Case study: super saver SDN BHD – where is the saving?

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ABSTRACT

Mr. Ayuni Asuko, the chairman of Super Saver Sdn Bhd (SSSB) a company dealing in consumer products was shocked when told that a CitiBank loan facility had been recalled. The company had grown by leaps and bounds over the last five year, constantly generating good profits. Bonuses and high increments were given to staff to ensure their loyalty and dedication to the company. The problem had begun when the franchisees undertook cash transactions rather than the selling of products. This had been profitable for the whole chain from franchisee to agents and supervisors of the branches who received daily cash apart from commissions and monthly salaries. Customers however felt cheated due to their low cash receipts and high installments. Collections started to stagnate and SSSB found difficulty in servicing their bank loans. Citibank then decided to recall its facility of RM100.0 million. Other banks also wanted their loans to be repaid, which further burdened the company.

Key Words: Super Saver Sdn Bhd

Note: This is a fictitious case developed for educational use. All statements, names, numbers, dates, etc. used herein were created for the purposes of this case and should not be construed as factual. Any resemblance to any actual organization or individual is purely coincidental.

INTRODUCTION

In October 2010, Mr. Ayuni Asuko, Chairman of SSSB received a call from Mr. George Adams, Citibank's Vice President in Malaysia, informing him that the loan facility of SSSB would be recalled and that SSSB had been given a grace period of 1 month to settle the loan. He wondered how a company with such a good track record could have had its facility revoked by a foreign bank.

Just three years ago, in 2007, Mr. Asuko had been pursued by many merchant banks to get the company listed within a time frame of 3 years. In the end, Arab Malaysian Merchant Bank had been chosen as the lead financial institution for the listing process.

Mr. Asuko had also placed great confidence in his young management team, praising them often during Board Meetings from 2008 to 2009. He had expressed his contentment with the dynamic and focused team and hoped many more new and young graduates would be recruited to head the functional units.

The Working Committee members were also of high repute, all of whom were ex-Chief Secretaries of the Government and ex-Secretary Generals of Ministries from the Main Board of the Co-operative. They had been appointed together with Mr. Asuko in 1989 when SSSB was established. They later became Board Members when SSSB became a limited company in 2007.

He picked up the phone and instructed his secretary to call the General Manager of SSSB.

> *"Please call SSSB's top management for an urgent meeting tomorrow morning at 9.30. They are to explain the current situation of the company"*.

Background

In 1999, Super Saver Co-Operative Berhad bought Kokonus Trading, which traded in consumer products, from Kokonus Co-Operative, renaming it Super Saver Trading (SST). By the year 2006, SST sales had grown to RM187.8M compared to only RM5.0M in the year of takeover (2002), a growth of over 376%. Annual sales growth of about 30% to 40% was a common feature of SST. In January 1, 2007 the Co-Operative decided to turn SST into a wholly-owned subsidiary company called Super Saver Sdn Bhd (SSSB).

A new GM, Mr. Zahiri Ahrif, was appointed from within the company to head the new entity. He previously headed the marketing division. Mr. Ahrif said,

"I will take this challenge to groom it to grow by leaps and bounds and overtake all competitors with the biggest market share in consumer products"

After becoming a corporation, SSSB bought a building in Jalan Pahang. Its staff strength was 396, with a total payroll of RM1.7 million per month. (See Exhibit A for the organisation chart of the Co-Operative and its subsidiaries)

The Business Operations of SSSB

SST had operated on a simple franchise method. There were 10 franchisees throughout Peninsular Malaysia displaying SST electrical appliances such as televisions, fridges, washing machines, microwaves, toasters, fans and irons.

When SST became Super Saver Sdn Bhd (SSSB), its product line was expanded to include jewellery, motorcycles, furniture, accessories of cars and motorcycles. As these goods were on consignment, no deposits were needed to pay the suppliers. In late September 2008, SSSB recruited two additional franchisees from Sabah and Sarawak making SSSB the biggest consumer trading company in Malaysia.

All the franchisees had to put a deposit with an amount of RM50,000 to RM100,000 with SSSB, a practice that was continued from SST. The franchisee could take loans of up to 95% of the deposits from Majlis Amanah Rakyat (MARA) or Council of Trust for Bumiputera of Malaysia, as long as SSSB gave an assurance that the deposits would be disbursed back in full to MARA in case the franchisees withdrew or went out of business.

