

## The Strategies of China Car Maker in Malaysia: A Case Study of Chery Automobile Co. Ltd.

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### Abstract

Globalization occur in every country around the world. Now everyone could do business internationally including in Malaysia. As an open market, Malaysia welcomes multinational company (MNC) to do business. That includes production industries such as car makers. From 1980 until 2015, Malaysian car market continues expending from year to year significantly by the growth of its citizen. In 2015, total of 591,298 passenger cars from 666,674 vehicles were registered on the road. That includes local and foreign company manufacturers including from China. However, due to global economic uncertainty, car market in Malaysia also be effected. All foreign and local car makers compete hardly to gain market share to sustain for incoming years ahead. So this study will refers the strategies of Chery Automobile Co. Ltd. in Malaysia. At the end, this study will proposed suggestions to Chery to gain market share in the future.

**Keyword:** China's car manufacturer, Foreign Company, market, Chery

### Introduction

Car industry experience slow increase from 666,487 in 2014 to only 666,674 in 2015. Although the car market was effected in first and second quarter in 2015 due to economic slow growth, the overall passenger car market in 2015 was increased by 2,950 units from 588,384 in 2014 ("Market Review For 2015 and Outlook For 2016," 2016). Research done found that phenomena was resolved by a fairly economic and employment, aggressive campaign by car companies in last few months in 2015, the introducing of new models and additional specifications and design styles, and attractive offers and loan schemes in Malaysia ("Market Review For 2015 and Outlook For 2016," 2016).

However, competition among sub-segment of passenger vehicles occur between 2014-2015. According to figure 1, in 2015 four wheels drive / sport utilities drive (4WD/SUV) increase. While multi-purpose vehicles (MPV) dan passenger cars (PC) decrease. In 2015 total of 259 passenger cars and 37 commercial vehicles of Chery were sold ("Market Review For 2015 and Outlook For 2016," 2016). Before that in 2014, there were 350 Chery's sold. At the same time,

forecasting Malaysia Automotive Association, car sales in 2016 will reduce to 650,000 from 666,674 than previous year (“Market Review For 2015 and Outlook For 2016,” 2016). Due to global economic subdue, weakening of Malaysian Ringgit, the lower growth of Malaysian economic around 4% - 5%, Tightening of hire and purchase loan and aggressive promotion by other car manufacturers will be effecting market in 2016 ahead.

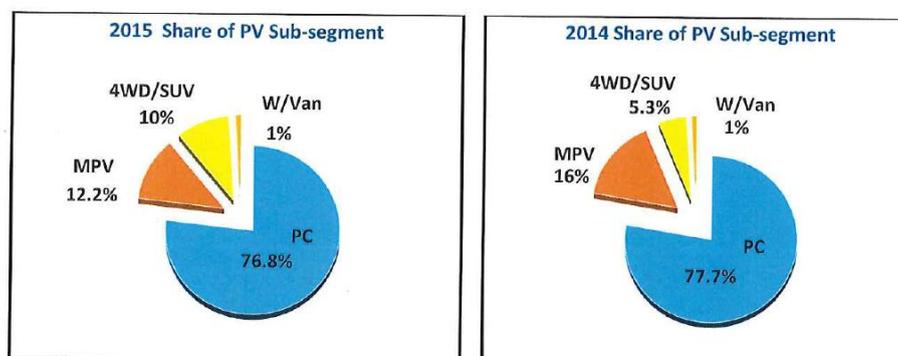


Figure 1. Share of Passenger Vehicles in 2015 and 2014 by Sub-Segment: 2014-2015. Copyright 2016 by MAA. Reprinted with permission

### 1.0 Trend Of Car Sales In Malaysia

In 1985, 34% consumer used public land transport meanwhile 20% in 1997 and 10-12% in the year 2008 (“Transformasi Pengangkutan Awam Darat – Sejarah, Aspirasi dan Cabaran”, 2016). That caused by the increasing of owner self-passenger car among Malaysia citizens. They, tend to move around by car rather than public transport. This is one of the reasons that causes Malaysian prefers to have its own car. The table below shows the summary of registered car in Malaysia during 1980 until September 2016. This trend shows the increasing of passenger cars registered on the road until end of 2015 (“Market Review For 2015 and Outlook For 2016,” 2016). By the end of 2015, 591,598 passenger cars were sold in Malaysia, which is the highest number ever within 16 years. This situation was influenced by Malaysian buying power.

