

## Proton Strategic Positioning as Cost Leadership in the Malaysian Market

**Laith Ali Zgair Gharan**

Technical College Al-Mussaib, Al-Furat Al-Awsat Technical University, Iraq (ATU)

Email: [laith.zgeir@atu.edu.iq](mailto:laith.zgeir@atu.edu.iq)

**Baraa Shaalan Amir**

Technical College Al-Mussaib, Al-Furat Al-Awsat Technical University, Iraq (ATU)

Email: [braaashaalan@atu.edu.iq](mailto:braaashaalan@atu.edu.iq)

Iraq

### Abstract

The automotive industry in Malaysia was traditional dominated by the Proton, the national carmaker. Recently, there are some other players in the market and some regional and international players have entered the market as well. The car that provides the customers with good quality and low prices. The company position itself as cost leadership. The paper aim to review the strategic positioning of the company as cost leadership. The literature was reviewed on the topic related to cost leadership and other generic strategic of Porter. A profile of the company is presented with its mission and vision. According to a review of all the literature and the company profile. It was found that the company does not have the cost leadership characteristics. Other local companies provide better products and low prices than Proton. In addition, regional carmakers such as KIA are also providing good quality with comparatively low or similar prices.

### 1. Introduction

There are many challenges that are being confronted by manufacturers these days. The major challenge comes from the rapidly changing environment and the creation of new competitors locally and internationally. In this rapid changing environment, technology is rewriting the game and more is required of manufacturing companies than ever before. Strategic positioning of companies has received the attention of researchers since the time when Porter (1980) developed the four generic strategies for companies to pursue to achieve competitive advantages. Creating competitive advantage was one of the major topics that attract the attention of researchers because the competitive advantages are always translated into increased organizational performance (Lei & Slocum, 2005).

Malaysia, carmaker manufacturing is shown that the more important strategy industry. A government relies on this industry to achieve the vision of 2020. The industry is dominated by two local players received unconditional support from the government. These manufacturers are Proton and Perodua. They produce mainly passenger cars. These two companies have 80% of the market share of car industry in the country. This can be related to many reasons such as prices of the local car, taxes on foreign car, and regulation of the government. However, with the fact that Malaysia is member of ASIAN and the government has made many regional and international agreement, the

automotive industry eventually will be liberalized, and customers will be able to choose among many alternatives. Effective positioning of Proton in the market is required to create customer base and manage to face the competition. A main objective of the study is to emphasis on situation of Proton company as it positions itself as a cost leadership carmaker in Malaysia.

In this paper, we focus on the strategy of Proton and it's positioning as low-cost leadership fashionable the cars manufacturing. This study involves six sections. The opening section offers the overview, next section present the study review on cost leadership and its implementation and practices. Further, the third section presents a profile of the Proton Company. The fourth part discusses research methodology. The outcomes of the study and recommendation are provided in section five. The last part discussing about conclusion of this study paper.

## 2. Literatures Review

### 2.1 Cost Leadership

Porter (1980) pointed out that there are two general conducts of creating competitive advantages. These are low-cost suppliers or differentiation of the offer in a unique and worthy condition. All companies have to reflect on how to insert a market, then create, and keep its competitive location. Therefore, mainly the idea of responsibility management improved through Porter (1980), and it's use in organization strategies. It's describe a way of creating a good benefit. In staple style, fees management are a few fees operations in the production that company operates in which (Stahl & Grigsby, 1992). Many factors can drive cost leadership. This includes the efficiency of the company and its size along with the economics of scale and scope, and cumulative experience. A company pursues a cost leadership strategy will attempt to deploy the scale of production and its well-defined scope and it will aim to produce high quality products by using high technology (Reid, 1993). Recently, there has been a trend by companies to choose strategic combine to complete market. This relationship involve in coincident cost management, excellent purchaser advantage and outcome direction (Davidson & Pai, 2004).

Porter strategies fouces on two main types of competitive advantages, which are cost and differentiation leadership. The tertiary general approach is a subdivision of another two. This strategy is focused. Porter's generic strategies indicate diverse company schedules, constraint processes, and motivation system.

Many researchers have highlighted the role of pursuing forward or backward integration strategies or horizontal and vertical integration to attain cost leadership. There are many elements to focus on when targeting cost leadership. These are including services, processing, overhead, fee recovering of skills, and be comparatively sparing like parts as R&D, facilities, sale work, preparing and improvements and advertise (Porter, 1980; Hlavacka et al., 2001). This goal of creating low-cost producers of business that characterized by price sensitive buyers can be an effective strategy. However, on the other hand, the goal of achieving a differentiation strategy suits the market where

the customers are not sensitive to the prices. (Porter, 1980; Malburg, 2000; Allen et al., 2006). A key concept is for underrepresent participants and thus expand marketplace and selling, operating the competition out of the markets completely (Porter, 1980).

Porter (1979) defined the strategy as “structure defenses against the inexpensive forces or result locations in the manufacturing where the marines are weakest’. And similarly well-defined positioning is like an achievement that consents a company’s abilities to “offer the greatest defense against good forces” (Porter, 1979). In this logic, strategic location can be indicated as a strategy achievement to discover the greatest concoction of strategy to secure a company against the competitive drives in the manufacturing.

The best competitive strategy sight and the resource-founded opinion are the two main perceptions on determining factors of strategy position and company performance (Spanos & Lioukas, 2001). The competitive strategy outlook, rooted in manufacturing corporation writings, retains an external-in perception where organisation performance is determined principally by environmental issues such as manufacturing building. In contrast, the additional new source-based position argues that company-specific sources and abilities are the influences affecting company performance.

