

A top-down view of a desk with a notebook, pen, watch, and shoes. The notebook is open, showing lined pages. A pen lies on the notebook. A watch with a black strap is visible. In the background, there are black leather shoes. The scene is set on a light-colored wooden surface.

INTEGRATED CASE STUDY MODULE

Accounting and Business Management

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PREFACE

After being actively involved in teaching, research and writing for few years, we decided to pool our knowledge and experience, and produce a case study module for teaching purposes based on our knowledge and experience that combines the main fields in accounting, business, finance, strategic management and few others related area. The cases were developed based on the research conducted from the real business and following the Malaysian business standards. The case study module ideally for teaching purposes which each of the cases divided into few sections such as prologue, case contents and end with epilogue. Nevertheless, this module is not meant only specific areas only but also suitable for future managers, who need to understand the real business situation, challenges in applying the knowledge and possible solutions to solve the challenges.

This module is the first edition that comprises of five cases that suits the Malaysia's business environment. In addition, this module can be used as a reference by various levels of students including the undergraduates who are pursuing Bachelor in Accounting, Bachelor in Business, Bachelor in Marketing, Bachelor in Finance and as well as other first degree courses. It is also hope that this book will assist and prepare future managers to carry out their decision making, planning task successfully in any organization.

Nurul Nazlia Jamil
Agoos Munalis Tahir
Ainulashikin Marzuki

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SYNOPSIS

Case studies are stories that are used as a teaching tool to show the application of a theory or concept to real situation. Dependent on the goal they are meant to fulfill, cases can be fact driven and deductive where there is a correct answer, or they can be context driven where multiple solutions are possible. This module comprises of five cases that cover the field of accounting, business, finance, marketing and strategic management. Each of the cases are integrating issues from all the fields in which the students need to analyze the case and try to find ways to find solutions and solve problems. This method requires students to work in groups, with a focus on classroom discussion.

Students will work in teams to solve the cases, discussing each facet of the case with their classmates. The lecturer or instructor guides the students when necessary, and will often suggest courses of action when necessary. Ideally, this module helps the students to develop their skills in problem solving, analytical tools either quantitative and qualitative depending on the case, decision making in complex situations and coping with ambiguities.

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CASE 1

UNITI BRICK: THE ABOLITION OF PLKN BY MALAYSIA'S NEW GOVERNMENT

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PROLOGUE

It was 13 August 2018 when the Malaysian government decided to abolish National Service Training Programme or also known as PLKN. The decision which took immediate effect on the operation of the programme was made due to the findings that had been misused as a medium to indoctrinate certain beliefs among the youth in Malaysia.

Feeling lost and shocked with the news that he has read from the newspaper, Encik Ahnaf called all the staff for an urgent meeting to discuss about the future of their company. They were just started their new project which is rebuilding their old PLKN camp in Port Dickson, named as "Kem PLKN PDS Resort".

As most of the business for the company came from the government who rent their camp and facilities for PLKN purposes, stopping the program would also mean that no more income coming in. Critical back up must be determined to cover back all the expenses that have been invested for the new PLKN camp. Since the renovation is still in progress, decision must also be made whether the company should continue the project or not. After a long hours of brainstorming session and discussion, the team decided to develop new project which is to build houses for customers with land lot at an affordable and lower price as compared to other developers. Encik Ahnaf believes that this will generate enough cash flows to cover up their losses.

COMPANY BACKGROUND OF UNITI BRICK

Uniti Brick is one of the subsidiaries under UNITI Asia Group. UNITI Asia Group is one of the leading companies in Thailand, Indonesia and Malaysia. UNITI Asia group believes that business is all about giving benefits to all the stakeholders including customers, employees, shareholders, suppliers, subcontractors, manufacturers, government, nation and all mankind. Profit is not their main objective but it is a must to be profitable. In pursuit of the business objectives, UNITI Asia strives to do its best.

The company focuses in four industries of business namely the Education, Property Development & Construction, Trading and Services and Social Work and Social Entrepreneurs. There are three programme conducted by UNITI Asia Group under the Education which is Kolej UNITI Port Dickson, Kolej UNITI Kota Bharu and UNITI Educational Toys. Meanwhile, under

the Property Development and Construction industries, there are four projects namely the UNITI Brick, Menara Arina UNITI, Pattani Jaya Commercial and Salemba Residence. The ownership structure of UNITY Asia can be seen in Figure 1.

