



## CASE 1

### HONDA IN EUROPE (2016)\*

The Honda Motor Company first entered the European market in the early 1960s by selling motorcycles. The company's automobiles were introduced to Europe much later. Despite its success in North America and the rest of Asia, the company has not achieved a strong foothold in the European market. In fact, its sales had been declining until 2013 although it has edged up somewhat since then.

company is best summarized in its mission statements, "pleasure in buying, selling and producing," and "Beat GM, not Toyota."

Honda currently has 33 automobile manufacturing factories located in 17 countries around the world. Honda's operations cover automobiles, motorcycles, financial services, power products, power tools, jet aircrafts, and robotics. In the

Net Sales (in Million Yen)	FY2011	FY2012	FY2013	FY2014	FY2015	% Change 2014-2015
Japan	1,310,734	1,329,645	1,462,664	1,714,752	1,617,941	-5.6
North America	3,252,852	2,855,683	3,905,276	4,717,769	5,182,917	9.9
Europe	441,696	355,963	388,464	487,673	475,101	-2.6
Asia	1,221,704	836,301	1,385,449	1,599,069	1,795,048	12.3
Other	567,112	428,383	567,363	657,097	622,287	-5.3

Source: Honda Worldwide Homepage, world.honda.com, 2016.

### HISTORY OF HONDA

In 1946, Souichiro Honda founded the Honda Technology Institute in Hamamatsu City, Shizuoka. The company started as a motorcycle producer with a single small factory in an empty lot in Hamamatsu City. From this simple beginning, Honda became an incorporated company in September 1948 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 motorcycles. In the early 1960s, the company commenced automobile manufacturing and participated in Formula 1 (F-1) racing to assist its technology development. Thanks mainly to its success in F-1 racing, Honda became recognized around the world as a technologically savvy company.

Up to the early 1990s, the company suffered from organizational mismanagement that came from tension between its technology and marketing departments. The situation became so serious that the president and founder, Souichiro Honda, was forced out for ignoring Honda's marketing. After Souichiro Honda's departure, the company was better able to balance its technology and marketing departments and, by 1999, was second in sales only to Toyota in the Japanese market. The underlying success of the

fiscal year 2015, 76.6 percent of Honda's revenues came from its automobile sector, as outlined in the table below.

### HONDA FINANCIAL YEAR CLOSED MARCH 2015 (IN BILLION YEN)

Net Sales & Other Operating Revenue	FY2015 Twelve Months
Motorcycles	1,824.1
Automobiles	9,693.2
Financial Services Business	814.4
Power Product & Other Businesses	314.8
<b>Total</b>	<b>12,646.7</b>

Source: Honda Motor Co. Ltd. Reports.

### AUTOMOBILE INDUSTRY

The automobile industry worldwide is in the mature stage of its life cycle. By the 1990s, the surplus of motor vehicles became such a big industry problem that a number of mergers and acquisitions (M&A) and alliances took place. Industry experts had stated in the late 1990s, only 6 or 7 companies would remain global players while other companies would be forced to sell in niche markets. Indeed, many mergers and partnerships had been established in the 1990s and in the first decade of the 21st century. For example, Daimler acquired Chrysler in 1998, and then DaimlerChrysler acquired a major share of Mitsubishi in 2000, GM became the controlling shareholder of Fiat and Saab in 2000, Ford acquired Jaguar in 1990, Volvo in

\*This case was prepared by Masaaki Kotabe based on its earlier version by Jon Pontius, Jared Winans, Tram Nguyen, and Sun Pravichpibul of the University of Hawaii at Manoa for class discussion rather than to illustrate either effective or ineffective management of a situation described (2016).

1999, a major share of Mazda in 1996, and Land Rover from BMW in 2000. Renault became the controlling shareholder of Nissan with over 40 percent ownership in 1999. Global-scale production and sales became important as a way to cut cost through developing common parts and engines and improving procurement.

However, many of these corporate marriages did not last long, and quite a bit of realignment of automobile mergers and partnerships have taken place in the past 15 years or so. Daimler and Chrysler divorced in 2007. General Motors wound out Fiat in 2005, and right after General Motors' bankruptcy in 2009, Saab was sold to the Dutch automobile manufacturer Spyker Cars but could not avoid insolvency later on. Now Fiat acquired Chrysler in 2004. The Indian automobile manufacturer Tata Motors acquired Jaguar and Land Rover in 2008. The Chinese automobile manufacturer then acquired Volvo from Ford in 2010. The only major partnership that has remained intact in the past 20 years is the Renault-Nissan alliance.

Japanese automobile companies, like their European and American counterparts, did attempt an M&A strategy. Nissan acquired companies in Spain and later partnered with Renault and Daimler while Toyota had deals with distributors from the early 1980s and later would merge with its Belgian distributors. Honda, unlike its counterparts, chose to avoid an M&A strategy with the exception of an attempted joint venture project with Rover from 1981 until 1994. To remain a global competitor, Honda expanded its operations by setting up plants in regional markets. As of 2016, Honda is currently "the number 8 car company" in the world in terms of sales

and is the fifth largest car company in the United States with a 9 percent market share.

## HONDA IN EUROPE

Currently, Honda has operations in North America, Japan, Asia-Oceania, Europe, Africa, and South America. The European operation covers Europe, the Middle East, and Africa. Honda began its automobile production in Europe in 1986 by manufacturing engines in the United Kingdom. Six years later in 1992, Honda launched a manufacturing factory in Swindon, Somerset, the United Kingdom. Several years later, Honda opened production facilities in Turkey in 1999 to target the Middle East and Eastern European market.

The Swindon plant in the U.K. accounts for a small portion of Honda's global production. The facility has two assemblies, one with a capacity of 100,000 units/year and another with 150,000 units/year. As a note, the plant in Turkey can produce 50,000 units/year. The Swindon facility produced 166,000 units in 2012, yet over 75 percent (187,500 cars) of capacity must be achieved to break even. The situation has been especially unstable in recent years, with a low of 97,000 produced in 2011. In 2008, 230,000 cars were produced there.

