

**FACTORS AFFECTING THE DEMAND FOR NATIONAL CAR IN  
KUCHING**

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**ABSTRACT**

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**By**

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The main objective of this study is to determine the factors that affected the demand for national car in Kuching. The research had 100 sample size of respondents which answering the questionnaires that had been randomly distributed. The analysis methods used in this research include descriptive statistic analysis, reliability analysis and factor analysis. Empirical result shows that promotion and price had most significant relationship with the demand for national car in Kuching. Finally, this research also gives several suggestions for further research in the future.

## **ABSTRAK**

# **FAKTOR-FAKTOR YANG MEMPENGARUHI PERMINTAAN TERHADAP KERETA TEMPATAN DI KUCHING**

**Oleh**

**Toh Su Siah Hazel**

Tujuan utama kajian ini adalah untuk menentukan faktor-faktor yang mempengaruhi permintaan terhadap kereta tempatan di Kuching. Data primer diperoleh melalui pengedaran soal selidik secara rawak kepada 100 responden. Kaedah analisis yang digunakan dalam kajian ini termasuk analisis statistik secara diskritif, ujian keupayaan dan analisis faktor. Hasil kajian menunjukkan bahawa faktor promosi dan harga mempunyai hubungan yang paling signifikan dengan permintaan terhadap kereta tempatan di Kuching. Akhirnya, kajian ini turut memuatkan beberapa cadangan untuk dijadikan rujukan kajian pada masa yang akan datang.

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# CHAPTER ONE

## INTRODUCTION

### 1.0 Overall Introduction

The automobile industry in Malaysia began in 1962 when Ford Motor of Malaya was incorporated and began operation with 16 employees fitting wheels, doing body repair and paint touch-up work in a rented shop-house in Singapore. In 1963 the initial move for local production of automobile in Malaysia began. It was realized by various government bodies and politicians at that time that automobile production might be a worthwhile industry in Malaysia. In September 1963, the Federal Government announced its intention to encourage the establishment of an automobile industry as part of the industrialization programme and in May 1964 the government announced its initial policy on automobile assembly plants. The automobile industry was officially launched in Malaysia in 1967 when six assembly plants were granted approval by the government to start operation.

Automobiles had always been one of the top imported items in Malaysia. Imported vehicles especially those of Japanese production used to conquer the automobiles market in Malaysia. In 1980s, viewing the potential in the automobiles industry, Malaysia seized the opportunity of the joint venture with one of the biggest car manufacturers in Japanese as a stepping stone to plunge into the motor vehicle assembly business.

Ever since 1983, Perusahaan Otomobil Nasional or PROTON formed under the national car project. By Former Prime Minister Tun Dr Mahatir Mohamad, based on technology from Mitsubishi, production of the first national car, Proton Saga, began in 1985, many more models had been introduced and produced till to date into the both local and overseas market. Wira, Satria, Perdana, Iswara, and so forth become the household models and can be seen throughout roads and highway. While in the heat of facing the rising of fuel pricing, Proton came out with the latest model 'Savvy' launched in June 2005, which is presented as low in fuel consumption as selling point.

The Malaysian auto market is dominated by Malaysia's national cars, Proton and Perodua, which in 1998, accounted for about 90% of the vehicles sold annually. Some 25 other manufacturers compete for the remaining 10%. Malaysia government used high tariff to protect its domestic automakers to control the majority of the local market.

Besides that, Malaysia built upon the success of Proton by the launching of a second national car project, Perusahaan Otomobil Kedua or Perodua, in 1993 which tied up with Japan's Daihatsu Motor Co. Ltd. The Perodua 'Kancil' with its compactness similar to Daihatsu catered to the needs of customer of different requirements. Perodua's subsequent production adds a more diverse variety to the motor vehicles market, for example Kembara (the 4X4), Kenari (the multi functional vehicle), and Kelisa (compact with power).

