

# The History of Success of Central Asian Company in Automobile Industry

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## ABSTRACT

The paper analyzes the key success factors of automobile industry in Central Asia, Kazakhstan. In particular, strategies used, experienced challenges faced by “Bipek Auto – Asia Auto” will be presented in this paper.

**Key words:** Success factors, Kazakhstan, Auto Company

## INTRODUCTION

Today Asia is a platform for a successful business. The rapid development of innovation in Asia is facilitated by a large number of people, a fast temp of life, and the progress of the economy GDP per capita is higher than in other regions. And one-third of global companies are located in Asia - Taiwan, Japan, China, and Korea. If we look are the record provided by Ernst & Young's, Asia accounted for 14% of world consumer spending in 2011 but been projected to 25% in 2020 and 40% in year 2030.

This paper entails the success story for Bipek auto – Asia auto. The founder of the Bipek Auto - Asia Auto Company, is Anatoly Balushkin. In the 1990s, he decided to participate in the redemption of cars from the Russian Federation with a subsequent sale in the Republic of Kazakhstan, in his hometown - Ust-Kamenogorsk city. According to Forbes Kazakhstan (2017), today Anatoly Balushkin heads 29th position on a list of the 50 most business leaders for 2017 and 39th position on a list of 50 richest businessmen of Kazakhstan – 2017.

Holding Bipek Auto - Asia Auto (Figure 1) is the largest holding at the motor-car market of Kazakhstan, since 1992. In composition, a group service-sale networks in Kazakhstan and Russia, Bipek Auto – Asia Auto built a first motor-car plant of complete cycle named Asia auto Kazakhstan. The largest taxpayer and source of car industry development, Bipek Auto – Asia Auto invested more than \$ 353 million in the creation of production facilities and distribution network. Company's activities in 2017 provided more than \$ 459 million to the budget of

Kazakhstan in the form of tax and other payments; more than \$ 24 million was directed by the company for charitable and social purposes. The staff of Bipek Auto - Asia Auto has over 4,500 employees in 19 cities of Kazakhstan and 13 regions of Russia.

From 1992 to 2017 (Figure 2), Kazakhstan's people purchased more than 475,000 new cars at the company's branches (Cursive Kazakhstan, 2018). Within 25 years Bipek Auto - Asia Auto is a leader both in an automobile car production and on the volumes of sales in Central Asia market. In 2011 Public hearings were held in Ust-Kamenogorsk on the project of creating the largest in the country car industry cluster. Bipek Auto - Asia Auto with the support of the Kazakhstan Republic Government and the akimat of the East Kazakhstan region has launched the most ambitious project in the history of the domestic automobile industry. Nowadays Bipek Auto - Asia Auto Company is a leader and also takes control of the whole car industry in Kazakhstan.

