



MANAGEMENT DECISIONS TO OVERCOME THE ECONOMIC CRISIS

by

Mr. Kittipong Tanadumrongsakd

A Final Report of the Six-Credit Course
CE 6998 - CE 6999 Project

Submitted in Partial Fulfillment
of the Requirements for the Degree of
Master of Science
in Computer and Engineering Management
Assumption University

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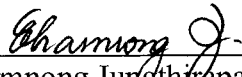
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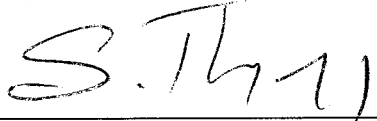
The Graduate School of Assumption University has approved this final report of the six-credit course, CE 6998 – CE 6999 PROJECT, submitted in partial fulfillment of the requirements for the degree of Master of Science in Computer and Engineering Management.

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ABSTRACT

This project examined management decisions of the Japanese direct investor in the Thai automobile industry particularly Tripetch Isuzu Sale Co., Ltd. (TIS) before and after economic crisis. Relevantly, the Thai economic overview and the impacts of the crisis, the situation in the automobile industry, TIS' strategic choices, and the performance of TIS' strategy were studied.

The Thai economy as well as the automobile industry had expanded rapidly since the second half of 1980s. Unfortunately, it began to moderate in 1996 and entered into a deep and prolonged down-cycle in 1997 due to the economic crisis.

External environmental factors tended to be hostile to the automobile industry. Moreover, the competition in the industry was fiercer and profitability tended to be lower. These factors affected the automobile companies negatively. To sustain their position, proper strategies had to be used.

Tripetch Isuzu Sale Co., Ltd. (TIS) was the case to study about the perception of TIS in the automobile industry toward external environment dynamic, the management choices in strategy before and after crisis, and the strategic performance/ effectiveness in terms of market shares. The information is mainly based on the personal interviews.

From the studies, TIS disclosed that the importance of external environment after crisis was in the higher level and its impact tended to be more negative. Mainly, TIS' strategies after crisis were export-orientation, market consolidation, product development, withdrawing unproductive products and sections, cutting manpower, reducing production, and horizontal diversification. With these strategies, TIS could sustain its position in being the number one in commercial car markets and the number two in the automobile industry.

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Last, but not least, I wish to express my profound gratitude to my parents. I am able to have this day because of their encouragement and sacrifice.

I retain entire responsibility for all remain deficiencies, ambiguities, and errors in this study.

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I. INTRODUCTION

1.1 Background

Since 1960, Japan had played an important role as the investor in Thailand (Federation of Thai Industries, FTI 1998). According to the statistic from Thailand Board of Investment (BOI), since 1986, Japanese direct investors had gotten the largest shares among foreign direct investors in Thailand for ten years consecutively. 45-50% of the total foreign direct investments (FDI) in the kingdom were Japanese (FTI 1998). Mostly, their outstanding projects had emphasized on electronics and electrical, chemicals, metal processing, and automobile assembling.

The Thai automobile industry had continuously developed since 1961. It was a sunrise industry in the country. Thailand was called "Asia's New Car Capital" or "Detroit of Asia" because an open market was making Thailand the automobile manufacturing hub of Southeast Asia (Business Week 1995). The kingdom had drawn every major Japanese and US carmaker to its bosom, effectively complementing production and assembly plants with parts, accessory and component manufacturing facilities.

Due to the economic crisis in Thailand in 1997, the overall economy was slowed down. The consequences of this situation were the overburden of foreign debts (because of baht depreciation), high rate of unemployment, the squeeze of purchasing power, etc., mostly on negative rather than positive effects. Unavoidably, Thailand's automobile industry, the largest and most dynamic in Southeast Asia (since 1993), was also affected by this crisis. The automobile growth rate decreased from the 28% in 1993 to (35.59)% in 1997 and the total of automobile sale severely and continuously decreased till it reached the minimum point at (60.32)% in 1998 (FTI 2000). Likewise, big five Japanese assemblers in Thailand (Toyota, Isuzu, Mitsubishi, Honda, and

Nissan) also faced the difficulties. Survival in the tough situation needed the appropriate strategy. The strategic decision was a significant process for the company to define its direction and scope of its activities to cope with the environmental changes. Changes in strategies or objectives were frequently- although not always -made in response to, or in anticipation of, an environmental change; either reacting to a threat, or taking advantage of an opportunity. Conversely, if an organization responded too late to environmental changes, it runs the risk of failure (Rosen 1995). To manage the changes was the heart of the strategic decision.

Even though the crisis in Thailand had forced many companies to slowdown or even bankruptcies, it did not mean that only the negative effect occurred. It depended on how well the company's strategic decision was. The message of Chuan Leekpai, Prime Minister of Thailand, in June 1998, "We must seize this crisis as an opportunity to reform." Therefore, the appropriate strategies would reduce the risk and made the environmental changes as an opportunity for the company to accomplish its goals.

Getting the large market share in Thailand's automobile industry, Isuzu was selected as the case study. It was very interesting in study how a large and well-known company made the management decision for environmental changes to sustain its position.

1.2 Research Problem

As mentioned above- the strategic decision as an essential process to overcome these difficulties -the economic crisis, the proper strategy could help the company to sustain or establish a distinctive competency and competitive advantage as well as to be the guidelines for the strategy in business and functional levels.

In assessing its strategic choice, this project could break down the research problems as follows:

- (1) How did economic crisis affect overall Thai economy and the automobile industry?
- (2) What were changes in the strategy of the Japanese automobile company particularly Tripetch Isuzu Sale Co., Ltd. (TIS) against this crisis?
- (3) Were the strategic choices of the Japanese direct investor particularly TIS good enough to overcome economic crisis and sustain its position?

1.3 Research Objectives

This project was carried out to fulfill the following objectives:

- (1) To describe the Thai economic overview and the impacts of the crisis
- (2) To analyze the situation in Thai automobile industry, and
- (3) To study the strategic decision of the Japanese automobile company particularly TIS before and after the crisis, and its performance in term of market shares.

1.4 Usefulness of the Study

From this project, the evaluation of the Thai economy, and the impacts of the economic crisis on overall Thai economy were identified and understood. The situation in the Thai automobile industry was analyzed. And, the comparison between the strategic decisions of the Japanese automobile company particularly TIS before and after the economic crisis were defined and analyzed. Moreover, the analysis that whether this changing strategy is good enough to overcome the crisis and sustain its position was disclosed. At the same time, other companies in the automobile industry and other industries could use this as the lessons for their strategic decisions in difficult environments.

1.5 Research Methodology

This project was designed as exploratory research. For data collection, this project used both primary and secondary data. Primary data on the issue of the Japanese automobile company's strategic choice was obtained from personal interview, and secondary data from the report of the Federation of Thai industries and local newspapers. The respondent was Tripetch Isuzu Sale Co., Ltd. The executives assigned Mr. Jetsada Boonchai, the Assistant Manager of Marketing Communication Department, to provide the company's information. The reason for using in-dept interviews was that the author had more accurate and clearer picture of the respondent's position or behavior and the open-ended question made the respondent feel free to answer according to his own thinking. The guidelines of questions were shown in Appendix A. The collection of secondary data was done through the books of strategic management in the library, company's annual report/ profiles, newspapers, the documents of governmental organizations, and other research institutions. Thailand's Boards of Investment (BOI), Bank of Thailand (BOT), the Federation of Thai Industries (FTI), Ministry of Industry (MOD, Thailand Development and Research Institution (TDRI), and local newspapers were the main sources.

1.6 Scope

This project was focused on changing the strategies of the Japanese automobile company particularly TIS during the period of 1996 to 1999 (before and after the crisis in 1997). Therefore, the cross culture management was not the concern of this project.

1.7 Limitations

During the study of this project, the obstacles were as follows:

- (1) The difficulty in the collection of unpublished data and confidential material from the company due to the company's regulations.

- (2) Due to the difficulty in arranging interview schedules with the executives, executives assigned the qualified staff to give the company's information.
- (3) All questions in the interviews were not completely answered by the respondent company.

1.8 Layout of the Project

The study was structured into six chapters:

Chapter 1: Introduction-this part included background, research problem objectives, and usefulness of study, methodology, scope, limitation, and Project Layout.

Chapter 2: Literature Review-principally, environmental analysis, and strategic options were covered.

Chapter 3: Thai Economy Overview- the overview of Thai economy and the impacts of the economic crisis were in this chapter.

Chapter 4: The Situational Analysis of the Thai Automobile Industry- the country analysis (through PEST analysis), the industry overview, and the industry analysis (through five forces' analysis) were included in this chapter.

Chapter 5: Company Analysis- the strategic choices before and after crisis of the Japanese direct investor in the Thai automobile industry particularly Tripetch Isuzu Sale Co., Ltd. And his performances in term of market shares were in this chapter.

Chapter 6: Conclusions and Recommendations.

II. LITERATURE REVIEW

2.1 The Origins and Definitions of Strategy

The word strategy came from the Greek stratego, meaning 'to plan the destruction of one's enemies through the effective use of resources.' The concept was purely in relation to the successful pursuit of victory in war. Since the nineteenth century it had begun to be applied to the business world.

Many writers gave the meaning of strategy. According to Thomson and Strickland (1999), a company's strategy was the game plan management had for positioning the company in its chosen market arena, competing successfully, pleasing customers, and achieving good business performance. According to Johnson and Scholes (1999), strategy was the direction and scope of an organization over the long-term: which achieved advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfill stakeholder expectations. According to Wheelen and Hunger (1998), a strategy of a corporation formed a comprehensive master plan stating how the corporation would achieve the mission and objectives. It maximized competitive advantage and minimized competitive disadvantage.

2.2 Levels of Strategy

Typically, the business firm usually considered three levels of strategy: corporate, business, and functional. Business firms used all three levels of strategy simultaneously and they complemented and supported one another. Corporate strategy described a company's overall direction in terms of its general attitude toward growth and the management of its various businesses and product lines. Business strategy concerned the actions and the approaches crafted by management to produce successful performance in one specific line of business; the central business strategy issue was

how to build a stronger long-term competitive position. Lastly, functional strategy was the approach taken by a functional area (R&D, production, marketing, customer service, distribution, human resources and so on) to achieve corporate and business unit objectives and strategies by maximizing resource productivity.

2.3 External Environmental Analysis

The analysis of the firm's external business environment was designed to identify the strategic opportunities and threats. These were key forces of the change in the business environment that were likely to result in a change of strategy either positively by presenting new strategic growth opportunities to the firm or negatively by posing threats to the continuation of present strategies.

2.3.1 PEST Analysis

PEST analysis was a simple and popular method of carrying out an environment audit in order to identify which factors posed these strategic challenges. There were four elements in this model: Political, Economic, Socio-cultural and Technological Environmental analysis. Some important variables in each element were shown as follow:

Table 2.1. PEST Analysis Table.

Political	Economic	Socio-cultural	Technological
<ul style="list-style-type: none">• Antitrust regulations• Taxation• Environmental protection laws• Foreign trade regulations• Government stability• Special incentives• Attitudes toward foreign companies, etc.	<ul style="list-style-type: none">• GDP• GNP• Disposable income• Interest rates• Currency exchange rates• Inflation rates• Unemployment rates• Energy availability and cost• Wage/price controls, etc.	<ul style="list-style-type: none">• Social mobility• Lifestyle changes• Career expectations• Population growth• Spending pattern Age distribution, etc.	<ul style="list-style-type: none">• Total government spending for R&D• Speed of technology transfer• Patent Protection• New products• Productivity improvement, etc.

According to Hall (1995), the country in which a company was located was a primary determinant of the corporate strategy. Therefore, the macro-economic analysis through PEST analysis was pertinent to this project.

2.3.2 Michael Porter's Five Forces Framework

Porter's five forces model was a very useful concept for identifying the key competitive forces in an industry: intensity of rivalry among existing competitors, threat of new entrants, bargaining power of buyers, bargaining power of suppliers, and threat from substitute products. See Figure 2.2.

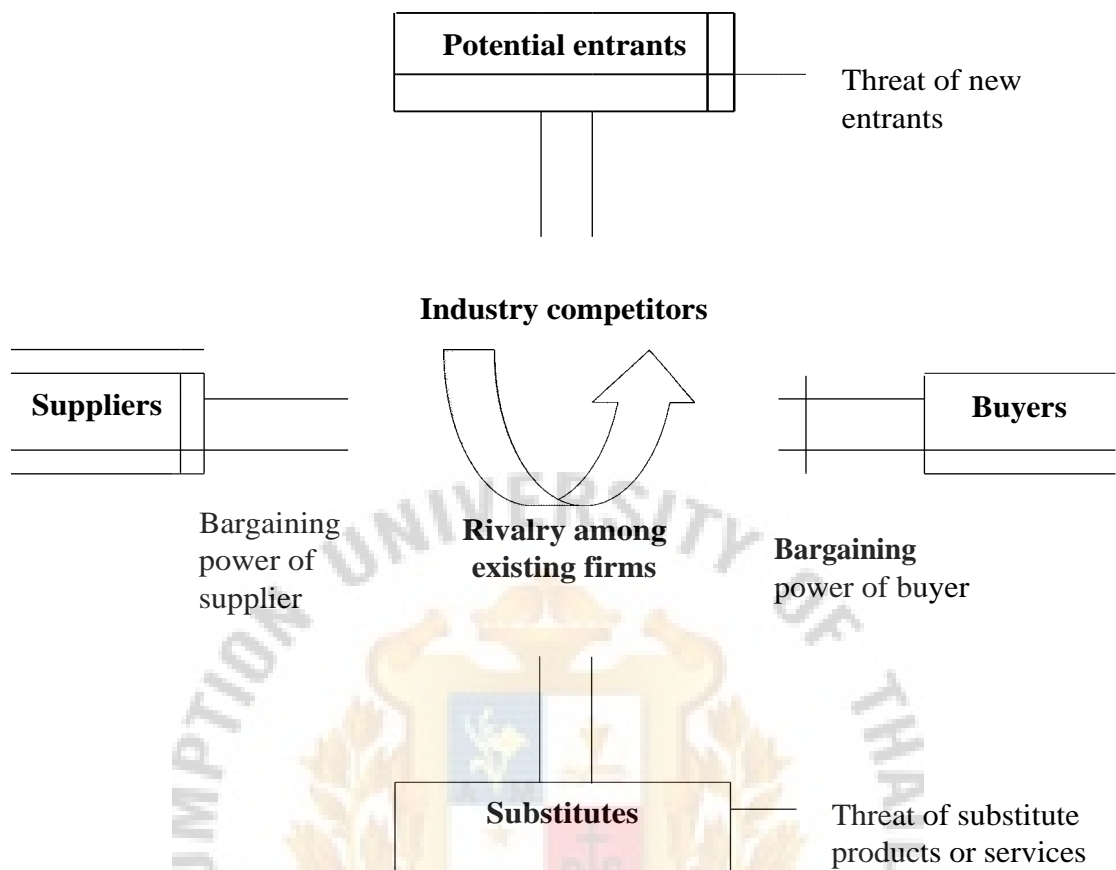


Figure 2.1. The Five Competitive Forces That Determine Industry Profitability (Porter 1980).

In the force of rivalry among existing competitors, there were several factors determining the degree and intensity of industry rivalry. They were the degree of industry concentration and the size distribution of competitors, competitor diversity, industry growth rate, the degree of product differentiation, high exit barriers allied to excess industry capacity, high strategic stake, high fixed cost, and high switching cost. In the force of new entrants, Porter (1980) identified seven main factors giving rise to entry barriers: economies of scale, product differentiation, capital requirements, absolute cost advantages, access to distribution channels, government policy, and expected retaliation. In the force of buyers, the determinants of buyer power were

switching cost, buyer concentration, a degree of monopoly buying power, and the possibility of backward integration by the buyers. In the force of suppliers, there were supplier concentration, switching costs, and the ability to vertically integrate forward. Lastly, the determinants of the possible threat from substitute products or services were customer's viewpoint, technological change, and product innovation.

If all the forces were strong, rivalry was strong, entry barriers were low, competition from substitutes were strong, and both buyers and suppliers had strong bargaining power, then the profitability of the industry would be low, and vice versa.

According to Wheelen and Hunger (1998), a sixth force should be added to Porter's list to include a variety of stakeholder groups form the task environment. According to Rosen (1995), these five forces were major influences on the profitability of a market, but other factors such as trends in demand, production, distribution, and other cost had to be also considered in deciding the appropriate strategy. Therefore, this project focused on both Porter's five-force model and PEST analysis to cover all primary determinants of the corporate strategy and to be easy in getting a better corporate overview.

2.4 Anson' s Product/Market Matrix

H. Igor Ansoff (1987) pointed out that these various strategic options could be classified according to whether they involved existing products and market or new ones. This matrix could be called as the growth vector. Ansoff originally gave the alternatives of market penetration, market development, product development, and diversification.

