

# CHAPTER 4

## Diversification Strategy

In the diversification stage, Political, Economy, Social & Technology (PEST) and Strengths, Weaknesses, Opportunities & Threats (SWOT) analysis is an essential tool for a particular company for surviving or to decide an appropriate strategy. SWOT analysis is a useful tool for analyzing Torita's overall situation, whereas, PEST analysis is useful tool for analyzing the external environment. This approach attempts to balance the internal strengths and weaknesses of Torita with the opportunities and threats that the external environment presents. This approach suggests that the major issues facing Torita could be isolated through careful analysis of each of these four elements as shown in Exhibit 8. Strategies can then be formulated to address these issues.

Exhibit 8

Malaysia Rubber Inner Tubes Manufacturers Competitiveness Analysis At October, 1997

Category	Malaysia Inner Tube Manufacturers													
	Torita	Fung Heng	ERP	Hwa Seng	Pan Malaysia	Popular	Tien Thai	Eastern Union	Sun Yuan	Larut Rubber	Yit Heng	Lit Seng	TTP	Shun Yip Leong
Growth	4	3	4	3	3	2	3	2	3	4	2	2	2	2
Cost Position	3	2	4	3	3	3	4	4	3	4	3	3	3	3
Pricing Policy	3	2	5	3	4	4	4	4	4	5	4	4	2	3
Extent of Geography Coverage	2	3	4	2	2	2	2	2	2	3	1	1	1	3
Market Segment Served	4	4	5	4	3	4	3	3	5	3	3	3	2	4
Distribution Channels Used	3	5	4	3	2	2	3	2	3	3	2	2	2	3
Marketing Effort	3	4	5	3	3	3	3	2	3	4	2	2	2	2
Management Competence	4	4	4	4	3	3	3	3	3	3	2	2	2	3
Product Diversity	3	4	3	3	3	2	2	4	2	2	1	1	1	4
Product Performance	5	5	4	5	3	3	3	3	3	3	3	3	3	4
Market Responsiveness	2	2	4	3	2	3	3	2	2	4	3	2	2	3
Technological Leadership	4	4	5	4	3	3	4	3	3	4	2	2	2	4
R & D Capabilities	4	4	4	3	2	2	1	3	1	2	1	1	1	3
Image of Quality/Reliability	5	5	3	4	3	3	3	3	3	3	2	2	2	3
Market Share	4	4	5	3	3	2	4	3	2	3	2	2	1	3
Paid Up Capital/Size	4	5	5	3	3	2	1	3	1	3	1	1	2	4
Financial Strength	5	5	3	3	3	2	1	3	2	5	1	1	2	4
Total Score	52	65	71	56	48	45	47	48	45	58	35	34	32	55
Ranking Priority	3	2	1	5	7	9	8	5	9	4	10	11	12	6

Note: Summary ratings such as: 5 - Very Strong, 4 - Strong, 3 - Moderate, 2 - Weak, 1 - Very Weak

Source: Torita Management Information System & Malaysian Inner Tubes Producers Association Minutes

#### **4.1.1 Political / Legal**

In 1996, several major initiatives that were undertaken to address these issues were the launching of the a Seventh Malaysia Plan (7MP) and the Second Industrial Master Plan (IMP2), the establishment of the Small and Medium Industries Development Corporation (SMIDEC), programs to enhance technology acquisition and research and development (R&D) commercialization.

In early 1991, the Prime Minister Dato' Seri Dr.Mahathir Mohammad announced some important policies and actions which would accelerate to achieve Vision 2020, to become a fully developed nation. It has been described in the National Policy that real Gross Domestic Product(GDP) should be double in every ten years from 1990 to 2020<sup>18</sup>. This rapid growth will require the nation to grow by an average of about 7% annually over the next 30 years. To match with this rapid growth, the Malaysian Government need to outline some national policies and their challenges which would help the growth of rubber industry.

The Malaysian Government has been encouraging rubber product manufacturers through the establishment of various government agencies to provide the necessary infrastructure, supports, facilities and a wide range of incentives to promote domestic investment. The government agencies are (1) Malaysian Industrial Development Authority (MIDA), (2) Malaysian Rubber Research and Development (MRRDB), (3) Malaysian Rubber Producers' Research Association,UK (MRPRA), (4) Rubber Research Institute of Malaysia (RRIM), (5) Malaysia External Trade Development Corporation (MATRADE), (6) Standard and Industrial Research Institute of Malaysia (SIRIM), (7) Human Resouces

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<sup>18</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.

