



UNIVERSITI PUTRA MALAYSIA

**IAGE SDN BHD
A CASE STUDY ON STRATEGIC PLANNING**

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By
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SECTION A.**CASE TEXT.****1. Introduction.**

At a meeting with his senior officers, the Managing Director (MD) of IAGE Sdn Bhd (IA) said,

"We have been depending too much on subscription fee from newspapers and exclusive distribution rights of foreign news. Over the last five years 20 to 25 percent of our revenue are from exclusive rights. We need to set a new direction for IA future. Our income base should be broader. In the course of setting our sight for IA future growth and profitability we should occasionally ask ourselves how do we justify our objective for higher profit. We cannot afford to stand still or go slowly. We are faced with strong and growing competition in the market from which we earn most revenue. Company with much greater resources than our own was preparing to enter these markets.

To start with we need to sit down and study where our competitive advantages lies. We started as a news agency and have build up our strengths on news gathering and distribution. Now those things have changed and new computer and communication technology has emerged. It has affected our competitive edge and, was now affecting us financially, but a little more in depth study may show a few surprises.

Once we have decided where our emphasis will be, we must set some definite objectives, that can be reviewed each year. These objectives

should be things like a 10 percent increase in profits, or a 10 percent decrease in costs, and other attainable goals. Strategies need to be set. Our strategy or plan should be mapped out very carefully with every step and implementation of steps carefully thought out. I think our strategies should be built with extreme care yet must remain very flexible so that they can be changed to fit our needs. I don't want to get very specific about the strategies we should take because I think this is something we must all consider and meet about again".

2. Background.

IA was incorporated twenty two years ago. In 1997, for the first time after it was incorporated IA revenue fell by twelve percent. (Exhibit 1). Encik Rahmat Osman (Rahmat) took over as the Managing Director in 1995 and he set out to realign the organization financial affairs when the 1997 financial result was finalized. Rahmat made a special effort to ensure that the Executive Committee spent sufficient time addressing strategic issues. They held a strategy workshop, away from office. He developed a set of ground rules for this session. First, there were not to be extension of the monthly, formal executive committee meeting, so no conformance matters would be raised, indeed no executive decisions would be taken during the workshop. Second, efforts were made beforehand to provide relevant data on the strategic environment of the business, on the customer and competitors as well as the economic, political and social expectation. Third, an

external facilitator was used to allow the MD and all executive committee to participate in the discussion. The facilitator then guided the workshop, ensuring everyone contributed, that issues were pursued to the necessary depth and that, finally, a list of action points was prepared. Two weeks after the workshop the executive committee sat for their monthly meeting. After giving his opening remark the MD said,

"Ah! At last we have a vision to guide us through the storm. It has been communicated well through the organization. It was posted on the walls, and every employee and, the directors carries the statement with them all the times. They may not be able to recite it, but it is close to their hearts and at hand for easy reference when desired."

IA was set up to provide and disseminate news and information on any matters of public interest. IA was owned by a group of newspaper operators and a individuals with the objective (as stated in their mission statement) of seeking, presenting and distributing complete and objective news or news material of public interest.

It was supplying local news and information to Malaysian newspaper and community in all market segments. Their clients acknowledged that its product line was distinguished by its breadth, quality and by the innovation it brings ranging from information, news and analysis.

Although initially, profitability was not the main objective, the owner expected it to be self-financing and grow moderately using internal funds.

Datuk Sudin the Chairman had once said,

"Profit is something you get from thing that you did well. We must take the leading position to be the center for this business and not allow anyone to take over."

As the firm grew, valuable expertise was gained in news gathering and distribution technology. According to their last annual report IA invested substantial amount of money in computers to enhance its editorial and delivery system. By early 1980's the Audit Bureau Of Circulation (ABC) acknowledged in their survey report that IA had developed a reputation as the efficient local news and information provider.

In 1984, IA obtained the *exclusive right* to receive and distribute foreign news from major foreign news agencies and also a concession from Kuala Lumpur Stock Exchange (KLSE) to disseminate stock trading information to general public. The Government who wishes to regulate the flow of news into the country gave the rights.

