

# The important car industry in malaysia marketing essay



The automotive industry is one of the most important industries in the manufacturing sector in Malaysia. Comparing with other manufacturing industries, the automotive industry is a promising one and contributes boosting and evolving economic and industrialization processes which leads Malaysia to change into a developed country in the foreseeable future.

The automotive industry in Malaysia started in the 1960s and the Government of Malaysia began to encourage the establishment of the automotive industry in 1963. Initially, the assembly plants were mainly joint venture projects between European automobile manufacturers and local partners were previously their local distributors. Although at the beginning there was requirement to promote the growth of components manufacturing, but the industry was not very successful until 1980s. At that time there were some assemblers who just produced vehicles for European and Japanese manufacturers and there were large amounts of import. In fact the development in auto industry was started by launching of the National Car Project which was PROTON in 1983.

### **Proton Company profile**

Proton which is the acronym of Perusahaan Otomobil Nasional Berhad was founded in 1983 as manufacturing, assembling and selling motor vehicles and related products which were then produced Malaysia's first car named Proton Saga. The main plant of the company was established in Shah Alam, with the capacity of 80000 units per year. Proton could increase this capacity to 230000 units per year in 1997 by constructing another factory next to its main plant. Today, the factory in Shah Alam has the capacity of producing 240000 vehicles per year. PROTON has a total of 11 subsidiaries and 11

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associate companies, which are involved in manufacturing, research and development, as well as sales and service activities. Proton exports to 50 countries including the competitive markets of UK and continental European markets as its objectives include research and development capabilities, world class manufacturing and production standards, design capabilities as well as a presence in the global market.

Considering Malaysia's short and long term economic objectives, Proton was established to fulfill these goals with the help of technological knowledge and know-how. As a result, with the use of resources, technology, innovations, and design capabilities the national car project resulted in remarkable impact on automotive industry.

PROTON was Malaysia's dominant auto manufacturer until the establishment of PERODUA, in the year 1993. Now the Malaysian auto market is dominated by Malaysia's national cars, PROTON and PERODUA which jointly accounted for 90 per cent of the vehicles sold annually.

PROTON'S production was based on technology and parts from Mitsubishi Motors, and it produced the first model which was Proton Saga in September 1985 at its first manufacturing plant in Shah Alam. At the beginning the components were made by Mitsubishi but gradually the company began producing those parts with the help of technological knowledge.

PROTON also entered to international markets through exporting. For instance it began its exports from Malaysia to other right hand drive markets like New Zealand and UK as well as the Middle East, South-East Asia and Australasia, but it was mostly successful in UK. It is possible to say that <https://assignbuster.com/the-important-car-industry-in-malaysia-marketing-essay/>

proton which came as a national auto manufacturer 25 years ago, now evolved to an international auto maker.

## **1. 2. Ethical considerations**

One of the important issues regarding proton is consideration of ethical issues as well as its social responsibilities. As a result, in addition to its focus on the profitability, it also focuses on human resource development, the environment and the society within its operations. Proton objectives include meeting expectations of good corporate governance, ethical corporate values and responsible corporate citizens.

## **MARKET STRUCTURE**

### **CHARACTERISTICS**

#### **OLIGOPOLY**

Number of firms competing

Small number

Nature of the product

Undifferentiated or differentiated

Entry

Many barriers

Information availability

Asymmetric

## Firm's control over price

Some

An oligopolistic market is the one which is dominated by some large suppliers. Homogeneous products, mutual interdependence, few large producers and high entry barriers are oligopoly characteristics prevalent in such markets. The three most important characteristics of oligopoly include:

Industry dominance by few large firms

Products sold by these firms are either differentiated or identical in nature

Various entry barriers depending upon the industry

Few large firms is a very crucial oligopoly characteristic which states that these markets include few large firms which are dominant in existence, and each of these firms is comparatively larger than the market size. This particular oligopoly characteristic ensures that all these large firms have a fair amount of market control.

The automobile industry is a very good example of an oligopolistic market. There are a few car manufacturers in the market across the world as against the demand for millions of cars every day. The dominant car manufacturers include General Motors, Honda, Chrysler, Toyota and Ford, to name a few.