As of 2015, 50 percent of Honda's cars purchased in Europe were produced in Europe. That year, the company set a target to increase the figure to 80 percent and hired 500 new employees at the Swindon facility. However, a year later,

## PRODUCTION

2014	January	February	March	April	May	June
<b>Japan</b>	<b>97,145</b>	<b>84,883</b>	<b>95,031</b>	<b>78,809</b>	<b>80,500</b>	<b>87,639</b>
<b>Outside of Japan</b>	<b>281,672</b>	<b>267,941</b>	<b>306,576</b>	<b>305,602</b>	<b>299,966</b>	<b>301,742</b>
North America	144,844	148,763	158,655	154,406	151,119	143,663
(USA)	106,106	109,837	113,780	112,564	106,869	100,869
Europe	13,914	14,045	12,887	12,115	7,447	8,973
Asia	110,477	92,982	122,820	126,704	130,515	137,811
(China)	71,522	49,106	72,793	78,624	79,245	82,268
Others	12,437	12,151	12,214	12,377	10,885	11,295
<b>Worldwide Total</b>	<b>378,817</b>	<b>352,824</b>	<b>401,607</b>	<b>384,411</b>	<b>380,466</b>	<b>389,381</b>

2014	July	August	September	October	November	December
<b>Japan</b>	<b>84,898</b>	<b>59,232</b>	<b>76,997</b>	<b>75,994</b>	<b>62,044</b>	<b>75,007</b>
<b>Outside of Japan</b>	<b>278,599</b>	<b>284,310</b>	<b>313,270</b>	<b>326,633</b>	<b>309,215</b>	<b>280,064</b>
North America	129,994	161,250	163,676	178,577	139,829	132,348
(USA)	89,020	114,609	113,607	123,212	88,844	89,587
Europe	10,036	4,059	8,489	6,675	11,112	10,243
Asia	128,593	105,406	126,861	126,978	145,376	128,051
(China)	77,272	51,780	67,115	67,542	87,741	71,065
Others	9,976	13,595	14,244	14,403	12,898	9,422
<b>Worldwide Total</b>	<b>363,497</b>	<b>343,542</b>	<b>390,267</b>	<b>402,627</b>	<b>371,259</b>	<b>355,071</b>

Source: Honda Worldwide.

#### 4 • Case 1 • Honda in Europe (2016)

the company cut 800 jobs (25% of its workforce) at Swindon. In January 2013, citing low demand in Italy, Spain, and Greece, Honda Europe's Executive VP Ken Keir claimed that no growth was expected in the coming 4 years. Sales did temporarily increase from 2013 to 2015, largely due to the release of the new CR-V and diesel engine. However, with a reduced workforce, Swindon appears to have little chance of breaking even in the future.

An interesting implication in Swindon's reduced role in European car sourcing is that cars may be increasingly produced in Asia or other regions. This could potentially affect the amount of options made available to specific European countries and may intensify Honda's pan-European approach.

#### HONDA'S GLOBAL SALES BY REGION

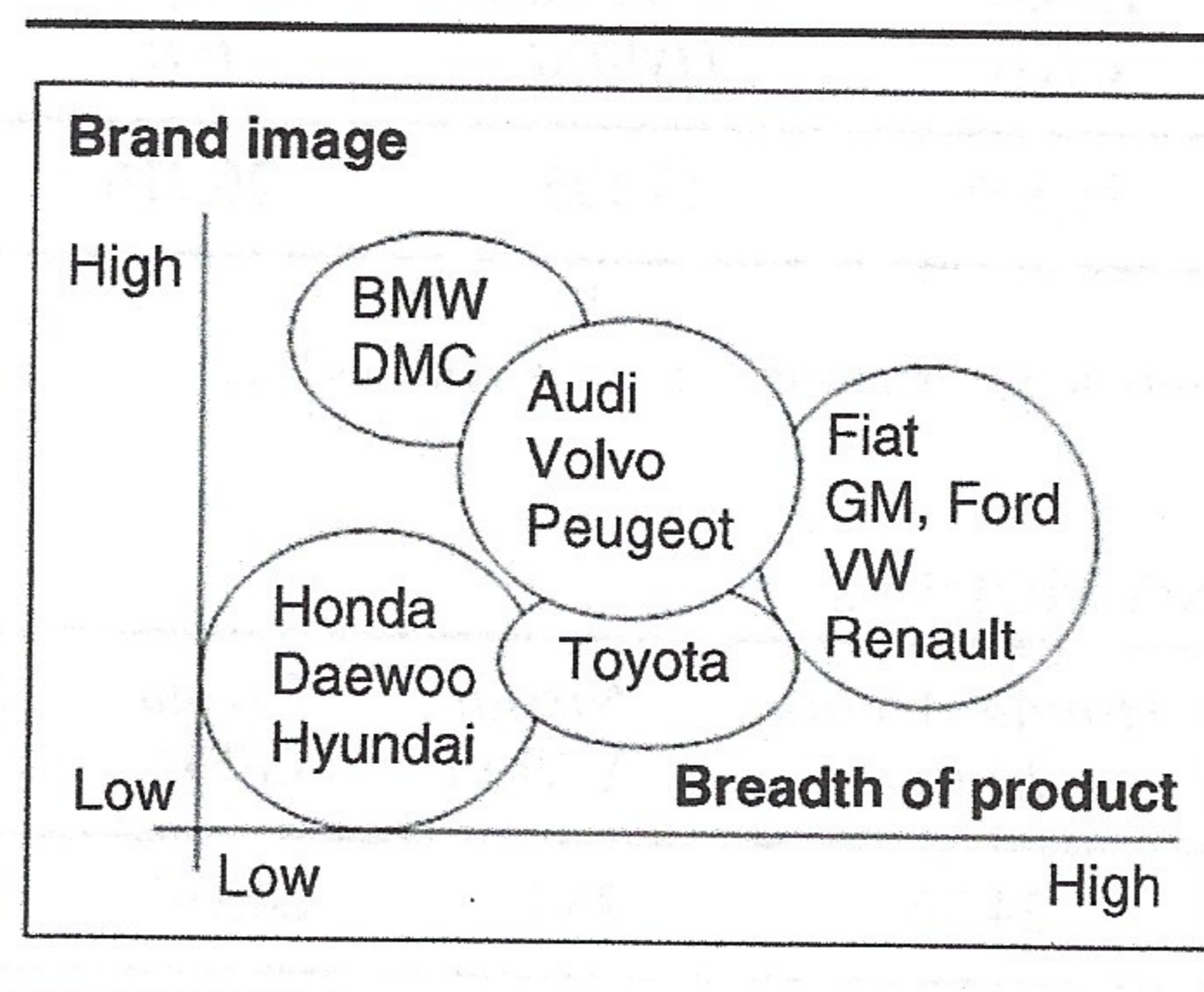
There are a multitude of reasons for the low sales Honda has experienced in Europe. Honda entered the European market later than its competitors. In fact, its first production facility in Europe was established as late as 1992, at a time when Honda was still only a minor player in the Japanese market and its stronger Japanese competitors had been active in Europe since the early 1980s. Prior to 1992, Honda Europe had been forced to import its vehicles from the United States. These imports were subject to quota restrictions. This made it nearly impossible for Honda to aggressively enter the European market.

