CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

The competitive environment of food industries in the past decade has lead Malaysia food producers to investigate ways of increasing both the productivity and the quality of their products. Researchers concern about these issues and thus they had conducted extensive studies to investigate ways to attain the goals. Some researchers mention that several buyer-supplier relationships were fostered with the competition of product development activities, especially in the food industry (De Toni et al., 1998). In other countries like China, suppliers are actively involved themselves in early product development in automotive and construction industries (Sturgeon and Van Biesebroeck, 2010). Their contribution had a significant positive impact towards the industries. Thus, more researches should be conducted in Malaysia especially in food industry.

Malaysia food industry is conquered by small and medium scale firms (Malaysian Investment Development Authority, 2013). In term of the food processing industry, there are more than nine thousand firms in Malaysia that equivalent to ninety five percent are classified as small-scale (Senik, 1995). Those small-scale food processing industries display some characteristics that differentiate them from big-scale. Small-scale food industries have the characteristics of low start-up costs and have lesser employees.
compared to the large scale firms. The majority of these small and medium enterprises (SMEs) are operating under a simple organizational structure. Recently, the key growth areas of the industry are health food, functional food, convenience food, halal food and food ingredients.

There are a lot of possible benefits of early supplier involvement in product development that can be categorized in short and long term. For illustration, according to Mitra (2012), cost reduction, faster project completion time, improved product quality and better design solutions are the examples of short term related performance. According to them, the advantages of supplier involvement for long term nature are customers’ permanent access to supplier technologies or specialist knowledge, increases of innovative capability of customer and long term alignment of technological strategies. These show that early supplier involvement is really vital because it has direct impact to the performance and achievement of product development in Malaysia food industry in terms of short and long term benefits that the companies gained.

The purpose of this research is to enhance the understanding about the assessment of early supplier involvement in product development in Malaysia food industry. New product development in the food processing industry could range from introducing new flavours, expanding their existing product lines to changing the product’s packaging to give it more appeal to current customer base (Fuller, 2011). Thus, this research tends to analyze the contribution of suppliers in early product development in Malaysia food industry. Furthermore, this research aimed to evaluate effectiveness of early supplier involvement in product development in Malaysia food industry too.

The first chapter introduces research’s problem background, problem statement, research objectives, research questions, research hypothesis, scope of study, significance of study, research operational definitions, and expected results.
1.2 PROBLEM BACKGROUND

Resulting the government’s focus on the agriculture sector, Malaysia food industry has become a vital part of the agro-based industry. In the Industrial Malaysian Plan 2006-2020 (IMP3) period, the food processing industry’s investment target have been set at RM24.6 billion (Bustamam, 2010). For the business environment, Malaysia food industry is dominated by small and medium scale firms (Malaysian Investment Development Authority, 2013). Recently, the industry’s main growth areas are health food, functional food, halal food, food ingredients and convenience food. In terms of external environment, the industry is also undergoing numerous changes brought by factors such as rising production costs, technological developments, shifting demand patterns and changes in competitive groupings. Moreover, internal factors like core values of company, organizational structure, organizational culture and strategic goals also affect the effectiveness of product development in Malaysia food industries.

Usually, most research on supplier involvement in product development has been situated in large-scale assembly industries, like the electronics and automotive areas (Sturgeon and Van Biesebroeck, 2010). Little is known about supplier involvement in the food industry. Yet, this industry has progressively been depending on suppliers for carrying out product and development activities. External resources are then essential to carry on with the high pace of innovation needed. Suppliers need to make sure the ingredients, machines and packaging materials managed to make a valued contribution in product development, by bringing in expert information in all types of relevant areas so that product development can be more efficient and effective. Hence, it would be interesting to study early supplier involvement which originally based on research in assembly industries. It would also hold for the food industry and whether there are any particular features and effectiveness of supplier involvement in this sector (Van der Valk and Wynstra, 2005).

With the fast evolution of globalization nowadays, many types of buyer-supplier relationships were formed to keep up with the competition of product development activities especially in food industry. According to Farina (2000), technological advances in