



**UNIVERSITI PUTRA MALAYSIA**

**"THE CASE OF KINTA BATERI SDN BHD"**

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**BY**

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## DEDICATION

This case study is dedicated to my wife, Hajar binti Abdul hadi, my children, Raudhahtulnur, Nur Fathiyah Amalina and Nur Hidayah Amini and my brother, Dr. Mohd Zaini bin Othman.

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## **EXECUTIVE SUMMARY**

The case study is divided into two parts. Part one of the case facts that include the introduction to the background of the company and the probable cause of the problem that the company faced. Part two, is the case analysis, involving the discussion based on the methodology used, problem solving, include the used of the SWOT analysis in identifying the company strength, weakness, opportunity and threat. The strategies are develop for the company can choose and implement in order to overcome the problems. Finally the used of the SPACE (Strategic Positioning and Action Evaluation) Model to determine the strategy direction that the company should follow for it future growth.

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## 1. INTRODUCTION:

Kinta Bateri Sdn Bhd (KBSB) is one hundred percent Bumiputra Company. It started as a small family business formally known as Syarikat Bateri dan Elektrik Zainal in 1988 specialising in battery charging. In its humble beginnings it was located in kampung Kerinchi, Kuala Lumpur. Today has grown to be as one of a successful medium size Automotive Battery manufacturing companies in Malaysia for the northern region.

In 1996, KBSB moved its operation to Siputeh, Perak D.R., and since then the company has suffered losses from its operation. For the financial year (FY) ended 1995 the accumulated losses is RM 53,000.00 and for FY 1996 the losses escalated to RM 197,000, despite the increase in its turnover from RM 965,000 to RM1.2 millions in 1995 to 1996 respectively.

According to Pn. Zahrah binti Mokhtar, who is one of its director and also its biggest shareholder, KBSB troubles started with the death of her husband, En. Zainal bin Hj. Ahmad, in December 1997. Since KBSB started its operation in 1988, the business was single-handled run by



En. Zainal bin Hj. Ahmad. Now the business is passed to his widow Pn. Zahrah binti Mokhtar. Armed with a secondary school certificate (SPM) and a short exposure to the business by her husband, Pn. Zahrah is faced with a herculean task to sustain the business.

Since its genesis and matamorphosis was due to her late husband, Pn. Zahrah feels a deep sense of attachment to KBSB and take it upon herself the responsibility to safe the business and to turn it around, with the hope that by FY 1997/98 the company will generate profit.

There has been an upward trend in KBSB turnover since the year 1994 to 1996. For FY1997 to 1999, KBSB turnover is again expected to increase further, mainly due to the better national economic forecast for FY1998/99, specifically with the car and its related industry which are expected to improve.

The increase in KBSB turnover was partly due to its utilization of new facilities, which is of high capacity. However due to this investment, the company has to bear high leverage to pay the extra interest incurred on the bank loan. As for now the company is only servicing interest of the loan.

This is coupled with her lack of experienced which translate her management problems for Pn. Zahrah as a director and as the owner.

## 2. BACKGROUND OF COMPANY

The late En Zainal b. Ahmad started Kinta Bateri Sdn Bhd in 1988 as a family business, in a small shop specializing in charging and recharging of automotive batteries in Kampung Kerinchi, Kuala Lumpur. KBSB was formally known as *Syarikat Bateri dan Elektrik Zainal*.

In 1996 it changed its name to KBSB and moved its operation to Siputeh, Perak D.R. with a work force of 10 workers, and the work force are expected to increase in future as per appendix 1 and 2. In the same year KBSB was awarded a Government contract by Ministry of Finance to supply automotive batteries to government departments for two (2) years for the Peninsular Malaysia, the contract expired on 31<sup>st</sup> August 1998. In 1998 the contract was further extended until the year 2000. The first contract and its subsequent extension amounted to Eight Hundred Thousand Ringgit (RM 800,000.00). In order to meet this demand KBSB has invested heavily in the new factory in Perak.

The new factory in Siputeh, Perak, costed KBSB approximately RM1.9 millions. The new facility is financed by loan granted by BBMB, Bank

Pembangunan, Maybank Finance and Hong Leong Finance in the form of Fixed Loans and Bank overdraft, against a security in the form of property, debenture and personal guarantees by the all of the directors. This new factory is for the production of all types, power and shapes, of automotive batteries.

In December 1996, En. Zainal b. Ahmad passed away, leaving the company in the hands of its inexperienced directors and staffs. The current economic slowdown and the financial crisis in Asia are expected to have a significant effect on KBSB business operations and these will interm affect the overall performance of KBSB for FY 1997/98.