Honda's inability to enter the European market aggressively continued despite an attempted joint venture with Rover. This joint venture was pursued in order to help Honda gain distribution channels and obtain market expertise in Europe. Unfortunately, Rover had a poor image in Europe and had very little knowledge of the market.

Although Honda was able to improve sales slightly, in the end, its image suffered from its association with Rover. Furthermore, unlike its competition, Honda waited until 2003 to invest in research facilities in Europe. However, one of the most fundamental reasons for Honda's lack of success was the popularity and saturation of locally owned car manufacturers that can be found in the European market. Companies such as Volvo, BMW, Audi, Volkswagen, DM, Opel, Renault, Peugeot, and Fiat have been dominating the European market for a considerable number of years. In addition to these local companies, other foreign companies such as Toyota, Nissan, Ford, and Hyundai have gotten footholds in the European market. As a result, the European market is 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. In 2013, Volkswagen is firmly in the lead with 24.3 percent of the market and Peugeot is ranked second with 11.2 percent of the market. Renault is ranked third with 8.3 percent of the market. GM, Ford, and Fiat come in fifth, sixth, and seventh, respectively, with 7.8 percent, 7.3 percent, and 6.8 percent of the market. Honda is tied for 15th with Tata among 19 companies with 1.4 percent of the market. The second largest combined force is the joint venture between Daimler, Renault, and Nissan with a combined market share of 17.6 percent.

Honda sales in Europe have declined steadily in Europe from 2009 to 2015, with market share sliding accordingly, to below 1 percent for the first time ever in 2015, compared to 2 percent in 2007. Comparatively, Honda's brand image is weak and its product line is narrow. It is important to note that the German ADAC brand ranking system ranks Honda at the 15th best brand in Europe. As the chart below shows, BMW and DMC (Daimler Motor Corporation) have the highest brand image.



#### HONDA'S EUROPEAN MARKETING

The four largest markets within Europe are Germany, the United Kingdom, Italy, and France. Honda's European marketing strategy in those four countries is highlighted below.

**Product.** Honda's main European manufacturing plant is located in the United Kingdom, and as a result, the country has more Honda models than any other country in Europe. Honda's standard line of car models such as the Civic and CR-V is generally sold throughout Europe, though different options are made available to specific countries. Honda also develops some European versions of cars that are cosmetically or otherwise different than models in different regions. These European versions are generally sold across Europe and are not made for specific countries. Currently Honda offers eight models.

**Price.** The prices of vehicles in Europe are comparable to those of similar cars produced by local manufacturers and foreign competitors. The following tables compare Honda's economy models (Table 1), Honda's new 1.6-liter diesel engine model (Table 2), and sports touring vehicles (Table 3).

As can be seen from Table 1, Honda prices its economy older models higher than the competition.

Table 2 shows that there are far fewer companies that sell quality economical vehicles on the market. We can also see that Honda's green vehicles are cheaper than the other green vehicles on the market. This is likely due to the fact that Honda has outfitted its old model CR-V models with new green engines.

Table 3 shows that Honda prices its sports touring vehicles lower than other Japanese companies do, but the vehicles are in general more expensive than those of national European competitors.

Honda primarily focuses on mid-lower priced vehicles, for the most part staying out of Europe's crowded luxury market. BMW, Mercedes, and Audi are very popular luxury cars,

**TABLE 1**  
ECONOMY MODELS

Vehicle	Honda Jazz	Nissan Micra	VW Polo	Renault Clio	Toyota iQ	Fiat Panda
Price (Pounds)	11,645	9,750	10,490	10,595	10,995	8,900

Source: Carpages—Information on current and new vehicles U.K.

**TABLE 2**  
DIESEL ENGINE MODELS

Vehicle	Honda CR-V	Toyota Yaris Hybrid	Peugeot Ion	Volkswagen EOS
Price (Pounds)	21,505	15,195	26,216	26,140

Source: Carpages—Information on current and new vehicles U.K.

**TABLE 3**  
SPORTS TOURING MODELS

Vehicle	Honda Accord Tourer	Nissan X-Trail	Toyota GT86	Peugeot Expert Tepee	Volkswagen Passat estate	Renault Megane sport Tourer	Fiat Dobolo
Price (Pounds)	24,265	25,790	24,995	23,245	21,030	17,345	13,410

Source: Carpages—Information on current and new vehicles U.K.

and Ferrari, Lamborghini, and Porsche compete for the richest consumers. As so many luxury car manufacturers exist in Europe, it is difficult for Japanese cars to enter the market at the higher end. Some of the few luxury Japanese cars that have sold well are Toyota's Lexus, Nissan's Micra, and Honda's Jazz.

*Distribution.* Honda relies on franchises for its distribution in Europe, and offerings at each dealership vary greatly. In general, Honda-specific dealers sell a wide range of Honda products, from cars to motorcycles to lawn mowers. Car-specific dealers tend to sell Honda cars alongside those of other manufacturers. Vehicles produced in the United Kingdom are generally sold in Europe, and those produced in Turkey are mainly sold in the Middle East and Africa, though there is some cross-over.