Under the exclusive rights arrangement foreigners wishing to distribute news to Malaysian public or organizations need to go through IA. IA in return would provide all the facilities to receive and distribute it locally over the communication network for a fee. This arrangement had enabled them to develop new products through packaging of news and information as well as

brought a steady stream of income to them. Beginning from 1993 to 1996 the MD noted that IA's revenue increased steadily and showed healthy profit for each of those years. IA financial success can be attributed to the income from exclusive distribution fee and their screen based services, a computerized business and financial information services.

After four years of introduction the screen services contributed about 37 percent of its total revenue. Exploiting the affordable personal computers, modems and KLSE trading data, IA moved into the corporate and financial information catering the needs of individual and corporate investors. Marketing Department was set up recently to manage and administer the sales of new product, namely the financial information services.

IA lost their exclusive distribution rights in 1996 when the government liberalize the flow of information in the country. A senior Government official commented that this was inline with the government move to promote its Multimedia Super Corridor project. The removal of the exclusivity had a significant impact on its revenue as shown in their 1997 financial statement and the 1998 financial projection. The move took the management by surprise and they were caught unprepared. Nobody within the executive committee had anticipated the timing of the Government decision.

Influenced by the technological changes the information and media business environment changed dramatically. Taking advantage of the technological advances many new players were joining the industry.

The MD said that, the way things were being done have not changed very much. In reflecting on the organization and the future of the company the MD said;

"The organization structure has not been changed to accommodate the new challenges and responsibilities given to the Managers. I expect it will keep changing for two reasons. One is that it is a medium sized organization, it is easy to change the structure without really affecting the variables involved too much. The other is to accommodate the fast changing environment".

3. Present Strategy.

IA maintain its mission of becoming a market leader, in Malaysia, of regional news and financial information provider. In a continuous effort to achieve that mission the Marketing Department have set up their plan for the next two years. The immediate one was to defend their current market share position. To achieve the plan they intend to:

- To further the company's position as a service innovator by introducing new, unique and innovative product.
- To introduce additional features to an existing product as an extension of the existing one.
- Introduce a new product.
- To concentrate (developing and selling) on profitable product .

- To further utilize our current resources (to do both sales and after sales service) without incurring additional expenses.
- To widen sales network by appointing agents and dealers in order for us to generate more sales without incurring additional manpower.

3.1 Sales and Marketing Strategies.

Among the plan laid out by IA was to intensify effort of getting more customers beside retaining current customers which they think was so vital to our long term success.

To get more sales, they had set aside a budget of RM 500,000 for promotion to create awareness among potential customer. They have identified new marketing strategies including their target. Their plan were,

- To actively penetrate Labuan market for Equities and Hyperlink
- To strengthen their position with all banks and its branches by getting selling more terminals and more corporate deals.
- To penetrate the stockbroking market.
- To broaden our mass-market product with our lower end services using Vertical Blanking Interval (VBI) channels.

They realized that majority the local fund managers do not trade in overseas market but those who trade would require the foreign news services due to the reasons listed as below:

- i. Availability of valuable news on the overseas market development since a lot of overseas market movements proven to affect the local market condition (foreign news).
- ii. Money market traders who trade "overnight" in currencies (FOREX).
- iii. Commodity traders who trade "overnight" market in futures and options.

According to one of their client, foreign services were expensive and those who require such services were specialize group of users who were willing to pay higher for the purpose mentioned as above.

4. Organizational Issues.

4.1 Financial situation.

Government changes its policy by liberalizing news and information distribution in the country and consequently IA lost the exclusive distribution rights of foreign news. On top of that demand for their screen base services was declining due to the 'Bearish' share market. The Accountant said that, the financial impact on IA was substantial. The executive committee had looked at the latest financial projection for the next three years from 1998 to 2001 (Exhibit 3). The Managing Director was not happy and commented,

"It look bleak and I hope we can work together to address the situation. We have to plan something to close the gap between revenue and expenses. As you can see the shortfall for next year is 15 percent. We need to intensify our

current business and at the same time look for new business. We need to conduct a comprehensive business audit to identify our weaknesses and strength."

Past annual report showed that IA had been successful. They had a steady income base from news and information business. Revenue grew every year though not substantial. However, the Accountant explained that its revenue was

dependent on one base, namely, news and information, and narrow product range. If something happened to upset the base, IA could be in for troubled time. He feels that the emergence of new and affordable computer and communication technology, the Internet, and liberalization of information distribution in the country, had upset the base.

