

Companies and organizations definitely have systematic strategic management marke...



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Companies and organizations definitely have systematic strategic management process in order to achieve competitive advantage over its rivals in the industries. The same goes to Hwa Tai Industries Berhad (HTIB). HTIB has been conducting strategic analysis to analysis the external and internal environment of HTIB. HTIB formulates strategies after analyzing the environment and implements the strategies formulated.

### Strategic analysis of HTIB

It is undeniable that HTIB has a good strategic management that eventually drives it to success. Wheelen & Hunger (2006, p. 3) states that the set of managerial decisions and actions that determines the long-run performance of a corporation is strategic management which consists of environmental scanning, strategy formulation, strategy implementation, evaluation and control.

### Porter's Five Forces as analytical tool for external environmental scanning

The external environment of HTIB includes the general environment and competitive environment. Talking about the competitive environment, HTIB has been scanning it via Porter's five forces. Michael E. Porter is the one who develops the " five-forces" model to describe the specific environment in an industry (Ketchen et al, 2009).

### The threat of new entrants

" The threat of new entrants refers to the possibility that the profits of established firms in the industry may be eroded by new competitors"(Greenwald & Kahn 2005) . We cannot deny that fact that HTIB

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is the second best biscuit manufacturing company in Malaysia market( Hwa Tai rationalizes business process 2009). It has a stable position in the biscuit manufacturing industry and thus the threat of entry by newcomers is low.

The newcomers like Gloria Biscuit faces with high entry barriers because HTIB which is their existing competitor has strong brand identification.

Consumers are loyal to HTIB's products and its product differentiation has created a

high barrier to entry to Gloria Biscuit. Gloria Biscuit has to spend a lot to defeat the existing customer loyalty on the products of HTIB. Therefore, it is not easy for the newcomers to entry the biscuit manufacturing industry and affect the position of HTIB. This is an opportunity to HTIB to own its market with fewer new entrants after having the SWOT analysis. HTIB will always be the strong biscuit manufacturer and last long in the market.

The bargaining power of buyers

" Buyers can affect an industry through their ability to force down prices, bargain for higher-quality or more services, and to play competitors off against each other." (Henry 2008). The bargaining power of buyers of HTIB is high. There are many other biscuit manufacturing companies in the market and the products from the industry have standard or undifferentiated. Buyers can easily get the alternative suppliers from the market such as Munchy, Hup Seng, Julie's, Shoon Fatt, and so on. Since it is an ease to get standard products and have alternative suppliers, buyers emphasize the prices of the products more than which biscuits taste better. The products of HTIB is not very expensive compared with others biscuits of other brands and many

buyers choose the products of HTIB now. This finally creates high bargaining power of buyers of HTIB. Large-volume purchases by buyers are important to HTIB. The higher sales of HTIB enable it to gain higher profit margin.

The bargaining power of suppliers

“ Supplier can exert bargaining power over participants in an industry by threatening to raise prices or reduces the quality of purchased goods and services.”( Ketchen et al, 2009). HTIB has the low bargaining power of supplier. This is because the ingredients of manufacturing biscuits and cakes such as eggs, flour, sugars and others can be found everywhere from any suppliers. Many traders supply those ingredients in the market. Thus, HTIB can have ingredients anytime without worrying lack of inputs. More importantly, the bargaining power of supplier is low because the switching cost to other suppliers is low. Suppliers’ products are very

crucial to HTIB to have effective production to fulfill the demand of buyers and production of high quality products to the public. Besides raw materials, another important input to HTIB is the supply of labor. HTIB does not only own the domestic market but also own the international market. It exports its products to many foreign countries, hence, it needs a lot of labor to contribute to the high production of biscuits.

The threat of substitute products and services

Due to the technological advancement nowadays, there are a lot of substitute products with different appearance but have the same function to satisfy the same need as another product in the market. According to Porter,

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” Substitutes limit the potential returns of an industry by placing a ceiling on the prices firm in the industry can profitably charge.”(Porter 1980). The threat of substitute products is high because there are a lot of products which able to satisfy the need of consumers, too besides the products of HTIB. For instance, the Kellogg’s rice krispies cereal can be a substitute product for the biscuits by HTIB. Consumers can have the rice cereal as breakfast in stead of HTIB’ s biscuits. Consumers can also eat instant noodles MAGGI in stead of eating cakes by HTIB, and even the Gardenia bread can replace the biscuits and cakes by HTIB for meal. The prices of the substitute products bring effect to the products of HTIB and finally influence the return and profit of HTIB. This is the threat of HTIB as what the SWOT analysis shown. Technological advancement is also one of the element of PEST analysis for general environment which brings effect to HTIB itself.

