

**HALAL MARKETING IN FOOD AND NON FOOD PRODUCT.  
[THE CASE OF NESTLE AND COLGATE PALMOLIVE].**

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**Research report in partial fulfillment of the requirements for the degree  
of MBA**

**2009**

# ABSTRAK

Kajian kes ini adalah mengenai Nestle Malaysia dan Colgate Palmolive Malaysia dari perspektif pemasaran Halal dalam perniagaan bahan makanan dan bahan bukan makanan. Isu halal selalu di kaitkan dengan bahan makanan sahaja dan kurang pemerhatian diberikan kepada pemprosesan bahan bukan makanan. Colgate Palmolive merupakan satu organisasi yang berkecimpung dalam industry bahan bukan makanan iaitu barang penjagaan rapi dan kosmetik. Nestle menjadi organisasi terulung dalam memastikan semua produknya mendapat sijil halal dari HDN. Fokus utama kajian kes ini adalah mengenai kepentingan mempraktikkan prosedur Halal dalam penyediaan produk bukan makanan. Pasaran untuk produk halal sangat memberangsangkan dan berkembang pesat. Tanggapan pengguna terhadap konsep Halal telah berubah dari dikaitkan dengan agama kepada satu cara hidup yang sihat dan mulia. Pada masa yang sama, kes ini juga menggupas persoalan Colgate Palmolive dalam mendapat sijil halal kepada produk ubat gigi dan bukan kepada semua produk yang diusahakan oleh kilang tersebut. Analisis kes mefokus kepada tanggapan pengguna terhadap produk Colgate Palmolive yang tidak diiktiraf dengan sijil halal, Kajian kes juga memberi gambaran terhadap potensi pemasaran produk Halal di Malaysia dan Negara Muslim lain di dunia.

# ABSTRACT

The case study was about Nestle Malaysia and Colgate Palmolive Malaysia perspective in Halal marketing in food and non food product. Halal always related to food products and less attention given to non food products. Colgate Palmolive is in non food products business mainly producing personal care products. Nestle become pioneer in implementing Halal practices for all its product range. The focus of the case study is on the importance of Halal practices in non food products. The Halal market is very lucrative and growing market. Consumer perception towards Halal has been change from religious point of view to healthy life style. The case is to understand Colgate Palmolive stands on certifying its toothpaste product range with Halal certification and not all its products. The analysis focus on Colgate Palmolive move to certify only its tooth paste products and not all the product range and the implication towards consumer perception towards Colgate Palmolive. The case study also covers Halal market potential in Malaysia and other Muslim countries. It gives overview of the Halal market and its growth.

# APPRECIATION

First and foremost, I would like to take this opportunity to thank to my supervisor, En. Shahidan Shafie for his guidance to complete my thesis. He sacrificed his precious time to teach and brief me with valuable information that is important to be discussed in this thesis. It is a great honor to be in his supervision.

It is my pleasure to record my gratitude that I owe to my parents, Mr. Rama Chanderam and Mrs. Kalai Rani for their understanding and encouragement in the completion of this task. Then, I'm very grateful to all of my family members for their ideas and advice. I would like to thank my fiancée, Vatsala who has been very supportive, understanding and encourage me to complete the thesis.

Thank you as well to all lecturers in the Graduate of Business School for the knowledge they provide me in this couple of years with information that was useful to complete this thesis.

Finally, thank you very much for my friends and those who involved directly or indirectly in the process of finishing this thesis on time.

Chandra Segar a/l Rama Chanderam

June 2009

# CONTENTS

	<u>Page</u>
ABSTRAK	i
ABSTRACT	ii
APPRECIATION	ii
CONTENTS	iii
LIST OF TABLES	vii
LIST OF FIGURES	viii

## Chapter

<b>1</b>	<b>INTRODUCTION</b>	<b>1</b>
	1.1 Introduction to Research	1
	1.2 Problem Statement	5
	1.3 Research Objectives	8
	1.4 Expectations from the Research	8
<b>2</b>	<b>LITERATURE REVIEW</b>	<b>9</b>
	2.1 Industry Profile	9
	2.2 Background of Nestle	11
	2.2.1 Vision	13
	2.2.2 Financial Performance	13
	2.2.3 Market Share	15
	2.3 Background Colgate Palmolive	17
	2.3.1 Vision	19
	2.3.2 Financial Performance	19
	2.4 Literature Review	22

