

The Honda Way to Create and Sustain a Competitive Advantage in the Chinese Automobile Industry: A Marketing Perspective

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要 旨

中国自動車産業では、生き残りを懸けた企業間競争がますます激化している。そのため、中国自動車産業界において一体どのように経営すれば成功できるか、という事を丹念に研究する必要がある。本研究の目的は、マーケティングのパースペクティブから、例として、中国におけるホンダのマーケティングの実践方法を探ろうとするものである。本研究では、関連する先行研究の理論に基づき、新しい分析フレームワークを開発し、実証分析を行った。本研究の結果、如何なるマーケティングの実践により、競争優位を創造・維持し、中国自動車産業で成功することが可能になるのかを論証できた。

Keywords: Competitive advantage, the Chinese automobile industry, marketing.

Table of Contents

- I. Introduction
 - II. Hypothesis and Methodology
 - III. The Honda Way to Market Cars in China
 - 1. Extending product variety expeditiously by introducing attractive new products (Extending Products)
 - 2. Keeping prices reliable by forward-thinking pricing (Reliable Prices)
 - 3. Placing swiftly by building a nation-wide franchise shop network (Swift Placing)
 - 4. Promoting effectively by using integrated environment-friendly approaches (Friendly Promoting)
 - IV. Hypothesis Testing and Discussion
 - V. Conclusions
- Notes

I. Introduction

China is potentially the world's largest growth market. The demand for cars in China is accelerating at a remarkable rate and seems to have no ceiling.¹ "As China's accession to the WTO gradually opens new markets and as its growth continues at better than 9% per year, even those that have long resisted China's temptations are jumping in."² As a result, a rush of carmakers was witnessed in the Chinese automobile industry in 2003. "In the past year, top auto executives from Europe, the U.S., and Japan have flocked to the mainland to announce ambitious expansion plans. GM wants to spend \$3 billion by 2007 to double its production capacity in China, to 1.3 million cars and trucks, and it expects to introduce 20 new models over that time. Volkswagen is stumping up \$6.3 billion to double capacity to 1.6 million vehicles by 2008. Relative newcomer Ford Motor Co. plans to invest \$1 billion on expansion in China, including a new plant in Nanjing, while Toyota Motor Corp. has earmarked \$730 million to build Camrys in a new factory in Guangzhou and to expand capacity at its Tianjin plant by 74%. Together, nine big international manufacturers plan to spend a total of \$9.7 billion in China between 2003 and 2007, doubling the country's production capacity to 5 million passenger cars annually, according to consultancy A.T. Kearney Inc."³

Unfortunately, however, not all multinational carmakers, both first comers and latecomers have realized what they have been dreaming about China for more than two decades. There is no surprise to find some multinational carmakers came to China, made losses, and even left at last.⁴ This became clearer when there was a downshift in 2004. The following story typifies the abrupt slowdown in the Chinese automobile market. "When Li Chen took a job selling cars at the Kailong Pacific Buick dealership in Shanghai six months ago, work was a snap. Demand was so strong that people were willing to slap down \$40,000 in advance to get quick delivery of a Buick Regal sedan, and a hotshot salesman could close a deal in 30 minutes flat. These days, however, every sale is a tough slog. 'More customers are looking instead of buying,' says Li."⁵ The shock is really serious compared with the rapid growth in the Chinese automobile market in recent years. "Dealerships from Shenzhen to Shenyang have been struggling to move cars in a market that has seen monthly sales decline steadily since hitting an all-time peak in March. Year-on-year, sales grew just 6.8% in June and 2.5% in July – and August figures seem likely to come in even weaker. That's a dramatic reversal from last year, when auto sales surged 76%, to 2.1 million cars, on top of 62% growth in 2002."⁶

There are many possible explanations for this downshift. One of them is China's efforts to rein in its overheated economy. "Although the auto sector hasn't been specifically targeted, the government's bid to restrict credit growth of all kinds has hit car buyers especially hard. Today just 10% of car purchases are financed with loans, down from 35% a year ago, says Automotive Resources Asia Ltd., a Beijing consultancy. 'The current loan policy is too strict,' grouses Zhang Yifei, a Ford salesman at Shanghai Jiahua Motor. Manufacturers say automobile dealers are also trimming inventory because banks are denying them loans they need for working capital. And government agencies and state-owned companies, which account for about 40% of auto sales, have cut back on purchases voluntarily in support of government measures to dampen investment."⁷

No matter what kind of explanation could be, the shock was serious. "The abrupt slowdown has come as a serious shock for foreign carmakers, who have been pinning their hopes for global growth on China."⁸ A case in point is Volkswagen in the Chinese automobile industry. "One of the most severely hit by the slowdown has been Volkswagen, the country's largest carmaker, with 30% of the market. VW's Shanghai plant saw year-on-year sales drop 18.9% in August, to just 26,000 cars, according to press reports. Sluggish demand spurred VW to dial back its sales forecast for this year. Initially, the company expected to sell 830,000 Passats, Golfs, Audis, and other vehicles. Today VW says it might sell as few as 700,000, compared with 697,000 last year. That means VW probably won't match the \$680 million profit it earned in China in 2003. To shore up its bottom line, the group has announced plans to cut Chinese costs by \$480 million by the end of 2005, though VW declined to provide details."⁹ The abrupt slowdown has come as a serious shock for local carmakers too. "Hangzhou's Geely Group Co., China's largest private auto maker with no foreign ties, predicted early this year it would double its sales, to 160,000 cars, in 2004. 'Given the current market weakness, that's unrealistic,' says spokesman Zhong Xiaodong. The company today is shooting for 120,000."¹⁰

As a result, price cuts prevailed in the Chinese automobile market. "To keep the metal moving, auto makers have cut their prices."¹¹ Besides price cuts, carmakers looked for ways to reduce cost. "Manufacturers 'come to us very frequently asking for price reductions,' says Chen Jinya, president of parts maker Delphi Automotive Systems (China). So far, though, parts makers haven't been badly hurt, since the auto manufacturers have yet to really slam the brakes on production. Others are trying to skirt the banks and offer automotive loans on their own. In August, GM's finance subsidiary, General Motors Acceptance Corp. launched China's first dedicated auto-loan venture in conjunction with Shanghai

Automotive Industry Corp, its manufacturing partner. VW in September began offering financing through its dealerships in Beijing, while Ford and Daimler Chrysler are planning similar schemes to help widen the customer pool.”¹²

Guangzhou Honda Automobile Co., Ltd. (Guangzhou Honda), a joint venture between Honda Motor Co., Ltd. (Honda) and Guangzhou Automobile Group, however, seems immune to the serious shock. As a result, the success of Guangzhou Honda has been drawing the attention of journalists, researchers, and executives seeking to explain how Honda can actually create and sustain a competitive advantage in the Chinese automobile industry. The Chinese automobile industry can be defined and measured in several ways. A similar concept is the Chinese automotive industry. The Chinese automotive industry, in its broadest aspect, embraces the manufacturers of passenger cars, trucks, buses, motorcycles, and automotive parts and components. The analysis of this article, however, is confined to the manufacturers of passenger cars.

II. Hypothesis and Methodology

Honda did not receive such attention until recently. Even in 2003, when Honda’s success in the Chinese automobile industry has been analyzed in a strategic knowledge management perspective, the skeptical attitude towards Honda’s success still prevailed in the Chinese automobile industry.¹³ The skepticism received a good reply when there was a serious shock in the Chinese automobile industry in 2004. As shown in Table 1, Honda seems immune to the serious shock.