The automobile industry in an oligopolistic market is a Differentiate Product Oligopoly where the products manufactured are for personal consumption as

consumers need a variety of products since they have different needs and wants.

In Malaysia, the national automobile industry is dominated by the country's two leading manufacturers, namely PROTON and PERODUA. PROTON is 42% owned by the Government.

Rising car sales in 2010 has pushed up production in all car assemblers in Malaysia except for the national car maker, PROTON. PROTON's market share has reached 80% at its peak but now it has lost its market share to local and foreign competitors from 60% of the domestic passenger car market in 2001 to 26% for year 2010. Proton's brand value has also dropped from RM239 million in 2007 (rank 19) to RM150 million in 2008 (rank 23). It was revealed in November 2009 that Proton's ranking has dropped from Malaysia's 30 Most Valuable Brand (MMVB) ranking.

It was reported in the newspapers that PROTON is only operating at half of its capacity. PROTON Shah Alam was operating at 54% while PROTON Tanjung Malim is at 42%. The combined installed capacity production for PROTON's two plants is 350, 000 units per year and PERODUA 250, 000 per year that is about 48. 7% and 79% respectively, accounting for about 61%, more than half of the total industry output. As reported by the Malaysian Automotive Association (MAA), UMW Toyota Motor Subsidiary, Assembly Services, was operating at 215 per cent production capacity, Honda at 212 per cent, Tan Chong Motors at 143 per cent, and PERODUA at 164 per cent.

[i]

For years, both PROTON and PERODUA have led charmed lives as national car companies, indulged by the Government and over-protected behind a wall of tariff and non-tariff barriers, tax exemptions, rebates, subsidies and other special favors. PROTON has only introduced four (4) new models in recent years - the second generation Proton Saga in 2008, Exora in 2009 and Inspira in 2010.

PROTON was knocked off as the top Malaysian car producer in 2006 by PERODUA which becomes Malaysia's largest vehicle maker. PROTON is the second most popular marque for year 2010. PERODUA remains the most popular make in the passenger vehicle category while third-place Toyota is the most popular foreign car at 12.9% market share. PROTON's market share is 26% and PERODUA is 31.2%. Their combined market share has fallen to 57% today, with more than 30 foreign makers now in Malaysia competing for the remainder.[ii]

PROTON remains handicapped by lack of scale, overcapacity, outdated technology, a limited product line up, and other disabilities. The company suffers from state protectionist policies and need a strategic partner for growth. PROTON also needs technology it does not have to produce attractive new models. Malaysia's revised National Automotive Policy (NAP) that took effects on 1 January 2010 ostensibly to deregulate the domestic market attract more foreign auto makers into the country and would not likely meet the government's expectations.

To sop up some of the excess capacity, PROTON managers are adopting an Asian multi-local OEM strategy focused mainly on expanding exports into

Southeast Asia, China, India, the Middle East and North Africa. How well this will work is questionable given the intensifying competition among global auto makers for export sales, the models PROTON has to offer, and the minor role of exports so far in the auto maker's operations. Proton exports 81, 000 units of cars between 2008 - 2010. For year 2010, total export revenues amounted to only RM889 million.

## **The Kinked Demand Curve**

A very common and important feature of oligopoly is that the action of, or on, one specific manufacturer will affect the other manufacturers, especially their sales. The kinked demand curve model best described PROTON's oligopoly behavior. PROTON faces a downward sloping demand curve but its elasticity may depend on the reaction of its competitors to changes in its prices or outputs. The competitors for example may not follow the increase in PROTON's prices in their attempt to maintain a high level of profits and market share. Demand therefore will be relatively elastic and a rise in price instead would lead to a fall in the total revenue of PROTON. On the other hand, the competitors might more likely to match a price fall by PROTON to avoid a loss of market share, causing demand to become inelastic leading to a fall in total revenue.

As all these producers in an oligopolistic market are interdependent they need to consider the impact and reactions on other firms while determining their own pricing and investment policies. For example, when PROTON launches a new product (Exora) , it affects other producers and their sales causing them to react with a new product (e. g. PERODUA: Alza), which inflates the market price.

