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Plasteze Expansion into Indonesia



A REPORT FOR POTENTIAL INVESTORS

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C**EXECUTIVE SUMMARY**

As a leading competitor in the Canadian plastic production machinery industry, Plasteze is now looking to branch out into the international market to be one of the world's largest and strongest plastic production machinery producers. The plastic industry is growing and the developing sector is constantly changing due to technological developments. At Plasteze, our mission is to revolutionize the way that plastics are made, provide external and internal customers with quality products, services, and solutions that meet and exceed their expectations through the process of continuous improvement. Developed in 1980, based in Ontario, Canada Plasteze has risen to be one of Canada's most successful plastic production machinery producers, providing large companies with the equipment to develop new products and services.

After looking into many countries to export their products to, Plasteze decided to expand its plastic production machinery into Indonesia. Plastics are used by virtually every end-use segment of the economy. The distinct characteristics of plastics (including processability, light weight and corrosion resistance) have led to the creation of new goods and services. Plastics have also replaced paper, glass and metal from traditional applications. There is a wide range of plastic products; the three dominant product lines include: packaging (34% of shipments), construction products (26%), and automotive components (18%)¹.

This report will focus on an in-depth analysis of the opportunities and challenges faced by Plasteze entering the Indonesia market place. Since Indonesia is the fourth most populated country in the world, the market base for Plasteze would drastically increase by entering this market. Factors such as economic instability, economic crisis and competition will be further studied in this report to show the affects that it has on the success of a business.

D**COMPANY PROFILE**

Plasteze was founded in Ontario, Canada in 1980. Plasteze's mission was, and still is, to revolutionize the way that plastics are made, provide external and internal customers with quality products, services, and solutions that meet and exceed their expectations through the process of continuous improvement. Plasteze has been in business for over two decades, building a strong consumer base in Canada. Plasteze has been able to utilize all the resources offered by Canada's surroundings, items such as raw materials to create its renowned plastic production machinery and parts.

Plasteze has been a privately owned corporation for the last 15 years, generating investments from the selling of stocks on the Toronto Stock Exchange (TSX). Plasteze's stocks have been slow, but gradually rising, selling at a share of \$15 (2002).

PRODUCTS AND SERVICES

Machinery created by Plasteze constructs products such as Styrofoam, plastic bags, bottles, vacuum pipes for commercial and residential use, and moulding to form the frame for other products. These machines are designed, developed and made in Canada, distributed through a producer – consumer distribution system. Because plastic production machinery is purchased occasionally, also due to their size and weight, the most cost efficient method of distributing would be from producer to consumer (manufacturer).

CURRENT CANADIAN MARKET

Plastics are used by virtually every end-use segment of the economy. The distinct characteristics of plastics (including processability, light weight and corrosion resistance) have led to the creation of new goods and services. Plastics have also replaced paper, glass and metal from traditional applications. There is a wide range of plastic products; the three dominant product lines include: 34% of shipments are packaging, 26% are construction products, and 18% are automotive components².

Canadian and worldwide demand for plastic products is the fastest growing economy as a whole, with Canada producing about 2.1% of the world plastic products³.

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The use of plastics in place of other materials has a significant effect on sustaining Canada's economic development. With production comes many environmental concerns, therefore resulting in potential restrictions to the growth of this industry. Solid waste management, problems in the use of polyvinyl chloride (PVC), and possible links between plastics and endocrine disruptors are the issues that must be addressed⁴. The majority of plastic production companies are made up of small and medium sized businesses in Canada.

In 2002 about 1200 production companies were developed in Canada, with their primary activity being the processing of synthetic resins into plastic products. These activities generated shipments valued at \$16.9 billion and employed 88,000 people⁵. In addition to the companies with primary operations in the plastic products industry, plastics production can also be a secondary activity to many firms in other industrial sectors such as plastic toys and furniture producers, and for internal consumption such as the plastic bottles made for a water manufacturer. When all the activities of these firms are taken into account, it is estimated that the total plastics processing activity in 2000 was equal to \$21.8 billion, and employed 112,000 people⁶. The plastics processing industry accounts for about 0.5% of Canada's national gross domestic product (GDP), 0.5% of our total national employment and 3.9% of manufacturing employment⁷. The plastics industry continues to grow faster than overall manufacturing and the economy as a whole.

