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MASTER OF BUSINESS ADMINISTRATION

**“The Influence of Product Attributes Evaluation towards
PROTON Car Purchase Decision in China”**

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Abstract

Product attributes of a product influence customers' purchase decision, it plays an indispensable role in customers' purchase decision making process. This study is conducted to identify the product attributes that influence Chinese car buyers' Proton car purchase decision, and discover the most influential product attribute that make Chinese people's Proton car purchase decision, then find out the most dominating income group of people that purchase Proton cars in China market. Findings of this research propose several recommendations for both Proton company and Chinese local auto firms, the identification of product attribute such as performance delivery, quality satisfaction and other product attributes influencing on Chinese people's Proton car purchase decision will be constructive for Proton's marketing communication scheme and marketing mix strategy in China market, moreover, the identified the income groups of people that purchase Proton cars will assist marketers with more accurate market segment, market positioning as well as target market. The most important contribution of this research is the findings on what product attributes Chinese car buyers concentrate when they purchase foreign cars.

Key words: Product attribute, Purchase decision making, income group, Proton car, China

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Li Yuan

November, 2011

Declaration

"I hereby declare that this research project is of my own effort except for those summaries and information of which the sources are clearly specified"

23th November, 2011

Li Yuan

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Chapter One

Introduction

1.0 Chapter Summary

This chapter presents the purpose of the research and a introduction for China's domestic automobile market, a general development-overview of Proton Holdings Berhad, as well as Proton's entry to China market. Chapter one also provides the elaboration of problem statement, clarify the research questions as well as research objectives. Moreover, significance of the study, assumptions, limitations, scope, as well as structure of this study are discussed as well.

1.1 Introduction to research

When more and more people realizing that the automotive market in China has been taking up aggressively by the world auto giants, however, there are still other overseas auto brands who are fixing their eyes on this huge cake. Proton, Malaysia's No.1 national automobile manufacturer, is one of them (Beijing Reference, 2008). Until today, after a quite long term's exploration and endeavor, this national car maker has already successfully entered China market and made substantial progress in China mainland competing with numerous powerful world class rivals there (Reference News, 2008).

In China, when customers purchase cars, there is a common phenomenon that foreign brand cars always been their first choice, and they are not so interested in local brand cars so the market share of Chinese local brand cars are only below 20% (J.P.Power, 2011). As it is mentioned, like other auto giants in the world, Proton, the National auto manufacturer in Malaysia, has always been vigorously and aggressively marketing its cars into China market,

therefore, in this research, Proton is considered as the representative of foreign brand cars in China. From the investigation for the product attributes of Proton cars that appeals car buyers there, it is worthy to identify what they are value and looking for from foreign brand cars.

For Proton, as early as in January, 2008 in Beijing, the official launch of Proton Gen-2 (known as Europestar RCR in China) marked the beginning step of Proton's march into China market (Song, 2008). That was also the first time Malaysian car marketed in this world largest automobile market. Proton's successful entry into China mainland market can not be achieved without Chinese business partner, Zhejiang Jinhua Youngman Automobile Group Co.Ltd. In July 2007, Proton signed an agreement with Jinhua Youngman Automobile Group Ltd. Co. (in Zhejiang Province), paving the way for the national carmaker to offer its products and services in China (Song, 2008). Youngman Group adopts first import finished Proton cars and then manufacture locally in form of CKD (Completely Knock Down), and Proton's sub-company British Lotus provide support for engineering (Percific Auto, 2007).

However, it has been four years since Proton entered the auto market in China. During the four years, Proton has achieved significant progress in the market of China mainland. This study examines the product attributes of proton cars and identifies important product attributes that affect the car buyers' decision making toward Proton car and ascertain the most dominating income level group of people in China that choose cars.