The study on how Honda actually create and sustain a competitive advantage in the Chinese automobile industry gains more prominence when taking into account the rise of China that may challenge the 200-year-old doctrine of comparative advantage. Take the possible influence on the U.S. for example. “True, China is emerging as a global powerhouse, realigning many economic relationships. But in the long run a more disruptive trend may be the fast-rising tide of white-collar jobs shifting to cheap-labor countries. The fact that programming, engineering, and other high-skilled jobs are jumping to places such as China and India seems to conflict head-on with the 200-year-old doctrine of comparative advantage. With these countries now graduating more college students than the U.S. every year, economists are increasingly uncertain about just where the U.S. has an advantage anymore – or whether the standard framework for understanding globalization still applies in the face of so-called

white-collar offshoring. ‘Now we’ve got trade patterns that challenge the common view of trade theory, which might not be so true anymore,’ says Gary C. Hufbauer, a senior fellow at the Institute for International Economics (IIE), a Washington (D.C.) think tank. A leading advocate of free-trade pacts, he still thinks white-collar job shifts are good for the U.S.’¹⁴ As a result, it seems obvious that the performance in the Chinese automobile industry will play an increasing important role in deciding the carmaker’s competitiveness around the world.

Table 1. Honda seems immune to the shock in 2004

	Vehicles Sold in China			Cars Sold in China			Cars Sold by Guangzhou Honda		
	Units	Rate*	Rate**	Units	Rate*	Rate**	Units	Rate*	Rate**
May	396,200	-20.43%	23.11%	177,700	-19.27%	18.82%	13,886	-15.96%	43.9%
June	380,100	-4.06%	7.25%	167,300	-5.84%	4.83%	21,275	53.21%	82.1%
July	346,000	-8.98%	1.35%	170,000	-0.78%	3.71%	20,869	-1.43%	80.6%

Rate*: The increase rate or decrease rate (-) compared with last month.

Rate**: The increase rate or decrease rate (-) compared with the same period in last year.

Source: China Association of Automobile Manufacturers and from Guangzhou Honda Automobile¹⁵

Although there are some efforts to explain how Honda actually create and sustain a competitive advantage in the Chinese automobile industry, most of them concentrated on simply stockpiling current facts. Such concentration on simply stockpiling more and more current facts in explaining Honda’s success in the Chinese automobile industry is, in fact, inconsistent with real scientific research. This does not mean that gathering current facts of Honda are unimportant. But these current facts should be observed and analyzed in the scientific way, not just gathering the facts itself. All of this suggests that what is needed is a very different kind of study, together with a very different approach to it by examining all the activities Honda performs and how these activities interact in a systematic way. The reason is simple. “A systematic way of examining all the activities a firm performs and how they interact is necessary for analyzing the sources of competitive advantage.”¹⁶ It is generally accepted that management thought should not proceed merely by the accumulation of observations that are unregulated by theory. Perhaps even more important than these prescriptions is the fact that, in most cases, fruitful observations cannot be made, nor their results recognized and analyzed, without the use of theoretical hypotheses which go beyond the existing state of knowledge.

This article is an attempt to present a scientific explanation of Guangzhou Honda's success that typifies the Honda way to create and sustain a competitive advantage in the Chinese automobile industry during the period of 1998 to the present more palatable and more useful. The explicit objectives are to put forward the hypothesis that Guangzhou Honda's success is the result of its unique way to perform marketing activities that create and sustain a competitive advantage in the Chinese automobile industry; develop a theoretical framework for examining the marketing activities Guangzhou Honda performs and how these activities interact in the Chinese automobile market; identify the marketing activities Guangzhou Honda performs with the theoretical framework; test the hypothesis based on the findings and discuss its applications.

A well accepted discipline is that the success or failure of any firm depends on competitive advantage – delivering the product at lower cost or offering unique benefits to the buyer that justify a premium price.¹⁷ Michael E. Porter pointed out the origins of competitive advantage as following. “Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive advantage: cost leadership and differentiation.”¹⁸ Further, Michael E. Porter emphasized the importance of understanding competitive advantage in terms of activities. “Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation.”¹⁹

Michael E. Porter introduced the value chain as the basic tool for analyzing the sources of competitive advantage. “The value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors.”²⁰ Michael E. Porter explained the value chain in detail as following. “The value chain displays total value, and consists of value activities and margin. Value activities are the physically and technologically distinct activities a firm performs. These are the building blocks by which a firm creates a product valuable to its buyers. Margin is the difference between total value and the collective cost of performing the value activities. Margin can be measured in a variety of ways.

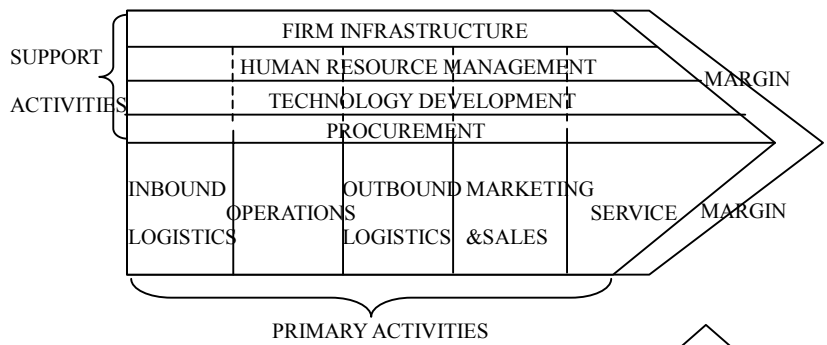
Supplier and channel value chains also include a margin that is important to isolate in understanding the sources of a firm's cost position, since supplier and channel margin are part of the total cost borne by the buyer."²¹ In addition, Michael E. Porter gave a classification of value activities. "Value activities can be divided into two broad types, primary activities and support activities."²² According to Michael E. Porter, there are five generic categories of primary activities involved in competing in any industry and support value activities involved in competing in any industry can be divided into four generic categories, as shown in Figure 1.²³

When focus on the marketing activities, however, it is not difficult to find that Michael E. Porter's understanding about marketing is quite different from that in the marketing domain. A quick review of the development of modern marketing theories can make this quite clear. As pointed out in the 1960's, "the story of attempts to describe and understand marketing phenomena, beginning in the early 1900's, is chronicled by Robert Bartels of Ohio State University in his new book, *The Development of Marketing Thought*."²⁴ A view of the emergence of marketing is as following. "Bartels sees the early study of marketing as an offshoot of economics, brought about by changes in economic conditions in the late nineteenth century. These changes produced a 'growing disparity between facts and assumptions underlying prevailing [economic] theory,' and one of the primary missions of the pioneer marketing students was to reconcile this disparity."²⁵ Marketing gained prominence in the West in the 1960's. "For market orientation today comes in many forms and degrees. It may be planned, forced, or unconscious. It may be directed toward a consuming industry or group, a region, a distribution channel, a buying level, or a fundamental segment of our economy."²⁶ Theodore Levitt and Philip Kotler contributed enormously to the development of modern marketing theories. Philip Kotler's marketing mix model, as shown in Figure 1²⁷, has been well accepted in the marketing domain nowadays.

