Chapter Four

The Company - Tan Chong Motors (TCM)

4.1 Background of the Company

Tan Chong group was founded in 1957 to distribute Nissan range of vehicles in the local market that was then dominated mostly by continental cars. Consumers were then having negative emotional feeling towards Japanese products due to the experiences related to Japanese occupancy. Furthermore, Japan was still at its early stage of industrialization and Japan manufactured products including Nissan vehicles had a poor reputation for product quality. Despite the tough in-road, the group penetrated the local market successfully. By 1970, Nissan had become one of the top selling brands in Malaysia. In 1974, TCM was listed in the KLSE and since then the group has broadened its business operations to include the following business activities:

4.1.1 The motor division

The motor division's activities include motor vehicle assemblies and distribution, spare parts distribution, after sales service, motor insurance and hire purchase. At that time, Product Quality was one of the dimensions that the management has identified as the potential competitive edge in all motor related businesses.

TCMA (Tan Chong Motor Assembly) places great emphasis in producing quality product and the achievement in managing product quality was recognized when the plant was awarded the ISO 9002 Certification of quality in 1993, the first in South East Asia. With this quality standard, TCMA won
several contracts to assemble Peugeot vehicles and body painting for selected Mercedes models.

To add value to the product offered to customer, the group also engages in the underwriting of motor insurance and providing hire purchase facilities.

4.1.2 The Auto parts group

Auto Parts Manufacturers (APM) is the first and the largest auto parts manufacturing group in Malaysia. This group has benefited from the government's automotive parts localization programme and the growth of national cars in Malaysia.

The range of components manufactured include leaf springs, coil springs, u-bolts, shock absorbers, plastic parts, seats, etc. These parts are supplied to the Original Equipment Market (OEM), replacement market and export to countries such as Australia, Hong Kong, Japan, Korea and Taiwan. APM was accredited with ISO 9002.

In 1995, this division ventured into China market through the joint venture operation with the local partners in Xiamen and Wuxi to supply parts to motor manufacturers in southern China.

4.1.3 The heavy vehicles & machinery

The heavy vehicles and machinery division distributes the Nissan Diesel range of trucks and buses in Malaysia. Another subsidiary, TCIM (Tan Chong Industrial Malaysia) a wholly owned subsidiary, is engaged in the distribution of industrial, agricultural and construction machinery.
4.1.4 Others

Other business activities include property investment, distribution of Shiseido cosmetics, Wacoal range of ladies undergarments Motorola hand phones and other communication devices.

The travel and leisure arm has the Mayflower Acme Tour as the largest in-bound operator in Malaysia that provides a range of services from ticketing, outbound tours to coaches and cars and vans for hire. Related to the travel business, its associate company, Orix Car Rental Pte Ltd operates car hire business in Singapore.

The summary of the business activities of TCM is presented in the following Figure 4.1. From the figure we could see that TCM has diversified its business since its incorporation in 1957. The bitter experience during oil crisis in the 70's and economic recession in the 80's has badly affected TCM's performance to the extent that the management has learnt the lesson of not putting all eggs in a basket. Nevertheless, this research paper will place strong emphasis on the motor business and auto components manufacturing as these two operations contributed about 70% to the group's overall profit before tax. Besides that, these two operations are also most affected by the current economic crisis.
## BUSINESS ACTIVITIES OF TCM

