

Analysis of operating environment of honda in china



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Honda entered the Chinese market in 1982 by cooperating with China's Jialing Machinery Factory to produce motorcycles. Currently, Honda has 16 companies in China spreading over nationwide. "Respect intellectual property; bring joy to people's life" is Honda's IPR credo in China. Honda's presidents all have technical backgrounds. They are important needed advanced technology for the company's further development.

December 2007, Honda's China portfolio came out includes over 500 registered trademarks, 3,800 granted inventions, model patents and more than 1,100 granted design patents. In addition, Honda upgraded the former intellectual property office into a division and hence the IPR division was officially established. Resulted, the scope of work was expanded. The division's main task is to provide support on IPR issues. Although they do not have to report directly to headquarters, they communicate regularly with the headquarters and sometimes the headquarters will give them directions. Meanwhile they will also give their opinions what should be done in China to gain support from the headquarters and improve their efficiency.

The secret of successful Honda in China is they are very creative and innovation, they never imitate others but still create high quality product. Mr. Honda with a mechanical background was aware that machines could operate as long as there is fuel. He created the Honda slogan with the basic principles, "Respect for the Individual" and "The Three Joys"- "the joy of buying, the joy of selling and the joy of creating."

The Three Joys mean to a certain extent which related to the IPR work. The joy of buying refers to customer satisfaction and willing to pay for their

products and services. They stand strong that the most important thing is to bring the joy of buying to the consumer. On the other hands, the joy of selling and creating refers to bringing joy to Honda's dealers and manufacturers by selling and producing Honda's products which is also an important aspect of Honda business.

Honda's operating strategy is " where there is a demand, there is production." The most basic of Honda's IP strategy is " providing necessary support on IPR related issues to meet the need of development in the local market." Honda's IP work is to create intellectual properties efficiently and secure IPRs in order to provide maximum protection for the customers' interest and the development of business.

In recent years, Honda is facing growing pressure of other fakers and wrong timing. For example, Honda might take 2 or 3 years for counterfeit products to promote in the market after Honda's original's launch. However, as soon as Honda launches a new product, some Chinese companies will start counterfeiting. Some counterfeits or fakes appear even before Honda starts productions which have same trademarks, design and patents. Honda needs to take some time from the application for IPR and it is the situation that Honda is facing in recent years.

Therefore, Honda focuses on their work in China, taking full advantage of IPR to deal with the new challenges. They come out with a unique understanding that IPR is a kind of right and they want to take the full advantage of IPR for the development of their business, patent products and fully taking their rights. Resulted, Honda is carrying out a series of IPR activities such as

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infringements track down, intellectual property education and assisting government's consumer rights protection campaigns. Spare parts for the maintenance of Honda vehicles are only sold in authorized Honda dealers but yet many companies are producing under the Honda name.

The Legal & Intellectual Property Division has putted their efforts on removing signs and advertisements that influence Honda's auto parts markets nationwide to prevent customer loss. The Honda Legal & Intellectual Property Division maximizes the protection for manufacturers, dealers and consumers.

Honda even provides intellectual property education for consumers and organizes several campaigns. Honda explained to consumers the methods which to differentiate original from fake spare parts. Besides the education for consumers, Honda pays attention in building intellectual property awareness too like organize the " First Beijing Youth Invention & Innovation Competition" for primary and middle school students in Beijing and set up the " Honda Intellectual Property Scholarship" too. Moreover, Honda set up promotional campaigns to explain to the consumers about the danger of using fake spare parts and encourages them to choose the original spare parts.

Honda regularly attends seminars held by the Japan External Trade Organization (JETRO) and Japan Automobile Manufacturers Association (JAMA) and government offices become aware of Honda's patents, product features, and positions so on improve the efficiency of the relevant departments.

Besides that, Intellectual Property Magazine had been appearing as a reference and encouragement for the administrative departments to track down the counterfeits in the market. It is the most efficient way of protecting consumers' rights.

