UNIVERSITI PUTRA MALAYSIA

AN ANALYSIS OF GLOBAL MARKETING STRATEGY FOR THE MALAYSIAN WOODEN FURNITURE INDUSTRY

YEAP TEIK BU

FEP 1999 6

AN ANALYSIS OF GLOBAL MARKETING STRATEGY FOR THE MALAYSIAN WOODEN FURNITURE INDUSTRY

YEAP TEIK BU

MASTER OF SCIENCE
UNIVERSITI PUTRA MALAYSIA

1999

AN ANALYSIS OF GLOBAL MARKETING STRATEGY FOR THE MALAYSIAN WOODEN FURNITURE INDUSTRY

By

YEAP TEIK BU

Thesis Submitted in Partial Fulfilment of Requirements for the Degree of Master of Science in the Faculty of Economics and Management Universiti Putra Malaysia

April 1999

ACKNOWLEDGEMENTS

I am deeply indebted to my supervisors Professor Madya Dr. Mohd. Shahwahid Haji Othman, Dr. Jamil Bojei and Encik Alias Radam for their invaluable advice, guidance and encouragement throughout my thesis writing. They helped me greatly by giving suggestions for my analytical framework, creating the model and offering provocative and insightful comments which greatly improved the thesis.

My heartfelt thanks to my colleagues and friends, Miss Elaine Tan Lae-Imm, Miss Syarisa Yanti Abubakar, Miss Ong Gaik Ean, Mr. Bernard Tai Khiun Mein, Mr. Nesathurai Arunagiri and Puan Musalmah Johan who provided editorial and assistance and valuable suggestions and information.

My thanks to the staff of the Malaysian Furniture Industry Council, (MFIC) especially to the Honorary Secretary General, Mr. Paul Wang Kia Joo, for his assistance in providing me with members' contact and insightful comments.

Thanks to my parents, my brothers and sister, my wife, Lim Chew Suan, and my ex-landlord whose constant love and encouragement inspired me over the past three years of my studies.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

Figure **Page**

LIST OF ABBREVIATIONS

Csil	Centre for Industrial Studies Italy
DOS	Department of Statistics
ECR	Export Credit Refinancing
ECIGS	Export Credit Indurance and Guarantee Schemes
EU	European Union
FDI	Foreign direct investment
HRD	Human resource development
IMF	International Monetary Fund
IMP	Industrial Master Plan
ITAF	Industrial Technical Assistance Fund
ITM	Institut Teknologi MARA
MFIC	Malaysian Furniture Industry Council
MIER	Malaysian Institute of Economic Research
MIDA	Malaysian Industrial Development Authority
MITI	Ministry of International Trade and Industry
MTIB	Malaysia Timber Industrial Board
NAFTA	North American Free Trade Agreement
OEM	Original Equipment Manufacturing
ODM	Original Design Manufacturing
OBN	Own Brand Name
R&D	Research and development
SMI	Small-and-medium-scale industry
UPM	Universiti Putra Malaysia

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in partial fulfilment of the requirements for the degree of Master of Science

AN ANALYSIS OF GLOBAL MARKETING STRATEGY FOR THE MALAYSIAN WOODEN FURNITURE INDUSTRY

By

YEAP TEIK BU

April 1999

Chairman: Associate Professor Dr. Mohd. Shahwahid Haji Othman, Ph.D.

Faculty: Economics and Management

The wooden furniture industry has shown a remarkable achievement over the last decade, especially its export performances. This industry like other natural evolving clusters is characterised by small-and-medium-scale industries (SMIs), labour intensive and less specialise production technology. The turning point of the industry began with the launching of the first Industrial Master Plan (1986-1995) (IMP), whereby the government provided consistent and user-friendly policy measures to allow healthy competition among the manufacturers and entrepreneurship development. The influx of foreign investments spurred the technology transfer process in the furniture industry by introducing the private subcontracting system which is a global marketing strategy especially the Original Equipment Manufacturing (OEM), to local entrepreneurs. The resource advantage and cheap unskilled labour allowed local entrepreneurs to have sufficient time to nurture and to penetrate new markets.

