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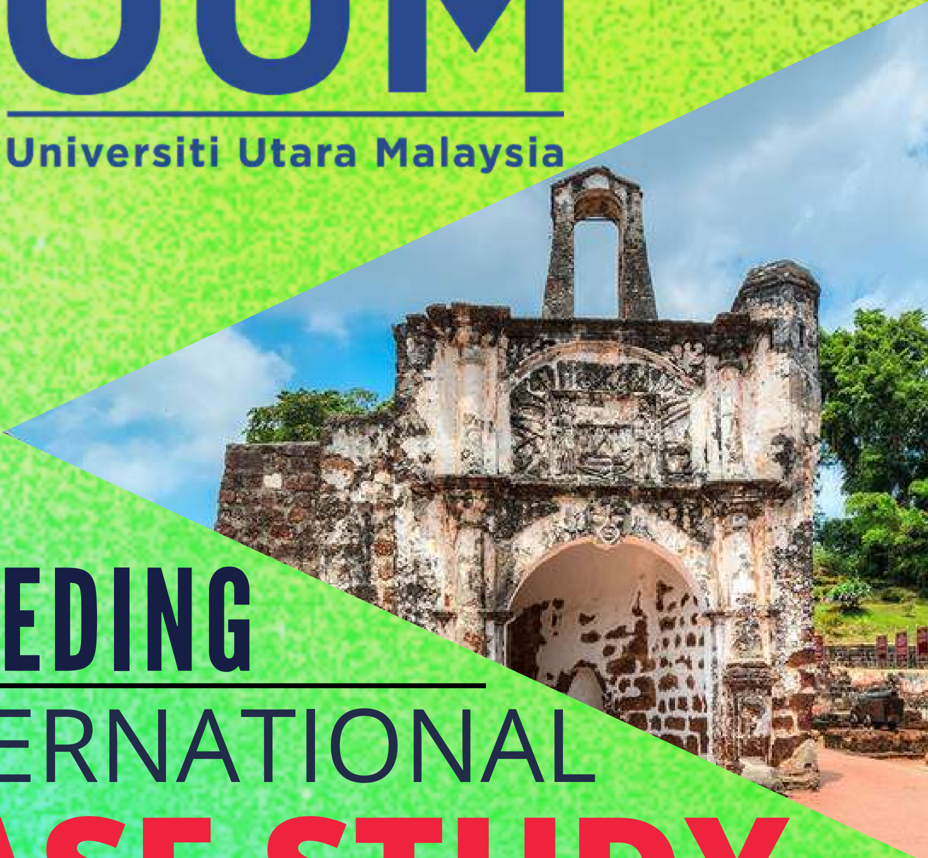

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TEACHING CASE

RESEARCH CASE

Auto 365, Aesthetic Blue Wave and X50: The Steps of Diversification Strategy Implementation of Kental Bina Sdn. Bhd.

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Synopsis

Business diversification, a strategy for expanding business through new units or subsidiaries, requires careful planning. It can boost a firm's growth, leading towards wealth maximization; however, without thorough analysis and planning, it can also lead to costly failures. This case study focuses on Kental Bina Sdn. Bhd. (KBSB) and their strategic move to diversify their business. KBSB, like many Small Medium Enterprises (SMEs), understood the need for a well-versed and clear plan to ensure business success. Their decision to diversify was the result of a comprehensive process, analyzing potential opportunities and threats in their industry as well as evaluating their own strengths and weaknesses. Understanding KBSB's diversification strategy is crucial for making informed decisions and learning from their successful expansion. Therefore, this case study provides a comprehensive understanding of the process and implications of business diversification, making it a valuable resource for businesses considering a similar path.

Keywords: Business Diversification, Small Medium Enterprises (SMEs), Diversification Strategy, Kental Bina Sdn. Bhd. (KBSB), Business Expansion

Kental Bina Sdn. Bhd. (KBSB) is a diversified, medium-sized enterprise situated in Alor Setar, Kedah Darul Aman, Malaysia, owned by entrepreneur Zamarul Bin Mohamad. Despite Zamarul's academic credentials ending at the Lower Certification of Examination (LCE), he embodies various attributes of a successful entrepreneur, which has enabled him to achieve remarkable success in his commitment-intensive businesses.

Zamarul commenced his entrepreneurial journey with the founding of Kental Bina Enterprise. It began as a small start-up providing 'runner' and insurance agent services. Known for his humility and maintaining a low profile, Zamarul initially took on the role of a runner himself with only two assisting staff. The business originated as an agent for a local insurance company, Kurnia Insurance, offering a variety of products, including a comprehensive automobile coverage service named Auto365.

