



UNIVERSITI PUTRA MALAYSIA

**Technocoat Group (M) Sdn Bhd
Go or not to go**

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**A case study in
Technocoat Group (M) Sdn Bhd
go or not to go**

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PART I

CASE WRITING

1.0 Introduction

At around 7.30 pm. Mr Freddie Yan, Managing Director of Technocoat Group (M) Sdn Bhd (TGSB) was still in his office. Like usual, he sank into deep thought, but this time is different. “ I need to make up my mind before next Friday,” he told himself. Mr C.S. Gan, Executive Director ,the owner of Box Matel Sdn Bhd had just called him again, he wanted to find out the decision on the expansion project of TGSB into the India market.

Mr. Freddie Yan sat at his high back chair and look at the report prepared by his International Business Manager, Mr S. S. Leong. Regarding the alternative ways to penetration into India market .He recalled the responses of other directors and senior managers in the directors meeting few days ago. Mr K.H. Wong, Senior Technical Manager had high lighted that the company is expanding too fast for the existing man power. Especially skilled technical staff could not cope with the expansion. Mr. Eddy Ong had mentioned that, the administrating process and operation system was not functioned properly, only the accounting and finance system are good order as done by appointed accountant firm. Mr. Freddie Yan ponder upon the internal problems that been listed down by Mr. Ong, 20% rejection rate, delay in production, delivery problem, high expenses, conflict between head office and branches.....



Mr. Freddie Yan was informed in the meeting that the problems occur since TGSB established its two overseas projects in Indonesia and Thailand about 1 year ago. TGSB had entered Indonesian market without any proper planning, and there were only slim profit return from Thailand's investment. These return from those investments are not up to the expectation of Mr. Freddie Yan.

2.0 The Company

2.1 Background

TGSB was founded in 1987, by Mr. Freddie Yan and Mr. Eddie Ong. After serving ZNC Ink Sdn Bhd for 11 years as Marketing Manager and Technical Manager, both of them was graduated in UK and now have decided to realise their dream to become an entrepreneur. They quitted their job from ZNC Ink Sdn Bhd and formed TGSB than started the operation at Jalan Kapar, Klang. The factory was only a double stories shop lot at that time.

TGSB was a mini size local paint manufacturing company. The business mainly concentrated on industrial paint, printing ink and coating related products. Because of the very nature of the business, it required fast response in problem evaluation and trouble shooting. Thus, customers services is very important, especially in technical support and problem solving in customer production line. The paints and ink produced by TGSB were customised or specially formulated according to customers requirement.

In the first 4 years The turnover was only about RM40,000 -RM60,000 per month with a gross profit of 20%. There were only 11 staffs to run the whole operation. Basically the products were sold to small and medium size industries. Those industries used these paints or ink as their raw material or semi-finished products to manufacture the finished products or consumer products like toys, bicycles, fans, lighting casing, calculators and office equipment. At that time, TGSB had to compete with the paint giants like Nippon paint, ICI and Beger. Yet, TGSB was able to supply and penetrate into those small and medium size industries as second or third supplier.

2.2 Customers

In 1990, a close friend of Mr Freddie Yan, Mr. C.S. Gan had a plan to expand his Box Metal Sdn. Bhd. business. Box Metal Sdn. Bhd. was a small size metal pressing factory producing speaker nets and it supplies to Taiwanese industries in Malaysia Those are manufactured speaker box and Taiwanese brand audio products. TGSB was one of the paint suppliers to Box Metal Sdn. Bhd and it consumed about 70% of TGSB's total paint volume output. Mr. C.S. Gan wanted to promote his speaker nets to Sony and JVC. Where Sony and JVC just started their operation in Malaysia.

The Japanese's requirements (Sony & JVC) are different from Taiwanese's specification. The JVC or Sony specifications are very high, because most of the audio and video set are for export market and are sold world wide. Sony and JVC normally also required their supplier to produce and supply others components together, like HI-FI casing, television casing, video player casing etc. TGSB was very interested in this proposal. However, Mr Eddy Ong as a Technical director at that time, must come up with a good paint formula that to pass the JVC and Sony specification.

