In a word, Toyota's brand and operating system are well integrated with its marketing mix.

2.2 Composition of Toyota Automobile Industry Value Chain

The value chain idea was first put forth in 1985 by Harvard Business School professor Michael Porter. According to him, each business's operations include the creation, production, marketing, distribution, and support of its products. All activities that are split into basic and auxiliary activities can be represented by the value chain. Examples of basic tasks include production operations, marketing and sales, and internal and external logistics, whereas supplementary activities include purchasing, developing technology, and managing human resources. Infrastructure for businesses, etc. [3].

Toyota has established management systems with distinct features based on its own national conditions: total quality management, and refined manufacturing processes, among others. Toyota has built more than ten manufacturing plants in and around the city of Toyota. In addition, Toyota has close relationships with its component suppliers, which help to support businesses in the region. Toyota City is primarily home to the automobile industry [4]. Toyota City has more than 10,000 automobile manufacturing and parts-making companies, which have been able to achieve rational allocation as a result of regional concentration and short matching distances between supply and demand [4,5]. This enables lean production, reducing the cost of transportation and storage processes. As a result, Japanese cars are able to maintain an obvious cost advantage over their foreign competitors, making it difficult for other countries' enterprises to imitate.

2.3 Toyota financial overview

Toyota Motor announced its consolidated financial statements for the fiscal year 2021 on May 11, 2022, which included subsidiaries such as Dafa Motor Company and Hino Motor Company within the scope of its consolidated financial statements. The revenue for Toyota Group in 2021 was 31.37 trillion yen, a 15.3% increase over the previous fiscal year; operating profit was 2.99 trillion yen and net profit was 2.85 trillion yen, a 26.9% increase from the previous year [6]. Therefore, Toyota Motor has clear rules and requirements for brand isolation or integration at different levels and how to develop vertically and horizontally within its whole brand system.

3. Toyota SWOT analysis

SWOT analysis is a tool to analyze the Strengths, Weaknesses, Opportunities, and Threats of an organization, which emerged as a critical platform for companies to evaluate their position in the marketplace [7]. In addition to analyzing Toyota's internal strengths and weaknesses, this SWOT analysis of the company will also highlight any chances for growth and any threats from the external environment.

3.1 Toyota's Strengths

Toyota sells more than 9 million cars annually in more than 170 different nations and has a great grip on the market, providing it with a strategic advantage. In 2021, Toyota's sales totaled \$245 billion. The company had \$10.4 billion in free cash flow, a debt-to-equity ratio of 1.007, and 40,783 yen in net income per share that year [6]. It is not heavily indebted and has strengthened its financial position by expanding its client base into developing nations such as India. By forging strategic alliances with companies like Maruti Suzuki—which helped create popular automobiles for the Indian market—Toyota has reaped significant benefits and boosted its market share in that country as well as others across Asia [8].

3.2 Toyota's Weaknesses

However, Over the years, Toyota has recalled a sizable number of automobiles. It has announced the recall of 227,000 Camry automobiles from the 2019 model year and 41,544 Venza hybrid vehicles [9]. The sales of vehicles may suffer as a result of customers losing faith in the company due to repeated recalls. Additionally, reflects contemporary in the middle-class segment: In developing

nations like India, Toyota has a small selection of affordable vehicles, such as LUVs and hatchbacks [8]. This demonstrates the company's serious incapacity to successfully manage change in order to gain market share in developing nations.

3.3 Toyota's Opportunities

Toyota may increase its involvement in the electric vehicle business, particularly in developing nations like India. The market is anticipated to grow by 94.4% between 2021 and 2030 thanks in major part to financial aid from the government [10]. Meanwhile, Toyota's hybrid technology—which it uses in its vehicles—is one of its advantages over competitors such as Tesla and Nissan. In 2021, Toyota hybrid vehicle sales in China will top 1.5 million units; this demonstrates the significant impact and consumer acceptance of Toyota's hybrid cars in the domestic market [11]. Over time, Toyota could eventually produce semiconductor chips by utilizing its engineering knowledge; which would give it more oversight over quality control and, to a certain extent, help it overcome supply chain obstacles [12].

3.4 Toyota's Threats

Toyota has many rivals in the automobile industry, including Hyundai, Volkswagen, and General Motors. General Motors currently holds a 15.5% share of the US market while Toyota's is at 14.6% [10]. In 2021, GM's revenues rose by 3.7% to \$127 billion while Toyota's rose by 3.2% to \$127 billion. Further, Hyundai has a 5.4% share globally but enjoys greater success in India where its share is 12.70%. Tesla leads the electric vehicle market with an estimated 14% share globally, but it could face fierce competition from Toyota if it decides to expand into this category [10].

