



**UNIVERSITI PUTRA MALAYSIA**

**A CASE STUDY ON  
PERUSAHAAN OTOMOBIL KEDUA SDN BHD –  
ESTABLISHMENT OF ONE-STOP INTEGRATED CENTER**

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**TESIS**

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## ABSTRACT

This is the case of strategic decision in marketing issue, particularly in Strategic Distribution System. The case background provided complete scenario of the potential threats to Perodua's future and discussed in length the current and future effects of the deficiency in distribution facilities to Perodua overall operation. The case write-up also presented the proposed plan for the establishment of an Integrated Delivery Center (IDC) in Klang Valley.

In the case analysis, several strategic tools were employed in order to evaluate the competitive position and direction for Perodua. The findings were used to analyze the possible problem(s) and propose best alternative solutions for Perodua to embark on. The analysis also provided various scale of action plan to be undertaken by Perodua in its effort to improve Perodua's position and put Perodua in the proper direction in meeting the market challenges in the new millennium.



## ABSTRAK

Ini adalah merupakan kes keputusan strategik dalam isu pemasaran, terutamanya dalam hal Sistem Pendedaran Strategik. Latar belakang kes menyediakan senario lengkap mengenai kemungkinan yang boleh mengancam masa depan Perodua dan juga membincangkan dengan mendalam kesan-kesan menyeluruh terhadap operasi Perodua, ekoran daripada kelemahan dalam kemudahan pendedaran. Latar belakang kes juga mengemukakan cadangan penubuhan satu Pusat Penyerahan Bersepadu (IDC) untuk kawasan Lembah Klang.

Di dalam analisis kes, beberapa kaedah strategik digunakan untuk menilai kedudukan dan hala tuju kompetitif bagi Perodua. Penemuan ini digunakan untuk menganalisis kemungkinan masalah dan mengutarakan beberapa pilihan penyelesaian untuk diputuskan oleh Perodua. Analisis kes juga mengemukakan beberapa skala pelan tindakan yang patut diambil oleh Perodua dalam usaha untuk memperbaiki kedudukan dan hala tujunya ke arah yang lebih sesuai dalam menghadapi cabaran-cabaran pasaran di alaf yang baru.

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# PART I

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## CASE BACKGROUND

## 1.0 INTRODUCTION

*“Our vehicles are now the lowest-priced on their respective categories. We are enjoying the price advantage over our competitors. Come AFTA, ours will not be the most attractive models despite being the cheapest. Others will be selling comparatively of lower prices and the “affordable models” will no longer be exclusively ours”*, said Datuk Abdul Rahman Omar, the Managing Director of Perodua. The others who were in the room that morning were Encik Zainuddin Bahaudin, the Sales and Marketing Director, Mr. Kei Kataoka, the General Manager for Marketing, and Encik Mohamad Shukor Ibrahim, the Deputy General Manager for Marketing. Besides them, Encik Mahadi Affandi, the Deputy General Manager for Sales and Mr. Ooi Joo Hong, the Deputy General Manager for Service were also present.

*“We need to offer more to customers to ensure their satisfaction. It takes more than just a selling price. Zainuddin, tell me what are our marketing plans in relation to this?”* demanded Datuk Rahman. *“Yes Datuk, we have identified few projects that we*

*thought would be able to enhance customers satisfaction level and establish higher retention. These projects are crucial to prepare us to compete in the post AFTA period. In the pipeline, we would have a complete network linked-up for all our sales outlets, virtual marketing and also the integrated one-stop delivery center”, replied Zainuddin. “Shukor has done some feasibility study on the one-stop center and will be submitting to Datuk soon on the complete finding and proposal”, he continued.*

*“I need the report. As you know, our Board members are positive on this direction and would not hesitate to approve funding for such projects. Our financial position is rather strong at the moment. But I cannot guarantee that it will be there for long”, concluded Datuk Abdul Rahman.*

These conversations took place during the last monthly Sales Divisional Meeting (SDM) on 15 March 1999. The meeting was ended with the consensus to study the current distribution strategy and explore possible alternative to improve the overall efficiency of marketing and customer service.