Development Council (HRDC), (8) Worldwide Manufacturing Webs (WMW) and others.

The government provides a range of incentives and facilities to promote domestic investment in rubber product manufacturing. The main incentives are provided in the Promotion of Investment Act, 1986, and the Income Tax Act(ITA),1967. Projects eligible for Pioneer Status or ITA are those that propose to manufacture a 'promoted product' or undertaking a 'promoted activity'. List of Promoted Activities and Rubber Products which are eligible for consideration of Pioneer Status and Investment Tax Allowance under The Promotion of Investments Act, 1986 for Manufacture of Rubber Products are : (I) Earthmover, Agricultural, Industrial, Commercial Vehicles, Motorcycle, Aircraft & Solid Tyres, (ii) Retreading of Aircraft Tyres, (iii) Moulded Rubber Products, (iv) Latex Dipped Products, (v) Extruded Rubber Products, (vi) General Rubber Goods, (vii) Foam Rubber Products, (viii) Rubberized Fabrics, (ix) Inflatable Rubber Products, (x) Conveyor Belts, Transmission Belts, V-Type Belts and Rubber Beltings, (xi) Rubber Based(Elastomeric). Specialty Coating, (xii) Epoxidized Natural Rubber. (xiii) Thermoplastic Natural Rubber

**(i) Pioneer Status (PS)**

Period of tax exemption is 5 years, commencing from the production date as determined by the Minister of International Trade and Industry (MITI).

**(ii) Investment Tax Allowance (ITA)**

This provides for an allowance of 60% of qualifying capital expenditure incurred within 5 years from the date of approval of the incentive.

**(iii) Reinvestment Allowance (RA)**

The government encourages reinvestment through a Reinvestment Allowance of 50% of capital expenditure incurred for expansion of production capacity,

modernizing and upgrading of plant and machinery, and diversification into related rubber products.

**(iv) Incentives For High-Technology Rubber Industries**

High technology companies, defined as companies engaged in promotion in areas of new and emerging technologies are eligible for the following incentives :-

(a) Full tax exemption at Statutory Income level for a period of 5 years; or (b) Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years.

**(v) Incentives for Export**

Several incentives exist for Malaysian exporters. They are as follows : (i) Export Credit Refinancing Scheme and (ii) Double Deduction of Expenses for Promotion of Exports.

**(vi) Incentives for Research and Development (R&D)**

Several incentives exist for Research and Development such as business-related research, in-house research, plant and machinery used for research purpose.

**(vii) Exemption From Import Duty On Direct Raw Materials/Components**

Companies manufacturing finished products for the export market are granted full exemption from import duty on direct raw materials.

**(Viii) Exemption From Import Duty And Sales Tax On Machinery And Equipment**

Most imported machinery and equipment are not subject to import duty and sales tax.

#### **4.1.2 Economic Environment**

Until recently, the Malaysian rubber industry used to view as plantation sector. However, presents this perception has been changed and now the industry is treated as rubber product manufacturing sector. Plantation sector used to be labour intensive. Manufacturing sector may be the same but Government of Malaysia does not encourage any labour intensive rubber products. As a result, rubber product manufacturing sector has to gear themselves along with the Government policies.

Due to the narrow perspective and definition attributed to Malaysia's rubber industry, it is no wonder that this industry has been often described as a "Sunset" industry when its production declined persistently in the recent few years. To respond to the changes and challenges that are taking place in the country, it is therefore necessary to review and re-defined the rubber industry. The rubber industry should be viewed as an "integrated economic entity" which covers a wide range of activities with forward and backward linkages. It should be enlarged to cover not just rubber production, but also areas involving value-added processing, utilization of rubber-wood, downstream products manufacturing, exploitation of unique Malaysian R&D resources and pool of knowledge, and off-shore investments. The organized exploitation of these diversified activities would result in a much greater natural rubber industry in terms of its contribution to the national economy. As such those involved in the industry area should be clear on the mission ahead. This is also in line with the objectives of Vision 2020, whereby the agricultural sector is expected to be fully integrated with the rest of the economy ahead to transform the present industry into one which encompasses both upstream and downstream activities.

