



**UNIVERSITI PUTRA MALAYSIA**

**A CASE STUDY ON  
BUSINESS STRATEGY  
OF  
LION SANKYU TEKKO SDN. BHD.**

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**GSM 1998 9**

LION SANKYU TEKKO  
SDN BHD

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FACULTY OF ECONOMIC AND MANAGEMENT  
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A dissertation submitted to :

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In Partial Fulfilment Of The Requirements  
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**Dedicated with love to ...**

Ayahandaku, Hj. Mazlan  
Bondaku, Hajjah Azizah  
Isteriku, Keenarohiza  
Anak-anakku, Irra & Eleene



## *CASE SYNOPSIS*

Lion Sankyu Tekko Sdn Bhd (LST) is a subsidiary of The Lion Group was set up back in 1994. The merge among the pioneer in pre - engineered steel building systems in Malaysia , PMB Building System Sdn Bhd and Japan ' s Sankyu Inc. and Tokyo Boeki Ltd. , the former being one of the subsidiaries of Nippon Steel Corp. ( Japan ' s largest steel manufactures ) , was to draw the decades of expertise and experience in the steel fabrication and manufacturing industry to ensure the highest quality structural steel building products at competitive price for the ASEAN region and beyond.

LST , during the two financial years in operation has sustained operating loses totaling RM 668 thousand but subsequently improved over the preceding years. However , the economy that grew steadily over the last nine years is now applying its brakes and as a result of financial crisis currently , LST had made a loss of RM 55 thousand in Financial Statement for the period ended 31st May 98. This scenario has urged LST to formulated alternative strategies in order to be better.

SWOT and SPACE MATRIX analysis had been used in this case to analyze the company position. Various strategies alternative had been identified and by knowing the company ' s distinctive competence , perhaps will provide the company guidance during unfavorable situation.

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## **1.0 PAUL CHAN ' S RESIGNATION**

The departmental head meeting was held on Wednesday, 6th May 98. The steel division CEO. cum company Managing Director , Lim Kok Keng has announced the resignation of the company General Manager, Paul Chan which commenced from 15th May 98. The Steel Division comprises of 22 companies involved with steel manufacturing which were having a total turnover of more than 84 billion ringgit annually.

K. K. Lim said , " We didn't intend to replace the General Manager position at this moment and for the meantime , C. G. Teh ( The Plant Manager) will take the responsibility and act as company head " . " The company has to continue its business operation and I hope you all can survive during this economic turmoil " . , he added .

Paul Chan cited , " I hope you can continue to support C. G. Teh as you had supported me during my tenure for the last 4 years . You all are really good and thank you for all kinds of cooperation given " .

The CEO interrupted , " For all you know , the 50 million ringgit project given by the group ( Megasteel and Amsteel ) which started sometime in February last year will be completed soon and you have nothing after this. Furthermore with this current economic crisis , I hope you can think of something better and probably can present me with a comprehensive report on what are the available strategies and counter measures during this current situation . "

The meeting went on for about one hour and when everybody left , C. G. Teh flipped through the financial statement. It showed the financial year July - May 98 net profit of RM 3.3 million and the current month of May 98 net loss of RM 55 thousand. He thought to himself. The net loss in present month is not a good sign and during this unfavorable economic situation is being to be a tough job. C. G. Teh has to formulate the alternative strategies as per requested by the CEO and present it in the next monthly meeting which will be held on 11 July 98.



## **2.0 THE COMPANY**

In April 94 , Paul Chan was appointed as the General Manager and responsible to merge Pre - Engineered Metal Building System (PMB) Sdn Bhd a subsidiary of the Lion Group with Japanese parties. A merger among the pioneer in pre - engineered building system in Malaysia and two leaders in steel namely Japan ' s Sankyu Inc. and Tokyo Boeki Ltd. respectively , has formed Lion Sankyu Tekko Sdn. Bhd. ( LST ). The expertise and experience of the various partners in the steel fabrication and steel manufacturing industry are to ensure the highest quality of structure steel product in meeting clients ' requirements in high and low - rise construction.

The new company , Lion Sankyu Tekko ( LST ) can now provide for a comprehensive range of services and products in structural steel fabrication for many industries on an individual client basis or as a turnkey project management package. Its range services include consultation , design , fabrication , painting uptill supervision and erection by its own technical teams.

