
RECOMMENDATIONS

Based on the results of my analysis, I have come up with the following recommendations for the two car companies giving detailed strategies for entering the Indian passenger car market. and more specific, in order to be competitive internationally

6.1 INTERNATIONAL COMPETITIVENESS

6.1.1 OVERALL STRATEGY

Proton and Perodua should concentrate on, the order of priorities following the Ansoff **matrix** (given in **Fig. 5.1**):

- **Market penetration** to improve market share, i.e., in the Malaysian and existing markets;
- **Market development** involving the search for new markets for an existing product, such as going to India; and
- **Product development**, ensuring those new needs of existing markets and customers are taken care of, by bringing out new products and services.

6.1.2 IMPROVE R&D

6.1.2.1 PROTON

Now that it has the access to the engineering capabilities of Lotus, Proton should focus on styling and technology, which are its weaknesses. I feel that "safety" and being "environment friendly" will be the most important issues in the future. Should work on bringing out a "reliable" first "all Malaysian" car. It should also enter the fast growing small car and SUV segments. Coming out with concept vehicles is a way to test out new ideas and increase creativity within the company. This would change its image from a lower end to one of a

World class car manufacturer. The company should benchmark itself against the best in the world and not just against the local competition.

6.1.2.2 PERODUA

Perodua needs to upgrade its ability to design its own models and not depend on its foreign partners. This is essential to reduce cost and be competitive when trade barriers fall. Another way to reduce cost of production further is to increase local content. The model range is also too small. Besides the several facelifts of the Kancil, there have not been any new launches. Perodua needs to go beyond the Kancil and come up with newer and better models. This can be done by strategic alliances with other companies.

6.1.3 CHANGE BRAND IMAGE

6.1.3.1 PROTON

- **Focus on Good Service and Reliability**

Should change its image from a low end or cheap car to one of good service, reliability and good engineering, after the entire customer is the King. It also needs to improve its image as a safe car too. Should compare itself with the best in the World. Should actively publicise the association with the Lotus Group and also the fact that Proton cars had been voted as one of the most reliable brands by consumers in Britain and have been chosen by the British Police for their squad cars. These present potential for use in advertising. One question, which remained unanswered, was whether the quality of Proton cars overseas was better than those available in Malaysia. If so, then Malaysian customers have every right to be unsatisfied with the company. Proton should ensure that the quality of its cars is the same in all markets.

- **Change Logo**

There may be a need to change the **logo** or **Symbol** of Proton to one, which is more neutral in order for it to be accepted internationally. The present one has Muslim connotations, which may be okay in Malaysia and other Muslim

countries but may be unacceptable in other countries with large non-Muslim populations. I suggest they use the one, which is adopted in UK and Australia. Having different symbols in different places can result in confusion and dilution of the brand.

- **Scrap Production of Unprofitable Models**

May have to scrap production of models, which are not profitable or have reached the end of their 'Product Life Cycle'. Proton should consider if it is worthwhile extending the life of the Iswara. The Tiara and older Perdana models are candidates for scrapping. This is necessary in order to be competitive.

6.1.3.2 PERODUA

- **Focus on its Target Market**

Though Perodua has already made a presence in International markets, it needs to improve in several fields before it can be considered as a serious player in the car market. Needs to change its image from a cheap car to a reliable, modern city car. This is essential in order to develop a brand loyal following of consumers who look at features other than the economical label. It also needs to focus on its primary target market- young people including students. For that it needs a more fashionable, sporty image. Have to bring out newer models with advanced styling and hi-tech features suitable for city driving.

- **Get Publicly Listed**

This is recommended as soon as possible. Although being publicly listed have some implications for the company, such as no longer being able to maintain a low profile and fulfilling requirements for public disclosure of information. Besides, increasing its cash flow, this would give the Company more weight and prestige to compete in the international market besides providing a source of cash for R&D, etc.

