

## Does Business Advisory Help? – The SMEs Dilemma in Malaysia Livestock Industry

**FAKHRUL ANWAR ZAINOL**

Faculty of Business Management and Accountancy  
Universiti Sultan Zainal Abidin(UniSZA)  
Gong Badak Campus, 21300 Kuala Terengganu Terengganu, Malaysia.  
Email: [fakhrulanwar@unisza.edu.my](mailto:fakhrulanwar@unisza.edu.my)

**WAN NORHAYATE WAN DAUD**

Associate Professor Faculty of Business Management and Accountancy  
Universiti Sultan Zainal Abidin(UniSZA)  
Gong Badak Campus, 21300 Kuala Terengganu Terengganu, Malaysia.  
Email: [wnhayate@unisza.edu.my](mailto:wnhayate@unisza.edu.my)

**NALINI ARUMUGAM**

Faculty of Business Management and Accountancy  
Universiti Sultan Zainal Abidin(UniSZA)  
Gong Badak Campus, 21300 Kuala Terengganu Terengganu, Malaysia.  
Email: [nalini@unisza.edu.my](mailto:nalini@unisza.edu.my)

**NOR ASMAHANI IBRAHIM**

Faculty of Business Management and Accountancy  
Universiti Sultan Zainal Abidin(UniSZA)  
Gong Badak Campus, 21300 Kuala Terengganu Terengganu, Malaysia.  
Email: [norasmahani@unisza.edu.my](mailto:norasmahani@unisza.edu.my)

### *Abstract*

*NMF Company (NMF) is a manufacturing and trading company which operated since 2008 in Kuala Terengganu, Terengganu, Malaysia. NMF offers ruminant feed products such as pallets, pallet feeder cattle and dairy cattle feed pallets. From the beginning of its establishment, the company faced various challenges and obstacles; from operation up to human resources related issues. Though, having good products and have been recognized by the Ministry of Agriculture (MOA) and HALAL certification from JAKIM (Malaysian Halal Certification Authority), it did not favour the company in capturing the market share in the industry. Despite various action being taken by the management, it seem not enough for the company to moving forward. Thus, the company is looking other alternatives to resolve all the issues. This case study examines NMF's operational challenges within SMEs context and how the company can benefits from the business advisory services offered by various parties.*

**Key Words:** *Business challenges, Livestock Industry, SMEs, Business Advisory Services.*

### **Introduction**

Mr. Akhtar Ahmad, the founder and CEO of NMF Company was relief with the facts presented by his Managing Director, Mr. Jamal Mansor about the status of livestock industry in Malaysia. The Malaysian livestock industry is a critical component of the agricultural sector which provides major employment and

main sources of animal protein food for the nation. The sector contributes about 18 percent to the total Food Sector Agriculture Value Added and export earnings. He also highlighted that the pig and poultry industries have been able to transform themselves from traditional farming to highly modern, commercial and efficient production systems within a relatively short period of time. Nevertheless, the ruminant sub-sector is not achieved the target despite of huge budget received from the Government in its development plans. Cattle, buffalo, goat and sheep represent the ruminant sub-sector and principal producers are mostly from smallholders in this sub-sector. Thus, the government via its five years development plan emphasized that "the further growth of the agricultural sector requires that the nation address the challenge of efficient and optimal utilization of existing resources in order to further improve competitiveness. Resource constraints and rapid changes in the global trading environment necessitate the development of a resilient agricultural sector and the enhancement of its global competitiveness. "The competitiveness of the sector will, among other things, be enhanced through productivity improvements, developing and strengthening markets, removal of market and trade distorting measures ..." said Mr Jamal Mansor in his further explanation on the prospects of the industry.

However, despite the bright prospect for livestock industry in Malaysia, Mr. Akhtar Ahmad doubtly argued himself, "Is the facts potrayed the real issue in livestock industry in Malaysia?; in particular SMEs (small and medium enterprises)?" Being involved in production and trading ruminant feeds for the last 3 years had exposed his company with various obstacles. "If the potential market is huge as mentioned by my Managing Director, why the company is struggling till now to capture the market? Or there are other issues that lies underneath of the iceberg?", he thought.

### **The Company**

NMF Company (NMF) is a company engaged in the manufacturing and trading of ruminant feed. NMF was founded in 2008 by Mr. Akhtar Ahmad and Mr. Jamal Mansor which is also the Chairman and Managing Director of this company. Meanwhile, Mr. Karim Hashim was the Project Manager of this company. The factory is located in Gong Badak Industrial Area, Kuala Terengganu, Terengganu, Malaysia. The factory is producing pallet for cow and goat feed. This factory is almost 4 years in operation. NMF is divided into three department namely, Operations, Research and Development (R & D) and Production.

The company was set up with a paid-up capital of RM 2.5 million by both Mr. Akhtar Ahmad and Mr. Jamal Mansor. In terms of share holdings, Mr. Akhtar Ahmad hold 60% and Mr. Jamal Mansor hold 40% of the share. NMF is established to venture into agro-based enterprise in Malaysia and has made an extensive research in livestock feed production which become their strength and core business. Although, they have made an extensive research on the production part, they did not have a proper business model where they did not know the direction of the factory and also did not have proper marketing strategies.