Although there are many administrative departments had carried out investigations and punishments against the infringements, they continued with the production and sales. However, Honda will protect their brand whatever it cost.

Honda dealers maintain records of customers, the fake spare part will be noticed easily every annual service week to promote and improve intellectual property awareness to their customers.

Since China is a huge country, the counterfeits market is hard to predict. The living standard of the Chinese people is rising dramatically and therefore people will increase their aware to the counterfeits. Therefore, Honda expects to continue their strength promotions to help consumers understand and purchase original products. Resulted, Honda creates a new environmental standard with introduce new models with improved fuel efficiency.

4. 0 SWOT Analysis of Honda in China

Strengths

Weaknesses

High and powerful Research and Development.

Innovation.

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Different and unique product.

Strong and powerful brand equity.

Strong brand name

“ Entry first, organizes later” action for new bazaar assimilation.

Higher cost structure compare to other competitors.

Pricing for non-luxury vehicles are higher than other manufacturer.

Lack of patent protection.

Opportunities

Threats

The high technologic they owned help them easily fulfill customer’s needs and demands. For example, less pollution car.

Emerging vehicle market

Fuel efficiency technology creates opportunity to boost sales.

Economic slowdown.

Rapid rise of petro price cause their cost become higher for shipping material and distribution.

Labor strike of Honda in China.

Lower cost competitors.

Price war

4. 1 Strengths

Honda has very high and powerful Research and Development (R&D) department. The R&D team use their innovation helps Honda to create powerful technology to compete with other competitors. Honda's R&D teams had design varies of unique products, such as electric vehicle and fuel efficiency vehicle. Moreover, China government is proposed to give subsidies of 60, 000 yuan per electric vehicle for Honda's R&D team to develop electric vehicle technology (Shah, 2010).

Honda has strong brand name in the world and ranked as fifth largest motor vehicle manufacturer in the world in 2010. Besides that, Honda is also second largest manufacturer in Japan in 2010 (Topper10, 2010). They are well known with reliability and high quality. Honda's economical and environmentally friendly engine had attracted many consumers to purchase its products. On the other hand, Honda also create innovative slogan in Mandarin in China. The slogan can be translate and explain as " Let green technology describe the future." They emphasize on their eco-friendly hybrid technology to build a greener future. The slogan had helped in strong their brand name and reputation in China (Djurovic, 2010).

4. 2 Weaknesses

Although Honda has strong brand name in automobile industry, they are also have weakness of relies too much on " enter first, organize later" strategic for new market penetration. Normally, Honda was entering a market before they had plan out a well organize management. They will observe the

market reaction before develop infrastructure and organization. Honda is using this strategy when enter China market as well. Although they are success but this strategy has higher risk. Honda might need use few years for trial and error before they can figure out their distribution methods in new market (Djurovic, 2010).

Honda has higher cost structure compared to other competitors, especially domestic automobile manufacturer in China. Therefore, their pricing will be higher than other competitors as well. Honda emphasize on the quality of their vehicle. They invest lot of money and take few years of time to explore new technology to enhance their vehicle. However, this will increase their cost structure as well. The cost for future research and current profit is not balance. Besides that, Honda is lack of patent protection. Other manufacturer in China will imitate their idea and produce same patent of vehicle with lower price. Honda might unable to earn back the expense used for research and development.

4. 3 Opportunity

Since Honda has powerful Research and Development, they can easily fulfil the needs and demands of consumer. Nowadays, people would like to purchase environmental friendly vehicle to prevent pollutions. Therefore, Honda is also following this trend and developed less pollution technology for vehicle. Honda's President, Takanobu Ito, feels that China has the prospect of electric vehicle and they are planning to release this car into China market in 2012 (Takahashi, 2010). J. P. Morgan Chase & Co. estimates that electric vehicles are expected to occupy 1% to 2% of global vehicle sales in 2020 (Takahashi, 2010).

