

Comparing Between TOYOTA and HONDA Economically

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Abstract—Honda Motor Corporation and Toyota Motor Corporation were established in 1946 and 1937 correspondingly. Both of companies have been facing same political economical domestic and global challenges, They have comparable business assists like labor force, technology, information and capital then how come there be such a major difference in the overall business performance? This case highlights the role of leadership, corporate culture, corporate governance and financial performance and operational strategies of the two corporations.

Keywords—Toyota, Honda, Leadership, Culture, Governance, Alliance, Strategy



INTRODUCTION

In the world Trade, Automobile Sector is one of the largest sectors In the world Trades and major driver of business activities and economic growth it put multiple impacts on the economy .Day in da around 200,000 vehicles roll out the world assembly lines with car as the dominant segment of the industry France is the country where industry take birth and developed as modern industry through mass production of Model -T (1913) by Henry Ford founded Ford Motor Company in 1903. In 1908 William Durant establish General Motors after that in 1925 Chrysler was founded .Honda Motor Corporation and Toyota Motor Corporation were establish in 1946 and 1937 correspondingly Both major Japanese automaker have been in same business Both of companies have been facing same political economical domestic and global challenges, They have comparable business assists like labor force, technology, information and capital, from early 1970s Toyota had a increasing growth in its revenues ,market share and profit . In 1983 by the introduction of Camry sedan it effected the performance of Honda for four congestive years. from 1970 to 2005 Honda market share increases from 0 to 11% while Toyota make its progress from 2 to 16 % in category of car shares market share of car and light truck toyota make its progress from 2 to 13 % and Honda make its way from 0 to 9%. The purpose of this paper is to discuss those factors that contribute in the performance of these two automakers. Performance of forms can be effected by corporate culture, corporate governance, leader, operational strategies and their corporate competitive strategies. We will understand how leadership, corporate governance and leadership play its role in gaining and supporting competitive advantage for two corporations. Furthermore we discuss the possible challenges which they face will be address.

CORPORATE GOVERNANCE AND BUSINESS STRUCTURE

In the light of general corporate development of the Japanese industrial Zaibatsu and Keietsu we will understand the corporate structure and governance of Toyota and Honda. Early sines 1600 the merchant empires of Mitsui, Sumitomo and Mistubishi, Yasuda had limited control of trade in selected commodities like cotton, silk, smelting, copper mining and smelting .to have command in family business they make complicated rules so as to have a complete information about business Head of family was informed from each and every decision and Family Council which act as executives parliamentary function. As they did not have access to large amount of capital to expanded their business so they follow the rules and regulation for a few best commodities .in 1880 due to mass privatization program they came in link with Meiji government which result in expansion of their business. Meiji sold mani factories like steel, cement. Coal, machines, metal, textile and ships due to extensive debt during the period of transformation. There was no clear rules and regulation for sharing of public owned factories each family have some key indurates like ship building, machinery mining and textile etc. Start of Tokyo and Osaka Sock Exchange market take place in 1878 but the process start in 1870 by the trade of public bonds after the introduction of establishment of capital market into the economy by Meiji government. By catching the opportunity some leading business families issues their bonds in stock and get privatized procedure from government. That was the era considered as the beginning of Japanese Zaibatsu according to the views of many historians. "Due to family-controlled firms The Zaibatsu group was at the peak boarded on forming of pyramidal group of secondary business. Firms in different level of pyramid of business either directly controlled by subordinate of the peak firm or by some indirect subordinate their major objective was to get hold as much shares of the firm which are part of pyramid so that the total control still remain in the hands of top firm

