Indonesia is one of the world’s most promising car markets, but Detroit is finding Toyota rules it with an iron hand.

**GM takes on the “Toyota Republic”**

By Norihiko Shirouzu

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Indonesia is Toyota country. After more than 40 years here, Toyota Motor Corp and affiliates including Daihatsu have 450 dealerships and a 54 percent share of the market. General Motors Co has been here even longer – but has just 34 dealers and less than one percent of the market.

“We started in Indonesia in 1938. We have been so successful, we have
seven-tenths of a point of market share in 75 years. Are you (kidding) me?” Tim Lee, head of GM’s international operations, said in an interview. “That is not constancy of purpose.”

Despite that daunting gap, Indonesia is too tempting a market for GM and other automakers to ignore. Emerging markets account for half the vehicles sold worldwide, and industry estimates put that figure at two-thirds by 2020, when global demand is expected to reach 100 million cars annually.

And Indonesia - along with Brazil, Russia, India, South Africa and China - has become one of the hottest emerging markets of all. The country of 240 million people bought one million cars last year, and sales by some estimates are expected to double over the next three years. The McKinsey Global Institute says an additional 90 million people will join Indonesia’s consumer class by 2030 when the country could overtake Britain to become the seventh-largest economy.

That’s focusing minds at GM, the world’s second-largest carmaker after Toyota.

GM for decades failed to come up with the right vehicles for Indonesia, which prefers simple “people mover” vans. Now, it is finally coming out with a competitive multi-purpose vehicle, the Chevrolet Spin. It has restarted an assembly plant it shuttered in 2005, and is trying to grow its sales and dealership network.

GM Chief Executive Dan Akerson said he thinks GM could grab a 7- to 10-percent share of Indonesia’s automobile market within a decade.

“I think it’s a good goal,” Akerson told Reuters in an interview in Detroit. “Why give Japanese automakers a free safe haven?”

Toyota and its sister brand Daihatsu are not taking the GM threat lightly.

Fearing GM may try to poach its dealers, Toyota-Astra Motor - a sales joint venture between the Japanese auto giant and Indonesian conglomerate PT Astra
International - last year asked many of its more than 260 dealers to sign loyalty pledges. Daihatsu-Astra Motor, a joint venture between Daihatsu and Astra, resorted to a similar initiative.

Toyota and its group companies in turn pledged to spend an additional $1.2 billion in manufacturing capacity and other capital investments in Indonesia. That’s the carrot. As a stick, the Toyota team threatened to revoke the franchises of any dealer who does business with GM or other competitors.

Game on in Indonesia.

To lead its campaign in Indonesia, GM has tapped Marcos Purty, a 41-year-old back-slapping executive from the Detroit suburb of Pontiac.

“Now we’ve got a car, built here and aimed at 40 percent of the market,” Purty says of the no-frills Spin multi-purpose vehicle. “We’re finally up to bat, and we really want to make a big dent.”

**KING KIJANG**

GM has a history of false starts and setbacks in Indonesia. Especially damaging was its failure in the early 2000s to forge an alliance with Astra, the most powerful local player.

Chevrolets began appearing on Indonesian roads in the 1920s when the country was a Dutch colony. GM began assembling cars here in 1938 at a plant in North Jakarta before giving up the factory in the mid-1950s, even as demand for cheap, durable vehicles began perking up in post-war Southeast Asia.

GM and other Western automakers did little to meet that demand, leaving the market to Toyota. Together with its partners, Toyota Group now sells half a million cars annually in Indonesia. Toshiyuki Shiga, chief operating officer of rival Nissan Motor Co., calls Indonesia a “Toyota Republic.”

In 1971, Toyota started assembling Corollas and Land Cruisers at the Astra-owned Gaya Motor plant in North Jakarta – the very same place GM abandoned.

Business really took off in 1977 when it launched the Kijang. Designed specifically for Indonesia, the multi-purpose vehicle has come to define motoring in Indonesia.

Originally it was offered as a pickup and minivan. It could be customized as a rugged people- and cargo-mover, with bench seats in the back that can hold up to a dozen...
passengers. The vehicle is used in many towns and cities as public transportation.

