

As Good As Its Taste

Authors: Syarizal Abdul Rahim, Norailis Ab. Wahab and Razli Che Razak.

Prologue

The Algerian delegates hurriedly returned after the meeting ended as the Prime Minister had announced the Movement Control Order last night. Haji Mohamed Fauzy Abdul Hamid (Hj. Fauzy), President of the corporate group, stepped towards his Chesterfield office chair. He peered outside the window while reminiscing his first step into the business world four decades ago. Innumerable, valuable experience propped his footing in the MOFAZ building.

“What in the world is a share? I have not the slightest idea about listing. Where can we find that many, Fauzy? I can only spend RM1,000. For the rest, you have to go and ask yourself,” Ahmad’s shrill voice concerned him. He still had to meet 27 other people. “That cannot be all you have, Ahmad. I knew you bought a lot of Nestle stocks last week. They are piled up in your home. You have spent more than RM30,000 on those!” Fauzy’s tone rose. “You know those are capital, right? The margin is small, too, only 2 to 3%!” Ahmad was relentless. They were racking their brains to find a way to obtain RM25 million in 30 days. “If a close friend like you cannot even outlay 1%, who else can I ask?” Fauzy exclaimed and immediately left the building of the Consortium of Bumiputera Nestle Distributors (GAPENEST).

He concentrated his entire thought on how to generate the RM25 million while holding the crumpled letter from Nestle he had received. He was uncertain whether the news was good or bad for GAPENEST and himself.

A Consortium of Bumiputera Nestle Distributors (GAPENEST)

Hj. Fauzy began acquiring an interest in working with Nestle, a multinational company (MNC) when he was in Form 6. His friends, salespeople, and supervisors in MNCs seemed to live comfortably. Early in his career, Hj. Fauzy applied for a sales representative position at Nestle. One of his most valuable experiences was acquired in various areas, such as Johor, Negeri Sembilan, Melaka, and Kuala Lumpur. Each area involved retailers that wished to procure and sell Nestle products.

Hj. Fauzy was promoted as a Regional Sales Executive after working with Nestle for 13 years which covered Bagan Serai, Perak, and Kangar, Perlis. He retained the

THE AUTHORS

Syarizal Abdul Rahim and Razli Che Razak are based in the Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Kelantan, Malaysia meanwhile Norailis Ab. Wahab is based in the Faculty of Economics and Muamalat, University Sains Islam Antarabangsa, Negeri Sembilan, Malaysia.

Correspondence email: syarizal.ar@umk.edu.my

Keywords

Entrepreneurship, Family Business, GAPENEST, Bumiputera

Disclaimer

This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision-making. The authors may have disguised names; financial and other recognizable information to protect

position for six years. The Nestle Entrepreneur Programme for Bumiputera Dealership was introduced in 1977 following the New Economic Order. The programme paved Hj. Fauzy's first step to develop his future in commerce: the establishment of Perdagangan Mofaz Sdn. Bhd. (currently known as Mofaz Dagang Sdn. Bhd.). The company became a platform for the establishment of the Consortium of Bumiputera Nestle Distributors (or GAPENEST Sdn. Bhd.) in 1982.

The GAPENEST comprised 29 members who were Bumiputera Nestle distributors across Malaysia. The consortium held 10% ownership of Nestle (M) Sdn. Bhd. and Hj. Fauzy was responsible for Bumiputera participation in the distribution industry. The participation was based on his vast experience in the business from his Nestle career. The presence of MOFAZ in diverse business activities was a continuation of GAPENEST success.

MOFAZ Group of Companies

For the past 43 years, Hj. Fauzy and his management have collectively shaped the MOFAZ Group. He wishes to continue the legacy and foster quality work-life balance among the staff, thus improving the employees' and their family's quality of life. The MOFAZ Group also emphasise the significance of the community to accomplish their long-term goals through excellent management practices, proper expansion planning, and the continual learning of best practices through benchmarking and standards. The Group participated in various activities, including advertising, automotive, aviation, international and domestic trading, green technology, marine, motorsports, services and hospitality, and real estate development.

The Group also excelled internationally, expanding to Japan and the United Kingdom. Moreover, Fairuz Fauzy (son) won the Strategic Business Advisory – Financial in the Platinum Entrepreneurs Awards category. The company that Fairuz was managing, MOFAZ Marine Sdn. Bhd., won the Excellence in Business Diversity in the Premier Top 10 Awards category in the SME and Entrepreneurship Business Awards 2018 (SEBA 2018).

Hj. Fauzy was committed to instilling the values of passion, perseverance, and persistence and inculcating the spirit of entrepreneurship among MOFAZ employees. Employees were committed to developing their respective businesses independently and encouraged to take ownership of management, operations, and decision making to achieve exponential business development and success.

