UNIVERSITI PUTRA MALAYSIA

MARKETING STRATEGY OF LEMBAGA TABUNG HAJI
A CASE STUDY

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MARKETING STRATEGY OF LEMBAGA TABUNG HAJI

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BY

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MATRIC NO : 45170

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DECLARATION OF ORIGINALITY

I, Mahfar Bin Hj A. Rahman, a student of Universiti Putra Malaysia (UPM)/Yayasan Pelajaran Mara (YPM) Off Campus MBA Program hereby wish to certify that this case study for the course PSN 598 is an original study that I had conducted for submission to the UPM in partial fulfillment of the requirement for the Degree of Master In Business Administration (MBA).

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Date : 9th January 1998
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ABSTRACT

The approach in marketing of services has been changing nowadays. In concept, services are marketed in the same way as tangible goods. In practice however, the characteristics that differentiate services from goods lead to different marketing program. The strategies and tactics used in the marketing of goods frequently are not appropriate for services marketing.

This paper would study the practice of marketing of services at Lembaga Tabung Haji (LTH). It would be preceded by the historical background and operational aspects as well as marketing strategy practiced by LTH in the first part. The analysis, comments and recommendations would be covered in the second part.
PART I

1.0 INTRODUCTION

Lembaga Tabung Haji (LTH) was established in 1969 and first known as Lembaga Urusan dan Tabung Haji (LUTH). It was formed to mainly provide savings facility to muslims to perform haj. The amendment of LTH Act 1969 in June 1997 which led LUTH to be known as LTH had given it better status in exploring business potential for the benefit of its depositors. The new image came with new corporate logo which describes its significant roles in developing the nation.

With 84 branches and 1,025 staff throughout the country, LTH continues to progress along with Malaysians towards achieving the visions. LTH has now diversified into industrial, property, transportation and real estates as part of its diversification strategy. To date, it has accumulated more than three million depositors with savings about RM 3.1 million.

2.0 OBJECTIVES

The main objective of the study is to evaluate and improve the marketing strategy adopted by Lembaga Tabung Haji. The specific objectives are as follow:

2.1 To study the marketing strategy of Lembaga Tabung Haji.

2.2 To evaluate LTH marketing strategy so as to identify its strengths and weaknesses

2.3 To provide suggestion and recommendations to improve LTH marketing strategy.

3.0 METHODOLOGY

In order to complete this case study, the following methodology has been applied:
3.1 Primary Data

Primary data was collected by interviewing LTH staff from information, marketing and haj departments. The interview sessions were conducted at LTH premise at Jalan Tun Razak, Kuala Lumpur and its Kuala Lumpur branch at Jalan Ipoh, Kuala Lumpur.

3.2 Secondary Data

Besides primary data, secondary data was gathered through the information obtained from the resource centre of LTH as well as statistical data received from the relevant departments. This data was very useful in the analysis to identify the issues and recommend the appropriate solutions.

4.0 SCOPE AND LIMITATIONS

The scope of this case study is limited in marketing strategy of LTH and the analysis did not cover the details of the other areas. In conducting this case study, there were several limitations:

4.1 Time constraints

The duration in carrying out the research is about four months. As a part time student, such constraints would limit the time spent in producing better research results. However, the time has been fully utilised to prepare this report.

4.2 Availability of data

There were also limitation in terms of obtaining the data as some of them were obsolete or classified as confidential. Thus, permission had to be obtained from the higher management in written.
4.3 Staff cooperation

In order to collect primary data, appointments had to be fixed with the relevant staff. Some of them were not available to get the data although the appointment had been made earlier.

5.0 BACKGROUND

The history of Lembaga Tabung Haji (LTH) started as early as 1959 when Royal Professor Ungku Aziz, an economist and academician from Universiti Malaya presented a paper called ‘Economic Plan For Pilgrims’ to the government. The paper proposed an establishment of a body which could facilitate the muslims in performing their haj.

