INTRODUCTION

The business world today is becoming more and more globalised. Although more than 50% of all World trade is carried out by the three big economic powers, viz., the US, Europe and Japan, companies from other countries are also looking for new opportunities to do business internationally. Firms that are complacent risk losing out of new opportunities in other markets and also even in their own home market. Many Corporations and Governments have realised that International business represents several opportunities for future expansion and prosperity.

PROTON and PERODUA are the two Malaysian National automobile companies. India represents a huge potential market. The expansion into India will lower Proton and Perodua's business risk through market diversification. At the same time, the huge diversity and political instability also gives rise to certain risks for International firms seeking to enter the Indian Market. It is therefore necessary to understand all such risks and take necessary precautions.

1.1 THE MALAYSIAN AUTOMOBILE INDUSTRY

The Government heavily protects the Malaysian automobile industry. These measures include high tariffs and duties on Completely built up units (CBUs) and on completely knocked down parts (CKDs). Malaysia has, at present, two car manufacturers, viz., Proton and Perodua and several assemblers of both commercial and passenger vehicles, under franchise and contract assembly. The Malaysian automotive industry has provided the impetus for the development of the supporting industries and services. At present, there are more than 300 automobile components and parts manufacturers in Malaysia (MIDA Web-site, 1999).

1.1.1 PROTON: BACKGROUND OF THE COMPANY

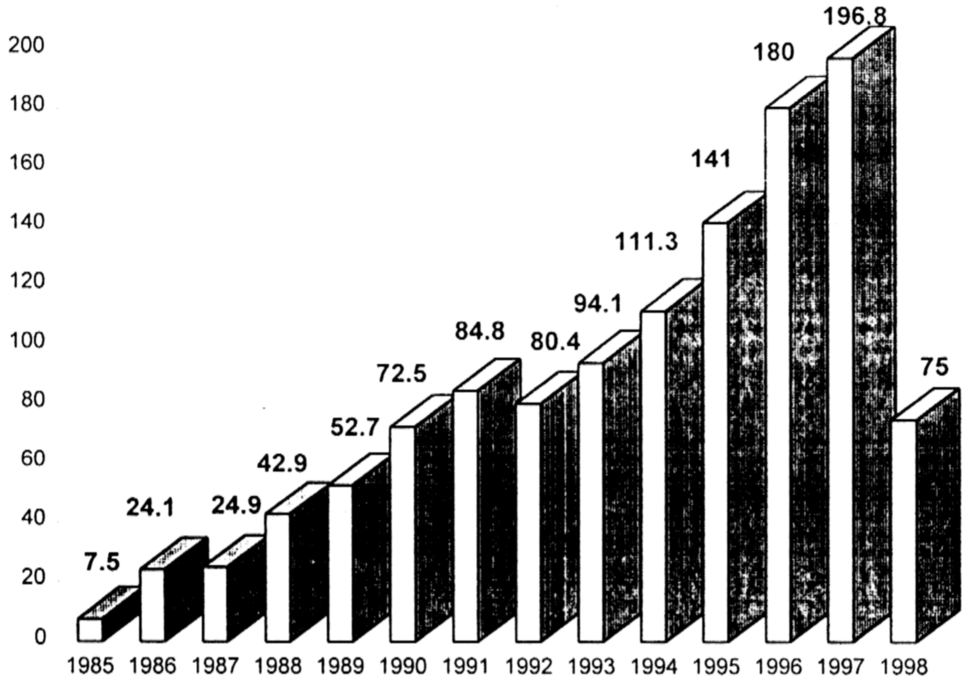
Perusahaan Otomobil Nasional Bhd (Proton) was incorporated on May 7, 1983 to manufacture, assemble and sell motor vehicles and related products, including accessories, spare parts and other components. The company has come a long way from a mere car assembler to an integrated car company. The Malaysian Prime Minister, Dato' Seri Dr. Mahathir Mohamad, commercially launched Malaysia's first car model, the Proton Saga, on July 9, 1985. Converted to a public company on 22nd Nov. 1990, it was publicly listed on the Kuala Lumpur Stock Exchange (KLSE) in March 26, 1992. As of September 30,1997 its shareholders are as follows: HICOM Holdings Bhd: 27.20%; Khazanah Nasional Bhd: 16.80%; Mitsubishi Corp: 8.03%; Mitsubishi Motors Corp: 8.03%; Other Local and Foreign Investors: 39.94%.

