The competitiveness of halal food industry in Malaysia: A SWOT - ICT analysis

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Abstract

The halal food industry is of vital importance to Muslims world wide as it gives them a sense of security that whatever they consume, use and purchase is Syariah compliant. Simultaneously, the halal industry contributes to societal development and national economic growth. This paper analyses the competitiveness of the halal food business in Malaysia using the ICT-aided SWOT analysis techniques. It was found that the industry was characterised by 16 strength factors, 18 weaknesses, nine opportunities, and nine threat factors. To enhance its current competitiveness and preparedness for future challenges a comprehensive ICT-based strategy is recommended.

Keywords: business competitiveness, global halal market, halal food industry, ICT-based strategy, Muslim community, SWOT analysis

Introduction

The concept of halal refers to the manner of producing goods and services in the manner approved by Islamic law or syariah. This involves not only food products and food preparation but also pharmaceutical products and financial practices. The halal food industry is thus crucial for Muslims all over the world as it serves to ensure them that the food items they consume daily are syariah compliant. It is an industry which is set for tremendous growth. With a global Muslim population of 1.8 billion, the market for halal food is estimated at US$547 billion a year (Dierks, 2011). This trend is expected to increase to USD2.1 trillion in tandem with the fivefold dynamics driving the global halal food market: growth in the Muslim population, the primary market for halal food; rising incomes in primary markets for halal food; increasing demand for safe, high quality food in primary markets; increasing demand for greater halal food variety in primary markets; and incidents of food marketed as halal but failing to meet halal requirements which has spurred demand for genuine halal products (Dagang Asia Net (2011).

Malaysia is a leader in the halal food benchmarking. The United Nations has cited Malaysia as the world’s best example of benchmarking of halal food in accordance with the Codex Alimentarius Commission adopted the Codex general guidelines for the use of the term halal in Geneva in 1997. This is because a single halal standard is applied throughout the country with the result that the Malaysian standard has become the basis for the development of the world’s halal food industries (SME Annual Report 2006, 2007).

This positioning, however, only means that it is imperative for Malaysia to remain competitive in the global halal marketplace as this is not an industry without serious challenges (see for egs. Saifol 2011; Cole Ehmke, 2008; Porter, 2008; Sungkar, 2008; Dess, Lumpkin & Taylor, 2005; Barone & DeCarlo, 2003; Porter, 2001; Khoo & Smith, 1999). One such challenge is that of product differentiation that
meets customers’ needs and expectations to ensure competitive edge and business sustainability revolves (Barone & DeCarlo, 2003). Failure to respond to this challenge may erode Malaysia’s competitiveness of a halal food enterprise as a global player (Cole Ehmke, 2008). This paper takes a look at the current competitiveness state of Malaysia’s halal food industry and the efforts made to respond to the challenge of staying globally competitive in the industry.

Materials and method

Malaysia and the halal food industry

The World Competitiveness Scoreboard has listed Malaysia in the top ten ranking (Figure 1). By extension, being the only Muslim dominated country in this top ranking Malaysia stands out as a potential leader in halal food industry compared to other Muslim countries, a situation which is helped by its international reputation as a progressive Muslim country. This is the edge Malaysia hopes to leverage in its aim to become a global Halal Food Hub by 2010 by raising its current global halal market share of one per cent to five per cent by 2010.

![Figure 1. World competitiveness scoreboard](source)

The positive outlook on Malaysia’s competitive edge in the halal food industry is echoed by subsequent measures taken by the government. Among these was the conception of a Halal Master Plan addressing issues of certification, sectored development, Halal integrity, implementation, timeframes and responsibilities. The Master Plan envisages three phases of the roll-out from 2008 to 2020 (Figure 2). In similar vein, the Third Industrial Master Plan (IMP3) of 2006 estimated the annual global market value for both food and non-food halal products at USD2.1 trillion. In lieu of this market prospect Malaysia's food manufacturers were encouraged to forge joint ventures with established food manufacturers, particularly from Australia and New Zealand, to service the ASEAN, Middle East, European and US markets which have sizeable Muslim populations. Local halal food products can gain easy access into these halal markets as Malaysia's Halal Certification is globally recognized.

The worth of the entire halal industry which also includes Islamic finance is currently estimated to be between USD200 billion to USD500 billion annually, with an annual growth rate forecast of 12% to 15% for the next 10 years. Malaysia is also no stranger to this industry. In fact, the Malaysian Halal Certificate is one of the most sought after certification by halal producers worldwide (Dagang Asia Net, 2011). In this regard the country’s Halal Research Council (2007) has listed eleven strategic thrusts to further develop and promote Malaysia as a global halal hub:

1. enhancing awareness about Malaysia as the centre for halal products and services;
2. managing the increasing competition from countries in the region;
3. leveraging upon outward investments to gain access to raw materials and enhance competitiveness;
4. enhancing R&D in product and process developments and leveraging upon latest technological developments to expand the product range;
5. developing halal-compliant services;
6. utilising and leveraging upon Malaysian Halal Standard to differentiate Malaysia’s halal products;
7. ensuring product quality and food safety;
8. undertaking systemic development of halal parks;
9. harmonising the halal certification process;
10. enhancing the coordination among agencies involved in the development and promotion of the industry; and
11. strengthening the institutional capacity of organisations involved in the development and promotion of halal products and services.