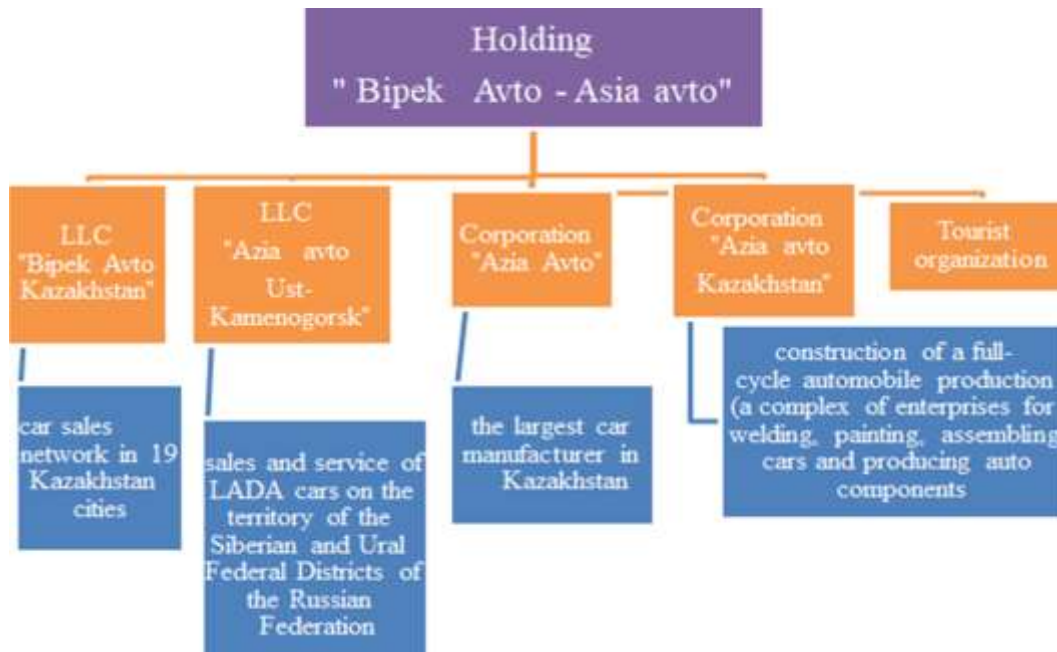
Based on Bipek Auto - Asia Auto Company's official website (2017), the company has gone through three main formations, started from 1992 till now. From 1992 – 2000, when a group of young people, under the leadership of a 20-year-old Anatoly Balushkin, transported cars from Russia to sell them in Kazakhstan. Sales went well; sales volume was 650 cars every year (Bipek Auto - Asia Auto website, 2017). 1996 was a new step in the company's operations. The company purchased the office building with car boxes, where they adapted a service station, which was installed by the Italian diagnostic complex VISA. As a result of high demands, Bipek Auto - Asia



Auto opened a new direction - related products (car audio equipment, auto accessories, spare parts, tires). Significantly was expanded the range of services provided at service stations. In addition to repairs and maintenance

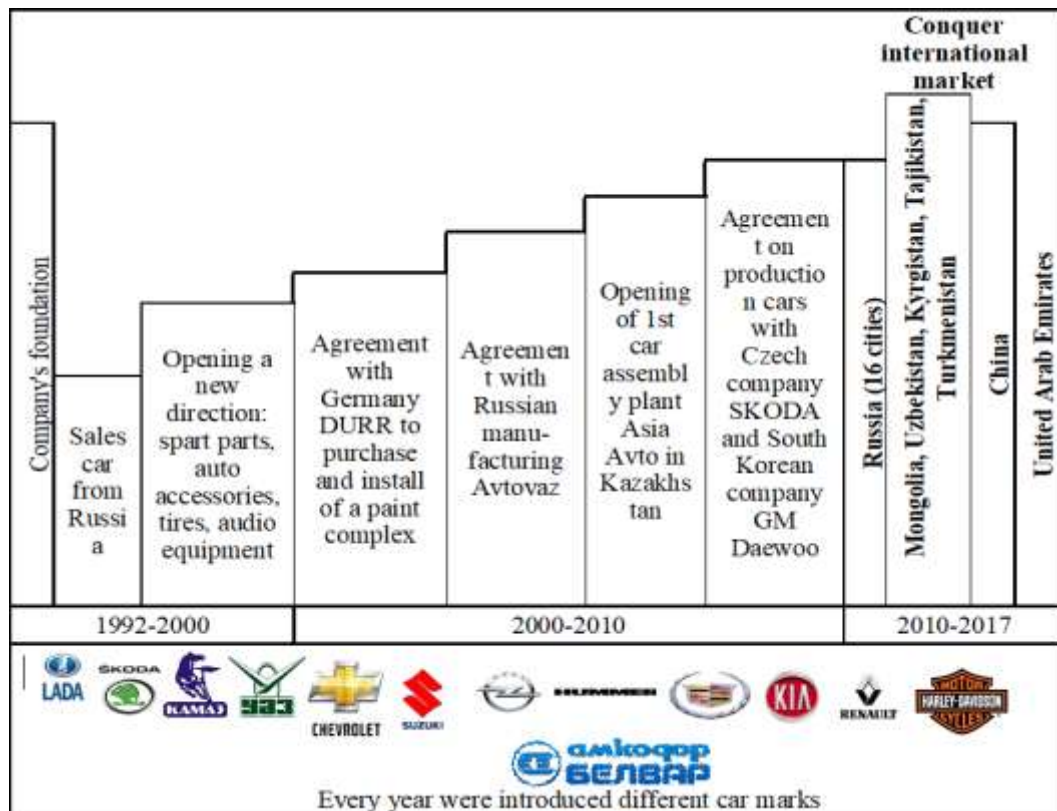
performed tuning work, installing equipment, security alarms, and stuff. In 1997, stable deliveries of cars and small trucks began from the Togliatti Automobile Plant (Russia).