At present the model line up includes the variants of Iswara, Wira, Satria (including the new GTi), the up market Perdana, Tiara and Putra. The main plant in Shah Alam with an area of 862,000 sq. meters was originally designed for a capacity of 80,000 units per year and in 1997, this figure has increased to 230,000 units per year with the construction of Proton's Medium Volume Factory. Edaran Otomobil Nasional Bhd. (EON) and Ushasama Proton-DRB Sdn. Bhd. (USPD) distribute proton cars in the domestic market. EON distributes Iswara, Wira and Perdana. USPD distributes the Satria, Wira Aeroback, Putra and Tiara models. Proton appoints independent distributors for its overseas markets.

1.1.2 PERODUA: BACKGROUND OF THE COMPANY

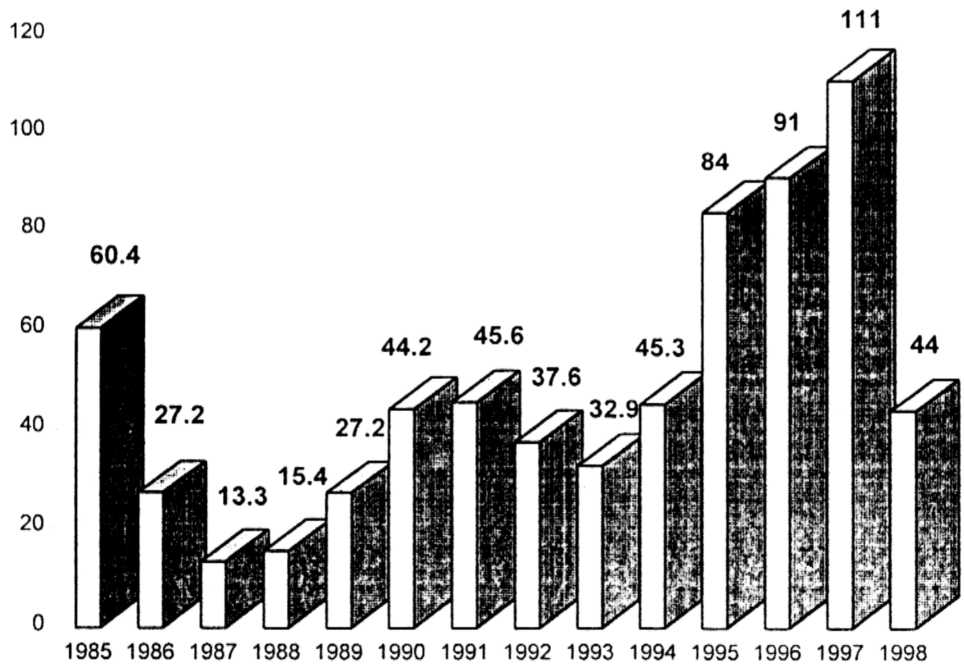
Perusahaan Otomobil Kedua Sdn. Bhd. (Perodua) was established in 1993 and commenced operations in August 1994. The office and the plant were officially opened on 1 Aug. 1994. Perodua established two wholly-owned subsidiaries, viz., Perodua Manufacturing Sdn. Bhd. and Perodua Sales Sdn. Bhd. which are responsible for manufacturing and distribution activities respectively. The shareholders of Perodua consist of UMW Corporation Sdn Bhd (38%), Daihatsu Motor Co. Ltd of Japan (20%); Med-Bumikar Mara Sdn

Fig. 1.1: Sales of Proton cars in the Malaysian Market (,000)



(Source : Proton web-site, 1999)

Fig. 1.2: Sales of other cars in the Malaysian Market(,000)



Bhd (20%); PNB Equity Resource Corporation Sdn Bhd (10 %); Mitsui & Co. Ltd of Japan (7%); Daihatsu (Malaysia) Sdn Bhd (5%). Its plant has a production capacity of 120,000 units per annum. Currently, the PERODUA vehicles in the market are the 660cc and 850cc 'Kancil' variants, the mini-van 'Rusa' variants (1300cc and 1600cc) and the first national four wheel drive vehicle, 'Kembara' available in 1300cc variants.

