

A Study of Semi Knock Down (SKD) Production and Sales and Marketing Strategy in the Russian Far East*

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Abstract

The objective of this study is to reconsider strategies for entering markets in emerging nations by analyzing entry into emerging nations based on Semi Knock Down (SKD) production and the approach adopted toward local sales and marketing. Using case studies of SKD production in Vladivostok, Russia undertaken by the automobile manufacturers SsangYong of the ROK and Toyota and Mazda of Japan, this study analyzed and examined each company's mode of entry and sales and marketing strategy.

It ascertained that while SsangYong entrusts the whole of its SKD production to the local contractor, Mazda and Toyota of Japan have training staff leaders stationed there permanently to ensure thorough quality control; in addition, whereas SsangYong entrusts all of its sales and marketing to the local contractor, Mazda and Toyota have established wholly-owned subsidiaries to carry out local sales and marketing, demonstrating the importance that these companies attach to such activities.

Keywords: SKD production, CKD production, outsourced production, sales and marketing, value chain

Introduction

In February 2013, Toyota Motor Corporation (Toyota) began Semi Knock Down (SKD) production in Vladivostok in Russia's Far East, at Sollers-Bussan, a joint venture between local automobile manufacturer Sollers and Mitsui & Co., Ltd. SsangYong Motor Company (SsangYong) and Mazda Motor Corporation (Mazda) have also been conducting SKD production at Sollers in Vladivostok since 2009 and 2012, respectively. In SKD production, the parts are first partly assembled into units and components in the home country, before being exported as a kit and assembled into the finished product locally. The kits can be assembled locally using bolts, nuts, and simple welding machinery. The countries to which these kits are exported are those where the automotive industry is at a relatively low stage of development. The other form of knock down (KD) production is Completely Knock Down (CKD) production. In CKD production, the parts are exported as they are, without first being assembled into units, and are then fully assembled into the finished product locally. Local facilities include press plants, welding plants, painting plants, and assembly plants. The countries to which these kits are exported are those where the automotive industry is at a relatively high stage of development (Tomiyama & Shioji 2010).

The governments of emerging nations have a tendency to adopt protective policies to promote the modernization of domestic automotive industry, including raising import duties and imposing domestic content requirements. The Russian government is no exception, adopting policies such as Resolution of the Government of the Russian Federation No.166, to make foreign automobile manufacturers shift from SKD to CKD production in order to modernize Russia's own automotive industry.¹

Previous studies in the fields of international management and international marketing have pointed out that entry into overseas markets is an important part of international business activity.

However, most of these studies focus on investigating the mechanism used for selecting the mode of entry from among direct investment, export, joint ventures, and technology licensing, examining the factors that make companies choose a mode of entry and the outcomes arising from this (Hill, Hwang & Kim (1990); Kim & Hwang (1992); Anderson & Gatignon (1986); Oishi ed. (2009); Academy of Multinational Enterprises (2012); Cavusgil et al. (2002); Kotabe & Helsen (2007)). There has been little research focused on SKD.

Securing a competitive advantage in the markets of emerging nations will be a major challenge for Japan's automotive industry in the future. When producing vehicles for Russia and other emerging nations where demand is growing, Toyota prioritizes quality and has spent money on building its own plants. On the other hand, Hyundai and other automobile manufacturers from the ROK have mostly used licensing and outsourced KD production in their global expansion strategy, allowing them to use the resources of local companies to enter markets quickly (Tomiyama & Shioji 2012). Mazda has begun SKD production as a joint venture with a local company. SKD production in Vladivostok and the sales and marketing strategies subsequently employed provide a new perspective on conventional studies of modes of entry into global markets. Accordingly, this study seeks to analyze and categorize the SKD production and sales and marketing strategies of these three companies in Vladivostok. In addition, it makes deductions concerning strategies for entering markets in emerging nations.

1. Research Method

The research for this study was conducted not only via quantitative analysis, but also by gathering data from literature and conducting interview-based surveys. Field surveys were conducted in Japan, the ROK, and Russia in 2011 and 2012. Interviews were conducted at the SsangYong head office in the ROK and at Toyota's head office, as well as in Vladivostok at Mazda Sollers, Sollers-Bussan, the SsangYong and Mazda SKD plants, and the Sollers PR department.²

