

**TOYOTA**



## TOYOTA PRIUS



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***Toyota... Moving Forward***

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The Toyota Prius is the  
number-one selling  
mid-size sedan hybrid in  
North America.

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# EXECUTIVE SUMMARY

## *executive summary*

The Toyota Prius is today's leading mid-size hybrid sedan in the United States mass market. The Prius offers a stylish exterior, Hybrid Synergy Drive and an EPA label fuel economy of 52 miles per gallon (mpg) in the city and 45 mpg on the highway. The hybrid car market is experiencing growth on a grand scale. Industry analysts estimate that by the year 2008, annual market sales for a hybrid will be around 550,000 in the United States. The Toyota name is an important feature for the Prius. Toyota is the world's third largest manufacturer of automobiles in both unit sales and net sales, and is the front runner for new technology, including hybrid and fuel-cell cars. Toyota leads the pack with advances in technology and eco-friendly design, and Honda is the only other car company that has been able to directly compete. The Honda Civic hybrid resembles a regular Civic, but allows for an EPA mileage estimate of 49 mpg in the city and 51 mpg on the highway. The Honda Accord hybrid is the next closest indirect competitor, followed by the newest hybrid SUVs and trucks. The current consumers of hybrid cars tend to be well-educated, wealthy, slightly older individuals who are concerned with the environmentally friendly attributes of a hybrid. These individuals are also interested in saving money at the pump, while simultaneously protecting the earth. Like the hybrid market itself, there has been an evolution in the hybrid consumer. The potential market has now evolved into a diverse group of individuals who want to make a statement about their character. These "influencers and trendsetters" are interested in technology and performance on top of being eco-friendly.

Although with a booming market and an extremely reputable parent company, it would be easy to assume that there are no problems associated with marketing the Toyota Prius. However, there are a few minor disadvantages that were discovered through secondary research. Few dealerships have a Prius on the lot for test drives, and the majority of customers who wish to purchase a Prius have to wait nearly five weeks to receive the car. These minor issues can be easily cleared up with the implementation of our proposed plan. There are many opportunities that are available to take advantage of, such as the new Toyota plant in Kentucky, and the many government incentives offered to hybrid owners.

# EXECUTIVE SUMMARY

The final recommendation for solving the business challenge of determining a target market is to market to the new breed of hybrid consumers, the “influencers and trendsetters.” The communication strategy of this campaign is to convince influencers and trendsetters that the Toyota Prius is the superior mid-size sedan hybrid that provides a technologically advanced, environmentally friendly ride and is versatile and performance-driven. Compared to other mid-size hybrid sedans, the Prius is number one because our automobile has the most innovative design, Hybrid Synergy Drive, and impressive reputation. The brand character is assertive, confident, efficient, smart, and fun. The value-based payoff is enjoyment, power, and self-direction. In order to accomplish this goal, we will implement advertising in the form of magazine, newspaper, television, radio, independent films, movie theaters and Internet ads. A Public Relations aspect will also be utilized involving Earth day events and New York's Fashion Week. Sales promotion is also an important aspect in our marketing plan. The sales promotion will focus on test drives and ensuring that one Prius is always on the lot. To guarantee that we meet our specific objectives, a comprehensive program evaluation will be implemented. The program evaluation will include test-driver surveys, owner surveys, on-the-spot surveys plus a close evaluation of car sales as well as ratings, sales and readership of the proposed communication tools.



advertising agency

# CHALLENGE STATEMENT AND SITUATION ANALYSIS

## challenge statement

To determine a target market for the Toyota Prius that will allow it to remain the number one mid-size sedan hybrid in North America.

## situation analysis

### INDUSTRY ANALYSIS

In 1999 the U.S. mass market was introduced to the first hybrid car, Honda's two-door Insight. The Insight took major steps in introducing new hybrid technology to the United States. By 2000, Toyota released the Prius, the first four-door mid-size sedan to hit the U.S. mass market. In 2002, Honda returned to the hybrid market with the Honda Civic hybrid. This hybrid Civic is a gasoline-electric car that is identical to the conventional Civic model. In September 2004, Ford entered the hybrid playground with its Escape hybrid. The Ford Escape became the first American hybrid and the first SUV hybrid. The recent resurgence of hybrid technology in the car industry has a lot to do with the gas prices that have been steadily increasing in the past years. For example, gas prices on average in the U.S. are \$2.15, while they were \$1.94 only one year ago (hybridcars.com, 2005).

With hybrid cars becoming the drive of the future, many automakers are creating their own versions. Daimler Chrysler, Ford, General Motors, Honda, Hyundai, Toyota and Volkswagen are all trying to compete in the ever-changing automotive environment. Auto-industry analyst J. D. Power & Associates forecasts that 750,000 hybrids will be sold by 2012, or 4.1% of all sales that year, but car-industry executives say they may sell far more than that as long as the technology continues to improve. The auto industry is constantly having to create new technology to keep consumers satisfied. Right now it's the hybrid, but hybrid technology is just the stepping stone to fuel-cell cars.

More than a decade ago, Toyota kicked off the hybrid race with a move that was largely seen as irrelevant within the industry: It dusted off an old auto-industry idea about building a car powered by both a conventional gasoline-fueled motor and a battery-powered electric drive system. It called the new sedan Prius, a Latin word for first.

Like many new technologies, hybrid power is now more expensive to produce than traditional internal combustion engines. GM says it will cost hundreds of millions of dollars to develop a new hybrid engine. Hybrid cars have expensive

## SITUATION ANALYSIS

parts regular cars don't have, including big, heavy batteries, electric motors and sophisticated electronic control modules. The expensive gadgetry allows the cars to seamlessly shift between electric power – typically used at lower speeds when gas engines are least efficient – to gasoline power and back.

The number of hybrid vehicles sold in the U.S. is steadily increasing. The number of hybrid vehicles sold in the U. S was around 50,000 in 2003 and 100,000 in 2004. The number of hybrid vehicles sold in the U.S. in 2008 will be expected around 550,000. This increase shows that the hybrid car market has great potential.