<b>3</b>	<b>COUNTRY ANALYSIS</b>	<b>38</b>
3.1	Introduction	38
3.1	History and Politics	39
3.1	Economy	42
3.1	Social	48
3.1	Technology	52
3.1	Environment	53
3.1	Legal	57
<b>4</b>	<b>METHODOLOGY</b>	<b>57</b>
<b>5</b>	<b>CASE WRITING</b>	<b>61</b>
<b>6</b>	<b>CASE ANALYSIS</b>	<b>77</b>
6.1	Colgate Palmolive Stands on Halal Practice	77
6.2	Consumer Perception on Halal Certification for Personal Care Product	78
6.3	HDC roles in promoting Halal practices for non food products	79
6.4	SWOT Analysis of Colgate Palmolive	83
<b>7</b>	<b>RECOMMENDATIONS</b>	<b>84</b>
7.1	Halal certification for all product range	84
7.2	Construct Standard Halal Practices Guidelines	84

**7.3 Market Expansion** 85

**8 CONCLUSION** 86

**REFERENCES** 88

**APPENDICES** 90

# LIST OF TABLES

<b><u>Table</u></b>	<b><u>Page</u></b>
2.1 <i>Financial Information</i>	14
2.2 <i>Market Share</i>	15
2.3 <i>Sales based on product range</i>	20
2.4 <i>Babies &amp; infants</i>	26
2.5 <i>Children</i>	27
2.6 <i>Teenagers</i>	28
2.7 <i>Studying Age</i>	29
2.8 <i>Young Adults</i>	30
2.9 <i>Middle Age</i>	31
2.9a <i>Pensioners</i>	33
3.0 <i>Annual Market Size of Halal Foods</i>	35
3.1 <i>Forecasted Population in Malaysia according to age groups</i>	50
3.2 <i>Population by religion</i>	51
3.3 <i>Malaysia Economy Performance Report</i>	53



# LIST OF FIGURES

<u>Figure</u>		<u>Page</u>
2	Foreign Direct Investment in Malaysia	25
3	Malaysia GDP PPP & GPP Growth Rates	45
5.1	Total Product Application by Industry for Halal	73
5.2	Total Food Premises Application by Industry for Halal	73

# CHAPTER 1

## INTRODUCTION

### 1.0 Introduction

Fast Moving Consumer Goods (FMCG) are products sold quickly and relatively at low cost. The product range covers consumer products such as soap, shampoo, tooth paste, shaving accessories, detergents, paper products, general pharmaceutical products, packaged food products, and drinks. FMCG can be divided into two major categories which are food products and non food products. Food products in FMCG group also known as processed food. Processed food has been altered from their natural state for safety reasons and for convenience. The methods used for processing foods include canning, freezing, refrigeration, dehydration, and aseptic processing. Non food products mainly toiletries products such as body shower, soap, tooth paste, tooth brush, hair cream, shampoo, detergent, deodorant, talcum and hair gel.

FMCG market growth in Malaysia is in increasing trend as the population growth is expected to reach 29 million by year 2010. Comparison on Malaysia's gross domestic product (GDP) between year 2007 and 2008, shows that it has increased by 15.4 percent. The positive growth reflects Malaysia's economy is growing and thus, it creates opportunities for new business to enter the market.

FMCG's industry in Malaysia started to grow tremendously after the implementation of New Economic Policy by then Prime Minister, Tun Abdul Razak in 1970. The policy required Malaysian to unite and work together to bring Malaysia at greater height. Later, in year 1981, Tun Dr. Mahathir Mohamad became the fourth Prime Minister of Malaysia and he had a vision to see Malaysia as a developed country by year 2020. Under his premiership, foreign direct (FDI) investment in Malaysia increased tremendously, where in 1986 Malaysia foreign direct investment was only Ringgit Malaysia 325 million but increased to Ringgit Malaysia 6.2 billion in 1990. Consequently it made Malaysia as first choice destination for multinational companies to operate their off shore plants.

Key agencies like Malaysia External Trade Development Corporation (MARTRADE), Small and Medium Industries Development Corporation (SMIDEC) and Malaysia Industrial Development Authority (MIDA) was created to promote and provide business environment of Malaysia. The success of these agencies can be reflected when Malaysia is listed as top 25<sup>th</sup> country for foreign direct investment (sources: <http://fdimagazine.com>).

