

## 4.0 RESEARCH RESULTS AND COMPETITIVE STRATEGIES

Overall analysis of the Malaysian palm industry in year 2000, already in an intense competition and not a very attractive industry. Threat of new entrant is medium to high due to short supply of oils and fats to meet the world demand. Indonesia has the highest potential of filling the gap with ample land to cultivate oil palm. Limited land in Peninsula Malaysia hinders Malaysia exporters to have a leapfrog advantage in filling the shortfall. Profitability of the industry still lucrative and suffice to attract foreign investors to participate in the palm industry especially in Indonesia which has a lower cost of labor.

In year 2005, threat of new entrants would be reduced. Technological advancement managed to drive costs lower and increased the barrier of entry for new players. But profitability expected to erode compared to year 2000. This is expected to be so due to intense competition from Indonesia, which has advantage of cost and area to further achieve economy of scale.

In order for Malaysian palm oil exporter to thwart this onslaught, a competitive strategy needs to be implemented. There are three generic strategies could be implemented by Malaysia palm oil producers, namely, cost leadership, differentiation and focus.

In a broad sense, palm oil is a commodity fits in well with overall cost leadership strategy. This strategy is to achieve an overall cost leadership in the industry through sets of functional policies aimed at this basic objective. It requires aggressive construction of efficient scale facility,

vigorous pursuit of cost reduction, tight cost and overhead control, avoidance of marginal customers accounts and cost minimization.

A low cost position defends the firm against powerful buyers because these buyers would drive the price down to the level of the most cost efficient suppliers. The low-cost position strategy would also fend off substitute i.e. Soya.

A value chain analysis is used to explain in detail how Malaysia palm oil exporter could deploy cost leadership strategy.

#### 4.1 Inbound logistics

Since Indonesia is the least cost producing country for palm, Malaysia palm producer should seek strategic alliance with them. This could be in the form of sourcing the raw material from Indonesia, transferring capital assets to Indonesia or investing palm plantation in Indonesia.

This approach would be of interest to Indonesia part as well since Malaysia who has been the pioneer in commercializing palm oil internationally, has the upper hand in international marketing channel and research and development. The quality of palm oil from Indonesia is still perceived as inconsistent quality.

Both Malaysia and Indonesia stood at 84% of the world palm production and projected to be 88% in year 2005. Forming a strategic alliance would bring benefit to both countries in terms of sharing of knowledge; reduce costs generally and most importantly not creating a downward spiraling price war.

## 4.2 Operations

Malaysia palm producers to continue specialization in the palm cultivation and refining. PORIM had done many researches to improve the yields of palm oil and its process. The current oil extraction rate (OER) yield obtain is about 19%, has been challenged by the Minister of Primary Industry, Dato Seri Lim Keng Yaik to achieve a level of 25% (Lim Keng Yaik, 2000).

Another area that could be improved is the ratio of palm olein versus palm stearin. Palm oil when been split, through physical fractionation or solvent extraction, would turn into a solid fraction and a liquid fraction. Palm olein, the liquid fraction, is an income generator as it is used for cooking. On the other hand palm stearin is a by-product and always priced at a discount. The industry standard of the split ration is at 75%/25%. If the ratio of olein could be increased, this would improve the margin for the business.

Technology breakthrough and heavy investment in R&D is crucial in order to bring the yields and ratio to the next level. Strategic alliance with Indonesia producers able to share the cost of R&D and investment in technology, hence reducing the burden on individual party.

## 4.3 Out bound logistics

Sea vessel transportation is the main transport for palm oil. In order to achieve an efficient cost level, it is imminent to have the vessel space been fully occupied. A vessel tank could have a size of 50,000mt of capacity but most vessels rarely accommodate single type of oils due to timing. If there were a strategic alliance between Malaysia palm producer

and Indonesia palm producer, there would be more alternative of loading other types of oils in order to maximize space this because Indonesia could load coconut oil as well.

The ship would be utilized at full capacity, hence, reducing the freight costs of transporting in bulk. Also, destinations which previously are not competitive to freight palm from this region, example Latin America, would turn out to be more competitive

Being logistically more competitive also leads to far reaching effect worldwide distribution of palm products. Storage at destination countries enable continuous supply of palm as routing of vessel sometimes every bi monthly. Selection of low cost tank terminals for storage and having a long-term agreement with tank owners would reduce the cost of storage at destination.

#### 4.4 Marketing and Sales

Even though products priced is determined by market forces, it is crucial the palm prices are price competitively on delivered basis. For example, storage tank at destination provide Just-In-Time delivery for buyers but if Malaysian palm producers priced product at premium, it would lose its attractiveness compared to other vegetable oils.

