



UNIVERSITI PUTRA MALAYSIA

A CASE STUDY ON JANAKUASA DIESEL (MALAYSIA) SDN BHD

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GSM 2000 2



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A case study on Janakuasa Diesel (Malaysia) Sdn Bhd / Azhari Adnan.

MALAYSIAN GRADUATE
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Janakuasa Diesel (Malaysia) Sdn. Bhd.

MGT 5988 CASE STUDY & ANALYSIS

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Metric No. GM 00080

Date : 9th. Sept 2000

TABLE OF CONTENT - PART I

	PAGE
INTRODUCTION	1
HISTORICAL BACKGROUND	2
COMPANY OPERATION	4
Company Activity	4
Management	5
Corporate Culture	5
Facility & Business Process	6
Information Technology	7
Litigation	8
Financial Situation	9
CURRENT SITUATION	9
THE INDUSTRY	12
Economic Environment	13
Technology Environment	14
Political Environment	14
Suppliers	15
Competitors	16
MARKETING	
The Product	21
Price	24
Distribution	25
Advertising & Promotion	25
Sales Force	26
After Sales And Service	27
International Activity	29
THE FUTURE DIRECTION	30
JDM FACT & FIGURE	31
Balance Sheet	31
Profit & Loss Statement	33
PROFILE OF MANAGEMENT STAF	39
JDM PRODUCT BROSURE	42
JDM PRODUCT TECHNICAL SPECIFICATION	43

TABLE OF CONTENT - PART II

	PAGE
CASE ABSTRACT	47
CURRENT SITUATION	48
Performance	48
Strategic Posture	48
Mission	48
Strategies	49
Policies	49
STRATEGIC MANAGERS	49
Board Of Directors	49
Top Management.	50
EXTERNAL ENVIRONMENT ANALYSIS	51
Societal Environment	51
Task Environment	52
External Factors Analysis (Opportunity & Treat)	53
INTERNAL FACTORS ANALYSIS	55
Corporate Structure	55
Corporate Culture	55
Corporate Resources	55
Marketing	55
Finance	56
Operations	57
Human Resources Management	57
Internal Factors Analysis (Strength & Weaknesses)	58
ANALYSIS OF STRATEGIC FACTORS	60
Key Strength	60
Key Weaknesses	60
Key Opportunities	60
Key Threats	61
S.W.O.T ANALYSIS	62
S.P.A.C.E ANALYSIS	63
STRATEGIC ALTERNATIVES	64
1. Overseas Market Coverage Diversification	64
2. Local Market Concentration – Increase Market Share	65
3. Product Diversification – Increase Overseas Market Coverage	66
RECOMMENDED STRATEGY	67
MARKETING STRATEGY	70
IMPLEMENTATION	70
EVALUATION & CONTROL	71
CONCLUSION & RECOMMENDATION	72

LIST OF TABLE

	PAGE
TABLE 1 - LIST OF OTHER PRODUCTS SOLD BY JDM	34
TABLE 2 - INDUSTRIAL CONSUMPTION OF DIESEL GENERATOR SET	34
TABLE 3 - COMPETITORS OF DIESEL GENERATOR SETS	35
TABLE 4 - JDM'S MAJOR TELECOMMUNICATION CUSTOMERS	36
TABLE 5 - SALES BY MARKET SEGMENT FOR 1998	37
TABLE 6 - SALES FOR GENERATOR SETS FOR 1998	37
TABLE 7 - CUSTOMER'S DISCOUNT RATE	38
TABLE 8 - DIESEL ENGINES FUEL CONSUMPTION COMPARISON	41
TABLE 9 - JDM BUSINESS PROCESS	44
TABLE 10 - JDM BUSINESS PROCESS CONTINUE	45
TABLE 11 - DISCRPTION OF SYMBOLS FOR TABLE 10	46

INTRODUCTION

It is now Friday 11.30 am., En Azhar, the Sales Manager of Janakuasa Diesel (Malaysia) Sdn. Bhd. (JDM), Who is currently in the last two semesters with MGSM, UPM doing MBA program is reading at the e-mail he received from Mr. Wayne Houghton from John Deere Asia Pte . Ltd., JDA.

Dear Azhar,

It has been two months since my last trip to your office in Sept. I am still waiting your feed back as well as your marketing proposal for our diesel engines generator sets assembled in your factory plant for worldwide market. For your info, Multico Power Pte. Ltd. Of Singapore is now lobbying heavily to get for the assembly license right. As I said, JDM has been given the priority for this program, I'm afraid your indecisive for this offer will only benefit Multico, which may later enter in your market territory as one of your competitor.

As I mentioned earlier, JDA will only concentrate on loose engines business and not to compete with OEM and generator set packager since JDA value all its customers.

Please let me know if you accept this offer. If you do, please courier me your business and marketing plan latest by next Wednesday in order for me to present to my boss incharged in loose engines business for international market on Friday.

