

Chapter Two

IMPACT ANALYSIS

2.1 The Approach

It is extremely important to analyse the company's operating environment as this reflects the industry's effects on the firm's efforts to achieve strategic competitiveness and its potential to earn above-average returns. In this case, the education industry's growth potential and its intensity of competition are functions of five competitive forces:

- The threat of new entrants
- The bargaining power of suppliers
- The bargaining power of customers
- The threat of product/service substitutes
- The intensity of rivalry among competitors

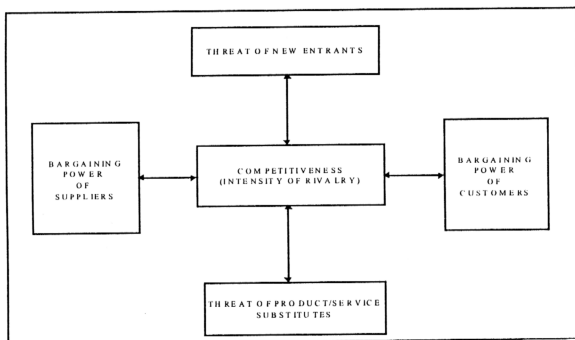


Figure 1. Porter's Five Forces Model. (adapted from Hitt, Michael A. et al, *Strategic Management - Competitive & Globalization* (1996))

The five forces model in Figure 1 was developed by Michael Porter and it serves to accurately reflect the impact of the five aspects of competitive analysis.

In addition, it is also necessary to include the effect of government legislation and regulations on the industry. This makes it the sixth force that the company must deal with. The following analysis will show that this is not a trivial issue. Furthermore, the pressures of the internationalization of business have not spared the education industry such that off-shore opportunities can no longer be ignored by the IHLs.

2.2 Analysis

2.2.1 Threat of new entrants

New entrants to an industry can threaten existing competitors. Such entrants bring additional service capacity. This is not necessarily bad especially if domestic demand for local education is on an upward trend, in the light of the present crisis. However, from KDU's perspective the following adversities need to be countered:

- New private institutions of higher learning (IHL) set up by public-listed conglomerates as these organisations realise that they will be viewed as good corporate citizens especially when scholarships are awarded to deserving students.
- The business provides good cash flow although the profits are low in comparison with those generated by other industries.
- A number of small shophouse-type unlicensed "colleges" have been set up to capture unsuspecting students.

2.2.2 Threat of Product/Service Substitutes

Substitutes can perform similar or the same functions as the focal product.

The greatest challenge posed by substitutes is the upper limit they place on the prices that private IHLs can charge. The threats facing KDU include the following:

- "3+0" programmes offered by Kolej Bandar Utama, Nilai College, HELP Institute, Asia-Pacific Institute of Information Technology, Binary Business School, Kolej SAL, Inti College, Sedaya College, Limkokwing Institute of Creative Technology and Stamford Executive Centre (The Star, 1st July 1998, p.1).
- Academic programmes offered by the four private universities and the existing public universities.
- Distance learning opportunities offered by local and foreign IHLs through the Internet.
- Professional courses offered by the Chartered Institute of Management Accountants (CIMA), the Association of Certified Chartered Accountants (ACCA) and the Chartered Institute of Marketing (CIM).

2.2.3 Bargaining Power of Suppliers

Generally, the suppliers are critical to the IHLs' marketplace success as they can exert a fair bit of influence over their students' choices. Therefore,

- Secondary schools play a great role in advising and referring their students to a particular IHL.

2.2.4 Bargaining Power of Customers

Consumers seeking to maximize their Return On Investments (ROI) will want to pay the lowest fees for the highest quality in product/service delivery. The "more for less" selling point is not unique and it is especially prevalent in service industries. The challenge facing KDU is compounded when switching costs for the potential students are minimal and the academic programmes are undifferentiated from the consumer's point of view, since

- Potential customers are spoilt for choice because of the variety of programmes.
- "Word-of-mouth" referrals are excellent and free advertisement for the college.
- Sponsoring bodies such as Petronas and Chinese Associations have their own officers that assess the effectiveness of IHLs' product/service delivery.

