

Honda strategy and marketing analysis



Volkswagen was the first company entering the Chinese automobile industry. Faced by a satisfied home market the company had to expand its business and therefore the growing economy of China was their next choice.

The Volkswagen Beetle, the first car produced for the Chinese market, was a real success. After several years competitors, mainly from the Japanese market like Honda, started to enter the Chinese market very aggressively and due to that Volkswagen had to face the challenge to maintain its market leader position and therefore adopt the corporate strategy.

As a consequence Volkswagen China introduced its 'Olympic Program' strategic plan in 2005. The program is called 'Olympic' since its aim is to reach the strategic goals set by the end of the Olympic year 2008.

In the following we will analyze the strategic plans of Volkswagen and set them in context to the strategic behaviour of the Japanese competitor Honda.

3. 1 Marketing

Volkswagen announced to focus more on differentiation. This is due to the existence of two joint ventures and the planned positioning of the Skoda products. By offering a large product variety the group aims to serve as many different target customer groups as possible.

In opposition to previous product designs the new cars offered by Volkswagen will be adapted to Chinese taste in order to increase the brand's popularity. The former Volkswagen products were designed for the European market but since Japanese car manufacturers fit better to the Asian taste the

company had to react. The Volkswagen products in China compete on quality but to maintain the company's leading position it is unremitting to produce cars that are both fashionable and qualitative.

3. 2 Sales

Sales relationships are going to be restructured and there will be more interaction between the two joint ventures FAW VW and VWS. These strategic interactions are another way to increase the company's customer orientation and thereby the attractiveness of the brand. Dealerships will be tailored to the newly-defined customer group's segmentation of the two joint ventures respectively. Vehicles of the Volkswagen brand will be distributed through two dealer network channels. By this, Volkswagen aims at its strategic goal to maintain its leading position by serving different customer groups.

3. 3 Research and Development

The company focuses more on in-house developments within the Volkswagen joint ventures in China to save costs. Ten to twelve new models developed in China for the Chinese market should be launched by the end of 2008.

3. 4 Sourcing and Supply Chain

Historically the two joint ventures VW Shanghai FAW VW in Changchun sourced separately but within the last decade sourcing became more challenging for the company: the cars are becoming more sophisticated and therefore the components have to fulfil higher expectations, the technical

expertise of the supplier is getting more important and it is difficult for Volkswagen to find suppliers which meet their requirements, lack of availability of certain raw materials (e. g. specific kinds of steel) cause sourcing difficulties.

As a reaction Volkswagen is trying to introduce a common sourcing process for the global group and bundle the purchasing volume in China to create economies of scale. Thereby the target is to find one supplier for each platform part and carry these parts to China.

3. 5 Manufacturing

In order to decrease production costs the board decided to introduce so called ‘ product cost workshops’ within the manufacturing departments to communicate cost targets and ‘ produce to costs’. Also large parts of the manufacturing process will be done in China and localization in China are planned to be increased to make use of the cheaper labour wages in China. Besides all plans to reduce production costs Volkswagen tries not to compromise its high engineering quality and manufacturing standards since this is a very important success factor for the company.

4. Honda strategy in China

Honda advocates the spirit of three joys.

Because of their belief in the value of each individual, Honda believes that each person working in, or coming in touch with their company, directly or through their products, should share a sense of joy through that experience. This feeling is expressed in what they call “ The Three Joys”. Their goal is to

provide Joy: for those who buy their products and produce their products. In that regard, their main concern is for people.

First, there is “ The Joy of Buying” for every customer who buys a Honda

This Joy is a step beyond customer satisfaction. As they define it, there are four steps to successfully creating The Joy of Buying.

We also pick up another 4 strategy of Guangzhou Honda in China. Firstly, large scales of purchasing; Honda uses their economies of scale by working with their parts suppliers to order raw materials in large quantities.

Secondly, suppliers’ localization, more than 160 component suppliers around Guangzhou Honda to manufacture some supports component for automobiles. For example, the glass seat and engine. These parts are supplied not only for Guangzhou Honda but also sometimes for exporting. What’s more, setting up manufacturing base for transmission in Guangzhou really makes a record, because this is the first time for foreign-funded automobiles enterprises to set up transmission manufacturing base in China. And this investment of Honda makes the supplier localization especially the suppliers for core parts.

