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honda Canada: relaunching honda fit

R. Chandrasekhar wrote this case under the supervision of Professor June Cotte solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In February 2014, Kate Lucek, manager of Customer Conquest Management at Honda Canada Inc. (Honda Canada), was planning the relaunch of the Honda Fit, an entry-level car. The relaunch had been scheduled for May 2014. Unveiled for the first time in Canada in 2008, the Honda Fit was being relaunched by Honda Canada, a subsidiary of Honda Motor Company Ltd. (HMC) of Japan, in accordance with the corporate practice at HMC of relaunching existing car models every six years. Relaunches had two objectives—to ensure that HMC stayed its course in a market that was becoming competitive and, of late, to stay relevant to consumers whose buying behaviours were morphing.

The 2008 launch had been aimed at the broad category of young adult males and females. The 2014 relaunch was being aimed at an up-and-coming demographic cohort within that category, known as millennials. Occupying the age group of 18–34 years, millennials were the single largest buyer segment on its way to prime working and spending years. They were a natural—and compelling—target for car manufacturers.

Lucek had been with Honda Canada for over a decade in various roles in marketing. She was familiar with the profiles of entry-level customers and what motivated their behaviour and preferences. The interests of millennials were akin to those of earlier generations of customers in similar age groups. They were all, for example, health conscious. They were all networkers. Where they differed was in the use of technology. Millennials had access to new channels of communication (such as social media) and were aligned with new concepts (such as sharing economy); together, these differences set them apart from their predecessors to the point of being almost unrecognizable. Millennials were a daunting target for auto marketers in particular because of their reluctance to buy and own a car. The conventional car sales pitch, based on attributes such as durability, quality, and reliability did not appeal to them at all.

The Honda Fit had received critical acclaim at several quarters for its performance. It had been named Top Safety Pick by the Insurance Institute for Highway Safety.[[1]](#footnote-1) In 2012, *Car and Driver* magazine had chosen it as one of the 10 Best Cars of the year.[[2]](#footnote-2) *U.S. News & World Report* tagged the Honda Fit as the best vehicle in its class.[[3]](#footnote-3) The car also won a Subcompact Shootout competition staged by *USA Today* and *MotorWeek*.[[4]](#footnote-4) However, cumulative sales for the six-year period since the 2008 launch were less than 50,000 units. Growth in retail sales was negative for five out of six years (see Exhibit 1). The purpose of the relaunch was to provide momentum to sales growth.

As she prepared to relaunch the Honda Fit, Lucek had to make two important decisions: How should the Honda Fit be connected with a demographic group that was not enthusiastic about buying a car; and what medium of advertising and promotion should be used to address them?

CANADIAN AUTOMOTIVE MARKET

The Canadian automotive industry accounted for about 15 per cent of North America’s annual vehicle output.[[5]](#footnote-5) In 2013, for example, the Canadian industry produced 2.37 million units out of the total North American production of 16 million units. This industry was also the largest manufacturing sector in the Canadian economy, contributing 12 per cent to manufacturing gross domestic product.[[6]](#footnote-6) The sector had 450 companies with 1,250 assembly and production facilities. It provided direct employment to 117,000 workers and generated CA$84.7 billion[[7]](#footnote-7) in sales in 2013.[[8]](#footnote-8)

Canada had built up competencies in automobile manufacturing, giving it a competitive advantage over other nations. It had expertise in research and development in materials, machinery, parts, and finished vehicles. Canadian automobile companies were known for their ability to launch complex and state-of-the-art manufacturing projects, and both their plants and labour were high level.

Canada had automotive clusters in four provinces—Ontario (focused on vehicle assembly; original equipment parts; and auto-related machine, tool, and die industries); British Columbia (focused on fuel cells); Manitoba (focused on buses); and Quebec (focused on heavy vehicles and electric vehicle components). Each was an ecosystem that attracted potential investors, both domestic and international.

In a study of global business locations for auto parts manufacturing, consultancy firm KPMG found that, among the Group of 7 countries,[[9]](#footnote-9) Canada had the lowest business cost structure and the second-lowest business tax burden.[[10]](#footnote-10) Canadian auto makers had an 11.2 per cent advantage in labour costs over their U.S. counterparts. The firm also found that Canada offered an overall cost advantage of 3 per cent over the United States and 3.5 per cent over Japan in auto parts.