Deposits amounts were only 50% of the value of electrical products that were placed in the franchisee's showrooms. Any old display units would be replaced by the Operations Department and if the deposits were RM100,000, only products up to RM200,000 were in the showroom. The deposits were to ensure that franchisees would take good care of the products within their premises. Arguments often occurred as franchisees wanted new models and the Operations Department asked for higher deposits.

The franchisee from Malacca, Mr. Baker, complained to the manager of Operations.

> *"Items placed in the showroom were obsolete products while headquarters were harping on the deposit of RM100,000 which was considered low in comparison to items in the showroom."*

The Manager, Mr. Zelchi replied,

> *"You are too slow in selling the products on display. Give some discounts and also look at other franchisees. Their products on displays are always the latest edition."*

To increase sales, SSSB had increased its product range and the credit availability period from 36 months to a maximum of 60 months. These new guidelines provided customers with more flexibility with payments from 12, 24, 36, 48 and 60 months to choose from and at the same time increasing customer purchasing power.

SSSB also reviewed its guarantor policies. During the SST's operation, all transactions required a guarantor, and transactions above RM10,000 required two guarantors. SSSB's conservative stance on guarantors changed when it required a guarantor for transactions above RM5,000 and two guarantors for transactions above RM20,000 to a maximum of RM25,000. All buyers and guarantors could cross guarantee once.

Ninety-nine percent of the customers of SSSB were government employees in the C & D groups. The C & D groups were those in the supervisory level, clerks and general workers categories. The customers were required to furnish 3 months original pay slips to prevent them from purchasing or borrowing from other companies. The same applied to the guarantors. If they cross guaranteed then photocopies of the pay slips were accepted. They paid for their purchases by monthly salary deductions through Angkasa, a body which deducted all government loans for cooperatives and also other government bodies. Angkasa charged a slightly higher fee for SSSB for the salary deductions because, despite its legal status as a corporation, it was the 100% subsidiary of a co-operative. The period of installments ranged from the shortest period of 12 months to the longest 60 months.

A customer at one of the outlets was heard complimenting SSSB:

> *"I am happy that SSSB has a wide range of products and a processing time of only a maximum of two working days. It has the best system of processing compared to Arastu that takes up more than one week to approve a transaction of less than RM5,000.*

It was through this kind of word of mouth appreciation together with heavy advertisement in the media that helped SSSB to grow and expand its sales.

The Challenges

As the sales volume increased, reports began to emerge regarding 'cash transactions' in SSSB that were in violation of company policy. Customers, under the pretext of purchasing products, took cash money instead of obtaining the goods or products.

Initially, the headquarters had no knowledge of these violations as most of these transactions occurred for consignment goods. Headquarters could not detect the movement of such stock as easily as it could with its own stock, either from display units or new orders.

The customer would sign an invoice of the purchase price, the delivery order, and also a letter agreeing not to sell the products until full settlement to SSSB. The supplier would then pay the customers 40% - 45% net of the actual invoiced value. The supplier had to also pay an equivalent of 1 month's installment to the supervisor, agent and the franchisee for facilitating a quick approval. These payments to the three parties would account for another 10% of the actual invoice value. The agents were the main culprits in these transactions, marketing these cash transactions through advertisements in the local newspapers such as The Malay Mail and Berita Harian. The advertisement below was a typical example that appeared in these papers:

> "You can come to our outlets for easy cash if you are in financial difficulties and pay only what you receive plus a bit of interest over a period of 12 to 60 months. Processing is done within 48 hours."
> Contact: Abu 019-3753750

Agents were not salaried staff of SSSB but worked based on commission of 3.5% of total sales value paid 2 or 3 months later upon SSSB's collection from Angkasa.

These transactions became very popular in late 1998 as the financial crisis hit. Many of the customers came for cash transactions because of difficulties in paying credit cards and other assorted financial problems. An agent who had a high business turnover was heard saying to customers, *"Don't worry about the installments. You just need to sign and thumb prints the forms and take your time to pay the installments"*.

The agent further added that the customers needed to pay whatever cash received plus 10% for the profit of the company. They were informed that they need not worry about the higher prices shown on the invoices.

This helped to attract many customers as they could avoid the illegal loan providers who could charge up to 100% interest and harass customers if payments were late.