According to Dobson and Starkey (1993), the use of growth vector assumed that the firm was indeed growing. This was obviously not always the case, and strategic decision-making might therefore involve 'downsizing' and withdrawal from some areas

of business. Nevertheless, Bowman and Asch (1987) and Johnson and Scholes (1984) advocated the four growth alternatives of Ansoff, but added a strategy of no growth and of withdrawal from a product-market scope. The alternative of no growth was labeled 'consolidation', while those of divestments, liquidation or selling out were used for the alternative of withdrawal. Luffman et al. (1987) and Pearce and Robinson (1985) also included consolidation and divestment, along with the alternative of achieving growth by vertical or horizontal integration.

In this context, the scope of the original Ansoff's product-market matrix was too narrow because of focusing only the growth strategy. The alternative of withdrawal and consolidation were fitting to the crisis period. Furthermore, the alternatives of achieving growth by vertical and horizontal integration were commonly used in the business world. Adding these alternatives into the original one, the matrix covered all relevant strategies. Therefore it was proper to be used as the model of this project. See Figure 2.2.

All alternatives were considered as follows:

- (a) Withdrawal: the result of strategic analysis might point to the need for a firm to withdraw from a particular product or market, where the firm lacked the competence to compete. This strategy could be complete or partial withdrawal.
- (b) Consolidation: it was concerned with protecting and strengthening the organization's position in its current markets. Since this market situation was likely to change- for example, through improved performance of competitors or new entrants —consolidation did not mean standing still. It would require attention to the extent to which the firm's resources and

competence continued to fit the market need and/ or how they should be adapted/ developed to maintain the competitive position of the firm.

- (c) **Market penetration:** this occurred where a firm concentrated on expanding its market share in existing product and markets (John et al., 1997). Porter also suggested that this strategy was likely to be easier in expanding market rather than mature or static markets where the struggle for increased market penetration could become intense. Moreover, John and Scholes argued that increasing market share might depend on the leaving rate of other firms in a particular industry.
- (d) **Market development:** the firm's strategy emphasized on expanding new markets and new market segments. The firm would look for opportunities to exploit the current products in other market.
- (e) **Product development:** it was a strategy of introducing new or improved products.
- (f) **Diversification:** there were two broad type of diversification- related and unrelated.
 - (1) **Related diversification.** According to Johnson and Scholes (1999), this development beyond the present product and market, but still within the broad confines of the 'industry'. Related diversification might take two main forms- vertical (backward and forward) and horizontal integration. **Backward integration** involved the development into activities concerned with the input into the firm's current business. **Forward integration** involved the development into activities concerned with a firm's output such as distribution channel, repairs and servicing. **Horizontal integration** referred to development

into activities that were competitive with, or directly complementary to, a firm's present activities.

- (2) Unrelated or conglomerate diversification. It occurred where there was no linkage at all to present business.



Figure 2.2. Ansoff s Product/ Market Matrix.

	Existing products	New products
Existing markets	Strategies based on existing markets and existing product: CONSOLIDATION PENETRATION <ul style="list-style-type: none">• Withdrawal• Market consolidate• Market penetration	Strategies based on launching new (or improved) products into existing markets: PRODUCT DEVELOPMENT
New markets	Strategies based on finding new markets for existing products: MARKET DEVELOPMENT	Strategies based on launching new product into new markets: DIVERSIFICATION <ul style="list-style-type: none">• Related diversification<ul style="list-style-type: none">-Forward integration-Backward integrationHorizontal integration• Unrelated diversification (conglomerate)

Sources: Adapted from Ansoff (1987)

III. THAI ECONOMY OVERVIEW

This chapter is divided into two parts: Thai economy overview and the impacts of crisis. The first part discussed Thai economic overview. The second part is related to the impacts of Thai economic crisis.

3.1 Thai Economic Overview

From 1980 until the crash of 1997, the Thai economy had performed exceptionally well. Thailand had been recorded as one of the most successfully emerging market countries in terms of growth and gains in living standard. Average of the economic growth had been 7.6 percent from 1977-1995 (TDRI 1998). Moreover, the growth expanded at a double-digit rate for three consecutively years from 1989-1991. High saving rate and a tradition of very conservative monetary and fiscal policy stance accompanied the strong growth. During that period, the Thai economy had not enjoyed only the unprecedented high growth rate, but also moderate inflation and stable exchange rate. These factors contributed to the success stories of Thailand and of Southeast Asia. This extended period of the growth was propelled by buoyant export performance (especially in manufacturing sectors), and dynamic investment outlook, in the true spirit of capitalism and the private sector-led development strategy. From the end of 1986, Thailand became a favorite location for foreign firms escaping from currency appreciation and high labor costs at home, especially Japanese firms. The only weak point was the large current account deficit that was on account of higher investment ration, and high net capital inflows.

In the early 1990s, Thailand embarked on a course of deregulation and financial liberalization starting with the acceptance of the Article VIII of Agreement of the International Monetary Fund (IMF). Many measures were adopted to improve, liberalize and internationalize the domestic financial market; such measures include

abolishing the interest rate ceiling, developing financial instruments and market, encouraging saving mobilization, relaxing foreign exchange control, constructing Bangkok International Banking Facilities (BIBF), and founding Export and Import (EXIM) bank. This financial liberalization had led to massive capital inflows and helped Thai economy to achieve high rates of growth.

From around the middle of 1996, uncertainty about Thailand's economic outlook began to increase. The growth was influenced by a slowdown in domestic demands and a poor performance of exports. As a result, overall output slowed down, particularly in the industrial sector. Exports shifted to a 1.3% yearly decline (U.S. dollar term) in 1996, and the same year, the current account deficit expanded to 7.9% several factors, namely, the moderation in demands of trading partners, shortage of raw materials for marine product industries, trade protection by trading partners, declining in competitiveness of labor intensive manufactured exports, and the intense competition in the world market. A sharp deceleration was also observed for imports in all categories especially raw materials and intermediate products. Despite a marked slowdown, import growth still outpaced that of exports, thus resulting in an increase in trade deficit. Private investments moderated after a rapid acceleration in 1995 especially investment in machinery and equipment. Furthermore, the inflation rate remained at a high level of 5.9 percent (BOT 1997), partly resulting from floods at the end of 1995. During that time, the government conducted tight monetary and fiscal policies to maintain a stable macroeconomic environment.

In 1997, Thai economy encountered severe difficulties resulting from the bubble economy that made the country highly dependent on the short-term foreign capital and overly exposed to unproductive and speculative investments in the asset markets. The sharp economic slowdown, the large deficit in external account, the problem of non-

performing loans, the lack of the government confidence, coupled with the appreciation of the US dollar, led to a massive speculative attack on the bath. As a result, Thai authorities decided to change the exchange rate regime from basket currencies to managed floating rate on July 2, 1997. The bath depreciation led to many undesirable effects on Thai economy such as the increase in debt burden, the deficit in balance of payments, higher inflation pressure, etc. In August, the government sought the IMF's assistance for economic problems.

3.2 The Impacts of the Crisis

(1) Economic recession

After the crash of 1997, Thai economy was in a recession the country had never experienced in decades. The currency depreciation in Thailand had spread over to other countries in Asia and this in turn led the Thai bath to depreciate further. Before the float, the bath was at around 25-26 bahts/ U.S. dollar. It plunged to over 40 bahts in a few months and to its lowest level of around 56 bahts a dollar in January 1998 before recovering to 40-43 bahts in recent months. Thai economy shrank substantially. In 1996, Thailand's GDP grew at 5.9 percent compared to an annual average of 8 percent in the past 5 years. In 1997 and 1998, GDP growth turned to be negative at —1.7 and —10.4 percent respectively. The sudden and large downturn in the economic growth was the combined results of decline in private consumption and investments, and government expenditures. The failure of exports to perform was all the more disappointing. Net capital outflows and liquidity crunches alongside with restrictive macroeconomic policy measures had obviously contributed to the severe shrinkage of

economy. However, in 1999, there was the recovery sign of Thai economy during the recession, which began in June 1997. See Table 3.1.

Table 3.1. Economic Indicators 1994-2000.

Economic Indicators	1994	1995	1996	1997	1998	1999	2000
GDP Growth rates	8.9	8.7	5.9	-1.7	-10.4	4.1	4.4
Consumer Price (% change)	5.0	5.8	5.9	5.6	8.1	0.3	0.9 ¹
Exports (% change)	23.1	25.1	-1.3	4.3	-6.6	7.0	24.4 ¹
Imports (% change)	17.7	30.1	2.2	-12.5	-32.8	15.8	20.8 ¹
Current Account Balance (% of GDP)	-5.4	-7.8	-7.9	-2.0	12.6	9.4	n.a.
Net Capital Movements (US\$ billion)	12.2	21.9	19.5	-9.5	-9.5	-6.1	-4.8 ¹
Balance of Payment (% of GDP)	2.9	4.3	1.2	-6.9	1.5	3.6	n.a.
Government Revenue (US\$ billion)	26.0	30.6	33.6	30.7	17.6	18.9	10.5 ²
Government Expenditure (US\$ billion)	23.2	25.8	29.6	32.4	20.2	21.9	13.0 ²

January- April, ² October 1999- June 2000

Source: BOI, 2000

(2) Effects of currency depreciation

The immediate effect of the bath depreciation was a significant increase in debt burden of companies with foreign debts. The bath depreciation was supposed to benefit the country export sector since exporters could earn more baht for their exports and could have more cost competitiveness. But the export expansion effect was not as large as earlier expected because the other currencies in Asia had also depreciated. Major importing countries of Thai products in Asia including Japan and other

ASEAN countries were suffering from economic slowdown and weak demand. At the same time, exports in Thailand were facing with the problem of shortage of funds as a result of the liquidity crunch following the crash. Additionally, Thailand's industrial products in general had high import contents. Therefore, the baht depreciation increased costs for industries depending on imported materials.

The baht depreciation was expected to cause higher inflation, as oil, transportation costs, and other imported items were all more costly in local currency. Inflation rate did increase but not as severe as earlier expected since the effects on higher import prices were nullified by weakened domestic demand. However, the inflation rates while not very severe implied higher costs of living when income was falling.

(3) Massive of non-performing loans

The non-performing loan figures had been higher due to the rising number of loan defaults that came mainly from the real estate sector. The huge non-performing loans resulted in poorer performance of finance companies.

(4) Loss of investor's confidence

The worsening economy and the unclear solution to the economic problems of Thai government were the major reasons for the decline in investors' confidence. Furthermore, international credit-rating agencies (Moody's and Standard & Poor) downgraded Thailand's sovereign credit rating. These also shook the investors' confidence.

(5) Foreign capital outflows

Pressure on the Thai baht intensified in December 1996 stemming from deteriorating economic fundamentals, looming problems in the financial sector, and widespread rumor of currency devaluation. Foreign investors' confidence was shaken, prompting withdrawal of investments from Thailand.

(6) The liquidity shortage

Thailand entered into a bailout package led by the IMF in August 1997. The IMF program was basically an austerity that emphasized on economic stability and contributed to the contraction of the Thai economy. In the financial sector, the problem liquidity squeeze had become more severe overtime. This had been the result of net capital outflows coupled with the tight monetary policy presumably to keep inflation down and keep the bath more stable. Financial institutions and banks were more reluctant to lend out money when an increasing share of their loans became non-performing loans. The closure of 56 ailing finance companies had completely cut the credit line of the lenders of these companies, which were mostly small and medium enterprises. The government had to bear the burden of paying out these debts and assured both depositors and creditors in getting their money back. Therefore, the Financial Institutions Development Fund (FIDF) had to compete for funds in the financial market to meet these obligations. Undoubtedly, the liquidity shortage had become more severe.

3.2.2 Social Impacts

(1) Unemployment

Apart from the foreign indebtedness of banks and companies, the contractions of credit together with rising interest rates had put many companies in serious trouble. This was worsened by a sharp reduction in domestic demand. Exporters were facing difficulties in obtaining working capital and were unable to reap the benefit of the currency depreciation. Many companies were on the verge bankruptcy. The severe contraction of the economy caused increasing of unemployment. See Tables 3.2 and 3.3. Reports on lay-off of workers were frequently heard. Some companies tried not to go out of business by cutting down wages and other expenditures. Besides the financial sector, construction and manufacturing industries were among the sectors hardest hit by the recession. Industries including automobiles, steel, cement, chemicals and many consumer product industries all reported large drop in production.

Table 3.2. Employment and Unemployment 1996-1999.

Unit: Thousand persons

	1996	1997	1998	1999
Labor Force	32,324	32,780	32,596	32,911
Employment	31,166	31,714	30,270	30,835
Agricultural sectors	14,137	14,315	13,571	13,997
Non- agricultural sectors	17,029	17,400	16,699	16,838
Unemployment	498	495	1,423	1,383
Unemployment rate (%)	1.54	1.51	4.37	4.20

Source: Labour Force Survey, National Statistical Office 2000

Table 3.3. Number of Employees Laid-off in Thailand, 1996-2000.

Year	No. of establishment	No. of employees laid-off			
		Total	Production	Service	Administration
1996	77	5,015	4,862	81	72
1997	837	38,217	27,493	9,307	1,417
1998	1,052	50,498	39,847	7,917	3,734
1999	803	20,882	16,961	2,044	1,817
1 st quarter	154	5,280	3,651	445	1,144
2nd quarter	294	7,720	6,639	760	301
3 rd quarter	187	3,109	2,664	206	239
4 th quarter	168	4,773	4,007	633	133
2000					
1 st quarter	84	7,067	6,491	374	202

Source: Labour Studies and Planning Division, Department of Labour Protection and Welfare 2000

(2) Poverty

The high economic growth in Thailand over the past three decades had resulted in higher income level for Thai people. Various studies had shown that the incidence of poverty had declined steadily over time. The recent economic crisis had changed this situation. Many people were concerned that the crisis led to an increase in poverty, and the poorest people in the society would be those who were hardest hit. Furthermore, due to falling output, government revenues were falling. Therefore, lower

government revenues, lower social expenditures. It directly affected the poor.

Besides rural residents, poor people living in the urban areas such as workers in construction activities were much affected by the loss of jobs. Women and children workers were likely to be affected more. Many students were forced to leave schools because parents had lost their jobs. The present economic crisis also affected rich and middle-income people. Businessmen saw their businesses shrink and many had to close down their firms. Their saving eroded and debts increased with the fall in the business together with asset values and could not pay their installments on houses and cars were frequently reported.



IV. THE SITUATIONAL ANALYSIS OF THE THAI AUTOMOBILE INDUSTRY

The chapter involved the primary determinants of the corporate strategy. They were the country in which it was located, and the industry environment in which a corporation competed (Hill 1995). Both of these factors were aspects of the corporation's external environment, and influenced the corporation's competitive advantage. The first part concerned the country analysis through the PEST analysis. The second part presented the automobile industry overview. The last part is the five-force analysis of the automobile industry.

4.1 Country Analysis

The country environment included political, economic, socio-cultural, and technological factors. They marginally touched the short run activities of the corporations but influenced the long run activities substantially.

4.1.1 Political Environment

Before crisis

Opportunities

- (1) Mainly policy focused on industrial development

According to the Seventh National Development Plan (1992-1996), the government emphasized on the development of the private industry sector included the automobile industry.

- (2) Investment Promotion and Export Promotion Policy

Thailand's Board of Investment (BOI) had provided incentives to stimulate investment in Thailand. At the same time, the government had supported the exporting through export promotion policy. For example,

- (a) Tax exemption or reduction on corporate income derived from exports for a specific period.
- (b) Exemption or reduction of the import duty and business tax on machinery.

(See Appendix B: Summary of Major Automobile Industry Policies in Table B.1 and Investment Incentive for Manufacture of car assemblies in Table B.2.) These policies enhanced the industrial development in Thailand including the automobile industry.

Threat

- (1) Higher down-payment and shorter installment plans for car purchases

BOT did it for solving the problem of balance of payment deficit. 70% of customers bought cars through the installment (FTI 1998). This measure increased the customers' burden and also affected the automobile sales.

After crisis

Opportunities

- (1) The economic policy approach

The role of government had become more concerned in the economic recovery to build investors' confidences. With aid package of International Monetary Funds (IMF) and other industrialized countries, Stock Exchange of Thailand (SET) and baht currency were responding positively. Analysts and media had cited Thailand was in the right track for curing the country's illness. It was the first step to recover the Thai economy including the automobile industry.

- (2) Relaxing the measure on credit for hire-purchase of cars

Financial institutions could define their own terms and conditions, including down payment and repayment terms. In addition, relaxation was made to financial institution conditions for car repossessions and withholding of past installment payments. (Effective on March 1999.) This was a way to stimulate the automobile sales.