2. The Russian Government's Policy Pivot to the Russian Far East and Sollers

2.1 The Russian Government's Policy Pivot to the Russian Far East

In March 2013, positioning the development of Russia's Far East as a key national strategy, the Putin administration approved a federal budget worth approximately 11 trillion yen in total over the period to 2025. A succession of plans for the long-term development of the Far East have been formulated since Gorbachev was in power, but most have ended up as wishful thinking. Russia previously exported the majority of its oil, gas, and other energy resources to Europe, which is its biggest trading partner, and its economic relations with the countries of Europe were strengthening. However, the European economy floundered and there ceased to be any prospect of major growth from exports to European countries alone. Accordingly, Russia has been compelled to review its energy export strategy and adopt a more diverse trade and commercial structure that was less reliant on energy resources; as such, it is rebalancing its focus toward the Asia-Pacific region. In addition, the APEC Summit was held in Vladivostok in 2012, so infrastructure development progressed. The Russian government aims to stem population decline in the Far Eastern region by promoting economic development there³. In line with

this policy, Sollers has expanded its production activities in Vladivostok. Sollers CEO Vadim Shvetsov has political influence, being the son-in-law of former Trade and Industry Minister Viktor Khristenko. SKD assembly of SsangYong cars began at the Sollers Far Eastern plant in Vladivostok in 2009, followed by Mazda in 2012 and Toyota in February 2013. Sollers wishes to increase production in this region to around 180,000 vehicles annually, in due course.⁴

2.2 Sollers

Under its former name of SeverstalAvto, Sollers was established in 2002 as a holding company owning a number of automobile plants. In 2004, it acquired UAZ,⁵ which produces SUVs and commercial vehicles based on military vehicles. In 2005, it acquired the ZMA⁶ Naberezhnye Chelny plant, which formerly produced the Lada Oka subcompact car, from KAMAZ⁷ and began producing Fiat cars there in 2006. In 2007, it established a joint venture with Isuzu and Sojitz to produce and sell Isuzu trucks, and in 2008 the name of the company was changed to Sollers. It established a new plant in Elabuga, where it began producing Fiat, Isuzu, and SsangYong vehicles. In December 2009, Sollers established the wholly-owned Far Eastern assembly plant in Vladivostok, where it began assembling SUVs including the SsangYong Actyon (compact SUV) in 2010. Assembly of SsangYong SUVs was transferred to Vladivostok from the Elabuga plant. The number of SsangYong vehicles produced in Vladivostok is growing steadily, increasing from 140,000 vehicles in 2010 to 33,000 in 2012.⁸

2.3 Incentive to Use Rail Transport

The Sollers Far Eastern plant benefits from an incentive under which rail charges (fees for using railway infrastructure) are waived when using rail transport to ship vehicles to areas outside the Far Eastern region. The government used to provide Russian Railways with a subsidy equivalent to the fee waived. Following Russia's accession to the WTO, the government provided Sollers with a subsidy equivalent to the fee waived, which Sollers then paid to Russian Railways as the rail freight fee. In 2013, it was initially envisaged that the subsidy would be 3 billion rubles, but this was raised to 4.9 billion rubles due to an increase in the number of vehicles produced at the Far Eastern plant. The government has committed to providing a subsidy of 6.5 billion rubles in 2014-2015. According to the State Program for Industrial Development and Improving Industrial Competitiveness by 2020, the government will provide the Sollers Far Eastern plant with subsidies totaling a further 20.1 billion rubles between 2016 and 2020.⁹

While this incentive for rail transport is being offered by the Russian government as part of its Far Eastern industrial development policy, price competitiveness can be maintained even when assembling vehicles in the Far East and shipping the completed vehicles to European Russia.

3. SKD Production by SsangYong

SsangYong was established in the ROK in 1954 as the Ha Dong-hwan Motor Workshop. In 1963, it was reorganized to form the Ha Dong-hwan Motor Company. In 1979, it began production at the Pyeongtaek plant in the ROK's Gyeonggi Province, but managerial control over its passenger car department was transferred to the Daewoo Group in 1997, due to financial

troubles. The company was acquired in 2004 by SAIC Motor of China, and the Indian automobile manufacturer Mahindra & Mahindra subsequently acquired a 70% stake in March 2011.¹⁰

The Sollers Far Eastern plant has a dedicated berth used by ships from the ROK carrying parts for use in SKD production of SsangYong vehicles. It is only 20m from the plant to the wharf, and only 7m from the plant to a siding that leads onto the Trans-Siberian Railway, giving the site a competitive advantage in terms of both transport costs and distance. Parts are shipped from Japan, as well as the ROK. Accordingly, inland areas are at a disadvantage in projects that have a low local procurement rate. This is because transport efficiency deteriorates if plants are sited in inland areas. Due in part to this fact, Sollers is shifting its SKD assembly plant from its inland Elabuga plant to its Vladivostok plant. Container ships enter the berth directly in front of the plant and the unloaded containers are placed temporarily in a bonded warehouse. Customs clearance then takes place as required. After customs clearance, the parts are supplied to the assembly lines and the assembled vehicles are stored in the yard until they are loaded onto the Trans-Siberian Railway for shipment.¹¹