Originally the car industry did not feel the need to advertise the hybrid because there was an overall belief that the car would sell itself. However, this idea is changing. Toyota happens to be the biggest automotive marketer and in 2002 they spent \$13 million on advertising for the Prius, but they plan to increase the marketing force with the introduction of light truck and SUV hybrid technology (Guyer, 2003). As for the car companies that have yet to produce hybrid technology, some are looking towards the brands that have already established themselves for help. GM and Toyota both have decided to sell their hybrid parts to other automakers. Nissan has already elected to purchase parts from Toyota (Brown, 2003).

The Corporate Average Fleet Economy (CAFÉ rules) is an important factor for car manufacturers to be abreast of.



The number of hybrids in the United States is continuing to increase with an expected number of 550,000 in 2008.

The CAFÉ rules state that automakers must maintain a minimum mileage of 27.5 mpg across product lines (hybridcars.com, 2005). These rules may change the way some automakers develop cars and may help increase the output of hybrids.

# SITUATION ANALYSIS

## COMPANY ANALYSIS

### *History and Facts*

The Toyota Motor Co. Ltd was first established in 1937 as a spin-off from Toyoda Automatic Loom Works, one of the world's leading manufacturers of weaving machinery. Toyota is the world's third largest manufacturer of automobiles in unit sales and in net sales. It is also the largest Japanese automotive manufacturer, producing more than 5.5 million vehicles per year, equivalent to one every six seconds (toyota.co.jp, 2005). Toyota Motor Sales U.S.A. was established in 1957 and is the fourth-largest auto maker in the United States. Toyota has 12 manufacturing plants in North America and will open two additional facilities in the future in San Antonio, Texas and Woodstock, Ontario. Toyota has 52 overseas manufacturing companies in 26 countries and regions, which produce Lexus- and Toyota-brand vehicles and components. Nearly two-thirds of all Toyota vehicles sold in the United States are built in North America and are sourced with parts from over 400 North American suppliers.

In 2004, Toyota produced more than 1.44 million vehicles, more than 1.27 million engines and almost 390,000 automatic transmissions at its North American manufacturing facilities. By 2008, Toyota will have the annual capacity to build 1.81 million cars and trucks, 1.44 million engines, and 600,000 automatic transmissions in North America. The company's direct employment in North America is more than 37,000 and direct investment is nearly \$16.2 billion with annual purchasing of parts, materials, goods and services from North American suppliers totaling an additional \$26 billion (toyota.co.jp, 2005).

### *Investments*

Toyota has invested \$31 million into North American communities in nonprofit organizations supporting education, arts, the environment, and more. In addition to its core business of automobile manufacturing, Toyota is active in a number of areas including housing, financial services, communications, marine vehicles, and biotechnology (toyota.com, 2005).



# SITUATION ANALYSIS

## Dealers

Since 1998, Toyota has increased the number of ethnic minority Toyota and Lexus dealers by 45 percent.

## Technology

Toyota is at the forefront of developing fuel-cell vehicles. However, Toyota recently had to recall 75,000 Prius 2004 and 2005 models due to a software glitch that causes the car to stall unexpectedly.

## Sales and Goals

Toyota Motor Sales U.S.A., Inc. recently reported best-ever third quarter sales of 600,196 units. Calendar year-to-date sales total 1,714,266, up 11.3 percent over the same period last year (pressroom.toyota.com, 2005). 2004 was Toyota's best year ever, with U.S. sales exceeding 2 million vehicles. Toyota wants to sell a million hybrids a year by as early as 2010, or more than 10 percent. To achieve that goal, Toyota plans to halve the cost of hybrid powertrains as early as possible.

## Hybrid Production

Worldwide, Toyota has sold more than 500,000 hybrids since 1997. Two new hybrids will be introduced for 2006: the Lexus GS 450h and the Toyota Camry hybrid. Toyota's first North American gas-electric hybrid production will be at its Georgetown, Kentucky plant when production of the Camry hybrid begins in late 2006.



Georgetown, Kentucky plant's lobby.

Toyota wants to see a million hybrids a year by as early as 2010, or more than 10 percent.

# SITUATION ANALYSIS

## PRODUCT ANALYSIS

Prius is the best-selling gas-electric hybrid vehicle in the United States and the world.

### *History*

The first generation Prius, launched in Japan in 1997, was a curiosity. The first Prius was built at the Motomachi Plant in Toyota City, Japan. Prius is Latin for “to go before.” The next Prius, launched in 2003, quickly became a favorite among environmentally conscious celebrities in the U. S., but when gasoline prices began climbing earlier this year, the Prius became a hot item. Prius became the world's first mass-produced gas-electric hybrid vehicle that combined an efficient, powerful gasoline-fueled engine and a clean, quiet electric motor. In 2000, the 2001 Prius model was launched in the U.S. Market with an MSRP of \$19,995.

### *Awards*

In 2001, the American Council for an Energy Efficient Economy named Prius the “greenest gasoline-powered passenger sedan in the United States.” In 2005, the Prius was *Consumer Reports'* Top Pick for Best Vehicle for \$25,000 or less.

### *Features*

Prius is the first hybrid vehicle to provide the room, comfort, and features of a midsize sedan. It carries an EPA label fuel economy rating of 52 miles per gallon city, and 45 highway. Toyota's mileage estimates are 60/51/55 (mpg city/highway/combined). Prius provides the best fuel efficiency ratings of any midsize vehicle sold in America and has a higher combined mileage rating than any compact sedan sold in America. The 2004 Prius was the first Toyota to implement Hybrid Synergy Drive which produces more power from both the gasoline engine and the electric motor which gives the Prius acceleration comparable to a 4-cylinder midsize car.

Prius has a unique aerodynamic monoform design with a “geek-chic” look – a thick, curved body, a high back end and glittering computer displays on the dashboard. In addition, Prius' design philosophy focused on creating the

# SITUATION ANALYSIS

greatest interior room with the least exterior footprint, offering both driver comfort and maneuverability. Toyota also believes that the Prius owner is unique and thus deserves a uniquely styled vehicle to drive.

The 2006 model features new exterior styling, safety, and convenience enhancements such as wireless technology, the Smart Key System and a backup camera. Bluetooth is an available option that allows for wireless connections between the Prius and Bluetooth-enabled mobile phones. Bluetooth is built into the available onboard navigation system, and the technology provides users with convenient hands-free phone capabilities. Prius owners may be eligible for a federal tax deduction of up to \$2000. Prius drivers can apply for Clean Air Vehicle stickers from the Department of Motor Vehicles that allow them to drive with only one occupant in California's High Occupancy Vehicle lanes. Dealers in California alone have sold almost 60,000 Prius vehicles since 2000. Prius is so environmentally friendly that an ashtray is an optional feature.

