



**A Study of Current Market Strategies and Position
and an Analysis of the Market Prospects for the Export of
Australian Dairy Products to Malaysia**

Submitted by

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ABSTRACT

This study analyses trends in demand for dairy products in Malaysia, characteristics of the Australian dairy industry, the marketing strategies of Australian dairy companies, the marketing strategies of major competitors, public policy influencing dairy industry development in Malaysia and concludes with a SWOT analysis of the market for dairy products in Malaysia from an Australian perspective.

The study is based on secondary research of the dairy industry in Malaysia and that of neighbouring countries such as Thailand and Indonesia, secondary research on trends in food consumption in Asia, market audit of 20 food service outlets and 20 resellers in Kuala Lumpur, primary research of 21 Australian companies who, in aggregate, account for 90 per cent of Australia's dairy exports to Malaysia and a case study of the 'Butter Producers Co-operative Federation', a successful Australian exporter of branded value-added dairy products to Malaysia.

This study suggests that consumption of dairy products in Malaysia is high and would increase. Consumption is forecast to reach 330,000 tonnes by the year 2020. As Malaysia does not have a competitive nor comparative advantage in dairy production, ceteris paribus, increase in consumption would have to be met through imports. It is estimated that 95 per cent of demand would be imported. Therefore, imports are forecast to reach 315,000 tonnes in 2020.

The growth in demand for dairy products in Malaysia should provide Australian exporters substantial opportunities. Australian dairy exports to Malaysia averaged 30,000 tonnes annually. If Australian exports do not increase substantially, market share in Malaysia is forecast to fall from current levels of approximately 20 per cent to less than 10 per cent by 2020.

This study suggests that the Australian dairy industry is not appropriately structured or focussed nor has in place effective marketing strategies to maximise opportunities in this rapidly expanding market.

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CHAPTER ONE

1 INTRODUCTION

1.1 Research Interest

The researcher's interest in this subject is a result of his background and experience in the marketing of branded food products in the wholesale, retail and food service market segments in Malaysia.

1.2 Research Background

This research commenced with an extensive literature survey. This provided limited information on the research topic. Isolated empirical studies on the marketing of Australian dairy products to Malaysia were available, but generally there is a lack of significant empirical research in this area¹.

There are, however, many reports on the need for and the potential in developing exports of food products to South-East Asia. The geographical proximity, rapid economic growth in these countries, excellent networks in South East Asia developed through Australia being the premier choice for tertiary education and migration for South-East Asians, and the Westernisation of dietary habits have been explained as

¹ Refer Chapter 2 for further discussion on this.

contributing to the impressive growth in Australian exports to South East Asia².

Member of the Association of South East Asian Nations (ASEAN), particularly Thailand, Malaysia, Singapore, Brunei and Indonesia are mentioned as important export destinations for Australian goods and services. For example, the Department of Foreign Affairs and Trade and Austrade report:

Our exports to ASEAN now exceed those to the USA and also Europe. Exports to South-East Asia are rising more quickly than to any other part of the world³.

However, in at least some of these countries such as Malaysia, Australia's market share of merchandise exports has declined steadily. Concurrent with the rapid economic growth in Malaysia, imports increased by an average of 30.4 per cent per annum in the period 1987-91⁴. However, Australian exports to Malaysia in 1987-91 increased only by an average of 22.2 per cent per annum resulting in the market share of Australian merchandise exports to Malaysia declining by 0.9 per

² East Asia Analytical Unit 1992a, Australia's Business Challenge: South-East Asia in the 1990's, Department of Foreign Affairs and Trade and Austrade, Australian Government Publishing Service, Canberra 1992 p. xix.

³ Idem.

⁴ Ibid., p. 109.

cent per annum. In 1992 Australia's share of merchandise imports by Malaysia was only 3.2 per cent⁵.

Australia has been an important source of food imports into Malaysia. In 1991, Australia was the source of 22 per cent of food imports by Malaysia. However, Australia's market share in food imports by Malaysia has declined steadily through having lost market share in exports of beef to Argentina and India and in the exports of horticultural products to United States, New Zealand and Pakistan. As such, even non traditional trading partners, less developed economies, countries without close geographical proximity, and countries without significant migrant and education links to Malaysia are displacing Australia's market position in Malaysia⁶.

Dairy products continue to be an important Australian export to Malaysia. However, even in dairy products Australia's market share in total imports into Malaysia has declined. The major dairy product imported by Malaysia is milk powder. In 1986, Malaysia imported

⁵ Ibid., pp. 107, 109.

⁶ United Nations Industrial Development Organisation, Malaysia, sustaining the industrial investment momentum, Austria 1991, p. 39 citing Bank Negara Malaysia Quarterly Bulletin (various issues).

Note: Imports from Australia as a percentage of total imports by Malaysia has progressively declined from 4.2 % in 1983 to 3.8% in 1989. Imports from other sources increased from 20.8% in 1983 to 21.4% in 1989.

Economic Research Department (United Malayan Banking Corporation), Kuala Lumpur 1991, p. 16 citing Department of Statistics, External Trade Statistics (various issues).

73,500 tonnes of milk powder. Of this 28,900 tonnes or 34.5 per cent came from Australia. By 1991 Malaysia's import of milk powder was estimated to have increased to 98,000 tonnes, imports from Australia declined to 24,400 tonnes i.e. Australia's market share declined to 24.9 per cent⁷. The trend in Australia's dairy product export to Malaysia is illustrated in Diagram 1.

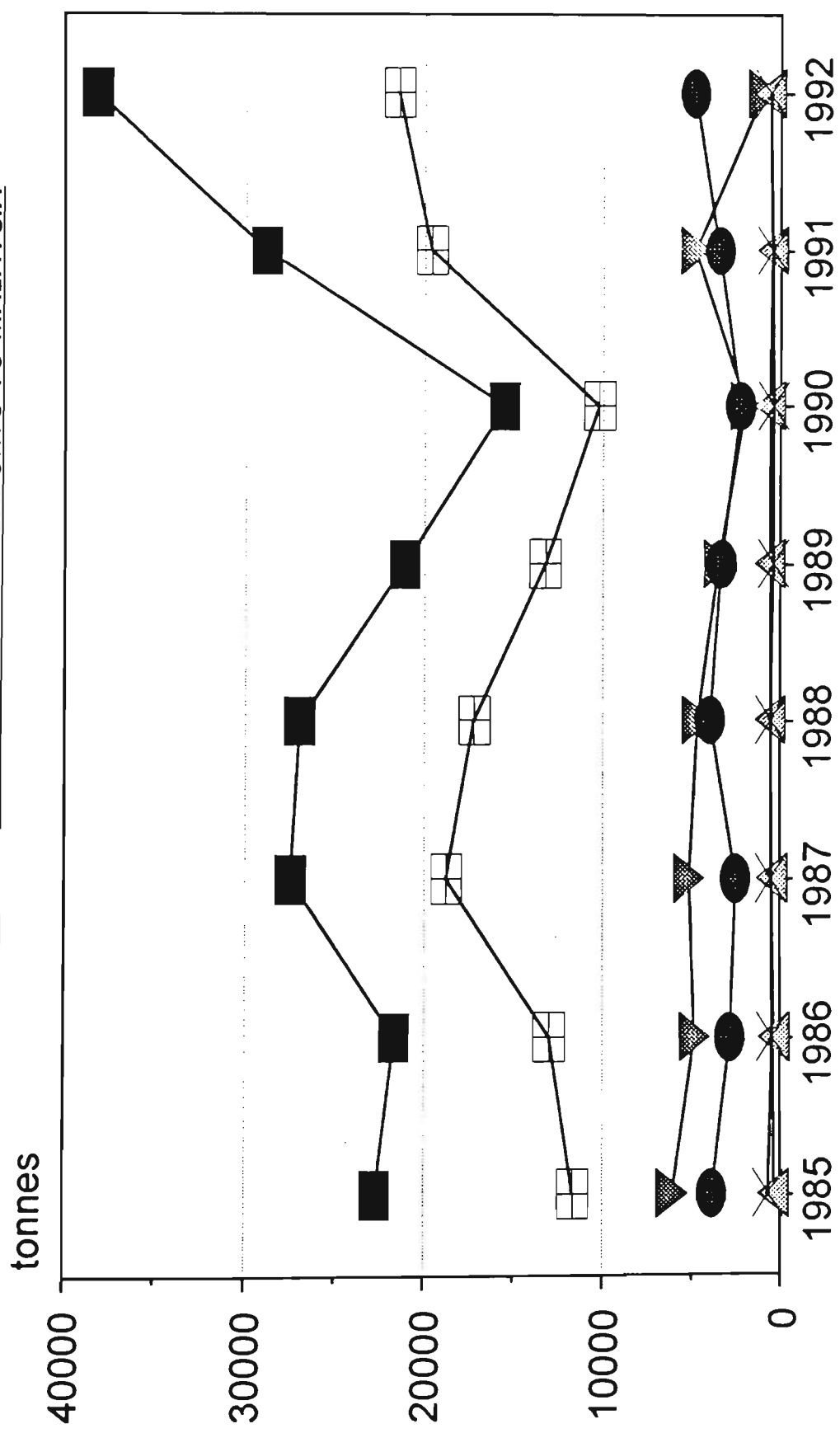
The dairy industry in Australia has argued that subsidised exports from the European Community (EC) and the United States of America (US) has displaced Australian dairy exports in the international market. For example, in a recent presentation a senior spokesperson from the Australian Dairy Corporation analysed the international dairy market conditions as follows:

*The international dairy market is dominated by the production and trade policies of major OECD countries. The majority of these countries provide considerable protection and support to their indigenous dairy industries ... Of the major suppliers to the market, only Australia and New Zealand operate dairy policies whereby farm gate prices are linked to international market prices ...*⁸

⁷ Australian Dairy Corporation 1992 (a), Dairy Compendium 1992, pp. 58, 59 & 70.

⁸ Lacey, Rick; 'International Dairy Market Outlook', Shepparton Regional Outlook Conference, 3 October 1990 p. 1.

DIAGRAM 1: AUSTRALIAN DAIRY EXPORTS TO MALAYSIA



However, this argument does not explain the poor performance of Australian dairy exports to Malaysia. The most apparent loss in the market share of Australian dairy exports to Malaysia was to imports from New Zealand, which according to the commentator did not distort markets through subsidised exports.

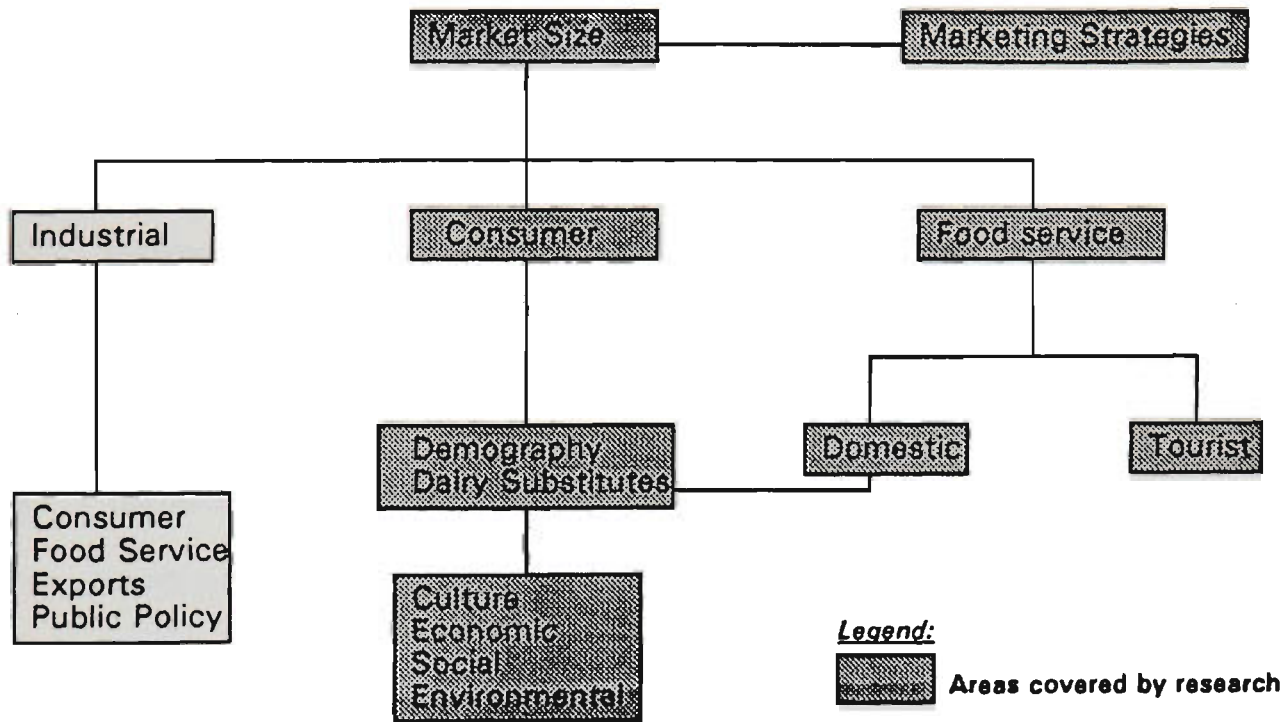
This research is a result of the researcher's experience in Malaysia and preliminary secondary research which contradicted observations and reports by Australian industry commentators regarding opportunities and threats in the international market place. The researcher concluded that detailed research was needed to increase awareness of market conditions and to develop greater understanding of the export market prospects for dairy products to Malaysia.

1.3 Research Objectives & Benefits

1.3.1 *Overview of Research Objectives*

The broad objectives of this research are to evaluate the market potential for the export of value-added dairy products to the consumer and food service market segments in Malaysia, compare the market entry and operations strategies of successful dairy companies operating in Malaysia and analyse the strengths, weakness, opportunities and threats that characterise Malaysia as a market for the Australian dairy industry. The research area is illustrated in Diagram 2.

DIAGRAM 2: SCHEMATIC ILLUSTRATION OF RESEARCH AREA



1.3.2 *Specific Research Objectives*

The specific research objectives are to:

- a) outline economic characteristics and trends in Malaysia that are perceived to influence market entry and operations in Malaysia. These will include data on gross domestic product (current and growth trends), per capita gross domestic product, inflation, employment levels, investment levels, pace of industrialisation, income distribution, stability of currency and foreign reserves⁹.

⁹

Cooke, Ian M; Overseas Marketing from Australia, Queensland Business Magazines C.Ltd., Australia 1991, pp. 45-46.

- b) examine the public policy and legal environment regulating market entry and operations of the dairy industry in Malaysia and evaluate the impact that these policies can have on the export of Australian dairy products¹⁰. This will include researching the legislation and rules regulating packaging, promotion and sales, foreign ownership of corporations, laws regulating contractual agreements, patents and the employment of expatriates.
- c) compare the market entry and operations strategy of Australian dairy exporters with that of major competitors. This will involve a comparative study of the marketing mix (product, pricing, promotion and distribution) strategies used by Australian dairy exporters with that of major competitors and analysing the priority of major Australian dairy companies in promoting exports to Malaysia.
- d) analyse current consumer market features, characteristics and the consumption trends of dairy and dairy substitute products in Malaysia in different sub markets such as age groups, ethnic groups, rural/urban sectors and income groups and analyse the impact that the changes in these sub markets can have on the export potential of Australian dairy products to Malaysia. This will include determining the attitude to the consumption of dairy

¹⁰Ibid., pp. 46-47.

products, cultural taboos such as product/packaging colour, aesthetic design, packaging format, linguistic problems and the cultural influence on business etiquette and social custom in the different sub markets¹¹.

- e) forecast the growth in demand for dairy products in Malaysia up to the year 2020.

1.3.3 Overview of Research Benefits

Notwithstanding limitations because of funding constraints which restricted the survey of consumers and manufacturers in Malaysia, this is a comprehensive research document that is expected to be of value to Australian food marketeers particularly dairy exporters to Malaysia.

This research will provide general insight on food production and consumption in South and South East Asia. This will be beneficial in public sector decision making on the use of scarce export promotion and industry assistance funding. There is a proliferation of industry training and assistance packages such as the Food Industries Networking for Asia Exports Program funded by the Department of Industry, Technology and Regional Development, Australian Awards for Research in Asia funded by the Department of Employment, Education and Training,

¹¹ Ibid., p. 45.

Private Sector Linkages Program financed by Australian International Development Aid Bureau and programs such as the Innovative Agricultural Marketing Grant financed by the Department of Foreign Trade and Austrade.

1.3.4 *Specific Research Benefits*

The specific benefits of this research can be summarised as the:

- a) provision of detailed market information to Australian exporters of dairy products to Malaysia i.e. information on product and brand market share, competitors activities and the extent and nature of threats from dairy substitute products. This research provides a framework to Australian food product exporters on the type of market information that should be collated for developing effective market entry and operations strategy. This research expects to set a benchmark in Australia for research on export marketing of food products.
- b) provision of information on socio-cultural factors that influence consumption of dairy products in Malaysia. The research will identify traditional markets where sales may not have been maximised, identify niche markets, identify new growth markets and recommend appropriate channel and marketing mix

strategies¹². The researcher perceives that Australian dairy companies are over-dependent on importers, AUSTRADE and perceptions of the market formed through the media for information used in shaping market strategies. It seems that comprehensive market research has not been carried out.

- c) provision of data that is objective. The impact of culture in both the corporate environment and in everyday purchase decisions in Malaysia is not well understood. To use an analogy by Harris and Moran in their book *Managing Cultural Differences*, "*culture is an iceberg -only part of it is seen, but most of it is not*"¹³.

Traditional information sources are perceived to have limitations because of a lack of in-depth understanding of the market and in some instances because of vested interest that may have influenced feedback of information¹⁴.

- d) identification of tariff and non-tariff barriers that may restrict the export of Australian dairy products to Malaysia. This will be valuable information to the public sector, dairy industry

¹² Refer Section 4.5-4.13 and Case Study.

¹³ Harris, Philip R, and Moran, Robert T; Managing Cultural Differences (3 Edition), Gulf Publishing Company, USA 1991.

¹⁴ These are discussed in section 6.3. In particular sections 6.3.1, 6.3.5 and 6.3.9 highlight the weakness in the collation of market intelligence by Australian dairy product exporters.

associations and public corporations whose role is to advise and negotiate fairer trade conditions and fund export market development of Australian food products. There are significant differences in the customs, culture and values between the three dominant ethnic communities (Malays, Chinese and Indians) who live in Malaysia. These differences have been known to influence public sector import regulations¹⁵. The Malaysian Government, for example, does not permit the transshipment of meat such as beef and lamb through Singapore on the argument that it may have been stored with meat such as pork which cannot be consumed by Muslims¹⁶. This can be interpreted as cultural/religious concerns regarding the handling of food products in largely non-Muslim Singapore or it can also be interpreted as an extension of Malaysian policies aimed at developing direct trade relations with countries and/or other national socio-economic policies. Detailed understanding of the market is needed to identify barriers such as these which may restrict the marketing of dairy products in Malaysia¹⁷.

¹⁵ Refer section 4.4.5 for discussions on some of these issues.

¹⁶ Based on market knowledge of the researcher.

¹⁷ The interventionist role of the Malaysian Government in the food industry are discussed in detail in sections 4.4, 4.5 and 4.6, while the case study in Chapter 5 will highlight the significance of religious and ethnic differences in marketing food products in Malaysia.

- e) provision of information that can be used by Australian exporters of dairy products to develop and improve marketing strategies and tactics in Malaysia. Some of the industry initiated market research in Australia seems to be influenced by interest groups seeking a protected market or export subsidies, or they rely too heavily on information from reseller channels in Malaysia who have their own interests to protect when providing information to their suppliers in Australia. Market information in such instances are observed as being biased and self-serving¹⁸.
- f) provision of information to the Victorian Government which is keen on developing the food manufacturing sector in the State¹⁹. Victoria produces approximately 90 per cent of all manufactured dairy products in Australia²⁰. Collating market intelligence on the export potential and strategies for manufactured dairy products will be of particular benefit to State Government Departments such as the Office of Trade and Investment.

¹⁸ Refer Section 2.4 and 6.3.

¹⁹ Office of the Premier of Victoria, 'Food Victoria to drive export growth', July 29 1993, Melbourne pp. 1-2.

²⁰ Australian Dairy Corporation 1992 (a), op. cit., p. 8.

1.4 Research Hypothesis

- a) Australian dairy companies are dependent on indirect reseller marketing channels such as export agents and merchants in Malaysia, and channel intermediaries in Singapore for export marketing to Malaysia.
- b) Australian dairy exporters who have resellers (importers, distributors, agents) representing them in Malaysia and Singapore, have less than two resellers representing them for the whole market. This inhibits intensive market coverage.
- c) Australian dairy exporters do not have specific sale territories designated for resellers and this inhibits the development of intensive market coverage of different geographical markets in Malaysia.
- d) Australian dairy exporters do not have specific end user segments such as retail, wholesale or food service segments designated for their resellers and this inhibits specialist coverage of end user market segments.
- e) Australian dairy exporters appointed their present resellers in Malaysia more than 15 years ago and have not reviewed their

distribution strategies to meet the changes in the socio-economic and political environment in Malaysia.

- f) Australian dairy exporters are dependent on their reseller channel intermediaries for market intelligence and this has retarded effective information feedback on emerging opportunities in other sub markets in Malaysia.
- g) Australian dairy exporters perceive income growth and changes in dietary habits as the main factors contributing to increases in demand for dairy products in Malaysia.
- h) Australian dairy exporters do not perceive that the existence of large and culturally different ethnic groups such as Malays, Chinese and Indians is important in planning the marketing mix in Malaysia.
- i) Australian dairy exporters perceive supermarkets as an important reseller channel in retail marketing in Malaysia.
- j) Australian dairy exporters perceive the competitive strength of the New Zealand Dairy Board (NZDB) and Nestle as being their ability to discount prices.

- k) Australian dairy exporters perceive limitations in the Malaysian market because of the competitive strength of Nestles and NZDB.
- l) Australian dairy companies do not have an International Marketing Department to collate market information and develop strategic export market plans.
- m) Australian dairy companies do not have separate market specific managers to specialise and develop export markets in specific geographical markets such as Malaysia.
- n) Australian dairy companies do not have annual and long term plans for export market development.
- o) Australian dairy companies do not have plans to aggressively develop sales in Malaysia.

1.5 Research Methodology

The research methodology used is based on the information needs that have been identified in the research objectives.

1.5.1 *Research Approach*

This research commenced as an exploratory study. An exploratory study is *'undertaken when we do not know much about the situation at*

*hand, or we have no information on how similar problems or research issues have been solved in the past*²¹.

1.5.2 **Research Framework**

The overall structure of this research is as follows:

- a) Preliminary information gathering by way of desk research.
- b) Postulating research hypothesis based on secondary data and background information on market experience.
- c) Secondary research through literature search and review.
- d) Primary research through administering questionnaires to collate information on Australian exporters and dairy product manufacturers.
- e) Field audit in Malaysia of reseller channels and food service outlets.
- f) Case study of a successful Australian exporter as evidenced from preliminary research. The case study was based on secondary data, field interviews and close collaborative work with the company to understand its market entry and marketing mix strategies.
- g) Testing primary research data through quantitative data analysis.
- h) Evaluating and summarising research findings.

²¹ Sekaran, Uma; Research Methods for Business (Second Edition), John Wiley, USA 1992, p. 95.

1.5.3 *Primary Research Methodology*

The survey of Australian industry was conducted through purposive samples, that is the survey was confined to the most important exporters²². The respondents in the survey account for more than 90 per cent of the total value of Australian dairy exports to Malaysia. The companies surveyed are shown in Appendix 1. These companies were selected based on information in Section 3.6 i.e. information from Australia's major dairy processing companies²³. Some of the dairy processors and manufacturers did not export their products directly. As such, the survey questionnaires were also administered on major dairy trading companies in Australia who handled export sales for dairy processors and manufacturers.

The research questionnaire was modelled on the questionnaire developed by Hooley and Lynch²⁴ and the adaptations of this by Lai W.B. *et al*²⁵. The questionnaire includes questions on channel market strategies used

²² Weisberg, F. Herbert, Krosnick, A. Jon, and Bowen D. Bruce; An Introduction to Survey Research and Data Analysis (Second Edition), Scott, Foresman and Company, USA 1989, pp. 32-33.

²³ Twenty one exporters were surveyed. Some manufacturers do not export directly but handle exports through agents. The companies surveyed include the principal agents of the top twenty Australian dairy processors identified in the last page of this Chapter.

²⁴ Hooley, G.J. and Lynch, J.E., 'Marketing Lessons from the UK's High-flying Companies', Journal of Marketing Management, Vol.1 No.1, 1985.

²⁵ Lai, W.B., Huang, J.Y., Hooley, Graham., Lynch, Jim., Yau, Oliver; 'Effective Marketing in Taiwan: Profiles of the Top Performers', European Journal of Marketing, Vol. 26, No. 3, 1992, pp. 7-17.

by the industry. For this purpose, the study by Chan T.S.²⁶ was used as a model. A sample questionnaire is contained in Appendix 2. The questionnaire was designed to collate information on:

- a) Marketing attitudes (Questions 3, 5, 17, 18, 19, 20 & 21).
- b) Corporate strategy (Questions 22, 23, 24, 25 & 26).
- c) Marketing strategies (Questions 4, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15 & 16).
- d) Performance measurement (Question 1 & 2).

The purpose of the survey on channel strategies was to examine the relationship between organisational attitudes in relation to the organisation for and the execution of marketing effort. Variables such as the directness and intensity of export channels and export performance were examined. Channel directness represents a measure of the utilisation of direct versus indirect channel intermediaries, and export performance indicates the manufacturer's export sales volume²⁷ or the share of exports to the total production of the firm. At one extreme, direct exporting results when the manufacturer performs the bulk of the export channel functions itself through an export department in Australia or sales subsidiaries in Malaysia. At the other extreme, indirect

²⁶ Chan T.S., 'Emerging Trends in Export Channel Strategy: An Investigation of Hong Kong and Singaporean Firms', European Journal of Marketing, Vol. 26, No. 3., 1992.

²⁷ Idem.

exporting occurs when the manufacturer's products are sold in Malaysia but no special activity for exporting is carried out within the firm. The key issues investigated were:

- a) Direct Exporting/Indirect Exporting (Number of companies, export performance).
- b) Channel intermediaries used (Australian based agents, firms own export department, Malaysian based agents, Malaysian based merchants and Malaysian based sales offices/subsidiaries).

The inter relationships between the directness and intensity of export channel structure and export performance were tested using the Spearman's Correlation Analysis. The Spearman's Correlation Analysis shows how two variables that are rank-ordered are associated. Responses to interviews in the primary research were rank ordered using a Likert type scale i.e. the responses were ranked on a scale ranging from '0' to '5'. The Spearman's Correlation shows the direction, strength and significance of the relationship among the variables tested²⁸.

The categorisation of channel directness was based on weights (with a range of 1 to 6) assigned to the six types of channel structures identified

²⁸ Sekaran, *op. cit.*, pp. 264-266.

Weisberg, *op. cit.*, pp. 229-230.

in this study. The use of Australian based buyers/buying agents was the most indirect type carrying the weight of 1, firm's own export department, foreign based agents, foreign based merchants, with firms's foreign sales offices/subsidiaries rounding up the list with a weight of 6.

Channel intensity refers to the total number of export channel intermediaries used.

Export performance was measured by the annual export sales volume²⁹ for Australian based companies to Malaysia. Where this was not available, the company's export as a percentage of its total production was used to measure export performance.

Primary research was completed through face to face or telephone interviews with dairy industry and trade executives in Australia. The questionnaires were posted to the Chief Executive or the executive responsible for exports. Subsequently appointments were made for interviews with executives as directed in the course of follow up phone calls. The response to the survey was excellent in that all twenty one companies returned completed questionnaires. However, many companies omitted some sections of the questionnaire either on grounds of confidentiality or on grounds that they did not have sufficient information to complete these sections. The survey is an important part

²⁹Chan, op. cit., pp. 20-21.

of this research because of the limitations and quality of secondary data.

Market audit of twenty reseller channels and twenty food service outlets in the Kelang Valley of Kuala Lumpur (Malaysia) was carried out by a Research Assistant to collate information in Malaysia. The market audits were unstructured and involved checking on product and brand ranging and finding explanations for using or selling certain brands or products. The market audits involved finding information on the following:

- a) Brands of full cream concentrated milk stocked in retail outlets and the principal brands as evidenced by shelf space allocated for the brands.
- b) Brands of liquid milk stocked and the shelf space allocated for liquid milk.
- c) Brands of butter stocked and the shelf space allocated for butter.
- d) Brands of margarine and the shelf space allocated for margarine.
- e) Brands of filled concentrated milk used in coffee stalls and coffee shops.

The sample size for the market audit was small relative to the large numbers of resellers and food-service outlets in the Kelang valley. The main purpose of the audit was to check information from secondary sources. As such, the findings of the market audit are used selectively and with qualifications.

1.5.4 Questionnaire Construction

A closed ended form of question structure i.e. questions with a series of alternative answers among which the respondent must choose was generally applied in the questionnaire. The purpose of using closed ended questions was to provide the same frame of reference for all respondents to use in determining their answers, and make the subsequent analysis of their responses easier and objective i.e. avoid value judgements in the answers.

Interviews were limited to an average of 25 minute time span as public opinion interviewers have reported that most respondents show weariness and less interest if the interview exceeds this time limit³⁰.

In the case of the key variables that were tested, a Likert type scale was applied in an effort to measure the magnitude of the differences in responses. It is generally acknowledged that,

*scales and indices are significant because they provide quantitative measures that are amenable to greater precision, statistical manipulation, and explicit interpretation*³¹.

³⁰ Miller, op. cit., p. 159.

³¹ Miller, op. cit., p. 174.

The primary consideration was to see that the scale had the qualities of validity, reliability, and utility in that order of priority³².

Rating scales seek to obtain an evaluation or a quantitative judgement of personality, group or institutional characteristics based upon personal judgements. It can be used to evaluate attitudes, values, norms, social activities and social structural features³³. The basis of constructing the scales is logical inference, and the use of the numerical scale is based on the assumption of a psychological continuity that the respondents can realistically act upon in rating their choices³⁴. Respondents were asked to rank in order their preferred choice among a list of alternative choices. In ranking, no more than six choices were provided since there is evidence from various psychological research that respondents have difficulty in reliably making more than seven distinctions³⁵.

In constructing a rating scale, the following recommended guidelines have been strictly adhered to³⁶,

- a) *The continuum to be measured is divided into an optimal number, in this case six (6), of scale divisions.*

³² Idem.

³³ Ibid., p. 179.

³⁴ Ibid., p. 175.

³⁵ Weisberg, op. cit., p. 65.

³⁶ Miller, op. cit., pp. 179-180.

- b) *There should be no breaks or divisions in the continuum.*
- c) *The positive and negative poles should be alternated.*
- d) *Each trait is introduced with a question to which the rater can give an answer.*
- e) *Descriptive adjectives or phrases are used to define different points on the continuum.*
- f) *The probable extremes of the traits to be found in the group in which the scales are to be used are investigated in advance.*
- g) *Only universally understood descriptive terms should be used.*
- h) *The end phrases should not be so extreme in meaning as to be avoided by the raters.*
- i) *Descriptive phrases need not be evenly spaced.*
- j) *During pretesting, the investigator asks respondents to raise any questions they have about the ratings and the different points on the continuum if they are unclear.*
- k) *To score, assigned numerical values are used.*

A common problem with questionnaire construction is the wording of questions. Considerable effort was made to ensure that standard terminology was used when it could be ascertained and the questionnaires were pre-tested on students at Victoria University of Technology for interpretation before they were used in the survey.

1.5.5 Data Analysis Methodology

The analysis of the survey data is both descriptive and explanatory. The descriptive analysis is by way of univariate and bivariate descriptions³⁷. Univariate descriptions employ frequency distributions, central tendency such as median and mode, variability, percentages and cumulative percentages. To explain the findings more clearly various graphical tools including bar charts, pie charts and graphs are used.

³⁷

Ibid., p. 296.

The bivariate description use statistical methods such as contingency table analysis, correlation and regression analysis.

The survey results were also used to test whether there are causal explanations between variables. Casual explanations (one thing is the cause of another) may be said to exist if "*a change in the first produces a change in the second*"³⁸. "*Causal hypotheses usually posit relationship between variables*"³⁹. For example, the hypotheses regarding success in the market place is the dependent variable. The analysis involved establishing a relationship of this to a number of independent variables and moderating variables such as the ownership of the company (Australian/multi national company), pro active/reactive marketing and directness of channel strategy).

A number of independent variables were explored as it is likely that a number of causes will work simultaneously to cause a particular result in the dependent variable. The inter relationship of dependent, independent and moderating variables are illustrated in Diagram 3. In research methods it is common to analyse casual processes rather than single causes. In testing causal processes the variables must pass four tests⁴⁰. These are,

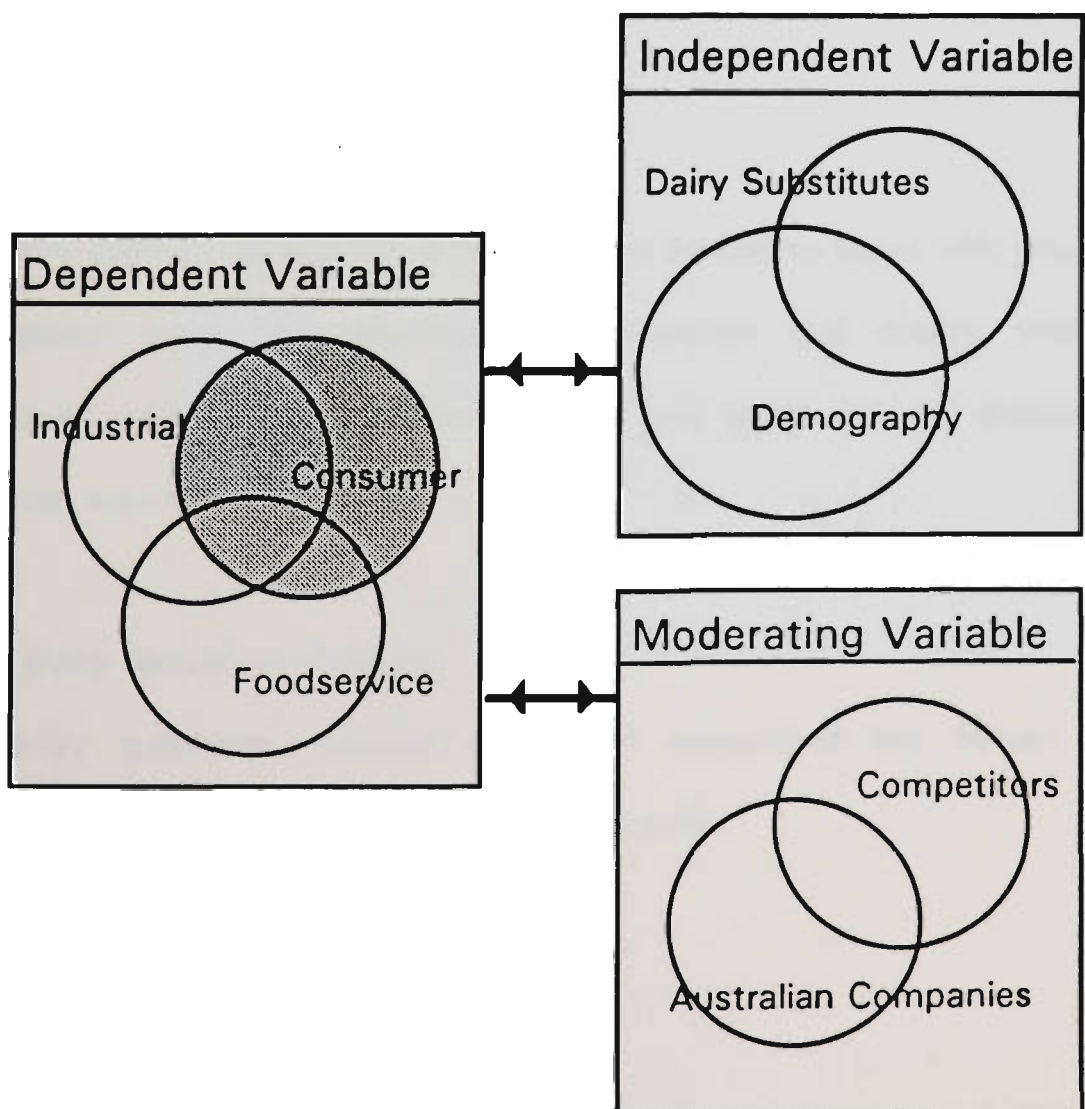
³⁸ Weisberg, op. cit., p. 139.

³⁹ Idem.

⁴⁰ Ibid., pp. 142-144.

- a) There must be association between the variables i.e a change in one variable must be associated with a change in another variable.
- b) There must be a temporal order i.e the cause must precede the effect.
- c) There is need to check if the relationship is spurious i.e co-incident. This can be checked by positing reasonable alternative hypotheses and attempting to disprove them.
- d) The variable must generate a plausible causal mechanism i.e it must be possible to relate the variables in a logical relationship.

DIAGRAM 3: **VENN DIAGRAM ILLUSTRATING THE INTERACTION OF VARIABLES**



1.6 Limitations, Delimitations and Definitions

1.6.1 *Limitations*

A consumer survey measuring the prevalence of attitudes, beliefs and behaviours and changes in these over time and characteristics in different market segments⁴¹ would have contributed substantially to the information base. Unfortunately, funding limitations prevented the researcher from completing a comprehensive consumer market research. A rough audit of reseller channels and food service outlets was done to verify secondary data where this seemed contradictory to the market experience of the researcher.

1.6.2 *Delimitations*

a) Dairy Products

The dairy product categories researched are limited to liquid milk (fresh, pasteurised, ultra heat treated), milk powders (full cream, skim), condensed milk (full cream, filled) butter and butter blends, cheeses, yoghurts, ice cream and ghee.

b) Dairy Substitute Products

The dairy substitute product categories researched are limited to margarine, vanaspathi, soya milk, and soya curd.

⁴¹ Ibid., p. 136.

1.6.3 *Definitions*

a) Market Size

Market size is defined as the total sales either in nominal (dollar) values, weight or units that constitute the present or potential sales volume of a product or group of products.

b) Market Share

The share of products from a source, say Australia or a defined company to the total sales volume or value of a group of products or a product category.

c) Marketing Strategies

Marketing strategies are defined as the market entry and marketing mix strategies and tactics.

d) Market Entry

The market entry strategies will include an evaluation of how the industry goes about exporting. Both direct exporting and indirect exporting will be investigated.

e) *Direct Exporting*

Direct exporting includes such entry strategies as appointing a Malaysian distributor, an agent or the company undertaking its own marketing in Malaysia through a marketing subsidiary⁴².

f) *Indirect Exporting*

Indirect exporting is a market entry mechanism where the company's products are sold in the overseas markets but no special activity is carried on within the company to facilitate this⁴³. In indirect exporting, the sale mechanism is similar to a domestic sale. Foreign market access is through an Australian based trading company, an export management company or an export trading company or piggy backing.

g) *Direct Foreign Investment*

Direct foreign investment (DFI) constitute activities such as contract manufacturing, licensing, joint venture and establishing wholly owned manufacturing units in Malaysia.

⁴² Cooke, *op. cit.*, p. 16.

⁴³ Terpstra, Vern and Sarathy, Ravi; *International Marketing* (Fifth Edition), The Dryden Press, USA 1991, p. 367.