In the annual report he also commented that, over the last five years IA profitability was contributed by the significant increase in the revenue of non-media services, improved management of its financial resources and, increased productivity of IA human resources. Service fee revenue dominated over 80 percent of IA total revenues in 1993 with 76 percent of it increase was contributed by non-media services.

The profitability was attributed to IA rapid growth versus growth in expenses. However, growth of operating expenses had been increasing alarmingly between 1993 and 1995, at an average rate of 13 percent.

According to the Accountant, IA total operating expenditure was gradually increasing over the years. Salary and royalty have fallen as a percentage of total

expenses while communication charges and depreciation on building and equipment have risen. He also said that expenses for 1998 would be higher when we started paying our building loan. We may refinance the loan if needed and there shouldn't be a problem as the value of the building is very much higher than the loan amount.

Encik Hew, the Information System Manager said that the customized accounting package does not permit quick assessment of the various services financial performance/profitability. We were currently upgrading the ten-year-old system. However, he was aware that it was crucial for individual department's information needs were catered for before customizing the system. The current accounting system was design in 1988 and customized to

fulfill the statutory financial reporting requirement only. It does not generate the kind of information that management need to know which division was doing well or not. For example the cost, sales and contributions to profit of each division would aid management greatly in making decision. A cost analysis system was needed to support a pricing policy.

Regarding IA product pricing policy the Accountant said that, *"At present, our product price was obtained by adjusting it to the price in the general market. We make an attempt to include costs but the real costs were unknown at least in a timely manner."*

He noted that there was a need to improve the accounting system and internal control to compete effectively in a competitive environment. *"Inflexibility of accounting system does not permit evaluation of*

projects and strategies cannot be implemented on a timely basis."

He continued by saying that the budgeting and monitoring procedures were not in line with commercial practice where a system of continuous independent check and review does not exist. There were functions that were still not computerized, for example, Purchasing. Execution of transaction was still done manually and this leads to inefficiency and untimely record keeping which were crucial aspects in safeguarding assets and monitoring cost.

He was not happy at the way annual budget was prepared. He commented, *"Annual budget for all departments is prepared by Finance Department and not by respective departments. Other departments do not always agree classification of revenue and expenses determined by Finance Department. Marketing Department prepares forecast of various services for departmental monitoring and*

control. It is not shared with other departments. As such department overhead cost are not allocated to the services. Currently, responsibility reporting is not functioning as budget users are not responsible in controlling and budget administrator is not receiving support from the rest."

4.2 Marketing Management.

The Marketing Department was set up in 1991 when IA introduced their financial information services. It was a thirty men operation headed by a Senior Manager. He was on the Editorial floor for twenty years before being posted to take charge of Marketing. The department manage sales

of all products, identifying news services, upgrade existing services, preparing marketing plans and servicing customers. The functions of the department were:

- i) Managing sales of non-media services.
- ii) Identifying new products.
- iii) Upgrading of existing services.
- iv) Upgrading of existing services software.
- v) Preparing marketing plans.
- vi) Monitoring software developments.
- vii) Customer Services.

The Marketing Manager feels that the task of identifying new services, maintenance of existing service software and monitoring software development should be taken out of marketing functions. On the other hand he feels that Credit Control function which was now under Finance Department should be in Marketing. The after-sales customer service was not properly organized. Different service managers provide different types of after-sales services based on the nature of the services provided. Customer's feedback was not centrally complied to enable

the feed backs to be prioritized and acted upon accordingly. At the moment each department/unit handles its own complaints.

4.3 Training.

"To win over competition, not only our products have to be good, our staff should also be well-trained. We need to prepare our Sales team psychologically and improve their selling skill and, product knowledge. Under the

current arrangement new sales staff are not getting enough support and cooperation from their senior sales personnel maybe because of the unfavorable incentive scheme," explained the Training Manager.

He said that, competition offers the thrills and challenges. We were encouraging our staff to compete professionally with the right ethics and competitive spirit. Thus in order to reduce internal competition, new territorial management was introduced in 1997. A new incentive scheme should be introduced with the hope that it will encourage teamwork and improve our sales and service operation.