At the showroom in Campbell, two SSSB's customers, Azli and Johari were exchanging their views on SSSB and its services:

Azli	:	"Hi, you are buying something for the house?"
Johari	:	"No, I heard this company can give cash loan, did you know about that?"
Azli	:	"Yes, we can get straight cash instead of the products. We only pay what we get and not what we sign on the forms."
Johari	:	"If that is the case I am very interested, but only cash as I have to settle my credit card bills. The collection agent waits for me every day at the office. I am so embarrassed."
Azli	:	"Oh yes, other friends of mine have done the same, moreover SSSB's records are not well kept. It will be at least a year before Angkasa does its collection. By then we may have been transferred or resigned from our jobs.
Johari	:	"That's good. Can the loan be for RM20,000?"
Azli	:	"Yes, and we must take the maximum eligible and also the maximum credit period. Your maximum loan according to your pay slip will only be RM12, 000 not RM20,000*"
Johari	:	"Yes, yes and thank you.

* (Note: The eligibility of Johari is RM12,000 for products purchased. If it is cash transaction, he will received maximum RM4,800)

In the year 2000, 70% of sales came from cash transactions with only 30% constituting actual sales of goods. Headquarters was happy with the increase in sales turnover and good bonuses were distributed to the employees. As far as Headquarters was concerned, documentations were properly done and it was the customers who cheated themselves by signing for high invoice prices and getting very little cash. The Operations Department (Headquarters) then imposed thumb prints of customers on delivery order forms to counter any claims by customers on non-receipt of goods.

Collection Policies

About 55% of the customers opted for 60 months credit period where the average cycle of 45 months would be enough to cover for existing loans. The loans taken from the banks were for a period of 36 months to 42 months with bank loans settled upon getting the collections from customers at the end of the cycle.

One banker from Perwira Affin Bank Bhd remarked:

"Why is SSSB not settling its loans? After all, their collection is 100% full proof because Angkasa deducts directly from the customers' salary and moreover they are all Government employees with no bad debts expected."

The operations staff of SSSB answered:

> "That is because SSSB's sales are continuously increasing so the banks do not have to worry. They are actually funding for higher sales and that has nothing to do with the collection system."

Competitors

When SST was taken over in 1999, there were only a few competitors selling consumer products. Arastu and Singer were the main competitors in electrical items selling through monthly deductions. They appointed agents to do their monthly collection. Other competitors were retail outlets such as Hock Seng Leong, Batu Road Supermarket, and a few Chinese owned family shops which facilitated purchases by installments. Bank Rakyat and some thrift and loan co-operatives provided personal loans of about 6 months to 1 year's equivalent salary. These loans could then be used to pay for cash purchases of consumer products from those outlets.

Later in 2003, Redifussion was set up by Tan Sri Azman Hashim to sell only electrical items. Courts Mammoth, a consumer product retailer with a variety of products, was also beginning to move up from the southern states to Kuala Lumpur and proved to be a major competitor to SSSB.

By 2007, SSSB boasted that 90% of the purchases were approved within 24 hours or at the latest 48 hours for purchases of substantial amounts. It offered a wide range of products, even including boats sold on installments in the Eastern states. This move was in anticipation of competitors that could enter the market. By 2008 it had captured at least 70% of the government employees' market in terms of consumer products.

Marketing Functions (See Exhibit B for the organization structure of SSSB)

The main function of this department, headed by Mr. Zelchi, was to look for new products and suppliers to be added to the existing product line. He was also responsible for establishing good working relationships with all government departments and to carry out promotions from time to time at these offices.

The franchisees could also request additional products to display or suggest new suppliers for other products. All approvals were given only by the department. However, in 2010 and 2011, the ordering levels of electrical products had slowly decreased with the increase sales of consignment products. Jewelery became the main attraction in sales.

Prices were determined by the cost of funds and comparisons of pricing against competitors made within this department. Purchases of electrical products were usually done in bulk to get better discounts from suppliers.

Higher discounts were usually promoted by electrical suppliers for products that often were obsolete or products that were due to be discontinued in 6 months to a year's time. This was done without the knowledge of SSSB marketing personnel.

The marketing personnel also visited the branches/sub-branches to determine that the display of items was in accordance with the required standards. The marketing department also did stock checks to ensure that the products displayed in totality would be equated to the requirement of the franchisees deposits. If the product value were higher, the marketing department would request for additional deposits. New areas of development, for instance the need for franchisees to open either main branch or sub-branches, would also be approved by this department.