either directly and indirectly. In simpler words we can say that Zaibatsu can be considered as publically traded but family controlled pyramidal industry which hold monopoly in many of industrial sector due to supporting from equity markets with vast amount of land assets, with the passage of time Zaibatsu groups develop its business and also adds banks in their business pyramids they put this sector on top position so as to provide enough finance for development of business. In 1937, under the Temporary Funds Adjustment Law (TFAL) Japanese armed government **de facto** make all the main firms publically owned (Morck and Nakamura, 2004). To centralize the planning and administration of economy TFAL formed a forecasting agency called "Kikakuin". before making and key decision like issuing equity or debt or making new ways for incorporation it require all board of director members to get the government permission .with edition to that by reallocating these powers to Kiakuin they government minimize the effect of government orders to eliminate boards rights regarding to dividends and to appoint manager according to their wish. The reason behind of all these activities to undertake amid to Zaibatsu for their risk aversion and their unpatriotic hunger for profit. By the time of world war II the commander of general of General Headquarters of Allied forces (GHQ) General MacArthur take action to "democratize" the Japanese economy by seizing stock of Zaibatsu families and selling them in the equity market in addition to that GHQ eradicated 1500 top officials, ranging from chairman to auditor in 405 firms joined with them but he relaxed the inter corporate risk among top Zaibatsu farms. Two criteria use by GHQ to determine which firm should select to eradicate 1) the level of industrial concentration of the firm with Zaibatsu 2) the individual firm capitalization. Toyota Motor Company was allied with Mitsui Zaibatsu but not as a direct coordinator. It retain all the executives because of the capitalization of 97 Million yen which was less then cutoff point. through the implementation of these policies the ownership equity of major corporation of japan was generally owned by individuals with strong financial and investment firms, However with the end of US profession in 1952 corporate control market quickly boom as Japanese firms started hostile takeover of others Japanese manager frustrated with the job insecurity of Anglo – American system and he started purchasing stocks from each other firms so as to move ahead of riders. major banks form were going to organize inter corporate equity placement in coming future and Keiretsu system arouse and major defensive measure against the holistic take overs . Keiretsu form two waves the first wave was to re-assemble the members of old Sumitomo Zaibatsus and Mitsui, Mitsubishi. The second wave started in 1960 which was the formation of financial Keiretsu by major banks of Dai Ichi , Sakura, fuji, we can say that currently Japanes Keiretsu can be categories into two groups called vertical and horizontal Keiretsus , the

horizontal Keiretsus also called "financial "Keiretsus this group is composed of large commercial industrial firms whose main focus is banks and approximating a grate range of diversity in the categories of firms these group have numerous specific features including crossholding of shares equity combined shared director and officer , funding of associated companies by central bank and widespread intra-group business transactions widespread intra-group business dealings. The reason if vertical Keiretsu groups was on the other side are business centered and consist of allied firms that are compose of supplier and or/ customers of the firms in the group .the lead firm of vertical group also act as a bond between and horizontal group which also include the small industries and parent group Keiretsu firms. With the edge of top management and executive and management Toyota evolve into an apex firm of vertical Keiretsu group. Honda started its process in 1937 by the funding offered by a friend in early years Honda company manufactured piston rings for Toyota company but in a short while Honda started to produce mass amount of engine rings for Toyota during world war II company came in control of war ministry , with the destruction of one factory due to war and one more factory in 1945 because of Makiwa earthquake new chapter of Honda begin by the formation of motorized bicycle under the name of Honda Technical Research Institute in 1949 and the remaining funds used To make the foundation of Honda Motor Co. Ltd , in 1964 Honda was among the world's largest Motorcycle manufactures and that was the name of which were well known on the street of Denton ,fresco Lewisville, TX. The first car model built by Honda Corporation was The T360 which wan in fact a small truck with motorcycle engine then came S500 the sports can and the series of production started by Honda .from 1953 to 1959 Honda was amount the largest selling motorcycle in the World. Toyota have to face some monetary difficulties in in late 1940s .Toyota paid off all its loan by 1977 and remain free from debt till now. Toyota culture values is based upon a tradition 1) auto industry should not be taken for granted Toyota position in the industry is not safe 2) a blood-closed public organization and keeping things within the family,3) maintaining and consistent training and effective use of human resources 4) a balanced management system of people by including everyone.

