UNIVERSITI PUTRA MALAYSIA

INTERNATIONAL STRATEGIC MARKETING PLAN FOR A MULTINATIONAL MANUFACTURING COMPANY

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CASE WRITING AND ANALYSIS

INTERNATIONAL STRATEGIC MARKETING PLAN
FOR
A MULTINATIONAL MANUFACTURING COMPANY

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TABLES OF CONTENTS

PART 2 : CASE ANALYSIS

LISTS OF TABLES AND FIGURES

PART 1

CASE WRITING

PART 1: CASE WRITTING

1.0 CASE SCENARIO

It was already 11:00 pm, Saturday night on 21 October 1997, Mr. Jacky Wong who was the general manager for JVC (M) Electronic still worked at his office. He was sitting alone in his office pondering at what had transpired in the meeting with his director and departmental managers a week ago. He felt pressured to finish redefining his international strategy for the calendar year 1998 to 2000. The complete proposal for venturing business into Europe market was to be submitted to the headquarter JVC Japan for approval before 1 November 97.

It was the first time, the subsidiary JVC (M) Electronic was allowed to make a proposal for looking into new business development overseas. Over the years, JVC Japan was not totally decentralized authority to JVC (M)Electronic. In dealing with international affairs, JVC (M) steered the international business policy greatly relied on the international marketing plan of the headquarters JVC Japan. In reality, pricing, final product, packaging and channel decision sustained intervention from JVC Japan. JVC (M) was merely responsible for international marketing sales of less than RM 250,000.00 and advertising decision in local market. Knowing this was a turning point and golden opportunities for JVC (M) Electronic to voice out their international plan, the managing director namely Mr. Nachamura had appointed Jacky Wong to take a heavy responsibility of being the head of the market development committee.

The business development committee was established with its mission of detecting opportunities and threats of the Europe market as well as assessing its strength and weaknesses of its organizational environment in order to come out an international marketing strategy for getting rid of some huge problem on its video products to be exported to the Europe market. Some major problems arose from competitive price, brand awareness, trade barrier, inconsistent exchange rate, inconsistent product quality, inadequate Europe community information etc.

2.0 BACKGROUND OF JVC (M) ELECTRONICS

The high manufacturing cost in Japan resulted in a number of Japanese multinational companies moving some manufacturing plants aboard. In the home appliances industry for instance, video-manufacturing outputs increased by 74% from 1985 to 1995 in Asian countries. On the contrary, video production in Japan decreased by 65% during the same period. Video production in JVC Japan was encountering the same problem. The difference become obvious when comparing wages and other overhead costs in Japan with Southeast Asian country like Malaysia. The effect of the strong yen in exchange rate further accelerated this trend.

JVC (M) Electronics was a new subsidiary of JVC Electronics Japan established in Shah Alam in 1986. It was a production and R & D base company with the long-term purpose of undertaking production and some research tasks in video sets. The company replaced the assembly factory in JVC Japan for capitalizing in lower labor cost and exploiting favorable government policy in Malaysia, in addition it expedited the research and development cycle of new products.

JVC (M) Electronics started off it operation with total losses of about RM 6 million in the first three years and merely commenced gaining profit in the fourth year onwards. About 60% of its top management were expatriates from the headquarters in Japan. The company was also employing more than 3500 staffs locally. In order that further cost down the overhead cost for staying ahead in the worldwide video market, the ultimate motive was to localize some Japanese management team and imported raw materials. To augment its growing presence in export market, it set up some regional offices in the Latin America and North America. In line with its expansion strategic plans, JVC (M) Electronics was currently seeking the new market in the Europe like United Kingdom, Italy, France, Switzerland, Holland, Spain etc.

3.0 JVC ELECTRONICS (M) MISSION STATEMENT

To be the leader in providing superior products and services in the video industry, so as to enhance the quality of life and enable the corporation to be a responsible multinational company in the countries in which we operate.

JVC (M) Electronics honorably serves the requirement of the community by providing video and home appliances products and services of the greatest possible value to its customer, thereby gaining and holding their respect and royalty. The company serves as a leading video manufacturer in Malaysia and the overseas such as Canada, United States, Brazil, Argentina, Columbia, Mexico etc. It develops a culture of mutual trust, respect and teamwork in the organization. In addition, it also bring in a new measure such as flexible manufacturing system, technical know how and management leadership in the video industry.