Regards,

Wayne A. Houghton

John Deere Asia Pte. Ltd.

Brisbane, Australia.

In order to prepare the proposal, En Azhar need to go through with his general manager on details of marketing plan before it can be forwarded to JD Asia. Apart from that, JDM needs to review all the infrastructure needed in order to support the bid. Failing which, the company would loose the opportunity which only comes once in a blue moon. On the other hand, going into international market without fully equipped with quality product, market knows how, financial support, human resource and the most important the marketing strategy will only invite disastrous to the company.

HISTORICAL BACKGROUND

Janakuasa Diesel (Malaysia) Sdn. Bhd. JDM, is a sole distributor for a US made John Deere diesel engine in Malaysia and Brunei. Previously, Tan Chong Industry Malaysia Sdn. Bhd. (TCIM) handled John Deere agency from 1980-1990. However, not much success was made after a period of ten years. TCIM's agency was latter terminated and awarded to Tractors Malaysia Bhd. (TMB) starting from January 1991. Despite being established as a heavy equipment and diesel engine company together with the best infrastructure and support network in the country, TMB could not make John Deere's presence felt in the engine industry. Hence, in November 1993 JDM was appointed as distributor over other large corporations due to full commitment and dedication of JDM's management.

JDM comprises of a group of young and aggressive professional managers and engineers with more than 60 years of combined experience in the engine industry. Currently, its has a total of 45 staff strength. During the peak time prior to economy

downturn, JDM used to have up to maximum of 65 people producing a total of 450 unit of generator sets. Average value per unit is RM50,000.00. Now, the average sales are down to only 15 unit per month. Currently JDM is offering a comprehensive service for any diesel generator set requirement ranging from system design, equipment selection, installation, interfacing to systems commissioning. The change of distributors was timely when *John Deere International GmbH (JDIG)* engine product were introduced and promoted professionally for the first time in Malaysian market. Within a period of less than five years, JDM has delivered more than 2500 units of engines, capturing a major market share within John Deere range of capacity with sales value of more than RM 80 million. In 1997, JDM was given the opportunity to market one of the German products, air and water-cooled diesel engines, Deutz. The arrival of Deutz was a complement to John Deere since it offers the upper range (450 – 2250 KVA) while John Deere was known for engines rating from 15 to 400KVA.

John Deere Agency History- Deere & Company is a multi-billion Fortune 500 Company from USA with a long history dated way back in 1837, 162 years ago. The trade name *John Deere* is a household name in USA and throughout the world as it is a world leader in farm equipment and a leading manufacturer of construction and forestry machines. Although John Deere is more renowned for the agricultural equipment, but it is also a world-class manufacturer of diesel engines and the largest North America manufacturer of diesel engines for off-highway use in the 40-500 horsepower range.

The company began building engines more than 80 years ago in 1918. Today, John Deere had produced more than three million engines and there is more than 3500 service locations world-wide. Supporting the extensive service network is a parts

distribution system that is second to none with more than 285,000 line items parts on hand. A state-of-art-computerised system locates and ships needed parts promptly with over 90% of parts orders filled the same day. John Deere has the highest ratio of R&D investment to sales in the industry according to the magazine of World Diesel & Turbine Industry. The latest issue that had been highlighted in this magazine was the first world diesel manufacturer in technology innovation on diesel engines in meeting the environmental regulations.

COMPANY OPERATION

Company Activity

JDM main activities are selling diesel generator sets for use as a standby or continuous electric power. The products that were marketed by JDM were assembled in its own factory plant with major components imported from abroad. The main diesel engines were source from John Deere, USA while the alternator were source from either Italy or France depending on the size of the generator sets. These two components made up of 70 percent of total product components. Due to special arrangement made by John Deere and JDM, the company managed to secure a manufacturing status with the issuance of CJ 5 tax exemption form. With this license, JDM will be exempted from paying import taxes for engines brought into Malaysia for local assembly and later re-export to other third countries. JDM is among few companies awarded with this privilege.

The rest of the 30 percent components such as radiators, control panel box, instrumentation, soundproof enclosures and skid bases were all source locally. Most

Janakuasa Diesel (Malaysia) Sdn. Bhd.

of the products were sold locally with 80 percent were used for a standby application while the remaining were for the continuous duty.

Apart from just selling its products, JDM also provides other services. It can also provide a total system design and installation as well as a comprehensive after sales contract service. 20 percent of JDM gross income were generated from a spare part business.

Management

The JDM management consisted of key managers who started the company back in 1993. It can be said that most of them had at least ten years of experience in the industry. Mr. Chan, En Azhar and Mr. Lim were the board of directors as well as stakeholders having at least five percent of the company's shares. They were previously the top managers in TMB Power Division handling Caterpillar diesel generator sets. Currently Mr. Chan is heading the management group as a General Manager, En Azhar is a Sales Manager responsible for the sales and marketing aspect while Mr. Lim is a Product Support Manager responsible for an after sales and service area. Apart from the three-anchored management team, there are accountants who oversee the overall financial aspect. The company administration and human resource matter were taken care by one of the Operation Manager.

