

SEJAHTERA DRIVEN INTEGRATION STRATEGIES AT KAWAN COMPANY

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EXECUTIVE SUMMARY

Integration strategies at Kawan Company enables the company to strengthen its corporate, business and functional strategies as market leader in Asia for halal frozen food. It has achieved as regional leader of halal frozen food. The emergence of new rivals in the same industry with more innovation and valuable features, Kawan Company formulated vertical and horizontal integration strategies. The Sejahtera driver for its vertical and horizontal integration embedded in the Tawhidic paradigm spiritual *halalan* and *toyyiban* with *shari'ah* and *akhlak* dimensions.

KEYWORDS: Sejahtera, Integration strategies, Frozen food, Malaysia

INTRODUCTION

Our report is on Kawan Company, which is Malaysia's leading producer and exporter of Asian frozen food. Based in Shah Alam, the company was founded more than thirty years ago and sells frozen products in many countries throughout the world.

Mission, Vision, Values and Objectives

Kawan Company's vision is, "We aspire to be a renowned player in the food and beverage industry globally". Their mission is to be the best in selling high quality, affordable, and convenient food. The company has three main objectives, which are: 1. To be constantly ahead in innovation, technology, and Research & Development. 2. To deliver excellent customer service to attain customer loyalty and satisfaction. 3. To be a caring and sharing employer, as well as a socially responsible company to our shareholders.

Business Model and Other Relevant Information

Kawan Company's strategy is based on quality, price, and convenience and can be considered a broad differentiation strategy. They sell high quality frozen food products at competitive prices, which enable customers to enjoy traditional food on demand in the comfort of their own home. They also cater to Malaysians living abroad who miss the flavours of their home country, as well as restaurants who do not want to make everything from scratch.

EXTERNAL ANALYSIS

The PESTEL Analysis/Dominant Economic Factors

Political Factors

Malaysia is still relatively stable compared to many countries around the world and this is good for Kawan Company. Strong trade ties with China should continue to help Kawan

Company expands their business presence in that country. Hopefully the trade agreements will help Malaysian trade, despite the fact that the USA pulled out of the agreement earlier this year.

Economic Factors

The weak ringgit is a huge boost for Kawan Company, since they export 60% of their products. On the downside, domestic sales are weak. Nevertheless, Kawan Company is performing better than expected financially overall.

Sociocultural Forces

People all over the world are becoming more health conscious, even in Malaysia. This means that Kawan Company had to consider these changing trends when they introduce products into various markets. People love convenient foods, since many are living busy lifestyles, and demand for frozen foods just keeps growing. More often now than in the past, both parents in a household are working and do not have as much time for cooking. It seems that in many markets, consumers are more open to ethnic and exotic foods, which will be great for Kawan.

Technological Factors

Kawan Company is strong in using technology in research and development, quick-freezing, etc. They have a decent online presence on Facebook and their website, but they may need to strengthen their web personality even more, as this becomes increasingly important, possibly allowing people to place orders online from home, etc.

Environmental Factors

Kawan Company will need to think about how to make their packaging more environmentally friendly and make their new factory as “green” as possible too.

Legal/Regulatory Conditions

Being a part of the trade agreements will also cause changes in various laws and policies that may affect Kawan Company, such as minimum standards for workers and also occupational safety and health.

The 5-Forces Model of Competition

Rivalry among Competing Sellers

Some of Kawan Company major competitors are Figo, Kami, As-Sabeel, PA Food, and Kart's. While many of these companies produce similar products, Kawan Company claims to be "Malaysia's leading exporter and largest manufacturer of Asian frozen food delicacies". It does appear that Kawan Company is better known, larger, and growing faster than many of these other companies. Therefore, we would say that the competitive pressure is moderate, since there are many competitors and low switching costs for customers. Because the market is growing quickly, the pressure is lessened somewhat.

Buyers

We would say that buyer power is medium because buyers can easily switch brands. At the same time, frozen food is still somewhat affordable for people, even during a recession.