The buying powers of Malaysian are determined by Income Per Capita. The average of income earned by each person in given area is called Per Capita Income (“Income Per Capita”, 2016). There are increasing in Malaysia’s GDP per Capita from USD 8,236 in 2006 to USD 10,876 in 2015 influent the buying power among Malaysian (“Malaysia GDP Per Capita,” 2016). In addition, forecast by the third quarter 2017, Malaysia GDP per capita will increase to USD 11,493, and by the year 2020 it will increase to USD 12,156. The increasing of Income per Capita lead to high demand in market such as demanding of passenger cars.

Year	Passenger Cars	Commercial Vehicles	4x4 Vehicles	Total Vehicles
1980	80,420	16,842	-	97,262
1985	63,857	26,742	4,400	94,999
1990	106,454	51,420	7,987	165,861
1995	224,991	47,235	13,566	285,792
2000	282,103	33,732	27,338	343,173
2005	416,692	97,820	37,804	552,316
2006	366,738	90,471	33,559	490,768
2007	442,885	44,291	-	487,176
2008	497,459	50,656	-	548,115
2009	486,342	50,563	-	536,905
2010	543,594	61,562	-	605,156
2011	535,113	65,010	-	600,123
2012	552,189	75,564	-	627,753
2013	576,657	79,136	-	655,793
2014	588,341	78,124	-	666,465
2015	591,298	75,376	-	666,674
YTD SEPTEMBER 2016	370,871	47,562	-	418,433

<b>Note:</b>	
(i)	Passenger Vehicle industry reclassified in January 2007 and includes all passenger carrying vehicles. i.e. Passenger Cars, 4WD/SUV, Window Van and MPV models.
(ii)	Commercial Vehicles also reclassified on 1 January 2007 and includes Trucks, Prime Movers, Pick-up, Panel Vans, Bus & Others.

Table 1: Summary of New Passenger & Commercial Vehicles Registered in Malaysia for the Year 1980 to September 2016. Copyright 2016 by MAA. Reprinted by Permission.



Figure 2: Malaysia GDP per Capita Between 2006 and 2016. Copyright 2016 by Trading Economics. Reprinted by Permission.

Forecast	Actual	Q4/16	Q1/17	Q2/17	Q3/17	2020	Unit
GDP per capita	10877	11042	11493	11493	11493	12156	USD

Malaysia GDP per capita Forecasts are projected using an autoregressive integrated moving average (ARIMA) model calibrated using our analysts expectations. We model the past behaviour of Malaysia GDP per capita using vast amounts of historical data and we adjust the coefficients of the econometric model by taking into account our analysts assessments and future expectations. The forecast for - Malaysia GDP per capita - was last predicted on Thursday, November 10, 2016.

Table 2: Forecasting GDP per Capita in Malaysia. 2016-2020. Copyright 2016 by Trading Economics. Reprinted by Permission.

