

CHAPTER 5

STRATEGIC ANALYSIS OF THE MALAYSIAN PALM OIL INDUSTRY

5.0 SWOT Analysis

5.1 Strengths of Malaysian palm oil

- a) Being the world producer and exporter of palm will give Malaysian palm oil better position than palm oil from other producing countries to compete in the Mexican market.
- b) Integrative effort from the private and public sectors especially in the area of research and development, and quality control have made palm oil usable in many foods and non-foods applications and of high quality.
- c) Palm oil has a balanced composition of saturated and unsaturated fatty acids. Many nutritionists promote a balanced dietary intake. It is "cholesterol-free" and high in HDL. This makes palm oil more suitable for solid food applications than animal fats. It also contains high level of vitamin A and E.
- d) Palm oil does not need to be hydrogenated like most soft oils. This would reduce the cost of production especially in the solid food application i.e. margarine, shortening and industrial frying.
- e) Palm oil has a clean, bland taste. This neutral flavour allows the natural flavours of the food to come through making palm oil an excellent choice for salads and cooking.

5.2 Weaknesses of Malaysian palm oil

- a) Palm oil needs to be kept in a special tank, well equipped with heated facility to maintain the quality.
- b) The higher level of saturated fatty acid characterized by palm oil makes it vulnerable to solidification in a colder climate as compared to soft oils. Therefore it needs to be blended with soft oil especially for liquid applications.

5.3 Opportunities to Malaysian palm oil industry

- a) Liberalisation of foreign direct investment, foreign trade and agricultural market enable Malaysian palm oil to compete competitively in the Mexican oils and fats market.
- b) Mexico is the biggest importer of oils and fats and will never be self sufficient in the oils and fats production as the production growth rate is smaller than its consumption growth rates.
- c) Mexico also experiences a hot climate and warm tropical weather all year round especially in the west coast which is suitable for the use of liquid fraction of palm oil.
- d) Mexican people are mostly young, increasingly literate and with more engineers present a resourceful of highly productive workers. Furthermore, labour cost is relatively cheap.
- e) The growing number of middle class, educated and more working people has increased their affluence in purchasing power. This will also affect their eating habits especially with the influx of fast food outlets which would make palm oil the excellent choice for frying activities.

5.4 Threats to Malaysian palm oil industry

- a) Limited land area for cultivation expansion plan in the future might reduce the ability to cater for the increasing world demand for palm oil. This may result in price-hike in the future for Malaysian palm oil.
- b) Labour shortages especially in the agricultural sector will lead to the rise in production cost which will make Malaysian palm oil less competitive.
- c) As many people lose their jobs, higher inflation rate and increase in several taxes, the majority (middle and lower class) will suffer most. The situation may lead to social unrest in Mexico.
- d) United States, Canada, Argentina and Brazil have been the traditional and major suppliers of oils and fats for Mexico. It is very difficult to break their norms or routine in doing the business.
- e) Soybean oil and sunflower oil are the major oils being consumed traditionally by the Mexican and have the positive image for edible consumption among the final consumers.
- f) The producers of soybean oil and other competing oils are actively engaged in the marketing activities.
- g) Some manufacturers/refiners (industrial buyers) especially the multi-national companies such as Andersen Clayton have the ability to buy direct from Malaysia and prefer to buy oils and fats from United States.
- h) The American-based trading houses (resellers) are capable in handling, storing and transporting the vegetable oils through out Mexico. They handle

mostly soybean oil and sunflower oil especially from United States. They also buy oils and fats from all over the world.

- i) Coconut oil is consumed primarily by institutional food industry as ingredients in shortening, candies, ice cream, non-dairy milk and laundry soaps.

CHAPTER 6

PROPOSED STRATEGIES FOR THE MALAYSIAN PALM OIL INDUSTRY

6.1 Marketing objectives

The marketing objectives in Mexico are therefore:-

- a) To create awareness and educate the Mexican people of the palm oils and increase the awareness of the industrial users/consumers of its technological advantage.
- b) To defend Malaysian palm oil shares in total palm oil imported into Mexico as well as to increase palm oil consumption in total oils and fats consumption.

6.2 Marketing mix strategy

These objectives can best be achieved through the use of product, price, place and promotion strategies.

6.2.1 Product strategy

Malaysian exporters should practice "zero-customer-feedback time". Answering to the customer's request can have a great impact on business because customer value a product not only by its core benefits but also services that accompany it, quality of the product as well as quality of delivery, guarantee of supply, and other support service. Customers' satisfaction can be a good defence strategy for Malaysian palm oil in Mexico.

Working close with the present customers is important to determine that Malaysian palm oil can solve their problems and fulfill their needs. For this reason, MPOB's branch office in Mexico should be set up for ensuring that any problems arise in using palm oil by the present industrial users are solved

immediately without referring them to MPOB's branch office in the U.S.A. or Malaysia which could take a longer time.

Malaysian palm oil exporters/producers should also make a continuous product development so that Malaysian palm oil remains the leader in the palm oil market in Mexico and a continuous market development in searching for new customers/users.

6.2.2 Pricing strategy

Malaysian palm oil must gain cost effectiveness in the production process because the distance between Malaysia and Mexico will not make price to the industrial users competitive vis-à-vis other competing palm oils (from Costa Rica, Colombia and Equador).

