To continue on with the discussion of the AAA strategy. Having talked about adaptation, time to turn to aggregation. And again there's a reading that's been uploaded that focuses just on aggregation strategies. And what I really just want to do once again, is to get you to realize that there are lots of very specific strategic options buried underneath this overall label of aggregation. So again, let me just sort of rely on a case example as a motivator. The case concerns what, by most measures, is the world's largest automotive company. Toyota. And one of the surprising things I heard from former Chairman Fujio Cho when I interviewed him a few years ago, was this notion that Toyota intended to continue with it's global strategy. But, the approach taken was a very, very regionalized one. Because often there's a tendency to think of, regionalization as a second best alternative to globalization. And so for one of the world's two global, heavyweight companies to say that it's following the regional strategy is somewhat remarkable.

First of all, what motivates this regional strategy is amongst other things a very clear sense of differences across different regions. And in particular Fujio Cho's conviction that while there had been and was going to continue to be a lot of. Regional integration through free trade agreements, et cetera. Given the size and salience of the auto industry, free interregional trade in autos, struck, and continues apparently, to strike Toyota as very, very unlikely. So, here's a strategy that sort of you know. In terms of just its basic architecture, is deeply rooted in a sense of which differences are going to continue to complicate trade and investment to some extent within the automotive sector. Having said that, if we look at Toyota's evolution over the years. It also illustrates that there is no such thing as one regional strategy, even the label regionalization, actually conceals a lot of very different strategic options, which we can see. By looking at Toyota's evolution over time. So for the first 50 years of Toyota's existence 95% plus of production was in Japan and although some exports did start to the U.S. back in the 1970s in the wake of the oil price crisis. It made most sense to look at Toyota through the 1970s, as a competitor really focused on a single region, which as is usually the case, was its home region. And 88% of the Fortune Global 500 still derive the bulk of their revenues from their home region. So this may seem like a very simple strategy, but it's a very, very common strategy at least in terms of the implications for geographic footprints etc.

In the 1980s was when Toyota started to make it's first investment in the U.S. because with the risk of Japanese auto exports to the U.S. and protectionist rumblings. There is a desire amongst other things to diffuse some of the political tension that surrounded Japanese car makers incursions into the U.S. and also to frankly to create a little bit of production capacity. As a hedge against either drastic protectionism or further shifts in the exchange rate that might make production out of Japan for the U.S. market much less economical. And so you start to see a second region, in particular the North America, being developed as. As a hedge in some sense as part of a portfolio strategy that involved having more than one meaningful region within Toyota's operations.

In the 1990s, this process of implanting itself in regions beyond East Asia continued. And there was emphasis on trying to take Toyota's key regions, East Asia, North America, and to a lesser extent, Europe. And try and ensure that they actually built a fuller set of capabilities. As a way of competing more effectively in these markets. So, this was the time that design facilities first started to be located, some of them in the regions, rather than at home. This was also, this was also the time when for the first time Toyota started to engage in the production of some cars. Just for particular regions. Historically this has been a taboo at Toyota, but again, it was a way of trying to make these hubs a little bit more freestanding, and to try and make sure that Toyota actually had depth in each of its regions. Overlapping with this move towards regional hubs was the continued development of global cars, such as the Corolla, the Yaris, the HiLux, et cetera. And a very important part of that, through the 1990s, was this notion of ensuring that there were enough commonalities across cars in, cars that Toyota made in different regions. That some of the scale sensitive platforms could actually be shared across them. And so, we no longer have one region. We no longer have multiple free standing regions. We have multiple regions with some attempts at greater coordination.