4.0 PRODUCT DIVISIONS

The basic organization structure was known as product divisions which gave more autonomy to the each product division . With a product divisional structure, each product division like video and home appliances had its own functional area in marketing, engineering, production, human resource management and finance. Those functional departments performed work associated with the product of their specific division only.

The division managers who served as the specialists with detailed knowledge of a whole product lines of the their product divisions reported vertically to the general manager. The general manager possessed a broad range knowledge of video and home appliances division, with the responsibility of assisting the managing director to coordinate with other departmental heads.

4.1 VIDEO DIVISION

In this division, JVC (M) Electronic manufactured video products and video tape recorder for home and professional use, targeted for domestic as well as overseas market. It offered a variety of video models, ranging from traditional video cassette recorder (VCR) and digital video to video movie. For the year ended December 1996, annual sales of video products (VCR) accounted for RM1000 millions, about 70% of the company total sales. Another 30% of the total sales was contributed by the home appliance products.

Development Of Video Products In JVC Japan

Since the start of Victor Company of Japan in 1927, JVC Japan has made technological advances that has favored in dictating the direction in which the globalization evolved. It was prestige of the first company owning the phonograph records in Japan, the inventor of the VHS video format. It's been one innovation after another from year over the year;

1997

JVC entered into the digital broadcast system market and announced the launch of the HM-DSR 100 Digital Satellite Recorder, featuring the revolutionary digital bit stream recording technology D-VHS.

1996

Development of the world's smallest and lightest digital video camera (GR-DV1); JVC America launched World Wide Web Site.

1995

Development of Telecommunication Karaoke system; Dynamic D-VHS; Digital S-format.

1994

Development of the world's smallest and ligthest high-definition camera; Development of W-VHS for HDTV

1991

Digital Vision karaoke system; Multi Wide Vision TV

1988

Super Video Movie; Digital Pure-A amplification; Super VHS format

1985

VHS Video Movie; Hi-fi VHS system

1982

High Grade VHS; VHS compact video cassettes

1979

Super amplification circuit

1976

World's first portable color VTR

1973

3/4" U-format video cassette recorder (VCR)

1970

CD-4 channel record technology

1966

S.E.A graphic equalizers

1959

World's first 2 head helical scanning VTR

1956

Marketing of tape recorders

1955

R & D stated on VTR's

1939

Japan's first TV

1930

Production of phonographs & records

4.2 HOME APPLIANCES DIVISION

The major products in this division included freezers, washing machines and color television which were specially targeted for Malaysian market. For fiscal year 1995, total home appliance sales amounted to RM600 million or 30% of the company total sales.

This division encompassed a broad range of color television to meet the demands of all segments of the Malaysian and overseas markets. The color television ranged from 12 to 29 inches measured diagonally. For the year ended December 1996, sales of color television contributed to RM400 millions, representing 20% of total sales of the company for that period. The division had also planed to manufacture large screen color projection TV systems. Freezers were the most profitable among all the product divisions, with profit margin ranging from 20% to 25%. The washing machines sales had not been in the right business trend, the semi-auto washing machines made loss since its starting operation in 1990, whereas the automatic washing machines reported no profit or break-even level every year.

