

# **CHAPTER 1**

## **INTRODUCTION**

The present practices of the manufacturing industry in purchasing their products and contracting services were not really understood by suppliers and services providers in the Malaysian context. There are several approaches and systems being adopted by certain industries to select and accept the right products and services at the acceptable prices. On the other hand, the industrial marketers are trying various ways to penetrate products or services into the respective market segments to satisfy buyers' needs when they are placing their orders.

It seems that there exists an information gap between buyers' needs and suppliers' expectations. Within this gap, several questions remain unanswered in the mind of suppliers, such as how buyers make their decision on selecting products or services? What factors or features influence their decisions? These are some of the questions that will be explored and answered in the following study.

To answer some of these questions, the study will examine some features that may influence the buyers' decisions in meeting the buyers' needs and satisfaction. This includes the right products or services, delivered at the right time and place, purchased at the right price.

### **1.1 Purpose and Significance of the Study**

Due to some unclear features that seem to influence the decision of the buying centre in selecting suppliers for intermediate products or services that satisfy the end users, it is imperative that a study be conducted to look into these areas. In fact, Sheth (1973, 1976) discovered that industrial,

institutional, and trade-buying behaviours were rich with empirical evidence, concepts, and methodology that supports the variability of these concerns for the industrial buying decision process.

It is expected that the results of the study will unveil some definite features relevant to our Malaysian conditions as well as contribute to providing some guidance to the suppliers or service providers on a buyer's expectations in meeting their requirements. Thus, suppliers could provide better services as well as competitive prices to satisfy buyers' needs.

## **1.2 Objective of the Study**

The study attempts to analyse potential features that may influence the buying centre's decision in selecting suppliers or service providers to supply or provide services in the most efficient manner. The selection of suppliers would be based on some of these features that are generally common to all manufacturing industries when they are buying intermediate products or services.

Specifically, the study could be summarised as follows:

1. To identify the most likely features those influence the buying centre's decision.
2. To analyse features that are relevant to the respective industry.
3. To suggest which features could be used in pursuing or securing such orders or contracts.
4. To recommend follow-up studies that could be conducted in the future on other features that may influence the decision of buying centres in the manufacturing industry.

### **1.3 Scope of the Study**

A survey was conducted on the present manufacturing industry is mostly based in the Klang Valley. The Klang Valley area was chosen for sampling of the survey data since most (about 50%) manufacturing plants are located in this area. Other manufacturing plants are located in other states throughout the country.

The study also covers various types of manufacturing plants, such as electronic, textile, food and beverage, rubber, plastic, etc. The survey sheet was given to various managers in the organisation and not necessarily from the purchasing department only.

### **1.4 Limitation of the Study**

The study will mainly focus on evaluation of the features that could influence the decision of the buying centre of the manufacturing industry. The surveyed data will be used extensively and supported by past research findings that may be relevant to present conditions.

The study does not include trading companies that may obtain products direct from the manufacturers and later distribute them to their respective retailers.

### **1.5 Background of the Manufacturing Industry located in Klang Valley**

The manufacturing industry in the Klang valley includes the manufacturing plants located in Petaling Jaya, Kuala Lumpur, Shah Alam and Klang. Some of these industries have been in operation for more than 20 years. Some have also been relocated to other industrial areas such as from Petaling Jaya to Shah Alam, etc. As of November 2000, there are more than 2,000 manufacturing companies registered with FMM (Federation of Malaysian

Manufacturers, 2002). 90% of these companies are private limited and 50% are large scale or small & medium scale industries.

The total staff force is about 1.5 million employees. The distribution of annual sales of these companies is shown in Table 1. 45% of these companies have achieved in annual sales of less than RM10 million, 34% have achieved between RM10 million to RM25 million in annual sales and 21% have achieved more than RM25 million in annual sales.

**Table 1 – Annual Sales Distribution**

Annual Sales of companies (in year 2000)	Percentage (%)
Less than RM10 million	45
RM10 to RM25 million	34
More than RM25 million	21

Based on the listed companies and the percentage distribution by state as per FMM, it is estimated that 50% of these companies are located in the Klang Valley.

At present there are 17 sectors of manufacturing industry, with the highest number (430) of electrical and electronics companies and the least number (less than 20) of recycling companies.

The purchasing of immediate products or services is normally obtained via the purchasing department who will coordinate and compile the request for quotation (RFQ) from the respective suppliers or vendors. These quotations are passed to the individuals or group of individuals for evaluation. The results of evaluation are forwarded to the approving authority for approval.

The decisions of selecting the best supplier will depend highly on the recommendations made by these individuals or a group of individuals either in the purchasing department or other relevant departments.