

# Proton case study

Business



Proton Case Writing About Proton Perusahaan Otomobil Nasional Berhad (Proton) was established in May 1983 with the idea of creating Malaysia's national car (Proton, 2011). In July two years later, in collaboration with their Japanese counterparts from Mitsubishi Motors Corporation, Malaysia's first car was produced. Mitsubishi provided Proton with technical assistance and supplied core components such as basic car designs, engines and transmissions (Proton, 2011). Many of the models (past and present) bore great similarity and resemblance to Mitsubishi's fleet, and in fact had been dubbed as Mitsubishi clones (Wan, 2011). Although investment interest from Mitsubishi ceased in 2004 when it sold the 15.86% of Proton shares it held (Lopez, 2004), they are still very much in collaboration today.

This strong alliance, which has been forged for almost three decades, sees Proton continually using Mitsubishi prototypes in their models. In return, Mitsubishi takes Proton models and markets them as its own in certain markets (Singh and Yap, 2008). In addition, both carmakers are working on a joint venture to develop a small hatchback car that is both space and fuel efficient (Singh and Yap, 2008). Both firms benefit from transfer of technology, improved product line-up and reduced costs. Although Proton used Mitsubishi engines in its early days, it has moved towards independence.

Proton's reduced reliance on their Japanese counterparts came after the acquisition of the ailing British sports carmaker, Lotus Group (Proton, 2011). Since the takeover in 1997, Lotus has improved Proton's technical and engineering capabilities. Besides gaining insights to improving its production processes, Proton successfully developed its first automotive engine with the <https://assignbuster.com/proton-case-study/>

aid of Lotus. The sportier designs and improved capabilities of their newer models saw Proton draw more attention and appeal. R, Production and Domestic Sales The integration of Lotus also saw a team of personnel permanently based at their Research and Development (R) facilities in Malaysia (Proton UK, 2011).

The strong emphasis on R saw Proton spend a hefty RM318 million (USD102 million) on various development projects such as the development of hybrid and turbocharged engines (Proton Annual Report, 2011). Of this R expenditure, RM298 million (94%) came through a government grant supporting research in Green Technology (Proton Annual Report, 2011). Besides its engine development, Proton actively engages in R for its entire production process, from clay modelling to vehicle testing, as shown in Figure 1. Every detail of a car, from its material to its emission and noise levels are tested (Proton, 2011). Two of Proton's core values, Quality and Innovation, further indicate its dedication to spearhead the automotive industry by constantly upgrading its skills and technology through R&D (Proton Annual Report, 2011). More significantly, although the development of a completely new vehicle from initial concept stage to the production of a road-worthy model usually takes 36 months, Proton's R efforts successfully reduced this to a mere 24 months (Proton, 2011).

Proton currently manufactures and assembles a range of ten passenger vehicles from two of its manufacturing plants in Malaysia. Shah Alam, its first plant, and Tanjung Malim, its latest state-of-the-art facility has a combined capacity of 350, 000 units annually (Proton Annual Report, 2011). In FY 2011, Proton produced 186, 769 units (Proton Annual Report, 2011), accounting for <https://assignbuster.com/proton-case-study/>

a mere 53. % of its capacity. Of this figure, 162, 012 units (86. 7%) went to the domestic market (Proton Annual Report, 2011).

Proton, being one of two local manufacturers, is ranked second in terms of its 26% market share, shy of the 31. 7% held by domestic competitor Perodua (Wong, 2010). Proton Worldwide Proton, in spite of exporting only 13. 3% of its production, has spanned its presence spanning across 25 countries (Proton, 2011). A majority of these markets utilise the right-hand drive system, with the bulk of it being from neighbouring Southeast Asia and the Middle East.