Figure 1: The Company's Structure



Source: Author's own, by using Bipek Auto Asia Auto Company's website, 2018

Figure 2: The Company's background



Source: Author's own, by using Bipek Auto Asia Auto Company's website, 2018

Looking at the second formation stage, Bipek Auto - Asia Auto began to open representative offices in Kazakhstan and in the neighboring countries. In 2002 Bipek Auto - Asia Auto signed an agreement with Russian manufacturing «AvtoVAZ» to build a car assembly plant in Kazakhstan. The company bought contemporary assembly and welding lines from Finland, which used by PORSCHE and SAAB. It helped produce VAZ models cars, which technologically surpass the characteristics of existing Russian analogs and meet the highest requirements of the modern automotive industry. Bipek Auto - Asia Auto signed a contract for the purchase and installation of a paint complex with one of the world leaders in the cars painting technology - the German firm DURR. In 2003, the company opened a first car assembly plant in the Republic of Kazakhstan, named Asia auto, producing 4 × 4 LADA cars. During this period the company was successfully signed agreements on production cars with Czech company SKODA and South Korean company GM Daewoo Auto & Technology. Also, from 2004 until 2010 Bipek Auto - Asia Auto received the status of an official distributor in Kazakhstan of Kamaz, Zil, Vaz, Chevrolet, Opel, Cadillac, Hummer, and Kia; car model's series had been increased every year.

Lastly, on October 20-21, 2010 an international conference of UAZ dealers in export markets was held firstly in Kazakhstan. Bipek Auto Center in Almaty (Bipek Auto Company's the main branch) was awarded as the largest auto center in Central Asia. The specialists of the German certification organization have confirmed the high assessments of the quality management system that has been in operation since 2004. The company began to explore the markets of neighboring countries. So, on May 23, 2013, the plant "ASIA AVTO" started deliveries of cars to the Russian Federation market. On October 15, 2015, Bipek Auto - Asia Auto concluded an agreement on joint activities in the Central Asian countries' markets: Mongolia, Kyrgyzstan, Uzbekistan, Turkmenistan and Tajikistan. In February 2016, Bipek Auto - Asia Auto started LADA cars deliveries to the Central Asian market. On February 21, 2017, the company's plant sent the first Lada 4x4 truck of Ust-Kamenogorsk production to the Chinese and United Arab Emirates markets.

## BUSINESS STRATEGY

The aim of the Bipek auto – Asia Auto company is the creation of the automotive industry in Kazakhstan, which allows the assembly of competitive cars in comparison with well-known foreign car's brands. It is a daring idea to meet the needs of the population of Kazakhstan and parts of nearby countries efforts of the domestic brand. The average citizen, who lives from salary to salary, prefers high-quality, low or medium-cost auto. And this is the Bipek Auto - Asia Auto Company's product - original foreign parts and local assembly - that's what allows the company to maintain the principle of price-

quality. Having pressures for cost reductions and pressures for local responsiveness, this company started with localization business strategy. They worked on the domestic market, selling cars from Russia to Kazakhstan's people as long as it was profitable. The company gets a profit only from Kazakhstan's people and gets it in national currency – tenge. It was a very successful strategy; customers enjoyed low costs, fast delivery, and high-quality service.