There has been a lot of fluctuation in the exchange rate between the British pound and the euro, and this has affected where cars for a given market are produced. As the pound appreciates against the euro, production in the Swindon facilities is decreased; when the pound depreciates, production is increased. As the pound depreciates, it becomes a better option for the Swindon facility to produce more vehicles in the United Kingdom and sell them in other European countries or the United States. However, the pound has not always been in a downward trend. In fact, sharp upward swings in the strength of the pound have often cut into the Swindon factory's profitability.

*Promotion.* In the 2002 launch of the Jazz (known as the Fit in Japan), the company relied heavily on word of mouth and

**The Euro -British Pound Exchange Rate: 2005–2014**  
(Euro/Br. Pound)

Source: Yahoo Finance.

6 • Case 1 • Honda in Europe (2016)

on a website created especially for the occasion. The website used the same design for all European countries and 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 hip activities. Once inside the Jazz website, a user could easily find the nearest dealership to purchase a vehicle.

Honda used to have its websites localized to individual European countries. However, as of 2016, Honda has decided to standardize its image throughout Europe (except in France yet). Its European websites emphasize racing, high-tech, speed, and engineering throughout. The French site is divided into three panels, with automobiles, motorcycles, and power equipment, and emphasizes how Honda cars match various lifestyle needs.

Since 2010, Honda has been pushing for a more pan-European strategy for video and print advertisements. The company is hoping for a more consistent brand image throughout the continent, where opinions on its automobiles are said to vary greatly between countries. This strategy seems to be in line with that of most foreign manufacturers in Europe. Nissan, for example, created a comprehensive ad campaign for Spring 2013 that was aimed at over 20 European countries. GM and Ford have also advertised with one message throughout Europe.

Unlike foreign manufacturers, European automakers are more likely to pinpoint individual European Union (EU) countries in its ads. Audi is one company that does this. One Italian ad, for example, is very human centric, showing Italian architecture and kissing customs, and jealous Italians chasing an Audi owner down the street. A German ad from the same time period simply features an Audi car speeding through a tunnel in mirror vision. There is even a special German-language catchphrase for Audi, “Vorsprung Durch Technik” (Progress through technology), which has been said to perfectly capture the German ideal for cars. This catchphrase does not appear in the Italian ad, suggesting that Audi is comfortable with its brand image being different from country to country. BMW and Renault can also be seen using similar country-specific advertising methods.

Martin Moll, the marketing director for Honda Europe, claims that one of the problems with Honda’s advertising has been its focus on the 5 percent of people who are actively searching for a car. From 2013 on, he hopes to build an emotional connection with the brand that will not only pull in current car shoppers but their friends and family as well.

**EUROPEAN SALES**

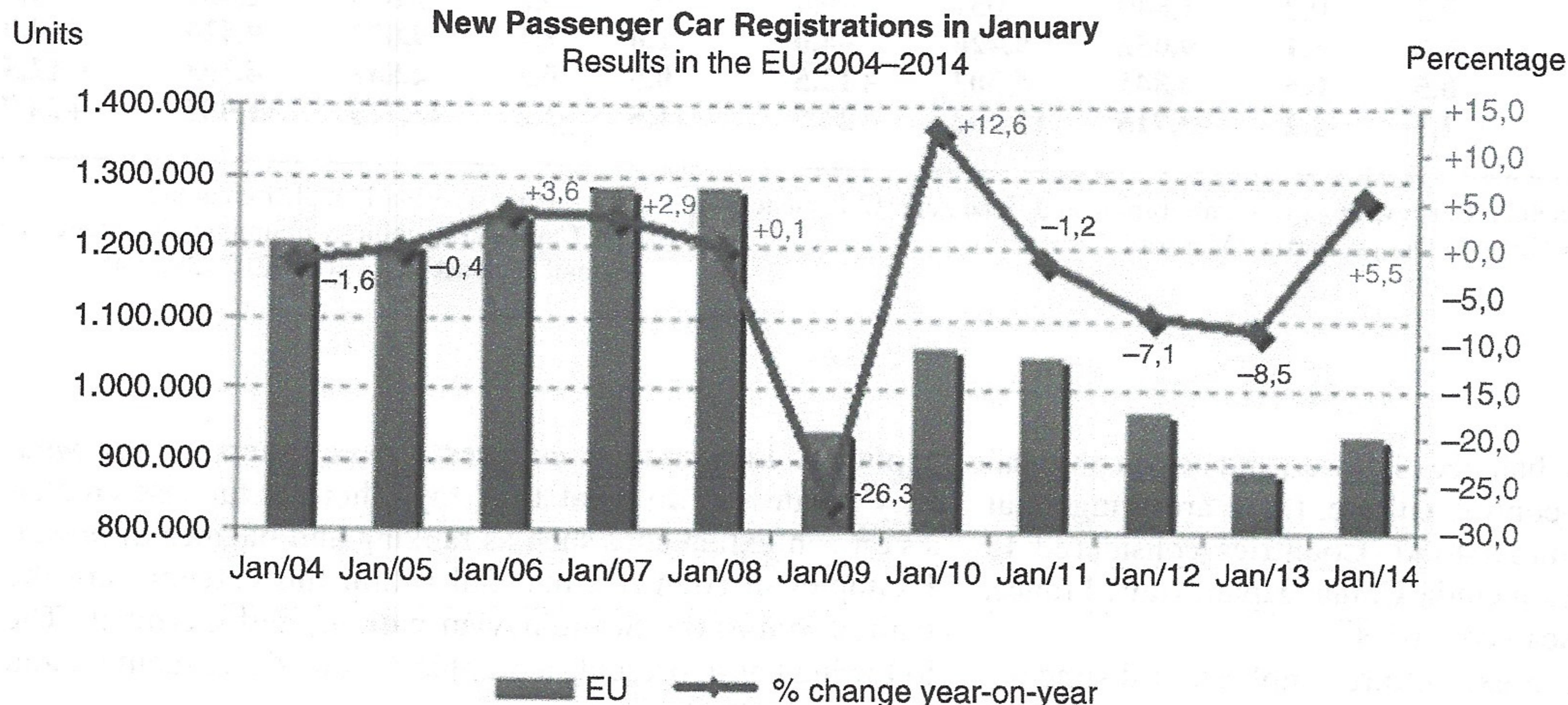
New passenger car registrations in the EU fell each year from 2008 to 2012, though there was a slight increase in 2013 and 2014. As of June 18, 2013 the sale of vehicles hit a 20-year low, falling to a record low of 1.08 million vehicles, less than the 1 million vehicles in recent years. These numbers are representative of the EU, Sweden, Norway, and Iceland. One effect that the recession has had on the EU market is that car owners tend to hold onto their cars longer. Sales in the EU have also been falling due to unemployment and job insecurity caused by the recession. However, sales are expected to rise in the latter half of the year. Daimler CEO Dieter Zetsche states, “The market is bottoming out and a recovery is possible in the second half of the year.”