Russia is SsangYong's biggest market after the ROK. Production of SsangYong vehicles at the Sollers Far Eastern plant is expanding by the year, growing from 14,000 vehicles in 2010 to 25,000 in 2011 and 33,000 in 2012. In 2012, the plant began producing the new Actyon (compact SUV) and the Actyon Sports Pickup. All of the SsangYong vehicles assembled by Sollers are made-to-order when an order is placed by the sales company owned by Sollers. Every aspect of the assembly of SsangYong cars is entrusted to Sollers.

The sale of SsangYong cars in Russia is handled by DC SsangYong, a wholly-owned subsidiary of Sollers. Within Russia, Moscow is the top area in terms of the number of SsangYong vehicles sold, followed by Saint Petersburg in second place and the Far Eastern Federal District in third. There are 104 SsangYong dealerships in 74 cities nationwide (2012). The price of a SsangYong vehicle is set 30,000 rubles higher in Moscow than it is in Vladivostok in the Far Eastern Federal District. This is because the Sollers plant is located in Vladivostok and the company has a policy of setting a cheaper selling price in areas where its plants are located. Sollers uses a videoconferencing link between the plant and SsangYong's head office in the ROK to hold quality meetings, allowing them to work together to resolve any problems that arise. The machinery and equipment now at the Sollers Far Eastern plant were formerly installed at its Naberezhnye Chelny plant. At that time, Korean staff were stationed there for quality control purposes. Sollers subsequently decided to start up a plant in the Far East, so it transported the body-on-frame SUV line from Naberezhnye Chelny to the Vladivostok plant. There are no Korean staff stationed at the Vladivostok plant. The average age of assembly line workers at the Sollers plant in Vladivostok is 27. According to Sollers, when it started assembly at the Vladivostok plant, the assembly process took time, so the plant operated on a three-shift basis, working throughout the night as well. The takt time (time required for a single process) was more than 20 minutes. The pace has increased and the plant has been able to switch to just two shifts. Assembly line workers alternate between day and night shifts on a weekly basis. The first run rate is around 95%, with 154 vehicles assembled each day, 1-2 of which have problems.¹² If there is a scratch on the body due to a storm, for example, the damaged area is repainted. Each month, the plant assembles the orders received by the 20th, allowing 3 months' leeway.¹³

Sales and marketing are also handled by Sollers's wholly-owned subsidiary DC SsangYong, with all aspects of sales and marketing entrusted to Sollers by SsangYong. This is not ideal as a marketing policy, because sales volumes and prices are determined according to orders received

from the Sollers subsidiary, resulting in unstable turnover for SsangYong. Furthermore, the company is unable to build up know-how and experience of marketing techniques and sales channels in Russia, as well as being unable to engage in more proactive sales promotion and improve its after-sales service itself. Ssangyong is unable to sell directly to dealers, so it cannot ascertain the problems faced by customers or obtain new information. This hinders marketing innovation. Moreover, it is hard for the company to adapt to its customers and obtain new information from them that would lead to product innovation or improvements to part of the product. Furthermore, it allows the counterpart – which might in future become a rival – to study the company's marketing capabilities.

4. SKD Production by Mazda

The following provides an overview of the history of Mazda's Russian business operations.

Mazda established a local representative office in December 2004, followed by the wholly-owned sales subsidiary Mazda Motors Russia in Moscow in December 2005. This company is an importer-distributor. In Russia, Mazda's cars are popular for their sporty design. They appeal to Russians in their 30s who like sporty, stylish cars, and both the Mazda 3 (C-segment¹⁴) and the Mazda 6 (D-segment) experienced sharp rises sales volumes before the Lehman Crisis in 2009.¹⁵ In October 2008, the company began shipping its cars to European Russia via the Trans-Siberian Railway, to reduce transport time. On this route, the completed vehicles are shipped by sea from Mazda's plants in Hiroshima and Hofu to Zarubino on the outskirts of Vladivostok, and then on a dedicated 30-car train to Moscow via the Trans-Siberian Railway. It takes around 11 days to cover the 9,300km or so to Moscow, compared to up to 30 days under the previous system, which involved shipping the vehicles by sea via Western Europe and then taking them overland to Moscow. In September 2012, Mazda established a joint venture to which it and Sollers both contributed a 50% investment (total investment 10 billion rubles (25 billion yen)), Mazda Sollers Manufacturing Rus, which began assembly production of the CX-5 (compact SUV) in October that year. An existing Sollers plant was used for this. Between October and December 2012, it produced 3,108 vehicles. It currently employs around 1,000 staff, but intends to expand this to 3,000 once it transitions to CKD production in future. This was the first Japanese manufacturer to begin assembly production of passenger cars in the Russian Far East. Mazda Chairman Takashi Yamanouchi believes that the Russian market is "growing into one of Mazda's top markets worldwide, with sales reaching almost 3 million vehicles, and we have particularly high hopes for development in Vladivostok, as an access point into the economies of East Asia, so we wish to contribute to its growth as a new hub for the Russian automotive industry,"¹⁶ and Mazda is currently making careful preparations for switching from SKD to CKD production.

