



**HONDA IN EUROPE**

**INTRODUCTION**

The Honda Motor Company first entered the European market in the early 1960s through the sale of its motorcycles. The

This case was prepared by Jong Won Ko, Peter Wirtz, Mike Rhee, and Vincent Chan of the University of Hawaii at Manoa and further updated by Dan Zhang of Temple University under the supervision of Professor Masaaki Kotabe for class discussion, rather than to illustrate either effective or ineffective management of a situation described (2008).

company's motor vehicles were introduced into Europe at a much later date. Honda's motor vehicle sales in Europe have been relatively poor, especially in the previous five years. Despite its huge success in the North American market, Honda is struggling to gain a significant foothold in the European market. Honda executives wonder why their global strategy is sputtering. Is global strategy just a pipe-dream, or is something wrong with Honda's European strategy?

**HISTORY OF HONDA**

In 1946 Souichiro Honda founded the Honda Technology Institute. The company started as a motorcycle producer and by the 1950s had become extremely successful in Japan. In 1956, Honda entered the U.S. market and was able to position itself effectively, selling small-sized motorcycles. In the early 1960s, the company commenced automobile manufacturing and participated in Formula-1 racing (F-1) to assist its technology development. Thanks mainly to its F-1 efforts, Honda became recognized as a technologically savvy company, not only in Japan but in the rest of the world as well.

Until the early 1990s the company experienced serious organizational mismanagement resulting from tension between the technology side and the marketing-sales side. The situation became so dire that the technology biased president and founder, Souichiro Honda, was forced out, as a result of his neglect in important marketing decisions. After Souichiro Honda's departure, the company became more marketing-technology balanced, and by 1999 it was second in sales only to Toyota in the Japanese market. The company's underlying success is best summarized in its mission statement, "pleasure in buying, selling and producing," and "Beat GM, not Toyota." Honda currently has 25 separate factories in the world, and its operations cover automobiles, motorcycles, financial services, power products, and power tools. In fiscal 2008, 83 percent of Honda's revenues came from its automobile sector, as outlined in Case Exhibit 2-1.

**CASE EXHIBIT 2-1**

**HONDA'S BUSINESS PORTFOLIO  
(IN MILLION YEN)**

Motor Cycle	1,558,696
Automobile	9,489,391
Others	421,194
<b>TOTAL</b>	<b>11,469,281</b>

**AUTOMOBILE INDUSTRY**

The automobile industry worldwide is in the mature stage of its life cycle. By the 1990s, an oversupply of motor vehicles became such a problem to the industry that a number of mergers and acquisitions (M&A) and alliances took place. In the late 1990s, industry experts stated that only six or seven companies would remain global players, while other companies would be forced to sell in niche markets. In the last decade, DaimlerChrysler acquired a major share of Mitsubishi, GM became the controlling shareholder of Fiat and Saab, Ford acquired Volvo, Jaguar, and a major share of Mazda, and Renault became the controlling shareholder of Nissan. Global scale production and sales became important as a way to cut cost through developing a common platform or engines as well as global procurement. Unlike their European and American counterparts, Japanese automobile companies, including Honda, did not adopt the M&A strategy for expansion. To remain a global competitor, Honda instead expanded its operations by setting up plants in regional markets. Case Exhibit 2-2 shows that Honda is currently ranked sixth in the world.

**CASE EXHIBIT 2-2**

**THE WORLD'S TOP 10 AUTOMOBILE MAKERS IN SALES IN THE FIRST HALF OF 2008**

Ranking	Name	Sales (in million units)
1	Toyota	4.818
2	General Motors	4.540
3	Volkswagen	3.266
4	Ford	3.217
5	Hyundai	2.187
6	<b>Honda</b>	<b>2.022</b>
7	Nissan	2.014
8	PSA Peugeot Citroen	1.697
9	Renault	1.326
10	Suzuki	1.283

**Honda in Europe.** Currently, Honda has five regional operations: North America, South America, Japan, Asia-Oceania, and Europe. The European operation covers Europe, the Middle East, and Africa. Honda entered the European market in 1961 as a motorcycle manufacturer, with its automobile operations following several years later. In 1986, Honda started engine production in the UK, and six years later it launched its European production at Swindon in Somerset, UK. Honda opened production facilities in Turkey in 1999 to target the Middle East and Eastern European markets. The European operation accounts for a small portion of Honda's global operation, as shown in Case Exhibit 2-3.