Suppliers

We would also say that the bargaining power of suppliers is weak because most of the raw materials that Kawan Company uses are readily available, such as flour, sugar, and oil.

Firms in Other Industries Offering Substitute Products

Firms such as restaurants making fresh, instead of frozen, chapathi and paratha would be examples of those offering substitute products. We would say that this competitive pressure

is low because, although Mamak shop food is readily available, people still value the convenience and comfort of consuming frozen food.

Potential New Entrants

This competitive pressure is probably low because entry barriers are high for new companies who want to produce frozen foods. For instance, they must have a high injection of initial capital to afford all of the equipment needed for set-up and gain economies of scale.

Overall Impression of the Profitability of the Industry

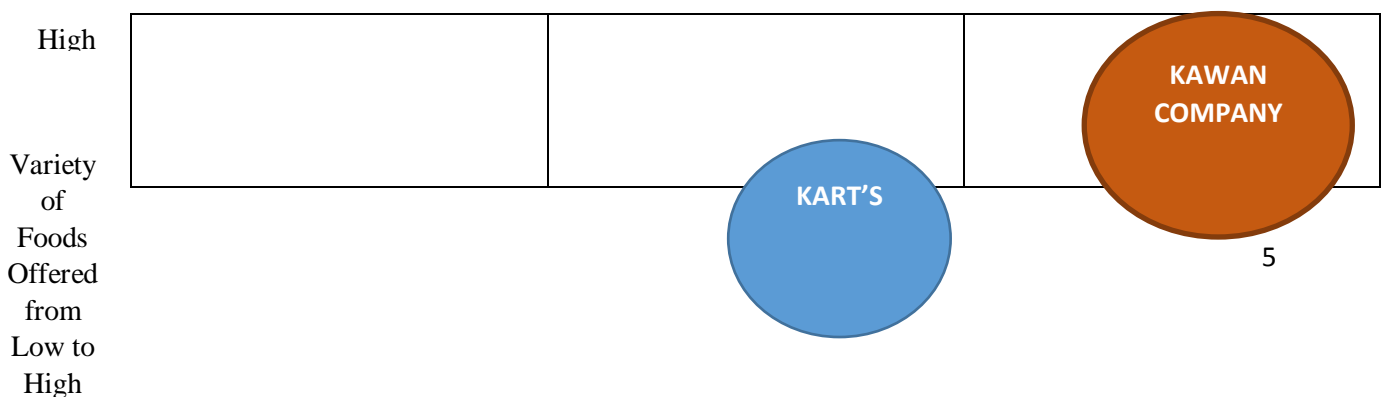
The industry outlook is good for Kawan Company, since they have already been established for over thirty years and don't face very strong competitive forces.