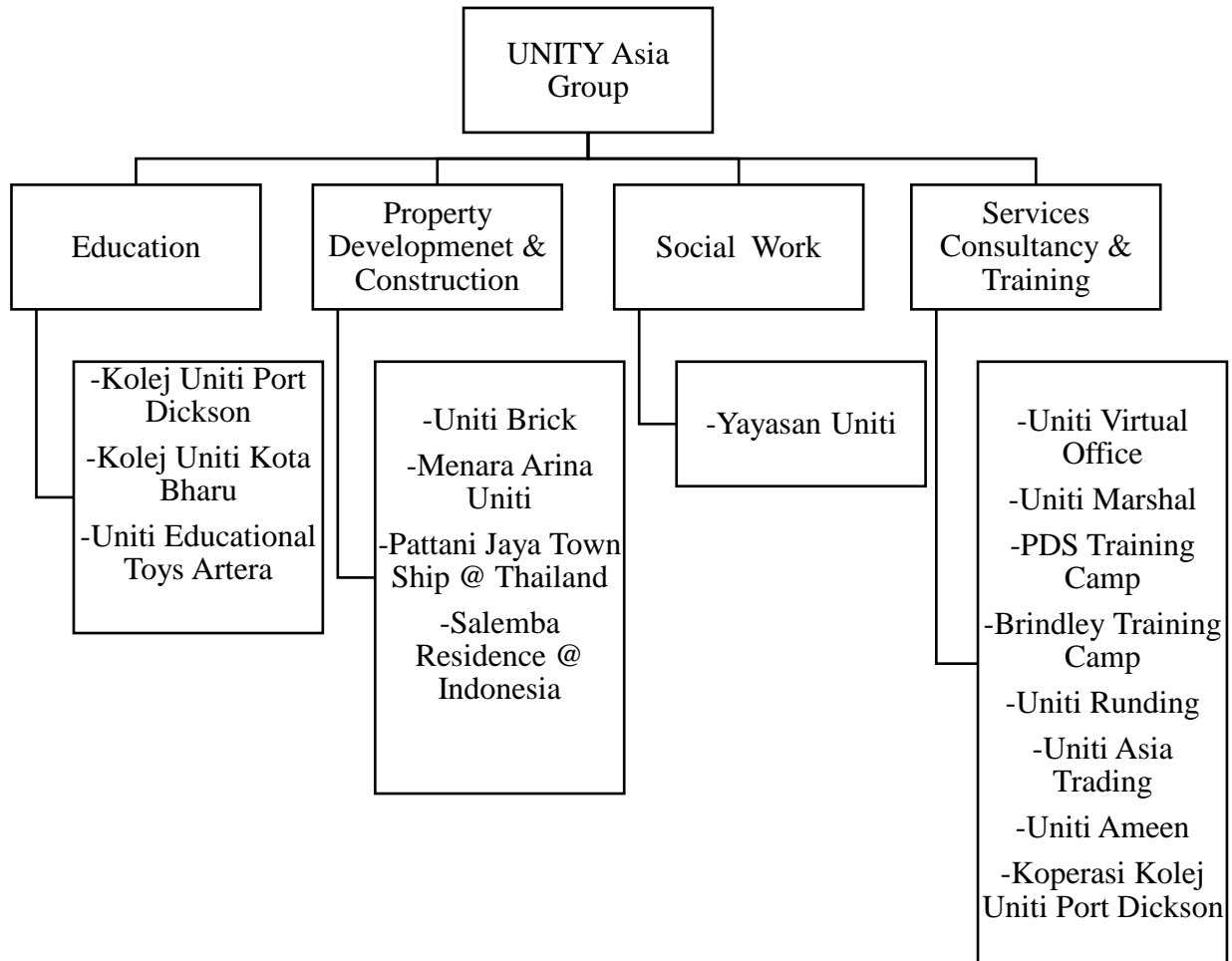


Figure 1: Ownership Structure of UNITY Asia Group

Uniti Brick Sdn Bhd established in year 2016 located in Bandar Baru Nilai. The company focuses on property development and construction. Uniti Brick consists of proficient and competent group of Design Architects, Engineers and Contractors to provide end-to-end services to the clients, from architectural design and space planning up to building construction. The company also provide and supply high quality interlocking Brick with its own factory based in Tanjung Agas, Port Dickson. Uniti Brick consist of seven employees to operate the company including Encik Ahnaf himself as the architect of the company. The position of every employee can be referred to Figure 2.

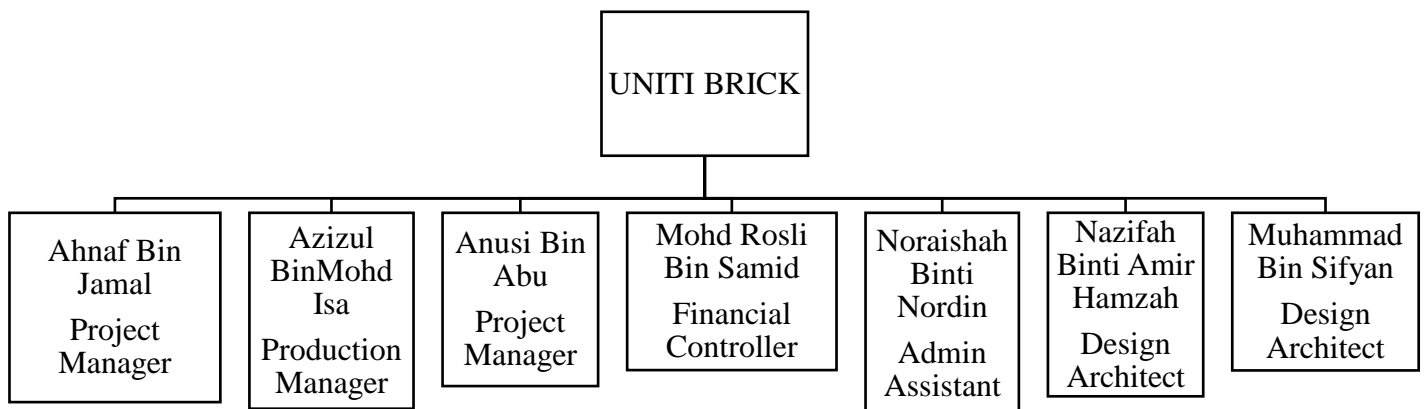


Figure 2: Organizational Structure of Uniti Brick

OTHER BUSINESS ACTIVITIES

Brick Supplier

Another source of income for Uniti Brick came from the production Interlocking Brick System (IBS) that is being used as material supplier for construction. Interlocking bricks (IB) of Uniti Brick are the enhanced form of conventional clay bricks. Each brick is constructively designed to lock itself to the other bricks around without the use of mortar. Interlocking bricks are compressed (no burning process) and stabilized earth bricks which contributes to strength of the structure. Uniti interlocking bricks come in various sizes and locking systems. Typical brick sizes are 100x250x125mm (standard brick), 100x125x125mm (half brick) and 100x250x125mm (u brick). The price of interlocking brick varies according to the type of bricks; standard brick RM1.60, half brick RM0.80 and u brick RM1.60. The sales of this interlocking bricks contribute 30% to the revenue of Uniti Brick. This product is a little bit of help for Uniti Brick to survive in the industry.

