

IMPROVING BUSINESS PERFORMANCE FOR A FOOD  
EQUIPMENT SUPPLYING COMPANY

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## **ABSTRAK**

Perusahaan peralatan pembuatan makanan memainkan peranan penting dari segi penyokongan pembangunan perusahaan pembuatan makanan di Malaysia. Perusahaan ini telah berubah daripada pemasangan peralatan biasa ke pengurusan rancangan serta reka bentuk kejuruteraan alat pengendalian makanan yang canggih.

Syarikat BWE telah dipilih sebagai kajian kes untuk mengkaji bagaimana pertubuhan ini menceburi dalam bidang perniagaan kecil yang berasaskan pemasangan peralatan berubah ke perniagaan yang dapat menyampaikan perkhidmatan penyelesaian sehati untuk pelanggannya. Apabila sesebuah pertubuhan telah mencapai kecemerlangan dalam masa sepuluh tahun ia menghadapi jualan tanpa berkembang disebabkan kemerosotan ekonomi pembuatan makanan di Malaysia. Pada masa yang sama, ia menghadapi tekanan kenaikan kos untuk menjalankan perniagaan juga.

Untuk mengenalpasti punca-punca isu ini, penyelidikan telah dirancang untuk mengumpul data utama and data penyokongan sementara temuduga, sumbangan pendapat daripada kumpulan tumpuan dan pemerhatian telah dilaksanakan untuk mencari fakta. Justeru itu, kajian kes ini telah menggunakan pelbagai pendekatan pengurusan untuk mengkaji fakta dan menjalankan analisa. Kesimpulannya, cadangan-cadangan telah disampaikan kepada pengurusan berdasarkan pendekatan-pendekatan “Ansoff” dan “Porter” supaya masalah-masalah dapat diatasi.

## **ABSTRACT**

Food processing equipment industry is playing an important role to support the growth in the food processing industry in Malaysia. This industry has evolved from the basic equipment assembly works and installation services, moving into the wide scope of services such as project management, engineering designs, fabrication, and transfer of food processing technology. The growth of this industry is moving in tandem with the development of agribusiness and food processing industry in this region.

BWE Sdn Bhd had been selected as the case study with an aim to understand an organisation how to develop a small business which establish merely as an engineering service provider into a total solution service provider for designing and fabricating of refrigeration system as well as the distribution of food processing equipment. When the company achieved growth consistently for almost a decade, it encountered sales stagnate for their products and services due to sluggish economic growth of food processing in Malaysia. At the same time, the Company also facing great pressure on increasing cost of doing business.

In order to identify the root causes of the case issue, a research plan is designed to collect the primary and secondary data, and then followed by the interview, focus group's brainstorming as well as observation to conduct the fact findings. Then, various management techniques and tools had been adapted to analysis the issues. Lastly, the case study is recommended to use the strategies based on Ansoff's Matrix and Porter's Value Chain Model to resolve the case issues.

## **EXECUTIVE SUMMARY**

This case study attempted to explore the issues of sales stagnate for a food processing equipment supplying company in Malaysia. The second main issue is pertaining to high operating costs that caused profit deterioration and may lead to weaken the competitive advantage.

The case study introduced the scenario of food processing industry in Malaysia and how the food processing, supplying company plays the pivotal role to support this industry. Then, follow by reviewed various publications and references on the outlook of the industry in Malaysia as well as ASEAN region, particularly the development of the Asean Economic Community (AEC) initiative to be launched in 2015.

With regards to the company background of BWE Sdn Bhd, this case study covered the history background, corporate philosophy, organisational structure, products and services. In order to understand the business operations of the Company, a Business Model Canvas developed by Osterwalder & Pigneur (2010) is used to illustrate its business model framework. The highlights include the Customer Relationship Management, Supply Chain Management and Financial Management System.

For the case analysis, the research approach is based on the qualitative and quantitative method. The research techniques include interview, focus group and observation were used to gather the primary data to provide the inputs for the research questions. In order to understand the industry scenario, the secondary data

such as economic reports, journal articles, and online reference were used to support the fact findings. Through the interview with the senior management, focus group's brainstorming and observation on the operation processes, it helps to collect the information related to the sales stagnate and high operating costs. At the same time, it also provides the opportunity to examine the industry's competing environment as well as the competitive advantage of the Company.