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## **4. Competitive Environment For Proton Company**

The first Malaysia national car is PROTON. The main competitor in Malaysia in term of automobile companies and affordable car is PERODUA. The competitive environment as we can see approximately in Malaysia is affordable car where all native of a Malaysia can buy it and the car maintenances also cheap. You see, the porter five are been applied for more obviously because the competitive environment not only about the competitor. It can be about the economic decline, natural misfortune and etc.

Porter five

1. Competitive Rivalry
2. Threat of New Entrant
3. Threat of Substitutes
4. Buyer Power
5. Supplier Power

Competitive Rivalry

In Malaysia, after PERODUA that is main competitor for proton , there is not too much competitor around affordable car. The low cost car as mentioned above is not have a lot of competitor in generally. The affordable car in Malaysia has a more potential to sell compared to luxury car that only specific people are used it.

A family will have more than 1 car. Definitely, the first car they will choose the cheaper car and affordable car.

### **New Entrant has a high threat**

Recession the economic will be a big threat for PROTON. We know that, all big company will facing over budget or does not achieve the sale for that year. The government will lose a lot of money cause of policy and shareholders. By the way, economic downward tendency actually comes suddenly without notice.

### **High threat from Substitutes**

Malaysia has tow national car. First : PROTON , second : PERODUA. The substitutes will high in term of car model and some of them looks similar.

### **Buyer Power**

Buyer will choose the cheap car for the first car and buyer also actually are fragmented. Therefore, it will not has much influence.

### **Supplier Power**

Nowadays compared to the many years ago, this is not giving a big threat for PROTON.

### **Government and PROTON**

As a Government connected Company, Proton is protected in term of financial capabilities. Furthermore, as the first national automotive manufacturer they have more than 20 years of experience and backed by the more than 1000 suppliers and highly concentrated distributed the service and distribution way out. As financial year ender 31 March 2006

denoted, the net value of asset is more than RM 5 billion while the liabilities is only about RM 2 billion.

Proton had begun on a project with the Lotus.

Group to improve a hybrid vehicle proficient of running on both gasoline and electricity and others special projects that are concentrating on technology development. This program direct to raise high the technology to a level that is on par with their global rivals by creating an alternative vehicle for the future which provides customers with less fuel consumption, decrease emanation and uncompromising performance.

The increase numbers of substantial order by the different overseas markets were far in surplus of the number shipped, the difference was due to restrictions in the supply chain. There is no uncertain that demand for Proton cars in the overseas markets exists. As such, looking forward into financial year 2007, the company predicts a meaningful improvement in the number of Proton cars sold overseas.

## **International Market for Proton**

“ The objectives of the Malaysian National Car:

- Rationalize the local automotive industry
- Spearhead the development of a local component industry

and to enhance greater use of local components.

- Encourage the upgrading of technology, engineering knowledge and technical skills of the country's workforce.

- Assist and develop Bumiputera (the indigenous people of Malaysia) participation in the automotive industry. "[1]

Social, Economy, Politic and Technology analyses

Proton Holdings Berhad

Proton is a Malaysian national automobile manufacturer.

Proton Holdings Berhad is the holding company which is listed on the Bursa Malaysia.

14, 706 Proton cars were exported in 2006 to other countries/

Proton exports cars to the United Kingdom, South Africa, and Australia and the company is aggressively marketing its cars in several other countries including the Middle East.

Proton cars has also been exporting a small volume of cars to other countries like:

1. Singapore
2. Brunei
3. Indonesia
4. Nepal

5. Sri
6. Pakistan
7. Bangladesh
8. Taiwan
9. Cyprus
10. Mauritius

Proton has never succeeded to export their car to the US, because the cars required many changes to meet American safety standards in order to secure coverage from auto insurers and satisfy legislative requirements.

In some countries, Proton cars suffer somewhat from a poor public image because of their designs.

## **Strengths**

Proton has over 20 years of experience in Automotive industry

Many cars are exported by Proton to many countries every years, proves that proton has the experience of exporting cars.

## **Did the financial crisis in 2008/09 have any impact on the group? What about the current economic turmoil in Europe?**

Mohd Nadzmi,( chairman), said :

“ The global automotive industry was affected by the financial crisis in 2008/09, and this included Proton. However, in our case, being small was actually an advantage, and because of our size, we were able to minimise the impact on our business. Proton’s presence in Europe is also small, hence we were not affected by the economic turmoil there.