1.2 Research Background

1.2.1 Automobile market in China

Market Growth

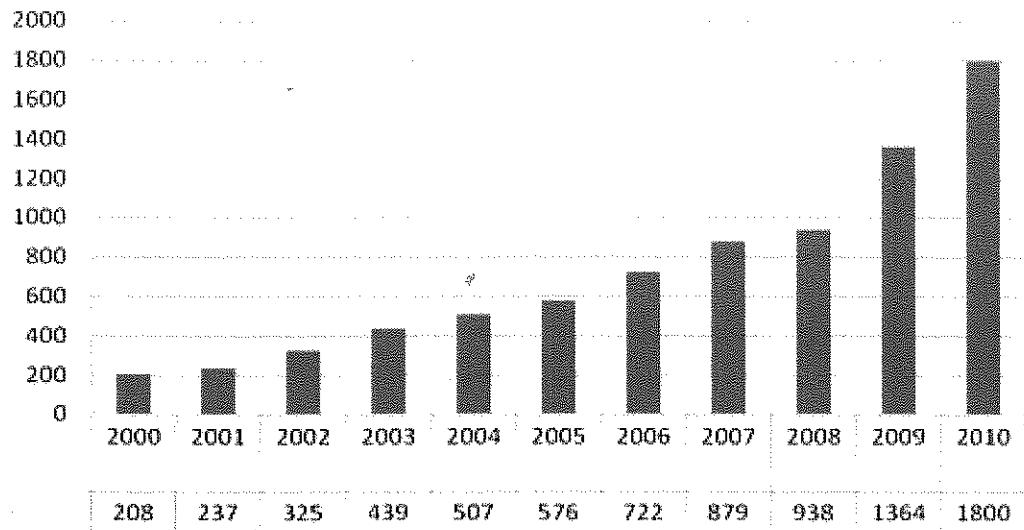
In 2010, China took over United States and become the world's largest auto

market. Based on the data provided by CAAM (China Association of Automobile Manufacturers), the volumes of automobile production and sales reached up to 18.2647 million and 18.0619 million units respectively. The sales of passenger vehicle market last year even ended at a 60 percent increase which benefited from China central government's encourage and stimulus package (Lee, 2010). Undoubtedly, China is the most attractive auto market throughout the world.

Indeed, boosted by the huge demand both home and abroad, China's speed increase of auto market has even surpassed the pace of the countries' GDP growth in the few years (APCO worldwide, 2009). On one hand, people's income has increased rapidly accompany with government's encouragement for urban people to purchase automobiles, has dramatically stimulated the demand for passenger automobiles (APCO worldwide, 2009). The significant growth of automobile market resulted in the blooming market need for automobiles and related spare parts. On the other hand, the international auto manufacturers are confronted with lower and lower profit margins nowadays, so for them, it is imperative to seek new hope and opportunity in China mainland to find a more affordable supply chain solution to increase their margins and profitability (APCO worldwide, 2009) .

Figure 1.0 Auto Sales in China from 2000 to 2010

(0'000 Units)



(Source from: <http://info.auto-a.hc360.com/2011/01/250825339156.shtml>)

According to the research of Sha (2011), during the last few years, there have been a significant growth in auto demand in China mainland, as it is shown in Figure 1.0, the total auto sales in China market in 2000 was only two point eight (2.08) million units, and then experienced a steady and slightly increase next five years. However, in 2005, compared with 2000, the total sales was tripled up to five point seven (5.07) million units! For total sale in China market, the year 2005 was a new turn. From then on, it has a increase rate of two (2) million units per year, in 2009, the sales hit ten (10) million units, further, in 2010, it reached up to over eighteen million which broke the world record seventeen (17) million kept by United States. The dramatic increase rate and massive auto sales just shock the whole world (Sha, 2011).