We can see 2014 EU sales for some of the major manufacturers in the spreadsheet above. Honda only held 1 percent of the market. Honda’s automobiles have been relatively unpopular in the majority of Europe. Although recent data are unavailable, historical data suggest that sales have been lower in France and Italy than in the United Kingdom or Germany.

**EUROPEAN CULTURE**

One reason for Honda’s poor sales in Europe may be that the company has failed to truly understand the culture of Europe and has treated it as a single market. Although France, Germany, the United Kingdom, and Italy are all European, cultural differences exist 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

**European sales**



Source: ACEA.

## PASSENGER CAR SALES IN EU FOR 2013–2014

	18/2/14									
	January					January–January				
	%Share		Units	Units	% Chg	%Share		Units	Units	% Chg
14*	13*	14*	13*	14/13	14*	13*	14*	13*	14/13	
<b>ALL BRANDS**</b>			<b>935,640</b>	<b>887,252</b>	<b>+5.5</b>			<b>935,640</b>	<b>887,252</b>	<b>+5.5</b>
<b>VW Group</b>	<b>25.4</b>	<b>24.6</b>	<b>237,538</b>	<b>218,161</b>	<b>+8.9</b>	<b>25.4</b>	<b>24.6</b>	<b>237,538</b>	<b>218,161</b>	<b>+8.9</b>
VOLKSWAGEN	12.7	12.4	118,980	109,951	+8.2	12.7	12.4	118,980	109,951	+8.2
AUDI	5.6	5.4	52,691	48,114	+9.5	5.6	5.4	52,691	48,114	+9.5
SEAT	2.3	2.2	21,073	19,561	+7.7	2.3	2.2	21,073	19,561	+7.7
SKODA	4.4	4.2	41,091	37,037	+10.9	4.4	4.2	41,091	37,037	+10.9
Others <sup>1</sup>	0.4	0.4	3,703	3,498	+5.9	0.4	0.4	3,703	3,498	+5.9
<b>PSA Group</b>	<b>11.7</b>	<b>11.5</b>	<b>109,257</b>	<b>101,747</b>	<b>+7.4</b>	<b>11.7</b>	<b>11.5</b>	<b>109,257</b>	<b>101,747</b>	<b>+7.4</b>
PEUGEOT	6.4	6.2	59,947	54,901	+9.2	6.4	6.2	59,947	54,901	+9.2
CITROEN	5.3	5.3	49,310	46,846	+5.3	5.3	5.3	49,310	46,846	+5.3
<b>RENAULT Group</b>	<b>9.2</b>	<b>8.6</b>	<b>86,452</b>	<b>76,213</b>	<b>+13.4</b>	<b>9.2</b>	<b>8.6</b>	<b>86,452</b>	<b>76,213</b>	<b>+13.4</b>
RENAULT	6.2	6.3	58,337	55,970	+4.2	6.2	6.3	58,337	55,970	+4.2
DACIA	3.0	2.3	28,115	20,243	+38.9	3.0	2.3	28,115	20,243	+38.9
<b>FORD</b>	<b>7.0</b>	<b>6.8</b>	<b>65,878</b>	<b>60,164</b>	<b>+9.5</b>	<b>7.0</b>	<b>6.8</b>	<b>65,878</b>	<b>60,164</b>	<b>+9.5</b>
<b>GM Group</b>	<b>6.9</b>	<b>7.7</b>	<b>64,687</b>	<b>68,290</b>	<b>-5.3</b>	<b>6.9</b>	<b>7.7</b>	<b>64,687</b>	<b>68,290</b>	<b>-5.3</b>
OPEL/VAUXHALL	5.8	6.6	54,041	58,514	-7.6	5.8	6.6	54,041	58,514	-7.6
CHEVROLET	1.1	1.1	10,638	9,749	+9.1	1.1	1.1	10,638	9,749	+9.1
GM (US)	0.0	0.0	8	27	-70.4	0.0	0.0	8	27	-70.4
<b>FIAT Group</b>	<b>6.3</b>	<b>6.7</b>	<b>58,619</b>	<b>59,858</b>	<b>-2.1</b>	<b>6.3</b>	<b>6.7</b>	<b>58,619</b>	<b>59,858</b>	<b>-2.1</b>
FIAT	4.8	5.2	44,865	46,210	-2.9	4.8	5.2	44,865	46,210	-2.9
LANCIA/CHRYSLER	0.7	0.7	6,804	6,144	+10.7	0.7	0.7	6,804	6,144	+10.7
ALFA ROMEO	0.5	0.6	4,341	5,424	-20.0	0.5	0.6	4,341	5,424	-20.0
JEEP	0.2	0.2	1,980	1,815	+9.1	0.2	0.2	1,980	1,815	+9.1
Others <sup>2</sup>	0.1	0.0	629	265	+137.4	0.1	0.0	629	265	+137.4
<b>BMW Group</b>	<b>5.9</b>	<b>6.2</b>	<b>55,316</b>	<b>55,051</b>	<b>+0.5</b>	<b>5.9</b>	<b>6.2</b>	<b>55,316</b>	<b>55,051</b>	<b>+0.5</b>
BMW	5.0	5.2	46,447	46,212	+0.5	5.0	5.2	46,447	46,212	+0.5
MINI	0.9	1.0	8,869	8,839	+0.3	0.9	1.0	8,869	8,839	+0.3
<b>DAIMLER</b>	<b>5.2</b>	<b>5.5</b>	<b>48,931</b>	<b>49,224</b>	<b>-0.6</b>	<b>5.2</b>	<b>5.5</b>	<b>48,931</b>	<b>49,224</b>	<b>-0.6</b>
MERCEDES	4.7	4.9	44,222	43,911	+0.7	4.7	4.9	44,222	43,911	+0.7
SMART	0.5	0.6	4,709	5,313	-11.4	0.5	0.6	4,709	5,313	-11.4
<b>TOYOTA Group</b>	<b>4.7</b>	<b>4.3</b>	<b>44,321</b>	<b>37,956</b>	<b>+16.8</b>	<b>4.7</b>	<b>4.3</b>	<b>44,321</b>	<b>37,956</b>	<b>+16.8</b>
TOYOTA	4.5	4.1	42,264	36,319	+16.4	4.5	4.1	42,264	36,319	+16.4
LEXUS	0.2	0.2	2,057	1,637	+25.7	0.2	0.2	2,057	1,637	+25.7
NISSAN	3.4	3.7	31,448	33,021	-4.8	3.4	3.7	31,448	33,021	-4.8
HYUNDAI	3.2	3.6	30,047	31,918	-5.9	3.2	3.6	30,047	31,918	-5.9
KIA	2.6	2.6	24,108	23,276	+3.6	2.6	2.6	24,108	23,276	+3.6
<b>VOLVO CAR CORP.</b>	<b>1.7</b>	<b>1.8</b>	<b>15,442</b>	<b>15,574</b>	<b>-0.8</b>	<b>1.7</b>	<b>1.8</b>	<b>15,442</b>	<b>15,574</b>	<b>-0.8</b>
MAZDA	1.4	1.1	13,417	9,946	+34.9	1.4	1.1	13,417	9,946	+34.9
SUZUKI	1.2	1.2	11,499	10,631	+8.2	1.2	1.2	11,499	10,631	+8.2
<b>JAGUAR LAND ROVER</b>	<b>1.2</b>	<b>1.3</b>	<b>11,072</b>	<b>11,491</b>	<b>-3.7</b>	<b>1.2</b>	<b>1.3</b>	<b>11,072</b>	<b>11,491</b>	<b>-3.7</b>
LAND ROVER	1.0	1.1	9,232	9,461	-2.4	1.0	1.1	9,232	9,461	-2.4
JAGUAR	0.2	0.2	1,840	2,031	-9.4	0.2	0.2	1,840	2,031	-9.4
<b>HONDA</b>	<b>1.0</b>	<b>1.1</b>	<b>9,052</b>	<b>9,426</b>	<b>-4.0</b>	<b>1.0</b>	<b>1.1</b>	<b>9,052</b>	<b>9,426</b>	<b>-4.0</b>
<b>MITSUBISHI</b>	<b>0.5</b>	<b>0.5</b>	<b>4,841</b>	<b>4,303</b>	<b>+12.5</b>	<b>0.5</b>	<b>0.5</b>	<b>4,841</b>	<b>4,303</b>	<b>+12.5</b>
<b>OTHER**</b>	<b>1.5</b>	<b>1.2</b>	<b>13,715</b>	<b>11,002</b>	<b>+24.7</b>	<b>1.5</b>	<b>1.2</b>	<b>13,715</b>	<b>11,002</b>	<b>+24.7</b>