Proton also maintains a presence in Australia and the United Kingdom. Besides the Chinese market, Proton engages in an export strategy in terms of entry into foreign markets. Once exported, Proton distributes either via a wholly-owned subsidiary where sales offices are established, or through an authorised dealer. Due to local restrictions in China, it is required that Proton enters the market via a Joint Venture. Proton exports both completely built-up units and knocked-down parts to China where their local partner, Youngman Automobile Group modifies and rebrands Proton’s cars as its own (Proton Annual Report, 2011).

Target Market Proton cars appeal most to budget-oriented motorists. Its partnership with Mitsubishi in their early days allowed them to advertise with the slogan “ Japanese Technology, Malaysian Style”. However, in an attempt to lower costs, most of Proton’s earlier models had very low safety ratings and poor quality. The Australian New Car Assessment Program (ANCAP) rated the 2003 Proton Jumpback model a mere 1 Star out of 5 (ANCAP,

2011). This is largely due to its softer car material and low levels of protection as determined in ANCAP's crash tests. Another major factor was that Proton was able to lower its costs due to subsidies from the government.

Criticisms Proton's largest shareholder, Khazanah Nasional Berhad, an investment arm of the Malaysian Government, currently holds 42.74% of shares (Proton, 2011). Being linked to the government has provided Proton with significant protection from competition since its establishment. Heavy tariffs on foreign made vehicles and the rebates given to Proton allowed the carmaker to dominate the domestic market up until the establishment of local competitors Perodua in 1994. PEST Analysis Political In 2005, due to the ASEAN Free Trade Area (AFTA) agreement, Malaysia was made to reduce its tariff on imported cars to a maximum of 5%. This caused Proton to face increased competition from overseas car producers.

As Proton is not as efficient as other car producers, it has been experiencing falling market shares (from over 60% in 2000 to 27% in 2010) and this is expected to drop even more (Malaysian Automobile Association 2011). Social As of October 2011, Malaysia's population is at 28.65 million (Department of Statistics, Malaysia 2011). In addition to the large population, the ratio of car ownership is high at 1:5 in 2002 and is expected to increase to 1:2 in 2030 (Joyce, Dermot and Martin 2007). This shows that the domestic market will grow and the home market for Proton will be bigger.

However, Proton has been over reliant on the government support that they get and this caused them to be less competitive than their competitors. Low

quality and productivity has affected the brand image of Proton. In 2006, the number of defects per unit, DPU was 8.0 (Proton 2007). The poor quality of Proton had diminished the consumers' confidence in Proton cars to the point that even the locals do not trust Proton's products. Economical Figure 2.

Source: Motor Trader 2011 The figure above shows that the automobile market in Malaysia has grown by 90% since 2000 and is expected to grow further. The growth of the domestic automobile market provides an opportunity for Proton to expand its production as it is currently only operating at a capacity of 50%. This will allow them to benefit from economies of scale which will reduce costs and allows Proton to be more competitive. Technological With increasing competition, development of technology is very important in such a competitive market. Even though Proton has already invested a lot into its R&D, it is still very far behind its competitors.

Therefore, in order to shorten the technological gap and compete with international car producers, Proton has to gain technological transfer from another car maker. Another direction Proton can pursue is the "Green" car market which is currently not very prominent in Malaysia. If Proton could be a market leader in this market, it could restore some consumers' confidence back to the brand and increase its overall sales. Competitors Figure 3.

Source: Motor Trader 2011 Proton now faces increased competition from international car producer as the tariff is slowly being demolished due to the AFTA agreement. From the figure above, we can see that Proton market share has fallen to 27% in 2010 and competitors such as Toyota and Honda has increase their market share to a total of 23%. The competition in the

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industry is very competitive as international car producers have competitive advantage such as economies of scale and a much longer experience in the industry than Proton. Decision Problem Faced By Proton After analysing the company, one of the most important problems faced by Proton is the poor quality of its products. Due to being over reliant on the government support, Proton did not achieve the efficiency that the government had hoped it would in order to compete internationally. The quality of the car produced has left a very bad brand image among the consumers and most of the Proton users have negative comments on the brand. This cause Proton's market share to fall over the years as competitors such as Perodua enters the market with better quality cars.