New opportunities and threats to the industry were unveiled when the Second Industrial Master Plan underwent a revision in its objectives owing to the changes of the internal and external factors of the industry. Malaysia has already placed a firm economic foundation by establishing intra- and inter- linkages, which to a certain extent provides better opportunities to adopt other global marketing strategies. These strategies may even ensure a more sustainable growth to the industry and is able to reap a price premium. On the other hand, the Malaysian wooden furniture industry needs to deal with more uncertainties as its close rivals; Thailand, Indonesia and China, as well as other emerging economies such as Latin America, and East European countries, acquire similar marketing strategy. The formation of the regional groupings such as the European Union and North American Free Trade Agreement provide more uncertainties in the world economy.

The objectives of the study are derived from feedbcks of the manufacturers' point of view and the issues they put forwarded:

a) to analyse factors contributing to their global marketing strategy; and

b) to examine the factors leading to different global marketing strategies adopted in the wooden furniture industry.

A comprehensive literature review highlighting a firm's decision maker in exporting, the choice of competition on global marketing strategies, value chain concept, as well as the Industrial Master Plan (1996-2005) have assisted the formulation of the hypotheses. Hypothesis One proposes that the firm's decision on a global marketing strategy for wooden furniture industry is influenced by the external and internal factors. The external factors include the government's domestic incentives and the risk factors. The internal factors are the competitiveness of the domestic and foreign rivals, the decision maker's previous experiences and decision maker's attitude or expectation towards exporting. Meanwhile, Hypothesis Two suggests that size of the firm's, the firm's experiences in exporting, the decision maker's attitude, current global marketing strategy and the firms establishment can affect the firm's choice in global marketing strategy.

Through factors analysis, the findings confirm the government's primary incentives, political environment risk factor, business risk factors, pioneer status, firm's competitiveness over domestic rivals, firm's competitiveness over foreign rivals and the decision maker's expectation of exporting are the key factors explaining 79.7 percent of the hypothesis. Firm's characteristics and the decision maker's attitude towards exports are significant to Hypothesis Two.

The findings draw the attention to the manufacturers as well as the policy makers that customers value and Porter's five-competitive forces of entries model are important factors to consider in formulating both a business strategy and the government policies. The policies that will bring about a strategy shift include research and development, human resources development (HRD), marketing and information gathering, infrastructure, financial assistant and raw material procurement.

Abstrak tesis yang dikemukakan kepada Senat Univesiti Putra Malaysia sebagai memenuhi sebahagian daripada keperluan Ijazah Master Sains

ANALISIS STRATEGI PEMASARAN GLOBAL BAGI INDUSTRI PERABOT KAYU DI MALAYSIA

Oleh

YEAP TEIK BU

April 1999

Pengerusi: **Professor Madya Dr. Mohd. Shahwahid Haji Othman, Ph.D.**

Fakulti: **Ekonomi dan Pengurusan**

Industri Perabot Malaysia telah menunjukkan pencapaian yang memberangsangkan dalam masa satu dekad yang lalu terutamanya dari segi persembahan eksportnya. Industri ini memiliki ciri-ciri biasa seperti mana yang dimiliki oleh "natural evolving cluster" lain yang selalunya dikuasai oleh Industri kecil dan sederhana, berintensifkan buruh dan kurang mengkhusus dalam bidang kemahiran and teknologi. Walau bagaimanapun, lembaran industri ini mula menampakkan perubahan sejak pelancaran Pelan Induk Industri Malaysia Pertama (1986-1995), di mana kerajaan telah melaksanakan dasar-dasar yang konsisten untuk menwujudkan persaingan yang sihat di dalam industri dan dapat mengembangkan daya keusahawanan. Aliran pelaburan asing telah mempercepatkan pemindahan teknologi ke dalam industri perabot kayu dengan pengenalan system sub-kontrak swasta. Ia juga telah memperkenalkan strategi pemasaran global terutamanya strategi Alat Pembuatan Asli (OEM strategy) kepada usahawan tempatan. Kelebihan dari segi faktor sumber semulajadi dan

tenaga buruh kurang mahir yang murah telah memudahkan pelabur tempatan dalam mengharungi arus perdagangan yang baru.