**CASE EXHIBIT 2-3**

**HONDA'S GLOBAL SALES BY REGION**

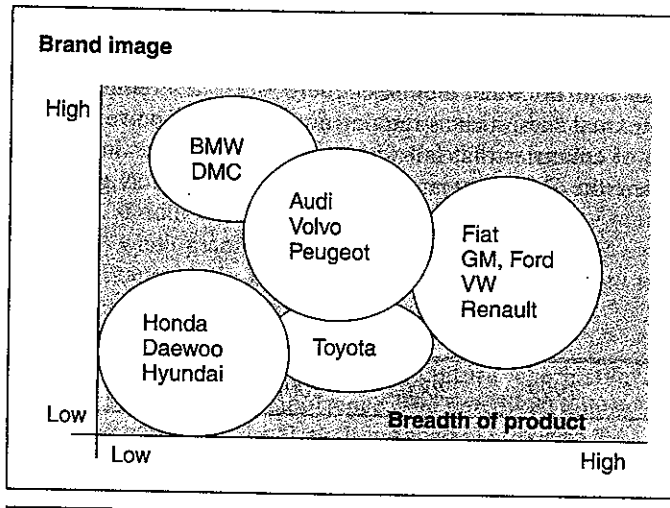
Net Sales (in billion yen)	Year		Unit Sales (in thousands)	Year	
	2007	2008		2007	2008
North America	5,179	5,209	North America	1,788	1,850
Japan	1,413	1,321	Japan	672	615
Europe	917	1,183	Europe	324	391
Asia (excl. Japan)	862	1,048	Asia (excl. Japan)	620	755
Other	518	728	Other	248	314

There are a number of reasons for the low sales in Europe. Honda entered the European market rather late, and its first production facility in the region was built in 1992, at a time when Honda was still only a minor player in the Japanese market. Prior to 1992, Honda Europe was forced to import its vehicles from the United States, making it impossible for the company to aggressively attack the European market. One of the most important reasons for the lack of success was that the European market was highly saturated with locally owned car manufacturers. Companies such as Saab, Volvo, BMW, Audi, Volkswagen, DM, Opel, Renault, Peugeot, and Fiat have been dominating the European market for a considerable number of years. In addition, other foreign companies, such as Toyota, Nissan, Ford, and Hyundai make the European market extremely competitive.

In 2001, Volkswagen was ranked number one in Europe with 17.6 percent of the market and Peugeot number 2 with

15.8 percent. Renault, Ford, Fiat, and GM had approximately 10 percent of the market each, and Toyota, BMW, and Audi had a market share in the region of 5 percent. Honda captured only 2.4 percent of the European market. The competitive industry map (Case Exhibit 2-4) shows Honda's current position in the European automobile market.

### CASE EXHIBIT 2-4 BRAND IMAGE IN EUROPE



The Honda brand image in Europe is relatively weak and the product line is narrow compared to the other major players in the market. The company needs to expand its sales and production in order to survive in global scale competition.

**Honda's European Marketing.** The four largest markets within the European market are those of Germany, the UK, Italy, and France.

**Product.** Honda's European manufacturing plant is located in the UK and as a result the country has more Honda models than any other country in Europe, with a total of 20. Germany, the country with the highest number of vehicle registrations, has the next largest number of models, 16. Italy and France, both similar in size to the UK, have 11 and 9 models, respectively. The products found in Italy and France are also found in Germany and the UK. The UK has a number of automobiles that cannot be found in the other three countries, including diesel-powered cars.

