

Chapter 5

Corporate Analysis

5.1 Background

ICI-NOF Powder Coatings (M) Sdn Bhd is a joint venture between ICI Paints Malaysia and NOF Corporation of Japan. ICI Paints holds 71% of the share and remaining 29% is controlled by NOF Corporation. The joint venture started in June 1998 with initial capacity of 500 tones per annum, located at a rented factory lot in Petaling Jaya. The management of the company is run by ICI Paints Malaysia whereas NOF Corporation provides the technical know how and expertise. Due to increasing demand from the market, ICI-NOF installed another production line with a capacity of 1000 tones in 1993.

The forming of the joint venture was largely propelled by the expansion of Japanese appliances makers especially Matsushita Group into Malaysia in late 1980s. NOF Corporation being the reliable supplier to Matsushita in Japan was asked to set up the manufacturing plant to supply powder coating to the Matsushita operation in Malaysia. As a new player in international business, NOF Corporation decided to form a joint venture with a local company. Having captured more than 85% of the Japanese based customers in Malaysia, ICI-NOF has achieved its initially objective. Faced with the down turn of appliances business in 1998 and declining profit, ICI-NOF needs to re-examine its strategy to survive in the competition.

ICI Paints has been in Malaysia for more than 30 years. This British company is the world leader in the paints industry and is involved in whole spectrum of coating businesses. In early 1990's, ICI Paints had identified the household, refinish for automotive and packaging paint as their core business with the remaining industrial paint which include powder coating as non-core. ICI paints intends to focus more attention on the core business because of higher profit margin and also the less susceptibility to economic cycle compared to industrial paints. For the non-core

business like powder coating, ICI-NOF has to be self-reliant and further financial investment from parent company required great justification.

5.2 Company Mission

In line with ICI Paints Malaysia's vision to remain the number one paints manufacturer in Malaysia, ICI-NOF's mission is to continue to remain dominant in the premium Japanese OEM appliances market segment and strategically penetrate the other market segments.

5.3 Organization Structure

The organization structure as of Dec 1999 is as per figure 3 in Appendix B. ICI-NOF has a total work force of 30 people with a simple organization structure. Four departments support the General Manager who is heading the operation: Sales and Marketing, Technical, Production, and Administration & Accounting. The General Manager in turn reports to the Managing Director of ICI Paints Malaysia who is also the Chairman of the company.

The board of directors consists of five members; three from ICI Paints and two from NOF Corporation. The Board of Directors holds two meetings a year to formulate corporate level strategies for the business.

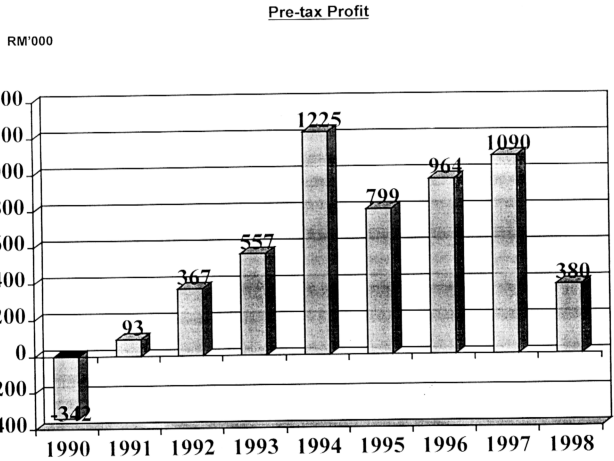
5.4 Business Operations

ICI-NOF is a niche player in the market. It has a narrow customer base concentrating mainly in Japanese OEM appliances customer like Matsushita, Mitsubishi and Sanyo. In 1998, about 70% of the business turnover was from the appliances segment. The remaining 30% came from general industrial area like cable trunking, furniture, light fitting and etc. The market is mainly confined in Malaysia with less than 5% of the turnover coming from export activities.