6.1.4 STRATEGIC ALLIANCE OR MERGER

Both the companies should consider the possibility of strategic alliances with other companies and with each other. A merger if possible, can be one way to consolidate the resources, distribution networks and R&D of the two companies. This would enable them to be more competitive and face the challenges resulting from a globalised business World.

6.2 ENTRY INTO THE INDIAN MARKET

Given below are general recommendations for the two car manufacturers, which they must consider before venturing into the Indian Market.

6.2.1 MODE OF ENTRY

- **Joint Venture**

The two companies should enter the Indian passenger car market through a joint venture. Entering into a joint venture rather than enter alone would help "reduce the cost of learning" and facilitate quicker entry into the market place. The primary purpose of a joint venture is distribution as it is the single largest challenge faced by foreign consumer goods companies in India. It is necessary to locate a joint venture partner who has an established network of dealers and service agents located all over the country, in cities and smaller towns. The joint venture partner also must have a stable financial position. This is necessary to bring in its portion of the initial capital outlay. The Indian partner must be carefully chosen. It must be one who is reputable, open in its dealings and having a top management that is forward looking and professional.

- **Negotiation Process**

The negotiation process will have to take place between people at the top management level. From the Malaysian companies' point of view, a senior person such as the CEO's of the companies should handle the process

themselves. This shows that the two companies consider the project very important. It would be a good strategy to include Malaysians of Indian ethnic origin as they might help in breaking down cultural barriers.

- **R&D**

Initially, Proton and Perodua can transfer its existing technology to India. It would not be worth it in the beginning to invest heavily to develop independent R&D facilities in India. However, they should carry out focus group research and surveys to carry out small changes in the model configuration to make the vehicle more adaptable to Indian conditions.

- **Exit Planning**

Give priority to capacity planning during the project formulation phase so that there is no over hiring of labour. See the possibility of contract hiring to overcome problems associated with firing employees. Making use of existing idle production facilities of other manufacturers is a good idea as the investment is lower than building a new plant.

6.2.2 LONG TERM PLANS: MANUFACTURING

Though initially the two companies can go for import of CKD units, I feel that it would be in its long-term interest to go in for manufacturing in India. They should increase the local content gradually. Though it is the view of many experts that exporting of CKDs are cheaper and easier in case of an exit in the future. I don't see this as a long-term strategy for the following reasons:

- Import duties are quite high. This will result in a high price thus, discouraging potential consumers.
- Indian consumers will feel more safe buying a car perceived as Indian. One of their major concerns is availability of spare parts. For this reason, Indian consumers' view CKD imports quite negatively.
- Suppliers are more willing to enter into long-term contracts with companies that show willingness to set up manufacturing facilities.

6.2.3 MARKETING STRATEGIES

The different Marketing Mix strategies, which the two car companies can consider, are given below, along with rationale for my recommendations. This can be supported by the various Promotions and Pricing strategies.

6.2.3.1 Product

- **Enter With the Most Acceptable Models**

It is safest to enter with the most acceptable products in the market which right now, are the compacts or small cars. Other models such as sporty ones can be introduced later on as the market matures and the companies have got a foothold in the market. The companies can experiment by offering basic models without metallic paint and accessories, as this would lower the price to a large extent. I think that Proton should go in with the Wira and not the Iswara. It might be accused of bringing in old technology if they do so. Moreover this is the only model comparable to other competitors' models in its segment. It should work to come out with a sub-compact at competitive pricing for the Indian market as this segment is the biggest. Perodua can target the lucrative small car segment with the Kancil. It can be quite competitive if it is assembled in India with local content, thus lowering the price.

- **Product Modifications**

Cars have to be adapted to Indian conditions although the basic structure can be retained. Important parameters to be considered in this regard include:

(a) Suspension and Ground Clearance

Many of the Indian roads are in a bad condition and it is necessary to have a good and strong suspension. Ground clearance should be higher as compared to Malaysia. A clearing height of at least 20 cm is necessary.