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Fuel efficiency technology of Honda creates a big opportunity for their company to boost sales and revenues. Due to the fluctuation fuel price in market, most of consumer will prefer to choose fuel efficiency vehicle when doing purchase decision. China residents might unable to afford the high expense of fuel oil. So, the small to midsize of fuel efficient vehicles that launch by Honda are very popular. It proves by the sales report of Honda in 2008. In 2008, Honda sold 470, 458 units of cars, then the sales boost to 576, 223 units of cars in 2009 (Alibaba. com, 2010).

The emerging vehicle market in China make Honda's President decided to enter the China market. " The chances are good in China," said by Takanobu Ito (Takahashi, 2010). The high density of population in China emerge the prospect of vehicle market. Besides that, the spending power in China becomes higher. They can afford to purchase vehicle for each family. Moreover, China has already surpassed United States and become the biggest market for automobile in the world (Shah, 2010).

4. 4 Threat

Labour strike of Honda's four assembly plant in China becomes another threat to Honda. Due to the 1, 900 staffs do not satisfy with their monthly wages, they strike at the plants in May 2010 (BBC News, 2010). This strike had forced Honda halt production at four assembly plant in China. In this strike, the cost of Honda had increase. This is because they still need to pay for other expense such as plant rental fees and inventory cost although their factories had halt production. On the other hand, they might unable to produce the quantity of cars to deal with consumer's demand.

The vehicle market in China has many competitors and it is a fierce competition. Other than foreign competitors such as Toyota and Nissan, Honda has to compete with other domestic vehicle manufacture such as Beijing Automobile Works and Chery as well. The domestic vehicle manufacture has lowered cost in production and able to give cheaper price for consumer in China. It might cause a price war if Honda wants to compete with them in price strategic. The fierce competition will reduce Honda's profit and revenues.

5. 1 Mode of Entry

5. 1. 1 Introduction for Mode of Entry

To begin with, what is mode of entry? How many different types of entry can a company choose or put into practice? According to Hill et al. (1990), mode of entry refers to ways that an organization exploits to gain access or way in to a new and potential international market. The mode of entry plays an important role in determining the survival of business in other foreign country (Driscoll, 1995). In short, an organization need to carefully take to mean of all the environment factors such as political, economic, social, technology, environmental and legal before determining the best mode of entry into a new market.

An organization has many different mode of entry available that it can be used to expand its business to a foreign market. Some are more fitting if compare to others, and yet entry mode choice greatly depending upon a range situational influences. Inescapably, there are trade-offs in choosing one entry mode over another and there is always an opportunity cost

(Yadong, 2003). A study by Driscoll (1995), he stated that each mode of entry consists of different level and type of risk and control. In general, many organizations prefer safe mode entry whereby majority of the organizations takes the low-risk or low-control option. After it had a constant market or return, then the organization will go forward for higher risk and control.

The mode of entry includes exporting, licensing, franchising, contract manufacturing, off shoring, service sector outsourcing, turnkey operations, management contracts, International joint-ventures and wholly owned subsidiaries. On behalf of Honda, the type of entry adopted to enter China is joint ventures (partnership with local firms). Joint venture means a contractual agreement that tie up 2 or more parties for executing a parallel business undertaking and all parties share the profit as well as loss according to their capitalization (Hennart, 1991).

5. 1. 2 Honda Mode of Entry in China

The mode of entry adopted by Honda in China was a bit different if compare to other mode of entry that Honda used in other countries (Jianhan, 2009). According to Yadong (2003), Honda penetrated into China's automobile market to produce Accords and engines while the joint venture of French car manufacturer Peugeot Citroen failed. Then, Honda undertakes the particular plant and formed joint ventures with Guangzhou Auto Group Corporation and Dongfeng Motor Corporation with the capitalization of \$ 140 million and \$ 60 million respectively. Honda has a 50 % of overall stake in each of these joint ventures. It means that each of the companies have the equal authority. In short, the mode of entry that Honda employs is equity joint venture (Jianhan, 2009).

