

# Report on how honda has changed its internal environment



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Macroeconomic environment of a business is crucial to all its operations. This is because all of its present and future operation depends on the surrounding business environment. Honda has continued to embrace the changes that happen around its operations in order to ensure sustainability and profitability. The current global motorcycle manufacturing sector is full of competition. It therefore becomes crucial for every manufacture to evaluate their strengths and weaknesses and then identify the opportunities to exploit so as to gain competitive advantage. Research and Development (R&D) and innovation in the manufacturing process mark the epitome of Honda's competitive advantage. It is crucial for a corporation to bank on its competitiveness and maintain it for the prosperity of its product and services.

## **Macro-environment**

A firm's macro-environment is made up of various aspects of the firm's surrounding that have the capacity to potentially affects is business strategies. An organization's macroenvironmental variables have less impact on the firm's operation as compared to the organization's task environment. The macroenvironmental variable consists of sociocultural , economic, technological, political and legal variables. It is important for a firm to consider these variables in order to understand the various threats as well as opportunities that can be created by the specific variables. They also help in indicating how the strategic plans can be effectively adjusted so that a firm can acquire as well as retain a good level of competitive advantage. The microenvironment is made up of forces that emanates from outside the firm and can never be effectively altered by any form of actions of the firm. This

is to say that the organization can be influenced by the macroenvironmental forces but it can never influence these environmental forces.

## **Socio-cultural and demographics**

Lifestyles and societal values do change over time. There are several socio-cultural and demographics factors that directly impact the motorcycle manufacturing industry. The fact that in this generation women can work outside their homes and join the workforce means that they have an improved spending power (Newsweek, 2010) the increase in the spending power of women is an economic factor that can effectively be employed to develop products and services that target women in the motorcycle manufacturing industry . The other socio-cultural factor is that need s to be considered is the attitude towards new scientific marvels of going green.

In terms of demographics, the BRIC countries (Brazil, Russia, India, and China) which are experiencing exponential growth offer a perfect opportunity for the sale of motorcycles.

## **Demand for green products**

The demand for green products is a part of the natural macroenvironmental force which can closely be associated with the larger socio-cultural environmental forces that effect product sales. Nature is the main source of raw materials that are use in the production of most products. The raw materials could be renewable, depleting or infinite in its supply. It is important that all the raw materials be preserved and any form of wastage be curtailed. The ecology should be preserved by appropriately minimizing pollution. This is by means of eco-friendly (green) technology. The concept of

eco-friendliness and going green can effectively be used by marketers in the motorcycle industry in order to win more customers. The concept of going green in the motorcycle industry involves the research and development of hybrid, e-motorcycles as well as hydrogen-fuel-cell motorcycles. The process has several merits. It however also has its fair share of challenges as pointed out by Schwartzapfel (2008). The fact that companies such as Honda are already established means that the incorporation of green technology in their production and marketing mix can effectively bring a positive jolt to their brand and corporate image. This would in turn be reflected on their performance. This is reinforced by the fact that green demand amongst customers is rapidly getting stronger (PWC, 2008).

In regards to demographics, the statistical figure that baby boomers comprise of approximately 25.8% of the United States population (Briand, 2009) is a factor for motorcycle manufacturing industry to consider in their marketing mix. The fact that they have higher income than the media United States population is another opportunity that can be exploited by the motorcycle manufacturers (Dell Web, 2010). The opportunity is derived from the fact that baby boomers have a higher income and are constantly refusing to acknowledge that they are aging. This makes them a perfect target for luxury products and services. The threat to the reliance in this market segment is based on the fact that the baby boomers eventually get too old to use the luxury products that they thought were appropriate to their lifestyle thereby leaving a demand vacuum.

