

4.0 INTERNAL ANALYSIS - DUMEX (MALAYSIA) SDN. BHD

4.1 Resources

Resources are inputs into a firm's production process such as capital equipment, the skills of individual employees, patents, finance and talented managers. Broad in scope, resources cover a spectrum of individual, social, and organizational phenomena. A competitive advantage can be created through the unique bundling of several resources (Hitt et. al., 1999).

4.1.1 Tangible resources

Tangible resources are assets that can be seen and quantified. The four types of tangible resources are financial, physical, human, and organizational (Hitt et. al., 1999).

Financial

Supported by two major shareholders, East Asiatic Company (EAC) of Denmark and Hap Seng Sdn. Bhd., DUMEX has able to generate sufficient funds required for its operation even during the recent economic crisis. DUMEX (Malaysia) Sdn. Bhd. is grouped under EAC Nutrition, one of the four business segments under EAC Holdings (Nutrition, Foods, Industrial Ingredients, and Moving & Relocation Services). Overall EAC Holdings performance for the first three-quarters in year 2000 has exceeded budget, as business growth rate is more than market growth rate (Table 11).

Table 11: EAC Holdings – P & L Account, Balance sheet and Equity
Source: Quarter 3 Business Report (DUMEX, 2000)

<u>PROFIT AND LOSS ACCOUNT</u>	<u>First 3 quarters</u>		<u>Full-</u>
	<u>2000</u>	<u>1999</u>	<u>year</u> <u>1999</u>
DKK million (average exchange rates)			
Net sales	5,945	6,957	9,106
Gross profit	1,321	1,152	1,607
Share of results before tax in associated companies	42	26	48
Operating result	385	222	389
Financing expenses and income, net	-86	-137	-182
Result of ordinary activities	299	85	207
Tax on result of ordinary activities	91	42	68
Result after tax of ordinary activities before minorities	208	43	139
Minority interests	30	41	51
Net result	178	2	88

Table 11 (Continued)

<u>BALANCE SHEET</u>	<u>30.09</u>	<u>31.12</u>	<u>30.09*</u>
DKK million (exchange rates end of period)	<u>2000</u>	<u>1999</u>	<u>1999</u>
Total assets	5,125	5,248	5,338
Total debt and provisions	2,913	3,172	3,445
Shareholders' equity	2,212	2,076	1,895
Interest bearing debt, net	9	336	792
EAC's share of equity	1,925	1,656	1,501
Shareholders' equity to total assets ratio	43.2%	39.6%	35.5%
<u>EQUITY</u>	<u>30.09</u>	<u>31.12</u>	<u>30.09*</u>
DKK million (exchange rates end of period)	<u>2000</u>	<u>1999</u>	<u>1999</u>
Opening balance	1,656	1,529	1,529
Net result	178	88	2
Foreign currency translation adjustments	192	174	76
Adjustments to unrealised exchange gains/losses on long-term items hedging net investment	-106	-108	-108
Realized exchange gains/losses on long-term items where hedging has ceased	5	-27	2
EAC's share of equity	1,925	1,656	1,501
Minority interests	287	420	392
Total shareholders' equity	2,212	2,076	1,893

EAC Nutrition performance in Asian market has continued to register strong sales across all units. Quarter three sales reached DKK 460 million or 55% above last year. Cumulative year to date sales of DKK 1,300 million was 51% above last year, reflecting new market and new product launch activities in this quarter three 2000.

Physical resources

Years of established relationship with suppliers of raw materials have ensured continuous supplies to DUMEX at best valued costs. The access to raw materials was further improved through the development of a Logistic Department in 1997.

In addition raw materials accessibility, the increased demand for DUMEX products called for higher production. With this as the background and the need to enhance product quality, DUMEX took a big step forward to set up a new state-of-art manufacturing facility for infant and child nutrition products in 1997. This facility is not only the most modern in Malaysia but also in the whole of South East Asia.

Sited on 44,525 square meter (11 acres) of land in Nilai, the DUMEX facility currently occupies 15,872 square meter. Construction of the factory rigidly complied with Good Manufacturing Practice regulations to guarantee safety and clean-room environments. The factory is also complete in providing and administrative office, a comprehensive laboratory for quality analyses and testing, two production areas and two warehouses for packing and finished products. These facilities were designed and laid out to optimise productivity and efficiency in manufacturing.