- (3) Decreasing VAT rate (April 2, 1999- March 31, 2001)

To stimulate the economy, the government decided to temporarily reduce VAT rate from 10 to 7% for the period of two years. It affected the decrease in automobiles' price.

- (4) Decreasing excise tax

After December 31, 1999, there were restructuring tax measures on vehicles and parts by reducing the excise tax rate of Complete Built Up cars (CBU) and Complete Knocked Down car (CKD) to compensate for the higher import duty. Furthermore, 10% surcharge on CKD was cancelled. (See Vehicle Taxation in Appendix B, Table B.3 and B.4.) It also affected the decrease in automobiles' price.

- (5) Lifting local content requirement

Thailand's commitment to the World Trade Organization (WTO) to scrap the local content requirement for vehicles, effective on January 1, 2000. This created more choices of suppliers to the automobile assemblers.

- (6) Other Fiscal Measures for stimulating economy including the automobile industry

(a) Exemption of the personal income tax for the first 50,000 bahts

(b) Exemption of the VAT rate of 1.5 percent on the sales of business with revenue exceeding 600,000 bahts but not exceeding 1,200,000 bahts per year.

(7) Revised investment policy

To adapt its policy to this changing economic and to reduce the burden of tax incentives on the fiscal system, the BOI revised its policy to balance all economic objectives. It took effect on August 1, 2000.

(8) Industrial restructuring plan (1998-2002)

The government set this plan to solve the problem of contraction Thai industrial sector including vehicles and parts. (See Appendix B: Industrial Restructuring Plan in Table B.4.)

Threats

(1) Increasing VAT rate (August 16, 1997- April 1, 1999 and April 1, 2001 onward)

To follow IMF monetary policy, the government increased its revenue and decreased the trade deficit by raising the VAT rate from 7 to 10%. Changing in automobiles' price was a result.

(2) Increasing the import duty and excise tax

Since October 14, 1997, the authorities raised import duty to 80% for CBU. From November 5, 1997 to December 31, 1999, there was increasing in excise tax on CBU and CKD by 5%. Since January 1, 2000, the government raised import duty to 33% for CKD. (See Vehicle Taxation in Appendix B, Table B.3 and B.4.) These measures caused the increase in automobiles' prices.

Impact on the automobile industry: Generally, both before and after crisis, Thai government supported the automobile industry, one of the sunrise industries in Thailand, at its best. This was the benefit for overall automobile industry. However, the fiscal policy solving low government revenues according to IMF guidelines, especially in taxation, made direct and indirect effects toward the contraction in the domestic demand of automobiles. There were increasing automobiles' price, higher production costs, lower amount of imported car, and lower customers' purchasing powers. See Table 4.1.

Table 4.1. Some Fiscal Policies and Price Effects.

Fiscal policy about taxation	The increasing rate in automobiles' price
Raising VAT from 7 to 10% (August 16, 1997-April 1, 1999)	2.8%
Surcharge 10% for CKD and CBU (October 14, 1997-December 31, 1999)	0.8%
Raising import duty to 80% for CBU (October 14, 1997- present)	13.5%
Raising excise tax by 5% (November 5, 1997-December 31, 1999)	10.7%

Source: BOT 1999

After that, government announced economic stimulus package to spur overall economy including the automobile industry such as cutting manufacturing costs by temporarily decreasing VAT to 7%, cutting import tariffs to 3% on 326 capital goods, and others. These measures made positive effects in the economy such as increasing domestic demand, 2.73% decreasing in automobiles' prices (BOT 1999).

4.1.2 Economic Environment

Four important areas were focused in this context: growth rates, interest rates, currency exchange, and inflation rates.

(1) GDP growth rates



Figure 4.1. GDP Growth Rates 1987-1999 (BOT and BOI 1999).

Before Crisis

Opportunities

(1) High economic growth

Thai economy experienced relatively high growth over the decade.

World Bank reported the average about 8% growth rate from 1992 to 1996 as the highest one in the world. The significant growth in the automobile industry was simultaneously being the cause and effect of high economic growth.

(2) Increasing private consumption

Due to high growth rate era, globalization trend and bubble economy, Thai consumer behaviors changed from economizing to extravagance. As a

result, there were highly expanding in manufacturing sectors including non-durable and durable goods. For example, the growth rates of passenger cars in 1992 and 1993 were 81.88% and 41.99% respectively (BOT 1998).

After Crisis

Opportunity

(1) Recovery signs on the Thai economic crisis in 1999

According to the Office of the National Economic and Social Development Board (NESDB), the growth rate had reached 4.1% in 1999 and was expected to touch 4.4% by the year 2000. A major factor contributing to the expected higher growth rate was the increased government expenditure under the economic stimulus package announced on 30th March 1999. In addition, the manufacturing production index had improved steadily during the first 9 months of 1999, rising by 10.2% over the same period last year (BOT 2000). Meanwhile, exports in US dollar terms had increased significantly since mid- 1999. Moreover, the growth rate of the automobile production was 106.94% in 1999 (FTI 2000).

Threats

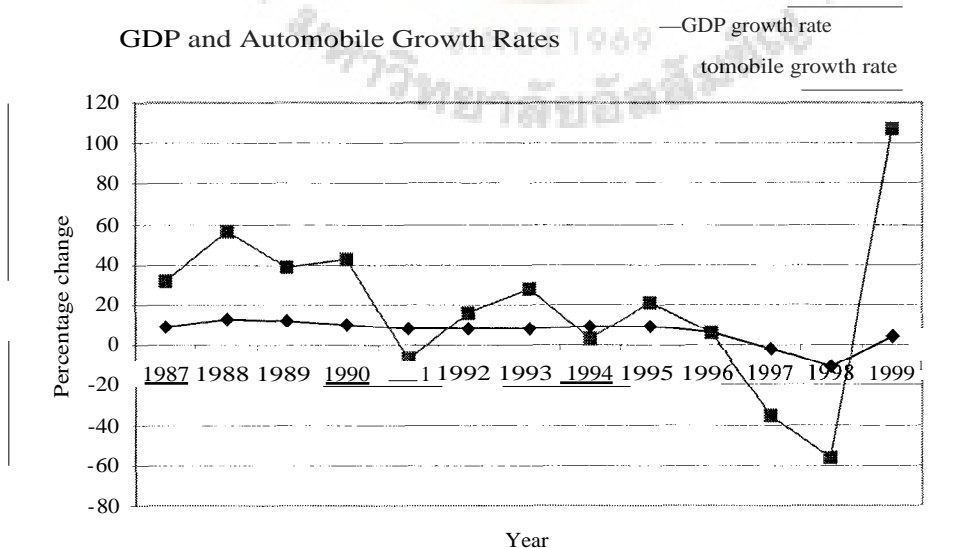
(1) GDP growth rate slowdown after the economic turmoil

In this period, the global trade with the slower growth notably affected Thai economy. Main problems related to loads of economic problems and uncertainties such as the sluggish economy, which resulted in high commodity prices, rising cost of living, inactive stock markets, trade deficit, the contraction in export sector, collapsed property market and financial sectors, the decrease in consumer spending and investments, and political instability. These caused the shrink in the automobile industry.

(2) The sluggish domestic consumption and investments

Total consumption expenditure expanded only 0.8% in 1997 and the private consumption expenditure was (10.6%) in 1998 (BOT 1999). The private consumption fell on account of reduced purchasing power, greater caution in spending, and tight monetary policy linked to higher unemployment and job uncertainties, respectively. The private investment decreased as no new investment was necessary due to the prevailing excess production capacity. Unavoidably, the automobile industry was also in the trouble due to the sluggish domestic consumption.

Impact on the automobile industry: GDP and automobile growth rates moved in the same direction but the swing magnitude of the automobile growth was greater due mostly to the effect of governmental policies. Certainly, the car industry was quite sensitive to economic trends. See Figure 4.2. The Thai automobile industry had expanded rapidly since 1987, along with the high domestic economic growth.



Note: The automobile growth rate derived from the changes (year-on-year) of production record.

Source: BOT and Thai Automotive Industry Association 1998-1999

Figure 4.2. Comparison between GDP and Automobile Growth Rates 1987-1999.

Its production growth rates were high during the period of 1988 and 1990. In 1991, after partially liberalizing automobile industry, the domestic assembled cars declined by 7.1% due to the competition of imported cars. Since 1993, the orientation of Thai automobile industry had been changed to a more export orientation. In 1995, the Ministry of Industry announced "The Automobile Industry Export Promotion Project" for the period of 1996-2000. After that automobile industry was affected by economic crisis. However, 1999 definitely marked a turn-around in the market.

(2) Interest rate

Before Crisis

Threat

(a) Sharply increase the interest rates in third quarter of 1996

There was a high competition among financial institutions in Thailand. Since capital inflows had substantially decreased from 70% to 50% in 1996 (Ministry of Finance 1999), it pushed the financial institutions to increase their interest rates thereby further attracting the foreign investment. The interest rates started increasing from 11-12% in the first quarter 1996 to 15-20% in the second quarter of 1997 (BOT 1998). Consequently, some automobile buyers suffered because the higher interest rates, the higher installments.

After Crisis

Opportunity

(a) Reduction of interest rates in the second half of 1998

The expansion of liquidity resulted in successive reductions of the deposit rates, lending rates, and money market interest rates, in line with accommodative monetary and fiscal policy instance. As at year-end 1999, the minimum lending rate (MLR) of the five large commercial banks fell from 11.5-12.0% from the previous year-end to 8.25-8.75% as at end-1999 (BOT 1999). It was a way to increase the sale of automobiles.

Threat

(a) High and volatile interest rates in 1997

Increasingly tight and volatile liquidity, as well as the high interest rate policy aimed at controlling inflation and stabilizing the exchange rate as agreed under the IMF program, caused the inter-bank and repurchase rates to more than double in 1997, as compared to the year before. These rates particularly high towards the end of the year as financial institutions adjusted their deposit rates to expeditiously mobilize domestic deposits and adjusted their lending rate to reflect higher cost. However, to avoid excessive competition, the government set ceilings of interest rates. As mention above, the higher the interest rates, the higher the installment. It raised the financial burden for some automobile buyers.

Impact on the automobile industry: To stimulate domestic demand, many companies initially offered zero interest car loans. However, they withdrew their schemes because the interest rate charging on loans from supporting operation was high so it disturbed their cost structure. Furthermore, the increase in interest rates affected the consumers through higher cost of purchasing because most people bought car by loans. The situations looked better when the interest rates tended to be lower in the second half of

1998. Nevertheless, there were difficulties in getting loans because of huge amounts of non-performing loans (NPL) in commercial banks and financial institutions.

(3) Currency exchange

Before Crisis

Opportunity

(a) Pegged currency system

Before the managed float took effect on July 2, 1997, Thai exchange rate policy was bound with the basket system since 1984. Thai baht was pegged with the core currencies, especially the US dollar, Mark and Yen. Thai baht to the dollar could move along the basket formula daily fixed by the Exchange Equalization Fund (EEF). The fixed exchange rate system caused the exchange rate in Thailand to be stable, apparently ensuring a low risk for foreign exchange transactions. A US dollar was about 25 baht. It made the costs of imported cars and spare-parts more stable.

After Crisis

Threat

(a) Baht devaluation

Under the managed float system, daily movements of exchange rate would be in line with market conditions. In the initial stage, repercussions on the foreign debt burden and price levels, as well as general economic activity, such cost of adjustment occurred. Domestic consumption was pressured by rising inflation, increasing unemployment, decreasing wages, and high interest rates. The imported goods were more costly. It was directly affecting the cost of production. However, these economic factors would not create severe impact for some automobile assembled companies

using the local raw material. On the other hand, some companies that emphasized on the imports such as CBU were significantly affected by changing exchange system.

Impact on the automobile industry: The cost of imported components and CBU fluctuated.

(4) Inflation rate

Before Crisis

Opportunity

(a) Impassive inflation

The inflation in Thailand during the period 1988 to 1994 was impassive and was kept at low rates, averaging 4.8% per annum. Inflation had decelerated to the low level of 3.3% in 1993. (BOT 1998.) It was easy for automobile assemblers to estimate the cost of inputs.

Threat

(a) Accelerating inflation rates since 1994

In 1994, 1995, and 1996, inflation rates were 5.0, 5.8, and 5.9 respectively (BOI 2000). It might increase the cost of inputs for automobile assemblers.

After Crisis

Opportunity

(a) Decreasing inflation rates in 1999

The inflation rate was only 0.3% in 1999. The estimated rate from January to April 2000 was 0.9% (BOI 2000).

Threat

(a) Rising inflationary pressure

The price level in 1997 increased from the previous, owing to higher production cost from baht depreciation; the increase in oil prices; and the increase in the VAT rate from 7 to 10% and the excise taxes for several items. Nevertheless, several factors helped relieve inflationary pressure, such as the contraction of domestic demand, job lay-off, and delay in the minimum wage increase in 1997. Therefore, the inflation rate in 1997 was 5.6%. However, in 1998, the inflation rates touched 8.1%. The sharp softening of the baht was a reason to put pressure on the inflation.

Impact on the automobile industry: The assembled companies had to be disturbed by fluctuation in the cost of inputs.

4.1.3 Socio-cultural Environment

Before Crisis

Opportunity

(1) Materialistic trend in the society

The economic performance of the Thai economy was quite healthy over the years. Per capital GNP increased from 14,065 bahts in 1980 to 74,585 bahts in 1996. In addition, the government policies emphasized on being the fifth tiger in the region and newly industrialize countries (NICs). These factors improved quality of life of Thai people. Increasing wealth and prosperity made people more materialistic. Most people intended to have their own cars.

After Crisis

Threats

(1) Sophistication in the consumers' purchasing behaviors

Thai consumers became more conscious about purchasing goods and services including vehicles due to the budget constraints and the economic uncertainty. For the vehicles, the important factors in making decision to purchase were the quality and prices, the convenience for trading their vehicles in the second hand car market, and after-sale services.

(2) Secondhand car favor

The economic crisis itself was a boom for another sector of the industry- used cars (FTI 2000). Most Thai consumers turned to purchase the secondhand cars rather than the new ones. They preferred to hold the cash and needed to spend as less as possible. Some groups of consumers who are still having high purchasing power also purchased the secondhand luxury and medium cars (Mercedes Benz, Volvo, Toyota Camry, Honda Accord, Honda Civic, etc.) of good quality rather than the new ones.

Impact on automobile industry: Consumers postponed their purchasing decisions and companies had to respond to more sophisticated consumer behavior.

4.1.4 Technological Environment

Before Crisis

Opportunity

(1) Promoting technological development policy

Thailand was a developing country. The limited ability in new technological development was seen as a weakness. Thai government realized this problem and gave the authority through Board of Investment

(BOI) to announce the policy to provide investment incentives and promote technological transfer from developed countries via more open policies. It provided the convenient way for automobile assemblers to transfer and develop the new technology in Thailand.

After Crisis

Opportunity

(1) Promoting technological development policy

After crisis, this policy was the same as before. Additionally, in the eighth National Plan, the government focused more on the technology about environmental friendliness and the consumers' security.

Impact on the automobile industry: Although the government promoted technological development, due to the limited ability of human resources, the parent companies were reluctant to transfer the new technology to subsidiaries in Thailand.

4.1.5 Attractive Levels of the Thai Automobile Industry before and after Crisis

The above country analysis gave a brief view about the impact of country environment on the automobile industry before and after crisis. These impacts were presented in terms of opportunities and threats. Opportunities gave industry more attractiveness; in opposite, threats gave industry less attractiveness. See Table 4.2. Some opportunities and threats had been changed as the result of the economic crisis in Thailand. In this context, the economic factor was considered as the determinant factor of environmental changing.

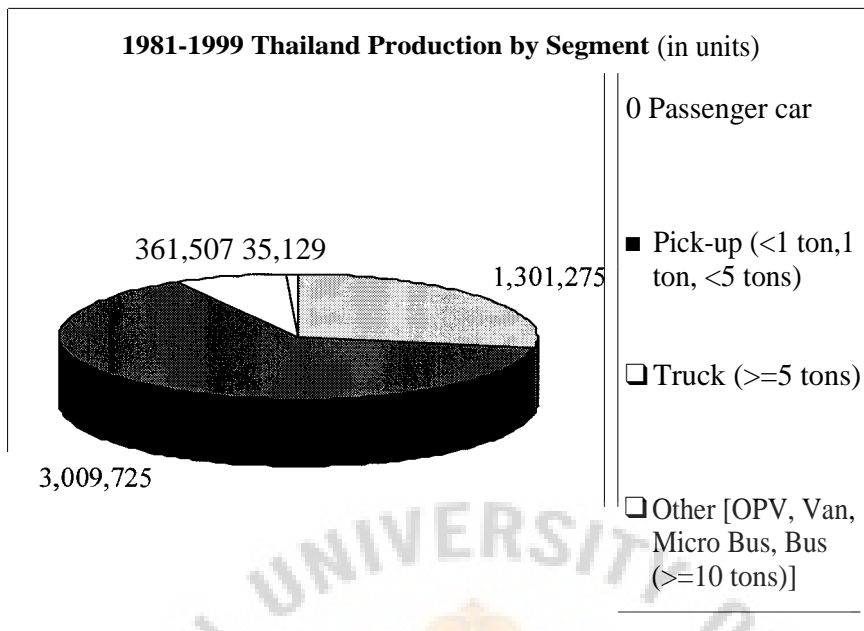
Table 4.2. Attractive Levels of Thai Automobile Industry before and after Crisis.