### BUSINESS DIVISIONS

<table>
<thead>
<tr>
<th>Division</th>
<th>Countries</th>
<th>Services/Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOTOR</td>
<td>Malaysia, Singapore, Hong Kong</td>
<td>Motor vehicle assembly, Motor vehicle distribution, Spare parts, Workshop service, Insurance, Hire Purchase</td>
</tr>
<tr>
<td>AUTO PARTS</td>
<td>Malaysia, China</td>
<td>Seats, Radiators, Leaf springs, Coil springs, Shock absorbers, Gas springs, Plastic parts, Air-conditioners, electrical components, Auto trim parts</td>
</tr>
<tr>
<td>HEAVY VEHICLES &amp; MACHINERIES</td>
<td>Malaysia, Singapore, Brunei</td>
<td>Trucks &amp; buses, Construction equipment, Agricultural machineries, Material handling equipment, Machinery rental</td>
</tr>
<tr>
<td>PROPERTY</td>
<td>Malaysia, Singapore</td>
<td>Property investment, Property development, Property management</td>
</tr>
<tr>
<td>TRADING &amp; SERVICE</td>
<td>Malaysia, Singapore</td>
<td>Cosmetic, beauty care products, Lingerie, Travel &amp; tour, Hire &amp; drive, Cellular handphones, Steel structure fabrication &amp; galvanising</td>
</tr>
<tr>
<td>OTHER INVESTMENT</td>
<td>China, Australia, Indonesia, Hong Kong, Vietnam</td>
<td>Truck &amp; bus assembly &amp; distribution, Motor &amp; equipment distribution, Leasing, factoring &amp; consumer finance, Tyre distribution, Motor vehicle assembly &amp; distribution</td>
</tr>
</tbody>
</table>

*(source: Corporate Profile, Tan Chong Motor Holding Berhad (1997)*
4.2 Nissan Range of Products

In the mid-passenger sector, Nissan markets the Sentra 1.6 and AD Resort 1.6 which are competing against Corolla 1.6 and Honda Civic in terms of pricing and specification. Being the flagship model for an up-market image building, Nissan Cefiro is positioned as a prestigious Nissan model competing with Honda Accord and Toyota Camry in the two litres and three litres segments. Nissan’s market share in the passenger market was 2.1% as compared to Toyota’s market share of 3.0% and Honda’s 6% in 1997.

The commercial segment basically is divided into van, light truck and 4-wheel-drive. Nissan has established itself as the market leader in the van segment with its C22 Vanatte which is well accepted as “Tahan lasak” (durable) and has been defending the number one position in the past ten years. Due to its brand equity, Vanette commands a premium price 5% above its nearest competitors Toyota Liteace.

In the light truck market, Nissan Cabstar’s market share has been in the range of 6 to 7% while the leader in this segment; Daihatsu Delta has a market share of 32%. There are a few dominant players in the 4x4 market, namely Mitsubishi Pajero, Toyota Prado and Landcruiser. With the recent launching of Terrano in the 4x4 segment, Nissan penetrated the 4x4 which was not represented before. Terrano is a basic but affordable 4x4 that is below RM100000. The following figure summarizes the competition Nissan is facing in each of the segment in the local automotive market.

4.3 TCM’s Corporate Philosophy

Companies that enjoy enduring success have core values and core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world. To survive the competitive and ever changing business environment, companies need to distinguish between the core value and
activities that must be preserved from the secondary activities that could be changed to enable the company continuously progressing. In the respect, corporate vision provides the necessary guiding principles. Understanding the importance of corporate vision, TCM took steps in 1987 to develop a vision that guide the company into the future.

The development of TCM's corporate vision needs to begin with incorporating the parent company, Nissan Motor Limited Corporate (NML) philosophy to enable a synergistic partnership between the two corporations. Nissan's worldwide corporate philosophy read as:

"Our first commitment is to customer satisfaction. Through diligent efforts to develop new customers and expand customer base, we are contributing to the ongoing progress and enrichment of society"

The strategic vision constitutes three major principles:

- To create attractive products by capitalizing on the company's innovative and highly reliable technologies, staying in constant touch with the needs of global market.

- To be sensitive to customers needs and offer them maximum satisfaction based of steadfast sincerity and ceaseless efforts to meet their requirements.

- To focus on global trends, making the world the stage for Nissan's activities, and to nurture a strong company that will grow with an active and vital group of people, who are ready and willing and at all times to take on the challenges of achieving these goals.

The principles focus on innovation, human resource and customer satisfaction as the main thrust in achieving core competencies and competitive advantage.
The philosophy stresses an equal emphasis on quality product, attractive design, competitive pricing and good service from the Nissan personnel. Clearly understood the NML’s corporate strategy, TCM management held a seminar for top executives in 1978 to have a brainstorm session on the corporate vision that could direct the company into the future. Thus, the Tan Chong Motto (Vision) was created as the result of the three days brainstorming; it was a motto created by the employees and to be adopted by the employees.

