
ANALYSIS OF THE COMPANY

The following are the Strength, Weaknesses, Opportunities and Threats (SWOT) analysis of the company and the industry environment. It is then followed by the analysis of construction industry competitiveness using Porter's five forces model and a feasibility study of the target markets. A Value-Chain Analysis is being carried out to evaluate the company competitiveness.

4.1 SWOT ANALYSIS (COMMON ISSUES)

4.1.1 STRENGTHS

4.1.1.1 GOOD REPUTATION

Sunway Construction Berhad has already earned a respectable name and position in the construction industry in Malaysia and the region. It enjoys such excellent reputation through the high quality and efficient, timely completion of work done.

In fact it has won numerous accolade and awards, including the 'Prime Minister's Golden Hand Award' in 1992, 1993 and 1994. In 1997, the company was given the prestigious MS ISO 9002 award by Standard & Industrial Research Institute of Malaysia (SIRIM) under the category - "Provision of Construction Services for Building and Civil Engineering Works", a testimony of the company's high quality of work, service excellence and proven track record.

The company again achieved another momentous achievement with the award of the IFAWPCA GOLD Medal for Building Construction by the International Federal of Asian and Western Pacific Constructor's Association in 1998 at its convention in Malaysia, an international award certainly a boost to its global image. The professional image projected by the company is certainly a valuable asset in marketing its services.

4.1.1.2 LEADERSHIP / CAPABLE MANAGEMENT TEAM

Among many other things to business success, there is probably nothing more important than leadership and a good and capable management team. A good leader is one who can inspire and motivate his team to achieve everybody's goal and resulting in a win-win situation. A good and capable management team would help to realise the vision of its leader and in difficult time like the present crisis, help the company to pull through.

The success of Sungei Way Construction Berhad, being one of the largest construction companies in the country, has been the result of the leadership of its founder, Tan Sri Dato' Seri Dr. Jeffry Cheah and its dynamic, dedicated and highly profession team, both management and operational. Tan Sri Cheah (in short) is a vision oriented, hardworking entrepreneur, who is able to Inspire and motivate its team to fulfil the company goals and targets set. He possesses the qualities of a good business leader, who care and be with his employee during the turbulence of the business. He is capable and able to choose the right people to realise the corporate vision. Undeniably, the leadership of Tan Sri Cheah is a powerful strength of the company. It is definitely a force to reckon with in the future development of the corporation.

4.1.1.3 GOOD RAPPORT OR RELATIONSHIP WITH GOVERNMENT

From the list of record of work done through out the past, one can see the large proportion of public projects secured and completed by the company, indicating the good excellent business relation with the authority concerned.

Sungei Way Construction Berhad, as a corporate Citizen has always been supportive of good social project initiated by the government. The government, being the biggest and most important customer and client, must be served well as the government project is also the people's project as a whole.

4.1.1.4 SYNERGISTIC ADVANTAGE

Sungei Way Construction Berhad is privileged to enjoy the combined resources of the Sungei Way Group, one of Malaysia's most dynamic and integrated conglomerates with a sizeable number of constructions related companies.

This enables the corporation to tap the invaluable experience and expertise of the group's management team, its financial strength, and reliable sources for material and services from companies within the group. This synergistic combination adds dimension to the corporation's capabilities, providing it with the advantage of competitive pricing, assured quality and shorter project completion period when tendering for projects. On the business front, SWCB continues to tap into the growth of its sister companies especially the property development and property Investment Company. SWCB has been the main contractor for the Bandar Sunway Projects, including the famous Sunway Lagoon Theme Park, Sunway Lagoon Resort Hotel, Menara

Sunway etc. Thus, synergistic advantage for SWCB within the group is a mighty strength for the company.

4.1.1.5 PUBLIC-LISTED

Being public listed in the KLSE in 1977, SWCB is accessible to public fund and hence making expansion much easier when opportunity comes by. Financially, the company liquidity and cash flow are also enhanced, contributing to the smooth running and financial stability. Being public listed, SWCB also attracts the investment of foreign investors, at the same time, help to market the company's services globally. As indicated in the annual report, as at May 2000, American International Assurance Co. Ltd (AIA Co. Ltd) owns 772,000 share or 0.43% of SWCB.

4.1.2 WEAKNESSES

4.1.2.1 OVER DEPENDENCE ON THE DOMESTIC MARKET

A glance through the projects completed, SWCB is very much a 'Local' Company focusing mainly in the domestic market, in fact almost all in West Malaysia. Such over-dependence on West Malaysia market has manifested as a weakness during the recent financial crisis, whereby the turnovers and profits declined tremendously. The local construction market has become very competitive with the shrinkage of volume of construction business due to abandonment, deferment of project and the doldrums in the property market. Moreover, the total numbers of registered contractors are on the rise, registering almost 39,000 in 1999 compared to 21,000 in 1996. With the opening up of service industries, construction industry being one of them, foreign international companies would join in the fray. Thus making the

construction extremely competitive. To survive and maintain growth, SWCB must venture out of the domestic market.