## Legislation

Legislation is yet another important microenvironmental force that the motorcycle manufacturing industry must reckon with. The legal environment that firms are facing is rapidly becoming complex and has a rather direct effect on their operations (Thomas, n. d). This has made it very difficult for the businesses to operate without being affected by a legal, compliance or regulation problem. The most significant legislations that affect the motorcycle manufacturing business are in the domains of positive consumerism, competitive practices, environmental issues and employee relations. Most of these laws are associated with several regulatory bodies. They include Environmental Protection Agency (EPA), Equal Employment Opportunity Commission (EEOC), and Occupational Safety and Health Administration (OSHA). An analysis by Thomson Reuters' Governance, Risk and Compliance (GRC, 2011) indicated that the cost of compliance is to continue rising with time. In the motorcycle manufacturing arena, corporations such a Honda must comply with the various regulations that affect their trade. The noise statutes for example are one of the regulatory compliances that they face. In the U. S foe example the federal laws require all motorcycles to have their noise below 80 decibels from a point located 50 feet away from the motorcycle (Fredrix, 2007). This could negatively impact their sales. The regulatory requirements are very expensive to meet and maintain. This is therefore a great threat to the motorcycle manufacturing industry.

## **Economic environment**

The economic environment is crucial for the sales and manufacture of motorcycles. The current status of the economy is not very good as a result of the recent economic downturn. It is therefore important for Honda to understand the current economic condition as well as predict the future economic conditions. It is worth noting the current oil prices calls for the manufacture of fuel efficient motorcycles. The decline in the median income also has an effect on motorcycle sales. A report by the Motor Cycle Industry Association (MCIA, 2010) indicated that the recent economic downturn reduced the sale of motorcycles by roughly 20%. The global economy is however in recovery but the high unemployment rate coupled with a decline in the level of media income means that fewer people are likely to indulge in the purchase of the high-end, luxury motorcycle products and services.

## **Technology**

Technology presents both a potential threat as well as potential opportunity to the established Honda products. Other competing firms have introduced and are in the process of introducing new and complex technology that is more refined making it extremely hard for Honda to assess their true market potential. The introduction and enforcement of the CAFÉ standards has seen the fuel economy of cars and motorcycles improve. This has been coupled with the introduction of hybrid versions of the cars and motorcycles as well as technology for alternative fuels such as hydrogen. The improvement of fuel economy is important to the current global economy as a result of the decline in the median income as well as the ever rising price of fuels. The downside of the hybrid technology is that some of the hybrid cars and

motorcycles may end up being more expensive when compared to their conventional counterparts. The opportunity presented by this technology is that it can allow for the production of more economical and fuel efficient motorcycles to replace the expensive car whose maintenance has been worsened by the decline in median income, lack of employment and exorbitantly high prices of gas.

## **Business Level Strategy**

The business level strategy at Honda is in line with its enterprise and corporate strategies. In the motorcycle industry, the corporation is striving to build its products and services very close to its customers in a total of 21 plants that are spread across 21 countries. The corporation also conducts Research and Development (R&D) in a total of six countries. The research and development system is tailored in its approach in order to produce products and services that are durable and reliable at the same time. The focus of the Honda foundation is to have three main dimensions; social, economical and environmental issues. This means that the corporate strategy is to support sustainability at all levels. The motorcycle manufacturing plants are design to be easily convertible to motor vehicle manufacturing plants should there be a need of an exit strategy. The business strategy at Honda is to fully support the processes of globalization and exhibit its characteristics. R&D has therefore been continuously been used by Honda in order to have a competitive advantage over its competitors. The R&D system at Honda is remarkable. This is because it is systematic in its approach to challenges of durability, product reliability as well as performance. Honda has a proactive approach to the future needs

and demands while effectively taking care of social, economical and environmental issues (for sustainability). The research and development at Honda employs leading edge technologies as well as an unparalleled commitment to the process of innovation in order to create better products for future mobility. The other aspect of Honda's business level strategy includes the role played by the dealers. The production, distribution and selling are to be inspired by the three joys. They are'

The Joy of Buying

The Joy of Selling

The Joy of Creating

These are Honda's beliefs as well as desire to ensure that every individual working with Honda or interacting with the company and its brand should experience a sense of joy . The consumers should experience the joy of buying Honda products by receiving products and services that exceeds whatever expectations they had. The dealers should experience the joy of selling. There should be a creation of inspiring experience for the clients, this should be coupled with a quick response to the various changes in value in the needs of customers. The customer relations must also be improved through a sales team that is attentive and friendly. There should also be a thorough product maintenance as well as repair.