This plan provided an alternative to the muslims to save their money to perform haj without interest as well as creating fund for profitable economic investment. Realising that the muslims always used the traditional methods of saving their money which was uneconomical, Ungku Aziz later recommended the establishment of a body which would assist the muslims in saving their money according to syarak as well as gaining profit through dividend payment. On 1st November 1962, Perbadanan Wang Simpanan Bakal Haji was formed. In 1969, this body merged with the existing Haj Affairs Department and became Lembaga Urusan dan Tabung Haji (LUTH).

LUTH was established as the government agency to coordinate and facilitate the muslims to perform haj in a well-organized way. It also aimed to overcome socio-economic problems among muslims besides serving as a platform to enable them
participate actively in economic activities. In 1963, LUTH had accumulated 1281 depositors with savings amounted RM46,600.00 and in 1997, the number increased to 3,152,724 depositors with savings worth more than RM 3 million. To date, LUTH is among one of the largest corporate bodies with 84 branches throughout the country. The activities has expanded to trading, industrial, property and real estates.

To mark its success, LUTH had paid 3% dividend in 1966 and 8% in 1992. The rate was quite consistent when LTH continued to pay annual dividend of about 8 to 9.5% in the following years. In order to meet the challenges and environmental changes, LUTH is now known as Lembaga Tabung Haji (LTH) with its new corporate logo. This move gives LTH better image as well as allowing the body to actively explore the business opportunities which was previously limited.

6.0 OBJECTIVES OF LTH
6.1 To enable the muslims to save their money according to syarak rules to perform haj or other purposes.
6.2 To encourage the muslims to actively participate in economic growth through the proper channel.
6.3 To serve as a coordination mechanism in providing better services in performing haj.

7.0 OPERATIONS
In delivering the services to its customers, LTH has structured its operation into a few departments and sections as shown in the Figure 1 below:
Figure 1: Organization Chart Of LTH
From the above diagram, there are five departments in the structure with each focus on specific issues:

7.1 Haj Service Department

The objective of this department is to provide the necessary facilities to ease the pilgrims in performing haj. There are three sections under this department:

a. welfare & health section

This section is responsible to look after the welfare related matters and security of the pilgrims before they reach the holy land and upon returning to Malaysia which including registration, documentation, flight arrangement, health problem as well as conducting courses for front-liners of LTH.

b. guidance section

Every new pilgrims need proper guidance. This is where this section plays an important role by organizing haj courses to familiarize them with the environment in Saudi. Courses are conducted locally at the nearest centre to enable the pilgrims to attend.

c. haj management & enforcement section

Under this section, all haj management and enforcement matters which is directly involve the Saudi’s rules and regulations are centrally managed. This is to ensure that there is no Malaysian involved in negative activities during their stay in Saudi.
7.2 Deposit Service Department

This department liaise directly with the customers because they have to attend to the need of customers and solve their deposit related problems. There are three sections under this department:

a. savings & withdrawal section

As the number of depositors keep increasing and always above the target, this section has the responsibility to provide and efficient service to its customers. In 1995, there were 2,757,678 depositors with RM 3,113 million savings compared to 2,367,795 depositors in 1993 which accumulated savings of RM 1,885 million. This is about 17% increase in savings. Each depositor will be given the update of their saving statement every six months. Apart from that, withdrawal can be made from any LTH branches in Malaysia or Saudi.

b. marketing section

To promote the LTH's product, the top management will provide the guidelines to be followed by branches in carrying out their marketing strategies. This section has to monitor the marketing activities by all LTH branches throughout Malaysia.

c. branch operation section

Besides the above sections, there is also another section looking after the operation of LTH branches. This section has to ensure that all the operation of branches conform to the rules and regulations set by the headquarters. This is to ensure consistency and efficiency are maintained.
7.3 Asset Management & Finance Department

LTH is managing a large amount of fund which requires a systematic and efficient fund management team. Thus, this department was set up to achieve this objective. It is supported by four sections:

a. finance section

The objective of this section is to maintain the accounts in compliance with LTH's accounting rules. It is also responsible in preparing budget and monitor its conformance by the whole units in LTH's organization.

