

CHAPTER 5

FORMULATING 4Ps FOR TARGET MARKETS

Section 5.1 PRODUCT

The LDPE product produced by PETLIN has 9 different grades. There would be seven (7) Film Grade products and two (2) other grades of the Injection Grade. The end-usage application by the buyers of the product would depend on the grade of the LDPE. Each grade has a different melt-flow index and this determines the application of the product.

Out of the seven (7) Film Grade products, two (2) grades would be the major products sold in China. These grades (N103X and N109X) are both film grades used in the agricultural sector. The N103X is a heavy-duty product used mainly as greenhouse films. On the other hand, N109X is a medium-duty grade that is also used in the agricultural sector but more for the surface protection and waterproofing purposes.

In the Philippines, although all the nine (9) grades would be accepted but the focus of sale would be on four (4) grades, consisting of the N125Y, C225Y, C150Y and C450Y. All these four (4) products are of the film grade section, which is used in the agricultural as well as the garment packing industry. The decision of the product to be utilised would be based on the clarity of the product, its stiffness and its anti-blocking criteria.

As for Indonesia, Vietnam and the Indian subcontinent countries, all the nine (9) LDPE products produced by PETLIN would be, on the average, absorbed evenly. Therefore, there isn't a higher demand for any of these nine (9) grades in these targeted countries.

Section 5.2 PRICE

With the competition in the LDPE market being a very strong challenged market, the price offered by MITCO for PETLIN's LDPE product is very crucial in determining the total sales of the product. As with any other petrochemical commodity, LDPE's price changes rapidly.

The weekly PLATT's report on the transacted contracts for the product would be utilised as a benchmark for the market price for LDPE. It is from these reported figures that the negotiation for any sale transaction will begin. The marketers in MITCO must ensure that the opening price they offer to their customers is within a negotiable range. Being a new product in the global LDPE market, the MITCO marketers must not discourage any interested customers by offering a price beyond the current market margin in the beginning of the negotiation.

The current market price for the film grade LDPE is in the range USD580 to USD600 CFR China. Whereas the market price in South East Asia (SEA) is a little stronger with the price being in the range of USD590 to RM610 CFR SEA. With PETLIN just introducing their products into the market, they would have to offer their products at a price slightly lower than the current market price to attract customers.

The general difference in the price between ethylene (the feedstock for LDPE) and high-density polyethylene (HDPE)/low-level density polyethylene (LLDPE) is USD120. But the price difference between the current market price of ethylene and LDPE would be approximately USD180. This would be the benchmark price quotation when PETLIN begins its LDPE production. PLATTs publish both the ethylene and LDPE weekly prices for CFR Far East Asia, South East Asia and West Asia every Wednesday.

MITCO can utilise historical prices of LDPE and ethylene as well to quote its initial offering price into the market. This pattern of the difference between these two related commodities can be seen in Chart 5.1.

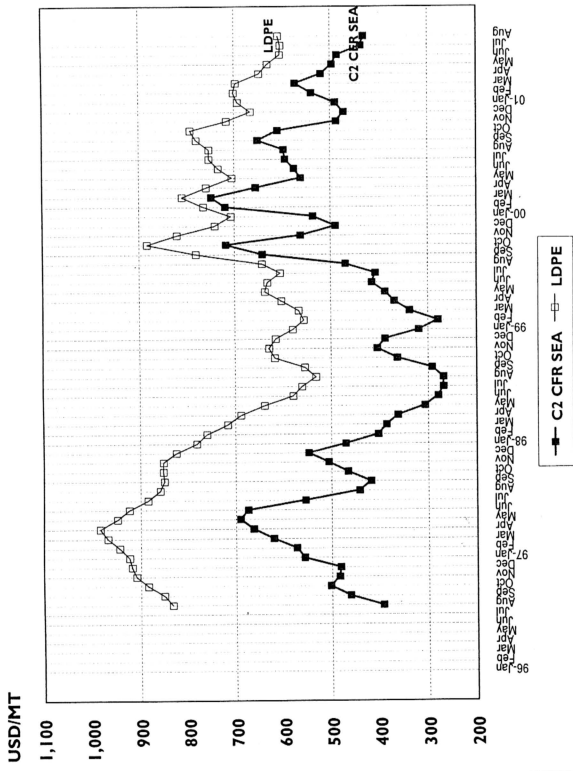
Section 5.3 PLACE

This is an aspect in the marketing of the LDPE from PETLIN, which would play a vital role as well. The marketers have to decide on the channels and

transportation modes to be utilised for the distribution of their product. The distribution of the product, which would include the customer locations and the coverage areas of MITCO, would determine the channels and transportation modes for the marketers.

When this portion of the marketing mix is highlighted, the inventory location is also highlighted. This would be from where the PETLIN's LDPE is transported out of the plant. PETLIN is located in the Kertih Petrochemical Complex in Kertih, Trengganu. This is also a positive factor for the marketers due to the fact that Kertih directly has a reliable port service.

Chart 5.1 HISTORICAL MONTHLY PRICES (CFR SEA) - C2 Y3 LDPE (1770 - 2001)



Source: The Polyethylene Trader, 14, No. 8, Sept 1999

Section 5.4 PROMOTION

Being a new product in an already keen and tight market, MITCO has to ensure that PETLIN's LDPE is provided as a testing material to the major end-users of LDPE in the targeted countries before PETLIN's production begins. Right now, MITCO is solely responsible for the marketing of HDPE and LLDPE from the Polyethylene Malaysia Sdn. Bhd. (PEMSB). PEMS is a swing plant of these two (2) petrochemical products.

The volume from PEMS is insufficient to be marketed in the international market, but MITCO has to allocate a small portion from this plant to begin its business relationship with its potential LDPE customers. This would enable the MITCO marketers to familiarise themselves with the major players in the PE market.

With PETLIN being a joint-venture project, MITCO should negotiate and utilise its partners, DSM and Polifin of South Africa, in any way advantageous to MITCO. They should attain the LDPE that is being produced in DSM's plant in the Netherlands for its current promotion prior to any production from PETLIN. These products from DSM, Netherlands, is exactly the same as the ones to be produced by PETLIN. This is because the production technology used in PETLIN is owned and utilised by DSM at their LDPE plant in the Netherlands.

With the product sent to these potential LDPE customers being only used as testing material, the volume sent to each and every one of them is an insignificant amount. MITCO should allocate at least 100 metric tons to be handed out to its customers at least two (2) months before the beginning of the production from PETLIN.

When MITCO eventually begins to sell the initial production from PETLIN, the prices quoted to the buyers has certainly got to be slightly lower than the overall market price of LDPE in the region. This is due to the fact that

PETLIN's LDPE would be an untested product as far as the buyers are concerned and MITCO would also need to attract new customers into their portfolio on a long-term basis.