

## 5.0 CORPORATE ANALYSIS

This section covers a brief introduction to the business organization of ICI Packaging Malaysia and its financial performances. This is followed by a competitive analysis on the business unit using the HAX methodology.

### 5.1 Company Background

ICI Packaging Malaysia is one of the business units under ICI Paints (M) Sdn. Bhd (ICIPM). There were five other business units in ICIPM prior to its global business divestment in December 1999. Besides, ICI Packaging, the other five business units were the Powder Coatings, Decorative, Industrial, Refinish and OEM Paints.

ICIPM was incorporated in Malaysia more than 40 years ago, in 1959. It is a British multinational chemical company, which specialised in a wide array of chemical products. Its Decorative paints division is a world market leader, supplying paints to household and commercial buildings. The ICIPM equity structure, is made up of 60% ownership by ICI PLC UK and the other 40% is owned by PNB.

In 1982, ICIPM decided to penetrate into the can coating industry, which was still at the introductory stage. From 1982 until 1986, ICIPM was merely importing all the can coating to be supplied to local can manufacturers and had not set up any business unit nor production facility. Sources of the coatings were the Holden Surface Coatings in the UK and Europe, as well as Glidden, USA. Both the companies belong to ICI Packaging, a subsidiary of ICI Paints World Group.

It was not until 1987, whereby ICIPM began to manufacture selectively some of the General Line coatings. The sales volume in 1987 was only 290,000 litres. Realising the rapid growth in the metal can industry, as well as the requirement for local content in the cans, ICIPM invested in a Packaging Plant in 1989. The plant was

built on the ICIPM Petaling Jaya site and was designed to manufacture a wider range of can coatings to meet the local can-manufacturers' needs. Coatings produced locally was an added competitive advantage to ICIPM, as most can coatings (besides those manufactured by Coates Brothers) during this period were still being imported.

Over the period of 1988 – 1991, the metal packaging coatings market had grown significantly. This prompted ICIPM to declare the Packaging Coatings as one of its core businesses and a business unit was subsequently established.

To date, the Packaging Coatings sales volume has grown to more than 1.3 million litres a year, with a sales turnover of almost RM9 million. The ICI Packaging Malaysia pre-tax profit of more than RM1.3 million in 1999 represents about 2% of the ICIPM total pre-tax profit.

## 5.2 The Mission

The ICI Packaging Malaysia mission is to strive to be the preferred supplier by creating and sustaining spectacular customer service and providing world class technical support.

## 5.3 The Organisation Structure

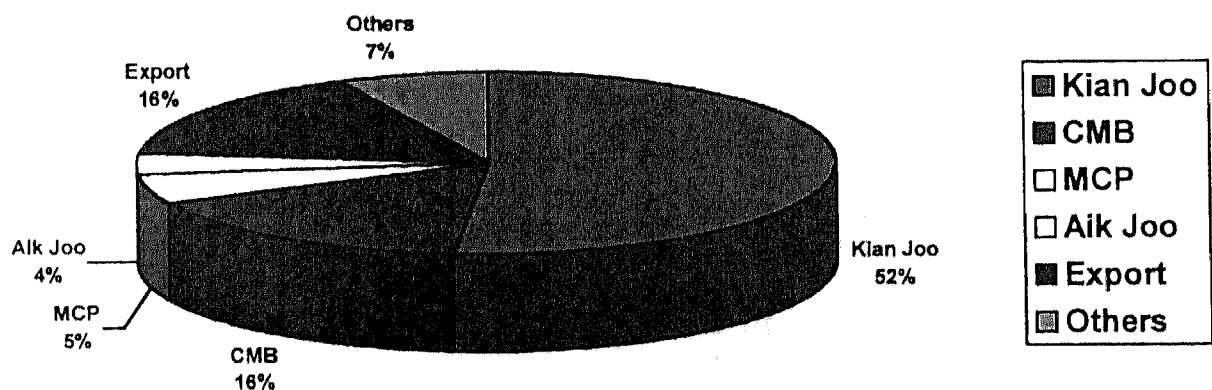
The ICI Packaging Malaysia organisation structure is a lean one. It has a dedicated team of R&D, sales and production, which consist a total of 10 personnel. Appendix E features the organisation structure of the business unit. All other functional support such as human resource, administration, finance, purchasing, maintenance and information system are shared with other business units in ICIPM.