According to Sutherland and Canwell (2004), when the company separates its operations in at least two countries, it can be defined as international. In the second decade, in 2000-2010, because of high request to developing new opportunities, the company started looking for foreign brands, which company can represent in Kazakhstan. Bipek Auto - Asia Auto company, became the official dealer in Kazakhstan of Russian brands Vaz, Kamaz, Zil and world brands Kia, Chevrolet, Opel, Cadillac, Hummer and Harley Davidson. Supplying spare parts from official factories, Bipek Auto-Asia Auto was carried out on the Kazakhstan territory. It allowed to significantly reducing the final cost of the car, at the same time the quality of the car remained at the same level. The company hit a home run with their excellent performance in the Kazakhstan market, so company's Managers decided open branches in Russian Federation, especially at the border to Kazakhstan territories. So it the way the company changed business strategy to international. The Russian car market conquered relatively quickly. In just five years 16 auto centers were opened in 12 cities of Russia (Barnaul, Ishim, Kemerovo, Krasnoyarsk, Novokuznetsk, Novosibirsk, Omsk, Sterlitamak, Tobolsk, Tyumen, Chelyabinsk, and Shadrinsk) (Bipek Auto Asia Auto company's website, 2018). All international branches, in comparison with domestic, had some autonomy. The company still are controlled by Bipek Auto - Asia Auto company in issues such government support, budgeting, financing, sales, pricing, but issues like marketing, service, and delivery Russian branches decide by themselves, based on the current situation on the Russian market.

In the third decade, starting from 2000 and still continuous, the company extends international strategy to multinational. Bipek Auto - Asia Auto Company, by their previous experience, begun to domesticate Central Asian market, China, and Mongolia in 2015. On results of 2017 1,484 cars were sent on export to China, Russia, Belarus, and Tajikistan. The main part of foreign sales was on the famous automobiles of Lada, supplied by a plant of Bipek auto – Asia auto to the market of China. With the support of the government, Bipek Auto – Asia Auto today is the first company to successfully implement plans to enter the automobile market of the Eurasian Union. It seems that the company decided to seriously engage in the export of cars, assembled in Kazakhstan. In 2017 company delivered of 50 Lada 4x4 vehicles in the three- and five-

door models to the United Arab Emirates market and hundreds of autos to China (Kolesa, 2018). Cooperation with Russian car manufactory Avtovaz moved to the next level: they started investing to Bipek Auto – Asia Auto Company.

## KEY SUCCESS FACTORS

### Limited domestic competitors

In December of the 2017 year, automotive industry notes 25-year anniversary. For the last 25 years in Kazakhstan have grown seven production sites which are release cars, cargo, bus and particular vehicles.

According to a statistic from KazAvtoProm webpage (2017), sales of domestic car factories of the 2017 year reached 19,007 units, in 2016 12,320 units, in 2015 21,248 units, in 2014 14,636 units. By all indicators, the company is the absolute leader. It is also worth noting that as founders of the car-building industry in Kazakhstan, Bipek Auto - Asia Auto Company supports start-up companies and generously shares an experience.

### Client-oriented approach

High demand from buyers and profits even during an economic crisis, this is the company's the main success rate. The key to this success-client oriented approach and high-quality cars for acceptable cost. Besides high-quality and acceptable automobiles for the Kazakh consumer, it should be noted the quality of Bipek auto service, which includes (1) benefits and accumulative bonus system for clients on a unique club program; (2) professional management; (3) service maintenance; (4) reliable warranties; (5) a wide range of spare parts and accessories and (6) the best loan conditions. A substantial factor in the success of the company or Kazakhstan's market is the production of agricultural equipment, based on the point that the agricultural sector is one of the main directions of the economy in Kazakhstan.