One of the specialties of the Interlocking bricks is that it is an effective and proven earthquake resistant construction materials. The self- locking pattern of the bricks enables the seismic forces to travel across the whole structure equivalently. Usually, most of the clients for interlocking brick comes from other construction companies and individuals who wants to build their own building.

Besides this, the Interlocking brick helps clients to achieve the goal of constructing good looking buildings without additional cost. By using the Interlocking Bricks System, client may save cost by eliminating formworks for reinforced concrete column and beams, plastering and painting costs, reducing many workers, steel and cement. This lead to the reduced construction time as compared to the conventional methods. As a result, it generates a faster client's return on investment (ROI) and avoid any costly delay.

Other specialty of IB is the cooler interior which can cools down the temperature of the building. Normal clay bricks have been known as the best material to keep the house cooler as compared to the concrete based product but with IB, due to more clay (soil) volume is used for its production as it makes the bricks denser thus creating a thermal mass for the house. Furthermore, IBS is an eco-friendly construction. Producing billions of these bricks doesn't even require a single second of burning process, unlike conventional bricks.

House Developer

In addition to the IBS, Uniti Brick is also a house developer. In fact, they had been constructing their own building since their incorporation back in the year of 2016. Uniti Brick will construct the house fully furnish on the land lot owned by the client before it been handed to them. The house developer projects started since early 2019 and got few completed project along the years. Their first ever client was Kolej Uniti Sdn Bhd located in Tanjung Agas, Port Dickson, Negeri Sembilan, in which the company renovated the kolej cafeteria and also build the entrance statue of the kolej. Besides, Uniti Brick had completed the construction of bungalow of Nur Andalus 1 and uniti office lounge room for Uniti Office Sdn Bhd located also in Tanjung Agas, Port Dickson, Negeri Sembilan.

Several projects are still under construction such as Darul Falah condominium, Uniti Village 3, and PDS Training Camp. At the moment, Uniti Brick prefers only clients from either the same state or in neighboring state. Uniti Brick has 3 unique build of houses; Samara (3 bed, 2 bath), Medina (3 bed, 3 bath, 1 store) and Lubna (4 bed, 3 bath, 1 store). The collection of the houses is between premium and standard with 3 designs; design A (1000 sqft), design B (1500 sqft), and design C (900sqft). The range of constructing the houses are around RM90, 000 to RM150, 000 based on the location of the project, and it is only an estimation cost of home construction without including the cost of cleaning, cutting, or levelling the land, the cost of designing the building and the cost of the plan approval from the local authority.

Most of Uniti Brick labors are labors from Rohigya country. Uniti Brick focuses on constructing a good looking and strong structure of houses that will give values to the living. Because of such, Uniti Brick guides the contractors to use the interlocking brick systems (IBS) as efficient and effective as they can. Uniti Brick also helps to teach the basic knowledge for those who are interested to become the interlocking brick supplier.

CONSEQUENCES OF THE ABOLITION

Encik Ahnaf is the CEO of Uniti Brick Sdn. Bhd. whereas under him is Encik Anusi, the project manager. Encik Anusi is the one who is handling the current renovation of PLKN camp in Port Dickson. After the abolition of PLKN, Uniti Brick did not receive, neither any more rental payment, nor the compensation, from the government.

It was a disaster to Uniti Brick since before the abolition of PLKN, they have started to rebuild the PLKN camp with more convenience facilities. They worked it out bit by bit in order to reduce the cost incurred at a time because they did not have sufficient funds to complete the whole renovation. At that time, the completion of the rebuilding has achieved only 40% and the cost incurred is about RM650,000. The last rental payment received from the government on June 2018 amounted to RM 1,000,000, paid in lump sum before the abolition of PLKN camp in August. Hence, it is not enough to cover up the rebuilding expense. The whole cash flow for the year 2018 can be referred to Figure 3 below.

