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Magnus Management Consultants

The survival dilemma

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The survival dilemma

Presented to

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CASE STUDY

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Magnus Management Consultants – The survival dilemma

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DECLARATION

I, Choo Kok Meng (IC no A0375766), hereby declare that the following case study, *'Magnus Management Consultants – The survival dilemma'* is a paper written solely for educational purposes and is an original writing and not duplicated from other sources.

Choo Kok Meng

25^{th} September 1999

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ABSTRACT

This case study outlines the dilemma that the management of Magnus Management Consultants, a Dutch based management consulting company whose Asian operations headquarters was based in Kuala Lumpur, Malaysia, faced during the recessionary period in Asia during the period 1997 to 1999. Faced with stiff competition from both local and international consulting firms in terms of consulting fees, and the ever shrinking ERP market share, the company faces a big hurdle to maintain its existence in the market.

The analysis section details the strategies that the company could employ to bring itself out of the doldrums with options for a cheaper and diversified services to expand vertically with more services to tap into new market segments and contine generating revenue from existing installed bases while keeping its operations costs down. The strategies also attempt to prepare the company to face the different scenarios which could happen and have a negative impact on the company's survival factor.

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PART 1 : CASE

1. Introduction

The dilemma

'I am all stressed out looking for new projects !', lamented Roger Desloreiux, one of the founders of Magnus Management Consultants (Magnus) Malaysia and co Director for Magnus Asia who founded the operations in the Asia Pacific region together with Fred Hermans, the regional director for Asia in the 1993. Both Roger, 40 and Fred, 35 who were formerly [1]SAP and management consultants from [2]Andersen Consulting who left to setup Magnus (Netherlands) Ltd. together with 3 other colleagues in 1990 in Amsterdam, Holland.

It had been almost a year since Magnus had not acquired any major projects in Malaysia and the Asia Pacific region since 1997 when the Asian economic slowdown and inflation began.

Footnote

[1] **SAP (Systems, Applications, and Products in Data Processing)**
SAP, the world's largest enterprise software company, provided companies of all sizes with business solutions that deliver a better return on information SAP products and services integrate an organization from financials and human resources to manufacturing and sales and distribution SAP was listed on several exchanges including the Frankfurt stock exchange and NYSE under the symbol SAP

[2] **Andersen Consulting**
One of the Big 5s consulting companies whose core business was Management accounting with a division in implementing ERP solutions for organisations

With three of its projects : [3]Jebsen & Jebsen (J&J), [4]Edaran Otomobil Nasional (EON) and [5]Philips Hong Kong which went into production with SAP in mid 1999, the implementation teams from these projects, which formed the bulk of Magnus Malaysia's headcount had rolled out between July and August 1999, and were without any project assignments eversince.

'We had depended too heavily on the revenue generated from the EON & J&J to finance its operations for the past year and slacked in new acquisition activities', added Roger.

'Looks like we are in need of new projects as soon as possible!', said Roger as he looked at the list of prospective clients which had been in the pipeline since 1997 as he discussed the company's dilemma with Fred.

Footnote

[3] **Jebsen & Jebsen (J&J)**
Jebsen & Jebsen was a pharmeceutical manufacturer and distributor which was heaquartered in Singapore with regional offices located in Malaysia, Indonesia, Thailand and Phillipines

[4] **Edaran Otomobil Nasional (EON)**
Edaran Otomobil Nasional was the sole distributor for Malaysia's national car, Proton EON distributes Proton made cars nationally

[5] **Philips Hong Kong**
Philips Hong Kong is an electronic appliances manufacturer and distributor for the brand Philips It is located in Hong Kong with manufacturing facilities in China

Despite opportunities generated from several organisations' decisions such as [6]Hitachi and [7]Rothmans of Pall Mall (M) Berhad to implement SAP in order to be Y2K compliant, Magnus had lost these accounts to its competitors.

'It seems that the recent prospects were lost because our competitors bid with a very competitive pricing strategies and had better boardroom connections', added Fred.

'With more and more competitors we have now, it seems that the local and overseas market share has shrunk', said Fred.

Competition had increased with the increased number of SAP players in the region who had set up regional offices in Malaysia. The competitors who had setup regional offices in Malaysia were Druid, SLI Consulting and another Big 5 consulting firm, Delloite & Touche.

Footnote

[6] **Hitachi Consumer Electronic**
Hitachi Consumer Electronic is a household electronic appliances manufacturer located in Bangi, Selangor who manufactures and distributes household appliances for the brand Hitachi

[7] **Rothmans of Pall Mall (M) Berhad**
Rothmans of Pall Mall is the manufacturer and distributor for leading brands of cigarettes such as Dunhill and Rothmans King Size in Malaysia

'We have to start thinking of new service lines and target market or a new strategy or else we are going to be left behind', added Fred as he commented on the competitors' move to form alliances with solution providers such as [8]Baan and [9]Microsoft to provide a value added and quality new services to its clients.