Peluang serta ancaman kepada industri ini telah ditemui dengan mengkaji semula objektif-objektif baru di bawah Pelan Induk Perindustrian Kedua dan juga meninjau perubahan faktor-faktor dalaman and luaran. Kerajaan Malaysia telahpun menyediakan asas ekonomi yang kukuh dengan mengadakan rangkaian inter and intra di antara industri. Ia telah sedikit sebanyak menyediakan peluang yang baik kepada pelabur yang ingin mengharungi strategi pemasaran global. Strategi ini juga dikatakan akan dapat memastikan pembangunan yang kekal kepada industri perabot. Walau bagaimanapun, industri perabot kayu Malaysia perlu bersedia menghadapi cabaran-cabaran daripada pesaing-pesaingnya seperti Thailand, Indonesia, China dan juga lain-lain negara membangun seperti negara Latin Amerika dan negara-negara Eropa Timur yang menggunakan strategi yang sama. Ini ditambah pula dengan penubuhan kerjasama ekonomi seperti Kesatuan Eropah (EU) dan Perjanjian Perdangan Bebas Amerika Utara (NAFTA) telah menambahkan ketidak pastian dalam arus ekonomi dunia.

Objektif kajian ini adalah untuk mengenalpasti keperluan dan isu-isu yang diutamakan oleh pengeluar-pengeluar di dalam industri perabot kayu Malaysia dengan:

a) menganalisis faktor-faktor yang menyumbang kepada strategi pemasaran global pengeluar-pengeluar perabot; dan

b) mengkaji faktor-faktor yang menyumbang kepada penggunaan strategi pemasaran yang berbeza di dalam industri perabot kayu.

Ulasan-ulasan kajian yang menyeluruh telah dipersembahkan dalam mengetahui keputusan firma dalam mengeksport dan juga pemilihan dalam strategi pemasaran global, serta konsep rangkaian penambahan nilai. Malah kajian Pelan Induk Perindustrian (1996-2005) juga telah membantu dalam pembentukkan hipotesis kajian ini. Hipotesis pertama mencadangkan bahawa keputusan strategi pemasaran global industri ini dipengaruhi oleh faktor luar dan dalaman. Faktor luaran termasuklah insentif-insentif kerajaan dan juga faktor-faktor risiko. Manakala faktor-factor dalaman pula adalah tahap persaingan di antara firma tempatan dengan persaingan firma di antara firma asing, pengalaman terdahulu pembuat keputusan di luar negeri dan juga harapan atau sikap pembuat keputusan terhadap eksport. Hipotesis kedua pula mengemukakan saiz firma, harapan atau sikap pembuat keputusan terhadap eksport, pandangan pembuat keputusan terhadap eksport, strategi pemasaran global yang sedia ada dan kedudukan firma memberi kesan kepada pemilihan strategi pemasaran global firma.

Melalui penganalisaan faktor-faktor (factors analysis), hasil kajian menunjukkan bahawa insentif-insentif kerajaan, risiko keadaan politik, risiko faktor perniagaan, taraf printis, tahap persaingan firma berbanding dengan pesaingnya tempatan, persaingan firma berbanding dengan firma asing dan harapan pembuat keputusan terhadap mengeksport mempengaruhi 79.7 peratus daripada Hipotesis Pertama. Hasil kajian juga menyokong pandangan bahawa sifat firma dan harapan firma terhadap eksport adalah signifikan kepada Hipotesis Kedua.

