

# [The bargaining power of buyer](https://assignbuster.com/the-bargaining-power-of-buyer/)

Fraser Neave holding Bhd. was incorporated at year 1883 when founders John Fraser and David Chalmers Neave formed a company named Singapore Straits Aerated Water Company in Singapore. Few years later, F&N was consolidated and enter the food beverage industry. F&N has its own vision to become the leading total beverage company in Malaysia and the region and their mission is to be a world-class multinational enterprise providing superior returns to their shareholders, excellent value for their customers and a rewarding career for their employees.

F&N Company is one of the Malaysia well known beverage company which the famous product is the isotonic drinks 100plus launched at year 1984. F&N produce wide range of beverage that can be classified as soft drinks, dairies, non-carbonated beverages as well as separate business property. They were launching the sweetened condensed filled milk in year 1973, and the acquisition of Nestlé’s canned milk business in Thailand and Malaysia in year 2007. Other than that F&N high quality canned milk was also gain excellent reputation in Malaysia. This product is largely use as beverage mixers in coffee, tea and chocolate drinks and now canned milk has successfully to export this product to more than 20 countries around the world. In addition, the halal certification offers strong reassurance to Muslim customers in the growing Halal markets in the Middle East and Africa.

F&N Company was awarded The Reader’s Digest Trusted Brand from year 2005 to 2008, Media Magazine Top 1000 Asian Brands 2007 and so on. It proves that their customer was confident when using their products since they are concern about their health and safety quality. F&N Company was continuously improve their quality and brands to challenges the marketplace and to become the leader.

F&N Company is also well-known company that caring about the social environment and working environment. They implemented and executed various environmental stewardship and launched numerous recycling campaigns in schools to inculcate good environmental habits among young people and thus, create awareness on the importance of recycling. F&N Company also set-up a RM1. 2 million funds named Chairman’s Award to promote educational excellence and to recognize high-achievers among children of F&N Group’s employees. F&N Company has achieved a safety record of zero accident (no loss time accident) accumulated from 1 February 2007 to 21 September 2009 with a total 962 days or 2. 3 million working hours. In terms of its environmental compliance incident and achieved ‘ zero environmental compliance’ status.

F&N Company has three main businesses which are soft drinks, dairy products and property.

Soft Drink

F&N Beverages Marketing Sdn Bhd represent Malaysia’s largest soft drinks manufacturer and distributor. There are four manufacturing plants nationwide, including its state of the art facility at its headquarters in Shah Alam, Selangor. Their products are 100PLUS, F&N Fun Flavours, F&N Originals, SEASONS, Ice Mountain and Fruit Tree.

The company started operations in 1936 when F&N Ltd obtained the franchise of Coca-Cola in Singapore and Malaysia. After that F&N Coca-Cola (M) Sdn Bhd (F&NCC) was born and license agreement would end in September 2011, the company renamed as FNBM. In Malaysia, 100PLUS is a outstanding local success story, cover 90 percent share of the isotonic drinks market and also the No. 1 ready to drink (RTD) brand in Malaysia. For non-carbonated portfolio, SEASONS is currently No. 2 in Asian drinks category while Fruit Tree continue to grow within the juice segment.

The soft drinks division perform well during the festive periods and continue to pursue world class excellence in distribution so that the products are readily available with focus on market execution. Over the years, FNBM has used few strategic measures that emphasize on its brand presence by invested in advertising and promotions, product availability and operational efficiency. In April 2010, FNBM was selected to become exclusive distributor of Red Bull energy drinks in Malaysia and has improved FNBM’s beverage portfolio.

Dairies Products

Next business is dairy products. F&N Dairies (Malaysia) Sdn Bhd has produced varity such as sweetened condensed milk, evaporated milk, pasteurised milk, UHT milk, juice and ice cream. F&N’s dairy business had a joint venture with Beautrice Foods of Chicago, USA in 1959 with the construction of Southeast Asia’s first sweetened condensed milk plant in Petaling Jaya, Malaysia. The Carnation Company from US joined the partnership in 1965 to form Premier Milk as the manufacturing arm.

The Group constantly seeks product innovation and invention, more products adding into portfolio and after that the Group had a successful journey into ice cream business. In 1989, the Group purchased the interests of Beatrice Foods and restructured its dairy operations under F&N Dairies (Malaysia) Sdn Bhd. It was expanded further with the acquisition of Magnolia in 1995. In 1998, the Group started its pasteurised business.