A thorough understanding of Philip Kotler's marketing mix model made it possible to criticize Michael E. Porter's value chain model on several counts if focus the analysis on the marketing activities. First, marketing and sales are put at the same management level in Michael E. Porter's value chain model. In the marketing domain, however, the principle that sales is a subsystem of marketing is well accepted. "The system of concern to the sales manager is, of course, the sales department. It is a subsystem of the corporation's marketing program, which is in turn a subsystem of the corporation."²⁸ Secondly, marketing and service are separated in Michael E. Porter's value chain model. According to the modern marketing theories, it is inconsistent with real marketing practices. If it is true that service

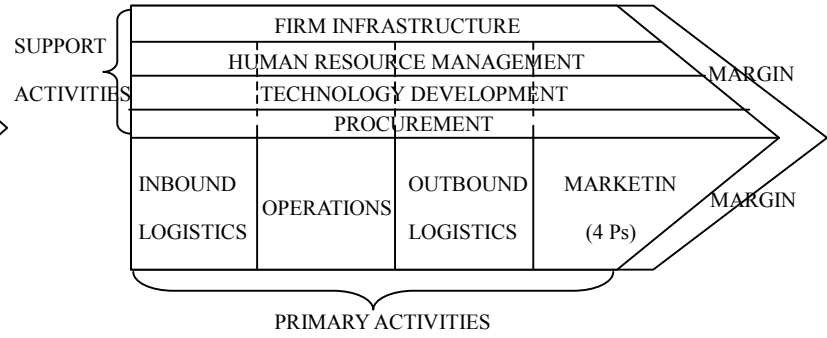
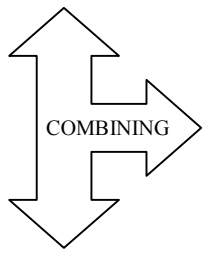
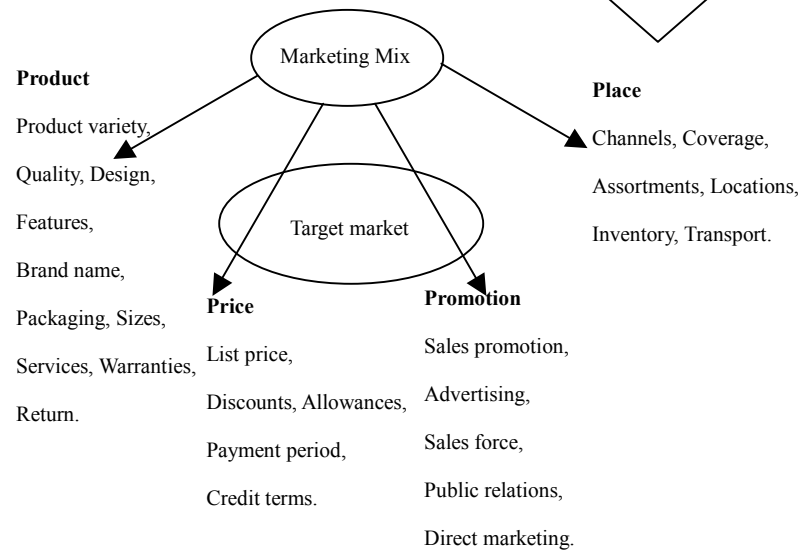
is a coherent part of marketing, then service should be included in marketing instead of being separated. Finally, there is some ambiguity as to how these marketing activities, such as sales, services, and so forth, interact in a systematic way. If the abovementioned is true, then the relating descriptions in Michael E. Porter's value chain model could be built on one single factor: marketing; the others are redundant. "William of Ockham, a fourteenth century English scholastic, laid down the rule that theories should be as simple as possible, and the reasons for this seem as compelling in marketing as anywhere else."²⁹

But the point is not whether or not Michael E. Porter's value chain model is correct. In either case it may well be useful, because it provides a systematic way of thinking about competitive advantage. This is the ultimate value of Michael E. Porter's theory. Combining Michael E. Porter's theory and the modern marketing theories, in fact, can establish a better theoretical framework for understanding how competitive advantage can be created and sustained in the Chinese automobile industry when doing the research in a marketing perspective. An attempt to establish such a theoretical framework is shown in Figure 1.



The Generic Value Chain (Michael E. Porter)

The Four Ps of the Marketing Mix (Philip Kotler)



The New Value Chain

Figure 1. The Theoretical Framework

Before delving into a specific aspect, this article surveys the marketing activities Honda has performed in China as a whole during the period of 1998 to the present, so as to avoid the propensity for looking at trees rather than forests. Then this article focuses the analysis on Guangzhou Honda's marketing practices that typifies the Honda way to market cars in China. The utilization of documents plays an important role in conducting this study. Material is collected from various secondary sources that include existing academic literature, professional journals, automotive industry yearbooks, newspapers, reliable websites, and so forth. Much of the material on the Honda way to create and sustain a competitive advantage in a marketing perspective is verbal description, but whenever possible statistics on increase rate and the like are introduced. Most of this statistical material is presented in tables. In addition, statements in this article are based on a study that included interviews with some executives and consultants in Japan. The author gratefully acknowledges the precious advices on how to understand the Honda way to create and sustain a competitive advantage and the great support from Mr. Seto Akira (Chief of International Exchange Section, Tsubame International Association, Niigata Prefecture, Japan) and Mr. Nasuhara Yutaka (manager of Yoshida Shop, Honda Primo, Niigata Prefecture, Japan)³⁰.

III. The Honda Way to Market Cars in China

Based on the findings of a in-depth study with the theoretical framework shown in Figure 1, this article identified four categories of marketing activities at Guangzhou Honda as following that typifies the Honda way to market cars in China.

1. Extending product variety expeditiously by introducing attractive new products (Extending Products)

Guangzhou Honda began producing the Accord Generation Six in 1998. The Accord cars produced by Guangzhou Honda turned out to be a hit in the Chinese automobile market, and has been endorsed strongly by automobile media, analysts, and, most important, its customers since it was introduced. The demand for the Accord cars produced by Guangzhou Honda kept on exceeding the supply in the Chinese automobile market. Customers usually had to wait three months before winning the chance to

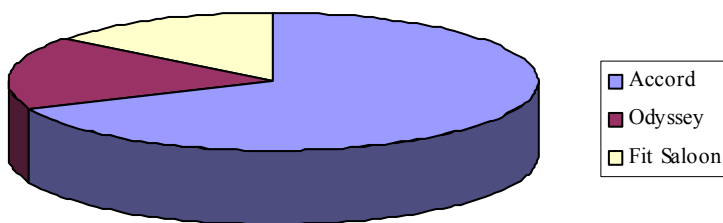
order an Accord car produced by Guangzhou Honda. The popularity of the Accord cars produced by Guangzhou Honda is a reminder of Emerson's famous remarks on mouse trap in the nineteenth century. "If a man...make a better mouse-trap than his neighbour, tho' he build his house in the woods, the world will make a beaten path to his door."³¹ Riding a wave of growing consumption, Guangzhou Honda kept on launching new models of Accord. On March 22nd, 2000, Guangzhou Honda held a line-off ceremony for the Accord 2.0EXi. The introduction of the Accord 2.0EXi extended the Accord cars produced by Guangzhou Honda to 3 models. On December 13th, 2000, the cumulative production of the Accord cars produced by Guangzhou Honda reached 30,000 units. It is Guangzhou Honda that first has an annual production of 30,000 units among middle and high-end carmakers in Chinese automobile industry. By contrast, it took Shanghai Volkswagen 4-5 years and FAW Volkswagen 5-6 years to reach that point. The market share of Guangzhou Honda in the Chinese automobile market increased from 1.7% in 1999 to 5.3% in 2000. In particular, Guangzhou Honda's market share increased from 8% in 1999 to 29% in 2000 in the intermediate and luxury car market in China. The success of Accord cars helped Guangzhou Honda make a pretty strong start. When Guangzhou Honda stopped producing the Accord Generation Six on December 4th, 2002, the cumulative production of the Accord cars produced by Guangzhou Honda reached 139,000 units. Despite the dramatic change in the Chinese automobile market resulting from China's entry into the World Trade Organization (WTO), Guangzhou Honda moved aggressively to continue the momentum it had in 2002. On April 10th, 2002, Guangzhou Honda held the line-off ceremony for Odyssey. Thanks to the advanced technology and innovative design, launching Odyssey propelled Guangzhou Honda to becoming one of the most favorite carmaker in China. For instance, sales of the Odyssey reached 8,648 units within half a year in 2002, while that of Buick, a strong competitor to Odyssey managed to reach an annual sales over 10,000 after two-year hard working.³²