	JAN (RM)	FEB (RM)	MAR (RM)	APRIL (RM)	MAY (RM)	JUNE (RM)	JULY (RM)	AUG (RM)	SEPT (RM)	OCT (RM)	NOV (RM)	DEC (RM)
B/F CASH & BANK	3,233,100	3,611,100	3,716,100	3,956,100	4,196,100	4,481,100	4,906,100	5,011,100	5,116,100	5,221,100	5,326,100	5,431,100
Cash Inflow	1,080,000	300,000	660,000	720,000	660,000	1,360,000	300,000	300,000	300,000	300,000	300,000	300,000
Cash Outflow	702,000	195,000	420,000	480,000	375,000	935,000	195,000	195,000	195,000	195,000	195,000	195,000
Cummulative Cash Flow	3,611,100	3,716,100	3,956,100	4,196,100	4,481,100	4,906,100	5,011,100	5,116,100	5,221,100	5,326,100	5,431,100	5,536,100
CASH INFLOW												
BUNGALOW PROJECT												
Bungalow 1-4	-	-	-	-	-	-	-	-	-	-	-	-
Bungalow 5	-	-	-	-	-	-	-	-	-	-	-	-
Bungalow 6	-	-	300,000	-	-	-	-	-	-	-	-	-
Bungalow 7	-	-	-	300,000	-	-	-	-	-	-	-	-
Bungalow 8-10	900,000	-	-	-	-	-	-	-	-	-	-	-
TOTAL INFLOW	900,000	-	300,000	300,000	-	-	-	-	-	-	-	-
PLKN PROJECT												
Brick Camp	-	-	-	-	-	1,000,000	-	-	-	-	-	-
	-	-	-	-	-	1,000,000	-	-	-	-	-	-
Small Project												
Razak Senawang	-	-	60,000	120,000	360,000	60,000	-	-	-	-	-	-
Rumah ATS	180,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
	180,000	300,000	360,000	420,000	660,000	360,000	300,000	300,000	300,000	300,000	300,000	300,000
CASH OUTFLOW												
Bungalow	585,000	-	195,000	195,000	-	-	-	-	-	-	-	-
PLKN	-	-	-	-	-	650,000	-	-	-	-	-	-
Small Project	-	-	-	-	-	-	-	-	-	-	-	-
Razak Senawang	-	-	30,000	90,000	180,000	90,000	-	-	-	-	-	-
Rumah Tunggal	117,000	195,000	195,000	195,000	195,000	195,000	195,000	195,000	195,000	195,000	195,000	195,000
TOTAL OUTFLOW	702,000	195,000	420,000	480,000	375,000	935,000	195,000	195,000	195,000	195,000	195,000	195,000

Expenses	JAN (RM)	FEB (RM)	MAR (RM)	APRIL (RM)	MAY (RM)	JUNE (RM)	JULY (RM)	AUG (RM)	SEPT (RM)	OCT (RM)	NOV (RM)	DEC (RM)
Administrative Expenses												
Management Fees	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00
Audit Fees	-	-	-	-	-	-	-	-	-	-	-	-
Telephone & Fax	500	500	500	500	500	500	500	500	500	500	500	500
Printing & Stationeries	500	500	500	500	500	500	500	500	500	500	500	500
Repair & Maintenance	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00
Installment Vehicle	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00
Utilities	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
	11,500.00	11,500.00	11,500.00	11,500.00	11,500.00	11,500.00	11,500.00	11,500.00	11,500.00	11,500.00	11,500.00	11,500.00
Human Resource Expenses												
Salaries & Wages	55,000.00	55,000.00	55,000.00	55,000.00	55,000.00	55,000.00	55,000.00	55,000.00	55,000.00	55,000.00	55,000.00	55,000.00
Allowance Practical	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
KWSP, SOCSO & EIS	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Insurance	-	-	-	-	-	-	-	-	-	-	-	-
Medical Staff	500	500	500	500	500	500	500	500	500	500	500	500
Meal	200	200	200	200	200	200	200	200	200	200	200	200
	66,700.00	66,700.00	66,700.00	66,700.00	66,700.00	66,700.00	66,700.00	66,700.00	66,700.00	66,700.00	66,700.00	66,700.00
Marketing Expenses												
Media Social Ads	500	500	500	500	500	500	500	500	500	500	500	500
Website Renewal	-	-	-	-	-	-	-	-	-	-	-	-
	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00
TOTAL EXPENSES	78,700.00	78,700.00	78,700.00	78,700.00	78,700.00	78,700.00	78,700.00	78,700.00	78,700.00	78,700.00	78,700.00	78,700.00

Figure 3: Cash Flow of Uniti Brick for the Year Ended 31 December 2018

The statement of cash flow shows that it is very unstable as cash inflow for the month of January is RM 1,080,000. However, cash inflow of the company started to decrease RM 300,000 in February but the amount had increased to RM 660,000 in the month of March. Then, the amount of cash inflow started to increase until June which is RM 1,360,000 the highest cash inflow in the year of 2018. Starting from July and onwards, the amount of cash inflows remains the same which is RM 300,000.

This cash flow consists of five projects under Uniti Brick including PLKN camp for the year 2018 that contributes to the income of the company and the first one is bungalow projects. There are a total of ten lot bungalows that has been built by Uniti Brick and all the bungalows contribute a total of RM 1,500,000 to the company in the year of 2018. Next, the highest amount of contribution for other small projects such as Razak Senawang and Rumah ATS are RM 375,000 in May.

Due to the loss of RM1,000,000 of revenue for years onwards, Encik Ahnaf together with his team have to think on how to generate additional income to recover it, as well as to cover the expenses for the rebuilding of the PDS training camp. The income from building houses is not enough for the company to be in comfort area as the construction projects is not contributing as much as the rental payment they received previously from the government. Moreover, obtaining new project is not easy because there are many competitors in the same industry who are considered as more recognizable and experienced than Uniti Brick itself who just been in the market only for three years. Uniti Brick know that they have to try harder to expose themselves to the market.

Furthermore, with the changes of the current government, there were also changes in policies such as the changes in tax system from GST to SST. This situation also gives hardship to Uniti Brick as a construction company because of the huge amount of costs for building and constructing. Although the government has announced that the building materials used for constructions such as cements, sands and irons are exempted from tax, but Uniti Brick as a contractor would be still face difficulties because not all materials are zero-SST. Compared to the previous tax system GST, although the contractors need to pay for 6% taxes, they could claim the amount from their sub-contractor. Besides, GST rates are much lower than current SST system.

