



UNIVERSITI PUTRA MALAYSIA

**KIMCO METAL SDN BHD
A CASE STUDY**

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A CASE STUDY**

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PENGESAHAN KEASLIAN LAPORAN

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ABSTRACT

The business environment in 1990s has been changed dramatically compared to the past two to three decades. New management and marketing concepts have evolved in such rapidity and being fine tuned in suiting to each corresponding industry. Information technology have been much flourished and being widely applied in communication and the related industry. This has shortened the barrier of distance and hence resulted the competition became more tense in the 1990s business environment.

The industry of building material, being a supplier or trader will undoubtedly face tough challenges despite the booming economic growth in recent years. Entry barrier to the industry is low and the start-up cost might not intensive. This resulted a high numbers of new rivals in the market every years. Profit is marginal as it is diluted by these runner-up firms. The competition in the industry is intensive due to the end-run and guerrilla offensives by the these firms. The whole market has thus become cost conscious.

Presented here, is a case study that looked into the problem of both sales and profit decline due to the described industry scenario. There is a search of the modern marketing management concepts to be adopted in a medium size distributor's daily business operations. However, any transformational changes could not be actualized overnight. It requires identification of problems, persistent planning and implementation of such concepts to achieve a paradigm shift.

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PART ONE

KIMCO METAL SDN BHD - A CASE STUDY

1. THE COMPANY

Competition in the market of aluminium siding and double pane window was growing fiercer in the last years. From four players in the market initially, the number has increased to more than twelve since 1987. Kimco Metal Sdn Bhd, a player focused in a niche market of superior quality, has experienced a drop in turnover during the last three years.

This is attributed to two reasons: intensive price competition among the major competitors, and the threats by runner-up firms. Moreover, the outlook of economy after year 1998 is rather uncertain among the building and construction sector. This has become a cross-road to Kimco as it is urgent for them to determine the necessary path to excel in the future.

A. Background

Kimco Metal Sdn Bhd (KMSB) was formed in 1987. During the past years, the company has strived to position itself as a quality maker of durable and energy efficient aluminium siding and double pane windows.

The purpose of operation of the company is to provide customers with exterior aluminium siding that is attractive, yet provides a high degree of durability and energy efficiency to home owners and business owners.

Currently, KMSB is at a point where it is entering two separate phases that are projected to cut operating costs by fifteen percent and increase sales by thirty percent. By buying direct from the manufacturer, KMSB will realize better purchasing power, and gain hands-on control of the manufacturing and assembly process. This will also cut down on delivery time to the customer, resulting in a faster cash flow to the company.

KMSB long term goal is to gain a niche market share and yet profitable by providing good quality product and customer service. They were well understood that to excel in such a competitive market, customer's satisfaction and recommendation is a critical factor for business success. Their core belief and drive in their business practice is quality product and customer satisfaction. This management philosophy is reflected in their mission statement.

KMSB mission statement is as follows :

"To provide customers with high quality exterior aluminium siding, and double pane windows where we can be proud of the integrity and craftsmanship of each product sold to the end user, and offer superior customer service throughout the warranty phases of the product, always remembering that each customer may be a tremendous source of referral business to our company."

B. The Management Concept

The concept of the management is quality product to be offered to the customers. They focus at upper end market where people put a priority on quality rather than cost. There are some companies that sell cheaply manufactured siding made of low grade aluminium, steel, or wood composites. Compared to competitive products, they always strive to manufacture product which is made of highest quality materials available.

The management believed that the ability to educate customers on the superior quality of their product is a capability unique to their trained salespeople. Each of the company's sales personnel is required to complete a four-week training course before selling to the general public. They believed that a comprehensive human resource development program is essential to the success of their business. The reason was salespeople were encountering "value-added" sale rather than just selling a commodity.

C. Objectives Of The Company

Currently, the company sell highly rated aluminium siding on the market. The company will not sell cheaply manufactured products. However, to accomplish this, KMSB is currently forced to purchase processed materials from a single manufacturer, LB Aluminium. This has presented a problem because KMSB does not

have an alternate source for the product; as well it is costly to the customer and to the company in potential lost revenue due to higher prices. The senior management has decided to buy raw material direct from other manufacturers like Alcom, Sin Kean Boon and Press Metal.

The firm's objective is to propel the company into a prominent market position, especially in the medium to upper end market . They have planned to be in a suitable condition for an initial public offering or profitable acquisition. To accomplish their objectives, they have developed a comprehensive plan to identify and accelerate their marketing activities, product development, services expansion, engineering, distribution and customer service.

