

The introduction corporate profile economics essay



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Delloyd Ventures Bhd is an automotive part and component manufacturer for car manufacturers and assemblers in Malaysia. This group principally has diversified its business by automotive components manufacturing, distribution of both passenger and commercial vehicles, and oil palm plantation and milling (Appendix 1. 1).

This group starts its incorporation in 1996 and in the same time, they also being listed in the Bursa Malaysia in November. Delloyd Ventures Bhd is located in Klang and it currently operates four manufacturing plants which located in Malaysia (Klang, Tanjung Malim), Indonesia and Thailand.

Their corporate vision is to become a world class automotive components manufacturer and the undisputed leader in the industry. With the strong philosophy of the company applied, they work on innovation and creation of quality product and services in order to meet demands of the market in both present and future. The corporate's objective is to be recognised as world class components manufacturer and the undisputed leader in the industry.

1. 1 Automotive components manufacturer

It is a group of companies which is specialized in the original equipment manufacturer (OEM) for the major automotive manufactures and assembles in Malaysia and overseas. Before this group is being formed, the founder who is Dato Sri Tee Boon Kee had formed Delloyd Auto Parts (M) Sdn Bhd to import and distribute the automotive component parts and accessories in Malaysia. The manufacturing is separated into two areas which are plastic parts and electronic components (Appendix 1. 2). Besides being a Tier-1 vendor to local automotive makers, which as Proton and Perodua, it also

supplies the auto parts to several foreign brands in Malaysia such as Nissan, Suzuki, Toyota, Ford, Honda, Hyundai and so on. The more important overseas customers are Toyota and Honda in Indonesia and General Motors in Thailand. According to annual report, top three customers of Delloyd Ventures Bhd are Proton, Perodua and Toyota which has made up around 60% of annual revenue in financial year-end 2012. For diversifying purpose, Delloyd has expanded this segment by venturing into Indonesia for vehicle distribution as a supplement to auto parts and components manufacturing division in March 2008. Currently, the group is the distributor of Hyundai, Suzuki, Proton and Brilliance Auto (Jinbei) vehicles. It also joint venture with PT Asian Auto International.

1. 2 Oil Palm Plantation

Another business segment of Delloyd Ventures Bhd is plantation. In 1999, they start ventured in the plantation industry which is palm oil plantation and acquired 1, 449 hectares in Batang Berjuntai, Sungai Rambai Estate. To beyond its success in Malaysia, the Group went on a larger scale by acquiring 60%- stake in PT Rebinmas Jaya which owns 14, 422 hectares of oil palm plantation in Pulau Belitung, Indonesia. This brings Delloyd Ventures Bhd ownership of oil palm to total 15, 871 hectares. However, Indonesia currently planted around 80% of 14, 422 hectares and which only 61. 6% are matured oil palms. Thus, management measured that it targets to complete planting by year 2015. During year 2011, Delloyd Ventures was looking at additional land surrounding their current plantations in Pulau Belitung but they faced hindrance in terms of social issues. They are now considering Palembang as it is friendlier to foreign investors. The performance of

plantation division is very dependent on the price changes of palm oil products. Besides, plantation operations also are affected by rise in fertiliser and labor costs.

Before this, we decided to choose two main segments which are automotive components manufacturing and oil palm plantation as our main concerns in this whole project. We exclude distribution of vehicles due to it is actually a sub-segment of automotive segment according to the structure shown in appendix. In other words, Delloyd diversify this vehicle distribution which is correlated with automotive parts segment. We choose oil palm plantation due to it is unrelated to Delloyd's first main core business. Thus, all the environmental factors and analysis will be not the same since one is agriculture which is more dependent on natural issues whereas another is more on technical manufacturing. From this project, we will be able to know that how Delloyd Ventures operates these two unrelated segments, what are the problems management faces, and our recommendation on improvement of Delloyd Ventures business operations.