### **3.0 THE MANAGEMENT**

The management of LST had adopted a fairly traditional functional management structure ( Table 1 ). Paul Chan had reduced the number of staff during the year Jan 1996 - June 1998. The number of staff rose at 90 in Dec 96 , declined to 79 in June 97 and declined again to 67 in Dec 97 and Jan - Jun 98 to 65 , 61 , 59 respectively. Based on the ( small ) size of the company , this structure supports lower operating cost and have ability to respond quickly to changes in the environment.

#### **( a ) Current Situation**

Since August 1997 , when the country was hit by the devaluation of Ringgit and economic downturn , LST has taken some precautions including to keep manpower as slim as possible. From June 1998 onwards , projected manpower is expected to stabil around 60 persons.

Out of the current status of manpower , seven of them are under contract basis. Therefore , permanent employees are only 53 persons. The practice of hiring contract workers was started sometime in middle of 1996.

The sub - contractors also was engaged by project basis instead of engaging additional employees under company ' s payroll to cope with the job.

#### **( b ) Flexibility and Multi - functions**

LST ' s personnels are practicing flexibility and multi - functions as to maintain the manpower slim , but at the same time not affecting the effectiveness and productivity.

### **3.1 Corporate Culture**

The career development of its staff is and remains a priority of the company and the Group's. Continuous training programmes are arranged for all levels of staff to upgrade their skills within the company continuous learning environment. The fatter organization also will lead to greater improvement and provide even more opportunities for the staff to grow and contribute towards achieving the company goal. The company today is moving a head with a corporate culture that practices commitment, honesty & integrity and team spirit as core values; and a fundamental principle of being customer - oriented in every aspect, as reflected in its open and conducive work environment, quality products and services and customer satisfaction.

## 3.2 Strategic Managers

Board of Directors consists of 6 members , where 4 members from Lion Group , one of whom is K. K. Lim and another 2 members from Japanese partners.

Top Management ; LST top management consist of General Manager and all head of department whereby the company and business decision are made on case by case basis.

### The Key People

#### 1. Mr. Paul Chan

Position : General Manager

Function : As a company head and oversee on the company business operation.

#### 2. Mr. Teh Chong Gee

Position : Plant Manager

Function : Besides his normal duty of plant management and production , he is also taking care of site management , Maintenance and Quality Control Department.

#### 3. En. Mukmin Mohammad

Position : Assistant Technical Manager

Function : He is responsible for Design and Planning department. His duty is to oversee the project design , planning on the project scheduling , look after the material planning as well as site and project management.

4. **Mr. Lim Mun Teik**

Position : Sr. marketing Executive.

Function : He is responsible for the management of marketing department. Beside that , he also take care of contract department as well as Quantities Surveying works.

5. **En. Khairul Mohammad**

Position : Personnel & Admin. Executive

Function : Besides his normal duties of management Personnel & Administration , he also oversee on Material Control Department.

6. **Mr. K. Kumaratnam**

Position : Sales / Marketing Engineer

Function : His function include of promoting the company ' s products as well as business development. He also involved in the project as a Manager ( Special Project ) in case by case basis when required.