The consumption of plastics continues to grow, resulting in an increase in the demand for machinery and moulds. Through corporate consolidation, the major international machinery manufacturers are decreasing as larger companies grow. The principal machinery-producing countries include the United States, Germany, Japan and Italy. Although Canada is not included in this category, Canadian companies are world-class and world-scale within specific technology niches. Machinery is used to form plastic products by a variety of processes such as injection moulding, extrusion, blow moulding and thermoforming. This is a high export-oriented sector, with 87% of the production being shipped to the global markets⁸. In 2001, 67% of Canadian exports were headed for the United States, and 57% of imports originate from there. Other

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countries with significant imports to Canada are: Japan, Italy, Germany, France, Luxembourg, Austria and Switzerland. Other major destinations for Canadian exports are: Luxembourg, China, Mexico, UK, Italy, Germany, Singapore and Japan⁹.

RATIONALE FOR EXPANDING INTO AN INTERNATIONAL MARKET

Plasteze is looking to widen its consumer base by joining the international market. Indonesia is a country that lacks design, resources and technology to develop their own plastic production machinery. Indonesia's imports of plastic production machinery and parts exceeded \$406.5 million in 1997 and accounted for an annual growth rate of 11.3%¹⁰. Entering Indonesia, the world's fourth most populated country, would allow Plasteze to widen its consumer base, if they do well. Because Indonesia is recovering from their economic crisis, this would be a good opportunity to enter the market while it is still unsaturated. The majority of plastic production machinery imported to Indonesia is from Asian countries. This means that there is an untapped sector for Plasteze to capture due to the fact that machinery imported from the United States accounts for only 3% of total imports¹¹. The increase in the Canadian Dollar would allow Plasteze to maximize its' revenues, with exchange rates at \$1 Canadian Dollar = 6, 009.2 DIR (Indonesian Rupiah)¹².

INTERNATIONAL LOCATION

When entering into the Indonesia market place, there are many factors that must be taken into consideration such as legal factors, cultural factors, economic factors and existing competition in the country. Some cultural factors must be taken into consideration when marketing to Indonesian companies. One is the language barrier, the official language in Indonesia is Bahasa, therefore labels on packaging should be in that language¹³. Religion must also be accounted for, Islam being the overriding religion in the country; efforts must be made so that any advertisements or labels do not offend the Indonesian people. When meeting with business representatives in the country, some business etiquette should also be known to prevent the insulting of the client. These business etiquettes include shaking hands, proper clothing, being punctual and never giving food as gifts¹⁴.

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Legal factors must be understood and taken into action to make sure the business runs smoothly. Things to watch out for include following all label requirements in both English and Bahasa and following all currency regulations. Currency investments over Rp10, 000, 000 must be declared or it could result in fines. Indonesia is in the process of changing political style and therefore many political risks can occur spontaneously¹⁵. A positive note is that laws on investments are becoming more secure and there is a reduction of strict investment restrictions.

Competition in the plastic production machinery industry is moderate with approximately 40 companies competing to get a piece of the market. Some competing companies include: JSW and Toshiba, Goldstar, Fong Kee, AMC, Aoki, Gabler, and Illig. From these companies, the Japanese ones are dominating with 30% of the market, followed by Taiwan 16%, Korea; 12%, Germany; 10% and Italy; 4%, so this leaves 26% of the market open¹⁶. The most influential factors Indonesia companies face when deciding on a product is the price, others include, terms of payment or suppliers credit, on-time delivery, availability of spare parts, product quality, warranty, and after sales service/technical of support¹⁷.

The impact of the monetary crisis on Indonesia has been bad for the plastic goods industry in Indonesia and therefore plastic production machinery. The impact was worst in 1998 when domestic market volume contracted 1.03 million tons, down from 1.75 million tons in 1996. The decline in the domestic consumption of plastic goods was as a result of the near collapse of the food and beverage industry and other consumer goods industries as the main consumers of plastic goods for packaging. In 1998, the Rupiah fell rock bottom, weakening the purchasing power of the people and sending prices of goods and services sky rocketing. The value of the Indonesian Rupiah lost 80% of its value against the U.S. dollar. As a result, this caused the imports of plastic production machinery and parts to dramatically drop, causing the cancellation of major projects and reducing public spending and infrastructure. In 2000, domestic consumption of plastic goods rose, showing signs of improvement.