At the end of every year, the marketing department would then decide which products could go on special sales or sold at a discount. These were usually those products that were obsolete or discontinued after being on the shelf for 2 to 3 years. Usually, displayed prices were only in the form of monthly installments for a period of 12, 24, 36, 48 and 60 months. SSSB discouraged walk-in customers who would like to buy in cash because it was not profitable. At any rate, these transactions were readily available at most retail supermarkets.

a) Operations Functions

The manager for operations, Mr. Zuree, reviewed all the credit documents that were sent by the branches to the headquarters. His main function was to monitor the documentation process which included the checking on calculations of eligibility done at the branch level. All branches had one supervisor and two support staff in charge of operations and accounts. The supervisors would mainly look at the marketing and promotions and was also being paid a commission of 0.5% on sales in addition to salaries. They were also to vet through all documents and ensure that only eligible customers could purchase products from the branches.

The operations department would check whether all these procedures and calculations were correctly done. From time to time, there would be government's circulars allowing for additional allowances or additional credit facility and the Operation Department were to monitor all these. They would then inform branches on the new guidelines. A strict policy was enforced requiring thumb prints to show proof of the sales of products.

Work at the operations department was very routine. When SSSB needed to borrow from financial institutions, this department would need to prepare all the transaction contracts to be pledged to the banks. These contracts would be valued at 120% of its value against the loan taken.

At the same time, these contracts were to be replaced every 6 months to the banks as collections were received by SSSB. Local banks would usually not do any follow up on the replacement contract. The staff handling replacement contract would just file them in a file and label the bank's name. When there were new loans, the replacement contracts would be given for the new loan. Citibank, however, collected the replacement contracts and passed all expired contracts to SSSB.

This department also took action on customers who lapsed in their payments to Angkasa. The Recovery Unit would monitor the bad accounts after receiving outstanding payment reports from EDP Department. Legal action was taken only after 9 months of non-payment. The legal action sometimes took 9 to 12 months from the issuance of the letter of demand to bringing these customers to court.

b) Finance & Accounts Department

Finance and Accounts Department, headed by Mr. Rambo, had two sections, Accounts Payable and Accounts Receivables. Apart from catering for statutory requirements, this department also monitored the requirements of cash and borrowings of the company.

Lately, the department had financed through private debt securities. This was done through the issuance of bonds and the rating of the company through Rating Agency Malaysia

(RAM). In the year 2008, SSSB managed to secure a rating of triple BBB, a rating that indicated it could meet its repayment scheme. With such ratings, the interest rate charged could be very low and competitive.

The cost of financing was lower due to the private debt issues from discount houses and insurance companies. These institutions were not required to make statutory payments to Bank Negara. Their cost of funds was always lower compared to other banks by 1.5% because of the waiver to statutory reserves.

The Finance & Accounts Department would also visit all branches to ensure the first three months' collections in cash were well documented and banked-in within 24 hours. Angkasa only started the deductions of customers' salaries on the fourth month due to its lengthy documentation processes. Customers were required to pay their first three months installments direct to showrooms before their deduction started. However, the collections were seldom matched against the customers' accounts. Staff in the Accounts Department who was on their visit to franchisees' showrooms would have quarrel with the Accounts Clerk. At one time, Ms. Azizah from Headquarters was shocked to find out that Kota Bharu's franchisee had only 40% collection from the customers. The clerk was reprimanded despite showing proof that she had properly followed up by sending reminders to customers who did not respond. She had failed in her responsibility to inform Headquarters of the poor collection received. Had she done so, Headquarters would have taken sterner action against the customers, such as sending letters of demand through their in-house lawyers.

The marketing department and operations department would also inform the Finance and Accounts Department of the need to increase deposits due to higher stock level. At the same time when stocks went missing and were in disrepair due to franchisees negligence, their deposits would be forfeited and the franchisees would have to pay the differences.

c) Human Resource Department

The Human Resource Department was divided into two sub-units, human resource unit and administration unit, headed by Mr. Caleddin. The Human Resource unit looked at career development processes, salary adjustments and also training for the staff. Performance ratings were also calculated. For example, in years 2005 - 2009, the bonuses paid were almost 7-9 months' salary equivalent because of high sales turnover and good profits.

Supervisors would be transferred after two years of service at a branch. This was to avoid complacency and close attachment to the franchisee and prevent undue influence by the franchisees. The Human Resource Manager also visited branches to monitor the disciplinary problems at branches. Other functions included the need to settle problems at branches in terms of clocking in and out, staff leaves and other administrative issues.

