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Toto: A Game of Thrones in the U.S. – An International Marketing Case Study

Cover Page Footnote

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Toto: A Game of Thrones in the U.S. An International Marketing Case Study

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ABSTRACT

Toto is a 101-year-old, world-renowned Japanese manufacturer of high quality, innovative, state-of-the-art, and luxurious bathroom equipment such as, toilets, bidets, washlets, and ultraviolet sanitation equipment (“Our Founding Spirit,” n.d.). However, Toto has been unable to replicate its global success in the United States (U.S.) for several possible reasons (Roberts, 2017). First, by positioning its brand as an exclusive and luxurious manufacturer of high-end technology at a high price point, Toto only appeals to a limited, top-end, niche market, limiting its widespread adoption (Roberts, 2017). Second, Toto believes in environmental stewardship and makes sustainable products with a green supply chain (“Toto and UPS,” 2010). However, given that the United States recently backed out of the Paris Climate Agreement, the market for sustainable products might be negatively impacted (Zhang, Chao, Zheng, & Hueng, 2017). Third, Toto’s target audience includes both business-to-business and business-to-consumers, and economic conditions, housing markets, and individual disposable incomes impact purchase of its products. Fourth, persuading consumers to change their self-cleaning habits and attitudes involves an awkward ‘bathroom conversation’ that either puts off and/or offends (Molotch, 2015). This case study explores the struggles of a sustainable, luxury brand positioned on innovation that sets it apart from the competition but which consumers may not value. The case questions focus on the marketing strategy changes that Toto must make in order to succeed in the U.S.

Keywords: sustainability, technology, luxury, international marketing, niche marketing, luxury marketing, case study, Japan, USA, consumer attitudes, bathroom

The Company and its American Journey

Toto Ltd. is the world’s largest toilet manufacturer, established in 1917 in Kitakyushu, Japan by Kazuchika Okura (“Our Founding Spirit,” n.d.). Toto started out as a laboratory created by Okura in 1912 to create sanitary ceramics. Later he decided to create a cleaner and more sanitary bathroom culture by combining the ideas of luxury and sanitation (Sealy, 2018). Toto was founded on the principle of “environmental stewardship,” in particular, a sanitary

bathroom experience while also protecting the planet and its water supply with sustainability-oriented technologies (“Analyze the Business,” 2011). Toto is headquartered in Nakashima Nichome, Japan and has around 35,000 employees located across the globe (“2016 Annual Report,” 2016). Their 2017 revenue was 573,819 million Yen, which is approximately USD 5.3 billion (“Toto Washlet Sales,” 2015). Also, they have a three-year dividend growth rate of 11.5% (“Toto 3-Year Dividend,” 2019).

Toto's products include bidets, washlets, and basic toilets, but it is best known for its 'smart toilets' that have state-of-the-art technological features, which are superior and more hygienic than what is currently used in the U.S. ("Toto Ltd.," 2019). Toto has a 60% market share in Japan and has also found success in several other countries ("Japan's Top Two," 2017). Domestically, Japan's economy and shrinking population have posed growth issues for Toto (Weller, 2017). Because Toto has already saturated the Japanese market and new home construction has significantly decreased in Japan, Toto had to seek other options for growth, such as focusing not just on new homes but also on renovated and remodeled homes (Brasor & Tsubku, 2017). Internationally, Toto has established their brand in the segment of luxury bathroom products in China and Southeast Asia, where it has been operating for 20-30 years, and it has also made inroads into India, Europe, and the Middle East (Toda, 2015).

Toto entered the U.S. in 1989, viewing it as an attractive expansion ("Toto Celebrates 25 Years," n.d.) but has been unable to make significant inroads despite being here for 30 years and spending nearly USD 1.5 million a year on marketing (Roberts, 2017). The U.S. currently has a population of 327 million people, with a gross domestic product of USD 17.27 trillion growing at 3.2% ("Current US Inflation," n.d.). The U.S. market for luxury products is worth USD 85 billion, and technology adoption is high. Indeed, there is a large demand for high tech, luxury, and eco-friendly products in other spheres of life, but somehow consumers seem averse to the idea of smart toilets in their bathroom. Changing self-cleaning practices entails a large cultural and attitudinal shift (Roberts, 2017). This case study delves into the four key issues that

Toto needs to consider for its U.S. marketing strategy.

