

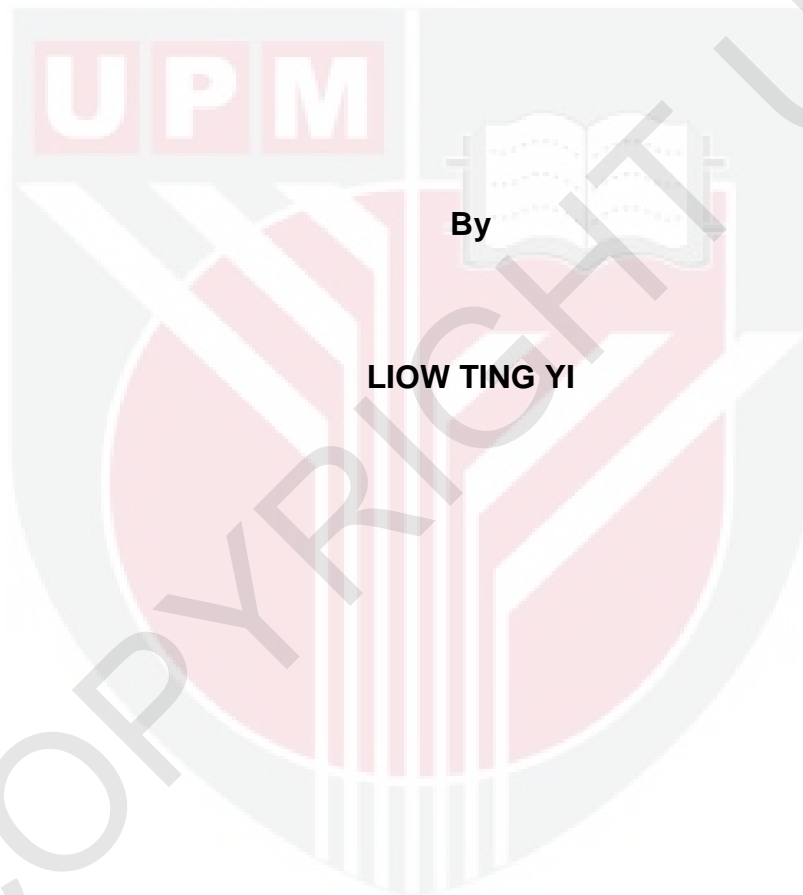


***TRENDS IN OEM MANUFACTURING STRATEGY IN MALAYSIAN
FURNITURE INDUSTRY***

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FH 2019 70

**TRENDS IN OEM MANUFACTURING STRATEGY IN MALAYSIAN
FURNITURE INDUSTRY**



**A Project Report Submitted in Partial Fulfillment of the Requirements
for the Degree of Bachelor of Wood Science and Technology in the
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DEDICATION

I dedicate my dissertation work to my family, friends and lecturers who has been a constant source of support and encouragement from the beginning till the end of my graduate school and life. I am truly thankful and will always be pleased and appreciate for all of your presence throughout this beautiful journey.



ABSTRACT

Original Equipment Manufacturing (OEM) or contract-manufacturing strategy has been the predominant strategy employed throughout the Malaysian furniture industry over decades. However, this strategy is no longer well-suited when the industry is gradually losing its competitiveness with the emergence of low cost producers such as China and Vietnam due to rising cost and dwindling supply of resources. Besides, the innovation ratio of Malaysian furniture industry has been on significant decline, reflects that the industry is struggling with original design manufacturing (ODM) and original brand manufacturing (OBM) strategies, which are driven by value addition and innovation. In this study, we seek to examine the growth trend in OEM strategy in Malaysian furniture industry. This study used quantitative research approach where the primary data was collected via questionnaire survey and was analyzed. The main findings of this study revealed that, currently over reliance on OEM strategy by the industry is due to the workforce factor. The analysis on the challenges of lack of innovation showed that the manufacturers are very financially concerned and “products acceptance” concerned. These challenges were found to be the biggest hindrance and concern for the industry to involve in innovation activities.