The intensity of rivalry among competitors in food processing industry

Rivalry among the firms occurs when rivals sense the pressure or act on an opportunity to improve their position. HTIB faces intense rivalry in the food processing industry. The rivalry is very intense because there are numerous or equally balanced rivals in the market. Nestle, Kelloogg’s, Hup Seng, IKO and others which are the direct rivals compete with HTIB for the consumers. Each of the

companies manufactures biscuits , cakes and snacks. Super, High 5, Gardenia and so on are the indirect rivals of HTIB. Diversity of risk occurs since the rivals compete with each other with different ideas to challenge the position of HTIB. It is clearly depicted when Kellogg’s and Nestle advertise

their products through the media to introduce their products to the public to increase their sales. The intense rivalry brings some impacts to HTIB as the rivalry will erode its profitability and may decreasing its sales of 72, 106, 000 in 2009 in the future (appendix no4).

SWOT analysis as analytical tool for internal and external environmental scanning

SWOT analysis (Andrew 1971) refers to strength, weaknesses, opportunities, and threats, a framework for analyzing a company's internal and external environment. Albert Humphrey is the one who create SWOT analysis. (Friesner, T 2007). Strength and weakness are referred to the internal environment of the HTIB whereas opportunity and threat are referred to the external environment of HTIB.

Strength of HTIB

Strengths are areas where the organization excels in comparison with its competitors. HTIB has its own strengths in order to be the second best biscuit manufacturing company in Malaysia market. HTIB has strong research and development ( R&D )focus. HTIB do R&D to produce better quality products. It can be said that HTIB has core competence of strategic capability. Having better and special products enable HTIB to achieve competitive advantage. HTIB possesses tangible resources and intangible resources to compete more successfully. In term of tangible resources which include physical resources, HTIB has its own lab and professionals to conduct

R&D. HTIB has also intangible resources which is technological resource to renovate the existing products and as fast as what

consumers expect. Good allocation of resources enables HTIB achieve cost effectiveness without waste. The effort of HTIB has driven it to have high brand

equity and eventually gains a lot of awards for its biscuit products such as Malaysia Power Brand Award 2008 ( appendix no2) by the Asia Entrepreneur Alliance Worldwide.

## 2. 2. 2 Weakness of HTIB

Weakness are areas where the organization may be at a comparative disadvantage. HTIB has its own weakness although it has been achieving success. HTIB has limited presence in organic food market. Consumers more and more care about their healthy. They prefer organic food to normal food because they think that organic food is free from chemical. Among the products of HTIB, only the biscuits with the brand name of " LUXURY" almost fulfill the requirement as organic food because they contain whole meal, wheat bran and others which consumers think that they are nutritious. However, the other products of HTIB still not be grouped as organic food. This may lead HTIB lost some market which loves organic food and their sales will not be as high as what HTIB targeted.

## Opportunities of HTIB

After analyzing HTIB, there are opportunities that enable HTIB to gain profit and growth. HTIB has the opportunity to own the manufacturing agreement <https://assignbuster.com/companies-and-organizations-definitely-have-systematic-strategic-management-marketing-essay/>

with London Biscuits Bhd (Hwa Tai to market London Biscuits' Swiss rolls 2007). HTIB is in collaboration with London Biscuits Bhd and it really brings a lot of opportunities to HTIB because it gives HTIB instant expanded production capacity and opportunities to create a new variety of cakes by the sharing of technology between them. HTIB is appointed to market and distribute the best-selling product, Lonbisco Swiss rolls. HTIB is the key distributor to mini-markets, supermarket and hypermarket in Peninsular Malaysia. These opportunities have widen HTIB's market and it will definitely progress rapidly within few years.

#### Threats of HTIB

Threats are something from external environment of the company that will deter the company from obtaining success. HTIB faces some threats that deter it from having smooth production. Expensive raw materials is the main threat faced by HTIB. It contributes towards the increasing of cost of production of HTIB. Although HTIB has the opportunities to own manufacturing agreement with London Biscuits Bhd, high production cost is a burden to HTIB. HTIB has to prepare a lump sum of money from time to time in order to have smooth production. Due to the high cost of production, HTIB is not able to increase the number of countries for its exportation. Such situation is really a barrier to HTIB to enter the bigger market.

Internal analysis(Benchmarking as analytical tool for internal environmental Scanning)



“ Benchmarking is a systematic comparison of organizational processes and performance to create new standards or to improve processes.”

