

SAMPLE BUSINESS PROPOSAL – MALAYSIA’S DAIRY IMPORTS

1. EXECUTIVE SUMMARY

Companies are increasingly seeking newer markets for their products and services beyond their geographic borders. This assignment attempts to look primarily at the proposal chosen by a private British Consultancy Company (ABC Consultants UK) whose client is a Saudi (Saudi Arabia) company and their plan to introduce evaporated milk in the Malaysian market. The main objective of this proposal is to plan the entry strategy into a foreign market. It also focuses on the approach adopted for assessing the market potential in the target market. A detailed marketing mix plan for the product, which is essentially required to have a full view of any business plan, is only briefly discussed, as a detailed plan is beyond the scope and requirement of this assignment. Many details regarding costs and schedules have been made-up along the way to give the proposal a realistic perspective in light of the assignment and its requirements. Malaysia relies heavily on imports for its dairy needs. The local dairy industry does not produce sufficient quantities of fresh fluid milk to satisfy Malaysia’s fresh milk needs. Reconstituted fluid milk and other milk products are substitutes for fresh fluid milk. Ingredients such as skimmed milk powder, full cream milk powder and whey needed to produce condensed milk, whole milk powder, and other milk products are imported mainly from Australia and New Zealand.

2. SITUATION ANALYSIS

I will be representing the views of the consultancy company throughout this paper and this section shall focus on the main players or participants in question. Keeping in view the above backdrop, this proposal attempts to look into the entry strategy of a Saudi Arabian (Middle-Eastern) company planning to enter the (South-East Asian) Malaysian market by exporting evaporated milk.

2.1. Contextual background of NFIC

ABC Consultants UK is a small private British Firm which specializes in developing strategies for companies who are trading on an international level and wishing to expand the product range or market in terms of location. The client for whom the proposal is being made is National Food Industries Company (NFIC), a Jeddah, Saudi Arabia based firm established in 1993 which happens to be the largest integrated canned food company in the Middle East (NFIC official website). The company is the market leader in its home base of the Arabian Kingdom pioneering its two leading brands of evaporated milk called *Luna* and *Green Farms*. NFIC is one of the leading exporters of canned food items from Saudi Arabia. As of date it exports to over 40 countries in the world. The major items of export are evaporated milk, milk powder, tomato paste and sweetened condensed milk. Its major markets in terms of geographic segmentation include the Middle East, Nigeria, West Africa, North Africa and East Africa.

2.2. The Product (Evaporated Milk)

Evaporated milk, also known as dehydrated milk, is a shelf-stable canned milk product with about 60% of the water removed from fresh milk. It differs from sweetened condensed milk, which contains added sugar. The product takes up half the space of its nutritional equivalent in fresh milk. When the liquid product is mixed with a proportionate amount of water, evaporated milk becomes the rough equivalent of fresh milk. This makes evaporated milk attractive for shipping purposes as it can have a shelf life of months or even years, depending upon the fat and sugar content. This made evaporated milk very popular before refrigeration as a safe and reliable substitute for perishable fresh milk, which could be shipped easily to locations lacking the means of safe milk production or storage. In Malaysia, due to price controls, evaporated (and condensed) milk contains palm oil. It is one of the ingredients to make *Teh Tarik* in Malaysia and Singapore. Also it is added in brewed tea and coffee to make *Teh See* and *Kopi C* respectively.

The major items of the dairy products industry in Malaysia are powdered milk (full cream, skimmed and infant formula), sweetened condensed milk, evaporated milk, liquid milk and milk drinks (fresh, ultra-high temperature, pasteurized and homogenized), yogurt and ice cream. The milk products are

locally produced by reconstituting and blending of imported milk powder (skimmed and whole), whey and other ingredients. Most infant formula is imported and packed locally except for a local brand (Nestlé's Lactogen) which is manufactured in Malaysia.

2.3. Key Competitors

Evaporated milk is sold by several manufacturers in South east Asia including Malaysia:

1. [Carnation Evaporated Milk](#) (the brand is now owned by Nestlé and licensed to Smuckers in Canada)
2. [PET Evaporated Milk](#) (now owned by Smuckers)
3. Magnolia evaporated milk - (now produced by [Eagle Family Foods owned by Smuckers](#))
4. [Nestlé](#) evaporated milk
5. F&N Evaporated Milk
6. Rainbow Milk, a brand of [Royal Friesland Foods](#)
7. Nordmilch AG (Now Nordcontor) - Germany

With the number of overwhelming competitors, Luna should implement the market penetration and product development strategy by capturing current market share from other dairy food institutions that have been weakened from the recent economic crisis.

2.4. The Target Market (Malaysia)

The target market for NFIC was initially China, but ABC Consultants decided to propose Malaysia as a better market for their products. Even authors such as MUTHALY S. et al. (1999) argue that market demand and growth potential are two lucrative factors for global and regional companies to invest in Malaysia. Based on their studies and research on companies that invested in Malaysia, the main reasons which were found were the country's growth potential and mainly the utilisation of Malaysia as a window to ASEAN and the utilisation of Malaysia's excellent infrastructure.

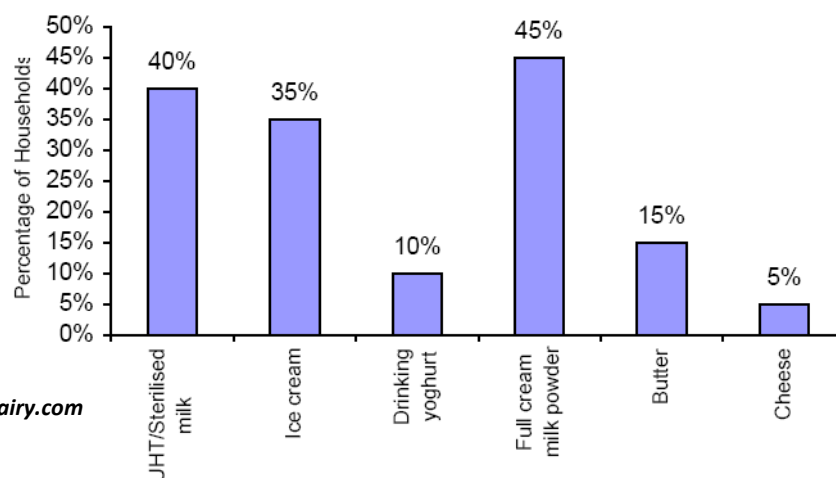
It could be implied then that the global companies did not only consider political stability, access to raw materials and low productions costs as major reasons for investing in Malaysia but also Malaysia's market forces outweighed the supply factors for global companies choosing to invest in Malaysia. In light of the proposal being discussed, looking specifically at the evaporated milk industry has shown that the Malaysian milk market opened up to imports in 1995 with the signing of The