Today, F&N’s dairies division has a vision of being Malaysia’s leading dairy and food marketer with world class products, standards and capabilities forming part and parcel of its offerings. In 2011, F&N Dairies (Malaysia) disposed off its entire ice cream business to F&N Creameries (M) Sdn Bhd.

Property

About the property business, FN Properties is a business unit of Fraser & Neave Holdings Berhad, the purpose is to unlock the value of land acquired and held by the company. The first property is the former F&N factory land at Jalan Foss, has been developed into commercial spot called Fraser Business Park. The development follows the general direction of Fraser & Neave’s underlying philosophy of a socially responsible corporate citizen. Key value lies within the emphasis of continuously creating innovative designs and applications towards the development, giving its occupants a taste of the modern and the future alike.

More is expected from future property launches as the unit break new ground with innovative design and product development that focus on feature that are particular to the F&N brand name. In future, the property division will emphasize on changing existing Premier Milk plant into a landmark in Petaling Jaya. The redevelopment is estimated 5 to 8 years period.

## PEST

Mission: To be a world-class multinational enterprise providing superior returns to our shareholders, excellent value for our customers and a rewarding career for our employees.

Vision: To become the leading total beverage company in Malaysia and the region.

Every company has their mission and vision statement served as overall purpose of business. The mission and vision statement above are set by F&N. There are external environmental issues have or will affect F&N to achieve their mission. These external environmental issues are being categorized according to PEST(EL) model. PEST(EL) model is to analyze the external environment issues of company. It categorized environment issues into political, economic, social, technological, ecological and legal influences.

Economic

Improving growth prospect of Malaysia, Thailand and the region brings more income to F&N as is signals economy are in good condition and peoples are willing to spend hence will increase sales in that particular region. The growth prospects include rising of Malaysia GDP in year 2010 that is approximately 10% compare to 4. 5% in 2009 that rise from some major factor of manufacturing industry production with a double digit growth of 16. 9% in year 2010. ASEAN countries are growing quick in their economy thus putting F&N a favourable factor in growing of profits. F&N has built up positive consumer sentiment to their product. For example 100PLUS, isotonic drink that is specialized for sportsmen to retain the metabolism. It is a concept well-built that it is voted number 1 isotonic drinks in Malaysia since its introduction in 1983. That well-built positive sentiment brings others drinks of F&N to be well marketable. It is the consumer sentiment to the products enhanced the profitability factor of F&N towards other competitor thus is at an advantage in the market.

Political

Government had put initiative to boost spending of consumer with new economic model (NEM), with this model being pursue, Malaysia economic boost as consumer purchasing power increases and are advised to spend. F&N will get benefit by provide goods to be sold to the market hence boosting sales.

F&N products are all ‘ Halal’ hence are entitled for Halal Hub Tax Incentive. The incentive offered had decreased F&N some percentage of tax liability to the government. It made F&N more profitable compare to those companies which does not qualified for the incentive.

Government has taken back some incentive in year 2009, the withdrawal of subsidy of fuel and sugar has put an impact to F&N as most of the F&N core businesses needed large amount of sugar which is dairies and soft drink business. The withdrawal of sugar subsidy lower the overall profit of the F&N although there is a large improve a sales but the profit doesn’t show much improvement as the sugar cost increases. Withdrawals of fuel subsidy did also impact on F&N as the cost of their internal and external distribution cost increases thus reduces profit.

Technological

In the beginning of 2011, F&N introduced new product, Ice Mountain and it has faster share gain among bottler waters player which established 5% market share in Malaysia.

F&N launched new beverage Zesta across Malaysia in October 2011. Zesta has remarkably great tasting berry soda flavored soda. It contents the Guarana tropical berries that originate from Amazon, South America. In addition, Guarana tropical berries invigorate the body and mind. “ Zesta is an extension of our already large array of F&N beverages, a beverage that was initiated to complement our existing range of F&N brands, creating a transition vehicle for our growing band of consumers,” said Dato’ Ng Jui Sia, CEO of Fraser & Neave Holdings Bhd. F&N believes that Zesta is the illustration of growing trends for beverage enhanced soda. (Zesta 2011)

Environmental

Sichuan Earthquake of May 2008 has caused the raw material cost increase and company’s profit is affected. Natural disaster is beyond expectation and control of the company. Profit before interest and tax in 2008 grew only 5%. This environmental factor has affected company to achieve their mission. Natural disaster would serve as obstacle that F&N provide superior returns to shareholders.