#### 5.4 Business Operation

The metal packaging industry is a highly specialised industry. ICI Packaging Malaysia has a wide customer base. However, as the metal packaging industry itself is dominated by only two major can manufacturers, namely Kian Joo and CMB, more than half of the ICI Packaging sales turnover is actually contributed by these two customers. In addition, ICI Packaging Malaysia distribution network is more focused towards customers in the Klang Valley rather than customers in the southern and northern region of Peninsular Malaysia, such as Johore and Penang respectively.

This is mainly due to its location, where the operation of ICI Packaging is based in Petaling Jaya. Besides this, fierce competition is also faced in the southern region, where the operation of GG Ink and Sicpa are situated.

Figure 9: Contribution of Sales Turnover (1999)



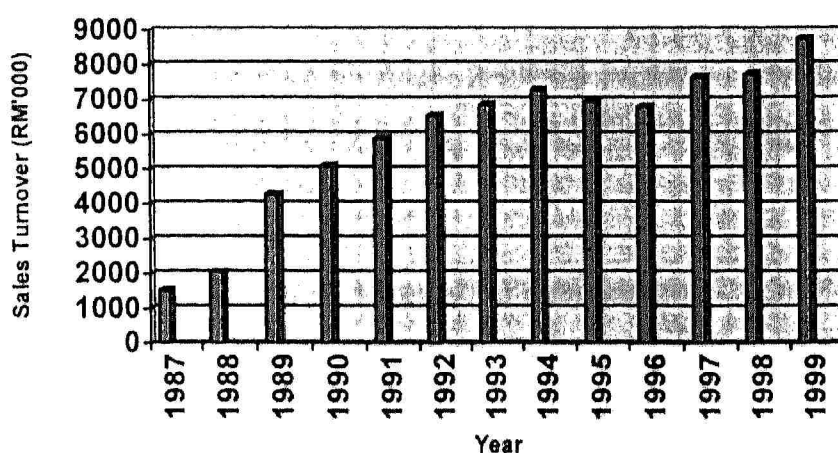
Source: ICIPM Annual Business Review 2000

## 5.5 Financial Performance

On average, ICI Packaging Malaysia has been experiencing steady growth since it began to venture into the can coating industry. Highest sales turnover growth was experienced in 1988 and 1989. This was mostly contributed by the advantage of having a local manufacturing site. However, investment in the production plant also resulted in non-profit in 1989 and 1990, though it was quickly recovered after 2 years. Growth in the subsequent years has slowed down slightly, but in tandem with the can industry growth.

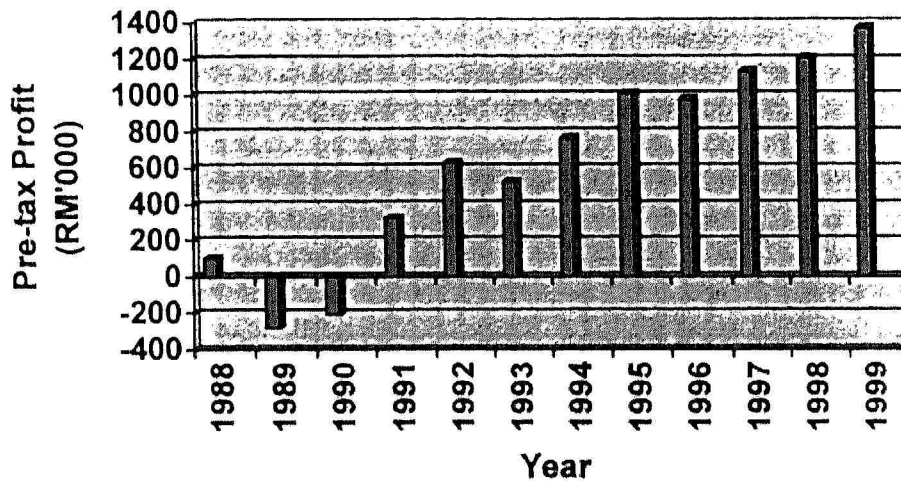
The ICI Packaging Malaysia annual sales volume hit more than 1.3 million litres last year (1999) and pre-tax profit exceeded RM1.3 million, is considered the market leader in the Malaysia can coating industry. It is also regarded as one of the most profitable ICI Packaging units in Asia, contributing to over 20% of the Asia's trading profit.

