

5.0 SWOT analysis of the Malaysia food market

The earlier analysis of the developments and trends of food market in the developed countries and the general environment analysis of Malaysia market offers some foods of thought for the industry. While the opportunities and threats pose may be similar to a Multinational company (MNC) and a Small Medium Industry (SMI), the strengths and weaknesses may be more dissimilar.

The different structural background and supports available for these companies contributed to the differences. Therefore, the Strength and Weaknesses will be discussed separately.

5.1 Opportunities

Export to European Union countries.

There is a huge potential of export to international market such as the European Union (EU) countries.

The EU with a population of 375 million is the world's largest food importers of fresh, processed, semi processed and pre-prepared food. EU imports almost RM190 billion worth of food from all over the world annually. Malaysia stands a chance to penetrate both halal and non halal segments. Currently only 0.5% of the food imports of this segment of EU originated from Malaysia. (Anna Maria, 2000)

Asia had replaced United States as Europe's largest trading partners two years ago. In 1997, it enjoyed a trade surplus of US\$ 33.47 billion with the EU an increase of 91.4% compared to the trade gap of US\$17.49 billion in 1996.

This region supplies a quarter of all imported goods into the European Unions and absorbs 18.5% or US\$143.40 billion worth of EU Exports.

However, despite the increase in export to the European countries, the majority of the exporters were large corporations engaged in various joint ventures with other multinationals. Other competing on the fray merely supplies semi-processed or minimal processed raw materials where they are repacked for local consumption or re-exported.

Convenient ethnic foods

The increase in the demand for ethnics' food in the developed countries creates opportunities of export.

Ethnic cuisine in UK are predominantly Indian and Chinese, they accounts to 56% of frozen ready meals sales. . Besides ready meals, there are opportunities in ethnic outlets. There are 7,600 Indian style restaurants in UK serving 170 million meals a year. Also present are 8570 Oriental style restaurants and takeaway stores serving 300 million meals annually, mainly Chinese with some small proportion of Thai, Malaysian and Japanese.

Projected growth of approximately 50% over the next decade from the current US\$50 billion in this segment offer more realistic prospects for success than mainstream foods. (Prepared Foods, Nov 1999)

Niche market in the halal export.

Islam is the fastest growing religion both globally and in the United States. The estimated annual world consumption of halal food is US\$150 billion per year (Mian Riaz, 1999). In United States itself, the buying power of Muslim is estimated at US\$12 billion for food. It is commercially imperative for companies eyeing this market to develop new technologies, food products and marketing strategies that specifically address the growing halal market.

Besides the Western countries there about 200 million Muslim in Asia exclusive of China and India (APFI Oct 1991). These are mainly from Malaysia and Indonesia giving them the advantage of being supplier of the halal foods.

Foodservice operators as customers

There is growth forecast resulted in high development potential in this area. The diverse point of sales will also result in many opportunities and ease of entry. The recent released survey results on Malaysian's household expenditures clearly indicated an increase in food away from home consumption in Malaysia.

Firms should develop relationships and partnerships with customer base and within industry itself by establishing partnership and brand loyalty. They should service customer needs in term of providing total solution by optimizing product, price and service.

Imagine that if a firm is able to supply a QSR chain with 260 outlets, the opportunities it poses is great, its products would have the potential of reaching the huge population that frequents the outlets.

High margin and value added products

These can comprise of products such as convenience, chilled and frozen foods. Malaysia's Ministry of International Trade and Industry reported that in 1997, about US\$199 million worth of frozen foods were exported mainly to Japan (23 %), Singapore (22%), Italy, Hong Kong and China.

Malaysia total frozen foods market according to figures from Euromonitor raised from US\$9.75 million in 1991 to about US\$15.6 million in 1996 and in

the same period the demand for frozen ready meals reached US\$2.5 million from US\$0.98 million.

Per capita consumption of chilled and frozen food is expected to hit 10.7 kg in 2010 from 5.9 kg at present. The current value of the market at RM2 billion is also forecast to grow by 80 percent by 2010. (APFI Oct 2000)

The proliferation of western restaurants and popular fast food chains since 1980s had generated a broad acceptance and spurred demand from frozen versions of pizzas, meat patties, nuggets and French fries in supermarkets. Local manufacturers has also introduced spin offs from local favorites such as spring rolls, curry puffs, roti canai, paus, samosas and dim sums to cash in on this sector's expansions such as Kart Foods.

An evaluation of the frozen food suppliers in the Malaysia Food Export directory 1997 reviewed that there are approximately 63 registered food processor involved in this category mainly small industries offering lowly processed frozen sea foods (Appendix 4). The bigger players who produce higher value products are such as Ayamas Corporation, Prima Agri (Baguz brands), TexChem Resources (Seapack). Most of these firms that supplied processed meat products advertised their products as being halal.