BRIEF HISTORY OF TOYOTA

A famous inventor Sakicho Toyota (1867-1930) give his elder son Kiichiro Toyota (1894-1930) the initial investment for the prototyping to automobiles. During his four month trip to United States sakichi develop a keen interest in automobile (1910). Natural disaster effect the economy of country to a great extent the great Kanto earthquake of 1923 it reduces Tokyo to rubble and effected badly the streetcar and train network .to cope up with the emergency situation Tokyo municipal Government bring in country 800 framework of

Ford Model –T trucks and modify its shape to an extent and then use it on the name of “Entaro “. Sakichi mourned the fact that in the period of such disaster to vehicle for reconstruction has to be imported from the foreign countries . At that time he came up with the idea According to him “Japan must have to build a motor vehicles it does not matter what sort vehicle you manufacture for ourselves (Toyota Motor Publication, 1985). By profession Kiichiro was a mechanical engineer trained from the University of Tokyo was very much interested to enter into automobile manufacturing industry in Japan one of the reason might be that Ford and General Motor were very much dominant in market of Japan that even the largest Zaibatsue of Japan did not put their investment in this sector because of greatest risk. However Sakichi’s made a firm believer in fulfilling the wish of his father so he decided to arrive into the market. The first car introduced by Toyota was a small car the SA Model in the year of 1947 through this they made their attempt to enter into this sector of automobile sector . In the year of 1958 they made their way by launching LA Forklift Model of car and made their way to international market by exporting this to US in the year of 19589 meanwhile Toyota production system (TPS) developed which focus on in time Kaizen and Kanban by the year of 1950s these factors become the reason for high performance and high quality for the suppliers of Toyota.

HISTORY OF HONDA

Dreams drive us to make state-of-the-art products and improve mobility which can benefit the society. To meet the need of customer around the world we need to have our research and development center, sales network and manufacturing facilities in every region of world.

Honda Motor corporation Ltd is the one of best known automaker company among the 2nd largest Japanese automaker but it has its major control in motorcycle and its world’s top motorcycle manufacturer mainstream of sales is made for Honda In U.S its well know top sellers are lehed, Civic, Prelude, CR-V and luxury Acura apart from that in case of industrial and agricultural sector company power products like portable generator , Outboard motors and all-terrain vehicle plays a major role in profit contribution of companies and earn a huge name in these power generation sector .

Soichiro Honda and his partner Takeo Fujisawa take the initiative of Honda. Soichiro Honda achievement record as an engineer match with those of Henry Ford. In 1938 Honda focus its effort on formation of perfect piston ring. Soon he become able to meet the standard of Toyota Corporation. During the years of World war II it survived by bombing knock but later get destroyed by earthquake during that time Honda move its self from piston ring to Motorbikes .For the formation of Company Honda Joined his efforts with inventer Takeo Fujisawa. Whom he know form 1940s. in 1949

Fujisawa provided sufficient funds and marketing strategies .after the success if first motorcycle success in Japan Honda astonished the engineering sector by double in the power of four stroke engine BY the time of 1951 the demand of Honda increases in number of folds and it was among one of four industrial leader till 1954 Honda have achieve 15% share of bike market by the time of 1956 with the evolution of technology racing began to pay off in commercial bike sector .in 1958 Honda 50cc Super Cub introduce with features of three-speed transmission automatic clutch ,automatic starter with friendly look of a bicycle . This product create the demand of 30000 units per month, with the success of that Honda got the first place among Japanese motorbike manufacturer companies with the sale amount of \$55 million. After that Honda started to expand its geographical region they entered in local southeast Asian in 1957 and 1958 , but they don’t gain much fame in this market , Fujisawa decided to target European market which was heavily dominated by their own local brands .in 1959 Honda form a U.S subsidiary—American Honda Motor Corporation ,Inc. Honda’s strategy was to target this market by creating the customer who never thought they could possess a bike they manufacture light in load and small motorcycle , and sold its unit for \$250 while the American machine rates started from \$1000-\$1500 . In 1967 it began to produce cars and trucks with that that started to target the power sector like portable generator , power tiller , pumps etc. , in 1973 the introduction of Honda Civic change the image of company the world was in oil crisis but by introducing energy efficient car they started to capture worldwide marketing.