Figure 10: ICI Packaging Malaysia – Sales Turnover



Source: ICIPM Annual Business Review (from 1988 – 2000)

Figure 11: ICI Packaging Malaysia – Pre-tax Profit



Source: ICIPM Annual Business Review (from 1988-2000)

## 5.6 Competitive Analysis of ICI Packaging Malaysia

The Hax Planning Methodology is used to assess the competitiveness of ICI Packaging Malaysia in the local can coating industry. This methodology, has been devised by Prof. Arnaldo Hax and has been extensively used in international businesses for their business strategic planning process. This process has been used for a number of years by corporations like Unilever, Uniqema, National Starch, Quest and more recently by ICI.

This methodology comprises of an external environmental scan through the use of Porter's Five Forces Model or External Factors Model to assess the industry attractiveness. The methodology also incorporates an internal scrutiny study to identify key competencies, strength and weaknesses as well as critical success factors, to evaluate the organisation competitive strength. Information derived from

the organisation competitive strength and industry attractiveness is then used to formulate business strategy for the organisation.

### **5.6.1 Environmental Scan – External Factors Model**

The environmental scan under the Hax methodology covers a wider range of factors which may have an impact on the company in the industry. Besides the few market forces discussed in Section 4.0, the environmental scan under this section has also taken into consideration the effect of economic situation and government policies on the company. Basically, the factors being analysed are as follows:

#### **i. Market Factors**

Under the market factors, criteria such as the market size, growth, profitability, industry risk, consumer behavior and the bargaining powers of buyers are analysed. Generally, the market attractiveness of all segments, except for the 2-pc DWI and General Line cans, will remain average. Further growth is expected in the 2-pc DWI, Beverage Ends, Food cans and General Line segments, but the 3-pc Beverage segments will be declining in size.

#### **ii. Competitive Factors**

The issues being analysed under the competitive factors include product substitution, price competition, new entrants and degree of rivalry between existing companies. The overall score for this factor is below average across most segments. This indicates that, even though growth in certain segments is envisaged, competition of various forms will remain the major threat.

iii. Technology Factors

The technology factors assess the product changes requirement (product innovation), product workability, external technology threats and demand from environmental regulation. Technology innovation is expected to be the driver in the future market environment, being most demanding in the 2-pc DWI segment. The market will be most attractive for pioneers in technical innovation.

iv. Economic Factors

The economic factors focus on the economic situation of the country and how this will affect the market as a whole. Generally, it takes into consideration the country's GDP and currency exchange rate. The rebound in Malaysia GDP since last year and the fixed exchange rate have been favourable to the can coating industry.

v. Government Factors

The government factors play an important part in protecting the local industry as whole. Its tariff protection on locally produced goods has ward off foreign competition to a large extent. However, this will change come 2003, once the AFTA is implemented.

mostly older models, hence they lack the efficiency required to meet the market demands.

### iii. Technology Development

ICI Packaging Malaysia has its own technical team to develop and modify products to suit its customers' needs. At the same time it can access technology from the ICI World Packaging group technology pool from various countries such as Europe and USA. Despite these, ICI as a whole is finding it to be increasingly difficult to meet the pace of technological advancement required by the industry. Moreover, technological innovation of other product substitute is also fast threatening the can coatings industry. On top of all these, it has to fight for its existence against the various pressing environmental and health issues.