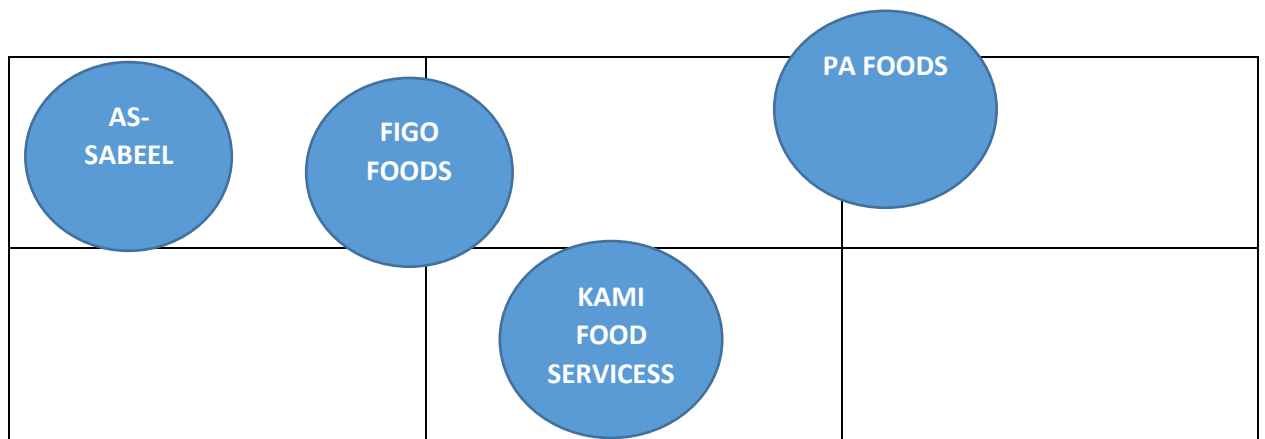
Drivers of Change

One of the major drivers of change in the frozen food industry is changing societal concerns, attitudes, and lifestyles. This is working both for and against frozen foods. In the area of convenience, frozen foods are a big hit with busy consumers. However, increasingly health conscious buyers may find it hard to disassociate frozen food from being unhealthy, even though many frozen food manufacturers are offering more options, including organic foods. Another driver of change that falls under this category is the rise of the halal food industry. It is no longer just Muslims consuming halal food, but people from many various faiths and backgrounds.

Strategic Group Mapping

The Malaysian Frozen Food Industry





Low

Narrow As you can Geographic Market Scope from see from the Broad strategic group mapping, Narrow to Broad Kawan Company is still in an attractive place. The main reasons that it is set apart are its successful penetration of global markets, as well its' extensive variety of foods, as compared to the other vendors, which includes tortillas, halal dim sum, and other unique products. PA Foods and Kart's are Kawan Company's closest competitors and the ones to watch out for.

Key Success Factors

Three of the key success factors in the frozen food industry are product differentiation (quality, taste, variety, etc.), ability to adapt to change (R and D, new trends), and supply contracts in place for key inputs.

INTERNAL ANALYSIS

Financial Report/Financial Ratio

Revenue & earnings per share

Consensus estimates analysis

	# of Estimates	Mean	High	Low	1 Year Ago
SALES (in millions)					
Year Ending Dec-17	3	232.90	244.50	219.20	257.70
Year Ending Dec-18	3	294.27	325.00	252.20	325.00
Earnings (per share)					
Year Ending Dec-17	3	16.10	17.30	14.00	21.90
Year Ending Dec-18	3	21.00	26.00	15.10	28.00

Sales and Profit Figures in Malaysian Ringgit (MYR);

VALUATION RATIOS

	Company	industry	sector
P/E Ratio (TTM)	33.29	23.17	40.43
P/E High - Last 5 Yrs.	28.69	36.47	42.28
P/E Low - Last 5 Yrs.	7.44	17.72	26.38
Beta	0.42	0.92	0.63
Price to Sales (TTM)	6.41	1.92	6.36

Price to Book (MRQ)	4.11	3.57	36.14
Price to Tangible Book (MRQ)	4.11	4.50	40.08
Price to Cash Flow (TTM)	30.32	15.75	35.72
% Owned Institutions	--	0.07	0.07

DIVIDENDS

	Company	industry	sector
Dividend Yield	0.56	1.87	1.97
Dividend Yield - 5 Year Avg	0.83	0.35	0.14
Dividend 5 Year Growth Rate	21.79	-0.17	0.48
Payout Ratio(TTM)	17.46	3.45	3.11

GROWTH RATES

	Company	industry	sector
Sales (MRQ) vs Qtr. 1 Yr. Ago	3.98	7.44	7.74
Sales (TTM) vs TTM 1 Yr. Ago	12.74	7.46	8.09
Sales - 5 Yr. Growth Rate	12.43	9.21	10.82
EPS (MRQ) vs Qtr. 1 Yr. Ago	45.76	1.07	4.05
EPS (TTM) vs TTM 1 Yr. Ago	-4.63	--	--

EPS - 5 Yr. Growth Rate	10.91	7.32	8.18
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Capital Spending - 5 Yr. Growth Rate	58.75	7.64	7.84
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FINANCIAL STRENGTH