5.0 ORANIZATION STRUCTURE FOR VIDEO DIVISION

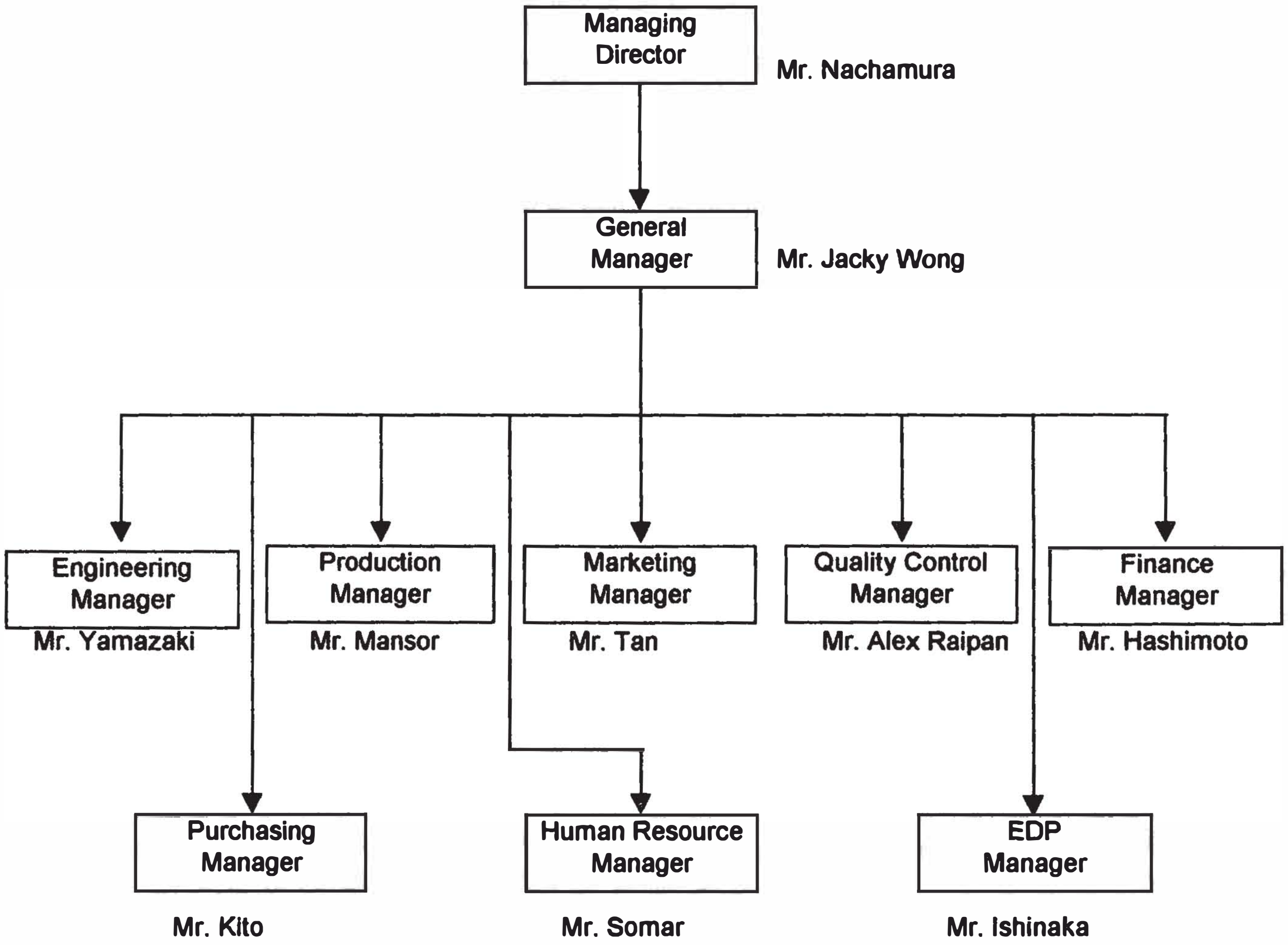
Video division of JVC (M) Electronic was made up of eight departments namely sales and marketing, engineering, production, quality control, human resource, purchasing, EDP and finance department. The five managers reported to the general manager, Mr. Jacky Wong who was a mechanical engineer with MBA degree. The general manager was with Western Digital, Melbourne for 5 years as R &D engineer after he just graduated his mechanical engineering from Monash University. Jacky Wong joined the JVC (M) Electronic since 1990, he was responsible for entire operation of the video division. The sales and marketing department was headed by Mr. Tan, engineering department by Mr. Yamazaki, production department by Mr. Mansor, human resource department by Mr. Somar, finance department by Mr. Hashimoto, quality control department by Mr. Alex and purchasing department by Mr. Kito. The organization structure was summarized as in the figure 5.1.

6.0 DILEMA -YEAR 1993 TO 1996

Overall sales were declining and income went down sharply. The video business was hurt badly by the strong US dollar and recession in Latin America. In this period, the US economy was starting to recover. The cinema and computer games entertainment were somewhat getting popular to threaten the video industry. JVC (M) with 85% foreign sales was hurt more than its competitor, Sony and suffered a drop of 25% in earning at the operating income level, as compared to the latter's 20% per cent. JVC. JVC's R & D expenditures as a percentage of sales were still 20% to 25% more than those of its arch-rival such as Matsushita, Daewood and Goldstar.

Figure 5.1: Oranization Chart For Video Division

Video Division Organization Chart



In order to cope with these pressures, JVC (M) was building more stable sales market aboard. Another offensive was the launching of two new models digital video player and some video cassette tape, all these high price models were not being successfully sold in the US and Latin America. JVC (M) was now spending only about one-third of his time in searching for overseas markets, because most of the international market research and final decision making remain under control by the headquarters JVC Japan.