Canada was home to the operations of 14 foreign automakers—six from Japan (HMC, Toyota Motor Corporation, Nissan Motor Company Ltd., Mazda Motor Corporation, Mitsubishi Corporation, and Subaru Corporation); three from the United States (General Motors Company, the Ford Motor Company, and Fiat Chrysler Automobiles N.V.); three from Europe (Volkswagen Group, BMW, and Mercedes-Benz); and two from South Korea (the Hyundai Motor Company and Kia Motor Corporation). Honda Canada was the second-largest producer and seller among Japanese auto companies in Canada, next to Toyota Canada.

MILLENNIALS

Millennials numbered 6.3 million in Canada and 68 million in the United States.[[11]](#footnote-11) Millennials were not ideal customers. They carried college debt that in the United States averaged US$26,600 upon graduation.[[12]](#footnote-12) The rate of unemployment among millennials, which was higher than in other demographic segments, prevailed at 14.5 per cent in April 2013 in Canada.[[13]](#footnote-13) Youth unemployment in the United States had risen from 14 per cent in 2007 to 21 per cent in 2013.[[14]](#footnote-14) Having come of age in an era characterized by the disruptive phenomena (such as 9/11, protracted wars, and the economic downturn) and anti-establishment movements (such as Occupy Wall Street and the Arab Spring), millennials’ shopping and consumption behaviours were influenced by the unique experiences of their time. Many of them preferred to live with their parents, and they tended to postpone traditional life cycle events such as getting married and having children. Millennials considered the ownership of goods and services to be a burden. A study by finance company The Goldman Sachs Group, Inc. found, for example, that even at the peak of their home-buying years, millennials were reluctant to enter the housing market.[[15]](#footnote-15)

Millennials were value-conscious and were drawn to the dollar channel. A study by market research company The NPD Group, Inc. showed, for example, that while the brick-and-mortar retail segment saw a 4 per cent decline in store visits during the second quarter of 2014, the dollar store sub-segment saw a 14 per cent increase during the same period. The study attributed the attraction of millennials to dollar stores to the stores’ low prices.[[16]](#footnote-16)

Among millennials’ priorities, possessing a car did not rank high—as it did for baby boomers.[[17]](#footnote-17) Millennials did not mind depending on mass transit and seemed in no hurry to give up use of their skateboards, bicycles, and feet. They would purchase a car out of necessity rather than as a rite of passage for celebrating a life event such as graduating from college, getting a job, or buying a home.

However, as a demographic group, millennials were the most diverse, educated, socially conscious, and tech-savvy. They were also projected to be the wealthiest ever. For example, their global buying power (at US$3.4 trillion) exceeded the buying power of baby boomers (at US$2.8 trillion). Forty per cent of all new vehicles were to be sold to millennials, who would be the customers for cars for the rest of the 21st century.

A 2012 survey by The Boston Consulting Group’s Center for Consumer and Customer Insight on how millennials were perceived by non-millennials and by millennials themselves showed that millennials had a more positive perception of themselves than non-millennials had of millennials (see Exhibit 2). The survey pointed out that such perceptions were likely preventing marketing professionals in the corporate sector, generally non-millennials, from “understanding and fully addressing millennials’ needs—and establishing strong brand relationships.”[[18]](#footnote-18)

Millennials were not impulse buyers and typically relied on several sources for their purchase decisions. Referrals, for instance, played an important role; friends and family also influenced millennials’ purchase decisions, largely through social media, blogs, and text messaging. The Internet was even more effective, with third-party sites being the top source for 82 per cent of millennials’ online shopping.

As consumers of social media, millennials were open to disclosing personal information to retailers. But they expected retailers, in turn, to customize their offerings. Millennials wanted to be catered to individually. They were also more demanding. While baby boomers were fine with a radio, for instance, millennials wanted full smartphone functionality in a car. While shopping for a car, the top five features they desired were a navigation system, satellite radio, Bluetooth wireless technology, an MP3 player, and mobile integration. Essentially, they wanted their car to be like a smartphone on wheels.[[19]](#footnote-19) Millennials viewed their car as an extension of themselves and their accomplishments.