Thirdly, optimizing logistics process. They use logistics management software from USA. The logistics department of Guangzhou Honda was demanded to operate according to the pattern in Japanese Logistics Company. They emphasize importing the service quality in logistics, decreasing logistics cost enlarge market share and competitiveness and import new technology and methods in logistics from USA.

Fourthly, making supply chain perfect. The Honda setting up a local transmission manufacturing base in Guangzhou makes transmissions no longer popular in importing and components industrial chain in China will develop to perfect.

the newly set-up base will provide transmissions to three Honda companies in China(Guangzhou Honda, Dongfeng Honda and China Honda)In this pattern, the most crucial part of automobile—engine production has been promoted a lot.

In the influence of transmission localization. The biggest supplier of clutch in Japan set up a factory in 5 years with the total investment—54million dollars in Nanhai District in Guangzhou and it manufacture clutch for Guangzhou Honda directly.

With the localization of supplier of transmission and clutch the supply chain of Guangzhou Honda has developed into nearly perfect.

Honda's strategy in supply chain can considerably decrease the cost which gives Guangzhou Honda more profits.

Then we move on to the comparison of the marketing between Volkswagen and Honda. Firstly, for Honda they launch a new car later in China compared with in Japan. For example, the Accord in 2008 was launched half a year later in China than in Japan. But for Volkswagen, a new car will have a same launching agenda all over the world; it means same time promoting same time marketing.

Secondly, Honda adjusts the price to the situation of market nearly every season. Demand fluctuation, price fluctuation.

The flexible price strategy is different from Volkswagen's steady price strategy which perhaps gives consumers more reliability.

Thirdly, Honda fight for market share and Volkswagen emphasize brand reputation in long term, Honda target consumers which means flexible strategy will be much easier for company to survive and succeed. While for Volkswagen, more luxury and exclusive element allow Volkswagen to offer more credence for consumers in order to gain reputation in long term.

Case study : SIAC

6. 4. 1. General History of SVW and SGM

Not only did Shanghai present an advantage as a potential market, but Shanghai's heavy industrial infrastructure also made major contributions to Shanghai VW (SVW) and Shanghai GM (SGM). A larger number of parts factories, together with the extant Shanghai car plants and the city's steel and other heavy industries, cried out for the final ingredients necessary for rapid development: modern technology and management skills.

An automobile cluster began to develop in Shanghai in the 1980s, thanks to strong government support at different levels. To upgrade the national automobile industry following international standards and to avoid an influx of automobile imports, the central government started negotiation with VW in 1978 for the establishment of a joint auto production firm. During that entire year, the country's state-owned auto factories produced only 15, 500

vehicles, and the industry was characterized by old-fashioned, low-quality cars that were produced with outdated equipment in a labor-intensive process (Kiefer, 1998). Chinese officials pressed the idea of building autos for export and insisted on auto-parts localization. The German counterpart, however, explained the necessity of auto-part import at the first stage and proposed the idea of localization as China became more experienced in producing quality part supplies. Within this cooperative atmosphere, the contract was signed in 1984. This joint venture was owned 50% by Volkswagen, 25% by SAIC, 15% by the Bank of China's Shanghai Trust and Consultancy Corporation, and 10% by the China National Automotive Industrial Corporation. The involvement of Chinese partners revealed careful forethought: "The Bank of China could provide or guarantee needed loans, SAIC would have an interest in solving local problems, and CNAIC could be a link to the central planner." (Harwit, 1995, p. 153).

To reduce its dependence on VW and to stimulate technology transfer after one decade of cooperation, SAIC decided to engage in the joint venture with GM in the early 1990s. SAIC and GM signed a contract to jointly set up Shanghai GM production facilities in Pudong in 1997. GM was anxious to win this joint venture because it believed that SAIC was the best automobile company in China. Indeed, SAIC was highly profitable due to many advantages. Notably, the Chinese government had chosen SAIC to be the primary passenger car producer enabling it to acquire the most relevant technological experiences, more so than any other domestic company. However, the obvious disadvantage of working with SAIC was its existing joint venture with VW which was one of GM's global competitors and

which had dominated the Chinese passenger car market since the mid-80s (see Table 19). Since its establishment, SGM has grown into one of the largest car producers in China.