Most producers of plastic goods such as plastic pipe, plastic sheets and plastic bottles are oriented to domestic markets. Substantial exports have been recorded only for plastic films, plastic bags and plastic houseware. Despite increases in production cost, the plastic goods industry was amongst the few industries that could survive

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through the crisis. However, many of the products have been able to keep their market only because of the protective import duties of 20-25%¹⁸.

International investment lags in Indonesia due to the collapse of the banking system, governmental corruption and uncertainty. Overall, Indonesia has gone through some rough times in the past decade, but things are looking up for the country, with the new government in place that is pushing for a new prosperous economic environment; international companies will slowly but gradually enter this market.

INTERNATIONAL TARGET MARKET

Plastics are one of the most versatile and vital materials used in today's day and age; it is used to make everyday products such as containers and cups to cars and computers. Since Indonesia is the fourth most populated country in the world, the consumption of plastics is high. Proof of this can be found in the continuous increase in the rate of imports of plastic production machinery and parts. What manufacturers of plastic products want are high quality, durable, affordable and recognizable products. In turn, manufacturers of these goods can produce consumer goods to meet the needs and wants of the citizens of that country.

Although Plasteze is moving into a foreign market with an existing product, there is no need to change its product because the sole purpose of the machines is to make plastic products, and that is what they will do. Minor things such as manuals, labels and signs will be changed to correspond to any regulations of the country. Even though Bahasa is the official language of Indonesia, English is the most widely used language, therefore both languages will be used for labelling. Advertising is not put into emphasis due to the fact that the users of this product will only be manufactures; advertising would only lead to an increase in cost.

DISTRIBUTION PLAN

Plasteze's plastic production machinery will be sold through an agent that will have contact with head offices in Ontario. Exporting would be the safest route compared to opening a plant in the country due to economic and political instability that occurs. Although this method would be expensive, it would prevent some deadly risks from occurring. Products ordered from Indonesia will travel from the base country,

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Canada, and will be shipped to Indonesia by boat, due to their size and weight. In the short run, Plasteze will only export their products to Indonesia, however as conditions ease, plans will be made to open up a plant in the country to be closer to the market, and therefore decrease transportation costs and understand the market. “Piggy-backing” will be used to gain opportunities, by working with other manufacturers of plastic products, Plasteze can supply them with the machinery and parts to do so.

One of the most significant costs in doing business in Indonesia will be the transportation expense associated with exporting the product from Canada to Indonesia. Minor cost will include labelling cost needed to follow labelling regulations set forth by the country. As Indonesia further develops, a trading bloc will be set forth that will benefit the country in its pursuit to be successful in the international market, with low or no tariffs.

CONCLUSION

Doing business in Indonesia will be challenging and difficult, however many opportunities exist for Plasteze to prosper. Although Canada is not amongst the countries of top plastic production machinery producers, we are known for our quality and value which is what Indonesian companies are looking for. As the Indonesia economy gradually becomes stable and prosperous, greater opportunities will be present for Plasteze to widen their consumer base. Some things Plasteze will do to ensure success is develop a strong market presence by developing a high awareness level and strong reputation. Highly knowledgeable local agents will be chosen to represent the product, providing technical support for the purchasers. If these factors are successfully put into action, the probability of Plasteze succeeding is likely.

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¹ Canada. Industry Canada. Statistics Canada. Indonesia – Plastic Production Machinery and Parts. 28 August 1998. 15 May. 2002.

<<http://strategis.ic.gc.ca/SSGF/dd75485f.html>>

² Canada. Industry Canada. Statistics Canada. Canadian Plastic Product Industry. 22 May 2003. 15 May. 2003.

<<http://strategic.ic.gc.ca/epic/internet/implastics-plastiques.nsf/vwGeneratedInterE/p101383e.html>>

³ iBid

⁴ iBid

⁵ iBid

⁶ iBid

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⁸ iBid

⁹ iBid

¹⁰ Canada. Industry Canada. Statistics Canada. Indonesia – Plastic Production Machinery and Parts. 28 August 1998. 15 May. 2002.

<<http://strategis.ic.gc.ca/SSGF/dd75485f.html>>

¹¹ iBid

¹² “The Universal Currency Converter.” 2003. <<http://www.xe.com/ucc/>>

¹³ The World Factbook 2002. “Indonesia”. 19 March 2003.