### iv. Distribution

As the customers are specific, distribution of finish goods must be on time and in full (OTIF). Failing to achieve a high level of OTIF will open doors to competitors. To a large extent, the availability of a local manufacturing unit has assists ICI Packaging Malaysia to meet this requirement. This will be one of the key competencies which needs to be built on.

### v. Services

Due to the high-tech nature of the metal packaging industry, after-sales service in the form of technical support is most important to ensure the workability of products. The speed in which a technical requirement can be attended to and met are imminent. The service level extended by ICI Packaging Malaysia at the



moment is only average. This could be due to lack of resources, focus and training in its team of personnel. The number of personnel in this function is small (only 3 persons) and both of them are involved in other job function as well.

vi. Sales and Marketing

New product launches must always be in tandem with the ever-changing improvements often introduced to the metal packaging industry. Pioneer in product innovation will always command a big market share and is often very difficult to dislodge. In addition, customer rapport must also be good so that the customers are willing to try these new products amidst their tight production schedule. Good rapport with customers is the key strength of ICI Packaging Malaysia.

vii. Human Resource Management

As the metal packaging industry is highly demanding, speed is the essence especially in handling customers' complaints and request. Therefore, it is not uncommon for personnel at ICI Packaging Malaysia to stay until wee hours in the morning or during weekends and holidays, to settle such complaints and request as soon as possible. Hence, the remuneration package for these personnel must be attractive enough to recruit and retain them. In addition, constant training programme must be organised to upgrade the skill and knowledge of these personnel. This is a key competency identified from its analysis, where much improvement will need to be given.

The various tables in the following section, summarise the results of the environmental scan and internal scrutiny of ICI Packaging Malaysia in the can coating industry.

Table 4: Environmental Scan – Weighted Score

Factors		2-pc DWI	3-pc Beverage	Beverage Ends	3-pc Food	General Line	Caps & Closures
Market	Current	3.10	3.15	3.15	3.20	3.00	2.30
Factors	Future	3.80	2.85	3.80	3.30	3.70	2.30
Competitive	Current	3.65	2.80	3.50	3.40	2.35	2.70
Factors	Future	3.15	2.50	3.00	3.55	2.60	2.20
Technology	Current	3.00	2.60	3.00	3.30	3.00	3.00
Factors	Future	4.00	3.00	3.00	3.70	3.70	3.00
Economic	Current	2.50	2.20	2.50	2.80	2.00	2.50
Factors	Future	3.40	3.00	3.40	3.40	3.00	3.00
Government	Current	4.00	4.00	4.00	4.00	4.00	3.50
Factors	Future	2.50	3.00	2.50	2.50	2.00	3.00
Overall	Current	<b>3.21</b>	<b>2.91</b>	<b>3.20</b>	<b>3.30</b>	<b>2.81</b>	<b>2.77</b>
rankings	Future	<b>3.55</b>	<b>2.84</b>	<b>3.27</b>	<b>3.38</b>	<b>3.12</b>	<b>2.67</b>

Score: 1 – Highly Unattractive

5 – Highly Attractive

Source: ICI Packaging Business Plan 1998 - 2003

Table 5: Internal Scrutiny – Weighted Score

Factors		2-pc DWI	3-pc Beverage	Beverage Ends	3-pc Food	General Line	Caps & Closures
Sales & Marketing	Current	3.90	3.60	3.80	3.90	3.60	3.60
	Future	4.90	4.40	4.80	4.90	4.60	4.50
Services Factors	Current	2.85	3.50	3.60	2.70	3.00	2.70
	Future	3.85	3.50	4.00	3.70	3.50	3.00
Technology Factors	Current	3.35	3.00	3.20	3.00	3.00	3.00
	Future	4.35	3.40	3.60	4.00	4.00	4.00
Manufacturing & Distribution	Current	3.90	3.85	3.90	4.25	3.00	2.20
	Future	4.65	4.70	4.80	5.00	4.00	2.20
Purchasing Factors	Current	2.70	3.35	3.30	3.35	3.80	2.00
	Future	3.70	4.35	3.70	4.35	4.60	3.00
Human Resource	Current	3.00	3.00	3.00	3.00	3.00	3.00
	Future	4.00	4.00	4.00	4.00	4.00	4.00
Overall Rankings	Current	<b>3.39</b>	<b>3.43</b>	<b>3.49</b>	<b>3.42</b>	<b>3.28</b>	<b>2.76</b>
	Future	<b>4.35</b>	<b>4.14</b>	<b>4.18</b>	<b>4.37</b>	<b>4.19</b>	<b>3.57</b>