Selling to overseas industrial customers might demand that JVC (M) Electronic would have to focus on cost reduction, especially generated from automation, as much as it had always done on innovation and quality. Automation was difficult for JVC (M) Electronic because the company improved product technology so often. Cost reduction proved to be not proactive in Malaysia because it was still heavily relied on many imported materials from Japan and increasing number of competitors had located their plants in countries with cheap labor such as Vietnam, China and Mexico. The situation become more worse on account of declining in currency exchange rate of Asia countries. Realizing the external environment at change, JVC (M) Electronic should urgently need to come up the marketing strategy for developing more innovative features and quality video products beside competitive price.

Before the situation got worst, Mr. Nachamura intervened and called up all departmental head attending the meeting on the morning of 14 October 96 at JVC (M)

Electronic. The following was an extract of the conversations that had taken place in the meeting.

Mr. Tan: I have done my best in looking for overseas sales.

Mr. Nachamura: Why then all fiasco.

Mr. Tan : That's not my fault. My marketing team has set the marketing goals and policies based on the headquarters marketing plan all the time.

Mr. Nachamura: Don't ever take it as an excuse! The headquarters JVC Japan has been not pleased with your marketing records since 1993. You must not forget that each year the JVC Japan invest two million in R & D for the new video products, improvement of production process and purchase of machinery. However, the overall sales has dropped by 25% from 1993 to 1996. By right, we can take advantage of our production experience curve or production versatility and show off our latest video technology to the overseas end users.

Mr. Jacky : Yes. In reality, we have successfully introduced the digital video in October 95, capping a four years and US$8 million quest for "perfect sound" and compact size. However, within ten months Matsushita and Sony were selling comparable video at lower price. To add to the miserly, it become clear about this time that JVC's digital video was losing out to its arch competitors.

Mr. Tan: We must recognize the growth in the US for JVC is primarily at the low-end of the market. Besides, less than 25% of America video consumers have ever heard the JVC brand. I would propose the headquarters to increase the current JVC's limited advertising budget which amount to 5% of the total marketing expenses.

Mr. Nachamura: All right! Mr. Tan , you discuss with Mr. Jacky Wong and other departmental heads. I want a concrete marketing plan for venturing to the Europe market by the end of this month. Listen! The company is here to stay. You and your people got to buck up.

Early morning of the next day after the meeting, Jacky Wong has been appointed to be the chairman of a market development committee with his duty to come up a proposal of marketing strategic plan for the headquarter approval. On the same day, Jacky held an emergency meeting with his members of market development committee Mr. Tan (sales and marketing manager), Mr. Yamazaki (engineering manager), Mr. Chan (production manager) and Mr. Hashimoto(finance manager).

7.0 EUROPEAN MARKET

For the last two years, the JVC headquarters Japan has been looking into the possibility to venture into new overseas video markets, preferably in the country with stable economy, low political ties risks, stable currency, high per capital income and low inflation rate. This was needed as the domestic video markets were limited for further expansion due to small consumption abilities. Besides, the move was to establish a new empire in order to diversify the business risks emerging from market saturation and fierce competition in US, Canada and Latin America. Europe had been selected as the best destination for its new overseas venture

Western Europe is one of the world largest potential video market in the world. Japan's video manufacturers have only about 28% combined market share in Europe, primarily as a result of restrictions on imports. For instance, France restricts Japanese video products by charging a imported tax, Value Added Tax (VAT) of 22% in 1996. In the same period, Value Added Tax in Great Britain range up to 16%. Only Germany permits the free access to Japanese video products.

8.0 STRATEGIC ALLIANCES

Strict import restrictions, idiosyncratic tastes of European consumers in their choice of video products, intense competition in countries having their own made appliances products, and the great diversity among the European countries hindered JVC's ability to penetrate easily the western European video market. With the emergence of the European Community (EC) in 1992, the region was expected to be a more competitive battlefield. Europe countries had established import restriction, for instance France set maximum share for Japanese electronic products at 12% of the total market. Lagging behind the other leading Japanese video manufacturer like Sony in establishing research and production facilities in Malaysia and other countries, it was inevitable that JVC would establish an alliance with a Europe manufacturer. JVC's joint ventures upheld business principle on complementary strengths and mutual trust.

