

1.0 STUDY BACKGROUND

1.1 Objectives

Two key objectives in this study are:

- (i) To analyze and define appropriate marketing strategies for infant formula segment using Porter's five forces approach.
- (ii) To determine correlation between infant formula market shares growth rate with promotional staff's (Area Nutrition Executives and Nutrition Advisors) perception on DUMEX management approaches.

1.2 Scope of study

This study will cover:

- (i) Business strategies specifically on marketing of infant formulas in Malaysia.
- (ii) Perception level of Area Nutrition Executives and Nutrition Advisors, who are essential in promoting infant formulas on DUMEX management direction, procedures, people policies, market orientation and commitment towards the company.

Business strategies for infant formula industries proposed in this study are predominantly based on capabilities of DUMEX (Malaysia) Sdn. Bhd., the leader in infant formula segment in Malaysia.

1.3 Significance of this study

Even though infant formula industry has been established more than forty years in Malaysia, there is very limited research done in this market. Prompted by the increase government control over this industry, this study is important to identify business strategies from the point of view of infant formula companies. Overall, this study aims to identify outstanding yet appropriate marketing strategies for infant formulas.

1.4 Why DUMEX was selected in this study?

DUMEX (Malaysia) Sdn. Bhd. was incorporated more than forty years ago in 1959. 'DUMEX' stands for Danish United Medical Export. As the name

implies, DUMEX origin is in Copenhagen, Denmark. The company began production in 1961 in Malaysia as the pioneer in infant formula.

Currently DUMEX business has expanded into eight Asian countries i.e. Malaysia, Singapore, Thailand, China, Vietnam, Myanmar, Cambodia and Philippines. Among these countries, only Malaysia, Thailand and China are having milk manufacturing plants whereas other countries are importing milk powder from the above mentioned countries. Operating head office in this region, namely International Nutrition Company (INC) is based in Singapore.

DUMEX (Malaysia) Sdn. Bhd. produce finished milk products to Singapore, Brunei, Vietnam, Cambodia, Myanmar and Philippines which amount to RM330 million in 2000. According to Mr. Bjorn L. Olesen, the Managing Director of DUMEX, the company wants to have its first export in Middle East by June 2001. Contribution of sales by region as expected in year 2000 was shown in Figure 1.

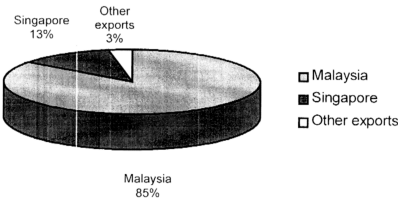


Figure 1: 2000 Expected Sales by Region
Source: DUMEX (Malaysia) Sdn. Bhd.

1.4.1 Market leader for infant formula in Malaysia

In Malaysia, Dumex Infant Formula is the first product introduced by DUMEX and it has since 1961, become the market leader in the Standard Infant Formula segment. Latest figure in A.C. Nielsen retail audit

September/October 2000 (Table 1) shown that market share for Dumex Infant Formula was at all time highest in comparison with the closest competitors from Nestle and Dutch Lady Milk Industries. Corporate shares DUMEX versus main competitors are shown in Table 2.

Table 1. Standard Formula market shares in West Malaysia

Source: A. C. Nielsen, 1999 - September/October 2000

	1999	YTD 2000	JF 2000	MA 2000	MJ 2000	JA 2000	SO 2000
DIF	24.7%	25.9%	25.9%	25.2%	25.5%	26.3%	26.8%
LAC1	18.5%	17.1%	16.7%	17.5%	17.0%	17.5%	16.6%
DB1	7.4%	6.9%	6.7%	7.3%	6.6%	7.3%	6.8%
DFM	18.5%	21.4%	22.6%	21.0%	20.7%	21.2%	21.3%
LAC2	25.4%	21.5%	21.1%	21.7%	22.4%	20.8%	21.4%
DB2	5.5%	7.1%	6.9%	7.2%	7.7%	6.7%	6.9%
DUMEX	43.2%	47.3%	48.5%	46.2%	46.2%	47.5%	48.1%
LAC	43.9%	38.6%	37.8%	39.2%	39.4%	38.3%	38.0%
DB	12.9%	14.0%	13.6%	14.5%	14.3%	14.0%	13.7%

DIF - Dumex Infant Formula

DFM - Dumex Follow-up Formula

LAC - Lactogen (Nestle Bhd.)

DB - Dutch Baby (Dutch Lady Milk Industries Bhd.)