The firm has realized that in order to defend their existing market position and further excel in their future business, they are required to implement plans as the following :

1. Expand current operations into the other geographical areas other than Klang valley region.
2. Procurement of production and computer equipment. This would help to reduce dependability on intensive labour operation.
3. Be focused.

With these considerations, the firm believed they were able to maximize sales with an extensive campaign to promote their products and services. This would also help to

reinforce the customer support services to handle the increased demands created by the influx of new orders and also deepened penetration into new markets. The organization's financial data in the past are shown in the Exhibits 2 and 3 in Appendix A.

D. The Principals

Kimco Metal Sdn Bhd was founded in 1987 by Lam Keng Weng, who after a careful study of the exterior siding industry, found a tremendous void of service and quality products. This became the principal reason that Mr. Lam wanted to start his own distribution company in the industry. The opportunity to create an entity that offered superior service and products was reflected in his enthusiasm to begin Kimco Metal Sdn Bhd.

Of the people who make up the development staff, there are several executives who hold the following positions :

Lam Keng Weng	- Managing Director
Liau Chin Fong	- Account & Finance Director
Tan Meng Haw	- Marketing Director
Wong Pang Hooi	- Production Director

The company organization chart has embraced the concept of marketing management. This is shown in the Exhibit 1 in Appendix A. They acknowledged the critical importance of being customer-oriented and market-driven in conducting all of their activities.

These founders of KMSB have combined experiences exceeding 15 years in the siding and distribution industry. The strength of the KMSB management team stems from the combined expertise in both management and sales areas. This was the major reason where outstanding results were produced over the past years.

The leadership and alignment characteristics of KMSB's management team have resulted in broad and flexible goal setting to meet the ever-changing demands of the quickly moving marketplace requiring their products. This is evident when the team responds to situations requiring new and innovative capabilities.

E. The Responsibilities

Lam Keng Weng , the managing director, responsible for market planning, advertising, public relations, sales promotion, merchandising and facilitating staff services. He was responsible for identifying new markets and maintaining corporate scope and market research. Researching and identifying foreign markets.

Mr. Lam's professional experience included many different areas in the sales and distribution arena. He has been involved in sales, marketing, and distribution of several services and products for large corporations such as Alcom and Amalgamated Steel. He has been working at the front line for years and accumulated valuable experiences through his working life in these corporations.

After learning the basic techniques of the siding industry, Mr Lam was promoted to manager of sales and distribution post. He was then involved with the implementation of sales and marketing program and, there he enjoyed considerable success in his performance. However, he became interested in developing a more efficient way to operate a company within the same industry. With these ideas in mind, Mr. Lam had conducted a feasibility study to determine the viability of a product capable of competing in the siding industry. When he found that such a market was worthwhile and could be developed, Mr. Lam formed Kimco Metal Sdn Bhd in 1987.

Liau Chin Fong, the director of accounting and finance was primarily responsible for the management of working capital and financial forecasting. His scope of work included the management of receivable, inventory, cash and marketable securities. He had been involved in cash budget, external financing requirement and financial condition requirements.

Mr. Liau came from a diverse background in finance and management. He has served as a finance manager for 11 years at a local building material firm - Transglobe

Materials Sdn Bhd. Mr. Liau has been overseeing the accounting and finance department since the company's inception.

Tan Meng Haw has been primarily in-charge for the marketing activities. He managed field sales organization, territories and quotas. He was also in-charge of sales office activities including customers and products support and services.

Mr. Tan's background in sales and marketing has been a big asset to the company. After earning a degree in marketing, he went to work as an assistant sales manager for Johnson Tiles Sdn. Bhd. He then moved to a management position with the multinational corporation Diethelm instrumentation division. As a sales manager there, he was involved with day-to-day operations of inventory control, hiring and training personnel, and developing departmental policies and procedures.

Mr. Tan responsible for the development the sales and marketing structure of the company. Being an experienced sales professional, he has trained, lead and assist new sales representatives in the marketing activities. Being a marketing director, he is involved with the development of marketing strategies and market research in KMSB.

Wong Pang Hooi, had a solid ten years of qualified experience specifically in the siding industry. He was the former production manager for Impact Industries (M) Sdn.

Bhd. which was specialized in collapsible aluminium tubes and rigid aluminium container manufacturing.

