Chapter 7: Identification of Environmental Opportunities, Threats and Firm Strength and Weaknesses (SWOT Analysis)

The outcome of the situation analysis is the identification of the firm's strengths and weaknesses and its environmental threats and opportunities. The SWOT analysis is to determine whether a firm can take advantage of the opportunities and avoiding or minimizing external threats.

7.1 *The strengths*

The company has a team of highly energetic, enthusiastic and well-balanced front line and management team. This translated into the capability to customize customers' demand in a timely manner. The company has the flexible manufacturing system to serve the changing trend of customers.

The firm posses healthy cash flow and good financial performance. This allows the company to capture the opportunities, especially in the correct timing of raw material purchases.

The products sold have strong brand name worldwide. Market share of customer has changed from 70 percent dealers to 80 percent of end users. As the sale contracts has sold up to 6 months, more efficient logistic and purchasing the right type of raw material at right time able to be performed. Thus, reduced the operating cost minimized the price risk.

7.2 *Weaknesses*

The company does not have a strong corporate support. As oil palm emerges as a country golden crop, 95 percent of cocoa plantation has been converted to oil palm cultivation in West Malaysia. There was no new cultivation of cocoa tree in the last 3 years by the group.

Cacao International processed about 1.2 percent of the world cocoa production. The company lost the capability to insert market power. Cacao international could only act as market follower as it does not has the power to influence the industry.

7.3 *Opportunity*

Vertical integration by the large cocoa processors leads to standardization of products. However the trend does not correlates with the market demands. Hence, this creates a niche market for small processors like Cacao International Sdn. Bhd. to expand.

Outsourcing strategy by the chocolate manufacturers, who focus on their core competency, open up room for the company to grow. As consolidation of the cocoa and chocolate industry, chocolate manufacturer may not purchase the cocoa product from their rivals, which in the end might switch to Cacao International for supply.

7.4 *Threats*

Consolidation of the coca industry and growing installation of processing facilities in West Africa may force non-competitive processors out of business. By setting up plants in the cocoa producing countries, the firms are able to save on logistic cost and availability of raw material will not be an issue. In the worse case, the world leaders might form a cartel to monopoly the market and control the raw material prices.

Poorer quality of bean in Asia country, may affect Cacao International Sdn. Bhd. The situation worsens by the narrowing differential cocoa bean price between Malaysia and Indonesia. The firm is expected to pay higher price for cocoa bean from Indonesia. Reduction in cocoa cultivated land area in Malaysia will result in shortages of the cocoa bean and this scarcity of cocoa bean will form a threat to the company. New source of coca bean might be needed in the near future. Thus the company needs to seek for the source of cocoa bean worldwide besides of just rely solely on the supplies from the Asia region.

Liberalization of cocoa trade in West Africa may increase risk in the cocoa trade and cause market disruption by destabilizing the purchasing and quality control. Impact of the speculations by fund managers on the cocoa trade will also exposed the company to great price risk.

Global economies crisis may lead to poorer chocolate consumption. The financial crisis affecting Russia has reduced the country consumption by 20,000 metric tones per annum. As the world economy especially in Asia has yet to fully recover, the world cocoa consumption is expected to be stagnant.