(Ps : Appendix 1. 3: corporate structure, App1. 4 & 1. 5: list of Subsidiaries

App1. 6 & 1. 7: revenue contribution of automotive segment)

ENVIRONMENTAL SCAN

2. 1 PEST ANALYSIS

2. 1. 1 POLITICAL/LEGAL

Automotive industry

New requirements on standards are imposed by government for automotive components by developed market. Compliance to domestic and global standards gains prominence among the market players in the automotive parts and components in Malaysia against the liberalisation in automotive industry. New requirements on standards are imposed by government for automotive components by developed market such as ISO 9000 and ISO 14000. Besides, the RTD (Road Transport Department Malaysia) has targeted to adopt all 126 regulations from United Nations Economic Commission for Europe (UNECE) by year 2015. Malaysia government had adopted 54 such regulations such as R7 (brake lamp performance), R40 (exhaust emission-motorcycle) and so on (Appendix 2. 1 & 2. 2).

Based on MIDA, manufacturing companies with shareholders' fund of at least RM2. 5 million or engaging more than 75 full-time paid workers need to apply for a manufacturing license for approval by MITI under Industrial Coordination Act 1975.

The Malaysia has announced the National Automotive Policy (NAP) Framework on year 2005 to increase further growth in local automotive industry. Its main objectives are:

To promote competitive automotive sector in particular for local automotive manufacturers;

Facilitate the required transformation and integration of the local automotive industry into global industry networks within the increasingly liberalised and competitive global environment;

To enhance value-added and capabilities in automotive sector; and

To advertise export-oriented Malaysian manufacturers and components vendors.

The government had changed the national automotive policy which shifted to production of fuel-efficient vehicles to transform Malaysia into a hub that produces fuel-economy vehicles for the ASEAN region by 2020. Malaysia will gain competitive advantage since this approach had not been implemented by ASEAN country such as Thailand and India, thus bolstering Malaysia's position as a car-making hub in this region. By implement the new policy, it will have significant effect on Delloyd Ventures Bhd. If Malaysia able to position as a car-making hub in ASEAN.

National manufactured automotive parts are going to face competition from imported products from ASEAN countries result from implementation of ASEAN Free Trade Area (AFTA) agreement. The intra-regional tariffs or import duties for CKD and CBU vehicles are reduced between 0% and 5% through Common Effective Tariff (CEPT). Government's incentive scheme of 100% import and excise duty exemption for CBU hybrid vehicles below 2,000 cc. hence, imported vehicles from ASEAN countries are competing on the same platform with minimum or no import duties.

In order to protect the local automotive industry, a number of import restrictions were imposed on foreign vehicles. With more than half a million sales per year, Malaysia is the biggest market for automobiles in South-East Asia.

Besides, Malaysia government has protected local automotive industry from foreign competition by introducing an Asian Material Content policy, which included imposing high tariffs as well as non-tariff barriers. "National autos" such as Proton and Perodua had gained benefit from preferential treatment compared to "non-national" autos. This has brought a huge benefit to Delloyd which can increase its sale growth in segment of automobiles manufacturing due to increase of sales of its main customers which are Proton and Perodua.

The announcement of National Minimum Wage Rates for the private sector under National Minimum Wages Consultative Act 2011 also becomes one of the factors affect business environment of corporation. It state that minimum wages for Peninsular Malaysia is RM900 while Sabah, Sarawak and Federal Territory of Labuan is RM800. This also be a highlight for all the private companies especially for large group of companies as their workers may more than 300 workers, this may affect the corporate governance and company policy in future.

Plantation

Malaysia had announced to reduce its crude palm oil (CPO) export tax. The reduced rates will take effect in January 2013 due to the changes of CPO tax arrangements in India October 2011. From January 2013, Malaysia's tax rate on CPO exports will be 4.5% to 8.5% of the price, which decline from current rate of 22% to 23% of the price. Malaysia has no tax on exports of processed palm oil. Malaysia government are very concern on this sector since the agriculture consider as a largest market. In addition, the

government had decided exempt the export tax because of the high competitive environment. These changes in tax rate may attract new competitors which they can enjoy tax relief on oil palm plantation and this will affect future growth of local market players.