Zamarul's work ethic set him apart from his competition as he chose to work even on Fridays, a usual off-day for many other runners. This determination resulted in earning the trust of the bank. Despite early rejections, Zamarul never wavered from providing top-tier services, which eventually led to his appointment as their authorized runner. He firmly impresses upon his staff the importance of punctuality and accountability towards all customer issues.

Following that, the business branched out into a wider spectrum of the insurance industry by assuming roles as authorized agents of insurance companies like Etiqa Takaful, Takaful Ikhlas, and Zurich Takaful.

Subsequently, the company faced a crucial decision-making moment, where it needed to choose an industry that matched its strengths. Among the options considered were the construction and plantation sectors. After careful evaluation, the company opted for the construction industry. This decision was influenced by the company's abilities and networks, especially due to Zamarul's brother starting a

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construction business in Kuala Lumpur. This family connection played a pivotal role in solidifying the choice to venture into the construction field. Concurrently, Kental Bina Enterprise initiated its diversification strategy by seeking to venture into small-scale construction. Zamarul, along with his elder brother, identified an opportunity and boldly expanded their business horizons.

The evolution led to the establishment of Kental Bina Sdn. Bhd. (KBSB) on July 23, 2000, with a paid-up capital of RM 2.5 millions. Under this banner, they undertook large-scale projects, including the construction of notable structures such as the aesthetically-designed Syarikat Air Darul Aman (SADA) building in Alor Setar and Ibu Pejabat Kontinjen Polis (IPK) Perlis.

Year	**Revenue Stream (RM million)**
2016	15
2017	80
2018	93
2019	160

Table 1: Kental Bina Revenue Streams 2016-2019

Based on the Table 1, the revenue streams of Kental Bina exhibited a remarkable growth trajectory from 2016 to 2019. Beginning at RM15 millions in 2016, the company's revenue experienced a substantial ascent over the subsequent years. Notably, the revenue surged to 80 million RM in 2017, followed by a steady climb to RM93 millions in 2018. The apex of this expansion was reached in 2019, with a remarkable revenue stream of RM160 millions. This consistent upward trajectory underscores the company's adept strategic management, its ability to capitalize on growth opportunities, and its capacity to effectively navigate within a diversified business landscape.

Amid this financial journey, Zamarul demonstrated strategic foresight by envisaging a transition of his business legacy to his child through a retail-oriented endeavour. This deliberative approach led him to opt for diversification by acquiring the Proton enterprise. By embracing this avenue, he recognized the inherent advantages of a business model that could be more efficiently managed and supervised by his child. This astute selection concurrently served as a forward-looking succession strategy, aligning with Zamarul's foresight in securing the future continuity of his business legacy.

Furthermore, the automotive sector was perceived as a synergistic complement to his insurance enterprise. Zamarul's foray into the insurance domain had intricately woven a network within the automobile industry. This pre-existing network positioned him favourably to explore the automotive sector as an extension of his business ventures.

More recently, amidst the hardships that businesses faced during the COVID-19 pandemic in 2020, KBSB took a significant leap by venturing into the automotive industry. Zamarul bravely led the diversification into an automotive dealership, becoming a Proton 4S dealer (Sales, Service, Spare Parts, and Stockyard). After taking over a major Proton dealer in Kedah, formerly known as Edaran Idaman Suri Sdn. Bhd., KBSB now serves as an authorized distributor for brand new Proton vehicles such as the Proton X50 and X70.

BACKGROUND OF THE CASE ORGANISATION/COMPANY

Background of the Company

Kental Bina Enterprise embarked on its journey as a modest company in 1996, 26 years ago, offering 'runner' and insurance agent services. Initially, Kental Bina served as an agent for Kurnia Insurance. Over time, the company expanded its scope and now represents several authorized insurance agencies, including Etiqa Takaful, Takaful Ikhlas, and Zurich Takaful. Its subsequent strategic move involved diversification, leading to a transition into small-scale construction.

On July 23, 2000, Kental Bina rebranded as Kental Bina Sdn. Bhd. (KBSB), commencing with a paid-up capital of RM 2,500,000.00. In its initial phase, KBSB was a registered construction contractor holding an 'F' class license from the Contractor Service Center. However, after accumulating two years of experience in small-scale construction and enhancing its financial capabilities, including the recruitment of professional staff, the company aimed to elevate its contractor's license from class F to class C. This aspiration was realized through the persistent endeavors of KBSB's management and staff.

Currently, KBSB is officially certified under ISO 9001:2015 Quality Management Systems and proudly maintains an OHSAS 18001 certification. According to SMECorp's classification of SMEs (SMECorp, 2020), KBSB falls within the medium-sized company category and ranks among the esteemed construction firms in Malaysia's northern region. Through meticulous planning in areas such as marketing, administration, and project management, KBSB has secured and successfully executed projects exceeding RM 500 million in value from both government and private entities since 2000.