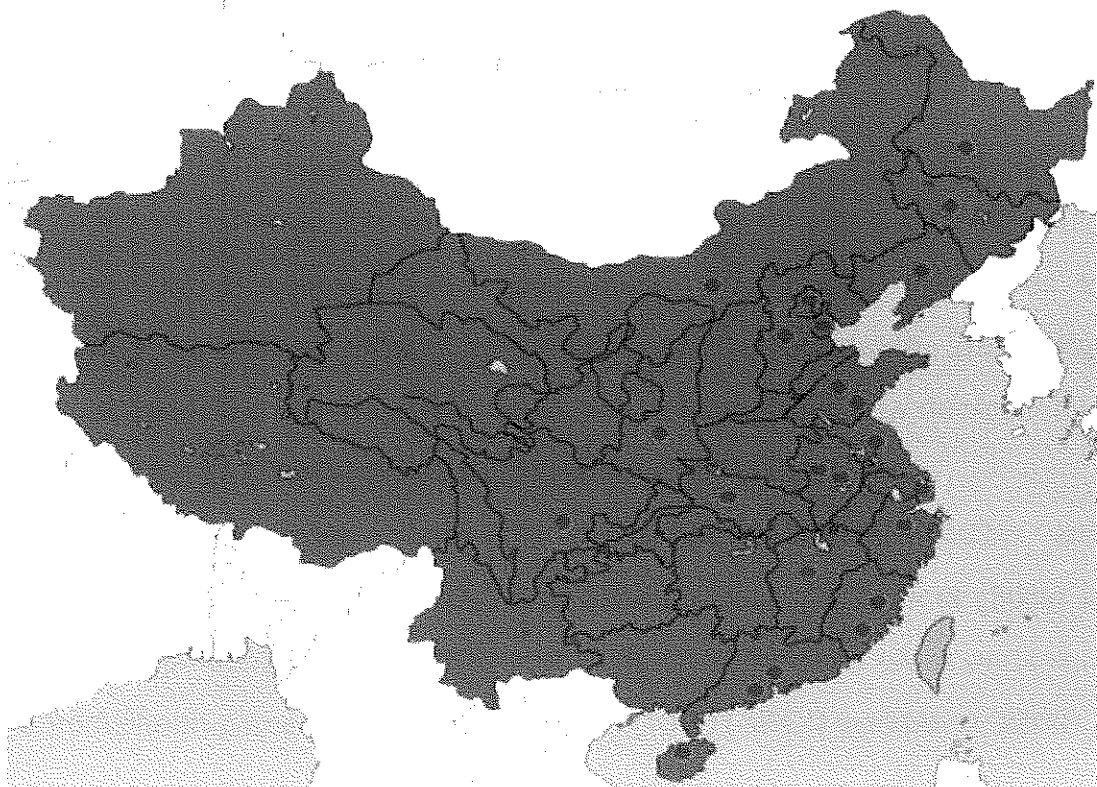
The market in China is the largest one and possesses the best potential market growth. The private car ownership ratio is only below four percent (4%) which is much lower than developed countries' over forty percent (40%), and

even less than India, Brazil, and other emerging markets (APCO worldwide, 2009). China's middle class is still growing fast, and the car demand from the middle class is very strong. Moreover, auto sales in first class and second class cities, especially in urban areas, are still expanding rapidly for the coming couple of years (APCO worldwide, 2009).

Market Players

It is reported that there are above 100 automobile manufactures as well as 8,000 auto parts makers throughout China mainland, which mainly lie in the east, south, southeast, and northeast of China (CAAM, 2011). As it is shown in Figure 1.1:

Figure 1.1 Major Automotive Clusters in China



(Source: China Association of Automobile Manufacturers)

In China, among the first ten (10) automobile makers, seven (7) of them are Sino-foreign Joint Ventures, who take up above eighty percent (80 %) of the

automotive share in China mainland. One can almost find every world class auto manufacturer's JV operations there (APCO worldwide, 2009).

Table 1.0 Top 10 Passenger Vehicle Manufacturers in China (2010)

Top 10 Passenger Vehicle Manufacturers in China (2010)					
Rank	Manufacturer	Headquarters	JV Partner	Sales (Unit)	Market Share
1	SAIC ¹	Shanghai	GM, VW	1,720,650	19%
2	FAW ²	Changchun	VW, Toyota, Mazda	1,532,923	17%
3	Dongfeng	Wuhan	PSA, Nissan, Honda	1,320,606	14%
4	Chang'an	Chongqing	Ford, Mazda, Suzuki	861,377	8%
5	Beijing Auto	Beijing	Hyundai, Daimler	771,639	8%
6	Guangzhou Auto	Guangzhou	Honda, Toyota, Isuzu	525,979	5%
7	Chery	Hefei	N/A	356,093	4%
8	Brilliance	Shenyang	BMW, Toyota	285,242	3%
9	Hafei	Harbin	Suzuki	223,802	3%
10	Geely	Taizhou	N/A	21,823	2%
	Others			1,560,000	17%

(Source: China Association of Automobile Manufacturers)

Import

Boost of demand for automobiles and components not only shot up the production of domestic auto manufacturers, but also attracts the foreign auto makers a lot of course. China government takes positive measures to encourage import from foreign auto makers (APCO worldwide, 2009). For instance, lower the import tariffs. The whole-car import tariff now decreases to 25% compared to 80% when during the wake of WTO accession.

