Chapter Three

Challenges Facing the Malaysian Automotive Industry

This chapter will discuss and analyze the challenges faced by the automotive industry by examining the general environment in which the industry is operating. In addition to the general environment analysis, the industry environment will also be analyzed using the Porter's five forces of competitive analysis. An analysis on the industry environment is necessary because it has a more direct effect on a company's efforts to achieve strategic competitiveness and earn above-average returns.

3.1 General Environment

An analysis on the general environment faced by the automotive industry will be carried out to identify the challenges that may arise. The general environment is made up of six segments: political/legal, economic, demographic, technological, global and sociocultural.

3.1.1 The Political/Legal Segment

Presently, in the case of Malaysia, there is an element of political uncertainty in the country. With the forthcoming UMNO election in 1999 and also the impending news that the Prime Minister may be challenged by the Deputy Prime Minister in the coming election, this will further create tension and may affect the political stability in the country. Thus, the political stability cannot be said with any terms of certainty in the future as the country is also currently undergoing a major transformation due to the current economic slowdown. The
automobile companies must therefore prepare themselves to face with whatever challenges that may arise due to political uncertainties.

The political/legal segment also relates to how organizations try to influence government and how government entities influence them. The automotive industry has the potential to become a major contributor to gross domestic product, employment, technology upgrading, and foreign exchange earner. As pointed out in *The Second Industrial Master Plan 1996-2005* (IMP2), the industry has the role of developing indigenous capabilities for R&D and product design to enable production and marketing on a global scale. But with this economic slowdown, the ability of the government to continue its support of the industry is greatly in doubt. The tight credit squeeze by the financial institutions due to declining liquidity and the subsequent reduction in the purchasing power on the buyers have affected the market of the automotive industry tremendously.

However, the seriousness of the Malaysian government in helping the industry is further justified in the latest National Economic Recovery Plan unveiled by National Economic Action Council (NEAC). In this plan, the government has further outlined several measures to further boost the industry, hoping that it will be a catalyst for further growth. Among the measures are:

a.) Freezing new dealerships to prevent unhealthy competition.
b.) Dealers to be allowed to order cars on request and not to be pressured into accepting them.
c.) A specially established funds of RM75milions to act as revolving fund to assist bumiputera dealers.
d.) Finance companies to partially or fully reinstate the hire purchase commission payable to dealers.
e.) Maximum loan amount to be raised from 70% to 85% and the repayment period of five years to be extended to seven years.
f.) Proposed raising the exemption of excise duty on Proton cars from 50% to 70% for a limited period and extending the 50% exemption of excise duty for Proton's Tiara for another six months.

g.) Elimination of optional accessories to lower the prices of Proton and Perodua cars by neatly 10 to 12%.

h.) Government to suspend temporarily the 13% import duty on Proton's components as an inducement to export to new markets, provided it is consistent with World Trade Organization pacts.

The ability of the government to implement the plans effectively and efficiently to stimulate the automotive industry and the country economy is yet to be seen. If these plans were to fail, will the industry continue to receive further supports from the government? This is the challenge the industry has to face and accept.

Although protection is always necessary for nurturing the local industry against international competition, local suppliers do not seem to have a long-term perspectives and strategies which will enable them to move from the protective shield provided towards being more competitive in the open market. Comparing with the other ASEAN countries, let alone the world market, our unit cost is still relatively high mainly due to expensive local parts. The high cost is attributed to the lack of economies of scale, high rejection rate, lack of technological capabilities, lack of R&D funds to create cheaper components and the re-work cost.

Proton played an important role in the automotive industry as well as the national economy as a whole. For example, the implementation of the national car project to a certain extent has led to an increase in the intensity of rivalry among the players in the industry. When the economy is going downwards, the ability of Proton to stay, survive and lead in the industry is highly questionable. This is especially so with the implementation of AFTA which is another further threat to the survival of Proton. The ability of Proton to survive
through this economic slowdown will affect the whole automotive industry which is made up of a limited cluster structure.

The automotive sector has a limited cluster structure, representing primarily the link between automotive producers and component manufacturers/suppliers. This weak industrial structure undermines the potential of the domestic automotive industry. This is due essentially to the lack of economies of scale as limited domestic market prevents automobile companies from establishing their own cluster which includes backward integration into setting their own subsidiaries producing own components and parts.

