

RECOMMENDATIONS

Based on the results of the analyses, the writer has the following recommendations for Nestle Malaysia with regard to the entry of a malt-based health fortified drink and the methods and practices to stay cost competitive.

6.1 INTRODUCTION OF MALT-BASED BEVERAGE

Based on the favourable SWOT and Porter's Five Forces analyses, it is recommended that Nestle Malaysia introduces as soon as possible a malt-based beverage into the market after getting initial good response from its own market research team via its household consumer magazine Happy Home and also through internal sampling of its large number of staff.

6.1.1 BRANDING

The basic purposes of branding are the same everywhere in the world. In general, the functions of a brand are to:

- i) create identification and brand awareness,
- ii) guarantee a certain level of quality, quantity and satisfaction, and
- iii) help with promotion.

All these purposes have the same ultimate goal, which is to induce repeat sales (Onkvisit and Shaw, 1997). With Nestle's megabranding philosophy for most of its products, which is beginning with Nes..., the writer suggests the name Nesmalt for this new product. Existing brands using the Nes... megabranding are Nespray, Nestle chocolate, yoghurt and ice cream, Neslac and Nescafe. Notable exceptions are Milo, Maggi and Kit-Kat.

6.1.2 PRODUCT SIZE

With regard to its packsizes and prices, there are three variants as illustrated in Table 6.1. With Horlicks being the sector leader with four different packsizes, it is recommended that Nestle starts off with three packsizes with the larger two being slightly less in netweight to have a more attractive price structure and also to streamline its production processes with Milo packsizes - experience-based cost efficiency. With Ovaltine having only two small packsizes, there is no direct competitor to Horlicks' 750g and 2kg packsizes.

TABLE 6.1

PRICE COMPARISON - MALT BASED BEVERAGE

Product packsize	Nestle		Horlicks		Ovaltine	
	Amount		Amount		Amount	
200g	4.20	*	5.35		4.30	
400g	-		8.90		8.60	
700g	12.95	*	-		-	
750g	-		13.99		-	
1.5kg	23.70	*	-		-	
2kg	-		34.75		-	

* Simulated price for product entry.

Source: Market Survey at Giant and Tops outlets in December 2000.

6.1.3 PRICING

With a price structure as shown in Table 6.2, the writer is convinced Nestle can make an impact in the malt-based beverage sector that will eventually propel Nestle with a combined HFD market share of 68-70% within three years. With such a huge price difference between Nestle's 1.5kg and Horlicks' 2kg packsize, the market penetration would be fast and effective.

6.1.4 PRODUCTION

The Petaling Jaya factory, with excess in space capacity with the withdrawal of the production process for Sweetened Condensed Milk, is recommended to undertake this endeavour. Gradually, similar operation should be carried out at the Chembong factory where Milo production process is also in place.

6.1.5 PROMOTION

Initial promotional activities would be free sampling through tabloids and magazines, television and radio advertisements, and sport events with large participants such as walkathons. Later stages would include as premium giveaways when more expensive sister products are bought. An example would be a free one 200g Nesmalt for every purchase of Nescafe Gold 200g.

6.2 IMPLEMENTATION OF COST RATIONALISATION

Another area for improvement is to continue the cost reduction in all areas of production with a projected decrease year-on-year of between 5-10% for areas yet to be identified and/or implemented. Substantial areas include product trial wastage, filling losses and more accurate and efficient netweight fillings. A study conducted by an international team in 1998 produced details that these areas could be improved tremendously.

6.2.1 INVOLVE ALL FACTORIES

Rather than just focusing on two factories as in 1998, the joint international and local teams in future should cover all the other factories and the duration for implementation should be one year, with the follow-up by the locals on subsequent years. Where improvement is not achieved as targeted after one

TABLE 6.2

SELLING PRICE SIMULATION FOR MALT-BASED BEVERAGE

	200g		700g		1.5kg	
	Amount	%	Amount	%	Amount	%
Gross Selling Price	4.20	105.9	12.95	105.7	23.70	105.8
Rebates	0.24	5.9	0.70	5.7	1.3	5.8
Catering Discount						
Agency Commission						
Net Selling Price	3.96	100.0	12.25	100.0	22.40	100.0
Periodic allowances	0.03	0.8	0.10	0.8	0.18	0.8
Temporary price promotions	0.16	4.0	0.50	4.1	0.90	4.0
Cost of goods sold L.D.P	1.80	45.4	5.45	44.5	10.20	45.5
Variable distribution cost	0.07	1.8	0.21	1.7	0.50	2.2
Royalties	0.19	4.8	0.60	4.9	1.10	4.9
Technical Asst. Fees	0.05	1.3	0.18	1.5	0.30	1.3
Total	2.30	58.1	7.04	57.5	13.18	58.8
Marginal Contribution	1.66	41.9	5.21	42.5	9.22	41.2
Media advertising						
Other promotions	0.16	4.0	0.50	4.1	0.95	4.2
Market research						
Total PFME	0.16	4.0	0.50	4.1	0.95	4.2
Fixed specific manuf exp	0.09	2.3	0.27	2.2	0.50	2.2
Common factory charges	0.13	3.3	0.40	3.3	0.74	3.3
Depreciation of factory fixed assets	0.06	1.5	0.20	1.6	0.33	1.5
Net loss on defective goods	0.02	0.5	0.07	0.6	0.14	0.6
Operational interest	0.03	0.8	0.10	0.8	0.18	0.8
Total	0.49	12.4	1.54	12.6	2.84	12.7
Product Contribution	1.17	29.6	3.67	30.0	6.38	28.5
Fixed Overhead Expenses	0.23	5.8	0.67	5.5	1.03	4.6
Operating Profit/(Loss)	0.94	23.8	3.00	24.5	5.35	23.9

Source: Derived from
Nestle Internal
Records for Milo
Price Calculation
2000

year, fact-finding and investigations should be carried out to ascertain why and what could be done to improve it.

