

Managing strategy
the honda effect
business essay



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The BCG Report states that Honda established an American subsidiary in 1959. The strategy of Honda was explained in an annual report in 1963. The policy of the company was selling, not just for the motorcyclist but rather to the general public. The American Honda motor company had made a strategy to start making motorcycles available to the general public. The idea was to first introduce the smaller lightweight motorcycles to the US.

Honda had done advertising to the younger families, Honda made a theme of 'meet the Nicest People on a Honda', they managed to be successful in creating a demand for the lightweight motorcycle and they increased the sales from 1960-1965 by \$76 500 000. 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 and clearly helped them establish their lead.

(Minzberg, H & Quinn, J. B. (1991), The strategy Process. (Prentice hall) In case study of Richard Pascal, he disagreed with the BCG report. He feels that not everything was as smooth as what the BCG report states.

In the case of Honda they actually entered the market at the wrong time. Honda also had lack of funding from the ministry of finance. (Minzberg, H & Quinn, J. B. (1991), the strategy Process. Prentice hall) With case study b) Pascal feels that the first case is not as accurate and reveals that through incidental events actually led to the success of Honda gaining a strong hold of the US untapped market. When looking at the BCG report it states that Honda pushed the lightweight motorcycles, when in fact Pascal argues that

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is not true. In fact Honda wanted to promote the larger motorcycles but this failed due to mechanical faults which almost destroyed the image of Honda.

Compare and contrast these two accounts of Honda's entry into the US?

The BCG report informs us about the easy success of the Honda's light motorcycle and the impact that it made in the industry where as an Insider of the Honda team, Richard Pascale, informs us about the actual difficulties that Honda faced in the motorcycle industry. The key differences that these two accounts have are as follows:

The BCG Report case shows that they did an environmental analysis and that is why they achieved the success whereas in case B it shoes that they did not really do an environmental analysis into the market because if they did they would have discovered that there was not a demand for the larger motorcycles and in case B if they had done more research they would have prevented the problem of almost damaging the image of the company.

Case A shows that there was an entry strategy which was to ensure selling and promoting the motorcycles not only to the motorcyclists but to the general public. The Pascale Report showed that Honda did not exactly have the strategy planned but they did have the idea of selling something in the United States which is not really having a defined strategy to have for a company and therefore could have been another reason why they did not succeed as easily as they did not know what they wanted to achieve.

The BCG Report made it seem as if the Honda Company did not come across any problems and that everything went according to how they planned. In <https://assignbuster.com/managing-strategy-the-honda-effect-business-essay/>

the Pascale report on the other hand, it showed that not everything went as planned and not everything went that smoothly, for example the funding was only limited and they had to keep some of the money in the inventory.

Another example is that in case B they did not initially stimulate the smaller motorcycle and shows that through incidental events they discovered the untapped market wanting smaller lightweight motorcycles instead of the originally planned larger ones.

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The Boston Consulting groups (BCG) report clearly shows a deliberate approach to Hondas strategy in penetrating the US motor cycle market whereas in the case B shows that the approach was more of an emergent approach. Case A had a Research and Development effort and a policy of developing the US market region by region. In Case B it does not really state much research and development concepts they had the idea of selling the larger motorcycles which at the end of the day did not work out for them but if they had done the proper research they could have prevented wasting of time and efforts. (Clayton M. Christensen and Tara Donovan, ©2010)

The BCG report shows that they had a clear strategy and goal to sell lightweight motorbikes and ensure that it is not associated with the typical biker image. The Pascale Report on the other hand indicates that the Honda team put time and effort and most of their money into the larger motorbikes. This act of following through with the larger motorcycles was almost the end of Hondas image. The BCG Report clearly states that they were prepared and

did the necessary research to make sure that the lighter motorcycles would be the top seller.

The BCG Report shows that relative costs of their motorcycles are determined by two key variables that they possess which is their technology and economic of scale. It shows that the Honda machine was sold for under \$250 and they were superior to their competitors in productivity, and with extensive advertising they created a market for smaller motorcycles and presented it in a way of having fun activities with the motorcycle. It also shows that they had enough capital in order to do a research and development effort to staff designers.

The Pascales Report states that the inventory was poor and that the manufacturers sold the motorcycles to dealers in batches and it stated that the after-sales service was poor. The Pascale reports shows that they also did advertising in trade magazines but that there was only a few responses. The Inventory, according to the Pascale Report, consisted mainly of larger bikes parts than for the smaller bikes.

The Pascale Report only really discusses the initial entry of Honda and states the difficulties they had faced. The report shows that it took time before they came to dominate the market and have an established low-cost high-quality product. It also clearly states that Honda did not just enter into the U. S market with a clear strategy and that they had very little knowledge of the U. S market. The BCG Report on the other hand discusses the full history of the processes that Honda went through and how they became successful with proper planning.