## Porter’s 5 forces

Today, Fraser & Neave Holdings Bhd (F&N) has extended business at more than 20 countries worldwide and established itself as a regional player. So that, F&N need use Porter’s five forces model to analysis and understanding the nature of the competitive environment. F&N has a lot of benefits from using Porter’s five forces model. They can ensure that management considers a wide range of potential impacts when devising strategy. They allow the division of the work in environmental analysis and make decision in time. In addition, Porter’s five forces also help to develop effective strategies to raise F&N profitability, power, and competitive position in an industry. Porter’s five forces is divided into threat of entry, intensity of competitive rivalry, threat of substitute product, bargaining power of buyer and bargaining power of suppliers.

Threat of entry

Threat of entry is new entrants into market will bring extra capacity and intensify competition. The strength of the threat from new entrants will depend upon the strength of the barriers to entry and the likely response of existing competition to a new entrant. F&N produce two new soft drink F&N Clearly Citrus and Zesta were launched in soft drink market at year 2011. Zesta and F&N Clearly Citrus are getting customer support and the new produces also have a higher demand from the buyer. Zesta sales would create other competitor have entered the soda market, it will be posted a threat for the F&N affect the market sales. Therefore, F&N should defensively competitor who are entered the soda market to creating barriers that new entrants to the market find difficult to overcome. This can ensure the Zesta sales would not affect and ensure the maximize shareholders wealth. F&N able to occupy in the Malaysia soda market a very important role.

Bargaining power of supplier

Bargaining power of supplier’s definition with the stronger power of suppliers in an industry the more difficult it is for firms within that sector to make a profit. It is because suppliers can determine the terms and conditions on which business is conducted.

Most of the products are contented sugar, sugar is essential for production. Malaysian Government has removed sugar subsidies on selective basis and subsidy for Dairies Malaysia was removed. Increased of sugar cost and global commodity cost forced price of Sweetened Condensed Milk increased by 25%. However, sugar subsidy was removed on selective basis which means F&N can look for suppliers whose sugar subsidies weren’t removed. In addition, competitors will also search for new suppliers and it may not easy to reduce cost as low as before.

Apart from that, F&N may have to concern about any switching cost for current suppliers.

Bargaining power of buyer

Bargaining power of buyer sense of the powerful buyer can force price cuts and quality improvement. The government removed sugar subsidy, F&N material cost increased and affected the product selling price increased. In 2011, Sweetened Condensed Milk has increased 25% of the price which cause the demand reduced. Revenue and profit was decline during the year. Buyers also have full information about the soft drink and dairy product market. They should know which company product cheaper, more health and best quality. F&N need to retain the customer by improving product quality and introduce new product. Buyers always have different choice for their beverage and dairy product. Apart from that, same type of competitors’ product will be display nearby company’s products. For example, Jusco will be placing same type of products together which allowed buyers to search easily. There is low switching cost for buyers. Beside, degree of product differentiation is low which customer may feel all brands are similar. This threat is more difficult to control, because F&N management need to concentrate on changing buyer’s preference and also maximize the shareholder’s wealth.

Threat of substitute product

Porter’s 5 forces have indicated that the threat of substitute product is the other firms within the industry has offers similar product with similar benefits for the customer. This threat may affects the competitive environment of the company and influence our ability to achieve profitability.

On F&N – Magnolia have offers Pasteurised Milk and Sterilised Milk. The range of the customers is children and adults. The Pasteurised Fresh Milk can be enjoyed chilled or warm, plain or mixed with other foods or beverages and they innovate into Lo-Fat Hi-Cal Milk provide less fat and more healthier of the Fresh Milk for our body. However, Marigold has offers HL Milk is low-fat milk No. 1 in Malaysia. HL Milk has perfect balance of nutrients for everyone in the family and it consists high in calcium and protein, low in fat and lactose and fortified with 9 essential vitamins to supplement healthier lifestyle. Marigold HL Milk is first choice for the customers who are caring health conscious. F&N should innovation their milk product provide more healthy to attract or retain consumer’ choices.