2. 1. 2 ECONOMIC

Automotive

In 2011, Delloyd Company sales had dropped significantly due to the major customer in foreign countries is facing natural disaster. Earthquake and Tsunami happen in Japan and Floods in Thailand. So, it will have adversely affected to the company because Japan and Thailand are consider major markets of automotive sales in Asia. The company should always analyze the weather condition of foreign country in order to mitigate risk or resolve threat. Other than that, the Malaysia inflation rate was 1. 3 per cent FY 2012 September. In the past 5 years, the Malaysia inflation rate averaged 2. 67 per cent. The highest inflation rate was 8. 5 per cent in 2008. Inflation reflect the real of purchasing power of community . Due to the inflation rate was drop recently , it means that community have more purchasing power to buy certain goods. Hence, it may improve the sales of automotive industry.

Plantation

From the research, Indonesia has become the largest palm oil producer whereas Malaysia is the largest exporter for palm oil in global market. Despite continually economic crisis in Europe and United State as well as related concerns over diminishing demand for palm oil, the international take-up rate has been encouraging due to world's top consumers purchasing

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massive amount of edible oil. The palm oil price would be strengthening as production in Indonesia would decelerate beginning next year and reach stability in year 2016 as its trees has matured. Increasing in FFB production volume coupled with higher average crude palm oil price will improve the profitability of plantation industry. due to Indonesia's production was a driven in palm oil supply growth in the past five years, slower production growth will bring negative global palm oil supply growth and therefore, palm oil prices will be higher in next few years. (Appendix XXX)

2. 1. 3 SOCIAL

Automotive

Social shifts such as buying preferences will have significant impact on automotive industry. Nowadays, the world are encourages people to be environmental friendly hence improve the living style. For instance, if the community have strong belief on this, they might refuse to buy car. So they might choose an alternative way rather than buying a car in order to protect the environment. When the sales of vehicle drops, it would influence the revenue of Delloyd Company because their product which are necessary associated product to car.

Differences in age structure of the population have implications for the overall level of saving compared with consumer spending. For instance, most of the college students own a car as their necessary transport to school due to the domestic car are relatively cheap. Although the parking lot space in Malaysia always limited, but many youngsters still prefer to have their own car to enjoy the independence and freedom. This had bring effect on

revenue of Delloyd since government always give support and encourage local residents to purchase local vehicles such as Proton and Perodua with lower price and simple procedures compare with buying foreign cars.

Plantation

The palm oil will be in great demand for edible purposes to serve the growing needs of the world population such as huge population growth in China and India. At the same time, demand for non-food uses such as bio fuel and biomass is expected to expand as an alternative source of energy, the outlook for palm oil is expected to be positive. This favorable outlook shows the company able to perform well in following year.

2. 1. 4 TECHNOLOGICAL

Automotive

Changes in technology can have a rapid and dramatic impact on the economy. Technological refers to changes in production technique and production equipment. Delloyd Company had implemented high-tech systems and machinery in order to ensure quality products at all the times such as 20 assembly lines, computer aided design and etc. 20 assembly line can help the company improve the production volume of sales, improve quality of service hence reduce running costs and wastage.

Computer aided design are used to design products by using computer generated models and 3D drawings. Thus, the company no need to build a physical model as their prototypes to test certain conditions. For automotive company, it would include a huge cost in testing purpose hence increase the

operating costs of the business. By adopting advance technology, is a very efficient way to help the company boost the sales and reduce costs.

Plantation

Gene modification organism will help to develop superior planting material, mechanise the planting, harvesting process of oil palms, and identify new edible and industrial uses for palm oils. Other than that, world- class R & D is major strength of Malaysia. The areas of research mostly focus on identifying genes that will make oil palm trees more resistant, stimulating oil palms to produce more female flowers and designing tools to ease the planting and harvesting processes. Although those research need consume a lot of time and cost but it will help the company gain competitive advantage than other since they know their own position and customer requirements hence increase the sales of plantation segment.

2. 2 PORTER'S DIAMOND

As we have mentioned before, Delloyd Ventures Bhd has several subsidiaries companies. Each segment play very important role in generating the company's profit and maintain its market shares. There are several segments brings global competitive advantages to Delloyd Ventures Bhd within certain industries. Porter Diamonds by Michael Porter could lead us to identify theses competitive advantage. Porter Diamonds is separated into 4 parts which are demand condition, factor condition, related and supporting company and firm structure, strategy and rivalry. These factors will show how Delloyd Ventures Bhd outstanding its competitors.