Issue 1: Luxury Technology for Bathrooms

The toilet-manufacturing industry in the U.S. is competitive, with over ten global companies including Roca, Kohler, American Standard, Duravit, Niagara Conservation, Sterling, Jacuzzi, Ego, Pfister, and Toto ("The Best Toilet," n.d.), of which Roca and Kohler are two of Toto's biggest competitors (Behrens, 2012). All these companies offer not just toilets and smart toilets but other bathroom, plumbing, and ceramic-related products ("The Best Toilet," n.d.), such as bathtubs, urinals, shower trays, basins, and mirrors ("Eco-Friendly Technologies," n.d.). Smart toilets include features such as heated toilet seats with temperature control, water sprays with temperature control (that reduces use of toilet paper), germ-resistant surfaces, and automatic open/close lids (Mapes, 2010). Other lavish features can include air freshening, stimulating music, automatic flushing, power saving mode, and glow in the dark (Mapes, 2010). In recent years, there has been increasing demand for seats with an assistive function; this could mean anything from self-lifting seats, assisted flush, heated seats, or self-cleaning toilets. An overall increase in health and hygiene consciousness and a growing number of nursing home facilities are boosting demand for such products (Behrens, 2012).

Toto is best known for state-of-the-art commodes; for example, its Neorest 750H is an intelligent toilet not only with heated seat, deodorizer, and warm water sprays, but also Actilight technology that uses ultraviolet light and a special glaze inside of the bowl to break down dirt and grime which is then rinsed with ewater+ (electrolyzed water used

as a disinfectant for both cleaning and food preparation; “Neorest NX2,” n.d.).

The luxury goods market is valued at USD 85 billion, and Americans are known to be avid adopters of technology in general, but luxury, high-tech innovations for the bathroom do not seem to have caught on (Roberts, 2017). Prices of toilets can vary from around USD 250 (a basic, lower functioning toilet) to over USD 12,000, such as for Toto’s top of the line Neorest® NX2 Dual Flush Toilet (Neorest, n.d). Such wide price ranges are also seen for competitors like Kohler (“Browse Kohler Toilets,” n.d.).

Although the median annual income for the U.S. rose 3.2% since 2015 to USD 59,039 and the economy is doing well with increased consumer spending, it is unclear whether consumers will spend on innovative bathroom technologies at high prices (Loudenback, 2017). Toto needs to understand why American consumers embrace technology for all aspects of their lives but not for their toilets.

Issue 2: Sustainability

Toto was founded on the principle of “environmental stewardship,” so it focuses on sustainable products (“Analyze the Business,” 2011). Smart toilets have water sprays and flushing technologies that aid in the conservation of water (“Water-Saving Technology,” 2018). For example, Toto’s E-Max flushing technology system uses 1.28 gallons of water per flush (E-Max, n.d.) as compared to older, less efficient toilets that use anywhere from 3 to 7 gallons of water per flush (“Benefits of Using a Bidet,” n.d.). At an average of 5 daily flushes, each individual uses about 12,775 gallons of water per year (“Toilets,” 2018). The E-Max system helps conserve water by using a wide 3” valve and an extra-long siphon jet (“E-Max,” n.d.).

Like the E-Max technology, the Tornado Flush has a dual-nozzle water propulsion system and a more powerful flush that eliminates the need for multiple flushes per use (“Tornado Flush,” n.d.).

Toto is not the only company to use sustainable technologies. For example, Roca, a major competitor, also offers Cold Start, the flush-free urinal, and the Washbasin + Watercabin (an innovative attempt to reduce water usage). The cold flush technology conserves energy and reduced carbon emission by not turning on the boiler to heat water every time the faucet turns on. The flush-free urinal conserves water by using a replaceable cartage in the urinal. Roca can get its users 6,000 uses per cartridge saving 12,000 liters of water. It simply needs to be cleaned with soap and 2 liters of water daily. Roca’s W+W technology, or the “Washbasin + Watercabin,” is a sink attached to the toilet that reuses the water that is used first in the sink (“Eco-Friendly Technologies,” n.d.).