## Exterior

- 5-in. aluminum alloy wheels with P185/65R15 tires
- Dual heated color-keyed power outside mirrors
- Aerodynamic multi-reflector halogen headlamps
- Washer-linked variable intermittent windshield wipers
- Color-keyed front and rear bumpers and door handles
- Heavy-duty rear window defogger with timer
- Chrome-type finish grille
- Electronic rear hatch locking system
- High Solar Energy-Absorbing (HSEA) glass

- Rear spoiler
- Intermittent rear window wiper

## Interior

- Push Button Start
- Liquid crystal multi-information display panel with energy monitoring, fuel consumption, climate control, outside temperature and audio status modes
- Central instrument display with digital speedometer, fuel gauge, shift-lever indicator and odometer with twin tripmeters and warning lights
- Cruise control
- Remote keyless entry system with 2-stage unlocking, panic function and remote illuminated entry
- Tilt steering wheel with audio, climate control and navigation function controls
- Power windows with driver-side auto-up/down and retained-power features
- Power automatic door locks with anti-lockout feature
- Center console armrest with storage compartment, drawer, and dual front and rear cup holders
- 60/40 split fold-down rear bench seat with fold-down center armrest and adjustable headrests in all seating positions

## Standard Safety Features:

- Driver and front passenger Advanced Airbag System
- Anti-lock Brake System (ABS) with Electronic Brake-force Distribution
- Traction Control (TRAC)
- Child-protector rear door locks
- Front and rear crumple zones and side-impact door beams
- Engine immobilizer
- 3-point front outboard seatbelts with adjustable shoulder anchors
- 3-point rear seatbelts with Automatic/Emergency Locking Retractors
- Outboard front seatbelt pretensioners with force limiters
- Driver and front passenger seatbelt warning sensor

# SITUATION ANALYSIS

## PRODUCT ANALYSIS CONTINUED

### *Prius Sales*

For the 2004 model year, Toyota initially boosted production 50 percent to 36,000. But demand has been strong enough that production has already been increased to 47,000. And that's still not enough (Gross, 2005). Toyota says that demand for the Prius remains so strong that customers are forced to wait between three and four months on average to take delivery. Over the past year, Prius sales are up more than 130 percent and will top 100,000 sales in 2005. Prius had best-ever September sales of 8,193, an increase of 90.1 percent. The 2006 MSRP on Prius is \$21,725.

### *Hybrid Synergy Drive*

A national campaign was recently launched, aimed at building awareness and understanding of the Hybrid Synergy Drive system in the Prius.

Toyota's Prius has helped contribute to these environmental benefits:

- Avoiding nearly 900,000 metric tons of carbon dioxide emitted into the atmosphere
- Allowing the savings of 4 million barrels of crude oil
- Avoiding more than 3 million pounds of smog-forming gases

The Prius is at least 80 percent cleaner than the average vehicle in terms of smog-forming emissions. For example, driving a Prius 8,000 miles produces fewer smog-forming emissions than spilling one cup of unleaded gasoline. And driving a Prius from Anchorage to Miami produces fewer smog-forming emissions than using one can of insect repellent (toyota.com, 2005).

## COMPETITIVE ANALYSIS

### *Direct Competitors*

#### *History*

In 1999 Honda released the two-door Insight, the first hybrid car to hit the mass market in the United States. The Insight won numerous awards, and received EPA mileage ratings of 61 mpg city and 70 mpg highway.

# SITUATION ANALYSIS

## *Features*

On October 19, 2005, Honda released the 2006 Civic Hybrid with a snazzy new design. The sleekness of the new model is a major transformation from the previous ultra-bland Civic. The Honda Civic hybrid resembles a regular Civic, but allows for an EPA mileage estimate of 49 mpg in the city and 51 mpg on the highway. Besides the hybrid trunk badge, the only distinctions between the hybrid and conventional Civics are the lip spoiler on the trunk (for better aerodynamics), flat-faced alloy wheels, turn signals embedded in the side view mirrors, clear front turn signal lenses, and a micro antenna affixed to the trailing edge of the roof. The use of friction-reducing efficiency-boosting engine design, such as aluminum die-cast pistons, ion-plated piston rings, and smoother surfaces on the cylinder walls make the hybrid lighter in order to get better fuel efficiency (hybridcars.com, 2005). There are a few distinct differences between the Toyota Prius and the Honda Civic hybrid. The Civic offers standard satellite radio, a tachometer, and some capacity differences.

## *Exterior*

The Honda Civic hybrid has several impressive exterior features. The car has an integrated rear window antenna, a security system with remote entry, body-colored powered side mirrors, variable intermittent windshield wipers, rear deck lid spoiler, impact-absorbing body-colored bumpers, and multi reflector halogen headlights.

## *Interior*

As for the interior of the Honda Civic hybrid, the car is full of amenities. Just to name a few of the conveniences, this comfortable ride offers automatic climate control, Honda Satellite-linked Navigation system, headlights-on reminder, and rear window defroster.

## *Safety*

Safety is an important issue for all drivers and passengers on the road today. Therefore, the Civic hybrid comes well-equipped with three point seat belts at all seating positions, driver and front passenger seat belt reminder, dual-stage airbags for front airbags, side airbags with passenger-side occupant position detection system, daytime running lights and side-impact door beams. Bear in mind the above list of safety features is not all-inclusive.

# SITUATION ANALYSIS

## COMPETITIVE ANALYSIS CONTINUED

### *Civic Sales*

In November 2004, Honda had sold 23,473 Civic hybrids for the year. However, as of November 2005 Honda has sold 23,336 Civic hybrids. The estimated MSRP of the Honda Civic hybrid for 2006 is \$21,850.

### *Indirect Competitors*

The Toyota Prius may only compete directly with the Honda Civic hybrid, but there are other cars in the market that compete indirectly with the Prius. In order to discuss the indirect competitors it is important to create different segments. The first segment is any hybrid car that is larger than the Prius (i.e. Honda Accord hybrid). The next segment is hybrid Sport Utility Vehicles or trucks and the final segment consists of any non-hybrid automobile that has impressive fuel-efficiency.

