

HONDA IN EUROPE

Introduction

The Honda Motor Company first entered the European market in the early 1960s through the sale of its motorcycles. The company's motor vehicles were introduced into Europe at a much later date. Honda's motor vehicle sales in Europe have been relatively poor, especially in the previous five years. Despite its huge success in the North American market, Honda is struggling to gain a significant foothold in the European market. Honda executives wonder why their global strategy is sputtering. Is global strategy just a pipedream, or is something wrong with Honda's European strategy?

History of Honda

In 1946 Souichiro Honda founded the Honda Technology Institute. The company started as a motorcycle producer and by the 1950s had become extremely successful in Japan. In 1956, Honda entered the US market and was able to position itself effectively, selling small sized motorcycles. In the early 1960s, the company commenced automobile manufacturing and participated in Formula-1 racing (F-1) to assist its technology development. Thanks mainly to its F-1 efforts, Honda became recognized, not only in Japan but in the rest of the world as well, as a technological savvy company.

Up to the early 1990s the company had experienced serious organizational mismanagement resulting from tension between the technology side and the marketing-

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sales side. The situation became so dire, that the technology biased president and founder, Souichiro Honda, was forced out, due to his neglect in important marketing decisions. After Souichiro Honda's departure, the company became more marketing-technology balanced, and by 1999 was second in sales only to Toyota in the Japanese market. The underlying success of the company is best summarized in its mission statement, "pleasure in buying, selling and producing", and "Beat GM, not Toyota". Honda currently has 25 separate factories in the world, and its operations cover automobiles, motorcycles, financial services, power products and power tools. In the fiscal year 2001, 81% of Honda's revenues came from its automobile sector, as outlined in the table below.

Honda's business portfolio (in million yen)	
Motor cycle	805,304
Automobile	5,231,326
Others	427,200
Total	6,463,830

Automobile industry

The automobile industry worldwide is in the mature stage of its life cycle. By the 1990s, an oversupply of motor vehicles became such a problem to the industry that a number of mergers and acquisitions (M&A) and alliances took place. Industry experts stated in the late 1990s, only 6 or 7 companies would remain global players while other companies will be forced to sell in niche markets. In the last decade DaimlerChrysler acquired a major share of Mitsubishi, GM became the controlling shareholder of Fiat and Saab, Ford acquired Volvo, Jaguar, and a major share of Mazda; and Renault became the controlling shareholder of Nissan. Global scale production and sales became important as a way to cutting cost through developing common platform or engines as well as global procurement. Unlike their European and American counterparts, Japanese automobile

companies, including Honda, did not adopt the M&A strategy for expansion. To remain as a global competitor, Honda instead expanded its operations by setting up plants in regional markets. The table below shows that Honda is currently ‘the number 7-car company’ in the world.

World Automobile Production Ranking		
Ranking	Name	Number (million)
1	GM	7.58
2	Ford	6.68
3	Toyota	5.27
4	Volkswagen	5.11
5	Daimler-Chrysler	4.36
6	Peugeot(Citorenge)	3.14
7	Honda	2.67
8	Nissan	2.58
9	Hyundai-Kia	2.51
10	Fiat	2.41

Honda in Europe

Currently Honda has five global operations, North America, South America, Japan, Asia-Oceania, and Europe. The European operation covers Europe, the Middle East, and Africa. Honda entered the European market in 1961 as a motorcycle manufacturer, with its automobile operations following several years later. In 1986, Honda started engine production in the UK, and 6 years later it launched its European production at Swindon in Somerset, UK. Honda opened production facilities in Turkey in 1999 to target the Middle East and Eastern European markets. The European operation accounts for a small portion of Honda’s global operation, as shown in the table below.