General Agreement on Tariffs and Trade in 1994 and today over 90% of Malaysia's milk is imported. The major players in the dairy market are foreign companies and the majority of the raw material for dairy industry is imported in the country. There is also no import duty on condensed and evaporated milk.

Malaysia which has an estimated Population of 23.5 million was one of the first Asian economies to return to growth after the onset of the Asian currency and economic crisis of 1997/98. It reported economic growth of 5.8% in 1999. Local analysts forecast that the economy should grow by between 7.5% and 8.5% in 2000. Today, it is the third wealthiest country in Southeast Asia after Singapore and Brunei.

Malaysia has one of the most sophisticated consumer markets in South East Asia. Unlike the other large Southeast Asian nations, e.g. Indonesia, Thailand and the Philippines, Malaysia has a nation-wide consumer base that encompasses both urban and provincial/rural areas. Middle to upper income group of consumers comprise about 61% of the population or 14 million persons in 2000. These persons are key targets for the full range of dairy products that are in the market today.

The Percentage of Malaysian Households That Regularly Purchase Dairy Products



Source: www.asia-dairy.com

Malaysia's imports of dairy products were valued at US\$ 321.6 million in 1999. Imports equated to about 1.45 million liquid milk equivalent (LME) tonnes in that year, up from 1.17 million LME tonnes in 1998, when Malaysia was in recession.

Prior to the economic downturn in 1997/98, most dairy market segments were growing at rates in excess of 5% per annum. Some segments in the liquid milk, yoghurt, ice cream, cheese and dairy ingredient markets achieved double-digit growth in the period just prior to 1997/98. Improved economic conditions and business and consumer confidence boosted demand such that imports

rose by about 27% above the level seen in 1998 when Malaysia was adversely affected by the Asian currency crisis and economic downturn.

Malaysia's market is now amongst the freest in Asia for imported dairy products. Progressively liberalisation since the mid-1990s has brought about dramatic falls in import tariffs. Most imports now incur between 0% and 5% import duty. This, together with increasing consumer affluence and related diet modernisation, provides a strong base from which to develop the dairy product market in a proactive manner tomorrow.

3. The Market

3.1. Assessing Market Potential

The Uppsala method (WHITELOCK, J. 2002) of assessing market potential is relevant in the case of NFIC's venture into the Malaysian evaporated milk market. This model argues that firms develop their activities abroad over time and in incremental fashion, based on their knowledge development and that this development is explained by the concept of psychic distance, with firms expanding first into markets which are psychically close and into more 'distant' markets as their knowledge developed. It could be implied that decisions and implementations concerning foreign investments are made incrementally due to market uncertainty.

As (FORSGREN, M. 2001) thinks that 'incrementalism' can be seen as a management learning process in which 'learning through doing' is the basic logic. So the more the firm knows about the market, the lower the perceived market risk will be, and the higher the level of foreign investment in that market. The firm postpones each successive step into a certain market until the perceived risk associated with the new investment is lower than the maximum tolerable risk. Malaysia would be the first non-Arab country for NFIC to expand into and the experiential learning method is deemed to be natural and safer to understand the Malaysian market. However one drawback of applying the Uppsala model in this case is that it employs a reactive rather than proactive perspective of experiential learning. Here reactive learning means acquiring more knowledge about already identified solutions while proactive learning focuses upon the search for new solutions. Another shortcoming of the model is that it makes no explicit mention of the impact of competition on market entry (WHITELOCK, J. 2002). Nevertheless given the circumstances of NFIC and the strong competition in the Malaysian evaporated milk market, its strategically appropriate to apply previous exporting experience and enter the market with optimum financial involvement, with a view to learn that market mechanics while operating there.

Although Malaysia is a predominantly Muslim dominated country, it has sub-cultures of Malay, Chinese and Indian ethnicities. The government always aims to achieve racial and national harmony in such a multiracial society, particularly since race riots in 1969 (WALLER, D. et al. 2005). The Malaysian advertising code put forward by the Ministry of Information also promotes cultural sensitivity and social harmony in advertising and prohibits advertisements that contain statements or suggestions which may offend the religious, racial, political or sentimental susceptibilities of any section of the community .Moreover culture influences many day-to-day decisions that people make, including purchase decisions. Therefore, psychological distance should condition a company's expansion strategy into overseas market (LADO, N et al. 2004) as when a culture-specific product is exported to a foreign market, the cultural base on which the product is developed may not match the cultural base in the foreign market. To be viable, the product must be adapted to the cultural idiosyncrasies of the export market (O'CASS, A et al. 2003). NFIC being a Saudi company is well aware of the religious compliance that companies have to adhere to while doing business in an Islamic country. For example, the very fact of the product being Saudi would ensure the Malaysian consumers of its being Halal and thus acceptable.