JVC linked up with Philip in 1989 to establish PJVM (Philips-JVC (M) Corporation), the 50-50 joint venture initially for manufacturing video cassette recorder

(VCR) and video tapes. JVC contributed the manufacturing plant base in Shah Alam and was responsible for marketing plan. On the other hands Philip transferred the latest video technology and production process for continuos quality improvement and cost down. From JVC's perspective, the joint venture would enable it to reduce its risk, allowing it to gain valuable experience associated with acquiring competitive edge in Europe market.

In December 1993, JVC formed an alliance with its arch rival Sam Sung, the Korea's largest video manufacturer to establish a new type of video products called video camera. This product aimed to enlarge video product width and to mutually share new video technology known how.

Another strategy alliance was to develop a new color video printer with Electroluxe. This product was able to turn sharp picture from TV screens in a shorter time than competing European and Japanese printers. The ultimate motives were to gain mutual benefit in developing new video product market and produce the new products under their own brands. In the meantime, this was one of the promising products to change the customers' perception that their products are just low cost brand.

9.0 MANAGEMENT PHILOSOPHY OF JVC

Shortly after Mr. Nachamura has been appointed as the managing director of JVC (M)Electronic in December 1993, he immediately established a new management philosophy for the organization. Mr. Nachamura said that the new JVC (M) Electronics should be quality and customer oriented in order to compete. The following are the key issues emphasized in his management reform declaration:

Product Competitiveness

JVC (M) Electronics stresses two main objectives. First, they aim to increase their sales in high profits products. Second they want to create first class products in the world. The objective is recognition of the fact that sales and profits increase with high quality products. JVC (M) Electronics hopes to have at least one world class product from each division. If this can be successfully accomplished, each division will be profitable and self-reliant.

Management Efficiency

Three "S"'s chracterize how management to manage JVC electronics that is simple, slim and speedy. Employees are encouraged to be creative, challenging, united with a "Yakin Boleh" spirit, and unafraid of mistakes and failures. They should act and execute, not just think at the desk. The director, Mr. Nachamura also plan to make the company slimmer to consolidate the divergent divisions and make decisions faster.

Self-Reliant Technology

JVC (M) Electronic stresses the importance of securing basic core technology and enhancing it by the synergy effect of merging essential element technology. Mr. Nachamura recognizes that developing own indigeneous technology is a definite positive NPV investment. The rael cooperation is a give-and -take relationship whereby sharing technologies are mutually beneficial to greatly speed up their product development to give them an edge over their competitors.

Definition For Success

The concept is that everything is done with the entire company's success as the primary consideration. Employees are therefore urged to be industrious, sincere, loyal and frugal. Internal cooperation is placed prior to individual tasks.

Customer Orientation

The managing director stresses the importance of customer satisfaction since customer bargaining power is increasing. The company provides the customers with anything they want, accepting any requests while solving internal problems without any excuses.

Relationship With Vendors

JVC (M) Electronics want to develop and maintain a common growth relationship with their vendors. They want to ensure their vendors as much growth as they deserve, and to provide the outstanding ones with finance and management know-how. A good relationship with suppliers can bring about benefits such as dependable and good quality supplies, reduced demands, contributions to product developments and easier implementations of new practices.

10.0 RESEARCH AND DEVELOPMENT STRATEGY

JVC (M) Electronic recognized that R & D was the single most factor critical to the company 's future growth. They believed that new technology was the key to innovative video products that could better meet the unique needs and desires of consumers in different markets. Therefore, one of the main aims of JVC (M) 's strategy was to replace 25% of their entire product line each year with new products.

The headquarters JVC Japan had invested a huge amount of money in R & D tasks and video technology. Each year, the JVC Japan injected RM15 million (8% of total revenue) into R & D for video products. The headquarters employed about 120 engineers and researchers. Basically, the major R & D tasks had undertaken by JVC Japan, JVC (M) had been assigned to do a minor portion of the research task and the entire video product development task. All JVC research centers at home and aboard were equipped to conduct independent projects. For example, all product conceptual design, product development and production tasks had been performed by the engineering department of JVC (M) Electronic. Whereas R & D teams in Japan had been in charge of materials selection, design revision, prototyping and final product design approval.

JVC (M) Electronics no longer wanted to be known as producers of low price video product with low quality. They want to innovate rather than imitate. As such, most of their R & D has focused on developing new video products rather than improving their speed of production. Being aware of the other Japanese competitor technological power,