<sup>1</sup>VW Group: VW "other" include Bertley, Bugatti, Lamborghini, and since Aug '12 Porsche.

<sup>2</sup>FIAT Group: FIAT "other" include Dodge, Ferrari, Maserati.

\*data for Malta na.

\*\*ACEA estimates.

For further information, please contact:

Ms. Cara McLaughlin - Communications Director

E-mail: cm@acea.be - Tel. (32) 2 738 73 45

cues such as gender, age, balance of power, and not on physical written text. In a high-context culture, there are things that are not said but are understood. Countries considered to be high-context cultures include China, Japan, Italy, France, Spain, and Latin American countries.

Conversely, a low-context culture emphasizes 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. The following figure presents a graphical view of high-context and low-context countries.



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 dominance of the Fiat is due to the Italians, like their high-context cousins the French, being very nationalistic.

Italians are also risk averse and are not adventurous in sampling products outside of Europe. Italians, like many Europeans, also love to drive diesel automobiles. However, Honda was slow to introduce diesel cars to Europe and did so first in the United Kingdom where they are not as popular. The following graph shows the market share for diesel cars among new registrations.

The reason for the huge popularity of diesel cars could be due to the high gasoline price in those countries. Diesel engine cars are also cheaper to maintain in the long run, compared to gasoline engine cars. Honda seems to have finally caught on to the diesel trend, as will be explained later, but its slow introduction may have left the manufacturer at a disadvantage both in past sales and image.

*Germany.* Of the four main European countries that Honda is sold in, Germany has had the second highest sales volume. Germany is a low-context culture where practicality and durability are the main concerns customers tend to have for a product. Consumers are interested in every detail of a product and wish to know all relevant information before making a purchase. Honda's information-rich website in Germany 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 that Germans are more willing to take risks and purchase new products. As a result, Honda would not have to spend additional resources to change the image of its vehicles in Germany, as it should probably do in France and Italy. The company should promote its quality because competitors in Germany such as Mercedes, Audi, Volvo, Jaguar, and Volkswagen are seen as high-quality manufacturers.

*The United Kingdom.* The English are part of a moderately high-context culture with a focus 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 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 United Kingdom and improve sales. The fact that Honda's main EU manufacturing plant is located in the United Kingdom helps in the promotion of its cars there.