EXISTING TECHNIQUE

Toyota’s Guiding Principles and Culture

Employees of Toyota Company heard the Toyota Percepts and read for the very first time on the 6th anniversary of Sakichi death on 30 October 1935. Those people who shaped these principle had been among the close people of Sakichi during the period when he was alive there rules and regulation represents the summery of his thinking, values, and ideas. These words still are part of company’s principle and have maintained their position among all the companies if Toyota Group They are:

- I. Be contributive towards the improvement and wellbeing of the country by working unitedly irrespective of the position just perform duties with honest and fulfill the assigned task.
- II. Be advance of the time by limitless creativity, curiosity and chase the ways of improvement
- III. Be Practical and try to avoid thoughtlessness.
- IV. Be lavish and kind: try to form the environment in which you feel atmosphere like of home.
- V. Be respectful, and show thankfulness for things in your mind and action.

The culture of Toyota Corporation basically based upon the above mentioned points these point act as a guiding principle to create and farmable the core values for the companies and make the comfortable environment for employees these are the core values and key principle of Toyota success, there things express that Toyota mare not only focus on a private and profit making organization but also try to take care of the country and employees. Concern for the society and employees is also the responsibility of the organization and every organization is responsible for it .Motto of Toyota corporation is “Enrich Society through Building Cars” that’s the primary symbol which shows its dedication towards the development of society. The administrative values of Toyota (Toyota Motor Publication, 1985) as April 1997 are as follows

Show respect to the language and essence of the law of every nation and accept as open and fair corporates happenings to be among the list of good business native of the world

Show your Admiration for every customer and every culture of the world and play your role in social and economic development by your business activities in different countries of the world

Devote yourselves to provide safe and clean product and enrich the quality of life everywhere in the world by your activates Provide out of mark products and services that can accomplish the needs of customer worldwide by crating and evolving advance technologies Form a culture which promote teamwork and individual creativity of the organization member and give respect to the member of management and labor for their efforts Find opportunities for growth with the global community by pioneering new management style To attain long term growth and enjoying the benefits try to work in partners in field of research and formation to attain stability in profits and by keeping our selves open for the new and upcoming business partners . kaizen (find a constant way of development and improvement) the secret of Toyota success lies in effective management and advance technologies and constantly find PDCA(plan–do-check-act); it’s a business related system which basically deals with effective production system, cost control and policy development system so as to work in different environment, By the formation of suggestion and quality improvement system Toyota engage employee participation and authorization related system so as to give importance to the employees. Also it develop a system of quality control to array its morals companywide groups like cost control committee, customer satisfaction committee.

HONDA GUIDING PRINCIPAL AND POLICIES

Setting of Company Principle, Management Policies and Fundamental Beliefs

Success of Honda lies in its philosophy of Essential beliefs which include the three Joys and Respect for the individual these are company main principal and management policies These philosophy is not only followed by all associates but also act as basis for all activities in company it act as a standard of behavior and helps in decision making throughout the Honda Group. **Driven by its dream** reflect its values Honda will continue its journey of challenges and share the happiness excitement and joy with community customer and around the world to become a company which meet the expectation of society

The Three Joys

➤ The Joy of Buying

This feeling is achieved by providing to products and services which meet the requirements and expectation of every customer

➤ The Joy of Selling

This feeling is attain by those people who are in field of selling of Honda product develop a mutual trust relationship with customer by this relation Honda dealer ,distributer, associates feel proud and happy in fulfilling the customer and representing Honda

➤ The Joy of creating

the delight of creating arises when engineer designer, developer supplier feel while manufacturing of Honda products and feel a sense of happiness in our customer and dealer. it occur when we exceed the expectation of customer

Respect for the Individual

• Initiative

means not to be restrict by rigid ideas, but to think innovatively and act according to your own decision and initiative, for that you must take duty for the consequences of those actions.

• Equality

means to respect and distinguish individual changes in one another and treat each other honestly. Our corporation is devoted to this belief and to creating equal employment opportunities for each individual.

