Hondas Marketing Strategy

The American Honda Motor Company was established as a subsidiary by Honda in 1959. During the 1960's the type of motorcycles brought by Americans underwent a major change. Motorcycle registrations increased by over 800,000 in five years from 1960. In the early 60's the major competitors were Haley - Davidson of U.S.A, BSA, Triumph and Norton of the UK and Motto - Guzzi of Italy. Harley-Davidson had the largest market share with sales in 1959 totalling a6.6 million dollars. Many of the motorcycles produced were large and bulky and this led to the image of the motorcycle rider as being one who wore a leather jacket and went out to cause trouble.

The Boston Consulting Group (BCG) report was initiated by the British government to study the decline in British motorcycle companies around the world, especially in the USA where sales had dropped from 49 0n 1959 to 9 0n 1973. The two key factors the report identified was the market share loss and profitability declines an the scale economy disadvantages in technology, distribution, and manufacturing. The BCG report showed that success of the Japanese manufacturers started with the growth of their own domestic markets. The high production for domestic demand led to Honda experiencing economies of scale as the cost of producing motorbikes declined with the level of output. This provided Honda to achieve a highly competitive cost position which they used to penetrate into the US market. " The basic philosophy of the Japanese manufacture is that high volumes per model provide the potential for high productivity as a result of using capital intensive and highly automated techniques. Their marketing strategies are therefore directed towards developing these high model volumes, hence the careful attention that we have observed them giving to growth and market share." (BCG p.59).

The report goes on to show how Honda built up engineering competencies through the innovation of Mr Honda. The company also moved away from other companies who relied upon distributors to sell their bikes when the company set up its headquarters in the west coast of America. The BCG found that the motorcycles available before Honda entered the market were for limited group of people such as the police, army etc. But Honda had a "policy of selling, not primarily to confirmed motorcyclists but rather to members of the general public who had never before given a second thought to a motorcycle"(SP p.116). The small, lightweight Honda Supercub sold at under 250 dollars compared to the bigger American or British machines which were retailing at around 1000 to 1500 dollars. In 1960 Honda's research team comprised of around 700 designer and engineer staff compared to the 100 or so employed by their competitors showing the value which the company placed on innovation. Production per man-year was 159 units in 1962, a figure not reached by Harley-Davidson until 1974.

Honda was following a strategy of developing region by region. Over a period of four to five years they moved from the west coast of America to the east coast. The report showed the emphasis which Honda paid to advertising when the company spent heavily on the advertising theme " you meet the nicest people on a Honda" thereby disassociating themselves from the rowdy, hell's angels type of people.

Essentially the BCG is portraying Honda as a firm dedicated to being a low cost producer, utilising its dominant position in Japan to force entry into the U.S market, redefining that market by putting up the nicest people image and exploiting its comparative advantage via aggressive advertising and pricing.

Pascale tends to disagree on many points of the BCG report. The report suggests that there was a smooth entry into the U.S market which led to an instant success. Pascale argues that Honda entered the American market at the end of the motorcycle trade season showing their impotence to carry out research in the new market. As they entered the market at the wrong time sales were not as good as they should have been and any success was not going to be instantaneous. Pascale also criticises the assumption that Honda was superior to other competitors in productivity. He says that Honda was successful in Japan with productivity but circumstances indicate that the company was not superior. The lack of funding from the ministry of finance and the ploughing back of profits into inventory meant they had a tight budget to follow.

The BCG report shows that Honda had a smooth policy of developing region by region, moving from the west to the east. Pascale response is that this is partly true but reminds that Hondas advertising was still in Los Angeles in 1963, four years after setting up their subsidiary. The report to the British government showed that Honda had a deliberate strategy of disassociating themselves from the hells angels type of people by following the nicest people advertisement policy. Pascale shows that this was not an intentional move since there were disputes within the company with the director of sales eventually persuading to management against their better judgement. The BCG report found Honda pushed into the U.S market with small lightweight motorbikes. However Pascale says this is again not true. He argues the intended strategy was one of promoting the larger 250cc and 350cc as Honda felt that this was what the market wanted since Americans liked all things large. The bikes were unreliable which led to the promotion of the supercubs. These bikes salvaged the reputation of the company. An idea which hardly came from an inspired idea but one of desperation. Overall Pascale gives the impression that it was through an incidental sequence of events which led to Honda gaining a strong hold in the U.S market, mainly through the unexpected discovery of a large untapped segment of the market while at the same time trying to retain the interest of the current market.

The criticism made by Pascale can be further analysed by looking at the strengths of the Honda company.

The strengths of Honda start with the roles which the founders played. Honda was an inventive genius with a large ego and a volatile temperament. His main concerns were not about the profitability of the company or its products, but rather to show his innovative ability by producing better engines. Fujisawa on the other hand thought about the financial section of the company and how to market the ideas. He often challenged Honda to come up with better engines. By specialising in their own abilities the two of them were able to pool together resources and function effectively as a team.

Another strength was the way the company utilised its market position. Strengths in design advantages and production methods meant they were able to increases sales in Japan even though there was no organisation within the company. Once there was a large enough demand for its products, mainly the supercub, Honda both in Japan and in America, moved from a sale on consignment basis to one that required cash on delivery. This seemed a very risky decision to make at the time but within three years they had changed the pattern within the motorcycle industry by shifting the power relationship from the dealer to the manufacturer. Mr Honda had cultivated a "success against all odds" culture into the company. This was tested when he sent two executives to the U.S with no strategy other than to see if they could sell something.

The weaknesses within an organisation can become irrelevant if the strategy is strong and there is good leadership.

An element of luck also helped Honda follow an emerging strategy. Restrictions placed on funds by the government for the U.S venture forced Honda to take an alternative route. If they had all the funds necessary they may well have gone through the normal distribution channels.

Honda entered the us market right at the end of the motorcycle trade season. When leaking oil and clutch problems occurred on their bikes it did not affect Honda as hard as it would have had they entered in the beginning of the season. Also people noticing the Supercubs led the company to produce a bike which was not at first supported by senior management.

The success of Honda was not the result of senior management coming up with all the answers. In fact senior executives in most Japanese manufacturing companies do not take their strategic positions too seriously. Salesman, cleaners and those working on the manufacturing floor all contribute to the company is run and thereby influence its strategic position. It is this ability of an organisation to move ideas from the tom to the bottom and back again in continuos dialogue that the company values the greatest.

As a conclusion it is necessary to consider the theoretical side of Hondas strategy and see whether the company was in fact following a model. The first model is the Andrew's model. Andrew came up with the idea that there were two stages to corporate strategy, formulation and implementation. Formulation involved looking at the market, competitors and resources and formulating a corporate strategy which would be implemented throughout each process of the organisational structure. This model was also supported by Porter. This is how the BCG saw Honda, as a corporation, who had looked at the market, formulated a strategy to cope with the environment and competition pressures and implemented it, making all Hondas plans and activities deliberate.

The second model known as the emergent strategy portrays a different image to the Andrews model and shows how Pascale viewed Honda. The model shows a realised strategy made up from a an intended strategy together with an emergent strategy which is not planned but emerges in relation to activities within the environment. Pascale seemed to think that in Hondas case a substantial proportion or the companies corporate strategy was emergent and less was actually intended strategy. The actual strategy followed by Honda is likely to be a combination of both.