HONDA MOTOR COMPANY

HMC was established in September 1948 by Soichiro Honda, a Japanese engineer, with a capital of ¥1 million.[[20]](#footnote-20) A native of Komyo village in Shizuoka province, Honda was known for his “inborn manual dexterity and curiosity about machines” when he was young.[[21]](#footnote-21) His goal was to produce motorcycles and become, over time, the world’s top motorcycle maker. HMC, indeed, became the world’s largest motorcycle manufacturer in 1959.[[22]](#footnote-22) It had also diversified into other categories such as cars, power equipment, and financial services. The company was the eighth largest automaker in the world with over 4 million new cars and trucks sold in 2013.[[23]](#footnote-23) It had announced plans to increase sales to 6 million vehicles by 2016, and nearly 40 per cent of the output was to be serviced by new production capacities in China, Indonesia, Brazil, Thailand, India, and Mexico.[[24]](#footnote-24) The company had 369 subsidiaries and 86 affiliates around the world.[[25]](#footnote-25)

HMC had a consolidated revenue of US$100 billion (¥9.88 trillion)[[26]](#footnote-26) and operating income of US$457.14 million (¥544.8 billion) for the year ending March 2013. It had 190,338 employees in 60 countries. The United States was its largest market, with more than 1.5 million Honda and Acura brand models sold in the country in 2013. Worldwide, the Honda CR-V compact crossover was the company’s bestseller.

The company was driven by a vision of providing personal mobility to individual consumers. The vision was realized through a six-fold strategy: (1) introducing value-added products through innovative research and development; (2) securing production efficiencies by enhancing flexible manufacturing systems at global facilities; (3) achieving sales efficiencies by upgrading customer service; (4) improving product quality in response to customer demand; (5) developing technologies to improve traffic safety in motorized societies; and (6) creating a cleaner and better environment.[[27]](#footnote-27)

In its first few decades, HMC had geared its manufacturing strategy towards making products for the developed markets of the United States and Western Europe. In later years, the strategy was centred on modifying core production platforms to suit the specifications of regional markets. The core platforms were designed to facilitate the sharing of common parts and components (numbering 30,000 on average in a car, and accounting for 80 per cent of manufacturing costs) across global production centres.[[28]](#footnote-28)

The company was quick to respond to changes such as growth in international competition in the 1980s, the emergence of Third World countries as new markets during the 1990s, and the arrival of the digital age in the 2000s. In April 2013, HMC decided to refocus its manufacturing resources at the divisional level. Embedding manufacturing within each of the four business divisions was meant to “enhance our ability to cater to market trends and evolving customer preferences with greater speed and precision.”[[29]](#footnote-29)

HMC developed automobile products aimed at specific niches. Its motorcycles, for example, were targeted at “commuter” types who sought basic transportation, as well as at “fun” types who rode them for the joy and pleasure of riding. The features, prices, and messaging varied with each target group.

Honda Canada

HMC came to Canada in 1969, marketing imported motorcycles and power equipment. The company built a plant in Alliston, Ontario, in 1986 to assemble Honda Accord cars from imported parts and components. In 1988, it switched to producing the parts locally. It opened a second plant in 1998 to produce minivans and a third plant in 2008 to manufacture aluminium engines for captive consumption—all at the same facility.[[30]](#footnote-30) By 2013, HMC had invested $2.6 billion in Canada.

Beginning as a local company with a global vision, Honda Canada gradually saw itself as a global company with a local vision. It was a trend that was known internally within HMC as “glocalization,” wherein, around the world, the company was building its products close to its customers. It enabled each local Honda subsidiary to become part of the community around it so that it could stay tuned to local needs.

The Alliston facility had an annual capacity of 390,000 cars and trucks, and 200,000 engines. It employed approximately 4,000 “associates,” as the company called them. The vehicles it produced were sold in Canada and exported largely to the United States and to Mexico and South America. Honda Canada ranked second among Japanese automotive companies operating in Canada in terms of units sold.[[31]](#footnote-31)

Honda Fit[[32]](#footnote-32)

The Honda Fit was a hatchback subcompact car originally launched in Japan in June 2001. The launch was the result of a reclassification in early 2001 of the Honda Civic from subcompact to compact. Subcompact cars were smaller and more fuel efficient, while compact cars were a little larger and less fuel efficient, but provided greater safety. With the company having made the additions to the car’s interior room and trunk space that car shoppers desired, the Civic had grown in size. It was also at a higher price. The Fit was meant to occupy the space vacated by the Civic as the company’s entry-level subcompact. Its production was undertaken on HMC’s global small car platform.

Although the Fit had been an instant hit in Japan, it was slow to expand as it made its way around the world. It was introduced in Europe (in early 2002), Australia (late 2002), South America (early 2003), South Africa and Southeast Asia (mid-2003), China (mid-2004), and Mexico (late 2005). It was introduced in Canada on April 3, 2006, and in the United States on April 20, 2006. It was known as Jazz in Europe, some parts of Asia, Australia, Oceania, the Middle East, and Africa; and as Fit in Japan, China, Canada, and the United States.

The Fit was offered in two variants in the United States (Base and Sport), and three in Canada (DX, LX, and Sport). The differences were limited primarily to cosmetics and standard equipment. The Base model was priced at US$13,850 in the United States, while the DX model was priced at $14,980 in Canada.

