

Proton, start by cutting losses at Lotus

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Will Proton take the respectable path to profitability by first cutting the fat, then at least attempting to manufacture its popular models for cheaper? Or will it stay with its usual methods of goading the government for handouts and measures to stifle competition?

In another life, Tiger was a notorious day trader. This was of course during the roaring 90's when the only way the stock market knew how to move was up.

Tiger watched keenly as instant millionaires were minted one after another. Tiger played the game, but by nature he was a cautious hunter.

Saved by the skin of his teeth when the crisis eventually hit, there is one lesson from those heady days Tiger takes with him always: Know when to cut your losses.

It's easier said than done. Pride can and often does get in the way. That's why we have a former prime minister, no less, clinging on to a failed pet project after over 30 years!

And cling on tight he has. It was just weeks ago that Dr Mahathir Mohamad was made chairman of Proton and Lotus, some 29 years after he very proudly handed over the keys to the first national car rolling of the production line.

Twenty-nine years ago Mahathir was prime minister. A prime minister with extremely ambitious plans to fast-track industrialisation and create an automobile industry practically from scratch.

Fast forward to the present and we have an 88-year old former prime minister trying to prolong the life of an uncompetitive and unviable national car company.

But that's not what Tiger intends to bring up today. The story of Proton is old and repetitive. Tiger's previous grumblings on Proton should more than fill in the back-story.

Now for the meaty main course: Tiger discovered today that Proton is a chip of the old block when it comes to not knowing when to cut losses.

It appears that all this while Proton has been dragging around the dead weight of an extravagant purchase from the 90s – Lotus.

According to information that came out this week, Proton, already unprofitable or just barely breaking even for years has been saddled with RM820 million in losses from UK-based Lotus Group International Ltd.

The losses were incurred during the financial year ended March 2013 and they are mammoth, especially when compared to a net loss of just RM22 million for Proton's core Malaysian operations that same reporting year.

Proton bought an 80% stake Lotus in 1996 for about 50 million pounds sterling, at that time about RM200 million. Proton agreed during the purchase to assume Lotus' debts of about RM 30 million.

It was hoped that Lotus expertise would boost product development and engineering at Proton. The purchase would "avail Proton ready access to research and development capability thus saving on financial resources, time and manpower," the national carmaker said all those years ago, according to a Reuters report.

This obviously did not turn out to be true, particularly the part about saving on financial resources. It's well known that Lotus is the sick man of Proton but very few people would have guessed it was this bad. RM820 million a year bad.

Immediately after the privatisation of Proton to DRB-Hicom in 2012 there was some talk that the new owners would hive off Lotus. The new owner being billionaire Syed Mokhtar Albukhary through his majority stake in DRB-Hicom.

Instead, DRB-Hicom decided to keep Lotus for reasons unknown. Lotus got its wings clipped, however. It was told to do away with its expensive last ditch effort to revive the brand by developing five new models by 2016.

Still, Proton had to worry over a £270 million (RM1.45 billion) loan Lotus took out in 2010, guaranteed by Proton, to undertake the development of said five new models, even after they were canned.

Lotus is a liability to Proton. That much we can be certain of. Hopefully, Proton was clued-in enough to extract all the technology know-how from Lotus in the 18 years it has owned the carmaker for.

It should have no use for Lotus now and should make it someone else's worry. There is much for Proton to do at home.

Chairman Mahathir today said he intends to shed Proton of its "cheap car" image. He has his work cut out for him.

Mahathir said that to produce cars to international standards, Proton would "need to increase prices." Unfortunately, that could be Proton's undoing. Its closest competitor Perodua is cheap and cheerful.

Consumers routinely choose cheap and cheerful over Proton's offerings year after year. Perodua, the country's top selling marque has beaten Proton in market share every year since 2005.

Back to possible reasons for Proton's tendency to cling on to Lotus. Perhaps Proton feels it has invested too much in recent years to grow the Lotus brand in China. US\$17 million (RM56 million) was spent this year to open two Lotus 4S sales and service facilities in Beijing.

After all, some Proton vehicles are rebadged as Lotus in China, but not before a gaudy paint job to drive away the "cheap car" image. Before anymore damage is done to the Lotus brand, Tiger suggests for Proton to step away.

While we are at it, Proton does have some sensible ideas for getting back on the path to profitability. Suggestions of a tie-up with a foreign carmaker to mop up the excess production capacity at its two plants sounds like a good start. Currently production is stretched thin between two plants, one in Shah Alam and another in Tanjung Malim, both operating way under capacity.

So is growing exports. Proton needs to find a larger market in order to improve economies of scale. The domestic market is just too small; exports are the answer and could dovetail in nicely with a tie-up with a foreign carmaker.

Some advice for Proton: Dump Lotus, get over her quick and start getting to work on fixing the national car project.

GRRRRR!!!

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