Other than that, with only seven people to run the business including Encik Ahnaf himself, it is difficult for them to counter with the workloads. Encik Ahnaf realise that more staffs should be hired, but this also means that more cash to be expensed. With their current situation, Encik Ahnaf is not sure whether the company can offer any more increment of cost.

EPILOGUE

Encik Ahnaf called all the staff for an urgent meeting regarding the news just announced by the Ministry of Youth and Sport. In the meeting, they discussed about the future of their project since the government had decided to stop PLKN programme. They also discussed about the issues related to the cash flows problem due to the change of government in 2018. Should the company continue with the rebuilding project of the PDS resort? What should the company do to increase their cash flow?

APPENDIX 1

MARKETING STRATEGY OF UNITI BRICK

Website

Uniti Brick promote their project via website, they have developed their own website which essential for customer to take look their current project. Website is the best marketing tools which hopefully more customers can access. When the traffic is busy it's mean that many customers had accessed at the time. Uniti Brick start to develop their own website this year 2019, they create their own content as marketing strategy. Content marketing is the process of creating and publishing valuable content that help them attract and engage with their target customer. En.Ahnaf the owner of Uniti Brick believed that when they have their own website they can provide their potential customer with useful content and it's the best way to build a strong relationship with their customers. Uniti Brick create a range of different content such as the quotation of their project which includes design and build, products, custom design, projects and work vacancy. In quotation customer is require to fill their information, after that the website will process the information to provide their potential customers with estimation price which in the price its includes price the cost of cleaning, cutting or levelling the land, the cost of designing the building and the cost of the plan approval from the local authority. In the website, Uniti Brick also provide their contact information which including email. WhatsApp, phone number, their location and media social.

Media Social

On the other hand, Uniti Brick also market their project through social media. Social media is the hottest and powerful marketing strategy nowadays. They use Instagram and Facebook as their marketing tools to promote their project. These tools are efficient and effective when promoting business because it's basically free and there are many media social users. When there are many users it's indicates there also many potential customers. Customer using social media as a channel to communicate with friends and also to stay update with current issue. Basically the content of Uniti Brick 's media social are includes their current project, the cost of the project, finish project, feedback from customer that already use their service and work vacancy. For now Uniti Brick has 503 followers for Instagram and 409 likers for Facebook. The admin of the account will ensure they post at least one post for a day to ensure that customers stay alert with their current business.

Showcase

Lastly, Uniti Brick also promote their business through showcase. Uniti Brick open their own booth to showcase their latest bungalow house package for 2020. The showcase was held at Bangi Avenue Conventional Centre as they take part in Kolej UNITI conventional day. They use their media social to countdown day before the showcase being held. It's effective as customer will stay alert with that. They choose to open their own booth because this will help them to promote face to face to their customer.

CASE 2

LEMBAGA TABUNG HAJI: WHERE DID THE GOVERNANCE GO WRONG?

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PROLOGUE

Auditor General: *As we audit the 2017 financial statements, we discovered that there were some inconsistencies in the accounts. We believe that earnings management has been done to the report.*

MR ADAM: *What kind of inconsistencies? Is it impactful to the group?*

Auditor General: *The group failed to recognize impairment on some of the investments on subsidiaries and its associates. We also identified that the method in determining the impairment policy was inconsistent. Other than that, we discovered a deficit of RM4 billions of total assets against total liabilities. This shows that total liabilities exceed the total assets. We think the deficits are detrimental to the group.*

MR ADAM: *That was a huge amount! How can the group declare hibah to the depositors by the way? It is contravenes to the Tabung Haji Act 1995 Section 22(3) which stated that there would be no distribution of profit if the liabilities exceed the assets. I doubt there is political intervention in this issue.*

Auditor General: *We suggest that a thorough investigation should be done to the group. We need to identify other discrepancies that might occur in the accounts.*

MR ADAM: *I agree with that. I would like to appoint another external auditor to perform financial review on the accounts. Who do you recommend?*

Auditor General: *We would recommend PriceWaterhouseCoopers (PwC) as the external auditor as they are one of the big audit firms that can be trusted.*

MR ADAM: *Alright. We will set up the appointment with PwC. The depositors might lose their trust with us if we don't do something. We need to rebuild the depositors' confidence and regain our good reputation.*

TABUNG HAJI'S BACKGROUND

Lembaga Tabung Haji, incorporated in 1962, was an idea of Malaysian government to take care of Muslims' welfare in relation to their pilgrimage to the Holy Land. The main purpose of the establishment of Lembaga Tabung Haji was to enable Muslims to save for pilgrimage without the fear of their money to be tainted by riba'. Tabung Haji is governed by Tabung Haji Act 1995 in providing facilities to Malaysian's Muslim to save for hajj. Before Lembaga Tabung Haji was founded, there was no Islamic financial institution in this country providing Muslim Services to save for hajj expenses. Although several banks was already working, Muslim were hesitant to use conventional banking for their hajj savings because they wanted to make sure their hajj savings was riba-free(usury) in order to attain a Mabrur Hajj.

The idea of forming the Prospective Hajj Pilgrims Savings Corporation (Perbadanan Wang Simpanan Bakal-Bakal Haji (PWSBH)) was prompted by a proposal made to the Federal Government of Malaya in December 1959 by the renowned Malay economist, Royal professor YM Ungku Abdul Aziz bin Ungku Abdul Hamid. With the establishment of TH, the affairs related to Malaysians' hajj pilgrimage became much easier and well-organised. Malaysian Muslims traveling to the Holy Land would have nothing to worry about because TH looks at all their needs, including passport, hajj visa, transportation, lodging in Makkah, Madinah, Mina and Arafah as well as healthcare and hajj guidance.