The growth of FMCG in Malaysia opens a new chapter in Malaysia where half of the populations embrace Islam as their religion. In Islamic provision, Halal is the highest requirement when the goods are used by Muslims and it has to be obliged by all Muslims. Hence, Halal certified products become important in FMCG. Government of Malaysia then started to have a regulatory body to monitor development of Muslims. Jabatan Kemajuan Malaysia (JAKIM) is

Malaysian government institution which has vision to assist in creation of progressive and morally upright Muslims based on Islamic principles. JAKIM was formed on January 1997 and one of the authorities is to monitor, certify, or cancel Halal certification to those who do not follow the stipulated regulation under the Islamic law for consumer products.

However, in 2006, the regulatory body was taken over by Halal Industry Development Corporation (HDC). HDC was established to co-ordinate the overall development of the industry with its main focus being the development of Halal standards, audit and certification, capacity building for Halal products and services as well as to promote and facilitate growth and participation of Malaysian companies in the global Halal market.

HDC's establishment is a turning point for multinational companies and small and medium industries in Malaysia. In the food industry, Halal requirement must be complied not only during production but at all stages from production and supply chain including procurement of raw materials, logistic, labeling food and packaging. Malaysia had introduced MS1500:2004 for food processing companies to follow the standards in order to be certified as Halal. It gives a clearer message to goods producers to focus on Halal products which are becoming the key issue with sixty percent of Malaysia's population is Muslims.

Rudimentary of this case study will be on Halal practices in food products and non food products. The analysis is very important to understand the issues faced by food and non food

products manufacturer in certifying their products with Halal in Malaysian context and also to other Muslim countries that requires the same kind of stance.

In order to conduct this case study, two multinational companies have been chosen to analyze the Halal practices and importance given by these firms in implementing and certifying their products range with Halal certification. Nestle Products Sendirian Berhad is chosen to represent food products manufactures, while Colgate – Palmolive (M) Sendirian Berhad represent non food products. The selection of these two companies is based on their track record in Malaysia's business environment and steps taken to implement Halal practices in their manufacturing process.

The comparison between food products and non food products is made to understand customer acceptance on Halal products for different category of products. Furthermore, both types of products are used by the same consumer group. Hence, it allows on analyzing Muslim consumers needs for Halal non food products and the prospect of Halal non food products in Malaysia.

## 1.2 Problem Statement

Halal is an Arabic term meaning “permissible”. In the Holy Quran, God commands Muslims and all of mankind to eat Halal things – *“O mankind! Eat of that which is lawful and wholesome, and follow not the footsteps of the devil. Lo! he is an avowed enemy of you.”* (2:168). In the English language it most frequently refers to food that is permissible according to the Islamic law. In Arabic, it refers to anything that is permissible under Islam. The use of the term varies between Arabic –speaking communities and non –Arabic speaking ones. In Arabic speaking countries the term is used to describe anything permissible under the Islamic law, in contrast to haraam, this includes human behavior, speech communication, clothing, conduct, manner and dietary laws.<sup>1</sup>

Definition of Halal in accordance to Trade Description is, any products should not consist any part of animal that Muslim is prohibited by Islamic Law or not been slaughtered in accordance with Islamic Law<sup>2</sup>. The product should not contain anything which is considered to be contaminated according to Islamic law. The preparation and manufacturing process has not been contact with any food or anything that is considered to be tainted according to Islamic Law (Sources: Trade Description Act, 1972).

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<sup>1</sup> (2006), “Halal a Market in the Making”.

<sup>2</sup> The fundamental religious concept of Islām, namely its law, systematized during the 2nd and 3rd centuries of the Muslim era (8th–9th centuries ad). Islāmīc law is therefore the expression of Allāh’s command for Muslim society and, in application, constitutes a system of duties that are incumbent upon a Muslim by virtue of his religious belief (Encyclopedia Britannica, 2009).

Food products and non food products have different approaches, perception and marketing strategy when it comes to Halal elements. Food products were given more priority for Halal certification because it is edible products compare to non food products. In actual, non food products has to carry the same priority of Halal as food products because in Islam, Halal applicable for both products. The following diagram shows the key areas of the Halal industry.