### **3. Company Profile**

Proton is the national car company in Malaysia also it was incorporated in 1983. The company manufactures, assembles, and sells motor vehicles and related products, including accessories, spare parts and other components. Proton SAGA was the first national car that are produced by the company in 1985. The car was launched by the former of Prime Minister Dr. Mahathir Mohamad who formed the knowledge of a Malaysian car.

The firm was registered on the KLSE in 1992 and its owners include Khazanah Nasional Berhad, Petroliam Nasional Berhad, Mitsubishi Corporation, Mitsubishi Motors Corporation, Employee Provident Fund Board, and further local and overseas stockholders. The firm had some main challenges in the latest years, with new contest and the deregulating in the manufacturing. Proton Holdings Bhd made losses for five consecutive years. However, recently the company managed to achieve profits. The reason behind the profits is the overview of novel models with highest margins, best rummage sale volume, and investments of set-wide charge-saving creativity, and salary of the auction of rights for usage of Knowledgeable Property Rights linking to a vehicle platform as well as the R&D grant.

In July 2012, the company was sold to the DRB-Hicom, which took full control of the national car. The new management aims to return Proton to occupy its position as the leader of the national carmaker and it aims to sell 500,000 car annually in the five coming years. Recently, the company introduced SAGA SV and the demand for the car passes the expectation.

#### **3.1 Vision and Mission of Proton**

Company vision is developing Asia's premier automotive type that associates with people and increased outcomes, which enhances lifecycle organizations. **The company Direction** is the company mantra created by Proton Holdings Berhad, largely to its workers.

The company's mission of its short-range aim is focused on three major characteristics that differentiate the situation from its participants as results: -

- a) **Economical** – Offering automobiles which are inexpensive, charge competent and rate for currency.
- b) **Caring** – offering consumer compensation and its community company career as a really Malaysian cars industry and to improve their Purchaser Association Directors (CRM)
- c) **Quality** – supplying a constantly increased produce and consumer proficiency.

The vision in addition mission of the company focuses on being close to the customers and proving them with affordable cars and cost effective cars.

#### 4. Methodology

This paper focuses on the strategy of Proton on positioning itself as a cost leadership car. The paper is adopting quantitative approach where the secondary data collected from the literature and the company profile. Articles related to cost leadership are investigated and reviewed to generate general understanding of the term cost leadership and its implication for carmakers. After that we compared the literature with the profile of the company and its practices to generate the findings of this study.

#### 5. Findings and recommendation

It is vital for the company that it sharpens its skills and capabilities to face increasing competition. Entrants to the car market in Malaysia still moderated. However, soon it will be a very competitive market. The company has to look for experienced and suitable partners or to develop its capabilities and competencies to come with a course of action that can let the company survive. It might be the idea of privatization of the company a successful idea. The support of the government is not endless and then the company has to face the reality and be up to the challenges that come with the new deregulations. Other local competitors are gaining increasing market share because they provide cars that suit the customers and their incomes. Therefore, substitute for the car are increasingly available and it will more increase in the near future due the economic agreement that the government has signed with regional and international countries.



Substitutes for the company product are increasingly available. Korean cars such as KIA and other brands are available at a competitive price yet higher quality. A great investment in brand and design of car products must be launched by the company to keep the market share up.

Buyers are increasingly strong, and they have the power to shift to other providers. The Korean car is one example and the other is the other national car PERODUA that has so far made good progress and occupied a good percentage of the market share by offering small car with good quality. Thus, Proton must launch a marketing campaign to increase customers' loyalty. It has also to provide them with good incentives to buy Proton car such as discount price and facilitated payments.

Suppliers are currently few but with the new policies and regulation, they will be soon many. Proton has to secure its position as the national car by providing the market with cars that affordable yet can compete with the foreign car.

The competition between the car providers is strong and it will be sharper day after day. Proton has to make sure when the time comes that it is ready to face the global competition with strong brand name and loyal customers who can find it difficult to switch to other providers. If Proton does not secure its position in the Malaysia market, we will be witness of the company restructuring or bankruptcy in the near future.

The focus on providing cars with affordable prices must be emphasized. The prices of the car are comparatively higher than other cars. In addition, customers are increasingly switching to other car. The positioning of the company as cost leadership is moderately weak and need to be enhanced to secure the company position in the Malaysian market.

## 6. Conclusion

The aim of the paper is to appraisal the position of Proton as a provider of few cost car and a pursuer of cost leadership in the Malaysian market. Proton is considered as the first carmaker in Malaysia and it is a source of pride for the country and the citizens during the 1990s. however, due to the recent changes which represented by introducing new car maker and the invasion of the Malaysian market by regional and international car maker has weaken the company position and it lost the position of being the Malaysian leader in the car industry. Many agreements have been signed by the government and these agreements enable other carmakers to sell and promote their cars in the Malaysian market in prices similar to proton and quality comparatively better. During the last decade, the company sales were declined, and the company entered the loss zone for more than five years. Recently the company was acquired by DRB-Hicom, and it is believed that the company will



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make some progress in term of retaking its market share and its title as the market leader of car industry in Malaysia.

It is vital for the company to focus its efforts on R&D and innovation. New design of cars and the ability to develop new product and services can enhance the company position and restore its position. These be able to be completed by meeting on operating a novel IT or IS to speed up the method of drawing up plans. It is also can be important to emphasis on the human resources characteristic of the firm in order make sure that the firm has capable and experienced works to increase additional and well product that will suit the ever-moving preferences of the customers. A review of the strategies in the previously mentioned areas is required for the company to survive in this very competitive time.

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