4.1.2.2 OVER DEPENDENCE ON GOVERNMENT/PRIVATISED PROJECTS

Although government projects are almost riskless, they have become very competitive to secure and politically toned. As such, they are unreliable with the wind of change blowing, transparency and corporate governance are making headway, relationship and networking strategy with the governing authority may not ensure big project. As a counter measure, SWCB must expand beyond to non-government markets.

4.1.2.3 CHANGE OF MINDSET – BE A ENTREPRENEUR AND NOT JUST A BUILDER

Like many other contractors, SWCB is still very much a builder than a entrepreneur. Many contractors lack marketing. They would look for tenders, submit quotation, slash prices and perhaps, 'Lucky' get the job with much below the line promotion activities. It is timely that SWCB stops thinking like a builder. It should behave like an entrepreneur, strategising all its tactical moves.

4.1.2.4 WEAK MARKETING OR BUSINESS DEVELOPMENT DEPARTMENT

The newly set-up business development department has much to energies up its marketing activities. Previously, new business developments were under the senior management of the company. The business development department consists of few staff and lack market research intelligent. For example, there is hardly any advertisement of any form on the company.

4.1.2.5 LACK OF INTERNATIONAL EXPOSURE

SWCB has always been a local construction builder, only recently it ventures into the Taiwan market as outsourcing of manpower to one international company. It has very limited international exposure as to international experience, global networking, not to mention any tie-ups with global contractors. As construction industry has become a global entity, such prerequisites are global entrant qualifications, lacking of them are certainly at a competitive disadvantage.

4.1.3 OPPORTUNITY

4.1.3.1 TRADE LIBERALISATION AND GLOBALISATION

Trade liberalisation has led to globalisation. Based on general Agreement on Trade and Services (GATS), which is based on general Agreement on Tariff and Trade principles of multi-liberalism, non-discrimination and broad reciprocity, the international construction services has posed tremendous opportunity to local contractors who dare to dream and be creative. In the past, overseas construction activities by Malaysian contractors were operating at low level of interest mainly operating in Indonesia, Singapore, Thailand and Philippines due to its close proximity.

With the trade liberalisation, SWCB should seize the opportunity to venture beyond to countries like India, Pakistan, Myanmar, Vietnam, Laos, Cambodia, China, Morocco, Bosnia Herzegovina and Kazakhstan, just to name a few.

4.1.3.1.1 ASEAN OPPORTUNITIES

The ultimate objectives of AFTA (ASEAN FREE TRADE AREA) are to increase ASEAN's competitive edge as a production base geared for the world market.

A critical step in this direction is the liberalisation of trade in the region through the elimination of intra-regional tariffs and the elimination of non-tariff barriers. This will have the effect of making ASEAN's services sectors more efficient and competitive in the global market. For the construction industry, common effective Preferential Tariff Scheme (EPF) has reduced some Malaysian building materials, a tariff reduction from 20% to 0.5%. Cooperation and mutual tapping of expertise together with ASEAN members Commitment to strengthen the construction sector are among the agreement at the first round of negotiation. As a construction company aiming for the global market, SWCB should take opportunities on this development to fully market its services.

4.1.3.2 CULTURAL OR LANGUAGE ADVANTAGE

Malaysia, being a multi-racial country and located in the strategic location, enjoys the cultural similarity and language advantages when coming to business out-venture in this region. SWCB could take opportunity of this advantage when venture into India, Pakistan, China, Taiwan, Indonesia, Thailand and others. Being a Muslim country, there's definite advantage too when venturing to Muslim countries in the Middle East.

4.1.3.3 INDIA MARKET

Due to a very large and self-sustaining domestic market, and fairly robust economy, Indian Construction Industry did not face much extreme impact from the economic crisis. India continues to rapidly develop its infrastructure. By current estimates, inclusive of the investment backlog in areas like urban services the investment needed in the infrastructure sector over the next decade to support an annual GDP growth rate in the range of 7 to 8 percent is around NR 15,000 billion (US\$429 billion). Such a huge infrastructure development therefore presents enormous opportunities to infrastructure developer like SWCB (see appendix 3).

4.1.3.4 GOVERNMENT-FUNDED KICK-START PROJECTS

After the failure of IMF recommended measures to save the economy 1997 from the financial crisis, the government of Malaysia immediately formed the National Economic Action Council (NEAC) to assess independently the situation and examine ways to bring a speedy recovery to the economy. Among the measures, NERP recommended the continual government investment in civil works and infrastructure development. SWCB could explore those opportunities whereby the government would kick-start more construction projects in the infrastructure and property sectors (Journal of Master Builders, 1998).

