

1.0 INTRODUCTION

1.1 PURPOSE AND SIGNIFICANCE OF STUDY

There are numerous technical and quantitative researches done on palm oil marketing. For example Kew's research used data from 1960 to 1995 to find the relationship between world demand of palm oil, domestic demand for palm oil, world price of palm oil, soybean oil price and CIF Rotterdam price of palm oil (Kew, 1996). Another research on Malaysian palm oil in the international market for fats and oils looked at relationship among 12 vegetable oils and 4 animal fats in the world. It also addressed the cross price elasticity of the Indonesia palm and Malaysia palm (Manpal, 1989)

Harcharan had done a qualitative study on marketing Malaysia palm oil without deploying any theoretical model. The study provides a detailed description of the palm industry and gave several recommendations in order for Malaysian palm industry to be competitive (Harcharan, 1975)

This study attempts to use qualitative approach using a model to evaluate the competitiveness of the palm industry. The framework used is the Porter's Five Factor analysis. Following that, competitive strategies would be recommended. The study also use the value chain framework, where recommendations for value adding in achieve the competitive strategy.

An industry is a group of firms producing products that are close substitute and the strategies taken by these firms would affect the other firms in the industry. Malaysian palm oil industry is getting more competitive due to the following reasons:

a) Limitation of cultivated land

In the early years of development of the palm oil industry, the critical success factors, which enabled the industry to develop and prosper, were the abundance of land and labor. FELDA settlers were encouraged to develop large area of oil palm plantations that in return generate huge revenues. The oil palm planted area in Malaysia was at a meager of 641,791 hectares in 1975. It breached the 1 million hectare marked in 1980; 2 million hectare marked in 1990 and reached 3.3 million hectares in 1999. Unfortunately the oil palm planted area is almost fully developed in the Peninsular Malaysia and the other potential available land to be cultivated is only in East Malaysia.

b) Indonesia factor

The second largest country producer of palm oil is Indonesia, which projected to reach 6.5 million metric ton in year 2000 or stands at 32% global share. Indonesia production of palm oil is expected to exceed Malaysia by the year 2010. This is mainly attributed to land availability mainly in Sumatra and Borneo. The climate suitable soil and landscape, similar to Malaysia, is conducive for palm cultivation. .

In September edition of the Asiaweek, the purchasing power parity (per capita GDP) showed IndonesiaUSD2940 versus Malaysia of USD7370. The per capita nominal GNP of Indonesia is only USD617 compared with Malaysia of US3248. The labor cost of production is atleast four times cheaper than in Malaysia.

Therefore, Indonesia will pose a major threat to Malaysia palm oil industry.

c) Product Substitution

Substitute of palm oil, soy oil, may rebound and counter-attack to regain the share which they lost. In 1980, the world consumption of palm was only at 4.57 million mt or 12.11% of world oils and fats consumption while soy was at 12.71 million mt or 33.69%. In 1997, palm oil was already been consumed 16.38 million mt or 21.31% but soy consumed at 20.21million mt or 26.3% share. Over the period of 17 years, palm oil share has increased by 9.2% while soya has declined by 7.4%. One of the main reason for the success is the natural semi solid form of palm oil which need no further solidification process (Bek Nielson, 2000)

Liquid oils such, as soy needs to go through this process which would introduce trans-fatty acids which is adverse to health. The advent of genetic engineering techniques, specifically Genetically Modified Oilseeds (GMO) would enable soy producers to develop a "natural" higher solids fats which is free from trans-fatty acids.

The GMO technique would also able soy producers to extract a higher yield and faster maturity of the crop. It would enable soy producers to benefit a lower cost of production. This is crucial in competing against other vegetable oils commodity.

As mention above three factors drives the Malaysia palm oil producers to have a better understanding of the vegetable oils market dynamics and formulate a strategy to steer ahead of the competitors and earn above average return.

