

Honda's Market Presence in China: A Study of Brand Loyalty and Consumer Decisions

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Abstract. In recent years, the Chinese automobile market has evolved into a mature stage, where product demand remains relatively stable. Under such circumstance, fostering and maintaining brand loyalty has emerged as a critical strategic priority for major automakers. The rationale behind this is clear: retaining loyal customers is a key driver of sustained profits and market share. Drawing insights from Honda's lackluster sales performance in China since 2020 and buttressed by comprehensive literature review, this article delves into the intricate factors that shape brand loyalty and their subsequent impact on consumer behavior. Notably, brand image, technological innovation, and service excellence serve as the cornerstone elements. Furthermore, this article outlines various strategies and initiatives that car manufacturers can adopt to enhance brand loyalty, thereby strengthening their foothold in the competitive Chinese automotive landscape. Through rigorous analysis and literature review, this article explores the pivotal role of brand image, technological advancements and service excellence in fostering brand loyalty and offers strategies to enhance it.

Keywords: Brand Loyalty; Consumer Decisions; Honda; Chinese Automotive Market.

1. Introduction

Many corporations strive to maintain market share in their own field because of the long-term profitability [1]. Brand loyalty provides an effective way for firms to gain and keep significant market share and hitherto the concept has captured tremendous attention from scholars and practitioners [2]. Brand loyalty is defined as a loving behavior or attitude towards a specific entity, such as a store, manufacturer or service provider [3]. According to several researchers, brand loyalty results from an evident and consistent propensity of a customer for a certain brand when making purchase decisions, which under most circumstances is an active and subconscious response rather than a random or casual one [4]. Naeem and Abdul believe that brand loyalty refers to emotional attachment consumers have formed towards a company's products or services due to a set of factors, i.e., a strong willingness to trade between consumers and the company, and repeated buying behaviors then appear [5].

Every time the consumers make a purchase, they go through a consumption cycle which is divided into seven steps: need, motivation, attention, initial purchase, post-purchase evaluation, decision to repurchase and actual re-consumption. It is illustrated in figure 1 below. As the consumption cycle indicates, there are two key aspects of brand loyalty, namely the emotional attachment of customers to a company's products or services and the realization of actual re-consumption [6]. Previous researchers have found that what people care most during the purchase process is not the product itself, but the sentimental stimulation and satisfaction the product could provide [7]. The real integration of a product into consumers' lives stems from their emotional investment, which makes the consumers feel associated and trusted for the brand, thus forming a stable partnership with the enterprise. Even small errors or attraction from other brands would not change the preference of these customers. Actual re-consumption is the behavioral manifestation of brand loyalty. However, re-consumption does not necessarily indicate emotional attachment to a certain brand; it might be subject to habitual behavior. Therefore, to distinguish loyal consumers, the two prerequisites should be considered comprehensively [8].

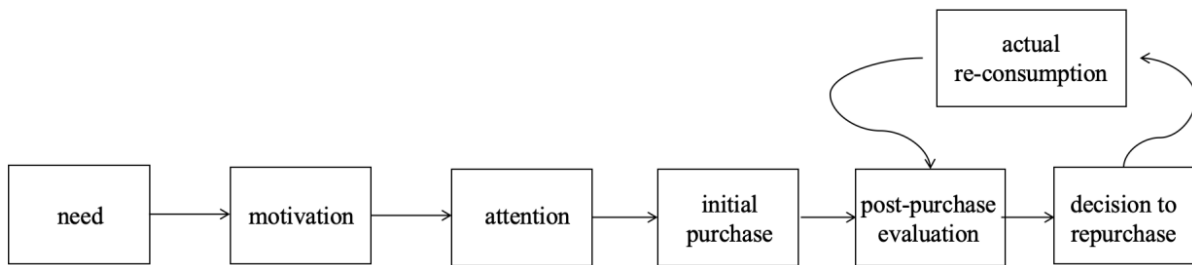


Figure 1. Consumption Cycle [6]