Guangzhou Honda kept on introducing new products in the following years. These products turned out to be hits on the Chinese automobile market too. A recent successful story is the introduction of Fit Saloon. As shown in Figure 2, the Fit Saloon cars sold occupied 14.15% of the total cars sold by Guangzhou Honda on the Chinese automobile market in 2003.³³ In 2004, 80,000 Fit Saloon cars produced by Guangzhou Honda were sold, which was the accumulative sales champion in the Chinese compact car market.³⁴ The expeditious process of extending product variety by introducing attractive new products has been summarized in Table 2.

What makes the expeditious process of extending product variety possible is the market policy at

Guangzhou Honda to introduce new cars to the Chinese automobile market every year. Early in 1986, Hirotaka Takeuchi and Ikujiro Nonaka pointed out the importance to create new products and introduce it to the market in a new way. “Changes in the environment – intensified competition, a splintered mass market, shortened product life cycles, and advanced technology and automation – are forcing managements to reconsider the traditional ways of creating products. A product that arrives a few months late can easily lose several months of payback. A product designed by an engineer afflicted with the ‘next bench’ syndrome – the habit of designing a product by asking the coworker on the next bench what kind of a product he or she would like – may not meet the flexible requirements of the marketplace.”³⁵

Figure 2. The cars sold by Guangzhou Honda in 2003



Source: Guangzhou Honda Automobile web site, see note 33

The Honda way to develop new products, especially the case of developing City car with a 1200cc engine at Honda, has been analyzed in great detail in the article. “The Honda City project team, whose members’ average age was 27, had these instructions from management: to develop ‘the kind of car that the youth segment would like to drive.’ An engineer said, ‘It’s incredible how the company called in young engineers like ourselves to design a car with a totally new concept and gave us the freedom to do it our way.’”³⁶

Implementing creatively is another feature that differs the Honda way to introduce new products from other carmakers in the Chinese automobile industry. More than 40 years ago, Theodore Levitt emphasized the importance of implementation. “All in all, ideation is relatively abundant. It is its implementation that is more scarce.”³⁷ The reason is simple. “Whatever the goals of a business may be,

it must make money. To do that it must get things done. But having ideas is seldom equivalent to getting things done in the business or organizational sense. Ideas do not implement themselves – neither in business nor in art, science, philosophy, politics, love, war. People implement ideas.”³⁸ According to Theodore Levitt, “the major problem is that so-called creative people often (though certainly not always) pass off on others the responsibility for getting down to brass tacks. They have plenty of ideas but little businesslike follow-through. They do not make the right kind of effort to help their ideas get a hearing and a try.”³⁹ Further, Theodore Levitt explained in detail as following. “Many people who are full of ideas simply do not understand how an organization must operate to get things done, especially dramatically new things. All too often there is the peculiar underlying assumption that creativity automatically leads to actual innovation. In the crippled logic of this line of thinking, ‘ideation (or ‘creativity,’ if you emphasize the idea-producing aspect of that term) and ‘innovation’ are treated as synonyms. This kind of thinking is a particular disease of advocates of ‘brainstorming,’ who often treat their approach as some sort of ultimate business liberator. ‘Ideation’ and ‘innovation’ are not synonyms. The former deals with the generation of ideas; the latter, with their implementation. It is the absence of a constant awareness of this distinction that is responsible for some of the corporate standpatism we see today. (Lest there be any confusion, it is not essential that innovation need be successfully implemented to qualify as innovation. The object of the innovation is success, but to require in advance that there be no doubt of its success would disable its chance of ever getting tried).”⁴⁰

In the case of Guangzhou Honda, it is the NGH team working that makes the creative implementation possible at Guangzhou Honda. NGH stands for New Guangzhou Honda. The objective of the NGH teams, which are organized voluntarily by the employees at Guangzhou Honda, is to create a harmony and dynamic working environment through team working and self-discipline. There were 38 NGH teams with 244 participants at the beginning. Then the number of the NGH team members increased very quickly, from 12% to 45% of the total employees at Guangzhou Honda. Since its introduction in 2002, the NGH team working has been working well as a novel way to tackle the problems in manufacturing the high-quality products at Guangzhou Honda.⁴¹

Table 2. The expeditious process of extending product variety at Guangzhou Honda

	Accord	Odyssey	Fit Saloon
Origin	The first generation of Accord was introduced in 1976.	Odyssey is designed with a style of European romance and comfort.	The Fit Saloon is designed based on the “Man Maximum and Mechanism Minimum” concept.
Features	The first generation of Accord focused on energy saving and low pollution.	A multi-functional car with comfortable and capacious driving space and 7 seats.	Appealing exterior, pleasing interior.
Story with Guangzhou Honda	Guangzhou Honda started by producing the Accord Generation Six in 1998. On January 25 th , 2004, the Accord New Generation produced by Guangzhou Honda came onto the Chinese automobile market.	Guangzhou Honda started producing Odyssey in 2002. On April 18 th , 2002, the Odyssey produced by Guangzhou Honda came onto the Chinese automobile market.	On September 28 th , 2004, the Fit Saloon produced by Guangzhou Honda came onto the Chinese automobile market.
Models	Accord 2.0i-VTEO, Accord 2.4i-VTEC, Accord 3.0V6 VTEC.	Odyssey.	Fit Saloon 1.5L MT, Fit Saloon 1.5L CVT, Fit Saloon 1.3 L MT, Fit Saloon 1.3 L CVT.

Source: Guangzhou Honda Automobile web site ⁴²

2. Keeping prices reliable by forward-thinking pricing (Reliable Prices)

Keeping prices reliable differs Guangzhou Honda from its competitors in the Chinese automobile market.