**KEY AREAS OF THE HALAL INDUSTRY**

**Key Components**

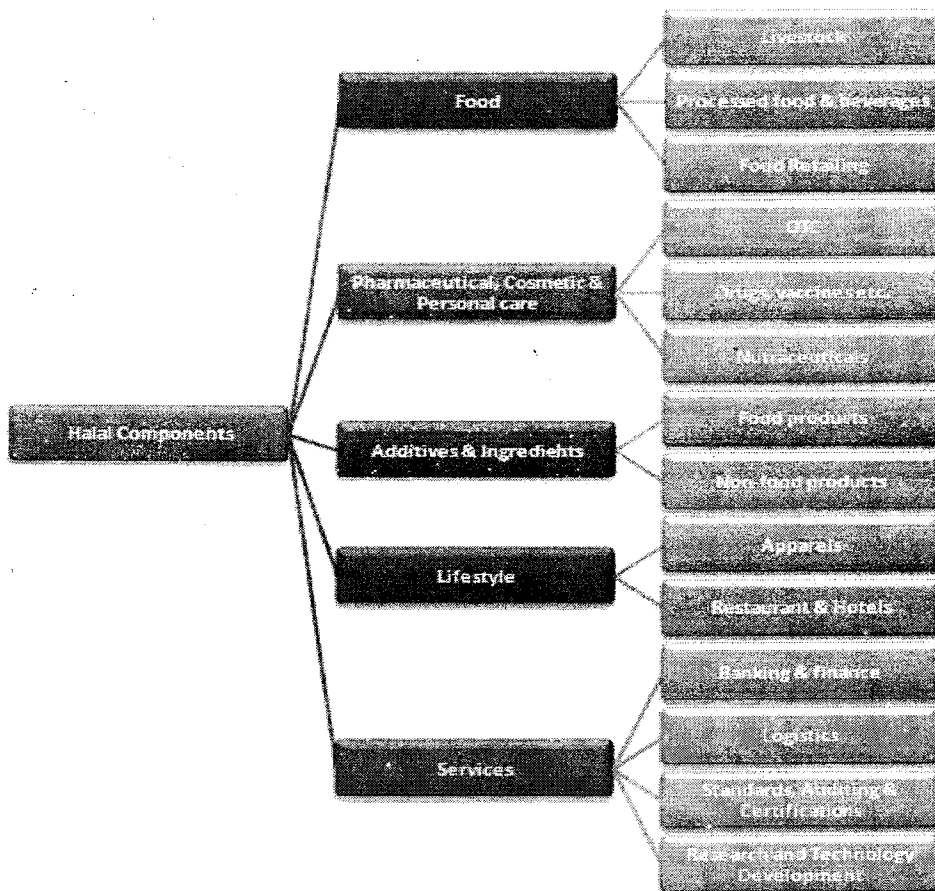


Figure 1.1: Over the counter product

Sources: <http://knowledge.hdcglobal.com>

The diagram clearly shows that, component of Halal is not only for food industry but also includes non food industry. In recent years, Muslim consumer awareness on Halal not only focuses on food products but on to non food products, especially in cosmetics, personal body care products and toiletries products. However, the producers are not focusing onto this matter as a whole and they are paying less importance on certification issues to non food products. In addition, HDC has created regulatory conformance to food products such as MS1500:2004 but not for non food items. Why is this happening when HDC should play its role as regulator for all kind of product but they are not doing so? What is the reason behind this? Or what might be the limitation on their act?

Halal certification is important for non food products as well because it gives assurance and satisfaction among Muslim consumer to use the products without any ambiguity.



### **1.3 Research Objectives**

The following is the objectives of the research:-

1. To research the lack of interest by non food products manufacturer on Halal issue especially in personal care products
2. To understand the Colgate Palmolive stand to not certify all of products with Halal certification
3. To analyze Halal non food products market opportunity in Malaysia

### **1.4 Expectations from the Research**

The expectation from this research is to understand and explore on Halal non food products category in Malaysia and the expectations of Muslim consumer towards Halal personal care products.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 Industry Profile

In Malaysia, personal hygiene and personal grooming is considered very important. Personal hygiene includes having a neat and clean appearance, wearing clean clothes, good grooming, neat hair, moustache, beard and fingernails, fresh breath with bright white teeth and a pleasant smell. Good looks have always been an added advantage in the workforce or even in the society. The great importance in personal hygiene in Malaysia is reflected in per capita expenditure on personal hygiene products. With increasing concerns about self-image and personal grooming, personal hygiene expenditure also saw an overall increase. Many people, especially among the younger generation, try to look like their favorite celebrities. With higher disposable incomes, more of the population can afford non-essential items that can help enhance or improve their appearance.

