

FACTORS AFFECTING ACCESS TO THE MARKET BY SME FOOD
MANUFACTURER

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APPROVAL

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DECLARATION

“I hereby declare that the work of this thesis is mine except for the quotations and summarize that have been duly acknowledge.”

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DEDICATION

Specially dedicated to

My lovely mother, Ainshah Binti Baharom
and my caring father, Hashim Bin Abdullah
Thank you for raising and supporting me until now.

My beloved siblings,
Haswani, Hilmi, Hazwan, and Hanis
You are truly blessing from Allah.

My Supervisor, Prof. Dr. Mohd Ridzuan Bin Nordin
Thank you for all the spiritual and moral support.

and all my friends especially 4BTMM
Thank you, guys. We made it!

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ABSTRACT

SME has played a significant role in both, economic growth and development in Malaysia. Food and beverage is a sub-sector of the manufacturing sector, which is the second largest concentration of SMEs. This study focused on SME entrepreneurs access to retail outlet. The research goal is to identify the approach used by SME food manufacturer to open up the market and maintain their product in the market. The research objective is to observe the ability of SME product in retail outlet, to understand the motivation of SME to make their product available in the market and to evaluate the factor that determines access to the market. The research involves qualitative approaches of observation and Interview. Qualitative data in the form of observation and transcription of the interview will be analyzed through thematic based content analysis. This study focuses on SME food manufacturing companies around Malacca.

Keywords : Access market, SME, Food Manufacturer, Product, Promotion, Packaging, Logistic, Market Potential, Network

ABSTRAK

PKS telah memainkan peranan penting dalam pertumbuhan ekonomi dan pembangunan di Malaysia. Makanan dan minuman merupakan subsektor dalam sektor perkilangan, yang merupakan industri kedua terbesar dalam PKS. Kajian ini memberi tumpuan kepada usahawan PKS untuk akses ke pasaran. Matlamat penyelidikan adalah untuk mengenal pasti pendekatan yang digunakan pengeluar makanan SME untuk membuka pasaran dan mengekalkan produk mereka di pasaran. Objektif penyelidikan adalah untuk melihat keupayaan produk PKS di kedai runcit, untuk memahami motivasi PKS untuk membuat produk mereka tersedia di pasaran dan untuk menilai faktor yang menentukan akses ke pasaran. Kajian ini melibatkan pendekatan kualitatif dan pemerhatian. Data kualitatif dalam bentuk pemerhatian dan transkripsi wawancara akan dianalisis melalui analisis kandungan berasaskan tema. Kajian ini memberi tumpuan kepada syarikat perkilangan makanan di sekitar Melaka.

Kata kunci : Pasaran akses, PKS, Pengilang Makanan, Produk, Promosi, Pembungkusan, Logistik, Potensi Pasaran, Rangkaian

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CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter proposes a research that will figure out the access to the market among SME food manufacturer. The aim of the study is to analyze the factors that affecting access to the market by SME food manufacturer.

In this chapter, the researcher provides the introduction of this research project, which consist of several sections. The first section will cover the background of the study. Next, following by the problem statement, research goal, research question, research objective, scope of the study, and limitation of the study.

1.1 Research Background

The food industry is experiencing a period of fast transition, fueled by globalization, trade liberalization, genetic, processing and information technology development, intellectual property rights, family structure modifications, and concerns about health and food safety. SME food processing accounts for a significant proportion of Malaysia's mainstream companies. Strong growth in Malaysia's GDP for SMEs was 7.25 percent above Malaysia's GDP, which was 5.9 percent in 2017. GDP from SMEs contributed 37.1% compared with 36.6% in 2017. In 2017, GDP amounted to RM1,174.3billion and SMEs contribute 435.7billion, 37.1%. The SMEs employed about 56 percent of the country's workers, and in 2020 the value-added products in the manufacturing sector are anticipated to be worth RM120 billion. There is a growing trend in both national and international markets due to the halal picture of Malaysia. However, owing to a shortage of raw materials, absence of technology and restricted research and development, the industry faces numerous difficulties in the arena of worldwide SMEs to compete. (Statistics Department, 2018).