### CASE EXHIBIT 2-6 HONDA'S UNIT SALES IN EUROPE: 1996-2002

Year	Civic	Accord	Shuttle	CR-V	HR-V	Logo	S2000	Stream	Total
1996	150,783	44,248	3,255	11					203,276
1997	160,530	39,410	3,278	16,502					232,242
1998	151,270	31,536	4,670	41,886	88				240,489
1999	99,156	48,835	4,261	35,923	26,257	12,856	1,179		234,942
2000	74,653	46,579	2,956	29,751	28,537	10,593	3,948		201,284
2001	83,024	28,822	320	24,381	17,726	4,145	2,195	7,283	169,922

**Price.** The prices of Honda's vehicles in Europe are comparable to those of similar cars produced by local manufacturers. Case Exhibit 2-5 compares the price in euros of Honda's new 1.4-liter Jazz, with similar cars offered in the European market.

### CASE EXHIBIT 2-5 AUTOMOBILE PRICES

Vehicle	Honda Jazz	Peugeot 307	VW Polo	Renault Clio	Opel Astra	Fiat Stilo
Price (euro)	13,800	13,250	13,930	13,650	13,400	13,500

The exhibit clearly implies that Honda is attempting to price its product at a similar level to that of the competition.

**Distribution.** The image of Honda's vehicles and motorcycles in Europe is aligned together. Consequently, Honda vehicles throughout Europe are distributed at the same locations that their motorcycles are. Vehicles produced in the UK and Turkey are distributed throughout Europe, the Middle East, and Africa. Recently, because of the depreciating euro vis-à-vis the U.S. dollar, cars manufactured in the UK have also been exported to the United States.

**Promotion.** The promotion of Honda's motor vehicles is essentially the same throughout Europe, whether in France, Germany, Italy, or the UK. The company spends very little time and money in promotion, however. It believes that its success in Formula-1 racing, together with its ability to produce high-mileage, fuel-efficient products that exhibit great engineering, is enough to make it a popular in the European market. It relies on word of mouth by its customers to potential customers and, to a lesser extent, on the internet and the company's various websites.

In the recent 2002 launch of the Jazz (known as the Fit in Japan), the company relied heavily on word of mouth and on a website created especially for the occasion. The website, using the same design for all European countries, promoted the car as suitable for young working women. The website attempted to give the car a cool, young image by associating it with Feng Shui, Yoga, and other relatively hip activities. A sense of fun was also attached to the website in an attempt to draw in young women. Once inside the Jazz website, the user could easily find the nearest dealership to purchase the vehicle.

**European Sales.** Case Exhibit 5-6 shows the sales figures for Honda's eight most popular motor vehicles from 1996 to

2001 (detailed sales by automobile model are not available thereafter). During this period, Honda's most successful year was in 1998; since then, however, sales had declined dramatically for a number of years. However, despite the stagnant markets in Western Europe, the growth of the markets in Central and Eastern European countries as well as Russia, since around 2005, has helped Honda increase its total sales to 391 thousand units by 2008. Factors accounting for this performance were: the expansion in sales of diesel-powered cars; favorable sales for the new model *CR-V*, which was introduced in January 2007; the three-door Type S as well as Type R models in the *Civic* series; and strong sales of the sedan-type models, such as the *Accord* and *Civic* four-door sedans, especially in Russia.

Honda's motor vehicles have been relatively unpopular in the majority of Western Europe, in particular Italy and France. The company's best sales have occurred in the UK and Germany as shown in **Case Exhibit 2-7** (no sales information by country is available after 2003).

### CASE EXHIBIT 2-7

#### HONDA'S UNIT SALES IN EUROPE BY COUNTRY: 1994-2003

Country	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
U.K.	38,187	45,772	50,075	55,611	61,044	65,290	68,736	63,459	77,942	81,858
Germany	53,687	52,614	54,550	55,918	48,247	43,610	33,536	31,868	32,590	34,251
France	14,411	11,848	13,260	12,585	14,095	15,270	8,717	6,495	6,392	5,547
Italy	12,063	14,101	15,014	25,406	24,532	22,031	18,570	13,732	15,509	18,887

**European Culture.** Honda's relatively poor showing in Europe may be explained by a number of reasons. The main problem was that the company failed to truly understand the culture of Europe, and more importantly, it treated Europe as one giant single market. Although France, Germany, the UK,