Mazda began production of the Mazda 6 (D-segment) in April 2013. The annual production capacity is 50,000 vehicles, but new body and painting plants are due to be built in the future, with a view to increasing annual production to around 100,000 via CKD production. Germany was formerly Mazda's biggest market in Europe, but it was overtaken by Russia in 2012. Mazda embarked on a production joint venture because it recognized that although there are elements of instability in Russia, including economic risk, the Russian market is growing steadily. Mazda's SKD assembly line is located in the same building where SsangYong's vehicles are assembled.

Mazda's wholly-owned subsidiary Mazda Motor Rus functions as an importer-distributor, conducting import and wholesale sales and marketing targeted at dealers throughout Russia.

Mazda's CX-5 won the 2012 Japan Car of the Year Award; its competitors in the compact SUV category include the Toyota RAV4 and the VW Tiguan. Russia's roads are poor, so sales of SUVs are growing; accordingly, Mazda began with SKD production of the CX-5 SUV. The plant also has a test track. Its production capacity was 35,000 vehicles in 2012, rising to 50,000-60,000 vehicles in 2013. New body and painting plants are to be built in the future, with a view to increasing annual production to around 100,000, based on CKD production.¹⁷ Assembly workers are hired as new graduates and undergo a month of training (three weeks off-line, followed by a week on-line).

Vehicles are shipped from Hiroshima to the port in Pohang, ROK, where the parts to be used for Mazda assembly are transferred onto a ship along with parts for SsangYong vehicles before being shipped to the Vladivostok plant. The Russian government ceased applying the old system of import duties on parts at the end of 2011, but it granted a special exception for the application of the old system in the Far East, as a region where it is seeking to boost economic development, so Mazda makes use of this system in its business venture. Mazda has four Japanese staff on loan to the joint venture: one vice-president, two engineers (one in charge of quality and the other in charge of production technology), and one financial affairs coordinator. In terms of the division of labor within the joint venture, Mazda handles production, quality, and production readiness, while Sollers deals with personnel, general administration, and liaison with the government; important matters concerning the company are decided via consultation between the executives on loan from the two partners in the joint venture. Apart from those destined for the Far East, all completed vehicles are shipped via the Trans-Siberian Railway. Use of the Trans-Siberian Railway poses no major problems in terms of quality or time. Trivial problems such as vandalism in transit sometimes arise, but any damage is repaired by the Mazda distributor/dealer once the vehicle arrives at its destination. Mazda plans to switch from simple SKD assembly to integrated production – including bodywork, painting, and assembly – within the next few years. As a result, it will employ more than double the number of engineers and plant workers that it has at present. It is currently preparing the construction plans, work plans, employment plans, and organizational systems required for this and has already begun to implement some of these. It intends to begin training at its plants in Japan and/or ASEAN countries within 2014. A condition of the tax incentive for parts is that the company must reduce the quantity of imported parts subject to the incentive by 30% within 4-5 years of commencing integrated production. In order to satisfy this condition, Mazda is apparently considering either procuring parts locally in collaboration with Sollers or using its production bases in China or ASEAN countries to reduce the cost of parts.¹⁸

5. SKD Production by Toyota

5.1 Toyota's Entry Process

Toyota first entered the Russian market during the Soviet era, indirectly exporting its vehicles via a trading company. It subsequently established a representative office in 1998. In 2001, it established Toyota Motor Russia (TMR) in Moscow as an importer-distributor, and TMR began operating in 2002. In April 2005, it concluded MOUs with the Russian Ministry of Economic Development and Trade and the city of Saint Petersburg. In May 2005, it established a production plant, Toyota Motor Manufacturing Russia (TMMR), in Saint Petersburg and began

local production of the Toyota Camry (E-segment) in December 2007. In August 2010, Mitsui & Co., Ltd. established Sollers-Bussan, a joint production venture with Sollers, in which each company holds a 50% stake. In March 2011, Sollers-Bussan concluded a basic agreement with Toyota to begin assembly of the Land Cruiser Prado at the Far Eastern plant in Vladivostok, and SKD production began in February 2013.