On the other side, processed food products have become the choice of many Malaysians as a result of rising living and buying power. Changes in the lifestyle of Malaysians have boosted demand for convenience food and health food, leading to innovative, fresh products in Malaysia-based SME food processing. In such a scenario, product innovation is regarded as the main component of achievement. It is one of the most robust and also difficult operations in Malaysia's SME sector as it is a method of introducing fresh products to the competitive market or considerably improving product. New technological developments, new technology based on combining current technologies or using other expertise that the business has obtained. Despite the various state supports, Malaysian small and medium-sized enterprises still face many difficulties in innovating fresh and timely products according to the necessity of the market. In such a scenario, surveys and reports have shown that the advantages of innovation are known to only a tiny amount of SMEs in Malaysia. More concentrated and concerted attempts are therefore needed to increase SME understanding of the advantages of innovation.

Entrepreneurs are people who are running their own company and nurturing them for company development and prosperity. Individuals can operate individually or in teams to form a company actively. Active involvement implies direct involvement and repetition at other moments of the act as deemed appropriate. Entrepreneurs are rarely satisfied with the successful exploitation of one chance. They are keen to explore more possibilities as concentrated as they may be on a specific project or at a specific moment when the enterprise is stable. In instances where companies are inherited (transferring family companies from one generation to the next) or given (for instance, in the event of corporate spin-offs being provided to intrapreneurs or current business purchases) – individuals take the leading position in further nurturing and extending companies for a person, family and social prosperity. (Adnan Alias, 2004). The retail store is the location where clients decide to buy the retailer's products. The store also affects the perception of the shop, products, services and employees that clients shape in their minds from the point of perspective of management, shop activities and a significant cost component. As a result, the store itself becomes the retail business ' critical asset, and it is essential that the activities are well managed to attain and maintain client satisfaction and be cost-effective.

The hypermarket has improved the comfort of shopping and consumer goods and services decisions, as well as increasing possibilities for SMEs to gain market access and increase their income. However, some have asserted that it has created difficulties for tiny distributors and distributors who are unwilling to compete with the fresh competition from contemporary shops (Ahmad et al. 2006). The Malaysian government was in a dilemma and was compelled to play a balancing act; large-scale company investment is crucial to economic development, but smaller local companies are equally important to keep the country's socio-economic equilibrium. The reaction from the government was to impose rules on overseas hypermarkets to allow local distributors to capture some of the retail markets.

Small traditional shops may be harmed by claiming that hypermarkets offer low rates, better quality products and varieties that may result in store loyalty. While at the same moment, these hypermarkets can provide small companies with a source of supply. These small companies become minor fill-in centers where the purchase of products in hypermarkets can become expensive in terms of time and cost of transportation. It is also noted that the trend of small fresh product stores is increasing in Malaysia, particularly in tiny towns surrounding Kuala Lumpur. It becomes a convenient outlet to fill in the consumer's weekly or daily needs.

At present, due to the socio-economic conditions in Malaysia, customers prefer to shop in hypermarkets. Hypermarkets shelve products supplied by companies or entrepreneurs who provide quality goods that meet customers' requirements. These stores are considered as an ideal market for SMEs to expand and to increase their profitability; hence, it is important to know which quality aspects of the SME products are considered to be the most important to hypermarkets. Earlier research on SMEs in Malaysia listed financial, managerial and administrative factors as the major constraints behind the growth and expansion of SMEs. None of the research has considered the critical quality aspects of SMEs products as a barrier or challenge towards SMEs' growth and expansion into hypermarkets. This study addresses the research gap and attempts to provide a clear direction to the Malaysian SME entrepreneurs who intend to reach out to their customers through the marketing channel of supermarkets or hypermarkets. This study aims to identify the factor affecting access to the market by SME food manufacturer.