In October 1996, Proton acquired Lotus, and planned to integrate specific models into its national car program. In 1996, the Malaysia government sold its equity in Proton to a private company – HICOM-DRB. In July 1998, the Government of Malaysia (GOM) approved a new national vehicle program which authorizes a new national van, the Inokom Permas van. The van is based on the Renault traffic van and is being produced by a joint venture consisting of Berjaya Group Bhd (35%), Polis Diraja Malaysia Cooperative subsidiary Pesumals (M) Sdn Bhd (30%), Hyundai Motor Sdn Bhd (5%), Hyundai Motor Company (15%) and Renault (15%). On top of the assembly aspect, Inokom Corp Sdn Bhd in partnership with Korean Hyundai and Naza Group with Kia in Korea re-badges the Korean models into Altos, Matrix and Ria, Citra respectively.

Since 1985, the automotive industry has been an important industry in the economic development of Malaysia. Our national cars are also exported to UK, Australia, Middle East and recently testing its ground in Africa. Initially, motor vehicle assembly plants were set up to provide employment and to reduce import of completely built-up (CBU) vehicles. Gradually, the component parts industry was developed to cater to the requirements in the marketplace and later to increase the local content of locally assembled vehicles.

Other aspects of the economy are affected by the development of automobile industry as well for the national car project is set out to leading Malaysia into an industrial nation. It was to generate vast opportunities for the development of

supporting and ancillary industries and accelerate the development of local components and stimulates the plastics, rubber, aluminum and metal industries.

In showing support and foreseeing the needs of the outcome of the national car project, Malaysia government spent millions of ringgit to built roads, bridges and highways to establish rapid-transport system to serve the urban corridor linking cities to ports and connecting town and states, trying to strengthen the infrastructure to accommodate the heavy traffic congestions.

Malaysia government also maintains several measures to protect the local automobile industry, including high tariffs and an import quota and a licensing system, for example the Approval Permits (AP), on imported vehicles. However, the foreign completely-built-up (CBU) cars which are imported into the Malaysia lucrative automobile market at a relative low cost in recent years have affecting the national car maker's competitiveness. The demand curve of the national cars is showing warning signs of backward shift hence measures need to be taken to curb any possible problem aroused.

**Table 1.1: Summary on the Development of Auto Industry in Malaysia**

<b>Year</b>	<b>Development of Auto Industry in Malaysia</b>
1962	Ford Motor of Malaya was incorporated and began operation in fitting wheels, doing body repair and paint touch-up work in Singapore.
1963	Local production of automobile in Malaysia has began.
September 1963	Federal Government annouched its intention to encourage the establishment of an automobile industry as part of the industrialization programme.
May 1964	Government of Malaysia annouched its initial policy on automobile assembly plants.
1967	Six assembly plants were granted approval by the government to start operation.
1980	Malaysia joint venture with one of the biggest car manufacturers (Mitsubishi) in Japanese.
1983	Proton formed under the national car project.
1985	First national car, Proton Saga launched.
1993	Second national car Perodua tied up with Daihatsu Motor Co. Ltd.
1996	Malaysia government sold it equity in Proton to HICOM-DRB.
1996	Proton acquired Lotus, and planned to integrate specific models into its national car program.
July 1998	Government of Malaysia approved a new national vehicle program which authorizes a new national van, Inokom Permas van.
2002-2003	Inokom Corp Sdn. Bhd. forged partnership with Naza.
2004	Model Gen 2 launched.
2005	Model Myvi and Proton Savvy launched.

## **1.1 Factors Affecting the Demand for National Car**

There are many types of national cars with variety of models, brands, colors, and styles. There have applied the 3s concept like services, sales and spare parts in their companies. The growth in the car industry will affect the economics condition. The continuing interest in the car industry is probably due to the way in which it is seen as a paradigm of wider social and economic phenomena.

The car dealers, thus, also using the marketing mix or known as 4P's which include product, place, promotion, price and the theory of the strategies that go with each of those categories. Currently, Malaysia market is dominated by two of the national cars, which are Proton and Perodua, both of them are still having the highest demands comparing to others imported car in Kuching.

### **1.1.1 Product**

Lovelock & Wirtz (2004) stated that managers must select the features of both the core product either as a goods or services and they must be attentive do all aspects of the service performance that have the potential to create value for customers. National cars have many models, brands and variety of colors. For example, Perdana models are more luxuries than Perodua Kancil with its small size and suitability for household desires. Consumers nowadays demand the car not only for the needs but also their status. Therefore, the automobiles industries need to

design and create different types of car such as economics and luxuries cars for different type of consumers.