From the data gathered, this case study applied various management tools such as Cause-Effect Diagram, Porter's Five Forces Analysis, SWOT Analysis and Value Chain Analysis to do the fact findings related to the case issues. Cause and Effect Diagram was used to analyse the root causes lead to the sales stagnate. Financial analysis was then applied to examine the financial performance based on four main ratios: profitability, efficiency, liquidity and leverage. The value chain analysis had been done to find out the possible outsourcing of fabrication to low cost producers and reduce highly pay staff. Porter's Five Forces had been adopted to analyse the environmental situation and position the competitive advantage. SWOT analysis had been conducted by incorporating the Balanced Scorecard's four main perspectives – financial, customer, internal processes and people development to define the strengths and weaknesses; opportunities and threats had been done based on PEST factors.

In order to present the recommendations to resolve the case issues, the Ansoff's Matrix and Porter's Value Analysis Model were recommended to develop strategies to overcome sales stagnate and reduce high operating costs for the Company. With regards to overcome the sales stagnate; the Company shall consider to deploy the

business strategies based on the market penetration, market development, product development and diversification. Firstly, through to penetrate into the market segment involve the food catering, retailing chains, *Halal* food supply chain and logistic services in Malaysia market. Secondly, to develop a new marketplace in Indonesia and Thailand, which have the strong demand for the food processing equipment much higher than Malaysia. Thirdly, to sustain the business growth through in future, the Company shall undertake the product development programme to develop “Green Technology” equipment. Finally, to diversify into the PU Insulation Panel System, to provide the building materials for construction of warehouse or production facilities.

Whereas, the recommendations based on Porter’s Value Analysis Model are reducing of high operating costs and developing the people capabilities. The Company shall consider to source their fabrication works with high cost and low value added products to the low cost fabricator in China. On the other hand, the Company shall undertake the human capital development programmes and engaging the Subject Matter Expert (SMEs) to provide the coaching and consultancy service for improving their people capabilities to support for their business growth and create the competitive advantage.

## **1.0 INTRODUCTION**

With the Malaysian economy aspiring to become a high-income nation by 2020, the focus of economic growth is increasingly leaning towards innovation-driven growth strategy, this strategy emphasises on creating high value-added activities through creativity and innovation (PEMANDU, 2009). Technological innovation is a key component that enables companies to become competitive. A company's capability to innovate will make it possible for them to create a new high-value added products or services. The capability to innovate will also enable companies to reduce wastage through better utilisation of better product designs and more efficient processes.

Since the launching of 1<sup>st</sup> Industrial Master Plan in 1986, Malaysia was gearing to develop the industrialise programmes for various economic sectors. Food processing industry is one of the important encouraging sectors promoted by the authorities because Malaysia consists of abundant of agriculture produces and natural resources. Subsequently, the development opportunities attracted both local and international investors ventured in food processing industry such seafood, poultry, processed foods, beverages, etc.

In 1998, the founder of BWE Sdn Bhd (hereinafter referred as 'BWE' or 'the Company') has capitalised the opportunity by venturing into the food processing equipment supplying business in tandem with the growth of food processing industry. From the humble beginning as the engineering service provider, BWE developed its capacity to undertake technological innovation through in-house engineering designs, product improvements as well as building strategic alliances with the international

well-known companies in this field. The Company is an engineering company specialising in fabricating of refrigeration system and freezing equipment for frozen food processing industry and cold storage chains in Malaysia. Today, the Company has become a one-stop service provider of engineering consulting, engineering services, fabricating of refrigeration system, freezing equipment and ice-making machinery. It also acts as sole distributor for well-known food processing machinery imported from Europe, China, Taiwan and Japan.

Since inception of the Company, the business enjoyed a consistent growth for a decade in tandem of the growth of food processing sector. However, the unfavourable external environment such as sluggish economic growth in Malaysia, slowdown of demand among advanced countries, and increase cost of doing business have affected overall performance of food processing establishments in Malaysia.

The negative impact of food industry outlook directly affected BWE's sales performance as well as their profitability. The sluggish demand for food processing equipment affected the sales performance of the Company. BWE encountered negative growth of 6.52 % of revenue from RM 23.53 million in 2013 if compared to RM 25.17 million in the same corresponding period of 2012. The profit after taxation had decreased from RM1.23 million in 2012 to RM0.41 million in 2013 or declined by 66.67%. Apart from this, the Company is facing increasing operating costs which have caused the profit margin to decline significantly. The net profit decline to show that there is a serious problem in cost-management.

The study is attempting to discuss the business growth stagnate with high operating costs in domestic market for a food processing equipment supplying company in Malaysia. The research questions to be answered are as follows:

- i. What are the causes of the problem of sales stagnant?
- ii. What are the causes of the sharp increasing in operating costs?
- iii. What are the challenges of expanding to overseas market?
- iv. How to overcome the external issues threatening the company?