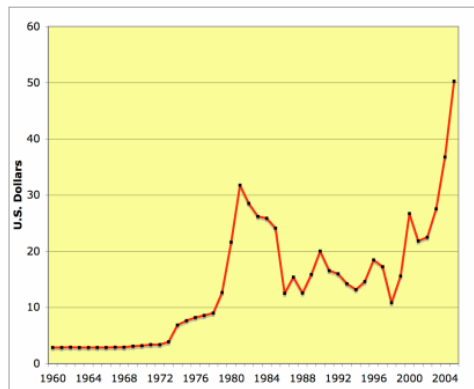
• Trust

The connection among allies at Honda should be built on mutual trust. It is formed by recognizing each other as individuals and helping other where others lack behind, accepting help where we lack behind, sharing of knowledge, and making a honest effort to fulfill our duties.

The Building structure of Human resource of Hondas followed by these Management Policies which make Honda a worldwide brand

- Move forward with youthfulness and determination
- Make effective use of time by developing fresh ideas
- Give a friendly environment to employees
- Straggly constantly for best results

Be ever mindful of the value of research and endeavor



MY CONTRIBUTION

The major factor which effect the decision of people related to the selection of car to purchase is oil prices. From 1970 to 2004 the world have to face eight major events which reshape the world economy as well as oil industry, from 1960 to 1972 crude oil prices was kept at about \$3 per barrel since 1974 the price increases and rises up to \$6 per barrel and never drop from blow from \$10 the biggest oil shock happen in 1979 when the price increases above \$10 per barrel and the rate increases as per year basis in 1980s it reaches up to \$32 per barrel. U.S. Crude Oil Wellhead Acquisition Price by First Purchasers (Dollars per Barrel) Source: www.eia.doe.gov. The incident ended at low oil supply in U.S. the impact was huge nearly every manufacturing industry specially car manufacturing industry effected a lot because of no other subsided other than crude oil and U.S was the biggest can consumption country of the world and it became very clear that high prices of oil changes the consumption pattern of people and open the new opportunities for the foreign manufacturing industries which were specified in small car formation. There was a great decline in sale of luxury car and then people purchase pattern move towards compact and midsize cars. With the increase of oil prices day by day the sales of midsize car increases and its market share reaches up to 50% while the market share of full size luxury car decreases up to 20%. From 1990 to today luxury car share is kept on 20% and midsize car become a dominant segment. In 1967-68 Honda started to produce cars and trucks in first phase it introduce light weight passenger car which could not perform well in both markets japanees and U.S markets, but then in 1973 it introduce energy efficient car Honda Civic and started to capture the market three years late the sale of Honda civic crosses one million then it introduce an higher price model by the name of Accord it sale grew both in Japan and U.S market it become the most popular middle class American car after the success of that in 1986 Honda introduce Acura A luxury car which also capture the market in 1980s era

Honda was among one of leading car manufacturer in the world Toyota was mastered in American truck manufacturing during 1930s-40s in 60s it learned small car manufacturing technology from European auto market. In U.S market Toyota was a symbol of productivity, quality, price and performance in field of small cars. Toyota strategy was of indirect technology transfer which involve coping of selective manufacturing technique, designs from altered automaker. Toyota engineer were capable to copy technology selectively form other manufacturers and combine advance features with their design. from indirect technology Toyota gain a great amount of valuable experience by combing the new features with design .by working on the above strategy Toyota made its name in U.S market the market life of Toyota was more then %60 . Honda and Toyota capture the U.S auto manufacturing market to a great extent.

Company name	Average annual unit sales	Unit sales annual growth rate	Average predicted reliability*
GM	1,390,146	0.081	2.15
Ford	1,221,466	0.044	2.68
Chrysler	654,053	0.161	2.42
Toyota	394,607	0.177	5.00
Nissan	327,008	0.210	3.93
Honda	221,030	0.570	3.90
Average	701,385	0.207	3.35

* 5 – Much better than average
4 – Better than average
3 – Average
2 – Worse than average
1 – Much worse than average

Source: Ward’s automotive yearbook; Consumer reports, buying guide.