Contrary to the popular way in China to increase the price as soon as the demand exceeds the supply, Guangzhou Honda keeps the price as it was when the demand for its products exceeds greatly the supply on the Chinese automobile market. Take the price of the Accord car produced by Guangzhou Honda for example. The Accord car produced by Guangzhou Honda turned out to be a hit when it came onto the Chinese automobile market. The demand for the Accord cars produced by Guangzhou Honda kept on exceeding its supply for a long time. As a result, the possible price for the Accord car on the Chinese automobile market was much higher than that stipulated by Guangzhou Honda. At the peak time, the possible unit price of the Accord car produced by Guangzhou Honda was RMB Yuan 50,000

higher than that stipulated by Guangzhou Honda on the Chinese automobile market. Even at the risk of losing the short-term revenue, Guangzhou Honda kept the price of the Accord car as it was. The same story happened when the demand for the Fit Saloon cars produced by Guangzhou Honda exceeded greatly the supply on the Chinese automobile market. Take Fit Saloon 1.3L MT for example. When the car came onto the Chinese automobile market in 2003, the possible price is RMB Yuan 25,000 higher than the price stipulated by Guangzhou Honda on Beijing automobile market. While the possible price is RMB Yuan 18,000 in Shenzhen automobile market and RMB Yuan 15,000 higher in Guangzhou automobile market than the price stipulated by Guangzhou Honda respectively.⁴³ Even when the possible price for the Fit Saloon car was much higher than that stipulated, Guangzhou Honda kept the price of its Fit Saloon car as it was too.

In another extreme case, Guangzhou Honda kept the prices of its products as they were when there was downshift in the Chinese automobile market. Take the abrupt downshift in the Chinese automobile market in 2004 for example. “Dealerships from Shenzhen to Shenyang have been struggling to move cars in a market that has seen monthly sales decline steadily since hitting an all-time peak in March. Year-on-year, sales grew just 6.8% in June and 2.5% in July – and August figures seem likely to come in even weaker. That’s a dramatic reversal from last year, when auto sales surged 76%, to 2.1 million cars, on top of 62% growth in 2002.”⁴⁴ As a result, many carmakers came to rely on prices cuts to lure customers and boost sales in the Chinese automobile market. “To keep the metal moving, auto makers have cut their prices. In May, GM slashed nearly \$5,000 from the sticker price of its midsize Buick Regal sedan, to \$35,900, and lopped \$3,500 off its most expensive GL8 executive wagon, to \$42,000. Volkswagen followed suit in June, cutting prices on seven models by as much as 11%. On Sept. 6, Hyundai announced across-the-board price cuts of 10%. Now its entry-level Elantra sedan starts at just \$13,600 and its midsize Sonata ranges from \$18,100 to \$27,700. Toyota is offering \$600 cash rebates on its Corolla and VIOS models.”⁴⁵ Clearly, Guangzhou Honda was not among them. Guangzhou Honda announced firmly that it would not follow to cut prices even though the shock was really serious.⁴⁶

The point is that the price cuts can not justify itself. This is clearly explained by Shuba Srinivasan, Koen Pauwels, Dominique Hanssens, and Marnik Dekimpe in their 2002 Harvard Business Review article. “Retailers and manufacturers have come to rely on price promotions, routinely using coupons, two-for-one offers, and temporary price cuts to lure customers into stores and boost sales. But most

promotions have only fleeting effects. Research clearly shows that after a promotion runs its course, customers quickly return to their old buying patterns and sales drop back to normal levels. And for retailers, promotions can often do more harm than good.”⁴⁷ This is the very case when many carmakers cut their prices so as to cope with the abrupt downshift in the Chinese automobile market in 2004. “Those cuts have had an unintended effect. Although sales of discounted cars typically jump, the overall market has been hurt as many customers wait for even deeper discounts. ‘Buyers are just sitting on the sidelines,’ laments GM’s Murtaugh. Lindsae Li, for instance, has been shopping for a family car so she can drive her 12-year-old daughter to school, a long taxi ride from their home. For three months, Li has been prowling showrooms but still plans to hold off for another month. Time to buy? No way. ‘Prices are falling, and there’s room for more cuts,’ she says.”⁴⁸

What behinds Guangzhou Honda’s reliable prices is its forward-thinking pricing. It is well accepted that there are many factors that managers should take into account when they make pricing decisions. John Gourville and Dilip Soman, for instance, pointed out that managers should take consumption into account when they set prices in their 2002 Harvard Business Review article. “Managers spend a lot of time thinking about how to get customers to buy their products and services. But that’s just half the battle. If organizations wish to build long-term relationships with customers, they must make sure their customers actually use their products. A first step is pricing.”⁴⁹ Unfortunately, however, as pointed out by John Gourville and Dilip Soman, many managers failed to think about consumption when they set prices. “Ask any executive how pricing policies influence the demand for a product or service, and you’ll get a confident, well-reasoned reply. Ask that same executive how pricing policies affect consumption – the extent to which customers use products or services that they’ve paid for – and you’ll get a muted response at best. We find that managers rarely, if ever, think about consumption when they set prices – and that can be a costly oversight.”⁵⁰ The reason is simple. “For many executives, the idea that they should draw consumers’ attention to the price that was paid for a product or service is counterintuitive. Companies have long sought to mask the costs of their goods and services in order to boost sales. And rightly so – if a company fails to make the initial sale, it won’t have to worry about consumption.”⁵¹ Of course, according to John Gourville and Dilip Soman, taking consumption into account does not suggest that executives throw out their demand-centered pricing policies. “We’re not suggesting that executives throw out their current, demand-centered pricing policies and focus exclusively on encouraging consumption through pricing decisions. It wouldn’t be realistic, and it

wouldn't be smart. Many companies lack the ability (or the desire) to restructure their pricing practices. In some cases, industry norms or consumer expectations dictate the use of advance selling or price bundling. However, we believe that executives should take consumption into account when they set prices.”⁵²

Guangzhou Honda goes much further beyond only taking consumption into account when making pricing decisions. The forward-thinking pricing that behinds Guangzhou Honda's reliable prices is shown in Table 3.

Table 3. The forward-thinking pricing at Guangzhou Honda

	Accord	Odyssey	Fit Saloon
Prices	<p>The unit price of Accord New Generation (2.4i-VTEC): RMB Yuan 259,800 (including the transportation fee).</p> <p>The unit price of Accord New Generation (2.0i-VTEC): RMB Yuan 229,800 (including the transportation fee).</p> <p>The unit price of Accord New Generation (3.0V6 VTEC): RMB Yuan 309,800 (including the transportation fee).</p>	<p>The unit price of Odyssey: RMB Yuan 298,000 (excluding transportation fee).</p>	<p>The unit price of Fit Saloon 1.5L MT: RMB Yuan 106,800.</p> <p>The unit price of Fit Saloon 1.5L CVT: RMB Yuan 116,800.</p> <p>The unit price of Fit Saloon 1.3 L MT: RMB Yuan 96,800.</p> <p>The unit price of Fit Saloon 1.3 L CVT: RMB Yuan 106,800.</p>
Forward Thinking	<p>The development of the automobile market in China in the coming years, the interests of the buyers, the prices on the international automobile market.</p>	<p>The development of the automobile market in China in the coming years, China's accession to the WTO, price cuts of the imported cars and local cars.</p>	<p>The development of the automobile market in China in the coming years, managing a product series instead of skimming the short-term high return, the relating prices on the international automobile market.</p>

Source: Guangzhou Honda Automobile ⁵³

3. Placing swiftly by building a nation-wide franchise shop network (Swift Placing)

It sounds obvious that better service means profit, but many businesses seem to have missed the point. More important, as most managers today agree, managers should focus on growing the lifetime value of their customer relationships⁵⁴ “Building loyalty and retention, cross selling related goods and services, broadening offerings to fulfill more of customers’ needs – all are ways of adding to overall customer equity.”⁵⁵ “Indeed, given the cost of winning new customers (much higher than that of keeping current ones), and the ultimately finite universe of buyers out there, a mature business would be hard-pressed to increase profits otherwise.”⁵⁶