(Benchmarking methods 2009). After analyzing HTIB, Nestle is a more success company compared to HTIB. Nestle has diversification and manufactured a variety of products. Nestle has much more range of products compared with HTIB. HTIB should improve and increase its types of new products besides the existing type of products although it has been making upmarket biscuits and non-traditional product such as baked potato chips to suit the consumers' taste (Hwa Tai makes upmarket biscuit to suit new tastes(656)1999). HTIB has only three types of food which consist of biscuits, cakes, and snacks whereas Nestle has more types of food such as drinks, instant noodles, biscuits, cakes, snacks and so on. Wider range of food enables company to gain wider market and higher sales. If HTIB does as what Nestle did, HTIB will as successful as Nestle.

### 3. 0 Strategy formulation of HTIB

Either the weaknesses or threats of HTIB are clearly depicted after analyzing the company through SWOT analysis and Porter's five forces. Strategy formulation should be conducted with the aid of the opportunities and strengths of HTIB to tackle its weaknesses and threats in order to accomplish sustainable competitive advantage within the food processing industry.

### 3. 1 Business level strategy

“ Business level strategy is a means of separating out and formulation a competitive strategy at the level of the individual business unit.”(Henry, A

2008) There are five generic competitive strategies which are generated by <https://assignbuster.com/companies-and-organizations-definitely-have-systematic-strategic-management-marketing-essay/>

Michael Porter (1980) to achieve the competitive advantage and only low cost strategy is the most suitable way to HTIB because he stated that low cost strategy and differentiation will be stuck in the middle if using both at the same time (Henry 2008).

### 3. 1. 1 Low cost strategy

Low cost strategy is used by the companies which produce their products and services at the lowest costs within an industry without sacrificing the products quality and market them at a broad market. This strategy is suitable to HTIB to tackle its threat of high cost of production. This strategy implies low overall costs in term of raw material, production, transportation and so on. HTIB can achieve low cost strategy through economic of scale. “Economic of scale arises when the cost per unit falls as output increases”(Economic of scale 2008). HTIB has low bargaining power related to its suppliers since it will order high quantities of raw materials at a cheaper price from any suppliers for its production and eventually contribute towards cheap cost of production. Besides, HTIB has its strength of strong research and development (R&D). It should utilize its strong R&D to find out the better product designing for efficient production like easy-to-use manufacturing

technologies so that costs can be reduced and increase quantities without affecting quality. Workers should be sent for training so that skilled workers available in the production and able to work in team effectively and deliver the lowest possible costs

of production. HTIB should also signing contract with certain logistic company so that to get lower costs of transportation. This is win-win strategy since the logistic

company gain profit from HTIB for longer duration whereas HTIB able to reduce its cost of transportation.

The effort of HTIB in reducing overall costs enables HTIB to have lower costs of production and lower selling price for its products than its competitors. For instance, cream sandwich biscuit of HTIB costs RM2. 99 a packet whereas Lexus of Munchy's costs RM 4. 60 a packet, that is 35% cheaper than Munchy's product. HTIB drives its cost-based competitive advantage into price advantage to the customers and gain high market share eventually. HTIB can be price leadership finally because it can adjust the price as it like. Its price can act as the entry barrier to the new entrants, too since newcomers are not afford to set lower price for their products to compete with HTIB. HTIB will be able to overcome its threats after utilizing low cost strategy because it enables HTIB to settle the threat of expensive raw material and enter bigger market. More importantly, HTIB able to reduce the threat of substitute products because buyers prefer to buy biscuits, cakes and snacks with high quality and cheaper prices. Having low costs strategy, HTIB will be able to compete with its competitors , General Mills which also conducting low costs strategy . Low costs strategy is really a better strategy for HTIB to settle its weakness and threats as well.

### 3. 2 Corporate level strategy

” Corporate strategy is primarily about the choice of direction for a firm as a whole and the management of its business or product portfolio.” (Wheelen & Hunger 2006, p. 3). Growth strategy from the directional strategy is the most suitable strategy for HTIB. “ A directional strategy is any trading or investment strategy that entails taking a net long or short position in a market.”(Directional trading strategy 2005).

### 3. 2. 1 Growth strategy

There are many aspects that needed to be grow so that HTIB can become more competitive in the market. Growth in the aspects of sales, assets, profits, or some combinations are crucial to HTIB. Ansoff (1965) devised a matrix to analyse the different strategic directions organizations can pursue .