Table 3.1
Production of automobiles in Thailand, Indonesia, Philippines and Malaysia, 1990 and 1995 ('000 units)

<table>
<thead>
<tr>
<th>Year</th>
<th>Product</th>
<th>Thailand</th>
<th>Indonesia</th>
<th>Philippines</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>Passenger</td>
<td>73.8</td>
<td>57.5</td>
<td>34.6</td>
<td>130.2</td>
</tr>
<tr>
<td></td>
<td>Commercial</td>
<td>231.1</td>
<td>214.2</td>
<td>22.9</td>
<td>75.1</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>304.9</td>
<td>271.1</td>
<td>57.5</td>
<td>205.3</td>
</tr>
<tr>
<td>1995</td>
<td>Passenger</td>
<td>127.6</td>
<td>39.8</td>
<td>73.3</td>
<td>248.2</td>
</tr>
<tr>
<td></td>
<td>Commercial</td>
<td>398.0</td>
<td>347.7</td>
<td>53.9</td>
<td>57.1</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>525.6</td>
<td>387.5</td>
<td>127.2</td>
<td>305.3</td>
</tr>
</tbody>
</table>


AFTA/CEPT scheme is both a threat and an opportunity to the local automotive industry. The automotive industry has to position itself to take advantage of the regional trade liberalization as well as to be able to compete with other manufacturers from the region. The production capacity of automotive sector of 4 major ASEAN countries is shown in Table 3.1. Most major global automotive manufacturers have already taken steps towards developing the "Asian Car".
The Asian Car is a project whereby the companies in the ASEAN region join forces to develop and manufacture automobile specifically for the Asian market to take advantage of the market potential and the ASEAN preferential tariff arrangement. Although the Asean countries are facing economic and political crisis, the long term potential of this region is not to be taken for granted.

3.1.2 The Economic Segment

The deteriorating fundamentals of Malaysia characterized by the instability of ringgit, lack of confidence in overall economies, up-surging inflationary pressures, inadequate corporate governance, lack of transparency and weakened financial system are becoming great challenges to the automotive industry in at least few years to come. Due to the heavy reliance on imported raw materials and finished good, Malaysian automotive industry is hit by escalating inflation. Furthermore, the increasing interest rate has also asserted pressure on the operating cost of business and therefore further aggravate the inflationary pressure. Prices of vehicles will not be spared from this effect as the prices are expected to go up further by another 50% to 60%. This will reduce the demand of the automobiles in the already shrinking market due to credit squeeze, declining wages, and increasing unemployment.

Supply of fuel and electricity is abundant, and is supported by a well established delivery system in this country. This could provide a further incentive to motivate the growth of the automotive industry. But the ability of the related utility agencies and companies to maintain a dependable and reliable source of supply will be another challenge confronting the industry in the years to come. In relation to this, our natural resources of petroleum in the country will only be sustaining our needs for a limited period of time in the future. With the depleting petroleum resources, the automobile industry will be facing declining demand as the cost of maintaining vehicles will be costlier. Simultaneously, the challenge for the industry is for it to come up with new energy alternatives.
3.1.3 The Demographic Segment

The Malaysian automobile work force has enjoyed a vibrant labor market over the past eight years when the economy was booming. Wages were under pressure for upward adjustment which unfortunately was not correlated to the improvement in productivity. Furthermore, the volatile labor market has prevented management from implementing process re-engineering as the employees would threaten the management with resignation should the pressure for changes in attitude, role or productivity deemed too high. In addition, there is resistance to change from the management itself. The automotive industry needs to stave off this challenge of implementing changes so that the workers will realize that the industry is facing economic slowdown. Thus the need for them to increase productivity and reduce costs.

One of the important economic and social factors that will contribute to greater potential for this local automotive industry is the increasing number of double income households. For example, if a housewife who previously was not in the employment market now decides to join the employment market, this will further contribute to increasing purchasing power of the family and the need for an additional automobile may arise. But this anticipation is not expected to come true particularly not in this economic situation as the employment market is expected to shrink further resulting in high unemployment rate in at least few years to come. Local automobile players should be aware of this sudden change of trend that will further compound their problem of declining sales and demands.

The challenge of upgrading the technological ability and know-how of the workers in this automotive industry especially in this economic downturn will be insurmountable. The lack of financial resources and the uncertainties facing the industry will compel the companies to slash their budgets for training and development of their workforce. This problem is further compounded by the fact that the local companies are highly reluctant in investing in research
and development as it will entail expensive investment with low and uncertain returns. In terms of workforce competitiveness also, Malaysia is fast losing its competitive advantage as countries like Thailand and Vietnam have surpassed Malaysia as they can offer a larger and cheaper workforce.