Another competitor is Dutch Lady has provided a Dutch Lady Milk powder for satisfy customer needs who want mix it with other coffee or tea favour and it has a rich and creamy taste and allowed to dilute in hot or cold water easily. Furthermore, Dutch Lady also has provided different formulations to cater to children of different ages to promote their brain development and healthy growth. Therefore, most of the mother would choose Dutch Lady Milk products of their children rather than choose F&N milk products.

F&N SEASONS offers soft drink products are leaders in country’s most comprehensive range of consumer, catering to every occasion. The Soya range provides protein nourishment while the Chrysanthemum and Grass Jelly provides healthier refreshment with less sugar let F&N SEASONS become best quality and healthy drinks. However, they are having lesser favors for the customer choose. YEOS have more favors, such as Lychee drink, Sugarcane drink, Bandung Rose drink, coconut juice, soursop drink and guava drink for the customer to choice. Hence, consumers who are Sugarcane drink lover may change its option to YEOS products.

Although there are many competitors for isotonic drink, 100Plus still able to gain over 88% of the market share. Company has done a lot promotion for 100Plus which the reason 100Plus is successfully gain more than half of the market share. (Annual Report 2010)

Intensity of competitive rivalry

Intensity of competitive rivalry among competitors in the industry strives to companies to gain competitive advantage over the rivals and drives the profit of the rivals’ firm to zero. The company can gains the competitive advantage by several ways, such as pricing policy, improving the products differentiation with other and exploiting relationships with suppliers. If can gain more competitive advantage over competitors can increase the profitability of the company.

F&N only provided soft drink products and dairy products, appears less competitive advantage compare with others. Nowadays, people more have health conscious when they buying products may choice to buy the products which consists more nutrition. In food and beverage industry also have many company has provide more diet product to satisfied the requirements of the different customers.

Dutch Lady Low Fat Yoghurt is a healthy snack and it will enhance the absorption of nutrients, ensuring digestive system stays healthy. It contains Vitamin A, C and E, calcium and Active Live Cultures.

In Addition, the Marigold have offer the Yogurt and cultured milk – Vitagen which have consists nutrition products for the body. The Vitagen has billions of live probiotic cultures to helps maintain a healthy digestive system. Probiotic cultures in VITAGEN can withstand bile and acidic stomach juices and reach the intestines alive to fight harmful bacteria in the intestines. Furthermore, the Yoghurt contains live and active cultures help digestion and promote a healthy digestive system and calcium for the development of strong bones and teeth. Marigold also has offers Jelly is a great-tasting double-layered jelly that is filled with fresh fruits. It’s cool and refreshing taste makes it great for everyone in the family and contains no preservatives and is a healthy alternative to fruits after a hearty meal. This makes Marigold become Malaysia’s first and only pasteurised Jelly.

This all is key reasons that the consumer may change favors to this type of products. To gain competitive advantage, F&N should provide more nutrition products for the customers have more choose.

## Porter’s national competitive advantage ‘ diamond’

Porter’s diamond model suggests that there are inherent reasons why some nations and industries within nations are more competitive than others on a global scale. The argument is that the national home base of an organisation provides organisations with specific factors which will potentially create competitive advantages on a global scale. (Michael Porter 1990)

Porter’s diamond model consist of four conditions of national advantage which are factor conditions, demand conditions, related and supporting industries and firm strategy, structure and rivalry.

## Factor conditions

Factor condition is about important elements that exist in a company which lead to national competitive advantage. It can be country specific or industry specific.

F&N Dairies had constructed plant in Pulau Indah costs RM350 million and will be completed within the second half of 2011. The new plant promotes cutting edge green technology which would have huge gains in water, energy and environmental conservation. With existence of this plant, F&N Dairies could be on the top list of world’s largest producers of canned milk. (Annual Report 2011 pg 41)

An increase in production line is an advantage of the company. F&N had launched a new RM45 million polyethylene terephthalate (PET) monoblock production line which is the first in Asia Pacific. This able to done all the things in only one production line, for example blow bottles, fill and pack all carbonate soft drinks products. (Annual Report 2010 pg 32)

F&N has the latest innovation and technology that bring advantages to them. With this latest technology, F&N can enhance its operations by continuing improve production lines. F&N can produce more products in effective and efficient way. In addition, the new machineries increase as the production lines increases. The warehouse management system has implemented to make operation work run smoothly. Besides, the introduction of new sales forecasting tools helps in manufacturing, if sales forecast is low, the manufacturer will produce less stock.