## **2.0 INDUSTRY BACKGROUND**

### **2.1 Food Equipment Industry in Malaysia**

Malaysian Government has identified the machinery and equipment (M&E) industry to be one of the key areas for growth and development (MITI, 2006). The growth will focus on the manufacture of high value-added and high technology M&E. The long term objectives outlined under the Third Industrial Master Plan (IMP3) for the M&E sector is to position Malaysia as:

- i. The regional production hub for high technology and specialised M&E;
- ii. The main distribution centre in the region for all types of M&E; and
- iii. The centre for maintenance related services, refurbishment, reconditioning and upgrading of high technology and specialised M&E.

Accordingly to MITI (2006), Malaysia's competitive edge lies in its ability to provide engineering design services with R&D, high skilled and knowledgeable workforce, and high technology and high quality production at lower cost compared to other industrialised countries. With increasing competition from lower cost producing countries, the industry is expected to move away from the manufacture of low-end and low-technology M&E.

Malaysia is moving towards production of high technology and high value added (PEMANDU, 2009). The global M&E industry is continuously being driven by technological advances, process specialization and customer requirements for shorter

throughput times, faster delivery and lower costs. Malaysian M&E manufacturers which cater to the niche market, specialised or custom made with high mix and low volume concept. Despite competing against developed countries in production of M&E, Malaysia has the competitive edge in terms of capabilities in capturing niche market segments (MITI, 2006).

Malaysian M&E manufacturers, like their counterparts in industrialised countries, are leveraging upon their strengths in core activities, such as R&D, software development, system integration, assembly, testing and calibration while focusing on quality of production. The manufacture of parts & components, and modules which are more capital-intensive, are outsourced to an extensive and technically capable local engineering supporting industry to keep costs low.

Food equipment is one the main sub-sector of M&E, which play very important role support the growth of food processing industry. Apart from this, the food equipment manufacturers also help the food processing industry moving into the automation of processes, higher value processed foods and improve the food safety environment.

Generally, food equipment manufacturers can classify to supply their equipment to cater for the following:

- i. dry food processing equipment (i.e.: coffee powder);
- ii. wet food processing equipment (i.e. bottling line);
- iii. freezing equipment (i.e. chill foods or frozen foods);
- iv. confectionary food processing equipment (i.e. bakery foods);

- v. packaging equipment (i.e. packing of processed food) and
- vi. value-added food processing equipment (i.e. battered & breaded foods)

## **2.2 Food Processing Industry in Malaysia**

In Malaysia, more than 90% of the food processors are dominated by small and medium enterprises (SMEs). This sub-sector contributed 18.7% components of valued added by manufacturing sector in 2013 (SMECORP, 2014). Malaysia exported RM 14.242 billion of processed food in 2013 as compared to RM 13.325 billion in 2012. This sub-sector contributes 2.8 % of total export of manufacturing goods (MOF, 2014).

The growth momentum of SMEs had declined caused by the Global Financial Crisis in 1998 (PEMANDU, 2009). Malaysia is no longer able to remain competitive with low-income countries as a high volume, low-cost country. The SMEs was exposed to the risk of being stuck in the middle because they have not yet moved up the value chain and become competitive with advanced countries. According to NSDC (2014), the SMEs had encountered an unsustainable position and facing six (6) biggest challenges as follows:

- i. innovation & technology adoption
- ii. human capital development
- iii. access to financing
- iv. market access

- v. legal and regulatory environment
- vi. infrastructure

Generally, SMEs still maintain high labour intensive approach and low adoption of automation. Majority of SMEs depend on the foreign labours as key inputs for processing, however, the low productivity level and poor quality performance affected SMEs growth opportunities. They were lack of commitment in undertaking human capital development plan. The critical aspects of SMEs were found rather difficult accessing to financing either for banking facilities or government grants. They also encounter low market access for supplying their products and services to the local-based large corporation as well as exporting to advance countries. Moreover, the requirements of compliance for legal and regulatory environment creating pressing issues to SMEs due to low level of corporate governance and transparency. The business environment is becoming much more competitive for market, capital and talent; SMEs were lack of infrastructure to support them to strengthen competitive advantage and moving up the value chain.

### **2.3 Outlook of Food Processing Industry in Malaysia**

MIDA (2010) classified the Malaysia's food processing industry into seven (7) main categories, namely livestock and dairy, fisheries, cereal products or flour based products, pepper and pepper products, chocolate and sugar confectionaries, fruit and vegetables, and palm oil-based products. MIDA adopted a special investment promotion tagline for the food processing industry in Malaysia as an "Ideal Prospects,

Immense Opportunities” situation. Malaysia is rich of natural resources that play an important role in research, cultivation and processing of foods. Thus, create an opportunity for Malaysia to be one of the leading Asian countries in food production and processing for import substitution and export.