### **Large hybrid cars**

#### *Honda Accord hybrid*

The 2006 Honda Accord hybrid starts at an MSRP of \$30,140. The hybrid offers 255hp with a V6 engine; the combination allows for more low-end torque and great fuel efficiency (automobiles.honda.com). On average the Accord is said to get 37 mpg on the highway and 29 mpg in the city. The Accord has been engineered to provide the best possible fuel efficiency by utilizing an Electric Power Steering system, lighter parts made of aluminum and magnesium and also a hybrid air-conditioning system that switches to an electric compressor when at a stop (automobiles.honda.com). As for safety aspects, the Accord hybrid offers the same safety components as the regular Accord with the addition of one thing. In the hybrid, there is an Instant Mobility System (IMS). The IMS is used in place of a spare tire in order to cut down on weight and help increase the fuel efficiency. At the present time the Accord hybrid is the only car of its class in the United States mass market (automobiles.honda.com, 2005). However, Nissan is expecting to release a hybrid Altima in 2006, Chevrolet is in the process of creating a Malibu hybrid for 2007, Toyota is working on a Camry for 2007, and Lexus will have the Lexus GS probably in 2006 (hybridcars.com, 2005).

# SITUATION ANALYSIS

## Hybrid SUVs and Trucks

### *Ford Escape hybrid*

The Ford Escape hybrid has an MSRP starting at \$28,525. The hybrid has a 2.3 liter, 16-valve SEFI engine that offers 155hp (ford.com, 2005). As for fuel efficiency the Escape gets 33 mpg in the city and 29 mpg on the highway. The Escape is well equipped with a Personal Safety System that includes pretensioners with force limiters, driver and passenger airbags, single stage deployment and front passenger seat position sensor and crash sensor (ford.com,2005).

### *Mercury Mariner hybrid*

The Mercury Mariner hybrid starts at \$29,225. The Mariner is equipped with a 2.3 liter I-4, Atkinson-cycle engine with a permanent-magnet electric motor that allows for 155 hp (mercuryvehicles.com, 2005). The fuel efficiency for the Mariner is 33 mpg in the city and 29 mpg on the highway (mercuryvehicles.com, 2005). A perimeter alarm system, passenger seat sensing system and a tire pressure monitoring system are just a few of the safety features that the Mariner has.

### *Toyota Highlander hybrid*

The Toyota Highlander hybrid has an MSRP starting at \$33,030. The Highlander has a 3.3 liter double overhead with a permanent magnetic electric motor that allows for a horsepower of 208. (toyota.com, 2005). This particular hybrid comes in two wheel or four wheel drive and regular edition and limited edition. The fuel efficiency for the two wheel drive, regular edition is 33 mpg in the city and 28 mpg on the highway. As for the four wheel drive, the fuel efficiency is 31 mpg in the city and 27 mpg on the highway.

The following is a list of car manufacturers' future hybrids and the expected release date for each; Chevrolet Tahoe 2007, Dodge Durango 2007, GMC Yukon 2007, Porsche Cayenne 2008, Saturn VUE 2006, Toyota Sienna Minivan 2007, Dodge Ram 2006.

## Non-hybrid cars

As for other non-hybrid cars the Honda Civic and the Toyota Corolla were the only two with fuel efficiency of 30 mpg in the city and 38 mpg on the highway. The other automobile companies had varying efficiencies of 25 mpg to

# SITUATION ANALYSIS

28 mpg. However, we do not feel that these numbers are even remotely comparable to the Prius hybrid, therefore they are not included in our competition.

## *Honda Civic*

The Honda Civic DX has a starting price of \$14,360. As for the estimated fuel efficiency of the Civic the car gets 30 mpg in the city and 38 mpg on the highway.

## *Toyota Corolla*

The Toyota Corolla CE is priced at \$14,005 MSRP. In terms of the fuel efficiency the Corolla CE gets 30 mpg in the city and 38 mpg on the highway.

## CONSUMER ANALYSIS

### Current Target Markets

The original consumers of hybrid cars were early adopters who salivated at technical advances and are environmentally friendly. These drivers tend to be independent thinkers who loathe commercialization, especially the celebrity driven variety (hybridcars.com, 2005). However, environmentally friendly celebrities such as Cameron Diaz and Leonardo DiCaprio were some of the first consumers to embrace the hybrid technology especially the Toyota Prius (Graser, 2005). These early adopters of the hybrid technology created what has been called the “Green Niche” market (Hastings, Naughton & Kawaguchi, 2004). A 2002-2003 Oregon Environmental Council (OEC) survey provides support for the aptly named hybrid car market. The survey found that the top three reasons for purchasing a hybrid car were “pollute the air less,” “emit less climate changing CO<sub>2</sub>,” and “appealing technology.” The survey also found that 68 percent of the consumers who purchased a hybrid car like the “technology, style and handling” of the car the best, whereas 53 percent liked the idea of “fuel savings” the best (hybridcars.com, 2005).



## SITUATION ANALYSIS

The present consumers of hybrid cars are still environmentally concerned efficiency experts, but now they are hybrid savvy and fearless (Carmona, 2004). These consumers have been educated about the technology and have put to rest the fear that they have to plug their car in every night. These consumers are patient. For example, in 2004 alone, 22,000 of them were on a waiting list for a Prius (Hastings et. al, 2004).

Their patience isn't their only virtue. A study of automotive transportation was conducted at the University of Michigan that paints a clear picture of the present hybrid customer. The study found that these individuals have a higher level of education than any other group of car drivers. They also tend to have an income of \$100,000 compared to the \$85,000 a year the average driver brings home (hybridcars.com, 2005). A hybrid driver is around 50 years old, slightly older than the average, and they tend to be female. These drivers tend to call coastal regions home, especially California. On average these efficiency experts drive fewer miles and plan to keep their cars for five years or more (the average driver has a car for less than five years). Many of the consumers want to personally do something to help reduce vehicle pollution and are willing to pay more to do something good for the environment. Perhaps one of the most interesting facts that came from the UM study is the fact that these environmentally friendly drivers tend to be overly pessimistic about the future of fuel prices (hybridcars.com, 2005).