First of all, factor condition considered about the decision made by the company which is related to the resources used in the operating activities. Resources are one of the key factors that lead the company to the top of the industry. Without appropriate resources, a company could lose its market share and making losses in future. Delloyd Ventures Bhd has planned and chosen its suppliers and resources wisely. In Delloyd Ventures Bhd's automotive component manufacturing segment, the management team has come out with several idea in decreasing the cost of producing its product. The automotive component manufacturing segment has its own facilities in Indonesia and Thailand. Both countries are rich with human resources. The segment could achieve low labour cost since there is high demand for job opportunity in both Indonesia and Thailand. Besides, Executive Director of Delloyd Ventures Bhd stated that the facilities in Indonesia and Thailand are seemed to be only running at 30% of its capacity and they are going to improve it. This action could minimise the cost of its product by improving its efficiency and increase its volume sales. Apart from that, Delloyd Ventures Bhd's automotive component manufacturing segment serves several World-class customers, such as, Toyota, Honda and Oriental-Hyundai. Since Delloyd Ventures Bhd is the major suppliers of certain products of these companies. It is acceptable to think that these companies share information of designing and technology. Delloyd could use this information to come out with some new design or technological products to introduce its customers. This could enhance the relationship between Delloyd and its customers.

Malaysia does not have enough land. With strict policies of maintaining about 50 percent of the land as forest cover, it is difficult to extend the

planting area within Malaysia. In order to maintain or improve its position in the industry, Delloyd has to take action to overcome this problem. Therefore, Delloyd has taken precaution step by expanding its plantation industry to Pulau Belitung in Indonesia by acquiring 14, 422 hectares of land. In Indonesia, Delloyd would able to incurred low labour cost as compare to what had been spend in Malaysia for plantation purpose. (Annual report Pg 17)

Delloyd Ventures Bhd could achieve low cost production in automotive component manufacturing segment and plantation segment. This advantage could create potential opportunities for Delloyd in future.

Other than factor condition, demand condition is also one of the factors that could help a company to win against its competitors by creating competitive advantage. Competitive advantage can be created when local customers giving pressure to the companies to produce better and more advance products than its competitors.

Delloyd's automotive component segment generates most of the profit among all the segments simply because some of the customers are world-class vehicles manufacturers. These companies compete against each other in order to acquire more market shares. The most common way which use by these companies is producing more advance technology, outstanding design and marvellous performance of their products. Ever since the first car had been introduced to the world, people dream of having one. In today's world, it is almost a must to have a car in every household. Car manufacturers see this opportunity and keep on putting new and innovative technology into

cars. In order to obtain most of the market share, they require assistance from other industry to produce certain part of the products, such as Delloyd Ventures Bhd. This shows that Delloyd is one of the key suppliers which car manufacturers could not afford to lose and reasons behind the demand for Delloyds's products is barely consistent within Malaysia. The automotive component segment is being pressure by its customers for producing more innovative product. In the second paragraph, we have mentioned that Delloyd's automotive component segment acquire information from its customers in order to produce products that meet their requirement. Besides doing what require by the customers, Delloyd may come out with some innovative design or advance technology in assisting to increase the market value of its customers' products. At the same time, Delloyd improve its reputation as well as maintain a long term relationship with its customers.

The demand of the world for palm oil is increasing daily. The demand for palm oil keeps increasing may cause by the increase of population of people in the world. Palm oil is a must in most household as for food purposes. Other than refine palm oil for food uses, there are also demand for non-food uses such as biofuel and biomass. The demand for non-food uses is projected to expand as an alternative energy and coupled with the impact on inventory levels as a result of climate changes that outlook palm oil is expected to be positive.

Co-operation between companies could achieve competitive advantages in an industry. Companies could share their ideas together and diversify the risk of failure of a certain project. Beside co-operate in an existing project, companies may also come out with something new which could create new

income source for the company. This criteria fall in one of the Porter's Diamond's factors, related and supporting company.