Tan Chong Motor Motto

Tan Chong Motor Is Knows To Every One
Always Stands Up Above Anyone
Nissan Is The Make We Market
Customer Comes First Is Our Target

Honesty Is Always Our Policy
Our Team Performs In Harmony
New Idea Improves Productivity
Go For Success With Unity.

To propagate the vision, this motto was turned into a song and all employees were given a personal copy of the audio cassette. Singing competition was organized and all employees were given posters of the motto and pocket size cards printed with the motto. Today, all official meetings start with reciting of Tan Chong Motto as a constant reminder to employees the vision of TCM and their role in turning the vision into reality. These actions help to communicate, educate and remind employees the TCM’s corporate vision.

A well conceived vision consists of core ideology and envisioned future. Core ideology defines what a company stands for and why it exists, that is, it defines
the enduring character of an organization. Core ideology in turn consists of
core values and core purpose. The core values reflect a system of guiding
principles and tenets while core purpose explains a company’s most
fundamental reason to exist. On the other hand, the envisioned future is what a
company aspires to become, to achieve, to create and it is made up of a BHAG
vision and a vivid description. BHAG vision (shorthand for Big, Harry,
Audacious Goals) is a clear, compelling, serve as a unifying focal point of
effort, and act as a catalyst for team spirit. In addition to BHAG, envisioned
future needs vivid description that translates the vision into a image that people
could carry around in their heads. (Collins, James C. and Porras, Jerry I.
(1996)).

TCM’s motto incorporates the company’s vision and mission. Analyzing the
company’s motto enables one to see that the company’s core values consists
of values such as honesty, harmony, unity and creativity. “Customer comes
first is our target” points out that the main purpose of the existence of TCM and
its employees is to serve customers. Without customers, Tan Chong will not
exist. As for the envisioned future, the motto depicts a desired future where all
employees will be proud to be part of the company and be able to stand tall
when the company is well established and well known. However, there is no
time frame indicated as to when this envisioned future is to be achieved.

On the other hand, TCM motto can be said to be incomplete since it has failed
to provide a detailed BHAG which is necessary for the envisioned future. In this
aspect, the motto did not provide a compelling and aspiring description of its
future. Furthermore, there is no setting of time frames in the vivid description to
ensure that all plans or strategies are achieved within specified time periods.
Ways on how to achieve excellent customer service and using it to build core
competency were also not incorporated in the envisioned future even though
customer importance has been emphasized in the TCM motto. In other words,
the TCM motto should be further improved to incorporate an envisioned future
which is communicated through a BHAG and vivid description that can be translated into a well conceived vision.

4.4 SWOT Analysis of TCM
4.4.1 Strengths
4.4.1.1 Financial resources

<table>
<thead>
<tr>
<th></th>
<th>TCM</th>
<th>UMW</th>
<th>Proton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves (RM '000)</td>
<td>1,162.2</td>
<td>731.2</td>
<td>1,232,485</td>
</tr>
<tr>
<td>Current assets (RM '000)</td>
<td>1,432,579</td>
<td>1,808,012</td>
<td>1,821,112</td>
</tr>
<tr>
<td>Current liabilities (RM '000)</td>
<td>529,130</td>
<td>974,378</td>
<td>1,160,054</td>
</tr>
<tr>
<td>Current ratio</td>
<td>2.707</td>
<td>1.856</td>
<td>1.57</td>
</tr>
</tbody>
</table>

Perbadanan Industri Berat Malaysia (HICOM), Annual Report, 1996.

From the above table, it is observed that TCM's reserve is 60% higher than that of UMW while TCM's current ratio stands at 2.7 as compared to Toyota's 1.8 in 1996. These figures reflect TCM's lower borrowings and better financial liquidity. This financially sound background does provide the company with an added advantage to tide over the current economic crisis. The strong financial standing is viewed as a strong advantage in most negotiations. In this current economic uncertainty, financial stability and capability to raise funds are major concerns in forming business partnerships for new investment as well as with the existing network of business associates.

In comparison to many other corporations which face difficulties in financial liquidity, the sound financial standing of has make TCM a preferred business associate. As such, TCM is considered less riskier and an important customer. With the business preference given to TCM over other companies which are less liquid, TCM enhances its negotiation power with suppliers.
and business associates. Furthermore, investing or upgrading the current core competencies will be less costly when TCM has a greater negotiation power.