	Company	industry	sector
Quick Ratio (MRQ)	3.52	1.29	1.10
Current Ratio (MRQ)	3.88	1.75	1.70
LT Debt to Equity (MRQ)	6.94	24.39	6.82
Total Debt to Equity (MRQ)	8.18	46.29	34.43
Interest Coverage (TTM)	789.76	6.91	35.83

PROFITABILITY RATIOS

	Company	industry	sector
Gross Margin (TTM)	46.95	31.04	35.43
Gross Margin - 5 Yr. Avg.	43.97	28.93	37.87
EBITD Margin (TTM)	25.95	--	--
EBITD - 5 Yr. Avg	24.16	15.19	19.90

Operating Margin (TTM)	22.46	13.48	3.66
Operating Margin - 5 Yr. Avg.	19.86	12.40	18.29
Pre-Tax Margin (TTM)	22.23	12.40	-0.44
Pre-Tax Margin - 5 Yr. Avg.	19.69	10.99	17.99
Net Profit Margin (TTM)	17.65	8.91	-5.49
Net Profit Margin - 5 Yr. Avg.	15.65	7.82	13.32
Effective Tax Rate (TTM)	20.60	28.98	26.15
Effective Tax Rate - 5 Yr. Avg.	20.52	28.04	25.75

EFFICIENCY

	Company	industry	sector
Revenue/Employee (TTM)	--	2,639,405,438	4,340,506,347
Net Income/Employee (TTM)	--	159,932,853	616,035,725
Receivable Turnover (TTM)	4.43	15.34	24.42
Inventory Turnover (TTM)	8.89	6.58	6.76

Asset Turnover (TTM)	0.60	0.92	1.88
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MANAGEMENT EFFECTIVENESS

	Company	industry	sector
Return on Assets (TTM)	10.61	8.34	26.82
Return on Assets - 5 Yr. Avg.	11.57	8.14	30.84
Return on Investment (TTM)	11.90	12.30	61.89
Return on Investment - 5 Yr. Avg.	13.11	12.06	68.16
Return on Equity (TTM)	12.98	15.92	73.26
Return on Equity - 5 Yr. Avg.	14.01	15.22	77.53

SWOT Analysis

Strengths and Competitive Assets

- Monetary assistance provided
- Skilled workforce
- Over 30 years of experience in market
- High quality & well-known products
- New factory and food trucks

Weaknesses and Competitive Deficiencies

- High investment in Research and Development. (R&D)

- Focus on traditional frozen food products only. Many of their foods may not be very healthy.

Opportunities

- Growing economy worldwide and increasing disposable income
- Good time to export products because of weaker ringgit
- Growth rates and profitability of frozen food market
- Global markets and growing tastes for ethnic food abroad

Threats

- Government regulations
- Cash flow
- Tax changes
- Technological problems
- Increasing costs
- Global instability because of Donald Trump and the death of TPPA