Supply chain act as an important role in a business. Without supply, production would not be carried out. Improvement in supply chain lead to high efficiency of production and logistic by upgrade the systems. F&N introduce higher level of operational automation and inventory management to ensure the manufacturing process has no error. Besides, the product quality management has to make sure that the products are in acceptable quality and safety measures are enhanced in order the product would not harm people.

## Demand conditions

Secondly, the demand conditions state that if the local market for a product is larger and more demanding at home than in foreign markets, local firms potentially put more emphasis on improvements than foreign companies. This will potentially increase the global competitiveness of local exporting companies.

F&N non-carbonated portfolio has slightly increased from 25. 4 per cent to 28 per cent in soft drinks business. This represent there is a growing demand for drinks. During the year, F&N included fruit teas and juices to its range of soft drinks, and launch new drink called Zesta recently catering consumers of this segment. The ability to innovate, differentiate and manufacture new product lines will bring advantages such as gain more market share. (Zesta 2011)

F&N Fruit Tree released five new flavours in bottle form which are orange, apple, lychee, blackcurrant and mango. As the demand increases, Fruit Tree has becoming one of the fastest growing categories in Malaysia. The new flavours are the extension to the Fruit Tree cans range and the research shows that consumer preference toward these flavours compared to other brand in the market. (Annual Report 2010 pg 36)

F&N Holding Berhad has built a new warehouse in Kuching which triple larger than previous warehouse capacity to improve the quality of service and make sure delivery to customers is on time. Furthermore, it utilised advanced warehousing technology such as high selective racking, super flat flooring and Very Narrow Aisleway (VNA) trucks.

## Related and supporting industries

Thirdly, the related and supporting industries mean that when local supporting industries and suppliers are competitive, home country companies will potentially get more cost efficient and receive more innovative products.

In February 2010, 100PLUS signed a partnership agreement with AirAsia Berhad, officially sell 100PLUS on AirAsia flights which depart from Malaysia. AirAsia Berhad is a Malaysia top airlines company, being a partner of AirAsia Berhad has a real competitive advantage for F&N. This agreement is a big step for division to extend business offshore. Passenger dehydration happened frequently in air travel, with 100PLUS the passenger can get over the dehydration. Support from AirAsia is like an advertisement effect, whenever there is a flight, there is an appearance of 100PLUS. (Annual Report 2010 pg 038)

## Firm strategy, structure and rivalry

Structure and management system can affect competitiveness. F&N is running beverage and dairies business in addition to food business too. F&N buy 23. 08 per cent share in Cocoaland Holdings Berhad. Cocoaland is a major snack food manufacturer in Malaysia. F&N is diversifying the business risk to various subsidiaries. F&N develop the food business to supplement beverage and dairies business. As the Malaysia grow into high income economy country, the consumption of middle income will increase and food business will be benefited.

## GE model

3 portfolio business

Property

Dairy product

Soft drink

GE business matrix

Industry Attractiveness- Economic Factor

Business Strength-

## Brand Strength

High

Medium

Low

High

Investment/ Growth

Soft drinkSelective Growth

Selectivity

Medium

Dairy productSelective Growth

Selectivity

Harvest/Divest

Low

Selectivity

Property businessHarvest/Divest

Harvest/Divest

F&N’s business has divided into 3 portfolio and that are Soft Drinks, Dairy Products and Properties. First of all, we will use the environmental factor and brand strength as the industry attractiveness factors and business factors benchmark.

Soft Drinks

F&N’s core soft drinks business portfolio will be classified at the classes of selective growth. The company soft drinks 100plus and Zesta are popular in Malaysia and have helped the company in bringing certain level of stable income. 100plus as the company’s core product have promoting an active lifestyle and healthy living to consumer. Many events have been run to promote 100plus as it is isotonic drink of choice at major sporting events. 100plus is present at top sports events such as Piala Malaysia Final 2011 100plus Tunku Abdul Razak Cup, KL Marathon 2011 and so on to continue building prestigious images of 100plus to consumers. Profit of division has been growing from year 2007 to 2011. However, sugar subsidy withdrawn by Malaysian Government has major impact on price of sugar. The division has lesser growth rate for year 2011. In addition, global commodity cost has increased which is unfavorable economic factor. Soft Drink division has very high brand strength but economic factors are not really favourable to the division.