What is more, import tariffs on Semi-Knocked-Downs (SKDs) and Complete-Knocked-Downs (CKDs) was trimmed from fifty percent (50%) to twenty five percent (25%), whilst import tariffs on automobile spare parts was cut from fifteen percent (15%) to ten percent (10%) (APCO worldwide, 2009).

1.2.2 The Overview of Proton Holding Berhad

Proton Holding Berhad (Malay acronym for Perusahaan OTomobil Nasional, 'National Automobile Enterprise') is the No.1 and largest auto manufacturer which is considered as a proud of the whole country and the market share

once reached to 65% domestically (Beijing Reference, 2008). Proton was born in the year 1983. The brand name is given by the former–prime minister Datuk Seri Mahathir. After 2 years, Proton improved technical level after cooperating with Mitsubishi Japan. What is more, in the year 1996, Proton purchased 80% share (including Lotus R&D center and Lotus formula one team) of the famous British sports car manufacturer –Lotus and 100% later in 2003, which took Proton the second opportunity to highly increase its techniques and the ability of research and development. After that, proton purchased Detroit Auto Design Center which made Proton from a single domestic automaker to be a international auto mobile manufacturer which is diversified, and capable to meet different demand from both home and abroad (Proton Annual Report, 2010).

In view of the successful experience of Proton, however, in Oct. 1992, the government the second nation-owned auto company- Perodua, which focus on manufacturing auto vehicles with engine capacity between 0.8 to 1.3L. Moreover, the business environment is becoming very challenging and tough with the globalization of auto industry in Malaysia. In 1993, Malaysia government signed a series of free trade agreements with many other countries, and highly cut the import tariff to foreign automakers. As more and more foreign automakers' (Japan, Korea, Europe and US) entry, Proton's market share was decreasing considerably (from 57% to 30%). In recent years, the company has even been confronted with hard situation. As commented by the director of Export Department of Proton, "There probably will be a dead end for Proton to stick to domestic market, we have already focused our eyes to overseas, and now we target to China."(Proton Annual Report, 2010). Indeed, the fast development and expedition of the market in China could change the picture and bring new hope to Proton.

And currently Proton's Chinese partner is China Youngman Automobile Group Co.Ltd in Zhejiang Province. The most dominating model is GEN-2 (rebadged

as Europear (RCR) in the China market. On 9th January, 2008, Proton's Gen-2 officially launched in Beijing, which means like other world auto giants (Toyota, GM, Volkswagen, etc), Proton has started her way to explore and share the huge and attractive auto market in China mainland.

According to Pang Qingnian, the CEO of China Youngman, in 2010, the total sales of Proton car in China market has reached up to thirty thousand (30,000 units), and the total sales in 2011 are expected to be doubled because another four new car models' (SUV, Coupe, etc) launch in the market.

1.2.3 Proton's tortuous way to China market

Because of the gradually shrinking of domestic market share and the attraction of the automotive market in China, Proton never give up to explore and obtain her market share there.

As early as in 2000, Proton cars first showed themselves in Beijing International Auto Show and keep seeking business opportunities in China mainland from then on (Xun, 2006).

In January 2002, Proton signed agreement with Guangdong Goldenstar Heavy Industry Co Ltd, the agreement said Proton JV with Goldenstar to manufacture Lotus series cars, Proton Waja, and other multifunctional and sport cars, the investment reach up to 500 million US dollars. The project would finished in 3 years. However, this project failed to approval by government because of some reasons (Zhang, 2006).

March 2006, Proton and Chery established strategic business alliance partnership, explore the market in both country and overseas together (Dongguan Manufacture, 2009). But later ended because adjusted automobile policy by Malaysian government.

On 13th July 2007, Proton signed an agreement with Jinhua Youngman Automobile Group Ltd. Co. (in Zhejiang Province), Youngman Group adopts first import finished Proton cars and then manufacture locally in form of CKD

(Completely Knock Down), and Proton's sub-company British Lotus provide support for engineering (Pacific Auto, 2007).

1.2.4 Proton Cars- Showing Promises in China Market

After four years' sincere cooperation with Proton, Zhejiang Youngman Group has been approved the application of passenger car manufacturing by China Development and Reform Commission (Liu, 2011). For Proton, it is a favorable news, it means the cooperation goes further and more and more new car models will be launched in the near future (Liu, 2011).