5.5 Financial Performance

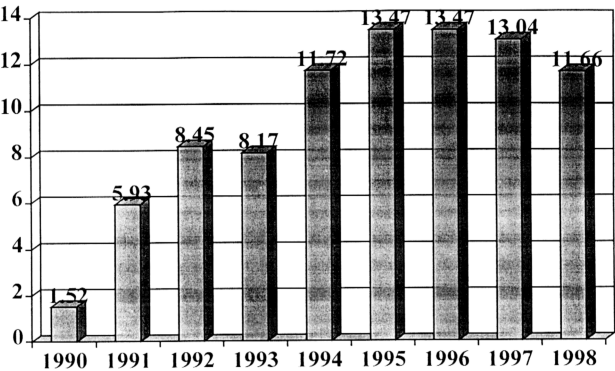
ICI-NOF witnessed steady growth of sales since it started operations in 1989. The highest sales turnover of RM13.47 million was registered in 1995 and since then, the sales value has flattened and declined sharply in 1998. Except in 1990, ICI-NOF continues to register profits even during the worst period in 1998.

ICI-NOF financial performance was commendable comparatively to the market share it held against other players in the market. ICI-NOF achieved an average of 7% return on sales and about 7.2% on return on equity for the past five years. In terms of liquidity, ICI-NOF is the best in the industry.



Sales Turnover

RM' MIL



5.6 Competitive Analysis of ICI-NOF in the Industry

Porter's five forces model will be used to analyze the company competitiveness in the industry.

5.6.1 Threat of New Entrants

Due to oversupply situation in Malaysia, the chances for new entrants entering into the Malaysia market are low. Nevertheless, for certain market segments like Japanese OEM based segment, this premium market segment has attracted much attention from competitors. Currently, ICI-NOF is enjoying this market segment partly due to its Japanese connection. As the sole Japanese player in Malaysia, ICI-NOF easily captured the business from these Japanese-based customers.

Though the Nippon Paints Malaysia has given up the idea of setting up the plant in Malaysia, they are constantly keeping in touch with the development of this Japanese segment. Their representative from the powder coating plant in Thailand is making regular visits to Malaysia, waiting for appropriate opportunity to penetrate the market. Furthermore, Nippon Paints powder coating also has been approved and used by customer's headquarter in Japan. The current 10% duty imposed on the imported powder coating may be lifted in year 2003, which will then pave the way for Nippon Paints to compete aggressively with ICI-NOF. Besides Nippon Paints, the other Japanese manufacturers like Kuboku Paints which is located in Thailand has also shown great interest in the Japanese market in Malaysia.

In short, the cozy position of ICI-NOF in Japanese market in Malaysia may not last long. Especially after AFTA in year 2003, whereby the two Japanese manufacturers in Thailand are expected to offer more competitive price which will then put ICI-NOF under threat.

5.6.2 The Bargaining Power of Suppliers

As mentioned earlier, the bargaining power of suppliers generally is stronger due to their size. However, as the subsidiary of ICI Paints, ICI-NOF enjoyed the bulk purchase discount extended to ICI Paints for certain common raw materials like Titanium Dioxide. In addition, the good reputation of ICI-NOF and the excellent records on time payment to suppliers provide an edge over the competitors in term of prices offered by suppliers. Even though the volume consumed by ICI-NOF was much smaller than their competitors, suppliers are happy to associate with ICI-NOF.

ICI-NOF is at unique position, it is able to leverage the reputation of ICI Paints to purchase some cheaper raw materials relative to the volume used. This uniqueness enable ICI-NOF to compete in the market.

5.6.3 The Bargaining Power of Buyer

ICI-NOF is known as high quality supplier in the Malaysian market. The ability to meet the most stringent quality requirement in appliance market has further boosted the company's image. Generally, customers pay a higher price for the powder coating from ICI-NOF in comparison with other manufacturers due to its consistent quality. With the assistance from its Japanese partner, ICI-NOF could exert greater influence on Japanese customers.