Company name	Exited before 1979	Exited between 1979-1984	Exited between 1985-1989	Changed to midsize	No. of models exited in or after 1989	Average market life longer than 10 years	
GM	3	4	13	5	24	9	37.50%
Ford	0	8	3	2	15	8	53.33%
Chrysler	2	3	6	2	22	6	27.27%
Toyota	1	1	3	3	8	5	62.50%
Nissan	2	1	2	2	8	4	50.00%
Honda	0	0	2	2	5	4	80.00%

Source: Ward’s automotive yearbook.

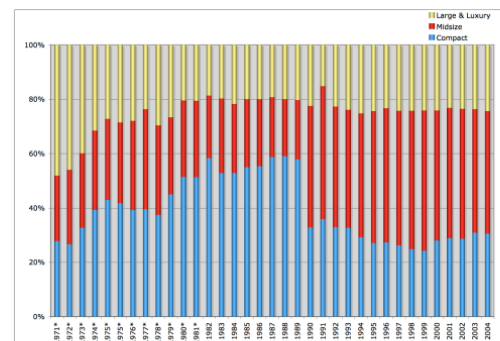


Figure 2.2 Percent of sales in the U.S. by market segmentation

* Only domestic-made data available.
Source: Ward’s automotive yearbook.

COMPARISON OF HONDA AND TOYOTA IN CASE OF

SELECTION OF STOCK

We will compare both of companies in Hanke-Guttridge discounted cash flow model the major advantage of his approach is explain capital expenditure as well as the growth in a company long term assets in other words it uses growth in balance sheet as a scale of capital concentration . The major companies in the car manufacturing industry have thin profit margin and large revenue bases, which in result a little change anywhere in cost structure produce big impression on free cash flow. It included industries cyclical sales makes understanding of company long term average margin. From historical point of view the auto companies offer great margin to shareholders. This table contain comparison of four major companies General motor Foard Honda manufacturing company and Toyota motors. Our approach utilize today stick price by apply discount cash flow model looking at the model we can predict that company have significant amount of margin than that of HONDA.

Historicals (5-year Average)	GM	F	HMC	TM
Revenue Growth	10.61%	6.30%	8.04%	5.70%
EBITDA Margin*	4.19%	8.88%	11.82%	10.41%
D&A	9.83%	3.97%	6.71%	1.82%
CapEx	10.96%	4.07%	11.20%	7.9%
Cost of Goods, net D&A	92.08%	83.53%	67.54%	80.16%
SG&A	8.93%	9.40%	15.02%	9.99%
Current Share Price	40.49	15.84	40.73	120.33
Growth From Last Year (to date)	33.02%	14.53%	6.71%	24.23%

Note: 5-Year Includes projections for end of 2013 Fiscal Year
*: Approximate value based on 5-year average cost structure

Share Price Projected by Our Discounted Cash Flow Model						
Revenue Growth vs. EBITDA Margin						
Revenue \ EBITDA	9.00%	10.00%	11.00%	12.00%	13.00%	14.00%
5.00%	5.23	13.35	21.47	29.59	37.71	45.83
5.50%	5.42	13.83	22.25	30.66	39.08	47.49
6.00%	5.61	14.34	23.06	31.78	40.50	49.22
6.50%	5.82	14.86	23.90	32.94	41.98	51.02
7.00%	6.03	15.40	24.77	34.14	43.51	52.88
7.50%	6.24	15.96	25.67	35.39	45.10	54.82
8.00%	6.47	16.54	26.61	36.68	46.75	56.82

Share Price Projected by our Discount Cash Flow Model						
Revenue Growth vs. EBITDA Margin						
Revenue \ EBITDA	9.00%	9.50%	10.00%	10.50%	11.00%	11.50%
1.50%	65.37	82.70	100.04	117.37	134.71	152.04
2.50%	68.36	86.87	105.37	123.88	142.38	160.89
3.50%	71.59	91.36	111.12	130.89	150.66	170.43
4.50%	75.07	96.20	117.33	138.46	159.59	180.72
5.50%	78.84	101.43	124.03	146.62	169.22	191.81
6.50%	82.89	107.07	131.25	155.42	179.60	203.77
7.50%	87.27	113.15	139.03	164.91	190.78	216.66