1.2 Problem Statement

Retailers less sell SMEs product because they lack the basic requirements for display on shelves. This is the main reason why small and medium enterprises (SMEs) have not been able to meet the government's goal to have at least 30% of SME products being offered by retailers. Local products currently represent only 15% of goods sold in Malaysia's larger retail outlets. Local products occupy a small portion of total goods available by big retailers in the country. After own review of the products, the researcher finds that many local products do not meet the minimum standards set by the hypermarkets. Improvement is still needed in aspects such as product presentation, details of nutrition information, quality of product ingredients, as well as consistency in production. These are among the hindrances faced by the products from entering the bigger market. Domestic Trade, Cooperatives and Consumerism Ministry announced a target to increase the number of local SMEs products to make up 30% of goods sold in supermarkets by 2020. (Rural and Regional Development Ministry, 2017)

Inferior quality products together with the inability of the SMEs to produce marketable packaging and branding are among important aspects which hinder SMEs from making it to the hypermarket shelves. The poor quality of the SME products and packaging have contributed to the underestimation by a large number of consumers in Malaysia (Mark of quality, 2009). The quality of SME product packaging which to them are not attractive and are at low quality According to SMEs who have successfully penetrated the hypermarket around Malaysia, among the essential aspects that requires high concentration are those pertaining to issues of marketable labelling, halal certification, product quality consistency and manageable quantity of production to meet the consumer demands. Aside from the effort of bringing the SME products to the hypermarket shelves, another important challenge is for the SMEs to ensure a longer product lifetime to survive more extended shelves' life (Ministry of Domestic Trade, Cooperatives and Consumerism, 2012), which is usually determined by the hypermarkets between 6 months to 1 year. This challenge can only be achieved if appropriate technologies and processes are applied to the products.

1.3 Research Goal

To identify the approach use by SME food manufacturer to make their product available in retail outlet.

1.4 Research Question

This study is attempted to answer these following questions:

- i. How does SME food manufacturer market their product through retail outlet
- ii. What are motivation of SME to make their product available and sustain in the market.
- iii. What the factor that determine the successes of SME food manufacturer to make them available in the outlet.

1.5 Research Objective

This study was aiming to investigate Based on the goals of the study, several research objectives are designed to achieve goals. This study has three objectives which are stated below:

- i. To observe the availability of SME product in retail outlet.
- ii. To understand the motivation of SME to make their product available and sustain in the market
- iii. To evaluate the factors that determine the success of making the product available in the outlet.

1.6 Scope of Study

This study focusing on SME food manufacturing company around Malacca. The scope of this study is to investigate the factor affecting access to the market by SME food manufacturer.

1.7 Limitation of the Study

Almost every study has some limitations and so as in this study. Every study will be limited by several constraints. This is because the researcher is using an interview as a platform to collect a data. However, the company does not allow and does not cooperate with the researcher. Furthermore, the interview must be conduct based on the owner or manager's time and it take a lot of time to gather the data compare to the questionnaire survey. Next, the other limitations in this study is time limit. There is insufficient time to conduct detail research and interview for this study.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

Literature analysis focuses on prior investigators ' debate of past research. All factors in this section will be outlined and explained. This chapter will discuss about factor affecting access to the market by sme food manufacturerr. The context of this chapter is including the opportunities sme to market their product, problem faced by sme, factor that influence sme access to market and marketing strategy that use by sme

2.1 Opportunities SME to Market their Product

To build up cooperation between Malaysian small and medium entrepreneurs and to explore opportunities, the first SME programme introduced in 2003 aimed at providing opportunities for SME entrepreneurs to market their products and services to hypermarkets/ supermarkets. The promotional programme was conducted in association with Giant, Jusco, Mydin, Tesco, The Store and lasted throughout the year. To ensure in understanding the importance of a product's quality, each programme was continued for two weeks to provide opportunities to these entrepreneurs. During the promotional period in the hypermarkets, the programme showed high demand and gained high sales. However, the conception regarding a hypermarket is poorly understood, creating a conflict between supermarkets and shopping malls (Reutterer & Teller, 2009). Therefore, a more precise understanding of what hypermarkets, supermarkets and shopping malls are, needs to be established. Consumable products (food, vegetables, kitchen materials and cleaning materials) are the main products of hypermarkets, and most of the departments in hypermarkets are created to sell these basic household necessities.

