

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

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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

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## 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

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## 1. OVERVIEW OF TAIWANESE AUTO INDUSTRY

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## Overview of Taiwanese auto market

- Taiwan economy sustains stable growth after recovering from worldwide recession in late 2000s

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## Taiwanese automobile market



Source: TTVMA, JETRO

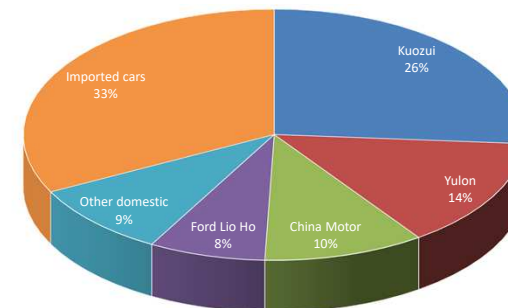
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## Overview of Taiwanese auto market

- 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

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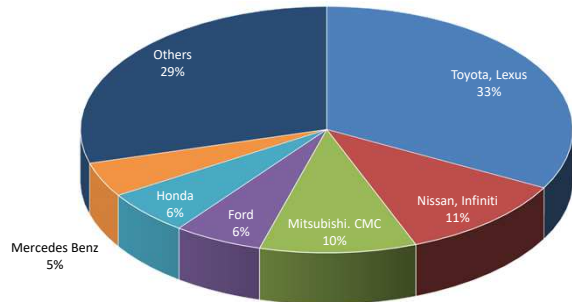
## Taiwanese auto market (2014)



Source: TTVMA, <http://news.u-car.com.tw/25196.html>

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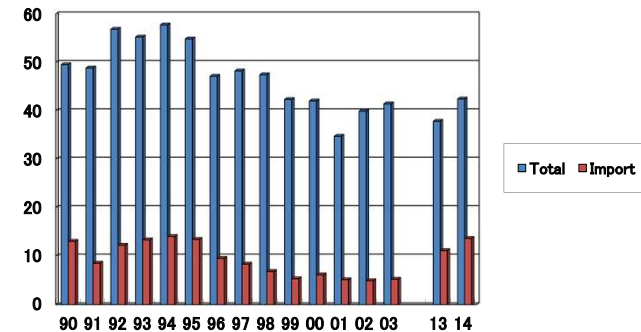
## Taiwanese auto market by brands(2014)



Source: <http://news.u-car.com.tw/25196.html>

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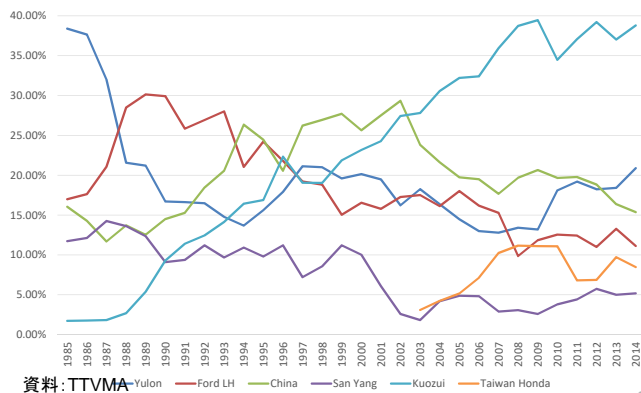
## Transition of Taiwanese auto market



Source: Orihashi(2004), <http://news.u-car.com.tw/25196.html>

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## Market share of domestically assembled vehicle



資料: TTVM

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## 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
  - ... Because domestic market has limited chance of growth
  - Kuozui Motor also send its employees to China, in order to assist startup of Toyota's JV in China

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## 2. KUOZUI MOTOR AND ITS EXPORT PROJECT

