

# CHAPTER 1

## INTRODUCTION

### I. Introduction

The future development of the Malaysian rubber industry, is guided by the overall development policy of the country. The main thrust of this policy is towards modernisation and accelerated industrialisation and productivity enhancement in order to achieve the targets set under Vision 2020<sup>1</sup>.

The development of the Malaysian commodity sector is based on the policies and strategies laid out in the Second Outline Perspective Plan (OPP2) which encompasses plans for land development, the production and marketing of commodities and for R&D based industrialisation<sup>\*</sup>. With the need to preserve the ecosystem and the environment, proposals of new land development for agriculture will be more closely scrutinized. Production and marketing policies and strategies for primary commodities will emphasise on higher value-added products. R&D would play a vital role in the pursuit of further industrialisation.

The rapid economic growth recorded during the past eight years has been good for the country, but competition for limited and scarce factors of production namely land, labour and capital has become increasingly aggressive and these in turn may erode our comparative advantage. In addition, other countries such as Indonesia and Thailand are becoming important producers of similar commodities which compete directly with ours<sup>\*</sup>.

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<sup>1</sup> Tan Sri Dato' Dr Othman Yeop Abdullah, (1997), "*The changing Malaysian policies and their impact on the world natural rubber market*", Malaysian Rubber Products Manufacturers' Association 1996-1997 Industry and Export Directory, pp 95-101.

<sup>\*</sup> Ibid

<sup>\*</sup> Ibid

Faced with this situation, the Government will continue to formulate policies which will increase the efficiency of the rubber industry, both upstream and downstream, to optimise the use of limited resources as well as to expand existing markets and explore new ones<sup>2</sup>. Other policies to overcome the constraints on factors of production include encouraging Malaysian entrepreneurs and companies to invest in joint-venture projects overseas such as in Indonesia, the Philippines, Papua New Guinea, Vietnam and Egypt<sup>\*</sup>.

The successful conclusion of the Uruguay Round has liberalised world trade and created new trade opportunities for commodities and processed products, and Malaysia needs to take full advantage of the more open market especially with the reduction in agricultural subsidies<sup>\*</sup>. On the other hand, the establishment and strengthening of trade blocs such as European Union, North America Free Trade Agreement, Asean Free Trade Area and Southern Common Market in Latin America would hamper the efforts of the Uruguay Round. However, Malaysia regards these developments as challenges as well as opportunities for our commodities and processed products. In view of this, Malaysia has formulated strategies to ensure that our interests in these important markets are not adversely affected<sup>\*</sup>.

The rubber products manufacturing sector experienced spectacular growth in the last few years as reflected by the large increases in rubber consumption and export earnings<sup>\*</sup>. For the last two years, export earnings from rubber products exceeded that of raw rubber and Malaysia is now a major consumer of rubber, ranking sixth in the world. In 1995, the export earnings from manufactured rubber

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<sup>2</sup> Tan Sri Dato' Dr Othman Yeop Abdullah, (1997), "*The changing Malaysian policies and their impact on the world natural rubber market*". Malaysian Rubber Products Manufacturers' Association 1996-1997

Industry and Export Directory, pp. 95-101

<sup>\*</sup> Ibid

<sup>\*</sup> Ibid

<sup>\*</sup> Ibid

<sup>\*</sup> Ibid

products is estimated to be RM 3.5 billion while rubber consumption was 327,122 tonnes compared with RM 306 million and 70,620 tonnes in 1985 respectively. The industry has surpassed the Industrial Master Plan objectives of natural rubber consumption and export earnings by the end of 1995

There are two major opportunities available to the Malaysian rubber products manufacturing industry like Torita Rubber Works Sendirian Berhad: to become a major exporter of rubber products and to become a centre for expertise on rubber goods manufacture.

The R&D excellence of the Malaysian rubber industry is universally recognized. This excellence is being maintained and enhanced by a unique, integrated organizational system, as well as by support from the private industry sub-sector. The pool of scientific, technological, management and marketing knowhow is tremendous and should be judiciously exploited to advantage. In the light of the light of the remarkable progress made by the downstream activities. The need for more R&D in downstream activities is also vital in transforming the present rubber-based industries which are characterised by SMIs with low technology. The exploitation of Malaysia's R&D excellence should also be utilised to further improve aftersale services which form a very important part in our marketing effort<sup>3</sup>.

## **II. Torita Rubber Works Sendirian Berhad**

The present research paper intends to discuss Torita Rubber Works Sendirian Berhad (hereafter preferred to as only Torita).The present research paper attempts to outline Torita's policies, performances and their challenges in the rubber industry.

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<sup>3</sup> Tan Sri Dato' Dr Othman Yeop Abdullah(1997), "*The Changing Malaysian Policies and Their Impact On The World Natural Rubber Market*" MRRDB,pp 95-101

Torita Rubber Works Sendirian Berhad was incorporated in Malaysia on October 10, 1980 as one of the leading inner tube manufacturing companies in Malaysia. It has acquired some of the up-to-date manufacturing facilities.