He was responsible for the entire production and operation of KMSB. One of his duty was to incorporate the operations in line with the firm's corporate strategy. This involved linking design decisions and operating decisions which would match with the firm's strategy in achieving corporate objective. He had identified the competitive priorities laid in the production and been able to transform to efficient output in meeting customer demand.

F. The Personnel Required

KMSB had recognized that additional staff is required to properly support marketing, sales research and support functions. Currently, KMSB is composed of 50 personnel. Over the next five years, they have identified that additional 100 personnel will be required to meet the demands of the projected market. The staff requirements will be in the following areas :

- Management
- Marketing & Sales
- Engineering
- Customer relations
- Production and operation

- Skilled assembly labor
- Field service technicians

G. The Products

Once the semi-processed raw material is purchased, KMSB fabricated and assembled the finished products in their factory in Shah Alam. Local market made up ninety percent sales to the company annual revenue. They emphasize state-of-the-art tooling and strict quality control procedures that produced dependable, custom-hardened aluminium alloy siding.

To fight against stiff market competition and to meet customer strict demand requirement quality, each panel is technologically slotted and overlaid on fiberglass insulation of high density. This provides extra insulation value inside the siding panel during the entire year. Trim pieces and save underpanels are made from extruded aluminium that give the final touches to an attractive product along with securing additional energy efficiency.

The colours available are white, cream, sky blue, aqua green, sunflower yellow, dark brown and dark wood grain. In fact, custom colours can be chosen from KMSB's custom chart, which include an additional forty colours to choose from. Delivery times for custom colours are usually less than two weeks. This was shorter compared to competitors whose usually took more than three weeks for delivery.

H. The Concern For Quality

It was found that customers were satisfied with the performance of the product. From the findings of after-sales-service and maintenance teams, customers were agreed that the premium they paid for KMSB' product worth for the value. This was evident from the superior product quality which has delivered benefits of air-conditioning energy saving in the long term. A research has been conducted in Singapore laboratory has proven that between ten to fifteen percent savings of annual energy costs may be realized by each homeowner. As our country is summer-hot throughout the entire year, KMSB siding and windows intercept solar radiation, thus providing insulation value that allows air conditioners to work about twenty percent less. Due to the fiberglass insulation, the aluminium siding and double-pane windows provide a pleasant insulating blanket. This insulated exterior shield keeps the hot air from entering, and keeps the coolness inside the home.

There are a few of the other outstanding features of the aluminium siding :

- Premium quality and efficiency
- Lower warrant cost
- Improved energy efficiency
- Improved home value

The philosophy of the firm is that personal satisfaction in one's home is worth a fortune. They always believe that there isn't a price one could place on the peace of mind that their products given to the home owners. The thrust to long term success of the company lied in the presentation of quality products which inevitably will result in customers loyalty in the long run.

I. Product Features

The combined capabilities of quality aluminium and fiberglass insulation provide added value, energy savings, noise abatement and protection from solar radiation. These benefits are the focus that being transformed to create a sense of greater need in the minds of customers. The warranty given to the product was lifetime unlimited. This reflected the confident of the company in producing quality product consistently.

The aluminium siding has been subjected to many tests of impact by hard and soft objects. These tests were in accordance with the common rules of the Product Durability Testing Requirements set forth by the Singapore regulations. The test resulted in a performance that is highly superior to that which the regulations required.

J. Current Situation

Intensive market competition, price conscious, low entry barrier and uncertainty in future economic growth are the concerns of current situation. Shortage of workforce

and the soaring labour cost have increased the burden of the management operation cost and further dampened the sales revenue and profitability of the firm during the last three years. This is reflected in Exhibit 4 of Appendix A.

K. The Future Direction Of The Company

Having encountered the above mentioned scenario, the question is : What should Kimco do? Due in part to increased competition, and uncertainty in the future of market prospect. Should the company pursue an aggressive growth strategy and risk substantial losses, or should it follow a more conservative strategy designed to generate profits and throw off cash ? What strategies should Kimco employ that best meet it's objectives ?