Delloyd's automotive component segment has been one of the key suppliers for several car manufacturers. Delloyd has built a very strong relationship with its customers with the prove that some of the car manufacturers only allowed Delloyd becoming the suppliers of some automotive components. In year 2008, Delloyd acquire 51% stake in PT Asian Auto International (PT AAI) based in Indonesia. This is the first step which Delloyd ventured into commercial vehicle manufacturing. Since then, Delloyd exports its products to more than 10 countries which include Latin America. Among all the export countries, Toyota Motor Indonesia and GM Thailand contribute most of the profit to the company. In the past year, Japan was hit by earthquake and causes the sales of Japan related car industries fallen. However, Japan's economy is recovering steadily from the impact and we believe that the Japan related car industries will go back to their usual performance or even better and at the same time Delloyd could generate more revenue from the recovering.

As in Plantation, it is difficult to acquire a piece of land in foreign country without the help of the local companies or government. In July 2006, Delloyd acquired 60% equity stake in PT Rebinmas Jaya which own 3 oil-palm plantations in Pulau Belitung, Indonesia. By acquiring a local company, Delloyd does not have spent resources in studying the culture or geographical of Indonesia which could affect the plantation's operation with the knowledge owned by PT Rebinmas Jaya.

Lastly, a company structure, strategy and rivalry could also create competitive advantage. The way how a company setting its goal and strategy used is important for success. Besides, the existing local rivalry also very important because it bring pressure to the company in innovate new products.

The board of directors of Delloyd foreseen that the announcement of National Automotive Policy (NAP) would bring a positive impact to the company in several ways. This will turn Malaysia into a regional hub for hybrid, electric and environmentally friendly vehicles. Therefore, the group has putting effort in building up relevance knowledge and experience in the industry and also focus on prudent cost management and enhancing plant efficiency as well as productivity to ensure that the sector's profitability is sustained.

In conclusion, the result or annual report of Delloyd has shown that it has potential growth in expanding its business into other countries. Delloyd does own several competitive advantages which exclude itself from its competitors.

2. 3 PORTER'S 5 FORCES

2. 3. 1 Threat of new entrance

Automotive

The growing rate on automotive industry in the world expected growing rate of 6 per cent based on International Business Times. The increase of the demand of the car production will increase the growth rate of automotive component industry. Although the automotive industry will keep on growing <https://assignbuster.com/the-introduction-corporate-profile-economics-essay/>

in the future, but the threat of new entrance in automotive component segment is low. In other word, there is relatively high barrier for new potential manufacturers to enter this industry. Otherwise the barriers to entry can be low if the scale of business operations intended is small. It requires high capital requirement involving millions of ringgit to acquire manufacturing facilities, factories building, production equipment and machinery, technology licensing, raw material, manpower and so on. Thus, new entrants must have long-term investment horizon in order to recover such huge initial cost which impossible in short term period. Besides that, new entrants need to have sufficient technical expertise include specialists and updated technology in order to join this market. Furthermore, any upgrading machinery used to produce the automotive components incurs higher initial cost because of technological development. Established market manufacturers usually have long-term relationships with their own customers and thus enjoy a stronger goodwill. It is not easy for any new entrants to build a viable business relationship as it needs a significant time to establish. Once the relationship is strong, when trust and confidence are well-maintained, it would be hard to break up such partnership. Thus, potential entrants will find it very hard to break up such existing business relationships among market players in short period. This can affect the market penetration and poses a high entry barrier. Delloyd Ventures Berhad has built a strong brand name in automotive industry and has established solid distributor network and major retail chain in the parts of replacement market. This has help Delloyd to create a strong barrier of entry for new entrants.

Plantation

There is high barrier for new company to enter into this industry due to high capital requirement in this industry. The potential entrants need huge capital requirements to purchase land for oil palm plantation and also hire labor. Besides, potential entrants also need to get approval from government for participating in oil palm plantation which is one of the main sources for Malaysia's growth. Moreover, the new entrant may face a challenge in the distribution channels for distribute their product. The new entrant may need to persuade the distribution channels to accept their products by providing extra incentives which may lower down their profits. This is because he distribution channels may not distribute their products due to do not have the confidence of their products.

Although the threat of new entrance in both industries is low, the profitability of the company will be affected if there is a company enters to these industries. This is because it will reduce the market share of the company and the company sales will be decreased.