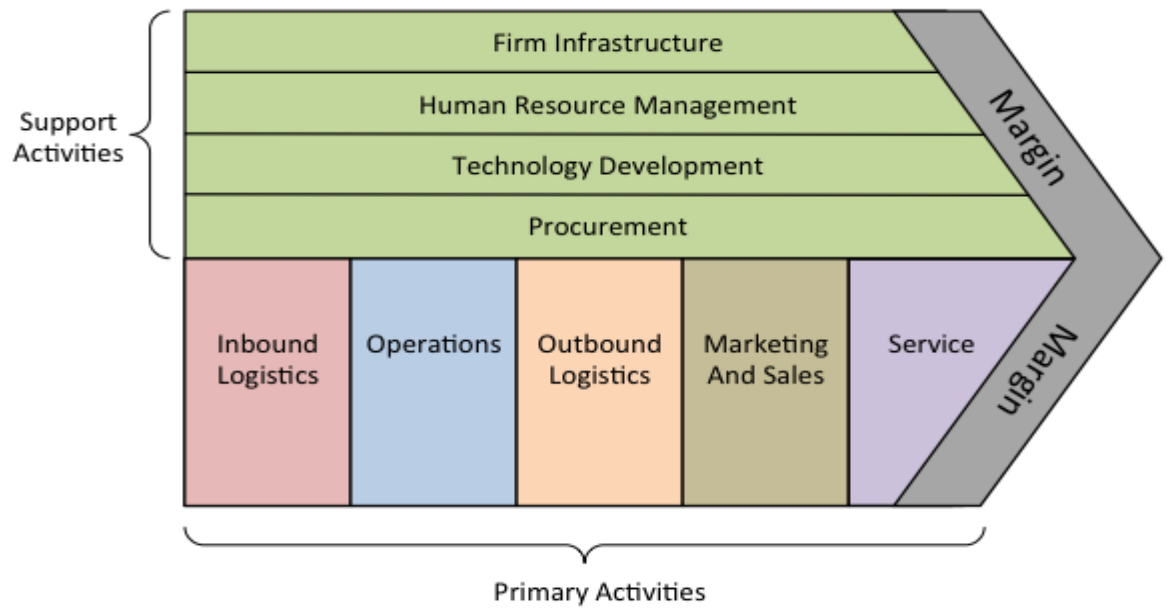
RESULTS FROM THE SWOT ANALYSIS

We would say that Kawan Company is relatively strong at this point and their growth outlook is quite positive. According to some of our research, the frozen food market is predicted to grow around 4% between 2016 and 2019, due to rising disposable income and busy lifestyles that lend themselves to a desire for convenience, especially in Europe.

The attractive aspects of the SWOT analysis are that their financials are really good and their products appeal to a broad range of customers in various countries. They have a proven business model and continue to balance tradition tastes with new innovations. The

unattractive aspects of the analysis are not many, except that they have to deal with the rising costs of raw inputs, such as sugar, but this can be offset to some degree by the fact that their products will be very attractive in foreign markets, due to the falling ringgit.

Value Chain Analysis



Step 1

Identify what activities create value for the customer. Kawan Company’s customers are very interested in good taste/quality and convenience. Therefore, technology development, procurement, and marketing all play an important role.

Step 2

Evaluate the differentiation strategies to increase product differentiation and customer value. Kawan Foods must make sure that quality is maintained all throughout the value chain. They already do many things to ensure the good quality of their products, like getting various certifications and educating their partners about high standards. Kawan Company is constantly checks and scrutinizes all of their processes. The company also continues to invest in R and D, believing that this will be an ongoing source of competitive advantage and will enable them to continually innovate a provide customers with even more convenience.

Step 3

Identify the best sustainable differentiation. Since taste and variety is something that is important to Kawan Company’s customers, it seems like a good idea if they gradually and deliberately increase the varieties available to the consumer. As discussed earlier, Kawan Company may want to begin offering some organic or enriched roti or do some trendy thing like have a certain percent of the sales of one or more of their products donated to a good cause, like fighting diabetes and raising awareness about the disease. There are also lots of Indian breads that Kawan Company does not yet produce, like poori, bhatura, thepla, missi, kulcha, and luchi. If they don’t want to create a completely new type of bread, they could start offering even more varieties of paratha and chapatti, like onion, garlic, etc. There are also different types of Malay roti that they can do, such as roti jala and roti boom. They should experiment with these to offer more variety. Additionally, why don’t they start to offer frozen curries? These would be the perfect complement to these frozen breads.

Competitive Strength Assessment

In this competitive strength assessment, we decided to look at how Kawan Company stacks up against its’ two closest competitors – PA Foods and Kart’s.