'Furthermore, with SAP's high pricing, the small medium industries cannot afford to purchase SAP, they may just opt for cheaper systems" added Fred.

'It seemed that customers bought services from vendors based on their perception and relationship with vendors', said Roger on stressing the importance of understanding customer needs and customer relationship. 'We need to understand our clients' needs better to serve them better !', he further added.

Footnote

[8] **Baan**
Baan Company is a leading provider of enterprise business software that enhances the processes common to businesses of all sizes and industries

[9] **Microsoft**
Microsoft is a leading desktop solutions provider for office solutions such as Microsoft Office andnetware solutions such as the Windows NT

The number of opportunities were also reduced with the current economic slowdown in Malaysia which began during the 'Asian flu' period in 1997 where most organisations slashed their IT budget. Most of the non-critical projects were either shelved or dropped by these organisations.

'The unstable political scenario in Malaysia and an expected strong opposition party in the 1999 elections also contributed to the economic slowdown', commented Roger.

'We have more than half of our 80 consultants being idle for the past year and they had not been charged out eversince', said Roger as he commented on the high number of consultants without revenue generating consulting hours during the period between 1998 to1999. Both Roger and Fred contemplated to recruit freelance consultants on a contractual basis from recruitment agencies so as to reduce the burden on the company's payroll and to improve on its cash flow.

Other offices within Asia, such as Thailand, Indonesia and Singapore too faced financial strains in their expenses accounts as the Asian economic slowdown affected the region as a whole which forced many companies to shelve their IT projects.

With the high interest rates and the tight monetary policy, it had made it costly to maintain bank loans, which forced the option of obtaining bank loans to finance its operations to be dropped.

'Our working capital were depleted as it had been utilised for the company's payroll during the period of 1997 to 1999', said Fred.

'Our credit collection is also slowing down with some companies not paying us on time', added Fred who was commenting on the outstanding receivables that was reflected on its financial figures that he was reading.

High turnover of consultants

'Looks like we have another batch of resignation again this month', said Choo Kok Meng who commented on the high frequency of resignations that occurred over the year. However, productivity was also affected, as consultants tend to leave in the middle of projects. Choo, 33 was one of the senior consultants with the company for 3 years.

'It's becoming difficult to recruit and maintain experienced consultants as they are usually tempted by other firms with lucrative offers once new projects are acquired', commented Choo on the availability of SAP consultants in the market.

'Furthermore, junior consultants tend to job hop to achieve an increment in their salaries', added Choo.

This problem further strained Magnus' financial resources when the company had to review its staff's salary scale twice in 1997. This was seen as a successful move as the number of resignations did reduce sharply to an average of one consultant resigning every month as compared to 3 to 4 consultants per month.

'One of the reasons that staff left us was also due to the poor appraisal system that was considered unfair by some consultants and poor project management', said Lam Wai Hon, 28 the technical consultant who was responsible for the purchases of hardware for the company. Wai Hon, 28 the company's consultant who joined Magnus in 1996 as the technical consultant who specialized in SAP installations and systems performance tuning.

'This had somehow affected the morale and teamwork of project team members', added Choo as he complained of the staffs' poor morale recently.

Payments to Clinical Network Services (CNS)

A consultant in the company received the following e-mail which was sent to Kamarul Hizan, the office manager for Magnus. Kamarul, 35 joined Magnus in 1996 as the office manager who managed and administrated the daily matters within the office.

This mail was copied by Patricia Wong to the consultant to keep him informed of the issue. Patricia Wong, 38 is the office administrator who managed and administrated the administrative work such as staff annual leave and medical claims within the office.

Footnote

[10] **CNS (Clinical Network Services)**
CNS is the company's medical insurance company who finances the staff's medical expenses and benefits

Date : 1st March 1998

Dear Kamarul

This is to inform you that [10]CNS had informed us that they will not be able to release further Letter of Guarantees to any of our staff for visits to specialists centres until payments have been made for the outstanding medical insurance fees in order to regularise the accounts.

Regards

Pat

Exhibit A E-mail to a consultant regarding the CNS payment issue

The note was sent by Patricia after the medical insurance company had refused a letter of guarantee to one of its consultants who had wanted to visit a specialist in a private medical centre. According to Patricia, it was due to Magnus's irregular payments to CNS over the past few months.

There were also incidents where consultants from the company had to wait at hospitals for Guarantee Letters to be released by CNS. The company had signed with the medical insurance company to improve its medical benefits to its staff in 1997.

Payments to vendors

'Iskandar had told me to negotiate for a longer repayment term' said Wai Hon to another consultant. Wai Hon further added 'Iskandar said that the company was facing cash flow problems, try to select vendors which could offer longer repayment period to ease the cash flow burden when sourcing for notebook and hardware vendors for the company'.