Cook, *op. cit.*, p. 15.

h) Overseas Marketing

This is defined as the business activities performed to direct the movement of goods and services from producer to consumer or user in the overseas market⁴⁴.

i) Marketing Mix

The marketing mix strategies will consist of product, price, place and promotional plan and program mixes employed to achieve product market objectives.

j) Industry

An industry is defined as a group of companies offering products or services that are close substitutes of each other⁴⁵. In this research the dairy products industry will include all manufacturers of products using dairy raw materials.

k) Successful Market Entry

A successful market entry and operations strategy is assumed to reflect one or more of the following characteristics:

⁴⁴ Cook, op. cit., p. 6.

⁴⁵ Hill, Charles W.L. and Jones, Gareth R; Strategic Management, An Integrated Approach (Second Edition), Houghton Mifflin Company, Boston, USA 1992.

- i) Increasing sales volume of the proprietary brands of Australian dairy product companies.
- ii) Increasing sales volume of non traditional products such as cheese and yoghurt.
- iii) Dominant market share in some product categories.
- iv) Increasing total export volumes of Australian dairy products.

l) Industrial Market Segment

The industrial market segment constitute markets such as ice cream factories, milk powder repacking and re-constituting plants, bakeries, confectionaries and biscuit factories who purchase dairy products for use as raw materials for purposes of producing a different end product. The industrial market is largely a purchaser of bulk commodities like butter oil, whey powder, full cream milk powder and skim milk powder.

m) Food Service Market Segment

The food service segment is made up of catering establishments such as food stalls, hotels, fast food chains, restaurants and airlines. This segment will purchase both bulk products for use as ingredients for the preparation of meals, and portion packs of product lines for the table. Examples of dairy products used by the food service segment include the purchase of bulk cheddar cheese by fast food chains, and yellow fats by restaurants for cooking. Many food service outlets such as

hotels and airlines also purchase portion packs of dairy products such as cheese and butter.

n) Consumer Market Segment

The consumer market segment is made up of retail outlets such as supermarkets and grocery stores. Consumer products may be exported in their original form from Australia or may be contract packed in overseas factories but branded as proprietary brands belonging to Australian companies. The consumer market is the end user market and the purchase decisions of this segment is influenced by a range of socio-economic and cultural factors such as the demographic and income profile of the sub markets.

o) Currency

For the purpose of comparative analysis, currency values have been converted to Australian denominations. The exchange rates used are:

United States Dollar (US \$) 1 = Australian Dollar (A\$) 0.69

Malaysian Ringgit (MR \$) 1 = Australian Dollar (A\$) 1.79

1.7 Chapter Summary

Chapter one traced,

- a) The rationale for this research and the export market performance of Australian food products generally.

- b) Highlighted market failures in key dairy product line export performance and anomalies in the observed conditions in the market place and the explanations offered by the Australian dairy product industry.
- c) Developed hypotheses and explained research and data analysis methodology.

1.8 Overview of Thesis

CHAPTER 2 reviews texts, industry reports, journals and periodicals that were used in the secondary research. Critical analysis is made on the comments and findings of these secondary sources.

Chapter 3 discusses the existing conditions in the Australian dairy products industry. The objective of this chapter is to develop a broad picture of the organisation of the dairy industry and the major dairy product companies in Australia.

CHAPTER 4 discusses the Malaysian economy, public policy as it relates to the export marketing of dairy products and the socio cultural characteristics in Malaysia that are perceived to influence the demand for dairy products.

CHAPTER 5 develops a detailed analysis of the dairy industry in Malaysia and forecasts demand for dairy products.

CHAPTER 6 analyses Australian dairy product export performance to Malaysia, and evaluates the reasons for the current market position.

CHAPTER 7 develops a Strength, Weakness, Opportunity and Threat (SWOT) Analysis as a basis of evaluating the Australian dairy products industry in the context of export sales development to Malaysia.

CHAPTER TWO

2 LITERATURE REVIEW

2.1 Introduction

2.1.1 *Chapter Objectives*

The objectives of this chapter are to,

- a) Outline and review the secondary data used in this research.
- b) Analyse and define the basis for the selective use of secondary data in subsequent chapters.
- c) Discuss the information gaps in the secondary data.
- d) Discuss the perceived errors in the secondary data and the methodology used in the secondary sources.

2.1.2 *Rationale*

This chapter attempts to explain the selective use of information and data from secondary sources and highlight the benefits and limitations of the secondary data used in this research.

2.2 Chapter Outline

The literature review in this chapter is categorised into different topics on the basis of which the literature search was done. The comments, opinions and information where referenced from the same source for different topics are cited again subsequently.

2.3 The food industry in Malaysia with particular reference to the dairy industry

Literature on the dairy products industry in Malaysia is limited. Data on imports and exports of dairy products, and domestic production data based on product category are available from Jabatan Perangkaan Malaysia (Department of Statistics Malaysia) publications⁴¹⁴⁶ and the Australian Dairy Corporation publications⁴⁷. However, only one journal article⁴⁸, one industry report⁴⁹ one article in a magazine⁵⁰, and one newspaper article⁵¹ were cited specific to the dairy industry in Malaysia.

Mahendranathan's article has data only up to 1977. It is, therefore, outdated and of limited use in this research. Historical trends in the dairy industry in Malaysia can be analysed through using this article and

⁴⁶ Jabatan Perangkaan Malaysia, Perangkaan Perdagangan Luar Negeri (External Trade Statistics), Malaysia 1990.

Jabatan Perangkaan Malaysia, Buku Tahunan Perangkaan (Yearbook Of Statistics), Malaysia 1991.

⁴⁷ Australian Dairy Corporation, Dairy Compendium 1989, 1991 and 1992.

⁴⁸ Mahendranathan, T; 'The present status of the dairy industry in the ASEAN countries', The Malaysian Veterinary Journal, Vol.7, No.3 , 1982, pp. 174-179.

⁴⁹ International Marketing and Economic Services Report (IMES), Volume 1: Malaysia, England, June 1991.

⁵⁰ Phoon, Zoe; 'Thriving on Competition', Malaysian Business, July 16-31 1992, p. 21.

⁵¹ Australian Financial Review; 'NZ Dairy Expands', Tuesday 19 May 1992.

comparing it with other publications⁵². As Mahendranathan's publication is a well researched article it was used in comparing data in the IMES report cited above.

The IMES⁵³ report provides data on sales estimates for different dairy products for the period 1985 to 1990. It analyses these data and forecasts demand for different products up to 1995. These suggest that the IMES report will be a useful source of reference.

However, the quality of the IMES research is questionable. Comparison of the information in Mahendranathan's article on head of cattle, milk yields and import figures from the late 1970s and the statistics from Jabatan Perangkaan Malaysia shows a logical fit. However, the data in the IMES report conflicts with these two publications. The research methodology used in the IMES report is not explained and therefore it was difficult to evaluate the accuracy of data contained in this report. The IMES report is referenced very selectively and critically in this dissertation.

⁵² IMES, loc. cit.

Perangkaan Perdagangan Luar Negeri, loc. cit.

Buku Tahunan Perangkaan, loc. cit.

Sorensen, Anders; 'Progress and Problems of Dairy Development in the Asian and Pacific Region', Asia and Pacific Extension Bulletin, Vol 237 (7) 1986, Food and Fertiliser Technology Centre, Taiwan 1986, pp. 1-12.

⁵³ IMES, loc. cit.

The article from 'Malaysian Business' provided information on the market share of Nestles in different product categories. Nestles is a major dairy manufacturing company in Malaysia. This article served as an important starting point of the primary research. Information on brand market share, and the width and depth in the range of product categories and lines from Nestles were available in this report.

The article in the Australian Financial Review (AFR) was very useful in that it reported, albeit very briefly, on the market entry strategy of the New Zealand Dairy Board (NZDB). NZDB, as reported in Business Malaysia, is an important manufacturer of branded value added dairy products in Malaysia. Business Malaysia and the AFR provided brief but important information on the two major dairy manufacturing companies in Malaysia. There was limited information on the food industry in Malaysia.

Data on imports and domestic production was available from several sources including Jabatan Perangkaan Malaysia and Malaysian commercial bank reports⁵⁴.

These limitations made the general survey of the food industry in South and South East Asia necessary. The literature used for this review is

⁵⁴ Economic Research Department (United Malayan Banking Corporation); Business Conditions in Malaysia, Malaysia, December 1992.

Economic Research Department (United Malayan Banking Corporation); Business Conditions in Malaysia, Malaysia, October 1991.

covered in section 2.5.

2.4 Information on the Australian dairy industry

There were many industry reports⁵⁵, publications from the Australian

⁵⁵ Industry Assistance Commission; Background Paper to the Industries Assistance Commission's Inquiry on the Dairy Industry, 10 February 1983, pp 1-24.

Industry Commission; 'Review of Overseas Export Enhancement Measures Volume 1: Report', Report No. 22, Australia, 3 April 1992.

Beytagh, G.A.; 'What does the Future Hold for Dairy Products in the Local and Export Market', The Australian Journal of Dairy Technology, Vol. 29 No. 2, June 1974, Australian Society of Dairy Technology, pp. 3-7.

Strange, L.L.; 'Packaging and Presentation - Its Influence on Impulse Buying', The Australian Journal of Dairy Technology, Vol. 29 No. 2, June 1974, Australian Society of Dairy Technology, pp. 5-8.

Corden, M.W.; 'The Nutritional Value of Dairy Products in Present Day Health Concepts', The Australian Journal of Dairy Technology, Vol. 29 No. 2, Australian Society of Dairy Technology, June 1974, pp. 9-13.

Hyde, K.A.; 'The Need for Research, Production and Marketing to Work Closely Together in the Development of New Products: I', The Australian Journal of Dairy Technology, Vol. 29 No. 2, Australian Society of Dairy Technology, June 1974, pp. 14-18.

Chant, N.A.; 'The Need for Research, Production and Marketing to Work Closely Together in the Development of New Products: II', The Australian Journal of Dairy Technology, Vol. 29 No. 2, Australian Society of Dairy Technology June 1974, pp. 19-20.

Kinnersley, D ; 'The Need for Research, Production and Marketing to Work Closely Together in the Development of New Products: III', The Australian Journal of Dairy Technology, Vol. 29 No. 2, Australian Society of Dairy Technology, June 1974, pp. 21-28.

Shew, D.I.; 'The Manufacturer is the Key Link in Any Programme to Improve the Image of Dairy Products - Quality, Consistency, Availability', The Australian Journal of Dairy Technology, Vol. 29 No. 2, Australian Society of Dairy Technology, June 1974, pp. 28-30.

Industry Assistance Commission, 'Background Paper to the Industries Assistance Commission's Inquiry on the Dairy Industry', 10 February 1983, pp. 1-24.

N.S.W. Dairy Farmers Association, 'Discussion Paper on Quota System Review', Sydney 29 August 1988, pp. 1-9.

Bray, R.H.; 'Self Regulation of the Dairy Industry', D.I.A.A Conference, Tuesday 29 and Wednesday 30 March 1988, pp. 1-3

Dairy Corporation⁵⁶, annual reports of companies⁵⁷ and several

Baxter, Ken; 'Managing Change in the Dairy Industry', UDV Annual Conference, June 1989.

O'Callaghan, T.W.; 'Self Regulation in the Dairy Industry', Dairy Industry Association of Victoria, 1989.

Australian Dairy Corporation, 'Update Information on the Australian Dairy Industry', August 1991, pp. 1-8.

Taylor, Michael; 'The Australian Dairy Industry : An Overview', Agricultural Science, May 1991, pp. 18-21.

Gibson, John; 'The Role of the Australian Dairy Corporation', Agricultural Science, May 1991, pp. 23-27.

Donnelly, Paul and Gray, Stuart; 'What is the Role of The Dairy Research and Development Corporation in the Dairy Industry', Agricultural Science, May 1991, pp. 39-41.

Australian Dairy Industry Council; 'Dairy Australia: Strategy for the Future', Victoria, December 4 1991.

Office of Trade and Investment (Victoria); 'The Dairy Industry Sector Study', Australia, October 1992.

Pappas Carter Evans & Koop/Telesis; The Global Challenge: Australian Manufacturing in the 1990's, Australian Manufacturing Council, Australia 1990.

⁵⁶ Australian Dairy Corporation 1992 (a), loc. cit.

Australian Dairy Corporation 1992 (b), loc. cit.

⁵⁷ Bonlac Foods Limited, Annual Report 1992.

Australian Dairy Corporation, Annual Report 1991/92, 1992(b).

National Foods Limited, Annual Report 1991.

Australian Dairy Products Federation, Annual Report 1992.

Murray Goulburn Co-operative Co. Limited, 42nd Annual Report 1992.

Victorian Dairy Industry Authority, Annual Report 1992.

Kraft Foods Limited, The Kraft Story in Australia, 1992.

Tatura Milk Industries Limited, Annual Report 1992.

Australian Dairy Products Federation Inc., Annual Report 1991.

Australian Dairy Industry Council, Annual Report 1992.

Queensco-Unity Dairy Food Co-operative Association Limited, Annual Report 1992.

conference papers⁵⁸ that provided information on the Australian dairy industry.

The general vein of these reports was that the Australian dairy industry is a very important industry to the national economy⁵⁹, highly price competitive in the international market⁶⁰ and is increasingly displaced in the international market because of subsidised products from the European Community and the United States⁶¹, protected international markets⁶², new dairy product exporters⁶³, and difficult international

⁵⁸ Lembit, Murray; 'Market prospects for dairy', Shepparton Regional Outlook Conference, 3 October 1990, pp. 1-7.

Sullivan, Joe; 'Outlook for Victorian dairying in a changing policy environment', Shepparton Regional Outlook Conference, 3 October 1990, pp. 1-6.

⁵⁹ Australian Dairy Corporation 1992 (a), op. cit., p. 5.

Office of Trade and Investment, op. cit., pp. 31-34.

Australian Dairy Industry Council, op. cit., p. 7.

⁶⁰ Australian Dairy Corporation 1992 (a), op. cit., p. 7.

⁶¹ Lembit, op. cit., p. 2.

Sullivan, op. cit. pp. 4-7.

Lacey, loc. cit.

⁶² 'A Dairy Boom for Four to Five Years', Australian Dairy Foods, November 1988, p. 4.

Ryan-Clark, Fiona; 'What the Future Holds for the Dairy Industry', Australian Rural Times, North Richmond, NSW, Vol. 40, pp. 18-19.

⁶³ Lembit, op. cit., p. 2.

Clark, loc. cit.

market conditions that are forecast well into the 1990s⁶⁴.

Although these reports provided useful information on the structure and the problems that the Australian dairy industry faced, most of these reports appear to have a strong industry bias and to be influenced by industry interest groups⁶⁵.

The strength, the importance and the problems of the industry seem real enough⁶⁶. However the literature review suggested that the industry generally does not have a focused and pro-active marketing program in comparison to its major competitors⁶⁷. A highly regulated domestic

⁶⁴ Lembit, op. cit. p. 7.

Sullivan, loc. cit.

Australian Dairy Corporation 1992 (a & b), op. cit., p. 8.

⁶⁵ 'Give Us a Go', Dairy Industry asks Government', Australian Dairy Foods, May 1991, Vol. 12, No. 4, pp. 14-15.

⁶⁶ Barrett, David; 'International policy developments and the world dairy product market', Quarterly Review of the Rural Economy, 8(2), May 1986, pp. 172-180.

'CER: the shape of the final Agreement', pp. 10-14.

Frew, Wendy and Others; 'Closer Economic Relations: AFR Survey', Australian Financial Review, 20 June 1990, pp. 39-44.

Taylor, loc. cit.

Templeton, H.C.; 'Why CER ? : a look at Australia's concerns', New Zealand Foreign Affairs Review, V. 32, January/March 1982, pp. 7-11.

Barry, G. and Lembit, M.; 'Dairy products: commodity outlook', Agriculture and Resources Quarterly, Vol. 1, No. 4, December 1989, pp. 404-406.

⁶⁷ Spring, Dryden; 'An International Marketer's View of Porter's New Zealand Study', Business Quarterly, Winter 1992, pp. 65-69.

Dobson, William D; 'The Competitive Strategy of the New Zealand Dairy Board',

market⁶⁸, various public sector marketing agencies and associations and regulatory mechanisms⁶⁹ seem to have encouraged a generally

Agribusiness, Vol.6 No. 6 1990, pp. 541-558.

Rosenbaum, Andrew; 'BSN challenging Nestle, Unilever', Advertising Age, June 25 1990, p. 37.

Beltoft, Anders; 'European dairy structure year 2000', Scandinavian Dairy Information, 3/92, Vol. 6, No. 3, 1992, pp. 46-49.

Hall, Terry; "Commodities and agriculture: NZ dairy industry 'in good heart'- gloom is lifting after worst season in decades", The London Financial Times, 28 November 1991, Great Britain, p. 36.

Hayward, Dai; 'Commodities and agriculture: NZ trades dairy products for coal', The London Financial Times, 19 June 1991(a), Great Britain, p. 34.

Hayward, Dai; 'Survey of New Zealand(7): Farmers look to GATT for world trade boost- Agriculture, belt-tightening amid bleak short-term prospects, but could better times lie ahead?', The London Financial Times, 9 July 1991(b), Great Britain, p. 30.

Barnes, Hilary; 'Survey of Denmark (10): cheesey smile - Profile of Christian Hansen', The London Financial Times, 19 November 1991, Great Britain, p. 4.

'Asia to be a major dairy market, says study', Food Industry, November 1991.

Nestles moves south', South, September/October 1991, No. 125 p. 6.

Australian Financial Review, loc. cit.

'Pacific Dunlop seeks slice of Asian food market', Food Industry, November 1992.

⁶⁸ Sullivan, loc. cit.

Lembit, Murray J., Topp, Vernon., Beare, Steve C., and Sheales, Terry; 'Dairy Industry Policy and Free Trade with New Zealand', Discussion paper 91.8, Australian Bureau of Agricultural and Resource Economics, Australia, August 1991, pp. 24-45.

⁶⁹ Australian Dairy Industry Council, 'Dairy Australia: Strategy for the Future', December 4 1991.

'Dairy Industry Organizations', Resource Material (RAB:RB:79/50), Gilbert Chandler Institute of Dairy Technology, Australia 1979, pp. 1-13.

Donnelly, Paul and Gray, Stuart; 'What is the Role of the Dairy Research and Development Corporation in the Dairy Industry?', Agricultural Science, May 1991, pp. 39-41.

Gibson, John; 'The Role of the Australian Dairy Corporation', Agricultural Science, May 1991, pp. 23-38.

lethargic industry content to export bulk commodities to selected markets where the general level of competition was perceived to be low⁷⁰.

In contradiction to the ADC and other reports that the demand for Australian dairy products are under threat internationally⁷¹, there were some isolated reports⁷² that forecast demand,

. . . for Australian processed dairy products is likely to be high well into 1991 and in part reflects world interest in the Australian product because of the absence of environmental and nuclear pollution risks⁷³.

Committee for Review of Exports, 'Australian Exports, Performance Obstacles and Issues of Assistance'.

Market Development Assistance, Australian Government Publishing Services, Australia, July 1989.

⁷⁰ Callaghan, Bede; 'Australia's Survival- Australian's Awake', Development of Our Export Potential, Institute of Industrial Economics, University of New Castle, Australia, August 1987, pp. 1-10.

Suchard, Hazel; 'Some Aspects of International Marketing', Development of Our Export Potential, Institute of Industrial Economics, University of New Castle, Australia, August 1987, pp. 29-38.

'In Need of Weaning', Far Eastern Economic Review, 6 February 1992, p. 38.

'International Focus Vital says ADC Chairman', Dairy Moves, Issue No. 20, January 1991.

Keniry, John; 'Food Giant's Recipe for Success', The Australian, Wednesday 24 June 1992, p. 7.

⁷¹ Lembit, Murray and Barry, Glen; 'Dairy Products', Agriculture and Resources Quarterly 1(4), December 1989, pp. 404-406.

⁷² 'NSW Processed Food Development Strategy', NSW Processed Food Task Force, October 1991.

Syvert, Paul; 'Quality food exports from the clean country', The Australian Financial Review, Wednesday 12 May 1993, p. 14.

⁷³ NSW Processed Food Task Force, op. cit., p. 11.

This seemed an unresearched generalisation but provided a catalyst for research into the Australian Government's 'Clean Food Export Strategy', the national marketing strategy to promote Australian agri-foods as clean and produced in a relatively unpolluted environment⁷⁴. Research on whether this concept provides Australia with any competitive advantage in dairy product exports to Malaysia could not be cited. Research in this area is still in its infancy⁷⁵.

The Australian dairy industry appeared to be focussing on improving its competitive position domestically through acquisitions and amalgamations⁷⁶ and a very active thrust into market milk production⁷⁷.

⁷⁴ East Asia Analytical Unit, op. cit., p. 179.

Cook, John; 'Adding value for overseas markets', The Australian, Monday 15 February 1993.

Syvert, Paul, op. cit., p. 14.

⁷⁵ Missen, Geoff; 'Australia's Clean Environment as Comparative Advantage in Food Exports to Asia: Myth or Reality?' (unpublished- research proposal).

Australian Dairy Industrial Council, loc. cit.

⁷⁶ Riddell Information Services Pty Ltd, 'Australia's Top 500 Companies 1991-92', The Business Who's Who of Australia, Australia 1991.

Riddell Information Services Pty Ltd, Jobson's Year Book of Australian Companies 1992/93, Australia 1992.

Australian Marketing Publications & Services, The Queensland Business Register (5th Edition), Australia 1991, pp. 418- 487.

Ryan-Clark, op. cit., p. 18.

⁷⁷ Lembit, op. cit., p. 3.

2.5 The food industry in South and South-East Asia with particular reference to the dairy industry

This exploratory study aimed to provide an overview of the market characteristics and public policy in South and South-East Asia with a view to gaining a general understanding of the market.

Many of these countries are characterised by high economic growths, greater urbanisation, higher standards of living as evidenced by increasingly high per capita ownership of cars, refrigerators and other consumer durables⁷⁸ and the greater trade liberalisation regimes. There are also ethnic and cultural similarities between some of these countries such as Indonesia, China, India, and Malaysia⁷⁹.

Malaysia has population made up of Malays, Chinese and Indians. There is, therefore, cultural affinity with communities in Indonesia, China and the Indian sub continent⁸⁰.

This review of the markets in South and South-East Asia provided information on food consumption and dietary choices because of factors such as culture, public policy and higher disposable income.

⁷⁸ Port Jackson Partners Limited, 'Australian business in Asia: Climbing the mountains', Business Council of Australia 1992, pp. 30-33.

⁷⁹ Port Jackson Partners Limited, op. cit., p. 23.

⁸⁰ Sections 4.4 and 4.5 discuss these in detail.

The public policy in many of these countries show evidence of being borrowed from one another because of common bi-lateral extension service activities by organisations such as Food and Agricultural Organisation (FAO). There are also similarities in the educational and institutional framework in some of these countries because of their common colonial past⁸¹.

Singapore, Malaysia and countries in the Indian sub continent generally follow a British influenced legal system. The legal systems in these countries are therefore similar.

The dairy industry in South-East Asia is regulated and influenced by public policy. The dairy industry program in many of these countries are designed to improve rural farm incomes⁸². Some countries have publicity campaigns in schools and the mass media, special courses for teachers and school milk programs to encourage milk consumption among school children. Milk prices are statutorily controlled or subsidised in some of these countries⁸³.

⁸¹ Ibid., p. 23.

⁸² Iya, K.K., 'Dairy Development in South East Asia-Problems and Challenges', Indian-Dairyman, Vol.30(5), 1978, pp. 345-352.

International Marketing & Economic Services (UK) Limited, Volume 2 (Thailand).

⁸³ IMES (Volume 1), loc. cit.

Goldstein, Carl; 'Milking a Better Living', Far Eastern Economic Review, 12 January 1989, p. 52.

Limited information was found on statutory controls, incentives, non tariff barriers to imports such as licensing, quarantine regulations, 'halal' certification, quotas and total ban on the import of some products, and export subsidies in the region. Commentators report that there are a wide range of invisible non tariff barriers in many of these countries⁸⁴.

The Pappas Carter⁸⁵ report for example in a schedule of non tariff barriers which includes import bans, quotas, import licences, government procurement and export subsidies reports Malaysia as having only import licensing.

Malaysia has several non tariff barriers including total ban on imports as in the case of liquid milk, government procurement as in the case of the school milk program and quarantine laws that restrict free imports particularly of food products. The average tariff rate in Malaysia is reported to be 40 per cent in the Pappas Carter report. Other, more authoritative reports compute the Effective Rate of Tax in Malaysia to be substantially higher than this⁸⁶. However, there are no significant tariff

⁸⁴ Chong, Florence; 'Why Australia Must Change', The Australian, Tuesday June 15 1993, p. 21.

⁸⁵ Pappas Carter Evans & Koop/Telesis, op. cit., p. 53.

⁸⁶ Noland, Marcus; Pacific Basin Developing Countries, Prospects for the Future, Institute of International Economics, Washington DC, USA 1990, p. 61.

Kamal, Salih, Mohamed Haflah Piei, and M. Sahathavan; Trade Policy options for Malaysia', in Mohamed Ariff and Tan Loong-Hoe, eds., The Uruguay Round: ASEAN Trade Policy Options, Institute of South East Asian Studies, Singapore 1988 as cited in Marcus p. 61.

and non tariff barriers on the imports of dairy products (other than liquid milk) into Malaysia.

There appears to be widespread recognition in a number of South-East Asian countries that it is not to their competitive and comparative advantage to provide extensive support to the domestic dairy industry either as an import substituting measure or export development measure. This policy interpretation seems particularly strong in the ASEAN countries⁸⁷.

The lack of forage for feed, competition for arable land from the cultivation of cash crops, low productivity of cattle due to the tropical climate, and more recently the thrust in economic development through the encouragement of manufacturing and service industries, seem to suggest that the dairy industry has not been a priority industry from the public policy view point⁸⁸.

To a limited extent, dairy industry development programs are incorporated in the overall socio-economic policy in many of these countries. It is one of the mechanisms to improve the generally more depressed rural subsistence farm sector where there is considerable

⁸⁷ Sorensen, Anders; 'Progress and Problems of Dairy Development in the Asian and Pacific Region', Asia and Pacific Extension Bulletin, Vol. 237 (7) 1986, pp. 1-12.

⁸⁸ Goldstein, op. cit., pp. 52-53.

disguised unemployment/underemployment⁸⁹. However, the emphasis in economic development is to encourage manufacturing industries. There are strong fiscal policies to encourage domestic manufacturing, downstream processing and packaging of imported dairy products. This policy to a great extent limits the viability of domestic fresh milk production.

However, policy changes in some countries such as Thailand and Indonesia appear to be developing a viable, and in some instances an export market focussed dairy industry using domestic milk⁹⁰.

Iya K.K.⁹¹ discusses the development of the dairy industry in the South, and South-East Asian region in great detail. The article was published in 1978.

This information, although not recent, provides valuable background on the active beginnings of the dairy industry in the region. Even at this

⁸⁹ Idem.

Iya, op. cit., pp. 345-352.

Young, Kenneth B; Amir, Pervaiz; and Cramer, Gail L; 'Implications of Dairy Development in Indonesia', Agribusiness, Vol.6, No.6, 1990, pp. 559-574.

IMES (Volume 2), loc. cit.

⁹⁰ Goldstein, op. cit., pp. 52-53.

⁹¹ Iya, op. cit., pp. 345-352.

early phase, State intervention in encouraging the development of the industry in some countries such as Thailand is already evident.

The developments in the dairy industry in Thailand discussed by Iya K.K. can be related to the more recent articles cited⁹².

From these early beginnings in the 1970s, through Government intervention, Thailand's domestic milk production is projected by IMES to have increased from 27,240 tonnes in 1982 to 134,000 tonnes in 1989, an average annual growth in production of 49 per cent. However, Goldstein estimates domestic milk production in Thailand in 1989 at 87,000 tonnes⁹³. There is, therefore, significant difference in the estimates in these two sources.

There is further discrepancy between the IMES report and that of Goldstein's analysis of the market in Thailand. Goldstein forecasts continued increase in milk imports into Thailand as a result of increasing per capita consumption, and the high cost of domestic production because of comparative cost disadvantages. Goldstein reports that in 1986 Thailand imported US\$ 83 million (A\$ 120m) of dairy products

⁹² IMES, loc. cit.

Goldstein, loc. cit.

Mahendranathan, I; op. cit., pp. 174-179.

⁹³ Goldstein, loc. cit.

from Australia, New Zealand, Netherlands, Denmark and other major dairy producing countries. Imports increased to US\$ 96 million (A\$ 140m) in 1987, an increase of approximately 17 per cent. On the basis of this finding, it appears that in at least the ASEAN countries the demand for dairy products will continue to outstrip supply even in those countries such as Thailand which have a very active public policy encouraging the development of a domestic dairy industry.

The IMES report also suggests that Thailand has embarked on what appears to be a major export focused dairy products industry. The joint venture operation by the large Japanese company Meiji, for instance, appears to have an export market focus⁹⁴. On the basis of this it may appear that imports in Thailand are for value adding purposes for re-export to North East Asia.

Burns⁹⁵ in his article 'The South East Asian Food Market' provides important information on the pattern of Australian food exports to the region in the period 1948-1970. Although this is also not a recent article, it provides valuable insight into the development of the agri-foods industry in the region, public policy directions that influenced these

⁹⁴ IMES, loc. cit.

Goldstein, loc. cit.

⁹⁵ Burns, W.G., 'The South East Asian Food Market', Food Technology in Australia, February 1972.

developments, and the changing patterns of Australia's export trade.

Burns notes that the share of Australia's food exports to South East Asia as a proportion of total food exports had remained at about 20 per cent. The significant change had been the shift in the geographical markets and the product categories.

Up to the 1950s, India was the dominant export market for Australia, and grains were the principal food exports. By the 1960s Japan had become the dominant market and the export of meat had become important.

Burns attributes this change to India becoming self sufficient in food products. However, active Indian government barriers to food imports appears to have influenced the decline of exports to India. The recent trade liberalisation, and the entry of large American food companies such as Kelloggs, Coca-Cola and Pepsi Cola indicates the significance of public policy in developing trade and investment in this region⁹⁶.

Garnaut in his assessment of the market for food products in the People's Republic of China (PRC) highlights the significance that public

⁹⁶ 'Bringing in the World', Asiaweek, 8 November 1991, pp. 64-65.

'Business: Frantic Wooing', India Today, 15 November 1991, pp. 86-87.

Chidambaran, P.; 'India's Economic Development', Asian Business Review, November 1991, pp. 11-13.

regulatory policies have on food imports and consumption. In his research Garnaut shows evidence that the increases in food consumption in the PRC following the economic reforms exceeded proportionate increases in income or decreases in prices resulting from these reforms⁹⁷.

The NSW Task Force Report makes a number of positive export market forecasts including that,

Good opportunities exist, especially in the Asian markets [East Asia] for the supply of manufactured dairy products such as processed cheese, soft cheeses, ice cream, yoghurt, frozen yoghurt and powdered products⁹⁸.

This seems to be the vein of other reports⁹⁹, in many instances claiming to be the authority of industry and public sector experts. However, there does not seem to be any detailed market research, or hard data, to support claims of market opportunities other than the simple, unanalysed data on economic growth in these markets. As such the observations of the commentators appear to be based on perception of changes in dietary habits rather than being based on any hard quantifiable data. Importantly data that is available does not seem to support any substantial increase in total per capita consumption of dairy

⁹⁷ Garnaut, Ross and Ma, Guonan; Grain in China, East Asia Analytical Unit, Department of Foreign Affairs and Trade, Australia 1992.

⁹⁸ NSW Processed Food Task Force, op. cit., p. 12.

⁹⁹ Port Jackson Partners Limited, loc. cit.

products or increases in the consumption of 'new' product lines by the indigenous populations in several of these countries¹⁰⁰. In Indonesia, for instance, sweetened condensed milk and whole milk powder accounted for approximately 80 per cent of total retail sales of dairy products in 1986¹⁰¹. Quantifying milk consumption in these countries is difficult especially since not all liquid milk production is channelled through the market¹⁰².

Increases in consumption, particularly of 'new' product lines seem to be generated through the hospitality industry catering for the Western tourist and business visitors to these countries¹⁰³ and through re-exports to third countries¹⁰⁴. In view of this, the dramatic increase in imports and hence the apparent high per capita consumption of dairy products in some countries, such as Singapore with its large Southern Chinese population has to be examined critically. Many of the reports on Australian export development initiatives relate economic growth rates in some of these markets as the sole indicator of the export market

¹⁰⁰ Gresswell, Ian; 'How the Dairy Industry is Changing', Business Review Weekly, 6 November 1992, pp. 50-54.

¹⁰¹ Lembit, Murray and Barry, Glen; 'Dairy Products', Agriculture and Resources Quarterly 1 (4), December 1989, pp. 404-406.

¹⁰² Sorensen, loc. cit.

Smith, D.B.; 'Food Technology in the Philippines', Food Technology in Australia, Council of Australian Food Technology Associations, November 1975.

¹⁰³ IMES (Volumes 1 & 2), loc. cit.

¹⁰⁴ Davidson, R., 'Dairy Joint Ventures Flourish in Singapore', Australian Dairy Foods, February 1992, pp. 26-28.

potential¹⁰⁵.

This paper contends that it is an over generalisation to say that with improvements in incomes the per capita consumption of dairy products will increase. This trend seems limited to South Asia where increases in income has had significant impact on consumption of dairy products. This demonstrates the importance traditional food consumption habits has on the demand for dairy products. The over emphasis on changes in dietary habits as a result of increases in economic wealth appear to detract from realising the real opportunities in the market place. In his study of dairy industry in the Asia Pacific region, Sorensen points out the importance of dairy products in the nutrition of South Asian communities and the relative less importance of dairy products in the diet of East Asian communities. Sorensen presents an interesting study through segmenting the region into three broad groups as follows:

Group 1: (Indian sub continent) Milk is important in nutrition.

Group 2:(ASEAN, Korea, Burma) Milk is of limited importance. These countries are categorised as important importers of dairy products.

Group 3: (Japan, Hong Kong, Singapore) Price sensitive market.

¹⁰⁵ East Asia Analytical Unit, loc. cit.

McLean, R.J; 'Exploiting Opportunities in the Pacific Basin', CEDA Study Committee for Economic Development of Australia, Strategic Issues Forum Monograph, June 1986.

Noland, loc. cit.

This analysis has some limitations because of the dramatic changes in some of these market places in the last five years, but the analysis provides valuable insights of the sub markets within the region.

India for example produced 58 million tonnes of milk in 1992¹⁰⁶. China, an economy that can be compared to India in terms of population size and per capita income levels, produced only approximately 5 million tonnes of milk in 1992¹⁰⁷. Despite production levels of India being approximately 12 times that of China's, India still has an acute shortage of dairy products necessitating controls on the consumption. In East Asian communities consumer preference for other foods particularly fish and meat is evident. These communities have traditionally consumed milk substitutes such as soy milk instead of cattle milk. These comments are a result of examining data in demand growth and per capita consumption levels in a number of East Asian communities¹⁰⁸.

¹⁰⁶ Australian Dairy Corporation 1992(a), op. cit., p. 31.

¹⁰⁷ Idem.

¹⁰⁸ East Asia Analytical Unit, Australia and North East Asia in the 1990s: Accelerating Change, Department of Foreign Affairs and Trade, Australia 1992.

Booth, Anne., David, Cristina., (et al); Food Trade & Food Security in ASEAN and Australia, ASEAN-Australia Joint Research Project, The Australian National University, Australia 1986.

Garnaut, Ross; Australia and the Northeast Asian Ascendancy, Australian Government Publishing Service, Australia 1989.

Garnaut, Ross and Ma, Guonan; loc. cit.

Garnaut and Ma¹⁰⁹ observe that the historical experience of Chinese communities in different South East Asian geographical markets provides insights into the relationship between incomes and demand. Referring to Singapore, Hong Kong and Taiwan, the authors observe that,

China's food consumption in the process of economic growth seems to have been following closely the patterns of other East Asian communities during their periods of high growth. The similarity with Chinese communities in Taiwan, Hong Kong and Singapore is particularly close¹¹⁰.

... the dietary preference of these ... communities, resemble each other more closely than ... other major regions of the world economy, facilitating the identification of the influence of economic factors (prices and incomes) on levels of consumption¹¹¹.

The presence of approximately 5.2 million ethnic Chinese from Guangdong and other southern coastal Chinese provinces in Malaysia who have generally not integrated into the main stream indigenous community¹¹² suggests that the underlying consumer preferences are broadly similar to the overseas Chinese communities in Hong Kong, Taiwan and Singapore. In most Chinese societies, other than in the case of Singapore which has 75 per cent Chinese population, the per capita consumption of meat is substantially higher and has shown greater per capita increases in comparison to dairy products. As shown in Table 1, the consumption of dairy products in countries such as China, Taiwan

¹⁰⁹ Garnaut and Ma, op. cit., p. 23.

¹¹⁰ Ibid., p. 5.

¹¹¹ Ibid., p. 23.

¹¹² 'The Overseas Chinese', The Economist, July 18 1992, pp. 21-24.

and Hong Kong had grown very substantially from very low per capita consumption levels but has stabilised at still relatively low levels. The exception to this is Singapore which has a sizeable (25 per cent) Malay and Indian population, and large inflows of Western tourists and expatriates.

TABLE 1: PER CAPITA CONSUMPTION OF MEAT & DAIRY PRODUCTS IN SELECTED EAST ASIAN ECONOMIES¹¹³

	DAIRY PRODUCTS			MEAT		
PERIOD/COUNTRY	1975-79	1980-84	1985-86	1975-79	1980-84	1985-86
SINGAPORE	55	61	66	73	79	79
CHINA	3	4	5	10	15	19
TAIWAN	28	27	28	42	53	60
HONG KONG	30	33	40	75	86	91

As shown in Table 1 and illustrated in Diagram 4, the per capita consumption of dairy products in China increased 5.6 per cent per annum in the period 1975-1986. However, the per capita consumption of dairy products is still only 5 kg - a level lower than in many other countries at the same stage of economic development. The consumption of meat increased 7.5 per cent in the same period, but at 19 kg per capita the per capita consumption of meat in China is far

¹¹³ Garnaut (1989), loc. cit.

Note
Although Garnaut has not stated it in the text, the dairy consumption levels are assumed (based on data from other sources such as the IMES and the Australian Dairy Corporation) to be in Liquid Milk Equivalent (LME) terms.

higher than many other developing countries. The per capita consumption of dairy products in Taiwan has remained unchanged in the ten year period 1975 - 1986 and remains at the relatively low level of 28 kg per capita for a middle income country. On the other hand, the consumption of meat has increased by approximately 4 per cent from a relatively high base of 42 kg in 1975 to 60 kg in 1986. Similarly in Hong Kong the per capita consumption of dairy products increased by approximately 3 per cent in the period 1975 - 1986 and remains at the relatively low level of 40 kg per capita for a middle income country that has sizeable non Chinese and Western expatriate and tourist populations. However, the consumption of meat has increased by more than 2 per cent per annum from an already high base level of 75 kg per capita in 1975 to a 91 kg per capita in 1986.

Greater consumer awareness particularly regarding the benefits of breast milk as opposed to infant formula, and the increasing availability of cheaper and what are perceived to be better dairy substitute products particularly vegetable fats and margarine are likely to result in a fall in the consumption of dairy products particularly in the yellow fats category and full cream milk category in markets such as Singapore that already does not have a tradition in the consumption of dairy products.