2. 3. 2 Bargaining Power of Buyers

Automotive

Automotive component industry has a strong bargaining power of the buyers. The buyers easily switch in order to gain better pricing and quality from suppliers. As we know, Delloyd is automotive component manufacturer with long-standing relationship as Tier-1 vendor to domestic carmakers Proton and Perodua. If Proton and Perodua stop to continue contract with Delloyd Ventures Bhd, they will be facing bigger losses in the automotive

revenue. It is because they can get alternative price quotation from other suppliers. And since main revenue from automotive segment is from Proton and Perodua, they can easily negotiate the pricing with Delloyd. Proton and Perodua also have other suppliers besides Delloyd Ventures such as APM Auto Berhad. Thus, customers will decide which company offers the better quality of the components with affordable price. Moreover, product differentiation is low. The automotive more likely is the same from the function even the usage, therefore, the buyers might focus the quality and the pricing.

Plantation

The bargaining power of buyers for the plantation is high. As we know there is large number of oil palm producers in Malaysia. This has given ample choice of suppliers for customers to choose. Buyers are informed about the market prices of crude palm oil through the global news. Although the switching cost from a company switch to another company may huge cost incur, the buyers willing to spent it if there will a better saving cost on the buying the palm oil in the future time.

2. 3. 3 Bargaining Power of Suppliers

Automotive

There is a need of wider range of raw materials for automotive component company to produce automotive parts, such as iron, aluminum, plastic steel, glass, rubber, petroleum products, copper, steel and others (Appendix 2. 3). The bargaining power of suppliers is consider low. This is because there are a lot of suppliers of raw material in the market and the both buyer and seller

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have the knowledge on the price on the raw materials. If their suppliers increase the price on the raw materials, Delloyd Ventures Bhd can find for new supplier. Delloyd Ventures Berhad can easily switch from existing supplier to the new supplier if there is short-term contract. Besides that, the raw materials supply from the existing suppliers is same as other suppliers. There are the suppliers that Delloyd Ventures can look for such as Malaysia Steel (KL) Bhd, Sutra Maya Enterprise, Kinsteel and etc. Although the bargaining power of the supplier is low, Delloyd Ventures still need to consider the impact on changing suppliers since it may affect the relationship between suppliers. It needs times to establish a strong relationship with new suppliers. Profitability of the company also will be affected when changing suppliers. It incurs certain risk for operation of the manufacturing if the suppliers not supply the raw materials to them.

Plantation

Bargaining power of supplier for plantation is high. The supplier of Delloyd Ventures Berhad is the land holder of both Malaysia and Indonesia. The lands used by Delloyd Ventures Berhad in plantation are through leasing from the land holder and purchase by the land holder. The land holder may sell their land in higher price to Delloyd Ventures Berhad due to appreciation of land yearly and high demand of palm oil in future. Besides that, the existing land holder may control the leasing fees on the land. The contract of the leasehold land in Indonesia is thirty years lease period and expired on 7 November 2029. Delloyd Ventures Berhad has to pay the leasing fees for the land holder because they have no other choices since they want to protect the plantation. If they want to choose to find to rent or purchase a new land,

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they will made a huge losses because of their trees are in the owner's land. Furthermore, they need to spend a lot of cash on purchase the land or rent the land and purchase the young oil palm trees.

Threat of Substitute Product

Plantation

Delloyd Ventures Bhd enter the plantation segment in 1999 years due to the higher prices of fresh fruit bunches (FFB) production which is comes from the palm oil. The threat of substitute products is high. If there is no used palm oil as the choices, the company can used other materials, such as sunflower oil, soybean oil and others used as the biodiesel. Although there is few substitutes' presence, the palm oil still maintains the highest demand for in global market. For the automotive component industry, there is low threat of the substitute's products. (Check properly whether got substitute or nt.)

Automotive

Automotive parts and components are key products to support whole automotive industry either for OEM market or replacement of existing automotive parts found in used motor vehicles such as bumper, gear knob, power windows regulators and others. Motor vehicles had gained prominence in modern Malaysian living as it becomes a necessary transport that can provide freedom and independence. The users normally would replace the broken components with the news without finding the substitutes. On other hand, exiting automotive components are constantly being innovated from the development in technologies while