b. property management section

Besides handling fund related matters, LTH is also managing its property by renting out its premises throughout Malaysia. LTH has expanded into this industry since 1968 when it purchased two shop lots in Perlis. To date, it has about 75 buildings including residential, commercial and industrial premises with monthly revenue about RM 1.7 million which is 95% occupied.

c. investment management section

With such a huge amount of fund gathered from its customers, LTH has to make sure that their investment is carefully taken care off. This section was set up to carry out analysis and explore investment opportunities to be gained.

d. shares trading section

In order to compete with the conventional savings scheme, LTH has its own shares trading section which is taking charge of shares related matters by
identifying potential shares to be traded. This is done in the parameter of Islamic shares trading rules.

7.4 Investment Department

This section strictly handles the investment activities which include local and foreign investment. It also carries out planning and research activities for LTH and its subsidiaries. There are five sections under this department:

a. land and building section

In line with its rapid expansion, LTH acquires government and private land and building to be developed. Thus, this section was set up to meet this objective.

b. investment development section

The development of investment activities in LTH organization as a whole has been the focus of this section. It serves as a reference centre for the subsidiaries in managing their portfolios.

c. fund management section

To ensure maximum return, this section has to manage the cashflow in line with the LTH policy and regulations.

d. engineering section

This section takes care of technical aspects of LTH operation and its maintenance. It is the central unit which handles the technical related issues
e. foreign investment section

LTH is diversifying into other industries such as property, real estates, transportation, trading and industrial as part of its organizational strategy. As part of diversification process involves foreign investment, this section looks into this matter to ensure that it will maximise return.

7.5 Administration Department

The objective of this department is to provide support services to all branches in administration related matters which is delivered through the following sections:

a. human resource section

The recruitment and staff development are the primary functions of this section. This includes implementing employment terms and providing training and development program.

b. general administration and information section

This section manages the planning and requisition of equipment for all branches including rental and security matters. Besides that, it also functions as an information centre in disseminating information about LTH.

7.6 Management Information System Department

In order to provide better services, this department was set up to reduce processing time and increase efficiency. This was made possible by having all transactions computerized and linking the branches with computers network.
7.7 Internal Audit Department
This department monitors the financial matters to ensure that they comply with LTH Act and National Audit Department procedures. It is also responsible in preparing audit reports.

7.8 Corporate Administration Department
The whole corporate affairs of LTH is handled by this department which include preparing annual reports and functions as a committee to some sections.

7.9 LTH Saudi
The liaison with Saudi government regarding haj services is the main function of this department. It has to ensure that all Saudi regulations are complied and disseminate information to Malaysian pilgrims.

8.0 MARKETING STRATEGY
The marketing strategy is a crucial part that has to be carried out by any profit or non-profit organization. In fact, marketing department plays an important role as they are the one who initiated a new product. However, coordination with other departments should be carefully arranged to avoid any problems pertaining to the product’s performance.

Kotler (1991) defined marketing strategy as comprises the broad principles by which marketing management expects to achieve its business and marketing objective in a
target market. It consists of basic decision on marketing expenditures, marketing mix and marketing allocation. In the case of LTH, its core product is haj service whereas its marketing mix comprises its service, pricing, distribution and promotional strategy.

The marketing activities are carried out by branches based on the guidelines provided by the marketing section of headquarters as well as the Tabung Haji Act 1995. However, there was no specific marketing plan that has to be followed by branches. Instead, they were given annual targets to be achieved. LTH aims to achieve at least 50% depositors by end of the year 2000 with minimum savings RM1,000 each.