#### **4.1.3 Social / Culture**

The sustained economic growth achieved in the last nine years has resulted in a tight labor market and greater demand for higher skills. The manufacturing sector remained the major source of employment, absorbing 27% of the total employment of 8.2 million in 1996 (1995: 25.6%). The demand for skilled and semi-skilled workers in the manufacturing sector is expected to intensify, with the move towards higher value-added and productivity-driven activities, as envisioned in the Industrial Master Plan(IMP2) and 7 Malaysia Plan. In 1996, the demand for skilled and semi-skilled workers increased by 9% to 39,498 from 36,237 in 1995.

Currently Malaysia has been employing nearly 1.7 million foreign workers, particularly unskilled and semi-skilled workers as compared to the country's total labor force of 8.6 million, or representing 19.8% of the country's labor force, as reported in the 1997/98 Malaysia Economic Report by the Ministry of Finance, Malaysia. The sizable presence of foreign workers would certainly put pressures on social amenity, increased outflow of foreign exchange in the form of remittance at RM5.25 billion in 1997. By the end of 1997, Torita had total workforce of 160. Out of 160, 100 Bangladeshis were employed which comprises 62.5%.

#### **4.1.4 Technology**

The development of technology in the manufacturing sector, such as in Torita, involves efforts to enhance the tripartite linkages of research among the institute-university-company to undertake joint R&D activities to nurture indigenous technological capability such as RRIM-USM-Torita.

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 subsector.

The pool of scientific, technological, management and marketing know-how is tremendous and should be judiciously exploited to advantage.

The need for more R&D in downstream activities is also vital in transforming the present rubber-based industries which are characterized by SMIs with low technology to a high value-added diversified range of downstream rubber products. Furthermore, with the prevailing tight labor market situation and continued competition from low-cost producers efforts needed to be directed towards increasing higher value-added products in order to sustain Malaysia's competitive advantage in rubber products. The exploitation of Malaysia's R&D excellence should also be utilized to further improve aftersale services which form a very important part in Torita's marketing effort.

#### **4.2.1 Internal Analysis - Strength**

Torita is a superior quality producer and managed by a competent and dedicated team with specialised and competitive skills. Torita's superior quality image has been well accepted by its customers. Torita has been an acknowledged market leader in the Malaysia Original Equipment Markets(OEM). With its on-going innovation and improvement in its overall operations, Torita could provide the competitive edge over its competitors.

#### **4.2.2 Internal Analysis - Weaknesses**

Torita has adopted a premium pricing policy, as such quite a sizable number of Torita's customers have shifted away to the cheaper inner tubes offered by competitors, who also provide better terms and conditions. Consequently, Torita's market share declined from 43% in 1985 to merely 11% in 1996, in term of inner tube production as shown in Exhibit 5. The lack of economies of scale has also placed Torita at a cost disadvantage. For the past five years, Torita has been

suffering losses as a result of high turnover of key personnels, lack of managerial depth, and inability in implementing effective measures.

Torita is deteriorating its competitive position due to increasing cost of production, ageing manufacturing facilities that requires high maintenance cost. Therefore, Torita is in need of a pragmatic strategic direction. Its ageing manufacturing facilities has contributed to low profitability or even losses.

#### **4.2.3 External Analysis - Opportunities**

With its well-established brand image, Torita could enter into new markets or segments quite easily and with minimal obstacles such as the butyl tubes markets. This changes will certainly expand its existing product line. With the butyl tubes production, Torita could recapture part of its lost market, particularly in the OEM markets. At the same time, Torita could also become a dealer and outsource tyres from domestic tyre manufacturers such as Sime Tyres International(M) Sdn Bhd to complement its products range. Other complementary products are rim flaps and rim bands etc can be outsourced.

Torita should continued to diversify into rubber related products such as Precured Tread Liner and Camelback business. Thus it will increase its business portfolio and enable it to achieve economies of scale. Perhaps Torita could also pursue vertical or horizontal integration.

#### **4.2.4 External Analysis - Threats**

Torita has suffered massive losses for the past four years, as such the Board of Directors have actually raised concerns about the future well-being of the company. Torita's inner tube production is at the decline stage of its PLC and facing a very competitive home market. The production process is relatively low technology and there are still likely entry of new competitors that will create more intense competitions. More intensified competition is emerging. The Malaysian



inner tubes industry could be in danger of losing its current competitiveness for internal reasons.

Technology advancement in tubeless tyres manufacturing will erode the demands for inner tubes. In Malaysia, the inner tubes markets is approaching the saturated and subsequent declining stage. The substitute, butyl tubes can provide longer shelf lives, better air retention and heat resistance.