#### 3. 2. 1. 1 Market penetration

Market penetration is the effort of increasing the market share in the existing market with the existing products. HTIB has been exporting its products to foreign markets and domestic market. HTIB has a lot of consumers who eat its biscuits, cakes and snacks worldwide. However, HTIB should keep on its effort to increase its market share in the existing market by attracting more new consumers to buy its existing products. HTIB should also make sure that the existing consumers to eat more its products. With the capabilities and resources of HTIB, this strategy is not risky because HTIB do not need to do anything unless increase its products’ quality to meet the consumers’ needs and wants. Improving its quality is not a problem to HTIB as it has professionals for R&D.

### 3. 2. 1. 2 Market development

Market development is the entry of the new market with the existing products. HTIB should aim at other market segments and geographical areas as well. For instance, the products of HTIB are not " HALAL" since HTIB not yet apply for that. Malays are not allowed to eat food without " HALAL" and they are not dare to buy the biscuits of HTIB. HTIB should target at demographic segmentation in term of religion in order to develop new market for its existing products. HTIB should put their effort to work on it and apply for " HALAL" so that Malays' market segment can be another new market for HTIB and increase its sales. Besides, HTIB should export its products to more foreign countries other than its existing international market. New geographical areas should be found so that its products can be distributed to more countries such as Malays countries to increase its sales. Although it is a risk to distribute products to new market or geographical areas due to unfamiliar with their habits and culture, HTIB is yet able to distribute its products to more Malays countries since HTIB which based in Malay country, Malaysia already know thoroughly about the culture of Malays. It becomes less risky if HTIB chooses the right market segment.

### 3. 2. 1. 3 Diversification

Diversification occurs when an organization seeks to broaden its scope of activities by moving into new products and new markets. Diversification is actually a suitable strategy for HTIB because it helps to spread risk by reducing reliance on any one market or product(Ketchen2009). For instance, HTIB should have diversification by producing new products like organic food <https://assignbuster.com/companies-and-organizations-definitely-have-systematic-strategic-management-marketing-essay/>

to new market especially health-conscious market. HTIB will face lesser competition if having new market. If one of the existing product is not in high sales, HTIB is still safe because consumers from other market may buy its other products. The risk of low revenue will be spread among different products. HTIB will be afford to implement diversification because it will earn a lot after implementing the low cost strategy. HTIB itself do not need to find more capital from other resources to sustain the diversification of products. As the result of benchmarking, having diversification is crucial in order to own sustainable competitive advantage forever.

#### Related diversification

HTIB has limited presence in the organic food market and this is the weakness of HTIB. It is suggested that HTIB should implement the related diversification because HTIB itself has the capabilities and resources of entering the organic food industry which there are some links with its own existing value chain. HTIB should diversify its products by manufacturing organic food to meet the needs of health-conscious consumers. Horizontal integration should be done by HTIB to take over its competitors and offer organic food as complementary products at the same stage within its value chain. If HTIB ables to do so, HTIB does not only has biscuits, cakes and snacks but also has organic food to new market. Its competitors like Nestle and Kellogg's do not have organic food at all and HTIB will be able to take over them.

#### 4. 0 Strategy Implementation of HTIB

” Strategy implementation is the sum total of the activities and choices required for the execution of a strategic plan.”( Wheelen & Hunger 2006, p. 3). HTIB is trying to achieve efficiency after achieving effectiveness through strategy formulation. Having efficient implementation of strategies assist in building a capable HTIB in term of staffing, structuring and having core competencies and capabilities within the biscuit industry to achieve its vision of being the main players in biscuit industry with its quality products.

#### 4. 1 Management issue of HTIB ( division restructuring and rightsizing)

Since HTIB needs to implement market penetration, market development and diversification as well, it needs more capital to succeed them. Therefore, division restructuring and rightsizing are better ways to gain more capital for those developments and improve the productivity and efficiency of the management team. Both ways help in low-cost strategy by reducing the expenses on tangible and intangible resources and salary. For instance, accounting department should combine with the financial department. This is because costs can be saved in term of expenses of stationery and office equipments and salary of employees because they can share resources when working together. Both departments deal with the same people for their range of works. Hence, the number of employees should be reduced by letting off the poor performers after combining both departments to reduce the expenses on salary. Top Performer Profiling (TPP) should be implemented to judge the employees according to their knowledge and experience, skills and abilities, and behavior and characteristics ( rightsizing for profitability2009). In doing so, the employees are laid off fairly without affecting their motivation to work.

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HTIB is able to minimize its input by reducing cost and able to let the talented employees to enact adaptable workforce planning. They will fully utilize their talent on business needs to bring competitive advantage to HTIB (Rightsizing in challenging times 2008). The capital saved can be used for other purposes like market penetration , market development and diversification which help in maximizing the profit. Although diversification requires some cost but the low cost strategy implemented by division restructuring and rightsizing already save lots of cost and the capital is enough for the implementation of diversification since HTIB is not a poor company.