Honda motorcycles have competitive advantage over its competitors.

For quite a long time, Honda has managed to stay ahead of the pack by investing a lot of time and efforts in refining its competitiveness in the <https://assignbuster.com/report-on-how-honda-has-changed-its-internal-environment/>



motorcycle market. Hariri (2004) when examining the competitive advantage at Honda motorcycles realized that Honda began its quest for competitiveness almost 47 years ago when they first introduced a small and lightweight motorcycle that had an automatic clutches, 30-speed transmission as well as electric starts. These bikes had superb handling and were deemed to have a rather safe and “ friendly” appearance. They went ahead to make it more comfortable for female riders by including in their design, step-through frames. Their products were appealing to people from all walks of life. The appeals coupled with their affordability and slogan that read “ You meet the nicest people on a Honda” worked marvelously in their marketing campaigns. The huge demand for little motorcycles gave Honda the chance to launch as well as dominate the then relatively new market through the employment of proprietary technology, efficient production, regular introduction of extremely efficient and top-notch, next generation models, improved innovativeness in their product design as well as product features as well as the a relentless improvement in their after-sale services. This made most of their competitors (especially from Europe to disappear). There has been some competition from Harley Davidson and BMW but Honda has still managed to dominate by virtue of the momentum gained over time (Hariri, 2004). What Honda has done in order to maintain competitive advantage is to continuously differentiate itself in the motorcycle marketplace. They have continuously made efforts to be different from their competitors while ensuring an unparalleled uniqueness in their product offerings. They have also made it their philosophy to ensure that they add a lot of value in the products and services that they offer their customers.

Their competitive advantage is also done to ensure uniqueness in product  
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quality for the future markets. Honda has also managed to maintain competitive advantage by frequently enhancing their products and services in order to meet what is desired by their clients as bold, useful and innovative. The innovative improvements at Honda in terms of product design, types of models and well as superb quality and service are what makes them unique and hence have a competitive advantage over their competitors.

The company has also worked hard in order to put environment and consumer safety as part of its agenda. Their goal surpasses compliance and regulation but is aimed at bringing mobility to the generations to come. This is achieved through a proactive development as well as introduction of technologies that are safe and environment friendly. The safety targets everyone (pedestrians, driver as well as other motorcycles and motor vehicles). The company has taken actions aimed at making environment and consumer safety as part of its agenda. Their goal surpasses compliance and regulation but is aimed at bringing mobility to the generations to come. This is achieved through a proactive development as well as introduction of technologies that are safe and environment friendly. The safety targets everyone (pedestrians, driver as well as other motorcycles and motor vehicles) All Honda motorcycles are fitted with environment-friendly and programmed fuel injection system (PGM-FI). For safety purposes the Honda motorcycles are equipped with a combined braking system that has both the traditional braking system and an anti-lock breaking system working together. On differentiation, the 2011 Honda CBR250R motorcycle has several patents (More than 18) related to its frame and an advanced fuel

filter layout that effectively reduces its weight as well as an advanced cooling system and a cross frame for improved rigidity (Wasef, nd).

### Value Chain Analysis

Value chain analysis can be a great method for the management of an organization to recognize the main activities that takes place in the organization. The activities recognized are usually part of the organization's value chain and besides, they enormously provide sustainable competitive advantage for the firms. Therefore, competitive advantage of a firm is lying in its capability to execute better the important activities along the value chain than the firms with which it is competing. It should also be noted that the aim of any business is to attain sustainable competitive advantage.