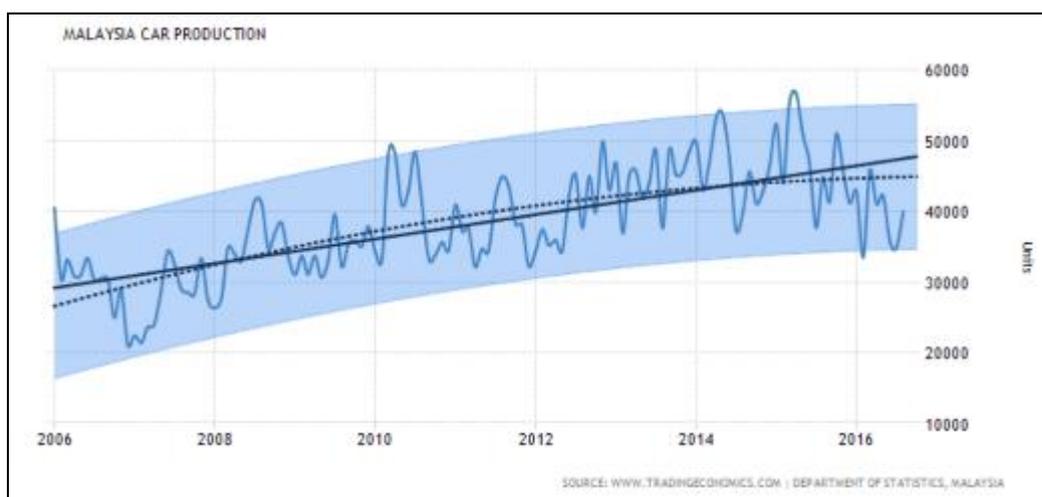


Figure 3: Malaysia Car Production between 2006 until 2016. Copyright 2016 by Trading Economics. Reprinted by Permission.

The increase in trend of car production in Malaysia 10 years is show in figure 3. By 2017, the graph forecasts the trend of increasing (“Anggaran Penduduk Malaysia 2014-2016,” 2015).

That will lead most of car manufacturers to increase their production in those coming years significantly as the increasing demand in the Malaysian's car market.

In 2016, there are 31.7 million population with 1.5% growth in Malaysia ("Anggaran Penduduk Malaysia 2014-2016," 2015). In 2014, Malaysian used 14.6% of their income for transportation which is the third highest expenditure among Malaysia after housing and utility 23.9% and food 18.9% ("Anggaran Penduduk Malaysia 2014-2016," 2015). From that figure 3, shows that the transportation is very important in Malaysia. People using cars for working, shopping, sightseeing and others purpose according to their comfortable own-time.

## **2.0 Chery's Study Case**

Chery Automobile Co., Ltd. was founded on 8 January 1997 ("Chery Overview", 2014). This China's car manufacturer, operated in Wuhu, Dalian and Ordos. By 2013, it was awarded as number one in Chinese car makers. The brands of Chery cars are Easter, Fulwin, QQ, Arrizo and Tiggo which 1 million units were exported to over 80 countries including 1,100 distribution outlets and more than 900 service stations worldwide. Since then until June 2014, Chery had produced 4.5 million units.

In term of technology, Chery had developed iAuto which a high-technology for its cars. Hence, Chery also use new technologies which are, dual variable valve timing (DVVT), turbocharged gasoline direct injection (TGDI) and continuously variable transmission (CVT) for its cars. Those new technologies used by other car manufacturers widely. Now, Chery has received international standard of assurance management system and gain international quality certification of ISO900 and TUV Rheinland ISO/TS16949 ("Chery Achievements", 2014).

As a MNC, there were many achievement gained by Chery. In 2006, the company was honored as a national automobile and automotive parts export base ("Chery Achievements", 2014). In 2010, Chery was elected as "Most Admired Chinese Companies in 2010" in 5 straight years. Then in 2011 Chery won the "Best Chinese Brand in 2010" in Indonesia ("Chery Achievements", 2014). Meanwhile in 2012, it won the "Award for Market Performance", "Marketing Award" and "Award for Booth Design" in Belgrade Auto Show 2012. It also won the "Best Auto Brand" in Esfahan International Motor Show in 2012. In 2013, the official website of Chery in Peru won the "Automobile Standard of Excellence" in the auto category of Marketing Association's WebAward. By 2014, Chery's TX concept grabbed the "Award for Best Auto Design" in Auto® Design Conference.