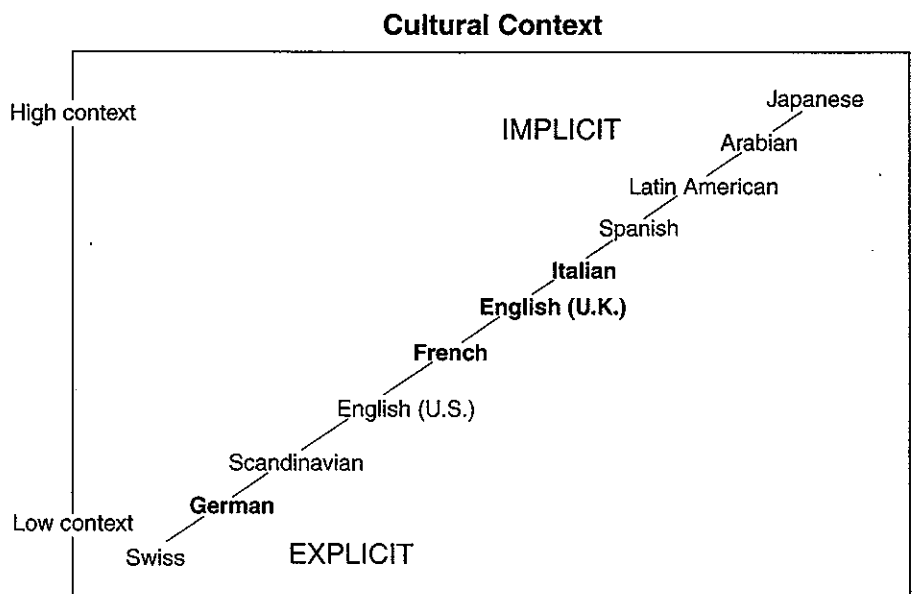
and Italy are all European, cultural differences abound among them. One theory that explains the differences between the four nations is that of high-context versus low-context cultures. In a high-context culture, the interpretation of messages depends on contextual cues like gender, age, and balance of power, and not on physical written text. In a high context culture, things may be understood, rather than said. Countries considered to be high-context cultures include those of China, Japan, Italy, France, Spain, and Latin America.

Conversely, a low-context culture emphasizes a distinctive written text or spoken words, where ideas are communicated explicitly. Low-context cultures expect others to say what they mean and do what they say. There is far less emphasis on contextual cues, such as ranking and balance of power. Examples of countries that fall within this category are the United States, the Scandinavian nations, and Germany. A graphical

view of high-context and low-context countries is presented in **Case Exhibit 2-8**.

Successful advertising in low-context cultures differs from that in high-context cultures. An advertisement for a high-context culture is based on an implicit style where the emphasis is on the

### CASE EXHIBIT 2-8 CULTURAL CONTEXT



overall feel and outlook rather than on the feeding of pure information. In this type of advertisement, the actual product may not even be shown. The audience may only be given implied images and sublime messages. Honda's Jazz website contained a large amount of information that would have been too much for high-context cultures such as the French and the Italians. In addition, high-context cultures have been much slower than their low context counterparts in adopting the internet.

On the other hand, the advertisement for a low-context culture includes the actual product, together with a large amount of information. Low-context nations such as Germany would have most likely been able to appreciate Honda's Jazz website. It is therefore unlikely that an advertisement/promotion campaign created for a high-context culture will be effective in a low-context culture country and vice versa. Since Europe consists of both high-context and low-context culture countries, companies such as Honda, intending to expand its business, should take into consideration two separate market segments when planning its marketing strategy. Honda's situation in France, Italy, Germany, and the UK in regard to their culture are outlined in the following sections.

**France.** France is a high-context culture where style and image is of the utmost importance. The perceived quality of a product means that the French have a bias toward the style and image of a product. The image of Japanese cars in France is relatively poor, dating back to the 1930s when Japanese manufacturers entered the European market with low quality products. Since that time, Japanese carmakers, in particular Honda, have not understood the concept of style and image in marketing. They appear to show a car only in a factual way, which is extremely low-context. Japanese carmakers in France have recently tried to alter their image, though with limited success.

Today France's image of Japanese cars, and in particular of Honda, is that of a small, low-quality car, suitable only for a second car. Most buyers of Japanese cars are young career women who have just entered the workforce and housewives with limited cash. The main family car is likely to be a Renault or Peugeot and is driven by the man in the family. In addition, the French are risk-averse people, who dislike trying new things. They are also highly patriotic, supporting and purchasing their national products, such as Renault and Peugeot cars.