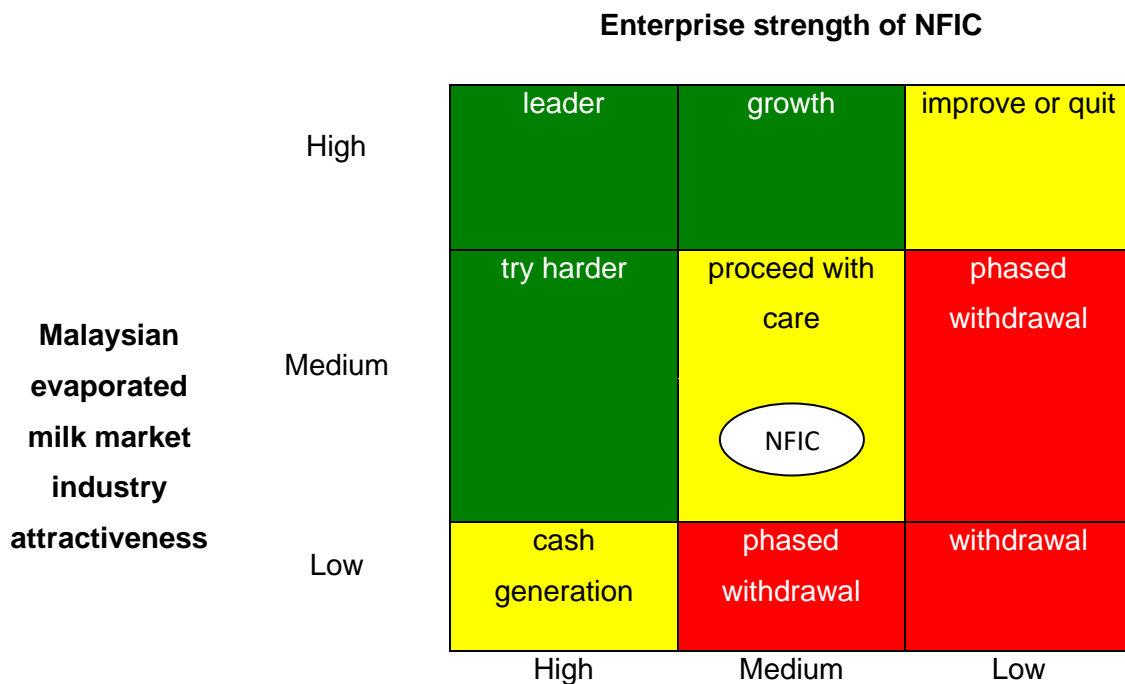


Figure: The GE matrix

The evaporated milk market size estimate in 2009 was RM 119m (£18m) and forecasted to be RM 125m (£19m) in 2008 (Milk & Dairy Market Research Report 2008). The year-on-year growth rate is 5% which makes the growth potential very strong. NFIC's competitive strength would be at an optimum level due to the initial export entry strategy. Nevertheless the market potential is attractive due to favourable access factors such as government incentives, low or no tax on this sector, accessible distributor and retailer network in Malaysia etc. The GE matrix could be applied in this regard to assess the industry attractiveness of the evaporated milk market in Malaysia. It could be argued that the medium attractiveness of the industry combined with the medium entry strength of NFIC would place its presence in the middle grid (circled) of the matrix. So the strategy for the SBU in this cell could be to selectively invest for earnings, preferably by segmenting the Malaysian market to find a more attractive position and by making contingency plans to protect the share from aggressive threats from the established market leaders like Nestlé, F&N etc.

3.2. DEMOGRAPHICS

Malaysia continues to be a net importer of food products with annual imports of more than \$5 billion, including consumer-oriented and fishery product imports of \$3.5 billion. With per capita income of over \$6,000 and a middle and upper class making up 61 percent of the population, Malaysia shows good potential for growth as a market for consumer high value products. According to U.S. Trade data, exports of consumer-oriented products to Malaysia increased from \$159 million in 2001 to \$307 million in 2008. Best product prospects include fresh fruits and vegetables, pet foods, dried fruits, nuts, frozen potatoes and processed juices.

For more detailed information on demographics refer Appendix 1 & 2

3.3. COMPETITIVE OFFERING

NFIC will not be able to compete on price with multinationals and large firms like Nestlé and Fraser & Neave operating in the Malaysian evaporated milk market. It has to explore its strengths in other ways. A key strength could be its lighter structure (NFIC website). While larger firms often suggest that adjustments to the market are not allowed because of "corporate policy", smaller firms use this lighter structure to export and rapidly adapt their strategies to the special needs of the foreign market (LAGES, L. et al 2004). The other factor which NFIC could consider is that once it gets involved in exporting they could employ higher corporate commitment, which according to is essential for building good relationships with the importer and achieving competitive advantage in relation to larger corporations.

3.4. COMPETITORS

Evaporated milk segment is dominated by Nestlé’s Carnation, Ideal and Ideal low-fat brands which have a total of 50% market share. This is followed by F&N at 40% (F&N Official Website). Other major players in the market are Dutch Lady, Marigold and Dairy Champ.

Nestlé is currently experiencing double-digit growth in its evaporated milk products and market players believe growth will continue at over 5% year-on-year for the next 3 years (Nestlé Malaysia official website). Despite the general industry shrinkage, some small dairies are still experiencing growth in this segment. Etika Dairies, which produces Dairy Champ, has grown from a small base in the past and their market growth in evaporated milk opposes the broader market trend (PENG, T et al 2005).

4. MARKETING TRENDS

4.1. Market Segmentation

A market segment should consists of a group of customers who share a similar set of needs and wants (Kotler. Etal, 2009). A market segment must be accessible, measurable, large enough and profitable in order to be worth targeted by an institution. The new prepaid card should be offered as a ‘naked solution’ that all segment members value (Anderson & Narus, 1995). Ways of segmenting the market should include geographical and demographic segmentation.