As number of pilgrims increase, Lembaga Tabung Haji expands and become a company that has its own value. There are many subsidiaries of Tabung Haji in different types of industry. For instances, in the plantation sector, Tabung Haji subsidiaries are TH Plantation and TH Estates (Holdings) Sdn. Bhd. Bank Islam Malaysia Berhad and Syarikat Takaful Malaysia Berhad also are one of Tabung Haji's subsidiaries in the financial sector. Other than that, Tabung Haji also has subsidiaries in services and property development sector called TH Travel and Services Sdn. Bhd. and TH Properties Sdn. Bhd. respectively. We can see that Lembaga Tabung Haji has been phenomenally successful to be a single institution that is solely responsible for hajj management of the Malaysian Muslims as their number of branches and subsidiaries increase for year to year.

Tabung Haji is one of the saving institutions that provide many facilities especially for Malaysian Hajj Pilgrims. Most of Malaysia citizen believe that Tabung Haji can help them to fulfill their dream to perform hajj. Therefore, because of the high hibah that Tabung Haji provides, the numbers of the depositors shows an increasing from year to year. The statistic of number of depositor in Tabung Haji is seen in Figure 1.0



Figure 1.0: Number of Depositors

Vision

To be the pillar of Ummah’s Economic Success; Excellence in Hajj Management.

Mission

In achieving TH’s vision, We pledge:-

1. To strengthen the economy of the ummah
2. To remain active in seeking strategic investments locally and globally to ensure sustainable growth
3. To consolidate and enrich depositors’ funds
4. To continuously provide excellent services
5. To facilitate and assist pilgrims towards achieving a Mabruur Hajj
6. To provide competitive, halal and toyyiban return

BUSINESS ACTIVITIES

The activities of Tabung Haji may be divided into the following three groups:

1. Depository, providing saving services to Muslims

It primarily raises saving in 345 locations across the Malaysian Peninsula, Sabah and Sarawak. TH also made special banking arrangements for the collection of deposits with Pos Nasional Berhad (Postal Service of Malaysia) and two commercial banks. TH requires the deduction of workers “wages from both the public and private sectors in order to provide efficient and convenient services. Recently, TH has further expanded its offerings by partnering with Bank Islam Malaysia

Berhad and Bank Rakyat Malaysia Berhad to provide deposit, transfer and withdrawal services, as well as using their issued ATM cards.

2. Investment of accumulated funds and monitoring of investment functions

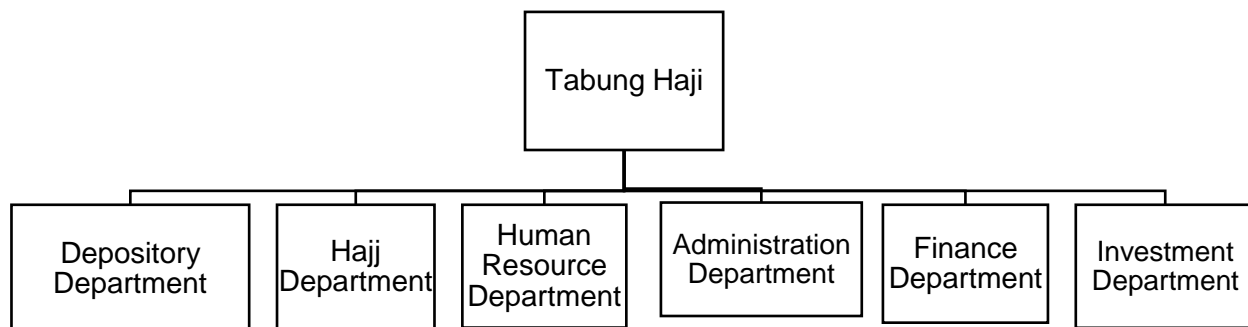
To achieve and maximize returns, the depositors' cumulative fund is invested in various businesses and investments. TH ensures that financial transactions are based on Islamic values. From the latest annual report of TH at the end of 2009, such financial investments are in plantation, Islamic banking, construction, real estate, information technology, and services sector. At the same time, TH invests prudently in debt, IPO, IDB Islamic Investment Fund, private equity fund, and security deposits.

3. Pilgrimage, involving Hajj services in Malaysia and in Mecca

TH also provides visitors with religious and social services. TH handles pilgrimage issues related to pilgrimage courses, arrangement of medical services, issue of hajj visas, arrangement of transportation and provision of welfare and medical services to pilgrims in both Malaysia and Saudi Arabia. Professionally, TH is committed to investing the assets of depositors in compliance with Islam's investment values and standards. TH greatly enhanced the preparation of the pilgrims for their pilgrimage. Starting six months before the hajj season, a course for Bakal Haji (Prospective Hajj) has been initiated and offered in each district since 1963. Today, these courses consist of lecture series 13-15, exhibits, films designed to explain the theory and practice of hajj rites and rituals.

ORGANIZATION STRUCTURE

Tabung Haji has divided itself into six departments with multiple divisions within each department to carry out its activities. A brief description and duties of these departments follow:



GOVERNANCE

The suspicion in Lembaga Tabung Haji began when a politician was appointed to be the chairman of LTH. Datuk Seri Abdul Azeez Abdul Rahim is one of the members of United Malay National Organization (UMNO) and a Member of Parliament for the seat of Baling, Kedah (2013-Present). In 2011, Abdul Azeez became a director of Lembaga Tabung Haji (LTH) and after his election to parliament in 2013, he then became LTH's Chairman. He served for this position for almost 5 years and resign on 14 May 2018 after the change of government.