The Beginning

“Huh, Fauzy! You are still here?” a voice startled him from behind. He turned around in disbelief. “Mahalel, it has been so long! Five years, maybe?” They hugged. “Looks like we are level on rank. I have many things to learn from you, especially about business. Now that we are close, I can easily consult you, Fauzy.” He just smiled and nodded at his smart colleague.

“I am not interested in continuing my studies at the moment. Nonetheless, I have to be at par with them.”

Hj. Fauzy had decided to work at Nestle while his schoolmates pursued further education at the university. Nevertheless, he set a target for himself. He was lucky to work at Nestle, an MNC that practised international standards on food safety, regulation, and quality. Simultaneously, the organisational work culture implemented a zero-defect policy and encouraged economic behaviours. Nestle had provided extensive knowledge and experience to Hj. Fauzy on the organisation and business for over a decade. As an employee of a for-profit organisation, Hj. Fauzy must maintain a favourable reputation with the clients.

He was convinced that his ability to learn new knowledge at Nestle continuously was crucial for his daily performance and career. Therefore, he acquired a learning routine at work, and he was trained in money management and budgeting. Meanwhile, Hj. Fauzy was directly involved in the Nescafe project, specifically on how to sell Nescafe, which was an unknown brand during that time. Additionally, Nescafe was embroiled in controversy and criticised for using unethical marketing practices to promote infant formula products in developing nations. Subsequently, the company was consistently criticised for unethical behaviour and violation of consumer rights. Through the assignment, he embraced self-development and devoted time to hone his skills, which transformed him into a competent sales representative.

Similarly with Maggi, only Chef Mee was well-known in the past. Nestle subsequently changed one of its products to the household brand Maggi, which had previously gained popularity through Maggi Tomato Ketchup. Noodles were not Malaysians' staple food but Nestle successfully transformed the local food preference by focusing on students. University students preferred quick and easy meals: a solution offered by Maggi. The students brought the culture when they returned to the country and fed their children with similar food when they entered the workforce. As a sales representative, Hj. Fauzy was encouraged to spend his working hours learning new stuff and new ways to promote the products. The organisation believed that the development of his skill positively improved its success.

Through Nestle, Hj. Fauzy found the opportunity to participate in the Executive Development Program (EDP) organised by MARA Institute of Technology (ITM), Shah Alam, in 1974. The programme included senior executives from other companies to develop their academic skills. The topics involved academic theories, standard operational procedures (SOP), and management and finance delivered by qualified MARA lecturers. The programme was a certificate that complemented Hj. Fauzy's knowledge and experience at the time.

A Change of Direction

In the early 1980s, a question arose in Hj. Fauzy's mind “I have been here for two decades, what else can I do to help my fellow distributors?” “I must keep trying, it is my responsibility to foster the involvement of Bumiputera in Nestle distribution. What are the problems currently faced by Bumiputeras in business? I want to prove to them that it is possible to succeed; I am a Bumiputera. What a loss it would be if these opportunities were not taken,” he continued. Throughout his service in Nestle, he identified that capital was the main challenge for Bumiputeras from entering the business. Nestle had a broad range of products, thus a large capital was required to procure the products. Considering that the expected profit was 2 to

3%, the distributors needed to procure daily a high volume of merchandise to fill their quota. Distributors with more capability were commonly supported by other businesses, such as construction. The GAPENEST was initiated in 1978 to overcome issues encountered by Bumiputera distributors. Meanwhile, Nestle was still paying his monthly salary. "When I started this business, I knew the market, I knew where to sell, I knew each shop, each client in my territory, so I have no problem with selling. How about you, my friends?" He asked the 28 members in the first GAPENEST meeting.

"One thing, I do not spend. What I do is I always reinvest what I obtained".

"You have to get used to it, do not be timid! Find contacts every single day, go sell to retailers. You must know every shop in the area! Every shop in the area must become our clients!" instructed Hj. Fauzy in every GAPENEST meeting. He had to remind his fellow distributors consistently. One of the sources of business pressure at the time was the heightened competition between ethnicities. Nonetheless, Bumiputeras held the upper hand due to a Bumiputera unit in Nestle that monitored the performance of each registered distributor. "If we want to survive in the business, you must use all your skills. You do not go out and try other things!" Considering that Hj. Fauzy intended to resign from Nestle, he purchased a three-storey shophouse in Taman Tun Dr Ismail for RM133,500, a car, a van, and other business equipment, such as chairs and tables.

"Ahmad, this is the third month... this month, we can only pay my salary, your salary and their salaries. We cannot continue like this," his statement broke the evening silence. He

had reviewed the ledger, which recorded the daily financial transactions. "I suggest we look for other products other than Nestle to sell.