(b) Engine

Except in the big cities, many petrol pumps all over India do not have unleaded petrol. High cc engines means higher petrol consumption and I feel Proton should not introduce the higher cc cars initially as the Indian consumers like fuel-efficient cars. The engine has to conform to the EURO II regulations in order to sell in the National capital region, which is the biggest market.

(c) Body

Introduce a car with big boot space and with four doors. If people can afford it, they would rather go for a big car because Indian families are usually big. There is only a small market for sporty cars like Satria, maybe because of the price factor. Safety is another important factor in the minds of customers. Proton and Perodua must take precautions to avoid being typecast as makers of unsafe cars. Safety features such as seat belts, crumple zones, sidebars, etc. should be made standard and publicised.

6.2.3.2 Pricing

The companies should follow a competitive pricing strategy, as they are new entrants to the market. and may have to subsidise prices in the beginning. This is because the Indian car market is extremely price sensitive. Profit making should not be the objective in the beginning but market share, as mentioned earlier. In order to be competitive, the Malaysian car companies have to sell cars in the Small car range in between RS300,000 to RS350,000. As for big cars, the range should be around RS600,000 to RS650,000 depending upon the cc of the engines. Accordingly, Proton and Perodua have to decide which models to introduce there. After they get acceptance, they can introduce other sporty and more costly models.

6.2.3.3 Promotion

Extensive promotion is required as buying a car is viewed as a long-term investment in India. It is high involvement buying process with the customers

evaluating different models in the market. Promotions such as in UK can go a long way in getting the attention of customers here. Offering **financing services**, for example, through EON finance, can act as incentives for customers to buy their products by offering loans at reduced interest rates. Being seen as customer friendly, reliable engineering and as an Indian company can help in getting customers. Proton should undertake a huge advertising campaign before actually entering India. This should include mention of its safety and economical feature and pedigree namely, its association with Mitsubishi and Lotus if possible. It can showcase its models in various Auto and Trade shows the largest and most famous of which is the **Indian Auto Expo**.

6.2.3.4 Place

PROTON plans to contract assemble with the existing manufacturer, viz., Hindustan Motors (HM) in Chinnai in the state of Tamil Nadu, which has idle capacity. I agree that at present this is the most attractive location to set up a plant based on several factors, viz., (i) labour; (ii) infrastructure; (iii) state government support and flexibility; and (iv) cost and other incentives. The Choice of Proton is good considering that HM has a wide network of distributors through out the country which Proton can take the help of. Perodua can follow the same steps in case it decides to enter the Indian market. In the future as their Market share increases, however it would be advisable to have their own distributorship, as this would enable the consumers to differentiate the product.

Regarding introduction of cars, they should be first introduced in the major cities of India, such as Bangalore; Calcutta; Chandigarh; Chennai; Delhi and Mumbai, as they have a high concentration of affluent people and urbanisation is quite high. Later on independent dealers can be appointed in the other cities of India.

SUMMARY AND CONCLUSION

Trade liberalisation presents both opportunities as well as threats to the two companies. At present, Government support is a major strength of both companies but how long the Government would continue with the supportive policies and legislation's is a big question. Another threat to the two companies is the mergers and consolidation taking place among the global automakers. Merger or strategic alliance between the two companies may be one of the ways to remain competitive in the future. I suggest the two companies should look at the fast growing markets such as India where competition and brand awareness is relatively lower. More specific conclusions regarding the two companies are given below:

7.1 PROTON

It is clear that Proton had been preparing itself for the trade liberalisation. The company's global ambitions are a clear sign. The strategic vision for Proton is to be a global automotive manufacturer, able to compete with emerging car producers in all markets. Basically it aims to be a small and profitable niche player targeting the lower end of the market in the developed countries. I feel this is not enough. It should see itself as a World class company competing with the best not only local competition. As it matures in these markets and looks for future growth, it might need to change its present marketing strategy. This is a tough task considering that it is a young player and the increasing sizes of the World's big carmakers. It needs to take positive steps to remain competitive.