There is no trusted resource that explain about his education background but a blog from unknown writer stated Abdul Azeez have a degree in Masters of Business Administration from the University of Preston, United States.

In 2018, the board was restructured and the current Chairman for LTH is Tan Sri Md Nor Yusof who was appointed on 10 July 2018. He is a Chartered Accountant and a graduate of the University of Otago, New Zealand with bachelor's degree in Commerce. With more than 19 years working career as a director of CIMB Group, he also attended a Harvard University special course on Banking and Monetary Policy in Developing Countries. He was also served on several positions such as Executive Chairman of Securities Commission, Chairman of Malaysia Airline Bhd and Director of Khazanah Nasional Bhd.

Nik Mohd Hasyudeen is the current Chief Executive Director of LTH appointed on 1 September 2019. He holds a Bachelor of Business (Accounting) Degree from Curtin University, Perth and a Fellow for CPA Australia. He also a member of the Malaysian Institute of Accountants (MIA). Mohd Hasyudeen has been involved in the accounting profession in Malaysia and the region. He is the former President of MIA and former Deputy President of the ASEAN Accounting Federation and also former Executive Committee of the Confederation of Asian and Pacific Accountants. He was also the former of Executive Director of Securities Commission, member of Bursa Malaysia and Malaysia Anti-Corruption Commission and currently he is an Independent Non- Executive Director of BIMB Holding Berhad.

The fall of Lembaga Tabung Haji (LTH) started in 2018 when the new board and management perform a thorough investigation to the group. The Auditor General stated in the audit report that there were inconsistencies in determining the method of impairment policy in financial statements 2017. The report stated that in 2017, the impairment policy was changed two times. In 2017, LTH failed to recognized impairment on the investments amounting to RM227.81 million against three subsidiaries and three associates specifically in one of the associate company, TH Heavy Engineering amounting to RM164.58 million. As the new board appointed, they require a thorough investigation on LTH, thus they appointed PwC as the independent external auditor to perform a financial review on 2017 financial accounts.

In the PwC financial review report, PwC discovered that the group actually failed to recognize a total of RM549 million impairment losses of investments in several associate companies and

subsidiaries as well as fair value losses in investment properties and impairment of investment in available-for-sale (AFS) debt security. PwC stated that the impairment assessment was based on the information received from the management but unfortunately the management did not supply PwC sufficient information for the assessment except for its subsidiary, Pelikan. The unrecognized impairment loss that based on the investments in *Pelikan International Corp Bhd* amounted to RM152 million as the carrying amount was RM287 million while the market value was RM135 million. The group also did not recognized impairment of financing receivable from Marine 1 (L) Inc which amounted to RM25 million.

For investment in TH Heavy Engineering, the impairment loss actually amounted to RM326 million but there was a reduction on the impairment loss of RM31 million as RM29 million of THHE sukuk repaid on July 16, 2018 and RM2 million comes from higher market unit price per share of THHE which resulted to a total of RM295 million of impairment losses.

For investment properties, based on the valuation reports provided by the management, PwC identified that the group also did not re-measured the investment properties to its fair value. Under its investments properties, the group properties, Platinum Park has a negative fair value of RM55 million, while TH Perdana, TH Selborne and others have fair value losses of RM12 million, RM8 million and RM2 million respectively. These resulted to fair value loss amounted to RM77 million but the group did not recognised the fair value in the 2017 financial reports.

Other than the impairment issue, the auditor also discovered that the group had breach Section 22(3), Tabung Haji Act 1995 which stated that no distribution of Hibah if the assets is lower than the liabilities. The group which under Dato' Azeez administration, has disbursed Hibah to the depositors despite the overstatement liabilities against the assets. In 2017, it is reported that the total assets was RM70.3 billion while total liabilities was RM74.4 billion, indicating a deficit of RM4.1 billion. Figure 1.1 shows the detail of the deficit.

Tabung Haji declared Hibah based on Wadiah Yad Dhamanah. Basically, Hibah means that the individual or organizations are not compulsory to be paid by TH. There are two elements of Hibah in TH which is "Hibah Tahunan" and "Hibah Haji". Hibah Tahunan is a Hibah that declared by TH while Hibah Haji is a special Hibah that given to TH depositor who have never fulfilled their Haji and the payment according to the current price to perform Haji. The payment of Hibah based on TH financial during the year.

PERCENTAGE OF HIBAH

1. Hibah Tahunan

YEAR	PERCENTAGE
2016	4.25%
2017	4.50%
2018	1.25%

Table 1.1

Calculation of Hibah Tahunan

- It is based on average monthly minimum balance during the year.
- (Minimum balance) / 12 x (percentage of Hibah)

2. Hibah Haji

YEAR	PERCENTAGE
2016	1.50%
2017	1.75%
2018	XX

Table 1.2

Calculation of Hibah Haji

- Average monthly balance remaining but according to the maximum price to perform Haji x (percentage of Hibah)

In 2017 the percentage of disbursement of Hibah was unchanged from 2016 eventhough the assets were lower than the liabilities. In 2018, the new board of LTH decided to perform a turnaround plan to cover the deficit in 2017. The turnaround plan was to transfer the under-performing assets from Tabung Haji to a special-purpose vehicle (SPV) which is Urus Harta Jamaah Sdn Bhd. (UJSB). The under-performing assets comprise of 29 real estate assets, an unlisted company and 106 domestic security assets which values at RM19.9 billion. It is illustrated in figure 1.2 that the payment of RM19.9 billion from UJSB was divided to three sections. Firstly, RM 10 billion payment is an issuance of sukuk certificate with return 4.05% a year for 7 years. Secondly, RM9.6 billion payment which is also an issuance of sukuk certificate with return 4.10% a year for 10 years and thirdly, RM 0.3 billion in a cash payment. The transfer of under-performing assets increased

the total assets which is RM76.5 billion while the liabilities was RM75.5 billion, indicating a RM1 billion surplus as at 31 December 2018.