After having made adjustments for above average consumption in the hospitality and food service market segments servicing a largely Western

tourist and expatriate population, the characteristics of the markets in Taiwan, Singapore and Hong Kong can be used as a model to analyse the Chinese segment of the Malaysian market. The per capita consumption trends in these largely ethnic Chinese markets provides valuable insight into the consumer preferences and market characteristics in correlation to variables such as income, price, and level of urbanisation. Key data on these markets are illustrated in Table 2.

TABLE 2: FEATURES OF KEY OVERSEAS CHINESE MARKETS

COUNTRY	TOTAL POPULATION ¹¹⁴ *	CHINESE (%)	DAIRY PRODUCT CONSUMPTION (Kg/capita) ¹¹⁵
Singapore	2.7	75	66
Hong Kong	6.0	99	40
Taiwan	21.0	99	28

* Million

It is highly probable that the consumption levels in Taiwan will most closely represent the consumption levels in the Chinese segment of the Malaysian market. Singapore has a significant South Asian and Malay population, and Hong Kong has significant Western tourist arrivals. Both Singapore and Hong Kong are also almost wholly urban communities. The Chinese population in Malaysia will most closely resemble the

¹¹⁴ The Economist, loc. cit.

¹¹⁵ Garnaut, loc. cit.

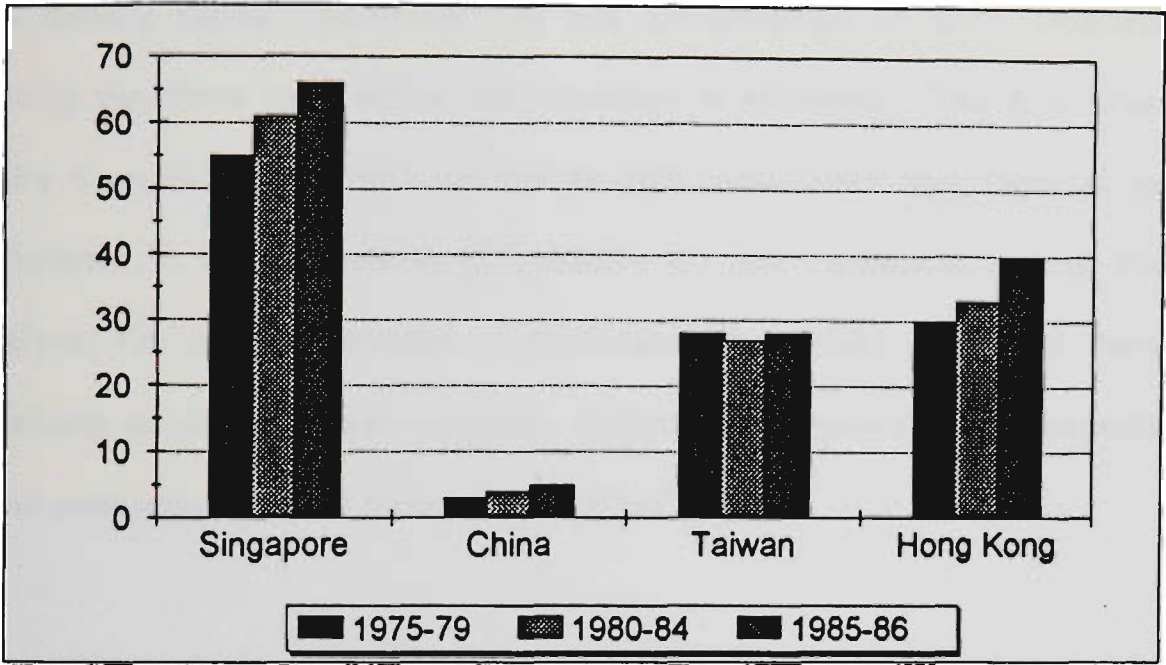
Note
Although Garnaut has not stated it in the text, these consumption levels are assumed (based on data from other sources such as the IMES and the Australian Dairy Corporation) to be in Liquid Milk Equivalent (LME) terms.

Taiwanese population in homogeneity and level of urbanisation. Based on this analysis, it is assumed that the per capita consumption of dairy products in the Chinese segment of the population in Malaysia will be approximately 28 kg/capita - Taiwan's consumption levels. The per capita income of the Chinese segment of the market in Malaysia compares with that of the per capita income of Taiwan.

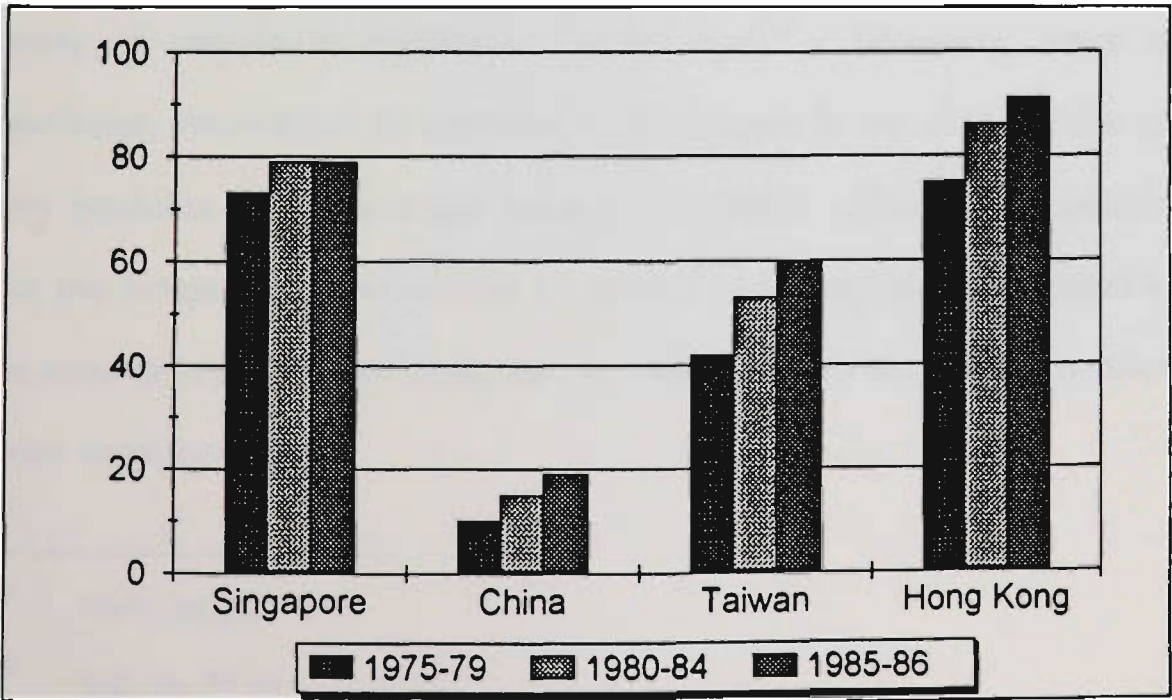
The IMES report is the only publication which suggest that market surveys had been commissioned and that primary research was an important element in shaping the research findings. The IMES report makes some significant observations on consumer product preferences. However, in the absence of information on research methodology the quality of these findings cannot be determined. The report, for example, observes that milk is not a favoured drink in Thailand and that 80 per cent of the consumption of dairy products in Thailand is around Greater Bangkok. This contradicts the dramatic increases in dairy production and import levels forecast in this report.

DIAGRAM 4 : **PER CAPITA CONSUMPTION OF MEAT & DAIRY PRODUCTS IN SELECTED EAST ASIAN COUNTRIES (kg/percapita)**

Dairy Products



Meat



Source: Garnaut, R.; *Australia and the North East Asia as Ascendancy*, Australian Government Publishing Service, Canberra 1989.

Booth¹¹⁶ provides important information on food consumption trends in ASEAN. The chapter on Malaysia in this book, makes references and provides data on the per capita food consumption among different ethnic groups¹¹⁷. There is very clear observation of substantial differences in the dietary habits particularly in the consumption of dairy products among the three main ethnic communities in Malaysia. The Australian Dairy Corporation, in contradiction to this, postulates that there is no difference in the household expenditure on dairy products among the Malays, Chinese and Indians in Malaysia. The report says that dairy products account for approximately seven to eight percent of household food expenditure for all three communities¹¹⁸.

Iya makes similar references to the prevalence of tradition based differences to dairy product consumption. He cites the usage of a local variety of cheese in traditional Filipino diet¹¹⁹. Generally, there is insufficient information on attitudes to and trends in the consumption of dairy products in different sub markets in ASEAN. There is suggestion that the indigenous communities in ASEAN countries have a tradition in the consumption of dairy products, at least more so than in North East Asian communities.

¹¹⁶ Booth, loc. cit.

¹¹⁷ Ibid., pp. 56-58.

¹¹⁸ Australian Dairy Corporation, 'Dairy Market Briefings', p. 4.

¹¹⁹ Iya, loc. cit.

In what appears to be a recognition of this and a strategy to promote dairy products to the dominant Chinese population in Singapore, NZDB has recently been promoting milk powder through Chinese medical halls in Singapore as a health product. It has been marketing milk as a dietary need for controlling osteoporosis¹²⁰.

It appears that the dietary benefits of dairy products is well recognised¹²¹. However, what is less certain is the competitive and comparative advantage dairy products have over substitute products such as margarine and soy milk. The raw materials of both these products are particularly abundant in ASEAN and there is a tradition in the consumption of soy bean bi-products particularly among the ethnic Chinese segment of the population.

Davidson's article suggests that Singapore is an important value adding centre for re-exports to many countries in the Middle East, and South Asia¹²². Unilac Dairy Products which commenced production in Singapore in 1984 as a joint venture operation between Bonlac Foods of Australia and Fraser and Neave of Singapore has a very strong export focus. Nearly 95 per cent of the total A\$ 60 million turnover of Unilac Dairies comes from exports to countries such as Bangladesh, Malaysia

¹²⁰ 'Neighbours Come Knocking', Asiaweek, 28 February 1992, pp. 66-67.

¹²¹ Australian Dairy Corporation 1992 (b), op. cit., pp. 17.

¹²² Davidson, op. cit., pp. 26.

and countries in the Middle East¹²³. Bonlac Foods is now reviewing its investment in Singapore and has established a Joint Venture company in Bangladesh¹²⁴.

The public policies in some of these markets, particularly in communities in which dairy products are important dietary components, does not appear to be given sufficient importance by some major Australian companies. In contrast to this, the NZDB appear to be divesting from Singapore and increasing investments in countries that have a larger population base, and exemplify greater demand characteristics for dairy products. NZDB had established a dairy plant in Singapore with major share holding as a joint venture with Cold Storage Holdings (CSH), an associate company of Goodman Fielder (GF). On GF divesting from CSH, a new company Asia Dairies Pte. Ltd. (Asia Dairies) was formed in 1990. In the new company, Fraser and Neave, the same investor as in Unilac, holds a 51 per cent equity, while NZDB holds the remaining 49 per cent equity. Asia Dairies exports 25 per cent of its production¹²⁵. In addition to dairy products such as fresh milk, milk powders, condensed milk, ice cream, butter, dairy spreads and yoghurt, Asia Dairies produces a range of fruit juices and Asian drinks including soy

¹²³ Ibid., pp. 26-27.

¹²⁴ Bonlac Foods Limited; Annual Report 1992.

¹²⁵ Ibid., pp. 27-28.

drink¹²⁶. The product mix, the target export markets and the equity holders in these joint ventures exemplify the differences in market strategies between NZDB and its Australian competitors.

Fraser and Neave is the local partner in both joint ventures. The strength of Fraser and Neave is that, it is already a major dairy products company in the region through a 50 per cent share holding in Premier Milk Industries, a concentrated milk production facility that commenced operation in Malaysia in 1962¹²⁷. Fraser and Neave appear to be using the strategic alliances with companies in Australia and New Zealand to develop export market expertise and linkages. NZDB's strategies suggest that the company recognises the limitations in using Singapore as a base for re-export. NZDB's investment in Asia Dairies pre dates Fraser and Neave's acquisitions in the company. NZDB had joint ventured with CSH in establishing Asia Dairies. CSH was a major food products wholesale and retail operator in Singapore and Malaysia. Fraser and Neave acquired CSH's share in Asia Dairies. NZDB has recently diversified its activities in Asia Dairies. It concentrates on research and development support such as the development of new flavours and food products to Asia Dairies¹²⁸. NZDB has directly

¹²⁶ Ibid., p. 27.

¹²⁷ Schenk, D.G.; 'Importance of the Recombined and Filled Milk Industry in South East Asia', Orgaan-Koninklijke Nederlandse-Zuivelbond, Vol. 65, 0-45 18 1973, pp. 444-446.

¹²⁸ Davidson, op. cit., p. 28

entered some of the export markets of Asia Dairies. In Malaysia for instance, in 1992 it established a large manufacturing, packaging and warehouse complex together with a Malay businessman¹²⁹. NZDB forecasts that its current turnover of NZ\$ 56 million will increase by more than 30 per cent to NZ\$ 75 million by the end of 1993¹³⁰.

Similarly, Nestles has announced a major direct investment program involving US\$ 100 million in Malaysia, Thailand, Singapore, Philippines and Indonesia in both dairy and non dairy operations. The non dairy operations will include the manufacture of stock cubes, chocolate bars, soy based drinks and meat substitutes¹³¹. Nestles has offered 40 per cent ownership of the new companies to local investors¹³².

The strategies of NZDB and Nestles reflect emphasis on direct market entry, strategic alliance with local companies and product line extensions incorporating dairy substitute products. These companies show evidence of recognising the limitations of the domestic market in Singapore both because of its small population size and the preference for non dairy sources of protein among the Chinese majority population. These companies also recognise that using Singapore as a centre for

¹²⁹ Australian Financial Review, loc. cit.

¹³⁰ Idem.

¹³¹ South, op. cit., p. 6.

¹³² Idem.

processing and manufacturing operations for re-export to other countries in the region may not be a successful long term strategy as countries in the region are attracting investments in the dairy sector from competitors. This is evident in strategies applied by NZDB with respect to its interests in Asia Dairies. The strategies of these companies reflect the need to evaluate the market regionally in planning strategies in specific countries.

The studies by Burns¹³³ and Iya¹³⁴ are particularly useful in this context as they have analysed the market characteristics in a number of countries in the region. Both these authors have covered an extensive geographic market that encompasses the Indian sub continent, ASEAN, Korea and Japan. Differences in the food consumption habits of communities in this region has significant influence on demand for food products and public policy formulation relating to the food sector.

This review exposed a significant gap in the literature on consumer product preferences. Although there are models on consumer behaviour relating to the overseas Southern Chinese population, which can be applied to study the Chinese segment of the population in Malaysia, no similar studies were available with regard to the overseas Indian and the Muslim-Malay populations. These two ethnic groups comprise more

¹³³ Burns, loc. cit.

¹³⁴ Iya, loc. cit.

than 60 per cent of the Malaysian population. The literature surveyed, suggests that the per capita consumption of dairy products in these ethnic segments are significantly higher than among the Chinese segment of the population.

The companies such as Nestles and NZDB that have been active in the region have probably built up a data base in the course of their presence in the market place.

It appears that the main source of market intelligence of Australian dairy companies have been through their resellers. These resellers are generally Chinese wholesalers whose strength is only in their cultural sections of the market.

Improvements in rural (largely indigenous) incomes, the increasing involvement in business by indigenous populations and the tacit or subtle government affirmative programs particularly in some countries such as Malaysia, do not appear to be well understood nor the extent of the commercial success of some of these programs fully realised.

There is detailed discussion of some of these issues by Noland, and Balassa¹³⁵. The role of the public sector in development, and the

¹³⁵ Noland, loc. cit.

redistribution of wealth in Malaysia can be gathered from a number of the texts¹³⁶. Although these texts give important information on policy issues that impact upon the redistribution of incomes, there are noticeable errors and serious flaws in data in some of them.

Short comings in research methodology have influenced these errors in analysis. Noland for example, analyses that:

Policy in the East Asian NICs', Policy Analyses in International Economics, Institute for International Economics, USA 1990.

¹³⁶ Port Jackson Partners Limited, loc. cit.

Booth, loc. cit.

Esman, Milton J; Administration and Development in Malaysia, Cornell University Press, Great Britain 1972.

Findlay, C. and Garnaut, R; The Political Economy of Manufacturing Protection: Experience of ASEAN and Australia, Allen and Unwin, Australia 1986.

Iya, loc. cit.

Macpherson, Neill T; The South East Asian Investment Guide, Longman Group (Far East) Ltd., Hong Kong 1992.

Milne, G; 'Region's Tigers Beat us on Taxes', Weekend Australian, June 18-19 1992.

Smith, D.B; 'Food Technology in the Philippines', Food Technology in Australia, November 1975.

Sheridan, G; 'The Coming of Age of Asia's Trading Bloc', Business Review Weekly, March 29 1991 pp. 42-46.

Trends in Developing Economies 1991, International Bank for Reconstruction and Development/World Bank, September 1991.

Dixon, Chris; South East Asia in the World-Economy, Cambridge University Press, Cambridge 1991.

East Asia Analytical Unit, Australia's Business Challenge: South-East Asia in the 1990s, Department of Foreign Affairs and Trade and Austrade, Australia 1992.

*Malaysia has the most unequal income distribution of the Pacific Basin developing countries, and as a consequence, distributional issues are central to Malaysian economic policy*¹³⁷.

Noland bases his assessment of the comparative income distribution position of Malaysia to that of other countries in the Pacific area on the basis of the Atkinson inequality index.

However, an examination of the data reveals that Noland had used 1973 data for Malaysia while using for example, the 1985 data for the Philippines (Appendix 3). Noland's assessments also contradict the findings of a number of other researchers¹³⁸.

Thus, the impact of economic policies and the effect that these policies have had on the redistribution of wealth and economic power in Malaysia cannot be determined from a reading of any one text. Comparative study of a number of texts and detailed analysis of the data and comments in these texts has been pursued in developing statements on the Malaysian economy that is covered in Chapter 4 of this thesis.

¹³⁷ Noland, op. cit., p. 56.

¹³⁸ Dixon, op. cit., pp. 149-226.

Crouch, Harold; 'Malaysia: Neither authoritarian nor democratic', in Southeast Asia in the 1990s, Authoritarianism, Democracy & Capitalism, by Hewison, Kevin et al (Eds), Allen & Unwin, Australia 1993, pp. 135-157.

Sieh Lee Mei Ling; 'The transformation of Malaysian business groups', in South East Asian Capitalists by Ruth McVey (Ed), Cornell University, USA 1992, pp. 103-126.

The New Economic Policy (NEP) initiatives were accelerated after the mid 1970s. The income distribution position in Malaysia by the mid 1980s should be substantially different to the position in the early 1970s because of the impact of the NEP¹³⁹.

The text *Australia's Business Challenge*¹⁴⁰ appears to have fallen into the common error of generalising the socio-economic conditions in the region. The text repeatedly discusses privatisation (Privatisation Master Plan)¹⁴¹, and the influence that large Chinese businesses conglomerates have on national economic policy¹⁴² in the region as if it is a standard feature in all of ASEAN that the ethnic Chinese have a virtual monopoly of economic activities and continue to influence and shape economic policies including through influencing corrupt politicians and bureaucrats.

The influence of Chinese businesses in Malaysia is very restricted because of the NEP¹⁴³, and the fact that privatisation in itself is often used as a mechanism to increase Malay ownership and operation of

¹³⁹ Idem.

¹⁴⁰ East Asia Analytical Unit, loc. cit.

¹⁴¹ Ibid., p. 22.

¹⁴² Ibid., pp. xxx-xxxi.

¹⁴³ Crouch, loc. cit.

Sieh, loc. cit.

businesses in Malaysia. The comments by Jomo probably best describes Malaysia's economic strategy in the 1980s and 1990s:

... on the whole, it can be said that economic policies from the early 1980s seek to transform Malaysia into a newly industrialised country (NIC) like South Korea, less dependent on the developed industrial nations, and under genuine Bumiputera capitalist entrepreneurial leadership. Most of Mahathir's economic policies seem to aim to achieve this end¹⁴⁴.

This difference in the perception of the political and economic policies in Malaysia is a result of the differences in the sources of market intelligence. The East Asia Analytical Unit's probable source of market intelligence are the ethnic Chinese students from Malaysia or non Malay academics from Malaysia. This 'misreading' of events in the market place appears to extend to the collation of business information as well because of this over-dependence on sections of the population or other inherent pre-conceived notions of the market place. This preconception appears to be neither new nor peculiar to Australians. British administrators appear to have worked on and perpetuated similar notions on the particular strengths of ethnic Chinese communities in trade and commerce in comparison to indigenous Malays. Dixon summarises this attitude of colonial Britain as follows:

¹⁴⁴ Jomo Kwame Sundaram (Ed); Mahathir's Economic Policies (2nd Edition), Insan, Kuala Lumpur 1989, p. 2.

*The indigenous population had little control over trade and production; enclaves of Chinese, Indian and Arab traders and entrepreneurs controlled the trade and much of the production. Influential colonial administrators, especially the British in the Straits Settlements, held favourable views of the Chinese as workers and entrepreneurs*¹⁴⁵.

This thesis postulates that these notions and perceptions have continued to cloud a factual and realistic assessment of the market place. Thus, Australian failings in marketing in Malaysia stem from this inability to assess the realities in the market place and hence develop meaningful and successful strategies. A number of writings by a range of commentators supports the view that the NEP initiatives have increased the position of Malay businesses in Malaysia. In some industries, Malay and government corporations virtually control business activities¹⁴⁶.

Sieh for instance says:

*... the NEP booked considerable success in its first decade. Poverty eradication efforts such as new land schemes, education and training institutions, and loan facilities for housing and small businesses benefited the Bumiputera population to such an extent that non-Malays felt hard done by ... data by sectors from the Fifth Malaysia Plan (1986-1990) indicate that already by mid-1985 Bumiputera owned 69 percent of domestic banking and financial institutions and at least 32 percent of the plantations.*¹⁴⁷

¹⁴⁵ Dixon, op. cit., p. 109.

¹⁴⁶ Sieh, op. cit., pp. 103-126.

Heng Pek Koon; 'The Chinese business elite of Malaysia', in Ruth McVey (Editor) Southeast Asian Capitalists, Cornell University, USA 1992, pp. 128-144.

¹⁴⁷ Ibid., p. 104.

2.6 International marketing theory and concepts

Many texts and marketing journals were researched to develop a clear understanding of marketing theory and concepts that can be applied in analysing the research findings in this dissertation.

A number of product-market theories and concepts such as Product Life Cycle Theory; market segmentation including cross-classification matrix, benefit segmentation, and multiple market segmentation; brand strategies including brand extension, brand image, brand mark, and brand name; customers choice criteria; theory of comparative advantage and competitive advantage; competitive parity; concentrated marketing and differentiated marketing; product positioning strategies; elasticity of demand, and cross elasticity of demand; depth and width of product lines; marketing mix strategies, physical distribution; market entry strategies; direct foreign investment; and tariff and non-tariff barriers were reviewed.

All these concepts and theories as relevant to the marketing of dairy product lines in Malaysia will be discussed in this dissertation. Current texts on these subjects are readily available as they are standard texts for most undergraduate marketing courses¹⁴⁸.

¹⁴⁸ Assael, Henry; Marketing Principles & Strategy (First Edition), The Dryden Press, USA 1990.

Aaker, David A and Day, George S; Marketing Research, (Fourth Edition), John Wiley & Sons, Singapore 1990.

These texts are very recent and therefore incorporate current thinking in this area of study. There are also many journal articles¹⁴⁹, reports in business magazines¹⁵⁰, and reports and commentaries in

Brown, Linden; Competitive Marketing Strategy, Thomas Nelson, Melbourne 1991.

Collins, Brett A; Getting a Marketing Orientation, The Graduate School of Management, The University of Melbourne, Working Paper No. 6, March 1990.

Cravens, David W., and Woodruff, Robert B; Marketing, Addison-Wesley Publishing Company, United States 1986.

Cravens, David W; Strategic Marketing (Third Edition), Irwin, USA 1991.

Daniels, John D., and Radebaugh, Lee H; International Business Environments and Operations (5th Edition), Addison Wesley Publishing Company, USA 1989.

Hague, Paul and Jackson, Peter; Marketing Research in Practice, Kogan Page, England 1992.

Kotler, Philip et al; Marketing in Australia (Second Edition), Prentice Hall, Australia 1989.

Onkvisit, Sak and Shaw, John J; International Marketing: Analysis and Strategy (Second Edition), Macmillan Publishing Company, USA 1993.

Jain, Subhash C.; International Marketing Management (Fourth Edition), Wadsworth Inc., USA 1990.

Terpstra, Vern and Sarathy, Ravi; International Marketing, (5th Edition), The Dryden Press, USA 1991.

Zikmund, William and D'Amico, Michael; Marketing (Second Edition), John Wiley & Sons, USA 1986.

¹⁴⁹ ✓ White, David; Capturing Opportunities in Asian Food Markets, McKinsey Global Institute, Sydney 1992.

Weidenbaum, Murray; 'The Business Response to the Global Marketplace', The Washington Quarterly, Winter 1992, pp. 173-185.

Dillon, Patricia M; 'Say Hello to the Global Marketplace', Food Engineering, January 1991, pp. 81-86.

¹⁵⁰ Shoebridge, Neil; 'Goodman Gets Its Act Together', Business Review Weekly 17 July 1992, pp. 19-21.

Jarrett, Ian; 'Asia's New Snack Basket', Asian Business, January 1992, pp. 44-45.

'Plan to Double Food Export Earnings', Overseas Trading, May 1990, pp. 30-32.

Wilson, Marshall; 'Seize the Chance, Australia!', Overseas Trading, December 1992, p. 2.

newspapers¹⁵¹ on marketing and market entry strategies that provided valuable background material to this research.

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The majority of this literature, especially the text books, are generally set

¹⁵¹ Fosler, Gail; 'Going Global Aids Survival', The Australian, Wednesday 24 June 1992, p. 6.

Keniry, John; 'Food Giant's Recipe for Success', The Australian Wednesday 24 June 1992, p. 7.

Anderson, Paul; 'How We Can Cater to the Asian Palate', Australia Business Monthly, September 1992, pp. 133 - 134.

Baker, Russell; 'Goodman Fielder's Recipe for Asian success', Australian Financial Review, 30 April 1993.

Hanes, Kathryn; 'Biscuits Player Takes on Japanese', The Australian, Tuesday 1 June 1993 p. 42.

Nugent, Michael; 'Listening to the Customer Will Help Us Change Attitude', The Australian, Wednesday 10 March 1993.

Best, Paul; 'Bid to Treble Processed Food Exports to \$7 bn', The Weekend Australian, 8-9 May 1993 p. 9.

Rennie, Michael; 'Persistence Pays off for Successful Exporters', The Australian, Friday 12 March 1992 p. 10.

Roberts, Peter; 'An Innovative, Courageous Politician Bows Out', Australian Financial Review, Thursday 1 April 1992.

Dodd, Tim; 'Button Fires off Parting Shots at Big Business', Australian Financial Review, Thursday 1 April 1993.

McKanna, Guy and Burrell, Steve; 'Aust Must Lift Game or be Left Behind, says Garnaut', Australian Financial Review, Tuesday 30 March 1993 p. 5.

Doman, Matthew; 'New Ears Hear Old call on Asia', Australian Financial Review, 23 April 1992 p. 2.

Evans, Ralph; 'Austrade Plans Network of Insiders to Global Markets', The Australian, Friday 26 June 1992 p. 6.

Gill, Peter; 'Wran and the Asia-Pacific Trade Plan', Australian Financial Review, 30 April 1993 p. 16.

James, Graeme; 'Breaking Out of Commodity Trap Gives Food for Thought', The Australian, Friday 21 August 1992 p. 33.

Barratt, Paul; 'In The Real World, Bilateral Effort Will Bring Results', The Australian, Friday 12 March 1993 p. 11.

in an economically advanced and demographically Western socio-cultural environment. Adaptations to the Malaysian market environment is needed. Even here, there are a number of texts that discuss the socio-cultural aspects in marketing including covering these with particular reference to Malaysia satisfactorily¹⁵².

The thrust by food manufacturers to value add and its benefits is discussed in detail with very informative case studies by Daniel Best¹⁵³. Best suggests that increasing disposable incomes, changing consumer lifestyles, increasing emphasis on health and nutrition, and greater exposure to foods of different cultures have all contributed to significant changes in consumer attitudes to food consumption. He notes that consumers *"were willing to pay more for added-value attributes in their food products"*¹⁵⁴.

Information on food distribution channel intermediaries in Malaysia is

¹⁵² Harris, Philip R and Moran, Robert T; Managing Cultural Differences (Third Edition), Gulf Publishing Company, Houston, USA 1991.

Moran, Robert T and Stripp, William G; Dynamics of Successful International Business Negotiations, Gulf Publishing Company, Houston, USA 1991.

Business Asia, October 23 1989, p. 352.

Cooke, Ian M; Overseas Marketing from Australia, The Australian Institute of Export, Queensland 1991.

¹⁵³ Best, Daniel; 'Designing New Products from a Market Perspective,' in Food Product Development - from Concept to the Marketplace by Ernst Graf and Isreal Sam Saguy, Van nostrand Reinhold, USA 1991.

¹⁵⁴ Ibid., p. 4.

also very limited. The critical pattern and structure of retail/wholesale food distribution in Malaysia is discussed only in three sources¹⁵⁵.

These include Allen¹⁵⁶, in which there appears to be significant errors in data and information. The analysis of trade conditions and characteristics in this book are based on unexplained and unreliable market research methodology. For example, the book provides some information on the structure of food distribution outlets and trends in the retail and wholesale grocery reseller channels in Malaysia. However, the book makes statements, often inaccurate, without supporting data. For instance, the book claims that the Jaya Supermarket and the Kimisawa Group "*virtually monopolise the retail trade*"¹⁵⁷.

As is evident from other sources, nothing could be further from the truth. The supermarkets, as a whole, do not have more than 5 per cent market share by value in the total retail grocery sales¹⁵⁸. The market

¹⁵⁵ Allen, Tim et al; Sales and Distribution Guide to Malaysia, European School of Management Studies, Great Britain 1988.

Euromonitor, Retail Trade International Volume 3, Great Britain 1992, pp. 1216-1219.

Zain, Osman Md., and Rejab, Ismail; 'The Choice of Retail Outlets Among Urban Malaysian Shoppers', International Journal of Retailing, Vol. 4, No. 2 1989, pp. 35-45.

¹⁵⁶ Allen, loc. cit.

¹⁵⁷ Allen, op. cit., p. 111.

¹⁵⁸ Ngam, S.M. and Lee, E; 'Supermarkets: Battle of the Stores', Malaysian Business, Vol.16, January 1986, pp. 5-16.

is still dominated by conventional stores¹⁵⁹. In fact, Kimisawa was a highnote in the failure of supermarket operations in Malaysia.

Similarly, information on the number of wholesale outlets, number of retailers serviced and the number of retail franchisees of the government owned corporation Pernas Edar seems to be inaccurate. This company was among the resellers that were the subject of the field audit in this research. The information from the field audit suggested that this company serviced approximately 3000 retailers, had about 30 franchisees and about 20 wholesale depots. Allen reported that this company serviced 500 retailers, had 200 franchisees and had 34 wholesale depots. Data such as this can vary over time. However, the differences in the data are substantial and, therefore, raises doubts on the accuracy and sources of information contained in this book.

Trends in the development of retail outlets and exhaustive data are available in the Euromonitor report. This proves an useful source in which there was an aggregation of data from a number of sources including the Statistics Department of Malaysia.

Osman and Ismail's¹⁶⁰ article is another well researched source which provides useful data on the development and characteristics of the retail

¹⁵⁹ Euromonitor, op. cit., pp. 1216-1219.

¹⁶⁰ Osman, loc. cit.

grocery business in Malaysia. The article also provides very detailed analysis of consumer choice of retail grocery outlets on the basis of ethnic, income and education variables. This analysis provides an useful conceptual framework to develop this research to test differences in the consumer preferences for different dairy product lines based on ethnic, income and age group variables. Findings by Osman also conflicts with the information in Allen. Allen claims that as much as 60-90 per cent of supermarket shoppers in Malaysia are Chinese¹⁶¹. Research findings by Osman suggests that the majority of shoppers in supermarkets are Malays.

There are suggestions in a number of studies in different market places that there is a direct and positive correlation between a firm's export channel structure and its export performance¹⁶².

There is no secondary data on the channel intermediaries used by Australian dairy product export companies. However, experience in the market place suggests that Australian exporters almost wholly rely on importers and regional wholesalers without an extensive network of distribution channel throughout the country.

¹⁶¹ Allen, op. cit., p. 106.

¹⁶² Chan T.S; 'Emerging Trends in Export Channel Strategy: An Investigation of Hong Kong and Singaporean Firms', European Journal of Marketing, Vol. 26, No. 3 1992, pp. 18-26.

Direct Foreign Investment (DFI) is increasingly becoming an important mode of market entry. It is estimated that half of all imports and exports (foreign trade) is transacted between domestic companies and their foreign affiliates or parent companies abroad¹⁶³. There is no literature on the volume and/or value of dairy product imports by companies in Malaysia from their parent or associate companies abroad. However, a number of reports including reported comments by the Australian Trade Commissioner in Malaysia emphasise that DFI is a crucial market entry strategy for Australian exporters wanting to develop business in Malaysia¹⁶⁴.

The secondary data, especially the article by Davidson suggests that Australian companies prioritise DFI into Singapore or other East Asian destinations in preference to Malaysia. Australian investments, particularly into Singapore show a strong re-export market focus. The prospects for the Australian dairy product investments into Singapore have to be evaluated in the context of investments in the dairy products industry into these target markets. A number of sources identify Malaysia as an important destination for DFI funds in ASEAN

¹⁶³ Weidenbaum, Murray; 'The Business Response to the Global Marketplace', The Washington Quarterly, Winter 1992, pp. 173-185.

¹⁶⁴ Parkes, Joe; 'Malaysia: Moving into Overdrive', Overseas Trading, June 1990, pp. 22-24.

Beringer, Graham; 'It's no Holiday in Malaysia', Business Review Weekly, March 19 1993, pp. 60-63.

countries.¹⁶⁵

There is no data on the expansion of the dairy industry either through DFI or upgrading of existing plant sizes. However, there is data to suggest extensive European DFI into dairy industry development in the Middle East - a target re-export market for Australian dairy companies based in Singapore.

2.7 Competitor's strategy and activities

There are a select number of product market research reports particularly by the United States Government and European Community members. The article by Olscheske¹⁶⁶ is an useful model of these. There are many general reports on United States and European Community and New Zealand dairy industry activities in the market place. The London Financial Times is an useful source of information regarding this¹⁶⁷.

¹⁶⁵ East Asia Analytical Unit, op. cit., pp. 43-50.

¹⁶⁶ Olscheske, J.H.; 1990 Asian Cheese Market Research in Japan, Taiwan, Hong Kong, Project of Mid America International Agri-Trade Council, USA, August 1990.

¹⁶⁷ Blackwell, David; 'Commodities and Agriculture: Decision Expected on Future of Milk Board', The London Financial Times, 5 March 1991, Great Britain, p. 32.

Dickson, Tim; 'Churning the Cream of Cartels: Mounting Pressure to Reform the UK's Monopolistic Milk Marketing Boards', The London Financial Times, 16 August 1991, Great Britain, p. 11.

Hall, Terry; 'Commodities and Agriculture: NZ Dairy Industry 'In Good Heart' - Gloom is Lifting after the Worst Season in Decades', The London Financial Times, 28 November 1991, Great Britain, p. 36.

Jackson, Tony; 'Lotta Bottle, Little Rivalry: The Lessons of a Proposed UK Milk Market Deal', The London Financial Times, 20th November 1991, Great Britain, p. 22.

CHAPTER THREE

3 THE AUSTRALIAN DAIRY INDUSTRY

3.1 Chapter Objectives

The objectives of this chapter are to outline the importance and the strategies of the Australian dairy manufacturing industry. The strategies of individual firms will no doubt be different from that of the industry. In this chapter the general industry strategy particularly as it applies to export marketing is analysed.

3.2 Information on the Australian Dairy Industry

3.2.1 *Current Position*

The major features of the Australian dairy manufacturing industry can be summarised as follows:

a) *Important value adding industry*

Measured on wholesale turnover values, the dairy industry is Australia's third largest agricultural industry. Annual gross revenue in 1992 exceeding A\$ 4.5 billion,¹⁶⁸ approximately two

¹⁶⁸ Australian Dairy Industry Council, op. cit., p. 7.

and a half times the farmgate value of A\$ 1.7 billion¹⁶⁹. This makes the dairy industry an important value-adding rural industry. The dairy industry is the largest value adding industry among Australia's major agricultural industries¹⁷⁰. This position provides the industry considerable strength in negotiating with the Government for subsidies and other regulatory support. It is reported that " . . . *the dairy industry remains one of the most heavily assisted agricultural industries in Australia*¹⁷¹". The Industry Commission estimated that in 1988-89 the effective rate of assistance accorded to the dairy industry was 55 per cent in comparison with 9 per cent for the beef industry, 20 per cent for the sugar industry and 1 per cent for the wheat industry. The average effective rate of assistance accorded to the agricultural industry in general was only 9 per cent¹⁷², substantially lower than the effective rate of assistance accorded to the dairy industry.

¹⁶⁹ Ibid., p. 5.

Taylor, op. cit., p. 18.

Office of Trade & Investment, op. cit., p. 31.

¹⁷⁰ Idem.

¹⁷¹ Australian Bureau of Agricultural and Resource Economics; 'Submission 91.3 to the Industry Commission: Future dairy marketing arrangements', Canberra, April 1991.

¹⁷² Ibid., p. 6.

b) ***High productivity***

Australia produced 6,661,000 tonnes of cows milk in 1991¹⁷³ from a herd size of approximately 1.6 million head of cows¹⁷⁴. Australia accounts for approximately 1.6 per cent of the world's dairy product output¹⁷⁵. The average annual milk production per cow in Australia exceeds 4,000 kgs/head¹⁷⁶. The milk yields of cows in Australia has continued to improve, increasing from an average of 3,476 kgs/head in 1986 to 4,027 kgs/head in 1991¹⁷⁷. In the same period the milk yield of cows in New Zealand, Australia's major competitor in Malaysia, decreased from 3,478 kgs/head to 3,276 kgs/head¹⁷⁸. The improving milk yields in Australian farms makes the industry in Australia very efficient in comparison to major competitors.

d) ***Important export industry***

The Australian dairy industry is a major export industry. The dairy industry contributes between A\$ 600-700 million in exports sales annually. Australia has 7 per cent share in world trade in dairy

¹⁷³ Australian Dairy Corporation 1992 (a), op. cit., p. 41.

¹⁷⁴ Ibid., p. 38.

¹⁷⁵ Australian Dairy Industry Council, op. cit., p. 19.

¹⁷⁶ Australian Dairy Corporation 1992 (a), op. cit., p. 39.

¹⁷⁷ Idem.

¹⁷⁸ Idem.

products¹⁷⁹. This provides the Australian dairy industry large export volumes and therefore economies of scale in production.

e) ***Important rural industry***

The Australian dairy industry includes 15,000 dairy farms. This accounts for 12 per cent of all farms in Australia¹⁸⁰. As such, it is an important rural industry with strong lobby groups that can influence Government policy.

f) ***Low cost producer***

Compared with costs in other major dairy producing countries, Australia has among the lowest cost of production at the farm gate¹⁸¹. This is because dairy farming in Australia is based on year round grazing of cows. This results in cost savings on feed and capital investments such as for buildings to enable indoor feeding in winter. In addition, the high cost of labour and the lower productivity of labour in major producing countries provides Australia comparative cost advantage in the production of milk¹⁸².