8.1 Product/Service

Product or service is anything that can be offered to someone to satisfy a need or want. The core product of LTH is providing facilities to muslims in performing haj. In the past, muslims had to travel by all means to reach the holy land. Most of them got into trouble when arriving in Jeddah as there was no proper arrangement provided to them. This included the risk of being robbed, seizure of goods, lack of accommodation, etc. The establishment of LTH had reduced much of these problems. Nowadays, muslims who wish to perform haj will follow the process as shown by the Figure 2 below:

Figure 2: Flowchart of Haj Service Process
The haj service started with the registration of muslims who wish to perform haj. As the number of muslims performing haj keep increasing every year, the Saudi government had ruled out that each country could only send 0.1% pilgrims out of their total population. Thus, many muslims especially in Malaysia were not able to perform haj due this quota system. However, LTH will consider each case in the selection process although the criteria is based on first come first served basis. In 1995, 25,117 muslims performed their haj.

Once the registration process has been completed, LTH will make arrangement for passport issuance for those selected. They should attend haj course conducted by LTH at their vicinity to familiarise them with the environment. While attending the haj course, LTH will make preparation for the visa. Without complete documents, one could be detained by Saudi’s enforcement officers who will always supervise the situation during the haj season.

After all the above requirements had been met, all the pilgrims will depart for Jeddah by series of flight arranged by LTH. Once arrived in Jeddah, the pilgrims are abide by the Saudi’s rules and regulations. LTH will also take care of them in terms of welfare and health. When the pilgrims had performed their haj, they will return to Malaysia through series of flight scheduled by LTH. Post-mortem will be carried out in after haj season to identify any weaknesses that can be improved in the future.

The performing of haj begins with the savings in LTH. Savings can be done by the following ways as indicated in the Figure 3:
Figure 3: Methods of Savings

From the diagram above, a depositor can either go to the nearest LTH to open an account or send their money through post offices which will later transfer the deposits to the LTH branch. Depositors will receive their receipt by mail. Until end of 1995, 912 post offices had participated in this scheme with total saving of RM 32.5 million. Figure 4 below shows the number of depositors accumulated from 1991 to 1995.
Figure 4: Number of Depositors Accumulated (1991-1995)

The number of depositors by states also indicating a good response with Federal Territory recorded the highest number of depositors. This is shown in Table 1.

Table 1: Number of Depositors By States

<table>
<thead>
<tr>
<th>State</th>
<th>Total Depositors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perlis</td>
<td>42250</td>
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<td>Kedah</td>
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<td>P. Pinang</td>
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<td>Melaka</td>
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<td>N. Sembilan</td>
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<td>Johor</td>
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<td>Pahang</td>
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<tr>
<td>Terengganu</td>
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<td>Kelantan</td>
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<td>Sabah</td>
<td>91570</td>
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<tr>
<td>Sarawak</td>
<td>106183</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>3066341</strong></td>
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</table>
In terms of amount saved, majority of depositors have less than RM50.00 in their accounts as indicated by Table 2. However, many new depositors argued why they were not given any passbook like commercial banks when they save their money in LTH. They were instead given a copy of deposit or withdrawal slip after a transaction. According to En Fauzi, the Unit Head of Marketing Department, “This is what differentiate between Tabung Haji and commercial banks!” En Fauzi was responsible in providing guidelines to branches in carrying out their marketing activities. He would monitor their progress through periodical reports sent to headquarters.
<table>
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<th>Savings (INR)</th>
<th>P.Cel</th>
<th>Redal</th>
<th>P.Punjab</th>
<th>S.Gur</th>
<th>K.K</th>
<th>N.Shar</th>
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<th>Jhark</th>
<th>P.Bihar</th>
<th>V.Guj</th>
<th>K.Tam</th>
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<td>10</td>
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To attract working people to save their money, LTH has also introduced salary deduction scheme. This scheme requires cooperation from the participating employers. Monthly visit are also arranged to government agency or private firms to introduce them to LTH’s product. So far, the response has been very good and always exceeds the targets. As quoted by En Rahim, the Deputy Director of Kuala Lumpur Branch, “We always arrange visits to government agencies, factories and other firms every month for marketing campaign”.

In 1995, 56 employers participated in this scheme with total savings of RM 249 million as compared to 47 employers in 1994 with accumulated savings of RM 241 million. Figure 5 shows the performance of this scheme for 1996 until November.

Figure 5 : Performance of salary Deduction Scheme (1996)