Honda - Stock Price \$40.73 Honda model reflect outstanding margin and revenue from Honda Corporation. If we talk about Toyota Corporation then information revile that on average market anticipates EBITDA margin to be in the range of 11% but in case of Toyota we can expect more from it because of having a better track record from previous years it is presumed that Toyota will lead with higher stock prices Toyota - \$120.33

From the above compassion we can conclude that because of least downsize risk and a number of upside optionality for Toyota it will be better to invest in Toyota due to best performance from previous years also with the minimum chances of losses.

Honda- Stock Price \$40.73

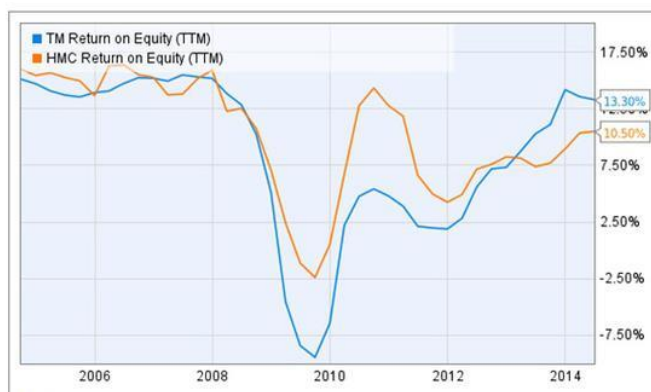
TOYOTA VS HONDA IN CASE OF ROI

Both automaker companies Toyota and Honda are among world's 100 biggest firm according to Fobes' May2014 among 2000 Global leading companies Toyota stood on 12 spot and Honda on 70 number. In the last fiscal year ended on March 2014 Revenue of Toyota was about \$234 billion and their profit was of \$17.9 billion, in the same year Honda generated sales of about \$108 billion and profit generated is 5.6 billion both of companies are among of greatest beneficiaries for the government of Japan. From investor point of view they have huge expectation which company generate greater amount of ROI for them.

The 5 Step DuPont Model			
Ratio	What it says	Toyota	Honda
Pre-tax pre-interest margin EBIT ÷ Sales	This measures the company's core profitability before interest and taxes. The higher the margin the better for investors	10%	7%
Asset Turnover Sales ÷ Average Assets	This computes the revenue generated per dollar worth of assets. A higher number would indicate more efficient use of assets	66%	81%
Interest Burden (EBIT - Interest Expense) ÷ EBIT	This gauges the impact of interest expenses on the company's profitability. A higher number means lesser burden	99%	97%
Tax Efficiency [1 - (Tax Expense ÷ (EBIT - Interest Expense))]	This calculates the impact of the effective tax rate. A higher number means lesser burden	69%	69%
Equity Multiplier (Average Assets ÷ Average Equity)	This measures the company's financial leverage. A higher ratio means higher debt, which in an extreme situation could lead to financial crisis or bankruptcy.	2.71	2.54

DECONSTRUCTING ROE

Toyota and Honda have reach neck and neck in the race over the last 10 years , return rate of Toyota is higher than that of Honda from the last 12 month it deliver around 13% return in equity while Honda ROE rate in 10% , largest automaker of world seems the better use of investor funds. To check company performance from ROE is not a good idea because ROE is a combination of several factors like higher proportion of debt and lower tax rate could increase ROE without any change in profit we will use Du pont Model which compute ROE as a five ration product blew chart explain its summery.



Both Toyota and Honda face same challenges like tax effect, interest burdens and equity but now we focus on the asset turnover and EBIT margin, Honda uses is assists more efficiently to generate sales but Toyota gain advantage by converting its sales into profit. Turnover ratio of Toyota assets remain in 60%-70% range in previous years. Honda turnover ratio does not change in last half decade from the last two years it reach close to 80% mark. In case of profitability Toyota sustain a greater EBIT margin as compare to Honda then that of last era Honda managed better during the cries period of 2011 due to tsunami in Japan Toyota made its lead over Honda in term of margin which in result converted into better shareholder equity.