### In step with the time

The company always tries to introduce the latest technology, thereby improving its products. In March 2017, customers purchased auto sedan LADA Vesta and crossover LADA X-ray, equipped with the "alarm button" ERA-GLONASS / EVAK. It was these models that were the first proposals of the domestic auto industry, which were routinely organized with a system for calling emergency services. Another one example is electro car's release. Exhausts of autos with internal combustion engines are considered to be the cause of climate change on the Planet. The first electric vehicle of the Kazakhstan assembly was the crossover KIA Soul EV, produced at the facilities of the Ust-Kamenogorsk plant Bipek Auto - Asia Auto at the end of 2014. On June 19, 2017, the Ust-Kamenogorsk plant Bipek Auto - Asia Auto presented the electric sedan LADA Vesta EV within the framework of EXPO-2017 in Astana (24KZnews, 2017).

## Country of Origins

When Anatoly Balushkin faced to a valuable choice between continuing to collect already famous brand cars by spare parts in Kazakhstan or start own domestic production, he spends the time to evaluate Kazakh mentality prescriptions. All the existing data showed that Kazakh prefers local brands. Bipek Auto-Asia Auto started plane own car brand manufacturing. High demand from buyers and profits even during an economic crisis, this is the company's the basic success rate. The key to this success-client oriented approach and high quality cars.

### Support from government

The President of Republic of Kazakhstan Nazarbaev N.A. repeatedly attended the premiere releases of models of cars at the plant Bipek Auto. Also, in the construction of international relations with neighboring states on cooperation issues, the government participated in addition to the company's managers. All these facts show that the Government believes and supports the Bipek Auto-Asia Auto.

The Ministry of Investment and Development of the Republic of Kazakhstan (MID PK) is preparing an order "On approving the list of vehicles and agricultural equipment, the implementation of which is exempt from value-added tax." The document can be signed and published in April 2018 (Kolesa, 2018). According to the order, passenger cars, trucks, tractors, special equipment manufactured at the Kazakhstan enterprises from parts "placed under the customs procedure of a free warehouse within the framework of a concluded special investment contract with the authorized investment body" will be exempted from tax. That is the products of local factories that harvest cars from imported components and receive support from the MID RK. To the glaring facts of the purchase of expensive cars of imported origin for civil servants repeatedly drew the attention of the head of government and representatives of parliament. The President of the Republic of Kazakhstan initiated the program "Buy Kazakhstan Production," designed to support domestic producers. Thus, according to analytical calculations, the transition of civil servants to official cars of Kazakhstan's production will have a significant impact on budget savings. Moreover, the issue of servicing automobiles of civil servants will be resolved. Thus, it was decided to put in the budget for 2018 the expenditure of financial resources for the purchase of official vehicles of the Kazakhstan Company Bipek Auto- Asia Auto.

The Ministry of Investment and Development of the RK has prepared the documents and proposes to include in the Plan of Joint Actions of the Government and the National Bank a plan to ensure financing of domestic producers and exporters, in particular, to the program of preferential car loans. According to the Development Bank of Kazakhstan, if calculate together the number of sold domestic assembly cars for 2016 (this is almost 3.4

thousand units), it is more than half of them, or more precisely 62%, are realized thanks to available loans. The contribution of the industry's enterprises to the GDP structure of the republic by the results of 2017 amounted to KZT 149.8 billion (+ 39% to the indicator of a year ago), which far exceeds the analogs figures of the pharmaceutical and light industry. Investments of enterprises of the auto industry in fixed assets reached 5.4 billion tenge in 2017 against 2.1 billion tenge a year earlier. Kazakhstan enterprises engaged in sales and production of automotive equipment provided tax revenues to the budget of the republic at a rate of 44.5 billion tenge, which is 2.4 times higher than in the 2016 year.