Sollers-Bussan proposed models for SKD production and Toyota made the final decision, choosing the Land Cruiser Prado. One of the factors in its decision was the popularity of SUVs and other large luxury cars in Russia. After assembly, the finished cars are all purchased by TMR in Moscow. The business units involved are Mitsui & Co., Ltd. and Sollers, and the Russian government applies the old import duty incentive to the parts imported. Toyota supplies the parts and provides support in the areas of production, technical guidance, and quality control.

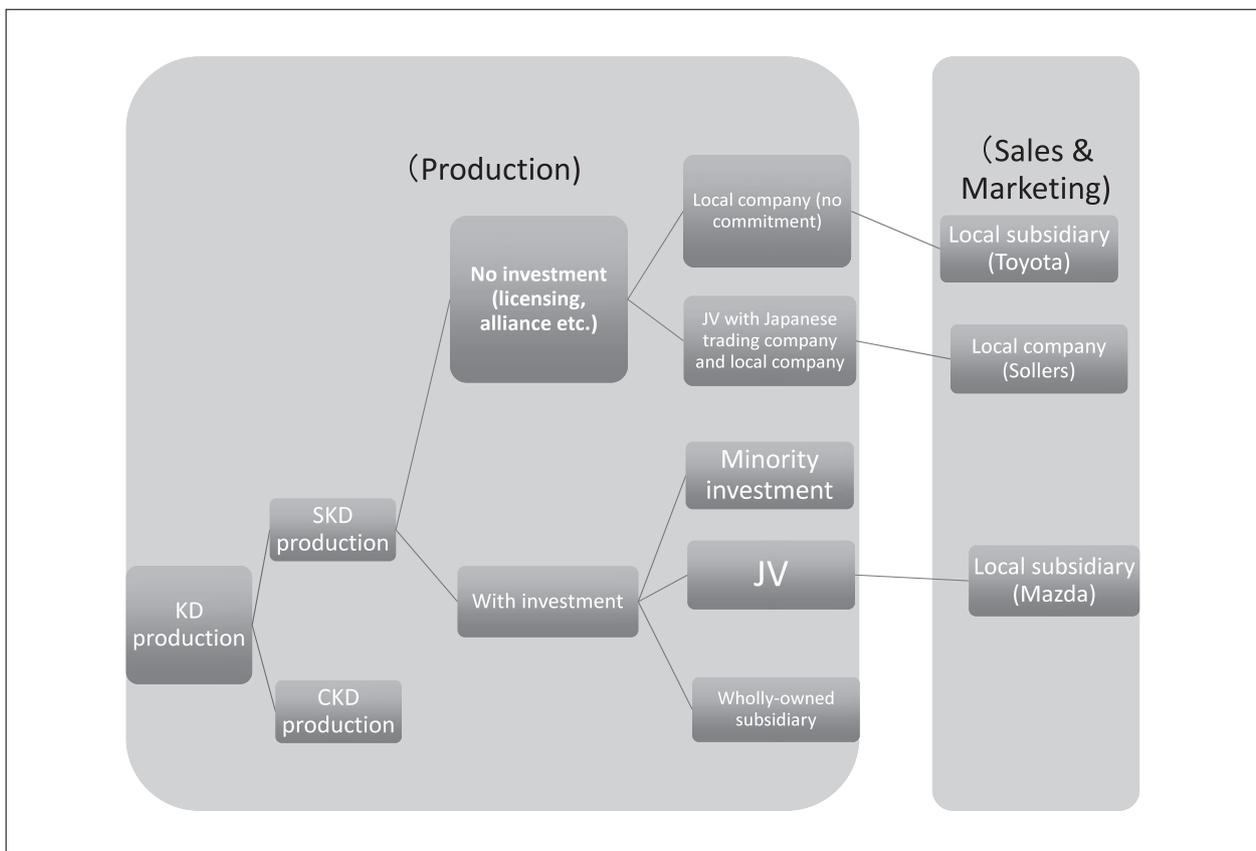
In terms of the assembly process, Toyota first packages up the parts at its Tahara plant and Mitsui & Co., Ltd. arranges shipment from the Tahara plant to the Port of Toyohashi. Sollers-Bussan takes responsibility for marine container transport, reassembly, and transport of the finished vehicles, loading them onto railway freight trucks for shipment. The Toyota vehicles are assembled in a different building from the plant in which SsangYong and Mazda vehicles are assembled. Like both of those other brands, the form of production used for Toyota vehicles at the Vladivostok plant is SKD involving assembly only, with no welding or painting. It takes just under a day from the vehicle entering the assembly line until it comes off the line. Toyota's profits depend on sales of parts and sales of finished vehicles by TMR. The Tahara plant is the designated support plant for this project and has been providing support since before SKD production in Vladivostok started. Before the Vladivostok line started up, a dozen or so staff from Tahara spent six months there helping to set it up. Since the line started up, a staff member from the quality control department and a staff member from the assembly department at the Tahara plant have been stationed there permanently. Their job title is Executive Coordinator.¹⁹ Sollers carries out human resource development. Novices and inexperienced workers receive four weeks of basic training. Sollers has an educational program that it cultivated through its experience with Korean cars, into which it has incorporated the strengths of both Sollers and Toyota, based on advice provided by Toyota. With 2 shifts per day, the plant produces around 1,000 vehicles a month. It plans to produce 13,000-14,000 vehicles per year. In terms of cubic volume, its marine transport is equivalent to about one ship every ten days. As it is not possible to fill an entire Trans-Siberian Railway block train²⁰ using Toyota cargo alone, the cars with Toyota vehicles are joined up to freight cars in transit that are carrying other cargo. The lead time is around 20 days. Apart from some materials, all parts are supplied from Japan. Sollers-Bussan employs a total of 280 staff there, including shop floor staff and management (as of July 4, 2013). Sollers itself has a total of 1,100 staff in Vladivostok. In Moscow, Toyota charges the same selling price for Land Cruiser Prado imported as completely built up vehicles (CBU) as it does for those produced by Sollers-Bussan under SKD production in Vladivostok. Dealers in the Far East (Vladivostok, Khabarovsk, Nakhodka) pick the vehicles up from Vladivostok, but for other areas, the vehicles are shipped to Moscow on the Trans-Siberian Railway and are then taken to the relevant cities from there. Toyota itself is aware that this is inefficient in logistical terms. Upon arrival, TMR carries out a pre-handover quality inspection. The Trans-Siberian Railway does not use containers; instead, eight vehicles are loaded onto each dedicated freight car.²¹