Hasil kajian ini jelas menampakkan kepada para pengeluar dan perancang dasar bahawa nilai pengguna, and model lima pengaruh persaingan Porter (Porter's five-competitive forces model) merupakan faktor-faktor penting dalam pembentukan strategi perniagaan dan dasar kerajaan. Dasar-dasar kerajaan yang boleh mengakibatkan peralihan strategi merangkumi pengkajian dan pembanguan teknologi, pembangunan sumber manusia, pemasaran dan pengumpulan maklumat, pembangunan infrastruktur, bantuan kewangan dan perolehan bahan asli.

CHAPTER I

A REVIEW OF THE WOODEN FURNITURE INDUSTRY

Introduction

The Malaysian furniture industry has shown a remarkable achievement for the last decade, especially in its export performance. The turning point of the industry began with the launching of the first Industrial Master Plan (IMP) in 1986. While exports of furniture were negligible in 1986, in 1995, the Malaysian-made furniture export ranked the world's sixth largest, amounting to RM2 billion. Besides the implementation of correct policies, the foreign direct investments (FDIs) also played a role in facilitating technology transfer to local entrepreneurs, and the resources advantage factor enabled firms which also included the small-and-medium-scale industry (SMI) to grow.

This chapter describes the current industrial profile of the wooden furniture industry, the export profile of the wooden furniture industry, distinguishes the factors leading to the industrial success, evaluates the opportunities, threats and issues, stresses on the objective of the study, and explains the framework of the study.

Current Industrial Profile

Common Industrial Features

The wooden furniture industry contributes the smallest amount of the total output, value-added and fixed assets among the wood-based sector (Table 1.1). The industry also has distinct features compared to the pulp and paper products and wood and cork industry. The furniture industry is mainly SMI-dominated, and labour-intensive as these firms, particularly SMIs, employ a low level of automation (Table 1.2). However, larger firms with greater financial capabilities, adopt a higher level of technology in their operations (Chee, 1990, and Shahwahid, 1994: 7). It was estimated that there are more than three thousand furniture manufacturers, of which SMIs make up of more than 90% of the total.

Table 1.1: Number of Establishment, Gross Output, Value-added, Employment and Fixed Asset Value of the Wood-based Sector for the Year 1993

Industry	MIC Code	No. of Firms	Gross Output RM(mil)	Value-added RM(mil)	Employment	Salaries & wages RM(mil)	Fixed Assets RM(mil)
Wood & cork exc. furniture*	331	893	9,761	3,172	130,482	1,009	4,309
		57%	*74%*	*73%*	*72%*	*69%*	*57%*
Furniture & fixtures	***332***	***504***	***1,497***	***517***	***32,054***	***233***	***599***
		32%	***11%***	***12%***	***18%***	***16%***	***8%***
Pulp and paper products**	341	*171*	*1,958*	*649*	*19,091*	*217*	*2,665*
		11%	*15%*	*15%*	*11%*	*15%*	*35%*
Wood-based sector	**331+332+ 341**	**1,568**	**13,216**	**4,338**	**181,627**	**1,459**	**7,573**
		100%	**100%**	**100%**	**100%**	**100%**	**100%**

* The MIC 331 "Wood & cork except furniture" include: 33111 sawmills; 33112 plywood, hardboard and particleboard mills; 33113 planing mills, window and door mills and joinery works; 33114 pre-fabricated wooden houses; 33119 other wood products; 33120 wooden and can containers and small can ware; and 33190 wood and cork products.

** The MIC 341 "Pulp and paper products" include: 34110 pulp, paper and paperboard; 34120 containers and boxes of paper and paperboard; and 34190 pulp, paper and paperboard articles.

a. The percentage figures have been rounded-up.

Source: Department of Statistics, 1993 Census of Manufacturing Industries, 1995.