Guangzhou Honda succeeded in providing its customers with first-class service and growing the lifetime value of its customer relationship by building a nation-wide franchise shop network. Guangzhou Honda introduced a franchise shop system that features “Four in One” in order to guarantee the first-class service to its customers. “Four in One” means four business functions are integrated into one organization. The four business functions are sale of cars, after-sale service, parts supply, and communications with customers. It is Guangzhou Honda that first introduced such franchise shop system to the Chinese automobile market. By August 2003, Guangzhou Honda has established a nation-wide franchise shop network which includes 140 franchise shops in China, as shown in Figure 3.⁵⁷

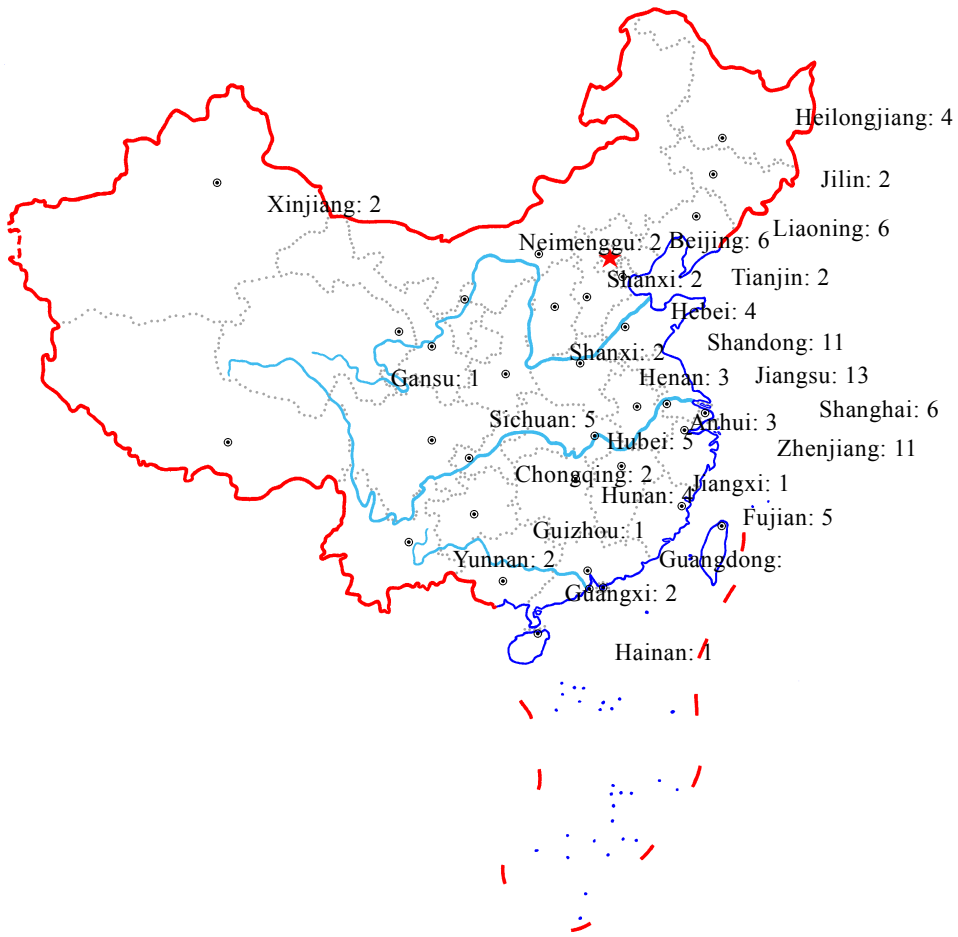


Figure 3. The nation-wide franchise shop network of Guangzhou Honda

Different from the Auto Transaction Market that many carmakers used as the distribution channel in China at the time, the merits of Guangzhou Honda's franchise shop system are quite obvious. One of the most important is that such franchise shop system plays a crucial role in ensuring the customer's satisfied experience that started in a showroom. A large part of such experience is intangible. Early in the 1980's, Theodore Levitt pointed out the necessary to speak of intangibles and tangibles, instead of services and products. "Distinguishing between companies according to whether they market services or goods has only limited utility. A more useful way to make the same distinction is to change the words we use. Instead of speaking of services and goods, we should speak of intangibles and tangibles.

Everybody sells intangibles in the marketplace, no matter what is produced in the factory.”⁵⁸ According to Theodore Levitt, “the usefulness of the distinction becomes apparent when we consider the question of how the marketing of intangibles differs from the marketing of tangibles. While some of the differences might seem obvious, it is apparent that, along with their differences, there are important commonalities between the marketing of intangibles and tangibles.”⁵⁹

The merits of Guangzhou Honda’s franchise shop system become apparent when there are problem cars. A case in point is that 57,724 Accord New Generation cars produced by Guangzhou Honda during the period from January 15th to September 4th, 2003 were requested to have a free check in 2003.⁶⁰ Backed by the nation-wide franchise shop network, Guangzhou Honda reacted quickly to the problem. As a result, Guangzhou Honda changed the problem into an opportunity to strengthen its customer relationship.⁶¹ This is a reminder of the remarks made by George Fisk and Rajan Chandran about 30 years ago. Early in the 1970’s, George Fisk and Rajan Chandran pointed out that a company could view product recall as an opportunity.⁶² George Fisk and Rajan Chandran gave a detailed explanation as following. “First, the ability to show that a product safety problem is being handled professionally can be proof that quality control systems work to protect the customer even after the product is sold.” “Second, a product traceability and recall system, along with good quality control procedures, can provide a good-faith legal defense in many product liability cases.” “Third, a product traceability and recall system can also help a manufacturer understand his distribution system better. For instance, recall strategies offer an opportunity to devise a reverse or backward channel of distribution for recycling wastes – a goal of many ecologists.” “Fourth, a system can enable the manufacturer to keep in touch with the consumer.” “Fifth, a product traceability system can supplement a test program under direct factory control. The findings of a test program, in conjunction with field usage studies, can be valuable in developing better products in the long run.”⁶³ George Fisk and Rajan Chandran also identified eight steps to consider in setting up a program to handle recalls expeditiously. “1 The first step is to set up an emergency recall organization. With advance planning, the trace and recall organization can go into action immediately.” “2 Upon discovering that a product is unsafe, a company must inform the CPSC immediately.” “3 When informing the CPSC, dealers, or the public, specific notices are best. News releases should identify the product item, brand name, trademark, stores where the product is sold, and other relevant information.” “4 Manufacturer-dealer relations can be strengthened by telling all middlemen about imminent recalls.” “5 Resources permitting, retailers might be encouraged to

establish their own testing laboratories to conduct extended usage studies in their areas.” “6 A product traceability system should also include up-to-date field reporting by salesmen.” “7 The legal and financial departments should continually review the need for documenting evidence of product-related accidents.” “8 It may be advisable to arrange for product recall insurance for both the manufacturer and the distributors, regardless of fault.”⁶⁴

4. Promoting effectively by using integrated environment-friendly approaches (Friendly Promoting)

Advertising is an important promoting approach that carmakers frequently use in the Chinese automobile market. It is important, however, to understand that “advertising is powerful only when it accompanies more objective tasks, and the content of advertising is more important than the total amount spent on it.”⁶⁵ The reason is simple. “Consumer buying behavior is more rational than advertisers assume. In advertising-intensive markets, consumers respond more readily to copy that incorporates tangible selling propositions than they do to purely persuasive advertising.”⁶⁶ What draws much attention is that Guangzhou Honda has been promoting effectively by using integrated environment-friendly approaches in Chinese automobile market. The term environment-friendly here means that the promoting approaches employed by Guangzhou Honda are friendly not only to the natural environment but also to the social environment in China.