TGSB had to move forward with the changes in technology together with the customer. It took great effort for Mr. Eddy Ong to formulate the paint for Box Metal expansion project. Mr. Freddie Yan decided to invite his good friend, Mr. K H Wong (Mr. Wong). Who have 13 years experience in automotive paint. He has been work with ICI paint since graduated from National University of Singapore in 1979. Mr. Wong joined TGSB as Senior Chemist and started to develop the paint that suits the JVC and Sony requirement. Mr. Wong took about 6 months to complete the technical work and to get the approval from Japan to ensure the paint formulated by Malaysian passes through the Japanese specification.

Mr. Freddie Yan understood that the technical know-how was very important to TGSB. He instructed Mr Eddy Ong and Mr. Wong to train more capable technical staff to support the company. TGSB had continue working together with Box Metal to get more Sony & JVC contracts. On the other hand, TGSB also aggressively promoted their product to other similar manufacturer like AIWA, Pioneer, Philip, National and Sharp.

It took a lot of time and effort for Mr Freddie Yan and his Marketing Manager to push TGSB's products to those audio and video manufacturer. By mid of 1992, most of the foreign manufacturer had built their confidence with TGSB's paint technology and at that time, TGSB was supplying to most of the audio and video manufacturers' vendors to produced the metal part, which were used for video and audio casing.

The sales value at 1993 was average at RM200,000 per month with a margin of 20%. The manpower had been increased to 60 persons, operated by 4 departments, technical, production, marketing and administration. Technical become a larger division with 33 members worked under new technical Manager, Mr Wong. TGSB moved to a new factory located in Shah Alam at the end of 1993.

2.3 Competition

Foreign investors, especially involved in audio video, computer, calculator, electronic appliances and camera, had expended their operation in Malaysia due to encouragement by Malaysia government. The trend for new design of these consumer products are using more plastic than metal. At that time, no other company in Malaysia can supply the plastic based, included ICI or Beger (PAR paint). The plastic moulding vendors, who supplied the plastic part to these electronic appliances company, had to import the plastic paint from Japan. The paint makers like ICI, NIPPON, PAR were not interested in this segment (plastic paint).

They were concentrating on their existing business like automotive paint, construction, house hold paint and industrial metal pain

The existing business of TGSB had only to compete with 2 big paint Gaint from Japan, Nippon paint and Kansai paint, which having the factories located in Shah Alam and Bukit Raja, Klang. But, it was difficult for Mr Freddie Yan to compete with them, especially the capital and technical support for these 2 competitors from their parent company in Japan. Mr. Eddy Ong saw the situation and he believe that the plastic paint was an opportunity for TGSB to excel further. Technical department now had extra responsibility to develop the plastic paint that having the same quality as imported products but with a lower cost.

2.4 New Opportunity

Mr. Wong and his technical team, spend one and half year, day and night in his laboratory. Travel around Japan, visited the Sony headquarters in Tokyo, JVC technical centre, Pioneer R&D centre and AIWA in Osaka. Product development and chemical research is not an one day job. The time, effort, knowledge, money and management commitment were necessary input, to built a confident technical team. At last, after one and half year laboratory work, the plastic paint formulated by TGSB passed through all the Japanese specification. The most important factor was price much lower than the imported products. In additional to this, the import tax duties for paint is 25% which made TGSB's products more competitive.

Sony was the first customer to purchase TGSB's plastic paint. This first lot of paint was painted on the video player plastic part moulded by May Plastic Industrial Sdn Bhd in Rawang at 1993. For the first time, TGSB's plastic paint penetrated into branded electronic appliance factories in Malaysia.

TGSB became a first Malaysian company that using Malaysian technology to compete with Japanese paint company in plastic paint segment. First in the history, TGSB break the record of turnover RM800,000 per month in 1993. The audio-video appliance coated with TGSB's product were distributed to the whole world. Mr. Wong had been promoted to Senior technical Manager since July 1993.

Industrial products were normally highly technical orientated, customised and required high flexibility in delivery and servicing Especially in problem solving and trouble shooting at customers' production line. The technical staffs in TGSB are required to go to customers' production floor and required to stay back in laboratory anytime. 24 hours on call in case of any problem happen at customers' production line. Mr. Freddie Yan and Me Eddy Ong knew that the servicing was very important to them. They gave full support to senior technical manager in term of man power, equipment and facilities.