Significant growth was seen in expenditure on men's deodorants and men's hair care as men started to buy male-specific products rather than use generic versions purchased for the family. Expenditure on other personal hygiene products such as hair

care, baby hair care, baby toiletries, bath and shower products and oral hygiene saw varying rates of growth over the review period. More of the younger generation are concerned with their appearance and are willing to spend more to achieve a good look.

Meanwhile comparison to food products, packaged and processed food became increasingly common in Malaysia although the majority of consumers still think that packaged or processed foods are less healthy than fresh food. Consumption of packaged and processed food differs between the age groups and genders. Packaged and processed foods are more commonly consumed by the younger generation and males are more likely to consume packaged and processed foods than females. Consumption of packaged or processed foods is increasingly due to the fast pace of life and the convenience offered by these products. The populations' willingness to try new foodstuffs, especially Western-influenced foods, also boosted growth.

As the economy flourishes and income rates across industries rise, average household disposable incomes experienced an increase over the review period, which is expected to continue in current value terms until 2015.

Other factors contributing to the increase include the growing number of women joining the workforce and generally higher education levels, which saw a shift towards a more skilled workforce. These skills lead to obtaining more specialized jobs that offer higher incomes. This leads to a higher household income as individuals earn more than

previous generations. This trend is expected to continue in the next 10 years as the country grows into a developed nation and quality of life increases.

Malaysia has of relatively young population, with 74 percent of the total under the age of 40 years in 2005. However, growth was most notable amongst those aged 45-79 years, with the numbers of people within these age groups more than doubling between 1990 and 2015. As the population continues to age there will be an increased need for healthcare products and services catering to a more mature target audience

## **2.2 Background of Nestle**

Nestle is one of the world leading manufacturer in food products. The history of Nestle begins in the 1880s when Henri Nestle, a pharmacist, developed a food for babies who were unable to breastfeed. His first success was a premature infant who could not tolerate his mother's milk or any of the usual substitutes. People quickly recognize the value of the new product and soon Farine Lactee Henri Nestle was being sold in much of Europe. In 1905, Nestle merged with the Anglo Swiss Condensed Milk Company. By the early 1900s, the company was operating factories in the United States, Germany and Spain.

First World War created new demand for diary products in the form of government contracts. By the end of the war, Nestle's production had more than doubled. After the war Government contracts is decreased tremendously and consumer switched back to fresh milk. Nestle management responded quickly by streamline the operations

and reduce debt. Nestle merge with Peter, Cailler, Kohler Chocolates Suisses in 1929 and chocolate became second important business entity.

The end of World War II was the beginning of a dynamic phase for Nestle. Growth accelerated and companies were acquired. In 1947, Nestle merged with Maggi seasoning and soups. In 1974, Nestle acquired minority stake in cosmetics manufacturer L'Oreal. In 1988, Nestle acquired Rowntree which famous for Kit Kat brands wafer chocolate.

The first half of the 1990s proved to be favorable for Nestle as trade barriers crumbled and world markets developed into more or less integrated trading areas. Since 1996 Nestle acquisitions including San Pellegrino in year 1997, Spillers Petfoods in year 1998 and Ralston Purina in year 2002.

In December 2005 Nestle bought the Greek company Delta Ice Cream. In January 2006 Nestle took full ownership of Dreyer's, thus becoming the world's biggest ice cream maker with a 17.5 percent market share. In November 2006, Nestle purchased the Medical Nutrition division of Novartis Pharmaceutical for USD2.5 billion, also acquiring in 2007 the milk flavoring product known as Ovaltine. In April 2007 Nestle bought baby food manufacturer Gerber for USD5.5 billion.

In between year 1995 to year 2005, Nestle acquired more than 20 companies around the world mainly in USA, New Zealand, Russia and China. During this time too,

Nestle diversified its business to drinking water, ice cream production and pet food products. Nestle products are marketed to more than 150 countries in the world.

Their product ranges cover baby care products, pet food, hot drinks, health care products, packaged food, cereals, soft drinks and dried food.

Nestle Products Malaysia Sdn. Bhd. started to operate in Malaysia in 1912 as the Anglo-Swiss Condensed Milk Company in Penang and later, growth and expansion made a move to Kuala Lumpur necessary in 1939. Since 1962, with its first factory in Petaling Jaya, Nestlé Malaysia now manufactures its products in 8 factories and operates from its head office in Petaling Jaya, and 6 sales offices nationwide.