Business has changed greatly as pointed out by Jill Meredith Ginsberg and Paul N. Bloom. “As public scrutiny of corporations has increased throughout the past decade, companies in nearly every industry have begun to integrate environmental concerns into their product and service development. Businesses realize that they must be prepared to provide their customers with information on the environmental impact of their products and manufacturing processes.”⁶⁷ Further, Jill Meredith Ginsberg and Paul N. Bloom pointed out as following. “As understanding grows about the impact of human activity on the Earth’s ecosystems, consumer concern about the environment and its links to health and safety will intensify. At the same time, humankind’s passion for consumption will persist. The challenge for companies will be to devise business practices and products that are friendly to the environment while also meeting the needs of consumers.”⁶⁸ As a result, “some companies have devised more effective production processes that reduce waste or the need for raw materials (or both). Others

have learned to design products that are better for the environment.”⁶⁹ Guangzhou Honda has employed many approaches that are friendly to the natural environment in China. For instance, Guangzhou Honda and other subsidiary companies of Honda in China donated RMB Yuan 3 million to plant trees in the area near to Beijing with the hope to better the natural environment there.⁷⁰

By contrast, Guangzhou Honda’s promoting approaches that are friendly to the social environment in China have not received enough attention. As a matter of fact, such approaches play an important role in Guangzhou Honda’s effective promoting practice. Table 4 shows some examples of such promoting approaches employed by Guangzhou Honda that are friendly to the social environment in China.

Of course, Guangzhou Honda is not the only one that shows concern about social responsibility in marketing. Jill Meredith Ginsberg and Paul N. Bloom pointed out the trend in business to show concern about the social responsibility as following. “Clearly, many companies have become committed to being socially responsible. Today on practically every company Web site one can find corporate social responsibility reports with titles such as ‘Corporate Citizenship,’ ‘Environmental Health and Safety’ or ‘Sustainability Report.’”⁷¹ Even the idea to be friendly to the social environment can trace back to Philip Kotler’s megamarketing. Philip Kotler explained what megamarketing is in his 1986 Harvard Business Review article as following. “Marketing is the task of arranging need-satisfying and profitable offers to target buyers. Sometimes, however, it is necessary to create additional incentives and pressures at the right times and in the right amounts for noncustomers. Megamarketing thus takes an enlarged view of the skills and resources needed to enter and operate in certain markets. In addition to preparing attractive offers for customers, megamarketers may use inducements and sanctions to gain the desired responses from gatekeepers. I define megamarketing as the strategically coordinated application of economic, psychological, political, and public relations skills to gain the cooperation of a number of parties in order to enter and/or operate in a given market. Megamarketing challenges are found in both domestic and international situations.”⁷² What makes Guangzhou Honda’s promoting practice unique is that Guangzhou Honda changed the environmental challenge into an opportunity to reduce energy consumption. For instance, everyday 1,620 ton industrial wastewater and 900 ton living wastewater are produced at Guangzhou Honda. In order to guarantee the safe drainage, Guangzhou Honda invested more than RMB Yuan 30 million in establishing a wastewater treatment factory. The quality of the wastewater having been treated is higher than the national drainage standard. It is well known that high investment in the environmental protection may incur huge expense. Guangzhou Honda tackled the

problem by recycling the wastewater having been treated. After treatment, 50% of the wastewater is recycled to water plant, wash cars, and so forth. Guangzhou Honda also plans to use the wastewater having been treated for cooling in the future. As a result, Guangzhou Honda enjoys the benefits that come from the environmental friendliness and energy saving.⁷³

Table 4. Guangzhou Honda’s promoting approaches friendly to the social environment in China

	Activity	Theme	Content	Direct Result	Far-reaching Effects
Cultural Approach	2004 Guangzhou International Auto Fair – Guangzhou Honda Creative Photography Competition	“Dynamic & Wonder”.	The competition is open to both amateur and professional photographers. On December 19 th , 2004, an award ceremony was held by Guangzhou Honda.	Extended the content and promoted the image of the Guangzhou International Auto Fair while set up a stage for the people who like photography.	Establish the positive public image of Honda as an active supporter to promote the local development.
	The First Nation-wide Auto Model Competition	“New Power” and “Enjoy Life”.	There are 46 models over the country participated in the competition.	Cultivated the auto culture and improved the automobile consumption circumstances in China.	Deliver an important message to the Chinese society that Guangzhou Honda is not just a carmaker, but also a cultural activist.

Social Approach	A donation of 20 Fit Saloon Cars to the Guangzhou Police Bureau.	“Cooperation between the police and the citizen”.	On November 24, 2003, Guangzhou Honda donated 20 Fit Saloon cars to the Guangzhou Police Bureau.	The Fit Saloon cars donated facilitate matters when the police of Guangzhou fulfill its duty.	Link the prestige of Honda with that of the police in China and show concrete efforts to promote the local development.
	A tailor-made service to Guangzhou Police Bureau.	“Protection”.	Guangzhou Honda launched a service campaign that lasted one week for the Guangzhou Police in 2004.	Maintained the Fit Saloon cars used as police cars at Guangzhou Police Bureau.	Demonstrate Honda’s devotion to its users and accumulate the experience to provide organization users with tailor-made service in China.

Source: Guangzhou Honda Automobile ⁷⁴

IV. Hypothesis Testing and Discussion

Extending product variety expeditiously by introducing attractive new products contributes to the increase of market share Guangzhou Honda occupies in the Chinese automobile market. Along with the extension of the Accord models from 1 model in 1999 to 3 models in 2000, the market share that Guangzhou Honda occupied in the Chinese automobile market increased from 1.7% to 5.3%. In particular, the market share that Guangzhou Honda occupied in the Chinese middle and high-end automobile market increased from 8% in 1999 to 29% in 2000.

Keeping prices reliable by forward-thinking pricing, even at the expense of losing the short-term revenue, established the customer’s confidence in the Honda brand. More important, keeping the prices reliable cultivates the customers in the Chinese automobile market in the long term. By contrast, price cuts may increase the revenue in the short term but has no persistent effect in the long term. Shuba

Srinivasan, Koen Pauwels, Dominique Hanssens, and Marnik Dekimpe explained this quite clear in their 2002 Harvard Business Review article as following. “Thus, the interests of manufacturers and retailers may well be aligned for one financial metric, such as revenue, but not for another, such as profit.”⁷⁵

Placing swiftly by building a nation-wide franchise shop network exposes Guangzhou Honda’s products to the customers in China. Based on the nation-wide franchise shop network, Guangzhou Honda provides its users with first-class service in a swift way that in turn reduces the relating costs and strengthens the brand loyalty. Guangzhou Honda’s candor and devotion to its users have produced such intense customer loyalty that even when other carmakers gave discount, it couldn’t steal the customer base from Guangzhou Honda.