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After that, the primary production starts in the beginning years of 1999 and full production in the end of that particular year (Yadong, 2003). 40% of the required raw materials are purchased locally and the percentage is expected to rise due to China has the cheaper labour cost if compare with other countries. Honda is the first Japanese car manufacturer that produces its brand automobiles in China and therefore Honda was considered as the first mover who exposes to China market. Hence, Toyota did sell its particular brand of cars (Daihatsu) in advance if compare with Honda in China. However, it was under licensing agreement. Licensing refers to a company received fees or a sum of royalty in exchange for other company (licensee) to use its intellectual property, trademarks, and patents (Bhauik, 2003).

Even though Honda had entered to China, but still the peoples in China have less knowledge or less awareness of the products. For that reason, Honda creates awareness among the peoples through community activities and also funding the events. After the market and peoples know well of the brand name, Honda starting to set up plant. Next, Honda encourages its parts makers or suppliers to build up their plants around the Guangzhou Honda to increase efficiency of the plant (Jianhan, 2009). Additionally, it can also reduce the foreign exchange risk and diminish the chances for parent company (Guangzhou Honda) to use its resources on transportation of raw materials, logistics cost and warehouse storage. Some of the parts are actually produced by suppliers nearby the Guangzhou Honda, for instance automobile seats. It can diminish the lead time and increase production per input.

Last but not least, regardless of the general mode of entry into a different country, Honda does make exclusions if the situational influences are allowed to do so. For instance, Honda will not successful enter into China market if it did not practice joint venture with local automobiles manufacturers (Guangzhou Auto Group Corporation and Dongfeng Motor Corporation). Thus, if Honda does not pursue such joint venture, it will lose the profitable market share by reason of increasing high demand of automobiles in China. In a nutshell, Honda has its own individual choice of entry into target country. Honda can be a major player in the Asian automobiles manufacturer if it continuously maximum the usage of local content with lower cost of input.

5. 2 Global Marketing Strategies

Honda became the third foreign passenger carmaker in year 2004 in China by adopted its global marketing strategies. In year 2005, Honda became the first automaker who exports cars to European country which manufactured in China (Singh and Chaudhuri, 2005). By tailored difference global marketing strategies, it is significant as a business heading to success.

Honda is practices mix of global and local strategies tactics to enter China market (Javel, 2008). There are four elements of global marketing strategic that required conducted from time to time in the various markets. Product strategies, price strategies, place strategies and promotion strategies are the four elements comprised become strategies to attain the target.

5. 2. 1 Product Strategies

Honda, which came from Japan, was famous brand that complies with the high technology to produce automobiles. Create the brand awareness in the <https://assignbuster.com/analysis-of-operating-environment-of-honda-in-china/>

eye of the consumer to let brand name became remarkable so that consumer will referred to. One of the core competencies for Honda is their outstanding design and high technology interiors system of their automobiles (Javel, 2008).

Basically, Honda provides three categories of products and technology which are automobiles, motorcycles and the power products. Each of the product categories are entire by itself and comprise of smaller component products. Let take a look in automobiles part, there are several model of cars offered such as Honda Accord, Honda City, Honda Civic and many more. In China, Honda Accord and Honda City are the most popular model therefore Honda produce to fulfil the market needed (Javel, 2008). In motorcycles, it divided into three types which are motorcycle, scooter and cub. At last categories is the power product which included tillers, water pumps, snow throwers and others. China is one of the countries which have four seasons thus snow thrower is needed.

Packaging is one of the aspect under product strategy that been applied. Honda with the innovativeness in creation of well-designed product would attract people's attention. A packing not only means the outlook of a certain product yet it also refers to maintain its quality (Singh and Chaudhuri, 2005). One of the services offering by Honda is after-sales service. This is important because would affects customer's purchase decision making. Consumer will stay loyal to the products with the good after-sales service. Honda gains a good reputation with the power of word of mouth.