The pouch and can packing floors are equipped with highly automated Colby filling lines. With an eye to the future these are designed on a modular basis to allow for future expansion. Throughout, the most modern computerised processing systems are in place to ensure consistent product quality.

Currently this production plant produces 24 million units of infant and child nutrition products in a year. This means that every year DUMEX is nurturing over 400,000 infants and children in Malaysia and its export markets.

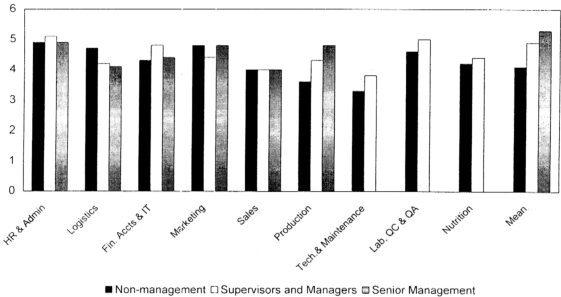
Uncompromising quality is an additional advantage in DUMEX plant. It was certified by SIRIM, ISO 9002, Hazard Analysis Critical Control Points (HACCP) and Halal. These certifications are internationally recognized credentials that DUMEX have achieved within a short time span of ten years.

Human resources

Systematic and structured training is provided to all levels of DUMEX employees in nutrition, management, technical and marketing skills. Not only just training but also retraining and advanced learning programmes to ensure

continuous development of DUMEX employees in every area of their work. The end result is that DUMEX employees are well equipped with the necessary skills to perform superlatively in market research, customer service and production. For instance, managers are sent by batches to attend internal training, DUMEX Management Development Programme (DMDP) where they are exposed to management of all perspectives such as production, financial, marketing etc. for two years.

**Figure 9: DUMEX People policies
(West Malaysia)**
Source: OAS (DUMEX, 1999)



Furthermore, efforts are put in to show appreciation to DUMEX high performers in Nutrition Services Team. To illustrate, DUMEX Recognition Club was set up in 1998 where Performance Excellence Awards are given to outstanding Nutrition Advisors on a quarterly basis. Selected Nutrition Advisor is given RM1,000 cash, appreciation certificate and overseas incentive trip.

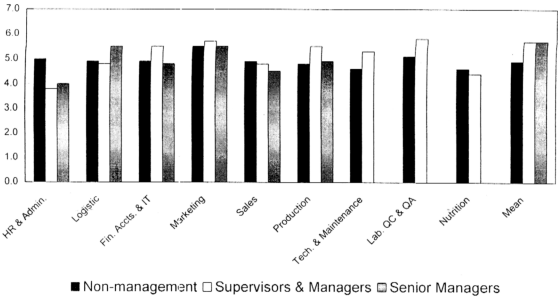
In order to gauge every employee's perceptions towards all aspects of DUMEX management, an Organizational Alignment Survey (OAS) is done

every two years. A result from OAS 1999 on people policies is shown in Figure 9. A value above 4.0 was considered as acceptable level.

Organizational resources

A section of OAS survey asks about DUMEX's formal reporting structure and its formal planning, controlling and co-ordinating systems. Figure 10 shown the results of this section (West Malaysia) from year 2000 OAS. The results indicated that employees are pleased with the overall standards and procedures in DUMEX.

**Figure 10: DUMEX Standards and Procedures
(West Malaysia)**
Source: OAS (DUMEX, 2000)



The above-average OAS results were further supported by the findings from a survey specifically done among DUMEX Area Nutrition Executives and Nutrition Advisors in this study. Out of 39 Area Nutrition Executives and Nutrition Advisors, 27 (69%) responded to this survey. Following charts indicated their opinions on company vision statement, working procedures, people policies, market orientation and their commitment towards DUMEX.