Because Lotus has a bigger presence globally, the impact of the crisis on it is bigger. However, Lotus operates on small volumes, hence any financial damage was minimised. “[2]

### **Swot Analyze:**

The inability to succeed by Proton to find a foreign associate is a cautioning gesture that it is no longer a competitive and economically capable to living entity with present market condition and debatable management determinations that reason Proton to lose money when other finds profits.

Hence, Proton Holdings Berhad requires to regard a foreign participation to more develop on its quality and service to the buyers.

Khazanah Malaysia, the Malaysian government’s investment arm, holding about 42.74% of Proton, followed by the Employees Provident Fund with 15.4 per cent and Petronas with 7.9 per cent.

Price/Earnings: Not Meaningful

Price/Sales: 0.3x (2/5 points)

Price/Book: 0.4x (2/5 points)

Price/Cash Flow: Not Meaningful

TEV/Sales: 0. 1x (3/5 points)

An integrator has its profits – economies of scale, market domination, etc. but an expanded national car company could produce many duplications i. e. product, merchant's network, sellers etc. Proton is finding it tough to decorate its network of providers and distributors. National car company Proton Holdings Berhad once dominated with a majority share in the market. It has since not only lost that majority, its sales in unit terms have even dropped below that of unlisted Perusahaan Otomobil Kedua Berhad (Perodua).

UMW Holdings Berhad is the biggest in the sector, with a market value of RM5. 9 billion, compared with Proton's RM1 billion. Although, UMW has an important oil and gas division, it derives most of its profits from its Toyota division, the most profitable in the industry. In the other hand, Proton reported a loss of RM75 million in the October – December quarter last year. It is surpassed in market value by Oriental Holdings Berhad (RM2. 3 billion) and DRB-HICOM Berhad (RM1. 4 billion), both of which are variegated motor-based groups.

In my deduction, Proton should go on to strive strategic alliances and further expand its market in the whole world because of the finishing of conversations with Volkswagen AG in the year of 2007. In an outlook, Proton requires to basically join more into the global supply chain and the global market. Fundamentally, we have not attained the type of sell overseas permeation projected when the company was based.

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Global motor vehicle industry was enduring a solidification and Proton should be component of this mode. We require to be part of the greater family in a path that works for us. Up to now, there were not any explanation regarding The Public Accounts Committee (PAC) submit its report on Proton Holdings Berhad's sale of Italian motorbike manufacturer, MV Augusta to GEVI s. p. a at one euro to Parliament because Proton had obtained a 57.75 percent risk in MV Augusta in December 2004 for 70 million euro (RM367.6 million).

The factory is recently producing 240,000 units per year.

Opened in 2005, a phase of the art assembly plant was put together at Tanjung Malim, 60 miles north of Kuala Lumpur. This area has been named Proton City and be made up of 500 hectare site containing the factory, plant, housing, a university and other commercial buildings to lodge part suppliers. This plant produces the 3 novel model ranges, the GEN-2, Savvy and Satria Neo. Proton's total workplace in Malaysia totals just over 6,000 staffs working in all areas of vehicle design, R&D, production and manufacturing. By way of a strong base built up since 1983, Malaysia's car manufacturing industry is growing fast.

Proton apparatus a major step forward in upgrading its engineering capabilities when it acquired a share in Lotus are closely involved in Proton's new model development, with a group of engineers perpetually based at the design and development centre in Malaysia. The Company has come a long way since 1983, PROTON was publicly listed on the Kuala Lumpur stock conversion in 1992, and current day, Proton cars are sent abroad to more than 50 countries throughout the world. Key export markets contain



Australia, Singapore, the far East and the UK, where during 2009 it celebrates 20 years in the market place.

From 1989 until now, Proton Cars (UK) Ltd have been presenting the British public dependable value for money vehicles.

## **6. Market Power**

With government's protection and general tariff set up to protect Malaysia's fragile automobile industry, Proton continue to record as one of the most profitable car in Malaysia and continue to profit and churn out new cars almost every year. Some of the best selling models, like the MyVi also continue to generate income to the Proton Holdings. In the early days of Proton, the market share was small compared to the other Japanese made cars which were highly used here. But, by 2002 Proton held a market share of over 60% in Malaysia, which was reduced to barely 30% by 2005 and is expected to reduce further in 2008 when AFTA mandates reduce import tariffs to a maximum of 5%.