The BCG Report shows that they implemented a deliberate advertising campaign and that they came up with a theme and planned it accordingly to ensure they were not associated with the average stereotype. The Pascale Report on the other hand indicates otherwise, it shows that Honda had stayed with their Los Angeles agency for a while until they were approached by Grey Advertising with the idea of the Theme of meeting the nicest people on a Honda. Lastly Pascales Report argues that the smaller motorcycle was inexpensive because it had a unique light weight but high power engine design. The BCG Report on the other hand said it was inexpensive due to its rate of production. (Richard P. Rumelt, July 10, 1995)

To what extent was Honda's apparent strategy deliberate and/or emergent?

Honda's strategy according to the BCG Report came about as been a deliberate Strategy whereas in Pascales Report the strategy seemed more of an emergent strategy. BCG saw Honda, as a corporation, who did deliberate planning by looking at the market and doing an environmental analysis, setting goals, formulated a strategy to cope with the environment and competition pressures from Harley Davison and Triumph.

A deliberate strategy is more of a desired strategy that is deliberately formulated or planned by the managers, it is associated with the use of tools, techniques and frameworks for strategic analysis and evaluation. (G. Johnson, K. Scholes, R. Whittington, page 401) Deliberate strategy involves a 6 step process namely: 1 Environmental Analysis, 2 Goal Setting, 3 Strategy Formulation, 4 Strategy Implementation, 5 Evaluation/Control, 6 Feedback. (G. Johnson, K. Scholes, R. Whittington)

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An Emergent strategy on the other hand comes about through everyday routines, activities and processes in organisations leading to decisions that become a long-term direction of an organisation. (G. Johnson, K. Scholes, R. Whittington, page 408) An emergent strategy is a pattern of action that develops over time in an organization in the absence of a specific mission and goals, or despite a mission and goals. (D. J. Power, Alexander P. and Daniel J)

The BCG Report presented their final report to the British government and to the motorcycle industry which indicated their competitors in the US and showed what the market underwent. The BCG Report indicates that Honda had the knowledge of the stereotyping of motorcyclist as been the troublemakers, but they knew that by taking on a new strategy and policy they could overcome the stereotype and sell a smaller motorcycle to the US market and not just to motorcyclist but to the general public. This was the strategy and plan that the BCG Report discusses and shows that Honda started to push the smaller bikes into the market first.

The BCG Report shows us that Honda had a deliberate strategy by indicating that they had done research and development efforts by staffing engineers and designers. Honda's policy according to the BCG Report was to develop the market region by region. With a set plan and strategy in place it shows that Honda did their research on the US Market to find that there was a market for the smaller bikes and then building a strategy around the fact that they will grow their sales region by region.

According to the BCG Report, Honda had a deliberate approach on how to reach to their market. Firstly Honda came up with a campaign that allowed people to see them as more of a family oriented motorcycle supplier/producer. Honda used a campaign that indicates that you meet the nicest people on a Honda, they deliberately wanted to ensure that the rowdy image was withdrawn from their business and their motorcycles. This strategy was a success and increased Honda's sales and market share in Japan and US markets.

The fact that the BCG Report shows that Honda looked into the market and that Honda had set goals for the company which was to sell their smaller motorcycles and be productively competitive indicates it as a deliberate strategy been implemented. The Pascale Report is the emergent strategy. An Emergent strategy itself means learning what works and then taking one at a time and look for a possible pattern or solution to find consistency again. (Clayton M. Christensen and Tara Donovan)

At First with the Pascale Report, Richard clearly indicates that Honda put all their efforts into the larger motorcycles but when disaster struck with the larger motorbikes leaking oil and having clutch problems Honda's reputation was almost destroyed therefore Honda had no choice but to push the 50cc bike and to their surprise the retailers wanting to sell their bikes were not motorcycle dealers. Therefore making quick decisions from the bad situation they were in show they used an emergent strategy without using proper planning process.

The BCG Report is different according to Mr Pascale who stated the Honda actual hesitated to push the 50cc bikes because they feared that the smaller motorcycle might harm the image of the heavily motorcycles, this shows that Hondas intention was not to sell the smaller 50cc bikes but rather to go with the rest of the industry by selling the bigger bikes such as the 250cc and 350cc. This again shows that the Pascale Report was more of an emergent strategy.

The report documented by Richard shows that Honda had a difficult and challenging time within the market. The inventory they had been poor and they had many hurdles to overcome, one of them was to obtain financing, at one point Honda had to even put the project on hold. According to the Pascale Report Honda did not even have a strategy which is another indication that there was no deliberate planning done. This means they did no research or environmental analysis in the US market.

The Pascale Report informs us that there was no discussion on profits or deadlines for breakeven this indicates that planning was not done and they had not set any goals for themselves or for the Company. Honda's focus, according to Richard's Report, was to compete with the European exports and to push the 250cc and 350cc machines. The Report adds that Honda was in the dark the first year. Therefore with their hard learnt experience Honda decided to go to the retailer direct which was their first step to a more deliberate strategy. They did this for the reasons to save more costs as money for the Honda team was tight and they needed to cut out extra costs.