### **2.2.1 Vision**

The future of foods will increasingly be driven by science. Nestle's scientists are looking ahead to the foods of the future by investing in research and development.

### **2.2.2 Financial Performance**

Nestle company reported positive gross profit from year 1995 to year 2006. The company profit was RM 202 million in year 1995 and increased to RM 363 million in year 2006. Within 10 years time, Nestle company profit increased by 80 percent. The

positive sign in the profit shows that Nestle have a solid market platform in Malaysia.

The company was public listed on the Kuala Lumpur Stock Exchange market in 1989. At

the end of financial year of 2006, Nestle earning per share was 112.70 cents.

Table 2.1

*Financial Information*

million	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
sales	1,551	1,850	2,010	2,107	1,953	2,202	2,586	2,480	2,657	2,901	3,127	3,275
profit	202	237	256	-	243	255	842	234	202	297	331	363
ings per (cents)	-	-	-	-	-	-	87.00	77.90	69.10	94.00	113.80	112.70
assets	-	-	-	-	-	-	-	558	729	530	725	776
holders' y	-	-	-	-	-	-	-	423	401	451	524	559

Source: Global Market Information Databases (GMID)

### 2.2.3 Market Share

Table 2.2

*Market Share*

Hot drinks (% value)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Malaysia	59.80	60.13	60.04	60.03	60.19	59.95	58.41	58.00	58.18
Packaged food (% value)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Malaysia	-	13.87	13.78	13.62	13.61	13.57	12.62	12.07	-
Soft drinks (% value)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Malaysia	1.39	1.48	1.46	1.44	1.45	1.44	1.47	1.48	1.48

Source: Global Market Information Databases (GMID)

Nestle Malaysia was the first multinational to voluntarily request for Halal Certification of all its food products when it was first introduced in 1996. This does not imply that Nestle products in Malaysia were not Halal prior to that. Nestle's management already practices Halal in Nestle prior to Department of Islamic Development Malaysia (JAKIM) provided a comprehensive definition of Halal food.

The certified Halal status for all Nestle Malaysia products provides assurance that Nestle products are manufactured, imported and distributed under the strictest hygienic and sanitary condition in accordance to the Islamic faith. All products manufactured, imported and distributed by Nestle Malaysia are certified Halal. Products and premises



for manufacturing have been inspected and have earned Halal certification by recognized Islamic bodies. The Halal logo included in all packaging indicates that the products are prepared according to stringent Islamic requirements, whilst assuring that Nestle production adheres to the strictest quality.

Nestle Malaysia manufactures, imports and distributes only products which have been certified Halal by authorized Islamic Certification bodies. Nestle Malaysia established an internal Halal committee in the 1980s comprising senior Muslim executives from multi disciplines and responsible for all matters pertaining to Halal compliance.

Currently, Nestle Malaysia is the biggest Halal producer in the Nestle's world, warranting its appointment as the Halal Centre of Excellence for Nestle worldwide. Nestle Malaysia exports its products to more than 40 countries worldwide with export sales of over RM470 million. Nestle Malaysia imports Halal products from the 66 Nestle worldwide which are certified Halal. Nestle Malaysia gives important to Halal and have Nestle Malaysia Halal policy (refer to Appendix 1)

Nestle Malaysia employs over 3500 people and manufactures as well as market more than 300 Halal products in Malaysia. Its brand name such as Milo, Nescafe, Maggi, Kit Kat, Smarties, Nespray and Mat Kool has become trusted household brand names for generations.

### 2.3 Colgate-Palmolive

Colgate-Palmolive growth from a small candle and soap manufacturer to one of the most powerful consumer products giants in the world is the result of aggressive acquisition of other companies, and an early emphasis on building a global presence overseas where little competition existed. The company is organized around four core segments--oral care, personal care, home care, and pet nutrition.

In 1806, when the company was founded by 23-year-old William Colgate, it concentrated exclusively on selling starch, soap, and candles from its New York City-based factory and shop. Upon entering his second year of business, Colgate became partners with Francis Smith, and the company became Smith and Colgate, a name it kept until 1812 when Colgate purchased Smith's share of the company and offered a partnership to his brother, Bowles Colgate. William Colgate and Company, the firm expanded its manufacturing operations to a Jersey City, New Jersey, factory in 1820, this factory produced Colgate's two major products, Windsor toilet soaps and Pearl starch (Bersk, 2001).