The delivery of high-quality and efficient work by KBSB has cultivated trust among its clients, consistently resulting in the acquisition of new projects. In August 2005, KBSB expanded its capabilities by upgrading its license to Class A, thereby becoming eligible to bid for and undertake larger projects. Beyond construction, the company is acknowledged for its supply of goods to government departments and the private sector, owing to its reputable standing among numerous vendors, manufacturers, importers, and its supportive relationships with banks.

In line with expansion and diversification, Kental Bina's latest foray involves the automotive industry, where it serves as an authorized distributor of Proton vehicles - a transition facilitated by the acquisition of Edaran Idaman Suri Sdn Bhd. This strategic manoeuvre aimed to fortify their market segmentation within the insurance business.

Continuing on its trajectory of success, Kental Bina continues to explore new avenues for growth and diversification. Alongside their endeavors in the insurance and construction sectors, the company maintains its proactive stance in identifying fresh opportunities for progression. Among these prospects is the contemplation of venturing into the concept-style wedding hall businesses.

BUSINESS DIVERSIFICATION STRATEGY

Diversification Strategy

Diversification strategy is applied when companies aspire to grow. It involves introducing new products into their supply chain with the aim of increasing profits. These products could be a new segment within the industry the company already operates in, which is known as business-level diversification. Alternatively, corporate-level diversification occurs when a company enters a new market segment. Making the decision to diversify can be challenging for the company as it offers the possibility of extraordinary rewards but also carries inherent risks.

Steps in Diversification Strategy

A study conducted by Ansoff (1957) on diversification strategy reveals that companies typically undergo a multistep process to make well-informed decisions. The success of these companies validates the potential of diversification in constructing their business portfolios and effectively managing the issues and challenges.

Kental Bina needed to ascertain preferable diversification opportunities for exploration. Diligently, the company sought to pinpoint potential new markets and evaluate their appeal. A comprehensive analysis of customer needs, preferences, and prevalent trends was engaged to discern their alignment with the company's inherent strengths. An assessment of the viability of crafting new products or services tailored to the chosen market was undertaken, considering pivotal factors such as technical feasibility, total cost implications, and alignment with the company's core competencies.

Subsequently, Kental Bina proceeded to select an array of diversification opportunities within these identified domains. These opportunities underwent an initial evaluation. The company deliberated over the selection of an appropriate market entry strategy, contemplating possibilities like partnerships, acquisitions, joint ventures, or direct entry. Throughout this process, the company remained attuned to critical considerations, including entry barriers, local regulations, and the intricate dynamics within the competitive business ecosystem.

Continuing onward, the third phase witnessed the company engaging in a conclusive evaluation overseen by top management. This evaluation culminated in the determination of a specific course of action. Kental Bina conducted a comprehensive assessment of potential risks linked to entering the new market and introducing new products. Aspects such as competition, regulatory hurdles, and potential financial repercussions were meticulously considered. Subsequently, a well-defined diversification strategy emerged—a detailed blueprint outlining objectives, target markets, value propositions, competitive positioning, and a precisely outlined timeline for execution via partnerships, acquisitions, joint ventures, or direct entry.

Finally, the implementation process materialized, encompassing the meticulous working out of details and execution of the plan. Ahead of a full-scale launch, Kental Bina conducted pilot tests or soft launches to accumulate feedback and make necessary refinements based on the initial market response. The company launched the new products or services in the selected market, followed by a continuous process of performance monitoring, data collection, and result analysis to identify enhancement opportunities. Additionally, they conducted regular reviews of the diversification strategy's progress and outcomes, making adjustments as necessitated by evolving market conditions, customer input, and business performance.

CONCLUSION

Diversification is a critical decision for any entity. It has the potential to boost a firm's growth and lead to wealth maximization. However, it can also result in costly failures for certain companies. Therefore, conducting a detailed analysis of the potential market is essential before pursuing diversification opportunities. It is evident that businesses that implement diversification strategies without thorough planning can face disastrous consequences and business failure. As a survival strategy, it is crucial for businesses, especially Small and Medium Enterprises (SMEs), to have a clear understanding and well-versed plan for successful diversification.

In the case of KBSB, it is believed that their move to diversify their business has undergone a thorough process of analyzing industry opportunities and threats. It is also thought that KBSB has assessed their own strengths and weaknesses before making decisions on diversification strategies. Understanding KBSB's diversification strategy as an example of SMEs in Malaysia is important in making informed decisions and learning from successful business expansions.

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