	Before economic crisis			After economic crisis		
Level of attractiveness	Low	Medium	High	Low	Medium	High
Political environment			X			X
Economic environment		X		X		
Socio-cultural environment			X		X	
Technological environment		X			X	

4.2 The Thai Automobile Industry Overview

Thai automobile industry could be divided into two sub-automobile sectors: commercial cars and passenger cars. A characteristic of the Thai market was that commercial cars were more popular than passenger cars with the proportion of 70:30. See Figure 4.3. The structure of the automobile industry in Thailand could be divided into three levels: the auto assembly level, the auto parts level, and the supporting industries level (BOI 1995). Over nearly past four decades of development, the auto assembly has been a key player influencing the growth in the Thai automobile industry. Five Japanese automakers (Toyota, Isuzu, Mitsubishi, Nissan, and Honda) have dominated the market through direct investments. They have their shares in the domestic market over 80% (TDRI 1997).

The Thai automobile industry had expanded rapidly since the latter half of the 1980s. Its success was due to the automobile industry development policy of the government, relatively big and increasing domestic demand, an expansion of the auto parts industry relatively low labor costs, and the appreciation of the yen.



Source: The Thai Automotive Industry Association, 2000

Figure 4.3. Thailand Car Production by Segment 1981-1999.

Firstly, a legislative policy by the Thai government in 1961 signaled the formal beginning of the nation's automotive industry, as leaders sought to encourage investments in local assembly plants and thereby replaced the sizable import market with domestic products. The infant industry grew through the joint venture involving Thai companies and Japanese, American, and European automotive leaders. Initially the young industry was one almost entirely composed of assembly plants, since little actual manufacturing was done in the kingdom.

The government, concerned about the lop-sided growth, approved a cabinet resolution in 1969 establishing the Automobile Industry Development Committee (AIDC) to directly control its development, often utilizing protectionism policies. By 1974, it required the local manufacture of at least 25% of all assembly components, leading to the development and expansion of that area of the industry. There were

import ban on small CBU cars (below 2300cc.) and the increase in tariff in 1978. In 1987, the local content requirements were set at 54% for passenger cars, 45% for large and medium trucks, and 60% for petrol pickups, and 72% for diesel pickups. During the 1980s, the AIDC banned the establishment of new plants for passenger cars and restricted the number of car models assembled locally in order to achieve economies of scale. However, the regulations were abandoned in July 1991. By 1989, the AIDC added another significant requirement — all assembly plants were required to use domestically produced engines for all pickups. With demands outstripping local production capacities, the government decided to partially liberalize the automobile industry in order to decrease domestic prices of automobiles and improve the competitiveness in the industry in 1991. In the same year, the import ban of small cars was abandoned and the tariff and business taxes on imported cars were decreased. Since 1993, automobile industry has been changed to a more export orientation. In 1995, the Ministry of Industry announced "The Automobile Industry Export Promotion Project" for the period 1996-2000. A plan for this project was prepared in 1996. Furthermore, Thailand's BOI has granted incentive to automobile assemblers who produce cars for export. After crisis, the government changed the tariff (import duty), excise tax, VAT to suit for the situations (see Appendix B, Tables B.3 and B.4). Since January 1, 2000, a phase-out over a five-year-period of Thailand's policy requiring use of 54% locally manufactured assembly parts in domestic assembly plants was a requirement of the Uruguay Round of the GATT agreement signed March 15, 1994. Two other requirements had an immediate effect: reduction of taxes on parts and abolishing restrictions on establishing new car assembly plants.

Secondly, due to the economic growth during 1987-1995, Thailand's good network of paved rural roads and a poor mass transit system in Bangkok, the domestic

automobile demands had significantly increased, especially during the period of 1992-1995. The Thai sales had been the largest one in ASEAN (see Appendix B: the Auto Market in ASEAN in Table B.5). Thailand's relatively big (with a population of more than 60 million) and increasing domestic demands had been a key factor for being a regional production base of the automobile industry; someone called Thailand as "Detroit of Asia". With the largest domestic market and production in ASEAN, the productivity of the Thai automobile industry had improved significantly, especially with the production of pickups and auto parts. The success in the productivity improvement had been a reason for the expansion of production and export of this industry, vice versa.

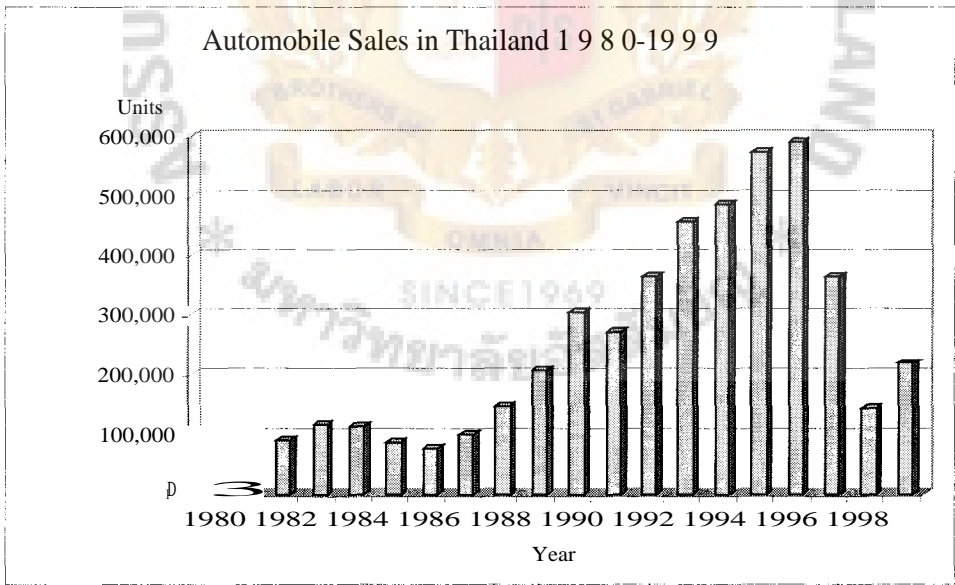
Finally, the appreciation of the yen after Plaza Accord in 1985 and Thailand's relatively low labor costs were major factors for Japanese investments in Thailand, especially during the end of 1980s and the first half of 1990s. Japanese automobile and auto parts firms increased significantly the investments in Thailand during this period.

Unavoidably, the economic crisis brought a substantial shrinkage of domestic demands (sales) during late 1997 and throughout 1998. See Figure 4.4. Automobile sales declined sharply from about 600,000 units to around 300,000 units a year, down roughly by 50%. The industry took blows from many quarters:

- (1) In the second half of 1995, to solve the problem of balance of payment deficit, BOT's financial squeeze which forced higher down payments and shorter installment plans for car purchase.
- (2) The economic downturn since 1996 with no signs of recovery in the near term;

- (3) The closure of 56 finance companies which reduced consumer purchasing powers as 70% of total sales were financed by finance companies via hire purchase facilities;
- (4) The weakening baht following the adoption of the managed float exchange rate regime, and the increase in tariff and excise tax rates in line with the tightening of fiscal policy, which resulted in an increase in prices of both locally-assembled and imported cars.
- (5) There were the changes in VAT, import duty, excise tax.

Automobile producers turned to export sales to make better use of production capacity. But in 1999, it definitely marked a turn-around in the market. See Figure 4.4. Recovery of the Thai automobile industry has been goods news not only for the industry but also for the Thai economy in general.



Source: The Thai Automotive Industry Association, 2000

Figure 4.4. Automobile Sales in Thailand 1980-1999.

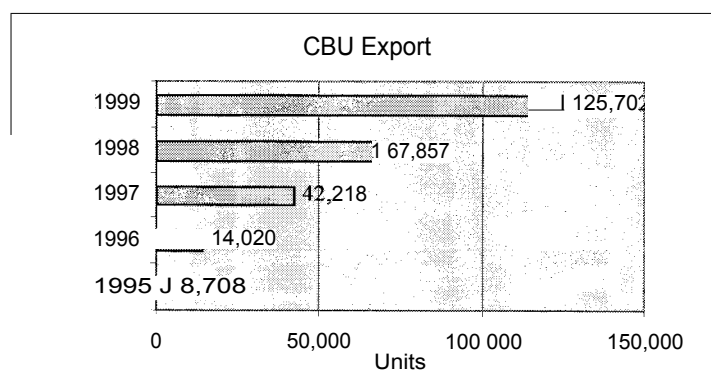
4.3 The Five Force Analysis of Automobile Industry

Industry could be defined as a group of companies offering products or services that were close substitute for each other. Close substitutes were products or services that satisfied the same basic consumer need (Hill 1995). The industry analysis was an important task to analyze the competitive force in an industry environment in order to identify the opportunities and threats confronting a company. In this context, Michael Porter's five-force model was selected as a tool for examining the industry attractiveness and competitiveness.

4.3.1 Rivalry among Competitors

Three factors were considered as the main determinants of rivalry in automobile industry: the industry development, the concentration and balance among competitors, and the exit barriers.

Firstly, the Thai automobile industry turned 38 in 1999. Before economic crisis, industry was growing aggressively. At that time, Thailand's automobile industry expected to impact the 21st century with a mighty roar reverberating worldwide. In contrast, after crisis, the automobile industry was dramatically slowdown. As a result, the car companies sought for strategies to survive and then brought into the intense rivalry. In 1999, there were recovery signs in the Thai economy and the automobile industry.



Source: The Thai Automotive Industry Association, 2000

Figure 4.5. CBU Export 1995-1999.

Although the domestic demands tended to expand, the assemblers, such as Mitsubishi, Toyota, Ford-Mazda, Nissan, and Isuzu, still depended on the export because of their excess capacity. See Figure 4.5. In this regard, the parent companies played an important role in providing export markets, especially in Asia and Europe, to their affiliates.

Secondly, the entrepreneur in this industry could be divided into three dimensions: the assemblers, distributors, and dealers. Before the crisis, several automobile companies expanded their assembly to support the dramatic increase in the domestic demands estimating to reach 1,000,000 units by 2000 (BOI 1996). The competition in the Thai automobile market has been intensified since the liberalization period in 1991 until 2000. In the history of the Thai automobile industry, there were 28 main automobile assemblers. See Table 4.3.

In 2000, there are 16 automobile assemblers in Thailand with total capacities of 996,800 cars per year. See Table 4.4. During the crisis, automobile assemblers faced over-capacity of the production. Another problem was liquidity, so some plants had to

shut down temporarily such as Toyota and Isuzu, some permanently such as Sukosol & Mazda Motor Industry. The decrease in domestic sales led to more intense competition than before crisis in the area of after-sale services, sale promotions, and exports. Moreover, the cancellation of import control, together with the restructuring in taxes had resulted in the influx of low-priced imported cars in the market. This also made the competition became fiercer. The recession introduced change to the industry such as registered capital increments, various forms of cash injection by the parent company and joint foreign investors, strategic alliance, and merger and acquisition. As a result, there was the increase in capital inflows in the sections of machinery and transport equipment about 27,218 million bahts in 1998, and the increase in foreign shareholding in existing companies (BOI 1999).

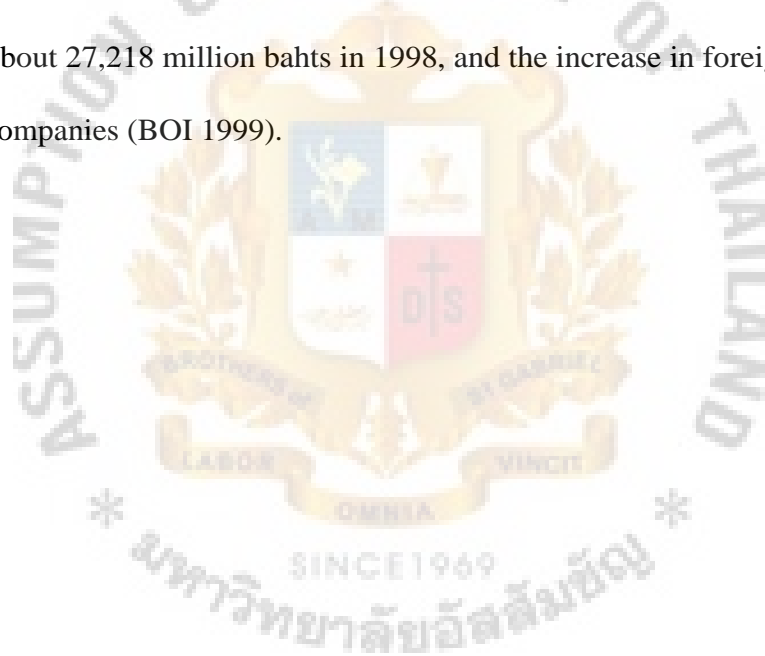


Table 4.3. Overall Assemblers in Thailand (BOI and FTI 2000).

Assembler	Start	Passenger car	Commercial car
1. Anglo Thai Motor	1961	Anglia, Consule, Cortina	Tames
2. Thonburi Panich	1961		Mercedes-Benz
3. Kannasoot General Assembly	1962	Fiat, Ford	Land Rover
4. Siam Motors & Nissan	1963	Datsun, Nissan	Van & Pick-up
5. Thonburi Automotive Assembly	1963	Benz	Bus
6. Toyota Motor (Thailand)	1964		Van & Pick-up
Toyota Motor (Thailand)	1975	Toyota	
7. Sahapattana Motor	1966	Mitsubishi	
8. Prince Motor (Thailand)	1965	Alpha, Subaru	Datsun, Nissan
9. Isuzu Motor (Thailand)	1966		Bus & Truck
10. Thai Hino Industry	1966		Hino, Toyota Dyna
11. MMC Sittipol	1966	Mitsubishi	Mitsubishi
12. Amulkamated Engineering	1968		Truck
13. Thai Pradit Motor Assembly	1968		Universal
14. Nai Lert	1968		Bus
15. Bangchan General Assembly	1972	Opel, Ostin, Suzuki, Chrysler, Hyundai	Daihatsu
16. Thai Rung Union Cars	1973		Isuzu
17. YMC Assembly	1975	BMW, Citroen, Peugeot, Lancia	
18. Sukosol & Mazda Motor Industry	1975	Mazda	Mazda
19. Thai Swedish Assembly	1976	Volvo, Renault	Volvo
20. Siam Motor Industry	1977		Datsun, Nissan
21. Siam Fuji Car	1980		Nissan
22. Siam General Assembly	1980		Nissan
23. Honda Car Manufacturing	1993	Honda	
24. Motor and Leasing	1981		Daewoo
25. Siam VMC Co.,Ltd.	1995		VMC
26. Auto Alliance Co.,Ltd.	1995		Mazda, Ford
27. General Motors (Thailand)	1996	Opel	
28. BMW Manufacturing (Thailand)	1997	BMW, Land Rover, Rover	

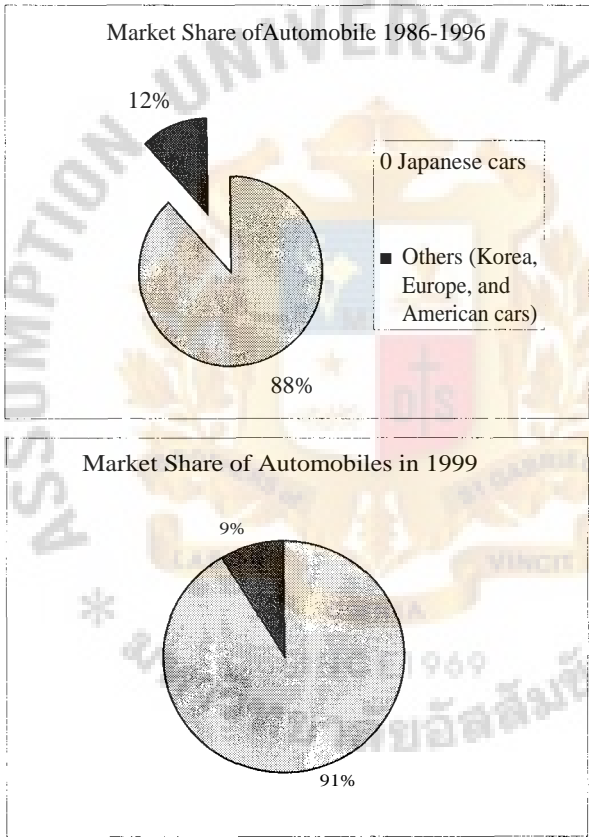
Table 4.4. Current Assemblers in Thailand (FTI 2000).