2.2.5 Intensity of Rivalry Among Competitors

IHLs compete to achieve strategic competitiveness and earn extraordinary profits. Competition intensifies when at least one IHL identifies an opportunity to improve its market position in the form of price, product/service innovation in terms of extensive pastoral care, unique advertising campaigns as well as the ease and speed with which the paper qualification may be obtained. In addition,

- Two camps have emerged – the Haves, i.e., "3+0" colleges, and the Have-Nots.
- Special education supplements every Sunday serve to fuel the intense rivalry between the two camps, as well as among the members of each camp (Sunday Mail *Education* & The Star *Education*, 1998).

2.2.6 Government Legislation and Regulation

Government actions can control the IHLs' perceived credibility and acceptance among the general public through licensing and permit requirements that include the following issues:

- Licensing must be obtained for every academic programme offered by every licensed private IHL. With the exception of the Hotel and Tourism Management programmes, all operating, teaching and academic

programme licenses must be obtained from the Ministry of Education (MOE). However, the Hotel and Tourism Management programme and teaching licenses must instead be obtained from the Ministry of Culture, Arts and Tourism.

- All academic programmes need to be accredited by the Lembaga Akreditasi Negara (LAN) before the MOE will issue a license for the particular academic programme. LAN accreditation is seen as being absolutely necessary in attaining credibility in the eyes of the consumers, as there can be no exception to this law (Akta Lembaga Akreditasi Negara 1996, (Akta 556)).

2.2.7 Global factors

Furthermore, it is necessary to consider international factors when conducting an industry analysis as the development of global markets has provided new avenues of growth to local IHLs. In particular, the China and African markets appear to have the most potential in the short and medium term (Sunday Mail *Education*, 19th July 1998, pp.17-18). The lower cost of living due to the depressed value of the local currency has been a positive contributing factor when recruiting students from these countries.

2.3 Industry Attractiveness

In essence, the stronger the competitive forces, the lower the profit potential for firms in an industry. It is a fact that the education industry allows only low profits due to the intense competition among players. This actually makes it an unattractive industry as the suppliers and customers have strong bargaining positions, being able to switch allegiance at the slightest excuse because academic programme substitutes are readily available. Therefore, such industry attributes make it very difficult for an IHL to achieve strategic competitiveness and earn above-average returns.

However, it is this industry that seems to be thriving in the wake of the current crisis. Traditional powerhouses such as the property, construction,

manufacturing and financial services sectors have all fallen foul of the economic conditions, leaving education as one of the healthier growth areas. The large allocation of funds in the 1999 Budget (The Star, *Budget 1999*) to develop the public education sub-sector is seen by many as being extremely timely and encouraging, although the private IHLs have complained that they have not been given any incentives to pursue the overseas markets (The Star *Education*, 1st November 1998, p.4).

Furthermore, the "3+0" issue is one way the Ministry of Education can weed out the start-ups that employ little planning and even less in the way of infrastructure development. In such a scenario, only the fittest among the major players will survive. In view of the highly competitive nature of the education industry, private IHLs can no longer afford to ignore the threat posed by the public universities, what more the private ones.

In order to further consolidate the education sub-sector, private IHLs may be asked by the MOE to merge with each other or with the universities, in much the same way as the banks and insurance companies, so as to promote greater efficiencies and improved quality of delivery. Geographically dispersed campuses of newly merged IHLs, which were formerly independent entities, may have at most one or two academic programmes at each location. The type of academic programmes would then be determined by the particular in-house specialisations that were prevalent prior to the merger.

In view of these challenges, it remains to be seen whether KDU has the potential and the staying power to deal successfully with such uncomfortable threats to its livelihood. With a projected 1999 profit of RM10 million and an increasingly hostile environment, it will certainly need to look inwards to re-evaluate its business operations to effect its continued survival.