Even after the financial crisis, this strong financial position will still be an added advantage to TCM. With the other companies reeling from the post depression effects, TCM with its huge financial resources can straight away continue with investment to build market share aggressively with or without minor resistance from its competitors. Researches have shown that investment in advertising during recession is an effective strategy in expanding market share when other are cutting down on advertising budget and therefore creating a less cluttered advertising media. The company can use its high liquidity position to further expand and build its customer service to gain further competitive edge.

David J. Collins and Cynthia A. Montgomery (1995) in their article "Competing On Resources" suggested five market tests against the value of a resource as the core competency to a firm. The five market tests are namely:

- inimitability - whether a resource could be easily imitated by the competitors
- durability - whether a resource loses its value easily with the advancement in technology or with other environmental changes.
- appropriation - the resource is owned by the firm, individual or a team of people in the firm.
- substitutability - would the resource be easily substituted with other resources that provide same value.
- competitive superiority - if the competitors are having the same resource, is the resource owned by the firm superior to that of the other competitors.

These five market tests will be analyzed against resources identified as the sources of strength in the SWOT analysis of TCM.

To raise funds through other means than profit appropriation will subject a firm to financial stress especially with today's high cost of borrowing. As such, the financial standing of TCM is a resource which is not easily imitated.
Furthermore, the resource is captured by TCM as a firm and it is superior to Toyota or even EON. However, whether the financial resource depreciates or appreciates will depend on its business performance. In times of economic downturn, it tends to depreciate and the rate of depreciation is very much dependent on the capability of TCM in managing its operational cost and the cash flow. Fundamental to all business operations, financial resource is necessary to provide the liquidity of fund that not many other resources could possibly claimed to be of a close substitute.

4.4.1.2 Management skills

The recent economic crisis has tested the capability of TCM’s management in handling drastic environmental changes. The following example demonstrate the management’s ability in handling the current crisis in a systematic and professional manner due to their foresight and responsiveness in managing changes.

In the 1998 Budget the government has came up with some tough financial measures which would affect the automotive industry directly or indirectly. In that instance, the top management team, headed by Mr. Tan Hoe Pin, the Deputy General Director, and Mr. Johnny Siew, General Manager/Director took immediate action to reorganized themselves to handle the uncertainties ahead. Realizing that the sales personnel would be much affected in terms of income and therefore their morale, the top management immediately initiated branch visits to communicate with the sales personnel on the company’s confidence and assured them the ability for the company to meet the challenges.

For most new car purchases, customers trade in their existing vehicles and the branch managers are responsible in disposing these traded-in stock which is worth millions of ringgit. Lessons from the last recession has taught the management to monitor closely the risk level of used car transactions during
economic downturn and to take decisive actions to reduce the stock level as the used car price has a tendency to slide under such economic condition. Furthermore, as finance companies began to repossess vehicles from non-performing loans, thousand of units of repossessed vehicles would flood the used car market to create imbalance supply and demand. With the first sign of used vehicles price taking a dip, a task force was formed immediately to expedite the disposal of used vehicles, probably with marginal losses, and that had helped to clear millions ringgit of used car stock before any severe losses were incurred. The key factor in this exercise was the decisiveness in clearing the used cars and the task force was prepared to make acceptable losses. It was later proven that decisiveness in making selling decision was key. Calling themselves “anak resasi” (‘children of last recession’), the management demonstrated its strategic leadership by effectively drawing up countermeasures to face the economic crisis.

Following the used car task force, the management embarked on cost cutting exercise. A task force was formed and empowered to propose and implement measures such as re-specification, re-negotiation with suppliers on prices and contracts, outsourcing of part of the administrative function such as office cleaning, and few others to bring the operating cost down by 50% within five months after the task force was set in motion. The success of the task force was dependent on the ability of the task force members in clearly communicating the urgency and purpose of the matter and its ability to induce active participation from all levels from the company. The cost reduction was achieved through re-design and change specifications of materials from advertising brochures to stationery, reducing internal paper consumption by using the reverse side of photostated papers, communicating through internal e-mail rather than hard copy of memo, tight scrutiny to reduce excess expenditure, re-negotiate with land lords, re-budget advertising expenditure, etc.
Although a listed company, TCM is still very much controlled by the Tan family which consists of the founders and their families' members. The family members dominated the board of directors and they are CEOs of different divisions of the company. Evidently, these key personnel shared the same value and vision and that integrate and synergize TCM although it is widely diversified. The cohesiveness arising from this synergy essential in meeting customers’ needs and expectations backed by a integrated and responsiveness management.