5. 2. 2 Price Strategies

Set appropriate price of a product is very important in order to obtain the profit and takes customer affordability into consideration. Honda set the motorbikes level of price similar to the others and match the affordability of public (Singh and Chaudhuri, 2005). For the automobiles, Honda's car are more costly than other due to it consistent innovation and high quality which better than others.

Discount is one of the tactics that may help in attract public to take a look into Honda product. Honda will implement discount based on seasonality. Another way to attract people purchase Honda product is giving out appertain product when there is no any discount for their automobiles.

5. 2. 3 Place Strategies

In despite of people might considered “ Made in China” concepts which are low quality product. Still, Honda set up its manufacturing plant in China mainly for exporting to foreign country. China is a big country with the huge amount of population, therefore the distribution of a product need to planned and well-constructed to save company cost and make sure it able deliver safely. Depend on the demand and previous sales trend, amount and types of product need to be distributing appropriately. Transportation costs bringing big effect to the product cost. Therefore cost can be minimize by implements efficient distribute channel in order to distribute the product at the right time to the right person. (Singh and Chaudhuri, 2005).

5. 2. 4 Promotion Strategies

In promotion strategy, the most common ways are advertising in newspaper, magazine, television and radio. Honda's promotion included publicity, advertising, public relation and demonstrations. Honda's global brand slogan play a significant role as Honda practices, " The Power of Dreams" which identify that company continuous challenge to make dream come true. Public relation with consumer will gain the customer satisfaction because they will felt they being served and they are important for company.

Live demonstration by Honda such as they will have a lavish campaign to promote those new launch product to make public more understand and have an opportunity to experience it. For instance Honda provides road show or test driving car for consumer to feel it before buying it. Through this method, consumer is easier to be convinced with the encouragement and persuasion from sales teams, rather than just know the features through reading material (Bhasin, 2010). Let we take a look in the petroleum-electronic hybrid car Honda produced. The technologies with the eco-friendly idea have been differentiate Honda with competitors and it promoted by live demonstration to enables public know what is the technology about, and feel confident with the Honda's technology in every single thing they produced.

5. 3 Global Supply Chain Management

Supply chain management can simplified as a network that gathers all activities of producing a product from start to the end. Furthermore, it can also be described as managing and building the relationship between the networks, such as getting raw material from the suppliers, transfer raw

material to finished good, distribute to the end customers, customers return defective products and etcetera (Longtailsupply, 2010).

As we know, China is a huge country which having many states and because of this condition existing, Honda has to be careful in term of consider this problem and manage their supply chain management properly. As the reason, Honda adapts joint venture strategy as one of its mode of entry into china to manufacturing their products (Dongfeng Honda Engine Corporation, 2010). Furthermore, from the China Honda's website we can know that the Honda network in China was wide due to the size of China. Also, Honda cannot let one company to manipulate the China market, so that, Honda choose several well-reputation company as the joint venture partner and affiliate partner to take care Honda its in-depth supplier lines. Such as Dongfeng Honda Automobile Corporation, Guanqi Honda Automobile Corporation, Honda Automobile (China) Corporation, and etcetera (Honda, 2010). Besides that, Honda also owned subsidiary company all around the China to manufacturing it product component.

The selected joint venture company and also the subsidiary company will take part in term of manufacturing difference part of product components. Let's say for example the Dongfeng Honda Auto Parts Corporation will produce the engine parts, Sundiro Honda Motors Corporation will produce motorcycles part and etcetera (Honda, 2010). Besides that, the different partner will also together participate in the new car-making group. For example, the new car-making between Guangzhou Honda Automobile Corporation and the Donfeng Motor Corporation (Dongfeng Honda Engine Co, 2010). Furthermore, Honda's supplier will involve in product development <https://assignbuster.com/analysis-of-operating-environment-of-honda-in-china/>

and also production technology development, for example Honda Engineering China Corporation which emphasize in produce production equipment used in china and also technology development (Honda, 2010).