Sam Williams, a moderator on Yahoo's Toyota Prius discussion group, has found that Prius owners are very diverse people with a plethora of interests. Overall, he has found that these owners see their purchase as a way to make a statement about who they are. "The Prius is a fashion statement," said Art Spinella, a consultant with CNW Marketing Research who surveys car-buying trends. "It looks different. Other people know the driver is driving a hybrid vehicle. It clearly makes a bigger statement about the person than does the Civic, which basically looks like a Civic" (Schneider, 2004). However, image isn't everything to these customers - they also are immensely impressed with the practicality and brilliance of the hybrid technology. Yet, he points out that purchasing a hybrid (Prius) is not for the cowardly, those who buy must be willing to stand up for their choice (hybridcars.com, 2005).

Hybridcars.com recently conducted an identical survey of the OEC survey that was conducted in 2002-2003. The 2005 survey found some interesting differences. The top three reasons for purchasing a hybrid in 2005 were to "save money on gas," "pollute air less," and "appealing technology." 70 percent of the respondents said that the fuel savings was the best part of their car, while 57 percent said that the environmental benefits were the best feature of the car. As

# SITUATION ANALYSIS

for an overall quality score the owners rated the hybrid at 4.46 (1-5 scale, 1=poor, 5=excellent). The survey also found that these drivers are extremely happy with their cars, so much so that 97 percent of them will definitely or probably purchase a hybrid as their next car. Not only will they purchase another hybrid but also, 98 percent of them would recommend that their friends purchase one. In regards to how long they are willing to wait for their car, 49 percent said that they assume it will take five or more weeks to receive their car, while 14 percent are planning to wait 26 weeks or more.

## Potential Target Markets

The newest legions of hybrid owners learn from their predecessors, but also create their own image. These consumers still love the idea of being the first one on the block with the new toy or technical gadget. They also continue to desire to make a statement about their character. However, these individuals are less concerned about the environment-friendly aspect and more concerned with the power, performance, luxury and high-tech gizmos that a hybrid can offer (hybridcars.com, 2005). These consumers want to “have their cake and eat it too.” The new customers want to save money on fuel while simultaneously driving a powerful, technologically advanced car that can outperform its gas-guzzling stepsister any day of the week, but still be flashy enough to attend a black-tie affair. These consumers are not buying the cars to get a return on their investment, nor are they buying them expecting to get the exact EPA fuel economy numbers, because they are well informed that the numbers all depend on the type of driving one does (Hybridcars.com, 2005). One odd characteristic to mention is that these consumers are not excessively tall (the sedan hybrids tend to be a little less spacious).

When it comes to media preferences, these trendsetters loved HBO's series “Six Feet Under.” They also enjoy a good laugh from HBO's “Curb your Enthusiasm.” However, these drivers are not stuck on just HBO - they enjoy CBS comedies, Fox's legal sitcoms, and even romantic comedies.

### *The Army*

Usually, when someone mentions Army utility vehicles, the first thing one thinks of is a massive tank or Hum-V. However, this image of the Army vehicle may change. With mobility as the top priority for those fighting wars, fuel is a huge issue. Many of the armored vehicles face gas prices of \$400 per gallon. With that figure it is no wonder that the idea of a hybrid diesel-electric engine has sparked interest with the military. These diesel-electric engines consume 20 percent less fuel, have a powertrain that enables the truck to drive silently for short distances on battery power and the electric motor is hard to spot through infrared scope (Brown, 2003).

# SITUATION ANALYSIS

## MARKET ANALYSIS

In the early stages of hybrid technology there was a great fear that the car would have to be plugged in every night. This fear may have attributed to the .2 percent of the total automotive market share that hybrids accounted for in 2002. .2 percent of market share is equivalent to the 36,000 Toyota and Honda hybrids that Americans purchased in 2002 (Brown, 2003). Originally, the import versions were sold at a loss after first debuting in the United States. The loss was mainly due to the research and development costs, but the companies are now recouping the cost and maintaining high sales. For example, in 2003 the U.S. accounted for 70 percent of the global sales for the Toyota Prius (Guyer, 2003). The U.S. market continues to be enthralled with the hybrid technology, more so than their European brethren (Brown, 2003). It has been predicted that the highest estimates of the United States market for annual sales of hybrid cars will be around 550,000 by the year 2008. At 500,000 sales, the hybrid will account for three percent of the 16.7 million car market (Hastings et al, 2004). It is evident from the consumer analysis that this prediction is not farfetched. Consumers are interested in the hybrid technology and are willing to not only pay the price, but also wait at least five weeks for their car. Consumers aren't buying hybrids to receive a return on their investment, nor are they buying the car because it's the cool thing to do; they are buying the car because they believe in the technology, the performance and the future. It is also important to note that with the war in Iraq and the gas prices tipping the \$2.50 mark, the market for hybrids is ripe for the picking. In short, hybrids will sell as long as the market wants them.

## MACRO-ENVIRONMENTAL ANALYSIS

### Driving Trends

Driving a car has become second nature, to the point where driving could easily be equivalent to getting up in the morning. In America, there are around 200 million cars and 700 million worldwide. It is expected that by 2025 there will be more than a billion cars in the world (hybridcars.com, 2005). In the U.S. alone, cars are driven two trillion miles per year (hybridcars.com, 2005). Americans typically spend at least one hour in their car per day and everyone combined spends a massive eight billion hours per year stuck in traffic. The 2000 U.S. census found that three out of four workers drive to work alone everyday.

# SITUATION ANALYSIS

## Environmental Trends

To begin, driving a car is considered one of the most environmentally harmful activities a person can do. When the typical American turns their ignition on in the morning, they are turning on seven dangerous pollutants as well. Carbon dioxide is the main greenhouse gas that causes global warming. Carbon monoxide, another pollutant emitted by cars, is a poisonous gas that impairs the flow of oxygen to the brain (hybridcars.com, 2005). Sulphur oxide contributes to acid rain and respiratory illness, while nitrogen oxide helps create ground-level ozone as well as acid rain - both oxides emitted by gas guzzling cars (hybridcars.com, 2005). Particulate matter, a combination of smoke, soot and dust, distributed by multiple parts of a car, causes a great deal of respiratory and cardiovascular problems. The final two pollutants are hydrocarbons (air toxics) and lead - both of which lead to organ damage (hybridcars.com, 2005).