#### 4. 2 Marketing issue of HTIB

##### 4. 2. 1 Market segmentation

Marketing variables will influence the success or failure of strategy implementation of HTIB. It depends on how HTIB chooses the suitable market segmentation for its products. Market is being subdivided into distinct subsets of customers regarding to the needs and buying habits of consumers. Having appropriate market segmentation helps a lot in market development and market penetration as well. HTIB can spend wisely if allocate resources to the appropriate market segmentation. For instance, besides the market segmentation in term of religion as mentioned in strategy formulation, market segmentation in term of occupation has high possibility to bring high profit margin to HTIB. Students and the office workers consume the products of HTIB more than the other people with other occupation. This is because biscuits and cakes of HTIB are packed



conveniently and easily brought everywhere. Cakes and biscuits are sufficient to the students and office workers who use less energy for their work and daily school activities. Products of HTIB are better choices for them because their prices are reasonable and not heavy and fulfill their needs. If HTIB invest in this market segment besides the Malay market segment, HTIB can earn a lot in the future.

#### 4. 2. 2 Marketing mix

##### Price

Having the appropriate market segmentation, it is actually directly affecting the marketing mix variables too. Marketing mix consists of price, promotion, place and product. It is very acute that HTIB should pay more attention on fixing the selling price. Since it is suggested to conduct low cost strategy, HTIB affords to set lower selling price because of its low cost of production. For instance, HTIB should set reasonable price to the market because its main consumers are come from well-off family and not all from rich family. It is clearly depicted through the chart (appendix no3) which shows that the earnings of HTIB increase from 2009 to 2010 when its price of products decrease. This shows that lower selling prices assist in increasing profit margin of HTIB and HTIB should continues it by having lower prices for its products. HTIB should not set the higher price because its number of consumers may reduce especially the number of students who are not afford to buy expensive biscuits and cakes daily. In doing so, HTIB will be the price leader within the industry and able to compete with its main competitors like Nestle and Kellogg's.

## Promotion

HTIB should promote its products to the market segment targeted so that the targeted consumers spend on its products. For example, HTIB should promote its products through advertising. Advertising may bring deeper impression to the market segments targeted especially the students.

Students can be said glued to the television screen more than loafing in supermarket. Students will be exposed to its products more if advertise snacks and cakes through advertisement.

## Place

Place is very crucial because it determines how easy the consumers to get HTIB's products. Fortunately, HTIB already distributed its products to all the supermarkets ranging from small grocery shops to large supermarket like Giant and Jusco. However, it is suggested that HTIB should also distribute its products to the canteens

of schools. In doing so, students will be able to buy its products easily and this way helps in promotion indirectly because students will "promote" the biscuits among themselves.

## Product

Products are the main output of HTIB. HTIB ensures its products which including biscuits, cakes and snacks are of high quality from time to time although they are produced in high quantity. Besides quality, HTIB is suggested to change its existing packaging (appendix no1) to attract the consumers. Since one of its targeted markets is the students, attractive <https://assignbuster.com/companies-and-organizations-definitely-have-systematic-strategic-management-marketing-essay/>

packaging is better because students are normally buy biscuits and cakes with nice packaging besides considering about their price. Nice packaging brings deep impression to the consumers.

#### 4. 3 Leadership

HTIB already has good leadership from Mr Soo Thien Ming@Soo Thien See (CEO) in leading the employees to the direction which already set for HTIB. However, it is suggested that HTIB should also implement Theory O as stated by BEER and Nohria (2000) in order to achieve the vision and mission of HTIB. The leaders should adapt softer approach to overcome the change effectively. Leaders should affect the corporate culture by creating the culture of creative thinking and hardworking and the way the employees work. For example, after implementing rightsizing, leaders should encourage the employees who are able to remain in HTIB to have the creative thinking culture by organizing training and development, some internal competitions for the employees and others to them so that employees have contributions more to the strategy of diversification.

#### 5. 0 Conclusion

HTIB should continue its effort on improving its sales and revenue. Analyzing its internal and external environment is crucial to aware of its resources and capabilities as well as its competitors in order to find out better strategies to achieve its vision and mission. Good allocation of resources and fully utilization of capabilities is important to HTIB so that to achieve efficiency when implementing any strategies and meeting effectiveness as required.

HTIB should evaluate and control itself from time to time so that it always competitive in the biscuits manufacturing industry forever.

(4499 words)

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