Upon its founder's death in 1857, the firm changed its name to Colgate & Company and was run by President Samuel Colgate until his death 40 years later. During his tenure several new products were developed, including perfumes, essences, and perfumed soap. The manufacture of starch was discontinued in 1866 after a fire destroyed the factory (Bersk, 2001).

In 1873 Colgate began selling toothpaste in a jar, followed 23 years later by the introduction of Colgate Ribbon Dental Cream, in the now familiar collapsible tube. By 1906 the company was also producing several varieties of laundry soap, toilet paper, and perfumes. Colgate & Company shifted its headquarters to Jersey City in 1910.

While the Colgate family managed its manufacturing operations on the East Coast, soap factories were also opened in 1864 by B.J. Johnson in Milwaukee, Wisconsin (under the name B.J. Johnson Soap Company), and in 1872 by the three Peet brothers in Kansas City, Kansas. In 1898 Johnson's company introduced Palmolive soap, which soon became the best-selling soap in the world and led the firm to change its name to the Palmolive Company in 1916. The Peets, who sold laundry soap mainly in the Midwest and western states, merged their company (Peet Brothers) with Palmolive in 1926, forming Palmolive-Peet Company. Two years later that firm joined with Colgate & Company to form Colgate-Palmolive-Peet Company, with headquarters in Jersey City. Palmolive-Peet's management initially assumed control of the combined organization (Bersk, 2001).

Colgate-Palmolive Malaysia started its operation in 1958 in Petaling Jaya. It serves as a manufacturing plant and headquarters. It is located at 2, Jalan Semangat, Section 13 Petaling Jaya Selangor. The plant produces oral care, household care and personal care products. Besides focusing on production alone, Colgate-Palmolive involves with corporate social responsibility programs vigorously. Every year they will conduct Oral Health

Month. Colgate-Palmolive Malaysia have total of 1200 staff and cover Singapore and Brunei market as well.

### **2.3.1 Colgate-Palmolive Vision**

Explore the initiatives, processes and policies that help continue to strengthen Colgate-Palmolive and the communities where its work and live

### **2.3.2. Financial Performance**

Colgate Palmolive Malaysia's cosmetic and toiletries sales increased by 34 percent between years 2003 and 2008. In 2003, the sales are RM 2967.1 million compared to RM 3911.4 million in year 2008. The sales growth shows Colgate Palmolive have great potential to expand its market share in Malaysia in coming years. The growth also indicates the presence of new and the existence product of Colgate Palmolive is well received by consumers.

Table 2.3

*Sales based on product range*

RM million	2003	2004	2005	2006	2007	2008
Baby care	147.4	155.1	162.9	170.7	178.3	185.3
Bath and shower products	440.9	454.5	466.4	479.1	492.1	507.3
Deodorants	84.2	87.6	91.5	96.0	102.6	108.7
Hair care	570.9	602.7	631.0	660.3	685.4	717.4
Colour cosmetics	284.7	302.5	321.4	341.9	364.5	387.3
Men's grooming products	193.0	205.3	220.8	238.8	259.8	279.1
Oral hygiene	407.4	419.3	430.8	442.0	453.4	467.2
Oral hygiene excl power toothbrushes	407.4	419.3	430.8	442.0	453.4	467.2
Fragrances	210.9	219.8	230.5	243.9	263.9	284.5
Skin care	727.8	788.3	867.0	952.7	1,048.5	1,149.4
Depilatories	12.7	13.4	14.4	15.4	16.7	18.0
Sun care	8.7	8.8	8.9	9.1	9.3	9.4
Premium cosmetics	565.9	608.0	662.2	720.0	793.2	856.8
Cosmetics and toiletries	2,967.1	3,123.5	3,297.1	3,484.6	3,689.9	3,911.4

Source: Global Market Information Databases (GMID)

Globalization has played an important role in making Colgate-Palmolive a competitive organization. Thru globalization, Colgate-Palmolive has managed to market its product to more than 150 countries in the world. Globalization enables Colgate Palmolive to penetrate international market and gives an opportunity to market it product globally. It allows Colgate-Palmolive to operates its business in very cost effective way and generate more income. Besides that, it allows technology transfer from one county to another country and builds great human capital. It allows it employee to work any part of the world where the organization is presence. As of today, 20 Malaysian Colgate Palmolive employee are working abroad mainly in India, Australia and United Stated.