4.1.4 THREATS

4.1.4.1 TRADE LIBERALISATION

Trade liberalisation brings both opportunities and threats. Local construction industry has become more competitive with the entrance of foreign construction companies. Many are already global or

international corporations. They are venturing into local market with various competitive advantages in terms of management system, innovative technology, integrated approach and financial capability. Similarly in the international market, various threats do exist, namely the local political environment, corruption, protectionistic sentiments and challenges posed by the local company.

4.1.4.2 MERGERS AND ACQUISITIONS

The wind of mergers, acquisitions and consolidations has been blowing in several industries, such as in the financial industry, the Auto industry, oil industry and so on. The next phase would be the construction industry. Successful mergers or acquisitions would result in ever-bigger corporation giants, which are posing threats to other industry players in terms of cost effectiveness, innovation and financial strength. As such, SWCB must plan ahead in order to face the challenges ahead, perhaps forming strategic alliances or merging with a compatible industry player to boost its competitiveness.

4.1.4.3 NEW ENTRANTS

The construction industry has been one of the foremost components of Malaysia's economic boom before the 1997 financial crisis. It has enjoyed double-digit growth for eight consecutive years since 1989. The constructor sector has constituted on the average of 5% to the Gross Domestic Product (GDP). As a result, the number of players in the industry has been increasing, except in 1998, remarkably. The number of registered contractors in 1999 (40,000) has almost doubled compared to that in 1996 (20,000). Outsourcing has been a practice in the construction known as sub-contracting. Therefore, the barrier of entry into the contracting business is low.

As such, SWCB has to be aware of the competition posed by new entrants, especially those have good connection politically.

4.1.4.4 GATS AND PROTECTIONISM

The visibility of construction works often trigger protectionistic sentiments in many markets. The most convenience devices are technical specifications and standards, which are formulated to ensure quality products and processes. Alternatively, licensing legislation may stipulate a typical requirement that a contractor will only be issued with a contractor's license if he can demonstrate an adequate level of local track record. The effect of protectionistic barrier may be overcome by the establishment of some kind of strategic alliance locally through joint venture or sub-contracting arrangements or simply to buy a vehicle for the overseas operation.

4.2 PORTER'S FIVE FORCES ANALYSIS

4.2.1 POTENTIAL NEW ENTRANTS

In the construction industry, the entry barrier of new companies is not high. It is because many parcels of the project can be outsourced out. However, to be an established construction firm it needs track record of good work and it takes some time to prove. But, in an ever-changing business environment, a new entrant with good networking, good political link does stand a good chance to get big and lucrative project. Thus, potential new entrants could not be taken easily. They pose competition to existing market players. SWCB does have to watch out for threats from new entrants. SWCB has to keep vigilance by being competitive in terms of cost, innovativeness, and approach. Meanwhile existing companies, big or small, could pose challenges through the process of merger or acquisition.

4.2.2 BARGAINING POWER OF BUYERS

The bargaining power of buyers, in this case the developers, have increased due to the diminished market, the increase number of constructors and the opening up of local market to oversea players. This empowerment of buyers is more so in private projects, where cost is a dominant factor. To counter these powerful customers, SWCB could look into strategies like, cost leadership, differentiation, and focus strategy and productivity strategy. The company could also look into alternative design and integrated approach to enhance its competitiveness.

4.2.3 BARGAING POWER OF SUPPLIERS

Suppliers of building materials have always been strategic and tactical to building contractors. As a result of the massive development over the last few years before 1998 the supplies of certain building materials, in particular cement have come under pressure. However, the supply and demand of building material is seasonal.

In the present construction market, where survival is the prime concern of all players, be builders or suppliers, suppliers of building materials are having strategic influence towards the success or failure and the bottom line of any project. The supplier can make or break the contractor. In this aspect, SWCB is in a more favourable position as it has the support of the in-house suppliers as well as having good credit standing with other suppliers.

4.2.4 THREAT OF SUBSTITUTE PRODUCTS

Construction industry is basically a service industry, although there are building materials and the final product is tangible. As far as building

and civil engineering contractors are concerned, they are offering their professional services in terms of knowledge, skills, process management and maintenance. Strictly speaking, there is no substitute service. However, the ways and processes could be more effective and efficiency. Construction industry used to be perceived as a 3D industry (Dirty, Demanding and Dangerous). But a fundamental paradigm shifts are taking place, transforming it into a 3 P industry (Professional, Productive and Progressive). Such an approach is already happening in advance countries such as Japan.

Construction industry is being viewed potentially as a knowledge industry instead as a labour intensive and low skilled industry. Experience in other advance countries has shown that the skills, content of the industry can be very high and there is scope for the industry to apply and produce high levels of knowledge and capabilities as in other technologically advance industries.