ABSTRAK

Strategi Pengilangan Peralatan Asal atau kontrak pembuatan telah menjadi strategi utama yang digunakan di seluruh industri perabot Malaysia selama beberapa dekad. Walau bagaimanapun, strategi ini tidak lagi sesuai apabila industri secara beransur-ansur kehilangan daya saingnya dengan kemunculan pengeluar kos rendah seperti China dan Vietnam berikutan peningkatan kos dan penyusutan sumber. Selain itu, nisbah inovasi industri perabot Malaysia mengalami kemerosotan yang ketara, mencerminkan bahawa industri sedang bergelut dengan Strategi Pembuatan Inovasi dan Strategi pPembuatan Jenama, yang didorong oleh penambahan nilai dan inovasi. Dalam kajian ini, kami berusaha untuk mengkaji trend pertumbuhan dalam strategi OEM dalam industri perabot Malaysia. Kajian ini menggunakan pendekatan penyelidikan kuantitatif di mana data utama dikumpulkan melalui tinjauan soal selidik dan dianalisis. Penemuan utama kajian ini mendedahkan bahawa, pada masa ini lebih bergantung kepada strategi OEM oleh industri adalah disebabkan oleh faktor tenaga kerja. Analisis terhadap cabaran kekurangan inovasi menunjukkan bahawa pengeluar sangat mengutamakan kewangan dan "penerimaan produk" pelanggan. Cabaran-cabaran ini didapati menjadi penghalang dan kebimbangan terbesar bagi industri untuk melibatkan diri dalam aktiviti inovasi.

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APPROVAL SHEET

I certify that this research project entitled “Trends in OEM Manufacturing Strategy in Malaysian Furniture Industry” by Liow Ting Yi has been examined and approved as a partial fulfillment of the requirement for the degree of Bachelor of Wood Science and Technology in the Faculty of Forestry, Universiti Putra Malaysia.

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LIST OF ABBREVIATIONS

DOS	Department of Statistics
EU	European Union
IMP	Industrial Master Plan
MATRADE	Malaysian External Trade Corporation
MFPC	Malaysian Furniture Promotion Council
MPIC	Ministry of Plantation Industries and Commodities
MSMEs	Micro Small Medium Enterprises
NATIP	National Timber Industry Policy
OBM	Original Brand Manufacturing
ODM	Original Design Manufacturing
OEM	Original Equipment Manufacturing
PDP	Professional Designers Program
SME	Small Medium Enterprise
USA	United State of Americas
TPPA	Trans-Pacific Partnership Agreement

CHAPTER 1

INTRODUCTION

1.1 General Background

The Malaysian furniture industry had generally begun in Muar, Johor in the 1980s and flourished as the main economic sector in Malaysia. Since the 1990s, the industry has grown dramatically, leading a transformation of the industry from traditional based operation to a technology driven industry. The industry marked a remarkable history when Malaysia was successfully ranked as the 10th largest furniture exporter (second in Asia) in the world in the year 2012 (Lim et al., 2016; Ratnasingam, 2017) with almost half of Malaysia's exports of wood-related products were exported to the TPPA countries with Japan and the US being the biggest export partners in terms of wood-related product (Akademi Sains, 2015).

The Malaysian furniture industry is also one of the main contributors to Malaysia's export earnings. In terms of economic contribution, the export value of furniture amounted to RM9.14 billion in 2015 which showed a tremendous increase as much as 4 times the value achieved 20 years ago, which was RM2.08 billion in 1995 (Ratnasingam, 2017).

In order to increase the growth rate of the industry, the innovation skills and manufacturing strategies are emphasized in the industry. The original equipment manufacturing (OEM) strategy, also known as contract-manufacturing is one of the manufacturing strategies where manufactures produce products or

components under contract for another company or retailer, under the purchasing company's brand name (SME Corp Malaysia, 2014; Ratnasingam, 2017). The majority of the Malaysian furniture industry is embarking on the OEM strategy which propelled the industry through output increments and successfully record a good achievement in both total production value and export value.

