

CHAPTER 1

INTRODUCTION

The corporatisation of Lembaga Letrik Negara to Tenaga Nasional Berhad was carried out on 1 September 1990 and listed on the Kuala Lumpur Stock Exchange on 28 May 1992. It is the distributor for electricity although the generator of electricity has emerged through the Independent Power Producer (IPP).

During the period 1990-1992, TNB experienced power shortage due to the rapid expansion of the manufacturing industry and housing projects. TNB then adopted the strategy called Demand Side Management (DSM). Under this program, TNB is encouraging the public to use energy efficient electrical and electronic appliance. According to a study by the World Bank, Malaysia is the second inefficient electricity user in Asia after South Korea. Our electricity consumption increase at 17% annually from the year 1980 to 1990 (see Table 1) and one of the reasons for this high rate of increase is inefficient use of the energy. (Ramli, Wan Sabri, Md. Nor (1994))

To implement this strategy, TNRD applies a two prong tactic. The first prong is to promote the production of energy efficient appliances, by contracting to purchase them from local private manufacturers. The second prong is to encourage consumers to use these appliances by making them more easily available and at reasonable prices. In marketing jargon, TNRD is attempting to create both place and ownership utility. (Ramli, Wan Sabri, Md. Nor (1994))

TABLE 1
ELECTRICITY USE IN ASIA
Annual percentage growth rates (1980 -1990)

Rank	Country	Growth rate (%)
1	South Korea	26.9
2	Malaysia	16.9
3	Nepal	13.5
4.	Indonesia	11.8
5	Thailand	10.6
6	India	9.1
7	Sri Lanka	7.8
8	Philippines	7.5
9	Pakistan	7.1
10	China	6.7
11	Bangladesh	4.3
12	Papua New Genea	4.0

Source : World Bank (Extracted from Business, December 27,1993)

The idea to turn the DSM into a business venture was mooted by Tan Sri Ani Arope, the Chief Executive Officer then. This was subsequent to his visit to South Power Appliance Connection, which is a subsidiary to the New Zealand Electricity Utility. In New Zealand, 25% of the market for appliance and connectors in New Zealand are dominated by South Power after only three years of business.

Tenaga Nasional Research and Development (TNRD) was entrusted to undertake this task, TNRD in turn choose Ibex Marketing Sdn. Bhd. as a partner for this venture. The main reason Ibex Group was selected was because they are a wholly Bumiputera company and had the experience in retail conglomerate, for example, electrical consumer products, Rakan Muda products and Harley Davidson.

Ibex Marketing Sdn. Bhd. is a company that markets electrical home appliances on hire purchase and equal installment schemes. The products marketed in their twelve showrooms located in Selangor, Perak and Negeri Sembilan are televisions, refrigerators, washing machines gas cookers, small appliances etc. (TNRD (1994

Coops, Pernama, Moccis were not the choice since it is a Bumiputera consortium but not an entrepreneur.

Two studies was conducted in August 1994 i.e.

1) Ramli Baharoom, Wan Sabri Wan Hussin, . Md. Nor Othman (1994) : “Developing franchise network for TNB for Tenaga Nasional Research and Development (TNRD)”.

2) Md. Nor Othman ,Ong Fon Sim (1994): “ A Study of Residential (Tariff A) Consumers of Electricity : An Urban -Rural Comparison “

to achieve the following objectives:

1. To determine the sizes of the market for electrical and appliances in Malaysia.
2. To study the franchising experience of selected companies in Malaysia.
3. To trace the general expansion path of the franchising business in Malaysia.
4. To develop a franchise system to market energy efficient electrical and electronic appliance.
5. To determine the suppliers of the energy efficient and electronic appliances.
6. To recommend the type of support services to be provided by TNB and TNRD.
7. To determine the profitability of a model franchise including its break-even trading volume.
8. To analyze the profitability of TNB/TNRD as the franchisor.
9. To recommend a series of steps to be taken by TNB/TNRD in setting up the franchise system to market energy - efficient electrical and electronics appliance.
10. To identify the ownership of electrical appliances of residential (Tariff A) consumers in urban and rural areas.
11. To examine the current electricity consumption patterns of the residential (Tariff A) consumers in the urban and rural areas.

12. To assess the opinions of residential consumers on various issues such as electricity saving devices, willingness to change the timing of electricity use and attitudes toward a tariff discount system.

The finding was that the franchising of efficient technology products was viable. Possible franchising systems, recommended system, and the financial analysis of the franchise system were addressed by the study. The financial role of TNB/TNRD as a franchiser was also addressed in particular the aspects of product research and development, quality control, market research, location analysis and determination of franchising territories.

The conclusion was the move by TNB to franchise the business of electrical appliance to Bumiputera Entrepreneur is applauded. This is in line with the one of the strategies of the government aspirations of developing the National Development Policy (NDP) to focus on the employment and the rapid development of a Bumiputera Commercial and Industrial Community (BCIC) as an effective means to sectors of the economy. This effort represents its continuing commitment towards nation building and TNB's novel endeavor should be supported by all concerned. (Ramli, Wan Sabri, Md. Nor (1994))

A subsidiary to TNRD, ET Shoppe Sdn. Bhd., was formed in 1994, ET Shoppe Sdn. Bhd. was set up with the objective to ease the pressure of meeting demands for energy from being shouldered by the electric authority alone but to introduce supplementary program towards creating public awareness on their role in the efficient use of energy through sales of energy efficient electrical appliances. (TNRD (1994))

1.1 Objectives of study

The objectives of this study are:

1. to review the performance of ET Shoppe after 2 years of operation
2. to analyze its concept of franchising
3. to identify problems faced by ET Shoppe
4. to suggest strategic actions for its future direction.

1.2 Research Methodology

Secondary data were gathered for example the financial account of the company, the present financial package for customers, organization structure, after sales service etc.

Interviews were carried out with the Board of director of ET Shoppe for TNB, i.e. Dr. Zamzam, the accountant for TNRD, Encik Shafie and officers in the newly formed Marketing Department in TNB i.e. En. Ismail Abdul Rahman, En. Esmet Sidqie Abdul Mutalib and En. Abdul Haris Abdul Karim. and the ET Shoppe manager, Mr. Surendran.

The interview with Dr. Zamzam covers the reasons for the ET Shoppe formation, his experiences as the board of director and his vision of the whole concept of implementing the franchise of electrical appliances for TNB, his opinion about the causes that affects the performance of ET Shoppe and the strategic action that TNRD/Ibex is taking.

The interview with En. Shafie covers mainly the financial aspects of ET Shoppe: whether any strategic actions have been identified, the reasons for unfavorable performance of ET Shoppe and the future of ET Shoppe.

The Marketing Department (Distribution) in Tenaga Nasional Berhad is recently formed in January 1997 and concepts of marketing is still new to TNB. Interview with the marketing section gauges the directions that TNB is heading with the present scenario of surplus capacity, and TNB's strategic plans to market electricity. Statistics of a typical domestic consumption for rural areas and the national statistics of electrical usage in the country were also gathered.

Interview with Mr. Surendran covers his experience in managing ET Shoppe, his vision and recommendations to turn around ET Shoppe.