6. Analysis and Examination

SsangYong, Mazda, and Toyota all use a local company in Russia and export semifinished goods to be assembled locally using the SKD method. In the case of SsangYong, the local assembly and sales company Sollers covered the cost of investment, while for Mazda, costs were split equally between Sollers and Mazda, and for Toyota, the costs were borne by Mitsui & Co., Ltd. and Sollers. What all three automobile manufacturers have in common is that they provided the production technology. The cost of parts is minimized via intensive production. Import duty on finished vehicles is high, so they are exported as semifinished goods, on which duty is low, and assembled locally. This enables the finished vehicles to be assembled cheaply, thereby bolstering their price competitiveness. SKD production also has a substantial advantage in terms of the fact that it allows the investment risks involved in overseas expansion to be reduced.

Some SKD involves investment, some does not, and some involves only a little. SKD involving investment includes cases in which a joint venture is formed with a local company, cases in which the company establishes a wholly-owned subsidiary, and cases in which the company obtains a minority stake in a company (Figure 1). In Mazda’s case, it established a 50/50 joint venture with the local company Sollers to carry out assembly locally. Sales and marketing is carried out by its wholly-owned local subsidiary. This is the Mazda case in Figure 1.

Figure 1: Local Assembly Based on SKD Production and Local Sales and Marketing



Source: Compiled by the author.

Joint ventures entail a certain amount of risk compared with outsourced production. This is because joint ventures require the overseas relocation of more production elements and management resources than outsourced production. However, there is no guarantee that the overseas transfer of these will be successful or without problems. Consequently, investment is required in order to control local operations. The joint venture approach is often used when entering a large market, such as Russia, or a potentially large market. Mazda adopted the joint venture approach because it was seeking not only control of local operations, but also a partner with specialist knowledge of the Russian market (knowledge about the local market and laws), as well as experience and personnel.