Score: 1 – High Weaknesses

5 – High Strength

Source: ICI Packaging Business Plan 1998-2003

Based on the environmental scan and internal scrutiny analysis, the various market segments are positioned into the Portfolio Attractive Matrix (Fig. 12-1 to 12-6) to enable the formulation of generic strategy for each market segment portfolio.

The environmental scan weighting represents the industry attractiveness rating, whereas the internal scrutiny produces the competitive strength rating. Size of the circles indicate turnover in the market now and its estimation for the future.

**Figure 12: Portfolio Attractiveness Matrix**

Fig. 12-1: 2-Pc DWI Cans

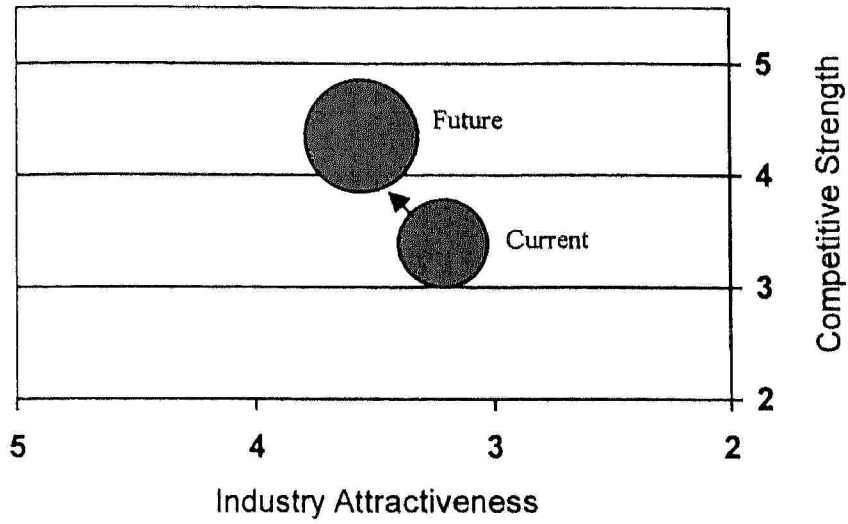


Fig. 12-2: 3-Pc Beverage Cans

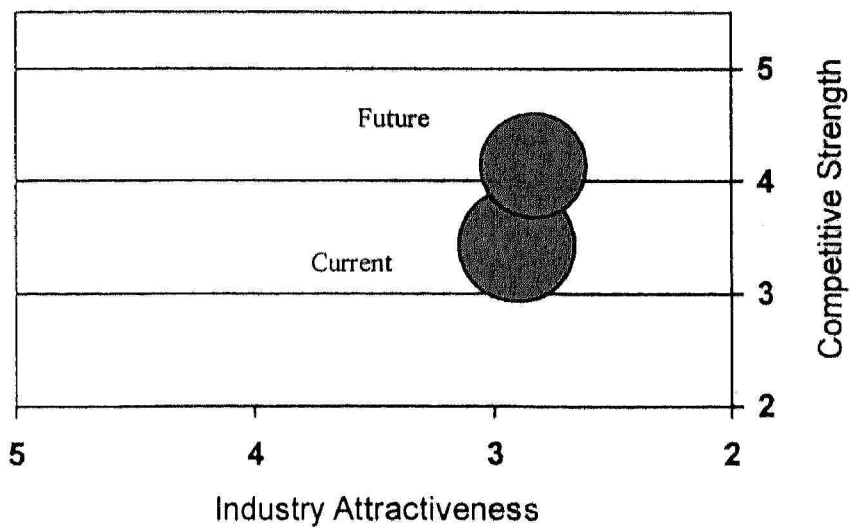


Fig 12-3: Beverage Ends

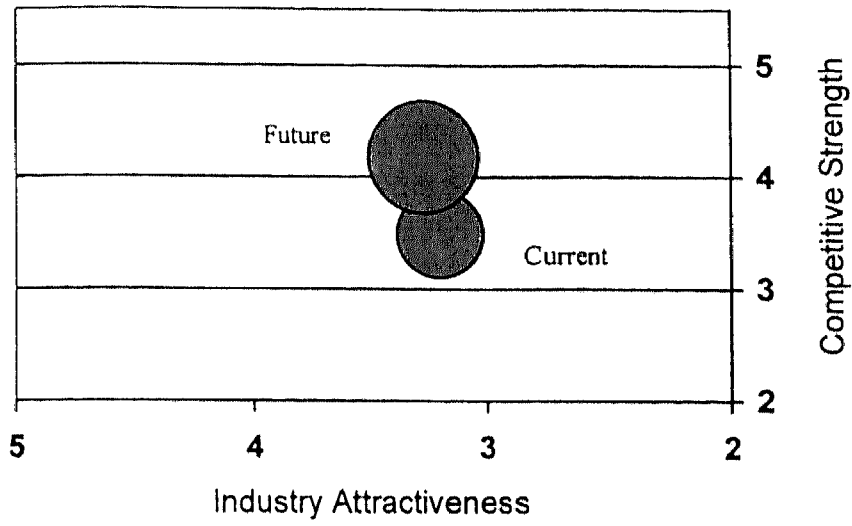


Fig 12-4: 3-Pc Food Cans

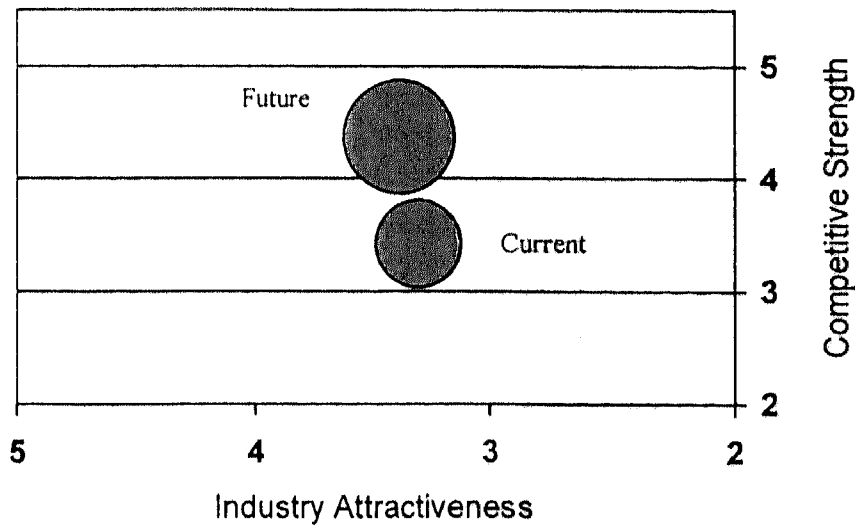


Fig 12-5: General Line Cans

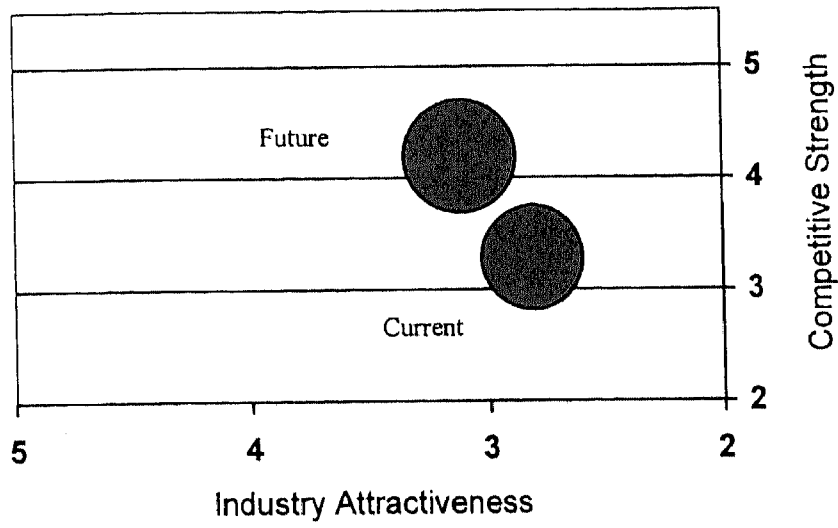
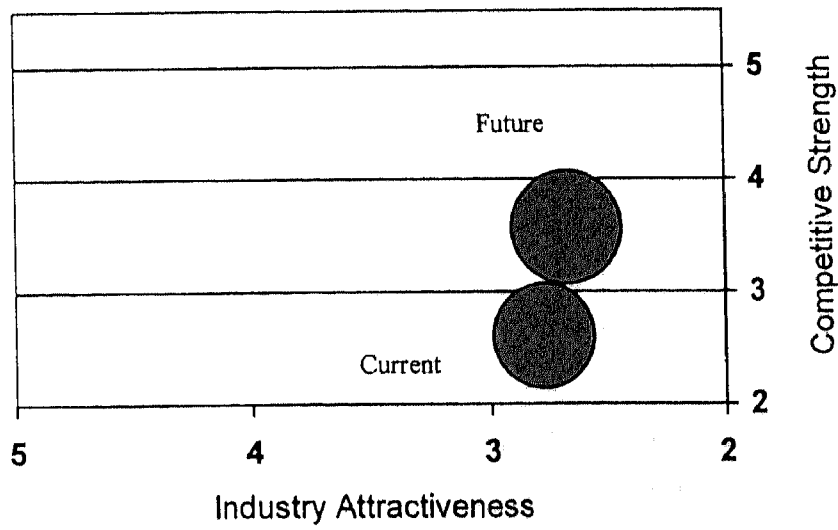


Fig 12-6: Caps & Closures