Figure 11: Nutrition Advisor - Survey results

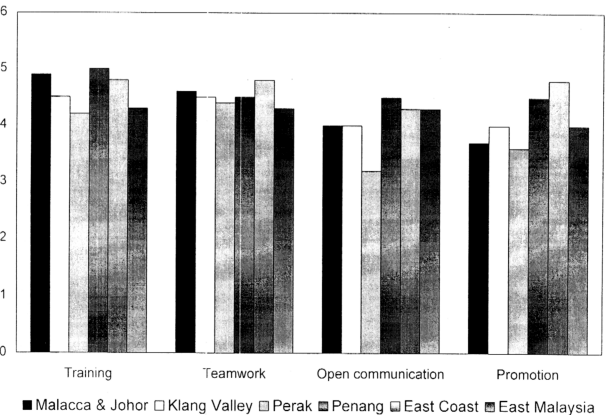
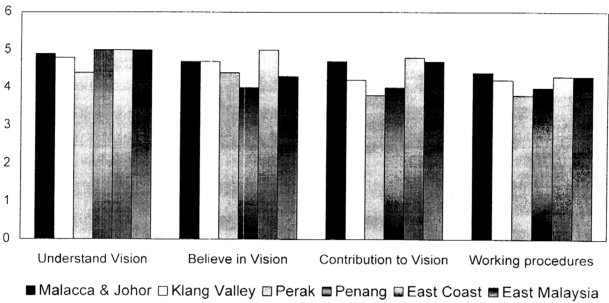
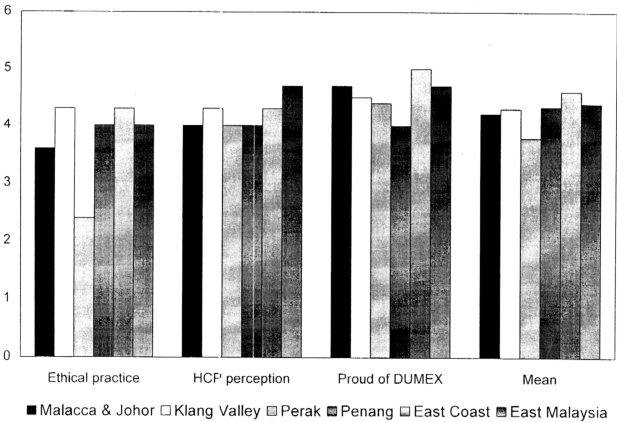
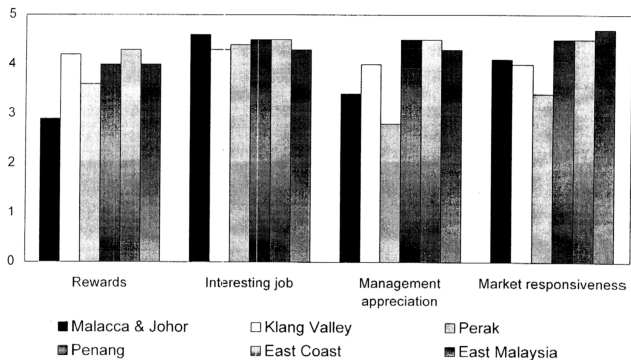


Figure 11: Nutrition Advisor – Survey results (Continued)



Focussing on Dumex Standard Formulas, the survey results did not show direct correlation between market shares growth rate of infant formula with the Nutrition Team's perception on DUMEX management approaches.

Table 12: Dumex Standard Formulas - market shares by area
Source: A.C. Nielsen (1999 – September/October 2000)

	1999	Year-to-date 2000
West Malaysia	43.2%	47.3%
Penang & Perak	50.5%	52.9%
Klang Valley	34.5%	39.9%
Malacca & Johor	43.1%	48.7%
E. Coast	47.0%	47.6%
East Malaysia	37.5%	43.1%
Sarawak	43.3%	48.7%
Sabah	31.6%	37.6%

Lowest mean score was recorded from Perak team which include four of the most senior Nutrition Advisors in Malaysia. Apparently mind set and ability to accept changes are influencing their perception of new approaches taken in DUMEX management.

Indeed turnover rate does not seem to have direct relationship with the Nutrition Team's perception of DUMEX management. For instance, turnover rate in Perak Team is nil for the past three years, which is mostly contributed by the fact that all its team members are too comfortable to move on elsewhere. On the other hand, Klang Valley with the highest turnover rate did not record a low mean score even though most Advisors are reaching almost two years of service.