The framework of value chain that was laid down by Porter (1990) is “ a mutually dependent system or association of activities that are related by linkages”. If the structure is carefully managed, the linkages are capable of being an important origin of competitive advantage (Pathania-Jain, 2001).

Value chain analysis is basically entailing the connection of two fields. To start with, value chain connects the value of the activities of the organizations with the major functional parts. Secondly, the evaluation of the involvement of every part in the generally extra value of the dealing is made (Lynch, 2003).

For a company to build and maintain a competitive advantage over its competitors, it has to bear in mind several aspects of the companies and the firms with which it is in competition. Given that the Honda Company has outlined the firms with which it is in competition, it is capable of performing <https://assignbuster.com/report-on-how-honda-has-changed-its-internal-environment/>

better than them. The fact that there are no leading competitors in the United State's motorcycle market gives Honda an upper hand. Having realized that, the company is capable of making good strategies that will make it to beat all the other firms like the Harley-Davidson whose market share is 28%. It is only this company that is above it as far as the market share is concerned. The company must also ensure that the other firms whose market shares are below it are never allowed to pass it. Such companies are the Yamaha whose market share is 17%, and Suzuki whose market share stands at 13%. While Harley-Davidson has the largest market share, it does not have the ability to enforce the rules of competition. Through the diversification of Honda, it is a bigger and an extremely more profitable firm than Harley-Davidson despite the fact that the firm is having a wider market share than Honda. The diversification is capable of making Honda to build and maintain a competitive advantage over its competitors which is mainly Harley-Davidson.

Honda is also capable of building and maintaining a competitive advantage over its competitors by the fact that it is regularly tracking the moves of its competitors. Having tracked the total net income for Harley-Davidson which is standing at 259 million and comparing it with its total net assets which was standing at 6.83 billion in 2010, it is capable of working all round the clock to ensure that it beats the firm through all means. It will also ensure that its total net assets exceeds that of its rival company, mainly Harley-Davidson and also the other competitors. It is also having the capability of maintaining a competitive advantage through its taking advantage of the weaknesses of its competitors.

The company is capable of maintaining a competitive advantage over its competitors through the analysis of its target market. The target market refers to a given group of customers which the company is aiming at when it is producing its goods and services. The target market refers to the people who will most probably purchase or use the products or the services that a firm is producing. Honda has analyzed not only its market share but also the market share of its rival companies. Having known the market share of its competitors will most likely make it to beat the competing firms. They should endeavor to stay ahead of the other firms with which it is competing. They should develop great strategies that will enable them to lead the other firms.

Honda is capable of maintaining a competitive advantage through the thorough analysis of its inbound logistics. Inbound logistics can be defined as the activities that are concerned with the reception of materials that comes from the suppliers, ensuring that these materials which are acquired externally are well stored, and also ensuring that they are properly handled within the company. Only then will it be capable of staying ahead of other firms in the industry. Fixed/Storage Costs: Due to the fact that both the fixed and storage costs are comparatively high for a number of the competitors in this industry, Honda should strive to minimize its storage and fixed costs so as to gain a competitive advantage over its competitors.

Operations also have to be looked at by the firm so as to maintain a competitive advantage over other firms. Operations involve the activities that are connected to the production of services and goods. It plays a crucial role in the maintenance of a competitive advantage. All the motorcycle companies have added capacity in huge increments. This has greatly

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increased competition. However, Honda also constructed a plant in India. The plant is having a yearly production of approximately 600, 000 motorcycles. This capacity of production is exceeding the whole number of motorcycles that is sold in the United States during the year 2010. This expansion has greatly made the firm to gain a competitive advantage over its competitors. However, the firm should strive to become the leading manufacturer of motorcycles in the United States.

Outbound logistics must also be looked at by the firm to maintain a competitive advantage over the other firms. Outbound logistics refers to the activities that are mainly concerned with the distribution of the end products to the consumers.

Sales and marketing are also not left behind when value chain analysis is being looked at.