Furthermore, the inner tube industry has been categorised as a low value-added industry that demands high labour content. This is in conflict with the government policies that stress on encouraging high value-added rubber products with low labour content. Therefore, inner tubes industry will be considered as a sunset industry.<sup>19</sup> Tariff abolishments of Asean Free Trade Area(AFTA) by 2003 would create a stiff competition within the ASEAN region. Moreover, some factors like growing competitive pressures, growing bargaining power of customers or suppliers, changing buyers needs and taste, cost conscious would force Malaysian inner tube industry into vulnerable challenges in the near future.

### **4.3 Strategic Choices and Evaluation**

Torita has to identify some strategic choices which could help them to transform itself into a successful leading rubber products manufacturing company, as envisioned by Dato'Low Mong Hua. Some of the choices and alternatives are given below which Torita could take into consideration.

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<sup>19</sup> Source: The Malaysia Rubber Review from 1980 to 1996.

### **4.3.1 Existing Choice or Alternative**

#### **4.3.1.1 Do Nothing**

In view of the tough domestic and global competition, Torita can not afford to pursue a “do-nothing” approach. Unless Torita is satisfied with its current situation and wants to maintain the status quo, despite the fact the company has been suffering losses for the past four years. This strategy is definately not suitable and it would not improve the competitive position of the company. However, Torita has to anticipate changes in this dynamic environment and ready to cope with the future uncertainties.

#### **4.3.1.2 Upgrading The Existing Production Facilities**

Torita is categorised as a SMI<sup>20</sup>, its level of technology is often low and most of the production processes need to be modernized and updated. Therefore, continuous reinvestment in R&D, particularly in product and process technology, is vital to enable firms to catch up with more established competitors in the industrialized countries. This will help to maintain competitiveness and to penetrate new markets

In view of the government encouragement on high value-added rubber products, Torita should look seriously into the possibility of modernizing and upgrading its existing production facilities. The key areas that Torita management have identified to upgrade is the extrusion, curing and packing processes in which each of them are contributing nearly 19%, 23% and 18% of the Torita workforce manhours as such these three sections alone make up almost 60% of Torita workforce. With modernisation through selective upgrading and automation, the highlighted areas would certainly improve the company's productivity

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<sup>20</sup> Small Medium Industry

Further more, the Malaysian government is discouraging the employment of the foreign workers. Torita should therefore pursue the abovementioned options which would help Torita to cope with rising cost and ageing manufacturing facilities.

#### **4.3.1.3 Withdrawal**

Torita's loss is due to the marketing of weak products. In this situation, Torita has few choices like withdrawal, diversification or readjustment. However, organization culture of Torita has never been withdrawal and moreover, it will not benefit to Torita. Withdrawal process may not be supported by the Chinese cultural habits. Because of orthodox in nature, Chinese people do not want to withdraw from their traditional behavior or entrepreneurship.

#### **4.3.1.4 Diversification**

Torita implement a diversification strategy to enhance the strategic competitiveness of the entire company in order to increase the total value of the firm. Torita has taken some steps to diversify their corporate-level strategy. This is to exploit the economies of scope between business units to achieve cost savings attributed to transferring the capabilities and competencies developed in existing inner tube business to a new business without significant additional costs.

#### **4.3.1.4.1 Industrial Rubber Goods - Rim Bands & Rim Flaps**

Torita has been in the inner tube industry since 1980. It has emerged to be one of the prominent leaders in the market. Torita has established an indepth product line that enables it to secure a solid foothold in the Malaysian inner tube market. But, Torita should expand its existing industrial rubber goods product lines like rim bands and rim flaps to provide a broader range of products. Rim bands and flaps are complementary to the Malaysian inner tube industry. Rim bands and rim flaps production are relatively lower labor content as compare to inner tubes production process. thus enhance Torita's economies of scale. In fact, in 1997, Torita bought seven units of presses and other machines to produce rim flaps and bands, in which nearly 200%.

#### **4.3.1.4.2 General Rubber Goods - Retreading Materials & Cushion Gum**

Torita management has also ventured into the production of general rubber goods such as retreading materials, precured tread liner, camelback, orbitread, cushion gum and sidewall veneer. This line of production has forced management to get another mixing line which would have increased the production from 3,000 to 7,800 tonnes compounds per year. The cost of the additional mixing line came upto RM 2 million.

Precured Liner project ( See Table 1 ) was adopted after conducting a feasibility study in 1995. The study indicated that the project would earn a revenue of RM 6 million and payable period is 3.5 years. It was also expected that the project would generate RM 1.08 million per year. The study reflected that NPV would be positive. As a result, Torita adopted the projected and still continuing.