The patriotism and risk averseness of the French, together with their low image of Japanese cars and the large number of other European automobiles available in the market, makes it extremely difficult for Honda to be successful in this market.

**Italy.** Italy, like France, is a high-context culture where a great deal of emphasis is placed on feeling and style. The Italian culture is reflected in their daily lifestyle, which gives a sense of romance to the people living there. As in France, the Italians view Japanese cars as small, low-quality vehicles, suitable only as a second family car. The most popular automobile in Italy, especially for families, is the Fiat. The Fiat is dominant because the Italians, like their high-context cousins the French, being very patriotic.

Italians are also risk-averse and are not adventurous in sampling products outside of Europe. Italians, like the majority of Europeans, love to drive diesel automobiles. Only the French

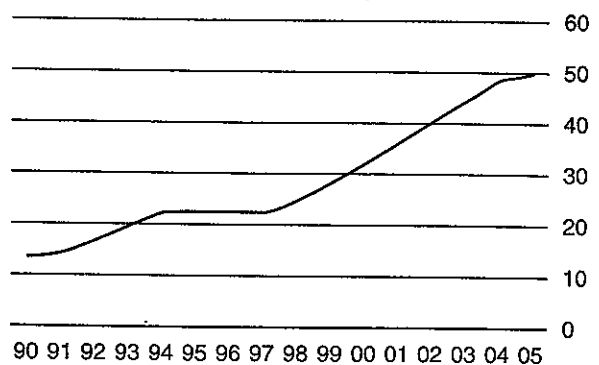
enjoy driving diesel cars more than the Italians. However, Honda still lags behind in the production of diesel cars relative to competition in Europe. As shown in Case Exhibit 2-9, the trend in the popularity of diesel cars relative to gasoline-powered cars is clear in Europe. Diesel cars are hugely popular because of the high gasoline prices in those countries. Diesel engine cars are cheaper to maintain in the long run, compared to gasoline engine cars.

### CASE EXHIBIT 2-9

#### MARKET SHARE OF DIESEL CARS IN WESTERN EUROPE

Diesel market share reaches 50% in Western Europe\*

Share of diesel cars in total new registrations



\* EU-15 + EFTA

Source: ACEA

A large number of European cars compete in Europe, particularly at the luxury end. BMW, Mercedes, and Audi are very popular for the very rich, as are Ferrari, Lamborghini, and Porsche. It is difficult for Japanese cars to enter the European market, especially at the higher end. The only Japanese cars that are selling reasonably well are Toyota's Yaris, Nissan's Micra, and Jazz from Honda. All three models compete in the 1.4 liter and under segment.

**Germany.** Of the four main European countries in which Honda is sold, Germany has had the second highest sales volume. Germany is a low-context culture where practicality and durability is one of the main concerns of a product. Consumers are concerned with every detail regarding a product and wish to know all relevant information before making a purchase. The promotion style used by Honda on the internet, bursting with information on their automobiles, seems to be an appropriate form of promotion for the low-context nature of the Germans.

Another factor that should place Honda's products in a better position in Germany is the Germans' greater willingness to take risks and to purchase new products. As a result, Honda would not have to spend additional resources to change the image of their vehicles in Germany, as it should probably do in France and Italy. If Honda's promotion is in line with the German's low context nature, why could Honda not improve

its sales position further? There must be another reason for its lackluster sales increase. One of the most logical reasons is the perceived nature of Honda's quality. The company needs to use its marketing to promote quality because competitors such as Mercedes (under DaimlerChrysler), Audi, Volvo, Jaguar (under Ford), and Volkswagen, to name a few, are seen as high-quality carmakers.

**The United Kingdom.** English culture is moderately high, focusing on tradition and class. Accordingly, the type of advertising and marketing promotion that will appeal to the English is similar to that popular in France and Italy but is more conservative in nature. On the other hand, the English are more individualistic and less risk averse than the French and Italians. Hence, it should be easier for Honda to introduce its range of cars in the UK and to improve sales. The fact that the manufacturing plant is located in the UK helps in the promotion of the cars. The construction of a second assembly plant should also help Honda's position in the UK.