4.1.2 Intangible resources

Because they are less visible and more difficult for competitors to understand, purchase, imitate, or substitute, managers prefer to use intangible resources as the foundation for a firm's capabilities and core competencies (Hitt et. al.,

1999). Intangible resources, as compared to tangible resources, are a superior and more potent source of core competencies.

Intangible resources range from the intellectual property rights of patents, trademarks, and copyrights to the people-dependent or subjective resources of know-how, networks, organizational culture, and a firm's reputation for its goods or services and the ways it interacts with people (e.g. employees, suppliers and customers).

In another word, technological resources, resources for innovation and reputation constitute the three important aspects of intangible resources.

Technological resources

According to Hitt et. al. (1999), brand names helps to create a firms reputation and are recognized widely as an important source of competitive advantage for many companies, especially for those manufacturing and selling consumer goods and services.

However, it is apparent that one of the DUMEX's weaknesses is the inability to have substantial intellectual properties rights of patents, trademarks, and copyrights for its long established brand names. For example, DUMEX are unable to register the growing up milk brand names i.e. Dumex 1-Plus, 3-Plus and 6-Plus because a legal clause does not allow numerical branding to be owned by any company. Therefore, legal action cannot be taken against a number of new growing up milks which have almost similar branding as DUMEX's e.g. Fernleaf 1+, Nespray 1+, Nespray 3+ and Nespray 6+.

Another prominent example was the trade mark issue involved during the re-launch of Protimex infant cereal in November 2000. A new brand name chosen to replace Protimex was nutriKiDS. However, since 'nutriKiDS' was in the process of registration by a pharmaceutical company, the re-launch was delayed to January 2001 so as to allow all promotional materials to be re-done into 'nutraKiDS' instead.

Resources for innovation

From a total of 387 employees as of January 2000, about 20% are involved directly and indirectly in research and development of new products or procedures and IT programming. In addition to this number of workforce, Nutritionists based in International Nutrition Company, Singapore also give support through technical advice.

In term of research facilities, right from its inception in 1946, DUMEX products have been developed through careful research by DUMEX Research & Development (R&D) teams. These are composed of highly qualified specialists from relevant fields such as nutrition, dietetics, biochemistry, food technology and medicine. The R&D teams based in DUMEX International Nutrition Research Institute in Denmark integrate all research findings.

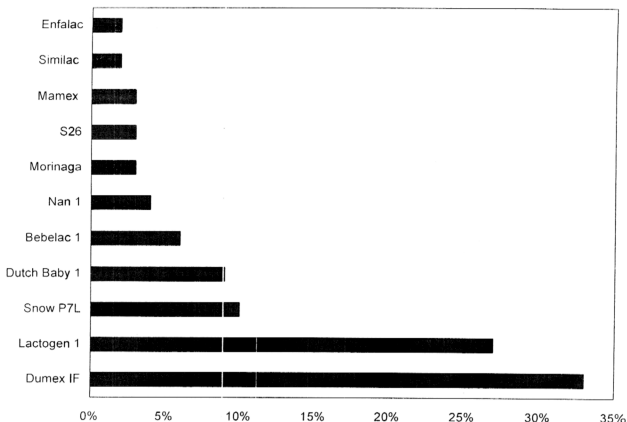
The teams of experts understand the importance of working in close partnership with healthcare professionals from various local and international institutions. Collaboration with world-renowned paediatricians and nutritionists provides valuable insights into the latest developments in infant and child nutrition. This allows DUMEX to utilise the most up-to-date research and clinical findings relevant for the development of new products and improvement of existing ones.

Reputation

Brand name when effective, helps significantly in informing customers of a product's performance, characteristics and attributes.

In many ways, brand-name products are supported through advertising. However due to constraints under the Code of Ethics, advertising is very much limited for DUMEX infant formulas. The importance of a good brand name is emphasized through a study done by Ogilvy & Mather Advertising Malaysia (Star, Nov 2000). For example, over half (57%) of Malaysian respondents said they would consider only established food brands and this figure was even higher among working mothers (74%).

Figure 12: Brand loyalty of infant formula
Source: Project Rattle (DUMEX, 2000)



Strong brand names provide value across time where customers become very loyal by refusing to buy competitors' offerings, including private-label generic products. Dumex Standard Formulas currently command the highest brand loyalty among infant formulas in Malaysia (Project Rattle, 2000).