The OEM strategy is well suited for the prevailing mass-production environment as Malaysia has been known for its wood-based furniture, owing to its natural resources. Further, over reliance on the OEM strategy can harness the manufacturing capability and capacity to produce furniture on established themes and designs. In fact, contract-manufacturing is the predominant strategy employed throughout the Malaysian furniture sector and accounts for almost 77% of the total production volume (Ratnasingam, 2015). This indicates that Malaysian furniture industry is gradually losing their competitiveness due to the over independent on the contract-manufacturing base strategy and lack of innovativeness. Hence, the furniture sector in Malaysia must embark on shifting towards original design manufacturing (ODM), and eventually to the original brand manufacturing (OBM) strategies (Ziaie et al., 2012; Ratnasingam, 2017).

1.2 Problem Statement

The Malaysian furniture industry is one of the main contributors to the country's economy. However, starting from 2004, the industry seems to be saturated as the export revenue remains stagnant at RM7 to 8 billion per year for 10 consecutive years with an annual growth rate at 3.98% (MFPC, 2014). The furniture industry is gradually losing its competitiveness with the emergence of low cost producers such as China and Vietnam because of rising cost and dwindling supply or resources (MTIB, 2018). This means that the industry must explore and emerge into the new market at the same time to enhance at the parts that have been overlooked to sustain a healthy growth rate of the industry.

The Malaysian furniture industry is characterized by Original Equipment Manufacturing (OEM) strategies (SMIDEC, 2002). In the OEM system, firms produce products according to buyer's precise specification and they have very low production cost to compete with their competitors (Bojei et al., 2002).

The significance of marketing strategy to achieve organizational profits has been proven in determining the company performance effectively. Many industries have framed aggressive strategies by applying creative strategies for their products in order to upsurge organizational revenues and sustainable competitive improvement (Azaze-Azizi et al., 2013). Global competition has put great pressure on export-based companies to set new and effective strategies in order to compete in the world market. However, some of the strategies implemented by SMEs are not successful as expected (Zekiri et al., 2011). Therefore, the need to

focus on innovativeness in manufacturing strategies on firm performance in the furniture industry are crucial for the growth of the furniture industry.

To support ODM and OBM, the Government through its agencies such as SMIDEC and the Malaysian External Trade Development Corporation (MATRADE) has provided various financial incentives but Malaysian manufacturers still rely heavily on designs of furniture buyers from abroad and prefer to stay as contract or Original Equipment Manufacturer (OEM) (NATIP, 2009).

The next growth spurt of Malaysian furniture industry is related to how efficient the industry consolidates, and shifts from the OEM to the original design manufacturing (ODM) and eventually to the original brand manufacturing (OBM). Therefore, the study aims to find out what are the factors of highly embarking on OEM manufacturing strategy in Malaysian furniture industry and the main challenges of shifting from OEM to OBM or ODM, which are driven by innovativeness and value addition.

1.3 Justification

As the Malaysian furniture industry is characterized by OEM manufacturing strategy, it is crucial to study the current trend of this strategy and understand the driving factors of over reliance on OEM manufacturing strategy and the main challenges that prohibited most of the manufacturers to shift towards OBM or ODM manufacturing strategy. OBM or ODM manufacturing strategy is able to enhance the value addition which will offset the increasing costs. The enhancement of innovativeness of Malaysian furniture industry is important to ensure competitiveness of the industry globally. Hence, studying and understanding the trend of the OEM manufacturing strategy may help the industry to achieve a healthy growth rate.

1.4 Objectives

The general objective of this study is to examine the growth trend in OEM manufacturing strategy in Malaysian furniture industry.

The specific objectives are:

- i) To determine the driving factors of over reliance on OEM manufacturing strategy by Malaysian furniture industry.
- ii) To identify the main challenges influencing lack of innovation in the Malaysian furniture sector.

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