Sustainability in the U.S.

Some research has found that Americans are willing to pay more for sustainable products. Over 66% of Baby Boomers said they are willing to spend more on sustainable products, and 68% of millennials say they are willing to pay more for products and services that come from companies that have a positive environmental impact (Joshua, 2016). Despite surveys suggesting positive propensity to adopt sustainable products, consumption in other areas, such as cars, suggest that Americans are not always willing to pay for sustainable products (Loveday, S., 2019). For example, although U.S. electric vehicle sales increased from 199,826 in 2017 to 312,877 in 2018, it is too early to tell if this increase is due to organic growth or inorganic growth (Loveday, S., 2019). American consumers do

express interest in electric vehicles, but only 40% believe that most vehicles will be electric in 20 years. Currently, China has 1.2 million electric cars compared to just 762,060 in the U.S. (Loveday, E., 2019).

Despite the stated intention to be environmentally friendly, studies suggest that the average American continues to consume resources equal to about 35 Indian and 53 Chinese consumers (Salfino, 2017). The success of sustainable products in the U.S. has become even more unclear given the current government's stance towards the environment. In 2014, the U.S. contributed approximately USD 2.7 billion to climate finance ("Mobilizing Climate Finance," 2015), and the market for sustainable goods was projected to grow at a compound annual growth rate of 11.6% from 2017 to 2026, totaling USD 523.72 billion by 2026 ("BIS Research," 2017). However, the U.S. has withdrawn from the Paris Climate Agreement, and funds for sustainability are diminishing, which would likely have a negative impact on sales of sustainable products due to changes in consumer attitudes and purchasing behavior (Zhang et al., 2017).

In fact, several studies have noted that there is a gap between consumers' attitude towards purchasing green products and their actual consumption. Time, money, and access barriers combined with lack of knowledge and understanding of the environmental consequences of their consumption are some of the key reasons consumption of sustainable products is low ("Why Aren't 'Green'," 2015). Based on this, it is unclear whether Toto should use the sustainability platform to popularize its product (Loveday, S., 2019).

Sustainability in the Bathroom

An average American uses 57 sheets of toilet tissue a day, which totals to 36.5 billion rolls a year ("Why Aren't 'Green'," 2015). It takes 15 million trees just to produce that in a year (Moore, 2019). The environmental effects of a bidet are considerably less, while offering health benefits as well ("Benefits of Using a Bidet," n.d.). Rose George, the author of *The Big Necessity: The Unmentionable World of Human Waste and Why It Matters*, notes that an average American uses 57 sheets of toilet paper a day and urges a discussion on the "paper versus water debate" for self-cleansing, arguing that using dry paper to rub our body cannot remove dirt. However, convincing 'dry' cultures to adopt the bathroom habits of 'wet' cultures is difficult because of the awkward nature of the conversation (Garner, 2008, para.10).

Recently, the wet wipes industry has grown to become a multi-billion-dollar business, demonstrating that there is some cultural shift from dry to wet cleansing. However, even non-flushable wipes lead to drain clogs and build-ups that damage equipment in wastewater management plants and back up drainage systems. Wet wipes, cooking oil, grease, and other such non-biodegradable matter congeal together to form what are called "fatbergs," and removal of these costs millions of dollars (Silverman, 2017).

Sustainable Distribution

According to William Strang, president of Toto's Operations Group in the U.S., a decade ago, Toto America used to source about 70% of its products from Asia, but more recently 73% is made in the Americas, which has helped reduce the cost of logistics and their carbon footprint. It has also helped them avoid trade disruption risks (Michel, 2014). Toto has been innovative in

its distribution strategy in both business-to-business (B2B) and business-to-consumer (B2C) markets by using a green supply chain. It has reduced production time by half with fewer workers per production line (Toda, 2015).

