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PROTON TO GAIN FROM ECONOMIES OF SCALE FROM 2ND PLANT

By: Arshi Daud

KUALA LUMPUR, March 22 (Bernama) -- Perusahaan Otomobil Nasional Bhd's (Proton) second plant near Tanjung Malim will provide the company with economies of scale and the edge for it to scale new heights in both the local and export markets, analysts said today.

There is no doubt that with the new plant, which some had likened it to a possible "Detroit of Malaysia", Proton car buyers can expect a shorter delivery period in the future. The waiting period now is a frustrating five to six months.

"But the true benefit lies in fixed cost reduction," one of the analysts said.

The second plant, which forms a segment of an integrated automobile township, will increase Proton's production of 180,000 per annum at its existing Shah Alam plant to 500,000 units per year by the year 2000.

The whole township, said to cost RM4 billion, will be constructed in Behrang Ulu. To be known as Proton City, the township will occupy an area of 1,600 ha.

Besides Proton's second factory, the area, will among others, consist of a proving ground, an automobile technology centre, staff housing, warehousing and vendor industrial areas.

Tomorrow, the prime minister, Datuk Seri Dr. Mahathir Mohamad, will perform a ground-breaking ceremony for the township.

The automobile industry analysts said Proton was set to gain from cost reduction when the new plant was fully operational in four years.

One analyst, who said better economies of scale could be obtained by having annual production of 200,000 units per model, went on to say that barring any unforeseen circumstances, Proton might see its fixed cost slashed by more than half.

"With the cost reduction, we can hope Proton to transfer the benefit to its buyers in terms of lower prices," said another analyst.

With such cuts, Proton can also expect better returns from its sales, he said.

"The most inherent benefit, however, will be for the export market, where now, in a bigger part of the market, Proton receives marginal to near zero margin," the first analyst claimed.

Proton currently exports around 18 to 20 percent of its annual output to about 30 countries. It is now gearing up for better market penetration as the world economies march to an open market scenario later.

Describing the situation as a Catch 22 situation, the analyst said, "It's a situation whereby one has to trade short term benefits for long term gains."

"Proton definitely needs a second plant for output expansion to cope with the high waiting list in the domestic market," said another analyst.

But she questioned whether Proton cars can expect to receive the same terrific response domestically as it has been getting till today, especially as competition gets more aggressive with the entry of newcomers as the local market became liberalised.

For that reason, Proton's managing director, Datuk Mohd Nadzmi Salleh, had said that it needed to expand its export market as it was the best option for its viability.

"But to be able to compete overseas, Proton needs a price advantage by selling cars cheaper than its competitors. This requires spreading the

fixed cost to a larger number of cars produced," one of the analysts said.

"And in spreading the fixed cost, Proton has scored a plus by allowing economies of scale among the vendors by relocating them within Proton City and guaranteeing a large order," he said.

Such benefits would be passed back to Proton in terms of lower parts prices, he added. --BERNAMA

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