¹⁷⁹ Taylor, op. cit., p. 20.

¹⁸⁰ Ibid., p. 18.

¹⁸¹ Ibid., p. 21.

¹⁸² Idem.

g) ***Major employer***

The Australian dairy industry employs more than 50,000 people in farms and factories. An additional 50,000 people are estimated to be employed in various supporting roles¹⁸³. As a major employer, this gives the dairy industry a strong voice in Government policy making.

h) ***Important manufacturing industry***

The dairy manufacturing industry is Victoria's largest manufacturing sector. Victoria produces 50 per cent of market (liquid) milk, 86 per cent of butter and 50 per cent of cheese in Australia. This too strengthens the industry's negotiating position with the State Government in policy matters affecting the industry.

i) ***Major exporter to Asia***

The Australian dairy industry has traditionally been a major exporter to Asia. More than 80 per cent of Australian exports of dairy products are to Asia¹⁸⁴.

¹⁸³ Australian Dairy Industry Council, op. cit., p. 7.

¹⁸⁴ Taylor, op. cit., p. 20.

Australian Dairy Corporation 1992 (a), op. cit., p. 56.

j) ***Strengths in key product categories***

Nearly 80 per cent of Australian dairy export volumes are generated from three products. The major export product categories and their share of export volume are¹⁸⁵:

Butter/butter oil	16.87%
Cheese	16.17%
Milk Powders	46.66%

3.2.2 *Threats*

a) ***Subsidised Products***

The Australian dairy industry faces the threat of trade restrictions in some markets and competition from subsidised EC and US products elsewhere.

b) ***Overproduction in major countries***

Subsidies to dairy farmers and resulting over production in major dairy producing countries have depressed world prices for dairy products. The 1970s and early 1980s were particularly difficult years as the industry felt the effects of the downturn in prices caused by substantial increase in production in EC and USA¹⁸⁶.

¹⁸⁵ Taylor, op. cit., p. 21.

¹⁸⁶ Lembit, op. cit., pp.1-2.

In the mid 1980s quotas on milk production and subsidies to reduce dairy product stockpiles in EC resulted in reduction in milk production and improvement in world prices for dairy products¹⁸⁷. However, prices fell in late 1980s. The depressed conditions due to increase in dairy product stocks in EC and other major dairy producing countries and therefore expanded export subsidies are forecast to continue into 'the early 1990's (Appendix 4)¹⁸⁸. As such, no significant improvement in dairy product prices is forecast in the short term¹⁸⁹. It is reported that the world market prices for dairy products react to a supply response and not to demand responses. This is illustrated by the example of how a 1 per cent increase in production in 1988-89 in EC contributed to a fall in world prices for dairy products by 25 per cent¹⁹⁰.

c) ***Competition from new entrants***

The emergence of new exporters particularly Eastern European countries such as Poland and the Czech and Slovak republics are expected to depress world dairy product prices. Dairy products from Eastern European countries have started to enter the world

¹⁸⁷ Idem.

¹⁸⁸ Lembit, op. cit., 1-2, & 7.

¹⁸⁹ Clark, op. cit., p. 18.

¹⁹⁰ Ibid., p. 18.

market at very low prices¹⁹¹. Poland, for instance has moved from being a net importer of butter to becoming a net exporter of butter and milk powder. Poland sells butter in the international market at approximately US \$ 900 a tonne, compared to the general average world price of US\$ 1,600 a tonne¹⁹².

The reunification of Germany is expected to result in East German farmers being allocated quotas in EC leading to increase of EC milk stocks¹⁹³.

d) ***Competition in domestic market***

Imports from New Zealand, particularly now with the full implementation of the Closer Economic Relations (CER) Agreement is another threat to the Australian dairy industry. In 1988, the Commonwealth Government announced accelerated changes to the CER Trade Agreement with New Zealand. This created further apprehension in the industry about its capacity to withstand competition from New Zealand. A Victorian Government Strategy Group for instance, recommended the continuation of domestic price support for manufactured milk.

¹⁹¹ Lembit, op. cit., p. 2.

Clark, op. cit., p. 18.

¹⁹² Lembit, op. cit., p. 18.

¹⁹³ Lembit, op. cit., p. 2.

The rationale for this recommendation was that the lack of any export capacity in the Australian industry will give New Zealand a far wider scope for its pricing strategies in the Australian market¹⁹⁴. Imports from New Zealand particularly cheese and wholemilk powder has been steadily increasing. By 1991/92 New Zealand's volume market share in cheese increased to 8 per cent. Australia also imported 4,200 tonnes of wholemilk powder from New Zealand in 1991/92¹⁹⁵.

e) ***Dairy substitute products***

Competition from dairy substitutes such as margarine, soy based alternatives to milk, imitation cheese and artificial butter flavourings are also threatening the viability of the Australian dairy industry. For example, in 1991/92 sale of margarine increased 1 per cent whereas sale of butter and butter blends decreased 3 per cent¹⁹⁶.

¹⁹⁴ Sullivan, op. cit., p. 2.

¹⁹⁵ Australian Dairy Corporation 1992 (b), op. cit., p. 14.

¹⁹⁶ Ibid., p. 14.

f) ***Diminution in consumer perception***

It appears that there is growing diminution in perception among Australian consumers of dairy foods as important and valid components of a balanced diet¹⁹⁷.

g) ***Threat from private labels***

Concurrent with worsening economic conditions in Australia during the period 1988-1993, the sale of private labels of dairy products increased¹⁹⁸. Private labels are marketed on price competitiveness. It, therefore, becomes difficult to develop a brand market profile for Australian dairy products.

3.3 An analysis of Australian dairy industry strategies

The dairy industry has lobbied the Government for regulating trade in dairy products and for the provision of incentives for exports. The industry claims that these concessions are necessary to counteract the pressures of over production and the trade practices of competing dairy producing countries. The Government has responded through several industry studies and plans. The major recent Government initiative in this direction was the Dairy Produce Act 1986, commonly referred to as the Kerin Plan¹⁹⁹.

¹⁹⁷ Australian Dairy Corporation 1992 (a), op. cit., p. 16.

¹⁹⁸ Bonlac Foods 1992, op. cit., p. 9.

¹⁹⁹ Australian Bureau of Agricultural and Resource Economics, op. cit., p. 21.

The industry adopted the Kerin Plan. The Kerin Plan is based on domestic manufacturing milk price support and market support payment system on exports. The support level was set at the New Zealand import parity price²⁰⁰. The Kerin Plan ended in June 1992. An industry commission inquiry into the Australian dairy industry that recommended the removal of industry support schemes when the Kerin Plan ceased was not accepted by dairy industry associations such as the Australian Dairy Products Federation²⁰¹. As a result of strong lobbying by the Australian Dairy Products Federation, the Commonwealth Government was persuaded to temporarily retain industry support schemes²⁰². However, the new marketing arrangement reduces market support from 30 percent under the Kerin Plan to 22 per cent initially. This is gradually phased down to 10 percent by the end of the new arrangement in the year 2000²⁰³.

The industry's main focus appears to be the Australian domestic market where the strategy is to have competitive edge against imports from New Zealand and maximise returns from the sale of market (liquid) milk. Sale of market milk is developed through promotion, advertising and product line extension such as the introduction of speciality milk

²⁰⁰ Australian Dairy Products Federation, op. cit., pp. 1-2.

²⁰¹ Ibid., p. 7.

²⁰² Australian Dairy Industry Federation, op. cit., p. 7.

²⁰³ Australian Dairy Industry Council, op. cit., p. 9.

(example: calcium enriched milk). The sale of market milk in Australia has increased rapidly²⁰⁴.

Dairy farmers seem to support the removal of price controls in the industry. For example in 1985, following non approval by the Government of price increase for domestic market milk for eighteen months, dairy farmers blockaded milk deliveries to processors. The Government commissioned an arbitration by Mr Justice Robinson. The Robinson Report recommended a phased but wide ranging deregulation of the dairy industry including pricing and zoning regulations at the retail and wholesale levels²⁰⁵. However, price controls at the wholesale and retail levels and restrictions on the free movement of milk between states continue to be enforced by the Government.

States have generally reacted strongly to cheaper milk coming from inter State for processing. This was evident in the 'Midland Milk Crisis' in the period 1986-1987. Conflict developed between Victoria and New South Wales when Midland Milk Company threatened to trade milk into Sydney using raw milk purchased at lower than the statutory price²⁰⁶.

²⁰⁴ Victorian Dairy Industry Authority, op. cit., p. 6.

²⁰⁵ Sullivan, op. cit., p. 2.

²⁰⁶ Ibid., p. 2.

Australia's milk production increased in 1991 because of improved yields and the over capacity generated through larger dairy herds because of the trend towards higher world prices in the mid 1980s²⁰⁷. These trends in the dairy industry are highlighted in Table 3. However, there were shortages of manufacturing milk in some states such as New South Wales and Western Australia. In 1991/92 milk prices again increased because of production shortfalls in other countries (EC, Eastern Europe) and the fall in the value of the Australian dollar that contributed to increased exports²⁰⁸.

The Australian dairy manufacturing industry is rationalising its operations through mergers, alliances and joint ventures between inter-state companies as a strategy to improve its competitive position²⁰⁹. The industry is dominated by some major producers such as National Foods Limited, Bonlac Foods, Murray Goulburn, Nestles and Kraft Foods. Other than Nestles and Kraft Foods, major dairy companies in Australia are Australian owned. Nestles and Kraft are Australia's major exporter of dairy products. This may be because these multi-national companies

²⁰⁷ Lembit, op. cit., p. 3.

²⁰⁸ Bonlac Foods, op. cit., pp. 6-7.

Murray Goulburn Cooperative Limited, op. cit., p. 2.

²⁰⁹ Bonlac Foods, op. cit., p. 4.

Australian Dairy Industry Council 1992, op. cit., p. 5.

have developed a brand position in export markets and are represented there through subsidiary and associate companies.

TABLE 3: TRENDS IN THE AUSTRALIAN DOMESTIC DAIRY INDUSTRY²¹⁰

	Unit	1987-88	1988-89	1989-90	1990-91
TOTAL MILK	ML ^a	6,127	6,291	6,262	6,310
-market	ML ^a	1,668	1,695	1,695	1,700
-manufacturing	ML ^a	4,459	4,596	4,566	4,610
Dairy Cows(numbers)	'000	1,697	1,683	1,637	1,604
Milk yields	L/cow ^b	3,610	3,736	3,825	3,934
MANUFACTURED PRODUCTS					
-Butter	kt ^c	94	96	106	100
-Cheese	kt ^c	176	191	175	185
-Wholemilk powder	kt ^c	64	68	56	55
-Skim milk powder	kt ^c	120	119	113	120
RETURNS TO FARMERS					
-Manufacturing Milk	c/L ^d	19.3	23.2	24.4	21.9
-Market milk	c/L ^d	36.2	37.9	39.7	40.5

●^a LITRES ('000)

●^b KILO TONNES

●^c LITRES/COW

●^d CENTS/LITRE

The major Australian dairy companies are often the result of the amalgamation of smaller co-operatives²¹¹. The rationale of most of

²¹⁰ Lembit, op. cit., p. 3.

²¹¹ Riddell Information Services 1992, op. cit., pp. 87, 88, 303, 471, 503 519.

Riddell Information services 1991, op. cit., pp. 75, 84, 112, 318, & 426.

Australian Marketing Publications & Services, op. cit., pp. 90, 149 & 220.

these amalgamations was that the formation of larger companies will result in economies of scale and will improve the competitive position of the companies both domestically and internationally. Sometimes, the shortage of market milk hastened rationalisation of operations and amalgamations²¹².

The Australian dairy industry depends on several dairy industry organisations to regulate and co-ordinate the operations of the industry in Australia. These include the Australian Dairy Corporation, Australian Dairy Farmers Federation, Australian Dairy Products Federation, the Australian Dairy Traders Federation and the Market Milk Federation of Australia. Several other Government departments such as the Department of Agriculture and the Department of Primary Industry also co-ordinate and control dairy industry operations²¹³.

Even among these dairy industry organisations, rationalisation of operations is occurring. During 1992 for example, the Australian Dairy Traders Federation and the Australian Speciality Cheese Producers Committee merged with the Australian Dairy Products Federation.

²¹² Lembit, op. cit., p. 3.

²¹³ Australian Dairy Industry Council; 'Dairy Australia: Strategy for the Future', December 4 1991.

'Dairy Industry Organisations', Resource Material (RAB:RB:79/50), Gilbert Chandler Institute of Dairy Technology, Australia 1979, pp. 1-13.

Donnelly, op. cit., pp. 39-41.

Gibson, op. cit., pp. 23-38.

Discussions between the Australian Dairy Products Federation and the Market Milk Federation are underway to merge the operations of these two organisations²¹⁴.

Statutory organisations such as the Australian Dairy Corporation and the Victorian Dairy Industry Authority through their marketing and promotional programs have played an important strategic role in meeting threats facing the industry. Review of their Annual Reports and other literature suggest a pre-eminent focus on promotional activities in the domestic market where dairy substitute products are popular because of diminution in the perception of dairy products as an essential component of Australian diet²¹⁵.

The Australian dairy manufacturing industry appears divided on whether it should concentrate in the domestic market, increase exports of bulk commodities or seek niche markets for value-added and branded manufactured dairy products. The prevailing view is that exports, particularly to Asia, should be the strategy²¹⁶. The Australian Dairy Corporation is preparing a profile of the various Asian market opportunities to define target markets for more detailed research²¹⁷.

²¹⁴ Australian Dairy Products Federation Inc., op. cit., pp. 2-3.

²¹⁵ Victorian Dairy Industry Authority, op. cit., pp. 6-9.

²¹⁶ Bonlac Foods, op. cit., pp. 3-4 and p. 6.

²¹⁷ Australian Dairy Products Federation, op. cit., p. 9.

3.4 Weakness of the Australian dairy industry

The Australian dairy industry is highly regulated, protected, not diversified internationally nor segmentally within markets and is not diversified on product category basis. The weaknesses of the industry include:

a) *Lack of geographical market diversification*

As explained in 3.2.1 (i) more than 80 per cent of Australian dairy exports are to Asia. This is concentrated in some major destinations such as Japan, Philippines, Singapore, Thailand and Malaysia²¹⁸. This contrasts with the dairy industry in New Zealand. The New Zealand dairy industry has the following geographical market spread:²¹⁹

REGION	SALES (%)
North America, Europe, Japan, Australia and South Korea	47
Latin America, Africa and Middle East	26
Asia (excluding Japan and S. Korea)	22
Russia	5
TOTAL	100

²¹⁸ Australian Dairy Corporation 1992 (a), op. cit., p. 56.

²¹⁹ Dobson, William D; 'The Competitive Strategy of the New Zealand Dairy Board, Agribusiness, Vol. 6 No. 6 , p. 548.

b) ***Overdependence on a limited product sales mix***

Australia has dominant market share for a few products in Asia. It has 80 per cent market share of Skim Milk Powder (SMP), 75 per cent market share of Butter/Anhydrous Milk Fat (AMF), 42 per cent market share of Whole Milk Powder (WMP), 73 per cent market share of Cheese²²⁰. Most of these exports, other than cheese of which nearly 75 per cent was exported to Japan²²¹, are bulk WMP, SMP and butter oil for supply to the industrial market segment²²².

Australia is, therefore, nearly not represented in the branded consumer pack and the food service product lines. In contrast, approximately 35 per cent of NZDB's exports are branded consumer and specialised (non bulk) products²²³. This concentration on the exports of bulk commodities has exposed the industry to the threat of subsidised exports from EC and USA.

c) ***Market Entry Strategies***

Australian dairy product companies, except for the investments by Bonlac Foods in a manufacturing plant in Singapore and

²²⁰ Australian Dairy Corporation 1992 (a), op. cit., pp. 53-63.

²²¹ Australian Dairy Corporation 1992 (a), op. cit., pp. 56-57.

²²² Australian Dairy Corporation 1992 (a), op. cit., pp. 58-61.

²²³ Dobson, op. cit., p. 544.

Bangladesh²²⁴, Ausdairy's investments in a plant in Thailand²²⁵ and the recent investment of Associated Dairies in a plant in China²²⁶ have no investment in processing and/or packaging facilities overseas. In contrast, NZDB has 11 companies in Asia alone. NZDB has processing and/or packaging operations in Singapore, Malaysia, Indonesia, Philippines, Thailand, Taiwan, Hong Kong and Sri Lanka²²⁷

3.5 Opportunities for the Australian dairy industry

a) *Strong base to develop sales*

The Australian dairy industry has considerable experience in Asia because of the long historical presence in the market. Although the industry has not succeeded in developing the sale of branded value added dairy products, the lack of success in this area and the falling market share in some markets should alert the industry to the need for change in its strategies. This places the Australian industry at an advantage in comparison to new entrants to the market.

²²⁴ Bonlac Foods, op. cit., pp. 8-9.

²²⁵ Australian Dairy Corporation 1991, loc. cit.

²²⁶ Webb, Richard; 'Associated Dairies raises \$3.45m', Australian Financial Review, 24 April 1993, p. 29.

²²⁷ Dobson, op. cit., p. 545.

b) ***High growth markets***

The high economic growth in Asia and the concurrent demand for more varied food products, and the Commonwealth and State Government food export initiatives should assist the Australian dairy industry. The Australian Government provides incentives and support the export development of value added food products. The Agri-Foods strategy statement announced by Senator Button and Simon Crean included several measures to facilitate export of food products²²⁸. This strategy is being carried out by the Agri-Food Council. The A\$ 5 million 'Clean and Green' campaign announced by the Agri-Foods Council, for example, should enhance Australia's image as a supplier of clean and high quality food products²²⁹.

The ADC's 'Australian Dairy Mark Program' is a strategy at generic promotion directed at informing customers of the health and nutritional benefits of dairy products in comparison with dairy substitutes²³⁰. It is also a strategy at promoting a quality image of Australian dairy products. Reports by the ADC suggest that

²²⁸ Departments of Industry, Technology & Regional Development and Primary Industries and Energy, 'Briefing Note on the Agri-Food Industries Strategy and the work of the Agri-Food Council', Agri-Food Council Secretariat, Canberra, June 1993.

²²⁹ Fabian, Garry and McGregor, Ken; 'Canberra in - At Last', Food Manufacturing News, September/October 1992, p. 13.

²³⁰ Australian Dairy Corporation 1992 (b), op. cit., p. 12.

the recall rate of the mark/brand image in Australia is high²³¹. The extent to which the Dairy Mark is used as a promotional strategy in Malaysia cannot be discerned from available secondary sources. However, it is a promotional strategy that can be useful in Malaysia where dairy substitutes such as margarine and soy milk are popular in some segments of the market.

c) ***Negative perception of products from competitors***

Australia is generally perceived in Asia as a developed economy with very high and rigorous standards in food production and processing. Anecdotal evidence suggest that Australia is perceived as having an educated and discerning domestic market with strong consumer groups who monitor the nutritional quality and hygiene in food production.

The Chernobyl nuclear disaster in Russia and reported contamination of agricultural and dairy products in Europe also meant that food products, particularly dairy products from the United States, New Zealand and Australia were preferred to imports from Europe. The report 'NSW Processed Food Development Strategy' for instance forecasts that the perception of Australia as a fresh and clean environment provides an

advantages in the export market²³². Although this may not provide the Australian industry with any particular competitive advantage over New Zealand, it is still a competitive edge over other major producers in Europe.

3.6 Major Australian dairy product manufacturers and processors

Total milk production in Australia has stabilised at approximately 6,300,000 litres²³³. The undermentioned 20 companies process 90 per cent of the total milk output in Australia²³⁴ making them the most important dairy manufacturing companies in Australia.

²³² NSW Processed Food Task Force, op. cit., p. 3.

²³³ Australian Bureau of Agricultural and Resource Economics, op. cit., p. 11.

²³⁴ Dairy Research and Development Corporation, Portfolio Balance Workshop #1, Travelodge Hotel, Melbourne 1992.

<u>Company</u>	<u>Milk intake ('000 Litres)</u>
Murray Goulburn Cooperative	1,330
Bonlac Foods Limited	1,281
Kraft Foods Limited	443
Allowrie Foods Limited	365
Queensco Unity Dairyfoods Limited	277
Nestles (Australia) Limited	264
Australian Cooperative Foods Ltd.	220
United Milk Tasmania Ltd.	205
Tatura Milk Products	174
Dairy Vale Cooperative Ltd.	149
Farmers Union	148
Warrnambool Cheese and Butter Factory Co.	144
Norco Cooperative Ltd.	138
Wesfarmers Cooperative Ltd.	118
Bega	97
Atherton Tablelands Cooperative	89
United Dairies	84
Peters Ice Cream	78
South Coast and Warwick Cooperative	76
Frencheese	66
Others	554
TOTAL	6,300

CHAPTER FOUR

4 AN OVERVIEW OF THE MARKET

4.1 Chapter Objective

The objectives of this chapter are to,

- 4.1.1 Briefly trace the historical and economic policy background in Malaysia.
- 4.1.2 Outline and discuss contemporary economic data and issues on Malaysia.
- 4.1.3 Describe the current and projected demographic and socio-economic profile of Malaysia.
- 4.1.4 Describe and analyse the features, characteristics and trends in the retail, wholesale and food distribution channels.

4.2 Rationale

The objective of identifying the above characteristics are to understand the factors that influence demand for dairy products in Malaysia. Research in other markets suggest that socio-demographic, economic and cultural factors influence the consumption of food products²³⁵.

The international market for food products is characterised as having undergone several phases of demand. For example, the 'Youth Revolution', a phase of significant purchasing power among children and young adults was the feature in several Western countries in 1960s and

²³⁵ Best, *op. cit.*, pp. 16-26.

1970s. In the 1980s the purchasing power of young, single professionals ('Yuppies') and families with two income adults grew rapidly. In the 1990s the trend in most Western countries have been the aging population and consequently the growing importance of niche markets in this segment. It is important to recognise these changes as factors such as flavour, texture, preparation attributes, packaging graphics and distribution channels will all have to match the demographic profiles of the market²³⁶.

4.3 Historical and Policy Background

4.3.1 *Administrative Structure*

Malaysia is a federation of thirteen (13) states, of which eleven are in the Malay Peninsula (West Malaysia) and the other two states collectively called East Malaysia are in the northern part of Borneo.

West Malaysia is often discussed as two distinct regions, namely the East Coast and the West Coast. The two regions are separated by the Main Range that runs through the centre of the peninsula.

East and West Malaysia are separated by 400 miles of the South China Sea.

²³⁶ Ibid., pp. 16-26.

The states that make up the Federation are:

West Malaysia

- a) The west coast is made up of the following eight (8) states:
Perlis, Kedah, Province Wellesley, Perak, Selangor, Negeri Sembilan, Melaka, and Johor.
- b) The east coast is made up the following three (3) states:
Kelantan, Trengganu, and Pahang.

East Malaysia

- c) East Malaysia is made up of the two states Sarawak and Sabah in Borneo.

4.3.2 Historical Background

Historically the Malay peninsula was a transit zone for maritime commerce between China and India²³⁷. From as early as 600 BC traders and explorers from South India were in contact with the Malay peninsula²³⁸. 'Indianized' states with concepts of monarchy, social order, urban planning, religion and literature were widespread in the Malay peninsula until one thousand AD²³⁹. Hindu influence remains significant in Malay customs and language.

²³⁷ Marcus, op. cit., p. 55.

²³⁸ Dixon, op. cit., p. 42 citing Wheatley in South East Asia in the World Economy.

²³⁹ Ibid., p. 43.

The next influence Islam, was introduced into the peninsula by Indian traders from Gujerat and Bengal in the seventh century AD²⁴⁰. Subsequent Islamic influences from the Middle East and Southern India also had significant impact on the culture of the Malays. Islam spread rapidly in the Malay peninsula in the fourteenth and fifteenth century AD²⁴¹.

From the 1830s British influence began to expand in the Malay peninsula²⁴². By 1914 the British had established a *'varied and complex pattern of control over the entire present day Malaysia'*²⁴³. Economic activity was concentrated in present day West Malaysia²⁴⁴.

Chinese mining activity and migration to work in the tin mines started in the mid 1840s in areas such as Larut that had been acquired by the British ²⁴⁵. From the 1890s there was a gradual expansion of British plantation interests²⁴⁶. With the development of plantations there was large migration from Southern India to work in the plantations.

²⁴⁰ Ibid., p. 45.

²⁴¹ Idem.

²⁴² Ibid., pp. 69-71.

²⁴³ Ibid., p. 75.

²⁴⁴ Idem.

²⁴⁵ Ibid., pp. 74-75.

²⁴⁶ Ibid., p. 103.

British colonialism resulted in the introduction of Western education, the British model of law and administration and the introduction of the Westminster model of multi-party parliamentary system of government at independence.

4.3.3 Economic and Public Policy Background

From the colonial period up to the mid 1980s, the Malaysian economy was largely dependent on primary products. The only significant change was the widening category of primary commodities produced. The main primary product commodities produced by Malaysia are tin, rubber, cocoa, palm oil, tropical woods, petroleum and natural gas.

Malaysia has traditionally being a relatively wealthy country because of good natural resource endowments. However, studies by Kravis et al using the Atkinson inequality index have concluded that Malaysia has the most significant inequality in income distribution among the Pacific Basin developing countries²⁴⁷.

²⁴⁷ Kravis, Irving, Robert, Summers, and Heston, Alan; 'International comparisons of real product and its composition', Review of Income and Wealth, No.1 (March) 1988.

Income distributional issues especially as it pertains to the wealth and incomes of the three major ethnic groups (Malay, Chinese and Indian) are central to Malaysian economic and social policy²⁴⁸.

There have been substantial economic policy changes since 1969. Many of these changes are a result of earlier policy initiatives at macro economic reforms. These changes influence trade opportunities and business and investment decisions into Malaysia. These are discussed in a later section of this chapter.

4.4 The Contemporary Economic and Policy Issues

4.4.1 *Gross National Product*

Malaysia has been characterised by high economic growth rates²⁴⁹. Real Gross Domestic Product (at constant 1978 prices) grew at an average of 9 per cent for the period 1988 to 1991²⁵⁰. This is among the highest growth rates in the world for the last four successive years.

²⁴⁸ Marcus, *op. cit.*, p. 56.

Crouch, Harold; 'Malaysia Neither authoritarian nor democratic', in Southeast Asia in the 1990s: Authoritarianism, Democracy & Capitalism, Hewison, Kevin *et al* (Editors), Allen & Unwin Pty. Ltd, Australia 1993.

²⁴⁹ Economic Research Department, *op. cit.*, p. 16.

²⁵⁰ East Asia Analytical Unit, *op. cit.*, p. 16.

The Gross National Product (GNP) in 1991 at constant 1978 prices grew by 8.2 per cent to MR\$ 82.2 billion (A\$ 48 billion)²⁵¹. The GNP is forecast to grow to MR\$ 97.2 billion (A\$ 57 billion) by 1993. The per capita GNP at current prices is forecast to increase from the 1991 level of MR\$ 6,796 (A\$ 4, 000) to MR\$ 8,318 (A\$ 4,900) by 1993.

With a GDP of A\$ 67 billion (at constant 1978 prices) in 1991, Malaysia has the third highest GDP in the ASEAN region. Only Indonesia (GDP A\$ 166 billion) and Thailand (A\$ 131 billion) which have much larger populations are larger economies in ASEAN²⁵².

Some studies claim that the rapid economic growth in ASEAN countries is spawning a burgeoning middle class with growing disposable incomes²⁵³. This affluence is more obvious in Malaysia than in other countries in ASEAN. It is forecast that by the year 2020 Malaysia will reach OECD levels of affluence²⁵⁴. There is less evidence of income disparity in Malaysia than in countries such as Indonesia or Thailand.

²⁵¹ Ibid., p. 16.

²⁵² Ibid., p. 12.

²⁵³ Idem.

Prime Minister's Science and Engineering Council; Food Into Asia: The Next Steps, Office of the Chief Scientist (Department of Prime Minister and Cabinet), Australian Government Publishing Service, Canberra 1994, pp. 3-6.

²⁵⁴ Ibid., p. Xli

Even a casual visitor to ASEAN can observe the generally higher standards of living in Malaysia compared with Indonesia or Thailand.

This observation contradicts the Atkinson study²⁵⁵. However, the Atkinson study used 1973 data for Malaysia whereas data for other countries were from much later periods. For example, 1976 data were used for Indonesia and 1975/76 data were used for Thailand.

Improvements in income and living standards in Malaysia is most significant among the indigenous Malays who, because of their disproportionate concentration in subsistence farming, had lower per capita incomes than the Chinese and Indians²⁵⁶.

The ethnic and rural-urban income disparities in Malaysia are summarised in Table 4.

²⁵⁵ Kravis, op. cit., p. 34

²⁵⁶ Marcus, op. cit., p. 56

TABLE 4: MEAN HOUSEHOLD INCOMES IN WEST MALAYSIA²⁵⁷

GROUP	MEAN HOUSEHOLD INCOME (MR\$ per month)	POOR HOUSEHOLDS (%)
Malay	172	74
Chinese	394	17
Indian	304	8
Others	813	1
Rural Average	200	86
Urban Average	428	14
All Households	264	

Improvement in Malay incomes was most obvious with the introduction of the affirmative 'New Economic Policy' (NEP) in 1969. Among other initiatives, the NEP emphasised rural development. This is partly the result of *'political representation of rural Malay interests institutionalised in the NEP after 1969'*²⁵⁸,

The NEP resulted in substantial improvement in Malay and consequently rural poverty in Malaysia. By 1985 for example, a World Bank survey estimated that incidence of poverty in Malaysia had declined 9 per cent within 8 years. The report claimed that Malaysia had the lowest ratio of population below the poverty line in ASEAN. The summary of the results of the World Bank survey are reproduced in Table 5.

²⁵⁷ Dixon, *op. cit.*, p. 182.

²⁵⁸ *Ibid.*, p. 185.

TABLE 5: WORLD BANK SURVEY ON THE INCIDENCE OF POVERTY²⁵⁹

Country	SURVEY (Year)	RURAL*	URBAN*	TOTAL*	WORLD BANK SURVEY*
Indonesia	1976-79	51	28	47	39
Malaysia	1974-78	46	16	37	28
Philippines	1974-78	44	39	42	52
Thailand	1975-76	34	15	31	31

* % of population below poverty line

The most significant result of the NEP was the substantial improvement in the economic well being of the Malays. In 1957 Malays made up 22 per cent of the four middle class occupational categories. However, by 1990 Malay participation in these occupations had reached 48.1 per cent²⁶⁰. In 1990 about 35 per cent of the Malaysian population were classed as being engaged in middle class occupations²⁶¹.

The rural development policies of the Malaysian Government under NEP are reported to have reduced the incidence of rural poverty in West Malaysia from 58.7 per cent in 1970 to 19.3 per cent in 1980²⁶². Reduced incidence of poverty is most significant in States with large Malay populations such as Kedah, Kelantan and Trengganu (Appendix

²⁵⁹ Ibid., p. 210 citing World Bank reports.

²⁶⁰ Crouch, op. cit., pp. 142-143.

²⁶¹ Ibid., p. 143.

²⁶² Ibid., p. 149.

5). In 1976, 60-70 per cent of households in these states were classed as poor. By 1984 poor households in these States declined to 30-40 per cent²⁶³. The incidence of poverty among Malays is reported to have declined from 65.0 per cent in 1970 to 20.8 per cent in 1980²⁶⁴.

The conditions in Thailand and Indonesia are very different. In these countries, Chinese minorities and some privileged elite with political power control the economic wealth²⁶⁵.

4.4.2 *Private Consumption Expenditure*

Private consumption expenditure in Malaysia has progressively increased. Private consumption expenditure at constant prices increased from MR\$ 24,445 (A\$ 13,600) in 1980 to MR\$ 44,281 (A\$ 25,000) in 1991²⁶⁶. The trend in private consumption expenditure are shown in Table 6.

²⁶³ *Ibid.*, p. 214.

²⁶⁴ Crouch, *op. cit.*, p. 149 quoting Government of Malaysia, The Second Perspective Plan 1991-2000, Kuala Lumpur, Malaysia 1991.

²⁶⁵ 'Indonesia: The Long March', The Economist, April 17th 1993 pp. 3-18.

²⁶⁶ Economic Research Department, *loc. cit.*

TABLE 6: PRIVATE CONSUMPTION EXPENDITURE IN MALAYSIA 1980-1989 (MYR million)²⁶⁷

YEAR	CURRENT PRICES	CONSTANT PRICES
1980	26,946	24,445
1986	36,574	26,369
1987	37,764	26,913
1988	44,801	31,149
1989	53,505	36,100

Consumer prices, particularly for food products, have been relatively stable in Malaysia. The Consumer Price Index for food increased from 100 in the base year 1980 to only 131.1 in 1989, an average annual increase of only 3.1 per cent²⁶⁸. The trends in the consumer price index are shown in Table 7.

TABLE 7: CONSUMER PRICE INDEX OF WEST MALAYSIA 1986-89(%)²⁶⁹

1980 = 100	1985	1986	1987	1988	1989
FOOD	122.1	122.4	121.8	126.4	131.3
BEVERAGE & TOBACCO	152.5	155.0	165.9	168.4	170.7
CLOTHING & FOOTWEAR	120.6	121.2	121.7	124.3	126.4
RENT, FUEL & POWER	138.7	140.0	139.0	136.2	135.1
HOUSEHOLD EQUIPMENT	113.3	114.0	115.4	118.7	122.0
MEDICAL CARE & HEALTH	133.2	135.1	136.3	138.3	140.6
TRANSPORT & COMMUNICATION	123.1	123.3	126.9	135.4	144.7
EDUCATION GOODS & SERVICES	103.8	104.2	106.6	108.3	108.9

²⁶⁷ Jabatan Perangkaan Malaysia, loc. cit.

²⁶⁸ Euromonitor, op. cit., p. 1217.

²⁶⁹ Jabatan Perangkaan Malaysia 1991, loc. cit.

Analysis of the data in Table 7 show that concurrent with increased economic wealth in Malaysia, real private consumption expenditure particularly for food products has increased significantly.

4.4.3 *Economic Structure*

The manufacturing, mining and quarrying, and the services sectors are in that order the three fastest growing sectors of the Malaysian economy. In 1991 (at constant 1978 prices), the manufacturing sector grew by 13.9 per cent to MR\$ 24.3 billion (A\$ 14.29 billion), the construction sector grew by 14.6 per cent to MR\$ 3.2 billion (A\$ 1.88 billion), and the services sector grew by 10.4 per cent to MR\$ 37.3 billion (A\$ 21.94 billion)²⁷⁰. By 1991 these three sectors accounted for more than 80 per cent of Malaysia's Gross Domestic Product²⁷¹. The structural changes in the Malaysian economy are significant. From a largely primary producing economy based on tropical plantation agriculture and mining, Malaysia has transformed into a rapidly industrialising economy. Agriculture, livestock, forestry and fishing recorded a low growth rate of 0.04 per cent in 1991²⁷².

²⁷⁰ Economic Research Department, op. cit., p. 16.

²⁷¹ Idem.

²⁷² Idem.

4.4.4 *Direct Foreign Investment (DFI)*

Economic growth in Malaysia has been fuelled by DFI. DFI exceeded US\$ 1 billion annually in each of the years 1981, 1982, and 1983. From 1983, DFI declined steadily until 1987 when it reached US\$ 423 million - the lowest level in recent Malaysian history. Since 1987, DFI again steadily increased²⁷³. DFI inflows reached US\$ 1.77 billion in 1989 and US \$ 2.90 billion in 1990²⁷⁴. Among the ASEAN countries, Malaysia is the largest destination of DFI from USA, and next to Indonesia is the largest destination of DFI from Japan²⁷⁵.

DFI is a good index of the confidence of investors in the economy. High DFI inflows to Malaysia should give Australian dairy manufacturers confidence in establishing repacking, processing and manufacturing facilities in Malaysia.

DFI in manufacturing, retailing and wholesaling is recommended as an essential strategy to increase Australia's market share in the region²⁷⁶. The choice of Malaysia as a premier destination for foreign investment from Japan, Europe, North-East Asian maturing economies (Taiwan, South Korea and Hong Kong) and other ASEAN countries

²⁷³ Marcus, op. cit., p. 59.

²⁷⁴ East Asia Analytical Unit, op. cit., p. 44.

²⁷⁵ Marcus, loc. cit.

²⁷⁶ East Asia Analytical Unit, op. cit., p. 187.

particularly Singapore²⁷⁷, the synergy of Malaysia's market size to that of Australia, similarities in the legal systems of the two countries, political stability and the widespread use of English in business and commerce should make Malaysia an attractive investment proposition to Australian investors in comparison with other countries in Asia.

4.4.5 *Trade Policies*

Malaysia offers significant investment incentives aimed at developing a mixture of export promotion and import substituting regimes²⁷⁸. Notwithstanding the limitations of soil and climatic conditions, Malaysia is actively encouraging the setting up of large scale integrated food processing companies. In a recent interview²⁷⁹, Dato Sadasivam the Director General of the Malaysian Industrial Development Authority (MIDA) highlighted opportunities for new product development through combining imported and local raw materials in food production which will result in cheaper alternative products. Interestingly, he illustrated the opportunities for this through two examples in the dairy industry. Filled milk is being manufactured using palm oil fat to take advantage of the lower cost Malaysian palm oil replacing expensive imported butter

²⁷⁷ East Asia Analytical Unit, *op. cit.*, pp. 46-47.

Dixon, *op. cit.*, pp. 16-17.

²⁷⁸ Marcus, *op. cit.*, p. 61.

²⁷⁹ 'Unveiling a grab bag of incentives - Malaysia's new gameplan for its food industry', *Asia Pacific Food Industry*, Vol. 3 No 7 July 1991, AP Trade Publications Pty Ltd., Singapore pp. 27-30.

fat. Dato Sadasivam also suggested the possibility of producing cheaper milk substitute through combining dairy milk with soy milk²⁸⁰, a product category that Nestles has since introduced into Malaysia.

There is significant tariff protection for industries. The average effective rate of protection (ERP) increased sharply from minus five (-5) percent in 1965 to 173 percent in 1978²⁸¹. Estimates of ERP after 1978 are not available. However, researchers contend that the policies pursued in the 1980s have raised ERP's further²⁸².

Even in international trade policies, the peculiar ethnic balance and the income distributional issues based on ethnicity have substantial influences on policy making. There is for instance, opposition to greater tariff protection on the argument that this will only be of benefit to the non indigenous ethnic groups²⁸³.

Despite the publicity regarding intra ASEAN trade, the growth in trade between Malaysia and its ASEAN partners has not been significant. The

²⁸⁰ Ibid., p. 29.

²⁸¹ Marcus, op. cit., p. 61.

²⁸² Marcus, op. cit., p. 61 citing Kamal, Salih, Mohamed Haflah Piei, and M. Sahathavan; 'Trade Policy options for Malaysia, in Mohamed Ariff and Tan Loong-Hoe, eds., The Uruguay Round: ASEAN Trade Policy Options, Institute of South East Asian Studies, Singapore, 1988.