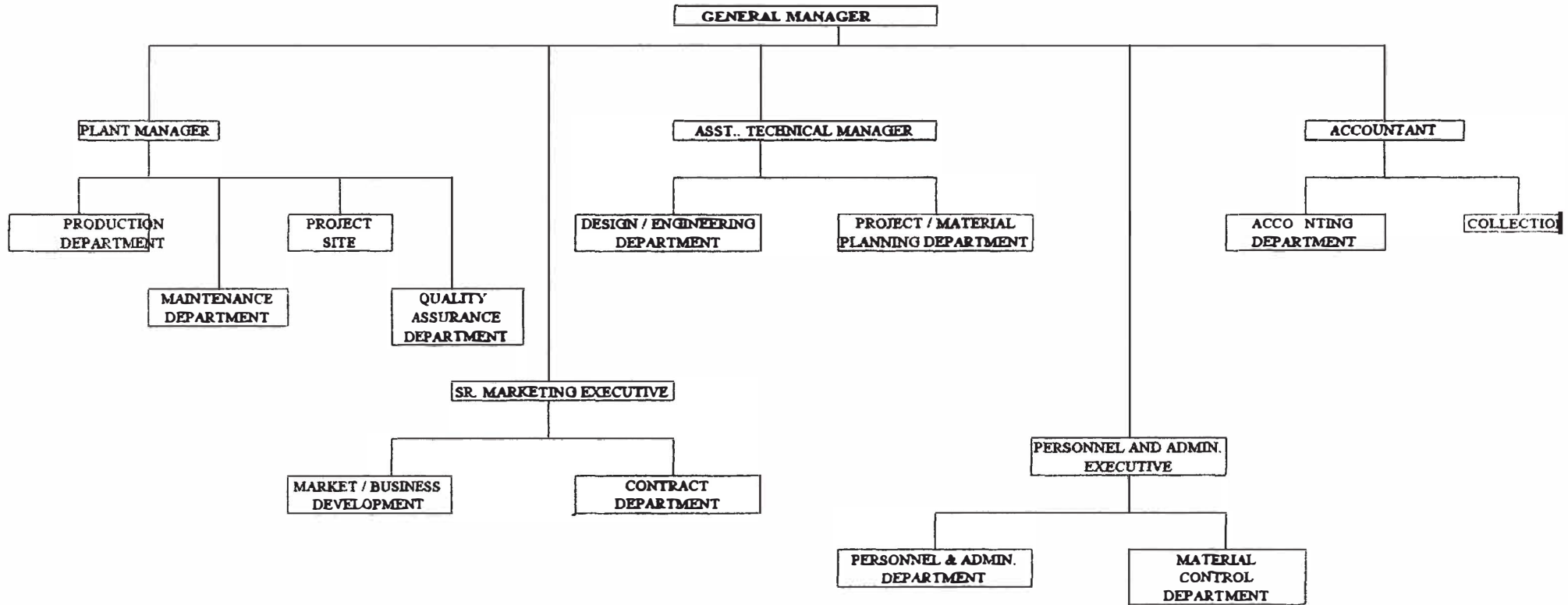
7. **Ms. Yip Sun Kee**

Position : Accountant

Function : Her function is to oversee on the Accounting Department as well as collection.

# LION SANKYU TEKKO SDN BHD

ORGANIZATION STRUCTURE AS PER MAY 98



### **3.3 Company Philosophy**

LST have no formal mission statement and published goals. However, they are guided by the group philosophy , that are : -

#### **Vision**

- We shall be a global business group with world - class products and services that enrich the quality of life.

#### **Mission**

- We are committed to make The Lion Group a caring organization and be recognised for excellence in quality , growth and profitability.

#### **Corporate Challenges For Year 2000**

- Strong corporate culture based on our core values.
- Top rank within the top 200 Asian business groups

#### **Core Values**

- We believe in being Customers - Oriented and practise Commitment , Integrity and Honesty and Team Spirit in all our dealings.

#### **The Management Practices**

- Continuous Learning
- Conducive Environment
- Leadership By Example
- Entrepreneurial Spirit
- Sense Of Crisis And Urgency
- Bench marking For Best Practice
- Empowerment For Effectiveness
- Group Synergy

In keeping with the company culture , there are very few level on bureaucracy. Company and business decision are made by the General Manager and then brought to the bimonthly meeting for discussion of implementation. These meeting also sometimes provide a forum for ideas that have come from the employees.



## **4.0 THE OPERATION**

### **4.1 Pre - Engineered Metal Building System ( PMB )**

PMB was a local based company specializing in building construction which pioneered using Pre - Engineered building system method in Malaysia in the early nineties. The dominance of PMB systems over conventional methods was attributed to its optimum cost , faster delivery and erection times , versatility , labor saving and excellent quality control. PMB systems can easily be installed with minimal labor requiring only bolting and no on-site welding. PMB frames and structures are precision designed and custom made to requirements and manufactured in sections to allow easy delivery and erection. All buildings and parts are identified with piecemark for easy field identification.

Other advantages of using PMB system are :-

- ( a ) Each building is custom designed to customers needs and requirements. By utilizing computerized system , design and construction lead time is drastically shortened.
- ( b ) Computer design helps to optimise material used while minimizing wastage and hence , saves construction costs.
- ( c ) PMB is to 40 % lighter than the conventional steel structural system through efficient use of steel. Primary framing members are designed with tapered built - up sections whereby the deepest sections are in the areas of highest stress and vice versa , lead to savings in material used and weight.
- ( d ) PMB buildings provides an attractive and moden appearance. PMB systems offer up to 60 meters clear span and with roof shapes ranging from 2° to 45° .
- ( e ) As a subsidiary of a parent company ( The Lion Group ) that is a fully integrated steel manufacturer , the company is able to offer unsurpassed service expertise and quality of renowned and established system manufacturer that assures punctual delivery at all times.