It is said that in the coming five years, based on the Lotus engineering Platform, with the partnership with Youngman, Proton will launch several models covering family cars, sports car, SUV and MPV with capacity from 1.6 to 3.0L. There will be 4 model launched in 2011, the sales will doubled compared to last year (CarsChina.com, 2011).

The new project has already started, and planned to accomplished and put into production next year. The overall investment reaches up to 2 billion RMB (Approximately RM1 billion), and finally manufacture a yearly scale of 150,000 cars, the value of output will achieve 40 billion RMB (Around RM 20 billion) (Liu, 2011).

Presently, Proton has totally launched 3 car models in China, which are Europestar RCR (Gen-2, and Persona), L3 (Liu, 2011).

1.2.5 Key Product Attributes of Proton Cars

1. Well-Recognized Brand Awareness

For Proton's marketing strategy in China market, only based on qualified product is far not enough, moreover, how to promote their fine products to customers, and obtain their recognition is a key factor to be success in China. Proton, with the help from local partner Youngman, has conducted effective brand strategy to improve brand awareness which can be elaborated like this:

Achieve Brand Awareness Boost aid with Lotus Brand. As a sub-company of Proton, Lotus plays an indispensable role in boosting brand awareness of Proton cars. Lotus, one of the most famous sport car manufacturer, has great influence power in China. Therefore, in China market, Proton cars are usually linked to Lotus sports car by people in China. What is more, car consumers in China can spot the sign of Lotus on Proton cars, not only from exterior design, but also the mark labeled at the tail-“Engineered by Lotus”. As it is commented by Cui Wei (2008), the former CEO of Youngman, Proton Gen-2 is fully developed by Lotus, therefore, it is important to highlight this factor as a booster to rise brand awareness in China. As we all know, as the famous reputation worldwide of Lotus, so there is nothing to worry about quality. Obviously, it is a shortcut for brand awareness improvement of Proton cars. Moreover, in China, imported cars have positive effects on the rise of brand awareness, too.

2. Ensure Quality Satisfaction by CKD (Completely Knock Down) Import

CKD-Completely Knock Down, as early as in 2005, the production and sales brought by this model has already overcome that of local. The successful example of Ruiz and Chrysler 300C just boosted the confidence of the overseas auto manufactures.

The strategy adopted by Proton can be described like this, every single car model will be export completely for the first two month, and then export to China in form of CKD and assemble locally. The reason is to ensure the satisfied quality and technical level of product in China market.

Proton cars (like Gen-2 etc) has earned wide recognition and are considered as mature product for a longtime in many countries including Britain, Australia, Switzerland, Middle East, as well as Singapore, the quality is stable and satisfied (Cui, 2008).What is more, under the consideration of product quality satisfaction, the spare parts of Proton cars marketed in China are still supplied

by overseas suppliers(Cui, 2008).

3. Advanced Technology Oriented Performance Delivery

Proton cars' outstanding performance is based on and supported by the latest technology. For model Gen-2, it is totally designed by Lotus Engineering, the cost for developing reached to 1 billion RM, the cost of R&D for Campro Engine only was up to 40 million RM. The core technology is supported by Lotus, one of the most famous three sports car manufacturers in the world, the other two are Ferrari and Porsche (Sup, 2008).

Safety

In terms of safety, Proton cars has adopted and inherit the unique edge streamline dynamics from Lotus sport car, which increase the stability in high speed. The equipped ABS+EBD and Parking sensor system can minimize potential safety hazard. What is more, the double-safety airbag, retightening seat belts will ensure the safety driving and minimize the accidental injury, added the high strength designed main frame, humanity design like lamp on alert, as well as low fuel warning make Proton car's safety performance a higher level.

Fuel Efficiency

Fuel efficiency or fuel economy is one of the most prior factors a family car should focus. Although it is positioned as a sport coupe, the high performance of dynamics can not built on the sacrifice of fuel economy (Auto China, 2008). For example, Proton Gen-2 (the most dominant model in China), first of all, the exterior design is a key determinant for fuel economy. Thanks to the fine-streamline- sport car-design of Proton car, the forerake front just highly decrease the wind resistance and realize the aim of fuel economy (Auto China, 2008).