Assemblers	Capacity (Unit/yr.) in 1999	Type	Name
1. Auto Alliance Co., Ltd.	201,000	Pick-ups	Mazda, Ford
2. Bangchan General Assembly	20,000	Passenger cars	Honda, Chrysler, Hyundai, Holden
3. BMW Manufacturing (Thailand) Co., Ltd.	10,000	Passenger cars	BMW, Land Rover, Rover
4. General Motors (Thailand) Ltd.	40,000	Passenger cars	Opel
5. Honda Car Manufacturing	50,000	Passenger cars	Honda
6. Isuzu Motor (Thailand) Ltd.	130,000	Pick-ups, trucks, buses	Isuzu
7. MMC Sittipol Motor	174,400	Passenger cars, pick-ups, trucks	Mitsubishi
8. Motor and Leasing	200	Buses	Daewoo
9. Siam Nissan Automobile	81,900	Passenger cars, pick-ups,	Nissan, Suzuki
Siam Motors & Nissan	31,200	trucks	
10. Siam VMC Co.,Ltd.	6,000	Pick-ups	VMC
11. Thai Hino Industry	9,600	Trucks, buses	Hino, Toyota Dyna
12. Thai Rung Union Cars	9,600	Pick-ups/ modification	Isuzu
13. Thai Swedish Assembly	6,000	Passenger cars	Volvo
14. Thonburi Automotive Assembly	14,900	Passenger cars	Mercedes Benz
15. Toyota Motor (Thailand)	200,000	Passenger cars, pick-ups	Toyota
16. YMC Assembly	12,000	Passenger cars	Peugeot,Volkswagen
Total	996,800		

Although Thai economy began to recover in 1999, Thai automobile industry had been the high potential market including the strategic location, which was the center of Asia and suited for being the production and export base in Southeast Asia. Moreover, there was the liberalization in the Thai automobile industry, no restriction in establishing new car assembly plants, and no national car policy as Malaysia. The demands of using automobiles in Thailand were 14 persons per car, still far from the saturation point (1.5-3.0 persons per car) in developed countries (FTI 1999). Furthermore, under GATT agreement, the local content requirement was lifted in 2000. These were the motives to foreign assemblers to expand their production bases in

Thailand for domestic sales and exports. There were many assemblers planning to invest in the Thai automobile industry such as Chrysler, Porsche, Jaguar, and Hyundai.

As mentioned above, Japanese cars dominated the Thai automobile industry; more than 80 percent of market shares, both before and after crisis. See Figure 4.6. Toyota had captured the largest shares in the market in before and after crisis. Isuzu, Honda, Mitsubishi, and Nissan were still in the top five. See Table 4.5.



Source: Toyota Motor (Thailand) Co., Ltd.

Figure 4.6. Market Share of Japanese Automobiles before and after Crisis.

Table 4.5. Sales and Market Shares before and after Crisis (FTI 2000).

Brand	Before crisis (1996)		After crisis (1998)	
	Sale	Share	Sale	Share
TOYOTA	163,940	27.83%	42,661	29.61%
ISUZU	122,044	20.72%	32,753	22.73%
NISSAN	93,120	15.81%	12,990	9.02%
MITSUBISHI	74,715	12.68%	15,840	11.00%
HONDA	42,421	7.20%	16,559	11.49%
MAZDA	19,134	3.25%	5,482	3.81%
OTHER JAPANESE CARS	24,156	4.10%	3,300	2.29%
OTHER EUROPEAN AND KOREAN CARS	49,596	8.41%	14,480	10.05%
TOTAL	589,126	100.00%	144,065	100.00%

All cars in the Thai automobile industry had a high reputation in the global marketplace with strong technological capabilities. However, they were different in goal setting and strategies. Besides the image of high efficiency, the European car manufacturing such as Benz and BMW had also used prices in order to boost sales as Japanese manufacturers do. While European car manufacturers turned to play on prices, the Japanese car manufacturers were trying to improve the efficiency of the engines, in order to increase the safety and the luxury image, at lower prices than European cars.

The distributor was the connection between the assembler and the dealers. Mostly, it was responsible for marketing. Sometimes, they sold imported cars (CBU) or made assembly and sold by themselves. Currently, there are 25 main distributors in the industry. See Table 4.6.

Table 4.6. Main Distributors in Thailand (FTI 2000).

Company	Brand name
1. Yontrakit Intersales Co., Ltd.	Audi, Volkswagen
2. Bayerische Motoren Werker (Thailand) Co.,Ltd.	BMW
3. Economy Chevrolet Co., Ltd.	Chevrolet
4. Yontrakit Auto Center Co., Ltd.	Citroen
5. Daihatsu Motor (Thailand) Co., Ltd.	Daihatsu
6. Ford Sales (Thailand) Co., Ltd.	Ford
7. Honda Cars (Thailand) Co., Ltd.	Honda
8. United Auto Sales (Thailand) Co., Ltd.	Hyundai
9. Tripetch Isuzu Sales Co., Ltd.	Isuzu
10. Premium Kia Motor Co., Ltd.	Kia
11. Thai Ultimate Cars Co., Ltd.	Land Rover
12. Sukosol Mazda Co., Ltd.	Mazda
13. Daimler-Chrysler (Thailand) Co., Ltd.	Mercedes-Benz, Chrysler
14. MMC Sittipol Co., Ltd.	Mitsubishi
15. Siam Motor Co., Ltd.	Nissan
16. General Motors (Thailand) Co., Ltd.	Opel
17. AAS Auto Services Co., Ltd.	Porsche
18. Yontrakit Automobile Co., Ltd.	Seat
19. Thonburi Automotive Assembly Co., Ltd.	Ssang Yong
20. Motor Image Subaru Co., Ltd.	Subaru
21. Siam International Corporation Co., Ltd.	Suzuki
22. Thai Rung Union Cars Co., Ltd. (Public)	Cheetah
23. Toyota Motor (Thailand) Co., Ltd.	Toyota
24. Sweden Motor Co., Ltd. (Public)	Volvo
25. Pranakorn Automobile Co., Ltd.	Fiat, Alfa Romeo

Using the dealers as the distribution channel was the most effective way to approach the customers. The distributors assigned the dealers to cover all target markets. Although the numbers of dealers reduced during the crisis, at present, there are still several hundreds dealers in Thailand. See Table 4.7. The competition was more intense both in the same brand name and among different brand names. In the near future, Europe car companies tend to expand their showrooms and service centers to compete market shares from the Japanese cars.

Table 4.7. Current Dealers, Showrooms, and Service Centers (Tuntiseree 2000).

Brand	Dealers	Showrooms	Service Centers
Isuzu	93	241	241
Toyota	91	173	173
Mitsubishi	105	174	149
Nissan	97	184	144
Honda	97	101	101
Mazda	71	79	79
Ford	55	48	48
Hyundai	46	46	46
Mercedes-Benz	28	32	32
Volvo	12	30	30
Chrysler	17	30	30
Peugeot	29	29	29
BMW	20	20	20
Volkswagen	16	16	16
Audi	13	13	13
Seat	13	13	13
Kia	-	4	3
Skoda	3	5	3
Total	806	1,238	1,170

Finally, any assembler might not want to exit from the industry because of high investments and specialized machinery. For example, Toyota Motor (Thailand) with registered capital 4,520,000,000 bahts, Siam Nissan Automobile with 1,013,333,200 bahts, Honda Car Manufacturing (Thailand) with 4,320,000,000 bahts, and General Motors (Thailand) with 13,095,000,000 bahts (FTI 2000). The relinquishment of any business units would affect other business units because most companies in this industry were partnerships with their suppliers and sometimes distributors. The government support was another barrier in exiting industry. As mentioned above, the government launched many policies to support and spur this industry. For instance, instead of

existing industry, there was merger between Thai Hino Industry Co., Ltd. and Thai Hino Motor Sales Co., Ltd. to be Hino Motor (Thailand) Co., Ltd.

4.3.2 Bargaining Power of Buyers

Buyers of the automobile industry were divided into two categories: dealers and final customers.

Generally, before and after crisis, the dealer selection of each company was based on the similar main process but different criteria. First, the dealers had to submit their projects describing locations and areas of the showroom or service center, financial capability, and human resource capability, etc. Sometimes, the assemblers or distributors required the dealers to deposit the huge amount of money as the guarantee. As a result, this fixed deposit led to the decrease in bargaining power of buyers (Dealers). As mentioned above, the distribution channels via the dealers were the most effective way to reach the customers. Therefore, most assemblers or distributors collaborated with and highly depended on the dealers both in sales and providing services to create the synergy. For an instance, automobile companies advertised their cars through the media and provided the billboard and showroom decoration for their dealers to be the same standard. This showed the power of the dealers. However, each dealer received the different support from the distributor in terms of the credit period and other incentives. The grade of dealers based on the performance and sale volumes. Higher the grade, higher the bargaining power of the dealer. Before crisis, dealers enjoyed the large profits from the sale commission of new cars. Unfortunately, the crisis changed this favorable situation; for example, the contraction in domestic demands, and the customers' purchasing behaviors being more sophisticated. As a result, this profit fell by 50-60%. On the other hand, the profits had turned from the commission of new cars to after-sale services, sale commission of used cars and selling

spare parts. Furthermore, the competition among dealers was also intense after crisis. During the hard time, the assembler or/and distributors cut low quality dealers from their systems; this decreased the power of dealers. In order to survive dealers had to improve their performance in the service sectors and the automobile companies also emphasized in after-sale services to create the customer loyalty. This factor brought the customers back to purchase the new cars again. Concisely, before crisis, bargaining power of dealers was in the high level; after crisis, it was in the lower level due to cutting back on low quality dealers. However, the bargaining power degree of each dealer still depended on the performance in terms of sales and services.

For the ultimate buyers (Customers), the bargaining power of final customers was in higher level after crisis due to the automobile companies and dealers tried to keep the customers in the tough situation (the contraction in domestic demands). The competition was fierce. They adopted Western sale techniques, and invented a few of their own. Discounts, free services, free repairs, special low-interest financing, even some give-away were necessary to lure customers more concerned with prices than brand loyalty. Finally, the customers took advantage from the competition.

4.3.3 Bargaining Power of Suppliers

Before the crisis, the bargaining power of suppliers was quite low because there were the plenty of auto parts suppliers such as rubber parts, plastic parts, cast parts, aluminum and light metal parts, and electrical parts. The auto part manufacturers could be classified into 2 groups: Original Equipment Manufacturing (OEM) and Replacement Equipment Manufacturing (REM). Total numbers of the part manufacturers were about a thousand (40% for OEM), from small family enterprises to major production centers owned by the large business group (FTI 1998). Nevertheless, the industry was still suffering some growing pains in areas such as quality control,

prompt delivery and failure to meet standard. As a result, some assemblers decided to develop their own parts production facilities in order to strictly control on their productions.

After crisis, total part manufacturers reduced by 30% because of excess capacity in the assembly sector (FIT 2000). Especially REM producers, most small entrepreneurs, who could not find the new markets for exports and faced the liquidity problem, terminated their operations. Furthermore, the REM market had often more serious problems: while many parts were produced as genuine spare parts with the blessing of the vehicle manufacturers, the industry also turned out parts without brand names or those that used the brand names illegally on the fake parts, often of poor quality. Although there was a decrease in the numbers of part manufacturers, the bargaining power of suppliers was still low because the assemblers tended to maintain the long rapport with 2-3 suppliers to get good quality and prompt delivery. Moreover, lifting the local content requirement and liberalization created the opportunity for the new foreign suppliers and increased the supplier choices for the assemblers.

4.3.4 Threat of New Entrants

Both before and after crisis, the high degree for threat of new entrants hardly changed. New entrants faced barriers in the areas of brand identity, high technology involvement, the huge amount of capital investments, and large and skilled manpower. The early movers, Japanese automakers as Toyota, Isuzu, Mitsubishi, Nissan, and Honda, possessed the high potential and large market shares. Due to the keiretsu system in these firms, it was difficult for the new entrants to access the distribution channel and logistics. Although the early movers could gain larger shares than the later, they could not charge significantly high prices. For the reason, the Thai automobile industry was an oligopoly market with a few players and substituted products.

Changing the prices or product features of a firm affected the others and overall markets.

4.3.5 Threat of Substitutes

The substitutes of the automobile were the mass transportation (bus, sky-train, underground, boat, and train), motorcycle, and secondhand cars. Before crisis, threat of substitutes was in the low level because of the poor mass transit system (such as overcrowding in the bus, train, and boat, and low safety) and pollution including air and water. At the same time, the prosperity in the Thai economy and higher purchasing powers created people one more choice to own the new cars. However, the motorcycle was another choice to avoid the overcrowding and heavy traffic problems. After crisis, threat of substitute tended to be higher. The reasons were shown as follows. The secondhand car market really boomed (FTI 2000). Some routes of the sky-train, BTS, opened in 1999. All routes will be completed in the next 5-6 years. The first route of the underground will be opened soon. Moreover, during this period, the customers' viewpoints were the conservative and they tried to save more money for uncertain future. Therefore, using a huge amount of money to buy a new car might be postponed.

4.3.6 Industry Profitability before and after Crisis

The stronger each of these forces, the more limited was the ability of established companies to raise the prices and earn greater profits. After crisis, the profitability and attractiveness of the automobile industry tended to be lower because of changing the degree in each force in the five-force analysis. First, there were the stronger rivalry among the existing firms and many prospect competitors planning to penetrate the Thai automobile industry. The second was the increase in the bargaining power of end customers. The last was the increase in threat of substitutes especially from secondhand cars.

V. COMPANY ANALYSIS

This chapter focused on the case study how the Japanese automobile company in Thailand responded to the economic crisis. There were two parts in this chapter. The first part was the general corporate responses to economic crisis from the research of the Thai Farmers Research Center (TFRC) and Thailand's Board of Investment (BOI). It could be the guidelines for the company analysis. The second part was the case study of Tripetch Isuzu Sale Co., Ltd (TIS). As TIS's response is based on interview guides (see Appendix A: interview guides), specific details and figures gave the comprehensive picture of this company's status qua, organization structure, manpower, and policies in the context of organizational strategies before and after crisis.

5.1 Corporate Responses to Economic Crisis

The Thai Farmers Research Center (TFRC 1997) identified the Thai economic situation after baht floatation in 1997, focusing on the appropriate corporate responses. TFRC conducted a survey of companies in Bangkok and the vicinity during two periods of time: July 4 — July 8 and July 23 — July 29, 1997. There were 492 samples altogether. The results of this survey revealed the most common ways (in country level) of organizational responses to economic crisis. They were shown as follows:

- (1) Cut organizational expenditures
- (2) Restructuring and Downsizing
- (3) Stop investments
- (4) Postpone expansions
- (5) Cut manpower requirement
- (6) Reduce production
- (7) Cut prices

- (8) Seek new markets
- (9) Upgrade production technology
- (10) Upgrade product quality
- (11) No short-term credits from abroad (due to volatile and vulnerable exchange rate)
- (12) Not to loans in unorganized markets (risks of potential losses)
- (13) Utilization of local resources (not import)
- (14) People in the organization are kept well-informed of the changes and actions
- (15) Seek the full cooperation and inflict discipline to management and staff
- (16) Cease operations

In April 1999, Thailand's Board of Investment (BOI) had conducted a survey for assessing foreign investors' performance and a part of this survey focused on their crisis management. The samples were 705 BOI-promoted firms with at least 10% foreign shareholding, and the response rate was 49 percent. Over half of the respondents were Japanese companies. From this survey, BOI discovered that the measures which firms had turned to most in the past 12 months and the next 12 months. See Table 5.1.

Table 5.1. Measures to Be Take During Crisis (BOI 1999).

Measures	Past 12 months		Next 12 months	
	No. of firms	Percent	No. of firms	Percent
Reduce working hours	95	28.4	47	14.3
Reduce the number of employees	87	26	45	13.7
Reduce Expatriate consultants	88	26.3	42	12.8
Reduce employee compensation	41	12.3	13	4
Utilize more local raw materials	138	41.3	175	53.2
Reduce overhead costs such as utilities	157	47	162	49.2
Reduce other costs such as transportation and packaging cost and reduce inventory	230	68.9	238	72.3
Delay or cancel investment plans	114	34.1	69	21
Search for new export markets	173	51.8	204	62
Coverage of foreign exchange risk such as forward and future swap	85	25.4	75	22.8
Increase foreign shareholding	42	12.6	22	6.7
Others	39	11.7	37	11.2

Note: A firm might choose more than one measure.

From the results of these two researches, they disseminated the common responses and measures of firms against the crisis. They could be the guidelines for the further part of this chapter.