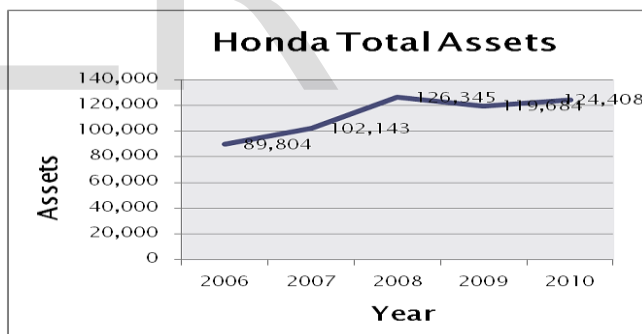
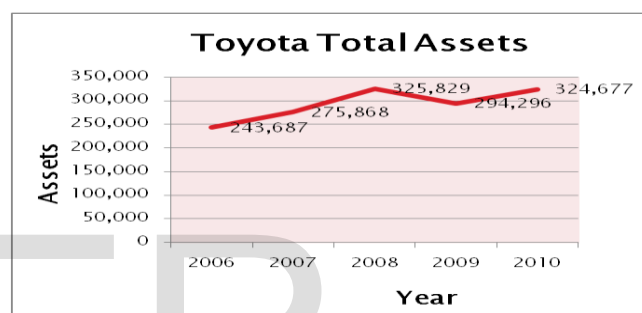


Toyota is making is roots in U.S market from its sales counterbalancing the weakness due to appearance of new markets like Thailand .For successfully capitalize for great demand for SUVs in U.S market company redesign the Lexus and GX models . Profit of Toyota for the quarter year ended in June was 587.8 billion yen which is almost (5.4 billion at current rate) it's much higher than Bloomberg analysts which was about 497.3 Billion. In the same quarter Honda increases 7.1% of its profit which is about 198.04 billion yen (1.82 billion) operating margin of Honda is 6.6% which 4.4 % lower than that of Toyota in the same period. Even the operating margin of Honda was 4.3% but it started

its new factories in Mexico, Brazil and Thailand. Honda's also working on its premium Brands like Acura. Luxury as helps to increase poor sales of Acura's in coming years of Honda Profit. Toyota forecast its operation income if 2.3 trillion yen and sales of 25.7 trillion ton while on the other hand Honda is looking at an operation income of about 0.77 trillion yen by the sales of 12.8 trillion yen which shows an operating margin of 6% .

COMPARISON IN CASE OF ASSETS

Assets are anything which can be retained .They are intangible and intangible or it can be retained so as to gain benefits it is normally held to have a positive economical values.



As it is clear from the graph companies in the auto manufacturing sector gain benefits from the assess of assets and capital such as maximizing the production capacity so as to gain economies of scale .to have adequate funds also made it possible to assess the modern technology for the industry .graph shows almost similar pattern assets increases till 2006-2008 because more people buy cars due to huge demand of Hybrid cars Toyota launch Prius while Honda came into market through Honda Insight their pieces were \$21,750 and \$20,470 and according to a recent news of Japanese newspaper Nikkei it came to know that the profit margin of both the companies was approximately \$3100.

CONCLUSION

Honda and Toyota Both Japanese Auto manufacturing industry playing a vital role in the economy of Japan also for the wellbeing of people by providing new opportunities and promoting a green environment. The objective of both corporations is to meet the expectation of customers through world class products and services by total commitment and continuous improvement. Prices of Honda are high as compared to Toyota which leads the customer to Toyota. Toyota covers more market segments also it targets middle class sectors, it brings more innovation and commonly available than that of Honda. Honda on the other hand has more brand name, more durability and resale value, what they need is to focus on new product development, supply chain management and total quality management so to satisfy the customer need more efficiently and effectively.

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