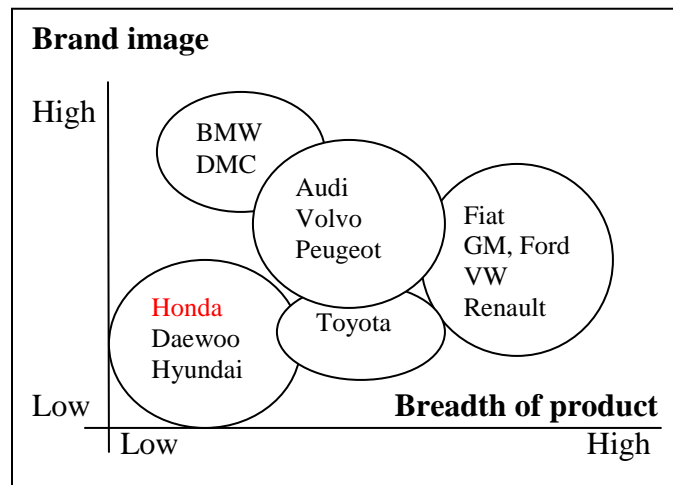
Honda's Global Sales by Region

Net sales (in billion Yen)	year 2000	year 2001	Unit sales (in thousands)	Year 2000	Year 2001
Japan	1393	1529	Japan	706	776
US	2781	2999	US	1295	1346
Europe	449	311	Europe	249	191
Other	335	391	Other	223	267

There are a number of reasons for the low sales in Europe. Honda entered the European market rather late, and its first production facility in the region was built in 1992, at a time when Honda was still only a minor player in the Japanese market. Prior to 1992, Honda Europe was forced to import its vehicles from the US, making it impossible for the company to aggressively attack the European market. One of the most important reasons for the lack of success was that the European market was highly saturated with locally owned car manufacturers. Companies such as Saab, Volvo, BMW, Audi, Volkswagen, DM, Opel, Renault, Peugeot and Fiat have been dominating the European market for a considerable number of years. In addition, other foreign companies, such as Toyota, Nissan, Ford and Hyundai make the European market extremely competitive.

In 2001, Volkswagen was ranked number one in Europe with 17.6% of the market and Peugeot number 2 with 15.8%. Renault, Ford, Fiat, GM had approximately 10% of the market each, and Toyota, BMW, and Audi had a market share in the region of 5%. Honda captured only 2.4% of the European market. The competitive industry map below shows Honda's current position in the European automobile market.

Brand Image in Europe



The Honda brand image in Europe is relatively weak and the product line is narrow compared to the other major players in the market. The company needs to expand its sales and production to survive in global scale competition.

Honda's European Marketing

The four largest markets within the European market are that of Germany, UK, Italy and France. Honda's European marketing strategy in those four countries is highlighted below.

Product. Honda's European manufacturing plant is located in the UK, and as result the country has more Honda models than any other country in Europe, with a total of 20. Germany, the country with the highest number of vehicle registrations, has the next largest number of models, 16. Italy and France, both similar in size to the UK have 11 and 9 models, respectively. The products found in Italy and France, are found in

Germany and the UK. The UK has a number of automobiles that cannot be found in the other three countries including diesel-powered cars.

Price. The prices of Honda's vehicles in Europe are comparable to similar cars produced by local manufacturers. The table below compares the price in euros of Honda's new 1.4-liter Jazz with similar cars offered in the European market.

Automobile Prices

Vehicle	Honda Jazz	Peugeot 307	VW Polo	Renault Clio	Opel Astra	Fiat Stilo
Price (euro)	13,800	13,250	13,930	13,650	13,400	13,500

The table clearly implies that Honda is attempting to price its product at a similar level to competition.

Distribution. The image of Honda's vehicles and motorcycles in Europe is aligned together. Consequently Honda vehicles throughout Europe are distributed at the same locations that their motorcycles are. Vehicles produced in the UK and Turkey are distributed throughout Europe, the Middle East and Africa. Recently, due to the depreciating Euro vis-à-vis the US dollar, cars manufactured in the UK have also been exported to the US.

Promotion. The promotion of Honda's motor vehicles is essentially the same throughout Europe, whether in France, Germany, Italy or the UK. The company spends very little time and money in promotion, however. It believes that its success in Formula 1 racing, together with its ability to produce high mileage fuel efficient products that exhibit great engineering is enough to make it a popular in the European market. It relies on word of

mouth by its customers to potential customers and to a lesser extent on the Internet and the company's various websites.

In the recent 2002 launch of the Jazz (known as the Fit in Japan), the company relied heavily on word of mouth and on a website created especially for the occasion. The website, the same design for all European countries, promoted the car as suitable for young workingwoman. The website attempted to give the car a cool, 'young' image by associating it with Feng Shui, Yoga and other relatively hip 'activities'. A sense of fun was also attached to the website, in an attempt to draw in the young woman. Once inside the Jazz website, the user could easily find the nearest dealership to purchase the vehicle.