Table 1

**IRG & GRG INVESTMENT COMPARISON**

Evaluation Criteria	IRG				GRG
	Precured Liner	Radiator Hose	Rubber Profile	Forklift Tyre	Printing Roller
Capital Investment Required (RM)	2,800,000	2,126,000	3,070,000	358,500	1,136,000
Sales Revenue Expected (RM)	6,000,000	2,000,000	9,000,000	2,916,446	3,000,000
Payback Period ( Years )	3.5	4.4	0.7	2.7	0.9
Net Present Value ( NPV )	41,257	96,975	1,394,357	(320,389)	11,973
Internal Rate of Return (IRR)	nil	13.73	nil	nil	nil
Gross Profit Estimated ( RM )	1,080,000	623,425	4,363,050	358,500	1,322,300
Sales Revenue Per Capital	2.14	0.94	2.93	8.14	2.64
Gross Profit/Sales Revenue	18.00%	31.17%	48.48%	12.29%	44.08%
Gross Profit/Capital Investment	0.39	0.29	1.42	1.00	1.16
## Ranking In Accordance To GP ##	4	3	1	5	2

Source : Torita New Project Feasibility Study

## 4.3.2 New Strategy Alternatives

### 4.3.2.1 Diversification

Whilst any trade deficit in Industrial Rubber Goods(IRG)/General Rubber Goods( GRG) provides Torita an opportunity for import substitution, it is important that rubber related products chosen for local manufacture should be those with high value-added. The longer the manufacturing chain the higher is the value-added. Each processing stage add the extra value to the raw material. The high value-added products earn more foreign exchange than from exploiting raw materials like natural rubber or semi-processed goods like rubber compounds is based on the assumption that at each stage of processing the inputs used are sourced locally. This is pertinent, not only in addressing the problem of the country's overall trade balance, but also in maintaining price competitiveness. Therefore Torita should consider diversifying its business portfolio into high value-added IRG and GRG products that has been identified from the import and export statistics.(See Table 2). The IRG and GRG products investment feasibility study in terms of payback period, NPV, IRR , Gross Profit Per Capital and Gross Profit Per Sales Revenue were subsequently conducted as to single out the most favorable investment.<sup>21</sup>

Table 2

Import Value of Rubber Products into Malaysia, 1994 and 1995

Products	UOM	Unit Price		Japan		USA		Germany		South Korea		Taiwan		Others		Malaysia Total Import Value	
		1994	1995	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995
Other Than Pipe Seal Rings	RM'000			9,232	8,834	3,610	1,832	1,689	1,856	1,275	2,264	7,844	9,380	5,071	4,937	28,741	29,108
Other Than Transmission Belting	RM'000	1,82	3,82	8,285	10,821	998	1,218	1,354	859	2,474	252	938	1,081	5,893	6,197	20,925	20,438
Piping & Tubing With Flange	RM'000	12,55	12,84	5,419	4,700	2,463	2,443	1,011	1,386	71	100	191	140	5,326	3,126	14,431	11,900
Rubberized Textile Fabrics	RM'000	1,43	3,00	1,214	1,077	783	942	102	39	343	174	2,931	2,416	1,815	1,982	7,188	6,670
Golf Balls	RM'000	3,46	2,73	5,259	323	6,264	2,340	3	0	25	107	32	9	607	6,037	12,218	8,816
Parts & Accessories For Motor Vehicles	RM'000			2,554	2,443	51	219	886	1,805	458	673	210	273	1,130	1,047	5,281	6,790
Total Imported Rubber Products	RM'000	19,27	22,29	32,983	28,198	14,106	8,984	3,055	3,745	4,838	3,575	12,184	15,514	19,942	25,328	88,851	85,552

Source: SITC 884-752-000; HS 9306.32.00, SITC 629-889-00; HS 4818.99-100; SITC 629-299-900; HS 4010.99.900, SITC 629-963-900; HS 4018.93.900, SITC 621-450-00; HS 4009.50.00

<sup>21</sup> Table 1 : The IRG & GRG Investment Comparison.

#### **4.3.2.1.1 Diversification Into IRG Products**

##### **(1) Piping & Tubing of Unhardened Vulcanized Rubber With Fitting**

Products in this category include tubes, pipes and hoses of unhardened vulcanized rubber with fittings. Specific areas of usage are not easily identifiable because of the diversify of products included in this category. Perhaps Torita could study the import and export statistics in single out the viable business venture within this group.