The company long term plan is to be a market leader for all its product marketed and penetrate new market. Besides that, Colgate-Palmolive wants to maintain its number one position as world well known toothpaste producer. For more than 40 years involved in educating oral health to school children program.

Colgate-Palmolive Malaysia has obtained Halal Certification from the Halal Industry Development Corporation (HDC) for its Colgate Toothpaste manufactured in Thailand. Colgate-Palmolive is the first company to obtain this valuable certification from HDC. Only locally manufactured products were eligible to receive the Malaysian Halal logo. On April 17, 2008, HDC was entrusted with the mandate from the Malaysian Government to issue the Malaysian Halal Logo for all products produced domestically or internationally. Previously, Colgate Toothpaste was certified Halal by foreign Islamic bodies recognized by JAKIM.

Colgate-Palmolive Malaysia is the first company to obtain Halal Certification from the Halal Industry Development Corporation (HDC) for its Colgate toothpaste manufactured in Thailand.

Colgate-Palmolive other products apart from tooth paste are body wash, bar soap, shampoo, liquid hand soap, men's and women's deodorant, hair styling cream and gel and talcum. Axion, Code 10 and Protex are some of Colgate-Palmolive top brands in the Malaysian market.

## **2.4 Literature Review**

"As I said in my meetings, I am impressed with Malaysia's economic policy management. This has enabled Malaysia to maintain growth during a difficult period for the global economy. With an improving external outlook, economic growth should gather momentum in the second half of this year, rising to over 5 percent in 2004".

(IMF Managing Director Horst Kohler's Statement at the Conclusion of a Visit to Malaysia... Press Release No. 03/149  
September 3, 2003)

Malaysia is a growing and relatively open economy. In 2007, the economy of Malaysia was the 29th largest economy in the world by purchasing power parity with

gross domestic product for 2007 was estimated to be USD 357.9 billion with a growth rate of 5 percent to 7 percent since 2007.

From year 1988 to year 1997, the economy experienced a period of broad diversification and sustained rapid growth averaging nine percent annually. The year 1997 saw drastic changes in Malaysia. Foreign direct investment fell at an alarming rate and the Ringgit depreciated substantially from MYR 2.50 per USD to much level lower as capital flowed out. The Kuala Lumpur Stock Exchange's composite index fell from approximately 1300 to nearly merely 400 points in a few short weeks. In response, the Malaysian government imposed capital controls and pegged the Malaysian Ringgit at 3.80 to a US dollar while refusing economic aid from International Monetary Fund (IMF) which came with austere lending conditions. By refusing aid and thus the conditions attached thereof from the IMF, Malaysia was not affected to the same degree in the Asian Financial Crisis as Indonesia, Thailand and the Philippines.

Regardless, the GDP suffered a sharp 7.5 percent contraction in 1998. It however rebounded to grow by 5.6 percent in 1999. The Government of Malaysia predicted 5.8 percent real GDP growth in the year 2000, but most analysts predicted growth will exceed 8 percent for the year.

In order to rejuvenate the economy, massive government spending was made and Malaysia continuously recorded budget deficits in the years that followed. Economic recovery has been led by strong growth in exports, particularly of electronics and



electrical products, to the United States, Malaysia's principal trade and investment partner. Inflationary pressures remained benign, and, as a result, Bank Negara Malaysia, the central bank, had been able to follow a low interest rate policy. Later, the country enjoyed faster economic recovery compared to its neighbors though in many ways, the level of pre-1997 affluence has yet to be achieved.

The fixed exchange rate regime was abandoned in July 2005 in favor of a managed floating system within an hour of China's announcing of the same move. In the same week, the Ringgit strengthened a percent against various major currencies and was expected to appreciate further.

By 1999, nominal per capita GDP had reached \$3,238. New foreign and domestic investment played a significant role in the transformation of Malaysia's economy. Manufacturing grew from 13.9 percent of GDP in 1970 to 30 percent in 1999, while agriculture and mining which together had accounted for 42.7 percent of GDP in 1970, dropped to 9.3 percent and 7.3 percent, respectively, in 1999. Manufacturing accounted for 30 percent of GDP (1999). Major products include electronic components and Malaysia is one of the world's largest exporters of semiconductor devices electrical goods and appliances