²⁸³ Ariff, Mohamed and Hal Hill; 'Industrial policies and performance in ASEAN's "Other Four", Paper presented at the Fifteenth Pacific Trade and Development Conference, Japan 26-29 August 1985.

share in the total imports and exports between Malaysia and its ASEAN partners is shown in Table 8²⁸⁴. The low growth in intra ASEAN trade is probably because the economies of these countries are similar and therefore competing rather than complementary in character. Based on this analysis, the researcher suggests that countries within ASEAN will not be good production bases for re-export to other countries as there is no integration in the manufacturing policies among the ASEAN countries. As such, the relaxation of tariffs under the ASEAN Free Trade Agreement (AFTA) is not expected to increase intra ASEAN trade.

The Malaysian currency (Ringgit) was floated in 1973. Malaysia allows the free repatriation of profits. These monetary and fiscal policies are attractions for the establishment of repacking, processing and manufacturing operations in Malaysia.

²⁸⁴ Marcus, op. cit., p. 65.

TABLE 8: MALAYSIA'S INTRA ASEAN TRADE

COUNTRY	IMPORTS (%)		EXPORTS (%)	
	1966	1988	1966	1988
THAILAND	1.0	2.0	7.6	3.0
PHILIPPINES	1.2	1.5	0.7	0.8
INDONESIA	n.a	2.0	7.6	3.0
SINGAPORE	n.a	19.3	n.a	13.2

4.5 Demography

4.5.1 *Population*

The population of Malaysia in 1990 was 17.3 million - almost equivalent to that of Australia²⁸⁵. By 2020 the population is forecast to increase to 26.6 million²⁸⁶. Thus, Malaysia is forecast to have an additional 9.3 million people in the next thirty years.

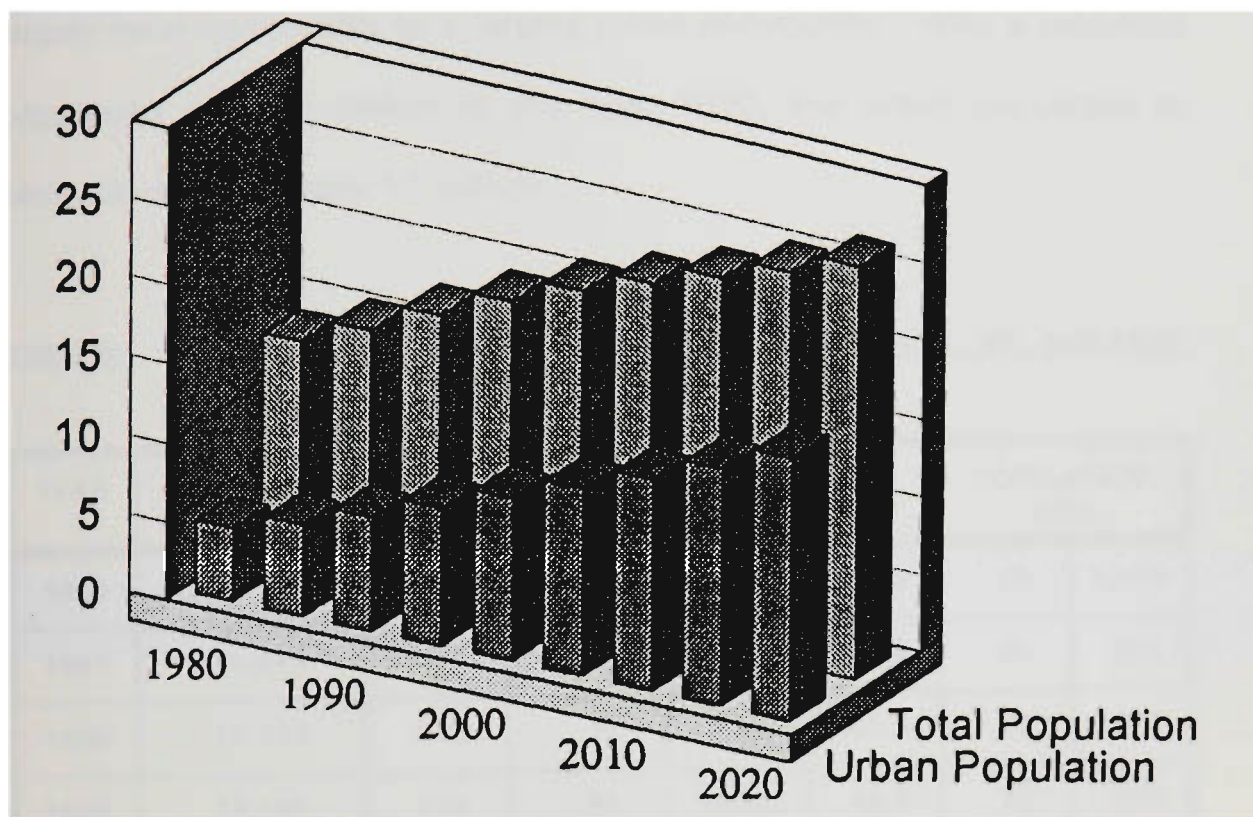
4.5.2 *Rural-Urban Divisions*

Concurrent with the structural changes in the economy, the level of urbanisation in Malaysia increased (Diagram 5).

²⁸⁵ Keyfitz, op. cit., p. 230.

²⁸⁶ Idem.

DIAGRAM 5: **POPULATION GROWTH TRENDS IN MALAYSIA**



Source: Keyfitz, N. and Flieger, W.; *World Population Growth and Aging: Demographic Trends in the Late Twentieth Century*, The University of Chicago Press, Chicago 1990, pp 230.

The pace of urbanisation in Malaysia is shown in Table 9. It is forecast that by the year 2020 Malaysia will have more than 64 per cent of its population classed as urban i.e. Malaysia will change from being a largely rural community to a largely urban community. With a projected population of 26.6 million in the year 2020, the urban population in Malaysia will be nearly 17 million.

TABLE 9: OBSERVED AND PROJECTED POPULATION DATA OF MALAYSIA
(‘000)²⁸⁷

YEAR	POPULATION	BIRTHS	DEATHS	URBAN POPULATION		POPULATION 1985	
1980	13,763	406	83	4,713	34.2	30	1,099
1985	15,448	442	86	5,905	38.2	35	897
1990	17,339	441	90	7,336	42.3	40	682
1995	19,186	419	96	8,901	46.4	45	628
2000	20,870	384	103	10,509	50.4	50	469
2005	22,320	381	115	12,072	54.1	55	400
2010	23,692	406	127	13,658	57.6	60	298
2015	25,131	422	144	15,332	61.0	65	237
2020	26,556	422	163	17,038	64.2	70+	348

The urban population of Malaysia is largely Chinese, but even this is changing rapidly as the pace of urbanisation accelerates and the NEP

policies begin to have their impact. The urban residence by ethnic groups is shown in Table 10. As is evident, already by 1970 the Malays made up nearly 30 per cent of the urban population of Malaysia.

TABLE 10: URBAN RESIDENCE BY ETHNIC GROUPS 1970 (WEST MALAYSIA)²⁸⁸

GROUP	(%)
Malay	27.6
Chinese	58.5
Indian	12.8
Others	1.1

4.5.3 *Gender Mix*

The ratio of males to females is almost equal.

4.5.4 *Age Classification*

The age group classification of the population in 1991 is shown in Diagram 6²⁸⁹. The mean and median ages of the Malaysian population is forecast to increase substantially by 2020. The trends and the forecast of the mean and median ages of the Malaysian population are shown in Table 11²⁹⁰. It appears that the average Malaysian by the year 2020 will be a young person with a family as opposed to the single new entrant to the work force that typified the Malaysian in the 1980s.

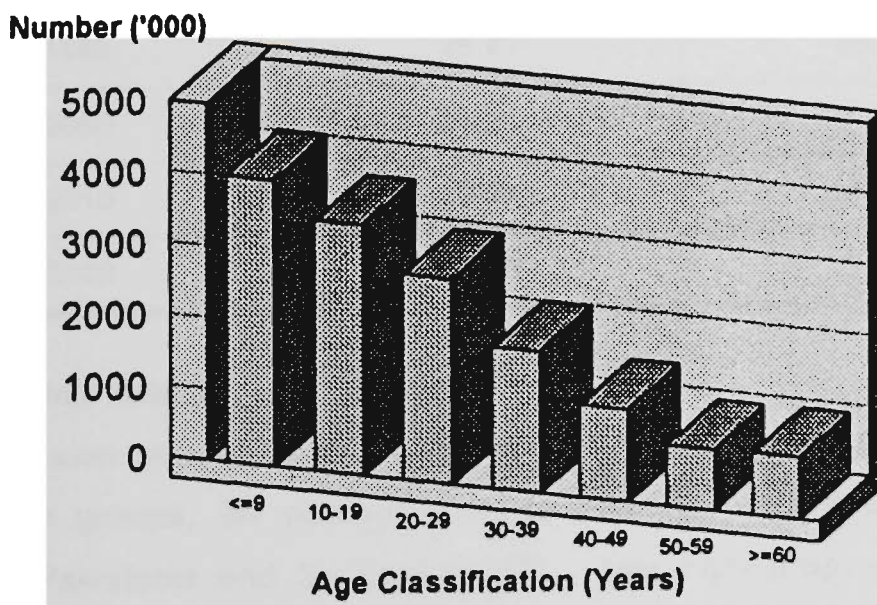
²⁸⁸ Dixon, op. cit., p. 182.

²⁸⁹ Keyfitz, op. cit., p. 230.

²⁹⁰ Idem.

Twenty six per cent of the population will be in the age group of 25-44 years. The school going population (in the age category 5-19 years) will be about 35 per cent of the population.

DIAGRAM 6: **AGE CLASS OF MALAYSIAN POPULATION IN 1991**



Source: Department of Statistics Malaysia, Yearbook of Statistics 1991

TABLE 11: CHANGES IN MEAN & MEDIAN AGES IN MALAYSIA

YEAR	POPULATION	
	MEAN AGE	MEDIAN AGE
1950	24.70	19.80
1960	22.82	17.65
1970	22.81	17.50
1980	24.08	19.67
1990	25.27	21.73
2000	27.54	24.46
2010	30.72	28.11
2020	33.38	31.85

4.5.5 *Ethnic Mix*

The Malaysian population is made up of 60 percent Malay and other indigenous groups, 30 percent Chinese and 10 percent South Asian (Indians, Pakistanis and Sri Lankans)²⁹¹. This high proportion on non indigenous ethnic groups in the population is unique to Malaysia. Other countries in the region have a more homogenous population. Malaysia has among the highest overseas Chinese (5.2 million) and overseas Indian (1.7 million) populations in the world.

4.5.6 *Social Indicators*

Other indices of economic development too position Malaysia well above other countries in the region.

²⁹¹ 'Malaysia turns dreams and visions into reality', Tradescope, Japan External Trade Organisation, Volume 12, No. 10 October 1992.

There has been substantial improvement in the number of households with electricity in West Malaysia (Appendix 5). More than ninety five per cent of households in Kuala Lumpur have electricity. Even in the largely rural States such as Kedah, Kelantan and Trengganu, 60-70 per cent of households had electricity supply in 1985 in comparison with 30-50 per cent of households with electricity supply five years earlier²⁹².

The proportion of rural households with piped or potable water rose from 39 per cent in 1970 to 73 per cent in 1990²⁹³.

There have been substantial improvements in school enrolments. Enrolment in primary school has become virtually universal²⁹⁴. The adult literacy rate in Malaysia in 1990 was 76 per cent²⁹⁵.

The infant mortality rate fell from 3.9 per cent in 1970 to 2.3 per cent in 1990²⁹⁶. This is a reflection of the improved health care facilities. Indices such as persons per hospital bed (1989 - 400:1) and persons per physician (1989 - 1,935:1) show the relatively high standard of health care facilities in Malaysia²⁹⁷. Life expectancy in Malaysia has continued to increase. Life expectancy reached 70 years in 1989²⁹⁸.

²⁹² Dixon, op. cit., p. 214 citing the Fifth Malaysia Plan 1986-1990.

²⁹³ Crouch, op. cit., pp. 134 & 149 citing Government of Malaysia, Fourth Malaysia Plan 1981-1985, Kuala Lumpur, Malaysia 1981.

²⁹⁴ Ibid., p. 149 citing Government of Malaysia, The Second Outline Perspective Plan 1991-2000, Kuala Lumpur, Malaysia 1991.

²⁹⁵ Ibid., p. 134.

²⁹⁶ Ibid., p. 149.

²⁹⁷ Ibid., p. 134.

²⁹⁸ Idem.

4.6 The New Economic Policy

4.6.1 *Policy Background*

Following the race riots of 1969, the Malaysian government launched a social engineering program called the 'Twenty-year Overall Perspective Plan'. More commonly called the New Economic Policy (NEP). The NEP was embodied in the Second Malaysia Plan of 1971²⁹⁹.

4.6.2 *Policy Objectives*

The objective of this plan was to correct the imbalance in economic wealth among the different races in Malaysia. The NEP set a target of 30 per cent indigenous Malay (Bumiputera) ownership of all commercial enterprises by 1991.

4.6.3 *Policy Implementation*

The plan was implemented through an affirmative action program that encompassed subsidies, quotas, scholarships, investment licensing and rural development.

The Malaysian Federal Government and the various State Governments also incorporated non financial public enterprises (NFPE's), *'which were intended to "hold in trust" newly acquired economic wealth on behalf of the Bumiputra until such time as they were in a position to control it themselves'*³⁰⁰. This program reached its second phase in the 1980s with privatisation of NFPE's. A Malaysian political scientist summarises the economic policies from 1980 as follows:

²⁹⁹ Japan External Trade Organisation, loc. cit..

³⁰⁰ Marcus, op. cit., p. 57.

*. . . on the whole, it can be said that economic policies from the early 1980s seek to transform Malaysia into a newly industrialised country (NIC) . . . under genuine Bumiputra capitalist entrepreneurial leadership. Most of Mahathir's economic policies seem to aim to achieve this end.*³⁰¹

4.6.4 Results

The implementation of the NEP resulted in substantial increase in the participation rate of the Malays and other indigenous communities (Bumiputeras) in commerce and the professions. It was for example, estimated that only 2.4 per cent of the share capital in limited companies in West Malaysia was owned by Bumiputeras (1.6 per cent by individual Bumiputeras and 0.8 per cent by Bumiputera corporate entities) in 1970. By 1990 the share capital of Bumiputeras in limited companies increased to 20.3 per cent (8.2 per cent by Bumiputera individuals and 12.1 per cent by Bumiputera corporate entities)³⁰².

The significance of this is that in addition to substantial overall economic growth, the per capita wealth of the Bumiputeras has grown substantially faster than the national average. This is another distinct difference between Malaysia and the other ASEAN countries such as Indonesia, Thailand and the Philippines where business is still largely dominated by the Chinese minority, and there have not been any

³⁰¹ Jumo (Editor); Mahathir's Economic Policies (2nd Edition), Insan, Kuala Lumpur 1989.

³⁰² Crouch, op. cit., pp. 144-147.

declared and strongly promoted policy to uplift the economic and educational status of the indigenous communities.

There is significant participation in business by Bumiputera owned companies, government-sponsored agencies (NFPE), Permodalan Nasional Berhad (National Equity Corporation), business interests of the Malay political party United Malay Nationalist Organisation (UMNO) and various unit trust schemes. Thus, both the market segment based on ethnic divisions and the corporate culture in Malaysia is quite different from other countries in the region where the indigenous population is still not actively involved in business.

The NEP expired in 1990. This was replaced by the 'New Development Policy'. Even under the new policy the general thrust of the NEP has been retained³⁰³. There is, however, a stronger thrust on the growth of the private sector. This will inevitably mean greater privatization of NFPE's and encouragement of private Malay businesses.

4.7 The Distributive Trades

Malaysia is serviced by a large number of very small retail outlets, *'generally comprising one or more shopholders with their relatives working as employees'*.³⁰⁴

³⁰³ Ibid., p. 145.

³⁰⁴ Euromonitor, op. cit., pp. 1217-1218.

Dairy products are generally sold through what are classed as 'Provision Shops'. There were 43,433 provision shops in Malaysia in 1980. With annual turnover of MR\$ 12.1 billion (A\$ 7.12 billion) provision shops had more than 26 per cent market share in grocery retail sales in Malaysia. In 1980, grocery retail sales in Malaysia was approximately MR\$ 3.15 billion (A\$ 1.85 billion)³⁰⁵. Euromonitor forecasts that this trend is unlikely to change. It comments,

There is no likelihood . . . that rural populations [in Malaysia] will readily abandon the small village shops and private traders with whom they have done business for years, and who [rural traders] still account for more than two thirds of all turnover away from the larger cities³⁰⁶.

Small grocery stores in rural Malaysia are dependent on sales to rural farmers on credit particularly during the pre harvest period. With rapid urbanisation and wage earning as opposed to subsistence farming members in the family, this dependence on credit from the small neighbourhood shops is forecast to decline. This is not to imply that larger supermarkets will become the dominant grocery retail outlets in rural Malaysia. The researcher forecasts that the 'minimarket' type grocery retail operations in neighbouring towns will become important to shoppers in rural Malaysia.

³⁰⁵ Ibid., p. 1217-1218.

³⁰⁶ Ibid., p. 1211.

The major form of food retail outlets in Malaysia are conventional counter service stores that sell an assortment of canned and packaged foods. With the development of planned housing estates in suburban Malaysia, 'minimarkets' are becoming an important grocery retail outlet.

Mini markets generally occupy an average floor area of 1,800 sq.feet and are operated on a self serve basis. As with conventional stores, these 'mini markets' remain family operated or sole proprietor businesses³⁰⁷.

Supermarkets are relatively new in Malaysia. It was estimated that in 1987 there approximately twelve supermarkets in sizes varying between 3,000-15,000 sq. feet in Malaysia³⁰⁸.

Annual turnover of these supermarkets in 1984 was estimated to be MR\$ 186 million (A\$ 103 million)³⁰⁹. The market share of supermarkets in retail sales value to total retail grocery sales is less than 5 per cent³¹⁰.

³⁰⁷ Md. Zain, Osman and Rejab, Ismail; op. cit., p. 38.

³⁰⁸ Idem.

³⁰⁹ Md. Zain, Osman and Rejab, Ismail; op. cit., citing Ngam, S.M. and Lee, E in 'Supermarkets: Battle of the stores' in Malaysian Business, Vol. 16, January, pp. 5-16.

³¹⁰ Refer earlier estimate based on Euromonitor report. Grocery turnover in Malaysia estimated at MR\$ 3.15 billion in 1980. Based on 10% annual growth rate, 1984 turnover is estimated at MR\$ 4.61 billion. This estimate is substantially different from that in Allen, Tim op. cit., p. 93. Allen says that 'according to manufacturers

It is obvious that the conventional stores and mini markets will continue to be the dominant retail channel intermediaries for grocery products in Malaysia³¹¹. No significant change to the structure of the retail grocery distribution trade is forecast in the medium term.

A number of factors inhibit the development of grocery supermarket operations in Malaysia³¹². These include:

- a) A complex system of wholesaling with a multitude of wholesalers and manufacturers agents represented in every town.
- b) Wages in Malaysia are generally paid monthly. As such credit sales are important. The conventional grocery stores and 'minimarkets' sell on credit.
- c) As almost all conventional grocery stores are either family owned businesses or sole proprietorship businesses with the trading premises owned by the proprietors, the operating costs of the conventional grocery stores is very small.

10-15 per cent of agrofood products are sold through 160 supermarkets dominated by three chains'.

³¹¹ Tradescope, op. cit., p. 11. Akihito Tanaka, the Managing Director of Jaya Jusco (Malaysia's largest supermarket group) says that only 30 per cent of his company's sales in Malaysia is in food products.

³¹² Bhaskaran, Sukumaran; 'The Food Distributive Trade in a Developing Economy-The Malaysian Example', Kuala Lumpur 1984.

- d) Retail and wholesale gross margins in Malaysia are very small. Retail margins average 10 per cent, while wholesale margins average 4 per cent³¹³.
- e) The maximum retail and wholesale prices of many basic grocery products such as rice, sugar, flour, cooking oil and condensed milk are statutorily controlled³¹⁴.

As discussed elsewhere in this chapter, part of the impact of the NEP has been the greater Malay involvement in business activities and the more interventionist role of the public sector. Malay entrepreneurs and the public sector corporations own and operate several modern grocery retail/wholesale and distribution operations.

This is not often obvious to a casual analyst in a region where Chinese minorities dominate economic activities almost exclusively³¹⁵. Malaysia's largest supermarket chain, the Jaya Jusco is a joint venture between the Federal Industrial Marketing Authority (FIMA) and the Jusco Corporation of Japan. The company commenced operations in 1984. In

³¹³ Bhaskaran, loc. cit..

³¹⁴ Bhaskaran, Sukumaran; Retail Market Audit, 1993.

³¹⁵ 'The Overseas Chinese, A Driving Force', The Economist, July 18th 1992, pp. 21-24.

1992 it operated four supermarkets, three in Kuala Lumpur and one in Melaka³¹⁶.

The Seven Eleven stores in Malaysia is operated by Convenience Stores, a joint venture between Antah Holdings, Innovest and Jardine Matheson.

In 1974, the large Malaysian Government owned conglomerate Perbadanan Nasional Berhad (Pernas) established a wholly owned subsidiary to wholesale grocery products. This company made significant inroads into the grocery wholesale trade very quickly³¹⁷. It opened Malaysia's first 'Cash and Carry' grocery wholesale operation. Pernas rapidly set up a national network of wholesale depots and was reputed to have about 12 percent of the grocery products wholesale trade by 1980. It is estimated by the researcher that by late 1980s, Pernas had about 20 per cent market share (by wholesale value) for some products such as milk powder, rice and sugar³¹⁸.

Privately owned supermarkets in Malaysia have generally failed. Many supermarkets such as Yuyi Supermarkets, Emporium Holdings, Irma Food Fair and Kimisawa opened by ethnic Chinese or Chinese owned

³¹⁶ Japan External Trade Organisation, op. cit., p. 11.

Allen, op. cit., p. 109.

³¹⁷ Ibid., p. 110.

³¹⁸ Bhaskaran, loc. cit.

corporations in the late 1970s failed³¹⁹. The major equity in Kimisawa and Emporium Holdings was by Multi Purpose Holdings, the investment arm of the Malaysian Chinese Association. Irma Food Fair was 90 per cent owned by the Montezuma Group, a family business of the Chinese businessman Datuk Mohammed Tan³²⁰.

Most large retail operations were also incorporated as companies in comparison with conventional retail/wholesale business in Malaysia which were generally family owned.

In the 1970s several Government and Malay owned food retail and wholesale companies commenced operations. This may have been a tacit program by the Malaysian Government because of the boycott of grocery sales to Malays by Chinese owned businesses following the race riots in 1969.

The development of large (as defined by capitalisation, number of employees, number of branches and turnover) wholesalers and retailers in Malaysia was already evident by the mid 1980s. The structure of grocery distribution business in Malaysia also showed signs of change from small family owned businesses to larger corporate chain store model by early 1980s. This was mostly spearheaded by Government

³¹⁹ Allen, op. cit., p. 109.

³²⁰ Ibid., pp. 108-109.

corporations or joint ventures between Government corporations and large multinationals. However, the grocery wholesale and retail trade in Malaysia continues to be dominated by a large number of small operators and the share of the large wholesale and retail businesses to total trade volume is still small.

The consumer choice of retail outlets in Malaysia show strong correlation to the ethnicity of the shopper. A survey by Md. Zain and Rejab found that 56 per cent of Chinese shopped in conventional retail shops and only 38 percent shopped in supermarkets. The survey found that 46 per cent of Malays shopped in supermarkets and only 36 percent shopped in conventional retail outlets. Indians showed similar preferences in choice of retail outlet as the Chinese. This study suggests a clear preference among Malay shoppers to purchase at supermarkets³²¹. Surveys such as this may have influenced the decision by the Malaysian Government to play an interventionist role in grocery retail and wholesale operations.

The survey by Md. Zain and Rejab also suggested that there was no significant correlation in the choice of retail outlets among Malaysian shoppers based on either income or education. The report, however,

³²¹ Md. Zain, Osman and Rejab, Ismail; op. cit., p. 41.

Md. Zain's findings are substantially different to statements in Allen, op. cit., p. 106. Allen claims that 60-90 per cent of shoppers at the large supermarkets are Chinese.

adds that higher income shoppers (annual incomes exceeding MR\$ 60,000) were more visible in the supermarkets³²².

4.8 Conclusion

Malaysia is a rapidly growing and modernising economy. There is strong state intervention including direct participation in business by government. However, private enterprises are actively promoted. Government programs are generally directed at promoting activities in which Malaysia has a competitive advantage. The manufacturing and service industries are Malaysia's priority sectors.

Malaysia has a liberal economic policy which provides incentives to develop processing and manufacturing operations. The country has succeeded in attracting large foreign investments.

The Government has successfully introduced an affirmative program favouring the Malays which has created a more affluent and business oriented Malay community.

³²² Ibid., p. 42.

CHAPTER FIVE

5 THE DAIRY INDUSTRY IN MALAYSIA

5.1 Chapter Objective

- 5.1.1 Discuss the size and features of the dairy industry (fresh milk and manufactured milk products) in Malaysia.
- 5.1.2 Highlight public policy in Malaysia which are of particular relevance to the dairy industry.
- 5.1.3 Discuss trends in the consumption of dairy products and the performance of dairy companies in Malaysia.
- 5.1.4 Quantify the growth in demand for dairy products in Malaysia.

5.2 Domestic Cattle & Buffalo Milk Production

Several factors were observed to inhibit the development of a sustainable domestic milk production industry in Malaysia. These included,

- a) The shortage of pastoral land. Malaysia's total land area is only 329,749 square kilometres. Flat pastoral land is scarce particularly in West Malaysia where 90 per cent of the population live. The emphasis in plantation agriculture limits pastoral land for cattle grazing³²³.

³²³ Mahendranathan, op. cit., p. 178.

- b) Extensive plantation agriculture (rubber, palm oil, cocoa) and cereal crop (rice) cultivation restrict cattle and buffalo keeping³²⁴. Plantation managers generally discourage or ban the keeping of cattle as they damage plantation crops³²⁵.
- c) The small dairy cattle population in Malaysia. The ADC estimated the cattle population in Malaysia in 1991 at 30,000 head³²⁶. This suggested that the total cattle population in Malaysia had not increased for nearly two decades. The total milk cattle population was estimated in 1977 by the Food and Agricultural Organisation (FAO) at 30,000 head³²⁷. The FAO also estimated that there were 16,000 head of milk yielding buffaloes³²⁸. Data on head of milk yielding buffaloes for the post 1977 period was not available. However, data on total domestic fresh milk availability which was estimated by the ADC in 1991 as being 25,000 tonnes, suggested that herd size had not increased significantly³²⁹.

³²⁴ Ibid., p. 178.

³²⁵ Bhaskaran, Sukumaran; Field Audit.

³²⁶ ADC Dairy Market Briefings, loc. cit.

³²⁷ Mahendranathan, op. cit., p. 176.

³²⁸ Ibid., pp. 177-178. Estimated on the basis that buffalo milk production was 11,000 tonnes, and that the average milk yield per animal was 671 kg.

³²⁹ Australian Dairy Corporation Trade and Product Balances, loc. cit.

- d) Small size dairy farm operations. The majority of dairy farms in Malaysia are based on small holder basis with 3-4 head of cattle or buffalo per farmer³³⁰. The dairy farming activity is generally to supplement the income of the farmer from other rural activities such as inland fishing, fruit cultivation and shopkeeping.
- e) The tropical climatic and environmental conditions in Malaysia are not ideal for the development of large scale dairy industry. Studies have shown that in humid tropical climates, milk yields of even imported exotic breeds of cattle drop significantly. In 1990 the milk yield in Malaysia was estimated at 1,000 litres/cow per annum³³¹ compared with 3,895 litres/cow per annum in Australia³³². As such, the average milk yield in Malaysia was only 25 per cent that in Australia.

Given these limitations, there is no comparative advantage in developing a dairy industry in Malaysia. Cheaper milk and milk products can be imported from more efficient producers such as Australia and New Zealand.

³³⁰ Ibid., p. 178.

³³¹ ADC Dairy Market Briefings, loc. cit.

³³² Dairy Compendium 1992, op. cit., p. 39.

5.3 Public Policy

The policy of the Malaysian government on dairy industry development was not clear. The ADC's 'Dairy Market Briefings' commented that the Malaysian government had strongly supported the development of domestic milk production under the New Economic Policy (NEP) initiatives³³³. Review of economic policies discussed in earlier sections in this thesis suggested that public policy initiatives in developing the dairy industry was of low priority³³⁴.

Programs for the dairy industry have been part of the rural development program aimed at improving the economic position of the predominantly Malay rural population³³⁵. The government policy was not as interventionist as in other sectors such as manufacturing, plantation agriculture, insurance, banking, rice production and food distribution. In these sectors the government had actively intervened through legislative controls, tariff incentives and operation of public sectors enterprises³³⁶. In the dairy industry, government intervention was observed to be limited to the operations of a few large farms, provision

³³³ Dairy Market Briefings, op. cit., p. 2.

³³⁴ Sections 4.4.3, 4.4.4, 4.4.5, 4.6 and 4.7 show the emphasis that the Malaysian government has shown in its economic development strategies. Manufacturing and service industries have are the priority sectors. It appears that there is greater Government intervention even in the retailing and wholesaling sectors in comparison to the dairy industry. The tax regime on the imports of dairy raw materials in Malaysia are also lower than in many other countries in ASEAN.

³³⁵ Dixon, op. cit., p. 185.

³³⁶ Noland, op. cit., p. 57.

of extension service to small scale dairy farmers through programs such as herd improvement and the establishment of centralised milk collection centres³³⁷.

As Malaysia did not have a comparative advantage in dairy production, this was a pragmatic policy. Unlike other sectors of the Malaysian economy, milk production had been a low growth sector. Milk production in 1977 was estimated at 31,000 tonnes³³⁸. In 1990 milk production was estimated at 29,000 tonnes³³⁹. Production of fresh milk was difficult to estimate as dairy farmers also sold milk directly to consumers and food service outlets. As such not all milk was sold through the milk collection centres. This resulted in production statistics of fresh milk being understated. However, it seems obvious that fresh milk production in Malaysia had not increased substantially since 1977.

The initiatives of the Malaysian government in developing dairy manufacturing operations have been more vigorous. In addition to general taxation incentives that were available to most manufacturing industries, there were several specific policies to support the dairy manufacturing industry. These included:

³³⁷ ADC Dairy Market Briefings, loc. cit.

³³⁸ Mahendranathan, op. cit., p. 178.

³³⁹ ADC Dairy Market Briefings, loc. cit.

- a) The launch of a school milk program in mid 1985. Through this program the Department of Education contracted dairy companies to supply ultra- heat treated (UHT) milk to school children at subsidised prices. By 1991 approximately 10,000 tonnes (25 per cent of total liquid retail pack milk) was sold through the school milk program³⁴⁰.
- b) Banning the import of liquid milk to Malaysia³⁴¹.
- c) Low tariff for imports of dairy raw materials such as bulk full cream milk powder, skim milk powder and butter oil³⁴².
- d) Higher border tariff rates on imports of consumer packs of dairy product³⁴³.

These policies encouraged the introduction of 'new' products, product line extensions such as UHT milk production and down-stream processing and packaging operations in Malaysia. Companies such as Nestles³⁴⁴ and NZDB³⁴⁵ expanded their operations through

³⁴⁰ Idem.

³⁴¹ Idem.

³⁴² Idem.

³⁴³ Idem.

³⁴⁴ Phoon, op. cit., pp. 20-21.

developing processing, packaging and distribution operations. It seemed that the Malaysian government encouraged investment in dairy processing and packaging operations more actively than in fresh milk production.

5.4 Dairy Product Consumption Trends

Even though data for exports of dairy products from Australia to Malaysia were available up to 1992, data on exports from Malaysia and imports from other countries to Malaysia were available only up to 1990. As such the analysis of consumption trends were based on data for the period 1970-89. For purposes of other analysis such as product and company market share, more recent secondary data and primary research findings have been used. This analysis will reflect features of the Malaysian market as at 1993.

The consumption of dairy products in Malaysia increased substantially in the period 1970-89. Comprehensive data analysis was done in an effort to reconcile often conflicting information. As discussed in the literature review, the estimates by IMES were unsubstantiated and contradicted information from other sources. The principal source of data used in this analysis is from the Food and Agricultural Organisation (FAO). As discussed in the previous section, fresh milk production in Malaysia had stabilised at around 30,000 tonnes per annum. This seemed largely due

³⁴⁵ Australian Financial Review, loc. cit.

to limitations in the physical environment and the encouragement by the Malaysian government of other sector's of the economy in which the country had greater competitive and comparative advantages.

The apparent consumption of dairy products in Malaysia were computed by deducting exports of different product categories from their respective import data. These data were computed on the basis of five year time series to smooth any changes in demand due to temporary shocks such as periodical shortages in world supply or cyclical shortfalls in demand. The results showed significant and continued increase in the consumption of dairy products in Malaysia. Total consumption increased by an average of 23 per cent per annum in the five year period following 1970-74, it increased by an average of 31 per cent per annum in the next five years 1980-84 and again increased by an average of 11 per cent per annum in the next five years 1985-89. These were very significant growth rates in the consumption of dairy products. These trends in the consumption of dairy products are shown in Table 12. As is evident in Diagram 7, there was substantial fluctuations in the consumption of different products.

TABLE 12: APPARENT ANNUAL CONSUMPTION OF DAIRY PRODUCTS IN MALAYSIA 1970-89 ('000 tonnes)³⁴⁶

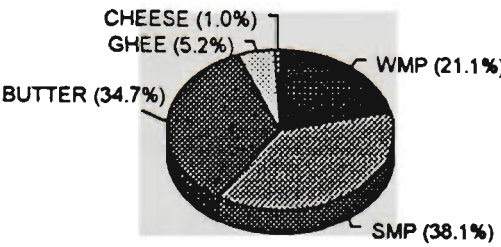
PRODUCT	1970-74	1975-79	1980-84	1985-89
WMP	13,722	33,370	59,374	39,962
SMP	24,925	17,017	11,424	38,663
SUB TOTAL	38,647	50,387	70,798	78,625
BUTTER	7,892	7,762	5,443	5,653
GHEE	1,161	735	962	1,492
CHEESE	361	403	633	881
TOTAL	48,061	59,287	77,832	86,651

5.4.1 *Milk Powder*

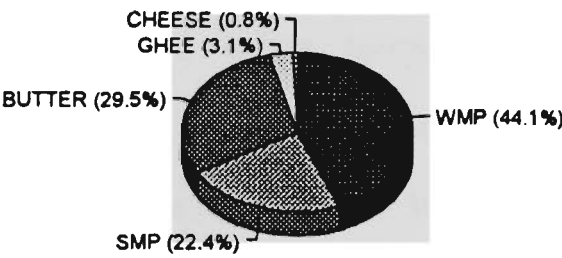
As shown in Table 12 the consumption of milk powders (SMP and WMP) in Malaysia had increased. Consumption increased by an average of more than 30 per cent per annum in the period 1975-79, by an average of more than 40 per cent per annum in the period 1980-84, and by an average of 12 per cent per annum in the period 1985-89. Consumption of milk powders, had therefore, exceeded the average rate of growth in the consumption of dairy products.

DIAGRAM 7: DAIRY PRODUCT CONSUMPTION TRENDS

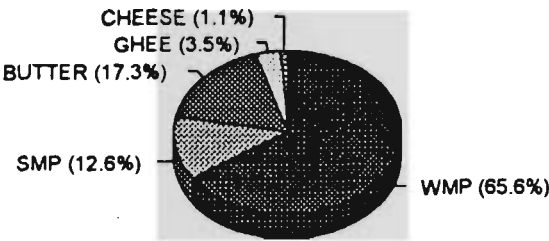
1970-1974



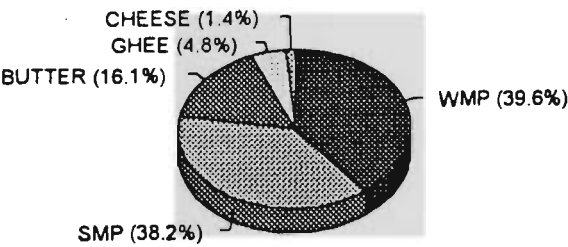
1975-1979



1980-1984



1985-1989



However, consumption of WMP declined whereas consumption of SMP increased. This seemed to be because the demand for WMP and SMP were derived demand in that these products were imported for reprocessing and/or repacking prior to domestic marketing³⁴⁷. The shift in the consumption from WMP to SMP seemed to reflect changes in demand for their derived products in Malaysia. These changes in demand for different dairy products are discussed below. Ninety-five per cent of SMP imported into Malaysia was used for recombining into liquid and concentrated milk³⁴⁸. Ninety five per cent of WMP imported was repacked as powdered milk and infant formula³⁴⁹. The apparent market share of key product lines and the product market share of different companies are shown in Table 13. WMP was imported for repacking into retail packs, for the production of infant formula and for sale to food service outlets in bulk 25 kg bags³⁵⁰. The market segments for WMP are shown in Table 14.

³⁴⁷ Dairy Market Briefings, op. cit., p. 6.

³⁴⁸ Ibid. p. 6.

³⁴⁹ Idem.

³⁵⁰ Market Audit, loc. cit.

TABLE 13: REPACKED POWDERED MILK - PRODUCT MARKET SEGMENTS & MARKET SHARE (%)³⁵¹

COMPANY	RETAIL		FOOD SERVICE
	INFANT FORMULA	MILK POWDER	
NESTLES	45	40	40
NZDB	-	25	35
DUTCH BABY	10	15	10
PREMIER MILK	-	10	15
BORDEN	-	5	-
EAST ASIATIC	35	-	-

TABLE 14: ESTIMATED ANNUAL WMP CONSUMPTION BY MARKET SEGMENTS³⁵²

MARKET SEGMENT	SALES(TONNES)	MARKET SHARE(%)
RETAIL	25,000	55
INFANT FORMULA	15,000	35
FOOD SERVICE	5,000	10
TOTAL	45,000	100

As shown in Table 15, demand for infant formula appeared to be maturing, with consumption stabilising at about 13,000 tonnes (104,000 LME). Growth in demand was less than 3 per cent per annum, comparable to the net population growth rate in Malaysia³⁵³.

³⁵¹ ADC Dairy Market Briefings, loc. cit.

³⁵² Australian Dairy Corporation Dairy Market Briefings, loc. cit. Bhaskaran, loc. cit.

³⁵³ Crouch, Harold; 'Malaysia: Neither authoritarian nor democratic', in Southeast Asia in the 1990s, Hewison, Kevin; Robison, Richard and Rodan, Garry (Editors), Allen & Unwin Pty Ltd., Australia 1993, p. 134 citing various sources computes the average annual population growth of Malaysia in the period 1982-89 as 2.5 per cent.

The consumption of milk powder had steadily increased. Annual average consumption of milk powder was 25,000 tonnes (200,000 LME).

TABLE 15: TRENDS IN THE CONSUMPTION OF WMP (TONNES)³⁵⁴

YEAR	INFANT FORMULA	MILK POWDER
1989	13,727	23,558
1990	11,589	24,230
1991	14,260	27,451

The reasons for this were not clear. Market audit suggested that aggressive promotion and the real or perceived better keeping qualities of powdered milk in comparison with liquid milk had contributed to this. Powdered milk keeps better in humid tropical climates especially when transporting from wholesale distributors to retailers and from retailers to consumers. This gives powdered milk some advantages over new products such as UHT milk³⁵⁵. This may also explain why large dairy product manufacturers such as Nestles and NZDB continued to aggressively market powdered milk³⁵⁶. The market share of the major manufacturers of powdered milk in Malaysia are summarised in Table 13. Nestles and NZDB are the market leaders. The domination by Nestles and NZDB seemed to result from their excellent distribution network, continued product innovation and the successful marketing mix strategies³⁵⁷. Both these companies used product line extension and

³⁵⁴ Idem.