The area of sales and marketing is basically analyzing the various wants and desires of the customers. Besides, is accountable for the creation of awareness among the customers who are the main target of the firm. The customers should be kept updated about the goods and services that are provided by the company. Generally firms ought to apply mechanisms of marketing communications such as publicity, sales promotions so as to draw many consumers to the products that are produced by these firms. The fact that Honda is marketing its products is giving it a competitive advantage over its competitors. Marketing and advertising distinguishes Honda's motorcycles. This will make the consumers desire to buy the best products.

Indeed it is Honda's continued marketing strategies that will make it to gain a competitive advantage over its competitors.

After sales services is also vital for value chain analysis. The companies are obliged to offer after-sales service previous to or after the sale of the goods or service. Good Procurement procedures are also vital for the analysis of the value chain. The procurement section is held responsible for the purchase of items that are vital for the operations of the firms. An effective procurement department ought to be capable of obtaining the greatest quality commodities at prices which are very low.

The management of human resources is also vital for the value chain analysis. The department that is concerned with the recruitment, training of the workers, motivation and also providing rewards the firm's workforce. Workers are gradually becoming a significant way for the attainment of sustainable competitive advantage. The workers ought to be given thorough training in the customer service. The workers should be given both bonuses and also stock plan. This kind of compensation plan is capable of encouraging the workers to work best for the organization to ensure that their value of compensation goes up. This is capable of resulting into employees who are more productive thereby reducing the cost of workers. Technological advancement is also a field that is mainly dealing with technological improvement, training and the acquisition of knowledge and skills that are important for the survival of Honda. The Company's infrastructure is also playing a key role in the value chain analysis. It entails effective planning and efficient control systems like accounting (Lynch, 2003).

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## **Protection from the Five Forces**

### **Threat of New Entrants**

Economies of scale: This threat to Honda is classified as being medium. In terms of the organizational (Internal) economies of scale, there is the most cost efficient production level is referred to as Minimum Efficient Scale (MES). This point is where the cost of producing a unit of a given product is at its minimum. This is to mean that it is the most cost efficient production level. Should the Minimum Efficient Scale (MES) of a given firm be in the public domain, it would become very possible to determine the level of market share that would be necessary for rivals to jump in at a lower cost. Honda protects itself from the threat created by this form of threat of new entrants by making the difference between the Minimum Efficient Scale and the entry unit cost to be very large. Honda also ensures that they maintain competitive advantage through product differentiation and quality product and service delivery.

Access to Distribution Channels: This threat is rated as posing high threat to entry . The possibility of a new entrant establishing its independent dealership network to rival the one is high but Honda has through the years perfected its distribution channel. They have come up with an effective and efficient virtual distribution system as part of its value chain.

Cost Disadvantages that are Independent of Scale: These are indicated as posing low threat to entry to Honda. This is related to technology and intellectual property rights. In order to protect itself from this form of threat, Honda has patented most of its ground-breaking technologies. The patenting



of its proprietary corporate information helps Honda to minimize the level of threat of new entrants. Honda also strives to train and maintained its skilled workforce in an effort to reduce protect itself from the threat possessed by new entrants.

## **Competition**

In order to reduce the threat posed by too much competition in the motorcycle manufacturing industry Honda has made efforts to distinguish itself from its competitors by differentiating its products and services in order to be unique and exquisite it its products and services offerings. It has also patented its key technologies.

## **Substitutes**

In order to protect itself from substitute products, Honda has taken steps to involve itself in the trend of the public to prefer public transportation (preferred due to its cost effectiveness and environment friendliness ), motor vehicles (carpooling) and leisure walking by actively involving itself in the embracing of sustainable and energy efficient proprietary technologies that counter the effects of high fuel prices and environmental degradation. Honda has embarked in the production of fuel efficient engines and has embraced green technology (hybrid and e-machines/motorcycles).