Next come to engine, Proton car Gen-2 adopts high efficiency Campro 1.6 engine which developed by Lotus Engineering, the fuel consumption is far less

than same class cars of other brand. The fuel consumption is 5.8L and 6.2L for manual and automotive respectively with constant speed 90km/h. According to the engineers, during breaking-in period, the 97# gas consumption is 6.5L while 6L after the breaking-in period. In China, although 97# gas has a higher price than 93#, the consumption of 97# is less than 93# so as to the actual use-cost is less than 93#, moreover, use 97# gas are more environmental friendly (Zhang, 2009) !

Power

Developed completely by Lotus Engineering, Campro 1.6 engine is solely designed for Proton Gen-2 (Ma, 2008). It has more power, sensitive acceleration, the max output power reaches 82KW, and the max torsion is 149 Nm. Despite of a small capacity, the adoption of conceptual design done by Lotus as well as the sport car elements, Gen-2 has excellent performance in acceleration, Hundred kilometers linear acceleration only need 10.5 second, and max speed reaches up to 190 km/hour which is never inferior that the same class cars with capacity 1.8L(Ma, 2008)! What is more, Proton Gen-2 applied the edge-fine streamline-dynamics design which Lotus adopted first in racing cars, and this unique design ensure the stability steering under a high speed (Ma, 2008).

4. Outstanding Value for Money

As it is known by all, Lotus has ranked as famous as the world class famous brands like Ferrari, Porsche, Bentley, as well as Rolls-Royce. The dominated Proton car model in China, Gen-2, just inherits Lotus sport car's advanced technology, and has been developed by Lotus Engineering (Zhang, 2009). It possesses a superior dual-characteristic with high performance of a sport car and comfort of a limousine. Manufactured by Proton in Malaysia, Gen-2's configuration, raw material, techniques, standards, technology etc. are all consistent with Lotus's criterions and inspection, and adopts top class auto spare parts (Zhang, 2009). The comprehensive performance is confident

enough to compare with world-class brand car in the same capacity level which are priced 300,000 RMB (RM150,000 approximately). The Proton Gen-2 is priced (in RM) as following in Hangzhou, Zhejiang Province, China:

Table 1.1 Price of Proton Gen-2

Proton Gen-2	Guidance Price	Preferential Price	Money Saved
Gen-2 1.6L 5MT	RM59325	RM 54373	RM 4952
Gen-2 1.6L 4AT	RM 64277	RM 59325	RM 4952

(Source: Pacific Auto, 2011)

5. Reliable After-sales Service

One of the most focused and concerned issues is after sales service. This is without exceptional in China market (Tang, 2008). For imported cars like Proton, people always concern about the after sale service and maintenance, as well as the availability and prices of spare parts. For Proton's after sales service, a survey has been done by Tang (2008), during a promotion campaign, there are a lot of Proton users who participated, according to the information interviewed from some of Proton car users, there had been no serious problem encountered, generally speaking, it is satisfied. One of user's electronic heating review mirror was broken, he changed a new one two days later from a Proton 4s store, and the price was reasonable, too. In terms of routine maintenance cost, surprisingly, it is almost the same as that of local brand cars which priced at RM 50,000 level (Pacific Auto, 2008). Moreover, according to the Proton car dealers, when purchase new stock, they must purchase a certain amount of imported original spare parts. Besides, to make sure the market supply, the Youngman company imports Proton cars and at the same time a certain proportion of spare parts, the price was set to the same level as the local brand cars'. Youngman, Proton's Chinese partner, has established a

national wide after-sales service network based on the local dealers scattered throughout the country, which is ensure the validity of Proton cars' 24 hour customer service (Tang, 2008). Further, the customer service employees assigned to every service site are all engineers with practical operational experience (Youngmanlotus.com 2008).

1.3 Problem Statement

According to the latest survey done by J.P Power (2011), the car users in China tend to purchase foreign car brands, especially European car brands (32%), and Japanese car brands (27%), etc. The local brands only cover less than 20%. According to the study done by CBC (2010), a global professional marketing research institute, in five (Beijing, Shanghai, Guangzhou, Wuhan, Chengdu) major cities in China, Mercedes and BMW won the most favorite and top-class car brands among Chinese residence, for middle class car, Audi, Honda, and Passat (Volkswagen) are the most popular model, while Polo (Volkswagen), Santana (Volkswagen), Sail (GM), Citroen ZX are the first choice of economic car models among Chinese consumers. And now the first three top sales car model in September 2011 lies in Excelle (GM), Lavida (Volkswagen), Cruze(GM). Below is the Sales Top 10 car brands in China mainland in September, 2011:

Table 1.2 Top Ten Auto Sales in China in Sep. 2011 (units)

Rank	Brands	Manufacturer	Model	Month Sales	Accumulative total sales
1	Buick	Shanghai GM	Excelle	27994	191495
2	Volkswagen	Shanghai Volkswagen	Lavida	23852	176362
3	Chevrolet	Shanghai GM	Cruze	23212	162072
4	Chevrolet	Shanghai GM	Sail	20958	135448
5	Volkswagen	Shanghai GM	Bora	20195	150100
6	Volkswagen	FAW/Volkswagen	Jetta	19819	166210
7	Hyundai	Beijing Hyundai	Elantra	18800	151803
8	Volkswagen	Shanghai Volkswagen	Passat	18043	119161
9	Nissan	Dongfeng Nissan	Sunny	16113	116005
10	Volkswagen	Shanghai Volkswagen	New Polo	15624	86754

(Source: <http://www.qqbenz.com/xiaoliangpaixingbang/9867.Htm>)

As we can see, among the top 10 car brands in China, even top 40, there are no signs of China local brands like Chey, BYD, Charade, etc. Based on the latest statistic, the market share of local car brands hit the lowest level in this few years (Zhang, 2011). This reveals that foreign brand cars have always been the first choice of car consumers in China, in other words, Chinese people prefer foreign cars to local ones, this phenomenon lead to local car's relatively low adoption rate in China market.

As it is discussed above, Chinese people prefer foreign car far than local ones. Therefore, it is necessary to find out what Chinese look for from foreign brand cars, in other words, to identify what product attributes make Chinese customers prefer to foreign cars than local ones. Additionally, since there is a wide market for foreign car brands in China, it is a need to discover people from which income level tend to purchase foreign brand cars. This research findings is able to offer a clear picture how product attributes of a foreign car influence Chinese people's car purchasing choice and it is constructive for both Proton company and Chinese local auto firms.

1.4 Research Questions

In this study, there are three research questions as following discussed:

- 1) What are the product attributes that influence people's purchase decision towards Proton car in China market?
- 2). Amongst the identified product attributes of Proton car, which one is the most influential product attribute that leads to the decision making of Proton car purchase in China ?
- 3) Which is the most dominating income group of people in China that choose Proton car?

1.5 Research Objectives

Based on the research questions mentioned above, there are three objectives in this research as elaborated below:

- 1) To identify the product attributes that influence people's purchase decision towards Proton car in China market
- 2) To determine the most influential product attribute that leads to the decision making of Proton car purchase in China market
- 3) To identify which is the most dominating income group in China that choose Proton cars.

1.6 Significance of the study

Due to the increasingly fierce competition in the international automotive market, it is indispensable to be aware of the important role product attributes plays in customer's purchase decision making, so that effective marketing strategies and manufacturing scheme can be figured out to win the market targeted business better. This study shows the actual picture how Proton car users in China evaluate product attributes of Proton car that lead to their purchase tendencies, the findings is not only helpful to Proton's marketing

strategies in the China market, but also make positive effects to potential Malaysian automobile manufacturers' successful access and make win-win business in China. Further, this case study will arouse Chinese auto customers' interests and attention to Malaysian cars, and it is constructive for the Chinese local auto manufacturers' transformation and improvement.

1.7 Limitations of the Study

This research will be only done in several provinces of China, however, China is large. Therefore, the Proton car drivers' opinion from these limited provinces are considered as the representatives of the whole country's.

Another limitation of this case study is that sample size is 200 only which is considered limited size in comparison to some study or research which may have a larger sample size.

1.8 Assumptions

Here, I assume that China has always been in the name list of auto exporting countries of Proton, and there is no such possibility Proton give up the market in China. And for the market in China, there is always adequate market share there for Malaysian automobile manufacturers. Another assumption is that Proton is the dominate Malaysian automaker in the automotive market of China, there is no other Malaysia manufacturers there.

This study also assumes that all respondents provide unbiased answers when they are filling in the questionnaire. Because this case study in conducted in several province in China (like Zhejiang, Jiangsu, Shandong, Henan etc), so it is assumed that people in Zhejiang, Jiangsu, Shandong, Henan people's opinions represents the whole Chinese.

1.9 Scope of the Study

The focus on this study is on the evaluation of Proton car's product attributes