After 40 years, the Kijang remains a cash cow for Toyota. Its current incarnation, the Kijang Innova, last year generated sales of 71,364 cars; its distant SUV cousin, Fortuner, which shares vehicle underpinnings with the Innova, posted sales of 20,135 in 2012. Collectively they accounted for 8 percent of Indonesia’s auto market last year.

By the time GM finally returned in 1993 – when Indonesia and other “tiger economies” were creating the Asian growth miracle – Toyota had a formidable grip on the market.

That year, GM formed a joint venture with a local partner, Garmak Motors. It assembled Opel cars, with kits brought in from Europe, at a plant in East Jakarta – the site where Spin vans are rolling off the line today. In 1995, it added another Opel car, as well as a “strategic” vehicle developed specifically for Indonesia: a right-hand-drive version of the Chevrolet Blazer sport-utility vehicle.

The Opels sold dismally - Indonesia has never had much demand for sedans. The Blazer also was a dud. Not only was it expensive at 200 million to 230 million rupiah ($20,500 – $23,500), but it also lacked a crucial attribute for any Asian utility vehicle: a third-row seat. It was no match for the Kijang, whose most expensive model in 1998 sold for half the Blazer’s price of 128 million rupiah. Toyota sold an average of 36,000 Kijangs a year during the latter half of the 1990s.

By contrast, GM sold 3,500 Blazers in 1997, the model’s peak year. By 2001 volume had sagged to just 640 units. The Blazer had become a symbol of GM’s flameout in Indonesia.

YEARS OF INSTABILITY
Actually, nobody was doing well in Indonesia then. The 1997-98 Asian financial crisis triggered food riots in Indonesia that toppled strongman President Suharto.

Indonesia endured years of political instability, Islamic militancy and economic stagnation before righting itself in the middle of last decade.

The 1998 riots forced GM’s expat employees to flee to nearby Singapore, and at that point, the company could have packed up.

“We decided we did not want to go out of business and sell the property because we always thought there was tremendous potential in Indonesia,” recalled Bill Botwick, then GM’s head of operations in the country.

Botwick then approached Sugiarto with a plan to beef up GM’s sales network, proposing Astra join a three-way venture with GM and Isuzu. The talks went nowhere.

“It’s very hard to negotiate when there are two parties. It’s even harder when there are three,” Botwick says.

So GM decided to forego partners and build its own network.

In fact, GM had no choice but to go it alone. Astra has no desire to team up with anybody other than Toyota and its affiliates, which now include Isuzu. “We’re happily married to Toyota,” Sugiarto told Reuters.

“Now we’ve got a car, built here and aimed at 40 percent of the market.

Marcos Purty
president-director of GM Indonesia

KING OF THE ROAD: Marcos Purty, GM’s chief in Indonesia, thinks the new Chevrolet Spin can go head to head with Toyota’s Kijang, now the best-selling car in the country. REUTERS/ENNY NURAHENI
REBUILDING THE BRAND

Purty, GM’s current Indonesia manager, is the man in charge of building the network and rebuilding the brand.

Purty, whose mother worked as a test-driver at GM’s proving ground in Michigan, joined GM in 1994 as a production supervisor at a plant in Pontiac after getting an engineering degree. He has since supervised several factories – in Fort Wayne, Indiana, the Canadian town of Oshawa, Adelaide, Australia and now Jakarta.

One of his first moves was to beef up the limited product lineup for Chevrolet, the only brand GM sells in Indonesia. He added four new vehicles last year: the Colorado pickup truck, the midsize Trailblazer SUV, the Captiva compact SUV, and the Aveo mini-hatchback.

But the standard bearer, the car meant to make Chevrolet more than just a niche brand in Indonesia, is the Spin – with its three rows of seats, the kind of car that rules the Indonesian road. GM began production in April with plans for 40,000 cars a year initially. GM aims to make the car affordable by procuring parts locally. The Spin starts at 139.7 million rupiahs ($14,360).

To sell that many cars, GM needs a bigger sales network. It is planning as many as 50 stores by the end of this year from the current 34.

Purty’s strategy is to try to convince dealerships affiliated with the Toyota Group to sell Chevrolets as a separate business. Purty’s sales chief, Cheesing Cheong, says GM Indonesia had five Toyota dealers in its Chevy network before their arrival two years ago and has since added two more and is in discussions with several more.