<<http://www.cia.gov/cia/publications/factbook/geos/id.html>>

¹⁴ “Business Culture in Indonesia”. 2000. <<http://www.executiveplanet.com-etiquette/indonesia.html>>

¹⁵ Canada. Industry Canada. Statistics Canada. Canadian Plastic Product Industry. 22 May 2003. 15 May. 2003.

<<http://strategic.ic.gc.ca/epic/internet/implastics-plastiques.nsf/vwGeneratedInterE/p101383e.html>>

¹⁶ iBid

¹⁷ iBid

¹⁸ “Indonesia Plastic Production Industry.” Feb 2002. <<http://www.datacon.co.id/plastic.htm>>

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Teacher’s Notes

Knowledge/Understanding

- The student describes current market conditions in Indonesia with a high degree of accuracy. Using a variety of statistical references, he or she enlightens potential investors about legal factors (e.g., “Currency investments over Rp10,000,000 must be declared or it could result in fines.”), existing competition (e.g., “the Japanese . . . are dominating with 30% of the market, followed by Taiwan 16% . . .”), and cultural considerations (e.g., “business etiquettes include shaking hands, proper clothing, being punctual and never giving food as gifts”). The student also discusses the state of the plastic goods industry in Indonesia and “the impact of the monetary crisis” in 1998, and notes that “in 2000, domestic consumption of plastic goods rose, showing signs of improvement”.

Thinking/Inquiry

- The student interprets the needs and wants of new consumers with a high degree of effectiveness. He or she indicates that Indonesia has a high demand for plastic products such as “plastic pipe, plastic sheets and plastic bottles” and explains that, with its large population, Indonesia is a country in which “the consumption of plastics is high”. The student effectively analyses the problem in Indonesia, namely, that Indonesia has the means of manufacturing plastics, but not the means of producing and maintaining the production machinery itself. Furthermore, the student links the needs of Indonesian manufacturers with those of consumers and asserts that the manufacturers require “high quality, durable, affordable” products so that they can “produce consumer goods to meet the needs and wants of [Indonesian] citizens”.
- The student analyses modifications to the existing product with a high degree of effectiveness. He or she explains that “minor things such as manuals, labels and signs will be changed to correspond to any regulations of the country”. Apart from such minor adaptations, the company does not need to change its product “because the sole purpose of the machines is to

make plastic products, and that is what they will do”, with the understanding that local manufacturers can match production to local needs.

Communication

- The student communicates the potential of the proposed expansion for success with considerably clarity. He or she provides a comprehensive profile of the company and its history, and demonstrates a good grasp of conditions in Indonesia. The student’s delivery plan allows for both short-term and long-term contingencies (e.g., shipping directly from producer to consumer for the immediate future, and plans “to open up a plant in the country to be closer to the market” as Indonesia further stabilizes), but his or her assertion that “as Indonesia further develops, a trading bloc will be set forth . . . with low or no tariffs” is unsubstantiated. The overall tone of the report is businesslike and persuasive; however, the statement that “if these factors are successfully put into action, the probability of Plasteze succeeding is likely” makes a somewhat tentative conclusion. On the whole the student writes well, but there are occasional lapses in grammar (e.g., “Advertising is not put into emphasis . . .”).

Application

- The student provides a highly effective rationale for the international expansion. He or she links the proposed move into the Indonesian market with the company’s aim to become “one of the world’s largest and strongest plastics production machinery producers”. The student points to the size of the market in Indonesia and the growth in imports of plastic production machinery as significant factors favouring expansion. He or she also explains why now is an advantageous time to expand (e.g., “Because Indonesia is recovering from their economic crisis, this would be a good opportunity to enter the market while it is still unsaturated.”).

Comments

This work is representative of a low level-4 performance. The student demonstrates a high degree of achievement of the expectations in the Knowledge/Understanding, Thinking/Inquiry, and Application categories of knowledge and skills. However, in the Communication category, the student demonstrates a considerable degree of achievement – i.e., achievement that is more characteristic of level 3.

The result is a well-organized and informative report that considers the company’s goals and responds with a well-thought-out and plausible plan for expansion.

Next Steps

In order to improve his or her performance, the student needs to:

- provide more details about the selection and role of local agents;
- provide further explanation of the proposed trading bloc;
- provide a more upbeat conclusion that strongly appeals to investors;
- proofread carefully to eliminate grammatical errors.