Their decision to acquire Lotus Group International Limited, was indeed a good strategy. Besides lowering their dependency on Mitsubishi Motors of

Japan, the acquisition also helped Proton to upgrade its engineering capabilities (Lotus Group's strength). It also went a long way in building up proton's image as a major car manufacturer.

7.2 PERODUA

Perodua because of its affordability and clever choice of its target market has been able to come up to its position as the second largest car manufacturer in Malaysia in a matter of few years. Regarding the question, whether it is ready for international marketing is another matter. Though Perodua has been involved in export of its products to a few overseas countries, this represents only a fraction of its total sales.

It has some major weaknesses, which cannot be ignored. The model range is too small and there is a need to come up with newer models. Not being publicly listed is a big drawback in its plan to be competitive. It has to develop its own R& D and not depend too much on Daihatsu. It also needs to speed up on its localisation programme otherwise it won't be ready for liberalisation when other car companies come in with cheaper and better models.

7.3 ENTRY INTO INDIA

There is a need for Proton and Perodua to lower the volatility associated with the existing revenue streams, more than 90% of which originates in one market, namely Malaysia. Besides, trade liberalisation under the auspices of AFTA, APEC and WTO has resulted in gradual reduction of trade barriers in the ASEAN region. The two Malaysian car companies can no longer depend on Government support for their survival and growth. With the size of population of only about 19 million, Malaysia has to look overseas for its economic expansion for its products and also for economies of scale. The R&D capabilities and the domestic market are also too small to support future growth. Though both Proton and Perodua are already involved in international business, there is a need to expand on this branch of their business. As such,

they should look for markets with potential for growth, which are not mature yet.

The decontrol, delicensing and deregulation of the auto industry have encouraged the growth of the Indian auto market. India represents several opportunities for the two Malaysian Auto manufacturers. Following the work of John Dunning, I believe that the two companies should enter India because all the OLI factors are present. In other words, they can benefit from a skilled workforce at competitive wage rates and can access the huge Indian as well as neighboring markets (**locational advantages**). They can also build up brand awareness and take advantage of management policies (**ownership advantages**). Finally they can develop their own marketing and distribution network while taking advantage of its other foreign experiences and the partner's existing distribution network, which are **Internalisation advantages**. Going in too late could be difficult as the market matures. They should enter India through a joint venture with a partner primarily to benefit from the distribution network and local knowledge of the Indian market conditions. Ultimately, Proton and Perodua should look at long term plans of manufacturing in India.

The Indian market is also fraught with many risks including political, legal, etc. These include:

- **Higher investments, as import of CBUs are** not allowed. Moreover a high tariff on CKD's and imported parts. Often the only option is to set up manufacturing plants there.
- **Exit barriers.** It is difficult to frame an exit strategy for companies in India. Often have to lose out on a lot of money if they eventually decide to pull out.
- **Political risk.** I feel that the advantages of going in outweigh any political risks in India. The foreign companies have to live with this.
- **Economical.** The economical fundamentals are strong and the economic risk is quite low with affluence and urbanisation growing.

The two companies, if they decide to enter India, have to take into account, the inherent difficulties and uncertainties of operating in the Indian market while designing a marketing strategy. Understanding legal compliance requirements, which must be met once entry is effected is essential. The study found that the threat of new entrants, and bargaining power of suppliers were low, while bargaining power of customers was rated as medium and is rising. On the other hand, for an immature market, the threat of substitutes and rivalry between existing firms in the Indian Passenger car market was found to be quite high. Many of the big auto manufacturers of the World such as Ford, General Motors, Mitsubishi and Honda among others have already entered India and are fighting for market share in different categories of vehicles. The only way Proton and Perodua can differentiate its products is in terms of pricing. It is thus, necessary for the two companies to adapt their marketing mix including product specifications, to the Indian conditions by making necessary modifications. They can learn from the mistakes of other foreign companies, which went in earlier and avoid making the same.