

Proton's Worldly Ambitions

Under its new boss, Malaysia's top carmaker gears up for global rivals

By Matthew Fletcher and Steven K.C. Poh / Kuala Lumpur

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Toyota. Ford. Mercedes Benz. Proton? Malaysia's national car wants to be world class. Saleh Sulong(interview), the new boss of Proton's parent DRB-Hicom, aims to make it so. He feels he owes it to his late partner and predecessor, Yahaya Ahmad. "I'm here to ensure his legacy lives on," the 46-year-old CEO told Asiaweek. "The late Yahaya and I also had this understanding that if anything were to happen to one of us, the surviving member will take care of the deceased's family."

Taking care of family and company is paramount for Saleh, who became Yahaya's partner in the automotive firm Master-Carriage they founded in 1980. "I had been with Yahaya for the last 18 years," says the British-trained former Price Waterhouse accountant. "What you see now, I have been a part of everything. Yahaya Ahmad may no longer be around, but the DRB-Hicom group must continue. Otherwise, he will not be remembered for what he has achieved." Adds Saleh: "I have learned a lot from an extraordinary entrepreneur with a very likeable personality."

Saleh will need all he has learned and more for the tough challenge of turning Proton into a globally competitive carmaker. As trade pacts force Kuala Lumpur to cut tariffs, the Malaysian company will have to match foreign rivals in quality and cost -- or die. Starting in 2000, local-content requirements and high duties on imported car assembly kits and finished autos are scheduled to come down. "Much as we would like tariffs to remain," says Saleh, "Malaysia is committed to the ASEAN Free Trade Area and the WTO."

Proton has 64% of the country's automobile market -- and the backing of Prime Minister Mahathir Mohamad, who envisions a thriving national car industry for the 21st century. How it fares in open, free competition may demonstrate whether similar national-car programs elsewhere have a chance against established players from Japan, Korea, America and Europe.

Before he and his wife died in a helicopter crash early last month, Yahaya had already acted on plans to give Proton big-name cache. Last October the tycoon took just 20 minutes to seal his acquisition of 80% of British sports-car maker Lotus. His mentor Mahathir, who had entrusted his lieutenant with turning the national car project into a serious export machine, called the takeover "a substantial leap."

The Malaysian automaker hopes to benefit from Lotus's top-end technology. "Several Lotus engineers are currently attached to Proton's R & D division," says Saleh. The deal is also intended to eventually reduce Proton's reliance on Mitsubishi Motors, which owns 8.1% of it, for design, engineering and components. PM Mahathir has complained that the Japanese are dragging their feet in technology transfer. (Proton complains of similar problems in co-producing its Tiara model with France's Citroen.) Moreover, imported Japanese parts make up about a third of the cost of a Proton car, leaving the firm constantly exposed to the fluctuating yen.

Saleh intends to continue Yahaya's strategy of building up technical expertise and international links for Proton. Though critics say he may not last in the top job, having few of his predecessor's formidable connections, Saleh is moving forward with a plan to buy Belgian gearbox maker Royal Begemann, for \$126 million. Lotus itself is a leading chassis manufacturer.

Both acquisitions are designed to help Proton perform better in export markets and retain customers at home once tariffs come down. At present, it sells some 34,000 cars to 39 countries, minuscule compared with major marques. Three years from now, Saleh wants to export 114,000 Protons to 60 countries. Plans are underway for a second plant in Perak state, part of the \$2.2-billion Proton City project. Saleh expects a combined capacity of 1 million cars a year by 2000. This seems too much: projected local sales and exports may not even total 400,000 units.

How strong will exports be? In Britain, Proton's biggest overseas market, sales have declined from nearly 15,000 in 1992. They picked up briefly last year, crossing the 10,000 mark again. The British *What Car* magazine found Proton's Persona model "uninspiring," "plasticky" and "lacking in image." For his part, Mahathir said during a visit to Lotus last year that Proton needs "the kind of quality and association with known names like Lotus to be more readily accepted." Correspondent Michele Zack, who reports on the road tests of three "Asian Car" models (see page 48), thinks the Proton is fine: "It's feel is solid, firm and fast. It holds the road well, particularly in tight, quick turns. Power steering and brakes are smooth, noise and vibration minimal."