But that door may already be slamming shut.

TOYOTA’S COUNTERPUNCH

Astra executives in charge of the Indonesian Toyota and Daihatsu units say last year they asked their dealers to swear loyalty to Astra and Toyota Group – in some cases with signed agreements.

Those agreements gave “amnesty” for any past roles as dealers of non-Toyota Group brands, but “we asked them to be loyal,” says Johnny Darmawan, head of Toyota-Astra Motor.

“Competition was not so bad before, but now we have very tough competition from newcomers like GM.”

Violators could lose their stores, Darmawan warned. “Going forward, I don't want to see any more defections. If we find out anybody is being disloyal, we reserve the right to revoke his contract,” he says.

Akiko Machimoto, a Singapore-based Toyota spokeswoman, declined to comment.

Such loyalty pacts are almost unheard of in countries such as the United States, where local laws tend to protect dealers and franchise-holders. But under Indonesian law, Astra could enforce dealer loyalty through contracts demanding exclusivity, a knowledgeable industry source said.

Toyota has other strengths in the coming battles for Indonesia’s car market. Its partner, Astra, is deeply embedded in Indonesia’s powerful automobile lobby, Gaikindo. Gaikindo’s board chairman is Sudirman, head of the Astra-Daihatsu joint venture. (Like many Indonesians, he goes by one name). Astra-Toyota chief Johnny Darmawan is one of Gaikindo’s six key directors.

“Gaikindo is synonymous with Astra Group,” said a Japanese diplomat. “Indonesia’s lawmakers and policymakers would not do anything to hurt Astra’s interest.”

Another big edge is its after-sale service – spare parts, maintenance and repair. That is a critical battlefront in winning the trust of customers, especially in an emerging market where buyers worry about breaking down without access to spare parts and service. Here, Toyota and Daihatsu’s strength lies in part in their willingness to bend internal rules.

In mature markets, automakers encourage dealers and recognized repair shops to use only “genuine,” or certified, parts in repairs and maintenance. In an emerging market, where full-fledged motorization is just beginning and people are only just well-off enough to buy their first car, that may be hard to do.

Toyota’s Jakarta-based executive Mamoru Akiyama says many Toyota parts shops are independently owned and operated, and so it is hard to control day-to-day practices. It is “conceivable in some cases,” he said, that some of those stores stock non-genuine Toyota parts.

“JUST DON’T LIE”

In fact, Toyota’s unofficial policy of tolerating non-genuine components was adopted in the late 1980s, when Koji Hasegawa was running Toyota’s Indonesian operations. The now-retired Toyota executive said it stemmed from his encounter with a driver in Sumatra, whose truck broke down after a suspension spring coil failed. The driver was an oil field contractor and told Hasegawa he didn’t always have enough cash on hand to afford a genuine spring coil.

The driver said he knew the genuine part would give him a year’s worth of use but could not afford it. Instead, he bought an uncertified part that gave him three to four months of use at a third of the cost.

He was buying repair in a clever installment system he devised,” Hasegawa says.

In what he describes as strictly unofficial communications, Hasegawa told Toyota dealers they need not strictly comply with company policy.

“I told dealers: Just don’t lie to the customer, and explain the risks involved, including the fact that use of a non-certified
PARTS Voids Warranty of the Vehicle.”

GM insiders see little possibility of adopting that kind of policy because of its limited retail network. No parts producer would try to design and manufacture generic spare parts for Chevrolet cars simply because there just isn’t enough volume.

GM says it markets only genuine, certified components through the company’s 34 Chevy stores and the 280 parts and repair shops it officially does business with.

GM’s strategy is to increase the number of parts available by searching for locally available uncertified parts - and then send in its engineers to elevate the quality so they can be sold as GM-approved parts.

It’s all part of the company’s strategy to convince Indonesian consumers that GM is in for the long haul.

Nearly two years after helping restart GM’s Indonesia business, Purty still feels like the kid in a framed poster he bought years ago: behind 14-0 in a baseball game and still smiling.

“Not discouraged? The kid in the poster says: ‘why should I be? It’s only the first inning, and we haven’t been up to bat yet!’”

“That’s exactly how I feel,” says Purty of his uneven contest with Japanese automakers.

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