### COMMON PROBLEMS IN THE EU

Honda's lack of understanding of Europe has been a huge problem for Honda in the EU. However, this lack of understanding does not only apply to Honda. Honda's contemporaries such as Nissan and Toyota saw similar problems when they first ventured into the EU. However, Nissan and Toyota have dealt with the problem of culture by establishing research facilities and putting resources into the EU in order to gain a greater understanding of the market and needs of Europe. Nissan, for example, built research facilities in Europe as early

as 1992. On the other hand, Honda has exacerbated its problems by having a lack of research in the EU. In fact, Honda opened its first research facility in 2003.

Honda's research facilities are aimed to work with its American and Japanese research facilities in order to create new innovative products. These research facilities, unlike Nissan's or Toyota's, are devoted to creating innovation for the world as a whole. Consequently, they are not focused on the development of unique items for Europe or to study what European consumers want in products. Projects in Europe are aimed at safety and emissions and universal projects that can be applied to all vehicles. However, what Honda is not doing is studying what citizens in specific European countries want in its vehicles.

### TECHNOLOGY-RELATED POSSIBILITIES

While Honda shows little sign of rethinking its distribution and marketing strategies in Europe, the company is putting a lot of effort into leading the field in engine technology. Some technology-related opportunities exist in Europe that could give Honda a technological advantage over its competition.

The European Union has set a goal to reduce CO<sub>2</sub> emissions to an average of 95g/km by the year 2020. This puts Peugeot and Honda in a unique position as the only two companies that possess engines that already meet these standards. In addition to this, 200 cities and towns in 10 countries in Europe have started to put into place low-emission zones (LEZs), areas that have strict penalties for owners of cars with high CO<sub>2</sub> emissions. Initially, these LEZs were aimed only at vans and larger polluting vehicles but are on a schedule that will slowly affect more and more vehicles, forcing them to meet higher emissions standards. By 2015, all vehicles will need to be up to emissions standards or the owners will be forced to pay a fee to drive their high-emission vehicles. These LEZs aim at lowering emissions to 95 g/km by the year 2020. As an incentive for individuals to drive low-emission cars, special tax breaks will be given to drivers of low-emission cars.

In an independent report in 2012, of the top 10 cars with the lowest CO<sub>2</sub> emissions in Europe, Honda's Insight was ranked 8th with 111 g/km. In first was Peugeot's iOn with 88 g/km, and others on the list came from VW, Vauxhall, Smart, Nissan, Toyota, and Audi. The Insight was surprisingly similar to the popular Toyota Prius, which came in 10th place. The two cars had the same CO<sub>2</sub> output level and a very similar design. Honda is competing on price against the Prius, offering the Insight at 18,825 British pounds (GBP) while the Prius is 23,400 GBP. However, the Prius is the clear winner in terms of sales, at least worldwide, selling 17 times as many units as the Insight. According to a review, although the Insight is better in CO<sub>2</sub> emissions, it is not as fuel efficient as the Prius.

Recently, in 2013, Honda introduced a new engine called the 1.60-liter i-DTEC Diesel which is being promoted as ahead of its time in terms of miles per gallon and emissions technology. The new diesel engine emits CO<sub>2</sub> at 94 g/km placing it below the average CO<sub>2</sub> emissions that the EU is targeting by 2020 (95 g/km). This also places Honda's new Diesel engine as the second most "green" engine in the EU after Peugeot's iOn that sports emissions of 88 g/km. This makes it the number one diesel engine on the market for emissions, since Peugeot's engine is electric. It also meets the standards set by the EU

for 2020 for emissions. This new technology is the lightest and fastest engine on the market, boasting 78.5 miles per gallon and accelerating quickly. This low-emission engine is available in all of the Honda models, making its vehicles some of the greenest in Europe.

### HONDA VS. NISSAN AND TOYOTA

Honda has suffered hard times in Europe and has had difficulty becoming a major player in the European market. However, other Japanese companies that have entered Japan have not only succeeded in the EU but are thriving.

#### NISSAN

*Distribution and Manufacturing.* Nissan entered the European auto industry much earlier than Honda. Nissan began importing vehicles to Europe in 1962. Unlike Honda, Nissan concentrated on automobiles and on creating distribution chains specifically for its automobiles. In 1980, Nissan pursued an M&A strategy by acquiring a majority equity position in a Spanish company it had been working with, in order to acquire a manufacturing and distribution location. Nissan chose to begin its European manufacturing in a less expensive country that was easier to distribute from as compared to Honda which began in the United Kingdom.

Nissan used a merger strategy in order to gain insight into the European market and gain a distribution center. In 1984, it created a new manufacturing center in the United Kingdom capable of producing 500,000 units a year. Since 1984, Nissan has not created any new manufacturing centers, but it started manufacturing more vehicles in France starting in 2013 through a partnership with Renault.

*Taking an Interest in Europe.* Not only did Nissan have a first mover advantage over Honda in the automobile industry, but it also took the initiative to make Europe a priority early on. In 1989, Nissan established an HQ in Amsterdam and went even further by creating research facilities in 1992 in Germany and again in 2003 in London. These facilities were meant to study the European market. This strategy worked well, as in 1993, Nissan released a specialty car for Europe that won the car of the year award. These facilities also allowed Nissan to release specialty vehicles to meet the needs of consumers in Europe.

*Mergers and Joint Ventures.* Unlike Honda, Nissan pursued a series of mergers and acquisition strategies to be successful in Europe. Notably, Nissan entered a partnership with the French car maker Renault in 1999. Renault purchased more than 40 percent of Nissan's stock in order to alleviate Nissan's debt, allowing Renault to benefit from the quality technology of Nissan and its reputation in other parts of Europe. Nissan received the tools to enter the French market that was traditionally occupied by Renault, the national brand. Renault and Nissan became known as the Renault–Nissan Alliance.

In 2009, the Renault–Nissan Alliance partnered with Daimler in order to create the Renault–Daimler–Nissan alliance. In this alliance with Nissan, Daimler and Renault each own 3.9 percent of each other company's stock. The three companies combined became the third biggest market share holder in Europe in 2009 and is currently the second biggest market share holder in Europe. Nissan has successfully used

joint ventures and partnerships to become one of the biggest players in the European market today.