Lucek faced three issues while launching the Honda Fit in Canada in April 2006. First, the Fit was to attract the then new demographic category of “young male and female adults.” Second, it had to fill the space vacated by the Civic in the market category of subcompacts. Third, it had to fill that space without damaging sales of the Civic, which was the company’s main source of income.

Honda Canada had planned the take-off of the Honda Fit in two phases. The first phase was what the company called a “pre-emptive strike,” starting July 2006. It consisted of generating awareness of the impending launch of the Fit. The initiatives for this included securing dealer enthusiasm, building customer leads, developing a database, and motivating potential customers to hold off on pursuing competitive category offerings until the Fit arrived in the Canadian marketplace. The second phase consisted of what the company called “shock and awe,” starting June 2007. Honda Canada blitzed the market with a combination of interactive kiosks; brochures; push e-mails; on-line advertising; and outdoor, newspaper, radio, cinema, and television publicity.

The Honda Fit had become the second-most successful brand launch in the history of Honda Canada, having sold nearly 15,000 in the year of its launch, 2008. It was second only to the Honda Civic, which launched the subcompact category in the early 1970s.

THE WAY FORWARD

The major objective of the relaunch was to reverse the trend of declining sales. Honda Canada had set a sales target of 14,000 units for the year 2014. Having identified millennials as an important customer segment for the Honda Fit, Lucek had commissioned a qualitative research study in December 2013 to gain an understanding of the mindset of millennials with a view to target them better. The findings of the research were currently on her desk. They were to form the basis of the relaunch strategy for the Honda Fit.

Connecting with Millennials

The research brought out several areas of contrast between young adults, the target of the 2008 launch, and millennials, the target of the 2014 relaunch. Young adults had been moving out of their parents’ homes, while millennials were staying home; young adults were on a spending spree, using up credit card limits, while millennials were averse to borrowing. Millennials were shopping at thrift stores, doing online price comparisons, and generally waiting for things to wear out before replacing them with new things. Young adults were destination-focused, with eyes on the future. For millennials, it was all travel and no arrivals. They were in the moment, keen on enjoying life in the present, even as they moved on. Young adults were leaving their youth behind, while millennials were holding on to it. Young adults had steady jobs with steady incomes; millennials saw layoffs as inevitable and therefore did not see their incomes as stable. Young adults sought physical things, while millennials sought experiences. Young adults wanted items, while millennials sought places. The contrasts pointed to the fact that the targeting approaches of the past would not work. Two other findings from the research added complexity to Lucek’s task.

First, the general perception of the Honda brand among millennials was that “it is a boring brand for old people” and that “it is a car that my parents drive.” Countering this perception was the crucial first step in getting millennials on the company’s side.

Second, a Honda car was not unique among the choices available in the car market for millennials. It was known for safety, quality, reliability, and offering value for money—attributes that drew young adults. But it was not “fun to drive,” an attribute that millennials valued. Research had shown that among other factors that mattered to millennials were convenience, appearance, technology, versatility, fuel efficiency, and affordability. Price was the first filter that the millennials applied in buying a car.

The need for vehicle ownership among millennials, as per the research, had two dimensions—rational and emotional. The rational need was rooted in the convenience that car ownership provided. It revolved around the freedom that the car offered from the “tyranny,” as they saw it, of public transit. It also considered the erratic nature of the schedules of parents and friends. The emotional need was rooted in “feeling like a grown up.” Car ownership held the promise of the new experiences that millennials valued.

Millennials could not afford travelling long distances by car. Evident among them in terms of their car usage was a lot of local travel during holidays and weekends that allowed them to go on hikes, camp, or visit cottages (of parents or neighbours).

The research also revealed a contrast between suburbanites and downtowners in their relationship with cars. Suburbanite millennials were current car owners. They generally received their driver’s licence as soon as they reached the legal age. Their primary motivation in getting the licence was to alleviate some of their parents’ burden of having to drive them around. They also owned their first vehicle early on, usually a hand-me-down when a parent purchased a new vehicle. Downtowners took their time to get their licence and did not currently own a car. They had a shorter personal relationship with both car driving and car ownership.

A common factor among both suburbanite and downtowner millennials was their outlook on getting around. Many among them liked to cycle, walk, and rollerblade when they could, particularly in summer when they had the time to do so. They took public transit when travelling into or around the downtown core (for reasons such as difficulty in parking and navigating through traffic congestion downtown) or during inclement weather (which rendered driving unsafe). For commuting to work, millennials preferred driving a car or using carpools—as the driver when they owned the car, and as a passenger when they did not. None particularly enjoyed taking transit.