5.2 Tripetch Isuzu Sale Co., Ltd. (TIS)

5.2.1 Company Profile

Tripetch Isuzu Sale Co., Ltd. was established since November 1974 with a registered capital 8,305 million bahts in the form of a joint venture between Thai and Japanese companies. Currently, the equity structures are 51% from Thai investors and 49% from Japanese investors. TIS has 17 affiliated companies at this moment.

Over the past nearly four decades the company has run businesses with the concept of high quality products and services, responding demands in the market, nationwide network. Undoubtedly, Isuzu is the one of the most popular cars in Thailand, especially commercial cars. Isuzu has gotten the largest shares in the commercial car market of 17 years consecutively (since 1983). With Thai people's

confidences and supports to the company, total Isuzu's sales in Thailand reached 1,000,000 cars in June 1997.

Main company's objectives are shown as follows:

- (1) Creating the highest satisfaction to the customers
- (2) Gaining consecutively the largest shares in the commercial cars
- (3) Maintaining consecutively the leading position in one-ton pick up market
- (4) Being the leader in Sport Utility Vehicle (SUV) market
- (5) Sacrificing to the community and society

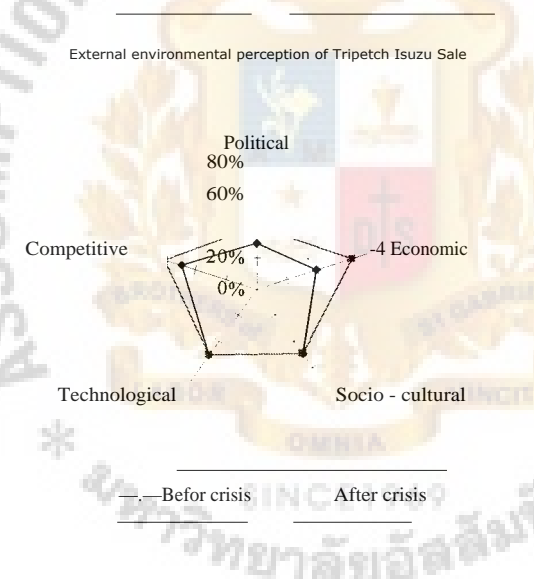


Figure 5.1. External Environmental Perception of TIS (TIS 2000).

5.2.2 TIS External Environmental Perception

Before crisis, TIS focused less likely on political factors. On the other hand, TIS emphasized on competitive factors in the highest degree and then technological and socio-cultural, and economic factors respectively. See Figure 5.1, These TIS' perception went along with the company's objectives. Being and keeping the number

one position in the commercial car market made the company focused more on the competitive factor. The most important competitor was Toyota and its market shares in commercial cars evenly matched to Isuzu. See Figure 5.2. Therefore, new product and service technology, and responding to customers' demands and the market situation were significant issues to maintain the TIS' competitive edges.

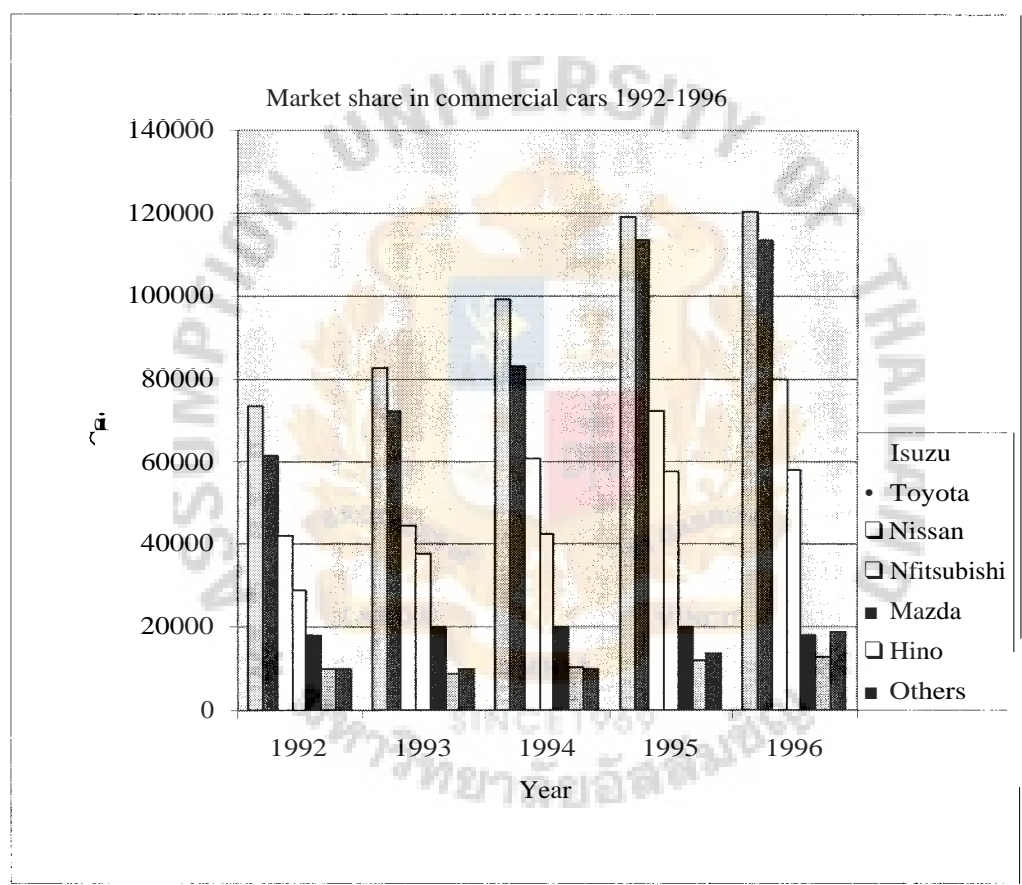


Figure 5.2. Market Share in Commercial Cars 1992-1996 (Thai Automotive Industry Club 1997).

After crisis, the economic situation including the automobile industry negatively changed TIS increasingly focused on economic, political, and competitive factors. See Figure 5.1. For these reasons, economic factor was a driving force for the economic

crisis and increased the degree of competition within the industry. Furthermore, there were many changes in the politics especially monetary and fiscal policies during the crisis. Many policies directly affected the automobile industry and the company itself. Concentrating on the changes in the political factor, TIS could adapt its strategies in time. At the same time, although there was the shrink in the industry during the crisis, many new corners from Korea, Europe, and America intended to set their production bases in Thailand. Moreover, most existing companies planned to extend their production bases for exporting because of the high potential of the Thai automobile industry in the long term. Therefore, the competition was fiercer not only among Japanese companies, but also in overall industry. Nevertheless, TIS did not reduce the importance of technological and socio-cultural factors because creating the highest satisfaction to the customers was an important way to become the No. 1 Company.

5.2.3 TIS' Corporate Strategies before and after Crisis

The main businesses of TIS before crisis were divided into three sectors: (1) importing, manufacturing (through the affiliated company), and sole distributing Isuzu cars and their spare parts, (2) service management about spare parts and maintenance for Isuzu cars, and (3) business planning for Isuzu in Thailand. Until now, TIS has run his businesses as before-crisis period. However, the additional business after crisis was exporting of engines, components, and pick-ups to compensate the contraction in domestic demands. TIS adopted the market development strategy in accordance with Ansoff's matrix by expanding new markets to Oceania, Europe, Middle East, and Latin America. At the same time, export took advantages from the baht devaluation. Therefore, the parent company (Isuzu Motor Japan) gave the quota for export to TIS.

For TIS' objectives before and after crisis, as mentioned above, there were five interrelated objectives. To accomplish these objectives, the following policies were

operated. First, to produce the high quality products, the company's engineers and experts invented and developed the latest technology to create new standard in the Thai automobile industry including design, capability, durability, and low fuel consumption. Second, to respond all demands, Isuzu produced many products: passenger cars, pick-ups, sport utility vehicles (SUV), medium trucks, ten-wheeled trucks, buses, and trailers. Third, to expand to nationwide network, Isuzu had the dealers, showrooms, and service centers covering all provinces in Thailand. The company also got the champion in the area of the biggest network in Thailand which was the basis of excellent before and after-sale services. Fourth, to maintain the rapport with the customers, Isuzu created the activities about the customer relationship such as rally to make customers satisfied in being the owner of Isuzu. Last but not least, the company offered Isuzu privileges to every customer such as warranty period. To coincide with the new main business after crisis (exporting), TIS added one more objective in increasing the export volumes.

Both situations, there was no change in the equities. Entry strategy was the joint venture between Thai and Japanese investors. Thai shareholders (Sarasin family, Chansur family, Boonsoong family, Kritdakorn family: a member of the Royal family, Thai M.C. Co., Ltd., Krungthai Tokyo finance and security company, and Tripetch Holding Co., Ltd.) got 51%. Japanese shareholders (Mitsubishi Corporation, Isuzu Motor Co., Ltd., and Mitsubishi Thailand Co., Ltd.) got 49%. However, during the crisis, the parent company supported TIS by providing the low-interest rate loans. Another important event was a joint venture between Isuzu Motor Japan and the General Motor (GM) with 51%:49% shareholding.

For source of competitive advantages, Isuzu emphasized the differentiation. The sale concept of Isuzu cars, before and after crisis, was being "low fuel consumption".

Isuzu customers with the brand loyalty believed in such concept that was actualized and moreover went along with along present situation of high priced gasoline. Another competitive advantage was the comprehensive sale and service network. Isuzu had the largest amounts of showrooms and service centers in Thailand. Therefore, Isuzu cars had the high resale value. The properties made Isuzu the best seller in Thailand, no matter what the market conditions were.

Normally, plenty of products were divided into three main categories: small cars, medium trucks, and large trucks. Before crisis, the models were shown as follows:

(a) Small cars

(1) Pick-ups

- (a) Isuzu Spacecab SLX
- (b) Isuzu Spacecab SX
- (c) Isuzu Spacecab SL
- (d) Isuzu Spark EX

(2) Vans

- (a) Isuzu Buddy

(3) Four-wheeled drive

- (a) Isuzu Trooper (imported)
- (b) Isuzu Vega
- (c) Isuzu Rodeo

(4) Passenger cars

- (a) Isuzu Vertex

(b) Medium trucks

(1) Two-ton trucks

- (a) Isuzu NKR

- (2) Three-ton trucks
 - (a) Isuzu NPR
 - (b) Isuzu NQR
- (c) Large trucks
 - (1) Four-ton trucks
 - (a) Isuzu FSR
 - (2) Six-wheeled trucks
 - (a) Isuzu FTR
 - (3) Ten-wheeled trucks
 - (a) Isuzu FXZ
 - (b) Isuzu FVZ
 - (c) Isuzu FVM
 - (4) Trailers
 - (a) Isuzu GXZ

After crisis, Isuzu deleted vans (Isuzu Buddy) from its product lines because of low demands. On the other hand, the company launched new better products for pick-ups, four-wheeled drive, passenger cars, six-wheeled trucks, and ten-wheeled trucks. These operations coincided with the research from TFRC in ceasing some operations and upgrade product quality, and with Ansoff's matrix in withdrawal and product development. For pick-ups, Isuzu replaced the old models with "new Isuzu Dragon Power" pick-ups. They were Spacecab SLX Dragon Power (2,500 and 3,000 cc. Turbo with automatic gear choice), Spacecab SX Dragon Power (2,500 cc. Turbo), Spacecab SL Dragon Power (2,500 cc. Turbo), and Spark Dragon Power (2,500 cc. Turbo). For four-wheeled drive, Isuzu replaced the old models with new Trooper SE, new Isuzu Vega (3,000 cc. Turbo with the automatic gear choice), and Rodeo Dragon Power

(3,000 cc. Turbo). For passenger cars, the new one was Vertex V2. For six and ten wheeled trucks, Isuzu changed only the engine to be better. All products emphasized on the low fuel consumption (17% lower fuel consumption) and reducing air pollution (by setting the filter according to EURO 2 standard). In the area of services, before and after crisis, TIS stressed in both before and after-sale services. However, this concept was in the higher degree after crisis because of the recession and low customers' purchasing powers.

The market or geographical scope, before and after crisis, focused on all over the country. Due to the contraction in domestic automobiles' demands during the crisis, TIS found the new markets to use his over-capacity by exporting engines, components, and pick-ups to Australia, New Zealand, United Kingdom, other Europe, the Middle East and Latin America. According to Ansoff's matrix, this strategy was called as market development. Furthermore, it was similar to the research of TFRC and BOI in seeking the new markets during the crisis period.

In the diversification arena, TIS engaged in the backward, forward, horizontal integration, and unrelated diversification, as the diversification strategy in Ansoff's product-market matrix. Before crisis, Isuzu involved the backward integration with his following affiliated companies: Isuzu Motor (Thailand), Isuzu Engine Manufacturing (Thailand), Isuzu Technical Center, Thai International Die Making, and Mikuni (Thailand). For forward integration, the company involved with Auto Technique (Thailand) (after-sale service for Isuzu cars and distributing SAAB), Siam Automobile transportation (Isuzu cars delivery), Thai Auto Sale (car leasing), and Tripetch Isuzu Service (Isuzu service center). For horizontal integration, there were MC Software (the services of the computer and office system), and Thai Development Service (office services such as guard and vehicle services). For unrelated diversification, there were

Sang Kay Machinery (Thailand) (Installing the machinery in the industrial factories), and Tripetch Phun (land leasing). After crisis, View Tech Asia (Logistic service) was one more affiliated company considered as horizontal integration of TIS. Therefore, totally, TIS had 17 affiliated companies. In both situations, TIS used Keiretsu system and diversification strategy brought TIS to the strengthen position in the Thai automobile market.

The organization structure/chart remained unchangeable with the same board of directors (BOD) both before and after crisis. 58% of BOD was Japanese. The president was also Japanese: Mr. Goro Shintani. Although the organization structure was centralized (every department was under the direct control of MD), the bureaucracy was minimal due to low span of control. As a result, the company could to respond the market situation in time. The organization chart is shown in Figure 5.3.

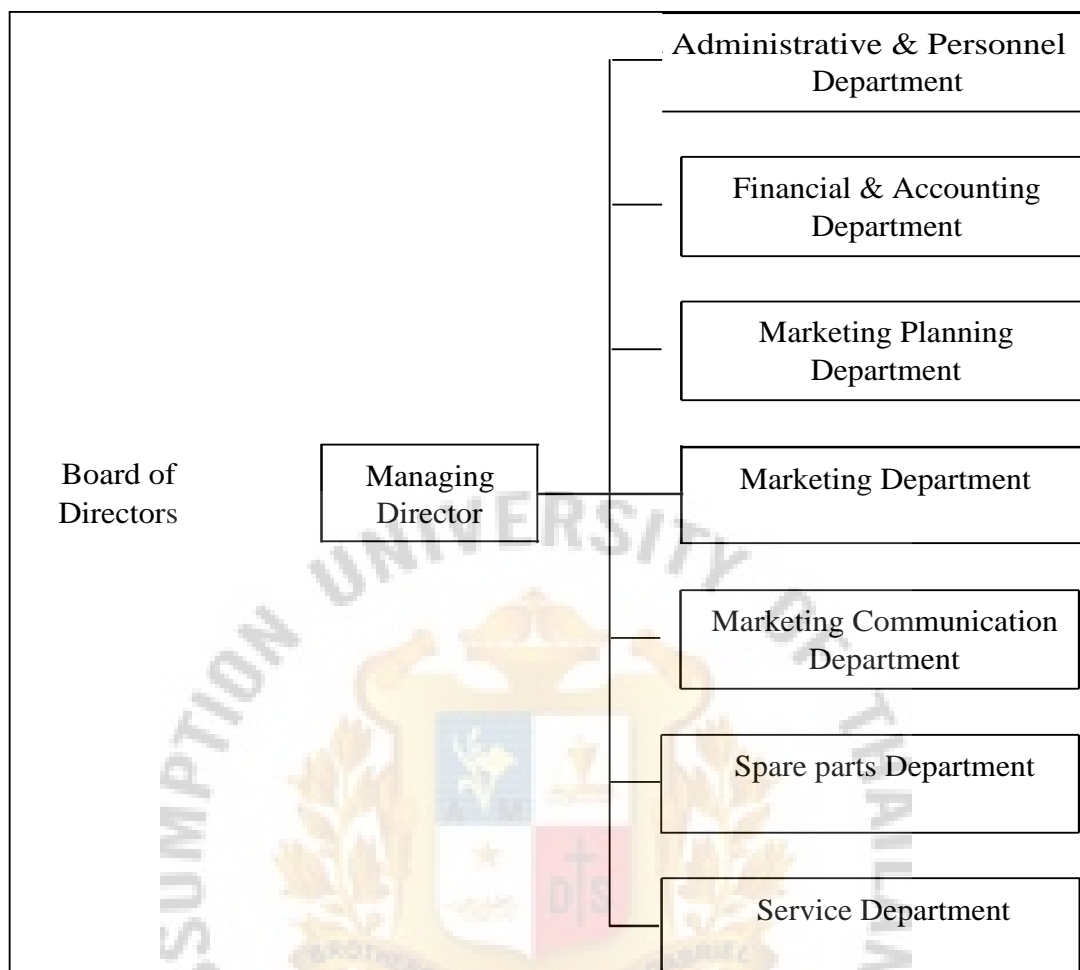


Figure 5.3. TIS' Organization Chart (TIS 2000).

