

Has Proton finally repented with Suzuki tie-up?

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Since inception, Proton has been a non-viable proposition kept alive through sheer protectionism. Worse, little brother Perodua has slowly been nudging it out of the market. Has Proton learned a lesson and repented of its folly with its latest technological tie-up?

In mid-June national carmaker Proton signed [a technological tie-up deal with Suzuki](#) and [declared war on its younger sibling Perodua](#), after seeing its market share slowly gobbled up by the latter over the years.

In the words of chairman Dr Mahathir Mohamad: “Perodua was supposed to stay in the 660cc market. Now they have moved into the territory held by Proton. At the time, it was okay... But now, despite having two national carmakers, our market share has gone from 80% to 48%.”

The latest tie-up will allow Proton to assemble a compact car model using Suzuki parts and sell it under its own brand in Malaysia. In other words, Proton can rebadge a Suzuki compact car for its own line.

There are two main observations to make here. One, Proton may have finally realised the folly of years wasted in trying to develop expertise. Two, both Proton and Perodua were already at war years ago — and both are under threat today.

Proton’s folly

The Suzuki deal is precisely the sort of thing Proton should have focused on all along and this deal may be a signal that the people in charge have realised this.

To put things in perspective, in the early 1980s, Malaysia’s economy was struggling. Sales of cars plunged. We wanted to grow out of a dependence on agriculture into an advanced, industrialised nation and we formulated the Malaysian Industrial Master Plan, into which national expertise went.

The Plan recommended that we focus on building up resource-based industries. Strangely however, Mahathir, the then-prime minister, wanted to build cars, for which we did not actually have a technological base.

And thus Proton was born in 1983, beginning production in 1985. It came into the market with rebadged Mitsubishi cars and subsequently became a hit, peaking at 73% annual market share by 1994.

But how did Proton become a success then? Essentially, the government forced it down the rakyat's throats by denying many the ability to choose.

At the start, Proton lacked economies of scale, meaning its cost was way higher than established carmakers. This necessitated high tariffs to make comparable imports more expensive, protecting the baby carmaker so it could survive its early years.

Mahathir argued at the time that Proton would eventually acquire expertise and scale through development and exports respectively. It would then be able to compete without protection. We are still waiting for these to happen.

Proton also [sold cars of substandard quality to Malaysians](#), a fact it recently admitted. In Proton deputy CEO Lukman Ibrahim's words: "If we want to remain competitive, we have to come out with new models (with international standards)".

He said this at end-2013 when launching Proton Suprima S, which has safety features that meet international standards. All this while Proton had been producing cars with two standards – one for international markets and another, substandard one for Malaysians.

This was an unnecessary hassle and waste, not to mention unfair to Malaysians. A combination of high tariffs and the artificial inflation of car prices ensured that many Malaysians could not afford anything but a Proton.

Its high cost base meant inflated prices, over which imports could charge a premium. Coupled with high tariffs, you would have had to fork out at least 50% more in those days to acquire a comparable import.

What Perodua did right

The introduction of the second national carmaker Perodua in 1992 has become a case study of what Proton did wrong and how it could've been right.

Since inception Perodua has had a tie-up with Daihatsu of Japan. Daihatsu controls manufacturing operations while Perodua handles sales in Malaysia for rebadged Daihatsu models under its own branding.

This was the right way forward from the beginning considering the immense task of building expertise from scratch. Perodua went straight for a technological partner, which is the more sensible thing to do.

Proton, however, still dawdled as it tried to buy expertise from several companies and ended up with multiple manufacturing platforms. This naturally meant it could neither sustain a build-up of expertise nor achieve sufficient scale.

The end result was that Perodua's products consistently outdid Proton's in both quality and reliability. This was the beginning of Proton's undoing as Malaysians chose to purchase Perodua vehicles. Over the years, Perodua's market share slowly gained as Proton's dwindled.

By 2007, Proton's market share had fallen to 24% while Perodua's had hit 33% after surpassing its older brother for the first time the year before.

Perodua's apparent gain at Proton's expense is, in fact, despite the fact that it was probably not meant to compete with Proton but rather complement it.

Perodua's main models had been intended to cater to a different segment than Proton's. Proton's Saga, Wira and Waja are sedans meant for middle-income, mid-sized families while Perodua's Kancil and Kelisa are more compact, intended for singles as well as relatively low-income and smaller-sized families.

In reality however there was a significant overlap. A study published in the Malaysian Economic Journal last year found that when the price of Proton Saga 1,300cc rises, Perodua gets a sales boost for its Myvi and Viva models.

The obvious implication here is that for Malaysians who cannot afford imports, their options are firmly either Proton or Perodua – and Proton is losing this duel to the superior quality and reliability of Perodua's cars because it is mostly dependent on pricing.

Proton, Perodua in the wider war

So yes, both Proton and Perodua are at war and in fact they have been for years before Mahathir decided to say it outright in mid-June. But both have bigger problems to worry about beyond each other.

It is true that since Perodua was born, it had gained market share at Proton's expense because Malaysians now have a quasi-choice to the first national carmaker. Increasingly however more Malaysians can afford to fork out a little extra for foreign makes instead.

Data proves this. According to unofficial market share statistics by Perodua, the combined market share of Proton and Perodua had steadily declined from 81% in 2001 to just 47% in 2014, incidentally the first time foreign cars had outsold national brands in Malaysia in annual terms.

In part this is because prices of foreign cars had been more affordable for Malaysians. The implication is that time has been and still is running out fast for Proton in particular to grow out of its cheaper-price protection cocoon before it dies a slow death either by Perodua or imports.

And despite Perodua's plea following Mahathir's remarks that it [hopes to work together with Proton](#) to defend their collective market share in Malaysia, it is developing a sedan that is set to compete directly with Proton's flagship Saga.

In other words Proton must look to itself if it hopes to survive.

KINIBIZ had argued before that there are two things Proton needs in order to stay alive: make better cars by getting access to leading technology and boost its import volume. The latter depends on the former.

It had one such opportunity in 2007, nearly roping in Volkswagen. Had that happened, Malaysia would have been Volkswagen's regional manufacturing base and rebadged Volkswagen cars may now be the most common sight on Malaysian roads.

But that is water under the bridge, or rather water in the drains under our roads.

And the Proton-Suzuki tie-up brings much hope. Is this the start of Proton's new, more prudent era?

One can only hope. Suzuki is a respectable carmaker that produces a full spectrum of vehicles. It would be a strong partner for Proton to leverage on technologically, as long as it stops its futile attempts to develop in-house expertise and focuses on building economies of scale.

If Proton can take the Suzuki partnership further as Perodua has done with Daihatsu, maybe it has a chance to be a viable proposition after all.

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