On the other hand, the distribution center in China which mainly has 5 distribution points and there are Dongfeng Honda Automobile Co, Guanqi Honda Automobile Co, Honda Automobile (china) Co, Honda Mindong Generator Co and the fifth one which is Sundiro Honda Motorcycle Co where distribute motorcycle and other 4 distribution center are all distribute automobile (Honda worldwide home, 2010). However, the channel of Honda or the branches of Honda are more and all around the China because Honda adapts franchise strategy to expand its branches in the China and it want to ensure that consumers are convenient to contact with Honda at all the time.

Figure 1. 0 The procedure of Honda after sales service. (Source: Dongfeng Honda Automobile)

From the above graph we can clearly know the whole complete after sales service process of Honda in China. Besides, it shows that Honda treat its customer in a very proper manner which it will leads to high customer's satisfaction eventually.

The entire process is start from the appointment between customer and the worker of Honda particular branch. This stage is wanted to avoid all customers come in to the same time and then lead to unsatisfactory things happen, such as customer are not being proper entertain by the workers.

The second stage is welcome customer which the customer will be welcome by the receptionist at the reception counter. The third stage is checking <https://assignbuster.com/analysis-of-operating-environment-of-honda-in-china/>

problem which to confirm the problem that occur in the customer's car is really existing. Next is to estimated the fees of repairing or maintaining which calculate the technician's fee, car component fee and etc. Besides that, at this stage it is also included the estimation of approximately repairing or maintaining time to the customers (Dongfeng Honda Automobile, 2010).

The fifth stage is control the timing of repair or maintenance because Honda needs to confirm that the repairing or maintaining process will finished and complete on time because this is a trust that Honda must build upon customer relationship. For the next stage will be the actual repairing or maintaining work. After done the previous stage which repairing stage Honda will go to checking stage again to test the car condition whether in a good safety condition or not. Then it goes to washing stage which washing the car to enhance the customer's satisfaction. Next, Honda will contact their customer to regarding the final amount of fee by listed clear procedure of repairing or maintaining the car this stage is want to ensure that customers are well-understand that Honda charge is fair. And then after complete the payment it will go to the stage of pass back the car to the customers. Last but not least, Honda will provide follow up service to make sure customer's car condition is good (Dongfeng Honda Automobile, 2010).

5. 4 Control and Evaluation Mechanism

An active changing of the process based on the consequences of process monitoring is defined as a process control. The objective of process controls is to direct and to monitor the activities of individuals so that to compel

actions that supports the goals of the firm. Honda in China has realized ' zero
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emissions', in addition to providing fine products to society (Güler Aras, David Crowther). As Honda's had expand globally, all Honda facilities continue to ensure the support of 120% product quality

There are 5 steps in Honda quality cycle for Honda headquarter to control Honda subsidiaries included Honda in China. Firstly, design and develop. They apply quality guarantee by utilizing plan and manufacturing expertise to create drawings designed to facilitate manufacturing from the drawing stage. Secondly, follow by production preparation. Through production processes whereby building manufacturing control technique that limit the process variability. Next, evaluated production also included which Honda use in quality control process. Honda conducts rigorous inspections of part and finished vehicle and take steps to give surety no damage occur.

Moreover, sales and after-sales service also one of the controls by Honda Headquarter to Honda in China. Honda use to collect quality-related date from customers in a timely manner to ensure the market quality issues after sales. Lastly, Honda uses the data that they had collected to analyze quality-related data from customers and markets. Hence, this will enhance quality in a prompt manner. Last but not least, Honda headquarters control and evaluate their subsidiaries such as sales, mechanism, quality and others to maintain Honda brand name in the world. Hence, those control and evaluation helps Honda in China to maintain their business until nowadays.