Key Success Factor	Importance Weight	Kawan Strength Rating	Kawan Weighted Score	PA Strength Rating	PA Weighted Score	Kart Strength Rating	Kart Weighted Score
Product Differentiation	.4	8	3.2	7	2.8	6	2.4
Ability to Adapt (Investment into R and D, Responsiveness to Trends)	.3	7	2.1	7	2.1	5	1.5
Supply Chain and Stability of Key Inputs	.3	8	2.4	8	2.4	8	2.4
	1		7.7		7.3		6.3

As this strengths assessment shows, Kawan Company is in a strong position, but they need to watch out for PA Frozen Foods to keep their competitive edge.

9-Cell Matrix

We decided not to include the 9-cell matrix, since it is most valuable for determining which companies are a high priority for investment and PA Frozen Foods is not listed on Bursa Malaysia.

IDENTIFICATION OF STRATEGIES

Corporate Level Strategies

Kawan Company acquired Dikawani in 2017, which is a food truck business. This will help the company to become more vertically integrated, since it will now own trucks where its food can be sold and distributed. Kawan Company also owns Hot and Go, a joint venture with Hot and Roll, as well as a factory in Nantong, China, which produces frozen food for both the local Chinese and International markets. Kawan Company in Nantong has also entered in to a joint venture to produce halal dumplings for Chinese consumers.

Business Level Strategies

The generic strategy of Kawan Company is broad differentiation. We know this to be the case because they focus heavily on R and D, quality, and customer service and invest lots of money into these areas. They don't just focus on a certain niche like Malaysians, but try to sell their food in many different countries to various types of people. Kawan Company does try to keep its products affordable, but cannot compete solely on price, so we cannot classify them as a low-cost competitor. Since the quality of their food is high, people are willing to pay more for their products. This strategy has worked well for them so far and set them apart from other sellers of frozen food in Malaysia. Kawan Company must be one of the only companies in so many countries selling frozen Malaysian food, so this will make it easier for

them to be differentiated. Kawan Company just needs to be careful not to overspend on differentiating in ways that are easily copied by rivals. They need to understand and invest in differentiating in ways that matter and add value to the customer.

Functional Level Strategies

Some of the functional level strategies that Kawan Company has employed to continue to move towards their vision of being a renowned player in the food and beverage industry globally are to focus on increasing efficiency and innovating to drive growth. For example in the Research and Development department, Kawan Company continues to come up with new and exciting processes. The Sales and Marketing Division has had a major focus on further penetration into the European Market, increasing revenue from this segment by nearly 25%. With the new factory open, the company is also targeting the ready-to-eat market, which includes restaurants and airlines. Products need only be warmed up in the microwave. Kawan foods has also wisely become a major player in the global halal market.

Operational Level Strategies

Some of the specific operational strategies have been to build a new factory in Pulau Indah, Port Klang, which is now finished will increase the company's capacity five times. Any excess capacity will be rented out to make the best use of the space. The new plant will also see an energy savings of between 20 – 25%.

IMPLEMENTATION ISSUES

Corporate Level Strategies Issue

As stated above, as of early of 2017, Kawan Company is expanding their activities through the food truck business. The company said it is acquiring a 51% stake in Dikawani Foods Sdn Bhd, which is in the business of food trucks (Bursa Malaysia). Nowadays, food truck business is one of the most phenomenal waves that are arising among Malaysians, and yet we are known as a "Food Paradise", since we're offering customers a variety of food from different ethnic groups in Malaysia, as well as International communities. So, back to the case study, it is good implementation for Kawan Company to participate in the food truck businesses, but there is a slight issue because people rarely look for frozen stuff at a food

trucks. For example, if we going to the Food Truck Event at Tapak nearby KLCC, all of the food truckers provide the customers with a fancy variety of products and most of them are ready to be eaten and made to order. So for Kawan Company to compete with them, it is quite tough without proper marketing strategies.

Business Level Strategy Issue

Kawan Company focuses on a broad differentiation strategy, thus they need to focus on their R&D, product quality, and their services. By doing so they need to spend a lot, especially on the R&D consumption, and yet Kawan Company always enhances their products through R&D development. So here there is a slight issue because all those machines for their R&D purposes are quite expensive, with all the technologies changing all the time, so it will be an issue whether it's worth it or not.