4.4 The 1997 Sales Plan.

IA prepares their annual budget three-month before the beginning of their financial year. The Sales Plan was part of the budget, which forecast the revenue for next year. There was no corporate plan or business plan. Encik Marie the Sales Manager had said, "Our main objectives for the year of 1997 is to streamline the sales operation in order for us to penetrate the market better especially to sell our new product (Hyperlink) and also to improve our Operations (both before and after sales) to provide quality service to all our customers. To make marketing as a dynamic business process through - a total integrated process rather than a fragmented assortment of institutions and functions. (I.e., combine sales & servicing management). As competitions are getting tougher now than ever, we have to continue upgrading our product in order to dominate the market share."

He had earlier suggested that IA services should be made available on the Internet. He said,

"In March 1997, our competitor 'Chilong' will be on Internet. IA will have to move toward the same direction and this has to be immediate. As we all know Internet has become very popular and, most cost effective means of communication. Real-time information and analysis can be accessed via Internet at a cheaper rate (about 1/3 the price of our lower end service). I am at a dilemma whether "to" or "not to" make our products and services available on Internet. We foresee that the Internet version will "eat" our current market base and directly will reduce our long term profit."

He felt that, compared to their competitors, IA was slow in term of product development. As information provider, the set up of an R & D unit was crucial. This unit was responsible to conduct market research and development in order to determine the company's future direction.

Meanwhile the Sales Manager was also concern about the set of new sales team that she had.

"Our product has becoming very complex and details. There are need for experienced and skilled staff to market and manage the product. Since most of our staffs at the branch are rather new and inexperienced, close supervision has to be made all the time from to make sure that they are well trained and managed. We need the Training Manager to assist."

Meanwhile in early 1997, to further streamline operation and minimize sales administration problems, two new Senior Account Executives were appointed who will be supervising all the sales staffs at the branch. The Sales Manager added.

"Under the new 1997 sales strategy, we would like our sales people to maintain good relationship with clients even after the sales is made. This, not only important for us to collect and evaluate market feedback, it is also will eliminate market negative perception towards our organization."

The Executive Committee had approved the new sales incentive scheme. It was immediately introduced to encourage team effort rather than individual's effort, which we thought, would contribute more into our sales growth. This was due to the nature of our product itself. Being in the service industry rather than retail industry required us to take the approach mentioned as above. Under the new functions and strategy, the incentive scheme was shown as below:

Current incentive scheme.

| | <u>Below RM 5,000</u> | <u>Above RM 5,000</u> | <u>Contract</u> | |
|----------------------------|-----------------------|-----------------------|-----------------|--|
| <u>Renewal</u> | | | | |
| <u>Commission (%)</u> | | | | |
| Sales Managers | 25 | 35 | 0 | |
| Sales Executive | 20 | 25 | 0 | |
| Pool Commission | 25 | 25 | 0 | |
| <u>Branch Office Staff</u> | <u>25</u> | <u>25</u> | <u>0</u> | |
| <u>TOTAL COMMISSION:</u> | <u>95</u> | <u>105</u> | <u>0</u> | |

New Proposed Incentive Scheme.

| | <u>Below RM 5,000</u> | <u>Above RM 5,000</u> | <u>Contract</u> | |
|----------------------------|-----------------------|-----------------------|-----------------|----------|
| <u>Renewal</u> | | | | |
| <u>Commission (%)</u> | | | | |
| Sales Managers | 20 | | 35 | 0 |
| Sales Executive | 20 | | 25 | 0 |
| Pool Commission | 25 | | 25 | 0 |
| <u>Branch Office Staff</u> | <u>20</u> | | <u>25</u> | <u>0</u> |
| <u>TOTAL COMMISSION:</u> | <u>85</u> | | <u>110</u> | <u>0</u> |

The above commission was given out from the first month subscription.

4.3 Human Resources.

The Human Resource Manager was worried that the marketing staff and technicians' turnover was rising due to staff pinching, insufficient skillful and experienced journalist and technician in the industry. She realized that most of the staff who resigned joined other organization in related industry. Their average working experienced with IA was three years. They move the new organization mainly because of attractive remuneration package, she further explained. Her department had taken some measures to nullify the effect of the turnover on IA operation. Steps were taken to develop continuous training program for new staff and also junior staffs were identified for promotion. The training program include modules designed to assist staff to adopt to the rapidly changing technology, creating awareness about financial accountability and, customer service.