Four categories of brand loyalty are identified based on the level of emotional attachment and the frequency of re-consumption: extreme loyalty, latent loyalty, spurious loyalty and no loyalty, which is illustrated in figure 2 below [9]. Firstly, a company should stop regarding people with no loyalty as target customers, for they will not contribute to any income of the company. Secondly, latent loyalty customers possess strong sentimental dependence and relatively low-frequency patronage of a certain brand. For example, in China, some luxury car brands represent decent social status and personal success, leading to their higher prices than other ordinary brands. Consumers value the luxury brands a lot and if they could afford financially, they will purchase cars from such brands immediately. Furthermore, spurious loyalty is characterized by low emotional attachment and repeated consumption. This phenomenon might originate from corporate purchasing incentives, such as discount, coupons and gifts, or just habitual behaviors of the customers; when competitors offer more convenient conditions or lower price, they would turn to the alternative brands without hesitation. In this way, companies should take the initiative to establish solid relationship with the existing customers by showcasing as many advantages of their products or services as possible [10]. Ultimately, extreme loyalty is the most influential among the four types. This kind of customers deeply identify with the brand and maintain a high repurchase rate; even if the competitors offer more favorable conditions, they would continuously support the brand and at the same time recommend this particular brand to others. Firms are ought to view the loyal customers as valuable resource because they will not only greatly save costs for the firms but also bring unexpected benefits.

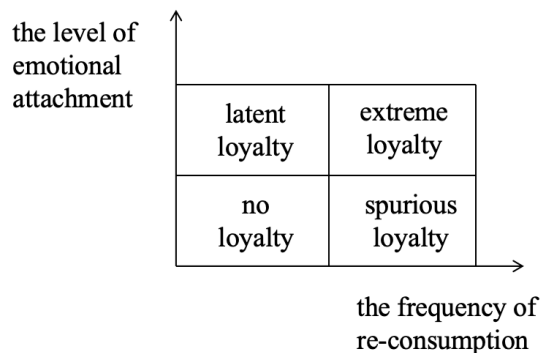


Figure 2. Four Categories of Brand Loyalty [10]

Numerous studies have been made on brand loyalty factors and different fields vary substantially. For smartphones, usability, quality, design and brand awareness are effective [11]. In retailing industry, perceived price and varieties of items as well as shopping experience pose positive effect [12]. For the hotel industry, room service, response speed and order price matter [13]. However, there is little research on factors influencing brand loyalty in the automotive industry due to its high price and long replacement period. Taking Honda's market presence in China as an example, the content of this study delves into several key areas. Firstly, it examines the market environment in China that shapes brand loyalty, offering insights into Honda's standing in this context. Secondly, it investigates how brand loyalty impacts the purchasing decisions of Chinese automotive consumers, identifying factors that contribute to loyalty and how they translate into consumer behaviors. Thirdly, the study compares Honda's position with other automotive brands, providing several methods to promote

brand loyalty and an overview of how loyalty affects competitive dynamics in the Chinese automotive market.

2. Case Description

Honda Motor Co., Ltd. was established in 1948 and has sold its products to many countries, including motorcycles, automobiles, power products as well as jet aircraft. Except for motorcycles whose yield is in the lead, that of the automobiles also ranks among the top ten manufacturers in the world. Faced with the rapidly changing market environment in China, Honda aims to provide products that exceed customers' expectations by actively introducing novel technologies and improving the production systems, thus expanding the commuting possibilities of its customers. With the augmentation in the income level of Chinese residents, the number of private cars has been increasing correspondingly year by year. Due to the fact that original functions could no longer meet people's diversified needs, such as consumption upgrade or families with two children requiring a larger car to carry the entire family for transportation, many car owners are willing to purchase again. The Chinese automotive market was dominated by initial purchase before 2018; until 2022, the proportion of additional and trade-in purchase has dramatically approached 70% from just over 30% in 2016. There has been a structural alteration in the consumption purpose of the public. Therefore, to keep pace with the tremendous evolution of Chinese automotive market, car companies should regard retaining old users and attracting new users as their core strategy.