The local ready-to-use meal suppliers are companies such as Dewina and Rex Canning. Dewina Foods is also active in the institutional foodservice where they have the contract of supplying the retort pouch prepared food to the armed forces.

Opportunities in Snack foods

Increasing disposable income and a very young population in Malaysia and other Asian countries alike will provide a wealth of opportunities for local manufacturers in all sectors. 24 % of Asian indicated they prefer to snacks than eat proper meals and they are prevalent to younger generations

(Theresa Manavalan,2000). The savoury snacks in Malaysia market is expected to show the most significant growth in terms of per capita consumptions (Euro monitor, 1994).

The consumption of savoury snacks in Malaysia over the period of 1993-1997 was estimated to grow in the range of 30 percent per annum. The biscuit consumptions are expected to maintain between 5-10 percents and the confectionery percapita consumptions is expected around 10%. (Euro monitor 1994).

The high growth by the local biscuits companies over the years indicated the trend as well.

The high trade tariff and other barriers established in the early nineties have helped the large local domestic manufacturers to dominate the market. Some of the major players in snack food are companies such as Perfect Foods, Oriental Foods and Sedap Foods.

Unlike the developed countries where the snack foods have taken a broader definition, in Malaysia, snacking is still normally referred to as savoury snacks, biscuits, and chocolate and sugar confectionery.

Near access to the huge market in Asia

Malaysia being near to the highly populated countries such as China and the high disposal income countries such as Singapore is of added advantage as it gives opportunities in the different food segments.

Singapore has outstanding success story in a recent analysis of food and drink sales in nine countries in Asia and the Pacific during the years between 1996-98. Biscuit consumption increased by almost 10%, snack food consumptions by 30 % over 1997, packaged food and soft drinks between 10-20 % and bottles and juices by 66%.

Stringent food regulations requirement by developed importing countries.

Many may view this as a barrier. However it can also provides the competitive edge for firms that had invested in achieving the standards required. The number of qualified competitors dwindled because of this requirement. Perhaps that is why, many of the smaller and medium scale industries prefer to look at less developed countries for exports with many targeting countries in Middle East.

The young population in Malaysia

Marketers have more opportunities to start nurturing the younger generations as loyal customers. These are the group of future main decision makers in food purchase and they are also more willing to try new things and can influence the elders at home.

5.2 Threats

High labour cost in Malaysia.

Malaysia is no longer a favourable place in term of provision of cheap labour, the opening up of the market creates a more intense competition among the neighbouring countries such as Thailand, Indonesia and Vietnam. Firms in Malaysia are already opening up branches or manufacturing facilities in the cheaper region in anticipation of the competition as well as market opportunities there.

Bigger multinational such as Nestle are already relocating some of their operations overseas such as the relocation of the condensed milk production to our neighboring countries.. These firms are working based on being the regional suppliers. Unless Malaysia proved to be a cheaper producers, has

raw materials resources advantage or has higher technology capability for higher value products, it will be losing a number of the food manufacturing factories predominantly those of multinationals to other countries resulted in greater reliance on imported foods.

Shortage of manpower and skills

The low unemployment rate of 3% and the higher education levels in country has resulted in a shortage of manpower in the manufacturing area. This had forced the firms to look into employing foreigners or uses contract workers. This requires the firms to continuously looking into retraining of the workers

Growing levels of concentration

Growing levels of concentration within customer base and at point of sale are forcing more emphasis on providing lowest cost for end user or intermediate end users. Continuing squeezing on margins, as customer base demands lowest price yet benefit will dilute the sales value of the business.

It will result in only firms with economic of scales being able to compete for the cost strategies approach.

Similarly growing concentration of food manufacturers are also forcing retailers or distributors to carry their goods, sometimes at the expense of others.

Slow growth in demands of domestic market due to small populations.

Malaysia has small domestic consumers that firms here have to invest more to differentiate their products or look elsewhere for bigger markets.

Keen import competition

With the opening up of the market, the competition comes from products of other developing and developed countries alike. Cheaper labour cost of other developing countries or better economic of scales and efficiencies of firms in the developed countries may provide them with the competitive edge in term of cost. The proximity to raw materials source can also be an advantage.

This coupled with the perception of higher quality product of the developed countries can pose to be a threat to local manufacturers that is hard to shake off.

Halal Certifications

While the halal market posed a good potential market growth, the problem lies in the different regulating body worldwide that is controlling the certification processes with different stringencies. In local front, the certification process needs to be improved quickly to increase the efficiencies and reduces the time taken to get the certification. Current process which at times take up to 3 months from application process and this may caused a loss of business opportunities in this era where speed is getting important.

High dependence on imports of Raw materials

Seventy percents of all our raw materials used for processing are imported. This made it prone to the changes in price due to currency fluctuation, which was felt by many in the 1997 economic crisis.