Beside that she carried out a study on IA remuneration scheme to increase its competitiveness.

4.4 Organization Structure.

Board of Directors managed and decides on the business of IA. The Managing Director (MD) who was the chief executive officer liases with the board on operational matters. The executive committee, which was chaired by the MD, deliberated and decided on operational issues as well as a mean of communication between departments. The committee advised the MD on matters, which need to be referred to the Board, and discusses on IA's objectives, goal and strategies.

Member of the Executive Committee (Exhibit 4) was the Head of Department and two other senior officers. As mentioned by the MD, IA's organization structure had not changed for the last ten years. The structure was design around the strategy for the 1980's, where the emphasis was to provide timely, complete and accurate news and information for the media. He said,

"Now that it has introduced new screen base service which was targeted at individuals and corporation who are keen to follow the happening in corporate world. These users are investors who require such information for their investment decisions. Growth in revenue from this segment is substantial. IA need to invest in proper product research and development in this segment and also focus their effort in penetrating the market locally And regionally. To fulfill this objective they need a strong support services."

The MD mentioned in one of their executive committee meeting,

"My philosophy has been to achieve constant growth, sustained profit level and maintain the market position. As the MD my level of authority is limited which sometimes hinders IA from responding to customer needs should it decide to expand or diversify."

The Finance Department headed by the Accountant who had just joined the organization for three years. The department consists of seventeen staff and was responsible for preparing statutory accounting duties, purchasing, payroll, and credit control, travelling arrangement for staff and preparing and monitoring budget.

The Administration Department, headed by the Senior Administration Manager handles recruitment and promotion, welfare, discipline and, maintains personnel records. He was also responsible for installing and maintaining computers internally and maintaining communication system at Head Office and branches.

The structure had not been changed for the last ten years until the current MD joined two years ago, when it should already be changed to accommodate the changing business environment and technological advances. At the recent executive committee meeting the Managing Director had said to the Senior Administration Manager

"I expect it to keep changing rapidly in the future for two reasons. One is because the

company is of medium size, it is easy to change the structure without really affecting the variables involved too much and the other is to enable to interface well with the rapidly changing environment."

At the moment, departments within IA were physically separated and communication between these departments was done through memos and telephone. This arrangement was sometime found to be inefficient and ineffective. The Accounts Executive in charge of billing said,

"Coordination among department needs to be improved. Accounting and Finance has difficulty in obtaining information from the rest. One customer once called the Accounts Department complaining that even after he has paid deposit for our services, he has yet to receive it."

Apparently Francis, the Billing Supervisor in the Accounts Department, found out that although he received a copy of the work order for the said client the Technician in charge of installation don't get his copy. He called the Business Department's clerk to find out and was told that she had sent out the copy, but cannot confirm the acknowledgement from Technical Department. Francis feels that the way of communication was not efficient as it uses so much paper and it takes time before the message gets to the intended person. There was also the possibility that the message was lost or there was lack of security where anybody can have access to the message.

information but also local market information) in order to win over competition. It is important for us to gain a leading position in the local scene. To do this we will have to compete in the market with everyone and make sure that we are noted as the organization that provides the best and the most accurate and timely news to its people. With this in place we can definitely take on the rest on the of the market with our news package."

He said; "The media services market has matured and is experiencing slow growth in the short term. The growth in the number of customers is decreasing and so is the growth in media income. However, the industry may experience another moderate growth in the long term due to establishment of new TV and radio stations. The screen base financial information services industry (large market, premium price) is moderately attractive. Demand for financial information is expected to grow due to growth in the Malaysian capital market and stock exchange, increasing number of global investors and Malaysian GDP growth. The current low trading in the KLSE have reduced the demand for stock market related information which is affecting the sale of IA screen base services. There are a large number of buyers of screen base financial information services like stock brokers, money market, forex, and commodity dealers, and private individuals. Other buyers include Government departments, statutory bodies and ministries, hotels, libraries, hospitals, and financial institutions. The demand is growing, but services on KLSE are still limited.