The current base lending rate by banks and interest rate in Malaysia has increased since the financial crisis started in June 1997. The performance of many Companies has also been severely affected. Some have to face closure while others have to retrench their workers. These are the scenarios that will be faced by KBSB for the FY 1997/98 until the crisis is over. If right measures and proper steps are not taken to put the company in aright, the future of KBSB will be numbered.

### 3. PRODUCTS AND MARKET

Since moving its operations to Siputeh, Perak, in 1996, KBSB main business activity has been manufacturing and marketing of automotive batteries. KBSB has been producing batteries of various model and specification in order to meet the current market demand. ( See Appendix 3 ).

KBSB batteries are locally branded and packaged, and meant for the local market. The price of the batteries are controlled by the sales agent, who will add to it a certain percentage from the factory price, normally about 15% to 20%.

The raw material for the production of the battery is obtained locally and on a cash basis. Type of raw materials used and their suppliers are as per appendix 4, and process of battery production is shown in appendix 5. With the current financial condition KBSB needs to consider its cash flow in order to sustain the supply of the raw material in order not to disrupt the flow of the production.

KBSB currently markets its batteries through its only distribution company, namely Kitaco Battery (M) Sdn Bhd which was set up in 1996.

KBSB also appointed other distribution and sales agents to do sales and distribution of its battery through out Malaysia. Currently these distribution and sales agents are located into four (4) different regions. For the northern region, which includes Penang, Kedah and Perlis, KBSB distribution and sales agent is Perniagaan Datani which is based in Kedah. For the Eastcost region, the agent is to service the states of Pahang, Terenganu, and Kelantan; its distribution and sales agent is Tuan Hj. Abdullah Othman which is based in Kuantan. For the central region, which includes Selangor and Negeri Sembilan the agent is Teknimuda (M) Sdn Bhd based in Shah Alam, Selangor. Finally the southern region which include, Melaka and Johor the agent is WTR Air Condition & Accessories based in Johor Bahru. (See appendix 6)

In order to meet the increase in demand, KBSB plans to open more distribution and sales agents especially in the Klang Valley, east cost- Terengganu, Johor, Kedah, and Pulau Pinang. Besides marketing, these distribution agents are also responsible for credit collection. Unfortunately the collection are not so good due to the current economic slowdown and financial crisis.

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For the FY1997/98, KBSB planned to increase its sales between 5000 to 7000 unit of batteries monthly. However, KBSB is currently capable of producing and selling about 1000 to 1500 units of batteries per month.

Presently, KBSB market, comprise Individual customers, small companies, and corporate customers, who purchase batteries for their fleet of company vehicles, while the government agencies buy the batteries for their government vehicles. With the ability to increase the production capacity, KBSB is considering negotiating with other corporate customers, such as MAS, PROTON, MARA and others. KBSB is also planning to explore opportunities in oversea markets, such as, Saudi Arabia, Iran, Mauritius and Egypt.

## 4. PERFORMANCE:

### 4.1 Financial performance

The overall company performance for the last three financial year are summarized as follows:

	1994	1995	1996
	(RM)	(RM)	(RM)
TURNOVER	715,107.00	964,922.00	1,192,964.00
NET (LOSS)/PROFIT BEF.TAX	11,787.00	4,833.00	(143,557.00)
<b>After charging:-</b>			
Audit fee	1,500.00	1,500.00	2,100.00
Hire purchase interest	5,073.00	5,073.00	9,460.00
Overdue interest		892.00	63.00
Loan interest			36,227.00
Bank Interest	5,157.00	4,690.00	39,021.00
Director's emoluments	15,600.00	31,200.00	28,200.00
Rental of premises	8,920.00	9,510.00	6,700.00
Rental of crane			600.00
Rental of motor vehicles			2,022.00
Depreciation of fixed asset	26,065.00	26,065.00	130,447.00
Loss on disposal of fixed asset			700.00
<b>After crediting:-</b>			
Profit on disposal of fixed asset		799.00	
<b>PROVISION FOR TAXATION</b>			
NET(LOSS)/PROFIT ATFER TAX	11,787.00	4,833.00	(143,557.00)
ACCUMULATED LOSS BF	(69,586.00)	(57,708.00)	(52,875.00)
ACCUMULATED LOSS CF	(57,078.00)	(52,875.00)	(196,432.00)

(Table 1 - Summarised KBSB P&L statement for FY 1994 to 1996)

The details of KBSB management profit and loss statement (P&L),

Balance sheet, Cash flow for the three financial years are shown in



the Appendix 7 - (the management account). From the P&L statement, KBSB performance for the year 1996 ended with a loss of RM 197,000. Its annual turnover is RM1.1 millions and its financial cost has increased due to the high interest payment to the banker.