Another area is a strategic alliance with Indonesia; enable joint promotion, advertisement that would keep the cost down. Malaysia has been the sole crusader in promotion of palm oil since establishment of Malaysia Palm oil Promotional Council and.

Further generic promotion, advertisement campaign could have similar effect. A rerun of television advertisement used over a period of time and similar advertisement used from country to country is a cost saving rather than a fresh advertisement.

Marketing of palm would be easier for customers if Malaysia and Indonesia having a one voice, joint effort in reaching out to the customer. Cost of transaction would be brought down to a minimum level.

#### 4.5 Services

In principal, service is a cost to the supplier, hence, should be minimized. Provided the service adds value to the customer and in return, the customer acknowledges and willing to pay for the service, it should be discreet. For example, providing product technical supports i.e. cooking demonstration, to a customer who already has such knowledge is superfluous.

Since services has been downplay, focus mainly concentrated on the product itself. A total quality management program (TQM) should be implemented in order to ensure the goods produced have zero defects and doing it rights the first time and all the time.

Important objectives of TQM are the increase of quality in the firm's product and the productivity level of the entire organization. An emphasis on quality in production techniques lower manufacturing costs though savings in rework, scrap and warranty expenses.

#### 4.6 Firm Infrastructure

The present Malaysia palm oil producers organization structure are generally two types, one which is highly bureaucratic, formal structure, this is likes of Felda and Felcra. While the rest are relatively small players, with the CEO act as the chief strategist, assuming full control over the whole organization's activities. Both these setup are obsolete because in today's environment, where the fast-changing knowledge and expertise required to make strategic decisions are usually found in the front line managers. Strategic information cannot relayed to the top without becoming delayed and distorted.

Therefore, a organizational flat structure and full empowerment to the frontline managers would provide meet these challenges. This simple effective information system would not only reduces administrative cost but more important is the reduction of opportunity costs.

#### 4.7 Human Resource Management

Concentrating business on the core competency and outsource other peripheral activities to external specialists would lower cost. For example, forwarding activities could be outsourced to transporters or forwarders while the paperworks could be outsourced to the banks.

Turnover of staff is a cost to the firm as new candidates new to be retrained. Develop policies and practices geared to minimizing costs

through reduced turnover would retain experience workers. For example, provide a safe working environment, recognition program and flexi-hour work.

Utilization of HRD fund on training geared towards waste minimization, effective utilization of equipment and TQM program.

#### 4.8 Technology Development

This is continuous effort aim to innovate in production processes to find new ways to reduce cost. For example a stricter Statistical Process Control (SPC) equip with auto tuning for out of variance results in the milling and refining plant. This would reduce oil losses during production while maintain a quality oil within the contractual specification.

Centralized systems where information system are linked among plantation, refinery and packaging plants, would reduce system management overheads.

Genetically Modified Oilseeds technology could be further explore to "naturally" produced from plantation "ready to consume" palm oil instead of the current state of crude form where it requires further refining before it could be consumed. On the same area, Malaysia producer could venture into a "liquid" palm oil where it would not harden at cold climates. At this moment, the predominant soybean oil markets that used for cooking purposes are colder climate countries. If the technology is successful in turning palm oil into a liquid oil, Malaysia producer could take share away from soybean oil producers.

4.9 Procurement

This is an area where there is a huge opportunity for Malaysia palm producers to source input from lowest cost suppliers consistent with quality objectives.

Participate an "E-auction" for tender of fertilizers, bleaching earth, packaging material and ingredients. This is where all the suppliers would tender their product at a given date and time. Prior to that a ceiling price would be given to the suppliers. In order not to compensate on quality, the lowest price is not necessary would obtain the contract. Such auction would encourage transparency and drives price to a check.

If there is a strategic alliance between Malaysia and Indonesia producers, the power of buyer would be greater and and would have better negotiating power against the suppliers.

The above explanation could be summarize in the following table:

ACTIVITY	COST LEADERSHIP STRATEGY
<b>Primary Activities</b>	
Inbound logistics	Source raw material in Indonesia Capital investment of plant & plantation in Indonesia
Operations	Improve on Oil Extraction Rate Increase Fractionation yield Share cost of R&D



ACTIVITY	COST LEADERSHIP STRATEGY
Outbound logistics	Maximize on vessel capacity Wider coverage of consuming countries
Marketing and sales	Competitive price on delivered basis Joint promotion & advertisement with Indonesia Generic promotion and advertisement One voice to consuming country reduces transaction costs
Service	Minimise unnecessary services Apply TQM
<b>Support Activities</b>	
Firm Infrastructure	Flat organizational structure Increase empowerment
HRM	Outsource peripheral activities Reduce staff turnover Increase training on waste minimization, effective equipment utilization and TQM
Technology development	Innovate production process Centralize system Genetically Modified Oilseeds
Procurement	E-Auction