2.5 New Branches

In view of customer satisfaction and fast response to any customers' complaint on the problem and supply. TGSB has to stay closer to their customer's factories. The main issue here was TGSB's customers were not only concentrated in Klang valley. 60% of its clients were located at Seberang Perai and Johor Bahru. The technical staffs faced endless difficulties when they went out far from Klang Valley. Especially they need to bring equipment or chemicals along. Even sometime the technical staffs were only knew what chemicals to solve the problem after they inspect the production line.

In 1994, TGSB brought over 2 light industry lot one each at Seberang Prai and Kulai, Johor. These 2 branches started their operation with the support from TGSB Shah Alam. Most of the staffs were transferred from head office, particularly technical and marketing department. This caused major shortage in technical staffs. When the senior technical staffs were transferred to the 2 branches, only 14 new staffs left in Mr. Wong's department. It cannot cope with the demand in Klang Valley. To train a good technical staff was not an easy job and can not be done over night.

2.6 Product & Development

Mr. Wong was unhappy with the decision. When he “mo ban huat” (no choice in Hokkien) discussed with Mr. Freddie Yan in this matter. This Managing Director said “ The company is expanding. Life has to go on. We can’t afford to stop moving just due to some internal problems!”. Mr. Wong had been told to employ more staffs. But it was not so simple. When Mr. Eddy Ong asked him to develop 2 new projects, Toy paint and BAP, Mr. Wong lamented “I really can’t stand the work load anymore! Can’t Eddy understand we are short of manpower ?”

Toy paint was not difficult. It just to make sure the paints formulated do not contained any toxic chemicals like heavy metals and must get the approval from FDA in USA. This project can be done within 3 months time. TGSB intend to develop toy paint due to he interest of Mattel Toy Product (M) Sdn. Bhd. They express their interest to work together with TGSB. If TGSB is able to develop paints that equivalent to what they are using now, which were imported from USA. Mattel Toy Product is an USA based company and is the number one biggest toy producer in the world. Mr. Wong was confident with this project, but he did not known whether it can be completed within 3 months time with existing 14 non-experience technical staffs.

BAP was not so simple. BAP is also a metal paints, but its totally different from conventional painting system. In the traditional way of production method. the metal parts were bended

and punched first to the size and shape according to the design required, follow by painting. In other words, Bending Before Painting or BBP. BAP is the latest technology. It meant Bending After Painting. Hence, the metal panels were in the feet sheet form. The first process was painting, then this painted sheet is to be delivered for 2nd process, bending and punching. The paint formula is complex and complicated. It must be very flexible and durable. Mr. Wong had a tough time on this project. He expect to take more than 2 years to develop the BAP.

Under the pressure from Mr. Eddy Ong. Mr. Wong recruited 3 new diploma holders in to technical department. The Toy paints had been developed. The approval certificate had also issued by FDA after 5 months of hard work at Shah Alam office. TGSB entered Mattel business with a new production plant located in Port Klang However, the BAP project still hanging at laboratory stage.

2.7 Operation & Human Resources

TGSB achieved excellent result in 1994 with 76 workers. The turnover stood at RM12 million in 1994. Mr. Freddie Yan gave a good bonus to all the staffs. At the annual management meeting. Mr. Wong highlighted to the management. The important areas needed immediate attentions. Especially the rejection rate of 20% of production out put in 1994. The 2nd problem was delay in product to poor raw material inventory planning system. 3rd problem was 40% of paint can not delivery on time to customers due to lack of planning.

Follow by the TGSB did not have any regulation and organisation formal work schedule structure. The expenses were out of control, especially in raw material handing cost, purchased a wrong equipment, excess of office stationary, etc.

The conflict among the staffs in TGSB and between head office and branches was serious. Additional to these, the job or duties was not evenly distributed. Some staffs were over loaded, others with too little work in the office. However, Mr. Freddie Yan and Eddy Ong did not take the problem seriously. In the mind of Mr. Eddy Ong, getting new business is more important than anything else. The company must keep going and growing to generate more profit in coming years.

Mr. Eddy Ong and Freddie Yan continue to look for new business, from north to south and from big clients to small clients. Mr. Wong was busy with his technical work and no one was involved in the administration of the 3 office and factories. By the end of 1995, the turnover increased to RM2.2 million per month. It almost double the sale value of 1994 with the man power of 81 staffs. However, the profit of the company was 14% lower than 1994, an 29 experience old staffs left the company. Mr. Eddy Ong started realised that the facts highlighted by Mr K H Wong at beginning of 1995. TGSB faced a very serious internal management problem. Mr. Eddy Ong planned to discuss this matter with his Managing Director after the celebration of Chinese New Year 1996.