A gallon of gas weighs roughly six pounds, but combine it with oxygen and you get 20 pounds of carbon dioxide (CO<sub>2</sub>). One third of CO<sub>2</sub> emissions are from transportation vehicles (hybridcars.com, 2005). The excessive amount of pollutants in the air can lead to global warming and all the problems associated with it. Global warming has the potential to cause flooding on a grand scale (affecting 20-50 million people); agricultural output, especially in poorer countries, could become severely depleted; and temperature changes could cause entire ecosystems to become extinct (hybridcars.com, 2005).

## Government Trends

The federal government began offering a \$2,000 one-time tax deduction in 2004 that will last through 2005. The deduction depends on the specific tax-bracket, for example those in the 15% tax bracket could receive \$300 (hybridcars.com, 2005). The most recent legislation signed by President Bush and set to go into effect on January 1, 2006, is a new energy bill that will provide hybrid owners with full dollar tax credit. Local and regional governments in 21 states are also offering incentives to hybrid owners. Some states such as Florida, Arizona, Colorado and Virginia offer hybrids all-access (regardless of the number of passengers) to High Occupancy Vehicle lanes (hybridcars.com, 2005). Certain states are also offering tax credit to individuals who purchase hybrids. California is one of the main states pushing fiercely for hybrids. A plan has recently been approved in California that will be slowly worked in from 2009-2016 that will require the auto industry to diminish car emissions from its new fleets by 30 percent (hybridcars.com, 2005). Although the plan has been approved, it still has a long line of hands to pass through before it even sees the light.

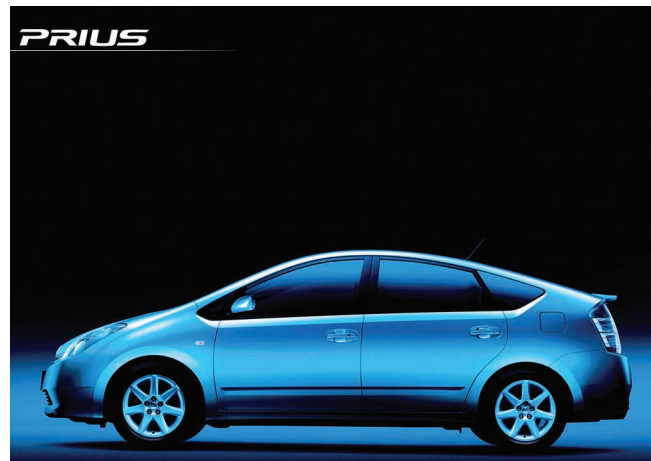
# SITUATION ANALYSIS

## Economic trends

At the current time, the United States is at war with Iraq and this event is causing a great deal of change within the country. This particular war happens to affect crude-oil prices, which in turn is helping to progressively push up the price of gas. A supply disruption in Venezuela has also caused an inflated price in gas as well as a cold winter that increased the demand for heating oil (Brown, 2003). The increase in gas prices is costing the average American about \$10 extra per week (Winter, 2004).

## Social trends

The media and celebrities have played a major role in the growing interest of hybrid cars. Hybrids have been used as alternative limos for big Hollywood award ceremonies and the Prius has even found time to appear on the “boob tube” as well as the “silver screen.”



# PROBLEMS AND OPPORTUNITIES ANALYSIS

## problems

- Many dealerships are sold out of the Prius and don't even have one on the lot for potential buyers to view and test-drive.  
Risk: Toyota risks losing customers that want to test drive the car before purchasing it. Toyota is weighing too heavily on hoping sight-unseen purchases continue.
- Due to high demand for the Prius, there is a wait list at some dealerships to purchase the car.  
Risk: Toyota risks losing these waiting customers to another company that has hybrids.
- Many consumers feel the Prius' exterior isn't stylish and is too space-age.  
Risk: Toyota risks losing hybrid customers to the stylish Civic hybrid or others.
- Toyota's mileage ratings on the Prius are inflated compared to those from the EPA's label fuel economy rating of 52 miles per gallon city, and 45 highway.  
Risk: Toyota risks being seen as untruthful especially when Prius owners track their miles per gallon.
- In October 2005, Toyota Motor Corp. said it is notifying about 75,000 Prius owners about a potential software glitch that could cause the car to stall or shut down (Peltz, 2005).  
Risk: Toyota risks losing repeat customers as well as future customers that read product reviews.
- The Honda Civic hybrid created an electric only no-combustion mode for low-speed cruising that is more efficient than Toyota's Prius which runs entirely by electricity at start-up.  
Risk: Consumer's may choose to purchase a Honda hybrid over the Toyota Prius because of the more efficient technology for low-speed cruising.
- The Honda Civic hybrid is Toyota's main direct competitor.  
Risk: With fuel efficiency above 50, a full-hybrid system, a sleek new design, and a price thousands below the Prius, the Honda Civic hybrid is in position to really give the Toyota Prius a run for its money.

# PROBLEMS AND OPPORTUNITIES ANALYSIS

- According to ConsumerReports.com, the Prius has poor steering and a complicated multifunction display.  
Risk: Toyota risks losing older customers who want a hybrid car without all the digital gadgetry and who want a car that steers easily.

## opportunities

- The Prius has an EPA label fuel economy rating of 52 miles per gallon city, and 45 highway.  
Benefit: Toyota has the opportunity to promote that compared to other hybrids, the Prius is more fuel efficient.
- The Prius is at least 80 percent cleaner than the average vehicle in terms of smog-forming emissions.  
Benefit: Toyota has the opportunity to let the public know that they are helping to prevent pollution.
- Toyota will notify Prius owners by mail that they can take the car to a dealership for free repairs to fix the software glitch that could cause the Prius to stall.  
Benefit: Toyota has the opportunity to turn the situation around and offer more than just a free repair such as including tune-up coupons etc. Toyota has also admitted this may be the first recall on a hybrid car and is not hiding behind the glitch so Toyota must keep up the positive attitude.
- Prius' aerodynamic mono-form design offers a coefficient of drag of .26, one of the lowest of any production vehicle in the world, greatly improving fuel economy.  
Benefit: Toyota has the opportunity to promote the drag feature in order to combat negative feelings towards the Prius' unique look.
- Toyota's mileage ratings on the Prius differ to those from the EPA's label fuel economy ratings.  
Benefit: Toyota has the opportunity to advise consumers on how to achieve their estimated fuel efficiency.
- Camry hybrid production begins in late 2006 at Toyota's North American plant in Kentucky.  
Benefit: Toyota has the opportunity to move some Prius production from Japan to the U.S. in order to save money on import fees and increase output. In Japan, the Prius is built on the same assembly line as the Camry.