## CHALLENGES

In spite of numerous success factors, as every competitive company, Bipek Auto – Asia auto everyday face challenges. Some of them are easily overcome, some influence to the company's activity. Undoubtedly, one of the main difficulties is the stereotype of Kazakhstan's people, that "made in Kazakhstan" means poor quality, unreliable and unsafe, unfair car. The potential consumer of the Kazakhstan car industry does not see the entire production chain of JSC Asia Auto, namely its well-functioning work, the use of high technologies, and compliance with recognized world standards of quality. Fast-growing and successfully developing company Bipek Auto - Asia Auto is a reliable partner for many world auto concerns. Leading specialists, mechanics, and engineers are annually sent to improve their skills in far-abroad countries. After that, having learned and having acquired international experience, the company's employees use it to collect new cars. Also, to verify the quality of the cars collection, the company has a specific department for checking the quality of vehicles on the plant territory, which carefully identifying with each new batch of new autos. To sum up, 30 484 automobiles, sold in 2017, fell on imported cars, while 15 893 was produced by the Kazakhstan car factories (Sputnic Kazakhstan, 2017).

In 2010 sales went well, but to attract the attention of buyers Bipek cars Asia auto-launched the program Bipek taxi. According to the terms of the program, any adult, who have a driving license and experience of driving for at least five years, can drive people on the cars of the plant for money in the Ust-Kamenogorsk city. Each driver paid a certain amount per month for renting a car. If a driver had problems with the car - he always on free terms can contact with the service center. The main goal of the program was to draw attention to the local auto prom and also the charity goal - to help people earn money. This program failed and after one year closed. On January 28, 2010, Anatoly Balushkin gave an interview, in which he highlighted the most profitless projects that he had ever dealt. "The BIPEK Group started working with "secondhand cars" in the whole of Kazakhstan, although I knew it would be unprofitable, and the second

unprofitable project was - the recent one - BIPEK-taxi," - said Anatoly Balushkin. He also explained that the reason for the closure of the "Bipek taxi" project was banal theft, Anatoly provided each taxi with a counter that determines the cost of travel, depending on the distance traveled, but the taxi company employees were engaged in private transportation deliberately not including these counters, thus illegally earned money, except moreover, the taxi fleet was serviced in Bipek Auto - Asia Auto, taking advantage of this, taxi drivers installed new gearboxes on their official vehicles and then filmed whether they put the old ones, which also contradicts the ethics of our company. All this caused considerable damage to Bipek auto-Asia Auto Company for \$ 800,000.

"Despite the popularity of the topic of" green "transport, the demand for electric vehicles in Kazakhstan remains at the same level and is calculated by symbolic indicators. The same reasons restrain the growth of interest in electric cars in Kazakhstan, but they are subject to such natural barriers as average income, harsh climate, low population density, and distance. The next most important point is the lack of charging infrastructure. At the same time, overcoming these barriers in the hypothetical development of electric mobility does not at all guarantee improvement of the environmental situation in Kazakhstan. Two-thirds of the country's energy balance is provided by coal, the dirtiest kind of fuel. According to the share of coal in electricity production, Kazakhstan is twice as high as the world average. Show that the transition from gasoline as an automotive fuel to coal-fired TPP significantly enhances the pollution of the atmosphere. No less severe problem is the processing of lithium batteries - the recipe for its solution in the world has not yet been found. In other words, the topic of developing electric mobility in Kazakhstan requires a balanced and responsible approach. At the same time, more unambiguous and predictable ways of planting a car park are available today. First of all, the expansion process of the use of gas fuel. For the country that is in the TOP-20 on natural gas reserves, this is a natural way of development of the transport system.

## CONCLUSION

The aforementioned indicates enough evidences that why especially "Bipek Auto –Asia Auto" company can be considerate as the successful company in the Central Asia, particularly in the Republic of Kazakhstan. Thus, the success factors of this company were in a far-sighted strategy, lack of worthy domestic competitors, client-oriented approach, quality-cost ratio, and support from the government. Nevertheless, the company had some difficulties on the way to success, such as the perception that domestic cars are low – quality, unpreparedness of the Kazakhstan market as a whole to electro mobiles, webpage's complicated interface, the introduction of new ideas. To overcome some of the challenges and predict new,

it is recommended «Bipek Auto – Asia auto» company's managers try to change people perception about «made in Kazakhstan» cars quality, change website, work with customer's feedback and change personnel policy.

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