Research report issued by China Association of Automobile Manufacturers quantifies brand loyalty using order loyalty, namely the percentage of certified car owners who place orders for a certain brand in the current year to the total certified car owners of that brand. The research subjects are automobile brands with terminal sales over 50,000 units and continuous sales period of 3 years or more in China. Although the popularity of private cars in China was short-lived, overall brand loyalty of passenger cars has surged since 2020, reaching 17.09% that year. In 2022, the figure exceeded 20% and rose to 21.46%, which meant that the reputation of each car brand improved significantly and generally users were more willing to select the brands they have bought before. It is expected that brand loyalty in Chinese automobile market will exceed 30% by 2025, which would be beneficial for companies to achieve their strategic goals because the cost of maintaining an old user is far lower than that of developing a new one. Table 1 demonstrates the top ten mainstream brands in terms of customer loyalty in China's passenger car market from 2020 to 2022. As for Honda, brand loyalty was 25.29%, 23.35% and 22.87% respectively. The data has continued to decline and there was a big gap compared to the top ranked brands.

Table 1. Top Ten Mainstream Brands in Terms of Customer Loyalty in China's Passenger Car Market from 2020 to 2022 [14]

2020		2021		2022	
Brand	Loyalty	Brand	Loyalty	Brand	Loyalty
Lexus	34.36%	Lincoln	30.01%	BYD	39.32%
Mercedes-Benz	31.55%	Toyota	29.94%	NIO	34.03%
Porsche	29.64%	Hongqi	29.56%	Toyota	33.52%
Tesla	29.55%	Volkswagen	28.54%	BMW	28.62%
Hongqi	28.67%	Porsche	28.07%	Hongqi	27.67%
Toyota	28.23%	Lexus	26.49%	Volkswagen	26.71%
BMW	28.02%	BMW	24.14%	Tesla	25.06%
Lincoln	25.32%	Mercedes-Benz	23.79%	Xpeng	24.17%
<i>Honda</i>	<i>25.29%</i>	<i>Honda</i>	<i>23.35%</i>	Geely	23.81%
Volkswagen	24.91%	Changan	21.52%	<i>Honda</i>	<i>22.87%</i>

In the past two decades, the sales peak of passenger cars in China occurred from 2016 to 2018, with annual sales reaching 22-24 million. Nowadays the repurchase cycle of Chinese automotive market

is approximately 8 years; hence, 2024-2026 would be a critical period for “peak users” to enter the stage of trade-in and additional purchase on a large scale, whose proportion is expected to exceed 80%. From 2018 to 2022, due to such factors as the epidemic and electric transformation, the terminal sales volume of passenger cars in China has declined to no more than 20 million. Likewise, the sales of Honda plunged after reaching a peak of 1.62 million in 2020, with only 1.56, 1.37 and 1.23 million in the next 3 years respectively, which can be seen in figure 3. Therefore, under such condition, restoring brand loyalty tends to be a tough but urgent issue for Honda to address.

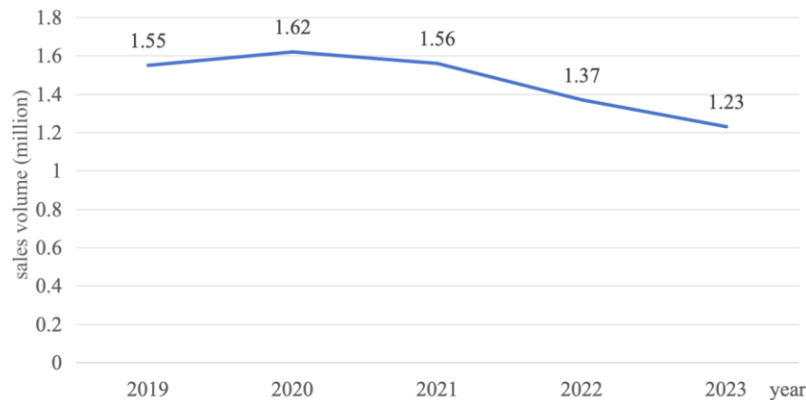


Figure 3. Sales of Honda in China from 2019 to 2023 [14]