European Sales

The table below shows the sale figures for Honda's eight most popular motor vehicles in the last six years. Honda's most successful year was in 1998, however since then sales have been decreasing dramatically.

Honda's Unit Sales in Europe: 1996-2001

Year	Civic	Accord	Shuttle	CR-V	HR-V	Logo	S2000	Stream	Total
1996	150,783	44,248	3,255	11					203,276
1997	160,530	39,410	3,278	16,502					232,242
1998	151,270	31,536	4,670	41,886	88				240,489
1999	99,156	48,835	4,261	35,923	26,257	12,856	1,179		234,942
2000	74,653	46,579	2,956	29,751	28,537	10,593	3,948		201,284
2001	83,024	28,822	320	24,381	17,726	4,145	2,195	7,283	169,922

Honda's motor vehicles have been relatively unpopular in the majority of Europe, in particular Italy and France. The company's best sales have occurred in the UK and Germany as shown in the table below.

Honda's Unit Sales in Europe by Country: 1994-2001

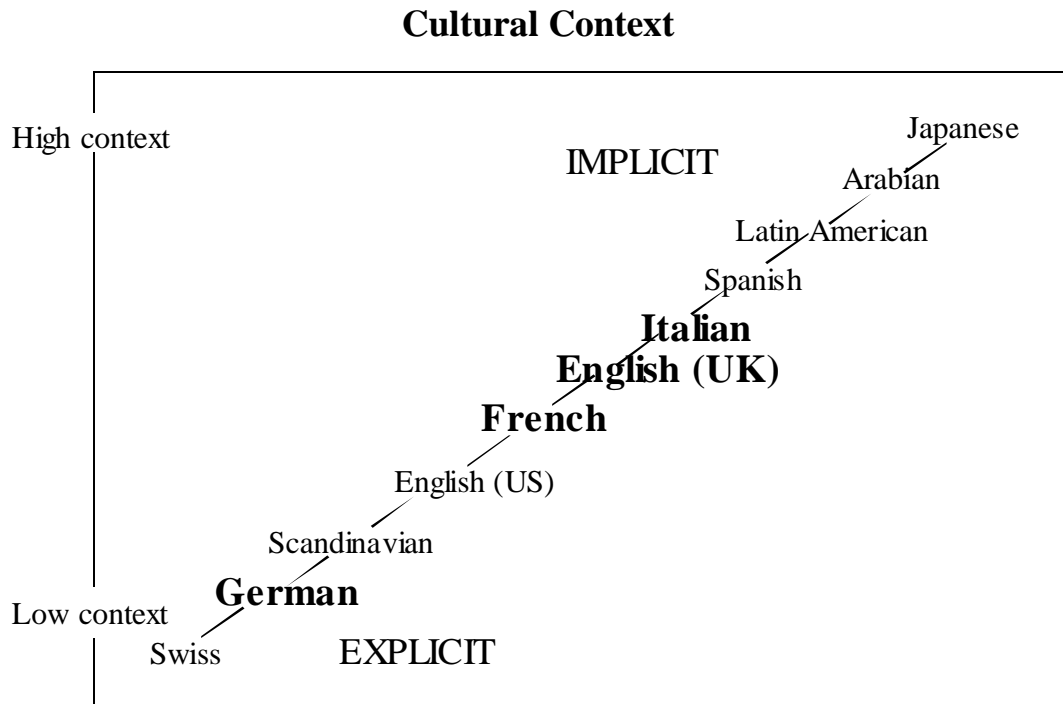
Country	1994	1995	1996	1997	1998	1999	2000	2001
U.K.	38,187	45,772	50,075	55,611	61,044	65,290	68,736	63,459
Germany	53,687	52,614	54,550	55,918	48,247	43,610	33,536	31,868
France	14,411	11,848	13,260	12,585	14,095	15,270	8,717	6,495
Italy	12,063	14,101	15,014	25,406	24,532	22,031	18,570	13,732

European Culture

The relative poor showing of Honda vehicles in Europe may be explained by a number of reasons. The main problem was that the company failed to truly understand the culture of Europe and more importantly it treated Europe as one giant single market. Though France, Germany, the UK and Italy are all European, cultural differences abound between them. One theory that explains the differences between the four nations is that of high-context versus low-context cultures. In a high-context culture, the interpretation of messages depends on contextual cues like gender, age, balance of power, etc. and not on physical written text. In a high context culture there are things that are not said but are understood. Countries considered to be high-context cultures include China, Japan, Italy, France, Spain and the Latin American countries.