The automotive industry is still faced with shortage in the following critical skills:
(a) Product design engineering
(b) Computer-aided design and Computer-aided manufacturing (CAD & CAM)
(c) Manufacturing CAD/CAM applications; materials sciences
(d) Mechanical design engineering and
(e) Production engineering

3.1.4 The Technological Segment

In the local automotive industry, there is still an apparent lack of local technological innovation in the manufacturing of component, parts and technological capabilities in product design and engineering. The manufacturing capabilities of the sector are yet to be fully developed to support the domestic and overseas market. This sector continues to depend substantially on imported materials and component. Total import value of CKD(Complete Knock Out) kits and automotive component amounted to RM5,421.30 million in 1995 (IMP2), the bulk of these are CKD Kit's with a value of RM4,745.4 million of various makes of motor vehicles imported by the assembly plants. Based on these facts, the devaluation of the ringgit aggravates the problems of importing these component parts from abroad.

With the implementation of the local content policy on 1st January 1992, motor vehicles of various categories are required to achieve targeted percentage of local components by a specific time frame as shown in Table 3.2. Although the programme has achieved its objective to develop a network of local component suppliers, the net local content for each component part produced
### Table 3.2

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Point For The Year</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Passenger vehicles Below 1850 CC</td>
<td>30% 40% 50% 55% 60% 60%</td>
<td></td>
</tr>
<tr>
<td>2 1850 CC - 2850 CC Passenger vehicles</td>
<td>20% 30% 30% 40% 45% 45%</td>
<td>Local Content Point System</td>
</tr>
<tr>
<td>And Commercial 'vehicle with gross vehicle weight not exceeding 2.5 tons</td>
<td>20% 30% 30% 40% 45% 45%</td>
<td></td>
</tr>
<tr>
<td>3 Passenger vehicles above 2850 CC</td>
<td></td>
<td>Mandatory Deletion System</td>
</tr>
<tr>
<td>Commercial vehicles above 2.5 tons</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 X 4 vehicles</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: MITI

Local manufacturers are compelled to comply with the local content policy introduced since 1992. The system requires each of the locally assembled model to has a total local content point not lower than the target set. Each auto components has been given a arbitrary local content points in accordance to the level of technological sophistication of the manufacturing processes in producing these parts. For example, seat is given 6 point while carpet mat earns 0.47 points. Understandably, this difference is due to the fact that the carpet mat manufacturing does not involve advance technology in comparison to seat manufacturing.

Mandatory Deletion items are items that must be sourced locally. Importation of these items is prohibited by the government. There are 32 Mandatory Deletion items in total. Examples of Mandatory Deletion items are tyres, safety classes, tubing, seats, etc.
is still low. A large portion of raw materials and sub-component parts, particularly the critical and functional parts of these automotive components are still imported. As an example, the imported sub-components for the engine is as illustrated in Table 3.3.

Table 3.3
List of imported sub-components in engine

<table>
<thead>
<tr>
<th>Final part name: Engine</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Imported sub-components:</strong></td>
</tr>
<tr>
<td>Rocker arm</td>
</tr>
<tr>
<td>Cylinder head</td>
</tr>
<tr>
<td>Delivery pipe</td>
</tr>
<tr>
<td>Connecting rod</td>
</tr>
<tr>
<td>Thermostat</td>
</tr>
<tr>
<td>Insulator</td>
</tr>
</tbody>
</table>


The implementation of the Local Content Policy has in effect increased the entry barrier for international suppliers and protected the local suppliers although they are less competitive. The Local Content Policy encourages protectionism in the following manner:

(a) Making local sourcing of the Mandatory Deleted Items compulsory. Mandatory Deleted Items are parts that must be sourced locally and penalty will be imposed if assemblers fail to comply.

(b) Controlling issuance of manufacturing licenses and penalizes assemblers if their local content points are below the target set. Each part component is marked with local content point. For each category of vehicles, there is a set target in terms of total local content point for the car. Failing to achieve
the set target will result in higher tax for that particular model and thus affecting its competitiveness in terms of pricing.

(c) Provide differential tax incentives for local suppliers to encourage local participation and investment in upgrading of local technology and skills.

