

CN - 13458

9/08  
20

ASSN: 572

i

**POTENTIAL OF CHANNEL CONFLICT IN BERAS CORPORATION  
SENDIRIAN BERHAD'S CORPORATE MARKETING SYSTEM**



**SEMUEL BELAWAN**

**MKT 660**

**Bachelor in Business Administration (Hons) Marketing  
Faculty of Business and Management  
Mara University of Technology**

**March 2004**

i

## Table of Contents

	<b>Page</b>
<b>Declaration of Original Work</b>	<b>ii</b>
<b>Letter of Submission</b>	<b>iii</b>
<b>DEDICATION</b>	<b>iv</b>
<b>ACKNOWLEDGEMENT</b>	<b>v</b>
<b>TABLE OF CONTENTS</b>	<b>vi</b>
<b>LIST OF TABLES</b>	<b>vii</b>
<b>LIST OF FIGURES</b>	<b>viii</b>
<b>ABBREVIATIONS</b>	<b>ix</b>
<b>TERMINOLOGIES</b>	<b>x</b>
<b>ABSTRACT</b>	<b>xi</b>
<b>CHAPTER</b>	
<b>1. INTRODUCTION</b>	
1.1. Background and Scope of Study	1
1.1.1. Company and Domestic Rice Industry Backgrounds	1
1.1.2. Scope of Study	3
1.2. Problem Statement and Hypothesis	4
1.3. Research Question	5
1.4. Objective of Study	7
1.4.1. Academic Objective	7
1.4.2. Research Objective	8
1.5. Significance of Study	8
1.6. Limitation of Study	9
<b>2. REVIEW OF RELATED LITERATURE</b>	11
2.1. Corporate Vertical Marketing System	11
2.2. Channel Integration Strategy to Reduce Competition and Expedite Market Entry	12
2.3. Channel Power	14
2.4. Coercive Power	15
2.5. Balance of Channel Dependence	17
2.6. Channel Conflict	17
2.7. Channel Commitment and Loyalty	19
2.8. Smuggling and Gray Market	20
<b>3. RESEARCH DESIGN METHDOLOGY</b>	
<b>3.1. RESEARCH DESIGN</b>	24
3.1.1. BCSB Channel Structure	24
3.1.2. Rice Demand in Sarawak	24
3.1.3. Estimates of Rice Demand, Import and Self Sufficiency Level	25

**ABSTARCT**

Since 1997 BCSB marketing channel system has gone through phases of change first with establishment of B'mart Sdn. Bhd. retailing system with 14 wholly owned retail outlets and score of exclusive B'mart retail agents covering major towns in Sarawak. At the same time it set up 4 JV wholesale distributors covering major Divisions in Sarawak. Realizing that the JVs are competing directly with B'mart, the later was withdrawn from the market in 1998. On grounds that Bernas was also killing independent rice retailers. In 2000-2003 the company was experiencing drastic fall in the sale of imported rice from average sales of 8000 tonnes per month to less the 5000 tonnes in Sarawak. BCSB reacted by appointing strategic alliance wholesalers that created a new scenario in the rice distribution, however without much improvement to its sales. The channel redesign affected the industry players especially general wholesalers, while the issue on rice smuggling is one of great concern to the government to protect local farmers. This study explores the transcending channel system as potential cause of conflicts and impact on distributors relationship, and manifestation in the decline of BCSB sales and link to rice smuggling. The study accounts a cross-sectional view of rice wholesalers in Kuching-Samarahan- Sri Aman geographical region and it is found with high confidence majority of wholesalers in Sarawak disagree with the current imported rice distribution system. Change in distribution made the conflict which is potentially high between Independent Wholesalers verses JVs, and Strategic Alliance distributors.

## **1. INTRODUCTION**

### **1.1. Background and Scope of Study**

#### **1.1.1 The Company and Domestic Rice Industry**

Beras Corporation Sdn. Berhad (BCSB) is a wholly owned Subsidiary Company of Padiberas National Berhad (BERNAS), which operates as a business unit to market imported rice locally other than participating in the production, procurement and distribution of local rice in Sarawak and Sabah.

The domestic production of rice in Sarawak could only cater for 35% of the needs in the State, whilst the remaining 65 % has to be procured through importation. Under the National Agriculture Policy, it is estimated that to achieve 70% self sufficiency in Sarawak the level of production needs to be further increased to 62,040 metric tonnes of milled rice (about 103,400 tons of rough rice)

Provided under the terms of privatization of Lembaga Padi dan Beras Negara (LPN) in 1996, Bernas is accorded 15 years exclusivity as sole importer of rice in Malaysia, making it a monopsony supplier until 2011 or such earlier period when AFTA (by 2005) or WTO comes into force and include liberalization of rice trade. Which means others may not import rice unless on the terms of Bernas' consignment.

In the pre-privatization period, LPN turned the nation rice stockpile by selling at ex-godown in loose bags form, the preferred stock keeping unit (sku) then, to wholesalers

## 2. REVIEW OF RELATED LITERATURE

### 2.1. Corporate Vertical Marketing System (CVMS)

Distributors usually act as the manufacturer or sole supplier's agent in selling its product, often on an exclusive basis. The supplier is responsible for the product, advertising and promotion, and may also help in personnel training, technical advice for financial loans (Hugh Davidson 1987). According to Louis Stern, Adel I. El-Ansary and James R. Brown in the book "*Management of Marketing Channel*", CVMS exist when channels members at different levels of distribution for a particular product are owned and operated by one organization. Forward VMS may be *partial*, where organization forms its own wholesaling function and the retailing task undertaken by one or more independently owned and operated establishments. In addition, the wholesaling operation can be owned by the company in some markets and independently owned in others.

Even though using CVMS has lots of advantages, it can also create problems. It is important to note that there is no firm that is totally vertically integrated or 'hard' CVMS. There is no perfectly homogeneous market for any product even the rice market is segmented, because of the presence of various quality, grades and brands available. This condition can lead to multi-channels or more than one channels, or in some cases called "hybrid channels" with combination of hard and soft integration (Lou E. Pelton, David Strutton, James R. Lumpkin 1997)

Possibility of productive investment in assets specific to a transaction encourages vertical integration not to end up at the mercy of the distributors. It also pertains to cases in which competition is absent in general in the supplier industry. Thus low level of