The research also showed some differences between male and female millennials. Females were engaged in interests that resembled part of the “maker movement” with crafts, photography, sewing, knitting, and baking topping the list of interests. Males liked to play and watch team sports such as hockey, football, baseball, basketball, and soccer. Camaraderie, sense of community, and bonding were on the increase among the males because it played into the psychology of feeling “safe” in an unsafe economic environment.

Most millennials had a preference for financing (involving the repayment of loans) over leasing (involving the payment of a rental). Their lack of preference for leasing was a contradiction, given that they did not favour ownership. They also preferred a new car to a used car. Though millennials understood the cost-benefit of buying a used car, they were concerned with safety and uneasy about the possibility of being “duped” or deceived while buying a used car.

Developing Advertising and Promotion Strategies

Notwithstanding that millennials enjoyed driving, per se, the car itself was not an object of glory for them. Few millennials dreamt about bigger, fancier, more expensive, or more luxurious cars. They were genuinely uninterested in the social badge that some car brands seemed to offer. Most had no concept of the category classifications for cars. The segmentation that mattered to automakers in their pursuit of new markets made little sense to millennials. Millennials looked at the subcompact category more for practical reasons such as higher fuel efficiency and lower insurance rates than for other reasons.

Millennials’ concerns with the subcompact category centred on four factors, as per the research: insufficient height, too light (negatively affecting both personal and vehicle safety in the event of a crash), too small, and insufficient pick-up or acceleration.

Millennials’ perceptions of the Honda Fit itself were more positive than their perceptions of the category the car belonged to. The features of the car they viewed favourably were its spaciousness, sight lines, and acceleration. Millennials had neither a strong affinity nor dislike for any competitive brand. If they sought out a brand, it was either because they were already aware of it, or because of word-of-mouth through friends owning the brand. However, some millennials had particular perceptions of brands—Ford was associated with reliability and the blue-collar workforce; Korean brands were perceived as up-and-coming; German brands were associated with superior engineering, reliability, and an exciting driving experience; and Japanese brands were seen as being strong, reliable, dependable, and ubiquitous. Millennials also saw Honda cars as being more attractive than Toyota cars.

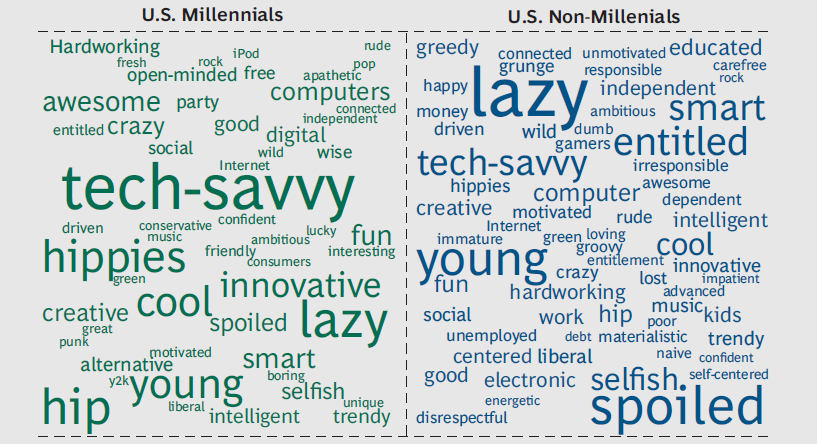
The research also showed that millennials found car advertisements appealing when they were fun, humorous, and quirky; gave them something to talk about with friends; focused on how the car was made (its design features, parts, and engineering); and displayed the car in an artistic or interesting way.

Exhibit 1: HONDA FIT SALES BY VOLUME, 2008–2013

|  |  |
| --- | --- |
| Retail Sales Year | Retail Sales Units |
| 2008  2009  2010  2011  2012  2013 | 14,836  9,553  7,900  2,835  4,736  9,512 |
| Total | 49,372 |

Source: Company documents.

Exhibit 2: PERCEPTION OF U.S. MILLENNIALS BY U.S. MILLENNIALS and NON-MILLENNIALS



Note: The font size of the words indicate the frequency of that response, with a larger font size indicating a greater frequency.

Source: Christine Barton, Jeff Fromm, and Chris Egan, “The Millennial Consumer: Debunking Stereotypes,” BCG: The Boston Consulting Group, April 2012, accessed August 15, 2017, www.bcg.com/documents/file103894.pdf. Used with permission.

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