

Chapter 6

Recommendation

6.1 Overview

From the analysis in Chapter 5, ICI-NOF generally has so far positioned itself well in the powder coating industry in Malaysia. ICI-NOF operates in a niche market in Malaysia. It enjoys a good reputation as a stable and quality supplier. Its financial performance also indicates a well managed company compared with other players in the industry. However, there are three areas that require immediate improvement in order to sustain the competitive advantage; namely technology, distribution network and manufacturing flexibility. Selective investments are necessary in these areas to upgrade its competitiveness. On the other hand, the powder coating business has been declared as non-core for ICI Paints World. Moreover, the financial return of the business is not attractive and well below the expectation of ICI Paints standard. Thus, ICI-NOF has to operate under some financial constraints and prove its continuous good performance in the powder coating industry.

6.2 Options

Under the present competitive environment, there are two options recommended to ICI-NOF.

Option 1: Continue with Current Strategy

The first option is for ICI-NOF to continue with its present strategy i.e. to remain dominant in the premium Japanese OEM appliance market and strategically penetrate the other market segment. Though it faces potential threat from other Japanese manufacturers in the future, the local supplier preference treatment accorded by the

appliance makers and ability to provide quick technical service support to customers have given ICI-NOF an upper hand over the overseas competitors.

To pursue the strategy, ICI-NOF should implement some actions as follows:

a) Raise the Entry Barrier to Japanese OEM Business

To counter any potential entrants into its core business, besides the portrayal of its 'Japaneseness', ICI-NOF has to form a true partnership with the Japanese customers. ICI-NOF should participate actively in customers business improvement programs like Just-In-Time, Kanban and cost rationalization activity. Participation in these programs will help ICI-NOF to enhance relationship and gain trust from customers. With the trust established, the potential entrants generally have to take considerable amount of time to penetrate these accounts and allow existing player buy time to make some adjustments to counter the threat. The other aspect that needs great emphasis is to further improve the after sales service. The attentive technical service is important for a technical product like powder coating. The ability to solve customer problem will gain customer confidence and ensure customer loyalty. Linkage with customers are barriers to competitors who will find difficult to penetrate. They need more time and energy and often are costly.

b) Identify Growing Market Segments

Currently, ICI-NOF is focused on premium market and often neglecting other growing market segments. ICI-NOF needs to re-evaluate the whole market segment and identify the most suitable segment to penetrate. With the recovery of the Malaysian economy, the construction industry is poised to achieve excellent growth rate. The architectural coating is expected to make a strong comeback in year 2000 and onwards. Architectural products used are in premium range and require good quality products. This premium architectural segment will boost ICI-NOF image as a quality supplier and increase the revenue of the company. Besides the architectural segment, the

recession-proof furniture segment is the other area that ICI-NOF should seek the volume growth.

The export market should be the other area which ICI-NOF can seek the volume growth. Especially the Japan market where the joint venture partner NOF could extend their assistance in marketing and distribution. The current price in Japan is about 35 – 40% more expensive than in Malaysia. This provides good opportunity for ICI-NOF to utilize the low labor cost and exchange rate advantage to supply into the Japan market. The Singapore market should also be seriously considered even though the market is quite small. The exchange rate advantage and with the easily available distribution network make the Singapore an attractive export market for ICI-NOF.

However, the pricing strategy of ICI-NOF needs to be fine-tuned to suit the strategy of penetration. ICI-NOF used to concentrate in premium range. However, to penetrate into other growth areas like furniture; the selling price has to be competitive enough in gaining market share. ICI-NOF should establish a 3-tier pricing strategy; i.e. high, medium and low to meet the competitive environment in each market segment. The low tier market consists of high volume and high growth rate. ICI-NOF has to penetrate into the market to gain more volume in order to reduce the high fixed cost.

c) Sourcing New Technology

Currently, the ICI-NOF's formulations and R&D works are mainly conducted in Japan and in-house technical developments in Malaysia are restricted to formulation adaptation. The Japanese technologies are largely confined to electrical appliances segment but weak on other areas. If ICI-NOF intends to penetrate into other market segments especially architectural, new technologies are required to produce the products that can compete in market place. Since in-house technical development will take time, obviously ICI-NOF has to form a strategic partnership with others parties to source for new technology.

ICI-NOF should focus on forming a strategic alliance with American firms as they are not operating in ASEAN region at the moment. Their superior technology in architectural and automotive segment make them an ideal choice for ICI-NOF to establish a competitive advantage in these areas. ICI-NOF can be the licensee on the technology and pay a royalty or commission to the licensor.

d) Selective Investments

ICI-NOF is used to manufacture a small number of colors in large quantity which was typical for appliance market. This is a totally different market scenario compare with the other market segments. In architectural and furniture segment, customers usually order in smaller batch sizes and with various kind of colors. ICI-NOF is required to invest in smaller machines and upgrade its present production facilities in order to be more flexible in meeting the unscheduled demand from customers. Investment also is needed to upgrade the laboratory facility to enable faster color matching process.

Besides that, ICI-NOF has to re-evaluate the distribution and technical service network to serve the fragmented customer base. ICI-NOF needs to station few technical sales representative in Northern and Southern of Peninsular Malaysia in order to monitor the changing environment and provide quick response to customers' problem.