Lower price to the import traders is viable to allow them to gain bigger profits margin while to the industrial users/consumers, this will make their products competitive in the final consumer market. Therefore Malaysian palm oil should strive for cost leadership in the Mexican oils and fats market in order to capture wider market share specifically in the palm oil market and oils and fats market in general.

Malaysian palm oil exporters/producers should also consider credit arrangement in selling to the Mexican industrial users/consumers or even to the import traders especially in facing the economic downturn. The use of letter of credit is a competitive tool against the credit assistance provided by country such as United States.

6.2.3 Place/Channel distribution strategy

In ensuring the continuity of supply for Malaysian palm oil and overcoming the cost of import financing, freight and shipping time, a physical distribution network should be established by encouraging members of Malaysian palm oil industry to participate in distribution activities in Mexico.

It may be efficient to have forward integration but may not be cost effective to some Malaysian companies. The Malaysian government should provide some incentives to those who participate in developing palm oil facilities overseas including Mexico. Participation of Malaysian companies in providing storage facilities for example, in the host country will expedite and provide support to the development of Malaysian palm oil in that country.

Malaysian producers/exporters may form a joint venture with the Mexican companies or with the trading houses as a preliminary step towards getting more control over the distribution of Malaysian palm oil in Mexico while the situation permits. In fact, some Mexican companies have already showed their interest to become associates with Malaysian palm oil producers/exporters in marketing/distributing Malaysian palm oil in Mexico.

6.2.4 Promotion strategy

A full force of pull and push promotional strategies is required at the moment. However these tasks should be carried out hand-in-hand between the promotion body and the Malaysian exporters/producers.

(i) Pull strategy

Activities directed towards the general consumers in creating demand from the households towards Malaysian palm oil.

a) Advertising

Advertisement for the purpose of creating product awareness and educating the Mexican people about palm oil should be directed through the use of broadcast media such as television.

Television is a very influential electronic media in Mexico as every household in Mexico has at least one television. Approximately 97% of the Mexican population watches television, where 74% on a daily basis [source: Exporters' Encyclopaedia]. Therefore, MPOPC should consider electronic media as the main alternative in promoting Malaysian palm oil to the Mexican people. Furthermore, it provides an effective audio-visual effect and is able to reach millions of people in seconds.

In order for the message to be received effectively it must be communicated in Spanish, short and simple and aired during prime time in Mexico. Established advertising agencies such as Sachi & Sachi, Alizraki and Young & Rubican can be used to assist in disseminating the information.

b) Public relations

Any latest favourable discovery by the scientists or nutritionists about palm oil should be given a wide coverage in the media such as having a press conference in Mexico especially concerning the "unhealthy" saturated content of palm oil claimed by the competitors. Such a publicity is vital in creating a belief towards palm oil by the industrial and general consumers and combating this misleading claims.

A write up about Malaysian palm oil in the newspapers/magazine should also be made. This is to create more understanding towards Malaysian palm oil among the Mexican people at large. Some media groups available are El Universal, Reforma El Norte, Grupo Televisa, Multivision (MVS), Stereo Ray, Canal Aytec and Virgin.

The industry should also invite the Mexican industrial users, scientists, biologists, nutritionists, journalists and any relevant parties to Malaysia in exposing them to the development of Malaysian palm oil industry and giving them a clearer picture about palm oil like the Palm Oil Awareness Program.

Corporate communication in term of video presentation should have been distributed to the media to be inserted into their T.V. programmes and also to those members of the oils and fats industry and related bodies.

Cooking contests/demonstrations should be held in self-service and food stores around payday towards weekend in major cities. This is because over 52% of the Mexican households purchase cooking oils from self service-type stores. For this reason we can promote palm oil as a healthy cooking oil.

Lobbying for the reduction of palm oil import duties from Malaysia at the government level should also be initiated. Malaysian palm oil producers through its association (PORAM) should also hold negotiation with the Malaysian government in reducing export tariffs on palm oil.

(ii) Push strategy

It represents activities involve and directed towards the industrial buyers in persuading the industrial buyers/users to buy, increase more usage or carry Malaysian palm oil.

a) Personal selling

Malaysian palm oil exporters/producers should use their own sales forces with full technical knowledge about palm oil in selling palm oil to the industrial buyers or users instead of leaving them to carry out the selling tasks or looking for palm oil by themselves.

Furthermore, the use of personal selling in Mexico is required as business in Mexico is conducted at personal level and it is an effective tool for a new product like palm oil in convincing industrial users/consumers.

These salesmen must have good understanding on Mexican business/general culture when selling to the Mexican industrial users or American business culture when selling to the traders or American-owned industrial users. For this reason, sales offices should be set up in Mexico and in several states so as to make it easier to administer the selling tasks as it will require a long time before a business deal can be concluded.

b) Trade promotion

Trade promotion in the form of *straight discount off the price list* to encourage trading houses and industrial users/consumers to buy in a big quantity can be used especially in facing the economic downturns.

Malaysian exporters/producers should also offer allowances such as *advertising allowance* to compensate their spending on the advertising and *push money* to their sales forces.

c) Business promotion

The Malaysian Palm Oil Promotion Council (MPOPC) along with other related bodies in the Malaysian palm oil industry, should take part in *trade shows* in Mexico or organize more *seminars/conventions*. Besides as a means to generate sales lead and reach many prospect industrial buyers and problems solving session, final consumers also can be educated through brochures and publications provided freely and audio-visual presentation during trade shows.