2.8 Overseas Venture

2.8.1 Indonesia

1st day at the Shah Alam head office, after long holiday break of Chinese New Year and Hari Raya Puasa. Mr. K H Wong and Mr. Eddy Ong walk together to the Managing Director's room. Mr. Freddie Yan was engaged with someone on the phone. He was so excited when he put down the phone. He stood up from his chair and smiled with his 2 right hand men "Mr. C S Gan just call me from Indonesia, the PT Box metal already get the license to run the production in Jakarta. He invited us to set up a plant over there, and supply to them." Mr. Eddy Ong and Mr. Wong were shocked with this latest news. Mr. Freddie Yan continued "They will start operation middle of this year. At initial stage, they will purchase normal metal paint. When everything is stabilised, they will go for BAP." Mr. K.H. Wong did not have a chance to bring Mr. Freddie Yan's attention to the internal problems. Yet, Mr. Freddie Yan had already decided to go overseas market.

The reason TGSB entered the Indonesia market was simple. They were invited to go. TGSB did not go through any proper investment analysis and started the operation with a small factory lot. TGSB registered a new company in Indonesia as P. T. TGSB with 80% share held by TGSB (M) Sdn Bhd. The remaining 20% owned by local authorities. There were 18 Malaysian workers together with 40 Indonesians. The one and only customer was P.T. Box Metal.

Mr. Eddy Ong had appointed as Managing Director in P.T. TGSB and monitoring the whole operation. Mr. Eddy Ong encountered endless problems since first day P.T. TGSB started the business. The very demanding nature of local authorities, language, workers attitude, wages, local culture, habits, etc. were totally difference from Malaysia. In addition, TGSB has no idea of the actual paint demand, market size, volume consumption and even who were the main competitor. He took about 3 month time to understand the work practice, procedure, dealing with local authorities, regulation, material import taxation etc.

Mr. Eddy Ong was so unhappy with Mr. Freddie Yan decision on entering Indonesia market. After one year operation They were still only sell to one customer, P.T. Box Metal. The main reason was Mr. Eddy Ong did not have enough time to go for market development. However the business had to continue due to the commitment to P.T. Box Metal.

2.8.2 Thailand

In the beginning of 1997. 3 key persons in TGSB had sit down and discuss the delimma of TGSB. Mr. Freddie Yan agreed the proposal of Mr. Eddy Ong, to employ one General Manager to take care the Administration, Finance and plant operation. Mr. Freddie Yan also informed them, his 2 right hand men in the same meeting, “ We would expand our business into Thailand. This is our project of the year. We are required to supply and provide the services to Mattel Thailand in Samutprakam, 60 km from Bangkok.”

Based on bad experience in Indonesia. TGSB decided not to setting up wholly owned foreign subsidiary. TGSB entering in to Thailand by licensing through local agency company. Vincent Ink Company had selected as a agent to entering Thailand market. TGSB not only interested to supply to Mattel Thailand, but the whole Thailand industry paint market. Licensing strategy should be a first step. In the licensing agreement. TGSB would received 0.5% royalty on total sales and they must provided all the technical services by 3 technical executives station in Vincent Ink, Bangkok.

Thailand investment was running smoothly, however everything was out of TGSB control. The sales volume, value, market share, which customers, and how much Mattel Thailand buy from Vincent Ink Thailand also beyond TGSB knowledge.

2.9 Regional Economy Crisis

After 7 months operation in Thailand. The economy and currency crisis happened in this region. TGSB was not much affected by the economy downtown. Basically, most of the customers are export orientated, and the majorities of raw material were local source. However, production cost increases by 15% due to some of the raw materials was imported from Japan & USA. The sales in Malaysia and Thailand were still incredible and shown positive growth every month. On the other hand, the situation in Indonesia was uncertain. The operation of P.T.Metal Box has still on going. P.T. TGSB had to support the production

of Metal Box. After the political Crisis in Indonesia. Mr Freddie Yan announced to freeze all the major activities.

