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But what Honda really needs to compete successfully in Brazil is more product choice, which was one of the primary motivating factors behind the announcement in August 2013 covering planned construction of a second in-country plant. This location will be located in Itirapina, also in Sao Paulo state, but a further 70 miles outside Campinas (the state is approximately the same size as Great Britain). When the plant comes online in 2015, it will have the same 120,000-unit maximum capacity as the Sumare facility, but with a suite of recent technologies, such as the efficient BIW line and two-coat, three-bake paintshop featured at the new facility in Celaya, Mexico.

The new facility will start with production of the Fit and the Vezel compact SUV in 2015, but this line-up is expected to be augmented with the addition of the Brio hatchback in 2017. As yet it is unknown whether the Amaze saloon derivative of this model will also join Brazilian production, although with the popularity of small cars in the country it would be an opportunity ignored if it was not at some point added to the model mix. Although related production costs, such as energy, are comparatively high in Brazil and other South American countries, it can be expected that a total capacity of 250,000 units will help to improve Honda's local economy of scale as the well-developed supply base in Sao Paulo starts making deliveries to both plants.

Honda further operates a plant in Argentina, located outside Buenos Aires. Construction started in 2009 after the project was suspended due to the declining local economy, but in 2011 Honda Motor Argentina celebrated start of production at the new facility. The first model to enter production was the Honda City. Although the Campanas plant only has a single assembly line and annual capacity is just 30,000 units, the USD250 million factory has a full complement of manufacturing operations, including press, BIW, paint and assembly, plus plastics and engine assembly.

Thailand

Although local production in Thailand started in 1984, the existing Honda plant in Ayutthaya only entered operations in 2000. Located to the north of Bangkok on the Rojana Industrial Park, the plant is on the opposite side of the city from the Rayong complex which serves as the local manufacturing base for General Motors, Ford, Mazda and Izuzu and is home to much of the country's steel industry. The plant produces a series of models over two lines: Ayutthaya I has delivered the City and Fit (locally known as Jazz) since 2000 and 2004 respectively, while the Brio and Amaze were added in 2011 and 2012; Ayutthaya II produces the Civic, CR-V and small numbers of the Accord.

Although Honda has a series of plants in surrounding south-east Asian countries, including Vietnam, the Philippines, Malaysia and Indonesia, much of this output is a mix of CBU and CKD production. In Thailand, the Ayutthaya complex is a full production facility, which in addition to delivering finished vehicles also ships vehicle kits to regional CKD assembly locations. This range of activities is supported by the capacity to deliver up to 300,000 units per annum, although the average local parts percentage is a comparatively low 72%. The Thai facility also delivers individual parts to assembly operations in 56 different countries.

While Honda production in Thailand has recovered well from the flooding in 2011 (which primarily affected the area north of Bangkok), political unrest in the country has put the brakes on the previously booming local car market. In response to growing finished vehicle inventory, Honda has recently cut output at Ayutthaya to 60% of capacity. Further, the carmaker has announced that it will delay the start of production at a new 120,000-unit plant in Prachin Buri, also located outside Bangkok. Construction of the plant, which was scheduled to start operations in 2015, could be delayed for between six months and one year. The decision to restart the USD530 million project, which will add a third assembly line to national production, will be based on sales and overall market performance.

Local sales across all brands in Thailand had been increasing since 2005, to where in 2012 they exceeded one million units (1.307m) for the first time. This is expected to decline as a result of the national political unrest, to where sales over 2014 are not expected to exceed one million units (984,000); Honda has targeted local sales of 160,000 units for the year, but forecast projections have an approximate total of total 128,000 units.

Thailand is well-positioned as an export hub, and the capital investment made by most global OEMs is designed to deliver the volumes necessary to support exports to other ASEAN countries and even further afield. Yet below the country's stable monarchy, national politics have always been fractious and liable to boil over. If the automotive industry as a whole has taken this into account – Honda retained the flexibility to quickly reduce output by retaining non-contract workers – the

market can be expected to rebound once the leadership issues are resolved, with sales resuming an upwards trend.

Table 14: Thailand Annual vehicle sales (by Sales brand) 2013 and 2018

Sales Brand	2013	2018
Toyota	425278	433321
Honda	195418	160630
Isuzu	187841	222918
Nissan	100791	91809
Mitsubishi	100142	124608
Chevrolet	61047	49959
Mazda	56360	58015
Ford	49440	70222
Suzuki	45863	59323
Mercedes-Benz	12716	11585

Source: IHS Automotive

Internal supply network

Honda sets a priority on using parts and components delivered from the region surrounding a production plant and this pattern is further applied to internal sourcing. This means that those parts sourced within the Honda network that are used for volume vehicle production, predominantly engine parts, driveshafts, transmissions, brake parts and exterior plastics, are made and/or assembled onsite or at a company location in the same region.

This pattern is readily identifiable across the network of 19 Honda vehicle and part production plants in the United States. The Anna plant, which represents a total investment of USD2.0 billion, is the largest single Honda engine plant in the world and a facility that regularly produces almost 1.2 million engines per annum. The plant is located in close proximity to the Marysville and East Liberty assembly lines that together comprise Honda of America Manufacturing (HAM), but engines and parts are also shipped to the Honda plant in Greensburg, Indiana. In addition, the facility also produces driveshafts, camshafts and brake parts to the tune of 2.3 million parts.

The HAM complex is further supported by the USD675 million Russel's Point, Ohio facility, which is dedicated to delivering transmissions for application across both production sites. Officially known as Honda Transmission Manufacturing of America, the site has an annual production capacity of 800,000 transmissions, 328,000 transmission gear sets and 150,000 four-wheel drive systems.

Honda has expanded its internal part supply network as it has extended the national manufacturing footprint. Case in point is the assembly site in Lincoln, Alabama which, with a maximum annual output of 300,000 vehicles, further incorporates a 300,000 unit-per-annum plant producing V6 engines. Honda Precision Parts of Georgia is across the nearby state line in Tallapoosa. With total investment reaching USD230 million, this plant also has the capacity to deliver 300,000 transmissions.

Honda was the first foreign OEM to produce both engines and transmissions in the United States. Since 2002, Honda has maintained a 75% or greater average of locally-sourced parts – a figure which reached 94% in 2013. This is largely related to the internal production of engines and powertrain parts. As the Japanese carmaker has expanded its activities across the US, it has organically augmented capacity as marketshare has grown. This progression has served to entrench the Honda brand in the US marketplace, a key motivator in the buying decision process and the exact opposite of building a 300,000upa plant, look for customers and then deeply discounting product just to move it out of dealer stock.

Outside North America, Honda is looking to support local manufacturing plants with regional supply hubs. An example of this is in India, where the Tapukara plant in Rajasthan will increase production of engine parts and manual transmissions. These parts and components will be shipped to Honda production plants in higher-cost regions as part of a cost-reduction strategy involving sourcing in low-cost regions, while also being applied to vehicles produced in-country for the local market and regional export.