The vast majority of literature on food and beverages focused on the application in large scale organisations (Moreno-Luzon, 1993); few studies had also been conducted to raise concerns over the application of SMEs in the processing industries (Abdulmalek & Rajgopal, 2007). The distinctive features of products and processes in the processing industry, such as food and beverages, offer significant challenges to the application of SMEs (Abdulmalek et al., 2006). Several SMEs have adopted the standard quality models such as quality systems and certification; however, the implementation rate of the models in penetrating hypermarkets and large organisations is low (Terziovski et al., 1997). Furthermore, most previous research was conducted based on the perspectives of customers or consumers while this paper focuses on the opinion of SME entrepreneurs on quality products. Therefore, the main objective of this paper is to determine the SME entrepreneurs' opinion on imparting quality in their products to penetrate hypermarkets.

2.2 Problem Faced by SME

The problems faced by small firms are expected to be more severe than large firms. Among the most common problems discussed in the SME are the problems of finance, capital, management, production, skilled labor, marketing, quality, competition, support and other related problems. According to Moha Asri (1997), research has been carried out on the major issues facing SMEs as a whole, namely the issue of capital, marketing, management, manufacturing, skilled labor, and etcetera. The 2005 Establishment and Enterprise Census indicates that numerous issues experienced by company activities include competition from more prominent firms, incapacity to acquire a loan, absence of skilled labor, competition from new firms and absence of government assistance (SME Survey by Bank Negara Malaysia, 2005).

The Chamhuri et al. (1995) results also discovered that entrepreneurs also face sales price issues. This issue occurs due to the high price of the manufacturing method, especially for very small businesses. They are therefore unable to compete with more important players. Some entrepreneurs have a low-quality output issue compared to operators using mobile electrical instruments. According to Chee (1985), SME entrepreneurs are facing multiple issues. Competition for national and foreign markets is one of the primary challenges encountered. For the national market, competition comes from the small and medium-sized enterprises themselves, as well as from local and international operators of the large-scale sector. For the foreign market, it is estimated that only 5% of rural SME goods were able to enter the markets. This may be due to the absence of data or elevated pricing and poor quality. The use of raw materials and the absence of quality standards for product quality control may be correlated with low-quality products. Moreover, most SMEs are also facing the working capital issue.

Chee (1985) criticized small and medium-sized enterprises that still rely on traditional organizational and manufacturing methods. Resources assigned to small and medium-sized enterprises are insufficient and inefficient and absence of coordination organisation. Moreover, the bad quality of SMEs goods is caused by economic issues and the amount of technology and low labor abilities. This scenario might cast doubt among clients on the capacity of SMEs. Mercy (1995) discovered that Malaysian SMEs are extremely dependent on intermediaries and absence of effort to find alternative markets to market the products. Therefore, through direct participation, SMEs are not exposed to the correct marketing strategy and experience.

A survey on marketing and the SME chain was performed by Ragayah and Rahmah (1995). In this research, the marketing of the products is an important issue encountered by SMEs. Low quality leads manufacturers, particularly overseas, to face the trouble of reaching the market. Although the company can generate products according to the required production, other things must also be taken into consideration, such as meeting the promised delivery date and setting a decent selling price so that current clients can continue to purchase from them. Other than the issue under control, there are also issues beyond the operator's control, such as late payments from customers that would restrict turnover capital and excessively costly transport expenses that could lead to elevated selling rates.

Ragayah and Mercy (1995) argue that a good marketing strategy is strongly linked to various marketing channel selection policies and accessible pricing means. Furthermore, it is crucial to studies, expertise and experience on pricing, competition, demand and customer tastes. Two types of marketing channels generally exist, the direct channel and the indirect channel. The goods are distributed directly from the producer to the customer via the direct channel. The indirect channel, meanwhile, includes the primary or intermediate agency before any products or services reach consumers' hands. The sales orientation is another technique of marketing improvement used by operators studied by Wan Liz Ozman and Sulzani (2002). It focuses only on the attempts to make the large-scale sale and also on the continuing promotion of it. The promotion strategy is aimed at disseminating data about the offer of the operator. There are four instruments or techniques for promoting SME products, including advertising, promotion of sales, private sales and advertising.