According to MITI (2006), projection of food processing industry based on total investment of RM 24.6 billion for the entire IMP3 time horizon or RM 1.6 billion per annum and exports to grow at an average annual rate of 7.8 % to reach RM 24.2 billion by 2020. The Industrial Master Plan III: 2006-2020 (IMP3) has been formulated seven (7) strategies thrusts to achieve the targets:

- i. Ensuring the availability of the supply of raw materials
- ii. Expanding and diversifying food processing activities and promoting the growth of the targeted areas
- iii. Enhancing sectorial linkages and support services
- iv. Intensifying research and development
- v. Enhancing the competitiveness of and increasing the export of Malaysian food products in the regional and international markets
- vi. Strengthening human resource development
- vii. Strengthening the institutional support and delivery system for the further development and promotion of the industry

The changing of lifestyle and standard of living as well as advances in food processing technology, MITI (2006) had identified that food processing industry as the encouraging sector to expand and diversify. The targeted growth areas for

product ranges included convenience foods, functional foods, health food and food ingredients.

The IMP3 highlighted that the food processing industry will be evolves towards regional food production and distribution hub especially for *Halal* foods. Malaysia has been recognised as a modern Muslim nation with a majority Muslim population creates *Halal* food opportunities for food manufacturers. *Halal's* concept represents food products which are of high quality from cleanliness, sanitation and compliance with religious requirements.

#### **2.4 The Launching of Asean Economic Community (AEC) 2015**

Malaysia, strategically located in the heart of South-East Asia with a current population of 29.2 million at 2% of annual growth rate plus the Association of Southeast Asian Nations (ASEAN) with a population of over 620 million will create huge and potential market of processed food in this region. ASEAN region has tremendous opportunities for development of food processing industry as well as market access for distribution of food product. ASEAN member countries will experience substantial growth parallel with the populations and incomes expand.

KPMG (2014) stated that, AEC is one of the strategic objectives to develop the ASEAN region as a single market similar to the European Union. The AEC will be launching by the end of 2015 in Kuala Lumpur. According to the viewpoints of the business community in Malaysia, if not 100% of the AEC targets will have been

reached, a result of more than 80% completion is a huge achievement for all countries involved and provides for a stepping stone for further integration in the years after 2015. This provides the vast opportunities for the business communities in ASEAN to expand their market-based under the free market access framework that similar to European Union (EU).

Under the AEC framework, there are five fundamental freedoms which will be led to real business impact. The key characteristics of the AEC goals are the free flow of goods, free flow of services, free flow of investment, freer flow of capital, and free flow of skilled labour in order to align with principles of AEC to provide a fundamental freedoms relevant for international business, to ensure a single AEC market and opening of an AEC single production base (The ASEAN Secretariat, 2009). Eventually, the AEC initiative will transform ASEAN into a raging integration, economic region that provides fast economic growth and improve the life quality of ASEAN population (KPMG, 2014).

With the new idea in mind, the management of BWE foresees that AEC initiative will create the potential business opportunities for them to improve their business performance in view of sales stagnate for the domestic market. Thus, they are looking for new opportunities to develop new marketplace in Indonesia and Thailand opened by the AEC initiative.

### **3.0 COMPANY BACKGROUND**

#### **3.1 Background and History**

BWE was incorporated in Malaysia under the Companies Act, 1965 as a private limited company. The Company has an Authorised Capital of RM1, 000,000 divided into 1,000,000 ordinary shares of RM1.00 each. Presently, the Company has a fully paid-up capital of RM 800,000 divided into 800,000 shares of RM1.00 each.

BWE was started as an engineering service provider to supporting the refrigeration system suppliers from Taiwan and Japan. In early stage, BWE provided the scope of supporting services included installation works, testing and commissioning and after sales back-up services. In view of their technical capabilities and business creditworthy, BWE gained the confidence of the overseas suppliers and formed the collaboration partnership to help those suppliers fabrication their equipment in Malaysia. Subsequently, the overseas suppliers transferred their technical know-how to the technical team of BWE for fabricating of refrigeration system, ice-making machinery and frozen food processing equipment.

Then, the management of BWE decided to invest a completely new fabrication plant located in Bukit Minyak Industrial Area. With readiness of stronger foothold, BWE achieved quantum leap for the business growth and developed became one of the top five (5) refrigeration system provider in Malaysia within a decade of developments. The business growth was mainly attributed by strong demand of refrigeration system and frozen processing equipment from the seafood processing industry, poultry

processing industry, value-added frozen foods and ice-plants. The target customers including frozen food establishments, food processors and cold-chain service companies. With the rapid expansion, the Company has been expanding their marketplace to all over Malaysia as well as neighbouring countries.