For the mid-tier and low tier market segments like furniture, light fittings, ICI-NOF is unable to capitalize the quality image to bargain with buyer. The cost issue is imperative for the users to survive in the market. Furthermore, the volume involved in these market are much bigger, giving the buyer additional advantage to bargain with supplier. In order to maintain profitability, ICI-NOF did not make much in road in these markets.

5.6.4 The Threat of Substitute

In the appliance market, coating no longer serves the functional aspect but also the decorative aspect. There is a trend among the premium brand appliance maker using the Pre-Coated Metal (PCM) to replace powder-coated parts. PCM is a liquid coated flat metal sheet cut into the size required by the customers. The advantage of the PCM is its flexibility in color effect which powder coating is unable to match.

Moreover, it frees the appliance makers from the hassle of spraying powder coating and help to save the storage space. The only disadvantage is in pricing which is about three to four times higher than powder coating.

In view of current stiff competition in the appliance market, only a small percentage of products are using PCM. However, in longer term, it could pose a threat towards powder coating in this market segment which ICI-NOF should not ignore.

5.6.5 Rivalry Among Existing Firms

ICI-NOF is a niche player which mainly concentrates in Japanese appliance market and selectively in other market segments. Due to Japanese influence and the quality of the products, the Japanese appliance market segment is fairly inaccessible to the competitors.

Nevertheless, in the mid and low tier segments, rivalry among the existing firm has caused the price slipping. ICI-NOF in the effort to defend its market share, has resorted to similar price cutting tactics. The price cutting measures has hit harder on the competitors than ICI-NOF. This is because ICI-NOF is able to maintain their price to Japanese customers which was not enjoyed by the competitors. The better financial results shown by ICI-NOF has proven the point.

5.7 Value Chain Analysis for ICI-NOF

The value chain analysis will be used to examine the various activities involving producing powder coating in ICI-NOF. We will look into the strength and weakness of the activities and the linkage within the product value chain.

5.7.1 Strength

ICI-NOF is considered as a high quality supplier in the powder coating industry especially towards the Japanese OEM appliance customers. There are three activities that ICI-NOF is proud of:

a) Reliable Operation

The ability of the ICI-NOF to consistently produce high quality of products is inviting much envy from competitors. The main reason is contributed by the strict compliance of the production process and quality control methods prescribed by NOF Japan. The Japanese technical advisor who is stationed in Malaysia will not compromise on the quality of products and will not hesitate to reject anything that is not up to specifications.

After years of operation under the strict supervision of the Japanese technical advisor, ICI-NOF is able to develop a stable and reliable operation process to meet the stringent requirement of Japanese customers. The other contributing factor is the capability of the production operators. The compensation scheme for the ICI-NOF is the best in powder coating industry and this has enabled the company to recruit and retain quality operators. The newly recruited operator has to undergo six months of on-the-job training in various stages of operation before being offered a permanent position in the company. The good human resource policy has produced a better team of operators.

b) Service

ICI-NOF has a smaller customer base with its concentration in Japanese appliance makers. The small customer base has enabled ICI-NOF to provide high level of the customer services like trouble shooting and customer's line inspection. More importantly, the availability of Japanese technical advisor in the company and the image of "Japaneseness" are the sources of competitive advantage for ICI-NOF. As a sole Japanese player in Malaysia, Japanese powder coating users deem ICI-NOF as a reliable supplier and trusted player. The Japanese technical advisor in ICI-NOF bridged the gap between the ICI-NOF and Japanese customers. He played the role as interpreter to non-Japanese staff for ICI-NOF, troubleshooter for Japanese customers and as a friend for the Japanese personnel in Japanese appliance makers. The culture of Japanese companies to buy materials from Japanese suppliers also helps ICI-NOF to secure its position in these Japanese appliance makers.

