

Honda: An American Success Story: Revolutionizing the Art of Management.

1988, New York, Prentice Hall, English.

Introduction

In the early 1980s US industry was in trouble, but Honda was opening its American motorcycle and automobile plants. While Honda's products were accepted by consumers, American workers were blamed for poor US products. Honda then chose raw rural labour. Yet Honda's American products have the same quality as those from Japan. Honda's success, now seen as an exemplar, shows US workers are capable. While critics in the US attacked Japan's "unfair" practices, the Honda case reveals that it is management that is central. The Honda philosophy has created a positive work atmosphere. So Honda's US success is an American success story. There's nothing wrong with American workers: it is management that must change.

This is not a theoretical book but a guidebook for US managers. Honda is a small, maverick organization which became the world's largest motorcycle manufacturer only 12 years after it was founded (1948-1960). Honda has been the underdog, antiestablishment, has always met resistance and overcome it. Sceptics doubted Honda could succeed in the US, but as a latecomer to the Japanese car industry Honda has always had to be different. Honda is the largest Japanese company founded after the War, now producing all over the world.

This is the story of a hybrid company, part Japanese, part US. And it is Honda's approach to people, more than technology, that should be credited and which gives Honda its advantage.

7.2. The Honda Motor Company: The Beginning

Honda was founded in a war-ravaged Japan where bicycles were the main mode of transport, and started off by attaching purchased engines to bicycles (1946). Mr Honda was the son of a blacksmith, learned mechanical repair, raced automobiles, pre-war. In 1937 he started a pistonring factory. Mr Honda was a mechanic with no education who despised the establishment and the class structure, who looked beyond Japan from the start. His business was destroyed in the war. Initial success led him to make his own engines. He believed Japan's future growth depended upon technology. Honda's partner Mr Fujisawa managed all the business (organization, marketing), in which Honda never developed any skills. Fujisawa had made money in the Sino-Japanese war, and Honda needed long-term investment. A division of labour developed: Honda did the engineering, Fujisawa the management.

Honda grew in the 1950s within Japan, and took over its own distribution so as to be independent. The company remained a maverick, shunned by the establishment, with no MITI support, not seen as attractive by good graduates. Mr. Honda refused to behave "correctly". Honda stressed individualism over groupism, ignored precedents, had a less rigid structure. Many top Honda executives of the 1970s, 1980s, 1990s, joined Honda in early 1950s. Mr. Honda became the model for the company and its inspiration: his perfectionism especially (he had a sharp temper that was not to be a model).

The team of Honda and Fujisawa was critical to success. Fujisawa separated R&D as a separate company in 1957. Honda wanted to race foreign competition from the mid-1950s to make his products the best in the world. By 1960 Honda was winning international motorcycle races. Racing was good for marketing and forced technological advances. Fujisawa however insisted upon mass marketing. The Supercub scooter of 1958 was the big breakthrough, sold as more like a bicycle than a motorcycle. By 1960 Honda production was over 1 000 000 per year.

The shift to automobile production was ambitious because of the difficulty of entry into a mature industry. MITI wanted no more new entrants. Honda rushed into car production rapidly to avoid potential legislation. Despite the Western view of MITI help for industry, Honda has never benefited. Car racing was planned immediately. Mr. Honda wanted practical, not theoretical, engineers: university graduates had to "go to the spot" and not be haughty. Honda had success in car racing in the 1960s (F-1), but then switched resources to environmental research. The result by 1973 was the CVCC engine, which overcame legislative standards in the US without a catalytic converter. Internal politics between people with strong views pervaded decisionmaking on technology and marketing.

Actes du GERPISA n°13 55

7.3. Honda Comes to America

In 1958 an internal group formed to study Honda's overseas marketing chose to bypass the US because it foresaw little demand for Honda's little motorcycles. Fujisawa took the opposite view: attack the US first precisely because it is the most difficult. The maverick goes straight for the top. Toyota had just failed with its Toyopet car. The Japanese Finance Ministry made Honda's exporting efforts difficult. But in fact the USA had the roads and the disposable income. There are many cultural differences between Japan and the US, due in part to physical size and

population density. Japanese groupism is due to having to work together, compared with the settler history of the US, which promotes individualism. Japan is homogeneous, whereas the US is a melting pot. However, the Japanese education system promotes fierce competition.

Honda avoided traditional Japanese trading companies and American distributors, not wanting to be restrained by their lack of ambition. Company leaders do their own market research personally. A small team was sent to California in 1959 with no fixed plan. They had a slow start. Mr Honda had promised them a world-class product, but mechanically the motorcycles had problems because Honda had not known about different riding conditions in the US. The problems were fixed very quickly indeed (one month). While Honda tried to sell its biggest machines in the US, it was the Supercubs which attracted attention (50cc). So Honda tried to sell these outside the traditional motorcycle market (leather and grease), clean, and in shop windows (not so different from the distribution system in Japan). Honda pushed good service too. An entire new market was created. Advertising emphasized the friendly nature of the machines. By 1964 Honda controlled half of the entire US market.