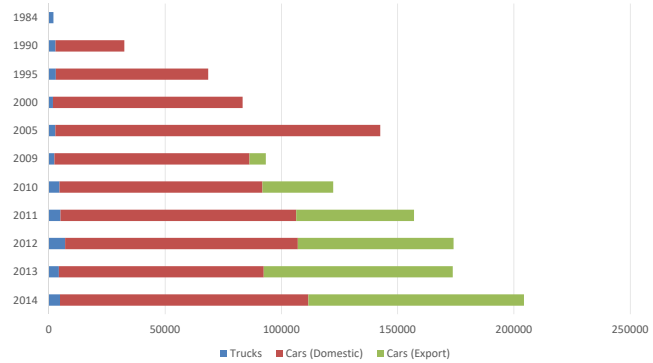
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### Kuozui Motor (國瑞汽車)

- 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

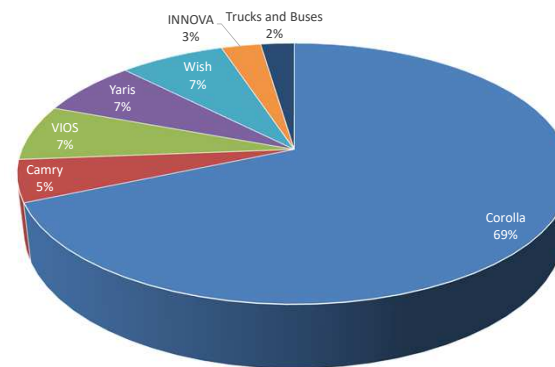
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### Kuozui Motor Production Volume



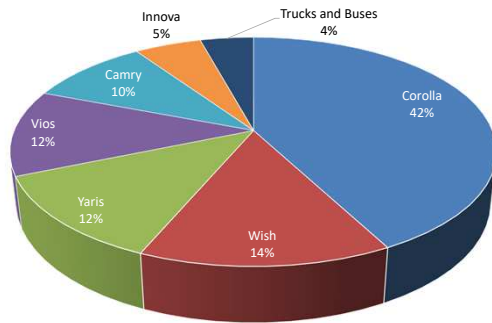
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### Kuozui's production by model



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## Kuozui's sales by model in Taiwan



Source: TTVMA

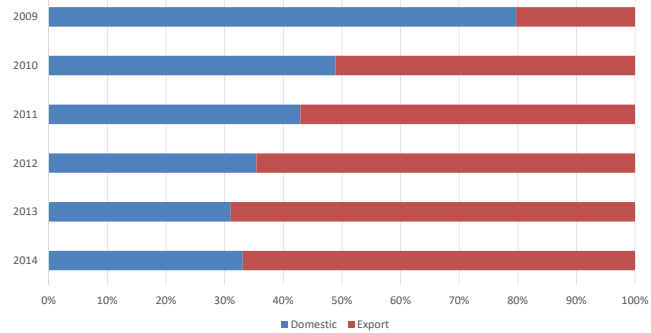
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## Export project

- 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

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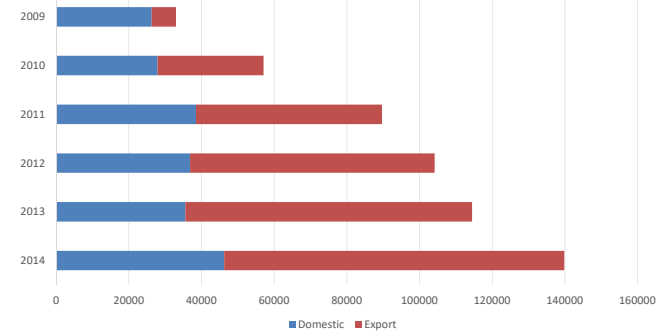
## Kuozui produced Corolla by destination



Source: TTVMA

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## Kuozui produced Corolla by destination



Source: TTVMA

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## 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

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## 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

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## 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

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## 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

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## Differences between the two markets

### Interior

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

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## Differences between the two markets

### 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

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## 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

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## 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

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### 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

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### 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

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### DISCUSSION

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### 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

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## 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

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## 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

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## 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

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## Implication

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

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