1.1.3 EFFECT OF THE ASIAN CRISIS

The Asian financial crisis, which erupted in mid 1997, brought the automobile market in Malaysia to a near stand still. Car sales fell by 64 per cent in the first half of 1998 over the corresponding period last year (Source: The Malaysian Motor Traders Association, MMTA). MMTA said four out of nine assembly plants run by its members had shut down temporarily and some 3,700 staff, or 38 per cent of their workforce, had been laid off. Edaran Otomobil Nasional Bhd (EON), Proton's distributor, announced that it had made a loss of 7.25 million ringgit in the first six months of 1998 against a profit of 199.18 million in the year-ago period. Proton reported a 41 per cent drop in its net earnings to 440.57 million ringgit for the year ended March 31, 1998 (See **figures 1.1**and **1.2** for drop in sales of Proton and other cars).

Towards the third quarter of 1998, Bank Negara made some changes in order to stimulate demand for motor vehicles. This included a reduction in interest rates in hire purchase from 10% to 8% while the coverage was extended to new cars costing up to RM 60, 000 from the previous RM 40,000 without shortening the repayment period of 7 years. There has been a surge in demand for passenger cars. Manufacture and assembly of motor vehicles has increased by 123% and manufacture of motor vehicle parts and accessories has increased by 52.2%, as shown in **appendix 1** (Web-site, Department of Statistics, Malaysia, 1999). According to the recently formed Malaysian Automotive Association, sales of passenger cars showed a growth of 81% in same period in 1999 as compared to corresponding period in 1998.

1.1.4 EFFECT OF WTO, APEC AND AFTA

The various trade agreements have meant that countries cannot continue with their protectionist barriers. One of the most important bodies in the World today, the World Trade Organisation (WTO) not only facilitates and implements what had been agreed in the General Agreement on Trade and Tariffs (GATT) but also supervises the new international economic order. The Uruguay round agreement stipulates that WTO members must phase out selective safeguards such as voluntary exports restraints.

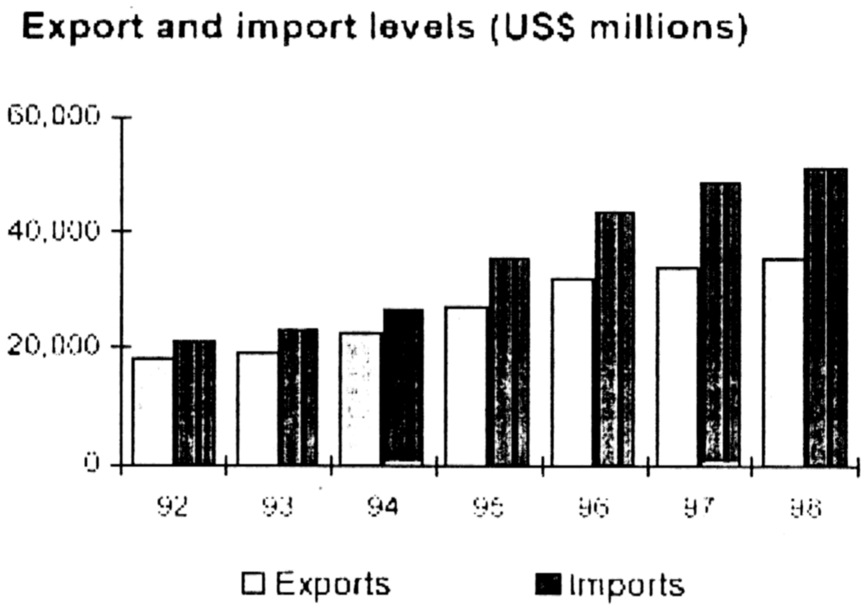
Another organisation, the Asia-pacific Economic Cooperation (APEC) was set to link the ASEAN economies with North American countries, Japan and other East Asian countries, Australia and New Zealand. At their November 1994 summit, leaders of APEC countries agreed to create a free trade area across the Pacific by the year 2010 for industrialised members and by 2020 for the rest. In the "National Economic recovery Plan" brought out by the Economic Planning Unit of the PM's Dept. (1989), gives that Malaysia has to phase out non-tariff barriers and allow competitive imports. At the Asean level, the reduction of tariffs under the Common Effective Preferential Tariff (CEPT) and Asean Free Trade Area (AFTA) has several implications for Malaysian companies. In January 1992, the Association of South East Asian Nations (ASEAN) pledged to cut intra-regional tariffs to a mere 5% and under by 2003 and to create a free trade area AFTA for manufactured goods by 2007. The automobile sector is categorised under Temporary Exclusion List till year 2000 (ASEAN secretariat, 1995; 1996).