SPECIFIC PROBLEMS/CHALLENGES

If we look at the whole case study of Kawan Company, there is no specific problem or challenges that they need to face. In fact, they are now the leader of the frozen food industry in Malaysia. Compared to others, Kawan Company has their own label and they are one of the only frozen food companies with Halal certification that is going abroad off Asia as well as into the European market. Maybe the only challenging part that Kawan Company needs to focus on is the issues arising regarding the Corporate Level Strategies (Food Truck Strategy) and Business Level Strategies (R&D Development).

Kawan Food Truck

As mentioned above, customers always look for a variety of fancy products on food trucks, especially foods that are ready to be eaten. Thus, as a frozen food manufacturer, instead of selling frozen Kawan Paratha & Kawan Food Chapatti at the food trucks, maybe they can made their products ready to be eaten to as well. For example, maybe they can sell “Chapatti Hot & Roll” to the customers as they try to bring the old fashioned traditional food together with a new way of food presentation.

R&D Development

One of the successful keys for Kawan Company is through their R&D development. There is no doubt about it, but as time goes by, their consumption on R&D development needs to be analyzed. It is because R&D development is related to technology, so there is no way that Kawan Food can catch up as technology changes frequently. So maybe Kawan Company can focus more on the product presentation or customer services enhancement instead of technology development only. Plus, good presentation of products and good services will be less costly compared to R&D development.

RECOMMENDATIONS AND SEJAHTERA ISLAMIC PERSPECTIVE

To perform and maintain in a business is not easy, especially when we became a leader in that particular business. The same goes for Kawan Company. For over 30 years they have been established and maintained in the frozen food industry and they even became the leader of frozen food suppliers in Asia as well as Europe. Currently, Kawan Company is on the right track to expand their frozen food business. With all the technology that they already have, their specialty workforce expansion, advantages in the area of R&D, as well as the fact that the acknowledgment of their company name among customers is no longer in doubt. So there are no major areas currently that are issues for them. Maybe there are small recommendations so they can make enhancements to their business strategies:

- Produce a larger variety of frozen food. – Exp: Western frozen food like pizza, chicken nuggets, etc.
- Try to implement more examples of healthy frozen food. – Such as organic, reduced fat, and enhanced.
- Food Trucks. - Focus on a ready variety of food like “Chapatti Hot & Roll”.
- Emphasis more on food presentation & services.

From a *Sejahtera* Islamic point of view, Islam encourages people to do business all over the world, as long as it follows the right path of Islam, so it would not be a problem. Plus, there is one of the verses in the Quran that has mentioned that 9/10 sources of wealth come from business/self-employment, and only 1/10 sources are coming from other sources. Thus it's clearly shows us that Islam has a bright view of and emphasizes business.

There are issues when it comes to export and marketing Kawan Company products abroad. It is because different countries have a different rules & regulations that Kawan Company needs to be compliant to. So Kawan Company needs to clarify these matters so that all of their products can get into the market without any issues of bribing & riba.

For example, Kawan Company does a lot of business in China, where companies are likely to experience bribery, facilitation payments, political interference, and other forms of corruption. Ahmad narrated from Tawban who said: “The Messenger of Allah (SAW) cursed the briber, bribe-taker and the mediator meaning the one who walks between the two.”

CONCLUSION

As you can see from the graphic below, the Malaysian ringgit, while gaining in strength in the coming years, will still remain weaker compared to the US Dollar (if analyst’s predictions hold true). This is continued good news Kawan Company.

The exchange rate, coupled with their new factory, and joint ventures, as well as continued growth in the frozen food industry and halal products market worldwide (see graphics below), indicate a bright future ahead for Kawan. The success of Kawan Food is a good thing for Malaysians everywhere, since they not only provide jobs, but also promote Malaysian cuisine and Malaysian culture throughout the world.

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