Because Toto is a specialty retailer catering to a niche market, its products were originally sold at their own exclusive dealers and online. It is only recently that they have partnered with home renovation stores such as Wayfair, Bed Bath and Beyond, The Home Depot, and Lowe's. Toto has also partnered with United Parcel Service to develop a carbon neutral intermodal transportation solution that reduces greenhouse gas ("2010 Annual Report," 2010).

As for Toto's competitor Kohler, they have a wide dealer network and do not rely as much on online sales or exclusive dealers. Looking at their website, one can find that they have a range of Kohler store locations as well as stores that offer Kohler parts. For example, in Georgia, there are 30 locations that are either Kohler Showrooms, Home Centers, or Genuine Part Dealers where Kohler can be purchased in store. These stores include Kohler Signature stores by PDI, Cowan Supply, Apex Supply Company, The Home Depot, Ace Hardware, and Lowe's to name a few ("Find a Store," n.d.). Additionally, with this large range of retail locations, Kohler does offer online ordering and shipping of products through parcel shipping and freight shipping. Many of their orders placed online are shipped through front-door parcel shipping with USPS, FedEx, etc. ("Shipping Policy," n.d.). Because Kohler has a wide network of retail stores that carry their products and parts, they avoid excessive shipping costs and the associated greenhouse gas emissions. Additionally, like Toto, Kohler has implemented a supply chain rotation program

that aids in sustainability in distribution and transportation. The program is an opportunity for supply chain professionals to experience the impact of their work in real life business approaches involving global procurement, distribution, and transportation ("Supply Chain," 2008).

Issue 3: Target Audience

A key question for Toto is who to target its luxurious bathroom technologies to. Because it is a luxury product, it approaches its target consumers based on affluence. It also targets business markets where price may not be as much of a factor as for individual consumers.

Business-to-Business Market

According to Behrens (2012), there appears to be an upcoming 'toilet boom' for the toilet manufacturing industry as well as related industries, such as plumbing, soaps, and disinfectants. In fact, these industries have been experiencing a growing demand for their products over the last decade. In 2016, residential building construction was leading the market growth, with 55% of demand coming from this industry (Maida, 2017). By 2018, there was a shortage of skilled construction workers leading to a shortage in homes built, which in turn, led to a shortage in the need for toilets (Slowey, March, & Cowin, 2018). An upside to this shortage in skilled labor is that alternative modular construction methods that are greener, faster, and smarter are being adopted in the industry (Maida, 2017). This method is drawing a lot of attention from the hotel and multifamily sectors, which is a positive factor for the advanced toilet industry as they are key buyers in this market and often buy in bulk (Slowey et al., 2018). Lionel Sussman is Vice President of Design for Marriott's global design strategies whose hotels are

currently focusing on their bathroom designs. Sussman states, “so many of our customers have upgraded bathroom experiences in their own homes with fancy amenities, elaborate finishes and integrated technology” (Trejos, 2017, para. 3). Marriott is one hotel company that is aiming to make the bathroom experience for their customers a top priority. More energy efficient shifts are being driven by technology and changing consumer behavior, and the same is true for the construction side of this industry, with efficient construction management techniques being part of the 2018 construction trends (“6 Regional Construction,” 2018).

Business-to-Consumer Market

Given the high price of its products, Toto would need to target affluent consumers. Baby Boomers are a large cohort of 76 million, controlling 70% of all disposable income, and they tend to purchase high-priced, high-quality items (“Baby Boomer Report,” 2015). However, although this demographic is important because of high disposable income, they are less likely than younger generations to try new things or change their habits (Loudenback, 2017). Given their life stage, they focus more on investments rather than short-term, superficial purchases on which younger generations tend to focus (Henderson, 2016). Moreover, Baby Boomers are low on the adaptability scale (10%) and tech savviness (4%) as compared to Generation Y or Millennials (those in their mid-20s and early 30s), who are high on adaptability (41%) and tech savviness (78%) scales (Glang, 2013).