1.2 INDIA

India because of its population represents a huge potential market. India also has the largest pool of scientific, technological and managerial manpower in the world, outside of the United States. Successive Government's policies to liberalize the economy have added further incentives for foreign firms to invest in India. The diversity of India presents both opportunities and challenges to marketers. Given below is a brief description of India.

Fig. 2.1: Export and Import Levels of India (US$ millions)

(Source: World Bank, 1999)



1.2.1 DEMOGRAPHICS

They are the most popular factors for segmentation of consumer groups. Given below are some key demographic features of India (Source: CIA country fact file, 1999).

- **Population:** This is the most obvious indicator of market size. India has a population of 1,000,848,550 (July 1999 est.) which is growing at a rate of 1.68% (1999 est.). The population will approach one billion by the year 2000.
- **Age distribution:** This is another important indicator of the market. The 15-64 years group makes up the largest group with 61% (male: 318,004,920 and female 295,245,556) followed by the 0-14 years group (34% male 175,463,726 and female 165,722,164). The 65 years and over, make up 5% (male 23,571,270 and female 22,840,914) (1999 est.).
- **Ethnic groups:** India is a huge sub-continent with diverse ethnic groups with their own cultures. The culture including language, food habits, clothing, etc., which varies from one state to another. Various ethnic groups in India comprise of Indo-Aryan 72%, Dravidian 25%, Mongoloid and other 3%.
- **Religion:** Religion plays an important role in many societies and is also closely related to the culture of the people. India is a secular country, where the freedom of religion is guaranteed as a fundamental right under the Indian constitution. Majority of the population (approx. 80%) follows the Hindu faith. It also has the second largest Muslim population in the world (14% of the Indian population) after Indonesia. Christians make up 2.4%, Sikhs 2%, Buddhists 0.7%, Jains 0.5% and others 0.4%.
- **Languages:** 18 national languages are officially recognised by the Constitution of India. Several minor languages and dialects are spoken in the different states. Hindi is the official language and mother tongue of 30% of the people but English is widely used and is the most important language for national, political, and commercial communication. Other official languages are Assamese, Bengali, Gujarati, Kannada, Kashmir,

Malayalam, Marathi, Oriya, Punjabi, Sanskrit, Sindhi, Tamil, Telugu, Urdu, Konkani, Manipuri and Nepali.

1.2.2 ECONOMY

India is the fifth largest economy in the world, has the third largest GDP in the entire continent of Asia and is the second largest among emerging nations, based on purchasing power parity.

In June 1991, the Government led by Prime Minister Narasingha Rao, stabilized and opened up the economy, effectively ending nearly four decades of a socialist and self-sufficiency oriented economic policy. The strong economic fundamentals, prudent management, as well as inflows of capital have been the hallmark of India's reform process. Foreign direct investment is 15 times higher than it was before the reforms were instituted. Foreign portfolio investment now accounts for about 10 per cent of world portfolio investment in emerging markets. With the Indian rupee made fully convertible on current account, India's real annual export growth has almost doubled since the pre-reform period, from 8.6 per cent real growth during 1985-90 to an average 10.7 per cent over 1991-93, and 15.6 per cent during 1994-96. *The Economist* forecast GDP growth from 5.8% in 1999 to 6% in 2000 (Economist, 1999).