## 6.0 RECOMMENDATION

Generally, since it first ventured into the can coatings industry about two decades ago, ICI Packaging Malaysia has been able to position itself well in the market, by capturing more than 50% of the share. It has proven that, as a multinational company with sound back-up from an internationally known trade-name (ICI), plus the advantage of having a local set-up for its manufacturing and services division, ICI Packaging Malaysia is able to propel itself into the forefront of the can coatings industry.

However, with increasing pressure from various factors in the external environment, can ICI Packaging Malaysia gain the envisaged competitive strength to face future challenges? We must bear in mind that the ICI Packaging Malaysia represents only a small portion of the overall ICI Paints business, which is about 3% of its total sales volume and 2% of the total trading profit. In short, its impact on the overall paints business profit is very small, but investment in R&D is relatively high, in face of the demanding technological advancement of the can coatings industry. As the competitive environment becomes stiffer, especially with the consolidation of its major competitors, should ICI Packaging continue to be a player in the industry (Strategy 1) or opt out (Strategy 2)?

### 6.1 Strategy 1: Maintain Existence

If ICI Packaging Malaysia chose to remain as a player in the can coatings industry, then it would have to ensure that it is able to obtain profitable growth, in order to be significant towards the overall ICI paints business. In addition, it must ensure competitiveness among other major competitors. In order to pursue this, several strategic thrusts must be implemented.

### **6.1.1 Profitable Growth – The Platform**

The platform for this strategy shall be profitable growth. From the outcome of the external environment analysis, it is found that more significant growth will be in the 2-pc DWI and General Line segments. Whilst ICI Packaging Malaysia dominates the supply of the internal coating for the 2-pc DWI segment, it has no presence in the external coatings sector. This is the sector, which should be explored by ICI Packaging Malaysia, as the volume is high (double the market size for the internal coatings) and margin is still relatively attractive.