Major segmentation variables for consumer markets	
Geographical Region	First by countries Second by different geographical regions of the Malaysia
City or metro size	Under 5000; 5000-20,000; 20,000-50,000; 50,000-100,000; 100,000-250,000; 250,000-500,000; 500,000-1,000,000; 1,000,000-4,000,000; 4,000,000 or over
Density	Urban, suburban, rural
Demographic age	Under 6, 6-11, 12-19, 20-34, 35-49, 50-64, 64+
Family life cycle	Young, single; young married, no children; young, married, youngest child under 6; young, married, youngest child 6 or over; older, married, with children; older, married, no children under 18; older, single; other
Gender	Male, Female
Income	Low, Medium & High

Occupation	Professional and technical; managers, officials and proprietors; clerical sales; craftspeople; forepersons; operatives; farmers; retired; students; homemakers; unemployed
Education	Grade school or less; some high school; high school graduate; some college; college graduate
Generation	Baby boomers, Generation X, Generation Y, Kids
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers

4.2. SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> • Exporter is a Tax Free Nation • Strong brand name in Africa & Middle East • Halal Certification by default • Changes in consumer lifestyle and government emphasis encouraging imports of processed foods to Malaysia 	<ul style="list-style-type: none"> • Numerous established competitors • Lack of Brand awareness • Time lag in setup
Opportunities	Threats
<ul style="list-style-type: none"> • Tie-Up with local tea or Coffee Manufacturer • Shopping at these retails outlets is becoming increasingly popular among consumers. 	<ul style="list-style-type: none"> • Faster export from other countries close to Malaysia • Growing dairy industry locally

4.3. COMPETITION ANALYSIS

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5. Marketing Mix

5.1. Product

The product is the heart of the firm's marketing strategy. Poorly designed service products that do not create value for customers are destined to fail regardless of how well the other 5 Ps are executed. The goal of the product element is to create a service concept that would offer more value to a market segment than competitors. Working to transform this concept into reality involves designing a cluster of different but mutually reinforcing elements.

The product must be a means to solve a problem or satisfy a want in the market. To date, people love drinking coffee, tea and other liquids with evaporated milk especially in the West. This is the reason why Luna is included in the new market strategy for Malaysia as there will always be a need for it which was proved by Appendix 2.

5.1.1. Product Development

The product development strategy requires the organisation to develop new products for existing market segments. This strategy is suitable for organisations that have a good understanding of their customer's needs and wants. Existing products/services can be used as a platform for cross selling new products tailored to a specific customer base. As with market development, product development carries more risk than market penetration. Luna could use this strategy by developing a new flavour based on fusion that has not been introduced by competitors. Example : French Vanilla, Strawberry-Orange, Mango- Apricot, Vanilla- Cinnamon, etc. The new flavour would signal a change in the psychology of spending among customers and would likely portray Luna as a more dynamic dairy foods producer that does not just encourage people to spend.

Porter's Generic

Target Scope	Advantages	
	Low Cost	Product Uniqueness
Broad (Industry Wide)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (Low Cost)	Focus Differentiation Strategy

5.1.2. Differentiation

The differentiation strategy requires the organisation to develop products/services that are able to deliver unique attributes valued highly by customers. Value added uniqueness of the product/service would enable the organisation to charge a premium against competitors. By using this strategy, the organisation would be able to charge a higher price with the knowledge that substitutes to its products are not easily available.

The risk to this strategy is that other companies may be able to imitate the unique characteristics of the products/services offered by the organisation and sell them at a lower cost. Additionally, other organisations that serve a smaller market niche may be able to tailor make products/services that better cater for their respective market segments.

Unique Features:

- Easy Storage
- Unique flavours
- Can be used in various delicious recipes
- Ice-Cream and milk-shake manufacturers could be interested in a tie-up.

5.2. Price

According to Adrian Palmer (2008), there are five main factors that influence pricing decisions, namely, profit maximisation, market-share maximisation, survival, social considerations and personal objectives. NFIC will have Luna adopt a market price-penetration strategy until it has a significant brand awareness.

5.3. Place

The place element involves delivering the product element to customers through appropriate methods and delivery channels. Private companies are the major entities in the food distribution system. Food importers and commissioned agents place orders with foreign suppliers and distribute to supermarkets/grocery stores and hotels in the cities and to sundry shops in the rural areas. Several of the larger supermarket and hypermarket chains are importing directly from overseas.

Most products from the United States enter through the ports of Klang, Penang and Johor. Transshipment of food products through Singapore has declined with improvement in shipping facilities offered by major ports in Malaysia. Westport, situated in Port Klang and the Port of Tanjung Pelepas (in Johor) have further enhanced Malaysia as a shipping hub.

Malaysia has seven international airports, including the newly opened Kuala Lumpur International Airport (KLIA), one of the biggest and most modern airports in the region. Malaysia's modern highway network is the backbone of the country's transport system as 90% of passenger and cargo movements are by roads. Roads link almost every town in Malaysia, and products move efficiently between cities and rural areas. Railway lines which connect the north, south, west and east coasts of Peninsular Malaysia complements the road system.

Delivery may involve both physical and electronic channels. Failure to make a service product readily available to customers would guarantee its failure regardless of how good the service product is.

Although highly fragmented, the modern grocery sector has grown in importance. The majority of modern retail formats are located in the country's capital city, Kuala Lumpur and Johor Bahru which is situated close to the border of Singapore.

Traditional stores dominate outside these areas (Planet Retail, 2008d). Foreign retailers include Tesco, Carrefour, Makro, Giant (Dairy Farm Group) and Jaya Jusco. Intense competition amongst these international retailers results in regular discount wars as they establish their presence as major players in the market (USDA, 2009).

5.3.1. Supermarkets and Hypermarkets

Supermarkets and hypermarkets are becoming increasingly sophisticated with the introduction of in-store bakeries, food service areas, a range of ready to eat meals and improvements to fresh food areas. The modern retail food sector is seen as a threat to family run stores (Planet Retail, 2008d).

5.3.2. Convenience Stores

Convenience stores are a relatively new concept in Malaysia, gradually replacing the small independent family run stores. They are growing in popularity because they offer long opening hours, convenient locations, wide range of facilities such as ATMs, and range of branded products (Planet Retail, 2008d).

5.3.3. Traditional Stores and Wet Markets

Family owned grocery stores and wet markets account for the majority of retail food sales. These are prominent in residential areas of both urban and rural towns across Malaysia. Most of the goods sold by the grocery stores are canned foods, dried foods

and snack foods, ice-cream and soft drinks. Wet markets sell mainly fresh fruit and vegetables and meat and fish (Planet Retail, 2008d).