Building brand in the international level is the company strategic goal. For that purpose, Chery has developed local and international market by becoming China's first automobile maker by export complete knocked down (CKD) parts such as engines and other equipment to abroad countries. Thus, Chery make cooperation with other countries local company by focusing in product strategy, localization strategy and the talent strategy ("Chery Overview", 2014).

Product strategy will lead the business to zero in on targeted audiences and focusing the product and customers aspect. For example, MPVs is suitable for family usage. While localization is the process of adapting a product fulfill a specific local need. In this case that is why Chery markets different car type in different countries. While for talent strategy, is to

determine the niche of the company and to emphasis in that specialty. In that case, Chery could produce quality cars at inexpensive cost compare to other car makers.

Chery cooperate with other multinational companies in the same chain such as by practicing joint venture. The Jaguar Land Rover & Chery Automobile Company Limited is the example of Joint Venture companies. The win-win strategies purpose for gaining market and using Chery factory in China for producing Jaguar Land Rover's cars. As a reply, Chery could enter the market and production in Jaguar Land Rover's factory in Rio de Janeiro ("International Manufacturing", 2014).

In Malaysia, Chery Automobile Co. Ltd. set up its biggest showroom in Petaling Jaya, Selangor. The showroom consists of 30 service bays which could offer service to 70 cars daily. Rather than that, Chery also open about 55 outlets for sales and service center in around Malaysia. In the future strategies, Chery had invested RM 250 million to set up plant in Malaysia and completed in 2015. That results in the facilities to be the main automotive hub and expert in the nation ("Chery Cars in Malaysia", 2014).

One of the features in choosing cars is the design. So that is important for Chery to make sure its design fulfill the market need especially among Malaysians. For that purpose, Chery had hired ex-Porsche foreign designer Hakan Soracoglu, 47 year old. He experienced 15 years at Porsche Company and produced the design of 918 Spyder, Boxter and Cayman models. Before that, he began at Ford and had designed Focus and Modeo models. Now, he is the head of 30 members at Chery's design Center in Sanghai, China. To make sure that Chery values the foreign expertise, they pay them triple salaries than in US and Europe ("Chery Top Designers," 2016).

Chery Alado Sdn. Bhd. is a joint venture company that was set up in Malaysia. The purpose of this company is to assemble CKD cars in Malaysia. Before that, CBU model of Chery's car was imported from China. CKD now reduce the price to make competitive cars in the market. For example MPV the Chery Maxime price is from RM 84,143.10 and Easter from RM70,701.35 ("Luxurious Drive of Sedan, Practical Capabilities of An MPV", 2016). New CKD cars introduce are sport utility vehicle (SUV) TIGGO SUV 2.0L and 1.6L Manual ("Chery Introduces New CKD SUVs in Malaysia", 2009).

### **3.0 Conclusion And Suggestion**

Overall by year to year, Malaysian car's market continuous to expand positively. The buying power of Malaysian is higher and continuously increasing with the significant to GDP income per capita. Having Car is a need for every Malaysian family. Although there is national car sale in the nation, the Malaysian market tends to compare between the purpose, price and its quality among other car makers. For that purpose, Chery should take the advantage to adapt its talents, products and localization strategies to gain profit in Malaysia.

Due to economic subdue in Malaysia, Chery required alternative strategies in producing cars. New and advanced technologies is a crucial in coming year. In the future, Chery should invest in green technologies and introduce it to Malaysian market. For example of the green cars are electric and hybrid cars. These existing technologies by Japanese car makers are still expensive in Malaysian market. Not every car makers have these technologies due to company

limitation and ability. Thus, Chery should take this opportunities by using its specialist in producing lower price cars to compete the Japanese cars.

From the findings of, there are decreasing of share market of MPVs from 16% in 2014 to 12.2% in 2015 ("Market Review For 2015 and Outlook For 2016", 2016). So Chery should not just focusing in MPV segment, but others types such as SUV/4WD that shown increasing market share from 5.3% to 10% in 2015. The introducing of new TIGGO SUV may increase market share in future.

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