Enhancing the competitiveness of the halal food industry

A competitive advantage exists when a firm has a product or service that is perceived by its target market customers as better than that of its competitors. Unfortunately, entrepreneurs are often confronted with two myths surrounding the creation of a competitive advantage. One is that most good business opportunities are already gone. The other is that small firms cannot compete well with big companies.
Both of these notions are behind the fact that existing companies, large and small, do not typically welcome competitors for fear that it will threaten their current and future performance (Dess, Lumpkin & Marilyn, 2005). For some ventures, particularly those in markets where the products or services are less differentiated, answering the “Why should the customer purchase from this operation rather than the competition?” question can be difficult (Cole Ehmke, 2008). A key point to understand is that a growing business is often dependent upon a strong competitive edge that gradually builds a core of loyal customers which can be expanded over time.

Five factors theoretically determine the nature and degree of competition in an industry and the ability of a firm, whether large or small, to be successful: the bargaining power of buyers, the threat of substitutes, the bargaining power of suppliers, the rivalry among existing competitors and the threat of new competitors (Dess, Lumpkin & Marilyn, 2005; Barone & DeCarlo, 2003; Evans, 2003). Obviously, industries are not alike; therefore, each force has varying impact from one situation to another. Accordingly, various strategies may be adopted and adapted to empower a business performance (Table 1).

Table 1. Strategy options and implementation in business organizations

<table>
<thead>
<tr>
<th>Strategy</th>
<th>How to Implement</th>
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<tbody>
<tr>
<td>1 Cost leadership strategy</td>
<td>Companies produce products and/or services at lower costs in the industry that are difficult to be replicated by other competitors.</td>
</tr>
<tr>
<td>2 Differentiation strategy</td>
<td>Companies offer different products, services, or product features to customers although the products or services have the same functions.</td>
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<tr>
<td>3 Operational effectiveness strategy</td>
<td>Companies improve the manner in which internal business processes are executed so that a firm performs similar activities better than rivals.</td>
</tr>
<tr>
<td>4 Innovation strategy</td>
<td>Companies introduce new products and service especially IT- based products to customer. Companies may also develop new and unique features in existing products and services to enhance customers’ perceptions.</td>
</tr>
<tr>
<td>5 Customer-orientation strategy</td>
<td>Companies concentrate on making customers happy by means of such as bonus points, year end sales, purchase by purchase, and the like.</td>
</tr>
<tr>
<td>6 Time strategy</td>
<td>Companies treat time as a resource, then manage it and use it to the firm’s strategic competitive advantage. This requires that the companies have good time monitoring systems.</td>
</tr>
<tr>
<td>7 Alliance strategy</td>
<td>Companies work with business partners in partnerships, alliances, joint ventures or virtual companies to share and use their advantages together.</td>
</tr>
<tr>
<td>8 Entry-barriers strategy</td>
<td>Companies create barriers to entry for new competitors such as in terms of resources, technology, skills, knowledge, and raw materials.</td>
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<tr>
<td>9 Growth strategy</td>
<td>Companies increase market share, acquire more customers, or sell more products in a long time frame.</td>
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<tr>
<td>10 Suppliers strategy</td>
<td>Companies retain customers or suppliers to stay by ‘locking’ them in with certain conditions, terms of agreement and policies.</td>
</tr>
<tr>
<td>11 Niche strategy</td>
<td>Companies select a narrow-scope segment in specific market segmentation and become the best in quality, speed, feature or cost in that market.</td>
</tr>
<tr>
<td>12 Increase switching costs</td>
<td>Companies make it costly for customers or suppliers to switch to competitors.</td>
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</table>

Source: Adapted from Nurwahida & Abdul Manaf (2009)

Another category of strategy options has to do with the use of Information and Communication Technology (ICT) as integration platform. This may integrate firms’ competitive advantages with strategy choices that may value add their long term business prospects. The potential problem with the ICT strategy is information overload. As such business organisations need to select only those information resources that are suitable to their purpose.

SWOT analysis is yet another strategic planning method to evaluate the Strengths, Weaknesses, Opportunities, and Threats characterizing any type of industry. With respect to the halal food industry
the SWOT analysis involves specifying the objective of the halal business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve its objectives (Table 2).