With annual revenue exceeding RM20.0 million, BWE is well poised to provide refrigeration system and freezing equipment for projects of any scale and complexity in Malaysian and the region. Its major clients include the small and medium enterprises (SMEs) as well as the international food processing establishments based in this region. Besides than supplying the equipment, BWE does educate their customers and transfer their technical ‘know-how’ on how to utilise each of processing line up to the optimal level. This is a value added service that differentiated BWE if comparing with their competitors. At BWE, the management team very proud of their market standing by each and every product that bears their corporate tagline ‘*We Stand by Our Name*’.

BWE is fully committed to delivering quality machinery and refrigeration system for their customers and meeting internationally recognized standards, the Company has been certified with ISO 9000 Quality Management System since 2008. To enhance its technical capabilities, the Company has formed alliance partnerships with internationally well-known technology corporations to provide their international customers with high quality and competitive priced products. Each of equipment is built with expertise and quality components with features for energy efficiency, reliability and durability

To fulfil their stakeholder expectations under the ever-changing environment, BWE focuses and invests in research and development for a new generation of refrigeration system based on ‘Green Concept’ for energy saving, cost effective and higher productivity. Through the strategic alliance with Europeans, Japanese and Taiwanese partners, BWE always keep abreast to the latest technology curve in technological innovation and design features of their products.

### **3.2 Corporate Philosophy**

BWE is committed to practice a high standard of corporate governance based on their corporate philosophy. The Company is consistently to seek for new business opportunities to create value for their stakeholders, while maintaining a high standard of business ethic based on their core values as the guiding principles. BWE’s corporate philosophy is incorporated with their corporate vision, corporate mission and core values as follows:

#### **The Vision:**

- Bringing the products and services to all over the world.

#### **The Mission:**

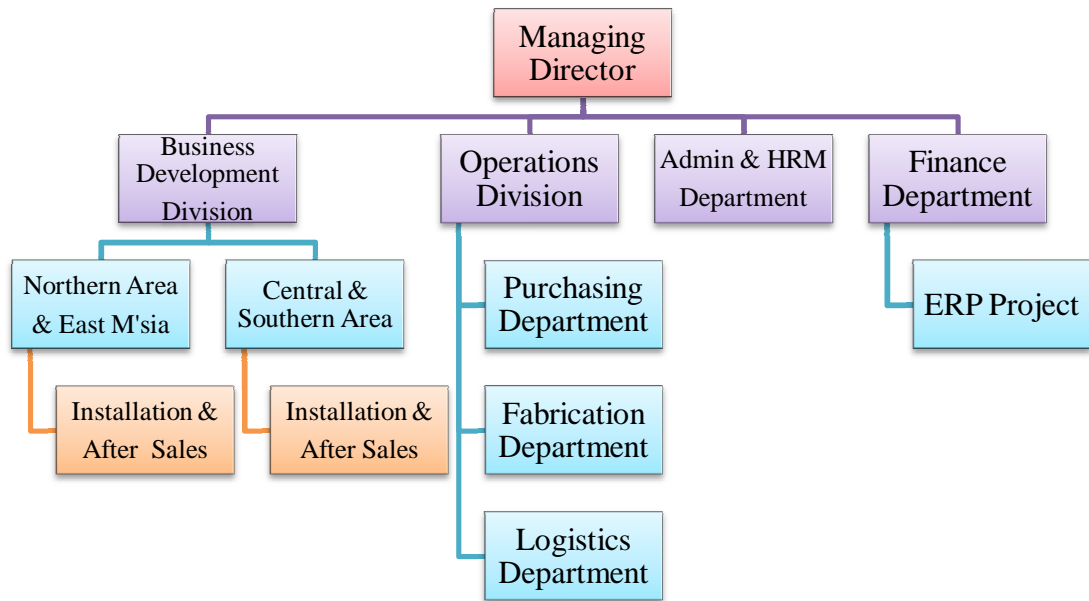
- Always exceed customer satisfaction by continuous improvement.

**The Core Value:**

- i. Offers excellent opportunities for professional growth, a competitive compensation package, and a highly collaborative work environment as well as international exposure.
- ii. The global sales and markets cover multiple market segments and provide employees with boundless experiences - never run out of challenges and continuous improvement.
- iii. Customer service satisfaction ranks high in the mission of delivering only the best quality products and services at optimum cost.
- iv. Reaches and extensive capabilities were built on the very basis of customer needs and wants.
- v. Coupled with robust quality management, the offerings enhance the customer's time to market, boost profitability, and reduce investment cost.