Dairy Products

F&N’s dairy products will be classified at the classes of selectivity. Company’s dairy products have included sweetened condensed milk, evaporated milk, pasteurised milk, UHT milk, juices and ice cream. Dairy Products also suffered from withdrawal of sugar subsidy and global commodity price increased in 2011. F&N’s dairy products business has classified at selectivity, with medium level of attractiveness and medium business strength on the dairy products.

Although the product Milo is popular in Malaysia, Milo is not owned by F&N, it was franchised. This product reduces business strength as it is not the only major player in the market. The dairy products will seem less attractive to the investors to consider investing because the deliberate of the milk market is very costly. In addition, the cost for hire workers and the cost to obtain technology for producing the dairy products are costly for subsequent production of dairy products. Moreover, the dairy products’ license also difficult to be approved by the government. New entrant will find difficult to entry, because the market has been controlled and played by a few major competitors. New entrant will find difficulty to enter to the market as these factors created entry barriers.

Properties

F&N’s property business had generated more revenue in year 2007 compared to the year 2006 by 6%. Revenue for the year 2008 had declined by 24% compare to year 2007. F&N’s property business has classified at selectivity with high level of attractiveness and low business strength. The company is more concentrated in the soft drink products and has no initiative to promote company’s property to the public, not many people knows that F&N has already entered into properties. F&N’s property business is non comparable with beverage business that seems to be so successful and F&N’s property business strength is low in this industry. The property business that has high profitability in the industry will attract more investors to invest. The government encourage removing of old building and build more new business park in order to bring in more prosperity to our country. Moreover, our property business is at growth stage because it is newly introduced into the industry, hence it does not have strong business strength on the property business.

## Ratio analysis and Key performance Indicators

Revenue of continuing operation continues to grow from 2009 to 2010 by 11. 2% and 2010 to 2011 7. 6%. In 2010, the revenue is able to grow better than 2011 due to improved economic conditions. Malaysia Government has introduced New Economic Model 2010 helps to boost spending in Malaysia.

Profit before interest and tax growth rate also decline from 2010 to 2011, 31% to 14%. The result was affected because of particular division wasn’t doing well in 2011.

Soft Drink

Soft Drink division has current ratio of 1. 77 and 1. 99 for year 2010 and 2011. It indicated improvement in managing assets and liabilities.

The growth momentum of soft drink division has continued. The division has been doing well over the years. It contributes the largest profit to F&N. In 2010, the soft drink division was able to generate revenue 21% more compared to last year. Soft drink was delivering higher volume especially during festive periods such as Chinese New Year. In addition, sales volume of 100Plus & Seasons have grew more than 20% and reflected strong consumption and growing popularity of the brands. 100Plus generated over 88% of market share in isotonic category and Seasons generated 27% market share of Asian drink category. While Badminton competition Thomas Cup was around, 100PLUS Thomas Cup 1 Million Support Campaign was held for Malaysian to show their support for Malaysian badminton team. Apart from that, the division served as distributor of Red Bull energy drinks in Malaysia and commenced from 1 April 2010. Soft drink volume was able to benefit from Red Bull which contributed 2. 2% helps to improve the division’s beverage portfolio. (Annual Report 2010)

Soft drink division grew only 16% from 2010 to 2011. The growth rate is eroded due to the reason of Malaysian government has withdrawn the subsidy of sugar and fuel. Therefore, raw material cost has increased and causes the profit margin diminished. Coca-Cola business exits the F&N in September 2011 which also the reason of profit margin diminished. However, 100Plus and Seasons still generated volume growth 10% and 14% to benefits the division. 100Plus and Seasons are the leading brands in the division and continue to enhance the division’s beverage portfolio. 100Plus was being promoted continuously as 100PLUS New Thematic Launch in July 2011. Beside, F&N SEASONS Nourishing You Malaysia National Consumer Contest held between March and April 2011 to create consum