Similarly, other niche segments should be exploited as well by introducing the right product offering. For example textured finishes for General Line cans and locally produced coatings for the Caps and Closures segment, are all niche market with attractive margin. In short, one of the ways to obtain profitable growth is to offer customers with a broad product range, which is synonym with the “one-stop-shop” concept.

However, relying on the local market itself is insufficient. Growth in volume should also be derived from exports. Broader geographical coverage to countries where there is no ICI manufacturing facility, such as Indonesia, Vietnam and Philippines should be explored. These countries are highly populated and developing, hence the potential buying power is immense.

Lastly, growth must always be complemented with unparalleled service, consistent quality and excellent customer partnerships, which are difficult to be matched by competitors.



### **6.1.2 Innovation – The Driver**

It has been repeatedly mentioned that the metal packaging industry is a highly technical industry. Therefore, leading technology and innovative products or processes will always be the driver of the industry. Once achieved, it will raise the entry barrier to competitors, hence allowing the pioneer to dominate the market share and make bigger profit margin. Therefore, it is necessary for ICI Packaging Malaysia to plough back at least 6% of its sales turnover, as investment in the R&D.

### **6.1.3 Operational Excellence – Efficiency**

As mentioned earlier, the ICI Packaging Malaysia manufacturing facility lacks the efficiency and flexibility to manufacture a full range of products. However, to be a low cost producer, operational excellence must be achieved through a balance of asset investment and efficiency. Without appropriate investment in more efficient manufacturing facilities, not only will there be limitation in the range of products manufactured, but the cost per litre of the production is also high. Consequently, competitiveness will be eroded as well. Therefore, if ICI Packaging Malaysia chose to remain as a significant player in the industry, then long term investment such as in the manufacturing facility has to be considered.

### **6.1.4 Human Resource Development – The Difference**

Human resource development has been identified as one of the critical success factors, which needs emphasis to differentiate ICI Packaging from the rest of the competitors. In order to extend unparalleled service to the customers, ICI Packaging Malaysia needs to train its human resources, and then strive to retain quality and experienced staff. Therefore, it is important that a shared purpose and winning

culture are cultivated, so that members will work as a team to differentiate themselves from competitors.

## **6.2 Strategy 2: Exit The Industry**

This option is not highly unlikely. After ICI worldwide divestment of its OEM, Refinish, Industrial and Powders coating businesses in 1999, further divestment of its Packaging coating business cannot be ruled out. After all what is the Packaging business unit to ICI, when the divested businesses represented about 40% of its total sales volume and around 33% of its trading profit?

Further more, as most of its competitors in the can coatings industry are consolidating, such as Valspar and PPG, ICI on the other hand has been divesting its coating businesses. Moreover, the ICI Packaging unit is still in a financially sound position to attract potential acquisitions.

If such option is viable, then it is very likely for ICI Packaging to harvest whatever profits it could derive from the Malaysian market before making an exit. In such instances, ICI Packaging would just continue to implement its current strategy and no new asset investment can be expected.

## 7.0 CONCLUSION

After assessing the competitive landscape of the industry, it reaffirms that the metal packaging coatings industry in Malaysia has reached its maturity stage. Firms in the mature stage need to emphasise on market-power actions which focus the firm's attention on offering product lines that are profitable and producing those products in an efficient manner. Process innovations are also emphasised because they maintain dominance through cost efficiencies as well as on the quality of the product manufactured and provided to customers. International expansion must be sought as a move to extend product's life.

Normally, a quick way to achieve the above strategies and maintain dominance is through acquisition. Therefore, in mature industries, there are usually fewer surviving competitors. Those that do survive tend to be larger with dominant market share positions. Once dominance is achieved, these firms seek to exploit their market power and extensive resources and capabilities in an attempt to maintain dominance.

As mentioned in the earlier chapters, consolidation of players in the metal packaging coatings industry has been observed since the past three years. This is also a clear message to ICI Packaging Malaysia, whether to strive through the industry evolution, by adopting aggressive market-power actions on its own or via consolidation.