Option 2: Harvest and Exit the Industry

Under the second option, it is suggested that ICI-NOF to follow the strategy of harvesting the profit and slowly exit the industry. The strategy required strong and bold decision to see it through. Sometimes, it also considered as immoral and unfair towards the employees.

When implementing the strategy, ICI-NOF has to push hard on their employees to continue performing while no capital investment will be approved. Employees have to work under existing or deteriorating conditions hoping that external market

environments will not turn against them. Without the much required investment, the financial ratio will look pretty good if the company continue to perform in the short-term. Equipped with better financial performance, ICI-NOF will find it much easier to court the suitors for divestment. While waiting for divestment, ICI-NOF can harvest the profit by declaring high dividend from the profit.

The strategy also requires the company to continue to focus its attention to the existing customers and refrain from entering into other market segments. This will enable the company to conserve the limited resources to serve the customers without jeopardising its reputation. Furthermore, without the investment it will be fruitless to diversify its customer base which the company is unable to serve well.

6.3 Recommendation

ICI Paints business has been traditionally performed well in the market if they are in number one or number two positions in that particular market. ICI Paints core competency is that they are good at defending the leading position. Whereas, they are generally a mediocre performer in the business which are in the follower position. ICI Paints generally is weak in the ability to move its position upward in the industry.

Previous analysis has shown that ICI-NOF is not in the leading position. Moreover, facing the glut in supply in Malaysia and strong competitors, it is recommended that the second option is a better choice even though it is a unpleasant option. The rationale for this option is supported by the following facts:

- a) Since industrial paints which include powder coating business has been declared as non-core business, any capital investments proposals will come under close scrutiny by top management. The process will be lengthy and the investment has to be justified by the rate of returns. The past 10 years of financial records of ICI-NOF business was below expectation and is hard for the company to put forward the investment proposal.

- b) In order to carry out the first option, selective capital investments is required to upgrade the old production equipment and technical facilities. However, as the non-core business, it is difficult to get the sanction for any capital investment proposal. The current appliance business has slowed down due to stiff competition from neighboring countries. ICI-NOF has to diversify into other growing segment to improve sales.
- c) The stiff competition in market has depressed the profitability of the industry. The unfavorable environment demands patience and strategic vision of the top management of the market players to steer through the difficult period. All the powder coating manufacturers in Malaysia except ICI Paints treat the powder coating as their core business. They have no reservation in spending the money and time to gain competitive advantage in the industry. Their long-term view of the business versus the short-term approaches by ICI-NOF cast the doubt on its ability to compete in the market.
- d) Over the years of working in the non-core business, the morale of the employee is deteriorating. It is tough for the management to continuously boost the fighting spirit of the employees. Compared with other businesses within ICI Paints group, ICI-NOF was deprived of the benefits and incentives which is tied with the performance of each business. Due to below expectation performance, employees of ICI-NOF were punished by the scheme.

6.4 Recommendation to the Powder Coating Industry in Malaysia

For the benefit of the powder coating industry that include manufacturer and customer, some recommendations are put forward as follow:

a) Consolidation

Powder coating industry in Malaysia need consolidation as there are too many players in the market. Manufacturers should restraint themselves from putting more capacity into the industry. Merger and acquisition emerge as a better option to ensure less competition and long term profitability.

b) Cooperation among Players

In Malaysia, cooperation levels among the players are low compared with other countries. Many areas of cooperation could be achieved for mutual benefit. One of the area is the sourcing of the special product and colors among the players. Powder coating manufacturers are always facing problem in making small quantity of special product or colors. One or two manufacturers can be assigned to make certain special products or colors that are of low demand in the market. The assigned manufacturers could produce in a bigger quantity and supply to other manufacturers. The assigned manufacturer can enjoy economies of scale for production and the rest of the manufacturers can free themselves from making the unprofitable small production runs.

c) Product Development

Powder coating manufacturers have to continuously invest in research and development of new products for new application. The heat-sensitive products like woods and plastic present a huge unexplored market for powder coating. Close cooperation between the manufacturers and raw material suppliers especially the resin supplier is very important in developing the new products. They could form a

partnership that jointly develop a new product for heat-sensitive product. Cross technical exchange is essential as the different area of expertise is needed to ensure the product meet the specifications of the powder coatings users.

d) Manufacturing Flexibility

Manufacturing process of powder coating is generally more complexes compared to conventional liquid paint. One of the biggest challenges facing the manufacturer is the color turnaround time. Much time is wasted to clean the machines so that color contamination can be minimized. As the current trend towards decorative function of powder coating become more important, manufacturers are expected to churn out an increasingly large number of colors in the future.

In view of this trend, manufacturers have to evaluate each process of manufacturing, from the receiving raw materials to the delivery of the finished products to the customer so that lead-time for order can be reduced. The production planning of the various colors should be arranged in the manner from light color to dark color to avoid thorough cleaning. The configuration of the machinery needs to be examined and modified to facilitate color changing. In summary, the whole operation require careful study with the aim to achieve flexibility to meet customer demand.