Conversely, a low-context culture emphasizes distinctive written text or spoken words, where ideas are communicated explicitly. Low context cultures expect others to say what they mean and do what they say. There is far less emphasis on contextual cues such as ranking and balance of power. Examples of countries that fall within this

category are the United States, the Scandinavian nations and Germany. The figure below presents a graphical view of high-context and low-context countries.



Successful advertising in low context cultures differs from that in high context cultures. An advertisement for a high-context culture is based on an implicit style where the emphasis is on the overall feel and outlook rather than the feeding of pure information. In this type of advertisement, the actual product may not even be shown. The audience may be only given implied images and sublime messages. Honda's Jazz website contained a large amount of information which would have been too much for high-context cultures such as the French and the Italians. In addition, high context cultures have been much slower than their low context counterparts when it comes to adopting the Internet.

On the other hand, the advertisement for a low-context culture includes the actual product, together with a large amount of information. Low context nations such as Germany would have most likely been able to appreciate Honda's Jazz website. It is therefore unlikely that an advertisement/promotion campaign created for a high-context culture will be effective in a low-context culture country and vice versa. Since Europe consists of both high-context and low-context culture countries, companies, such as Honda, intending to expand its business should take into consideration two separate market segments when planning its marketing strategy. The situation of Honda in France, Italy, Germany and the UK in regard to their culture are outlined in the following sections.

France. France is a high-context culture where style and image is of the utmost importance. The perceived quality of a product means that the French have a bias towards the style and image of a product. The image of Japanese cars in France is relatively poor, dating back to the 1930s when Japanese manufacturers entered the European market with low quality products. Since that time, Japanese carmakers, in particular Honda, have not understood the concept of style and image in marketing. They appear to only show a car in a factual way, which is extremely low-context. Japanese carmakers in France have recently tried to alter their image, though with limited success.

Today, France's image of Japanese cars, and in particular that of Honda is that of a small, low quality car, only suitable for a second car. Most buyers of Japanese cars are young career women who have just entered the workforce and housewives with limited cash. The main family car is likely to be a Renault or Peugeot and is driven by the man in the family. In addition, the French are risk averse people, who dislike trying new

things. They are also highly patriotic, supporting and purchasing their national products, such as Renault and Peugeot cars.

The patriotism, risk averseness of the French, together with their low image of Japanese cars and the large number of other European automobiles available in the market, makes it extremely difficult for Honda to be successful in this market.

Italy. Italy, like France, is a high-context culture where a great deal of emphasis is placed on feeling and style. The Italian culture is reflected in their daily lifestyle, which gives a sense of romance to the people living there. As in France, the Italians view Japanese cars as small low quality vehicles, suitable only as a second family car. The most popular automobile in Italy, especially for families, is the Fiat. The dominance of the Fiat is due to the Italians, like their high-context cousins the French, being very patriotic.

Italians are also risk averse and are not adventurous in sampling products outside of Europe. Italians, like the majority of Europeans love to drive diesel automobiles. Only the French enjoy driving diesel cars more than the Italians. However, Honda produces very few diesel cars and the only country that they are offered is the UK, where they are relatively unpopular. The following table shows the 5-years diesel cars market share percentage in the UK, Germany, France and Italy.

Market Share of Diesel Cars by Country

Year	U.K.	Germany	France	Italy	Euro Avg.
1997	16.17	14.9	41.8	16.9	25.2
1998	15.28	17.6	40.2	22.3	27.7
1999	13.8	22.4	44.1	32.1	33.1
2000	14.1	30.3	49.1	33.3	33.3
2001	17.7	N.A.	N.A.	N.A.	N.A.

The table shows that diesel cars account for 30 to 50 percent of vehicles in France, Italy and Germany. The reason for the huge popularity of diesel cars could be due to the high gasoline price in those countries. Diesel engine cars are cheaper to maintain in the long run, compared to gasoline engine cars.

A large number of European cars compete in Europe, particularly at the luxury end. BMW, Mercedes and Audi are very popular for the very rich, as are Ferrari, Lamborghini and Porsche. It is difficult for Japanese cars to enter the European market, especially at the higher end. The only Japanese cars that are selling reasonably well are Toyota's Yaris, Nissan's Micra and Jazz from Honda. All three models compete in the 1.4 liter and under segment.