³⁵⁵ Market Audit, loc. cit.

³⁵⁶ Dairy Market Briefings, loc. cit.

³⁵⁷ Idem.

differentiation strategies to maximise market penetration³⁵⁸. Nestles, for example, introduced a milk powder which is a mix of dairy and soy milk under the brand name 'Twin'. NZDB was promoting its milk products through Chinese medical halls as a health food that prevented osteoporosis. Both NZDB and Nestles were well represented in the food service segments. In Western type food outlets in Malaysia milk powder is used for making ice cream and other dairy desserts. In Asian, particularly Indian, restaurants milk powder is used for making Indian style yogurts, butter milk and dairy desserts³⁵⁹.

5.4.2 Concentrated Milk

Based on annual consumption volumes, concentrated milk was the most important dairy product in Malaysia. Concentrated milk comprised four product lines. The 1991 consumption volumes of these four product lines are summarised in Table 16.

TABLE 16: ESTIMATED ANNUAL CONSUMPTION OF CONCENTRATED MILK PRODUCT LINES³⁶⁰

PRODUCT LINES	QUANTITY (T)	MARKET SHARE (%)
FILLED CONDENSED MILK	90,000	64
FULL CREAM CONDENSED MILK	40,000	29
FILLED EVAPORATED MILK	6,500	5
FULL CREAM EVAPORATED MILK	3,500	2
TOTAL	140,000	100

358 Bhaskaran, loc. cit.
359 Market Audit, loc. cit.
360 Idem.
Market Audit, loc. cit.

Filled and full cream concentrated milk were the most important product lines. Based on the Product Life Cycle concept, trends in the consumption of concentrated milk reflected product maturity characteristics. From 1987, the apparent consumption of concentrated milk had remained approximately 140,000 tonnes (350,000 LME). Trends in the consumption of concentrated milk for the period 1987 to 1991 were as follows:

YEAR	CONSUMPTION (Tonnes) ³⁶¹
1987	135,000
1988	145,000
1989	147,000
1990	136,000
1991	148,000

However, within the concentrated milk product category, the market share of filled condensed milk had increased. Filled condensed milk is produced using cheaper vegetable fat. This product seemed to have ‘cannibalised’ the sales of full cream condensed milk³⁶². Companies such as Nestles seemed to be attempting to extend the product life cycle of full cream condensed milk through promoting its use in the preparation of dairy desserts and as a spread on toast³⁶³. The average

³⁶¹ Idem.

³⁶² Market Audit, loc. cit.

³⁶³ Bhaskaran, loc. cit.

annual consumption of full cream condensed milk was 42,000 tonnes (105,000 LME)³⁶⁴. The average annual consumption of filled condensed milk was 98,000 tonnes (245,000 LME)³⁶⁵.

The market share of major companies in concentrated milk product lines are summarised in the Table 17. Nestles was the market leader with an estimated market share of 50 per cent³⁶⁶. The dominant position of Nestles in the full cream condensed milk product line seemed to result from the excellent distribution network and good brand image of the company³⁶⁷. Premier Milk seemed to be well represented in filled condensed milk because of its excellent distribution network into the coffee shop and coffee stall segments of the market³⁶⁸. The good keeping qualities of condensed milk in the humid tropical climate of Malaysia seemed to be an important contributory reason for the extensive use of condensed milk in coffee shops and coffee stalls where refrigeration was not widespread and the standards of food handling seemed poor³⁶⁹. Demand in the coffee stall/coffee shop segment seemed to be highly price elastic because these outlets appeared to

³⁶⁴ Dairy Market Briefings, op. cit., p. 5.

³⁶⁵ Computed based on data in Dairy Market Briefings, p. 5.

³⁶⁶ Ibid., Major dairy suppliers by product category.

³⁶⁷ Market Audit, loc. cit.

³⁶⁸ Idem.

³⁶⁹ Idem.

target the lower income segment of the population. It seemed that brand loyalty was not a significant influencer in purchasing decisions of filled condensed milk in the food service segment. Marked fluctuations in the market share of different companies in this segment seemed to result from competitive price discounting and promotional activities by different companies³⁷⁰. Premier milk, the market leader in this segment is a subsidiary of Fraser and Neave (F & N) which is the largest Malaysian bottler and distributor of soft drinks such as Coca Cola, Sprite and the F & N range of mixers in Malaysia. F & N seemed to have excellent distribution network into the coffee shop and coffee stall segment³⁷¹. The market for concentrated milk seemed to be shared by two major producers specialising in different market niches because of the strength of their distribution network in the different segments.

There were no Australian companies in the concentrated milk category. This may be because of the high tariffs for the import of concentrated milk. Tariffs on concentrated milk was MR\$ 41.89 per 100 Kg. In addition there was a 5 per cent sales tax on imported concentrated milk. This increased the wholesale price of imported concentrated milk by approximately 15 per cent³⁷².

³⁷⁰ Idem.

³⁷¹ Idem.

³⁷² Dairy Market Briefings, op. cit., p. 3.

TABLE 17: PRODUCT LINE MARKET SHARE - CONCENTRATED MILK (% VOLUME)³⁷³

COMPANY	FULL CREAM	FILLED	TOTAL
NESTLES	60	45	50
DUTCH BABY	20	10	15
PREMIER MILK	-	35	30

5.4.3 Liquid Milk

The consumption of liquid milk in Malaysia was observed to be small. Approximately 50,000 tonnes³⁷⁴ (50,000 LME) of liquid milk was consumed annually. Of this, approximately 10,000 (20 per cent) tonnes was consumed through the school milk program. UHT milk was used as a substitute for condensed milk³⁷⁵. Increased ownership of refrigerators because of greater electrification, higher incomes and greater urbanisation seemed to influence changes in food consumption habits in Malaysia. Condensed milk was the common form of tea and coffee whitener and sweetener used in Malaysia³⁷⁶. In more affluent households the use of liquid milk and other 'whiteners', particularly the low fat varieties, seemed to have increased. Nestles for instance, had introduced a low fat variety of liquid milk under the brand name 'Nestles

³⁷³ Ibid., p. 5.

³⁷⁴ Idem.

³⁷⁵ Idem.

³⁷⁶ Market Audit, loc. cit.

Slender³⁷⁷. Consumption of liquid milk had consistently increased. Consumption in the period 1988-90 were as follows:

YEAR	QUANTITY (Tonnes) ³⁷⁸
1988	45,200
1989	47,100
1990	49,200

UHT milk represented 90 per cent of total manufactured liquid milk consumed in Malaysia³⁷⁹. Dutch Baby and Nestles were the major producers of liquid milk in Malaysia. Both these companies were major producers of UHT milk which was the largest product line in this category. The consumption of pasteurised and sterilised milk was observed to be small³⁸⁰. In addition to supplying milk for the school milk program, substantial sales of UHT milk seemed to be made to 'up market' catering and food service outlets³⁸¹. The major liquid milk producers and their market share in different product lines are illustrated in the Table 18. There were no Australian companies in the liquid milk

377 Idem.

378 IMES, op. cit., p. 7.

379 Market Audit, loc. cit.
Dairy Market Briefings, op. cit., p. 5.

380 Dairy Market Briefings, Major supplier by product category.

381 Ibid. p. 4.
Market Audit, loc. cit.

category as the import of liquid milk into Malaysia was banned³⁸². Consumption of manufactured liquid milk particularly in the retail consumer segment seemed unlikely to grow very rapidly in the medium term. This was because of the popularity of instantised wholemilk powder and the marketing strength of NZDB and Nestles in the WMP category³⁸³. NZDB was not represented in the liquid milk segment. Nestles main marketing effort in the manufactured liquid milk category seemed to be directed at the food service segment and a small niche market for low fat milk in the retail consumer segment³⁸⁴.

TABLE 18: ESTIMATED MARKET SHARE OF LIQUID MILK (% VOLUME)³⁸⁵

COMPANY	PASTEURISED	STERILISED	UHT	TOTAL
DUTCH BABY	60	80	50	55
COLD STORAGE	20	10	-	5
NESTLES	-	30	35	30
MALAYSIA MILK	-	-	10	5

5.4.4 *Yellow Fats*

The average annual consumption of yellow fats in Malaysia was 10,000 tonnes³⁸⁶. This product category was made up of the following three

382 Idem.

383 Idem.

384 Idem.

385 Idem.

386 Ibid., p. 7.

product lines³⁸⁷:

Butter	45 %
Anhydrous Milk Fat	45 %
Ghee	15 %

The average annual consumption of butter was 3,500 tonnes³⁸⁸ (80,000 LME). The consumption of butter was observed to have declined. This was probably because of competition from margarine³⁸⁹. Malaysia is one of the world's largest producers of palm oil and the Malaysian government encouraged the downstream processing of value-added palm oil based products. The cheaper cost of production and better storing qualities of margarine in unrefrigerated conditions were positive product attributes for sale in Malaysia. Refrigeration space particularly in retail outlets seemed to be limited³⁹⁰. Gross retail margins in Malaysia was only about 12 per cent³⁹¹. As a result of these constraints butter was not sold

³⁸⁷ Idem.

³⁸⁸ Idem.

³⁸⁹ Market Audit, loc. cit.
ADC Dairy Market Briefings, op. cit., p. 7.

³⁹⁰ Market Audit, loc. cit.

³⁹¹ Idem.

extensively in Malaysian retail outlets³⁹². Consumers seemed to generally perceive margarine and butter as substitutes. The demand for yellow fats (margarine and butter) seemed to be highly price elastic³⁹³. As a result of obvious cost advantages in the production of margarine and hence the competitive strength of local margarine producers, the consumption of butter in Malaysia had progressively declined³⁹⁴.

The average annual consumption of anhydrous milk fat (AMF) was about 5,000 tonnes³⁹⁵ (125,000 LME). AMF was largely used by the industrial segment for processing recombined milk products³⁹⁶. AMF consumption data had been aggregated with data on butter consumption thus making it difficult to analyse consumption trends of the two products.

Ghee (clarified butter) seemed to be an example of the successful marketing of dairy products in Malaysia by an Australian company. Annual consumption of ghee was estimated at 2,000 tonnes³⁹⁷

³⁹² Idem.
ADC Dairy Market Briefings, loc. cit.

³⁹³ Idem.

³⁹⁴ Idem.

³⁹⁵ Dairy Market Briefings, op. cit., p. 7.

³⁹⁶ Idem.

³⁹⁷ Market Audit, loc. cit.

Dairy Market Briefings, op. cit., p. 7.

see pg 152 for growth statistics

(52,000 LME). The Butter Producers Cooperative Federation of Queensland (BPCF) had approximately 70 per cent market share in this product line. QBB can be classed as a 'star' in a Growth Share Matrix model based on the Boston Consulting Group (BCG) Growth Share Matrix. It seemed to be the only example of the proprietary brand of an Australian company that had a large market share in a high growth market³⁹⁸. As incomes in the Indian and Malay segment of the population (the principal consumers of ghee) increased and as the Chinese segment of the population increasingly consumed Malay and Indian type foods such as 'thosai', 'murthapa', 'roti cani' and 'nasi beryani' (meals for which ghee is used), the consumption of ghee was forecast to increase and continue to have a long product life span³⁹⁹. Health attributes of the product such as the anti-cancer properties of conjugated linoleic acid (CLA) from butter fat⁴⁰⁰ were seen to impact positively on the consumption of ghee in Malaysia.

Religion and the mythology of food are important forces that drive demand for food⁴⁰¹. As illustrated in Table 11, the Malaysian population is ageing. It is estimated that by the year 2020, the mean

³⁹⁸ Refer Case Study.

³⁹⁹ Market Audit, loc. cit.

⁴⁰⁰ Daniel, op. cit., p. 15.

⁴⁰¹ Ibid., p. 16.

age of the Malaysian population will be more than 33 years⁴⁰². Anecdotal evidence suggested that there is religious revival among the Hindus in Malaysia and because of this vegetarian dietary habits were becoming popular. Milk fat, especially that derived from ghee was the principal source of protein in these ancient vegetarian societies. Ghee seemed to be used extensively in Hindu and Sikh temples for preparing meals⁴⁰³. Hindu and Sikh temples provided meals to the congregation⁴⁰⁴. The Hindu and Sikh temples were observed to be an important market for ghee in Malaysia⁴⁰⁵. The product market performance of BPCF is covered in detail in the case study (see page 184).

5.4.5 *Cheese*

The consumption of cheese in Malaysia was observed to be low⁴⁰⁶. However, with an annual increase in consumption of about 12 per cent, this seemed to be a rapidly growing product category⁴⁰⁷. The main varieties of cheese imported into Malaysia were processed cheese, cream cheese, fresh cheese and grated/powdered cheese⁴⁰⁸. There

402 Refer Section 4.9.4 on Demography.

403 Market Audit, loc. cit.

404 Idem.

405 Idem.

406 Dairy Market Briefings, op. cit., p. 8.

407 Ibid., p. 9.

408 Idem.

was no domestic production of cheese. The expansion of Western style fast food outlets such as McDonalds, Pizza Hut and Shakeys Pizza seemed to be the principal contributory reasons for the growth in sales of cheese⁴⁰⁹. The demand for processed cheese slices was observed to be greater than the demand for shredded cheese⁴¹⁰. This was because of the popularity of burgers⁴¹¹. In addition to Western fast food chains, there appeared to be a proliferation of Malay operated burger stalls. Malay burger manufacturers such as Ramli Burger seemed to show the growing Malay participation in the burger type fast food operations⁴¹². The consumption of beef burgers and, therefore, processed cheese which is used as a complementary product in burgers, was substantially higher among the Muslim Malays than among the predominantly Hindu Indians or Buddhist Chinese who do not consume beef. Demand for processed cheese in Malaysia was estimated to be growing at approximately 20 per cent per annum. The growth in consumption of cream cheese and fresh cheese was estimated to be lower,⁴¹³ at approximately 8 per cent per annum⁴¹⁴. Fresh cheese was observed to be mainly used in 'upmarket' food service outlets such

⁴⁰⁹ Dairy Market Briefings, op. cit., p. 9.

Market Audit, loc. cit.

⁴¹⁰ Idem.

⁴¹¹ Idem.

⁴¹² Idem.

⁴¹³ Dairy Market Briefings, op. cit., pp. 8-9.

⁴¹⁴ Retail Audit, loc. cit.

as hotels. The main end users continue to be Western expatriates and tourists⁴¹⁵.

High economic growth and development in tourism⁴¹⁶ suggested that the consumption of cheese would increase further.

Consumption of powdered cheese had also increased substantially. Powdered cheese was used extensively in food processing particularly in the manufacture of snack foods⁴¹⁷.

The market share of major companies for different categories of cheese are shown in Table 19. NZDB had the largest market share. NZDB displaced Kraft as the market leader in 1991⁴¹⁸. NZDB appeared to have strengthened its position through concentrating in the rapidly growing food service segment.

⁴¹⁵ Idem.

⁴¹⁶ Refer to section on Malaysian economy (Chapter 4).

⁴¹⁷ 'Moving in on the growing snack food market,' Asia Pacific Food Industry, AP Food Industry Publications Pte Ltd, Singapore, January/February 1991 Volume 3 No 1/2 pp 46-52.

'Snacks in Southeast Asia', Asia Pacific Food Industry, AP Food Industry Publications Pte Ltd Singapore, April 1992 pp 28-32.

⁴¹⁸ Dairy Market Briefings, op. cit., p. 9.

TABLE 19: CHEESE-MARKET SEGMENTS & COMPANY MARKET SHARE⁴¹⁹

COMPANY	MARKET SEGMENT(%)		TOTAL(%)
	RETAIL	FOOD SERVICE	
NZDB	60	70	50
KRAFT	35	20	30
EC BRANDS	5	10	10

5.4.6 *Yoghurt*

Yoghurt was principally domestically manufactured in Malaysia from imported milk powder⁴²⁰. The product can be categorised into cup yoghurt, drinking yoghurt and plain yoghurt⁴²¹. Set cup yoghurt was the principal category of yoghurt consumed in Malaysia. However, drinking yoghurt had become popular, and by 1991 accounted for more than 90 per cent of all retail sale of yoghurt⁴²². Consumption of retail packs of yoghurt was estimated to have increased from a few hundred tons in 1985 to 4,000 tonnes (4,000 LME) by 1990⁴²³. The estimated market share of different product lines are as follows⁴²⁴:

⁴¹⁹ Idem.

Market Audit, loc. cit.

⁴²⁰ Dairy Market Briefings, op. cit., p. 9.

⁴²¹ Market Audit, loc. cit.

⁴²² Dairy Market Briefings, op. cit., p. 9.

⁴²³ Idem.

⁴²⁴ Idem.

Cup Yoghurt	400 tonnes
Drinking Yoghurt	3,600 tonnes
Plain Yoghurt	10,000 tonnes

Three companies (Nestles, Dutch Baby and Malaysia Milk) had 85 per cent of the market for cup yoghurt⁴²⁵. The major producers of drinking yoghurt were Vitagen, Nestles and Malaysia Milk⁴²⁶. Consumption of manufactured yoghurt, especially drinking yoghurt was forecast to increase rapidly. The increasing consumption of drinking yoghurt seemed to be because of its sweet taste and its promotion as a health drink⁴²⁷.

Plain yoghurt ('Thairu'/'Dahi') was observed to be sold extensively in Indian food service outlets⁴²⁸. Consumption of plain yoghurt was estimated to be at least twice as large as manufactured yoghurt. Consumption of plain yoghurt was estimated at 10,000 tonnes (10,000 LME)⁴²⁹. WMP was observed to be reconstituted in the food service outlets using bulk 25 kg. packs of full cream milk powder⁴³⁰. The

⁴²⁵ Idem.

⁴²⁶ Idem.

⁴²⁷ Market Audit, loc. cit.

⁴²⁸ Idem.

⁴²⁹ Idem.

⁴³⁰ Idem.

food service segment thus seemed an important market for WMP in Malaysia.

5.4.7 Ice Cream

Ice cream sales in Malaysia was estimated at 15,000 tonnes (15,000 LME)⁴³¹. The major product segment was the stick and cup lines that accounted for 60 per cent of sales⁴³². Walls, Cold Storage and Premier Milk Industries were the major local manufacturers of ice cream⁴³³.

5.5 Projection of Demand for Dairy Products in Malaysia

Consumption trends for dairy products in Malaysia were forecast by the researcher using a model developed in an earlier study⁴³⁴. This model considered variables such as current consumption, forecast of growth in income, income elasticity of demand and the forecast of growth in population to project consumption trends⁴³⁵. Consumption of dairy

⁴³¹ Dairy Market Briefings, op. cit., p. 9.

⁴³² Ibid., pp. 9-10.

⁴³³ Idem.

⁴³⁴ Meyanathan S and Sivalingam G, 'Malaysia' in Anne Booth, Christina C. David, et al pp. 76-77.

⁴³⁵ Young et al., 'Implications of dairy development in Indonesia', Agribusiness, Vol. 6, No. 6. p. 566.

NOTE: In this study, the demand for dairy products in Java (Indonesia) was computed using the following model:

$$C^{t+1} = C^t (1 + e * g) P^{t+1}$$

where

- C^{t+1} = Consumption in time t
- C^t = Consumption in base year
- e = Income elasticity
- g = Annual growth rate of income
- P^{t+1} = Annual population growth rate

products in Malaysia up to the year 2020 was forecast using the following formula:

$$C_t = P_t [K_0 (1 + ge)^T] \quad \text{where,}$$

C_t = Total consumption in year t
 g = Annual rate of growth in per capita income
 e = Income elasticity of demand
 T = Number of years from base year (1990)
 K_0 = Per capita consumption in base year (1990)
 P_t = Population in year t

- a) The annual growth in per capita income was pegged at 4 per cent.

There was no reason to assume that Malaysia's economic growth and real per capita income growth will decline below an average of 4 per cent per annum in the period 1990-2020. Recent economic growth had been very high. From 1957-70, the average increase in GDP was 6 per cent. This increased to 7.8 per cent in the 1970s but declined to 6 per cent in the 1980s when the impact of world recession caused economic stagnation in 1985 and 1986⁴³⁶. The GDP growth in the 1990s had been even more impressive with growth of 9.8 per cent in 1990, 8.8 per cent in 1991 and 8.0 per cent in 1992⁴³⁷.

For purposes of providing an alternative forecast of trends in consumption, per capita income growth was pegged at 2 per cent

⁴³⁶ Crouch, op. cit., p. 140.

⁴³⁷ Department of Foreign Affairs and Trade; Quarterly Economic and Trade Review, Commonwealth of Australia, November 1993 p. 34 citing Bank Negara Quarterly Reports 1990-1993.

per annum in computing the 'Worst Case Scenario'.

- b) The income elasticity of demand for milk was pegged at 1.179 based on the study by Cheam in 1979⁴³⁸. It was assumed by the researcher that this coefficient will continue for the period 1990-2020. Consumption of dairy products in Malaysia had shown significant correlation to economic growth. For instance, absolute consumption fell dramatically in 1985 and 1986⁴³⁹ following the low economic growth in 1985 and 1986⁴⁴⁰ and increased substantially from 1988 when the economic growth in Malaysia improved⁴⁴¹. The high economic growth, increasing per capita incomes, substantially improved income distribution that has been achieved through the NEP initiatives and the forecast that these trends will continue at least up to the year 2020 influenced the researcher to assume that the income elasticity coefficient for dairy products will continue to be 1.179 for the period 1990-2020.

An alternative income elasticity coefficient of 0.8 is used for the

⁴³⁸ Cheam Soon Tee; 'Household Food Consumption Analysis in Peninsular Malaysia', as cited in Anne Booth, Christina C. David et al p. 77.

⁴³⁹ Dairy Market Briefings, op. cit., Trade & Product Balances.

⁴⁴⁰ Fifth Malaysia Plan 1986-1990, Economic Planning Unit; Government Printer, Malaysia 1991.

⁴⁴¹ Dairy Market Briefings, op. cit., Trade & Product Balances.

'Worst Case Scenario'. Young et al in a study of the dairy industry in Indonesia, had pegged the income elasticity coefficient for dairy products in Java at 0.8⁴⁴². The researchers explained that this coefficient was based on the estimates of income elasticity coefficients for dairy products in other Asian countries at similar stages of development. Per capita income in Indonesia was observed to be less than 25 per cent of that in Malaysia⁴⁴³. As such, this estimate for Malaysia was considered extremely conservative.

- c) Total consumption in 1990 was estimated at 91,000 tonnes. This was based on the average annual consumption of 87,000 tonnes in the period 1985-89 as shown in Table 12⁴⁴⁴ plus consumption of domestically produced fresh milk. Fresh milk production in Malaysia was estimated at 30,000 tonnes⁴⁴⁵. As milk powder accounted for more than 80 per cent of dairy products imported by Malaysia, domestic fresh milk production was estimated to be equivalent to the import replacement of

⁴⁴² Young et al., op. cit., p. 568.

⁴⁴³ Robison, Richard; 'Indonesia: Tensions in state and regime', in Southeast Asia in the 1990s: Authoritarianism, Democracy & Capitalism, Hewison, Kevin et al. (Eds), Allen & Unwin, Australia 1993, p. 40.

Crouch, op. cit., p. 134.

⁴⁴⁴ Dairy Market Briefings, loc. cit.

⁴⁴⁵ Mahendranathan, op. cit., pp. 175-176.

Dairy Market Briefings, op. cit., p. 2.

about 4,000 tonnes of dairy products in liquid milk equivalent (LME) terms⁴⁴⁶.

- d) The population of Malaysia in 1990 was estimated at 17.3 million⁴⁴⁷ as per Table 9.
- e) The population of Malaysia was forecast at 19.19 million in 1995, 20.87 million in 2000, 22.32 million in 2005, 23.69 million in 2010, 25.13 million in 2015, and 26.56 in 2020⁴⁴⁸ as per Table 9.

Through applying these variables, the growth in consumption and the import requirements of dairy products in Malaysia were forecast to change as shown in Tables 20 and 21 through applying different rates of increase in income and income elasticity coefficients.

⁴⁴⁶ Dairy Compendium 1991, op. cit., p. 78. The liquid milk equivalent(LME)/Kg. for the production of different dairy products are as follows:

Butter	19.88
Skim Milk Powder	11.61
Buttermilk Powder	19.88
Casein	34.33
Cheddar Cheese	9.99
Wholemilk Powder	8.14

⁴⁴⁷ Nathan, Keyfitz and Flieger, Wilhelm, op. cit., p. 230.

⁴⁴⁸ Idem.

BEST CASE SCENARIO

TABLE 20: PROJECTION OF CONSUMPTION & IMPORTS OF DAIRY PRODUCTS TO MALAYSIA (tonnes)

YEAR	CONSUMPTION	DOMESTIC PRODUCTION	IMPORT REQUIREMENTS
1995	127,000	5,000	122,000
2000	178,000	5,000	173,000
2005	240,000	6,000	234,000
2010	321,000	6,000	315,000
2015	428,000	6,000	422,000
2020	570, 000	6,000	564,000

Based on the 'Best Case Scenario', the average annual growth in demand for dairy products in Malaysia in the period 1990-2020 is forecast at 17.55 per cent. As Malaysia does not have a comparative and competitive advantage in the production of fresh milk, domestic production is forecast to increase only by 0.7 per cent per annum. As discussed in Section 5.3, available data suggested that production of fresh milk in Malaysia has actually declined from 31,000 tonnes in 1977 to 29,000 tonnes in 1990. It is therefore forecast that imports will increase by 18.28 per cent per annum in the period 1990-2020 to meet the increase in demand for dairy products.

This forecast in the increase in demand may seem high but as mentioned in section 5.4, the apparent average annual increase in consumption of dairy products in the five year period following 1970-74 was 23 per

cent, it increased by an average of 31 per cent per annum in the next five year period 1980 to 1984, and increased again by an average of 11 per cent per annum for the next five year period 1985-1989. The period 1985-1989 contained two years (1985 and 1986) when Malaysia was affected by recession.

As such, trends in consumption of dairy products in Malaysia suggested that the forecast of growth in consumption of approximately 18 per cent per annum for the period 1991-2020 was realistic.

The 'Worst Case Scenario' was based on the assumption that Malaysia's per capita income growth would average only 2 per cent per annum i.e. less than 25 per cent of the annual growth rate in the period 1990-1992. In the 'Worst Case Scenario' the income elasticity coefficient is pegged at 0.8 i.e. comparable to Indonesia whose per capita income is less than 25 per cent that of Malaysia.

Trends in the consumption of dairy products under the 'Worst Case Scenario' are shown in Table 21.

WORST CASE SCENARIO

TABLE 21: PROJECTION OF CONSUMPTION & IMPORTS OF DAIRY PRODUCTS TO MALAYSIA (tonnes)

YEAR	CONSUMPTION	DOMESTIC PRODUCTION	IMPORT REQUIREMENTS
1995	101,700	5,000	96,700
2000	111,400	5,000	106,400
2005	120,300	6,000	114,300
2010	128,600	6,000	122,600
2015	137,500	6 000	131,500
2020	146,600	6 000	140,600

The 'Worst Case Scenario' would result in consumption of dairy products in Malaysia increasing by an average of 2.04 per cent per annum in the period 1990-2020. Even on the basis of this computation, absolute consumption will increase by 54.5 per cent by the year 2020 i.e. annual consumption will increase by 49,600 tonnes by 2020.

To further analyse the absolute increases in demand using the above models, trends in the per capita consumption of dairy products in Malaysia were reviewed. These are summarised below.

YEAR	POPULATION (' 000)	AVERAGE CONSUMPTION/ ANNUM (T)	PER CAPITA CONSUMPTION (KG)
1980	13,763	59,289	4.31
1985	15,448	77,832	5.04
1990	17,339	86,651	5.00

Per capita consumption of dairy products in Malaysia in 1990 is estimated at 5 Kg. per annum i.e. approximately 50 litres in LME terms. Per capita consumption increased by 0.69 Kg. i.e about 7 litres in LME terms in the period 1980-1990. The data above suggests that per capita consumption declined slightly in 1990. However, this is not wholly accurate as the average consumption volumes are based on data for the five preceding years. As was discussed earlier, the consumption of dairy products in Malaysia declined substantially in the years 1985-1986 when economic conditions were adverse. The annual consumption of dairy products for these years were 82,505 tonnes in 1985 and 82,963 tonnes in 1986⁴⁴⁹. Consumption increased substantially from 1988 onwards when economic conditions improved. The annual consumption peaked in 1988 to 109,500 tonnes and has since then stabilised at about 95,000 tonnes⁴⁵⁰. The significant feature is that per capita consumption increased by about 1.6 per cent per annum in the period 1980-1990 and that it is also closely correlated to growth in the economy (improvement in income).

The per capita consumption of dairy products in Malaysia is still significantly lower than in many Western countries. The per capita annual dairy product consumption in Australia, for example, is

⁴⁴⁹ Dairy Market Briefings, op. cit., Trade and Product Balances.

⁴⁵⁰ Ibid., Trade & Product Balances.

approximately 350 litres (LME)⁴⁵¹. As such, the per capita annual consumption of dairy products in Malaysia is only about 15 per cent of that in Australia. The per capita consumption of dairy products in Singapore is estimated at 70 litres (LME)⁴⁵². The consumption in these countries suggest that there is potential for substantial growth in consumption of dairy products in Malaysia.

The computation below shows absolute consumption at different per capita consumption volumes for the period 1995-2020.

YEAR	Pop. ^a	PER CAPITA CONSUMPTION (KG) ^b						
		4	6	8	10	14	18	22
1995	19,186	76,444	115,116	153,448	191,860	268,604	345,348	422,092
2000	20,870	83,480	125,220	166,960	208,700	292,180	375,660	459,140
2005	22,320	89,280	133,920	178,560	223,200	312,480	401,760	491,040
2010	23,692	94,768	142,152	189,536	236,920	331,688	426,456	521,224
2020	26,856	107,424	161,136	214,848	268,560	375,984	483,408	590,832

^a Population
^b Kilograms

In the event that per capita consumption declines by 20 per cent to 4 Kg. per annum, absolute consumption will increase to 107,424 tonnes in 2020 i.e. an increase of 16,000 tonnes. If per capita consumption remains unchanged at 5 Kg. per annum, absolute consumption will increase to 134,280 i.e. absolute

⁴⁵¹ Calculated using data on per capita consumption of key product lines as cited in Dairy Compendium 1992 pp. 48-49.

⁴⁵² IMES Volume 2, op. cit., p. 10.

consumption will increase by 43,000 tonnes.

If absolute consumption in 2020 increases to 576,000 tonnes in 2020 as per the 'Best Case Scenario' in this study, per capita consumption will increase to approximately 21 Kg. per annum (210 LME). This will still only be 60 per cent of the 1990 per capita annual consumption of dairy products in Australia.

If absolute consumption only increased to 152,600 tonnes in 2020 per the 'Worst Case Scenario', the per capita consumption will be 5.75 Kg. (57.5 LME) per annum i.e. it will be less than the current per capita consumption levels in Singapore. Given the findings in the research that large sections of Malaysians reflect positive cultural attitude to the consumption of dairy products and that incomes in Malaysia will continue to increase, it seems highly improbable that per capita consumption will be less than 6 Kg. per annum by 2020.

Even by conservative estimates, the per capita consumption of dairy products should at least be mid-way between these two scenarios i.e approximately 12.5 kg. per annum. On the basis of this analysis, absolute consumption is forecast at 330,000 tonnes by 2020.

5.6 Chapter Summary

Demand for all dairy products except concentrated milk and butter have shown substantial growth in Malaysia. Butter consumption has declined due to competition from margarine, in the production of which Malaysia has a

competitive advantage. Sales of concentrated milk have not improved due to the increase in consumption of other dairy substitutes such as powdered milk and liquid milk.

Despite substitution of vegetable fat in the production of filled concentrated milk which is the major dairy product sold in Malaysia, the consumption of milk fats and the imports of dairy products have grown substantially.

Consumption of dairy products in Malaysia is forecast to reach at least 330,000 tonnes by 2020. Almost all of this increase in consumption has to be met through imports as the domestic production of milk is not forecast to grow rapidly.

CASE STUDY

NICHE MARKETING IN MALAYSIA:
Butter Producers Co-Operative Federation

INTRODUCTION

Ghee is pure butter fat with all milk solids removed. This product line is used almost exclusively by Malays and Indians in food preparation, and in Indian and Malay food service outlets. A cheaper substitute to this product is vanaspathi, a vegetable fat produced by Unilever.

The leading brand of ghee in Malaysia is 'QBB' an Australian proprietary brand that is produced by the Butter Producers Co-operative Federation (BPCF) in Queensland.

QBB has 60 per cent market share by wholesale value in the retail segment and about 50 per cent market share by wholesale value in the food service segment.

Other major brands and estimates of their brand market shares are as follows:

BRAND	RETAIL (%)	FOODSERVICE (%)
Fernleaf (NZDB)	20	30
Red Cow (Bonlac)	6	5
Allowrie (National)	5	5
Others	9	10

What are the key differences in the marketing mix strategies adopted by BPCF that contrasts it with the larger, yet noticeably less successful Australian competitors such as Bonlac Foods and National Dairies?

1. Product

BPCF is a single product line company. It has a strong product - market focus. The product texture, colour and flavour is tailored to its market niche. 'QBB' is perceived to be coarser in texture and not to liquefy easily in comparison with competing brands. The coarse texture is preferred by consumers because of the variety of uses for ghee.

Ghee is extensively used in Hindu temples and Sikh gurudwaras. In fact, ghee is considered the favourite food of the Hindu mythical deity Krishna. It has been acknowledged by food marketers that *"the religion and mythology of food are among the many forces that drive food consumption in the marketplace"*⁴⁵³. BPCF markets ghee that is perceived as clean and wholesome - as being 'Halal' to the Muslims and as not containing any meat bi-products to the Hindus.

2. Price

'QBB' is generally sold as a premium product. Its retail pricing structure is higher than competing brands. This pricing structure is a good strategy as ghee is a more expensive product than vanaspathi, the main product substitute.

Vanaspathi is made from palm oil fat, a cheap vegetable oil of which Malaysia is among the world's largest producer.

Bulk ghee is also imported by a number of small wholesale outlets and repacked in Malaysia for resale to retail and food service outlets. The low cost of production in these outlets would make it difficult for 'QBB' to compete with these producers such as Bagawan Singh Melasingh on price.

As such, the strategy of BPCF to position 'QBB' as a premium brand appears to be a good brand positioning strategy. The product image is that of a good quality premium product. As ghee is a 'premium' product for the preparation of more expensive meals such as 'biryani' and 'korma ayam', there is little price elasticity of demand for this product. As such price discounting may be an inappropriate strategy for this product.

3. Promotion

'QBB' is advertised in Malay and Tamil newspapers and magazines. BPCF also sponsors Tamil and Malay movies. Free offers are given with 'QBB' especially during peak sales period in the month of Ramadan (the Muslim fasting month) and Diwali (the Hindu festival). This promotional scheme gives maximum brand exposure within the consumer market segment that 'QBB' is targeted at. The promotional policy of giving free offers as opposed to price discounting also helps maintain 'QBB's brand positioning as a premium product.

4. Place

In Malaysia, BPCF uses FIMA Cold Storage to contract pack the small 150 gram and 250 gram pack which is marketed only in Malaysia and Singapore. Fima Cold Storage is also among Malaysia's largest food distributor and supermarket operator. Originally an Australian company owned by Goodman Fielder, the company was acquired by the Malaysian government owned corporation FIMA. Less than a year ago the company was acquired by Malay business interests. BPCF has thus formed a strategic alliance with a large Malaysian, particularly a Malay (Bumiputera) company that gives it synergy with its largest ethnic market in Malaysia.

The company has also appointed Barkath Stores and Naina Mohammed, two large and established Muslim wholesalers, as sub agents. These companies have excellent distribution network in West Malaysia especially into Indian and Malay owned provision shops and food service outlets. This sub agency arrangement has introduced barriers to entry for new entrants targeting the Malay and Indian segment of the market as Barkath Stores and Naina Mohammed probably have the best distribution network into the Malay and Indian owned retail and food service outlets in Malaysia. In contrast, Bonlac Foods and National Dairies have appointed Chinese merchants as their resellers in Malaysia. As evidenced by the substantially smaller market share, these agents do not have the marketing and distribution strength into the Malay and Indian owned retail and food service outlets. NZDB too, despite its impressive performance in some other dairy product categories such as milk powder has not been able to compete with BPCF.

However, as the market share data illustrates, NZDB has been more successful than Bonlac Foods or National Dairies through direct distribution of their brand, 'Fernleaf'.

5. Packaging

'QBB' is packed in dark green tins with brand names and product descriptions in English, Jawi and Tamil. Green is a colour that appeals to Muslims. Fernleaf is also packed in green tin. Bonlac packs its brand 'Red Cow' in yellow and red coloured tins, while National Dairies packs its brand 'Allowrie' in yellow and blue tins - colour that appeal to the Chinese segment of the population who rarely if at all use this product.

'QBB' is packed in a number of pack sizes such as 150 grams, 250 grams, 500 grams, 1 kilogram, 2 kilograms, 5 kilograms, and 19.25 kilograms. The smaller pack sizes are particularly popular in rural Malaysia as consumers are able to use a premium product at a low unit cost because of it being available in small pack sizes. The larger pack sizes are economical and are used in food service outlets and institutional outlets such as temples.

CONCLUSION

The successful marketing of 'QBB' as a brand signifies the importance of developing a brand image, brand positioning, pricing strategies, product packaging, aesthetics relating to brand name/packaging and the choice of channel intermediaries in marketing dairy products in Malaysia. BPCF has applied all

these factors effectively to develop and maintain a dominant position in the marketing of a branded value added dairy product in Malaysia. The effectiveness of the marketing strategy of BPCF is a result of good quality market intelligence and strategic application of this market intelligence. The success of BPCF reflects how effective export marketing management can result in export market success in spite of competition from larger companies.

CHAPTER SIX

6 AUSTRALIAN EXPORT PERFORMANCE

6.1 Chapter Objective

The objectives of this chapter are to,

- 6.1.1 Analyse the export performance of Australian dairy companies in Malaysia.
- 6.1.2 Critically evaluate the reasons for the positive and/or negative market performance of Australian dairy exporters in Malaysia.

6.2 Analysis of Export Performance

The export volumes of Australian dairy products to Malaysia and Australia's share in total dairy imports by Malaysia are summarised in Table 22⁴⁵⁴.

As illustrated in Diagram 1 (page 4), Australia's total dairy exports and the sale of specific dairy products to Malaysia had fluctuated significantly from one year to another. Exports in the period 1985-92 had fluctuated from as low as 15,490 tonnes in 1990 to a maximum of 38,202 tonnes in 1992. The difference in export volumes between some years as for example between 1992 (38,202 tonnes) and in 1990 (15,490 tonnes) which was 22,700 tonnes exceeded total exports in several other years.

⁴⁵⁴ Australian Dairy Corporation 1992a, op. cit., pp. 57-61.

Australian Dairy Corporation 1991, op. cit., pp. 57-70.

Dairy Market Briefings, loc. cit.