In summary, the domestic automotive sector is still dependent on imported parts and components from the joint venture partners or principals in the original countries. A large number of component manufacturers have yet to take steps to upgrade their R&D and product design capabilities due to their small scale operation which does not justify R&D investment which is substantial and uncertain on the return of investment. Therefore the industry will continue to depend on suppliers from overseas. The lack of research and development capabilities and investment are partly due to high cost of investment and the long time involved to establish such facilities and capabilities.

As far as automobile companies are concerned, the increasing rate of technological change and diffusion is tremendous. The shorter product life cycles especially the newer models introduced due to ever increasing rapid diffusion of new technologies place a competitive premium on being able to quickly introduce new goods and services into the marketplace. For example, a few years ago the automobile models of 2.0L were considered the best at that time. But today, this model has slowly been replaced by a newest and latest model of higher capacity of 3.0L. Therefore, it is becoming extremely important for automobile companies in Malaysia to be able to adopt newer technology in every facet of their operation, be it new product development or customer service care.

In customer service care, investments in information technology, computerization and technological advances for better services are critically important. For instance, using a fully integrated computerization machinery to
inspect and service an automobile can reduce greatly customer waiting time and thus better service in the eyes of the buyers. In additional, technological advances and computerization have provided a good avenue for storage on valuable data and information pertaining to customers and well integrated across branches and dealers in the country. All this information can be accessible within seconds in various parts of the countries and be used as better tools for servicing customers and subsequently to create a long lasting "marketing relationship" - sustainable long term relationship and encouraged repeat purchase amongst these customers.

3.1.5 The Global Segment

Intensive competition is becoming more and more synonymous with Malaysian's automotive industry in Malaysia. Although the number of players in the industry is not that many, the intensity of competition is immense and stiff. Therefore, for local automobile companies to survive in this ever changing condition of competition in the local scenario and the inevitable incoming of intensive competition, the strategy of globalization is imminent. This is proven by the strategy adopted by automobile company like Proton in trying to minimize the current impact of downturn in the economy which is sweeping across Asia at the moment.

The players of local automotive industry are lacking in their ability to successfully formulate and implement value creating strategy. Instead, they are more concerned with short term results in gaining immediate sales using various sales and marketing strategies, often at the expense long terms results which are always critically more important strategically. When an automotive firm implements a value creating strategy of which other companies are unable to duplicate the benefits or find it too costly to imitate, this firm has a sustained or sustainable competitive advantage – hence, attaining above average returns.
There is stiff competition among world automotive giants in an oligopoly market. With the lifting of tariff protection under trade liberalization, the national brand as well as the other local assembled automobiles like TCM and UMW are going to be forced to compete with the world automotive giants (e.g. General Motors) on equal ground in the domestic market.

For our national brand to compete internationally, it is necessary to have a close linkage among major global automobile manufacturers through capital investment and business collaboration. These collaborations include joint R&D and production (as in the case of Mazda & Ford), cost reduction by using common parts and components and mutual complementation through specialization in production and supply of original equipment manufacturers (OEM) components.

In addition, automobile companies like TCM and UMW may have to compete with a stronger local Proton if the plan of the joint venture (Proton and General Motors) comes into reality. The joint venture will indeed have more advantages in terms of technological abilities, economies of scale, more investments in research and development, testing facilities and design centers.

Due to over-capacity of production at the world level, consolidation and merging of companies to reduce the number of makes by world auto-makers are now under way. The local automotive industry and players will have to face stronger merged international players. This will be further aggravated when AFTA and GATT are fully implemented. Furthermore, these mergers will create monopolies and will threaten the survival of smaller players like Proton or TCM as they will not be able to achieve the economies of scale needed, financially or production-wise.
Among those mergers and partnerships which have formed or about to be formed are:

(a) Ford, the world second largest auto company with US$153 billion sales and a 17% share of the world market estimated at 54 million vehicles is forging ahead in Malaysia via a 30% stake in Amim Holdings Sdn. Bhd. The local assembler and distributor of Ford vehicles. (NST 15/6/98). It is believed that the motive behind the move is to position the local distributor for the new market orientation and to prepare itself for market recovery.

(b) VolksWagon-Audi is planning the acquisition of one of the most glamorous name in motoring: Lamborghini. Audi in its news releases said it had signed a letter of intent to buy the Italian sports car maker on 12/6/98. The once Italian owned Limborghini is controlled directly by the youngest son of former Indonesian President Suharto and the balance 40% equity is owned by Malaysian interests.