6.2.2 ROLE OF PURCHASING DEPARTMENT

The purchasing department could also help by negotiating long term contracts with suppliers to maintain and decrease the prices (due to larger volumes) where possible, and also through the assistance of Nestle worldwide connections. Renegotiations with suppliers of common items will have an immediate impact on the manufacturing expenditure.

6.2.3 PALLET CONFIGURATION

In addition, pallet patterns could be revised to reduce transportation costs within West Malaysia. The opportunities came both from increasing the height of the pallet and from optimising the surface of the pallet. Revision of all items in the spare parts store and optimising stock-levels close to that of just in time would increase potential in holding-cost savings.

6.3 ALLIANCES

Another area of improvement is the continued creation and consolidations of alliances with retail outlets especially the fast-food chains. Since 1999, Nestle's products like Milo, Nescafe and ice cream have made forays into this attractive sector with alliances that include McDonald's, KFC, Taza, Domino's Pizza, and Kenny Rogers Roasters (Berita Nestle, 2/99). This available structure would pave the way for the malt-based beverage to be included into the outlets' range of beverages. It is very advantageous to be the first partner of these outlets as experience have shown they are only willing to have one partner of such an alliance. This is truly a niche market for Nestle. Alliance should also be accorded to other outlets like Deli France, Burger King and the local fast-food chain Marrybrown.

6.4 PRODUCT RATIONALISATION

It is recommended that in tandem with cost rationalisation, certain product range and packsizes should be discontinued. Brandpack such as 500g adult milk powders should be discontinued as the packaging cost is high and the

adult consumption pattern is voracious compared to infant. The discontinuation of the Bonus Soya drink and Mango and Orange chilled drinks in 2000 are testaments to this strategy as they were not making any forays into the market after two to three years.

It is hoped that the Nestle management would maintain the status quo of this and not do a turnaround as grapevine has it that the products will be relaunched with new vigour. It is more difficult to regain the former market share, let alone be a leader in the sector, once the products were no longer on the shelves. It would be a costly lesson if the management decides to go ahead with the plan of reviving Bonus and the chilled fruit juices. This potential change of stand could be due to the current Managing Director who aspires to do great things during his tenure in Malaysia.

The discontinuation of local manufacturing operations in Reconstituted Sweetened Condensed Milk in September 2000 is evident that profit margin in that sector was relatively small, and in view of ASEAN Free Trade Area implementation in 2003 where fellow Nestle Thailand is deemed to be the likely cost leader in providing this product to the ASEAN market, it seems justifiable for Nestle Malaysia to do so. Similarly, the writer suggests that milk powder processing be also abandoned in Malaysia as it is more cost effective to import from Australia. The bulk milk powder currently in production is mostly imported from Nestle Australia at the moment. A similar study in Nestle Taiwan was done some time ago and it was found to be viable to stop the milk powder processing there (Nestle Internal Records).

SUMMARY AND CONCLUSION

As a leading food manufacturer, Nestle Malaysia will continue to demonstrate leadership and accountability towards national objectives and will work towards delivering growth rates above the national GDP. Nestle remains committed to developing its current businesses, increasing market share and devising appropriate strategies to grow the market on a case-by-case basis. For the past year, new varieties of ice cream and the recent introduction of Kit Kat chocolate with orange flavour are testaments to these strategies.

In the procurement of raw materials, Nestle will take advantage of its strength in global sourcing to maintain its competitiveness. Nestle Malaysia has embarked on a restructuring exercise to improve its competitiveness in light of globalisation and trade liberalisation (AFTA). Under the restructuring plan, Nestle Malaysia's export opportunities will be maximised, aided by the appointment by Nestle SA as the centre of excellence for *halal* food products in the Nestle world, as the company will become the regional supplier for Milo and infant cereals. Nestle will continue to build consumer insights, to improve its understanding of their food consumption needs and lifestyle. With its strengths in research and development, Nestle will innovate to develop new, value-added products according to consumer demand while "renovating" its existing products to meet consumer needs. That is why coming up with *Nesmalt* should be just a matter of time.

Competition in the industry will be tighter due to the introduction of private labels in the expanding hypermarket sector. Globalisation will also have an impact on the competitiveness in the food industry and those most likely to be affected are the small-medium food manufacturers. Knowing this very well in advance, Nestle has embarked on a cost rationalisation project since 1998 and will continue to do so with the imminent arrival of trade liberalisation.

Improved economic conditions will encourage an increase in consumer spending. This will encourage the growth of fast-service restaurants that will

have an impact on the food industry and influence consumer lifestyle, with a preference for fast-food consumption and convenience. This reinforces the suggestion that Nestle Malaysia should continue to find new alliances in this ever-burgeoning industry to maintain a stronghold on its market share.