Alternatives The main problem that has been highlighted earlier that Proton faces is basically dwindling healthy profit margins due to the several factors that have been mentioned earlier. One alternative to stem this negative trend would be for Proton to merge with their fellow local Malaysian firm Perodua that has, while enjoying similar Government benefits as Proton, has instead managed to do much better and now occupies the top spot for the domestic car sales market. A merger with Perodua could allow Proton to regain 55% of Malaysia's domestic car market (near 2002 levels) (Ashari et. al, 2010) as the 2 companies' combined market share is approximately at that level. Furthermore, merging with a fellow local company would further cement and exploit its consumer's patriotic fervour. A second alternative would be merging with foreign firms.

This could provide Proton with some much-needed technical expertise. As Proton's products are currently simply not at the same level of these

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international firms, especially in vital areas such as fuel economy and design, the transfer of technical knowledge and skills can only benefit Proton. In addition, the largest foreign firm in the market (Toyota) has a substantial 15.4% share of the market, which alleviates the problem of falling market share. Finally, a third alternative would be the privatisation of Proton. Privatisation could force Proton to be more competitive & efficient as privatisation would minimise government intervention in its management.

The timing is crucial as Proton may lurch into disaster if the company privatises too swiftly but may also grow too reliant on their governmental parents if their privatisation process is too gradual. Criteria to evaluate the Alternatives There are three criteria that would be used to evaluate the alternatives, where the first one being the measurement of whether there is an increase in market share. An increase in market share would be a good gauge of whether the alternatives would have a positive impact on Proton's decreasing market share. Secondly, the measurement of whether there's an increase in revenue for the company will serve as a gauge on whether the alternatives are able to have a positive economic effect on Proton's profit margins. Finally, the measurement of the levels of consumer confidence in Proton's products and services would serve as a gauge of whether the alternatives are able to resuscitate the company's poor brand reputation and image that has been dwindling the past few years.

Evaluation of alternatives against the criteria Measurement of Market Share  
As the graph indicates, a merger with Perodua ranks at 8, as compared to a merger with a foreign firm that ranks at 6 while privatisation would rank at 3. Merging with Perodua is ranked at 8 as by merging with Perodua, Proton will  
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be able to reduce competition and gain a larger market share. Merging with foreign firms however, would not allow Proton to be able to reduce competition as much, as Perodua has the biggest market share in the automobile industry, therefore this alternative being ranked at 6.

Privatisation, as mentioned earlier, while might force Proton to be more competitive and efficient in order to stay financially viable, is ranked at 3.

Privatisation of Proton involves a long and tedious amount of time and effort in order to realise any tangible benefits, which is a luxury that Proton cannot afford to have given the company's current dismal fortunes, hence its' rating of 3. Measurement of Revenue Merging with Perodua, ranks at 7 due to Proton being able to increase their market share which would in turn, directly lead to an increase in revenue.

Merging with foreign firms, ranks at 6 as Proton would not be able to increase their market share as much as compared to a merger with Perodua, hence directly impacting Proton to experience a lesser level of increase in revenue. Privatisation as an alternative ranks at 2 chiefly because as mentioned earlier, privatisation would not have any immediate positive economic impacts for Proton as privatisation is more of a long term alternative. Measurement of Consumer Confidence Merging with Perodua ranks at a 9 as by merging with a fellow local company that has excelled, consumers will be much more confident in the products and services as it still retains its local identity. Merging with foreign firms ranks at 6 as Proton would lose its local identity, thus leading to a loss in consumer confidence though not by much if Proton's foreign partner has a well-established positive reputation. Privatisation ranks at 4 as due to privatisation being a

long tedious process that will consume a lot of the company's higher management's attention, consumer confidence levels might drop heavily due to consumers being unsure of whether the company would still be able to focus on its products and services, let alone improving them. References Ashari H, Sim SKL, Teh CB, 2010.

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