TABLE 22: AUSTRALIAN DAIRY EXPORTS TO MALAYSIA - PRODUCT MIX (tonnes) & MARKET SHARE (%)⁴⁵⁵

Product	1985	1986	1987	1988	1989	SUB TOTAL	1990	1991	1992
SMP	11, 642	12,988	18,735	17,166	13,220	14,750	10,185	19,585	21,437
WMP	6,089	4,825	5,159	4,697	3,482	4,850	2,008	4,830	1,062
Sub- Total	17,731	17,813	23,894	21,863	16,702	19,600	12,193	24,415	22,499
Product Share(%)	78	82	87	81	79	81	79	85	
Cheese	409	383	468	579	605	489	628	487	653
Butter	700	477	540	541	419	535	403	465	621
AMF	3,871	2,961	2,540	3,968	3,342	3,336	2,266	3,454	4,863
TOTAL	22,711	21,634	27,442	26,951	21,068	23,961	15,490	28,821	38,202
Total Imports	84,418	73,500	83,700	98,000	81,000	84,124	83,000	n/a	n/a
Market Share(%)	27	29	33	28	26	23	19	n/a	n/a

455

Australian Dairy Corporation, Dairy Compendium, 1992, 1991, 1990.

Marked fluctuations in Australia's market share in total dairy imports by Malaysia were also observed. Australia's market share of dairy imports by Malaysia had continued to decline progressively from a peak of 33 per cent in 1987 to 19 per cent in 1990, the most recent year for which Malaysia's import data was available.

SMP and WMP represented approximately 80 per cent of Australian exports to Malaysia, thus demonstrating an unbalanced product sales mix. The demand for SMP and WMP were observed to be derived demand in that these products were used by the dairy manufacturing industry in Malaysia to manufacture other dairy products or for repacking into consumer packs. As WMP and SMP were almost wholly exported in bulk undifferentiated form, demand was observed to be highly price elastic. Australian exports of WMP and SMP were affected when cheaper products from EC, USA or other countries became available. As such, the exports of SMP and WMP showed even greater fluctuations in exports than total dairy exports. In 1990 for example, exports of Australian SMP and WMP to Malaysia was 15,490 tonnes. In 1991 exports more than doubled. However, this did not suggest that Australian exports of SMP and WMP to Malaysia had increased. High exports of SMP and WMP (comparable to exports in 1991) had been recorded in the past, as for instance in 1987, only to decline again in later years.

Even within this product category (SMP and WMP), the primary research findings suggested that export performance was largely dependent on the sales by Nestles to its associate company in Malaysia. It was estimated by the researcher that the exports from Nestles Australia to Nestles Malaysia would alone account for more than 50 per cent of total WMP exports from Australia to Malaysia⁴⁵⁶.

The contribution to export sales resulting from trade between subsidiaries and associate companies of multi-nationals are hard to evaluate as they are dependent on non tangible factors such as transfer pricing. Transfer pricing decisions are affected by several factors including differences in corporate tax regimes between countries, tariffs and/or trade regulations, credit status of the companies and joint venture constraints in the host country⁴⁵⁷. As such, on the basis of available information it was not possible to determine the reasons for Nestles Malaysia procuring large volumes of their WMP requirements from Nestles Australia.

In the export of other dairy products too, performance seemed dependent on the competitiveness of a few companies such as Kraft and BPCF. Kraft was observed to have significant market share in cheese products in Malaysia and BPCF was the market leader for ghee in

⁴⁵⁶ Market Survey, loc. cit.

⁴⁵⁷ Jain, Subhash C; International Marketing Management (4th edition), Wadsworth Publishing Company, USA 1993 pp. 551-556.

Malaysia⁴⁵⁸. As illustrated in the case study, the performance of companies such as BPCF show the company's export market focus, good quality market intelligence and effective application of marketing mix strategies. Trading companies such as Ballantyne Export Company, Ausfine and Lavery International were observed to be major exporters of SMP, butter oil and cheese powder to Malaysia⁴⁵⁹. These trading companies through effective networking and market research seem to have performed better in dairy exports to Malaysia than had the larger dairy companies⁴⁶⁰. The export performance of the major Australian dairy companies to Malaysia was observed to be generally poor.

6.3 Analysis of Reasons for Poor Performance of Australian exporters

The weaknesses and hence the poor performance of the larger Australian dairy companies in Malaysia were perceived by the researcher to be attributed to the following reasons:

6.3.1 *Overdependence on Indirect Reseller Channels*

The companies surveyed were observed to be dependent on indirect export marketing channels such as export agents and merchants in Malaysia and channel intermediaries in Singapore and Australia for export marketing to Malaysia⁴⁶¹. Table 23 summarises the findings of

458 Marketing mix strategies of BPCF are discussed in Case Study (Chapter 5).

459 Idem.

460 Idem.

461 Idem.

the primary research done by the researcher. More than ninety per cent (i.e. 19 companies) of the respondents were observed to be indirect exporters to Malaysia. Of these, twelve companies exported to Malaysia through resellers/resale operations from countries outside Malaysia. Seven companies had resellers who were based in Singapore and five had resale operations that were managed from Australia. In contrast to this, companies who dominated sales in Malaysia such as NZDB, Nestles and Dutch Baby were observed to use direct channel marketing strategies with logistics such as warehouses, distribution and other infrastructure to develop both extensive sale of their core products such as milk powder and intensive sale of specialised products such as low fat milk to niche markets.

TABLE 23: AUSTRALIAN DAIRY EXPORTS TO MALAYSIA - TYPES OF RESELLER CHANNELS

RESELLER CHANNELS	NUMBER	PERCENT	CUM PERCENT
MALAYSIAN SALES OFFICE	1	4.8	4.8
MALAYSIAN AGENT	5	23.8	28.6
MALAYSIAN MERCHANT	2	9.55	38.1
AUSTRALIAN RESELLER	7	33.3	71.4
MALAYSIAN SUBSIDIARY	1	4.8	76.2
SINGAPORE RESELLER	5	23.8	100.0
TOTAL	21	100	100

The export performance (share of exports to total production) of the companies surveyed were analysed using a one way Analysis of Variance (ANOVA) based on the type of channel intermediaries used by

these companies. Export performance was categorised into the following classes:

<u>Share of Exports to Total Production (%)</u>	<u>Coded Score</u>
0 - 4	0
5 - 9	1
10 - 14	2
15 - 19	3
20 - 24	4
More than 25	5

The analysis of the research findings are summarised below:

<u>CHANNEL INTERMEDIARY</u>	<u>CODED SCORE</u>	<u>ACTUAL SHARE OF EXPORTS TO TOTAL PRODUCTION (%)</u>
MALAYSIAN SALES OFFICE	5.0	> 25.0
MALAYSIAN AGENT	4.4	22.4
MALAYSIAN MERCHANT	5.0	> 25.0
AUSTRALIAN AGENT	3.0	17.0
MALAYSIAN MANUFACTURING SUBSIDIARY	5.0	> 25.0
SINGAPORE RESELLER	2.2	12.5

Although world-wide export sales cannot be used as an index to measure the performance of specific channel strategies of a company in Malaysia, examination of the channel strategies of several of the companies surveyed suggested that the channel strategies of Australian dairy companies were broadly similar world-wide. That is, companies which had sale offices or manufacturing subsidiaries in Malaysia also adopted similar channel strategies in other key markets and the companies which used indirect marketing strategies generally employed

similar strategies in other key markets. Notwithstanding this generalisation, it was observed that companies which used their own manufacturing or sale subsidiaries in Malaysia exported a higher share of their production than companies which used indirect channel intermediaries such as Singaporean or Australian resellers to export to Malaysia. This suggested that companies which adopted direct export marketing strategies were more export market focussed compared with companies that used indirect channel intermediaries to export⁴⁶². These findings supported hypothesis 1.4 (a) of this research.

6.3.2 *Non Intensive Marketing*

As mentioned in Section 6.3.1, more than 52 percent of the respondents (11 companies) had no channel intermediaries representing them in Malaysia. Of the nine companies with reseller operations in Malaysia, it was observed that eight companies had appointed only one agent/distributor to cover the whole of Malaysia. The primary research findings are summarised in the Table 24⁴⁶³. As such, Australian companies were viewed by the researcher as not engaged in intensive marketing. In comparison companies such as Nestles, NZDB and Dutch Baby had at least one agent/distributor in each major town. Nestles, in

⁴⁶² Shoebridge, Neil; 'Food for Asia: A market on the boil', Business Review Weekly, October 23, 1992.

NOTE: A number of commentators including Kenichi Ohmae (McKinsey & Company), and Owen Price (Dairy Farm International) have been quoted in this article as emphasising that indirect export marketing strategies are constraining export market opportunities for Australian food products to Asia.

⁴⁶³ Market survey, loc. cit.

particular, had developed an extensive network of agency representation in all major towns with elaborate training and sales support from the central office in Kuala Lumpur and regional offices in major towns such as Pulau Pinang, Ipoh, Melaka, Johor Baru, Kuantan and Kota Baru⁴⁶⁴. This finding supported hypothesis 1.4 (b).

6.3.3 *Non Focused Marketing*

It was observed that the companies surveyed generally operated with one channel intermediary (reseller) in Malaysia (Table 24). These resellers handled sale of all products to all market segments (industrial, food service and consumer). This suggested that the companies surveyed were neither specialised on the basis of sale territories within Malaysia nor by user segments. This supports hypothesis 1.4 (c) and (d) of this research which postulated that Australian exporters did not practice intensive marketing either through specialising in sale territories or product user segments.

TABLE 24: AUSTRALIAN DAIRY PRODUCT EXPORTS TO MALAYSIA - INTENSITY OF MARKET COVERAGE⁴⁶⁵

NUMBER OF INTERMEDIARIES IN MALAYSIA	NUMBER	PERCENT	CUMULATIVE PERCENT
0	12	57.1	57.1
1	8	38.1	95.2
2-3	1	4.8	100.0

464 Idem.

465 Idem.

6.3.4 *Overdependence on Traditional Reseller Intermediaries*

More than seventy five (75) per cent of resellers who represented the companies surveyed had managed their export operations in Malaysia for more than 15 years (Table 25). This finding supported research hypothesis 1.4 (e). The dramatic economic growth, structural changes in the economy, perceived growth in demand for dairy products, socio-economic changes resulting from greater urbanisation, improved socio-economic position of the Malays, improved wealth of the rural farmers would all have necessitated reassessment of reseller channel strategies. However, Australian companies did not seem to have reviewed their reseller channel strategies in Malaysia in the last 15 years. There were comments by key executives of three companies that review of channel strategies was probably necessary but that this was difficult because of the extreme personal and friendly relations that had been developed with managers of existing intermediaries over several years. It was implied by the respondents that they were 'comfortable' with the present arrangement and that they did not want to risk introducing changes. In contrast, companies such as Nestles, NZDB and Dutch Baby had entered into strategic alliances in production and/or repacking with Malay businesses and had been selecting Malays as their channel intermediaries. These actions may have been to comply with NEP guidelines but they were also observed to be a recognition of the need to maximise distribution to all ethnic groups in what seemed an ethnically polarised market.

TABLE 25: AUSTRALIAN DAIRY PRODUCT EXPORTS TO MALAYSIA-HISTORY OF RELATIONSHIP WITH RESELLERS

YEARS	NUMBERS	PERCENT	CUMULATIVE PERCENT
> 25	5	31.3	31.3
20 - 24	2	12.5	43.8
15 - 19	5	31.3	75.1
10 - 14	-	-	75.1
5 - 9	-	-	75.1
< 5	4	25.0	100.0

6.3.5 *Poor Quality Market Intelligence*

The companies surveyed were observed to depend upon their indirect channel intermediaries for market intelligence and seemed to consider their reseller channels as the most important source of market information. This was illustrated in the analysis of survey results through an analysis of variance (ANOVA) of Australian companies that used different channel intermediaries and the importance that these companies attributed to different sources of market information (Table 26). The companies surveyed were asked to select their major sources of market information on Malaysia and rank using a scale of '0' (Not Important) to '5' (Important), the degree of importance that they attributed to each of their choices. The respondents gave a mean score of 4.81 for resellers as an information source. The results are not statistically significant because all respondents ranked their resellers as an important source of market information. However, the analysis revealed some interesting results. For example, companies which used Malaysian agents or merchants scored a mean value of 5 for resellers as

an information source. As it was explained in an earlier section of this study, more than fifty seven per cent of the companies surveyed used channel intermediaries in countries outside Malaysia. Those using channel intermediaries in Malaysia used Chinese merchants. Ordinarily, reseller channels would constitute an important source of market information. However, Malaysia's special demographic, socio-economic characteristics and public policies suggested that the information from resellers needed to be used more selectively. Malaysia's 17 million population consisted of three major ethnic groups. Malays and other indigenous groups made up approximately 60 per cent of the population, Chinese made up approximately 30 per cent of the population and Indians made up approximately 10 per cent of the population (Dixon, 1991). Following the race riots of 1969, the Malaysian government had implemented an affirmative program called the New Economic Policy (NEP) that favoured Malays in business activities. This program had substantially increased the participation rate of Malays and other indigenous communities in commerce. It was for example, estimated that in 1970 only 2.4 per cent of the share capital of limited companies in West Malaysia was owned by Malays. By 1990, the share capital of Malays in limited companies was estimated to have increased to 20.3 per cent (Crouch, 1993).

TABLE 26: MEAN SCORES OF THE IMPORTANCE OF RESELLERS AS A SOURCE OF MARKET INFORMATION

TYPE OF RESELLERS USED	NUMBERS	MEAN SCORE
MALAYSIAN SUBSIDIARY	1	5.0
MALAYSIAN AGENT	5	4.8
MALAYSIAN MERCHANT	2	5.0
AUSTRALIAN AGENT	2	5.0
MALAYSIAN MANUFACTURING	1	5.0
SINGAPORE RESELLER	5	4.6
TOTAL	16	4.8

F Ratio: . 4375
F Probability: . 8129

Using traditional resellers in a fast evolving and dynamic market place seemed to have limited the quality of market information particularly on new business power groups with whom Australian companies could have formed strategic alliances. The majority of the companies surveyed appeared to have little understanding of various government programs that affected business operations in Malaysia or the size and features of the Malay segment of the market. The success of affirmative actions under the NEP and the increasing importance of the Malay segment of the population both as consumers and for strategic business alliance did not appear to be well understood by the companies surveyed. It is suggested in this research that the traditional Chinese merchants do not understand the characteristics of the Malay segment of the market and as such may not be the appropriate channel intermediary to maximise business opportunities in this large and rapidly growing segment. Malays accounted for 60 per cent of Malaysia's population. This,

together with the increasing affluence of Malays suggested that this was probably the most important ethnic segment for dairy products in Malaysia.

Findings in the primary research also suggested that the role of the Malaysian reseller was generally limited to public relations with the 'Buyers' in the Malaysian food processing companies and the provision of services such as credit to the customer. Sales from the Australian principal to the Malaysian reseller was almost always observed to be completed through confirmed irrevocable letters of credit at sight i.e. on cash terms⁴⁶⁶. Marketing executives from the principal in Australia periodically called on the Agent and jointly made market visits to the industrial outlets. These brief visits (averaging two days in Malaysia, as part of a market visit to ASEAN countries),⁴⁶⁷ and the collation of market information from the reseller in Malaysia were viewed by the researcher to be not directed at developing a brand market profile nor export sales to the consumer and food service market segments. These findings supported research hypothesis 1.4 (f).

⁴⁶⁶ Idem.

⁴⁶⁷ Idem.

6.3.6 *Lack of marketing emphasis on the impact of income growth & changes in dietary habits*

The mean scores using a one way ANOVA on the perception of the importance of changes in income and dietary habits as factors influencing demand for dairy products are summarised in Table 27.

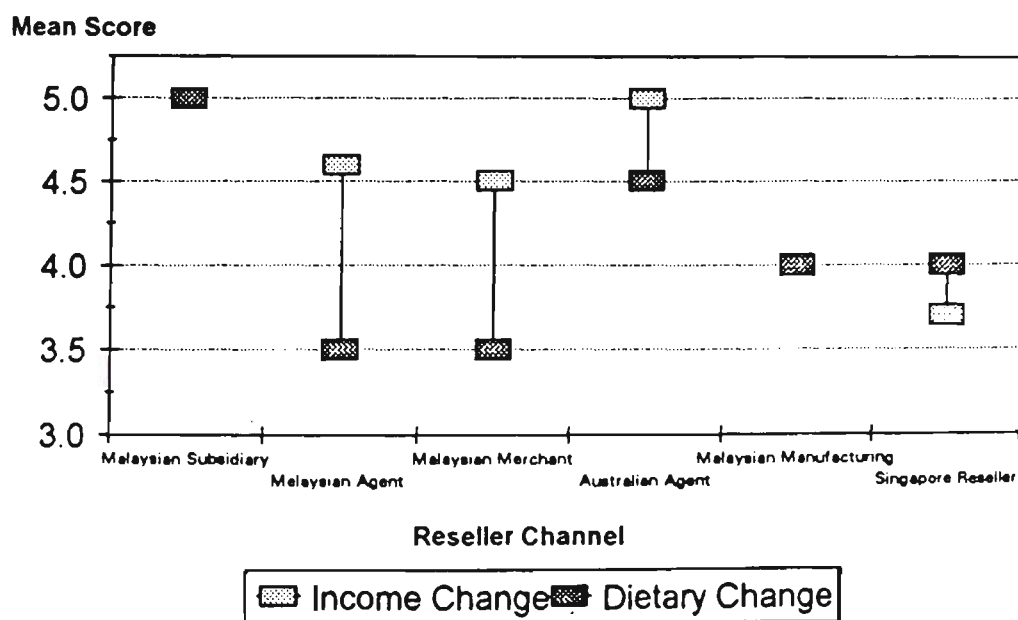
TABLE 27: MEASURES OF THE IMPORTANCE IN INCOME & DIETARY CHANGES BY EXPORTERS USING DIFFERENT CHANNEL INTERMEDIARIES

RESELLER CHANNEL	MEAN SCORE	
	INCOME CHANGES	DIETARY CHANGES
MALAYSIAN SUBSIDIARY	5.0	5.0
MALAYSIAN AGENT	4.6	3.5
MALAYSIAN MERCHANT	4.5	3.5
AUSTRALIAN AGENT	5.0	4.5
MALAYSIAN MANUFACTURING	4.0	4.0
SINGAPORE RESELLER	3.7	4.0
TOTAL	4.4	3.9
F Ratio	.8689	.8800
F Probability	.5458	.5314

As shown in Table 27, the companies surveyed ranked income changes and changes in dietary habits as the principal factors that influenced demand for dairy products in Malaysia. To this extent, the research hypothesis 1.4 (g) was supported. However, analysis of the data suggested that exporters who used resellers in Malaysia (Malaysian agent/merchant) perceived dietary change as less important (mean score 3.5) than changes in income (mean score 4.5) as factors that influenced demand for dairy products. Australian dairy exporters who had

Malaysian subsidiaries or Malaysian manufacturing operations, i.e. companies with the most direct channel strategies ranked dietary changes and income changes as being equally important determinants in the demand for dairy products in Malaysia. These findings are illustrated in Diagram 8. There is need to research whether the ethnic Chinese background of the resellers representing Australian exporters in Malaysia may be limiting market information on the importance of the differences and changes in the dietary habits of other ethnic communities such as the Malays. Studies such as that by Zain and Meyanathan suggested that there were substantial differences and changes in the dietary and shopping habits of the Malays.

DIAGRAM 8: **IMPORTANCE OF INCOME AND DIETARY CHANGES ON DAIRY PRODUCTS DEMAND**



Several studies suggested that moderate income customers from rural Malaysia were the main customers in modern supermarkets in urban Malaysia⁴⁶⁸. Large supermarkets in urban Malaysia reported that they were dependent upon rural shoppers in the weekends for their trade⁴⁶⁹.

This contrasted sharply with the popular perception that demand for Western type food products was essentially confined to the urban middle class in Malaysia⁴⁷⁰.

This perception may have resulted from these companies not testing new products in the market and/or as discussed earlier, the focus of these companies being limited to the Chinese segment of the market. Companies such as Nestles and Australian export agents such as Ballantyne who had successfully introduced new products were observed to perceive income changes and dietary changes as being equally important factors that influenced growth in consumption of dairy products in Malaysia. Ballantyne had successfully introduced cheese

⁴⁶⁸ 'Diet revolution in Pacific Rim creates new customers for U.S. foods', AqExporter, Volume 5, Issue 6, June 1993 p. 4.

⁴⁶⁹ ibid., p.4.

Section 4.7 of this thesis contains research findings by Osman that there is strong correlation between ethnicity and the choice of retail outlets in Malaysia, with the Malays preferring to shop in supermarkets.

⁴⁷⁰ Refers to discussions in Chapter 2 on the almost exclusive relationship of income to dietary changes that is espoused by a number of writers.

powder to the snack foods industry in Malaysia⁴⁷¹. Nestles had an extensive product range and had continually introduced new products into Malaysia, the most recent being low fat liquid milk. In contrast, companies who exported bulk products and/or who depended upon traditional reseller intermediaries for market intelligence seemed to perceive that there were no substantial changes in dietary habits. As the majority of the companies surveyed used traditional reseller intermediaries and/or concentrated on the export of bulk commodities, it had to be concluded that the research hypothesis was not supported i.e. the alternate hypothesis that there was insufficient marketing emphasis on the importance of growth in income and changes in dietary habits seemed more probable. This finding suggested that the Australian exporters did not recognise that significant changes in income and dietary habits particularly among the Malays, was influencing demand characteristics in Malaysia.

6.3.7 Not tailoring marketing mix to Malaysia's unique ethnic population variables

Response to this investigation was more revealing. All exporters other than Nestles, Bonlac Foods and BPCF did not consider the ethnic mix of Malaysia's population as being important in formulating export market strategies. The most successful Australian exporters such as Nestles and BPCF gave a mean score of '5' (Important) to ethnic differences as a factor in developing export market strategies for Malaysia. Eighty (80)

⁴⁷¹ Market Survey, loc. cit.

per cent of Australian exporters gave this factor a mean ranking of less than 3. In fact, 50 per cent of the respondents gave this factor a ranking of '0' i.e. they considered ethnic mix of the population in Malaysia as totally unimportant in developing their marketing strategies in Malaysia. The correlation of export market success (share of exports to total production) to the emphasis given by the companies to ethnic differences in the market-place ranked on a scale of '0' (Not Important) to '5' (Important) was tested using the Spearman Correlation Coefficients. It was found that the companies surveyed did not consider this as an important factor in export marketing to Malaysia (significant at 0.01). A Spearman's Test was also completed correlating responses on forecast of market potential which was ranked on a scale of '0' (Poor) to '5' (Good) to the emphasis given by the respondents to ethnic differences in the market ranked on a scale of '0' (Not Important) to '5' (Important). Again, it was found that companies which forecast high growth in the market did not give much importance to the ethnic differences in the market (significant at 0.10). This finding was further supported by comments from CEO's of some of the companies surveyed. The CEO of one company for example, in a separate interview with the researcher, acknowledged that he did not know of substantial differences in consumer attitudes and food consumption habits between the Malays and the Chinese in Malaysia as described by the researcher. The findings by the ADC seemed somewhat similar. The ADC's analysis of the market in Malaysia suggested that the expenditure on dairy products among the three major ethnic groups (Malays, Chinese

and Indians) was the same⁴⁷². Well researched reports such as 'Food Trade and Food Security in ASEAN and Australia' have highlighted the distinct differences in the food consumption expenditure of different ethnic groups in Malaysia⁴⁷³. Each of the ethnic groups in Malaysia represented sizeable market segments. As is evident from the case study, BPCF's success in Malaysia was largely a result of the company recognising the unique characteristics of the market and developing appropriate marketing mixes strategies. These findings strongly support research hypothesis 1.4 (h).

6.3.8 Over emphasis on the importance of supermarkets as retail reseller channels

The perception of the companies surveyed regarding the importance of supermarkets as intermediaries for the sale of dairy products was tested using a one way ANOVA with a scale of '0' (Not Important) to '5' (Important). The mean reading of 3.31 suggested that the research hypothesis 1.4 (i) was supported. In fact, respondents who used merchants and reseller channel intermediaries in Malaysia and Singapore gave very low ratings of 2.0 and 2.8 respectively to the prospects of changes in the retail grocery trade in Malaysia from small shops to supermarkets. The researcher was unable to explain this finding except to speculate that the feed-back from these intermediaries was influenced by their desire to concentrate in markets where they perceived they had

⁴⁷² Dairy Market Briefings, op. cit., p. 4.

⁴⁷³ Booth, op. cit., pp. 56-58.

the strength. The merchants were probably better positioned to service these traditional outlets rather than the supermarkets.

6.3.9 Perception of being Non Price Competitive

With the exception of companies such as Nestles and BPCF, the majority of the companies surveyed viewed competitors such as NZDB as actively discounting prices and therefore making market entry into the food service and consumer segments in Malaysia difficult. This finding supported research hypothesis 1.4 (j). The responses on the reasons for the success of NZDB in Malaysia were tested using one way ANOVA. The results showed significant mean scores in some variables. This is illustrated in the Table 28.

TABLE 28: MEAN DIFFERENCES OF VARIABLE BY INTERMEDIARY

REASONS	MALAYSIAN			SINGAPORE AGENT	MEAN SCORE
	AGENTS	MERCHANTS	M'FACT ⁱ		
CHANNEL MARKETING	2.2	2.5	4.0	2.0	2.4
PROMOTIONS	3.0	3.0	-	4.0	3.2
PRICE DISCOUNTING	4.0	4.0	-	5.0	4.3

ⁱ Manufacturer

Price support both by heavy promotional spending (mean score 3.2) and price discounting (mean score 4.3) were generally viewed by the respondents as the cause for the strength of NZDB in Malaysia. NZDB,

as had been discussed earlier in this thesis, had only entered the market in 1985 and by 1992 was holding either the premier or second position in a number of product categories. As had been explained, NZDB was observed to be particularly strong in high growth 'up market' products such as cheese i.e. products whose demand would have been driven more by the quality image rather than price. NZDB had built a brand profile in the consumer and food service market segments. The perception of the majority of the companies surveyed was observed to be shaped through information from channel intermediaries as this was the principal source of market intelligence for them⁴⁷⁴. It is significant that only Nestles Australia and BPCF attributed NZDB's success in Malaysia to effective channel marketing (mean score 4). Nestles Australia had cited its associate company Nestles Malaysia as its principal source of market intelligence. Nestles Malaysia was well represented in Malaysia through an elaborate marketing and sales department and similar to NZDB had either the premier or second position in almost all dairy product categories in Malaysia. The market intelligence of Nestles Australia was from a direct source and was perceived by the researcher to be more reliable. The researcher perceived that the indirect channel intermediaries were probably using price non-competitiveness as method of negotiation to obtain discounts from their Australian suppliers.

⁴⁷⁴

Refer section 6.3.1.

As shown in Table 29, most Australian dairy exporters surveyed in this research identified the industrial segment as their principal export market focus. This finding agrees with earlier observations regarding the over dependence on bulk WMP and SMP in the export sales mix⁴⁷⁵. As the industrial market segment purchased an undifferentiated commodity, purchase decisions were probably highly price elastic. This strong focus on the industrial segment probably explains the perception of the companies surveyed that Malaysia was a highly price sensitive market. An interesting finding in the survey was the emphasis given to the food service segment by Australian dairy exporters. Nearly 37 per cent of the respondents reported that after the industrial market segment, the food service segment was their most important export market focus in Malaysia. The companies surveyed were probably concentrating on bulk purchasers such as bakeries rather than food service outlets such as restaurants. This may have added to their perception that Malaysia was a highly price sensitive market.

TABLE 29: AUSTRALIAN DAIRY PRODUCT EXPORTS TO MALAYSIA

SEGMENT	FIRST FOCUS		SECOND FOCUS	
	PERCENT	CUM PERCENT	PERCENT	CUM PERCENT
RETAIL	21.0	21.0	26.3	26.3
WHOLESALE	15.8	36.8	15.8	42.1
FOOD SERVICE	15.8	52.6	36.8	78.9
INDUSTRIAL	47.4	100.0	21.1	100.0

⁴⁷⁵ Refer section 6.2.

A further significant finding in this research were the differences in growth forecasts of the market by the respondents. Forecast of estimates in market growth based on type of reseller intermediary used by the exporter were analysed using a one way ANOVA. Growth forecasts were ranked on a scale ranging from '0' (No Growth) to '5' (more than 25 per cent growth). The mean scores are shown in Table 30.

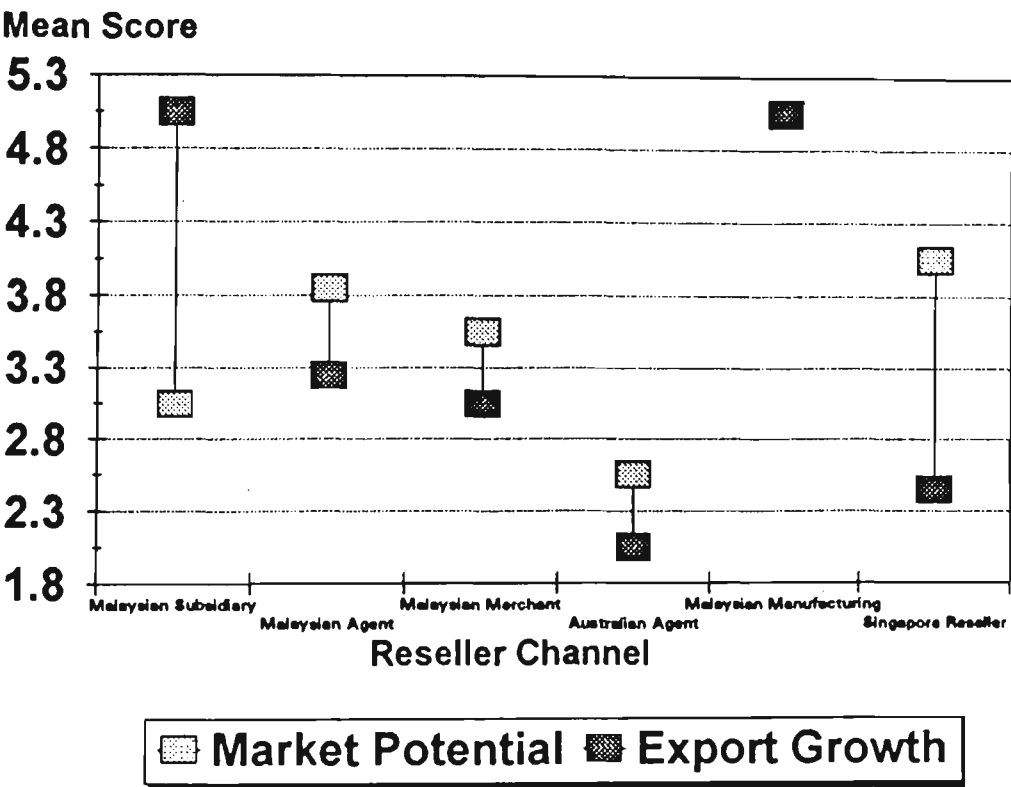
TABLE 30: RANKING OF MARKET POTENTIAL & FORECAST OF EXPORT GROWTH

RESELLER CHANNEL	MARKET POTENTIAL	EXPORT GROWTH
MALAYSIAN SUBSIDIARY	3.0	5.0
MALAYSIAN AGENT	3.8	3.2
MALAYSIAN MERCHANT	3.5	3.0
AUSTRALIAN AGENT	2.5	2.0
MALAYSIAN MANUFACTURE	5.0	5.0
SINGAPORE RESELLER	4.0	2.4
TOTAL	3.7	3.0

It was observed that companies such as Nestles who had adopted direct export marketing strategies in Malaysia forecast high growth in sales over the next two years whereas exporters who used indirect channel intermediaries forecast relatively lower growth in sales. As illustrated in Diagram 9, the position of the two variables 'Market Potential' and 'Export Growth' for companies using indirect reseller channels and those exporting directly were opposite to one another. These differences in perception of the market suggested that the quality of market

information from indirect channel intermediaries needed to be examined carefully as they were very different from that of companies that exported directly and therefore probably had better information on the market.

DIAGRAM 9: INTERMEDIARY USED AND FORECASTS OF MARKET POTENTIAL & EXPORT GROWTH



6.3.10 *Fear of the competitive strength of NZDB/NESTLES*

Forty two (42) per cent of respondents gave a mean score of 4 and above to this question, indicating that they perceived the competitive strength of NZDB and Nestles as detracting them from more aggressive market entry into Malaysia. Fifty eight (58) per cent of respondents gave a rating of 3 and less to this investigation suggesting that the majority of respondents were not affected by the competitive strength of NZDB and/or Nestles in their market entry decisions into Malaysia. As such, research hypothesis 1.4 (k) was not fully supported but it seemed evident that several companies considered the competitive strength of Nestles and NZDB as a deterrent to direct market entry into Malaysia.

6.3.11 *Organisation Structure*

Only 40 per cent of the companies surveyed reported that they had an International Marketing Department. In addition, only 25 per cent of the companies surveyed reported that they had separate market managers i.e. managers specialising in export marketing to specific regions or countries. This research finding was further confirmed through examining the organisation structure of companies in annual reports wherever this information had been included. Export marketing management in 75 per cent of the companies surveyed was handled by a generalist who managed export marketing efforts of all products to all export destinations of the company. This organisation structure suggested that the companies surveyed were not export market focussed and did not recognise the distinctiveness of their export market

destinations. The organisation structure of the majority of the companies surveyed was perceived by the researcher as a barrier to maximising exports to Malaysia. These findings supported hypothesis 1.4 (l) and (m).

6.3.12 *Lack of Export Market Planning*

Eighty five (85) per cent of companies surveyed showed a high level of formal market planning. Twenty five (25) per cent of respondents said that they had separate annual marketing plans. Sixty (60) per cent of respondents reported having both annual and long term plans. As the question did not clearly specify that the intention of the researcher was to evaluate the extent of formal export market planning, this had to be asked separately. The general response was that export market plans were prepared as an integral part of the company's total marketing plan. However, response to the next question regarding specific market objectives suggested that the extent of formal export market planning, at least in reference to Malaysia, was not very high. Twenty (20) per cent of respondents said that they did not have any specific marketing objectives in Malaysia. Twenty (20) per cent reported that their objective was to maintain their current position. Fifty (50) per cent said that their objective was to have steady sales growth. Almost all respondents explained steady sales growth as maintaining their existing client base and expanding sales through increases in sales of their existing clients. Only 10 per cent of respondents said that their objective was aggressive sales growth through new product

introductions, entering new market segments and even winning market share from competition. On the basis of these findings, the researcher perceived that the extent of strategic market planning to improve export performance in Malaysia was a low priority among Australian exporters. This supported research hypothesis 1.4 (n).

6.3.13 *No sales development plans*

The findings on market objectives discussed above already suggested that the companies surveyed did not have sales development plans for Malaysia. However, to test this finding more clearly, the researcher collated information on the company's operational strategies. Twenty (20) per cent of the respondents confirmed that they did not have specific operational strategies in Malaysia. Thirty five (35) per cent of the respondents reported that they aimed to achieve their marketing objectives through expansion in demand in the market. Thirty five (35) per cent of the respondents said that they will enter new emerging segments, in most instances this referred to the fresh milk segment. The general expectation appeared to be that when the Malaysian government lifted the ban on the import of fresh milk there will be opportunities in this product category. Therefore, it appeared that 90 per cent of the companies surveyed depended on macro environmental factors to achieve their market objectives in Malaysia. Only 10 per cent of the companies surveyed had operational strategies to develop sales in Malaysia. The researcher also observed that some companies perceived that their export performance in Malaysia was good. A senior executive

of a major dairy processor told the researcher in an interview that the company's performance in Malaysia was very good and therefore its export market focus was on new destinations such as Taiwan. It became apparent in this research, that this company had no significant market share in any of the major product lines in Malaysia. This appeared to be an example of a company that was concentrating on the highly regulated and more profitable domestic market milk sector and limiting export activities to bulk commodities when there was an over supply in Australia. These findings supported research hypothesis 1.4 (o).

6.4 Australian Product Market Performance

The product market position of Australian dairy exports was summarised using the Boston Consulting Group (BCG) Growth Share Matrix Model⁴⁷⁶. The researcher's analysis is illustrated in Diagram 10. The vertical axis shows the annual market growth rate. This provides a measure of the attractiveness of the market. Market growth rate is indexed from 0 per cent to 30 per cent. The axis is arbitrarily divided into 'High' and 'Low' growth at the mid point by a 15 per cent growth line. The horizontal axis shows the relative market share. This illustrates the Australian dairy industry's relative market share in comparison with Nestles and NZDB. It serves as a measure of the competitive strength of Australian exporters in the market. A relative

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Kotler, Philip *et al*; Marketing in Australia, Prentice Hall, Australia 1989, pp. 68-70.

market share of 0.1 for instance means that the Australian dairy industry's market share is 10 per cent of that of the combined market share of these two companies. The relative market share is drawn in logarithmic scale and is divided into 'High' and 'Low' using 1.0 as the dividing line.

This model enables identification of four types of product categories/lines. The four types of products are:

- a) Stars which are products with a high market share in a high growth market⁴⁷⁷. As such they are perceived to be products that need extensive promotional and other marketing support to maintain their competitive position in the market place. Cheese (c) and ghee (G) are two Australian products that fits this classification. Cheese powder (CP) is also shown as a 'Star'. However CP is largely sold as a commodity to the snack food industry. The positioning of CP as a 'Star' is to illustrate the dominant market share of a 'new' Australian export product line to Malaysia.
- b) Cash Cows are products that have a high market share in a low growth market i.e. the market has matured. Returns on these products are high as there is not much expense in marketing

⁴⁷⁷ Assael, Henry; Marketing Principles and Strategy, The Dryden Press, USA 1990.

Kotler, op. cit., p. 68.

effort. Competitors marketing activity is also not very high and as such there is not much pressure to increase the aggressiveness in the marketing effort⁴⁷⁸. Skim milk powder (SMP) and whole milk powder (WMP) are shown as Australian exports that can be classed as 'cash cows'. However, this is not a wholly accurate positioning. This positioning only shows the dominant Australian market share in these two low growth product categories. However, there is intense competitive pressure especially through penetration pricing policies by suppliers from EC and USA who subsidise export prices. Margin on sales and therefore profits are not very high for these products.

- c) Question Marks are products that have a low market share in a high growth market. These products require extensive marketing effort to maintain or improve market position. Promotional activities by competitors in these products tend to be very intense⁴⁷⁹. Australian exports that can be classed as 'Question Marks' include ice cream, yoghurt, dairy desserts, retail milk powder and liquid milk. The description will be fairly accurate except for liquid milk which is not exported to Malaysia because imports of liquid milk into Malaysia is banned. Imports of milk to

⁴⁷⁸ Assael, op. cit., p. 627.

Kotler, op. cit., p. 68.

⁴⁷⁹ Assael, op. cit., p. 627. Assael uses the term 'Problem Children'.

Kotler, op. cit., p. 68.