5.3.4. Retail Distribution Channels

The food distribution system is run through private distributors that place orders with foreign suppliers and distribute to supermarkets/grocery stores in the cities and rural areas. Some of the larger supermarkets and hypermarkets chains import directly from overseas. With seven international airports and well developed road and rail systems that link to most Malaysian towns, food distribution is able to move efficiently (USDA, 2009).

5.3.5. Tariffs

Applied tariffs for Australia are mostly low or zero. These include live animals, meat, cereals, most vegetables and some dairy products. Higher applied tariffs include rice at 40%, yoghurt at 25%, sauces, mixed condiments at 20% and alcoholic beverages which generally increase by 5-10% per year (ABARE, 2008; USDA, 2009).

5.3.6. Halal Certification requirements

All imported beef and poultry products (except turkey) must be from certified "halal" and must originate from slaughterhouses that follow Islamic slaughter practices. Exporters must obtain a permit through the importer. The permit is issued by the Malaysian Department of Veterinary Services, permitting the importation of meat and meat by products and poultry and poultry by products into Malaysia (USDA, 2009).

5.4. Promotion

The promotion element relies on effective communications to bring awareness in the market of the service products offered by HSBC. The three objectives of the promotion element are to gain the attention of customers, provide additional information and persuade customers to purchase the product. Advertising is mass, paid communication that is used to transmit information, develop attitudes and induce some form of response on the part of the audience (Adrian Palmer, 2008).

The choice of media that would be utilised includes newspapers, magazines, outdoor advertising and the internet. A sales promotion will also be carried during the first three weeks after the launch date to help stimulate customer purchase and the effectiveness of intermediaries (Adrian Palmer, 2008). Other promotional materials include press releases, posters and brochures.

(See appendix 3)

5.5. People

Malaysia has an estimated population of over 27 million, and is one of the most developed nations in Southeast Asia. Around 80% of the population is situated in West Malaysia even though it only accounts for 40% of the land mass. Over 61% of the population falls into the middle to upper income group of consumers (USDA, 2009). Despite technological advances, many financial services still require direct interaction between customers and bank employees. The nature of these interactions strongly influences how customers perceive service quality (Hartline & Ferrell, 1996). This is particularly true for financial services as employees are often the first line of contact with the customer.

Malaysian households spend an average of 24% of their household income on retail purchases of food. Malaysians frequently eat away from home at various low to high-end food service establishments across the country.

6. MARKETING RESEARCH

6.1. Market growth drivers:

a) Malaysian sweet tooth

Domestic sugar consumption has been increasing in Malaysia since the 80's and it now has one of the highest consumption levels in the Asia Pacific region. Average Malaysian adult consumes 24 teaspoons of sugar per day compared to the recommended limit of 10 teaspoons (Milk & Dairy Market Research Report 2003). This characteristic is contributing to the high usage of sweetened milk products compared to other countries.

b) Growing opportunities among health-conscious consumers

As Malaysians are becoming more health conscious, the opportunity to introduce vitaminised or low-fat milk products is increasing. Companies like F&N has been very successful in this niche market by skim pricing their products (Fraser & Neave Ltd. Official Website).

6.2. Market growth barriers:

a) Price controls

The government regulated price controls for evaporated milk can be a hindrance to growth. The price controls do not reflect the changes in market costs for milk production materials such as tin, milk powder and palm oil. Although there may be large fluctuations in the price of these essential items, the controlled prices are only changed at the petitioning of manufacturers and distributors.

b) Mass exodus of foreign workers

Since the economic downturn and the repatriation of illegal entrants, the milk industry has declined as the foreign worker population contributed greatly to the milk consumption. Bangladeshis, Indians and Indonesians in particular are large consumers of Teh Tarik and Kopi Tarik (local styles of milk tea and milk coffee) and in 2001 when many were forced out of Malaysia the milk industry showed a significant decline (TEH, I. 2003, Synovate Business Consultancy Report).

7. Competitive Advantage

Positioning is the act of designing the company's offering and image to occupy a distinctive place in the minds of the target market (Ries & Trout, 2000). Exporting seems the appropriate mode of entry because of a few key factors which are working in the favour of the exporting company. As Saudi Arabia is a tax-free country, it's possible for a company like NFIC to keep its production cost low.

One of the drawbacks of exporting is that high transport cost can make exporting uneconomical (HILL, 2004), however in the case of NFIC, its in a better position to strike a better bargain with cargo ships returning back to China, through the Malacca Channel, from Saudi Arabia, as after unloading goods they have an increased capacity to carry goods.

A huge number of Malaysian and other Muslim pilgrims have already been exposed to the usage of the brand during annual pilgrimage (Hajj) in Saudi Arabia. As a result a higher level of familiarity is expected when the same brand will be made available for the Malaysian consumers in Malaysia.

7.1. Market entry Strategy

Two Market entry strategies could be recommended to NFIC at this point which will be chosen before the launch and test phase in mid-2009:

7.1.2 **Strategy A** - Niche strategy for initial market entry

- *Target consumer* : health conscious consumers (households)
- *Product offering* : low fat / vitaminised evaporated milk
- *Pricing strategy* : benchmark against market leader
- *Distribution channel*: hypermarkets or supermarkets
- *Success factor*: enter segment before competitors, offer premium products
- *Commitment level*: low

7.1.3. **Strategy B** - Cost leadership strategy for mass market entry

- *Target consumer* : mass market (households/caterers)
- *Product offering*: generic evaporated milk
- *Pricing strategy*: low cost
- *Distribution channel*: all channels
- *Success factor*: large volume sales at low margins
- *Commitment level*: high

8. Scale of Entry

It's true that a small scale entry into the Malaysian market would limit NFIC's strategic commitment and flexibility and would also make it difficult to build market share in a near saturated evaporated milk market largely dominated by other foreign multi-nationals like Nestlé. Nevertheless to reduce initial risks the company would prefer entering markets successively and in the case of NFIC, its entry strategy entails entering culturally proximate countries and then building up on it.