In the course of the 21st century, Toyota has pushed further in this direction. Now it's not just platform sharing across different regions as a way of achieving scale economies. There are a few instances where particularly scale sensitive components had been given to one region, to manufacture for pretty much the rest of the Toyota system. Good case in point would be the global pickup truck project which basically ensured that the same engines and manual transmissions produced in Southeast Asia, would be used pretty much in all Toyota pickup trucks around the world. To take advantage of the economies of scale associated, with these two particular important items. With the only exception being the U.S. where the pickup trucks demanded are much larger, and where therefore if Toyota really wants to compete with Ford 150. And other very successful heavy U.S. pickup trucks, it needs a somewhat different platform and can't really share that with other regions. So as one looks at the sequence, which literally has unfolded over many, many decades. This is a little bit of a reminder that simply saying that you've got a regional strategy really doesn't pin things down. There are a lot of different ways of constructing a regional strategy, that should provide us with some inkling of the amount of strategic choice that goes into. Deciding how exactly to implement one of these AAA strategies.

So one point, and so far we've focused really on regional strategies as an example of aggregation strategies, one point is that even regional strategies come in a variety of different flavors. The second point that I want to make to remind you of the breadth of aggregation strategies, is that regions are just one particular country based basis for aggregation, and that we can actually think of many other bases of aggregation. That might make more sense, in other circumstances. So in terms of just other country level bases of aggregation, beyond the geographic region, which is what we've talked about so far, there're some companies that use culture as a grouping device. So there're a number of corporations that treat Ibero America as one market, even though the Spanish and Portuguese part of Ibero America is geographically quite far removed, from the Central slash South American part of Ibero America. And here the notion is, with common languages, colony colonizer linkages, similarities in legal codes. There may, might be some economies, or some advantages, to treating the countries that fall within this grouping as being relatively like each other. administratively, there are lots of examples of countries that look at you know administrative commonalities in terms of deciding where to draw the boundaries. Of a particular aggregation scheme. So lots of companies have organizational focus on countries that are pulled together by a free trade agreement for obvious reasons. Within a free trade agreement, if trade really is free. You can make your investment in other decisions on an integrated basis, and in any case, we know countries with a free trade agreement are likely to have some other commonalities as well. So, this is not really so much a geographic basis of aggregation though, as it is an administrative base, basis of aggregation.

Geographically one can think of bases of aggregations other than continental regions which have, so far, been the implicit focus of our discussion of the Toyota example. And so you know? There are, for instance, there are companies that aggregate by continental sub-region. So, Benelux, Belgium, Netherland, and Luxembourg, are often put together, at many firms. Because these are relatively small countries, they're relatively alike. They're closely integrated with each other. And some economies, in terms of managerial time and supervision, can be achieved by treating them as one unit rather than as three distinct countries. And then finally economics is also a basis for aggregation strategies. An increasing number of companies actually have emerging market units now within their organizations. That are explicitly meant to help them ride this big shift, towards emerging markets that we discussed towards the end of session six. And those are just country-based bases of aggregation. There are also lots of non-country bases of aggregation, that I'm going to cover even more briefly.

Some companies, basically, just aggregate by business unit. And sort of set up global business units that are responsible for trying to make sure, that at least, in certain business areas. Things are approached at a global level, and ideally global economies of scale are tapped, other companies don't try and put everything under global business units. But, for instance, certain investment banks do track their, do serve their largest customers with global accounts. In other words, they have in other words, they have. One team that's allegedly responsible for coordinating all of the company's interactions with one particularly important customer. A good example of that is provided by the Professional Services Firm WPP. And what they did for Ford, when Ford wanted global coordination. Of all it's advertising messaging in different countries. Yet other companies aggregate by client industries so, you know, there might be an IT services firm might have one vertical serving industry, another vertical serving customers in the mining sector, so forth and so on. And then there are companies that sort of aggregate by function. So an oil company will typically group its exploration activities worldwide into one unit, because there's much to be learned across them. Similarly, if my group its production of activities worldwide, it would typically have market facing downstream units though.

So all this is meant to suggest that even when complete standardization isn't possible, there are usually ways of grouping things, whether by country or on some other basis. That might allow a company to get beyond country-by-country adaptation, and the sacrifice of cross border scale economies. That that inevitably entails. It's a situation where it can tap at least some benefits across countries or units, that are relatively similar to each other. So again, another area that you can read about further.