Saleh is counting on the European purchases to bring pizzazz to Proton. It has retained Lotus's entire engineering team. Says John Kiff, senior researcher at Britain's Cardiff Business School, who tracks the global auto industry: "Proton would be wise to use the sports-car maker's skills to develop its own products for Europe."

Is the deal a good match? "The merger between Ford and [luxury marque] Jaguar made sense as much value could be added to Jaguar by the U.S. firm's lower capital costs, compatibility of parts, manufacturing and design," says George Liebmann, head of New York-based Phenomenon Strategy Group. "I don't know how many engineering synergies exist between Lotus, a high-performance, low-volume luxury maker, and a high-volume low-cost mass producer like Proton."

The Malaysians are keeping plans for Lotus under wraps for now. Rashid Rahim, chief of Proton's international arm, says that the two firms will remain independent. "But that's not to say they won't complement each other." He has plans to get new clients for consultancy Lotus Engineering, which services GM, among others. Liebmann says any transfer of technology and parts between Lotus and Proton should be done discreetly. "A Lotus buyer does not want his fancy car confused with a cheap import," he says. "Proton must be sure to avoid over-utilization of branded Lotus parts in mass-market cars, except perhaps in a line positioned a bit higher, like Honda's Acura or Nissan's Infiniti, which could have a Lotus engine."

That may be what Saleh has in mind. Proton is working on an engine-and-gearbox system in collaboration with Lotus. "We have new models planned to satisfy a wider range of customers' tastes," says the DRB-Hicom chief, "We have not set a timeframe for any Lotus-engineered cars to be on the market." Still, many expect Protons with Lotus engineering to be rolling off factory lines in Perak by 2000.

That's not all. In the global industry, the product life of new models is shrinking. To keep up, Proton has reworked its network of suppliers to reduce costs and respond faster to market trends. Efficient suppliers get larger orders and the chance to do R&D for new parts; inefficient ones may lose contracts. Proton's new plant should also bring greater economies of scale. "Cost-cutting is imperative to take on competitors," says Karen Goh, an analyst at Singapore's Keppel Securities.

Will it be enough? "We have a reputable brand name which will take us a long way," says Saleh, "and we have attained international acceptance by exporting worldwide." Besides mature Western markets, he is looking at Africa and Latin America. "We will offer a better after-sales package [than rivals], improve quality with the latest technology, and introduce models in the quickest possible time." Fighting talk. But that's just the attitude Proton needs.

MAKING OF A MARQUE

1983 Perusahaan Otomobil Nasional, or Proton, is founded in May as a 70-30 venture between state- owned Heavy Industries Corp. of Malaysia (Hicom) and Mitsubishi Motors.

1985 The Proton Saga sedan, based on the Mitsubishi Lancer, is launched in July by Prime Minister Mahathir Mohamad. It enjoys lower import duties than those imposed on its rivals.

1986 The Saga becomes Malaysia's best-selling car, with 47% of the market. It is exported for the first time: 25 units to Bangladesh.

1988 The 100,000th Proton drives off the assembly line in September. Market share peaks at 73%. The car begins selling in Britain.

1990 Proton produces its 200,000th vehicle in May. It launches the 12-valve Megavalve model in October.

1992 Proton is listed on the Kuala Lumpur Stock Exchange in March. The Iswara family sedan debuts in August.

1993 By July, half a million Protons have been made. The sporty Wira roars off in May.

1995 Yahaya Ahmad's DRB buys Hicom for \$688m. in October, taking control of Proton. A second national car project, Daihatsu-linked Perodua, sells 40,359 of its subcompact 660-cc Kancil.

1996 Proton buys 80% of British luxury sportscar maker Lotus. Malaysia's national motorcycle project Modenas, also controlled by DRB-Hicom, launches the Kriss in October.

1997 Saleh Sulong becomes DRB-Hicom CEO after Yahaya and his wife die in a helicopter crash in March. Proton holds over 60% of the local market and exports to 39 countries. But under trade pacts, Kuala Lumpur will have to slash the marque's tariff protection.