In this line it could be expected that a higher degree of internationalisation in Malaysia would follow the initial export venture by NFIC. This is because the satisfaction with preceding performance is likely to be positively related to commitment in the next period. This occurs because when the firm performs well, internal publics (e.g. top managers, employees, union representatives) and external publics (e.g. clients/customers, suppliers, investors, and credit institutions) are more likely to react favourably to the exporting activity. Additionally, the export marketing literature also suggests that when firms' commitment to the exporting venture increases, more resources are allocated to the exporting activity, and consequently the firm will be able to improve its planning procedures and implement more adaptive strategies. This implies that as past performance improves, commitment increases, and this ultimately leads to marketing mix adaptation. So the success of the entry method in Malaysia will determine eventually the appropriate direction for NFIC to further expand in that region until 2014.

According to LADO, N et al. (2004) most companies are assumed to begin their internationalization process in countries on the basis of ties or bonds or raising awareness of cultural and physical proximity such as markets that one is familiar with. Furthermore, the authors stress that a company learns and builds experience from these early entries, and as a consequence it enters markets that are progressively far away. Hence it could be inferred that international business expansion requires a cumulative learning process and NFIC is already high up in the experience curve because of its prior exporting ventures into regional neighbouring countries. They also add that knowledge on basis of

experience improves the understanding of the various dynamics involved in export markets and enhances the probability of a successful export performance in uncertain markets. Therefore, the amount of experience necessary for success increases with the physical distance and psychic distance from the country of destination, so although the physical or even psychic distance between the Saudi exporter and the Malaysian target market is shorter, a small scale entry is justified in order to build a permanent and greater share over the long term of the evaporated milk market in that country.

8. FINANCIALS

Timeline	Milestone	Costs
2008 (May – July)	Survey Kuala Lumpur and major cities of West Malaysia for Market Research	\$75,000
2008 (August – October)	Based on findings, R&D of product range will begin <i>i.e. ingredients (palm oil is used in Malaysian prepared food instead of milk fat)</i>	\$40,000
2008 (November)	Customized Manufacturing process will begin in KSA (Kingdom of Saudi Arabia – Jeddah Plant)	\$50,000 \$4.00 per can (product price = manufacturing cost+logistics+warehousing)
2008 – 2009 (December – March)	Setting up two way (Sole Importer & Export) Distribution network Sole Importer – NFIC Malaysia Exporter – NFIC (KSA)	\$150,000 (\$500 per 40 cu. ft container) (1 container carries 40 pallets) (1 pallet has 1200 cans) (no import duties)
2009 (March – May)	Prepare marketing Campaign to suit tastes of Malaysian Market	\$800,000
2009 (May – July)	Formulate Sales Team <i>(Recruitment, training & placement)</i>	\$350,000
2009 (July – October)	Set up liaison offices and other documentation in Malaysia	\$400,000
2009-2010	Product launch & test phase	\$400,000

(October – January)		
TOTAL COSTS (estimated) in USD		\$2,265,000

1. Conclusion

In order to sustain the competitive advantage and increase the market share in the Malaysian evaporated milk market, NFIC will have to focus on their export marketing strategy. It is the means by which it would respond to the interplay of internal and external forces to meet the objectives of the export venture. Not to mention that there are many forces within NFIC itself that may affect its export strategy success, such as its organizational culture, its capabilities and competencies, internal status of the export management, location, and product differentiation. Shopping for foods at supermarkets and hypermarkets will become increasingly popular and more widespread in areas where there are significant populations of middle to high income consumers. Supermarkets and hypermarkets will increasingly providing greater market access for imported foods including chilled and frozen foods. More important among these is the firm's commitment to exporting (LAGES, L. et al, 2004) which refers to the degree to which organisational and managerial resources are allocated to exporting ventures. With the increasing demand on its products and with a view to commit more to exporting, NFIC has since increased its production capacity by installing new machineries and equipments and is in a position to entertain increased orders for both local & export markets. It already has representative offices in Dubai, Khartoum, Casablanca, Cairo and in Lagos (NFIC website). It can be concluded that with mass marketing, efficient logistics and hard-working sales personnel – NFIC would be able to launch and sustain Evaporate Milk products in Malaysia.

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Appendix 1

<u>Statistics</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Inhabitants (mn)</u>	<u>25,467</u>	<u>25,951</u>	<u>26,392</u>	<u>26,841</u>	<u>27,297</u>
<u>GDP (AUD mn)</u>	<u>169,582</u>	<u>179,934</u>	<u>206,790</u>	<u>222,459</u>	<u>232,925</u>
<u>GDP/capita (\$AUD)</u>	<u>6,659</u>	<u>6,934</u>	<u>7,835</u>	<u>8,288</u>	<u>8,533</u>
<u>Consumer spending (\$AUD mn)</u>	<u>68,960</u>	<u>74,778</u>	<u>86,249</u>	<u>89,371</u>	<u>93,799</u>
<u>Consumer spending/capita (\$AUD)</u>	<u>2,708</u>	<u>2,881</u>	<u>3,268</u>	<u>3,330</u>	<u>3,436</u>
<u>Grocery retail sales, net (\$AUD mn)</u>	<u>20,984</u>	<u>22,291</u>	<u>25,242</u>	<u>25,791</u>	<u>26,730</u>
<u>Foodservice sales, net/capita (\$AUD)</u>	<u>126</u>	<u>135</u>	<u>155</u>	<u>159</u>	<u>165</u>
<u>Total food spending, net/capita (\$AUD)</u>	<u>950</u>	<u>994</u>	<u>1,111</u>	<u>1,120</u>	<u>1,144</u>