Iskandar Basha, 42 who was the Managing Director of Malaysia, was formerly an accountant from Shell Malaysia, joined Magnus in 1995 as a partner in Magnus Malaysia's operations. He had been responsible for winning the major contracts that Magnus had depended on from eversince he joined Magnus.

***'Magnus targets 20% increase in sales and profits'* The Sun June8 1999**

In its bid to promote brand name conscious for Magnus for new acquisition opportunities, Fred released a press statement on the expectations of the Malaysian office's operations.

It was reported in the press release that Magnus (Malaysia) had generated a revenue of RM16.8 million in 1998 to RM3.28 million in net profits. This was reported to be the largest contributor to the Asian region's revenue. *[Refer Appendix 1 and 2]*

The listing on the Amsterdam Stock Exchange

Magnus was public listed in November 1997 on the Amsterdam Stock Exchange. Although it was listed with a high listing price of 17 NLG @ unit share, on the first day of its listing, the price of the equity for Magnus had been on a downtrend eversince. With the conversion of NLG to the new European currency early 1999, the share price dipped even further to 7 Euro dollars which was equivalent to approximately 14NLG.

With the announcement of an expectation of lower profits, as reported in a press release *'Magnus adjusts expectations for 1999',* the share dipped to a historical low 4.55 Euro dollars on the 14th July 1999.

Officiating the Operational Headquarters of Magnus Asia

'Magnus Asia was recently conferred Operational Headquarters (OHQ) status from Malaysia's Ministry of Finance. It planned to invest RM2.5 million next year to turn Magnus Malaysia into its flagship operation in Asia Pacific' as reported during the officiating of Magnus Asia's Operational Headquarters *[Refer Appendix 3]*

In further efforts to promote the brand name conscious for Magnus, the officiating of Magnus Asia's Operational Headquarters in Kuala Lumpur on the 8th July 1999 was made an official event opened to the press.

Willem Hulshof, CEO of the Dutch public-listed company Magnus Holding NV, said Malaysia had been selected as the site for the company's Operational HQ, Training and Development and Regional Resource Centre.

"Malaysia is our largest practice in Asia. Since its incorporation in 1992, we have invested more than RM43.5 million in the operations here," Hulshof said at the official launch of Magnus Asia Sdn. Bhd. - Asia Pacific Operational Headquarters.

"We are committed to investing a further RM2.5 million next year on infrastructure, knowledge-building, product and service training, research and development to ensure further development of Magnus Malaysia as the company's flagship operation in this region," he said.

Hulshof said Magnus Malaysia had achieved record revenue increases of 682% from RM2.2 million in 1993 to RM17 million in 1998.

"In fact, Magnus Malaysia contributes more than 35% of our sales from the Asia Pacific region," he added. *[Refer Appendix 4]*

The ERP business now

Most companies with traditional legacy systems which were not Y2K compliant converted their systems to [11]ERP systems, mainly SAP and BAAN, with SAP leading the pack. There were also other competitors which did not give SAP much threat, such as the non ERP range systems or midrange application systems; Dun & Bradstreet, Peoplesoft, JD Edwards and Business Planning and Control System (BPCS).

The company and the ERP industry had benefited significantly from the market's accelerated acceptance of ERP software in the wake of Y2K awareness.

Based on ABN-AMRO's research and prediction, the ERP consulting needs was expected to grow by 38% in the next 5 years, i.e. 1999 - 2004. However, this was a questionable prediction as the market would be considered saturated with players in the market and most firms would had been Y2K compliant by the end of the millenium.

Footnote

[11] **ERP**
ERP stands for Enterprise Resource Planning, which is an enterprise business transaction system, which integrates and manages all back office data to facilitate better operational execution

[12] **ABAP/4**
ABAP/4 is the development tool that is used to enhance SAP It consists of screen painter, report writers and programming language

With most companies already converted to Y2K compliant systems, there would no longer be any reason for organizations to implement new ERP systems within the next 5 to 10 years.

Based on its latest press release on the July 13, 1999 in Naarden '*Market shifts demand extra investments - Magnus adjusts expectations for 1999',* it was quoted that :

'Magnus Holding NV anticipates that earnings for 1999 will lag behind earlier expectations of a 40% growth. The explosive growth in demand for the introduction of company-wide SAP information systems, an important specialist of Magnus, has seen a slow-down. This is largely due to the fact that companies are postponing investment in this area until after the millennium change.', which was quoted in its press release on July 13th, 1999.

The ERP consulting business was expected to encounter bigger challenges where most companies were seen to have shifted their needs to e-commerce rather than ERP implementation. The trend had also shifted to web based application systems in which users could access the organization's information system via the Internet.

'We have to step up efforts to acquire new projects soon and be ready to accept the challenges from the advancement of new technologies or be ready to face the consequences of being left out by customers who will seek vendors who will be ready to serve them better', warned Fred as he observed the changing trend of technology which he felt was becoming a very strong threat to the company's survival and the type of services which it could offer to the market in the future.