2.10 New Resources

In the middle of 1998, the sales value of TGSB was about RM3.1 million per month. TGSB had continued the planning of employ General Manager to start up the proper professional management system. Additional to this, Mr. Wong had required to take in international business Manager to over see the operation in Indonesia, Thailand and other further expansion. Mr. S.S. Leong had joined in on August 1998 as international business Manager, after retrenched by his previous company. He was a Regional Manager in charged the sales and technical services in South East Asia. However, there are no suitable candidate for the General Manager position.

2.11 New Investment

After 3 months in TGSB, Mr S.S. Leong has been asked for prepared the investment research in India by Mr Freddie Yan. Because Metal Box is going to join venture with one India local plastic moulding company. They are going to produce the full set of audio and video casing (plastic part & metal part) for few local electronic firms. India market is totally new to Mr. S. S. Leong. He suggested that to collect more relevant information within 2 month before making any judgement.

In November 1998, Mr. S.S. Leong presented his information to Mr. Freddie Yan on India paint market

3.0 India Paint Market Information

The Republic of India was founded in 1950, it has divided into 27 states political states and 6 union territories. The centre government manages external affairs, defence, policy, economic policy and the state government are concentrated on local issues. Congress Party had dominated the national politic. Since 1996 a coalition government, United front is in power. There are about 950 million population, 14 major languages, 200 dialects. 45% of it's population communicated in Hindi followed by Tamil. 83% of the population are Hindu, 11% are Muslim and 2% of Sikhs and Christians.

In term of economy, over 50% of gross domestic product (GDP) are agricultural based. India is the world 6th biggest in purchasing power parity (PPP) after USA, China, Japan, Russia an Germany. It also the 10th largest industrialised country and the country is also active in nuclear energy, space, satellite, oceanography, oil drilling and armaments technologies. Multinational and foreign companies has an advantage investing in India. India has one of the largest and deepest pools of world class scientific and engineering talent, the widespread use of English as the national business language, large skilled workforce and increasingly

consumerist middle class. Real GDP which increase from 1.8% in 1991 rose to 7% in 1995 and 1996. The industrial production index was 1.2% in 1995, 1.3% in 1996.

South East Asia currency crisis has not affected the India economy. India's currency, rupee has held firm against the US dollar, and the government are toward making Rupee fully convertible on the capital account by year 2000. Foreign currency assets in 1997 was US \$19.5 billion, covering around 3.25 month of import. The import duty is 35.5% in 1997 and would reduced to 25% by the year 2000, the corporate taxes also reduced to 40% from 48% in 1997.

India's economy, especially industry sector are opened gradually to allow foreign competition in next few year. However, the entry license in industrial sector take long time to get and must go through a lot of procedure. The key facts on Republic India is summarised in Exhibit 1.



Exhibit 1 : Key facts on republic of India

No	Particular	Data
1.	Area	3,288,000 Km ²
2.	Population (1995)	936,000,000
3.	Population projection (2025)	1,370,000,000
4.	Urbanisation rate (1993)	26% (of population)
5.	Life expectancy (1993)	61
6.	Structure of production (1994)	42% services, 30% agriculture 28% industry
7.	Main exports	jewellery, ready made garments, engineering products, cotton, fabric & leather products
8.	Main import	petroleum, oils, machinery, chemicals, iron and steel.
9.	Main trading partners	US, Germany, Japan, UK
10.	Total foreign debt (1996)	26.5% of GDP

Source : The UBS Guide to the emerging market 1997 Pg. 281



The potential of paint market in India is great, based on the India population and the growth rate birth on population and purchasing power.

The comparison data between Malaysia, Thailand, Indonesia, Indian can be found in table 1.

Table 1 : Income category comparison between Malaysia, Thailand, Indonesia and India, projection to year 2010 (US\$)

Country	2001 - 2010 forecast (growth rates)			2010 forecast		
	Population	GNP	GNP/Capital	Population	GNP(Million)	GNP/Capital
Malaysia	2.20%	5.00%	3.70%	28,160,000	168,006	5,966
Thailand	1.20%	5.00%	3.80%	69,998,000	772,264	4,674
Indonesia	1.50%	5.00%	3.90%	243,312,000	1,312,517	948
India	1.80%	5.00%	3.20%	1,220,483,000	2,567,450	544

Source : Global Marketing Management 6th Edition Warren J. Keegan 1999