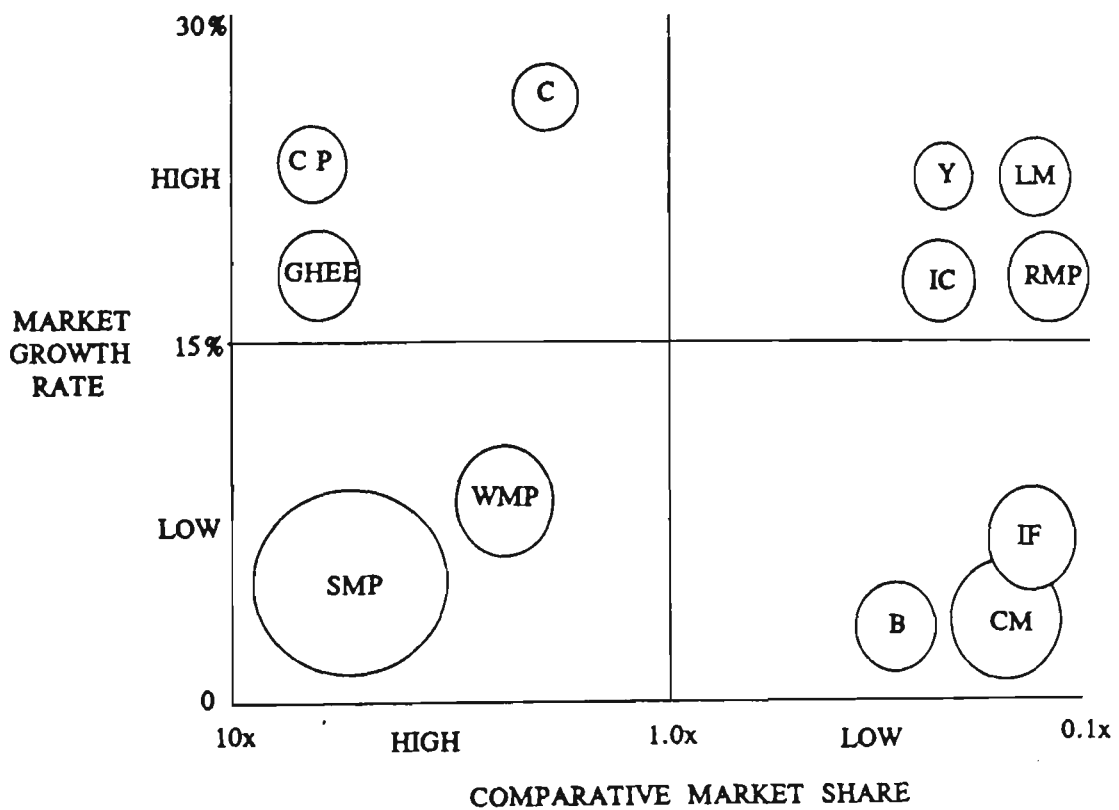
Malaysia may be liberalised under the recently launched 'National Agricultural Policy of Malaysia 1992-2010'. This may lead to Australian companies exporting liquid milk to Malaysia. However, it is probable that Australian exporters will face intense pressure from major players in the market such as Nestles and Dutch Baby who dominate the manufactured liquid milk segment.

- d) Dogs are product that have a low market share in a low growth market⁴⁸⁰. The product is mature and there is minimal marketing effort. Butter can be classed as a 'Dog'. Sales of butter in Malaysia has progressively declined through diminution of product perception and intense pressure from substitute products such as margarine. Australian butter has a smaller market share in Malaysia in comparison with butter from New Zealand.

⁴⁸⁰ Assael, op. cit., p. 628.

Kotler, op. cit., p. 69.

**DIAGRAM 10: DAIRY PRODUCT POSITIONING IN MALAYSIA
MODELLLED ON THE BCG GROWTH-SHARE MATRIX**



LEGEND:

B =	BUTTER
C =	CHEESE
CM =	CONCENTRATED MILK
CP =	CHEESE POWDER
IC =	ICE CREAM
IF =	INFANT FORMULA
LM =	LIQUID MILK
RMP =	RETAIL MILK POWDER
SMP =	SKIM MILK POWDER
Y =	YOGHURT

6.5 Chapter Summary

The demand for dairy products in Malaysia was growing rapidly. However, Australian export efforts were concentrated in the export of bulk WMP and SMP to the industrial market segment. This market segment was observed to be highly price elastic in demand due to competitive pressure from low cost and subsidised suppliers from other countries. This concentration on the export of highly price sensitive bulk commodities was observed to explain the marked fluctuations in Australian exports to Malaysia. The Australian dairy industry was observed not to be export market focussed. Generally, the Australian exporters marketing efforts in Malaysia were not geared to maximise sales to the rapidly growing consumer and food service market segments. Aggressive marketing effort was observed as being needed to expand sales and market share of products that were classed as 'Question Mark' (yoghurt, liquid milk, retail milk powder and ice cream) and 'Stars' (cheese, ghee, cheese powder) in this study.

CHAPTER SEVEN

7 CONCLUSIONS

7.1 Chapter objective

The objective of this chapter is to summarise the prospects and potential for the profitable sales of Australian dairy products to Malaysia.

7.2 Introduction

This analysis is based on a Strength, Weakness, Opportunity and Threats (SWOT) model by Charles W.L.Hill and Gareth R. Jones⁴⁸². Opportunities and threats are an analysis of the industry's external operating environment⁴⁸³. Strength and Weakness are an internal analysis of the industry and will incorporate the quantity and quality of resources available to the industry⁴⁸⁴. Opportunities are said to arise when environmental trends create the potential for a company to increase profits. By the same corollary, threats are said to arise when environmental trends endanger the profitability and integrity of the industry. The opportunities and threats that the industry faces in its external environment can be broken down in terms of the industry environment in which the company competes and the macro

⁴⁸² Hill, Charles W.L. and Jones, Gareth R; Strategic Management, An Integrated Approach (Second Edition), Houghton Mifflin Company, USA 1992.

⁴⁸³ Hill, op. cit., p. 13.

⁴⁸⁴ Idem.

environment. The industry environment are those factors such as competitors, suppliers, customers and substitute products that directly affect the industry⁴⁸⁵ in Malaysia. The macro environment consists of broader social, demographic, economic, political and legal setting⁴⁸⁶ in which the industry operates. A summary of the strengths, weaknesses, opportunities and threats facing the Australian dairy industry in Malaysia are summarised as follows:

7.3 Strengths

7.3.1 *Competitive Advantage*

Malaysia is geographically close to Australia. Freight costs for the export of products from Australia to Malaysia are minimal in comparison with freight costs from competing countries. The average cost of sea freight from Australia to a West Malaysian port such as Pelabuhan Kelang is approximately US\$ 1500 per 20 foot container. There is regular sea freight from Australian ports to Malaysia. The duration of sea freight is less than three weeks.

There is also regular and economical air service both for cargo and passenger traffic from Australia to Malaysia. The cost of air freighting short shelf life products and the expenses for market visits to Malaysia

⁴⁸⁵ Hill, op. cit., p. 70.

⁴⁸⁶ Idem.

by Australian executives is considerably reduced because of high service standards and competitive air fares between Australia and Malaysia.

Geographical proximity is envisaged to offer cost benefits to Australian exporters in comparison with major competitors from EC, USA and New Zealand.

7.3.2 *Comparative Advantage*

The Australian dairy industry has among the lowest production cost in the world at the farm gate⁴⁸⁷. This is because dairy farming in Australia is based on year round grazing of cows. There are, therefore, cost savings on feed and capital investment for buildings to enable indoor feeding in winter. Added to this, the high cost of labour and the lower productivity of labour in other major producing countries gives Australia substantial cost advantages in the production of milk⁴⁸⁸.

7.3.3 *Generic Differentiation*

Australia is perceived in Malaysia as a developed economy that has high and rigorous standards in food production, closely monitored by educated and discerning consumers who demand high quality food products.

⁴⁸⁷ Taylor, op. cit., p. 21.

⁴⁸⁸ Idem.

Australian Dairy Corporation 1992a, op. cit., p. 5.

The Chernobyl nuclear disaster in Russia with ensuing reports of contamination of agricultural and dairy products in Europe meant that food products from USA, New Zealand and Australia are preferred to imports from Europe.

The AUD\$ 5 million 'Clean Food' campaign announced by the Agri-Foods Council is expected to further enhance Australia's image as a supplier of clean and high quality food products⁴⁸⁹.

The Australian Dairy Corporation's (ADC) programs such as 'The Essentiality of Dairy Foods' and the 'Australian Dairy Mark' are strategies at generic promotion of dairy products targeted at increasing consumer awareness of the health and nutritional advantages of dairy products in comparison to substitutes⁴⁹⁰. The Dairy Mark helps promote a quality image of Australian dairy products in the export market. Reports by the ADC suggest that the recall rate of the mark/brand in Australia is high⁴⁹¹. The dairy mark is not used extensively as a promotional strategy in Malaysia. However, it remains a valuable method of differentiating and promoting Australian dairy products in Malaysia.

⁴⁸⁹ Fabian, Garry and McGregor, Ken; 'Canberra in - At Last', Food Manufacturing News, September/October 1992, p. 13.

⁴⁹⁰ Australian Dairy Corporation 1992b, op. cit., pp. 6, 17 & 19.

⁴⁹¹ Ibid., p. 19.

7.3.4 *Human Resources*

Educational links resulting from the large number of Malaysian students coming to Australia for their tertiary education and the business migration program through which many Malaysian businessmen became permanent residents in Australia will increase market intelligence and awareness of the corporate culture in Malaysia.

7.3.5 *Market Experience*

The Australian dairy industry has extensive experience in Malaysia as a result of long trading links as an exporter of bulk commodities. Although the industry has not succeeded in exporting branded value added products, the lack of success in this and decreasing market share in Malaysia will awaken the industry to weaknesses in its current strategies. This places the Australian industry at an advantage in comparison with new entrants to the market.

7.3.6 *Public Sector Export Facilitation Schemes*

The Commonwealth and State Governments provide incentives and support the export of value added food products. The Agri-Foods strategies statement announced by Senator Button and Simon Crean⁴⁹² include many measures to facilitate export of food products.

⁴⁹² Crean, Simon; 'Food Strategy to benefit farmers', Australian Financial Review, Thursday June 3 1993.

This strategy is being spearheaded through the Agri-Food Council. The policy statement of the Agri-Foods Council best describes its mission,

*The council is actively developing a comprehensive programme, in which the government and industry are working together to improve the international competitiveness of Australia's agri-food industries*⁴⁹³.

Food companies such as Goodman Fielder Limited (GF) and Kelloggs have already taken advantage of these initiatives through participating in these government programs. There is opportunity for the dairy industry to emulate the example of companies such as GF.

7.3.7 Product and Process Research and Development Strengths

The Australian dairy industry, especially with support from CSIRO has a very strong research base⁴⁹⁴. It was Australian that first introduced and provided technical expertise in milk reconstituting processes in Asia. Today, milk reconstituting is the most important dairy manufacturing industry in countries such as Malaysia. However, the industry developed forging linkages with manufacturing companies in Europe and New Zealand. This has gradually eroded the position of Australian suppliers.

⁴⁹³ Australian Financial Review, June 3 1993.

⁴⁹⁴ Collins, S. M.; 'Dairy Research in CSIRO 1986-87', Food Technology in Australia, Volume 40 (5) May 1988, pp. 176-177.

'CSIRO Dairy Research Laboratory - in Brief'; CSIRO Dairy Research Laboratory, 1992.

'Whey - Too Valuable to Dump!'; CSIRO Dairy Research Laboratory, 1992.

'More Cheese from Less Milk!'; CSIRO Dairy Research Laboratory, 1992.

Australian dairy industry has excellent research and development resources in various institutions such as the CSIRO which it can use to develop business linkages.

7.4 Weakness

7.4.1 *Limited Product Sales Mix*

Australian dairy companies concentrate on exports of bulk commodities such as SMP, WMP and butter oil to food processing companies. As such, except for companies such as BPCF and Kraft, there is no depth nor width in Australian dairy product exports to Malaysia. Malaysian consumers have a limited offering of Australian dairy products by way of variety and pack sizes. Companies such as NZDB have successfully and profitably developed a varied product sales mix especially in value added products⁴⁹⁵.

7.4.2 *Channel Intermediaries*

Australian exporters use indirect channel intermediaries and have marketing strategies that does not maximise opportunities in the rapidly evolving socio-economic environment in Malaysia. In comparison, Australia's major competitors in Malaysia, NZDB has strengthened its position through direct channel marketing⁴⁹⁶.

⁴⁹⁵ Spring, *op. cit.*, p. 65.

⁴⁹⁶ *Idem.*

7.4.3 *Lack of Brand Offering*

Several recent studies suggest that successful exporters invest in developing proprietary brands in the market⁴⁹⁷. NZDB, for example, actively promoted its two major brands 'Fernleaf' and 'Anchor' in Malaysia.

7.4.4 *Poor Marketing Strategies*

The Australian dairy industry, unlike NZDB, has not developed a positive and aggressive marketing strategy for its world wide operations. New Zealand produces only 1.5 per cent of the world's milk but has 25 per cent of the world's trade in dairy products⁴⁹⁸. The development of a positive and aggressive marketing strategy was the turning point in the success of NZDB in the international market. In 1979, NZDB exported nearly half of its total production of about 550,000 tonnes to the United Kingdom (UK). Exports were made up almost exclusively of standard butter and cheese. This position is not very different compared with the Australian dairy industry today. Eighty per cent of Australia's exports are bulk commodities to a few countries in Asia.

UK's admission to the EC enabled it to import subsidised products from continental Europe. UK also became an exporter of dairy products. NZDB had to develop and carry through new marketing strategies.

⁴⁹⁷ Idem.

⁴⁹⁸ Idem.

NZDB recognised the need to differentiate and add value to its exports in several ways including through strong brand offering backed by effective distribution and delivery systems⁴⁹⁹. In many countries, particularly in South-East Asia, NZDB brands hold either number one or number two market positions. NZDB has established an international marketing network of more than 50 companies throughout the world⁵⁰⁰. In 1991, NZDB's exports increased to over 800,000 tonnes per annum. Even more importantly, since 1981 the value of products sold in added value form by NZDB has increased by 250,000 tonnes annually⁵⁰¹.

7.4.5 *Ineffective Market Entry Strategies*

The Australian dairy industry's market entry strategies are weak in comparison to major competitors such as NZDB. NZDB has followed a strategy of vertical integration to overcome physical limitations of some product lines such as short shelf life products and to counteract market barriers. A classic case of this strategy is the NZDB owned Asia Dairies in Singapore which imports New Zealand milk powders and milk fat and manufactures fresh milk, ice cream and yoghurt from those raw

499 Idem.

500 Ibid., pp. 65-69.

501 Idem.

materials with which it then dominates the fresh market in Singapore⁵⁰².

John Keniry of Goodman Fielder Limited (GF) a successful Australian food exporter, in a recent article⁵⁰³ outlines three key elements in export market success. These include becoming a global company, good quality market research and appropriate market entry strategies - points that resemble NZDB's strategy. Keniry explains that global strategy is more than exporting or engaging in joint venture production overseas,

*. . . it describes an organisational commitment to a borderless strategy to produce local products in local markets.*⁵⁰⁴

7.4.6 Market Intelligence

The researcher suggests that the weakness of the Australian dairy industry's export marketing strategies in comparison with NZDB and GF results from poor market intelligence. Several Australian dairy industry executives interviewed did not show understanding of the intricacies and the vast opportunities in Malaysian. This may be the result of poor quality market intelligence because of depending upon indirect channel

⁵⁰² Idem.

⁵⁰³ Keniry, John; 'Food Giant's Recipe for Success', The Australian, Wednesday 24 June 1992, p. 7.

⁵⁰⁴ Fosler, Gail; 'Going Global Aids Survival', The Australian, Wednesday 24 June 1992, p. 6.

intermediaries for information. The limited in-house export marketing skills in the industry seem to be concentrated in maximising sales to existing customers. A casual observation of the 'local' personnel used both by the Australian dairy industry and organisations such as AUSTRADE suggest that the focus is still on the traditional Chinese segment of the market. There has been no focus on the Malay segment which make up 60 per cent of the population.

7.4.7 Market Research

The operations of Australian dairy companies suggest that market research and planning to establish where and how the company wants to enter the export market does not appear a priority. Market research goes beyond raw data on economic growth and levels of income in a country. Company's should concentrate their effort in markets where potential growth is greatest for its products. Keniry for instance notes that *"it is significantly easier to build sales in high growth markets"*⁵⁰⁵. However, each market should be researched thoroughly, various opportunities should be examined, assessed, prioritised, and investment decisions made accordingly. Keniry goes on to say that creating an international future for the business is developing export consciousness and integrating this into all sections of corporate behaviour. The company should aim to become an 'insider' in each market through understanding the culture and adapting exports to each nations unique

⁵⁰⁵ Keniry, op. cit., p. 7.

requirements. This strategy should incorporate adaptations to product, packaging, marketing and locating new plants in these markets⁵⁰⁶.

7.4.8 Corporate Structure & Organisation

For success in the export market, the company has to incorporate export growth in its primary corporate objective and this needs commitment within the mission statement, structure and core business strategy⁵⁰⁷. GF for example, in implementing its export strategy changed from regional organisational structures into six core food business groups, each responsible for worldwide business development in specialised product areas⁵⁰⁸. GF has also set an objective to have 50 per cent of its sales from outside Australasia by 1997⁵⁰⁹. The majority of Australian dairy companies do not have comparable programs and therefore cannot compete successfully in the international market.

7.4.9 Difficulty of Promoting Product Benefits

It is acknowledged by many food product marketers that the marketing of food is difficult as there are,

506 Idem.

507 Idem.

508 Idem.

Shoebridge, Neil; 'Goodman Gets its Act Together', Business Review Weekly, July 17 1992, p. 19.

509 Keniry, op. cit., p. 7.

*. . . constant stream of claims and counter-claims about the benefits and dangers of a variety of food products. Myths, misconceptions and fears dog the marketing of many foodstuffs. Correcting misconceptions about food is not easy*⁵¹⁰.

Jens Karnoe of the Australian Dairy Corporation attributes the non growth in the domestic demand for dairy products to,

*. . . the dichotomy in the consumer's mind between the goodness of dairy products on the one hand and concerns about the fat and cholesterol level of dairy products on the other*⁵¹¹.

These perceptions caused continued decline in per capita consumption of some dairy products such as butter, milk and cheese in Australia. Australian per capita consumption of butter has declined whereas consumption of margarine, a key substitute product, has increased. Perceptions such as this will compound the problem in countries such as Malaysia where sections of the population traditionally consume dairy substitute products and consider these to have superior dietary qualities.

⁵¹⁰ Shoebridge, Neil 'Dairy Marketeers Reap the Benefits of a New Image', Business Review Weekly, July 24 1992, p. 82.

⁵¹¹ Shoebridge, op. cit., p. 84.

7.5 Opportunities

7.5.1 *Competition*

The main competition for Australian dairy companies in Malaysia is from NZDB, who are also not an exporter of subsidised products. With improved marketing strategies the Australian dairy industry will be able to compete with NZDB on a more 'level playing field' in Malaysia. The strength of the competition in Malaysia is difficult to measure but the researcher suggests that rapid growth in the market and success of NZDB shows that there are substantial opportunities.

7.5.2 *Customers*

Malaysia is a wealthy country with increasing domestic demand for dairy products. There is opportunity to increase sales of a wider range of product categories as Malaysians generally have a positive perception to the consumption of dairy products. Dairy products are important in the diet of the Indian and Malay segments of the population. The per capita consumption of dairy products in Malaysia in 1990 was estimated at 50 litres. This is higher than in East Asian economies at the same level of development. More importantly, consumption of dairy products in Malaysia has progressively increased whereas in countries such as Taiwan consumption has remained unchanged at 28 kg/capita for the decade 1975-1985⁵¹².

⁵¹² Refer Table 1.

Dairy product consumption in Malaysia remains substantially lower than Western European or Australian consumption of 350-400 litres per capita⁵¹³. This suggests that market potential in Malaysia remains large. Both domestic production of dairy products and imports of dairy products (probably correlated) have shown significant growth. Since 1986, production in Malaysian dairy manufacturing industries increased by more than 13 per cent per annum (5.4). 'New' products such as milk drinks have shown high growth (5.4.3). There is demand for a wider range of dairy products. Traditional product lines such as sweetened and filled condensed milk show market maturity characteristics. The market is capable of accepting a wider range of fresh products such as market milk, yogurt and custard because of increased ownership of refrigerators in households.

7.5.3 *Substitutes*

Malaysia is a major producer of vegetable fats. Competition may be intense in yellow fats, spreads and baking products. However, yellow fats such as ghee are used as a 'up market' products in the cuisine of Malays and Indians. This product commands a premium price and there is opportunity for substantial growth as incomes increase. The researcher observed that soy milk consumption is widespread only among the Chinese segment of the market. The increasingly affluent

⁵¹³ IMES (Volume 1), op. cit., p. 10.

Malay population offers opportunity for the growth in sales of dairy products.

7.5.4 *Suppliers*

Malaysia has a liberal and open economy. Market entry is generally not restricted. As such, the market is very competitive. The inflow of DFI is a reflection of the quality of service facilities such as banking, transport, packaging and power that are available in Malaysia. Australian dairy companies will be purchasing dairy raw material supplies from parent and/or associate companies in Australia. The industry is expected to have favourable supply position.

7.5.5 *Positive Public Policy*

There is no threat from a domestic dairy industry in Malaysia as the factor endowments are not conducive to the development of a sustainable dairy industry. Economic policy has been directed at concentrating on those sectors in which Malaysia has comparative and competitive advantage.

7.5.6 *Brand Elastic Demand*

Companies such as Nestles, Premier Milk and Pacific Milk started operations in Malaysia in the 1960s. Even then, NZDB which entered Malaysia only in 1985 has notched up major market share in several

products. This shows that there are no barriers to market entry by new manufacturers.

7.5.7 *Social Stability*

Except for the race riots in 1969, Malaysia has experienced social and political stability. The Government has legislated affirmative action strategies to improve income distribution among ethnic groups and sectors of the country. Malaysia has a burgeoning middle income segment particularly among ethnic Malays. Malaysia has a low inflation and high private consumption expenditure.

7.5.8 *High Economic Growth Rates*

Malaysia is a wealthy country with excellent natural resource endowments. The economic structure of the country is rapidly changing from that of a primary producer to a country with a significant manufacturing base. Malaysia attracts high direct foreign investment. Between 1988 and 1991 Malaysia recorded real GDP growth of 9 per cent. This is among the highest growth rates in the world.

7.5.9 *Favourable Political Environment*

Malaysia is a multi party parliamentary system modelled along the Westminster system. The country has a stable political environment.

7.5.10 *Favourable Legal Environment*

Malaysia's legal system is derived from the British model. Laws governing trade and commerce are broadly similar to that of Australia.

7.6 Threats

7.6.1 *Subsidised Products*

One of the obvious and often mentioned causes for the non competitiveness of Australian dairy products in the international market place is competition from subsidised products from members of the European Community (EC). This continues to be a threat to Australian dairy exporters concentrating on selling bulk commodities.

7.6.2 *Economic Grouping*

The Asean Free Trade Association (AFTA), the economic grouping of members of ASEAN, is becoming a reality. Various co-operative arrangements within ASEAN such as the ASEAN joint venture preferential scheme are being introduced. Under the ASEAN joint venture preferential scheme a manufacturer who sets up in any ASEAN country can export to a member country at 90 per cent tariff discount⁵¹⁴.

⁵¹⁴ Chong, Florence; 'Why Australia must change', The Australian, Tuesday June 15 1993, p. 21.

7.6.3 Dairy Substitutes

Malaysia is a major producer of margarine and vanaspathi. Soya bean is imported from China at very competitive prices. Large local companies and multi nationals produce margarine, soya milk and vanaspathi for the local and export market. Government support for these export promoting and/or import substituting industries are substantial.

7.7 Chapter Summary

The SWOT Analysis suggests that there are substantial and growing demand for dairy products in Malaysia. The macro environment is conducive for Australian exporters. Australian dairy industry needs to improve and follow the example of NZDB, BPCF, Kraft and GF in developing market focussed strategies to maximise opportunities in Malaysia.

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Appendix I

SCHEDULE OF COMPANIES SURVEYED

Butter Producers Cooperative Federation

Associated Dairies Ltd

Lactos Pty Ltd

Dairy Vale Cooperative Ltd

Ausdairy Ltd

Ausfine Trading company

International Food Processing

Ballantyne Export Company Pty Ltd

Lavery International

Atherton Tablelands Cooperative

Norco Cooperative Ltd

Queensco Unity Dairyfoods Ltd

National Dairies Ltd

Kraft Foods Ltd

Bonlac Foods Ltd

Nestles (Australia) Ltd

Australian Cooperative Foods Ltd

Warrnambool Cheese and Butter Factory Co

Tatura Milk Products

United Milk Tasmania Ltd

Murray Goulburn Cooperative Ltd

QUESTIONNAIRE

INDUSTRY SURVEY QUESTIONNAIRE

NOTES

This questionnaire is to be completed by the interviewer by ticking [✓] in the space provided or by ranking one of the choices to specify the degree of importance of the variable. For example in question 1 the choice of a scale of 5 will indicate that the company exports more than 25% of it's production; a choice of 5 for any one of the variables in questions 4, 5, 6, 11, 14, 17, 19, 21, 24, 25, 26 and 27 will indicate that this is the most important variable. **Do not give the same ranking for more than one variable in a question.** Where the respondent is not able to complete a question make notes to indicate the difficulties encountered.

1.

What is the annual share of dairy product exports to the total volume of production of your organisation ?

0%5%10%15%20%>25%

012345

lowhigh

2.

Do you forecast that your organisation's dairy product exports will increase in the next 2 years ? If yes, what do you forecast the level of dairy product exports to be in 2 years ?

0%5%10%15%20%25%

012345

lowhigh

3. Based on your market experiences and/or market intelligence how will you rank the export market potential for dairy product lines of your organisation to Malaysia in the next 2 years ?

POOR		SATISFACTORY			GOOD	
0	1	2	3	4	5	

4. Indicate your organisation's principal sources of market intelligence on Malaysia. Rank key sources of market intelligence in order of importance.

		Important				Not Important	
a)	Malaysian Resellers	5	4	3	2	1	0
b)	Austrade	5	4	3	2	1	0
c)	AFR/Business Magazines	5	4	3	2	1	0
d)	Market Surveys (consultants)	5	4	3	2	1	0
e)	Industry Reports	5	4	3	2	1	0
f)	Others, specify	5	4	3	2	1	0


5. Do you perceive that the demand for dairy products in Malaysia will grow ? If yes, what do you perceive to be the positive factors for the growth in demand for dairy products in Malaysia in the next 2 years ?

		Important				Not Important	
a)	Income Growth	5	4	3	2	1	0
b)	Changing dietary habits	5	4	3	2	1	0
c)	Positive production perception	5	4	3	2	1	0
d)	Positive perception of Australian products	5	4	3	2	1	0
e)	Negative perception of dairy substitutes	5	4	3	2	1	0
f)	Others, specify	5	4	3	2	1	0

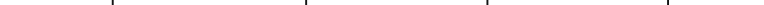
6. In export marketing to Malaysia, what reseller channel intermediaries do you use ? Rank in order of importance.

	Important			Not Important		
a) Malaysian based sales office/subsidiary	5	4	3	2	1	0
b) Malaysian based Agents	5	4	3	2	1	0
c) Malaysian based Merchants	5	4	3	2	1	0
d) Australian based Agents	5	4	3	2	1	0
e) Malaysian wholly owned manufacturing subsidiary	5	4	3	2	1	0
f) Malaysian manufacturing joint venture	5	4	3	2	1	0
g) Others, specify _____	5	4	3	2	1	0

7. If using resellers in Malaysia ('a' and/or 'b'), indicate the number of resellers representing you in Malaysia.

					
<9	8-7	6-5	4-3	2-1	none
5	4	3	2	1	0

8. For how many years have these resellers represented you in Malaysia?

					
< 5	5-9	10-14	15-19	20-24	>25
5	4	3	2	1	0

9. Are there specified sales territories for your resellers in Malaysia or do they represent you for the whole country ?

a) YES ☐ b) NO ☐

10. Does the existence of large and diverse ethnic and religious groups such as Chinese, Malays and Indians in Malaysia, make product market planning more difficult than in other more homogenous markets in the region ?

a)	YES	<input type="checkbox"/>	b)	NO	<input type="checkbox"/>
5	4	3	2	1	0
Difficult			Not Difficult		

11. What segments of the market as defined below do your resellers focus on ?

	Important			Not Important		
	5	4	3	2	1	0
a) Retail						
b) Wholesale						
c) Food service						
d) Industrial						
e) Mass market						
f) Others specify, _____						

12. Is your strategy in Malaysia to sell bulk products such as SMP, WMP, whey powder and butter oil or do you actively promote value added, packaged proprietary brands to the retail and food service segments ?

NICHE MARKET (value added)			MASS MARKET (bulk commodities)		
5	4	3	2	1	0

13. What are your major exports to Malaysia based on sales value ?

PRODUCT	VALUE
a) _____	_____
b) _____	_____
c) _____	_____

14. In product market segmentation, what important sub markets do you see in Malaysia ? Rank the importance of these sub markets.

	Important			Not Important		
a) Income based	5	4	3	2	1	0
b) Ethnic based	5	4	3	2	1	0
c) Tourism based	5	4	3	2	1	0
d) Others, specify _____	5	4	3	2	1	0

15. Do you perceive modern supermarkets (as in Australia) becoming an important retail channel in Malaysia in the next 5 years ?

a) YES	<input type="checkbox"/>	b) NO	<input type="checkbox"/>		
5	4	3	2	1	0

16. If yes, do you think that your present resellers are geared to selling into these more sophisticated outlets (ability to negotiate instore promotions, merchandising etc) ?

a) YES	<input type="checkbox"/>	b) NO	<input type="checkbox"/>		
5	4	3	2	1	0

17. What are the key strengths of your resellers in Malaysia ?

	Important			Not Important		
a) Infrastructure	5	4	3	2	1	0
b) Sales/ Marketing	5	4	3	2	1	0
c) Management	5	4	3	2	1	0
d) Capital	5	4	3	2	1	0
e) Trading skills	5	4	3	2	1	0
f) Others, specify _____	5	4	3	2	1	0

18. How do you rate Nestles as a dairy products marketer in Malaysia ?

very successful			unsuccessful		
5	4	3	2	1	0

19. If you rate Nestles as a successful marketer (score of 3 and more), specify your perception of the factors that contributed to their success?

	Important			Not Important		
a) Channel Marketing	5	4	3	2	1	0
b) Large Promotional Budgets	5	4	3	2	1	0
c) Price Discounting	5	4	3	2	1	0
d) Building a Brand Profile	5	4	3	2	1	0
e) Public Relations	5	4	3	2	1	0
f) Other Factors, specify _____	5	4	3	2	1	0

20. How do you rate NZDB as a dairy products marketer in Malaysia ?

Very successful			Unsuccessful		
5	4	3	2	1	0

21. If you rate NZDB as a successful marketer (score of 3 and more), specify your perception of the factors that contributed to their success?

	Important			Not Important		
a) Channel Marketing	5	4	3	2	1	0
b) Large Promotional Budgets	5	4	3	2	1	0
c) Price Discounting	5	4	3	2	1	0
d) Building a Brand Profile	5	4	3	2	1	0
e) Public Relations	5	4	3	2	1	0
f) Other Factors, specify _____	5	4	3	2	1	0

22. Do you think that the dominance of Nestles and NZDB will make business development more difficult for your organisation in Malaysia ?

Difficult			No effect		
5	4	3	2	1	0

23. Is there a separate International Marketing Department in your organisation ?

a) YES ☐

b) NO ☐

24. If yes, which of the following will closely resemble the organisation of your International Marketing Department ?

- a) All products under one manager ☐
- b) Separate product managers ☐
- c) Separate market managers ☐
- d) A combination of the above ☐

25. What is the extent of formal marketing planning in your organisation ?

- a) There is little or none ☐
- b) Limited to annual budgeting ☐
- c) A separate annual marketing plan ☐
- d) Annual and long -term plans ☐

26. Which of the following best describes your organisation's current marketing objectives in Malaysia ?

- a) Don't have specific objectives ☐
- b) Maintain current position ☐
- c) Steady sales growth ☐
- d) Aggressive sales growth ☐
- e) Market domination ☐
- f) Others, specify _____ ☐

27. What is the main way in which your organisation is going about achieving its marketing objectives in Malaysia ?

- a) Expand the total market ☐
- b) Enter newly emerging segments ☐
- c) Win market share from competitors ☐
- d) Others, specify _____ ☐

28. Has the Malaysian government's policies regarding foreign equity limitations, employment of expatriate manager's, and other conditions under the New Economic Policy guidelines affected your organisation's decision to participate more directly in export marketing to Malaysia in any way ? Please comment.

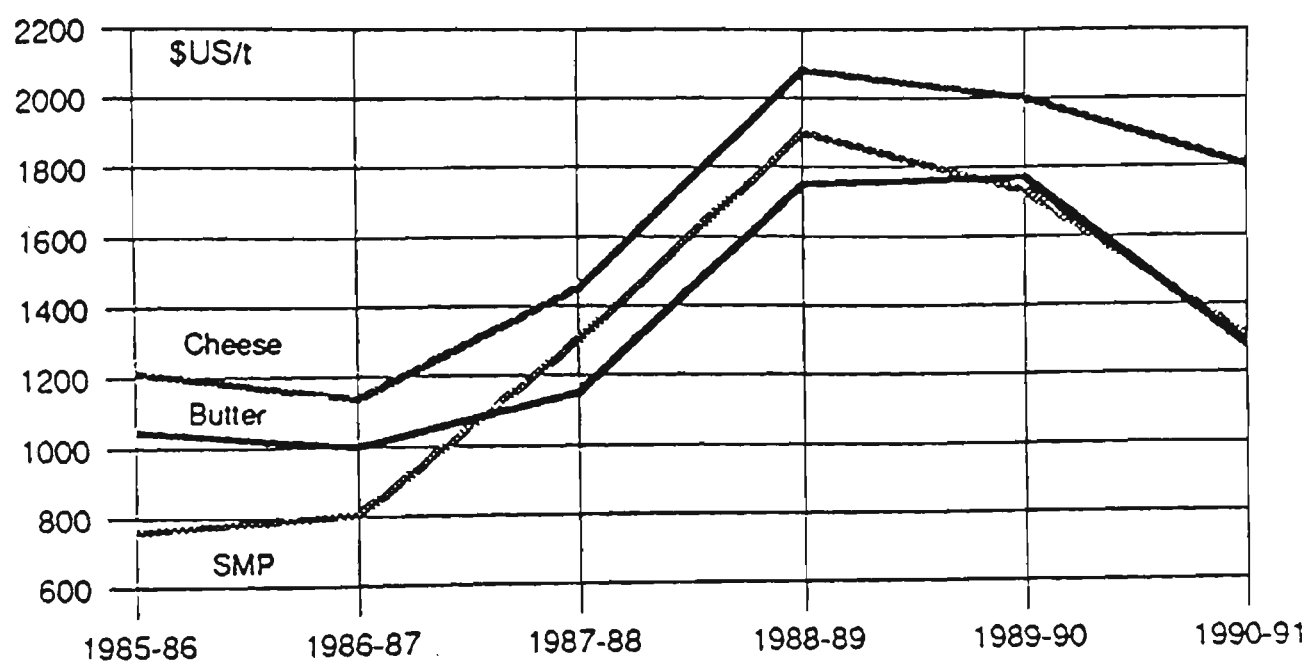
APPENDIX III

GDP PER CAPITA IN THE PACIFIC BASIN - SELECTED COUNTRIES (US Dollars excepted where noted)

Country	At purchasing power parities in 1980 prices		Average growth rate (%)	Atkinson inequality index ^a	At 1988 Market exchange rates
	1963	1988			
Singapore	1,777	11,693	7.8	n.a.	7,623
Malaysia	1,233	3,643	4.4	0.556	1,886
Thailand	537	1,627	4.5	0.408	887
Philippines	965	1,460	1.7	0.442	603
Indonesia	463	1,348	4.4	0.407	409

^a The Atkinson inequality index is defines as $1 - [\sum_i (y_i^{-1}/n)]^{-1}/y$, where y_i = income of group i and n is the number of income groups. The index varies from 0 to 1, with higher values indicating greater income inequality.

APPENDIX IV

ANNUAL WORLD INDICATOR PRICES FOR
MAJOR DAIRY PRODUCTS

Ref: Lembit, M.; 'Market prospects for dairy', Shepparton Regional Outlook Conference, 3 October 1990, pp 1.

APPENDIX V

MALAYSIA, CHANGING INCIDENCE OF POVERTY, 1976-1985

	Households in poverty (%)		Doctor per 10,000 population		Households with piped water (%)		Households with electricity (%)		Infant mortality rate per 1000 life births	
	1976	1984	1980	1985	1980	1985	1980	1985	1980	1985
Johor	29.0	12.2	2.1	2.7	48.8	69.0	40.3	62.9	20.0	17.3
Kedah	61.0	36.6	1.4	1.9	57.2	70.4	33.0	60.9	28.1	24.3
Kelantan	67.1	39.2	0.9	1.6	28.4	32.8	38.8	62.8	18.4	16.4
Melaka	32.4	15.8	2.5	3.3	76.5	84.4	54.2	70.9	18.7	20.3
Negeri Sembilan	33.0	13.0	3.2	3.3	72.8	79.6	68.7	91.6	19.3	14.8
Pahang	38.9	15.7	1.9	2.2	58.8	72.8	34.0	49.5	15.9	13.7
Perak	43.0	20.3	1.9	2.7	68.2	82.4	25.3	58.0	19.3	21.3
Perlis	59.8	33.7	3.4	4.6	57.2	70.4	68.4	90.3	31.4	34.1
Pulau Pinang	32.4	13.4	2.2	3.7	87.0	91.0	70.8	81.0	23.5	23.2
Sabah	58.3	33.1	1.3	1.6	34.8	51.5	36.7	48.0	47.2	11.5
Sarawak	56.5	31.9	1.4	2.6	31.8	43.8	33.8	49.3	215.4	132.8
Selangor	22.9	8.6	2.2	2.9	80.8	88.1	44.8	81.0	27.5	27.0
Trengganu	60.3	28.9	1.2	1.7	46.4	59.1	49.8	70.6	14.7	12.2
Kuala Lumpur	9.0	4.9	10.2	11.4	80.0	88.1	71.4	95.7	20.7	12.6
West Malaysia	39.6	18.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malaysia	n/a	n/a	2.6	3.2	58.8	69.9	49.9	41.3	21.6	18.3

Source: Fifth Malaysia Plan, 1986-1990, 1986: 88 170-1, 510

APPENDIX VI

RETAIL ESTABLISHMENTS IN MALAYSIA

BUSINESS Employees	Establishments	Turnover	
	(number)	(MR\$ million)	(number)
Meat/Poultry	2,977	306.3	5,914
Roasted Meat	181	14.0	375
Fish	4,074	173.0	6,171
Fruits and Vegetables	7,998	216.0	11,165
Confectionery	1,564	28.8	2,600
Biscuits, cakes, bread etc	781	18.0	1,103
Provisions (including rice)	43,433	3,214.0	100,654
Bean curd	204	4.5	274
Mee and kueh teow	148	4.6	224
Tobacco, cigarettes	310	8.3	497
Beer, wine, spirits	487	53.7	1,051
Domestic hardware	1,615	134.2	3,392
Electrical goods, appliances etc	3,184	1,019.8	11,058
Furniture, furnishings	1,975	283.7	5,884
Clothing and textiles	5,538	782.3	17,484
General merchandise	946	533.1	10,241
Footwear	711	103.6	2,222
Chemists' goods, cosmetics	2,426	308.6	6,541
Books, stationery etc	2,232	200.6	5,778
Jewellery, watches etc	2,319	482.2	6,976
Bicycles and parts	1,316	53.2	2,663
Other household, personal goods	2,426	189.5	5,736

Source: *Retail Census of Peninsular Malaysia, 1980, Chapter H.*