Due to its nature of causal ambiguity, management skills are hard to imitate and hard to find close substitutes. TCM did not survive the last recession and subsequent competition by chance. One important factor that has contributed to TCM's survival for the past 40 years is been identified as the quality of its management, without which, TCM won't be what it is today. TCM's management skills and the drive to innovate is superior to many other firms.

4.4.1.3 Synergistic diversification

TCM has a synergistic set-up that includes the vehicle assemblies, parts manufacturing, sales distribution network, spare parts supplies system and after sales service network under the same management. Being the largest manufacturer who supplies not only internally to TCMA (Tan Chong Motor Assembly) but also to competitors such as Proton, Toyota and Honda, APM has the volume to amortize investment in newer technology and human resources. With the technology capability of APM, TCM could localized more of Nissan components without compromising on quality. Furthermore, the experience of APM in setting up joint venture overseas could be further exploited by other TCM companies in venturing into the international market. Other example of synergistic diversification is the warehouse sales of TCM’s sister trading companies such as Wacoal and Shiseido on weekends. The warehouse sales attract the wives to visit Nissan showroom by having the warehouse sales conducted in the TCM vehicles sales branches. While the
wives are busy with their shopping, the husbands could view the showroom vehicles on display.

Synergy with APM is a resource is not easily imitated as it is path dependent, it requires technical experience, substantial startup cost and volume to amortize the investment. The resource is relatively durable as the technology for auto parts manufacturing does not advance with a rapid pace. The superiority of APM over competitors is evident by the fact that even the competitors are outsource their components manufacturing to APM. This resource is appropriated to the company and it is hard to find substitute.

4.4.2 Weaknesses

4.4.2.1 Training for the sales personnel

A recent study has indicated that the strength of an organization in the next decade has shifted from the manufacturing to the sales front. With automotive technologies reaching parity, automobile companies collaborating in R&D, what differentiates an auto brand from the other is the service components of the automotive business which includes the sales service.

Unfortunately, the importance of human resource management is yet to be fully exploited to play a strategic role in TCM. Training and development program is very much limited and this is in great contrast to Toyota’s training scheme. In 1996, Toyota conducted 293 internal and external courses for its 2998 staff while training in TCM is rather limited. Further elaboration on the human resource management could be found in Chapter Nine.

4.4.2.2 Inability to compete on cost and quality

In the case of Toyota, it has gained its superiority in product quality by investing in production facilities that enabled the Just-In-Time production
philosophy and implementation and therefore a leader in cost and quality. With
the sound financial standing that gives TCM better negotiation power over
suppliers, TCM has the choice of upgrading the production facilities to
compete with Toyota on product quality and production cost. However, TCM is
limited by its sales volume which does not allow amortization of new
investment to give TCM the leeway to continue with the current pricing
strategy. This logic is particularly relevant when the economic future is
uncertain, future demand is hard to predict and current customers are price
sensitive.

Therefore, investment in upgrading production facilities does not seem to be a
feasible strategy. Taking all this inabilities in mind, investing in human
resources and capabilities to offer better customer service should be given
better priority to investment in production capability.

4.4.2.3 Brand strength

Comparing with Toyota and Honda, Nissan represents a weaker brand in
almost every aspect except for fuel economy and affordability (economy factor).
As such, Nissan often resolved to lower pricing to secure its market share
which in turn reflected in Nissan’s reputation for excellence fuel economy and
affordable pricing as shown in the brand image survey.