Brand reputation was proven to be essential in infant formula segment. For example, the Snow Brand crisis in July 2000 which happened in Japan. Unfortunately for Snow, most consumers assumed that this crisis was also affecting the Snow formulas in Malaysia. As a result, the market shares of Snow infant formulas decline from 26.3% to 25.5% within a short period of two months (A. C. Nielsen, July – October 2000).

Figure 13: Newspaper cutting on Snow Brand crisis in Japan
Source: News Strait Time (July,2000)

18 WEDNESDAY JULY 12, 2000

WORLD NEWS

Snow Brand reused milk

Company voluntarily halts production at all 21 factories

TOKYO: This is Japan's biggest dairy food producer, at the centre of a food poisoning outbreak re-used milk products — some of which may have been out of date — still will be strictly controlled, government officials said today.

Workers at Snow Brand Milk Products Co's plant in Osaka, western Japan, the source of the outbreak, re-used products that had been returned or not shipped to make new batches, they said.

The Health Ministry launched a task force yesterday to pinpoint blame for the poisoning, which has affected nearly 4,000 people who

drank Snow Brand milk, most of them in Osaka.

Company vice-president Akihiko Sasagawa tonight announced it was voluntarily halting output at all 21 of its milk processing factories.

Snow Brand had earlier closed the factory at the centre of the outbreak in the city of Osaka.

"We got permission from the health authorities to operate 20 factories, but to clear our name we are launching an all-out investigation of all our factories," Sasagawa said. "We want to go back to the beginning and make a fresh start."

Earlier, top government spokes-

man Hidesao Nakagawa told a regular news conference. "Adding to the poor management of the factory and ineffective steps taken by the company after the incident, it is extremely regrettable to learn they used recycled milk."

An official of Osaka's local authority said: "We are investigating the case and we cannot deny the possibility that expired products were recycled. Such things should never happen." She said milk returned by large retail customers such as shops and unshipped products, were manually poured into a storage tank for recycling.

In addition, part of the skimmed milk production process was conducted outdoors in the early summer heat. "Some of the mixing was conducted outside, where temperatures cannot be controlled and with dust exposures."

Snow Brand said the shelf life of the recycled products had not expired and the contents had been checked for bacteria.

Osaka officials said no legal restrictions existed against recycling milk that was still good.

Investors were unsurprised, and shares in Snow Brand were trading 678 per cent lower at 433 yen

(RM14.55) on the Tokyo Stock Exchange by mid-afternoon, extending last week's plunge of more than 50 per cent.

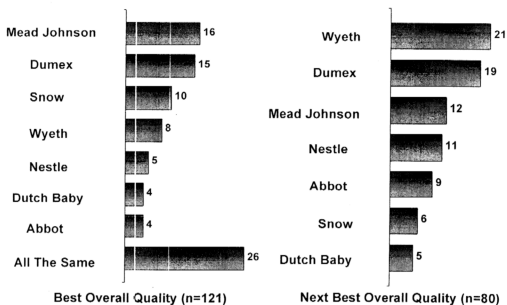
Last week, Snow Brand president Tetsuo Ishikawa said he would resign in September to take responsibility for the outbreak and to change its brand name.

Ishikawa was taken to hospital in the weekend due to complications from high blood pressure.

The company yesterday dropped to recall some 20,000 packets of butter after complaints of diarrhoea and... Reuters

On the medical front, Project Track was conducted in 1999 to prompt healthcare professionals' perceptions on DUMEX's customer services, product performance, and education and support materials. In term of overall quality, DUMEX ranked in number two placing, closely behind Mead Johnson (Figure 14).

**Figure 14: Company Provides -
Best/Next Best Overall Quality**
Source: Project Track (DUMEX, 1999)



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Beside strong brand loyalty, perceptions of DUMEX products' quality, durability and reliability are further supported by programmes developed by DUMEX to enhance customer services. Over the years, DUMEX nutrition guides have updated the healthcare knowledge base of Malaysian community. DUMEX World and Mama World are the direct marketing initiatives which aim to interact directly with consumers. By keeping pace with each child's development, DUMEX able to share with parents guidance in healthcare, parenting, nutrition and a host of other topics through a quarterly newsletter, Nurture and You. At the medical professional level, DUMEX House Call, a quarterly newsletter caters to the interests of medical and healthcare professionals.