c) Marketing and Sales

The success of ICI-NOF was partly due to well executing of the marketing plan. ICI-NOF is able to capitalize its Japanese image towards the Japanese customers. The joint venture with the Japanese company NOF Corporation has shaped the image of 'Japaneseness' for ICI-NOF. The non-Japanese sales staffs are helped by the Japanese technical advisor in the company to penetrate the Japanese customer business. The ability to portray itself as a Japanese company has enhanced ICI-NOF position for Japanese business. On the other hand, ICI-NOF realized that the brand

name of ICI was much valued by non-Japanese customers. Having been established for more than 30 years in Malaysia, ICI Paints has emerged as a quality paint supplier in Malaysia. Backed by heavy advertisement in electronic media by ICI Paints, ICI-NOF has easily portrayed itself as a quality supplier for the non-Japanese sector. The ability to portray different image for different market segments has enable ICI-NOF to make in roads to different market segments. The thorough market survey and heavy spending on advertisements by ICI Paints has contributed in changing customer mindset. Good coordination between the Japanese technical advisor and the local sales staff also has contributed to the success of the strategy.

5.7.2 Weakness

Undeniably, ICI-NOF is only a niche player in the industry with smallest customer base. ICI-NOF has not fully capitalized the ICI brand name to penetrate into other market segments. There are three activities which ICI-NOF are not doing well.

a) Technology Development

The technology employed in ICI-NOF currently is from NOF Japan. The local technical activities are confined to modification and substitution of raw materials to suit local conditions. The Japanese technology is mainly concentrated in appliance sector and few R&D works are done on other applications. This has hampered the efforts of the company to penetrate into other market segments where a different technology and formulation is required. Moreover, the technical department of the company is small and lack qualified people to do the research and development works. The technical staff are too busy in daily routine work like quality control and color matching and neglecting to spend the time on research works.

b) Inflexible Production Operation

ICI-NOF has inherited the production process of big batch with limited change of colors from Japan. This type of production process is suitable for appliance business where the volume is huge and colors are fixed. After years of operation under these conditions,

the production operation becomes inflexible to manufacture various type of colors with small volume and unpredictable order pattern. In addition, the configuration of the machinery is also designed to match the big batch processing. But this type of operation is not auguring well with the trend and requirements of other market segments. The current trend is moving towards lively and colorful coating to suit the taste of younger generation. Furthermore, other market segments generally require smaller quantity and many types of colors compared to appliance market. It will be tough for ICI-NOF to compete in other market segments if the flexibility of the production operation is not improved.

c) Distribution network

In Malaysia, the powder coating users are fragmented in terms of location. Due to environmental regulations, the customers' factories are generally located at outskirts of township. Therefor, the distribution network has to be efficient to ensure on time delivery to customers.

ICI-NOF contracted out the delivery service to a small transport company to service the Klang valley area. For outside the Klang valley delivery, the company use the commercial transport company to deliver the goods. The commercial transport company generally needs to consolidate other goods to fill up the lorry space before delivery. A longer lead-time is needed for delivery of outside Klang valley. The other players in the market have their own transport to facilitate urgent delivery. Some players like Akzo Nobel where the plant is located at Pasir Gudang has even put up a warehouse in Petaling Jaya to serve the customer in central region. Oxyhin also own a warehouse in Butterworth in order to meet any unexpected orders from customers in Northern region. In view of the fact of changing environment, customers do not want to hold stocks and expect powder coating supplier to deliver the goods when they need it. As most of the non-appliance segments are located outside the Klang valley, ICI-NOF would need to improve its distribution services in order to better service this market.

5.8 Business Analysis

Two assessment processes were conducted in order to examine the powder coating business. Firstly, the environmental scanning process (Hax,1984) to determine the opportunities and threats that the external environment imposes upon the business. Secondly, the internal scrutiny process to identify the basic internal strengths and weakness inherent to the business. In these two processes, the performance of the present and future projection will be assessed.