The NMF organizational structure consists of two persons on the Board of Directors (BOD), and a few staff under them. The company has 15 staffs, which is divided into two parts, 9 people in the production and 6 people in the administration. The production staffs in the company also have to do multitasking jobs. If any of the administrative staff suddenly quits, the production staff has to temporarily do the administrative job as well. The company is taking this approach because they want to cut cost.

NMF offers goat food products such as pallets, pallet feeder cattle and dairy cattle feed pallets. NMF has been conducting research with expert from the MARDI, Dr. Mahmood Abas about the ingredients or formulations to produce the right ingredients and good pallet for cattle and goats. A raw material used for the production of agro-based pallet which include palm kernel, maize, cassava and molasses or sugar. The company's products have been recognized by the Ministry of Agriculture (MOA) and also has the HALAL certification from JAKIM, the Malaysian Halal governing authority.

## The Business Challenges

As far as the business challenge is concern, the company was facing severe production problems since beginning. For example, the company had long operations halt caused by machines replacement factor and circuit installation work. The machine which has been booked from India has created many problems and the company had to bear the additional costs. Indirectly, it affects the salary payment to the workers in the factory where there was high fixed costs incurred without any productions at all.

To resolve the issue, NMF ran some fodder trading business. They also have a fish fry rearing in Lake Kenyir, Terengganu, Malaysia. Funding from the parent companys also help them to bear the plant's operation costs while it stopped. On the other hand, stopping the production means loss customers; the customers start to switch their choice to buy pallets from another company. This situation made the company status become worst. Thus, NMF need a very good strategy to gain back the market share. As reflected by Mr. Karim Hashim, "We don't know whether the customers could accept the product, but one thing for sure is the potential is there...then again, it also depends on our marketing strategy. What I could say is the risk also there. No risk, no gain! So that's how we started this up with the availability of opportunities and potential customers"

Another challenge faced by NMF was due to its product pricing. The NMF product price is higher compared to other competitors as a result of high quality materials being used. Something need to be done to overcome this issue since the products are very price sensitive. Any increase in price would make customers shift to other competitors. Besides that the company also needs to fully understand the market and future trends of the livestock industry. Currently NMF participates in a many seminars organized by Federation of Malaysian Manufacturers (FMM) and Malaysia External Trade Development Corporation (MATRADE) because these institutions have current updates on the market. NMF will assigned their staff in the seminars but in matters regarding policies, the directors themselves will go.

In nutshell, the company dependency on single supplier make the raw materials for producing the pallet was inconsistently being supplied thus effected the whole production. They also have the problem in the price of raw materials such as palm kernel cake where the price has always fluctuate. The financial record of the company was in decending trend. The net profit in 3<sup>rd</sup> year operation was RM 290,525 compared with second year, where the net profit was RM 328,446. Administratively, NMF was constantly facing high turn over rate. Typical situation in any SMEs, those who come to work for NMF only see the SME as a stepping stone for them before getting better job somewhere else.

## The Dilemma: Does A Business Advisory Service Help?

With various issues pertaining the companies make the founder and CEO, Mr. Akhtar Ahmad looking for the alternatives. "Do I need business advisor to help me resolve all the business issues and strategies? What kind of advisors exist or available in the market? How much they cost? How good they are?" the thinking keep running over and over and yet no decision being made.

Currently, NMF did not demand a lot from their internal accountants. Due to its low gearing ratio, NMF earlier engaged the service of a small accounting firm in internal auditing. Only after the expansion in operations and with the expiration of its tax exemption status, NMF is now employing the service of a larger accounting firm especially for their tax, audit and secretarial services. To NMF, the professional services given by the outsource firms have been very helpful because the company depends very much on their external accountants for advice on planning for R&D, capitalization and others. The company also accepts any services that can contribute to its development in terms of getting resources, minimize wastage and increase efficiency. Additionally, improvement in services related to minimizing costs and increasing efficiency and productivity are required NMF since the company has not been exposed to new management improvement techniques as yet.

NMF finds that the service fees charged by the outsourcing companies are quite expensive and it appears to be a burden for them which haven't guaranteed constant sales. Alternatively, NMF can get business advisory services offered by local university in their area. The services which also similar to the outsourcing companies or external consultants but at a cheaper cost and yet not compromising on the quality of the delivery. Furthermore, the university also offers further potential industry – university collaboration in R&D if initial engagement shows significant progress. However, dealing with government agency will take a longer time than expected which if not carefully plan will effect the market timing of the company's product.

### Questions of Concern

- 1) Do NMF need to find a new market for all of its products?
- 2) How can NMF deal with high service fees charged by the outsourcing companies? Or looking for other alternative; business advisory services offered by local university?
- 3) How can NMF reduce the turnover rate in the company? Will NMF able to increase their net profit?
- 4) Do NMF need new leadership in the management team?
- 5) How can NMF prepare itself for the business sustainability and competitiveness for long-term success?

### Conclusion

With the recent problems and issues that took place, NMF must have difficulties in dealing with those issues as highlighted in the case. NMF must find ways to manage the issues well, indeed, they also must take an action to solve them. Getting advices from an experts or consultants will give some insights in terms of new ideas and opportunities which must be part of transformation plan by NMF. Having the best technology already gave competitive advantage for NMF in offering more quality products and getting more orders from customers. To remain success and sustain in the business, NMF must reevaluate its current strategies and propose new strategic planning for its business growth.

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