Toyota and SsangYong outsource assembly to the local company without any investment. Approaches such as licensing and outsourced production do not involve investment. Even if some investment is involved, it is minimal. The quantity of resources invested is small, minimizing costs. This enables a company to enter a market quickly, with few political or economic risks, and little damage to management resources. On the other hand, there is a risk that the company could be nurturing a future rival. There are, of course, teething troubles. That is why companies thoroughly inspect the quality and production level, and station their own staff at the plant to provide guidance. However, SsangYong does not have any staff stationed at the plant. There is also a risk of leakage, with the potential for the company's intellectual property to be transferred to rival products or appropriated by the contract manufacturer. Accordingly, it is necessary to choose as a contract manufacturer a reasonable, trustworthy partner that will not leak the company's secrets (Arruñada and Vázquez 2006). Sollers-Bussan is a joint venture between a Japanese trading company and a local company, so in that sense as well, Toyota can regard it as a more trustworthy partner. It is also easier to communicate and there is little in the way of payment risk.²²

As with Mazda, Toyota's sales and marketing and after-sales service are carried out by its own wholly-owned local subsidiary. This is the Toyota case in Figure 1. On the other hand, a local company does this for SsangYong. This is the SsangYong case in Figure 1. The company handling sales and marketing for SsangYong vehicles is part of the Sollers organization and everything is entrusted to that counterpart. This saves on distribution expenses arising from sales, enabling SsangYong to reduce costs, but the counterpart (Sollers) even determines the selling price and there is a tendency to adopt a product-out approach, focusing on how to sell at a cheap price the product that has been produced. After-sales service is also entrusted to the counterpart. Entrusting matters to the counterpart prevents the company accumulating know-how and experience of marketing techniques and sales channels. It is a sales-oriented strategy that focuses on earning profits by increasing the number of vehicles sold.

Mazda's marketing and after-sales service are handled by its wholly-owned sales subsidiary, and Toyota's wholly-owned sales subsidiary performs the same role for Toyota. These companies' sales subsidiaries have good control over distribution channels and are better positioned to consider the views of customers, so it is easier for these companies to adopt the market-in approach, identifying local needs and considering how to make a product that will sell. Both companies' strategies are based on the market-in approach of earning profits via customer satisfaction, including service. SKD production enables a company to reduce manufacturing costs and devote its energies to high-added-value sales and marketing and after-sales service. Considered from a long-term perspective, the marketing policies of Mazda and Toyota are more likely to increase the number of their devotees in Russia.

Conclusion

This paper has analyzed examples of SKD production in Vladivostok by SsangYong of the ROK and Toyota and Mazda of Japan, examining their strategies for entering Russia's emerging market from the perspective of KD production and sales and marketing. The following can be deduced from this study.

First, Japanese manufacturers such as Mazda and Toyota dispatch production technicians to the local plant to provide thorough staff training and technical assistance, enabling the plant to produce high-quality products. Thus, KD production – involving the supply of parts to a local company to assemble – is one strategy that companies can adopt in order to provide a finely-tuned response to areas of small demand when expanding into emerging nations. This not only enables the company to identify and respond to small areas of need locally, but also makes effective use of local resources, while allowing it to minimize its investment. Export and KD production is a form of overseas expansion offering a good level of control. Emerging markets such as Russia are particularly prone to political and economic risks. In such markets, there is a particular need to consider a means of entry that makes effective use of the local partner's management resources. Companies must be flexible in adopting such competitive strategies in their emerging market strategies.

Second, Toyota and Mazda both established sales subsidiaries before commencing local assembly. Through this approach, they are enhancing their models after establishing their competitiveness in terms of customer care via their sales networks. In their distribution channel strategies, both companies started by providing meticulous service. Reducing costs via SKD production and devoting energies to high-added-value sales and marketing and after-sales service are part of their initiatives focused on increasing customer value, which is total value in the value chain.

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¹ For details, see Sakaguchi & Tomiyama (2012), pp. 22-32.

² According to surveys conducted at Sollers PR department in Vladivostok (September 19, 2012), SsangYong head office in the ROK (August 16, 2012), Sollers-Bussan in Vladivostok (July 4, 2012), Mazda Sollers in Vladivostok (December 25, 2012), and Toyota head office (September 7, 2011 and May 27, 2013).

³ Handouts and discussion at the panel discussion "Energy to Connect Northeast Asia: Energy Transportation Infrastructure and Security" (held on Monday, December 16, 2013 at Toki Messe, Niigata City) co-hosted by the Economic Research Institute for Northeast Asia (ERINA) and the Institute of Eurasian Studies (speakers: Motohiro Ikeda "Russia's Natural Gas Resources and Japan-Russia Cooperation"; Shinji Hyodo "Russia's Arctic Policy"; Kazuaki Hiraishi "Northeast Asia's Natural Gas Transportation Infrastructure"; Masumi Motomura "Russia's Pipeline

⁴ Interview with Sollers PR department (September 19, 2012, in Russian).