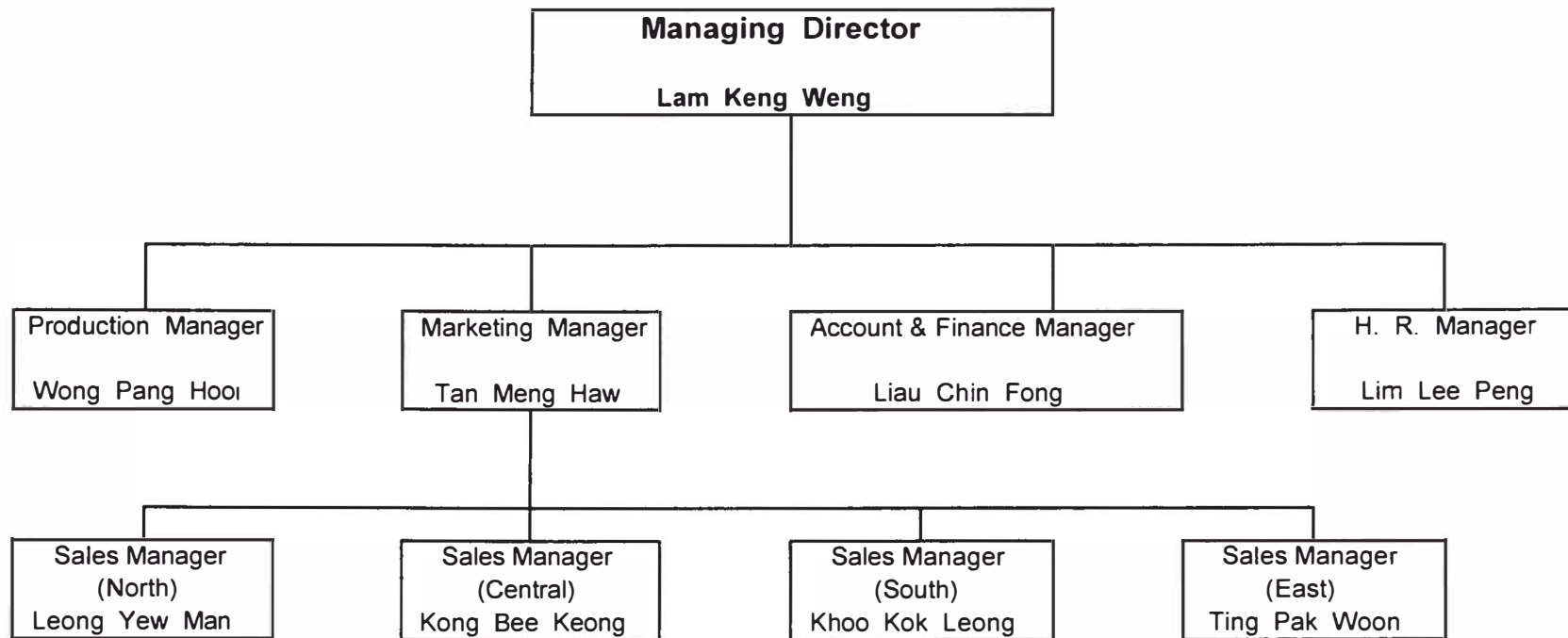


APPENDIX A

(Exhibits)



Exhibit 1 : Kimco Metal Sdn Bhd - Organization Chart



Source : Kimco Metal Sdn Bhd

**Exhibit 2 : Profit and Loss For The Years Ended December 31, 1996, 1995
and 1994**

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Sales	4,098,189	4,332,887	4,683,609
Cost of goods sold	1,418,067	1,563,657	1,833,859
Gross margin	2,680,122	2,769,230	2,849,750
Operating expenses :			
Payroll	839,458	831,451	823,049
Fringe benefits	98,025	105,645	102,132
Advertising	68,559	78,254	82,136
Supplies	72,548	63,584	77,068
Services purchased	78,054	82,409	87,225
Travel	51,270	59,316	62,014
Communications	16,078	15,630	12,434
Insurance	20,008	18,476	25,300
Depreciation	5,000	5,000	5,000
Bad Debts	9,200	7,168	5,335
Equipment rentals	9,018	8,145	11,644
Repair and maintenance	14,462	13,587	18,761
Property rentals	78,429	73,889	92,047
Miscellaneous	7,289	19,287	15,633
Total operating expenses	<u>1,367,398</u>	<u>1,381,841</u>	<u>1,419,778</u>
Net operating income	1,312,724	1,387,389	1,429,972
Taxes	393,817	416,217	428,992
Net income (Loss)	918,907	971,172	1,000,980
Difference (%)	-5.38%	-2.98%	-3.25%

Source Kimco Metal Sdn Bhd