Toyota Motor Corporation announced that it would significantly reduce its production from the second half of this month through September due to the lack of parts caused by the epidemic and other factors. The global production reduction will amount to around 360,000 vehicles. According to Toyota's financial report dated August 21, Toyota saw its largest drop in the American stock market since March 2020 as of the 20th's close. Therefore, Toyota now faces a significant difficulty in figuring out how to address the Covid-19 virus-related parts scarcity [13].

3.5 Toyota SWOT summary

Toyota's worldwide presence in 170 countries gives it an advantage over other automakers. Toyota has achieved a broad global presence, selling 9 million vehicles in 2021. Further, the company maintains its debt at 1.007 times equity and has maintained an excellent debt-to-equity ratio. Toyota should increase efficiency in its production of vehicles to minimize recalls and focus more on affordable and fuel-efficient models in order to capture more market share from General Motors and Tesla, which are already well established in the industry with a 15% market share each in the US [14,15].

4. Business Evaluation

Common evaluation ratios, such as P/E ratio and enterprise value, are helpful to analyze and draw conclusions. This conclusion is obtained by comparing the data in the following analysis. The section describes three main types of competition coefficients used to evaluate the business competition. The following analysis evaluates each company's financial statements using a multiples valuation methodology [16].

4.1 Competitors Overview

Volkswagen, Honda, Ford, and Toyota are the biggest automobile manufacturing companies in the world. Though these companies compete with each other's products on a mass level, there are small differences that make each company stand out from the rest of its competitors. In spite of the diversity of their brands, these companies are all automakers. They compete with one another to

provide consumers with better cars. Each company has its own niche in the market and every automobile a potential buyer would come across is branded with one of these three companies. The very hefty American automobile giants, Chevrolet and Ford are also worth comparing for an extensive study on how these three companies market their automobiles. This makes it necessary to include them in the research. Clearly, each of these companies has a very distinctive and successful strategy ^ they're all global leaders in their respective fields. At the same time, however, there are some important similarities among them. Each one is a major player in two distinct industries; none has any substantial competition in its strongest field, the car industry; and each goes about its business in a more-or-less similar fashion. In short, each firm is comfortably mid-tier, both in the industries, it serves and relative to its competitors within those industries.

4.2 Financial Data Comparison

Table 1. financial factors among Volkswagen, Honda, Ford, and Toyota(the newest financial year, 2021.12.31, in USD) (Data collected from Toyota financial report (2022), Available from: <https://global.toyota/en/ir/financial-results/> & <https://finance.yahoo.com/quote/TM/history?p=TM>)

Variable	Toyota	Volkswagen	Honda	Ford motor company
Enterprise Value	331.1b	208.17b	71.86b	153.56b
EBITDA	5.52t	50.65b	1.80t	23.09b
Profit Margin	8.42%	6.96%	4.28%	7.88%
Share Price	180.25	23.68	28.26	16.63
EV/EBITDA	0.06	4.11	0.04	6.65
EPS	13.62	2.96	2.58	2.89
P/E ratio	10.39	6.09	9.63	5.17
Market cap	193.82 b	91.961b	42.444b	60.022b

As shown in Table 1, Toyota has the highest corporate value, which is \$331.1 billion among these four data sets. It also has the highest profit margin and market cap, all of which demonstrate that Toyota is a profitable company. Meanwhile, Earnings before interest, taxes, depreciation, and amortization (EBITDA) is an indicator of a company's profitability [17]. Typically, the higher the EBITDA value, the better. Toyota's EBITDA is high for the company. At the same time, Toyota's price-to-earnings ratio (PE) is also the highest among several companies, indicating that investors expect the company's future profit level to be higher and its growth level to be stronger. Toyota has a low enterprise value-to-EBITDA ratio. In general, EV/EBITDA values below 10 are seen as healthy but based on many other factors including stock prices themselves and other ratios like PE or EV/Sales it can also be seen as undervalued which could be a good investment opportunity for investors.

4.3 Multiple Method Evaluation in EPS

A multiple-comparison approach relies on a company's financial ratios to value a target company. Thus, given that certain financial ratios have relative value, they can be used to rank or value similar groups of assets within a larger portfolio. Finding businesses with comparable business activities or organizational structures is the first step in undertaking numerous comparisons. Figure out each company's market value following. Use conventional valuation multiples after that. The market worth of each company will be translated during this procedure into standardized phrases associated with important statistical data. Apply a series of value multiples, considering the variations between the portfolios being compared, to the target company's primary statistical data.