(c) Recently VW (VolksWagon) has purchased Rolls Royce and is also currently negotiating to buy Cosworth, the high performance engine subsidiary of UK-based Vickers. Further acquisitions may be in the pipeline, recently the chairman said VW may acquire Bugatti next and then Porsche.

As pointed out earlier, there is an opportunity in collaboration with international automotive manufacturers to make Malaysia their production center for the ASEAN market. However, there is also competition among the ASEAN countries towards this strategy. In terms of production capacity, Thailand seems to be more superior than Malaysia. International players may choose the better and more strategic sites for relocating or establishing their manufacturing facilities in this region. The relocation of the existing plants to other countries is detrimental to the Malaysian economy on the whole as it will result in loss of income as well as higher unemployment rate. The automotive
industry will also not be spared as it will lose on learning experience, transfer of technological capabilities and know-how from these international companies.

On a wider perspective, the liberalization under GATT grants the opportunity to become global suppliers of automotive components, especially by concentrating on developing specific components and parts where local sourcing of raw material is possible and cost effective. For example, raw material for tyres and certain parts of bumpers are made of rubber which is locally sourced. This again will further spur the local automobile companies to achieve their vision of integrating backward and subsequently achieved their much needed and aspired, economies of scale.

As far as the automotive industry is concerned, the Japanese recession will also affect the local players as they will have to import their components, parts and technological capabilities at a higher cost. This will further reduce their already thin profit margins and hence threaten their survival in the local and international markets. In addition, further recession in Japan will compound the economical problems of the local Japanese subsidiaries like Nissan and Toyota. This is because their principals will have to attend to their own problems in the home country and thus will not be able to render the much sought after assistance by the local subsidiaries.

3.1.6 The Sociocultural Segment

With the advancement of information technology, consumers are changing their expectations, taste and preferences in new product development faster than before. Furthermore, consumers as well as government are more demanding in terms of product safety requirement, environmental friendliness and speed in styling changes. This pose a serious threat to the automotive industry especially when it is not well equipped with the necessary facilities, management skills, creativity to response quickly to this new competition and market's needs.
For example, consumers nowadays demand additional safety features in their automobiles such as airbags, anti brake system and protected windscreen which do not shatter easily. In addition, consumers also demand environmentally friendly features such as unleaded fuel and catalytic converter. Unfortunately the local producers do not have the ability and know-how to produce these parts. Therefore one of the challenges faced by the industry is to keep abreast with the changing needs and preferences of these customers and at the same time attempt to acquire the knowledge/technological transfer to manufacture locally at lower costs.

3.2 Industry Environment - Porter’s Competitive Analysis

The industry environment is made up of interactions among five forces that will determine an industry’s profit potential. The five forces model of competition developed by Michael Porter expands the arena for competitive analysis. These five forces include the power of suppliers, the power of customers, threat of new entrants, threat of substitute products and the intensity of rivalry among competitors. The challenge is to locate a position within an industry whereby a company can favorably influence these forces or whereby it can successfully defend against their influence.

3.2.1 The Power of Suppliers

In the case of the automotive industry, the power of suppliers can be observed to be high before the economic slowdown. The main factor that contributed to this high supplier group power was the protectionism given by the government to the automotive industry. This method of protectionism was carried out by way of implementing a local content policy that must be complied by all automobile companies. The local content policy dictates that certain component parts including tyres, brake pads and others which are included in the Mandatory Deleted Items must be sourced locally. As a result of the
protectionism given by the government, only few players/suppliers exist and this has given the suppliers increased bargaining power in prices and terms of sales.

During this economic slowdown, the power of suppliers can be seen to be even higher as compared to the period before the slowdown because the number of players/suppliers will be reduced. The reduction in the number of suppliers may occur due to difficulties faced by some of the automobile companies such as liquidity and credit squeeze that may force them to close down their operations.

3.2.2 Power of Customers

Prior to the economic slowdown, customers in the automotive industry have less power as the industry was enjoying tremendous sales and profits. The number of customers is large and the automobile companies had more power dictating terms of sales. When the automobile sales were good, customers were forced to pay for additional accessories and were given a long waiting time for the delivery of their automobiles.