2.3 Factor that Influence SME Access to Market

2.3.1 Product

A significant asset specificity of a company is the capacity to distinguish the products or services of a company over its rivals (Root, 1994; Hollensen, 2011). This is comparable to products produced that need service before and after purchase. Local manufacturing is, therefore, appropriate (Root, 1994). Also, companies with technology-intensive goods (e.g. technology know-how and massive investment in R&D) may have to bear a greater danger of leaking proprietary technology when using low control mode. To avoid the dissemination of technological know-how, the choice of an active control mode is preferred by a company (Root, 1994). Therefore, the adoption of a greater control entry mod is connected with a high-level product distinction and complexity.

2.3.2 Importance of packaging

According to Coles (2003), the fundamental role of food product packaging is to safeguard food products from external influences and harm; to contain the packaged food and provide ingredients and nutritional information to the customer. Effective food packaging also plays a crucial role in contributing to a cost-effective manner that will fulfill the needs of sector and consumers, maintain food safety and minimize the effect on the environment. From the view of security, marketing instruments and innovation, this research focuses on the significance of packaging for SMEs. Three main classes of external factors such as chemical, biological and physical, are protected by product packaging. The packaging is also the primary significant thing for market access because if the packaging is good, the client will buy the item and meet the requirements for entering the hypermarket.

2.3.3 Network.

Company networking is a precious resource and affects market entry mode selection, particularly for SMEs (Johanson & Vahlne, 2003; Wan & Lowe, 2007). When one does want to join the industry, it is a significant key to achievement. Having a link enables companies to acquire expertise and abilities as well as market access that requires enormous resources and capacities (Spence, 2003). It is also possible for companies to use their networks to obtain accurate data, decrease transaction costs, achieve credibility and maximize adaptability to new company settings (Wan & Lowe, 2007). It also relies, however, on the capacity of the firm to obtain and utilize funds from its local networks (Chetty & Agndal, 2007).

2.3.4 Market potential.

A market's size and growth are generally called market potential (Chen & Mujtaba, 2007). The larger the target market size, the greater the potential for development and the greater a company's incentive to commit more significant market resources. Thus, a business is more likely to choose a higher control entry mode for its long-term presence in the country (Koch, 2001).

2.3.5 Firm size

The size of a company shows the resource accessibility of the company, such as economic and human resources, according to the resource base hypothesis (Koch, 2001; Hollensen, 1988). More restricted funds are usually available to smaller companies (Root, 1994). Therefore, small and medium-sized enterprises may not have sufficient leadership capacity and abilities to join the market through an entry mode that needs a high amount of resource engagement on its own (Koch, 2001). However, this offers the foundation for enhanced international involvement or resource engagement in the industry when the resource accessibility of the company rises (Root, 1994). Therefore, for their global development, SMEs with limited funds prefer to choose reduced control and resource engagement methods (Root, 1994; Koch, 2001).

2.3.6 Logistics Cost

Knowing that price is one of the key variables in an organisation is crucial. That is many study kinds that have highlighted logistics costs that have an important effect on company performance. To enhance efficiency, SMEs should introduce the logistics enhancement instruments to reduce costs and concentrate on a few fields, such as storage, distribution, client costs and services, and because the big organisation would have more capacity to handle the organization's logistics compared to SMEs. Compared to the big organisation, there would be more effective on SMEs (Muskimin, Suryadi & Ardiansyah, 2015). The company will also achieve a competitive edge with reduced logistics costs (Saraja, 2013). However, some of the research has debated that if company performance is inflected, it has been lacking in rectifying costs. (Bakar, Azlan, Jaafar, Muhammad & Faisol, 2014).

2.3.7 Intensity of competition.

Competition intensity is measured by a company's amount of rivals in a nation. Entry mode policies are affected by the level of competition in the target market (Chen & Mujtaba; 2007). If competition intensity is high on the market, the industry becomes less lucrative and does not encourage strong obligations on resources (Hollensen, 2011). Therefore, in highly competitive markets, companies.