1.2 RESEARCH QUESTIONS

This study attempts to address the following questions:

- a) What is Malaysia competitive position in relation to other oils and fats producers in the world?
- b) What strategy should a firm in a palm industry adopt in order to have a competitive advantage?
- c) Would Malaysia palm oil producers remain competitive in the year 2005?
- d) Who are the major threats for Malaysia palm Oil producers in the year 2005?
- e) What are the competitive strategies required in order to remain competitive in year 2005?
- f) What organizational production and support process needed in order to achieve the competitive advantage strategy?

1.3 SCOPE OF STUDY

The scope of this studies covers:

a) Region

Malaysia palm oil industry includes the region of Peninsular Malaysia, Sabah and Sarawak only.

World palm producers includes all countries which producers palm oil and world oils and fats producers includes global producer of both animal and vegetable oils and fats.

b) Palm Oil

The product in this study only covers palm oil, in the form of Refined or Crude or both. It also encompasses it derivatives mainly palm olein and palm stearin. However, another product of oil palm i.e. Crude palm Kernel Oil and its derivatives are not included in this study.

c) Model

There are two strategic management model used in this study. First is the Porter's Five Forces. It is to evaluate the palm industry environment, which has a more direct effect on strategic competitiveness.

Second is the value chain Analysis Model, to understand firms position and to identify multiple alternatives that might be used to facilitate the implementation of the competitive strategy.

d) Data

Historical data were extracted from the Malaysia's Statistical department on the production; export and stock figures are used. Chow Chee Seng's 1997 work on forecasting palm oil production in year 2005 is rendered in this study.

Ramli Abdullah did a later, as well as latest, projection of palm oil in Malaysia and Indonesia in year 2000 (Ramli Abdullah, 2000). But it is not used in this study, which took consideration of political, economic, and financial crisis faced by the country. According to the study these factors hindered the progress of the Indonesia production and as a consequence Indonesia would not be able to exceeds Malaysia palm production even to year 2020. The production gap would be filled by East Malaysia region.

This is still under debate as some industry expert thinks that Indonesia palm production growth would be affected by the crisis but expecting a fast recovery and would exceed Malaysia palm oil by the year 2020 (Bek Nielson, 2000)

1.4 LIMITATION OF STUDY

The following are limitations found during the course of this research:

a) Accuracy of Data

Data obtained from the statistical department does not include the illegal entry or exit to neighboring country. Specifically, the border between

Peninsular Malaysia and Thailand, as well as the border between Sabah, Sarawak and Indonesia.

Due to the vast Indonesia land and scattered islands, the statistical data obtained on production by the Central Bureau of Statistics was an approximation and likely to be underestimated.

Generally statistical data obtained from developing nations are less reliable. The reasons vary from poor infrastructure, less priority from the governing body, poor data management and others.

b) Accuracy of data projection

As with any other projection method, underlying assumption is *ceteris paribus*. The projection on year 2005 done by Chow Chee Seng, presented at the 22nd World Congress and Exhibition of the International Society for Fats Research, September 8-12, 1997, Kuala Lumpur.

From 1997 till to-date, There have a few major events which might affect Chow's projection. Among the events are El-Nino effect in 1998, La-Nina effect in 1999 and political turmoil in Indonesia since 1998.

c) Qualitative Study

The Porter Model is a qualitative analysis, hence, it does not have a quantitative results to subject to subjectivity. Similarly, on the value chain analysis; the more subjective aspect of the internal environment such as

organizational culture and values unable to be addressed.

1.5 ORGANIZATION OF THE STUDY

This study comprises of 5 chapters. Chapter 1 outlined the introduction of this study. It explained the significance, the objectives, the scope, the limitation and the layout of this study. The next chapter comprises literature reviews on the concepts of Porter's Competitiveness analysis and Value chain analysis. It also covers an overview of the Malaysian palm industry, world palm industry and world oils and fats demand-supply. Chapter 3 is the section on analysis where the Porters model is applied to the Malaysia palm oil scenerio. The methodology of analysis is laid out in this chapter. Chapter 4 is the results and competitive strategies, where Value Chain is deployed. The final chapter is on the conclusion and recommendation.