## 2.0 THE OUTLOOK

In 1989, David Halberstan predicted in his landmark book *The Reckoning*, that the automotive world would experience tremendous upheaval in the 90s and dangerous supply-demand imbalance. The proposed strategies for capturing the finite demand of “buyer’s market” would include competitive pricing, product innovation, aggressive marketing and the power of customer loyalty. Dave Nelson, Rick Mayo and Patricia E. Moody in their book *Powered by Honda* suggested that few automakers that would win were those that gave maximum attention to customer fulfillment. Honda PB credo emphasizes just on that and came out first for many continuous years.

Full implementation of the Asean Free Trade Area (AFTA) by year 2003 would further opened the Malaysian market and created competitive situation unseen by motor industry before. Price would no longer be the strategic selling factor, as next millennium’s customers would impose sophisticated taste and preference in their purchases. Most automakers were planning towards perfecting their customer service efforts and customer



satisfaction, which would become the determining factor of survival in years to come.

Datuk Abdul Rahman Omar has repeatedly talked about his vision of complete customer service program in facing the new millennium. Perodua's preparation towards this includes computerized network, which would link Perodua's operation starting from getting the order from customer to manufacturing, to invoicing and to prompt delivery. In addition to that, effort to improve customer service through integrated facilities, which include the setting up of a registration center, a pre-delivery inspection center, customer service center, and delivery center altogether under one roof had been discussed at management level.

An integrated one-stop delivery center would help Perodua gain a higher standard of professionalism among the front-liners as well as increase the customer's satisfaction level. Nevertheless, embarking on such a big project surely required in-depth study and thorough consideration especially on its short and long run's cost and benefit factors. The Deputy General

Manager for Marketing had submitted to him all the details to justify the project. Mohamad Shukor had also prepared the information pertaining to preparatory works, particularly on arrangement with Road Transport Department on the setting-up of the registration center.

Datuk Abdul Rahman was determined to improve the customer service standard and committed to make it an immediate reality. He had studied the report he received from Marketing Department. He wondered whether the proposal was a practical approach to achieve his objective. Cost was not the concern at the moment. Obviously, he could not make any mistake on this, which would be an expensive mistake.

### **3.0 ASEAN FREE TRADE AREA (AFTA)**

The Asean Free Trade Area, which convened at the fourth ASEAN summit in Singapore in 1992 comprising Brunei, Thailand, Philippines, Singapore, Indonesia and Malaysia agreed

to accelerate tariff reductions to create one single wider market within 15 years.

The ultimate objective of AFTA was to increase ASEAN's competitive edge as a production base geared for the world market. A critical step in this direction was the liberalization of trade in the region through the elimination of intra-regional tariff and the elimination of non-tariff barriers. This would have the effect of making ASEAN a competitive market where consumer would source goods from the more efficient producers in ASEAN, thus creating intra-ASEAN trade.

By year 2003, ASEAN countries would be a single market just like European Union (EU), which would have zero import tariff on imported products among participating countries. This move would deregulate most industries, particularly the motor trade, as tariff protection currently imposed to imported models would be waived. Price of imported models would be cheaper and would be competitive against the locally manufactured and assembled models.



The present Langkawi and Labuan markets were close resemblance to market scenario in year 2003, in-term of pricing gap between imported and locally produced models. A Korean model was priced closed to Malaysian's Iswara and Kancil, while a Toyota model was not much higher than the Wira.

The most important component of AFTA was the tariff reduction plan, which was covered under Common Effective Preferential Tariffs (CEPT). CEPT being the main vehicle in creating and achieving the free trade area imposed that member countries would have to abide to a progressive tariff reduction program at a maximum of 5 percent within 15 years. Products currently with tariffs above 20 percent would be given a time frame of 10 years while those below the 20 percent tariff rate would have 7 years to complete. Therefore, by year 2003, there would be an open trade situation with bigger market size comprising of ASEAN nations and a lot more competitors.