# PROBLEMS AND OPPORTUNITIES ANALYSIS

- The hybrid industry continues to grow. 171,497 hybrid vehicles were sold during the first ten months of 2005. The Toyota Prius accounted for the greatest amount of sales: 91,161 units, which was nearly two-and-a-half times Honda's combined sales of 36,996 for its three hybrids (hybridcars.com, 2005).  
Benefit: The Toyota Prius has the opportunity to stay ahead of the pack and continue to be the industry leader by capitalizing on their number one status and marketing this information to non-hybrid owners in order to show reliability and trust.
- The Toyota name has a good reputation for education and community support.  
Benefit: Toyota has the opportunity to continue building on this reputation especially in the hybrid market by not only selling hybrids but educating the public about them and how they help the environment.
- Celebrities are purchasing the Prius in order to make a statement and are therefore plugging the Prius for free as a good, environmentally friendly car.  
Benefit: Toyota has the opportunity to use these celebrities as official endorsers which could potentially help increase sales.
- There is a wait list in some cities for the Toyota Prius.  
Benefit: Toyota has the opportunity to find out who these consumers are and what makes them want to wait about 5 weeks for the delivery of their car. This would help Toyota's future marketing.
- There is a lack of mid-size sedans that have all of Prius' features on the market.  
Benefit: Toyota has the opportunity to grow itself in the mid-size sedan market not only for consumers who are looking at hybrids but also those who are in the market for a mid-size car. The Prius' features for those people are just an added benefit.
- Incentive programs are popping up around the country for consumers to purchase a hybrid car. Example: California's program that allows hybrid owners to drive in the High Occupancy Vehicle lanes with only one occupant (hybrids must get at least 45 mpg) and the fact that some Prius owners are eligible for a federal tax deduction of up to \$2000.



# PROBLEMS AND OPPORTUNITIES ANALYSIS & RECOMMENDATIONS

Benefit: Toyota has the opportunity to push for more legislature and more incentive programs for consumers which will help Prius sales. Also, the Prius meets the guidelines for the California program while SUV hybrids fall short.

- The price of gas continues to fluctuate and may take a large increase again in the future.

Benefit: Toyota has the opportunity to sell the Prius to price-sensitive, gas-conscious consumers.

## *recommendations*

1. Toyota can stay with their “Early Adopters” who are their original consumers. These drivers are free thinkers who loathe commercialization and are willing to repurchase another Prius. They appreciate the “greenness” of the Prius and see the car as a way to do their part in protecting the environment. Toyota would benefit by going with this target market as they are loyal, repeat purchasers, and understand hybrid technology. The risk would be that Toyota can't branch out and is stuck in their original mold.

2. Toyota can focus on their “Don't mind the waiters.” These are Toyota's patient consumers who are willing to pay for the Prius sight unseen and wait a few months to receive it. They are hybrid savvy and are aware of the Prius' technology and its fuel efficiency. Toyota would benefit by going with this target market because these customers are willing and able to purchase the Prius without hesitation. The risk with going with the “Don't mind the waiters” is that the demand is so high that even the patient customers run out of patience and it is possible that unforeseen circumstances can create skepticism.

3. Toyota can focus on the “Influencers and Trendsetters” who are interested in making a statement, the performance ability of their car and the vehicles innovative design. Toyota would benefit by targeting these individuals because it allows the company to reach a broader audience who embrace Toyotas' evolution. The risk of targeting these “influencers and trendsetters” is that with these technology seeking, statement-makers the Prius may be a disposable sounding board. By moving towards another target market, Toyota risks losing their loyal customers and their core ideals.

# MARKETING OBJECTIVES AND STRATEGY

## marketing objectives

1. To increase sales to a million hybrids a year by as early as 2010, or more than 10 percent.
2. To increase production of the Prius by 70 percent in 12 months in order to keep up with demand.
3. To continuously maintain Prius' spot as the number one mid-size hybrid sedan in the market.

## marketing strategy

1. The 2006 Toyota Prius and its future models will have to remain competitively priced compared to other mid-size hybrid sedans. It is important to market these cars effectively in urban and metropolitan areas in order to attract the "Influencers and Trendsetters" target market which can help increase sales.
2. The 2007 Prius models could be produced on the Camry hybrid assembly line at the new plant in Kentucky which will help with increased production demands and save manufacturing costs. Once these models roll off the assembly line, they can be promoted as American-made.
3. In order to maintain the same quality and prestige for all present and future Prius models, Toyota has to remain competitively priced, be proactive with market trends, and actively promote and educate the North American community about what Prius has to offer.

## TARGET MARKET PROFILE

### target market profile



World-renowned musician Sting is a Prius owner. Sting encompasses all the qualities of an influencer and a trendsetter. He create his own unique image. He doesn't live by anyone else's rules except his own. He cares about the environment, but at the same time he doesn't want to drive his grandmother's car. He is more concerned with the power, performance, luxury and high-tech gizmos that a Prius can offer. He doesn't want to succumb to "Big Business" or a cookie-cutter way of life. He's liberal and wears it proudly. He paves his own destiny through his destinations. In his versatile Prius, Sting can arrive at the Grammys or an Arbor Day Charity function.

### character, statement, performance, technology, environment

The newest legions of hybrid owners learn from their predecessors, but also create their own image. They also continue to desire to make a statement about their character. These consumers love the idea of being the first one on the block with a new toy or technical gadget. However, these individuals are less concerned about the environment-friendly aspect (hybridcars.com, 2005). These consumers want to "have their cake and eat it too." The new customers want to save money on fuel while simultaneously driving a powerful, technologically advanced car that can out-perform its gas-guzzling stepsister any day of the week, but still be flashy enough to attend a black-tie affair. These consumers are not buying the cars to get a return on their investment, nor are they buying them expecting to get the exact EPA fuel economy numbers, because they are well informed that the numbers all depend on the type of driving one does (Hybridcars.com, 2005). One odd characteristic to mention is that these consumers are not excessively tall (the sedan hybrids tend to be a little less spacious).

When it comes to media preferences these trendsetters loved HBO's series "Six Feet Under." They also enjoy a good laugh from HBO's "Curb your Enthusiasm."