Requests for staffing and transfers were approved by this unit. Five of SSSB's staff were also seconded to Angkasa to help speed up the process of collection. The department maintained asset register for new purchases and maintenance. This unit also safeguarded the fire safety equipment, the licensing and safety maintenance of offices.

d) Electronic Data Process Unit (EDP)

In 2000, The EDP Unit, headed by Ms. Hatita, bought an ICL Computer to monitor the movement of customers' accounts. However with the high turnover of sales, the computer system crashed in 2003. Peat Marwick Consultant was then appointed as consultant for the purchase of a new computer system at the end of 2005. In between the year 2003 and 2005, a programme was written by Mr Aris a consultant to help secure some of the lost data and also to record the transactions of 2003 and 2004. The programme could not support the system and crashed again in June 2004.

Various vendors submitted their pricing and Peat Marwick helped in the selection process. In the end, Hewlett Packard (HP) was chosen to do the customized package for RM1.5 million. Peat Marwick was paid RM0.5 million and the computer system was fully operational by middle of 2005.

In 2000, the computer system had data on nearly 400,000 government servants from the C & D groups. The staff strength of the EDP Unit was about 15 and they had to do housekeeping everyday after office hours. All sales at branches could be monitored by the next day at 10 o'clock in the morning if the clerks keyed in the most up-to-date information. However the three months collections were usually not updated due to low collection.

However, for the years 2003 to mid 2005, the lost data were in the region of 30,000 customers. The data had to be collected and updated manually through hard copy files. Three contract staff were hired for weekend work to help sort and record the data.

Resolving the dilemma

In early 2008, Arab Malaysian Merchant Bank informed the chairman, Mr. Asuko, of its concern that sales that were not expanding enough and that company borrowing continued to increase. It therefore recommended the delay of the public listing.

The chairman had also been troubled by the Citibank call and wanted to get to the bottom of the cause of delay in the public listing, the decline in sales, and the continuing need to borrow.

His musings were interrupted when his secretary walked entered the office and said,*"I managed to speak to Mr. Ahrif and he said that the management team will see you tomorrow with their documents."*

EPILOGUE

In the end, SSSB stopped its operations. Banks and creditors were owed RM350 million and collections by Angkasa were pro-rated to all banks in the ratio of their borrowings. The other creditors who were suppliers (mostly involved in providing the cash) did not receive any payment. Legal suits were being taken by the group of creditors. The cases were heard twice and postponed to the end of 2011 on the grounds that there was not enough information available and that witnesses were unwilling to attend.

Case Questions:

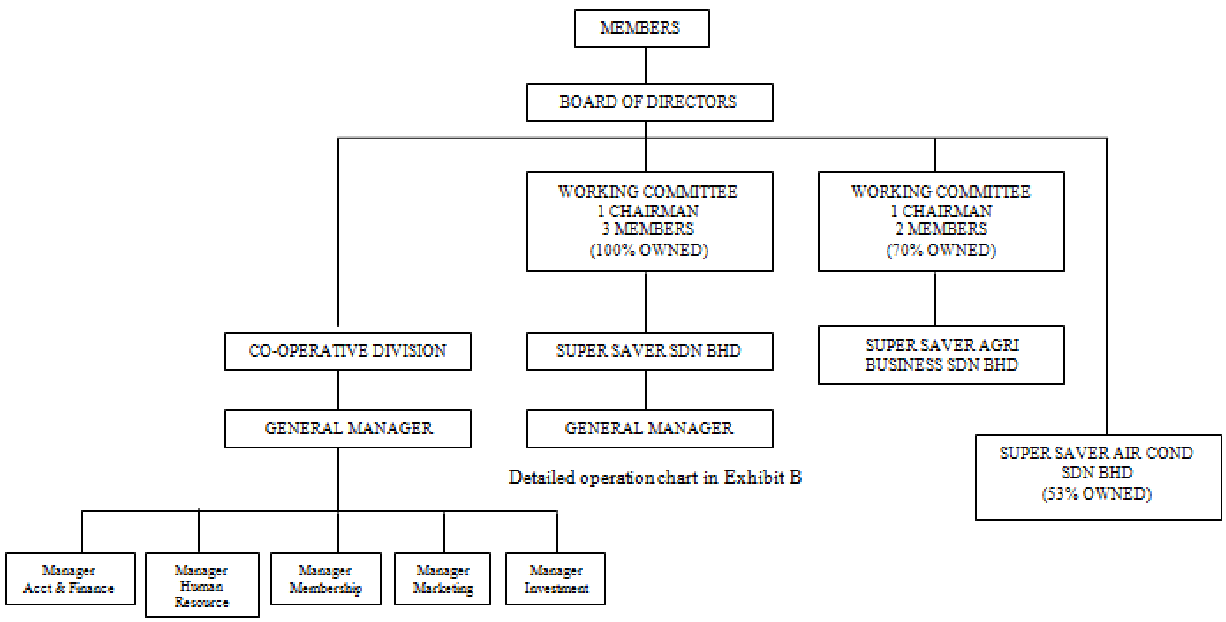
1) Do a SWOT analysis to identify major issues in the case study
2) Identify and discuss the issues of ethics and corporate governance.
3) What steps should be taken to stop the cash transactions?
4) What were the underlying reasons for the continuing need for bank loans even after a cycle had been reached?