The poor credit collections by the sales and distributions agents, have aggravated KBSB's inability to service the bank loan. As a result interest on late payment is charged, which means KBSB has to pay more. Had the agents been able to collect the receivables within the speculated time, this extra cost could have been avoided.

It is also believed that, there is an unhealthy practice by the workers and the management staff, which due to lack of proper security check and stock control system by the management.

#### 4.2 SALES PERRFORMANCE:

From the KBSB financial statements as per appendix 7, there has been a steady increase in KBSB overall turnover, from RM 715,000 to RM 915,000 to RM1.2 millions in the FY1994, 1995 and 1996 respectively. The reasons for such a steady increase in these years is that KBSB undertake aggressive distribution and marketing strategies backed with strong government support, and an increase in individual customers market from the following sectors:

- ⊗ the repair workshops
- ⊗ from the battery and car assessories shops
- ⊗ car tire service centers
- ⊗ bus and lorry transport companies and
- ⊗ Taxies and fishermen associatiòn.

Despite the current economic slowdown and financial crisis, KBSB hopes its overall turnover will be maintained, or continue to increase for FY1997/1998. In order to achieve this goal, KBSB needs to have a

proper marketing plan, for the 1997/98 financial year, so that its turnover target can be met.

From among its products the NS60/L or NS90 and NS70 are its most popular and most demanded batteries. In 1996 these two batteries made up 60% of the sales, which amounted to RM 720,000.

One of the very significant factors that had effected KBSB bottom line is KBSB credit collection. Since its move to the new facility, KBSB has recorded accumulated losses of RM 197,000. The KBSB credit collection was very poor, due to the current economic slowdown and financial crisis had made the matter worst their distributions fail to live up to their end of the bargains. The accumulated affect on KBSB bottom line is very significant.

In the FY1997/98, KBSB planned to have a proper and to improve its credit collection, and with the implementation of this new collection procedure, KBSB hopes to improve it cash flow.

## 5. OTHERS FACTORS

➤ **The effect of current economic and financial crisis.**

The crisis started in July 1997, which causes a massive economic problem in Asia. Malaysia is perhaps the only country which has been able to manage this problem by introducing financial controls in September 1998. With the financial sector stabilized, Malaysia hopes its economy will recover by the middle of 1999. For FY1998 Malaysia GDP is revised to be between -1% to -2%. This reflects the decrease in Malaysian disposable income. The inflation rate for Malaysia is expected to be between 6% to 8%, which affect the spending of the Malaysian.

Some competitors have to close their operations due to the increase in operation cost and some are unable to make gainful sale; as a result they are unable to meet their monthly financial obligations such as staff salary, and other operating expenses. For example KBSB main competitor namely NIKKIE Battery Sdn Bhd which have closed down its operation in December 1998,

➤ **The Malaysia Car and other related industry**

The beginning of 1998 saw the downturn in sales of Proton and Perodua cars. The reason being that the banks and finance companies refuse to give loans and shrinking of the disposal income of the Malaysian. Proton, the main car producer in Malaysia, has since been suffering heavy financial losses and to an extent the Tabung Haji funds have used to buy part of the DRB-HICOM shares. In addition to this, Petronas the Malaysia oil giant, is also negotiating to buy part of Proton's Shares.

However by December 1998, car sales have increased, this indicating that the car market has recovered slightly after the steps taken by the government to revive its economy. The increase demand for the cars will affect the demand for its related industry products.

➤ **The high market entry and capital intensity.**

As a new investment, the automotive battery manufacturing requires heavy investment at it start is due to the current

economic crisis. The weakening of the ringgit has significantly affects the initial capital outlay.

## 6. SYNOPSIS OF THE CASE

In May 1996, KBSB started its operation at the new premises in Siputeh, Perak. Since then, KBSB performance has recorded a downward trend in its profit. For the past (2) two years, especially 1995 and 1996, KBSB accumulated loss has amounted to RM 197,000.

Moreover KBSB has to incur high leverage due to the bigger operating cost, especially after the setting up of a new plant and facility at its present location. The loan facilities which are in the form of fixed loan and bank overdraft, are secured by property, debenture and the personal guaranteed by the all of its directors. KBSB currently is servicing the bank interest and late payment interest to the bankers.

In December 1997, En. Zainal bin Ahmad has passed away. Since then KBSB has been facing a serious problem in its leadership, as the late En. Zainal was the sole person responsible for the overall running of its business operation.

KBSB were left to its inexperience director and staffs and an immediate replacement is needed in order to lead the company in the right direction.