## 4.2 Professional Partners

Sankyu Ins. of Japan , one of the partners in LST , is Japan ' s largest forwarder providing advanced warehousing system and logistics for industrial equipment with other interests vested in engineering and construction as well. As a subsidiary of Nippon Steel Corporation , Japan , one of the largest steel manufacturer in the world, Sankyu has strong backing in research and development and steel manufacturing technology.

In Malaysia , Sankyu has successfully undertaken numerous structural steel fabrication in construction and maintenance projects in the steel making , petroleum refining , petro - chemical , automotive , electronic , electrical , power , manufacturing and other industries .

Sankyu excels in site - construction and equipment installation and it assists its clients all the way throughout the planning stage , the construction period and the start up of industrial projects of every kind. One of its many projects completed in Malaysia include the Kompleks Daya Bumi Tower Building and Proton Car Plant.

Anchored in steel , raw materials and machineries , Tokyo Boeki , Inc, Japan has a solid track record of 40 years that has won the trust of customers world - wide as a trading company. Tokyo Boeki Inc. is one of Japan ' s largest steel exporters with interest vested in raw materials for steel manufacturing and machineries.

### 4.3 Business Operation

LST fabricates heavy steel structures such as H - Beams , Rolled H - Beams , I - Beams and Pre - engineered structures for high - rise buildings , factories , warehouses , infrastructures , power & water plants and bridges as well as other related steel products such chassis and robotics steel car park systems. Its estimated production capacity is 1500 MT per month , making it one of the largest in the country.

LST ' s commitment to its clients in quality is evident from its recent upgrade of steel fabrication machineries in its own well equipped 17 acres factory lot in Port Klang. The company is presently equipped with an advanced systems for structural steel fabrication from Peddinghaus , Germany. The Peddinghaus equipment is a complete long - length component processing on one line incorporating sawing, drilling , marking , stamping , coping and burning which is fully automatic and integrated.

The advantage of this system is the assurance of maximum accuracy and speed in the production of structural steel components. Its disc measuring system guarantees repetitive accuracy on identical hole patterns at unbeatable speed of operation while the drilling line is fully automatic and self - adjusting to individual sizes of beam. Coping , burning and parting are also fully automated and equipped with laser torch positioning facility to ensure the accurate positioning when burning.

The Peddinghaus system also have distinct , unmistakable marking on individual components to greatly facilitate erection on site. All these features in manufacturing technology coupled with the used of the latest CAD technology in design and plasma cutting facilities , will enable LST to produce high quality steel components in utmost efficiency - a distinct advantage over conventional methods in meeting schedule and deadlines required by large scale projects. Therefore , the combined expertise of all three companies with the backing of the strong local public listed company , will enable LST to meet the needs of small to large building projects in Malaysia with its commitment to quality and technology.

#### **4.4 Benefits From LST**

The combined expertise of all three principal partners and with the backing of a strong local public listed company will enable LST to provide benefits to specifies , projects managers and owners in gaining a more competitive edge. Benefits include : -

- Quality in consultation advise and end - products that are further enhanced with LST having its own team of Japanese advisors who are permanently posted in the factory to provide technical support.
- Products and services that are fully supported by a strong technical team , who can provide a complete package including design and detailing of projects specifications , using the latest CAD software customised to individual client ' s requirements.
- Time savings as a results of shorter erection period and earlier recovery of capital owners.
- Products which are pre - fabricated to provide absolute accuracy of dimension and assured of consistent high quality.
- Flexibility and more possibilities in design.
- Cost savings as a results of shorter construction time and requiring less skilled work crew as compared to conventional structures.
- A more systematic and better schedule control in meeting projects deadlines especially for large scale projects.
- Ease of access to port facilities due to the strategic location of LST ' s factory in Port Klang. Helps facilitate export of structures to cater for overseas projects , hence enables one to be competitive even in the international front.