Between 1991 and 1995 Malaysia imported more than 1,000 tonnes of these products annually. Between 1991 and 1994, Malaysian annual import value fluctuated around RM 15 million except for 1992 when it exceeded RM 19 million( 1,600 tonnes). In 1995, the import value was around RM 12 million. While the import value was not rising, the export value of these products increased from around RM 2 million in 1991 to RM 6.8 million in 1994 and an estimated figure of about RM 6 million in 1995. The import and export trends show that there is still room for import substitution in this category. Products in this category are imported from all over the world, with Japan as the major source. Imports from Japan in 1994 were worth RM 5.4 million and those in 1995 were valued at RM 4.7 million as shown in Table 2. Other sources from which the value of imports exceeded RM 1 million included Germany and USA. As such, Torita have scanned through the range of products and however, has identified radiator hoses as one of the potential high value-added products that eligible for pioneer status and investment tax allowance under the Promotion of Investments Act, 1986.

For radiator hoses(IRG) products, the feasibility study conducted by Torita was indicated that the payback period is 4.41 years, the Net Present Value(NPV) is RM 96,975 for the projected cash flow calculation for five years period, the Internal Rate of Return(IRR) of 13.73% and the gross profit margin of nearly 80% shown in Table 1.

The technology involved in this feasibility study is the latest state-of-art technology using fully fabric integrated extrusion process whereby the radiator hoses are produced instantly with minimal labor content, further the radiator hoses produced are able to meet the International Bursting Strength Requirement as specified in QS Quality System. Such manufacturing process is virtually fully automation with minimal human intervention. Moreover, it is a high value-added productss with the estimated capital investment of RM2.5 million which will generate anuual sales revenue of RM2.0 million and estimated annual gross profit of RM0.6 million.

## **(2) Other Than Pipe Seal Rings**

Products under this category include gaskets, washers and seals. Malaysia imported almost RM 29 million worth of such products in 1994, compare to about RM 11 million in 1991 - a threefold increase within the short span of three years. This group of products accounted for the highest value of rubber products imported since 1993; the total value exceeded RM 29 million in 1995. Meanwhile Malaysia has also been exporting a substantial amount of products in this category. Their export value increased from RM3.1 million in 1991 to RM13.6 million in 1995. In spite of this, the trade deficit widened from about RM8 million in 1991 to RM18 million in 1994. For 1995 this deficit stood at about RM15 million as shown in Table 2. The products in this category are imported from all over the world. In 1994 and 1995, the two main sources were Taiwan and Japan. Other major suppliers were Germany, Korea and USA.



The variety of sources for these products indicates that quality or particular product specification may not be the main criterion of selection and that the deterring factor could be price. If that is the case, locally manufactured products would have to be price competitive. In view of such competitive pricing and different setup requirement, this sector might not be favorable business venture to Torita in its future undertaking.

### **(3) Other Than Transmission Beltings Of A Width Not Exceeding 20cm**

Products in this category include conveyor or transmission belts or belting, of vulcanized rubber with other than trapezoidal cross-sections( V-belts and V-belting) or flat transmission belting of a width not exceeding 20cm. Specific areas of usage are not easily identifiable because of the broad classification. An import duty of 30% and a sales tax of 10% are imposed on these products.

While the import-value of these items stabilized at about RM 16 million from 1991 to 1993, import volume increased substantially from about 3.7 million metres in 1991 to 10.2 million metres in 1993. Imports in 1994 were valued at RM20.8 million, with a volume of 11.4 million metres. The import value was RM20.4 million in 1995 as shown in Table 2.

Malaysia has exported very little of these products since 1991. An export value of about RM4 million was recorded in 1991, but this fell sharply to about RM500 thousand in 1992 and to less than RM500 thousand in subsequent years. This trend suggest that local manufacturers were unable to meet domestic demand, but given the substantial volume of imports, as such existing manufacturers are encouraged to expand their production and explore local markets even more vigorously. Therefore, Torita should consider in entering this sector. Nevertheless, since this sector required entirely different sets of machineries and expertise involved, such venture might not provide synergy in Torita business portfolio mix.

#### **(4) Parts & Accessories of Motor Vehicles**

These products are window seals, weather strips and others which are articles of vulcanised rubber other than hard rubber for motor cars, buses, lorries, vans and other motor vehicles which categories under rubber profile extrusion category. Products in the categories are subject to a 25% import duty and a 10% sales tax.