The national car company, Perusahaan Otomobil Nasional or Proton, was established in the early 1980s as a key component of Malaysia's heavy industrialization program. From the onset of the project's implementation, the government tilted playing field in the domestic car market in Proton's favor by exempting it from import duties on CKD kits. As a result, Proton was able to sell its cars at prices 20-30 percent cheaper than comparable cars produced by other car assemblers in the country. By the 1990s, Proton had become the dominant car producer in the Malaysian Market. Today, about 75 percent of vehicle sales are controlled by Proton (45 percent) and the second

national car company Perodua (30 percent). This dominance was however threatened by Malaysia's commitment under the ASEAN Free Trade Area (AFTA) agreement to reduce import duties to 20 percent in 2005 and between zeros to five percent in 2008.

The implementation of these trade liberalization commitments would seriously affect Proton's (and Perodua's) competitiveness vis-à-vis their competitors. The government's response in 2004 was to raise the excise duties to neutralize the reduction in import duty. The import duty on CKD passenger cars from ASEAN countries were reduced from 42%-80% to 25% while excise duty was increased from 55% to between 60%-100%. For CBU units from ASEAN countries, the import duty was reduced from between 140%-300% to 70%-190% while excise duty was increased by between 60%-100%.

The above case illustrates how the impact of trade liberalization (e. g. via import tariff reduction) can be neutralized by the use domestic policies (such as excise tax) by the government to support its industrial policy. In Malaysia's case, this strategy is probably an interim strategy aimed at buying some time for restructuring of the national industry. The restructuring, for example, may take the form of a future joint venture with a major foreign car producer.

(a) Industrial Policy, Market Entry and Competition: The EON - Proton Edar Case

Industrial policy may also create anti-competition problems. The recent case of EON vs. Proton Edar illustrates this point. Cars produced by the national  
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car company, Perusahaan Otomobil Nasional Berhad (Proton), have been traditionally distributed domestically by two firms, namely, Proton Edar Sdn Bhd (Proton Edar) and Edaran Otomobil Nasional Bhd (EON). EON was established in 1984 as the sole distributor of the national car (Proton Saga). The strategy adopted then was to separate the manufacturing activity from the distribution activity.

Proton Edar was established in 1985 and it later evolved into a joint-venture between DRB and Proton Berhad in 1993 to distribute Proton's cars (Proton Wira). Proton Edar became a wholly-owned subsidiary of Proton in 2000 and subsequently began to distribute other Proton models (Wira, Perdana and Iswara) that were previously distributed by EON. In the same year, the 10-year distribution agreement between Proton and EON ended. A new dealership agreement have since not been concluded. These changes set the stage for further intensification of the rivalry between EON and Proton Edar to distribute Proton's cars.

Problems arose with the launching of a new Proton car, namely the Gen. 2 on 8th February 2003. Not surprising, Proton chose to initially distribute Gen. 2 solely through its wholly-owned subsidiary Proton Edar. In addition, EON will have to obtain its supply of Gen. 2 from Proton Edar Proton has also argued that EON should restrict itself to selling " a single brand in a single showroom", referring to EON's current practice of selling Proton's cars as well as that of Audi and Chevrolet.

Anti-competitive conduct is fairly obvious in the EON-Proton Edar case. There is a severe conflict of interest due to Proton's ownership of Proton Edar. It is

in Proton's commercial interest to favor its own subsidiary Proton Edar against EON. This has manifested in Proton's conduct to vertically restraint EON's competitiveness by restricting its access to a new product. Worse, EON's only source of supply of the new product is now its rival Proton Edar. Furthermore, Proton's insistence on the "a single brand in a single showroom" distribution policy is akin to market foreclosure to reduce inter-brand competition in the car market.

There was no government intervention at the initial stages of these controversies surrounding the EON-Proton Edar case. As the above debate became more public and acrimonious, the government did intervene to hasten both parties to sign a five-year dealership agreement on 2 March 2004. Part of the government ability to intervene in the above case is due to the fact that it is a major shareholder in both Proton and EON. The dealership agreement signed may contain elements that should go under competition policy scrutiny. One such clause is the requirement that EON allocates 70 percent of its servicing capacity to Proton cars. This may be construed as the use of market power by the supplier firm (Proton) to force a buyer firm (EON) to limit the latter's ancillary services to other competing suppliers. This is an important issue given the importance of the ancillary services to the actual sale of the primary product (cars).