**3.3 Organisational Structure**

The organisational structure of BWE is based on the hierarchy structure system. The Board of Directors is responsible for formulating the company's policies, major investment decisions and performing the fiduciary duties. The board was appointed a Managing Director to oversee the operational functions of the Company. He organised the operational functions into the key functions are Business Development Division and Operation Division, and supported by the supporting function, namely Admin and Human Resource Management Department and Finance Department. Figure 1 illustrates the organisational structure of BWE.



**Figure 1: Organisation Chart**

*(Source: BWE's Quality Management System Manual)*

Business Development Division's main functions include new business development, new equipment installation and after-sales back-up services. The Company's operating several sales offices based in the major cities such as Kuala Lumpur, Johor Baru, and Kota Kinabalu. Operation Division's mainly responsible for the engineering designs, procurement of materials, fabrication of refrigeration system, assembly of machinery, warehousing and delivery services.

The Administrative and Human Resource Management Department provides the supporting functions for office administration, human resource planning, recruitment and selection, training and development, salary administration and health and safety

matters. Finally, the Finance Department is mainly responsible for the accounting system, cost analysis, financial report, and asset management. The Managing Director also assigned the Finance Department to supervise implement of their Enterprise Resource Planning (ERP) system.

### **3.4 Products and Services**

BWE is driven by design thinking and a deep commitment to putting the customer's needs first. On its relentless search of breakthrough for freezing technologies, BWE designs and fabricates a diverse range of products and services, including:

- i. Industries Refrigeration Systems:
  - Ice Plant, Ice Storage and Cool Room Storage System
  - Refrigerated Storage and Distribution Warehouse
  - Processing Area for Food Production
- ii. Food Processing and Poultry Processing Consultation:
  - Custom Made Processing Machinery
  - Consult in Effective and Efficiency equipments
  - Design Process Flow and One Stop Solution
- iii. Engineering and Services:
  - Plant Design and Engineering
  - Project Management

- Equipment Installation
- Testing and Commissioning
- After Sales Services

iv. Ice Making Machinery:

- Small capacity and Industrial Dry Flake Ice Machine
- Plate Ice Machine
- Commercial Use Tube Ice Machine

### **3.5 Business Model of BWE**

The principal activities of BWE are in designing, fabricating, sourcing and installing of the refrigeration system, freezing equipment and food processing equipment. The main marketplaces focus on food processing establishments, cold storage warehouses, ice-making distributors and export markets.

In order to understand how to operate a business, we used the Business Model Canvas (Osterwalder & Pigneur, 2010) to construct the business model of BWE as illustrated in Table 1. According to the Managing Director of BWE, the Company is based on the differentiation and cost leadership strategies to acquire their customers. The customer segments could be classified into Small-Medium-sized food processors, listed cold chain and food processing companies, international food processors operated in Malaysia and export market. The Small-Medium-sized food processors accounted more than 50% of sales revenue for the past three-years. The sales revenue

for export market has increased tremendously and contributed approximately 20% of total sales revenue in 2013.

**Table 1: Business Model**

|   |  |  |  |  |
|---|--|--|--|--|
| <b>Key Partners:</b> <ul style="list-style-type: none"><li>• Equipment and System suppliers from China, Taiwan, Japan and EU</li><li>• Principals of food processing Equipment</li></ul>                                    | <b>Key Activities:</b> <ul style="list-style-type: none"><li>• Designs</li><li>• Fabrication</li><li>• Installation</li><li>• After Sales Services</li></ul> | <b>Value Proposition:</b> <ul style="list-style-type: none"><li>• Customised designs equipment</li><li>• Competitive price with international quality standard</li></ul> | <b>Customer Relationship:</b> <ul style="list-style-type: none"><li>• Consultancy services</li><li>• Technology transfer</li></ul>   | <b>Customer Segment:</b> <ul style="list-style-type: none"><li>• SMEs food processors in Malaysia</li><li>• Listed Cold Chain &amp; Food Processing Companies</li><li>• International Food Processing Companies operated in Malaysia</li></ul> |
|   | <b>Key Resources:</b> <ul style="list-style-type: none"><li>• Auto-CAD design system</li><li>• ERP system</li><li>• Engineering supporting system</li></ul>  |  | <b>Channel:</b> <ul style="list-style-type: none"><li>• In-house installation technical team</li><li>• In-house logistic services</li></ul>  |  |
| <b>Cost Structure:</b> <ul style="list-style-type: none"><li>• Fabrication materials</li><li>• Importation of food processing machines</li><li>• Installation Cost</li><li>• Marketing Promotional &amp; Services</li></ul> |  |  | <b>Revenue Stream:</b> <ul style="list-style-type: none"><li>• Sales proceed from the refrigeration system and freezing equipment</li><li>• Sales proceed from food processing equipment</li><li>• Maintenance &amp; Upkeep Services Fee</li></ul> |  |

*(Source: Condensed from BWE's Business Plan and Corporate Brochure)*

BWE developed its value proposition based on their corporate tagline “*We stand by our name*”. The Company is not only helping the customers to solve the problems, but also create value for their customer to grow their business. BWE has a strong engineering and technical capabilities to design the customise-fabricated equipment. The equipment is fabricated based on the international quality standard with competitive price. Apart from this, BWE provides the installation and after-sales

services to ensure customer have peace of mind to operate their equipment. Moreover, BWE also provides the consultancy services for transfer of food processing technologies to help the customer improve the processing efficiency and people capabilities.