Corporate Culture

As JDM grew bigger, it had to hire more employees to handle new job functions. Started with 12 people in 1994, the figure swelled to 50 in 1996 . As a result, the

company which used to have informal communication system and corporate culture had changed. A new large roomy office floor within a four-storey building had created new structure and eventually eroded the informal relationship existed among JDM management employees. In the early days for instance, Mr. Chan and En Azhar office were just next to each other, and their basic form of communication was just to yell back and forth. In the evening, after office hour Mr. Chan and other employees were seen to have a drink together in a nearby 'mamak stall' or coffee shop. But now, the treasured moment had gone with the wind. The employees were seen driving out of office gate alone for their lunch and immediately left office slightly past 5.30 p.m.

Facilities & Business Process

Occupying a four - storey building, JDM Group corporate office and plant situated in the centre of the Hicom - Glenmarie Industrial Park, Shah Alam. The corporate office spans the land area of 45,762 square feet and a built-up area of 44,095 square feet. The facility houses the corporate office, showroom, product assembly area which currently capable to assemble up to 25 unit of generator sets per month with single shift. Beside that a newly decorated parts sales counter is well-equipped with customers lounge area for to relax while waiting for their parts being retrieved. The company also has a modern training room facility which capable to accommodate up to 16 people in single training session. Apart from that, the facility also includes for a warehouse area, overhaul workshop, generator testing room complete with computer control monitoring systems for engine diagnosing which is one of the latest technology in the industry. The testing equipment is capable to test large generator set rated up to 1200 KVA with resistive load banks fully imported from Australia. In

addition, JDM has a fleet of service vehicles and delivery truck equipped with 6 tons crane for efficient delivery purposes.

“For a fairly new company, the amount invested for these equipment is considered big as most competitors normally share their equipment with other division within the same group ”, said Mr Lim, the ex-TMB senior service supervisor for five years who is now serving JDM as a Product Support Manager.

Currently JDM business operating is basically through conventional engineering process due to the nature of the product itself. Once sales order was raised, subsequent process will follow as Table -1 attached.

Information Technology

Recently, JDM has invested heavily in IT equipment and software in order to minimise the business process time. Apart from that the IT will also reduce time taken for obtaining data from USA particularly in spare parts and technical information needed. Currently ordering spare parts from principal in USA can be done on line with the confirmation on parts ordered can be known instantly. JDM can also access into John Deere product technical library worldwide any time they wish to do that.

Litigation

During first three years of operation, JDM had managed to minimize its bad debt resulting from prudent credit control and policy. During economic recession in 1997 and 1998, JDM faced problems with its corporate client Time Telekom Sdn. Bhd. (TTSB) and Time Automation Sdn. Bhd. (TAMS), of the biggest operator for fiber optics use in fixed telephone line. TTSB & TAMS were protected under 176 act on bankruptcy protection. Under this act, the debtors will be given certain period of time to restructure their financial position and in the mean time, creditors can't take them to court for monies owned. Mr. Chan, the general manager of JDM said;

"We are lucky that our exposure to these two companies is only RM145,000.00 which considered low if compared to our rivals. Most of them were trapped under 176 act with as minimum of RM 3.0 million and as high as RM 15.0 million. Should our exposure exceed RM1.0 million, we can say good bye to this business".

New regulation imposed by Fire Department which required building with more than five storeys be equipped with standby diesel generator set to supply essential power for building lift, emergency hallway light and fire fighting system during main power failure had been real opportunity for the industry since many projects involved the development of high-rise building. According to Mr. Chan;

"The new regulation may look good, however most of the purchasing will be through main contractor which most of them have financial difficulties. While we are trying to escape from crocodile mouth, we may end landed in a frying pan".

Financial Situation

Currently JDM obtained its financial facility via asset pledging and previous retain profit. Over the past two years, the facility had been fully used to finance all creditors. This was due to bad debts resulted in 176 Act filed by some of its creditors. One of the JDM largest corporate customers owed the company for more than RM 1.0 million with average ageing between 6 to 9 month- periods. However, JDM has so far managed to meet all its liability as well as its overhead.

On the credit policy extended to client, JDM exercise a very careful procedure which require any credit term is supported by a secured document or personally by the company of the purchasers. This procedure will be relax for customers which have a good payment track record and personally known by any one of the company management.

CURRENT SITUATION

At JDM, most of the sales (i.e. 63%) were made by its top-level management to major organisation especially telecommunication industry such as Celcom, Time Telecommunication, Binariang, Electcom, Time Wireless, Mobikom and Telekom Malaysia. 26% was done directly by company's sales people to electrical contractors, factories and end users. The remaining 11% were sold directly by appointed sub-dealers (Refer to *Appendix 4 - Table 4*). About 92% of JDM's product worth of value sold in 1998 comprised of low and medium range generator sets capacity between 25