EXHIBITS

Exhibit A

Organisation chart of the Co-Operative and its subsidiaries

SUPER SAVER CO-OPERATIVE BERHAD

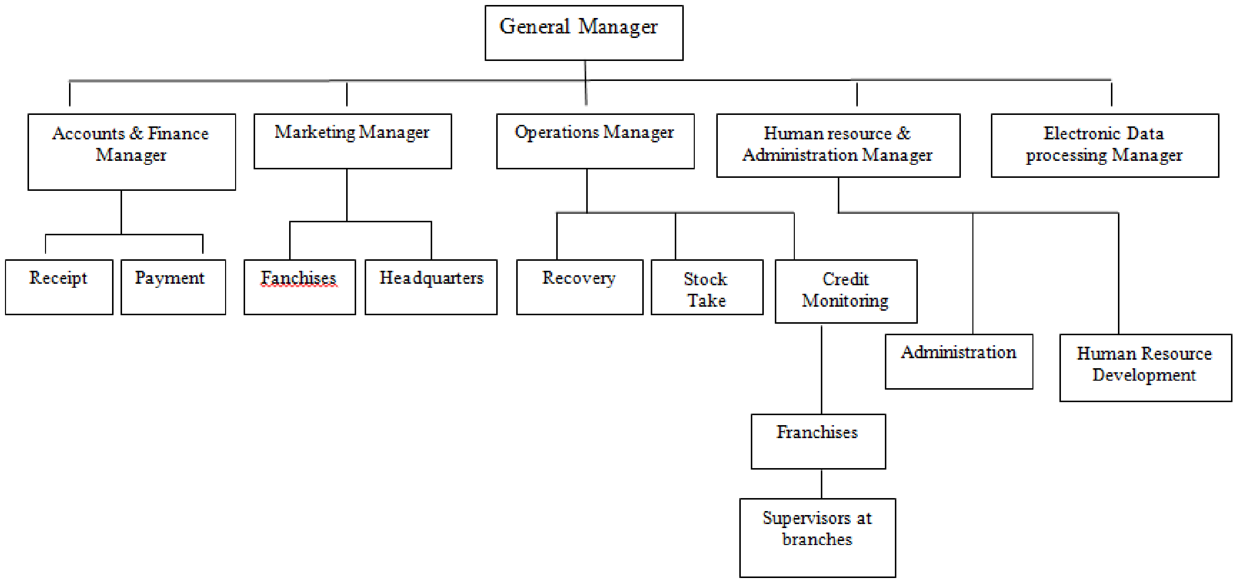


All chairmen reported the activities of subsidiaries to the Board of Directors. Chairman and Working Committee Members were also members of the Board of Directors.

EXHIBIT B

Organization Chart

The Organization structure of SSSB with all functional heads (all Degree holders):



CASE TEACHING NOTES

Suggestions for Using the Case
It would be good for postgraduate (Masters) students to provide the following answers:
1) SWOT analysis, to identify major issues in the case study
2) Identify issues on ethics and corporate governance
3) Reason why the company could not go for listing?
4) How to stop the cash transaction?
5) Why the continuing need for bank loans?
   - even after a cycle has been reached

Expected time; 1 hour of reading and understanding;
30 minutes of making notes; and
1 hour and 30 minutes of writing.