Germany. Of the four main European countries that Honda is sold in, Germany has had the second highest sales volume. Germany is a low-context culture where practicality and durability is one of the main concerns of a product. Consumers are concerned with every detail regarding a product and wish to know all relevant information before making a purchase. The style of promotion used by Honda on the Internet, bursting with information on their automobiles seems to be an appropriate form of promotion for the low-context nature of the Germans.

Another factor that should place Honda's products in a better position in Germany is that Germans are more willing to take risk and purchase new products. As a result, Honda would not have to spend additional resources to change the image of their vehicles in Germany, as it should probably do in France and Italy. However, in reality, Honda's sales have been dropping rapidly in the past five years, 50% of what they were five years ago. If Honda's promotion is in line with the German's low context nature, there must be another reason for the decrease in sales. The most logical is the perceived nature of Honda's quality. The company needs to use its marketing to promote quality because competitors, such as Mercedes (under DaimlerChrysler), Audi, Volvo, Jaguar (under Ford) and Volkswagen, to name a few, are seen as high quality carmakers.

The United Kingdom. The English are a moderately high-context culture, who focus on tradition and class. Accordingly, the type of advertising and marketing promotion that will appeal to the English is similar to that popular in France and Italy but more conservative in nature. On the other hand, the English are more individualistic and less risk averse than the French and Italians. Hence, it should be easier for Honda to introduce its range of cars in the UK and improve sales. The fact that the manufacturing plant is located in the UK helps in the promotion of the cars. The construction of a second assembly plant should also help Honda's position in the UK.

The existence of the assembly plant, together with the risk taking nature of the English has increased the number of Hondas sold in the UK in the last five years to such a level that they are easily Honda's best market. The number sold in the UK as of 2001 is twice that of Germany, which only five years ago recorded more sales than the UK.

However, no Honda vehicle has entered the top ten cars sold in the UK, as shown in the table below for 2001.

Top 10 Cars Sold in Europe

1.	Ford Focus
2.	Vauxhall Astra
3.	Ford Fiesta
4.	Peugeot 206
5.	Vauxhall Corsa
6.	Ford Mondeo
7.	Renault Clio
8.	Renault Megane
9.	Volkswagen Golf
10.	Citroen Xsara

Possible Entry Wedge

A possible entry wedge exists in Europe that could help Honda recover some of its lost ground. The European automotive industry is committed to a voluntary agreement to reduce CO₂ emissions by 25% from the 1995 levels by 2008 for all new cars. As an incentive for individuals to drive low emission cars, special tax brackets will be given to drivers of low emission cars.

In 2001, Honda's Insight produced the lowest levels of CO₂ emission of any car in Europe. The following table shows the 5 cars with the lowest CO₂ emission.

Top 5 Cars with the Lowest CO₂ Emission

Rank	Car	Engine	Gas Type	CO ₂ g/km
1	Honda Insight	1 liter	Gasoline	80
2	Peugeot 206	1.4 liter	Diesel	113
3	Toyota Prius	1.5 liter	Gasoline	114
4	Renault Clio	1.5 liter	Diesel	115
5	Audi A2	1.4 liter	Diesel	116

The ranking is an excellent opportunity for Honda to promote its cars in Europe, where people (especially in Germany) are obsessed with the environment and are burdened with high taxes. In addition, Honda is introducing the Civic Hybrid in 2003. It is a gasoline-electric power train, fuel-efficient car with a low CO₂ emission level. Although the car has an electric engine, it does not need to be plugged in and recharged. The battery pack recharges itself automatically as the car is running.

The Issue

Honda is currently at the crossroads of its European expansion in the automobile market. Honda has been successful in managing to market essentially the same cars in many parts of the world, particularly in the North American and Japanese markets. Honda executives are wondering whether they should adopt more localized product development in Europe or not.

Discussion Questions

1. Does adapting the promotion of its motor vehicles to suit each country's culture make sense for Honda?
2. Is it wise for Honda to market its products the same in every country?
3. Is pricing its vehicles similar to the competition, a good strategy for Honda?
4. Should Honda change its product mix from country to country?
5. Is distributing their motor vehicles together with their motorcycles a good strategy for Honda?
6. Is the European market too competitive for Honda?