BWE is practicing “customer-first principle” to build and enhance customer relationship. The Company is providing the Customer Care Programme to support the customer include: 24-Hours on call services, 48 Hours Service Turnaround and Equipment Diagnosis services. According the Annual Customer Survey results, the Company achieved above 80% of customer satisfaction in 2013. In addition to the customer satisfaction, the Company fostered customer relationship also contributed to increase of customer retention rate more than 50% for the past three-year.

BWE is building a capable in-house installation team to provide the installation works and after sales services for their customers. The Company’s warehouse is keeping the major spare parts for the full range of equipment. Usually, the Company’s in-house logistic team will monitor the order request from customers from time to time and ensure the request for spare parts can be delivered within 24 hours.

With regards to the supply chain, there are supported by the key activities, key resources and key partners. The key activities are involving the activities such as designing, sourcing materials, fabrication of equipment, delivery services and installation works. The key resources include Auto-CAD designing system, ERP information system, and engineering supporting system. It provides the integration

support for the customer relationship management. BWE has been established with the collaboration, partnership with the refrigeration system suppliers from China, Taiwan, Japan and EU. The Company also appointed by number of frozen food processing equipment as the sole distributor in Malaysia.

The financial management system is divided into two main perspectives, namely revenues stream and cost structure. Currently, BWE is mainly generated the sales from revenue streams include sales proceed from the fabrication of refrigeration system and freezing equipment, distribution of food processing equipment and after sales service fee and spare parts. The cost structure is consisting of fabrication materials, importation of food processing equipment, installation costs and marketing promotional expenditures.

## **4.0 CASE ISSUE**

### **4.1 Case Background**

The Audited Report 2013 of BWE showed that the set-back of business performance caused by the sales stagnates and high operating costs. According to the management team of BWE, the Company faces challenges and issued attributed to both internal and external environment factors.

For the external environment factor, the Managing Director of BWE revealed that their marketplace was experiencing relatively sluggish economic performance after the general election indicates that the negative outlook of Malaysia's economic growth. He cited that a large part of the reasons for this poor growth performance include: increased cost of doing business, tighten public expenditures, recession in advanced countries and intensified competition with low cost producing countries.

According to the Business Development Director of BWE, Malaysia is no longer able to remain competitive as compared to the emerging countries in Asia such as China, India, Indonesia, Thailand and Vietnam. He mentioned that some of BWE's customers adopted the regional expansion strategy by relocating their operations to low cost producing countries in this region. Furthermore, he elaborated that the implementation of minimum wages, increased of electrical tariff, and reduced of subsidises created the great pressure for increase of price on materials, components and servicing.

At the same time, Malaysia Government also facing great pressure on increased of public expenditures and facing account deficits. According to MOF (2014), the public debts ratio had increased close to the threshold of fifty (55) per cent against the Gross Domestic Production. The international financial institutes such as IMF and International Rating Agencies had alerted Malaysian Government to tighten the physical policy and control the public expenditures to keep the public account at sustainable level. Government forced to take unfavourable decision in reduce on subsidises for essential items and suspended the SMEs grants for modernisation and upgrading. Those measures created the direct impact for food processors undergo for modernisation and upgrading of their processing equipment.