Torita was founded by Mr. Chang Kim Fook. Formerly he was an employee of Fung Keong Rubber Manufacturing (M) Sendirian Berhad. Later, Mr Chang resigned from Fong Keong Rubber Manufacturing (M) Sdn Bhd and formed Torita Rubber Works Sdn Bhd. The company was registered with an initial authorized share capital of RM 5,000,000 comprising 5,000,000 ordinary shares of RM 1.00 each. Of these 2,305,000 ordinary shares have been issued and have been fully paid up.

Torita is principally involved in the manufacturing of natural rubber inner tubes for all types of motor vehicles ranging from on-the-road vehicles like motorcycles, passenger cars, van, light trucks, trucks, buses and off-the-road vehicles, for example, tractors. Torita is situated at Lot 2825, Off Jalan Kebun, 5 1/2 Miles, Kampung Jawa, Klang, Selangor, with a total land area of 3 acres. Torita's past performance is discuss in chapter 3.

## **1.1 Scope of the Research**

The researcher is an employee of Torita and in holding a position as Plant Manager. This position has helped him to identify the problems and issues facing Torita. As an employee, he has also used to access certain confidential issues.

Torita produces only inner tubes, unlike other producer like Kossan Rubber Industries Berhad who produce printing rollers, rubber profiles and rubber gloves. Due to the time constraint, the study will be based upon Torita Rubber Works Sendirian Berhad. It will also analyze the past and present performances ( from 1982 to 1996 ) to understand and or to determine the Torita's position in the

market. The study will mainly focus on the Product Life Cycle of inner tubes of Torita. It will also highlight on the managerial issues and their effects on the overall performances of Torita.

## **1.2 Research Problem**

The main purpose of this study is to determine the relationship between Torita's business performance and Product Life Cycle of inner tubes. It will also highlight the various strategies which has been adopted by Torita in coping with the rising cost of production and the ageing manufacturing facilities.

## **1.3 Purpose of the Research**

This research project will attempt to answer the following questions

- (i) What are the significant relationships between the Product Life Cycle and Torita's performance?
- (ii) Other than the Product Life Cycle, what are the factors that affect Torita's business performance?
- (iii) What are the models that can be used to assess the impact of the environment on Torita?
- (iv) What are the critical factors that affect the suitability of those strategies?
- (v) What are the major resource plans and measures that Torita should adopt to ensure the successful implementation of its strategies?

## **1.4 Literature Review**

Though there is no specific study on inner tube industries, but there are a number of studies have been made in connection with the natural rubber and rubber products related industry. Motor vehicles is highly related with tyres and inner tubes.

(1) As per Malaysian Rubber Review, First Quarter 1996(1/96),pp.38, the Malaysian Motor Traders' Association(MMTA) has forecast that in 1996 the vehicle market will grow by 8.5% to a high of 310,000 units. A double digit growth of 42.6% in sales volume to 285,792 units was recorded in 1995. Passenger car sales dominated, with a volume of 224,991 units or 78.8% of the market. As expected, the national cars were the volume leaders at 180,553 units or 80.2% of the market<sup>4</sup>.

(2) As per Malaysian Rubber Review, First Quarter 1997(1/97),pp.28, in future, Malaysia may only export value-added rubber products instead of raw rubber or latex, in order to obtain fair, remunerative and equitable prices for the commodity. Primary Industries Minister, Datuk Seri Lim Keng Yaik announced recently that researchers had founded a short cut in the process for making carbon black master batches, one of the materials for manufacturing tyres. By using the new technology, the Ministry hoped that the local rubber manufacturing sector would expand greatly, to use 750,000 tonnes of rubber annually<sup>5</sup>.

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<sup>4</sup> Dr Chew Cheng Sim(1996), "*Growth in Malaysia's Vehicle Industry*",Malaysian Rubber Review,MRRDB,pp 38.

<sup>5</sup> Mrs.S K Koh(1997), "*Malaysia May Only Export Value Added Rubber*",Malaysian Rubber Review,MRRDB, First Quarter,pp 28.

## **1.5 Layout of the Chapter**

The research report will comprise of 5 chapters. First chapter would highlight introduction, scope, research problem, purpose and limitations. In the subsequent chapter, second chapter, theoretical framework, methodology and sources of data have been discussed. In the third chapter, a brief history of Torita, and the product life cycle of inner tubes have been discussed. In the fourth chapter, the paper will focus on diversification strategy of Torita. This section will also highlight the Strength, Weakness, Opportunity and Threat (SWOT) and Political, Economic, Social and Technology (PEST) analysis of Torita's inner tube industry. Finally, in the fifth chapter, conclusions and recommendations will be provided.

## **1.6 Limitations of the Research**

The researcher has mainly faced with the time factor. Due to shortage of time the study was mainly focused on Torita Rubber Works Sendirian Berhad. There was not enough time to compare Torita with any other inner tube producers.