## **Supplier Power**

The concentrated nature of the motorcycle manufacturing market implies that the existing suppliers have extremely low bargaining power with the corporations that they are already engaged with. The suppliers however, have high bargaining power with the potential new entrants to the

motorcycle manufacturing market as a result of the cost of switching. Honda has therefore customized its manufacturing processes so as to meet their requirements and therefore an unprecedented switch would require a lot of resources and costs to the affected supplier.

## **Competition**

In order to protect itself from competition, Honda has placed emphasis in thorough research and development as well as innovation that are targeted towards solving the future mobility needs.

Evaluation of the effectiveness of how the Honda has chosen to manage rivalry

Honda has effectively managed business rivalry (competition) through the employment of certain specific moves that have delivered major blows to its business rivals. Some of these are'

Emphasis on Research and development and innovativeness

Honda dedicates a lot of funds annually to R&D endeavors. In 2007 for example, it spent an estimated \$5. 14 billion on R&D alone (Crain Communications, 2008). Their quest to solve tomorrows mobility problems coupled with good innovative techniques has ensured that Honda has maintained its sport as one of the best motorcycle manufactures in the whole world.

## **The building of relationships**

The most competitive corporations in the whole world must have strategic partners. Honda too has strategic partners that are an integral part of its value chain. In order to successfully complete, Honda has made an effort to introduce key players into its value chain process. This has been facilitated by the application of technology to form the virtual value chain paradigm.

## **Business partners/transactions**

In order for Honda to maintain fairness as well as a sound relationship with all of its business partners, it engages itself in fair and credible transactions. Should they need a business partner, they select the partner by carefully comparing as well as evaluating the partners in a manner that is impartial and with a consideration of their terms and conditions. After the selection of an appropriate partner, no gifts will be given or accepted beyond what is considered appropriate. The misuses of positions as well as authority are also prohibited. Business partners are also not to give or be given improper benefits.

### Relationship with various governmental bodies/agencies

In order to have a strategic relationship with the main governmental bodies/agencies, Honda must be fully compliant with the regulatory requirements as well as abide by all the laws that are laid down in every country. The granting of excessive benefits and gifts is also prohibited.

## **Strategic management**

The protection as well as the preservation of intellectual property (IP) rights

The rigorous and extremely expensive process of research and development at Honda has earned it several patents and trademarks that are considered intellectual property. These patents are used in the manufacture of most of its efficient products. The patent holds the key to the future success of the corporation and must therefore be protected by the law. Honda therefore strives to protect its IP rights in order to protect its operations.

## **Improved value chain**

### **Inbound logistics**

For the inbound logistics the system at Honda has been designed to have a close integration with all the suppliers. This is crucial because vendor management is an integral element of the value chain process. This is based on the fact that over seventy three percent (73%) of the cost of production is attributed to the component materials. It is therefore crucial for Honda to ensure that it maintains a very tight control on the logistical costs while reducing the transactional costs incurred in the process of procuring material components. They therefore employ the Just-In-Time method of manufacturing, a philosophy that demands very close level of coordination between the manufacturing processes/centers, the vendors as well as the ancillary units (Bagchi & Dhali, 2009). This process is facilitated via an online platform.

### **Manufacturing operations**

Honda manufacturing hubs are known to be on some of the best JIT manufacturing centers in the world (Bagchi & Dhali, 2009). They also employ Lean Manufacturing which is coupled with the use of high level of automation

in order to ensure that the degree of efficiency is high under low inventory costs but high cash flow. The operating and cash cycles are however reduced in an effort of improving the conditions for working capital. Honda incorporates the concepts of JIT, Lean manufacturing and Integrated Supply chain in order to improve efficiency in its manufacturing hubs.

### **Outbound logistics**

Honda employs well established channels of delivery from all of its plants in order to ensure that the waiting period is minimal.

### **The sales and marketing techniques**

Honda has over the years involved itself in marketing campaigns such as “Fill it, Shut it, Forget it” that have yielded positive results under the umbrella of efforts dedicated to fuel economy with a low running (owning costs).

Honda has consistently focuses