3. Analysis on the Problem

Customers with high brand loyalty are extremely valuable assets for a company, for they are more likely to conduct repetitive purchases and result in the improvement of profit margin [15]. Recently many enterprises are attempting to introduce programs related to brand loyalty. In this respect, many programs rely heavily on discounts or gifts which, however, are proved to be ineffective in acquiring genuine loyalty [16]. Although such incentives can attract some customers in the short term, they will not be of any help to the enterprises in the long run and instead increase operating costs. Hence, in order to efficiently allocate limited management resources, it is necessary to identify paramount factors contributing to brand loyalty and understand how these factors would influence consumer decisions. In the automotive industry, brand image, technological development and service quality are the most important elements for increasing loyalty.

3.1. Brand Image

Brand image is the collection of consumers’ associations with a brand, reflecting the recognition of the brand in people’s memories. Brand image is inseparable with a specific brand, for it represents the essence and traits of that brand. Brand image can be measured by three indicators-attribute, benefits and attitude. Attribute is a series of characteristics a brand embodies in the advertisements. Benefits refer to the advantages that a brand can bring to its customers, which are divided into functional and symbolic aspects: functional benefits are the fundamental reason why customers purchase the product; while symbolic benefits are related to the prestige of the brand and the emotional pleasure it can offer. Attitude is the evaluation from consumers after using the product. Previous research has discovered that the brand image would positively affect brand loyalty, for customers would rather believe that a product with good image is indeed satisfactory [17].

From the perspectives of Chinese automobile consumers, Honda has always been synonymous with cost-effectiveness and excellent performance. On the one hand, most of the models Honda manufactures are benchmarks in their respective domains, which are featured by fuel-efficiency and durability; generally the prices of the vehicles are acceptable, precisely covering the budget range of potential customers when purchasing cars. On the other hand, Honda is distinctive in the steering system and chassis tuning compared to other Japanese brands, coupled with the potentiality for engine modification, which could assist users to achieve a perfect balance between driving pleasure and

future cost. Moreover, taking not only the safety of passengers but also pedestrians into account, the company is committed to produce cars of higher security. For instance, Civic is a global sedan released by Honda since 1972 and the name literally signifies its positioning as an affordable economy car for everyone. Since the tenth generation, Honda reintroduced Type-R model into the Civic series, rendering it an entry-level car for many young people and a performance icon of the brand. Accord is also a global model released in 1976 and entered the Chinese market in 1998, which means a relatively balanced car in Honda's product line. In 2020, its cumulative sales reached 210,000 units in China, making Accord the best-selling midsize sedan. However, in recent years, Honda's sales volume has witnessed a sharp decline in Chinese automotive market. Buyers were surprised to find that problems regarding quality were emerging and the fuel consumption of their cars was getting higher. These phenomena were completely different from Honda's previous publicity and did not match the company's inherent impression in the minds of consumers. More exaggeratedly, Honda has even encountered safety issues including collision test failures and brake system faults, and its official customer service showed an ambiguous attitude, which greatly undermined the confidence of Chinese consumers and explained why they chose other brands. As a consequence, good corporate image would boost customer trust towards a brand, thus giving rise to higher loyalty [18].

3.2. Technological Development

Technical prowess is the foundation for automotive enterprises to survive and thrive. Under the circumstance of stock market, technological advancement is the only way to promote the enhancement of product core competitiveness. The cars nowadays have evolved from pure commuting tools to high-technology products. When purchasing cars, consumers are no longer restricted to just the brand, but are more willing to consider the progressiveness, reliability and practicality of the technologies applied [14]. Major automotive companies have reached a consensus about improving brand loyalty that it is imperative to manufacture cars which could convey corporate culture, generate emotional resonance and demonstrate technological progress.