Entering the automobile business was quite different because of the power of the Big Three and because the automobile was a big purchase for customers. Honda's first attempts to sell cars in the USA came in 1969. A different distribution system was needed, because the Japanese and American systems were so different. It was difficult to find dealers to take Honda cars. Not until the mid 1970s were there any exclusive dealerships. The 1973 CVCC engine in the Civic was the key to Honda's high-tech reputation in the US. A sales boom followed its introduction, and that of the Accord in 1976. So in fact the products gained acceptance quickly.

7.5. The American Marketing Organization

The United States accounts for 50% of Honda's worldwide automobile sales. US sales surpassed Japanese sales in 1987. The United States had been seen as a risky market but one of great potential. Toyota and Nissan dominated in Japan. Going global meant tackling the USA.

Honda is the biggest motorcycle maker in the world by far. The company wants to dominate racing to show that it is the best. Honda engages in mass marketing and mass sales. Motorcycles were sold differently from automobiles, and scooters like Supercub differently again. With scooters a new market was being created. The first Honda cars were not very good, but sales rose rapidly with Civic/CVCC. Car distribution is very hard in Japan (no space) but there is

plenty of space in the USA. To obtain its own dealers in the USA Honda had to have the product (Civic/CVCC). CVCC pollution figures were impressive, beating all proposed legislation. It received lots of positive publicity. Honda chose car dealers who had experience, tried to get the best. From the mid 1970s and in the 1980s Honda was continually stretched to meet demand, with all its factories working at full capacity for nearly two decades. In 1974, Honda sold 43 000 cars in the USA. By 1975 the only reason more than 103 000 were not sold was because of lack of production capacity. Honda never tried to interfere with US marketing organization. By the late 1980s Honda dealerships had highest unit sales, lowest inventories and most profits in the USA.

Honda paid close attention to consumer demand. Designers go into the field to undertake their own market research. The product development process involves continuous communication across functions. Engineering is product-oriented but market-suggestions are always heeded. Engineers listen to dealers. Honda reacts quickly to customer demand. Top people "go to the spot" if there is a problem.

Honda learned from VW's experience with poor quality products "made in the USA". VW announced closure of its plant in 1987. Consumer perception of poor made-in-USA quality was a major problem. In the USA, Honda sold its cars in the 1970s and 1980s based on quality and reliability, so these factors had to be very high at Marysville.

Honda developed the first Japanese "second marque", Acura, in 1986. These cars were meant to be top-quality competition for German imports. Acura introduction also helped Honda overcome the problem of a swiftly declining dollar in 1985-6 because it meant a shift of imports to highprice, more profitable cars. A separate image was needed in the US because Hondas had been sold for fuel economy, lower price, value for money as well as quality: no Mercedes type image however. With Acura, Honda wanted to dissociate itself from the Honda name in marketing, but everybody still knew they were made by Honda so would be top-quality. Acura was also planned to retain aging customers who were moving up-market. Acura was a success, selling over 100 000 in its second year. Nissan and Toyota followed later Acura was judged first in quality for several years in the late 1980s, for all marques in the US, according to neutral

Actes du GERPISA n°13 57

customer surveys. The Honda marque came second consistently (Honda beat Mercedes for the

first time in 1986).

A different advertising agency was selected for car sales. It pushed Honda out of the small car image to high technology in the mid 1970s. But Honda was careful not to exaggerate in its advertisements or make claims that could not be met.

7.6. Providing Superior Service

Outstanding service is very important to Honda. Provision of top service to customers was critical to Honda's survival in Japan in the 1950s. Only the best Japanese companies ever made it to the USA to compete there. Customer service ideals were transferred from Japan, quite different from poor US service standards.

Everyone working for Honda is supposed to think about the customer. High-quality production is the key, not extensive customer relations afterwards. Cars are designed to make them easy to service. In this engineering-oriented company the top people want to know how the product fares in the customer's hands. The cars rarely have faults. Fit and finish is strictly controlled in production to avoid later problems.

When problems do arise, the philosophy is to fix them at root straight away. Honda goes out and looks for problems, not waiting for them to come in from customers.

Americans are prepared to pay for good service despite the shift in society towards self-service".

In California a group of skilled technicians answers the questions of service-station mechanics on the telephone. All problems are logged in a computer, and the results are analysed for recurrent problems. So mechanics are helped and Honda gets early warning of faults in products.

Service to customers is essential. In Japan a high level of service is mandatory. Honda brought this philosophy with it to the USA. Selling the car is only the beginning. Repeat business is viewed as essential to sales strategy. Customers are to be won one at a time rather than through mass advertising.