Generation X, otherwise known as the “sandwich” generation, are highly adaptable when it comes to technology because they grew up knowing a computer-free life. During the peak time of technology

being introduced into the world, the Generation X population were also in their peak time of education, where they were already having to adapt and learn new ways, allowing for them to essentially form the foundation of the move from analog to digital (Parker & Patten, 2013). With 35% of them having a college degree, they are also more highly educated than other generations, allowing them to be more aware of the importance of health and hygiene (Martin, 2016). According to census data, the median income levels of Gen X are almost level with that of Baby Boomers, leaving Millennials to have the lowest median income in most states. The most common median income gap between the three generations seen in 2016 was Baby Boomers at \$54,000, Gen X at \$53,000, and Millennials at \$38,000 (Allen, 2018). Thus, Gen Xers’ income levels lie in between Baby Boomers and Millennials in all 50 states (Kiersz, 2018).

Compared to prior generations, Millennials have been the key drivers of the technology boom over the past decade (Main, 2017). Millennials are tech savvy, able to adapt to change, heavy users of social media, and early adopters of smart home technology (Vogels, 2019). Their buying power is in the top margin when it comes to technologies and renting property. According to a survey by Wakefield Research, 86% of Millennials will spend USD 20 more a month of their money on a home or rental property that is equipped with smart home technology (Alton, 2017). Although Millennials had an estimated USD 200 billion dollar buying power in 2017, Baby Boomers still accounted for over half of the U.S. buying power (Schroeder, 2017). Millennials are a larger cohort than even the Baby Boomers, and their salaries are growing, but their spending is shrinking because of several factors, including a higher student debt than older generations. They are also less likely to be married and less

interested in accumulating ‘things’ as compared to older generations. In fact, 72% of Millennials prefer to spend on experiences than material goods (Petro, 2018). A recent study projects that by 2025 Millennials will account for 45% of the global personal luxury good industry. However, this generation thinks and shops differently than other generations. They purchase products and brands as a way of self-expression - a way to “define who they are” (Solomon, 2017, para. 6).

Using Toto’s PRIZM tool that describes consumers based on their geographical location, we may surmise that Toto’s core customers are likely to be the ‘Wealthy Older’ group. These are people with high status and incomes upward of USD 150,000, who live in densely populated cities like New York, San Francisco, and Los Angeles. Most are likely to have no children, live alone, or with one other person and are 50 years old or older. They are likely to be well traveled, innovators, and are average or above average users of household technology (PRIZM® Premier 2018).

For Toto, upper-class Millennials are statistically the most likely to change their way of thinking in a short time frame and are more likely to be open to the use of new technology compared to other generations, but as described above it will not be an easy sell. Thus, despite the large demand for luxury and technology products in the U.S. (Solomon, 2017), Toto would be hard-pressed to convince consumers that innovative and sustainable technologies are more important than price.

Issue 4: The Bathroom Conversation

Toto believes that their products offer solutions that are more hygienic as compared to normal toilets (“Our Founding Spirit,”

n.d.). Lenora Campos, a spokeswoman for Toto USA, stated, “We wash most things with water and wouldn’t dream of wiping a dish or anything else with a piece of paper and calling it clean. So why should personal hygiene be any different?” (The Associated Press, 2014, para. 4). It appears that Toto could successfully use the health and wellness platform to market to consumers like those who are pregnant, elderly, disabled, or hemorrhoid afflicted.

Consumer Attitudes

Washlets and bidets are foreign for Americans, so users would have to be open-minded to the product and the inevitable change it would bring to their bathroom habits. However, the “bathroom conversation” about changing self-cleaning practices is culturally ingrained for generations and is an uncomfortable or even taboo topic that most people will avoid (Beck, 2014). Thus, the key problem facing Toto lies in consumer perception ... to the average consumer a toilet is a toilet - there is no differentiation at first glance (Sax, 2015). Americans seem to be content with their bathroom practices, and they do not usually see the need for a luxury or more sanitary toilet that can cost up to five times the price of a traditional toilet (Beck, 2014).