Honda is internationally well-known for its advanced technology and indomitable spirit. In 1989 Honda launched the engines with VTEC technology, the first valve control system at that time that can simultaneously manage valve timing and lifts. It could optimize the engine intake and combustion, providing users with both stronger power and lower fuel consumption. Additionally, the IMMD hybrid system is also one of Honda's typical works and has won the favor of many consumers after 10 years' development for its fuel economy and driving pleasure. This system adopts a combination of one engine and dual motors and contains three operating modes: pure electric, hybrid and engine direct drive. Intelligent switching between these three modes can be achieved while the car is moving, offering passengers more comfortable, energy-efficient and powerful experiences. Nevertheless, the environment has undergone earthshaking changes. The rapid development in electrification and intelligentization of Chinese automotive industry is undoubtedly shaping the preferences of consumers; on the contrary, the behavioral changes of consumers are also accelerating the Chinese automotive industry to embrace electrification and intelligentization and facilitating relevant investments. This interaction will profoundly affect the technological advancement, business model and even competitive landscape of not only Chinese but also the global automotive industry in the next 5-10 years. Since 2020 the sales of new energy vehicles in China has shown an exponential growth due to their low usage costs and rich configurations, including cars from Tesla and BYD, which seriously compressed the market place of Honda. Contemporary cars do not need engines anymore of which Honda used to be quite proud. Unfortunately, Honda appears to be hesitant in developing electric vehicles. Delayed technological innovation and product upgradation would impede the brand from attracting customers, particularly the technology-oriented ones.

3.3. Service Quality

The current automotive market in China is quite different from that a few years ago: the growth rate of sales is sluggish while the quantity of cars on the road remains stably large. In this condition, car

companies need to remarkably improve their service level to realize sustainable development. Certainly the technical strength is crucial; however, the service quality cannot be ignored because it is usually the unique shopping experiences brought by good service that entice customers to repurchase. Only by satisfying the customers with state-of-the-art service concept, comprehensive service procedures and humanized service attitude could brand loyalty be enhanced.

Honda introduced the first 4S dealership to China in 1999, pioneering the integration of car sale, spare part supply, after-sale service and information feedback. As the domestic automotive market gradually becomes mature, consumers have more strict requirements for products and services. 4S stores provide physical prototype display, modern maintenance equipment and professional solving scheme, which can facilitate users' lives to a large extent and propagate brand culture. Nevertheless, after two decades, this pattern turns out to have obvious drawbacks. First of all, Honda's sales department operates independently from the production department, resulting in asymmetric information and unnecessary obstacles between these two sectors. The production department cannot receive timely feedback and make appropriate adjustments. In addition, the service attitude of the dealership staff is somehow indifferent, which makes some users feel dissatisfied or annoyed. Furthermore, after-sale service prices are on the high side while the efficiency in contrast is absurdly low. Many consumers have reported that the charging standards are not transparent, the quality of spare parts varies and that the waiting time for maintenance is too long. They have no choice but to leave, leading to negative effect on the brand image. It could be deduced that automobile corporations could truly take the fancy of users through implementing effective customer relationship management, especially improving the service quality.

To summarize, brand image, technical progress and service level are of principal importance for safeguarding brand loyalty in the automotive industry. In this respect, when making purchasing decisions, Chinese consumers would select the brand they are loyal to instead of its competitors and recommend that brand to people around as well.

4. Suggestions

The promotion of loyalty for a certain automotive brand not only requires the consumers to make repeated purchases but also to emotionally identify with the brand. Based on the loyalty factors listed above, several suggestions are proposed to tackle with Honda's dilemma at present.

4.1. Reshaping the Brand Image

Nowadays in China, people would think of Volvo first when it comes to safety; it is the same with maneuverability for BMW and luxury for Mercedes Benz. Nevertheless, the brand image of Honda as cost-effective household cars is getting blurred. To reshape its brand image is the primary task for the company. On the one hand, Honda needs to improve the core functional quality of products, including engines, gearboxes and braking systems, and strive for excellence in areas related to passenger safety. On the other hand, the current automotive industry is no longer focused on solely meeting people's basic needs: consumers have diverse purchasing needs due to factors such as gender, age, geographical location and revenue, which encourages the differentiation and individuation of products. Honda should conduct full-scale market research, understand the consumption psychology as well as the underlying reasons and adopt market segmentation strategy. For example, new models could be launched to cover the top, medium and low grades; different exterior kits, body colors and configuration versions could be offered for customers to freely choose from so as to find a niche in every segmented market.