Table 8: Malaysia National Statistics

Source: Planet Retail statistics, 2008c

A: KEY TRADE & DEMOGRAPHIC INFORMATION

Agricultural Imports From All Countries (US\$Mil) / U.S. Market Share (%)	12,819 / 6%
Consumer Food Imports From All Countries (US\$Mil) / U.S. Market Share (%)	3,344/ 10%
Edible Fishery Imports From All Countries (US\$Mil) / U.S. Market Share (%)	559/ 2%
Total Population (Millions) / Annual Growth Rate (%)	27.73/ 2.1%
Urban Population (Millions) / Annual Growth Rate (%)	17.6/ 2.5%
Number of Major Metropolitan Areas	11
Size of Middle Class (Millions) / Growth Rate (%) (estimate)	17 / 2.5%
Per Capita Gross Domestic Product (US Dollars)	\$7,400
Unemployment Rate (%)	3.2%
Per Capita Food Expenditures (U.S. Dollars)	\$1,500
Percent of Female Population Employed	45.8%
Exchange rate (US\$1 = X.X local currency)	US\$ = 3.42 RM

TABLE B: Consumer Food & Edible Fishery P**Malaysia Imports**

	Imports from the World		
	2006	2007	2008
(In Millions of Dollars)			
CONSUMER-ORIENTED AGRICULTURAL TOTAL	2319	2962	3345
Snack Foods (Excl. Nuts)	93	113	141
Breakfast Cereals & Pancake Mix	14	15	18
Red Meats, Fresh/Chilled/Frozen	240	283	335
Red Meats, Prepared/Preserved	6	8	11
Poultry Meat	24	60	67
Dairy Products (Excl. Cheese)	448	704	753
Cheese	26	33	48
Eggs & Products	2	2	3
Fresh Fruit	113	139	196
Fresh Vegetables	350	368	341
Processed Fruit & Vegetables	142	170	201
Fruit & Vegetable Juices	25	38	43
Tree Nuts	20	25	30
Wine & Beer	44	60	69
Nursery Products & Cut Flowers	6	19	11
Pet Foods (Dog & Cat Food)	27	35	45
Other Consumer-Oriented Products	739	890	1032

Appendix 2

Private companies are the major entities in the food distribution system. Food importers and commissioned agents place orders with foreign suppliers and distribute to supermarkets/grocery stores and hotels in the cities and to sundry shops in the rural areas. Several of the larger supermarket and hypermarket chains are importing directly from overseas.

Malaysian households spend an average 24 percent of their household income on retail purchase of foods. Due to rising affluence and higher education level, Malaysian consumers have become more sophisticated and demand higher quality for the goods that they purchased.

Independent grocery stores and wet markets are found in the residential areas of both urban and rural towns across Malaysia. Most of the food items sold by grocery stores are canned foods, dried foods, snack foods, ice cream, and soft drinks. Fresh produces such as fruits and vegetables are seldom sold and usually do not sell frozen or chilled foods other than ice cream. However, grocery stores known as mini-markets, which are larger and more modern than the traditional grocery stores, would sell these food items. However, they are relatively fewer in numbers compared to the traditional grocery stores.

Competition among the retailers, especially hypermarkets, is intense with large international retailers like Carrefour, Tesco and Giant frequently engaging in price wars to establish their presence as major players in the market. Carrefour has successfully launched the price cuts strategy for about 1,200 products in their stores. Meanwhile, Giant, the largest hypermarket operator in Malaysia, is reported to sacrifice profits in order to maintain the low-price leader status. Pressure is mounting for local retailers such as The Store to maintain competitive prices and carry a good variety of products in order to keep up with the international players.

APPENDIX 3

NATIONAL FOODS INDUSTRIES COMPANY



-
- *Full Cream Evaporated Milk (Standard)*

Packaging : 170 g x 96
NetWT.Per Carton(KGS): 16.32
GrossWT.Per Carton(KGS): 19.785
Carton Per Pallet: 60
Carton Dimension (CMS): 39.3x26.1x25.8
Carton Per20 FT.Container: 1117



-
- *Full Cream Evaporated Milk (Standard / Easy Open)*

Packaging : 170 g x 48
NetWT.Per Carton(KGS): 8.16
GrossWT.Per Carton(KGS): 9.893
Carton Per Pallet: 120
Carton Dimension (CMS): 38.8x26.0x12.8
Carton Per20 FT.Container: 2160



-
- *Full Cream Evaporated Milk (Standard)*

Packaging : 450 g x 48
NetWT.Per Carton(KGS): 21.60
GrossWT.Per Carton(KGS): 25.100
Carton Per Pallet: 48
Carton Dimension (CMS): 45.3.x30.3x23.4

Carton Per20 FT.Container: 860



-
- *Full Cream Evaporated Milk (Standard)*

Packaging : 410 g x 48

NetWT.Per Carton(KGS): 19.68

GrossWT.Per Carton(KGS): 22.683

Carton Per Pallet: 48

Carton Dimension (CMS): 45.3.x30.3x21.2

Carton Per20 FT.Container: 975



-
- *Full Cream Evaporated Milk (Standard)*

Packaging : 410 g x 24

NetWT.Per Carton(KGS): 9.840

GrossWT.Per Carton(KGS): 11.500

Carton Per Pallet: 96

Carton Dimension (CMS): 45.3.x30.3x10.4

Carton Per20 FT.Container: 1920



-
- *Full Cream Evaporated Milk (Cardamom)*

Packaging : 170 g x 48

NetWT.Per Carton(KGS):Net:8.16

GrossWT.Per Carton(KGS): 9.893

Carton Per Pallet: 120

Carton Dimension (CMS): 38.8.x26.0x12.8

Carton Per20 FT.Container: 2160

APPENDIX 4

MALAYSIA FOOD MARKET BY VARIOUS SOURCES

Ministry of Health - www.moh.gov.my

Information on Food Labelling - www.moh.gov.my/fqc/index.htm

DPI - www.dpi.vic.gov.au

Malaysia is one of South East Asia's most developed nations. A Gross Domestic Product (GDP) of US\$115 billion and recent growth rates of 6-7% per annum have enabled Malaysia to develop a sophisticated food and beverage market which is highly dependent on imported food ingredients and consumer products.

