Cultivating auto market in third country with oversea subsidiaries
The Case of Kuozui Motor

Prof. Shinya Orihashi, Ph.D.
Tohoku Gakuin University, Japan

Automobile: technologically complicated
→ Considered as concentrating R&D function to HQ is the best choice

• HQ became extremely busy due to globalization
• Market diversification worldwide (not only developed)

Regional HQs were established
→ Some functions of HQ were relocated
EX. Researching local market needs

Research Question
• Is regional HQ always a best choice?
• If the subsidiary has enough capability, it may be better that the subsidiary itself take action

↓
• Field study of Kuozui Motor
• A Toyota’s manufacturing subsidiary in Taiwan
• Known as one of the strongest oversea plant in routine organizational capability (Orihashi, 2008)
• Has operated R&D center with design studio since 2002

1. OVERVIEW OF TAIWANESE AUTO INDUSTRY
Overview of Taiwanese auto market

- Taiwan economy sustains stable growth after recovering from worldwide recession in late 2000s
- Automobile penetration rate is already HIGH
  → Majority of automobile demand is replacement
- Total market is approx. 400,000, more than 100,000 of it is imported one.
- Since 2003, Kuozui Motor has run ahead of others

Source: TTVMA, JETRO

Taiwanese automobile market (2014)

- Kuozui 26%
- Yulon 14%
- China Motor 10%
- Ford Lio Ho 8%
- Other domestic 9%
- Imported cars 33%

Taiwanese auto market by brands (2014)


Transition of Taiwanese auto market


Overview of Taiwanese auto industry

- Every domestic manufacturers receives capital participation and/or technical assistance from multinational OEMs mainly Japanese
- Relation with Mainland China
  - Yulon group companies (China Motor and Yulon Motor) invested from late 1990s
  - Kuozui Motor also send its employees to China, in order to assist startup of Toyota’s JV in China

Market share of domestically assembled vehicle

資料: TTVMA
2. KUOZUI MOTOR AND ITS EXPORT PROJECT

Kuozui Motor (國瑞汽車)

- JV between Toyota, Hino and local distributor, Toyota holds majority of its share
- Produces passenger car (Toyota) and commercial vehicle (Hino and Toyota)
- Relatively short history, however it showed rapid growth to become a top player
- Known as one of the strongest oversea plant in routine organizational capability (Orihashi, 2008)
- In 2002, R&D center with design studio established. It services not only for Kuozui but also for Toyota’s East Asian business
- Started large scale export for the Gulf countries in 2009

Kuozui Motor Production Volume

Source: Kuozui Motor

Kuozui’s production by model

Source: TTVMA
Kuozui’s sales by model in Taiwan

- Corolla: 42%
- Wish: 14%
- Yaris: 12%
- Vios: 12%
- Camry: 10%
- Innova: 5%
- Trucks and Buses: 4%

Source: TTVMA

Export project

- Until 2008, produced solely for Taiwan market
- From 2009, started large scale export of Corolla, one of the flagship global model of Toyota, to the Gulf countries
- Now, majority of Taiwan made Corolla are exported

Kuozui produced Corolla by destination

Source: TTVMA

Kuozui produced Corolla by destination

Source: TTVMA
Start point

- Export project was a big challenge even for Kuozui
- Kuozui employee handled quality assurance and eliminate the causes of defects, some expatriates were sent to the Gulf countries
- Learning local needs and making design change accordingly handled TMAP-EM or Japanese HQ
- At first, majority of Gulf export was from Takaoka plant and Kuozui was a supplementary source
  → Focus of Kuozui’s attempt was set to raise its quality level up to that of Takaoka plant

Problem

- Corolla’s full model change was coming
- Severe foreign exchange environment (HIGH JPY, LOW KRW)
  ↓
Hyundai Motor of Korea gradually raise its market share in the Gulf countries

Implemented field survey

- Original intention
  – Seeking breakthrough the problem
  – Preparing full model change of Corolla
- Participants
  – President (JP), vice president (TW), person in charge for quality assurance and presidents of major
- Visited five countries in the Gulf countries

Following the survey

- Interest of local distributors
  – Requested Toyota to meet its product for Local needs
  – Good quality was thought to be in the natural order of things
  ↓
  Design and specifications are important
  ↓
- Kuozui: Sent out designer and engineer in order to learn local needs by themselves
- Suppliers: reported JP HQ about the needs of the Gulf country and tackle the problem
Differences between the two markets

**Interior**
- Taiwan
  - Preference is Black leather. Black is luxury color in Chinese culture
- Gulf countries
  - Black is stiffing color for their culture
  - White is noble color and preferred as interior color
  - Fabric seat is preferred, not leather one

**Exterior color**
- Greater China, including Taiwan
  - Private cars are status symbol
  - Black, luxury color, is preferred as well
- Gulf countries
  - White-tinged color, especially pearl white, is preferred

Unexpected customer and usage

- Both customer and usage was different from existing information from TMAP-EM
- Saudi Arabia
  - Saudi Arabian prefer larger car; guest workers, such as Egyptians and Indians, purchase Corolla
- Kuwait and UAE
  - Women often purchase Corolla as second or third vehicle of wealthy families

In Kuwait and UAE

- Taiwanese female designer took hearing survey to their female customers
  - Usually, they do not drive. So, they hire a private driver and take front passenger seat
  - In order to hold a leading position of the vehicle, they order retrofitter to remove and replace genuine security system
  - Move main switch of door lock system to front passenger seat
Immediate action: precedent introduction of new color
• Pearl white is preferred, not black
• Originally, Toyota planned to introduce that color with full model change of Corolla, however Kuozui decided to introduce it to late one
• Challenges
  – Surfacer must be gray, not existing black
  ←Tacked sub tank to paint shop in order to enhance circulation
  = Usually, this action takes about one year, however thanks to Kuozui’s strong engineering capability, they accomplished in three months

Result of immediate action
• Minimize the changes at the time of full model change
• Production is usually drop in the last phase, however thanks to the popularity of new color, production did not drop. Kuozui could manage to keep employees↓
• Kuozui could manage to improve quality level at the startup of the brand-new Corolla
• As new color Corolla could be sold at premium price, it contributed to Kuozui’s profit

DISCUSSION

Why HQ and TMAP did not notice
• It does NOT mean that they are lack of capability in market research
• For Japanese HQ, market of the Gulf country is not large enough
• Same for TMAP-EM = Their main business is IMV, following SE Asian passenger car market
• Multinational OEMs usually allocate limited management resources according to strategic importance of each project, so it cannot be helped
Why president himself visited

• Export to the Gulf countries has a significant share in Kuozui’s production
⇒ Its success was critical for the company’s survival

Result of executive team visit

• Functional head or the member would only hear about their assigned area
• On the other hands, executive team would hear wide range, including mid-long term tie-up with local distributors
• GENCHI GENBUTSU (Go and see for yourself to thoroughly understand the situation) made to discover real local needs which cannot find out from remote location

Summery of the case

• Kuozui Motor has strong engineering capability
• Became to make genuine efforts to the Gulf countries which became core market for it
• Successfully cultivating the market
• It is quite important that executive team themselves make an inspection of export destination and meet with customer

Implication

• In case that the subsidiary has enough capability, it is better that the subsidiary itself take action