# COMMUNICATION OBJECTIVES

## *communication objectives*

1. Build awareness and understanding of the gasoline/electric Hybrid Synergy Drive system powering the Prius, Highlander and future hybrid vehicles through billboards, gas pump toppers, bus stop shelters and radio spots. The campaign will carry various Hybrid Synergy Drive, fuel economy, and clean air messages.

2. Reach new target market by increasing advertising in high-end publications, product placement in independent films and popular television shows, and signing celebrity endorsers.

3. Increase trial by requiring at least one Prius to remain on every dealership lot in order to allow potential buyers to test drive the vehicle.

4. For every Prius sold, Toyota dealerships can donate \$100 to the Arbor Day Foundation.

5. Increase exposure at major events in metropolitan areas.

6. Any form of direct mail/advertising will be done on recycled paper. Magazine ads will be created ahead of time on recycled paper and sent to the publication for direct insertion.



# POSITIONING ALTERNATIVES

## *positioning alternatives*

### Positioning 1

To influencers and trendsetters who want to make a statement, the Toyota Prius is the preferred mid-size sedan hybrid for unique individuals that allows you to drive a technologically advanced, environmentally friendly vehicle that provides versatility and performance. The reason is because our automobile has the most innovative design, Hybrid Synergy Drive, and impressive reputation. The brand character is assertive, confident, efficient, smart, and fun. The value-based payoff is enjoyment, power, and self-direction.

### Positioning 2

To potential hybrid buyers who want to have a fuel-efficient vehicle, the Toyota Prius is the preferred mid-size sedan hybrid for environmentally conscious consumers which emits 80 percent cleaner smog-forming emissions and provides a smooth ride with the convenience of technology and safety features. The reason is because our automobile has the best EPA ratings, Hybrid Synergy Drive, and impressive reputation. The brand character is reliability, safe, efficient, eco-friendly, and comfortable. The value-based payoff is enjoyment and security.



The technologically advanced Prius interior.

# FINAL RECOMMENDATION AND COMMUNICATION STRATEGY

## final recommendation

Five Star Advertising recommends that in order for the Toyota Prius to continue to be the number one mid-size hybrid sedan in North America, that the target market should be “Influencers and Trendsetters.”

The industry is trying to move away from the green niche market in order to appeal to the mass market. Therefore, it is important for Toyota to look towards a more diverse audience. EPA regulations are becoming stricter, thus forcing automobile manufacturers to adhere to more rigid guidelines in regards to the environment. This influence means that more car companies will produce environmentally friendly and fuel-efficient cars. Since this will put more “green” cars on the market, it is important for Toyota to move away from their original narrow target market into a more profitable and broad arena. The Prius has evolved from a fuel-efficient “green” car attracting eco-friendly, free thinkers who loathe commercialization to a sophisticated declaration of individuality. Therefore, Toyota must maintain the evolution. Toyota should target the “influencers and trendsetters” because they are the individuals who are willing to make a statement about who they are and what they stand for in all aspects of their life. These consumers look for the latest most advanced technology in almost every purchase they make. The Prius, with its Bluetooth-enabled system, liquid crystal display panel, and Hybrid Synergy Drive is able to provide the “fix” for these consumers who want to take hold of the future.

The risk of targeting these “influencers and trendsetters” is that with these technology seeking statement-makers, the Prius may be a disposable sounding board. By moving towards another target market, Toyota risks losing their loyal customers and their core ideals. This loss of loyal customers could be detrimental considering that a 2005 *Consumer Reports* survey found that 95 percent of the 7,102 respondents who owned or leased a 2004 or 2005 Prius said that they would definitely get one again. If Toyota moves too far away from their core ideals they risk destroying their original mission of creating a car that is good for the environment.

## communication strategy

Convince influencers and trendsetters that the Toyota Prius is the superior mid-size sedan hybrid that provides a technologically advanced, environmentally friendly vehicle that is versatile and performance-driven. Compared to other mid-size hybrid sedans, the Prius is number one because our automobile has the most innovative design, Hybrid Synergy Drive, and impressive reputation. The brand character is assertive, confident, efficient, smart, and fun. The value-based payoff is enjoyment, power, and self-direction.

## media strategy

### Advertising

Magazine:	<i>Forbes, Fortune, Time, GQ, In Style, Vogue, People</i>
Newspaper:	Leave to local dealers for their sales
Television:	Major networks as well as cable television stations such as HBO, Style, CNN, MSNBC
Radio:	Political talk radio, Howard Stern, Clark Howard, Top 40 stations in metro areas
Indie films:	Product placement
Movie theatres:	Captive audience prior to the beginning of the feature film
Internet:	CNN.com, abcnews.com, eco-aware web sites, people.com, aol.com, yahoo.com, msn.com, weather.com

### Public Relations

Toyota can sponsor Earth Day events around the country, showcasing the Prius and offering test-drives. In addition to seeing the car, the public can be educated on Hybrid Synergy Drive, as well as fuel efficiency and emissions facts.

Toyota can sponsor New York's Fashion Week held every spring. Celebrities, "influencers and trendsetters," and wanna-be influencers and trendsetters among the general public, watch this week for the latest and greatest trends. Toyota can not only have a presence in the city that week, but can also gain national exposure with "guest appearances" at some of the most sought-after shows.

### Sales Promotion

Schedule a free test-drive at your local Toyota dealership. Prius has been in hot demand and Toyota will now have at least one Prius at every dealership. The media used to get this message out can be direct mail with coupons, dealer displays, newspaper ads, and web banner ads. Toyota can also implement dealer incentives/goals for the dealers to step up Prius sales.

## *program evaluation*

- Track number of people coming in for a test-drive with promotion in hand.
- Survey test-drivers and figure out why they came in for a test-drive (include questions about how did you hear about Prius and what you know about it and its Hybrid Synergy Drive).
- Survey recent Prius purchasers (include questions about how did you hear about Prius, what you know about it and its Hybrid Synergy Drive, as well as psychographic information).
- Continue to monitor sales on a monthly, quarterly, and annual basis on a regional and national level.
- Use on-the-spot surveys at events to find out public opinion and recall on the Prius and its exposure at the event.
- Toyota needs to look at box office sales, Nielsen ratings, magazine readership, and have a finger on the most influential celebrities.



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