For the plan of investment, TIS postponed the plan to expand the second factory at Gateway City Industrial Estate in Chachoengsao province because of the crisis. Delay the expansion was also an organizational response to crisis in accordance with the research from TFRC and BOI and considered as market consolidation strategy in Ansoff's matrix.

Main problems during the crisis period were high production costs, high operating costs due to increasing the price of utility and energy and higher cost of suppliers. The cancellation of local content requirement rule hardly affects the company's operation

since pick-ups were assembled mostly from the local resources about 75-80%. Fortunately, the company did not depend on the imported spare parts and there were small amounts of imported CBU so the fluctuation of Thai baht did not directly affect the company. Similar to the research of TFRC and BOI, utilizing more local material was a way to survive during the hard time.

5.2.4 TIS' Functional Strategies before and after Crisis

(1) Marketing

In both situations (before and after crisis), TIS did not compete with its competitors with a price cutting policy. Mostly, the company set up prices based on the idea about the high quality with reasonable prices. Furthermore, the company adhered to the on-price policy among the dealers to avoid the cutting price problem. The profits remained stable and it was to the best interest of the dealers and the company in the long run. After crisis, many pressures caused the increase in Isuzu prices. TIS was really concerned regarding the brand image and customer loyalty because the customer's purchasing decision was more sophisticated during the crisis. At the first stage, the increase in the car prices created the negative effect to the sales and the customer loyalty. Later on it appeared the confidence in this regard remained the same probably due to the company's good long-standing reputation in durability and low fuel consumption. The company's sale volumes reduced little compared with the competitors.

The company chose dealers as the distribution channel. Payments to TIS by dealers, before crisis, were made on credit basis. After crisis, cash payments upon delivery were required with the exception of such big cars as ten-wheeled trucks that would be granted on special case. Due to the fact

that the company maintained certain numbers of long-standing and efficient dealers, no new dealers were likely accepted. There appeared some probable numbers of dealers moving from one location to another; lesser standard dealers might be closed down and reopened. Isuzu had 93 dealers, and 241 showrooms (just showing the cars, not selling). After the crisis, TIS reduced his own showrooms from 5 to 3. Reducing the number of showrooms was one of the strategies to reduce operation costs as the research of TFRC and BOI was considered as using withdrawal strategy to dispose the poor performance section.

In the section of services, the cost of service varied on the specific spare parts. The imported one would be more expensive than the local one. After crisis, TIS used market consolidation strategy and focused much more on services that were better benefited than sale volumes due to the contraction in domestic automobile sales. According to the Thailand customer satisfaction index (CSI) study of JD Power Asia Pacific 2000, Isuzu was in the second place with 104 points (Mercedes-Benz with 105 points). The Industry average was equal to 100 points. The small gap among the top makes in the industry, as well as the single point difference in CSI score between luxury and non-luxury vehicles, provided the opportunity for Isuzu to differentiate in dealer services in order to improve brand loyalty and customer advocacy in the market place.

For promotion, before crisis, not much promotion efforts were performed. There were:

- (a) three-year warranty period or 75,000 km. for Isuzu Trooper and SIV four-wheeled drive.

- (b) two-year warranty period for ten-wheeled trucks and trailers.
- (c) two-year warranty period or 50,000 km. for other cars.

After crisis, a short period (every two or three months to sound out the public impact) of promotion was induced in form of free gold gift and the oil voucher to spur the contraction in sales. At present the new promotion: three-year warranty period or 100,000 km. and 50,000 km. free maintenance period. Remarkably, Isuzu promotion efforts did not absolutely concern the car prices since the Isuzu's image was the high priced and best quality cars. The advertising media that TIS used before and after crisis were direct mail (newsletter), newspapers, billboard, magazines, radio, and television respectively. After crisis, there was decreasing the advertising frequency to reduce costs, as the common organizational responses from the research of TFRC and BOI. Nevertheless, in 1999, the company spends 140.67 million baht in advertising (being the fourth place in the industry in term of the largest advertising budgets).

Main problems in marketing during crisis were the fiercer competition among existing competitors and the increase in the new competitors.

(2) Manufacturing (by TIS' affiliated company: Isuzu Motor Thailand)

There was one factory at Poochaosamrong in Samutprakarn province with the second one expected at Gateway City. Unfortunately, the second factory was being postponed due to the crisis. The existing factory still received BOI granting for investment promotion. The keiretsu system was normally used in the company. After crisis, as the research of TFRC and BOI and the market consolidation strategy in Ansoff's matrix, operating costs, inventory, and transportation and packing cost. Moreover, Isuzu

halted production for two months in 1998 to reduce redundant inventory. The company also faced the problem of idle capacity due to the contraction in automobile demands. Consequently, it enforced the staff lay-off, reducing production shift to prevent the excessive inventory situation. During the crisis, the temporary employment was used in case of temporary production expansion. This was another way to reduce unnecessary costs. On the other hand, due to the baht devaluation, Thailand gained the comparative advantage in exporting. It became the motive to bring Isuzu Japan expanded the production capacity at Poochaosomrong to focus on export orientation. Now, it resumes near-normal production schedules. For production technology, most machinery and know-how before and after crisis came from Isuzu Japan, TIS' parent company. There was no new technology transfer after crisis. The process of quality control was unchangeably stressed in both situations because the high quality products were the core concept of Isuzu.

Main problems in manufacturing during crisis were higher production costs, excess capacity, and redundant inventory.

(3) Human Resources

Before crisis, recruitment criteria based on the appropriation with position and past experience. There was employing temporary employees to solve the overload work problem. Salary based on the real capacity of employees and education. After crisis, TIS reduced his staffs from 700 to 458 persons (this amount did not include the staff of affiliated companies) through lay-off, and early-retirement. Furthermore, the cancellation of overtime work system was applied to reduce the cost of electricity and

water. All of these strategies coincided with the research of TFRC and BOI and the market consolidation strategy in Ansoff's matrix. The numbers of expatriates from Japan and employee benefit were the same in both situations. For human resource development, training was the most frequent way to develop the employees' skills including the knowledge about new products and sale technique. After crisis, there was increase in training programs to increase the employee's capability in responding to the crisis.

(4) Research and Development (R&D)

Isuzu was outstanding in the research and development. Before crisis, there were many successful projects as follows:

- (a) the original in using the diesel engine for large trucks, medium trucks, and pick-ups,
- (b) the original of spacecabs
- (c) using the diesel engine with the direct injection system for pick-ups to save to fuel consumption,
- (d) the original of using the automatic gear for pick-ups,
- (e) the first car in Thailand meeting EURO 1 standard in reducing air pollution,
- (f) the cooperation with Honda in producing Isuzu Vertex and Honda Civic, and
- (g) the cooperation with Toyota and Nissan in producing engines.

After crisis, R&D was going on. The new projects were shown as follows:

- (a) launching every new product with EURO 2 standard

- (b) negotiating with the General Motor in 1999 for collaboration in production and sourcing activities in Thailand.
- (c) New technology for 17% lower fuel consumption
- (d) Starting Tripetch Isuzu Dealer Network — Internet system (TIS-dNET) which covered dealer sales information, commercial vehicle information projects, and customer information base.

TIS never stopped to upgrade product quality and technology before and after crisis. They were in line with an organizational strategic survey in responding crisis from TFRC and product development in Ansoff's matrix.

TIS' Performance/ Success Level

Figure 5.4 explored the success level of TIS' cooperate and functional strategies, which were influenced by the economic crisis, and the changing external environment perception of TIS. Industry sale growth varied on the economic situation during the period of 1996-1999 with the rate 3%, (38%), (60%), and (52%) respectively. It went along with the Isuzu's sale growth rate with the rate 3%, (32%), (60%), and 60%, respectively. In contrast, the market shares of commercial cars and total Isuzu cars were in the upward trend. For the commercial car market, before and after crisis, Isuzu still got the large market share. See Table 5.2.

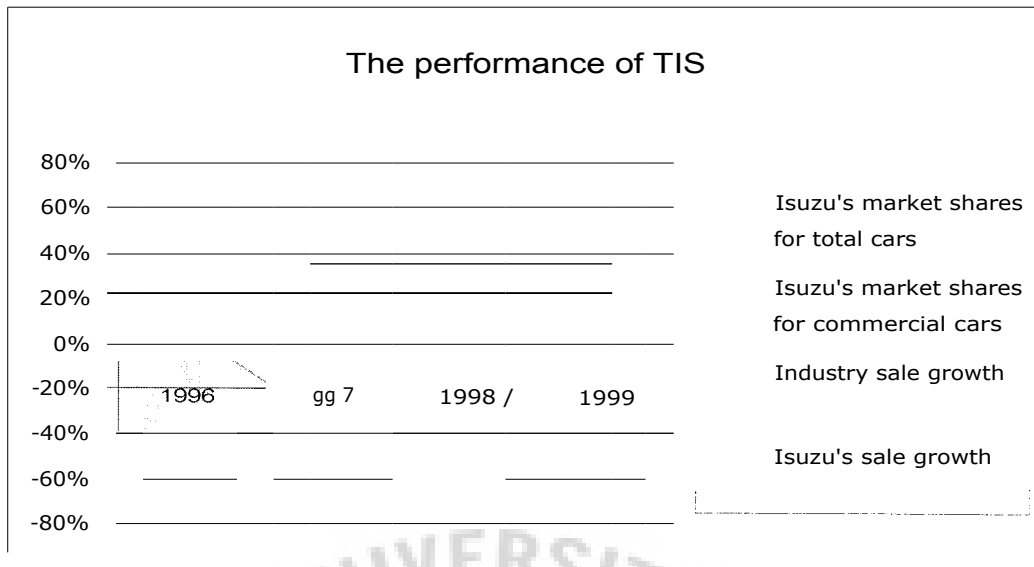


Figure 5.4. The Performance of TIS (FTI 2000).

During 1996 to 1999, the market shares were 29%, 35%, 33%, and 34% respectively. Competitors launching new products (such as Ford Ranger and Toyota Sport Rider), new corners (such as Kia), and the economy being bottom out caused the decreased by 2% of the shares in 1998. The share recovered in 1999 and tended to further increase in the new millennium. However, the company had to beware the growing share of his competitors especially Toyota.

Table 5.2. Sales Volumes and Market Shares of Commercial Cars (FTI 2000).

	19 96		19 97		19 98		19 99	
Isuzu	120,889	29%	81,536	35%	32,223	33%	51,671	34%
Toyota	112,364	27%	59,544	26%	27,545	28%	50,341	33%
Nissan	80,217	19%	31,193	13%	9,521	10%	13,127	9%
Mitsubishi	53,797	13%	25,894	11%	12,537	13%	15,112	10%
Mazda	16,161	4%	12,541	5%	4,849	5%	3,445	2%
Hino	14,575	4%	5,701	2%	1,579	2%	2,200	1%
Other	18,393	4%	14,687	6%	9,511	10%	15,576	10%

For total car sales, Isuzu's share was in the second place before and after crisis due to low sale volumes of passenger cars. (See Table 5.3). Isuzu's market shares for passenger cars during the period of 1996-1999 were 0.67%, 0.74%, 1.14%, and 0.65% respectively.

Nevertheless, overall performance was in the satisfactory level. TIS could sustain its position and after crisis. These conformed that TIS' strategic choices were effective and efficient to cope the economic crisis.

Table 5.3. Sales Volumes and Market Shares of Total Cars.

	19 96		19 97		19 98		19 99	
Brands	Sales	Shares	Sales	Shares	Sales	Shares	Sales	Shares
Toyota	163,940	27.83%	107,121	29.50%	42,661	29.61%	74,619	34.18%
Isuzu	122,044	20.72%	82,519	22.72%	32,753	22.73%	52,110	23.87%
Nissan	93,120	15.81%	42,569	11.72%	12,990	9.02%	21,671	9.93%
Mitsubishi	74,715	12.68%	35,203	9.69%	15,840	11.00%	19,172	8.78%
Honda	42,421	7.20%	37,157	10.23%	16,559	11.49%	24,595	11.27%
Mazda	19,134	3.25%	14,730	4.06%	5,482	3.81%	3,859	1.77%
Ford	3,031	0.51%	3,837	1.06%	3,300	2.29%	7,749	3.55%
Other Jpn.	24,156	4.10%	11,034	3.04%	1,056	0.73%	3,631	1.66%
Hyundai	6,005	1.02%	3,179	0.88%	785	0.54%	1,615	0.74%
Daewoo	2,910	0.49%	1,423	0.39%	382	0.27%	637	0.29%
Kia	2,640	0.45%	1,011	0.28%	3,885	2.70%	463	0.21%
Benz	7,737	1.31%	6,628	1.83%	1,996	1.39%	1,396	0.64%
Volvo	5,153	0.87%	2,977	0.82%	947	0.66%	1,002	0.46%
Volkswagen	4,084	0.69%	2,579	0.71%	605	0.42%	592	0.27%
BMW	4,008	0.68%	2,441	0.67%	1,009	0.70%	1,840	0.84%
Chrysler	3,935	0.67%	3,386	0.93%	1,057	0.73%	745	0.34%
Opel	2,030	0.34%	1,290	0.36%	1,079	0.75%	247	0.11%
Other Eu. & Kr.	8,063	1.37%	4,072	1.12%	1,679	1.17%	2,387	1.09%
Total	589,126	100%	363,156	100%	144,065	100%	218,330	100%

VI. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

From the studies, three objectives in this project were reached. The Thai economic overview and the impacts of the crisis were identified. The situation in the Thai automobile industry was evaluated. Finally, the strategic choices of the Japanese automobile company particularly TIS before and after crisis was defined and analyzed. At the same time, the effectiveness of changing strategy was measured in terms of market shares.

Before the economic crisis, Thai economy performed exceptionally well with the high growth rate and stable exchange rate. The crisis made Thai economy into trouble. The crisis caused economic recession, currency depreciation, massive of non-performing loans, loss of investors' confidence, foreign capital outflows, the liquidity shortage, unemployment, and poverty.

As well, the Thai automobile industry had continuously developed with the government support and was called "the Detroit of Asia". Hurtfully, the economic crash in 1997 made the automobile industry slow down. Every player suffered from this crisis including corporate giants of the industry as Japanese automobile companies.

The attractiveness of the automobile industry was in the lower level due to the fluctuation in external environment factors during the crisis. Economic factor was the main determinant. The profitability in automobile industry tended to be lower after crisis. For these reasons, there were fiercer competition among existing competitors, many new corners, rising in the bargaining power of final customers, and increasing used cars favored and better mass transit system. However, in the long run, most

automobile companies were confident of the Thai automobile industry because of its high potential and economic recovery sign in 1999.

The above influencing factors made the automobile industry tougher. The automobile company had to use proper strategies to overcome the crisis. Tripetch Isuzu Sale Co., Ltd. (TIS), one of the Japanese direct investors in the Thai automobile industry, was the case study in this project. The following findings brought all information based on the external environment perception, the strategic changes of the company, and the effectiveness of those strategies to provide the big picture of this study.

Table 6.1. Conclusion of External Environmental Analysis.

External environment	Before crisis		After crisis	
	Importance	Impact	Importance	Impact
Political	Low	Positive	Moderate	Positive
Economic	Moderate	Positive	High	Negative
Socio-cultural	Moderate	Positive	Moderate	Negative
Technological	Moderate	Positive	Moderate	Positive
Competitive	Moderate	Negative	High	Negative

Table 6.2. Conclusion of Corporate Strategy.

Corporate strategy	Before crisis	Changes after crisis
Main businesses	Importing, manufacturing, distributing, service, and business planning for Isuzu's car in Thailand	Export- orientation (Market development)
Objectives	Focusing on customer satisfaction and commercial cars market	<ul style="list-style-type: none"> Increasing export volumes Market consolidation for commercial cars
Entry mode	Joint venture	No change
Source of competitive Advantages	Differentiation by low fuel consumption, comprehensive sale and service network	No change

Table 6.2. Conclusion of Corporate Strategy. (Continued)

Corporate strategy (Cont.)	Before crisis	Changes after crisis
Product scope	<ul style="list-style-type: none"> Focusing on commercial cars Pick-ups, van, four-wheeled drive, passenger cars, medium trucks and large trucks 	<ul style="list-style-type: none"> Withdrawing van production new models for pick-ups (Product development) new engine for trucks (Product development)
Market scope	All regions in Thailand	Oceania, Europe, Middle East, and Latin America (Market development)
Diversification	8 backward integration, 4 forward integration, 2 horizontal integration, and 2 unrelated diversification	Increasing a horizontal integration about logistic service
Organization structure	Centralization, but minimal bureaucracy and low span of control	No change
Investment plan	Expanding the second factory	Delay the plan of the second factory (Market consolidation)

Table 6.3. Conclusion of Functional Strategy.