General Formula (1):

$$V_{\text{FIRM}} = \left(\frac{\text{VALUE}}{X} \right)_{\text{PEERS}} * X(\text{Firm}) \quad (1)$$

Where X is the measure used to compute the multiple and V is the value used on the numerator.

Table 2. Using eps to calculate the market price of Toyota(Based On Table 1)

	Toyota	Industry (average)	Industry(median)
P/E ratio	10.39	6.96	6.09
EPS		13.62	
Price per share (P/E Ratio*EPS) (2)	141.51	94.84	82.95

Like the calculation shown above, by comparing the price vs market average eps (based on average/ median), which is the average of the values of the other three companies. Based on the competitors mentioned, the fair value of the stock will be the industry average price per share the market price of Toyota is 94.84, which implies that Toyota is over-valued.

4.4 Discussion

The analysis and discussion above show that Toyota's stock price is likely overvalued, and its profitability is also high. This is beneficial to the company in some ways because it will be easier to raise financing in the future. However, some investors may argue that a cheap stock valuation means they have more rights and interests, and it will be very easy to sell later. Therefore, its future strategy will also have a strong correlation impact on its valuation. Toyota expects that its sales in the fiscal year 2022 (April 2022 to March 2023) will reach 33 trillion yen, its operating profit will reach 2.4 trillion yen, and it has set a global sales target of 10.7 million vehicles at the same time. At the same time, Toyota Motor believes that raw material costs will double from 1.45 trillion yen to 3 billion yen by the fiscal year 2030 (April 2028-March 2029) [17]. Toyota plans to cope with rising material costs by reducing the dosage and switching to low-cost materials. The company will also avoid raising prices overall. In addition, Toyota will continue to do its best to deliver more cars to customers as soon as possible despite a shortage of semiconductors and an outbreak of COVID-19 [13]. Toyota's financial performance is predicted to improve based on this strategy.

5. Suggestion-- Potential ways to strengthen the competitive advantage of carmakers

5.1 Leveraging global economic growth to strengthen production

Globalization is a necessary trend of development; seeking to capitalize on globalization is a prudent choice. At the same time, the value chain of the automotive industry should evolve from a localized to a regional and global scale. Automakers should grasp this development trend and actively extend their value chains outward in order to take advantage of the opportunities brought about by globalization [10].

5.2 Strategic elements of value chains

The strategic segment of the automotive value chain that involves the production and development of new vehicle models produces high value-added content, which in turn determines an automobile manufacturer's lifblood. By committing sufficient human, material, and financial resources to new product development, companies can make their research and development (R&D) capability more competitive, thereby boosting profits. Ancillary services are another high-value-added segment on the automotive value chain, especially automotive finance services. There is great potential to increase revenue in this segment. In developed international markets, dealer profits range from 10% to 15% while those for the manufacturing sector average 5%; service revenue is 50% or higher. [19] Toyota should position research and development and service as strategic links in the value chain and coordinate each link to enhance the competitiveness of the entire value chain.

5.3 Building an Information Technology Strategy for the Supply Chain

In order for an enterprise to maximize its value chain and obtain competitive advantages, information technology and information engineering can bring about enormous benefits. Car companies should continue to push forward management innovation, introduce advanced enterprise management ideas, and utilize scientific management models to integrate supply chain management, resource planning, and customer relationship management into centralized product development and life cycle strategic supply chain management platform that integrates production, design, and procurement as well as sales and service. [20] By doing this, they can improve the overall level of management.

6. Conclusion

Toyota is one of the world's most iconic auto brands, with a rich automotive history and a reputation for building safe and reliable cars. Toyota's stable of vehicles includes everything from subcompacts to sport-utility vehicles (SUVs), making it possible for the company to reach out to more different customers worldwide. The Toyota brand itself is a good indicator of quality and reliability, as well as consistency in its looks and performances. For all these reasons—as well as more yet to come—Toyota continues to be a dynamic force in the auto industry. According to the multiple-premium valuation method, Toyota is overvalued according to comparisons with its competitors. Thus, in order to sustain profitability and better meet the challenges of future automotive industry growth and current development issues, Toyota should restructure its strategic deployment to build a more technology-centric, information-driven business model.

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