Given the fact that the automobile sector is identified as one of the cluster groupings under the second Industrial Master Plan (IMP2), the growth of its supporting industries should be carefully nurtured. From 1991 to 1994 imports of parts and accessories of motor vehicles averaged RM 5 million annually. For 1995 imports breached the RM6 million mark. Annual average export value from 1991 to 1994 was about RM1.5 million, while in 1995 it was estimated at RM3 million. Given the volume of imports and exports, local manufacturers should be encouraged to market their products more aggressively. As Japan is the main source of imports of these products, some forms of joint venture with Japanese counterparts should be encouraged. Other significant suppliers are Germany and Korea as shown in Table 2.

In view of the Malaysian industrialisation process, in coping with the country motor vehicles national projects requirement in supplying the high value-added rubber profiles products such as weather strips and window seals, Torita has conducted a feasibility study on such project. The Rubber Profiles Line Turn Key Project, involve RM 3 million capital investment of the latest state-of-art production technology. This investment will generate annual sales revenue of RM 9 million and estimated gross profit of RM 4,363,050 which is nearly 99% Gross Profit Margin.<sup>22</sup>

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<sup>22</sup> Table 1 : The IRG & GRG Investment Comparison.

The payback period for the project is estimated at one year period, the production capacity are 600 tonnes per year, the Net Present Value of RM 4.5 million with projected cash flows over a ten years period. This project is under the list of promoted activities and products which are eligible for consideration of Pioneer Status and Investment Tax Allowance under The Promotion of Investment Act, 1986. As such, Torita should give due consideration in venturing into this new business venture in view of the low labour content and the government incentives.

#### **(5) Solid Tyres**

These products are wheelbarrow and forklift truck tyres. The quantity of solid tyres imported in 1994, according to the Malaysian Imports of Merchandise Report was 49,531 units with value in RM FOB of RM 0.5 million. In Torita's feasibility study of the Forklift Truck Solid Tyre Project, the capital investment required is approximately RM 1.4 million that will generate annual sales revenue of RM 3 million and with the Gross Profit of RM 0.5 million per year which is 26.5% Gross Profit Margin. Meanwhile, the payback period is 3 years and the production capacity is 8,400 units per annum shown in Table 1.

#### **4.3.2.1.2 Diversification Into General Rubber Goods (GRG)**

##### **(1) Rollers**

The products under these category are printing rollers typewriter rollers, industrial rollers, textile rollers and rice-dehusking rollers. The import in 1994 was RM 0.27 million, however, the export was RM 0.53 million. With the Malaysia industrialisation process, the printing industries will have tremendous growth.

As such, Torita has also conducted a feasibility study on the Printing Rollers Project. In this project, the capital investment required is estimated at RM1.2 million which will be able to generate sales revenue of RM 3 million with its annual capacity of 30,000 units of printing rollers range from small to medium sizes. The projected Gross Profit of RM 1.3 million per year which is approximately 37% of Gross Profit Margin. Meanwhile, the payback period is estimated over one year and projected cash flow over 10 years of RM 1.15 million.<sup>23</sup> With this projection, Torita should look seriously into such project in its diversification process.

## **(2) Rubberized Textile Fabric, Other Than Knitted Or Crocheted**

No import duty is imposed on products in this category but they are subject to a 10% sales tax. The value of imports of these items remains steady at about RM 6 to RM 7 million per year. However, exports of them are insignificant. The potential for import substitution is therefore great, particularly in the case of products such as raincoats or waterproof garments, tarpaulins, gas proof attire, dinghies, etc. The main source of these goods is Taiwan, with Japan a distant second.<sup>24</sup> However, this is a entirely new line that required production of colour products that might constrained by Torita existing machineries setting used to deal black colour rubber products which expose to the potential of contamination from the working environment. Therefore, this business venture might not be suitable to Torita.

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<sup>23</sup> Table 1 : The IRG & GRG Investment Comparison

<sup>24</sup> Table 2: Import Value of Rubber Products Into Malaysia, 1994 and 1995

### **(3) Golf Balls**

Imports of golf balls into Malaysia are on the rise. This is natural given the increasing income level of Malaysians, the prestige associated with the game and the proliferation of golf courses. Malaysia imported about 1.3 million golf balls in 1991, valued at about RM 3.6 million. In 1994 imports rose to 3.5 million balls valued at RM 12.2 million shown in Table 2.