⁵ UAZ is an abbreviation that stands for Ulyanovsky Avtomobilny Zavod (Ulyanovsk Automobile Plant) in Russian. Founded in 1941, it began by producing military vehicles during World War II. In Ulyanovsk, it produces SUVs, trucks, and buses based on military vehicles (<http://www.uaz.ru/company>).

- ⁶ ZMA is an abbreviation that stands for Zavod Malolitrazhnykh Avtomobiley (Subcompact Car Plant) in Russian.
- ⁷ KAMAZ is an abbreviation that stands for Kamskiy Avtomobilny Zavod (Kama Automobile Plant) in Russian. It was founded in 1969 and reorganized into a joint-stock corporation in 1990. It is a truck manufacturer. The head office is located in Naberezhnye Chelny, in the Republic of Tatarstan (<http://kamaz.net/ru/>).
- ⁸ Details regarding Sollers are from FOURIN (2013b).
- ⁹ Interview with Sollers PR department (September 19, 2012, in Russian); see also Sakaguchi (2013) p. 13.
- ¹⁰ Information concerning SsangYong is according to a survey at SsangYong head office (op. cit.) and Mizuno (1997).
- ¹¹ According to a field survey at the Sollers Vladivostok plant (September 19, 2012).
- ¹² The figure of 154 vehicles per day was achieved when the plant was only carrying out SKD production for SsangYong, before it began SKD production for Mazda and Sollers-Bussan.
- ¹³ According to a field survey at the Sollers Vladivostok plant (September 19, 2012).
- ¹⁴ Segments are a concept used to classify passenger cars. Some classification systems simply use body length as the criterion, while others take multiple factors into account, including body length, price, image, and equipment. The criteria differ depending on the country and company carrying out the classification. For example, the leading European research company Global Insight classifies Segment A as small cars, Segment B as super compacts, Segment C as lower medium, Segment D as upper medium, and Segment E as executive. This paper uses FOURIN's classification.
- ¹⁵ The number of Mazda 3s sold surged from 28,547 in 2007 to 39,144 in 2008, but subsequently fell to 13,006 in 2009, following the Lehman Crisis. Similarly, Mazda 6 sales rose from 15,298 vehicles in 2007 to 17,569 in 2008, but then fell to 8,583 in 2009 (FOURIN (2013a) p. 149). In Russia, Mazda's cars are mainly bought by people in their 30s, while in Germany they are mainly bought by people in their 50s and in Japan mainly by people in their 40s. Mazda uses the same specs for its vehicles worldwide, but the age bracket of its main customers differs from country to country. The regulations differ in each country, so tuning for the Russian market is carried out at the head office in Japan. In the case of the CX-5, which is assembled in Vladivostok, the structure is the same, but the tuning is different (according to a survey at Mazda Sollers (December 25, 2012)).
- ¹⁶ Extract from a speech by Takashi Yamanouchi on September 6, 2012 in Vladivostok, Primorsky Krai, Far Eastern Federal District, Russia, at the ceremony to commemorate the establishment of Mazda Sollers Manufacturing Rus as a joint venture by Mazda Motor Corporation (Chairman: Takashi Yamanouchi) and Sollers OJSC (CEO: Vadim Shvetsov) (press release by Mazda on September 6, 2012).
- ¹⁷ 13,063 CX-5s were sold in 2012 (FOURIN (2013a) p. 149).
- ¹⁸ Information concerning Mazda's business in Russia is according to a survey at Mazda Sollers (op. cit.).
- ¹⁹ They have responsibility for technology, but do not go onto the assembly line.
- ²⁰ A block train is a dedicated cargo express train that uses the Trans-Siberian Railway. It is a train that travels non-stop to its destination in a single configuration, consisting of between 31 and 37 cars designed to carry 80-foot (24-meter) containers (equivalent to a capacity of 62-74 40-foot (12-meter) containers). The route is determined in advance, which eliminates the need to reconfigure the train en route, thereby reducing delivery times and ensuring a more punctual service. Block trains do not stop at any stations along the way, which not only reduces the risk of cargo loss, but also ensures minimal damage to cargo, because it is not subject to the jolting that arises when other freight cars are attached to the train. It takes 11-12 days for the trains to travel from the Port of Vladivostok to Moscow. The biggest advantage is the reduction in lead times resulting from the reduction in shipment time and more punctual transit https://www.mitsui.com/jp/ja/business/challenge/1190506_1589.html (accessed January 8, 2014), <http://www.mitsui-tsr.com/index5.html> (accessed January 8, 2014).
- ²¹ Details of Toyota's business in Russia are based on a survey at Toyota's head office (Toyota head office (September 7, 2011 and May 27, 2013)).
- ²² See Kotabe & Helsen 2007.

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