Table 2. SWOT analysis

<table>
<thead>
<tr>
<th>Strengths (S)</th>
<th>Weaknesses (W)</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of internal strengths in relation to the Halal Food Industry</td>
<td>List of weaknesses in relation to the Halal Food Industry</td>
</tr>
<tr>
<td>Opportunities (O)</td>
<td>Threats (T)</td>
</tr>
<tr>
<td>List of potential opportunities from external factors that can help to boost the Halal Food Industry</td>
<td>List of potential opportunities from external factors that can damage the Halal Food Industry</td>
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</tbody>
</table>

Conceptually, SWOT model helps halal food firms to understand the relative attractiveness of an industry and help them to deal with new challenges such as those that involve the synergy between ICT sophistication (see for e.g.s Laudon and Laudon, 2007; O’Brien, 2007; Turban, McLean and Wetherbe, 2007; Jongwoo Han, 2004; Evans, 2003; Hogg, 2002; Rayport, 2002; Porter, 2001; Hamelink, 2000; Kalakota and Robinson, 1999; Krooeb (1998); Kroenka (1999). Laudon and Laudon (2007) and O’Brien (2007) summarise a fivefold ICT challenges: recognizing that ICT often is the primary enabler of business solutions; increasing the technological maturity of the business entities; creating a fabulous vision of the future of ICT and promoting it to an executive level in business management; implementing the ICT architecture that will support the business vision; and managing ICT info-structure’s safety, with high security and guarantee.

An innovative strategy would be to develop a SWOT - ICT. The advantage with ICT in SWOT analysis is that it provides the basic tools and techniques for analyzing early external and internal warning signals. The ICT also provides the information necessary to make strategic decision making activities or phases, such as environmental scanning, problem detection, and solution identification.

For Malaysia’s halal food industry the synergizing of the ICT with SWOT analysis will be facilitated by the fact that technological advancement has become an integral part of Malaysia’s growth as an industrialized nation. The nation’s persistent drive to engage modern technologies proves to be a great advantage to manufacturers in Malaysia, including the halal food industry. High priority is given towards strengthening ICT capabilities and capacities of SMEs including the halal food SMEs. To hasten this process, closer collaboration with specialised government research institutions and universities was forged. A dedicated fund would be set up to encourage SMEs to apply and undertake the commercialisation of potentially viable R&D results. The Government’s focus on R&D is already bearing fruit with the intensity growing from 3.19% to 3.38% in one short year. The registered number of patents has also increased exponentially, doubling in number from 91 in 2004 to 160 in 2006 (SME Annual Report 2006, 2007).

Method of the study

The method used reflects the dual objectives of identifying the negative and positive elements of Malaysia’s halal food industry, and the ways in which an ICT-based strategy may be applied to leverage on the positive elements of the industry.

As such, the SWOT analysis as the main method of the present exercise. Following Porter (2005) the SWOT analysis entails categorizing the observed facts into four quadrants, namely Strengths (S), Weakness (W), Opportunities (O) and Threats (T). Information was gathered by interviewing academicians and professional experts in the area of halal business as well as Islamic business and Muamalat. The function of the interviews was to evaluate and validate prior information gathered from primary and secondary sources regarding the global and Malaysia’s halal food industry.
Information was also gathered by interviewing academicians and professional experts in the area of ICT-based business strategies.

Results and discussion

Strengths

The strength of Malaysia as a leading player in the global halal food industry stems firstly from the fact that it is a modern and dynamic economy. Its labour productivity is relatively high compared to other ASEAN countries. Given the country’s young and growing population, both consumption and production of food and beverage is only set to grow. Malaysia has built a reputation as a progressive Islamic country not only where Islam is the official religion but also one which is highly knowledgeable in Islam as a way of life including Islamic economic and business practices. The ability to combine modern economic principles and Islamic economic precepts has enabled Malaysia to conceive and implement doable Islamic business models in the halal food industry.

Secondly, Malaysia has proven itself highly qualified to lead the global halal food industry. The Malaysian Halal Certification is perceived worldwide as most valid when compared to that of non-Muslim countries. From the syariah perspective, Malaysian F&B products are perceived as safer and of better quality than the products of other ASEAN countries. The fact that the United Nations has cited Malaysia as the world’s best example of benchmarking of halal food in accordance with the Codex general guidelines in 1997 affirms Malaysia’s leading role in the global halal food industry.

Thirdly, the halal food industry has important export opportunities due to the diverse agricultural products available in Malaysia. This diversity when harnessed by Halal SMEs means that the country has sufficient capacity to meet the demand by Muslim importing countries. There was already a sense of preparedness among local halal SMEs to collaborate and form a consortium to achieve the critical mass needed to meet importers’ demand. The businesses have some knowledge in using Internet/ICT where ICT mega projects as well as Multimedia Super Corridor (MSC) has contributed much.