Table 1.2: Productivity and Capital Intensity of the Wood-based Cluster for the Year of 1993

Activity	Labour Productivity* (RM/Labour)	Capital Productivity**	Capital Intensity *** (RM/Labour)
Wood & wood cork exc. furniture	24,307	0.74	33,020
Furniture	***16,140***	***0.86***	***18,689***
Paper & paper products	34,016	0.24	139,599
Wood-based Sector	**23,887**	**0.57**	**41,693**
Total Manufacturing Base	**36,426**	**0.62**	**58,602**

* Labour productivity ratio is calculated as total value-added over total labour employed.
** Capital productivity ratio is calculated as total value added over total value of fixed assets.
***Capital intensity index is calculated as total value of fixed assets over total employment.
Source: Adopted from Department of Statistics, Census of Manufacturing Industries: 1993. Published in 1995.

States' Contributions

Most of the furniture industries' activities are carried out in the west coast of Peninsular Malaysia. This is because it is equipped with a more advanced infrastructure such as ports, transportation systems and other supporting facilities, a large domestic market, and the availability of skilled labour. In terms of state contributions, Johor and Selangor are the most prominent states for the wooden furniture manufacturing. These two states make up 45% of the total number of establishments, and contribute 73% of the total industrial furniture output, 72% of the total value-added output, 66% of the total employment and 71% of the total fixed assets in 1993. However, East Malaysia has the greatest potential to be developed as there are an abundance of resources (Table 1.3).

Table 1.3: Number of Establishments, Output, Value-added, Employment, and Fixed Assets of the Furniture and Fixture Manufacturers According to States in 1993

State	No. of Establishment	Output (RM'000)	Value-added (RM'000)	Employment	Fixed Assets (RM'000)
Kedah & Perlis	12	42,217	13,444	1,073	27,650
Penang	12	22,939	8,651	438	3,682
Perak	19	48,960	18,244	1,417	15,356
Selangor & KL	102	481,537	162,868	8,924	173,275
N. Sembilan	21	54,927	19,778	1,419	35,071
Melacca	24	78,114	27,006	1,925	34,005
Johor	126	602,813	207,632	12,156	250,216
West Coast	*316*	*1,331,507*	*457,623*	*27,352*	*539,255*
Percentage	*62.7*	*89.0*	*88.5*	*85.3*	*90.0*
Kelantan	11	9,456	2,806	296	2,598
Terengganu	5	3,648	1,729	186	551
Pahang	9	81,951	28,131	1,385	29,360
East Coast	*25*	*95,055*	*32,666*	*1,867*	*32,509*
Percentage	*5.0*	*6.4*	*6.3*	*5.8*	*5.4*
P. Malaysia	***341***	***1,426,562***	***490,289***	***29,219***	***571,764***
Percentage	***67.7***	***95.3***	***94.8***	***91.2***	***95.4***
Sabah	94	37,709	15,793	1,619	13,386
Sarawak	69	32,333	11,275	1,216	13,905
East Malaysia	***163***	***70,042***	***27,068***	***2,835***	***27,291***
Percentage	***32.3***	***4.7***	***5.2***	***8.8***	***4.6***
Malaysia	**504**	**1,496,604**	**517,357**	**32,054**	**599,055**
Percentage	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***

Source: Adopted from Department of Statistic (DOS), 1993 Census of Manufacturing Industries, 1995.

The Exporting Firms

There were as many as 485 export-oriented furniture manufacturers located in Peninsular Malaysia in 1995, which is estimated to be about one-sixth of the total furniture manufacturers (Table 1.4). The majority of the exporting firms are Malaysian-owned[1]. However, more firms are expected to be involved in export as an increasing number of firms are actively looking for markets abroad.

Table 1.4: Number of Export-Orientation Wooden Furniture Factories in Peninsular Malaysia

Year	No. of Establishments
1980	55
1985	90
1987	45
1988	150
1989	178
1990	224
1991	283
1992	300
1993	427
1994	446
1995	485
1996	530

Source: *Statistics on Commodities*, Ministry of Primary Industries Malaysia, various issues.

[1] This statement was testified by the Secretary General of Malaysian Furniture Industrial Council (MFIC) through the interview.