Functional strategy	Before crisis	Change after crisis
Marketing	<ul style="list-style-type: none"> Price — no cutting price policy and basing price on quality Place — 5 own showrooms and 93 dealers (payment on credit basis) Service — focusing on before- and after- sale services Promotion — no promotion by reducing the price 	<ul style="list-style-type: none"> Price — increasing price due to economic pressure Place — 3 own showrooms and payment by dealers on cash basis (Withdrawal) Service — focusing more on before- and after- sale services (Market consolidation) Promotion — more promotion campaigns and decreasing advertising frequency (Market consolidation)

Table 6.3. Conclusion of Functional Strategy. (Continued)

Functional strategy (cont.)	Before crisis	Change after crisis
Manufacturing	<ul style="list-style-type: none"> • Keiretsu system • No idle capacity • Technology transfer from Japan • Focusing on quality control 	(Market consolidation) <ul style="list-style-type: none"> • Reducing production • Cutting operation cost (reducing inventory, utility cost), temporarily stopping production, lay-off, early retirement, and reducing production shift • Using temporary employees instead of permanent employees
Human resource	<ul style="list-style-type: none"> • Recruiting the appropriate persons • Using temporary employees for overloaded works • 700 staffs in TIS • Expatriates 	(Market consolidation) <ul style="list-style-type: none"> • No recruitment • 458 staffs in TIS (242 staffs were laid off and early retirement) • Increasing training
Research and development	<ul style="list-style-type: none"> • The leader in developing commercial cars in term of performance, quality, low fuel consumption, and environmental friendly • Cooperating with Honda to produce passenger cars • Cooperating with Toyota and Nissan to produce engines 	<ul style="list-style-type: none"> • Developing new technology for lower fuel consumption, and reducing air pollution (to meet EURO 2 standard) (Product development) • Negotiating with GM to collaborate in production and sourcing activities in Thailand • TIS Dealer Network-Internet system

Table 6.4. Conclusion of Market Situation of Commercial Cars.

Year	Total cars' sale for Isuzu			Commercial cars' sale for Isuzu		
	Sale volumes	Shares	Rank	Sale volumes	Shares	Rank
1996	122,044	21%	2nd	120,889	29%	1st
1997	82,519	23%	2nd	81,536	35%	1st
1998	32,753	23%	2nd	32,223	33%	1st
1999	52,110	24%	2nd	51,671	34%	1st

6.2 Recommendations

6.2.1 Recommendations for TIS

Although overall performance was in the satisfactory level and TIS could sustain its position in the market, Toyota's market shares of commercial cars in 1999 evenly matched Isuzu's market shares (only one-percent difference). TIS should strengthen its strength by finding a new target group (market development) and emphasizing more on sale promotions and advertising (market penetration) to be absolute No.1 Company in commercial cars. Moreover, TIS should turn its weakness to be the strength by developing the sector of passenger cars. Increasing the models of passenger cars and adapting the new technology in commercial cars (such as low fuel consumption) for passenger cars might be the alternatives of product development. Increasing advertising budgets in the sector of passenger cars might be the alternative of market penetration. If TIS could improve the performance in passenger cars, it had a chance to seize the first position in the Thai automobile industry.

6.2.2 Recommendation for Other Industries

The following strategic choices should be considered to be use during economic crisis:

- (1) Exporting engine, components, and pick-up.
- (2) Upgrade product quality.
- (3) Emphasized on low fuel consumption, low air pollution.
- (4) Postpone investment plan in expand the second factory.

6.2.3 Recommendation for Further Research

Due to time constraints and the differences among companies' strategic choices in the same industry and in the different industries, the following areas should be considered for further research:

- (1) Study in the strategic choices of other Japanese direct investors in the Thai automobile industry during the crisis,
- (2) Study in the strategic choices of other foreign direct investors in the Thai automobile industry during the crisis, and
- (3) Study in the strategic choices of the foreign direct investors in other industries in Thailand during the crisis.





APPENDIX A
INTERVIEW GUIDE

Interview Guide

Part I: Company profile

1. What is the registered name of your company?
2. Please describe the establishment and history of your company in Thailand.
3. What is the name of your parent company?
4. Do you have the affiliated company? (if yes, please identify)
5. Who are the boards of directors of your company?
6. How long have they served on the board?
7. What is their involvement in strategic decision of the company before and after crisis?

Part II: Assessing the importance and impact of external environmental factors on your company

1. Do you have specific persons/ division/ department to be responsible for external environmental analysis? (If yes, please identify)
2. Does the parent company assist in carrying out external environmental analysis? (If yes, please describe)
3. In your company's perception, what is the importance and impact of the external environmental factors effect your company's strategy before and after crisis?

Importance of factor: 0 = unimportance and 5 = very importance.

Impact: +4 = strongly positive, 0 — neutral, and -4 = strongly negative

Part III: Analyzing the changes in corporate strategies of your company

1. What is (are) your company's main business (es) before and after crisis?
2. What is (are) your company's objective (s) before and after crisis?
3. What is the entry strategy/ ownership structure before and after crisis?
4. What is your source of competitive advantage before and after crisis?
5. What is your product scope before and after crisis?
6. What is your market scope/ geographical market/ market segment before and after crisis?
7. Do you have any diversification? If yes, please specify:

	Before Crisis	After Crisis
Forward integration		
Backward integration		
Horizontal integration		
Unrelated diversification		

8. What is your organization structure before and after crisis?
9. Does your company delay or cancel investment plan during the crisis?
10. What is (are) the main problem (s) in your company during crisis? How do you solve it?

Part IV: Analyzing the changes in the functional strategies

Marketing

1. Do you have your own showroom (s)? (If yes, please identify the number before and after crisis.)
2. How many dealers and their showrooms do your company have before and after crisis?

3. Please describe the policy and criteria about dealers before and after crisis
4. After crisis, are there any changes in the price of your products and/or services?

How?

5. What is (are) the promotion (s) that your company presents to the customers before and after crisis?

6. Please rank the advertising media that your company used before and after crisis?

1 — the most frequent used

Before crisis: ___Television Radio Newspaper Magazine
 ___Billboard ___Other (please specify : _____
 After crisis: ___Television ___Radio Newspaper Magazine
 ___Billboard ___Other (please specify : _____

7. Is there any change (s) in your brand image and customer loyalty after crisis?
8. Does the economic crisis make your customers' decision (about purchasing your product/ service) more sophisticated?
9. What is (are) the problem (s) faced in marketing department during the crisis?
 How do you solve it?

Manufacturing

1. What is (are) the number of plant (s) before and after crisis? Where?
2. Does your company receive investment promotion Thailand's Board of Investment (BOI)? How?
3. Due to crisis, does your company use any measures to reduce manufacturing cost? If yes, which measure do you use? (You can choose more than one)

- _____ Utilize more local raw material
- _____ Reduce overhead cost such as utilities
- _____ Reduce transportation and packing cost
- _____ Reduce inventory
- _____ Other (please specify : _____)

4. What is the production capacity before and after crisis?
5. Does your company have the problem of idle capacity during crisis? (If yes, how do you solve it?)
6. Does your company have an improvement in production capacity? (If yes, please specify both before and after crisis.)
7. Is there any change in the process of quality control during the crisis?
8. Does your parent company transfer the new technology to your company? (If yes, please specify both before and after crisis.)
9. What is (are) the problem (s) faced in manufacturing sector during the crisis?
How do you solve it?

Research and Development (R&D)

1. What is the aim of R&D before and after crisis?
2. Please give the brief of your R&D activity before and after crisis.

Human Resources

1. What is (are) the criteria and rule of recruitment before and after crisis?
2. What is the number of employees before and after crisis?

3. Does your company use any measure to reduce cost concerning employment? If yes, please choose the following measures (may be more than one) and give a brief description.

- _____Reduce working hours
- _____Lay-off
- _____Early retirement
- _____Reduce expatriate consultants
- _____Reduce employee compensation/ benefit
- _____Other (please specify : _____)

4. What is your policy about Human Resource Development? Is there any change after crisis? (If yes, how?)

5. What is (are) the problem (s) faced in this sector during the crisis? How do you solve it?

Ranking the Economic Factor before and after Economic Crisis.

Factor	Before crisis (1996-1997)		After crisis (1997-1999)	
	Importance	Impact	Importance	Impact
Political	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Government Stability	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Monetary and Fiscal Policies	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Regulation	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Legislation	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Taxation	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Special Incentive	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Economic	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Growth Rate	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Interest Rate	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Inflation Rate	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Baht Devaluation	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Energy Availability & Cost	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Employment Rate	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Socio-cultural	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Lifestyle Changes	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Social Mobility	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Consumer Behavior Changes	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4
Population Growth	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	4 -3 -2 -1 0 1 2 3 4

Ranking the Economic Factor before and after Economic Crisis. (Continued)

Factor	Before crisis (1996-1997)		After crisis (1997-1999)	
	Importance	Impact	Importance	Impact
Socio-cultural (cont.)	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Age Distribution of Consumers	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Income Distribution	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Education Level of Customers	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Technological	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Government Support	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Technology Transfer	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Technological Changes	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Technology Uniqueness	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Competitive	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
No. of Competitors	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Size of Competitors	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Product/Service of Competitors	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Location of Competitors	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Capacity of Competitors	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Strategic Change of Competitors	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4
Market Segment of Competitors	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4	0 1 2 3 4 5	-4 -3 -2 -1 0 1 2 3 4



APPENDIX B

AUTOMOBILE INDUSTRY INFORMATION

Table B.1. Summary of Major Automobile Industry Policies.

Year	Policies
1960	The 1960 Industrial Promotion Act which provided incentives for the automotive assembly plants
1962	The 1962 Industrial Promotion Act which grants privileges, especially 50 percent reduction in tariffs and business taxes on CKD kits
1970	Tariffs were increased. Tariffs on CBU passenger cars 80 percent, CBU pickups 60 percent, CBU trucks 40 percent, CKD passenger cars 50 percent, CKD pickups 40 percent, and CKD trucks 20 percent.
1974	The local content requirements became effective
1978	(1) Import ban on small CBU cars (below 2300 cc.) (2) Tariffs were increased. Tariffs on CBU passenger cars 150 percent, CKD passenger cars 80 percent.
1987	The local content requirements were set at 54 percent for passenger cars, 45 percent for large and medium trucks, and 60 percent for petrol pickups, and 72 percent for diesel pickups
1991	(1) The import ban of small cars was abandoned (2) Tariffs were decreased. Tariffs on large CBU passenger cars (over 2300 cc.) 100 percent, small CBU passenger cars and CBU pickups 60 percent, CBU large and medium trucks 40 percent, CBU chassis with engine 30 percent, CKD kits of all cars 20 percent, and CKD chassis with engine 10 percent (3) The restriction of the number of car models was abandoned
1995	The Ministry of Industry announced "The Automobile Industry Export Promotion Project" for the period of 1996-2000
2000	According to GATT agreement, the government has lifted the Local Content Requirement since January 1, 2000

Table B.2. Investment Incentive for Manufacture of Car Assemblies.

<p><u>Projects located in Zone 1</u> (Bangkok, Samutprakarn, Patumtani, Nontaburi, Nakornprathom, and Samutsakhon):</p> <ul style="list-style-type: none"> • No tax exemption on corporate income and dividends • No exemption or reduction on machinery import duty
<p><u>Projects located in Zone 2</u> (Samutsongkram, Rachaburi, Nakornnayok, Suphanburi, Ang-Thong, Ayuttaya, Karnchanaburi, and Chachoeng sao):</p> <ul style="list-style-type: none"> • 50 percent import duty reduction on machinery which is not included in the tariff reduction notification of the Ministry of finance (Notification No.C13/2533) and is subject to import duty greater than or equal to 10 percent • Tax exemption on corporate income and dividends derived from export, for a period of seven years
<p><u>Projects located in Zone 3</u> (The remaining provinces outside Zone 1 and 2 plus Leam Chabang Industrial Estate):</p> <ul style="list-style-type: none"> • Exemption of import duty on machinery • Tax exemption on corporate income and dividends derived from export, for a period of eight years • 50 percent tax reduction on corporate income derived from export, for a period of five years • Double deduction from taxable income, cost of water, electricity, and domestic transportation for 10 years from the date of first sales • Deduction from net profit of 25 percent of the cost of installation or construction of the project's infrastructure facilities

Industrial Restructuring Plan (1998-2002)

For several years, industrial sector has long been playing a major role in the economy, including investment, employment, and foreign earning via export. From 1996 onwards, manufacturing production and exports have been slowing down. In particular, after the adoption of managed-float exchange rate system and the onset of economic crisis, a number of producers suffered losses and closed down business, aggravating the economic system.

The problem of contraction in the Thai industrial sector since 1996 reflected low competitive capability, including obsolete production technology and information system, shortages of managerial and employee skills, shortage of development of supporting industrials, high factory concentration, pollution, small-sizes export markets, and non clear-cut and discontinuity in government policy.

1. Salient features of the Industrial Restructuring Plan

To increase the sector's competitive capability and strength, the programme must be preceded systematically and continually. To this end, the Government established restructuring programme, covering 13 targets industrial sectors. The programme involved 8 main plans, which were divided into two groups:

Group 1 Plan emphasizing the adjustment of production structure to raise competitive capability. They are:

- **Plan 1** Improve productivity and production process to provide more competitive production costs and delivery.
- **Plan 2** Raise level of production technology through the overhaul of machinery and technology in targeted industries.

- **Plan 3** Encourage the development of products, product design and channel to access global markets.
- **Plan 4** Encourage Foreign investments in industries with technology for the future.

Group 2 Plans emphasizing the adjustment of social environment to distribute jobs and reduce industrial pollution.

- **Plan 5** Upgrade skill of labor to meet requirements of targeted industries.
- **Plan 6** Strengthen small and medium-supporting industries.
- **Plan 7** Promote distribution and relocation of labor intensive and less pollution industries to regional rural areas in order to prompt job and income distribution.
- **Plan 8** Control high pollution industries and encourage the use of clean technology system to reduce industry pollution.

All the 8 plans are inter-linked and supportive of one another. They are geared to lead other sectors of the economy to adjust themselves accordingly. The timeframe of the program is 5 years (1998-2002), using US\$ 1,192 million.

2. Progress of Industrial Restructuring Plan

On June 16, 1998, the Cabinet approved implementation plans under eight principles program, together with 440 operational projects in order to facilitate the process of industrial restructuring. On September 15, 1998, the Cabinet approved the use of US\$ 122.9 million drawn from the restructuring loans to implement 24 projects to stimulate the economy and speed up work in the plan. The National Industrial Development Committees set up Subcommittee for Coordination and Supervision of Industrial Restructuring Plan on December 11, 1998 to coordinate, monitor and assess

the outcome of the program, aiming to activate related units to expedite project implementation.

3. Expected Positive Outcomes from Industrial Restructuring Plan

Industrial sector restructuring will not only help alleviate the short-term problem such as unemployment, liquidity shortage in the sector, but also enhance competitiveness which will bring about economic, social and environmental benefits in the long-run. Industrial sector restructuring is expected to result in following changes;

- Development of product design and production technology to upgrade product quality to meet demands in the middle and high-markets and the upgrade the Thai brand name in the Asian and global markets.
- Promotion of Thailand to become a production base and export centre in Asia and the world by raising production, management and operation efficiency.
- Improvement of human resources' quality and capability in the industrial sector consistent with higher level of production technology, to produce quality product efficiently and to develop competitive capability in the world markets.
- Promotion of clean technology to protect environment, which help raise the leverage and bargaining power in international trade negotiation.
- Relocation of industries to regional and rural areas to encourage capital flow in regional economies, which helps alleviate unemployment pressure, inequitable income distribution, congestion, and industry concentration.

- Increase in dissemination of information of trade and services to firms to raise awareness and interest in production and investment.

The achievement and efficiency of the industrial restructuring program depend on public and private cooperation and supports.





APPENDIX C

DEFINITION OF TERMS

DEFINITION OF TERMS

AIDC	The Automobile Industry Development Committee
BOI	Thailand's Board of Investment
BOT	Bank of Thailand
CBU	Complete Built Up Cars
CKD	Complete Knocked Down Cars
FTI	The Federation of Thai Industries
TDRI	Thailand Development Research Institute
TFRC	Thai Farmers Research Center
TIS	Tripetch Isuzu Sales Co., Ltd.



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