From what I have seen, the guys are doing excellent work, but the customers are always the same...always our people. We must go outside of our comfort zone!" he added after assessing the business health. "You are right, Fauzy. We supply Nestle products and cigarettes to the same customers. The customer has to pay a lot at one time. Moreover, our customers are only small retailers," answered Ahmad. He was worried if Fauzy conceded. "Try contacting the National Paddy and Rice Board. Go there and find a large wholesaler, ask their commitment," he then left for other tasks outside of the office.

The rice project went as planned, Hj. Fauzy had to learn the trade through numerous unique experiences. His current routine involves visiting the sites and inspecting the rice quality thoroughly each time the ship departs. The inspection usually covered 25,000 tonnes of rice. The routine required at least a week on the ship. Furthermore, the stock was monitored outside of working hours to prevent theft. "Still stolen, even when guarded!" he snapped. "More than 30 sacks are torn, Fauzy! He could have stolen more than 30 kilograms tonight," Ahmad reported. "Even a handful per sack is much, how many gunnies has he slashed? He has got tens of kilograms of our rice now, how much has it been in a week?" He was angry at the thief, whose cunningness allowed their escape from the night patrol. He was bewildered as he re-read the report. "If we were there, the risk would reduce. If not, we would lose more," Ahmad's voice trailed as he reported the scenario. Every product had its issue, and that was the issue with rice. Nonetheless, he learned more about the trade and people from experience, and he remained determined in his journey. They grew, praise be to God.

Terms and Conditions

Nestle held a Channel 1 policy, which means that it could not directly sell to business customers and individuals. Each transaction must be made through a dealer. In 1998, when hypermarkets such as Giant began surfacing in Malaysia, JUSCO and GAPENEST were the biggest dealers. In 2004 (after 26 years), Nestle changed its policy following pressure from the hypermarkets. The policy was to directly deal with Nestle, which was impossible for GAPENEST due to the high operating costs. Most clients were small retailers. The GAPENEST members must outlay some capital to purchase numerous stores and delivery costs, such as fuel and toll.

The company sales were RM1 million per day, making them the biggest account. Meanwhile, the banks had warmed to the company for years, the incoming hypermarkets dissolved the large opportunities. "I have to give up," Hj. Fauzy whispered some time in 2005. "How am I going to solve the problem, Ahmad? I only

know that Nestle wants to make an initial public offering (IPO). Nestle wants to 'bank a room'," he scratched his head, confounded because Nestle wanted its quota. Nestle appealed to the Malaysian government and the answer was clear. The Bumiputera allocation in the MNC must be 51% and foreigners must be 49%. As a giant global corporation, Nestle demanded a higher share allocation. Hj. Fauzy already knew his next step.

"Ahmad, prepare a proposal for the government. List our names and the names of the 27 partners under GAPENEST," instructed Hj. Fauzy tensely. "For the contents, inform that we want 30% of Nestle shares. The reason is..." Hj. Fauzy dictated the contents to Ahmad. "Dato' Sri, you must change the policy, these are Bumiputeras. If they want to survive, you must agree to Nestle demands. The government must be dynamic, adapting to the current economic condition," he argued before the Minister of International Trade and Industry seven days after delivering his letter.

"Why do you have to do this, Fauzy?" The Minister frowned, waiting for his reply. "I am doing this for a good cause. You know that Malaysia will obtain the benefits. Save these people," he answered, confident that the national economy will improve from the growth of hypermarkets and the increasing global demand for Nestle products amid the controversies. He added, "Nestle is a private company worth RM250 million. It cannot go public yet. It must first prove that it performs for three consecutive years, but it is already in the programme". "Fauzy, let me discuss this first with the authorities," he answered and read the rest of the letter.

After three months of waiting, the results were worth it: 10% were allocated to Lembaga Tabung Haji, 10% to an anonymous group, and 10% to GAPENEST. Nestle had to restructure the company and 30% of its shares were allocated to the three groups. Although acquiring only 10%, the allocation was his first real break and he was grateful to Nestle for providing the opportunity to him and the other 28 GAPENEST members.

"Hello, may I know who are the members of GAPENEST?" Hj. Fauzy placed the phone back and stepped away, never looking behind.

Epilogue

“Ahmad, Ahmad, Azman has promised to help us! Thank God, O Allah!” Ahmad was smiling widely as Fauzy entered the GAPENEST office. He continued, “... but not through the bank, I must deliver an application to the financing company.” “Any other conditions? Have you asked the other 27 partners? Do you think that we should call them to discuss this further? We must give our response to Nestle less than seven days from today,” Ahmad questioned. “I must prepare a deposit for the shares. The commitment is actually 90% of the RM25 million, the rest is apportioned to the 29 of us. But it seems that...”

Fauzy answered the call, and a flat tone replied. “Assalamualaikum Azman...” Ahmad became silent as if he agreed to Hj. Fauzy’s decision.

Acknowledgement

The research is funded by the Global Entrepreneurship Research and Innovation Centre (GERIC), Universiti Malaysia Kelantan.