Finally, the Malaysian halal food industry is forward looking. This is reflected by such development as the publication of an updated and reliable Business Directory. Local halal SMEs also benefit by the partnership or close consultancy relationship and networking with related government agencies. In addition, membership of regional and international business associations leads to the establishment and enhancement of collaborations of Malaysian players with overseas counterparts.

Weaknesses

The weakness of the Malaysian halal food industry has a lot to do with the halal food producers and suppliers. Firstly, a conspicuous lack of professionalism. The halal food producers are noted for their slow follow-up responses depicting lack of seriousness in their attitude and a short-term business perspective. Each firm has its own brand instead of operating under a unified Malaysian halal brand identity. The products lacks attractiveness reflecting lack of professional knowledge and training in product development. Almost all the local halal food firms do not follow market labeling requirements especially regarding the products’ shelf life.

Secondly, some halal food firms lack knowledge in the legal, social, and cultural environment of the importing countries. They are not able to identify consumer needs accurately in terms of taste and preferences. They enjoy little strategic and long-term alliances with importers or distributors or private market agents to promote their products. They also lack the Islamic mind set and entrepreneurial skills.

Thirdly, some halal food suppliers are not consistent in supplying the products. They were hampered by high production costs. Because of capital shortage these firms are weak in market niche researches and R&D activities. It also causes them to lag in using sophisticated ICT/systems to develop their own digital products and to operate under capacity to venture into export markets.
Finally, the Malaysian local economic environment may not be insulated from the impact of global economic crisis. The latter may curtail local consumer spending as well as regional demand for halal food.

Opportunities

Opportunities for the Malaysian halal food industry pertain, firstly, to the upward growth of the global Muslim population as potential consumers. For example, 60% of the Saudi’s consumers are youths aged below 35 years) who are willing to try new products and having a high purchasing power given the steady GDP growth of their country. Similar positive trends may be witnessed in other Arab gulf countries, United States of American and the European Union (EU) countries. Growth in other related sectors such as tourism and hospitality also drives growth in the consumption of halal food products.

Secondly, Malaysian halal food producers stand to benefit from rising food production costs in EU and USA which has the impact of moving production to low-cost countries. This trend is reinforced by strong government supports for local halal food processing activities. Malaysian government agencies are committed to intensify awareness among international consumers about Malaysia as a halal hub.

Finally, the halal market is still neither mature nor saturated. Opportunities abound for new halal food products in the world market thanks to the advent of online marketplace which enable online searches and purchases of halal food products.

Threats

Three major threats characterize the business environment of Malaysia’s halal food industry. First, the industry faces stiff competition from major food producers such as Thailand, Indonesia and the Philippines. The declining of the USD value to which the local currency is pegged has resulted in the halal food products from Malaysia being more expensive than those of Thailand, Indonesia, and Philippines.

Secondly, new global producers are producing low priced high quality food which sees Malaysia disadvantaged due to its higher production costs. Subsidized tariffs for air transportation by Thailand can switch the foreigners’ direct investment (FDI) to that country. The invasion of Chinese products has translated into cheaper prices in the markets. Competitors, in addition, are using new high technology media to attract customer such as the video, mp3, web, and so on.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modern and dynamic economy</td>
<td>Lack of professionalism</td>
</tr>
<tr>
<td>Malaysian Halal Certification</td>
<td>Lack legal, social, and cultural knowledge</td>
</tr>
<tr>
<td>Capacity to meet the demand</td>
<td>of international consumers</td>
</tr>
<tr>
<td>Forward looking halal food industry</td>
<td>Supply inconsistencies</td>
</tr>
<tr>
<td></td>
<td>Global economic crisis</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of the global Muslim population</td>
<td>Stiff competition from major food producers</td>
</tr>
<tr>
<td>Rising food production costs in EU and USA</td>
<td>Lowering of selling prices</td>
</tr>
<tr>
<td>Online marketplace</td>
<td>High energy and raw material costs</td>
</tr>
</tbody>
</table>

Figure 3. The SWOT quadrant of the Malaysian halal food industry
Finally, Malaysia in common with other food producers has to brace the fact that high energy and raw material costs would have a negative impact on its F&B performance. For the Malaysian halal food industry the unstable regulatory and agricultural production environment would affect its raw material supply side. This situation is not helped by the relative weakness of the R&D in the halal food industry to meet rising consumer expectations.

Conclusion

In conclusion, the Malaysian halal food industry is characterized by a rather balanced spread of strength, weakness, opportunities and threat factors. To enhance its competitiveness further the industry needs to incorporate advanced business processes and practices designed to better serve the rising expectations of customers, suppliers and other stakeholders. Undoubtedly, this moving forward of the Malaysian halal food industry will need a more comprehensive harnessing of the ICT and the online marketplace.

References