Apart from tariff reduction, the CEPT scheme allowed provision for the elimination of quantitative restrictions and non-tariff barriers. Member states should eliminate all the restrictions such

as quotas, licences and so forth upon enjoyment of concession applicable to the respective products.

#### **4.0 COMPANY BACKGROUND**

Perusahaan Otomobil Kedua Sdn Bhd (Perodua) was set up in October 1992 to realize Malaysia's aspiration for a second national car, which was an affordable, compact and practical car for growing motoring population. The manufacturer of the second national car was a reflection of the country's vision to be a fully developed nation by year 2020, through the enhancement of the nation's technological competency in the area of automobile manufacturing.

Three companies were entrusted with the operations of the second national car namely Perusahaan Otomobil Kedua Sdn Bhd as the holding company, Perodua Manufacturing Sdn Bhd (PMSB) as the manufacturer and Perodua Sales Sdn Bhd (PSSB) as the sales and distribution arm. Authorized and paid-up capital for Perodua was RM 500 million and RM 140 million

respectively. The shareholding structure for Perodua is listed in Appendix A1.

Perodua wholly owns PMSB and PSSB. Both offices and plant were located at Perodua Automotive Complex in Serendah, Rawang, Selangor. The manufacturing facilities, which commenced operation in March 1994 with maximum capacity per annum of 45,000 units were now able to produce as high as 120,000 units a year. From just one product range, namely the Kancil 660 c.c. in 1994, Perodua produced and sold five different products as listed in Exhibit I-1. Barely five years from its commencement, Perodua staff grew from only 850 to 3,000 employees. Almost all of them were based at its 80 hectares Automotive Complex in Serendah.

**Exhibit I-1: PERODUA PRODUCT RANGE**

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<b><u>MODEL</u></b>	<b><u>VARIANCE</u></b>	<b><u>TYPE</u></b>
<b>Kancil 660 c.c.</b>	<b>EX, GX, EZ</b>	<b>Hatchback car</b>
<b>Kancil 850 c.c.</b>	<b>EX, GX, EZ</b>	<b>Hatchback car</b>
<b>Rusa 1.3 Liter</b>	<b>CX, EX, GX</b>	<b>Multi Utility Vehicle</b>
<b>Rusa 1.6 Liter</b>	<b>GX</b>	<b>Multi Utility Vehicle</b>
<b>Kembara 1.3 Liter</b>	<b>EX, GX, EZ</b>	<b>Four wheel drive</b>

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Source: Corporate Brochure, Perusahaan Otomobil Kedua Sdn Bhd

Through its partners, Perodua had and would continue to acquire the core technical competency to design and manufacture its own automobiles, and eventually propel Malaysia into the international arena as a full-scale manufacturer of motor vehicles. Exhibit I-2 produced Perodua's turnover in-term of value from 1996 to 1998. Perodua's earnings breakdown and sales figures are listed in Appendix A2.

**Exhibit I-2: PERODUA GROUP TURNOVER (RM)**

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	<b><u>1996</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
<b>Turnover</b>	<b>1.56 billion</b>	<b>2.04 billion</b>	<b>1.38 billion</b>

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Source: Annual Financial Reports, Perusahaan Otomobil Kedua Sdn Bhd

Whilst Perodua's technology was mainly sourced from its Japanese joint-venture partners, management philosophy dictated that the company would achieved the most cost-effective technology irrespective of country of origin. In this respect, the company had already adopted some German, Swedish and France technology in its manufacturing plant.

## **5.0 PERODUA'S MARKETING SET-UP**

Perodua Business Plan, which was produced in 1994 stated its marketing objective as "to quickly and aggressively penetrated the auto industry market through simple and effective sales network together with concerted marketing efforts; innovative advertising and sales promotion campaign so as to create a 'pull sales' environment." It also stated that by 1999, Perodua would become the best car distributor in quality for the respective fields and activities in Malaysia. Perodua, with its ISO 9001 awarded in 1997, was already on the move towards achieving this objective.