Industrial policy can also restrict competition via the promotion of strong vertically integrated structures. In the Proton case, this took the form of car production and distribution. The absence of a competition law obviously exacerbated these vertical restraint problems. If such a law had existed and if Proton was found to be guilty of anti-competitive conduct, it could have <https://assignbuster.com/the-important-car-industry-in-malaysia-marketing-essay/>

been forced to divests its distribution subsidiary. Furthermore, the government currently ' regulates' these companies via its substantial shareholdings in these companies. If the government were to divest its controlling shareholding in these companies, these companies would need to be regulated by competition laws.

## **Barriers to Entry**

The barriers to enter the automotive industry are substantial. For a new company, the startup capital required to establish manufacturing capacity to achieve minimum efficient scale is prohibitive. An automotive manufacturing facility is quite specialized and in the event of failure could not be easily retooled.

Although the barriers to new companies are substantial, established companies are entering new markets through strategic partnerships or through buying out or merging with other companies. In fact, the barriers to entry for new (or different) markets may be quite low; in the 1980s, U. S. companies Team A 4 practically invited Japanese makers into the U. S. by failing to offer quality vehicles in the lower price markets. All of the large automotive companies have globalize and entered foreign markets with varying degrees of success.

In the newer, undeveloped markets of Asia, Africa, and South America, the barriers to entry similarly exist. However, a domestic start up, with local knowledge and expertise, has the potential to compete in its home market against the global firms who are not yet well established there. Such an

operation, if successful, would surely be snatched up by one of the global giants and incorporated into its fold.

### **1. The threat of new entrants**

in the auto manufacturing industry, this is generally a very low threat.

Factors to examine for this threat include all barriers to entry such as upfront capital requirements (it costs a lot to set up a car manufacturing facility), brand equity (a new firm may have none), legislation and government policy (think safety, EPA and emissions), ability to distribute the product

### **2. The bargaining power of buyers/customers**

who has ever bought a car without bargaining? In early 1990's especially, Proton dealers were giving great deals to buyers to get the industry moving. While quantity a buyer purchases is usually a good factor in determining this force, even in the automotive industry when buyers only usually purchase one car at a time, they still wield considerable power. However, this may be different in other markets. In Singapore it sure is lower than in the US, creating a more favorable situation for the industry but not the buyers. Generally, however, it's safe to say the customers have some buying power, but it depends on the market.

### **3. The threat of substitute products**

If buyers can look to the competition or other comparable products, and switch easily (they have low switching costs) there may be a high threat of this force. With new cars, the switching cost is high because you can't sell a brand new car for the same price you paid for it. A P5F analysis of the car industry covers the new market, not used or second-hand. But what about

the threat of substitute products before the buyer makes the purchase? You need to know whether the market you are analyzing has many good alternatives to new cars. A vibrant used car market perhaps? Used cars threaten the new market. How about a very good mass-transportation system? Product differentiation is important too. In the car industry, typically there are many cars that are similar - just look at any mid-range Toyota and you can easily find a very similar Nissan, Honda, or Mazda. However, if you are looking at amphibious cars, there may be little threat of substitute products (this is an extreme example!). In Proton's case, the substitute of this car remains low as its continuous support from the government being the national car of Malaysia plays an integral part in Proton's operations.

#### **4. The amount of bargaining power suppliers have**

In the car industry this refers to all the suppliers of parts, tires, components, electronics, and even the assembly line workers. We know that some suppliers are small firms who rely on the carmakers, and may only have one carmaker as a client. So this force can be tricky to evaluate. The Proton still commands a relatively stronger market despite the ample suppliers available thanks to the government policy.

#### **5. The intensity of the competitive rivalry**

We know that in most countries all carmakers are engaged in fierce competition. Tit-for-tat price slashes, ad campaigns, and product developments keep them on the edge of innovation and profitability. Margins are low and pressure between rivals is high. All major car-producing nations experience this