Sago and tapioca are agricultural products that can be used to replace corn or wheat in some higher value added ingredients such as modified starches. However, the current situation is most of this raw materials are exported as a commodity items to another country who processed it to the higher value

ingredients that fetch a better price and it is re-imported back into the country in a different form.

5.3 Analysis of SMI

5.3.1 Weaknesses of SMI

Compliance to developed countries stringent legal requirements

Developed countries especially the European Union have strict requirements for food safety and quality. One such case is seafood, where from June 1993, all exporters of fisheries products to the EU must submit Hazard Analysis Critical Control Point (HACCP) Plan. Further regulations issued in 1997 required seafood exporters to the EU to give assurance that the laws, management capacity and production conditions correspond to those of local processing businesses in the EU.

The long and tedious process of certifying the handling and processing systems to meet the requirements standards and specifications and the cost deters local firms from exporting to these countries. (Malaysian Enterprise, Oct 2000). Currently there are only approximately 30 food companies in the country with the HACCP certifications.

How can Asian food companies effectively tap on this attractive market place albeit a difficult one with its strict requirements of standards, quality and food hygiene?

Unfortunately, there are still SMI who are still producing goods without proper management, handling and processing standards as long as someone wants to buy without complaining or if they are not caught for violating the food law.

Understanding of other countries market requirements

Thorough research on the market is required for the export market. The SMI may not have the expertise in knowing the market of the exporting countries.

Lack of chill system in distribution to sell chilled products.

As convenience food and ready to eat meals becoming more popular, there will be an increase in the requirement of chill space, higher technology to improve the process. SMI will need to know where to get the technical expertise and the infrastructure necessary.

Lack innovation culture and R&D .

There is generally a tendency to be reactive than proactive. This will be a disadvantage, as product life cycle gets shorter and shorter. The necessity to provide solution to more specific customer such as the foodservice category will be hampered.

Many SMI in Malaysia are operating on a family basis. There are usually no qualified personnel who help them on the technical aspect or they resisted assistance for fear of losing the secret to outsiders.

Usually lower marketing budget to compete with bigger players

This is especially crucial if firms are looking at differentiation strategies such as snacks foods which required higher marketing support.

5.3.2 Strength of the SMI

Strong knowledge on local ethnic foods and the ingredients used.

An entrepreneur usually enters a certain category of the food industry due to the expertise they have with the products. Malaysia being a multicultural society is blessed with an abundance of ethnic foods which we are familiar with be it Malay, Chinese and Indian. This gives the local firm an added advantage.

Strong knowledge on the requirement of halal and recognized halal certification worldwide.

There tends to be more trust if the firm is a locally established bumiputera firm among the Muslim consumers on the products.

Government supports.

The Malaysia government has set aside different funds and supports to help the SMI expand their technical capability, their financial and their export potential.

Entrepreneurial culture

Normally a SMI is a privately owned company. The growth and direction of the company greatly depends on the owners' vision and goal. There are successful SMI companies that have succeeded in competing with the larger firm in certain niche areas. Unlike the bureaucracy that an MNC may have, a SMI can be more flexible and react faster to the customer's requirements.

5.4 Analysis of the MNC

5.4.1 Weaknesses of MNC

Bureaucracy

Bigger MNC are looking at bigger volume products that can help them achieve the economic of scales. They may not be interested in smaller opportunities, which may potentially grow.

Parent companies will also dictates some of the directions taken by the firms resulted in less freedom to carry out certain activities.

Short-term vision

MNC are normally headed by CEOs that are reassigned every three to four years. With every changes in the leadership there are usually some changes in the practices or emphasis. Employees need to be able to adapt to these changes fast while meeting the market requirements.

5.4.2 Strength of MNC

Strong capital support

In general, an MNC can have a stronger capital support from its parent company. These enable them to invest more into better technology and product development.

Easier and better access or network in the international market.

Being an MNC gives the firms the advantage of knowing the other countries consumer market better. For example, a curry paste from Malaysia may be produced for a European market but marketed by a local working for the same company there. The necessary feedback can be exchanged both ways.

MNC has an added advantage when they supply goods to other customers who are also multinational. For example if foodservice Z, a customer of Firm A is intending to opening up an outlet in Malaysia, Firm A can recommend its company who has a plant in Malaysia to Z. This has given Firm A's plant in Malaysia an advantage over B a domestic firm in Malaysia who is capable of supplying the same goods.

More technological support

Most of the MNC have R&D or other technical support that they can have access for help. This creates potential to develop high margin, added value ingredients to exploit new opportunities early and be the leader rather than the follower.

Established streamline supply chain

There are usually dedicated teams working on rationalizing the global resources. With a stronger supply chain network globally, they have the advantage of leveraging on the global resources to fetch better pricing for the raw materials that they used.

Good knowledge of existing customer base.

More investments are usually spent to carry out the market research and to have a good knowledge of existing customer base.