6. 4. 2. Auto Supplier Cluster in Shanghai Area

The development of the automobile industry in the city was strongly supported by municipal policies, including infrastructure development, labor market, and industrial policies. In addition, to stimulate broad manufacturing competencies and to integrate Chinese suppliers within the region, the central government enforced local-content regulations on those auto joint ventures to spur the development of a regional production network with substantial local linkages.

Meanwhile, there has been a strong tendency in the international automobile industry to develop hierarchical supplier networks and shift the developing, manufacturing, and assembly responsibilities of important modules to the first-tier suppliers. Along with the globalization strategy of the automobile producers, large first-tier suppliers were also required to follow their auto assembly partners and set up production facilities in other nations (Sadler, 1998). As a consequence, VW demanded that important first-tier suppliers establish production facilities in China, preferably within the region. However, production volume (less than 20, 000 units in 1990) at that time was too small for global suppliers to set up mass production facilities in Shanghai.

In the initial years after production was launched, SVW still imported most

parts and components for the production of the VW Santana from overseas, a large part of which was from Germany. At that time, there were basically no firms in the region that could have supplied the parts that were needed. However, the Chinese government threatened to impose a production limit on SVW if the firm would not increase its local content in production. To achieve the 70% local content regulation but at the same time to ensure global quality standards, VW and the Chinese government worked interactively in promoting joint venture partnerships in the auto parts sector.

6. 4. 3. Joint Ventures Firm Strategy and Competition

SAIC's strategy is clear-to form multiple auto JVs with different global firms and to benefit from competitions between those partners, in regard to technology transfer, new model introduction, and supply market rationalization.

SAIC's experience with GM and VW proved this strategy, and GM seems to do a better job in quality control, technology adaptation, and accurate appraisals of domestic demand market than its competitor VW. While VW and GM are increasingly going head to head in the marketplace as they expand their product lines, SAIC may find itself competing with both when its own car goes on sale. At the same time, VW and GM run the risk of being shunted aside as China's domestic auto industry develops.

In July 2004, national auto sales rose only 3.7% over the same period in 2003 (CAAM, 2005). The growth slowdown has had a significant impact on VW who was losing market shares because of an aging product line and increased competition. In 2002, cars made by SVW had 27.6% of the China

market; in 2003 they slipped to 19.6%, and for the first seven months of 2004, they fell further to 15.5% (Xu, 2005).

VW's difficulties have created an opportunity for GM, which passed SVW briefly in June 2004 to become the market leader. "Over the past few years, Chinese consumers have become more savvy shoppers through greater access to information" ("The middle class.", 2001), said Phil Murtaugh (CEO of GM China) at the 2001 China Business Summit, and "they have higher expectations for the products and their quality." ("The middle class.", 2001). He pointed to the dramatic increase of internet usage and the greater number of Chinese auto publications. "China's growing middle class itself represents a sophisticated customer base for a broaden product mix and thus fierce competition," Murtaugh said ("The middle class.", 2001). A careful evaluation of changing domestic consumers and a close relationship with Chinese engineers in its technical center keeps GM consistently in the leading position in Chinese passenger car market.

6.4.4. Technology Transfer: Good and Bad

Scholars advocated that the existing supplier network and industrial infrastructure were important reasons why GM also decided to set up production facilities in Shanghai in 1997 (Gallagher, 2005; Taylor III, 2004), while the later success of GM, to a large extent, is attributed to its sincere investment in local technology development and close cooperation with Chinese engineers. Nonetheless, problems could rise from inter-JV technology transfer.

GM was the first company that actually established a technical center with additional investment in Shanghai, following the government's promotion of technology transfer in the 1994 industrial policy. A separate

\$50 million US joint venture was established between GM and SAIC named the Pan Asian Technical Center (PATAC). PATAC's main purpose is to provide engineering support to SGM and other Chinese auto companies. PATAC has also established an in-house emissions testing center and has employed around 400 Chinese engineers, which, though not directly training Chinese engineers, gives China the opportunity to work closely with advanced techniques and learn in the process.

According to Porter (1990), only when a foreign company transfers R&D decisions can it add to the host nation's competitiveness.