In order to change consumer attitudes, Toto began by first selling to prominent facilities like hotels and airports where users can get some brand exposure. The second stage of market penetration included the strengthening of their sales network by further developing their dealer networks and showrooms (“2016 Annual Report,” 2016). The third and final stage included strengthening the points of contact via product seminars, presentations, and demonstrations to audiences in their flagship showrooms where potential consumers can

experience the products (“2010 Annual Report,” 2010).

Communication

In December 2016, Toto launched a new advertising campaign in the U.S., promoting the washlet as a new way of cleansing, highlighting the importance of personal hygiene and how Americans can “redefine cleaning.” In keeping with their positioning as an exclusive, luxury item for the innovators of the world, Toto’s advertisement campaign was specifically targeted to San Francisco, Los Angeles, and New York City because these cities have some of the nation’s largest populations of affluent consumers (“Toto Launches a New Washlet,” 2016). The campaign featured on Bravo, HGTV, Travel Channel, and CNBC, where the average viewer is between the age of 43 and 58 years old (“Network Demographics,” n.d.). The campaign portrayed Toto’s product in a sleek, elegant, and mysterious manner, in order to convey exclusivity and luxury (“Toto Launches a New Washlet,” 2016). Unfortunately, the advertisement did not show product functionality; so, for viewers unaware of such technologies in the bathroom, the value proposition and reason to buy would not be evident. Moreover, Toto chose to advertise in the December/January period because, based on historical evidence, this period is typically the time of year when consumers purchase the largest quantity of goods and start looking for ways to change their lifestyles (“Toto Launches a New Washlet,” 2016). However, it is unclear whether home hardware appliance is the type of purchase that shoppers make in the holiday season.

Toto’s key competitor, Kohler, uses a light, humorous appeal in its advertising where they have customers using the toilet for things other than going to the bathroom,

thus showing features of their toilets in a nontraditional way (“Kohler Revolution 360,” 2018). Humorous appeals are known to be effective in holding viewers’ attention and creating word-of-mouth (Hollis, 2011).

Showrooms for Demonstrations

Toto emphasizes product trial, more than advertising, for conveying the product functionality and value. To establish this as a new way of living, they encourage customers to come in and try their smart toilets first-hand in their stores, such as at Toto’s 190 store in San Francisco, California (“Toto USA Unveils,” 2017), where they can educate people about this unfamiliar product in a way that establishes comfort with usage. Toto’s showroom focuses on providing the ultimate bathroom experience using technology, design, and art while also doubling as an event center, hosting guest events periodically. However, this experiential route can only impact the small number of people who attend the showroom events, and it cannot reach the much larger number of potential new customers who are not only unfamiliar with the technology and the brand but may not see any value in such a purchase.

Conclusion

Toto has successfully marketed their high quality, innovative, state-of-the-art, and luxurious bathroom equipment worldwide to affluent consumers who appreciate luxury, technological innovations, and sustainable products. They have been successful in Japan, China, Southeast Asia, India, and the Middle East, but although they entered the U.S. in 1989, they continue to face growth challenges. Even though Americans spend billions of dollars on luxury goods and new technologies and are willing to pay more for some sustainable products, they have failed

to adopt Toto's luxurious, sustainable, bathroom technologies in a big way. To achieve success in the U.S., Toto may need to find a way to redefine the 'bathroom conversation.' Although Toto has differentiated itself with its luxury and innovation position and should continue to use this in their marketing technique, it needs to think about how to expand its customer base and increase adoption. Toto's biggest challenge is communicating craftsmanship, quality, and environmental stewardship to price-sensitive customers embarrassed by discussing bathroom self-cleaning habits, and for whom sustainability may not be a selling point. The case questions below focus on the marketing strategy changes that Toto must make in order to succeed in the U.S.

Case Questions

1. What challenges does Toto face in the U.S.?
2. Prepare a SWOT (strengths, weaknesses, opportunities and threats) analysis for Toto in the U.S. and discuss whether Toto's products can be successful in the U.S.
3. How can Toto change the "Bathroom Conversation?"
4. To whom should Toto target its products?
5. Describe Toto's current marketing strategy in the U.S. and recommend changes to help it succeed in this market.

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