## 5.0 FINANCE

During the two financial years ( July 94 to June 96 ) the company has sustained operating loss of RM 164,187.13 and RM 504,408.92 respectively. After two years , the company has slowly gained its profit by RM 715,694.99. However , the company has tremendously gained operating profit on financial year 1997 ( RM 3,789,040.060 ). This 420 % increasing of profit is due to RM 50 million project awarded to the company last year. Hence , the company should realize that it need to formulate alternative strategies in order to meet the target of maintaining profit each year. From the profit and loss account the period ended 31st May 98 it showed that the company has net loss of RM 55,00.00. This scenario showed that the company is in unfavorable situation where during this economic turmoil ,most of the mega - projects were diferred and the growth of construction is in declining stage. The following will summarize the financial scenario of the company.

### Summary Of Operation

|                          | <u>July 94</u><br><u>June 95</u> | <u>July 95</u><br><u>June 96</u> | <u>July 96</u><br><u>June 97</u> | <u>July 97</u><br><u>May 98</u> |
|--------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------------------|
| Sales Quantity ( MT )    | 2,104.0061                       | 2,543.068                        | 8,339.22                         | 48,659.73                       |
| Sales Value ( RM )       | 16,493,000.00                    | 8,382,700.00                     | 21,755,184.75                    | 78,808.927.00                   |
| Less ; Cost Of Sales     | 14,230,300.00                    | 8,125,811.60                     | 19,509,519.78                    | 73,220,379.00                   |
| Gross Profit / ( Loss )  | 2,260,647.10                     | 220,466.63                       | 2,245,664.97                     | 5,588,584.40                    |
| Less ; Expenses          | 2,424,834.22                     | 724,875.55                       | 1,529,969.98                     | 1,799,507.70                    |
| Operating Profit /(Loss) | (164,187.13)                     | (504,408.92)                     | 715,694.99                       | 3,789,040.60                    |
| Net Profit / ( Loss )    |                                  |                                  |                                  | 3,276,263.70                    |

### Other Financial Data

|                     |               |              |               |               |
|---------------------|---------------|--------------|---------------|---------------|
| Current Assets      | 12,341,190.18 | 6,718,233.40 | 17,634,388.87 | 38,810,092.00 |
| Current Liabilities | 3,087,654.19  | 6,979,835.30 | 18,043,024.26 | 35,501,481.40 |
| Fixed Assets        | 5,205,961.63  | 590,212.41   | 5,106,986.42  | 4,752,522.40  |
| Inventory           | 3,974,181.40  | 1,803,362.10 | 4,197,672.15  | 4,273,154.25  |
| Net Assets          | 14,459,497.62 | (261,601.91) | 4,730,551.83  | 8,089,958.00  |

## Profit And Loss Account For The Period Ended 31st May 98.

|    |                                  |   |              |
|----|----------------------------------|---|--------------|
| 1. | Sales Quantity ( Metric tonnes ) | = | 750.00       |
| 2. | Sales Value ( RM )               | = | 1,450,500.00 |
| 3. | Less ; Cost Of Sales             | = | 1,380,000.00 |
| 4. | Gross Profit / ( Loss )          | = | 70,000.00    |
| 5. | Less ; Expenses                  | = | 100,000.00   |
| 6. | Operating Profit / ( Loss )      | = | (30,000.00)  |
| 7. | Financial ( Minus )              | = | 25,000.00    |
| 8. | Net Profit / ( Loss )            | = | (55,000.00)  |

## Other Financial Data

### Balance Sheet As At 31st May 98.

|    |  |   |               |
|----|--|---|---------------|
| 1. | <b>Fixed Assets</b>                        | = | 4,800,500.00  |
| 2. | <b>Current Assets</b>                      |   |               |
|    | Stocks                                     |   | 4,600,300.00  |
|    | Trade Debtors                              |   | 33,800,000.00 |
|    | Other Debtors                              |   | 500,000.00    |
|    | Deposits & Prepayment                      |   | 350,000.00    |
|    | Cash & Bank Balance                        |   | 42,000.00     |
|    |  |   | <hr/>         |
|    |  |   | 39,292,300.00 |
| 3. | <b>Current Liabilities</b>                 |   |               |
|    | Trade Creditors                            |   | 12,550,000.00 |
|    | Other Creditors                            |   | 175,000.00    |
|    | Accruals & Provision                       |   | 14,900,000.00 |
|    | Taxation                                   |   | 260,000.00    |
|    | Amount Owing to Holding Co.<br>Holding Co. |   | 3,000,000.00  |
|    | Amount Owing to Related Co                 |   | 29,000.00     |
|    | Short Term Loan                            |   | 750,000.00    |
|    | bank Overdraft                             |   | 4,000,000.00  |
|    |  |   | <hr/>         |
|    |  |   | 35,664,000.00 |
|    | Net Current Assets(Liabilities)            |   | 3,628,300.00  |
|    |  |   | <hr/>         |
|    |  |   | 8,428,800.00  |
|    |  |   | <hr/> <hr/>   |
|    | Share Capital                              |   | 5,000,000.00  |

