Launching the Toyota Prius

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The Prius Launch Strategy (the facts)

Retail Price = $25,000
- Fixed costs: assume dev. costs of $2B and 12K units/yr for 8 yrs = $20,833/unit
  - Var costs: assume $3500/unit; tot cost/unit = $24,333
- Avg Vehicle Price in 1994 = (net sales/ #units) = $20,650
  - Survey Customer WTP: 20% premium, ($20,650 + 20%) = $24,780
  - Fuel Savings/ year: U.S.= $248  German/Japan= $360
  - BEV for 20% premium w/ fuel savings: U.S.= 16yrs  G/J= 11yrs

Launch Strategy
- Must be reliable and safe to gain traction in the mkt
- Launched too early could “spoil” customer perception of new technology = better to wait a year than launch with uncertainty (although the 1st mover will determine customers perception)
- Assume competition’s development timeline is equal to yours, but you can beat them with costs and quality (TPS) in the long run

Price Strategy
- Sell at cost initially and “create” margin through TPS cost reductions in future years/ possible cost reduction in key parts (batteries)
- Each car sold is a moving billboard (free advertising for new tech and Toyota)
- Marketing to only 12,000 purchasers per year = very pinpointed market segment where key message is “pro-environment”
Launch of Prius

Japan

• Timing: late 1997
  – Beat Honda Civic hybrid

• Quantity: 2K/month

• Price: 2.15m Yen ($21.5K)
  – Avg Toyota car price 1995 $24.9K

US

• Timing: 2000

• Quantity: <6K/yr

• Price: $20K
  – Avg domestic car price $18.9K
All hybrids = 1.2% cars sold in US, 2005

Toyota has 52% of hybrid market
Looking forward

• Next session: Organizational Dynamics
  – More on Overload, Real-Time Decision Making, Simple Rules, Rhythm, Pacing