Suggested methodology: Group work and presentation Or Individual assignment Or Examination question

<u>SUGGESTED ANSWERS: SSSB</u>

1.) SWOT ANALYSIS – STRENGTH, WEAKNESSES OPPORTUNITIES & THREATS OF THE COMPANY

A) Strength
1. Company is stable with good track record, 70% share of the government employees market.
2. Has good and credible Directors, ex-chief Secretaries to the Government & ex Secretary Generals of Ministries.
3. Professional managers who were Degree holders.
4. Has many franchisee outlets and well spread all over the country.
5. Good product mix – cater for different market segment like boats for the East Coast.
6. Good rapport with MARA where the deposits of franchisees upon SSSB's offer to become franchisees were given loans of up to RM150,000 to be pledged to MTSB.
7. Profits were in the region of RM6 to RM7 million which almost equal to that of a public listed company (in the Annual Report) – *(2007, 2008 Annual Accounts).*
8. Pricing for products were lower due to bulk discounts.
9. Good rapport with suppliers.
10. Employees were well taken care of with good yearly salary raises and fat bonuses.
11. Collection system was at source from Angkasa and were very safe, with little bad debts.
12. Cash flow required only for electrical products whereas other product outlets were on consignment and no payment needed.

B) Weaknesses
1. The same core business have not changed, only additional products and new locations were identified, resulting in monotonous transactions of the same nature. Employees took for granted their work and might result in carelessness especially checking of documentations.
2. Ethical issues with supervisors and agents appointed by Headquarters at the franchisees' outlets not following instructions whereby cash transactions took place. They were also given outright commission in cash and encouraged these transactions further for personal gains.
3. Franchisees were also involved in cash transactions for personal gains.

4. Managers of functional units do not look at detailed reports regarding performances of franchisees.
5. The inadequacy of collection due to poor system of monitoring by EDP and Accounts staff at branches (First 3 months' collection).
6. EDP's records not fully updated.

C) Opportunities

1. Franchise system well planned and can be expanded.
2. Government salary increase/rise could further increase sales.
3. New and wider range of electrical item such as LCD TV, Video 2 in 1, iPODS, Mp3 equipments – *(New products available in the market currently as at May 2008).*
4. New government employees being hired/appointed – SSSB can increase market share further – *(Government directories from time to time to increase Government employees).*
5. Market development – opening branches in small towns – *(To expand to other region areas).*
6. Market penetration to expand to Sabah and Sarawak – *(To expand to other region areas).*
7. Product development include after sales service such as servicing warranties and installation – *(as a marketing tool).*
8. Product enhancements include TV screens to act as computers, control of air conditioning to body temperature, etc – *(as a marketing tool).*

D) Threats

1. Police report on the cash transactions where there is no money lending licenses.
2. Close down of franchisees outlets during investigations leading to loss of income.
3. Recall and suspension of the loan facilities by banks.
4. Loss of jobs due to shrinking activities of SSSB if loans were recalled.
5. RAM will downgrade rating of SSSB, resulting in higher interest charges.
6. Heavy staff strength with repetitive documentation and process.
7. Customers continue taking cash on the verge of resigning or being transferred which will result in difficulties in tracing them and increased accumulation of bad debts.

2) ETHICS AND CORPORATE GOVERNANCE ISSUES.

The issue on ethics and corporate governance is when personal gains become an objective. Secondly, the company's benefits or gains, is not looked at and company is susceptible to losses not due to negligence but act of fraud and deceit by the people in the company who can make decisions. The documentation and processes are ignored in order for a person/s to benefit directly.

On this case, the following were detected as against ethical conduct:-

i) Agent's advertisement in newspapers for easy cash and easy documentation whereas the company is actually selling product. This shows that it is the agent's desire to cheat customers and the company for personal benefits.

ii) Franchisees getting commission payments out of "cash transaction". They should only get commission from the company's HQ upon actual selling.

iii) Supervisors who are custodians and salaried employees bounded by rules and regulations of the company. They were paid salary plus commission on actual transactions. Commission paid was to increase their motivation to work but instead got the outright cash for wrong transactions.

iv) Contract papers which were supposed to be for replacement due to receipts from existing loans were utilized for pledges on new loans by the Credit Department. This lack of supervision can amount to fraud and be sued by the banks.

v) Supplier also took advantage of SSSB by providing bulk discount whereas the products were to be discontinued or obsolete.