The Pascale report stated that Mr. Honda and the team followed their instincts rather than doing deliberate planning to plan certain outcomes. The fact that they were so hesitant on pushing the 50cc, even though the success rate in Japan is so high, shows that they did not do proper research on the US market as they assumed that the whole of the US market likes the bigger luxurious items. It was through driving the 50cc themselves that they realised they were attracting attention with the smaller bike. Honda was even contacted by Sears yet the company still hesitated. Honda eventually decided to go ahead with pushing the 50cc as they had no other choice left due to the fact that the larger motorcycles were having more problems, therefore making this an emergent strategy.

Lastly the advertising according to the BCG Report was a deliberate strategy; they implemented the campaign of meeting the nicest people on a Honda for the reason to break away from the stereotyped image of other motorcyclist. The Pascale Report on the other hand was more of an emergent strategy as according to Richard, Honda was still using the Los Angeles advertising agency, the campaign to all customers and did not upset one market in search of another. It was only later that Honda went through an emergent strategy, the director of sales decided that the theme of meeting the nicest people on a Honda was the right strategy to implement.

What key Lessons may be learned from any comparison of these two quite different accounts of the same strategic decision?

The Lessons learned from the two accounts are going to be discussed under clarity below. It involves looking at the opportunities they came across, costs

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advantages, to research the market, to be well prepared, not to be surprised and to take some risks, lastly to be aware of the needs of the market.

Honda went through some really challenging events that put their operations on hold at one point in time, but by learning through their mistakes and taking opportunities when they saw it they managed to overcome some problems and be successful with a product they did not think would be and considered it risky to promote. The 50 cc was a smaller motorcycle and little did the company know that that motorcycle would be the answer to finding an untapped market through having problems with their larger motorcycles.

The BCG Report shows that Honda did some strategic planning with cost advantages and easy operations in Japan, this can be seen in the statement explaining the competitive positions that Honda had and when they emphasized on the profits been made. By doing the necessary research and analysing the markets Honda was able to be successful and that lesson learned will ensure that they keep up the good work of research and development to remain competitive.

Apart from Honda's success in Case A due to their environmental analysis and pre-thinking they could have in fact done a bit more research into the market that they entered. The fact that they were advised not to enter the US market due to relatively due to small bargaining power of the new entrants, and the fact that some stores were closed on weekends was also a sign of barriers that Honda could face. Another lesson that Honda had to learn was how to break away from the typical biker image. Honda at the end

of the day did have a closer look at the competition in case A at that is how they found a untapped market that wanted smaller motorcycles.

Surprise and learning exposing oneself to the chance of being surprised incremental adaptation and learning, in the case of Richard Pascale he highlighted the fact that in case A not everything was entirely true. He states that Honda had made miscalculations when it came to which motorcycle they would be marketing i. e. they were putting more emphasis on the larger motorcycles, therefore in Case B no clear strategic planning was implemented and they did not even have a particular strategy. In the Pascale report Honda admitted to have no strategy and that they only had the idea of seeing whether or not if their motorcycles would sell in the United States.

Pascale sees the 50cc success of Honda as a no other option that had to be implemented to the problems that had occurred to the larger motorcycles. The lesson learned here was that Honda found out that the larger motorcycle demand was unsatisfactory. But with the help of the promotion of the campaign “ You meet the nicest people on a Honda” this helped with them to have a sense of direction on how they wanted to be perceived, which made it a successful story. By being smart in detecting the untapped market and reacting fast to it also helped Honda to ensure success. If Honda was not aware of the fact that the larger motorcycles were not doing so great who knows where they would be now.

CONCLUSION:

The BCG report seemed more organized and seemed more in control of their marketing activities and reaching out to their market. It clearly showed that

there was Research and development done in order to be competitively strong. Honda Operations in Case A, according to BCG, seemed smoother than what was stated in Pascales Report, as in that case it showed that Honda had faced many problems and had to encounter them as they came. Pascales Report in fact at the end highlights an important factor which is learning and taking opportunities from the threats. Pascales disagreement with the BCG was that the BCG report made it seem that Honda's experience was smooth. If Honda had done proper planning and research and taken the risk on the 50cc they would have had a smoother experience.

Honda's success with the 50cc motorcycle was explained very differently by the two accounts studied. The BCG Report showed that Honda had done deliberate planning and had enough resources and enough capital to carry out the research and development. It also shows that the Honda team knew what they wanted and carried out a well thought out campaign to implement their strategy. The campaign, according to the BCG Report helped enhance the success of Honda as it found the market that they were aiming for, and found a way on how to get them to consider having a motor cycle that is associated with more of a family theme.

The Pascale Report had more of an emergent strategy; not having a specific strategy in place and pushing the larger motorcycle almost got Honda to lose their fragile reputation. Through emergent strategies, Honda ended up leaving the larger motorcycles to push the 50cc as they had no other choice. Therefore doing this Honda found an untapped market in the US and only then found the right campaign that best suited the company. Honda had a learning experience in both cases the similarities between the two accounts <https://assignbuster.com/managing-strategy-the-honda-effect-business-essay/>

was to ensure that they both had an eye on the US Market and that the Honda took the chances on the 50cc motorcycle and achieved great results competitively together with the campaign/theme created.

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