### **1.1.2 Price**

Omar (1997) stated that the target pricing is a rigorous price management technique that helps prevent managers from launching low-margin products that do not generate appropriate returns on investment. The car price in Kuching is different with price in Peninsular Malaysia. This is because, the dealer in Kuching has to take the car from west Malaysia and it involved the shipment cost and other fees. Thus, the manager needs to make a good decision to decide what price it should charge and consider the consumer perception upon the price. No matter how good the car is, it will not be successful unless the price is acceptable for the consumers. This does not mean just being cheaper than competitors. Before a new car is launched, senior managers must determine its ideal selling price, establish the feasibility of meeting that price, and then control costs to ensure that the set price is met. Most consumers associate a higher price with quality.

### **1.1.3 Promotion**

Kotler & Armstrong (2004) discovered that advertising is a good way to inform and persuade. An advertising objective is a specific communication task to be

accomplished with a specific target audience during a specific period of time. Advertising objectives can be classified by primary purpose – whether the aim is to inform, persuade, or remind. Persuasive advertising becomes more important as competition increases.

Besides, Victor & Middleton (1994) noticed that the promotion is designed to stimulate consumer purchasing, and dealer and sales force effectiveness in the short time, through temporary incentives and displays. Promotion is a very important tool for the business especially automobile industry to compete with other competitors. Thus, the promotion must provide the needed information and advice, to persuade target customers to buy the product, and encouraging them to take action at specific times. There are many ways to promote the cars. Most of them used the newspaper, magazines, television, catalogue and so on. For example, Naza Kia publishes and promotes their cars model in newspaper as primary medium, magazines and flyers. Promotion will influence the demand for products and services. Not only that, the car dealers can organize the road show during the festival or the peak season in order to attract more consumer to buy the car or to have a look at it. Through this, the consumer has the chance to try the car before they purchase it. Apart from this, the consumers could get the promotional price that is much cheaper than the original price.

#### **1.1.4 Place**

Victor & Middleton (1994) pointed out that the locations of all the point of sale are critical to provide prospective customers with access to customer product. The place must be easily located and that will bring customer directly to their company. For example, Perodua Company must be in every city around Malaysia and not just in Kuching. As such, people can buy the car directly from the company and it is easy to access it. Then, the product is delivered directly to customer or through intermediary. Besides this, the car dealers can also do the direct marketing through catalogues via a TV shopping channel and Internet. Consumers can get all the information about the car they want at home by just clicking the “mouse”. Nowadays, technologies are getting more advanced and it is much more flexible for consumers to access the information at anywhere and anytime. They can deal with the car salesman through the internet without meeting face to face if they want to purchase the car.

#### **1.2 Problem Statement**

The purpose of doing this research is because nowadays we can get the announcement by mass media that the demand for national cars has decreased comparing to previous years, and consumers prefer buying foreign car if the price for foreign car is cheaper. According to Berkowitz et al. (2000), organization obviously can't satisfy all consumers need especially in automobile industry. Marketing

managers take action and develop marketing program to each consumer satisfaction by these four tools, product, price, promotion and place.

Car sales flourished since early 1990s with an average growth of about 30%. Malaysia's 1995 unit vehicles sales were approximately 286,000 units. Sales in 1996 were 365,000 units. Malaysia did not begin to feel the effects of the economic crisis until late 1997, allowing Malaysia to have another year of vehicles sales growth. Vehicles sales were up 11% in 1997 to a record of 405,000 units. The economic crisis dramatically impacted vehicles sales in Malaysia for 1998, with vehicles sales dropping by 60% to 164,000 units. But from the Table 1.2, it shows that Proton and Perodua cars still have high market demand.

The automotive industry in Malaysia has progressed remarkably. Total sales in 2001 amounted to RM 7,934,220, an increase of 28.4% compared to 2000. However, sales have continued to fall and its market share has declined since 2002. In 2004, Proton revived plans to purchase a manufacturing plant in Indonesia and expand export possibilities inside the region and beyond.

Meanwhile, sales of the second national car, Perodua were also robust, second after the Proton. Perodua has relied on the competitive pricing to narrow the gap of demand by the lower income segment.