The existence of the assembly plant, together with the risk taking nature of the English, has increased the number of Hondas sold in the UK to such a level that it is easily Honda's best market. The number sold in the UK as of 2001 was twice that of Germany, which only five years before recorded more sales than the UK. However, no Honda vehicle has entered the list of the top ten cars sold in the UK or throughout Europe, as shown in **Case Exhibit 2-10**.

#### CASE EXHIBIT 2-10

##### TOP 10 CARS SOLD IN EUROPE IN 2007

Rank	Make & Model	No. of Cars Sold
1	Peugeot 207	437,505
2	VW Golf	435,055
3	Ford Focus	406,557
4	Opel/Vauxhall Corsa	402,044
5	Opel/Vauxhall Astra	402,173
6	Renault Clio	382,041
7	Fiat Punto	377,989
8	Ford Fiesta	355,933
9	VW Passat	300,566
10	BMW 3 Series	295,312

**Possible Entry Wedge.** A possible entry wedge exists in Europe that could help Honda recover some of its lost ground. The European automotive industry is committed to a voluntary agreement to reduce CO<sub>2</sub> emissions by 25 percent from the 1995 levels by 2008 for all new cars. As an incentive for individuals to drive low-emission cars, special tax brackets will be given to drivers of low emission cars.

In 2001, Honda's Insight produced the lowest levels of CO<sub>2</sub> emission of any car in Europe. **Case Exhibit 2-11** shows the five cars with the lowest CO<sub>2</sub> emission.

#### CASE EXHIBIT 2-11

##### TOP 5 CARS WITH THE LOWEST CO<sub>2</sub> EMISSION

Rank	Car	Engine	Gas Type	CO <sub>2</sub> g/km
1	Honda Insight	1 liter	Gasoline	80
2	Peugeot 206	1.4 liter	Diesel	113
3	Toyota Prius	1.5 liter	Gasoline	114
4	Renault Clio	1.5 liter	Diesel	115
5	Audi A2	1.4 liter	Diesel	116

The ranking is an excellent opportunity for Honda to promote its cars in Europe, where people (especially in Germany) are obsessed with the environment and are burdened with high taxes. In addition, Honda introduced the Civic Hybrid in 2003. It is a gasoline-electric power train, fuel-efficient car with a low CO<sub>2</sub> emission level. Although the car has an electric engine, it does not need to be plugged in and recharged. The battery pack recharges itself automatically as the car is running.

Aiming at further business expansion in Europe, Honda is promoting product development that meets regional needs by establishing a broad-based local network of company facilities and R&D offices. In 2004, Honda released a diesel version of the Accord, the first car to be fitted with Honda's own diesel engine and designed to meet EU environmental performance standards for emission control (Euro 4). The diesel lineup expanded rapidly thereafter with the addition of diesel CR-V, FR-V, and Civic models. Targeting local customer needs, Honda subsequently launched a European version of the Civic in 2006, which has been well received by a wide range of customers. Further, in July 2008 at the British Motor Show, Honda unveiled its low-emission roadster concept, the OSM, the design of which was out of the company's R&D facility in Offenbach, Germany.

**The Issue.** Honda is currently at the crossroads of its European expansion in the automobile market. It has been successful in managing to market essentially the same cars in many parts of the world, particularly in the North American and Japanese markets. Honda executives are wondering whether or not they should adopt more localized product development in Europe.

#### DISCUSSION QUESTIONS

1. Does adapting the promotion of its motor vehicles to suit each country's culture make sense for Honda?
2. Is it wise for Honda to market its products the same way in every country?
3. Is pricing its vehicles similar to the competition a good strategy for Honda?
4. Should Honda change its product mix from country to country?
5. Is distributing its motor vehicles together with its motorcycles a good strategy for Honda?
6. Is the European market too competitive for Honda?

Source: Ko, J, W., Wirtz, P., Rhee, M. and Chan, V. 2011. "Case II, Honda in Europe," Kotabe, M. and Helsen, K. *Global Marketing Management*. 5<sup>th</sup> ed. Asia: John Wiley & Sons (Asia). Pp 663-668.