Promoting effectively by using integrated environment-friendly approaches establish the positive public image of Honda in China. Guangzhou Honda enjoys a high corporate profile for its dedication to be friendly not only to the natural environment but also to the social environment in China. More important, promoting effectively by using integrated environment-friendly approaches helps to increase the emotional connection between the customers and the Honda brand in China, which can, in turn, enhance sales and lead the customers to have increased affinity for Honda in the long run.

It is of great importance to understand that the four categories of marketing activities are not mutually exclusive. On the contrary, these activities are strongly connected in Guangzhou Honda’s marketing practice. For instance, not only does extending product variety expeditiously by introducing attractive new products contributes to the increase of market share Guangzhou Honda occupied in the Chinese automobile market, but so do other categories of marketing activities. Keeping prices reliable by forward-thinking pricing facilitates matters because the reliable prices make it unwise for customers to wait for the possible price cuts. While at the same time, placing swiftly by building a nation-wide franchise shop network exposes Guangzhou Honda’s products to the customers as many as possible and make them rest assured about the after-sales service that plays a very important role in the automobile purchase decision-making in China. In addition, promoting effectively by using integrated environment-friendly approaches enhance to draw more positive attention to Honda and its products in the Chinese society that usually attracts more potential customers.

The increase of market share that Guangzhou Honda occupies in the Chinese automobile market, in turn, paves the path for Guangzhou Honda to enjoy higher profitability in China. As pointed out by

Robert D. Buzzell, Bradley T. Gale, and Ralph G.M. Sultan, there are at least three possible explanations that can tell the reason why market share and profitability are strongly related. First, it can be explained by economies of scale. “Economies of scale: The most obvious rationale for the high rate of return enjoyed by large-share businesses is that they have achieved economies of scale in procurement, manufacturing, marketing, and other cost components. A business with a 40% share of a given market is simply twice as big as one with 20% of the same market, and it will attain, to a much greater degree, more efficient methods of operation within a particular type of technology. Closely related to this explanation is the so-called ‘experience curve’ phenomenon widely publicized by the Boston Consulting Group. According to BCG, total unit costs of producing and distributing a product tend to decline by a more or less constant percentage with each doubling of a company’s cumulative output. Since, in a given time period, businesses with large market shares generally also have larger cumulative sales than their smaller competitors, they would be expected to have lower costs and correspondingly higher profits.” Secondly, it can be explained by market power. “Market power: Many economists, especially among those involved in antitrust work, believe that economies of scale are of relatively little importance in most industries. These economists argue that if large-scale businesses earn higher profits than their smaller competitors, it is a result of their greater market power: their size permits them to bargain more effectively, ‘administer’ prices, and, in the end, realize significantly higher prices for a particular product.” Thirdly, it can be explained by quality of management. “Quality of management: The simplest of all explanations for the market-share/profitability relationship is that both share and ROI reflect a common underlying factor: the quality of management. Good managers (including, perhaps, lucky ones!) are successful in achieving high shares of their respective markets; they are also skillful in controlling costs, getting maximum productivity from employees, and so on. Moreover, once a business achieves a leadership position – possibly by developing a new field – it is much easier for it to retain its lead than for others to catch up.”⁷⁶

Accordingly, it is better to consider the four categories of marketing activities as a coherent process that typifies the Honda way to create and sustain a competitive advantage in the Chinese automobile industry as shown in the following formula:

$$CA=f(EP, RP, SP, FP)$$

where:

CA: Competitive advantage in the Chinese automobile industry (Competitive Advantage).

EP: Extending product variety expeditiously by introducing attractive new products (Extending Products).

RP: Keeping prices reliable by forward-thinking pricing (Reliable Prices).

SP: Placing swiftly by building a nation-wide franchise shop network (Swift Placing).

FP: Promoting effectively by using integrated environment-friendly approaches (Friendly Promoting).

V. Conclusions

It is true that the demand in the Chinese automobile market is accelerating at a remarkable rate and seems to have no ceiling. It is also true, however, not all carmakers will win in China. As a result, it is of great importance to understand how carmakers can actually create and sustain a competitive advantage in the Chinese automobile industry.

This article showed the Honda way to create and sustain a competitive advantage in the Chinese automobile industry in a marketing perspective. Statements in this article are based on an in-depth study of Guangzhou Honda's marketing practice that typifies the Honda way to market cars in China during the period of 1998 to the present. In doing so, this article put forward at the very beginning the hypothesis that Honda's success is the result of its unique way to perform marketing activities that, in turn, create and sustain a competitive advantage in the Chinese automobile industry. Then this article developed a theoretical framework for analyzing the marketing activities Guangzhou Honda performed and how these marketing activities interacted in Chinese automobile market. As a result, the four categories of marketing activities Guangzhou Honda performed have been identified as following:

1. Extending product variety expeditiously by introducing attractive new products (Extending Products).

2. Keeping prices reliable by forward-thinking pricing (Reliable Prices).
3. Placing swiftly by building a nation-wide franchise shop network (Swift Placing).
4. Promoting effectively by using integrated environment-friendly approaches (Friendly Promoting).

This article also showed that the four categories of marketing activities that Guangzhou Honda performed are not mutually exclusive. On the contrary, the four categories of marketing activities are strongly connected in Guangzhou Honda's marketing practice. For instance, not only does extending product variety expeditiously by introducing attractive new products contribute to the increase of market share Guangzhou Honda occupied in the Chinese automobile market, but so do other categories of marketing activities. As shown in the formula: $CA=f(EP, RP, SP, FP)$, each element, by itself, does not bring out the success. But taken as a whole, the four categories of marketing activities that Guangzhou Honda performed worked cohesively to produce a powerful new set of dynamics that typifies the Honda way to create and sustain a competitive advantage in the Chinese automobile industry.

This article serves well as an attempt to understand how carmakers can actually create and sustain a competitive advantage in the Chinese automobile industry. It was felt that this article would be found useful in other fields of economics and management where it might serve as a helpful adjunct. The following study will deepen the understanding about how carmakers can actually create and sustain a competitive advantage in the Chinese automobile industry by analyzing the problem in other perspectives. One of them is the competitor perspective. Early in the 1990's, Yoshiaki Takatsu pointed out that it is important "to learn from the local competitors the experienced value, way of thinking, and culture."⁷⁷ The following study will also deepen the study in a strategic alliances perspective. Tsuneo Nagayama, for instance, examined the characteristics, significances and points at issues of international strategic alliances for global competitive advantages in the 1990's.⁷⁸ Furthermore, the future study will try to develop a more generic model for understanding the Japanese way to create and sustain a competitive advantage in the Chinese automobile industry, based on the fact that the Japanese companies differ themselves from other companies in management. For instance, Tadashi Sato proved that the difference in corporate objective did exist between the Japanese companies and the American companies in the 1990's.⁷⁹

"The world changes. Evolution takes its toll."⁸⁰ This is the very case in the Chinese automobile industry. The reason is simple. "From a socialist planned economy to today's free-market capitalism,

few societies in history have seen such a dramatic transformation as China experienced in the last quarter of last century.”⁸¹ Ultimately, the future of each carmaker depends on how well it adapts and responds to the trends in China’s economy and society, and whether it can actually create and sustain a competitive advantage in the Chinese automobile industry.

Notes

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