5.8.1 Industry Attractiveness Assessment Matrix

Attractiveness Criterion	Weight	Rating*		Weighted Score	
		Present	Future	Present	Future
Market Size	0.15	3	4	0.45	0.60
Market Growth	0.15	2	3	0.30	0.45
Competitive Structure	0.05	2	3	0.10	0.15
Industry Profitability	0.10	2	3	0.20	0.30
Technical Role	0.15	4	5	0.60	0.75
Pricing	0.10	2	3	0.20	0.30
Environment	0.15	5	5	0.75	0.75
Market Diversity	0.05	4	4	0.20	0.20
Barrier To Entry/Exist	0.05	3	2	0.15	0.10
Cyclical	0.05	4	4	0.20	0.20
Total	1.00			3.15	3.80

*1 = Very Unattractive 5 = Highly Attractive

Source: compiled from discussion with ICI-NOF

The industry attractiveness for present environment is slightly above average. However, the outlook for the future is expected to be improved in tandem with the economic recovery.

5.8.2 Competitive Position Assessment Matrix

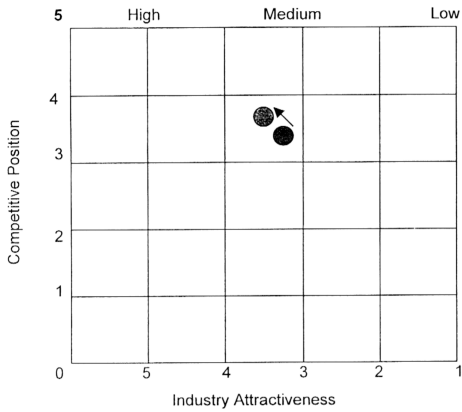
Key Success Factor	Weight	Rating*		Weighted Score	
		Present	Future	Present	Future
Manufacturing Efficiency/Flexibility	0.15	2	3	0.30	0.45
Distribution Network	0.10	2	3	0.20	0.20
Purchasing Advantage	0.10	3	3	0.30	0.30
Marketing Strategy	0.20	4	4	0.80	0.80
Brand Perception	0.05	4	4	0.20	0.20
Technology	0.15	2	3	0.30	0.45
Advertising and Promotion Effectiveness	0.05	4	4	0.20	0.20
Sales Staff Quality	0.05	3	3	0.15	0.15
Product Quality	0.15	4	4	0.60	0.60
Total	1.0			3.05	3.35

*1 = Very Weak Competitive Position 5 = Very Strong Competitive Position

Source: Compiled from discussion with ICI-NOF

The analysis revealed that the business strength of ICI-NOF is just marginally above average. ICI-NOF is seeking further improvement in three key competencies, i.e. manufacturing efficiency/flexibility, distribution network which is mainly concerned with delivery and technology to enhance its competitiveness in future.

5.9 Portfolio Attractiveness Matrix



Source: Compiled from discussion with ICI-NOF

The above Portfolio Attractiveness Matrix shows that the present ICI-NOF's powder coating is an average business. Though the future outlook offers better opportunity, the business is still being categorized as average by virtue of the position it occupies in the matrix.

5.10 Competitive Analysis

Relevant Competitor	Critical Success Factor									
	Marketing Strategy	Sales Staff Quality	Distribution Network	Technology	Purchasing Advantage	Product Quality	Brand Perception	Advertising & Promotion	Effectiveness Manufacturing efficiency & Flexibility	Overall Ranking of Each Competitor
Jotun	+	-	-	-	-	+	+	+	-	1
Oxyhin	+	E	-	-	E	+	+	+	-	2
Akzo Nobel	+	E	-	-	+	++	+	++	-	4
Herberts	E	E	E	-	+	++	++	++	-	3

- Key:
- ++ ICI-NOF is much stronger than competitor
 - + ICI-NOF is stronger than competitor
 - E ICI-NOF is equal to competitor
 - ICI-NOF is weaker than competitor
 - ICI-NOF is much weaker than competitor