A distributed manufacturing approach is being applied in the construction process, replacing the traditional In-Situ Construction Approach. Construction materials and products can be manufactured off-site and brought together on-site for assembly, making it more akin to that in the manufacturing sector. This would increase productivity.

An integrated approach is also replacing the traditional segregated approach in the construction industry. All one player could take such approach in collaboration with other players in supplies of construction materials, consultants, contractors and developers. Therefore, SWCB has to be creative and be ahead of all these transformations in the industry.

4.2.5 RIVALRY AMONG COMPETITORS

According to Construction Industry Development Board (CIDB), the total number of registered contractors as at 31st December 1999 stands as 39,340, out of the 39,340 contractors, 55% being G1 contractors. The group of contractors are allowed to perform jobs worth RM100,000 and below. There are 1,653 contractors in the G7 graded, about 4% of the total number of contractors. G7 graded contractors are allowed to perform project of unlimited value. According to the 1994 construction Industry survey, total value for projects under RM500,000 was 5%, while the G7 graded contractors undertook 74% of the construction volume, while the rest was shared among others. This indicates fierce competition existing in the lower construction market. Competition does exist in the upper market among the G7 graded contractors as the number of mega projects are few. In this upper market, the local G7 contractors have to contend with foreign players, who are normally reputable and world class status (see CIDB report 2000).

4.3 VALUE CHAIN ANALYSIS

The Michael Porter's value chain analysis is carried out on SWCB to assess its capability to deliver customer value and satisfaction to its clients.

4.3.1 PRIMARY ACTIVITIES

4.3.1.1 INBOUND LOGISTICS

Inbound Logistics in the construction industry, the building materials are basically supplied to the sites. As some parcels of job are outsourced out, there is no direct control over the inbound Logistics. The company has planned to venture into steel fabrication, so that the

supply of steel materials, a major component of construction services can be enhanced. SWCB has been very prompt in delivery of its services. As such, inbound logistics has played a major role.

4.3.1.2 OPERATIONS

SWCB has the strong back up of plant and the company, ranging from Backhoe to Tower Crane owns machinery. The operation department has over 150 strong force of staff. All of them are experienced and well-trained SWCB emphasise on right man for the right job. The company also implemented project incentive programs so as to ensure excellent performance, enhancing company's bottom line as well as delivering customer satisfaction.

4.3.1.3 OUTBOUND LOGISTICS

SWCB has always been prompt and timely in delivery of projects. It can be seen by the awards it has received throughout the years. It has accumulated an excellent track record of good work done.

4.3.1.4 MARKETING AND SALES

SWCB lacks behind in marketing of its services. Perhaps it is the norm of construction company's practice emphasising tendering other than marketing. SWCB has to adopt a new paradigm, thinking like an entrepreneur other than a builder to aggressively market its services, by strengthening its Business Development Department. Meanwhile, sale could be improved by strengthening Tender submission through pricing strategy, offering of cheaper alternatives and familiarizing with tenderee's selection criteria.

4.3.1.5 SERVICE

The after-sale service of SWCB is the maintenance of finished project to oversee any shortcomings and general maintenance. This has been a smooth process and the cost is minimum as a result of excellent work done.

4.3.2 SUPPORT ACTIVITIES

4.3.2.1 FIRM'S INFRASTRUCTURE AND HRM

SWCB's infrastructure consists of various departments house-in Menara Sunway. Each department is made up of capable staffs. The company emphasises very much on human resources training to develop work skills, technical competency, management expertise as well as positive values and attitudes. There is also One-The-Job Work Development program. As part of career development programs, selected groups of staff will be put through various aspects of work and functions to familiarise and enhance their job skills. Proper coaching and guidance systems are there to support the staff as well as to provide feedback for improvement. These infrastructure support and excellent Human Resources Management has certainly place SWCB above par compared with the market standard.

4.3.2.2 TECHNOLOGICAL DEVELOPMENT

In this aspect, SWCB was awarded the ISO 9002 quality system in 1997. It also adopts Hi-tech communication systems, such as the web-intranet technology to disseminate date and information across the organization, enhancing execution of information on the company's operation. The company is also exploring video conferencing

technology to facilitate international communication as the company venture overseas.

4.3.2.3 **PROCUREMENT**

SWCB has to operate efficiently in all its aspects of its operations, be it in direct job implementation or support activities, given the present highly competitive market and its demand .

Apart from determining the delivery outcome of the final product to the customer's satisfaction, it will also determine whether the company makes or breaks from the job. SWCB has been practising JIT purchasing so that minimum stocks are kept. Such system brings cost savings, reduced workers to handle inventory and a quicker and more competitive market response for the company. However, SWCB is still improving the whole procurement system to strengthen the sourcing function for more effective and competitive purchasing of materials and more favourable terms.