However, in this economic slowdown, the power of customers will increase as declining demand for automobiles and the unfavorable economic condition will force automobile companies to give the purchasers more value for their money. In this case, the number of customers is reduced drastically due to lower purchasing power, problems of credit squeeze and low liquidity. For the automobile companies to stay in business, price reduction must be considered together with various promotion methods to encourage sales.

3.2.3 Threat of New Entrants

The threat of new entrants in the automotive industry before the economic slowdown was high due to positive demand and continuous increase in sales.
For example, in 1997, the industry enjoyed the record sales of automobiles attributed to the buoyant economic. However, the government did play an important role by imposing controls on licensing which had served as an entry deterrence to the industry. In this way, the number of players in the industry was limited and at the same time, this had also served to protect the national interest of the industry, Proton.

During this economic slowdown, the threat of new entrants is also high due to the depreciation in Ringgit which now makes it more attractive for cash rich investors from US and Europe to buy up local companies and thus intensify competition. For example, it was recently reported that General Motors is interested to buy over Proton and Ford International is interested to increase its local shareholding in AMIM (distributors for Ford in Malaysia) to more than 30%.

3.2.4 Threat of Substitute Products

Before the economic slowdown, the threat of substitute products was low as consumers had good purchasing power whereby most of them can afford to own an automobile. Substitute products such as public transportation did not pose much of a threat because it gives rise to inconveniences and projects a lower social status. On the other hand, during this economic slowdown, the threat of substitute products is high because consumers tend to use other substitute products which are cheaper. In addition, most consumers may postpone their decision to buy automobiles due to uncertainties in the country’s economy such as high possibility of retrenchment and tight credit squeeze.

3.2.5 Intensity of Rivalry

The intensity of rivalry in the automotive industry is presented in Figure 3.1 which shows the market share of each player in the market for the years 1997
Figure 3.1

Malaysia Automotive Industry
Monthly Average

1997 (Jan - Jun)

Nissan 15%
Perodua 10%
Proton 46%
Toyota 8%
Mitsubishi 2%
Honda 6%
Daihatsu 3%
Hicom 0%
Other 14%

1998 (Jan - Jun)

Nissan 15%
Perodua 25%
Proton 51%
Toyota 5%
Mitsubishi 2%
Honda 2%
Daihatsu 1%
Hicom 1%
Other 6%

<table>
<thead>
<tr>
<th>Year</th>
<th>Nissan</th>
<th>Perodua</th>
<th>Proton</th>
<th>Toyota</th>
<th>Mitsubishi</th>
<th>Honda</th>
<th>Daihatsu</th>
<th>Hicom</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1820</td>
<td>4669</td>
<td>15079</td>
<td>2610</td>
<td>618</td>
<td>1818</td>
<td>834</td>
<td>120</td>
<td>126</td>
<td>4639</td>
</tr>
<tr>
<td>1998</td>
<td>321</td>
<td>2842</td>
<td>5205</td>
<td>498</td>
<td>114</td>
<td>161</td>
<td>120</td>
<td>126</td>
<td>829</td>
<td>10218</td>
</tr>
</tbody>
</table>

Source: Malaysia Motor Traders Association
and 1998. In summary, with this economic slowdown, the intensity of rivalry in the automotive industry is expected to increase and intensify further as shown in Figures 3.2 and 3.3. These figures show the difference in the intensity of rivalries in the industry before and during the economic slowdown.

3.3 Summary

With the current economic slowdown as concluded in this Porter’s analysis, the intensity of rivalry among the automobile companies is expected to increase. Hence, TCM should consolidate on its own core competency and build up its sustainable competitive advantage in customer service to weather this competitiveness and intensity in the industry. This core competency will not only benefit the company during this economic slowdown but also will be useful when the economy recovers.
Figure 3.2

Porter's Five Forces Analysis

BEFORE RECESSION

Power of Suppliers

Threat of Substitutes

Intensity of Rivalry

Threat of New Entrants

Power Of Customers

Source: Authors' illustration

Note:

1) + sign indicates the magnitude of increase.

2) - sign indicates the magnitude of reduction.
Figure 3.3

Porter's Five Forces Analysis

DURING RECESSION

Power of Suppliers

Threat of Substitutes

Intensity of Rivalry

Threat of New Entrants

Power Of Customers

Source: Authors' illustration

Note:

1) + sign indicates the magnitude of increase.
2) - sign indicates the magnitude of reduction.