#### 4. Manufacturing Overhead

|   |                   |
|---|-------------------|
| ( a ) Variable Cost   | 45,500.00         |
| ( i.e. Electricity ,welding ,<br>painting , consumable etc. |                   |
| ( b ) Fixed Cost  |                   |
| - Employee salary   | 36,500.00         |
| - Employee Services   | 22,000.00         |
| ( i.e. EPF , overtime ,<br>training etc.                    |                   |
| - Rental ( Building &<br>Factory )                          | 160,000.00        |
| - Depreciation  | 45,000.00         |
| - Production Admin.   | 4,000.00          |
| ( c ) Total   | <u>313,000.00</u> |

## 6.0 *MARKETING*

LST offered wide range of products and services . Over the years , they have accomplished various prestigious projects both locally and in the international scene. In Malaysia recent projects accomplished , among others , include Lumut Maritime Terminal , Kg. Ached ; Lumut Beautivest Sdn Bhd , 2 1/2 storey office building and warehouse in Glenmarie Industrial Park , Shah Alam ; David ' s Warehouse , Shah Alam ; Jabatan Penerbangan Awam Malaysia ( DCA ) Interim Development at Subang International Airport ( Terminal 3 ) ; Silverstone Tyre and Rubber Co. LTD , Perbadanan Kemajuan Ekonomi Negeri Dagangtani Sdn Bhd , Bus and Taxi Terminal , Larkin Johor Bahru , Gateway 2000 Sdn Bhd , Cheng Ind. Park , Malacca , International Broadcasting Centre ( IBC ) for Commonwealth Game 1998 , RTM and Megasteel & Amsteel project in Banting ( on going project ).

They have also established a strong foothold in China and the Asia Pacific realm where more than 800 tonnes had been used for erection of food factory ( Instant Noodle , UHT factory and Snack factory ) at Qing Pu , Shanghai , Steelon Roofing Systems Sdn Bhd , Laos and Angkasa Marketing Sdn Bhd ' s factory in Woodlands , Singapore.

Historically PMB was set up to cater for in-house project that was given by the Group or its Parent company. Paul Chan has slowly changed this scenario to become 65 % and 35 % of in-house and outside projects respectively. The demand of the in-house parent company ' s projects was great in early 90 ' s due to the rapid expansion of the Group to property market by developing the industrial estate with factories and warehouses. Among these are Cheng Industrial Park in Malacca and Lion Industrial Park , Shah Alam.

LST presently is having a large contract worth RM 50 million given by the Group and expected to be completed in July 98. This project has been going on for more than a year.

During this period , LST has solely concentrated and committed with the project without considering external projects. Only 4 % of external projects were secured since seventeen months ago as per reported by account department recently.



Hence , LST has foreseen the urgency of securing the external projects after July 98. For this purpose , the strategies were to liase closely with the Civil & Structural Consultants , Architects , developers as well as owners. Apart from these , the company has to address the issue of advertising and promoting the product in order to position well in the market. The marketing departmental meeting was held on weekly basis to keep track with the latest development about potential projects.

## **6.1 The demand**

The study of demand and supply of building materials presently was conducted by Author Andersen which include ordinary Portland Cement , carpentry, aggregates and crusher - run , structural steel , reinforcement steel, ceramic tiles , roofing materials and etc. recently. The survey had been prompted by the government ' s need to ensure adequate and efficient production and supply of basic building materials ( The Property Edge , Nov. , 4 ) .

Presenting the findings , Arthur Andersen said that forecasted demand for structural steel will be stabilized to 200 , 000 tonnes annually from year 1995 to 2000 despite the growth rate of 8 % annually in production capacity. These will create a very competitive business environment to the future structural steel industry.