3) COMPANY HAD TO DEFER THE LISTING

In order for a company to be listed on the Kuala Lumpur Stock Exchange Board (Bursa) sales and profit if not on the rise should remain consistent throughout 3 years before its listing accounts. Unfortunately SSSB's performance can be discussed as below:

1. Sales dropping from RM212 million in 2007 to RM165 million in 2008, a drop of 23% - *(Annual Accounts)*
2. Collection not enough to cover on operations expenses and to pay full for suppliers and bank loans.
3. Loans on the increase. Old loans went on rollovers with the existing banks.
4. Ordering level of goods dropped because there was no demand for physical goods due to the cash transactions.
5. Stock in showrooms became slow moving due to:
   a) Demand for goods reducing as cash transaction increasesm.
   b) Bulk purchases consist of phased out products.
   c) Display items may not be attractive enough.
6. Trade debtors increasing at alarming stage from 17% to 69% over the years 2006 to 2010 in comparison to increase in sales of 2000 to 2005 only at 13% - *(Annual Accounts 2006 to 2010).*
7. Profit although on the increase was because of previous years carried forward profits that were classified as pro-rated profits – *(Annual Accounts year 2006 to 2010).*

4) MEASURES TO STOP THE CASH TRANSACTIONS

1. Ethical issues to be addressed where policies and procedures must be monitored rigorously.
2. Heavy monitoring of transactions and penalties to be in place.
3. More involvement of HQ staff in terms of checking and supervising.
4. Rotation of staff from various branches.
5. Reports by customers to be taken seriously.
6. Monitoring of newspaper advertisements and taking legal action on wrong advertisements.
7. Agent, supervisors and franchisees to be shown show cause letters followed by disciplinary actions and sacking for not following proper procedures.
8. Suggestion boxes to be placed at all showrooms.

5) WHY THE CONTINUING NEED FOR BANK LOANS?

There is continuing need for higher loans as can be seen from the Balance Sheet for years 2006 to 2010 caused by the following:

a) Sales were still high from RM187.8m to RM212m (2006), RM164m (2007), RM183m (2008) RM181m (2009) and RM183m (2010).

b) Collection received were not reflective of the sales as can be seen from the table below:

Years						
	2005	2006	2007	2008	2009	2010
	RM					
Debtors balance	99,913,123	123,706,708	178,977,360	202,699,975	277,853,065	354,653,000
Plus Rev/sales	51,784,539	187,833,472	212,144,156	164,617,228	181,220,483	183,894,000
Total debtors	151,697,662	311,540,180	391,121,516	367,317,203	459,073,548	424,451,000
Less balance debtors		178,977,360	202,699,975	277,853,065	354,653,000	
Collections for the year		132,562,820	188,421,539	89,464,138	218,516,548	
%of Collection		42.55	48.17	24.35	47.59	

Note : This table is constructed based on the Accounts released from the company's Annual Report.

c) 50% - 75% sales were conducted on 'cash transactions' where most customers were actually 'fraud cases' whereby they were on the verge of resigning or being transferred. Another common practice is that they do not pay the amount in full as they feel that for example the invoice of RM10,000 versus RM4,500 cash received is too expensive. They then pay only at the most 4,500 + 10% = 4,950 which is a big loss to SSSB.

d) Legal recourse on these customers takes at least 9 to 12 months, plus there will be additional costs to the company in terms of legal and recovery. In the meantime these customers do not make payments pending outcome of the court.

e) Cashflow is not enough as suppliers credit terms of payment were for 45 days where borrowings are necessary to settle with suppliers so that MTSB gets new supply of products – *(Annual Accounts 2005 to 2010).*

f) (i) Collection of RM218,516,548 for year 1999 is to meet compulsory payments incurred below to make sure that SSSB will be a going concern.

Salary RM1.7m x 12	RM 20.40m
Interest charged by banks	RM 43.01m
Rental	RM 0.56m
74% sales (RM181,220,483) is to be paid to suppliers as the cost of products (cost of goods)	RM 134.00m
	RM 197.97m

However, total payments needed for backdated payments of suppliers, commission payments and other operating expenses for the year (2009) totaling RM331.0m.

(ii) Collections were only enough to pay operational expenses such as bank interests, salaries, rental, utilities but not enough to make payments to the banks.

(iii) Assuming that interest charged by banks is in the region of 7%, interest payment alone on long term and short term loans of 2005 and 2010 would be around RM43.01m per year or RM3.58m per month. In terms of collection of RM 219.0m will never be enough to cover total compulsory expenses of RM331.0m, let alone to pay bank loans and to settle in full payments to the suppliers.