India's largest trading partners are the U S and the European Union, but trade with the Asia-Pacific region improved considerably until the Asian crisis in 1997. The Asian economic crisis, which affected the ASEAN counties including Malaysia badly, had negligible effect on India. Capital account controls, a low ratio of short-term debt to reserves, and enhanced supervision of the financial sector helped insulate it from near term balance-of-payments problems. Export and Import levels given in **Fig. 2.1**, shows that both exports and import have been increasing over the years. Foreign exchange regulations have been considerably relaxed. India has rapidly moved away from an administered exchange rate regime to a market-determined exchange rate system. Some issues of concern include political instability, infrastructure-energy, telecommunications, and transportation.

1.2.3 POLITICS

India is the world's largest democracy, having held regular and freely contested elections since independence in 1947. Its people have a high degree of political freedom and follow a parliamentary system. On the other hand, this political system also resulted in a series of weak coalition governments. There have been three coalition governments in 18 months. And the political instability in India is an issue of concern among the various multinational companies operating there or had plans going in. There had been cases where foreign firms had to renegotiate projects approved by a previous government with the new government. The Bharatiya Janata Party (BJP) came into power after this year's election with Atal Behari Vajpayee as the Prime Minister.

1.2.4 RELATIONS WITH MALAYSIA

Trade existed between the early Malay and Indian kingdoms. The Indian population in Malaysia, comprising of Tamils, Malyalees, Telegu, Gujaratis and Punjabis among others makes up of about 10% of the total. The Malaysians of Indian origin still have strong cultural ties to India. This factor is a major advantage when competing with other foreign companies in business and other fields.

There haven't been any drastic changes in the trade figures in the recent years. See **appendix 2** for trade figures for years 1996-1998 between India and Malaysia as given by MITI. India is also one of the major export markets for Malaysian goods. Given in **appendix 3** are the latest export figures of India compared with the four top markets for Malaysian goods. The Aug. 1999, figures show that the percentage share of trade between the two countries was 2.8% valued at RM 765.9 million.

1.2.5 THE INDIAN CAR INDUSTRY

The renaissance of the Indian car industry took place when the Japanese company, Suzuki entered in a joint venture with the Indian government in 1984. Their 800-cc car called the Maruti 800 has the largest share in the Indian car market at present. Market reforms launched in 1991, allowed foreign companies to enter the Indian car market. The leading global carmakers such as Toyota, General Motors and Ford are already in India. Passenger car sales jumped by 56% in the first nine months (Apr. to Dec.) of the current fiscal (Indian Express, 2000).

1.3 OBJECTIVES

In view of the following circumstances, it was considered important to carry out the study with the following objectives:

(i) **To find out why the two Malaysian car companies should go overseas and whether they are ready for international marketing.**

(ii) **To carry out a feasibility study and develop a marketing plan for entry of the two Malaysian cars companies into the Indian Passenger car market.**

1.4 MAJOR SECTIONS

My study would be grouped into 7 chapters, viz., i) Introduction; ii) Review of Literature; iii) Methodology; iv) Analysis of the two Car Companies; v) India-Market Feasibility Studies; vi) Recommendations and vii) Conclusions.

Introduction would give an idea about the Malaysian Car industry, with special reference to the two national car companies; effect of WTO, APEC and AFTA. The introduction would give a brief account of India, with special reference to the Indian car industry. It would also justify why the project is important and state the objectives of the study. The review of Literature would discuss the previous work done in this field of International trade, International marketing with special reference to Malaysian car industry and marketing in India. Methodology would give the methods of collection of information and also a description of the analysis tools. This will be followed by an analysis of the two car companies followed by a feasibility study of the Indian market and an analysis of the various players in the market. Finally, based on my study, I would come up with recommendations, which the two car companies can consider, and conclusions of my study, in separate chapters. I would then come up with a marketing plan- covering the four P's. Steps to reduce marketing risks would be also given. My conclusions would include how the two companies can be competitive internationally and whether they should enter India.

1.5 SCOPE OF MY STUDY

The scope of my study will be limited to the Indian passenger car market and the two Malaysian car companies viz., Proton and Perodua. I would look at the Indian car manufacturers from a broad view and would not go into the in depth analysis of each company. This study would also not include other vehicle classes such as Utility vehicles and heavy transport. The study would focus on the marketing perspective of the International business, especially with reference to the marketing mix.