4.2. Persisting in Technological Innovation

The sales volume of new energy vehicles in China grows rapidly, with a proportion of over 30% in 2023, and they have become a non-negligible part of Chinese automotive market. In order to seize the market share of new energy vehicles, Honda is imperative to hold fast to the path of technological

advancement. Firstly, to achieve the national goal of carbon neutrality by 2050, Honda should be determined to implement electrification transformation and announce clear plans, which can assist to win the public attention and confidence. Secondly, Honda is ought to accelerate the development of novel electric architectures and product lines, encompassing battery and charging technologies, to realize the innovation of power and design language. Extra funds could be invested in establishing new factories to adapt to future production requirements. Due to the first-mover advantage of several Chinese automobile companies in the field of electric vehicles, such as BYD, NIO and XPeng, Honda could proactively cooperate with these local firms to fill its own technical gap. Lastly, Honda should also attempt to move towards intelligentization, including voice interaction, digital cockpit and autonomous driving, etc.

4.3. Improving the Service Quality

A satisfying consumption experience is a psychological necessity for consumers, significantly influencing their perceived value and brand loyalty. When consumers derive satisfaction from a product or service, their loyalty increases, leading them to share their positive experiences, which in turn generates effective word-of-mouth advertising. In the automotive after-sales market, common complaints often revolve around service awareness, the cost of spare parts, and service efficiency. In order to improve service level, the first step is to augment the quality of the staff. Sufficient training and assessment should be added to before the reception and maintenance personnel taking their posts so that they could provide more reasonable solutions with service integrity and faster response speed. At the same time, feedback mechanism should be included. The employees are ought to execute regular customer visits, investigate the problems arising and listen to their opinions to know what the customers really care, thus obtaining their trust and compliment. More importantly, for automotive consumers, companies who can create experiential consumption would establish long-term presence in the competitive market. In the era of big data, Honda could integrate the consumption experience into the Internet, providing a new platform just a few clicks away that accommodates a full set of capabilities related to car usage, from selection, purchase to maintenance.

5. Conclusion

Chinese automotive market is replete with opportunities and challenges. Brand loyalty plays a crucial role in the long-term success of a company, since customers with high loyalty would not only generate emotional dependence and conduct repeated purchases but also develop recommendation intention. At present, under the circumstances of shrinking automobile market as well as the considerable increase in the number of trade-in and additional buyers in China, figuring out how to enhance brand loyalty has become the top priority for all car companies. It is anticipated that this article would be instructive for research, production and sales personnel of various automobile brands, notably Honda. According to the results, enterprises can obtain market information, develop appropriate strategies and reduce operating costs, thereby forming competitive advantages and increasing market share. Brand image, technological development and service quality are proved to be the most influencing loyalty factors. As for brand image, Honda is needed to improve the quality of the vehicles and diversify its product line to redeem the fading public image. For the technical advancement, Honda should stick to innovation to adapt to the revolutionary electrification process in Chinese automotive industry. For the service quality, enthusiastic and friendly personality is much more effective than expertise. In conclusion, to obtain high brand loyalty, both functional and emotional value is required.

There are mainly two limitations of this study. Firstly, the automotive industry is constantly changing and the findings are based on Honda's recent sales data in China, which is subject to regional and timeliness constraints. Whether the research methodologies and indicators used in this study are applicable to other automotive brands or segmented markets needs to be analyzed. Secondly, each loyalty factor is viewed individually so that the management would have difficulty in grasping them from a company-wide perspective. In the future, on the one hand, in-depth studies on different brands and places can be delivered to see whether the influencing factors are universal; on the other, more

market research can be conducted to quantitatively shed light on the contribution of each factor so the companies can allocate the resources efficiently.

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