This product has recorded a very impressive growth in terms of export volume and value, especially when compared with the other selected products. Export volume rose from only 294,000 balls in 1991 to a spectacular 11.9 million in 1994. The export volume in 1995 was even more spectacular: 26 million, valued at about RM 24 million. The sudden increase in exports was due to the coming on line of Bridgestone Sporting Mfg. Goods Sdn Bhd, whose production of golf balls for driving ranges is totally geared to the export market.

In 1995 the USA was by far the largest supplier of golf balls, while imports from Japan declined. The UK has now emerged as the second largest source of golf balls imported into Malaysia with the import value of RM 1.02 million.<sup>25</sup> As such, it is evident that there is still a need for local manufacture of golf balls for the home market. Therefore, Torita should look into the potential of venturing in golf balls production since such products is categorised as high technology and high value-added products

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<sup>25</sup> Table 2: Import Value of Rubber Products Into Malaysia, 1994 and 1995

### **4.3.3 Strategic Alliances Or Joint Venture**

The formation of trade blocs is becoming a reality in today's international trade. For the GRG sector, these blocs are a group of major industrialized countries which consume rubber products. Suppliers of these industrialized countries are located nearby and they are funded by the industrialized countries. These trade blocs may force some country for strategic alliances. New alliances may come up in the booming area of Asia-Pacific region. If Japanese, Korean and Taiwanese manufacturers locate their manufacturing operations in, or develop strategic alliances with, competitor countries such as Indonesia, this could lead to Malaysia losing its strategic opportunity to become the major supplier to the Asia-Pacific region. Therefore, Malaysia may lose its present export markets and eventually seeing its domestic markets threatened.

Therefore, Torita being one of the Malaysian rubber products manufacturer in the country should participate aggressively in searching strategic alliances or joint venture with foreign companies in order to gain access to the restricted market.

The comparison and ranking process was conducted in terms of the strategic alternatives which is shown in Table 1. The ranking in terms of gross profit was also shown whereby IRG - Rubber Profile being rank on top, followed by GRG - Printing Roller, IRG - Radiator Hose, IRG - Precured Tread and IRG - Forklift Tyre. The IRG - Forklift Tyre should be dropped as a result of unfavourable negative value in its Net Present Value, meaning that this project is unprofitable to pursue.

In accordance to Value-Added features, the ranking could be done in the following manner:(See Table 3). The GRG - Rubberized Fabric being rank on top, follows by the GRG - Golf Balls, the IRG - Printing Roller, the IRG - Radiator Hose, the IRG - Rubber Profile, the IRG - Forklift Tyre, the IRG - Precured Liner, the IRG - Tansmission Belting, the IRG - Rim Flaps and the inner tubes.

By comparing with the above evaluation method it is cleared that Torita should diversify in the IRG(namely the Radiator hose and the Rubber Profile) and the GRG (namely the Printing Roller). Torita should also continue modernize its existing ageing manufacturing facilities like inner tubes, rim flaps and precured liners.

Table 3

Torita Value-added Features of Selected Products

Products	UCM	Average Price Per Unit (RM) (a)	Material Content Per Unit (b)	Rubber Content Per Unit (c)	Rubber Cost per Unit (RM)* (d)	Material Cost per Unit (RM)* (e)	Value Added to Rubber (%)** (f)	Ranking In Term Of Value Added
<b>Inner Tubes</b>								
Motorcycle	unit	2.50	0.50	0.25	1.05	1.60	138	10
Passenger Car	unit	6.50	1.00	0.55	3.00	3.50	117	11
Lorry	unit	19.00	4.00	2.50	11.20	15.00	70	13
Tractor	unit	27.00	6.00	3.50	15.00	22.00	80	12
Rim Flaps	unit	4.80	2.00	1.00	2.00	2.60	140	9
Precured Liners	unit	5.20	10.00	5.50	1.95	3.00	167	7
Rubber Profile	unit	15.00	1.00	0.50	3.10	4.50	384	5
Radiator Hose	unit	9.00	0.20	0.08	1.80	4.50	400	4
Printing Roller	unit	100.00	10.00	7.00	12.00	20.00	733	3
Forklift Tyre	unit	250.00	35.00	21.00	70.00	110.00	257	6
Transmission Beltings	m	0.86	0.10	0.06	0.33	0.40	161	8
Rubberized Fabric	sq.m	1.33	0.10	0.06	0.03	0.40	4,333	1
Golf Balls	unit	3.00	0.04	0.03	0.18	0.64	1,567	2

Source : Torita Management Information System