What is even more worrying is that while Toyota and Honda have improved
their brand image from 1996 to 1997, Nissan seemed to have lagged behind
without marked improvement and that has in effect widen even further the gap
between Nissan and its main competitors.
4.4.3 Opportunities

4.4.3.1 Future potential of the domestic market

The recent sharp decrease in motor demand will drive smaller automobile firms as well as independent dealers out of the competition. The industry is in the process of consolidation and rivalry intensity will eventually be reduced when only a few players survive this crisis. Automotive industry will therefore be an attractive industry that offers super normal profit when the economy takes a turn for the better and deferred buying unleashed. With the aforesaid strong financial standing, Nissan is expected to stay on to take full advantage the future potential.

4.4.3.2 Regional and international market

As pointed out earlier, ASEAN has great potential for member countries and their automotive firms to exploit. With the cooperation with NML Japan, TCM could take full advantage of the opportunity presented under various schemes signed under the ASEAN trade arrangement, particularly with the auto parts manufacturing and exporting.

Although it appears to be extremely difficult for TCM to export parts internationally with the current manufacturing capability, R&D capabilities, training and development, but with its financial capability and experience in operating parts manufacturing in a few Asian countries, it is possible for TCM to venture into the world market, especially with the assistance from NML in terms of technology transfer or business networking. In contrast to investment in CKD production capability which caters only for domestic market, investment in parts manufacturing for international market has its potential as the volume might be able to be amortized and to gain competitive advantage in terms of cost and quality.
4.4.3.3 Downsizing for future competitiveness

Robert Eaton, the CEO of Chrysler Corporation believes that "downsizing and layoffs are part of the price of becoming more competitive. The price for not doing it, however, is much higher in both economic and human terms." On the same note, Robert Allen, the CEO of AT&T captures the similar sentiment when he said "My company had to make the necessary, even painful changes today or forfeit the future."

During boom times, TCM went on the expansion programme to create the size and network necessary to capture the booming market. However, the need for control within a sizable organization introduced bureaucracy which impede the ability to be responsive to rapid changes. With the market becoming hyper-competitive, organizations need to stay lean and flexible to be able to respond to the rapid changes following the globalization and technological advances in the market. Looking at the competitiveness of the company per se, the economic downturn has in effect forced TCM to downsize to not only tide the current turmoil but to stay competitive in the future.

4.4.4 Threats

4.4.4.1 Ringgit depreciation

The depreciation of Malaysian ringgit against major currencies, especially against the Japanese Yen has put tremendous pressure on the prices of new vehicles as the net imported auto components in these vehicles are high. The escalating vehicle price has put pressure on TCM to lessen its reliance on price strategy and further strengthen other core competencies for the long term survival of the company.
4.4.4.2 High interest rate

Coupled with credit squeeze where loan approvals are stringent, the current interest rate of 10% for new vehicle financing was the highest in the domestic automotive history. This high interest is cited as one of the major contributors to the recent drastic drop in the industry volume. As the intensity of rivalry increase and customers having better negotiation power, all automobile firms are going all out to offer customers attractive discounts and any other benefits and values that a customer demand when buying new vehicles.

4.4.4.3 Declining disposal income

As pointed out by our Prime Minster Datuk Seri Dr. Mahathir, our national GDP has reduced to a level equivalent to that of ten years ago. GDP for the first quarter of 1998 was reported as -1.8% and 1998 is forecasted to experience a recession of -2.8% GDP declination. With the declining GDP and reduced disposable income, the total demand for new car sales is badly affected.

4.4.4.4 Stagnant used car market

It is most common that the Malaysian new car buyers trade in their used vehicles to lessen the financial commitment of buying new vehicles. Unfortunately, with the very stringent approvals from the financial institutions on used car loans in order to reduce their exposure to risk, the used car market is stagnant and piled with high stock. Without fetching a good price for the trade-in vehicles, consumers defer buying new vehicles and that contribute further to the shrinking demand for new vehicles.
4.4.5 Summary

As pointed out by the Porter’s analysis, the domestic automotive industry has great potential in the long run. The current crisis is seen by some as an economic “cleansing” process to discriminate the “unfit” corporation which in effect improve Malaysia’s market competitiveness. The rivalry will intensified as automotive companies are under tremendous pressure to reduce inventory. However, rivalry intensity is expected to reach a new equilibrium eventually with lesser players in the market. With the existing financial standing coupled and supported by effective crisis management, the likelihood of TCM surviving the current turbulence to take advantage of the future potential is high.