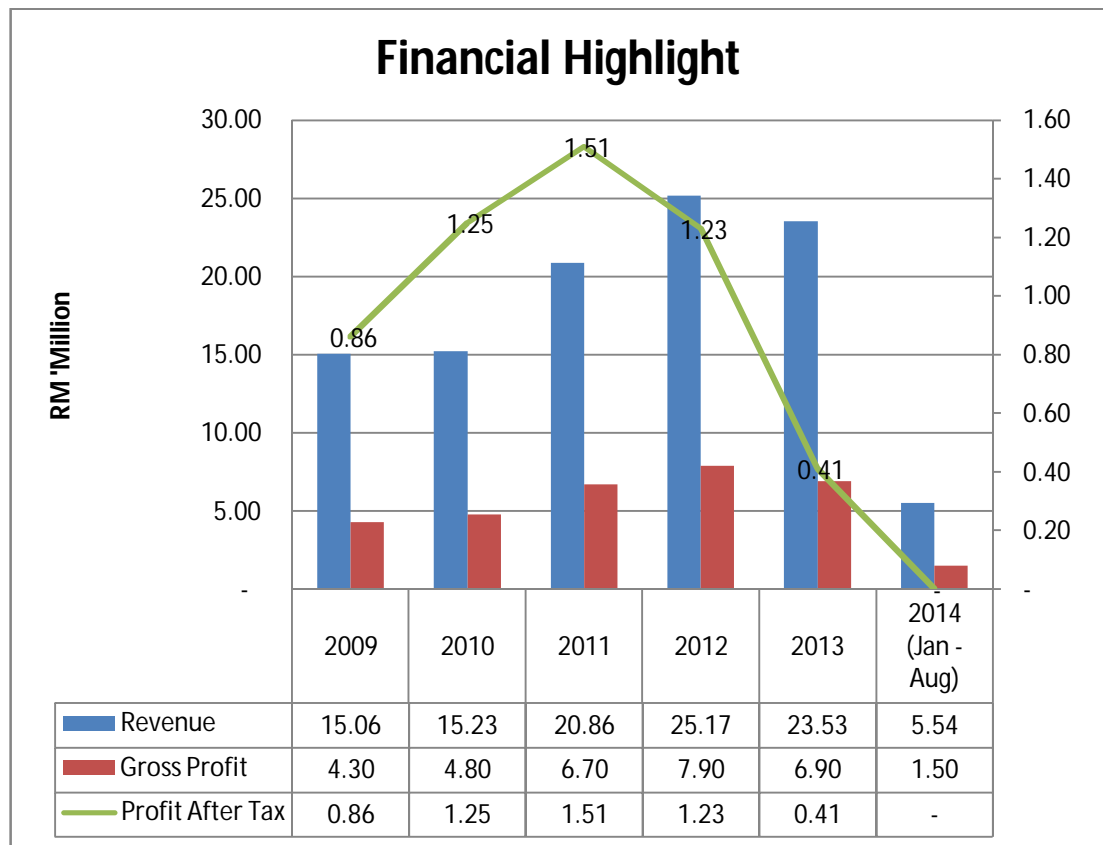
The continuing of recession of advance countries such as Euro Zone, Japan and the United States facing low consumer confidence level. Tighten of consumer spending caused slowdown of demand on the imported of processed foods. The trade bulletin published by Matrade highlighted that the overall export of processed foods from Malaysia to the advanced countries merely registered an increase of 5% growth in 2013 if compared with the corresponding period in 2012.

According to the Managing Director of BWE, the food processing equipment maintained a healthy competition among all the local competitors all the while. However, the competition scenario encountered a major change after the implementation of ASEAN plus One (ASEAN + China) framework in 2010. The low cost equipment fabricators from China Mainland penetrating into Malaysia market by targeting on the SMEs sector. This provides the alternative choice for the buyers to source the equipment from the Chinese suppliers directly with much lower

price. In order to face to the competitors from China, the Business Development Director of BWE mentioned that his company took various countermeasures such as offering better after sales services through extending of warranty period and to store spare part services for their clients.

With regards to the internal environment factors, the downturn of business performance affected both top-line and bottom-line of BWE. Based on the BWE's Audited Report 2013, the Company was registered negative revenue growth of 6.75%., the revenue was declined from RM25.17 million in 2012 to RM 23.53 million in 2013. The Managing Director of BWE predicted the negative outlook will continue in near future, thus, the revenue for Jan-Aug in 2014 indicated this negative sentiment.

The negative growth also created the impact for the low profit margin. The Company registered RM1.5 million of profit after tax in 2011. Due to the price competition among with the low cost producers from China Mainland, BWE's profit after tax declined from RM1.23 million to RM0.41 million in 2012 and 2013 respectively. The Company had incurred heavy loss of RM2.20 million for Jan-Aug 2014. Figure 2 shows the comparison results for Financial Year 2009-2014 (January – August).



**Figure 2: Financial Performance from 2009 to August 2014**

The sales stagnate that caused profit deterioration has become a critical issue for the management of BWE as the company also incur with higher operating costs. In order to strengthen the competitive advantage, the Company offers the extended warranty period and keep the spare parts for the clients was one of the main attributed increased of operating costs. The Managing Director of BWE highlighted that the additional operating costs increased includes: hiring new technical service crew, free replacement of spare part for extended warranty period and build-up the inventory level. Apart from this, the Company also employed a team of highly paid engineers and design experts to provide the technical design service and technical advisory services. The slowdown of demand has caused the Company unable to secure new