With rising affluence and education levels, the majority of Malaysia's young and growing population of 26 million have enjoyed significant changes in their shopping and eating choices. Malaysians, especially in urban and cosmopolitan areas, are relatively brand conscious and therefore prefer to shop in modern retail outlets, often owned by international chains which offer them convenient shopping options.

Modern retail outlets, such as supermarkets, hypermarkets and modern convenience stores, command close to 30% of total Malaysian retail food sales which are valued at US\$9 billion (USDA, 2005). An increasing number of consumers are shopping at these stores, particularly the affluent middle to upper income group, because these large retail stores offer a wide range of sophisticated food and beverage products. Their products are mainly made up of high quality branded goods sourced from local and overseas suppliers. These stores are also introducing new and additional services such as in-store bakeries, cafe/food service areas and prepared meals to attract more customers.

Traditional means such as wet markets, 'Mom and Pop' stores and grocery shops, which are conveniently located in residential areas and workplaces (Malaysian Food Market Overview, DPI, 2005).

The Malaysian food service sector has estimated sales of nearly US\$4 billion (USDA, 2005) and is highly fragmented with an estimated 80% being small family owned businesses or sole proprietors.

Full-service restaurants account for around one-quarter of this market, while hotels and resorts account for about 15%. Recently there has been an increase in the number of new food service outlets such as modern cafes and lifestyle restaurants, many of which rely on imported food ingredients and food products. The number of speciality food retail stores, offering such items as gourmet or organic products, is also increasing in Malaysia.

Malaysia's food and beverage processing industry is one of the most dynamic in South East Asia with total sales, both domestic and export, worth over US\$13 billion in the early 2000s. It relies on imports for around 70% of its food ingredient requirements. Major food processing industries include the production of refined sugar, wheat flour and baked products, non-alcoholic beverages, edible oil, confectionery, dairy products and snacks, beer, fish and seafood products, canned pineapple and processed meat.

International exporters should aim to have efficient supply chains, effective partnerships and be in a position to utilise information about emerging consumer trends to continue to maintain their position in this market.

Significant Market Issues

HALAL

Halal is an Arabic word meaning lawful or permitted. Halal food (especially meat) is prepared according to Islamic practice. Certain by-products, raw materials and ingredients are prohibited. Malaysia is becoming a regional hub for halal food processing, which may provide increased opportunities for Victorian agri-food exporters. It produces one of the widest ranges of processed halal foods in the world. Malaysia's accreditation of halal products is highly respected and recognised by all Islamic nations. This allows Malaysian-based companies to penetrate overseas markets with ease with halal certified food and beverage products.

FOOD SAFETY & CLEAN FOOD

Food safety and 'clean food' are considered to be very important issues for Malaysian food companies, although price and quality remain key drivers for food purchase decisions. This was the finding of the Department of Primary Industries (DPI) report, titled 'Beyond Price & Quality'.

Regulation of food safety, at a general level, and internal government food safety certification for imported products were regarded as very important issues. However recent food related incidents, such as BSE and bird flu, have heightened consumer concern about food safety.

There was some variation in the interpretation of the term 'clean' by respondents. For Muslim respondents, Halal was mentioned as a key determinant of 'clean food' – if the food was not Halal produced and processed it was considered 'unclean'. 'Clean' also implied that the food was safe, as well as being free of contaminants and chemicals. Food meeting acceptable standards for physical, biological and chemical contaminants was very important to Malaysian consumers, as was scientific or government endorsed evidence to support claims.

APPENDIX 5

MALAYSIA FOOD & DRINK REPORT 2007

(BUSINESS MONITOR INTERNATIONAL)

While Malaysia's per capita food consumption level might be high in comparison to that of many of its regional peers, at just US\$412.96 in 2006 food consumption in the country is actually relatively low in global terms. However, this has not prevented the local food and beverage industry from growing in line with many of the dominant consumption trends being witnessed in the world's most developed markets.

As BMI's newly published Malaysia Food & Drink Report for Q207 shows, the utilisation of marketing and premiumisation as a path to success is as prevalent in Malaysia as it is elsewhere in the world. Q207 has seen the local subsidiary of Danish brewing major Carlsberg reveal plans to abandon its aggressive pricing strategy in favour of enhancing its portfolio via the introduction of new premium brands. The rationale behind this strategic shift is that in Malaysia's majority Muslim market, Carlsberg is only targeting a minority of wealthy locals and tourists anyway. The announcement was followed by soft drinks operator Permanis Sdn Bhd – the local distributor for US giant PepsiCo – announcing that it was targeting revenue growth of 5% via an aggressive commitment to new marketing initiatives only.

At US\$246mn and US\$1,343mn respectively in 2006, Malaysia's alcoholic and soft drink sectors lack the scale of some of their neighbours, and yet growth in both industries is comparatively low. Rather than being a consequence of advanced maturity, this is more a consequence of general stagnation. The beverage industry in particular lacks the natural dynamism of Malaysia's food industry and as such manufacturers are forced to call on strategies more common in their domestic western markets in a bid to stimulate consumer interest and achieve growth. These strategies, if adequately supported, are most commonly successful, and while sales tend to taper off after the initial burst of consumer interest, growth potential is strong enough to keep manufacturers interested.

This trend explains the immense multinational presence within all Malaysian consumer goods industries covered in this report. Swiss giant Nestlé dominates the food and beverage sector, with Singapore's Fraser & Neave and Anglo-Dutch giant Unilever just behind it in sales terms, while in the grocery retail sector Hong Kong's Dairy Farm Group is the market leader, followed by Japan's AEON. In fact, the grocery retail industry represents another such example of the immense western-style potential of many aspects of the Malaysian market. For Q207 BMI has amended its sales growth forecast for the Malaysian mass grocery retail sector upwards in line with the level of multinational investment that the sector continues to receive in spite of apparent maturity and crowding. Even though Malaysia is no longer one of Asia most attractive investment opportunities to retail newcomers, existing players continue to commit heavily to the country, with brand-building promotional investments and the exploration of innovative new formats being two increasingly occurring themes.