Apart from direct marketing, DUMEX reputation was also built through other larger scale programmes which nurture growth of future champions. The DUMEX long-term support of the Badminton Association of Malaysia (BAM) paves the way for champions to achieve excellence in the national sport.

DUMEX also put Malaysia and the World Wide Fund for Nature (WWF) in the Guinness Book of World Records in August 1995 by building a 55.63 km coin line made of more than two million pieces of twenty cent coins worth RM473,446.80. Very recently, DUMEX inaugurated the 'Anugerah Juara DUMEX' and National Science Quiz with the Ministry of Education. The programme motivates primary school children to greater achievements in academics, personal all-round growth the leadership qualities.

4.2 DUMEX core competencies

Core competencies emerge over time through an organizational process of accumulating and learning how to deploy different resources and capabilities. As the source of competitive advantage for a firm, core competencies are... 'the essence of what makes an organization unique in its ability to provide value to customers over a long period of time' (Hitt et. al., 1999).

4.2.1 Product positioning

Without doubt advances in research and technology come from the winning formula of DUMEX partnership with medical and healthcare professionals. It is this unrelenting pursuit in research which undertake customers' needs that has made DUMEX a leader and a top Malaysian brand in infant and child nutrition.

The fact that all DUMEX products are formulated according to the recommendations of international health organizations indicated that careful researches are done before any product introductions. Standards followed by DUMEX are:

- The Codex Alimentarius Commission of the Food and Agricultural Organization (FAO) and the World Health Organization (WHO)
- European Society of Pediatrics Gastroenterology and Nutrition (ESPGAN)
- American Academy of Pediatrics (AAP)

In another words, clear product positioning is very important in steering the direction of product research and development, production, marketing and sales. For example, product positioning of Dumex Infant / Follow-up Formula and Mamex Infant / Mamil Follow-up Formula evidently point the direction DUMEX want these products to be placed in customers' mind. The product positioning statements are:

Dumex Infant and Follow-up Formula

To doctors who are concerned with recommending the right product for their patients, Dumex Infant / Follow-up Formulas are the breast milk substitutes that he can recommend with confidence because it is scientifically up-to-date, proven and provides best value (best nutrition at an honest price).

Mamex Infant Formula and Mamil Follow-up Formula

To doctors who are concerned with recommending the right product for their discerning patients, Mamex Infant and Mamil Follow-up Formulas are the breast milk substitutes that he can recommend with confidence because it is scientifically up-to-date, evidently problem-free and provides optimal nutrition that is most gentle on Babies' immature organs.

4.2.2 People policies

The utmost core competency in DUMEX is its people policies. Teamwork and collegial environment with support from management are providing a strong environment for employees to be fully productive in DUMEX. A collegial environment is engendered with friendly challenges in many outdoor and indoor sports. The DUMEX Power of One Mount Kinabalu Charity Climb in April 1998 stands a living demonstration of what DUMEX employees can and did achieve as a team. Annual competitions with EAC employees keep DUMEX employees physically and mentally fit.

Continuing communication of activities at work and at home through internal newsletter, DUMEX Hi-Lites, keeps every employee in touch with each other and fosters a strong DUMEX identity for the team. Overall, a collegial

environment acts as the foundation for a strong close-knit DUMEX team who is productive.

4.2.3 Top management's direction and support

Concrete support from top management is also a crucial core competency in DUMEX. Top management has thus far without fail working hand-in-hand with employees to achieve DUMEX Vision and Mission Statements. Providing achievable yet challenging objectives is the key approach adopted by DUMEX management. DUMEX Vision and Mission Statements, which have received employees' consensus, are stated as follows:

DUMEX VISION 2005 STATEMENT

- To be the number one in infant and child nutrition
- To be the best marketeers in the eyes of our customers

DUMEX MISSION STATEMENT

- DUMEX is dedicated to nutrition for the optimal development of children.
- WE BELIEVE in satisfying consumer needs by providing the best value through continuous innovation, uncompromising quality and ethical practices.
- AS A COMPANY, we work in partnership with the medical community to support parents with product solutions and information. We work together with our trade partners and suppliers to drive market development.