Table 2: Corporate shares in West Malaysia

Source: A. C. Nielsen, 1999 – September/October 2000

Milk powder segment	DUMEX				
	1998	1999	JA 00	SO 00	YTD 00
Standard Formula	42.5	43.1	47.5	48.1	47.1
Premium Formula	5.6	5.3	6.2	6.1	6.4
Growing Up Milk	27.0	36.0	42.2	41.8	42.6
Full Cream	14.5	12.8	12.0	12.0	12.8
Corporate share I	23.2	24.8	28.4	29.1	28.7
Corporate share II	30.3	34	38.7	39.2	38.8

Company	CORPORATE SHARE II				
	1998	1999	JA 00	SO 00	YTD 00
DUMEX	30.3	34.0	38.7	39.2	38.8
NESTLE	36.6	31.5	23.9	25.2	24.8
DUTCH LADY	12.0	13.9	17.3	17.4	16.1
New Zealand Milk Products	4.8	4.3	4.8	4.5	5.1

* Corporate share I excludes Hi-Calcium/Low Fat

** Corporate share II excludes Full Cream & Hi-Calcium/Low Fat

Infant Formula promotional activities were not constrained until the introduction of the Code of Ethics for Infant Formula Products in 1979. Stricter enforcement of the Code in late 1980s has almost crippled the promotional activities for infant formula market in Malaysia. Ever since then the promotional efforts in this market segment have to rely entirely on DUMEX's promotional team which is known as Nutrition Services Team.

1.4.2 Largest Nutrition Services Team among milk companies in Malaysia

In order to be competitive and retain its number one position in infant formula segment, it is inevitable for DUMEX to establish a large Nutrition Services Team. Figure 2 shows the basic organizational structure for this Team.

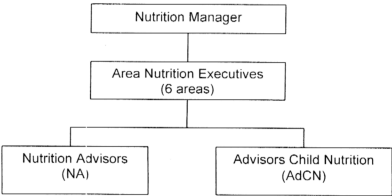


Figure 2: DUMEX Nutrition Services Team - basic organizational structure

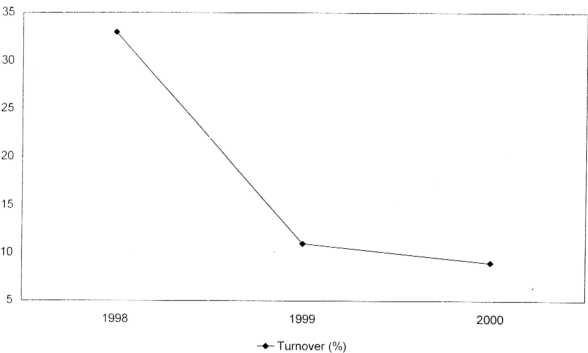
Nutrition Advisors' (NA) are company direct contacts with health care professionals. Their main responsibilities are to promote infant formulas in medical and health institutions and to create top-of-mind recall among health care professionals. Primary customers among health care professionals are doctors and nurses while nutritionists and dieticians are considered as secondary customers. In another word, Nutrition Advisors are the walking advertisements for DUMEX infant formulas.

Advisors Child Nutrition (AdCN) however, are promotional staffs with no direct responsibilities in medical and health institutions. Instead, their main tasks are to promote growing up milk (milk for children above one year old) in non-health institutions such as nurseries and kindergartens.

With more than thirty Nutrition Advisors, DUMEX Nutrition Services Team is the largest promotional team for infant formulas among milk companies in Malaysia.

1.4.3 Facing substantial Nutrition Advisors turnover

Figure 3: DUMEX Nutrition Advisor - turnover rate (1998 - 2000)



One of the main dilemmas facing DUMEX Nutrition Services Team for the last three years is the constant resignation of Nutrition Advisors; especially those based in Klang Valley. High turnover was not a dominant issue until 1998 when almost 60% 'old timers' retired or chose optional early retirement scheme. Since then, new faces usually do not stay for more than 2 years in the Team.

It has been proven that Nutrition Advisors' resignations are more disadvantageous towards infant formula promotional activities if compared to other staff turnover, as good relationship that have been established with health care professionals can be 'destroyed' overnight. Even though the turnover rate has been reduced significantly since 1998 (Figure 3),

resignations of Nutrition Advisors are still a norm in the Nutrition Services Team.

1.5 Research methodology

1.5.1 Primary data

A concise 5-point scale questionnaire was designed to collect primary data from DUMEX Nutrition Services Team regarding their perception on DUMEX vision statement, working standards, people policies, market orientation and commitment towards DUMEX (Malaysia) Sdn. Bhd (Appendix I). The result from this survey will be compared with the result from DUMEX Organizational Alignment Survey (August 2000). The relationship between the Nutrition Services Team's motivational level with the sales of Dumex infant formulas will be deducted based on results of this survey.

1.5.2 Secondary data

The key sources of information will be from secondary data available in DUMEX internal database and independent research results. Other primary data are from government agencies especially Malaysia Ministry of Health. It is interesting to note that no study has been done thus far specifically on marketing strategies for infant formulas.

2.0 REGULATORY ESTABLISHMENT ON INFANT FORMULA PRODUCTS IN MALAYSIA

Understanding the Code of Ethics for Infant Formula Products is a very important aspect in marketing infant formulas as Code of Ethics practically control all promotional and advertising activities for Infant Formula Products in Malaysia. Among Asian countries, Code of Ethics for Infant Formula Products in Malaysia is considered one of the strictest.