*Key Differences between Honda and Nissan.* When comparing Honda and Nissan, we can see that Nissan had several key advantages when entering Europe that Honda did not. First, it entered the market much earlier in the 1960s by importing cars and in 1980 by acquiring a Spanish manufacturing and distribution company. Second, because of its history in Europe, Nissan had a much better understanding of the European market when it entered the market. It also already had a recognized brand because of its time in Europe. Third, Nissan had the advantage of committing to Europe early by building an HQ, research facilities, and multiple manufacturing areas. Honda on the other hand made its first European research facility in 2003, and even that was not devoted to the European region. Finally, Nissan succeeded because of its strong partnerships in Europe. Nissan had knowledge, reputation, and friends in Europe, where Honda did not.

#### TOYOTA

*Distribution and Manufacturing.* Toyota, like Nissan, entered the European auto industry earlier than Honda. However, Toyota entered the market slightly later than Nissan, as it began to import its vehicles to Europe in 1963 through Denmark. Toyota quickly elevated itself from an importer in Europe to the top selling Japanese car manufacturer in Europe. Toyota was the first of the three companies to own manufacturing plants in Europe after it partnered with Salvador Caetano. Toyota and Salvador Caetano worked jointly in a manufacturing facility in Portugal in 1971, 9 years before Nissan and 15 years before Honda. This joint venture, like Nissan's, helped the company to form better distribution markets and a better understanding of the European market. It wasn't until 1992 that Toyota would build its first privately run production facility of cars and engines in the United Kingdom. In 1998, plants were established in both Belgium and France. Production grew exponentially for Toyota after this, with a new manufacturing plant opening in Turkey in 2002, which became a major strategic manufacturing center in 2004. This was followed in 2005 with manufacturing plants in Poland and the Czech Republic through a joint venture with Peugeot and Citroen. Finally, in 2007, Toyota's last manufacturing plant to date was opened in St. Petersburg, Russia, giving Toyota a total of nine plants in seven countries in Europe. This made it the largest Japanese manufacturer in Europe.

*Taking an Interest in Europe.* Toyota, much like Nissan, took an interest in Europe very early on and established a variety of offices and development centers in order to meet the needs of European clients. Toyota established a European headquarters office as early as 1970, before acquiring its first manufacturing system in Brussels, Belgium. Belgium has remained an important location for Toyota. In 1987, the Toyota Technical Center of Europe was completed in Belgium. This site was created in order to facilitate research and development aimed at the European market. The site was further expanded in 2006 to better meet the needs of European consumers. In 1989, another facility was opened in Belgium called the Toyota Technical Center of Europe in order to train service instructors and

engineers from all of Toyota's European distributors. Another facility opened in France in 2000 in order to learn more about the French consumer and create new innovations for Europe. This center produced Toyota's first Formula-1 engine in 2001. Toyota continued to invest in Europe by expanding its R&D centers in 2006 and opening part centers in 2007 as well as investing in diesel engines in 2005. These expansions have allowed Toyota to have models named car of the year in 1992, 2000, and 2004. Since 1990, Toyota has invested more than 7 billion Euros in Europe, showing its dedication to the market.

These developments continued in Europe in 2008 as Toyota sought to meet the European market's need for sustainable energy by creating sustainable manufacturing plants. These facilities attempted to use less water and create less pollution. Toyota also plans to sell more than 1 million Toyota and Lexus hybrids per year. It will also make all Toyota retailers in Europe ISO 14001 certified by 2015. Such a certification indicates high environmental standards. Toyota will additionally offer hybrid technology on all of its models by 2020. Looking at both Toyota's manufacturing development and Europe-focused research centers, this company appears dedicated to this region.

*Mergers and Joint Ventures.* Toyota, like Nissan, has entered into mergers and joint ventures with companies in Europe. The most notable joint venture occurred in 2005 when Toyota joined Peugeot Citroen of France. The deal was officially signed in 2001–2002 between Peugeot and Toyota to produce mini-cars for Kolin, Czech Republic. The vehicles were created with parts shared between Toyota and Peugeot Citroen, and Toyota was responsible for running the factory. Together the companies produced the AYGO which at the time had one of the lowest emissions rates in the world, 109 g/km. The joint venture continues to this day and Peugeot still helps Toyota create the AYGO as well as other vehicles in the Czech Republic.

*Key Differences between Honda and Toyota.* Toyota had many of the same advantages over Honda that Nissan did. First, Toyota entered the market much earlier than Honda and

created its first manufacturing plants in Portugal through joint ventures. Second, Toyota created many facilities in Europe, establishing its headquarters in Brussels, Belgium, in 1970, a full year before acquiring manufacturing plants. Toyota made it clear that it was entering Europe for the long run early on. Third, like Nissan, Toyota created a number of research and training facilities in order to better understand its customers in Europe. This enabled Toyota to create vehicles that appealed to European sensibilities and that were differentiated between the countries in Europe. Much like Nissan, Toyota developed relationships, fostered friendships, and developed a reputation from the ground up.

*Honda, Nissan, and Toyota.* The main differences between Honda and its Japanese counterparts can be seen above. First, Honda entered the market later than its compatriots. Honda also took a softer stance when entering Europe. It opted to use its motorcycle distribution lines and later allow distribution at dealerships that carried other brands. Toyota and Nissan on the other hand made the effort to buy manufacturing plants in locations in Europe as well as create headquarters, research facilities, and training facilities. Honda did not invest in such facilities until much later and at a much smaller rate. Honda also has a tendency to rely on its technological advantages rather than meet the wants of its European customers. Nissan and Toyota have found strength in customizing vehicles to meet the unique needs of customers in each major country in Europe. Toyota and Nissan made connections in Europe when Honda simply went for the sale.

*The Issue.* Honda has been experiencing dramatic declines in sales revenue in Europe. Just as the company experienced difficulty in reconciling technology and marketing in Souichiro Honda's time, the company does not seem to have a unified vision for Europe. Honda has made some changes to its diesel and low-emissions technology offerings. However, aside from its website, Honda's advertisements are not localized. Its distribution strategy continues to lack clarity. Honda also has to deal with continued capacity issues. How should Honda turn itself around in Europe? Can it save itself with technology?