**Table 1.2: Car Production in Malaysia from Year 1992-2000**

<b>Year</b>	<b>Proton</b>	<b>Perodua</b>	<b>Total National Car Production</b>
1992	98,900	0	98,900
1993	118,100	0	118,100
1994	127,200	0	127,200
1995	153,939	40,635	194,574
1996	177,763	55,884	233,647
1997	212,941	60,000	272,941
1998	91,499	34,901	126,400
1999	164,204	86,419	250,620
2000	168,900	85,000	253,900

Source: Global Car Production Statistics, 2001.

Table 1.2 above shows the car production in Malaysia from year 1992-2000. Of late the AP or Approved Permits issue for the import of foreign-made cars that had been hogging the limelight in the country play major part in the local automotive industry. APs were introduced in earnest more than two decades ago to ensure that foreign imported car were priced substantially higher than those produced by national carmakers like Proton and Perodua. Many foreign carmakers were dismayed over the policy as the government insisted that it had the right to impose what it felt was appropriate for the country. This meant that in order to import a car, one needed an AP. In addition, one also needs to pay hefty import duties of between 140% and 300% to bring in a foreign-made car.

The issue brought light to the public that the price of foreign cars imported with the APs is too low, which enables the cars to be given high discounts and thus enjoy brisk sales. It used to be the case that 6 out of 10 cars on the road are of national production, and the recent survey shows only 48% cars on the road are national cars and the rating is on the verge of dropping to 44% in the coming year.

The road is now swamped with foreign cars as they are attainable at a relatively low price almost at par as certain model of local produced car, for example a brand new Hyundai Accent or Getz is priced below RM60, 000 where local Proton Wira and Satria are about the same price. The affordable consumer group will easily go for the foreign cars base on branded reason in mind and the higher faith in foreign product.

The government had hoped to foster local car manufacturing over the short term by furthering the national car project, the relevant government policies were carried out with highly preferential treatment and generous protections. In exchange for its preferential treatment, the government was able to be heavily involved in the management of the national car manufacturer, giving it a socio-political role wherein employment was guaranteed and ethnic Malaysian businesses were promoted. Specifically, the national car project involved (1) essentially prohibiting the import of completed cars and granting preferential tax treatment, (2) promoting management efficiency and improved productivity through privatization, and (3) raising the level of local content by supporting domestic parts production. Thus, the national car obtained an overwhelming share of the domestic market.

For the recent two years, the tax deductions and cash rebates for the individuals on purchasing first new national cars are no longer in practice, this is somehow affecting the local demand on national car as the attraction has been declined. However, it only constitutes part of the reasons affecting the local retail market.

The ASEAN Free Trade Area (AFTA) for the auto sector came into effect for Malaysia of the year 2005 had asked for a deferment of two years before it was included into the Common Effective Preferential Tariff (CEPT) scheme. This meant that import tariffs had to be brought down to between zero and five percent for cars manufactured in ASEAN countries with a minimum of 40% local content. But at the same time, the Malaysian government also raised the excise duties for cars imported from ASEAN, which meant there will be no cost benefit to consumers who were mistakenly hoping for cheaper foreign-made cars as a result of AFTA.

This would mean a reprieve of a few years for local carmakers but come 2008, Malaysia has to bear the full brunt of the liberalization rules under the World Trade Organisation (WTO) for “non agricultural access” and this covers products like automobiles. Known as the “big bang liberalization”, the picture is rather grim ahead unless Malaysian national car companies become more competitive.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The main objective of this study is to develop an understanding of the demand on Malaysian assembled car and thereof targeting on examining and investigating the factors and influences concerning the decrease in demand, hence establish the possible emphasis needed to be placed on to improve the ailing

situation. The focus will be placed on the two largest national car assemblers and manufacturers, which are Proton and Perodua.

### **1.3.2 Specific Objectives**

There are four aspects to be targeted in this study:

- i. To identify the factors influencing the decrease in demand of national cars from the product and service aspects.
- ii. To identify the factors influencing the decrease in demand of national cars from the price aspect.
- iii. To identify the factors influencing the decrease in demand of national cars from the promotion aspect.
- iv. To identify the factors influencing the decrease in demand of national cars from the location aspect.

### **1.4 Significance of the Study**

It is obviously that there are certain underlying factors affecting the demand of national cars and in order to improve the current market for national cars, these factors need to be identified and resolved as the automobile industry is starting to play a crucial role in our economy. Millions of ringgit had been invested into this