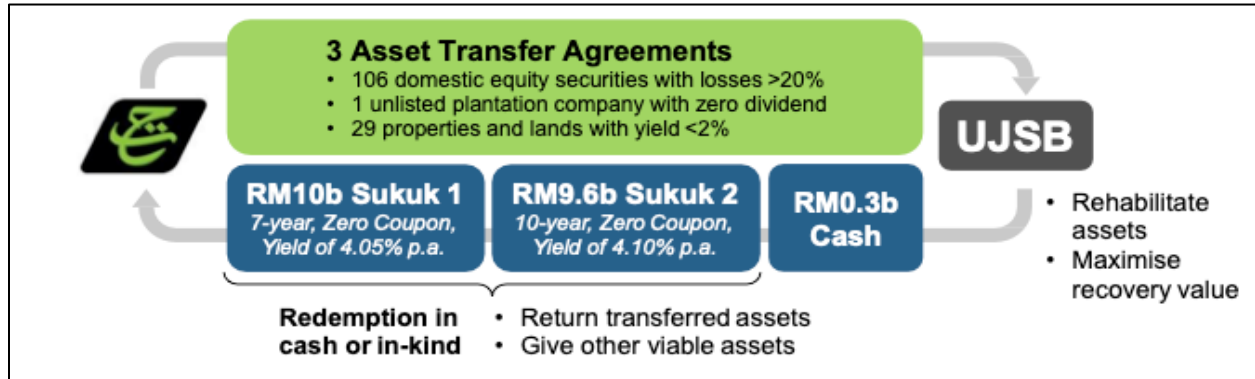


Figure 1.2

The turnaround plan of restoring LTH financial accounts was a success as in 2018, the group can distribute profits or Hibah to the depositors with a maximum amount of RM913 million from the RM 1 billion surplus. Although the percentage of Hibah is lower than the previous years, but the group can actually distribute the profits legally without breaching the laws. Figure 1.3 indicates the condition of LTH financial accounts after the turnaround plan.

	2017	1Q18	2Q18	3Q18	4Q18	2018 (Restructuring)
Assets	70.3	70.0	68.6	69.2	64.6	76.5
Liabilities	74.4	75.4	76.0	76.0	75.5	75.5
Surplus/(Deficit)	(4.1)	(5.4)	(7.4)	(6.8)	(10.9)	+1.0

Max. amount that can be distributed (~RM913m)

Figure 1.3

Weakness in managing investments also could be a reason why LTH collapsed in 2017. For example is the investment in FGV Holdings Berhad. LTH suffered loss amounting to RM 1.1 billion or 85% because they did not sell their share in the FGV despite falling share prices and no impairment was made. Other than that, LTH also involved in the political intervention as it buys 30% of Putrajaya Perdana’s share 2014 which the previous chairman was Jho Low. Moreover, the chairman of Putrajaya Perdana was Datuk Abdul Azeez who was a CEO of LTH at that time. This situation has raised a sceptical opinion on the purpose of the investment.

As the investigation on the group continues, Tabung Haji disclosed that there are a lot inactive accounts in the bank in 7 October 2019. Since last seven years, it is discovered that there are more than 700 000 accounts that did not do any transaction. Under Tabung Haji Act 1995, all the inactive account will be recognize as unclaimed money if they did not do any transaction within seven years. Therefore in 2018, Tabung Haji decide not to distribute the Hibah to those who did not active their account. By hook or crook, all the depositors shall at least do a transaction like withdraw or create a link with other bank to make sure their account still active. It was one of the alternatives to help the depositors from losing the hibah where they can get it annually.

EPILOGUE

Lembaga Tabung Haji is a trusted platform for every Muslims to save and build up cash for the purpose of hajj and umrah which is one of the five pillars in Islam. The organization acts as a fund manager of the pilgrimage funds of Muslims. Therefore, it is crucial for Tabung Haji to maintain the transparency of its operation. All the operations of Tabung Haji should be clean from the political interventions and any conflict of interest. Up until 2018, Tabung Haji was only be regulated by the Tabung Haji Act. The question that arises is who can observe the operations of Tabung Haji to ensure the transparency? Should Tabung Haji be regulated by Bank Negara as it is also can be categorized as a financial institution? Or should Tabung Haji improve its governance by strengthening the internal control? These questions should be resolved so that the transparency could be ensured and the rights of Muslims' depositors can be protected.

CASE 3

FOODPANDA

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PROLOGUE

“You better do something if you still want to be a regional manager.” As soon as he entered his car, Sharnaaz received a call from his area manager. A call that made him could not focused on driving his way back home. The call adds up his stress on the issue erupted since he was directly involved in the operation and supervised the lower level of management. His boss really relied on him to relieve the tension between the rider and high level management. However, he really concerned about the riders' problems that been affected by this issue. Most of the riders that are charged under his supervision were his close friends and they set a high expectation on Sharnaaz to bring their dissatisfaction view directly to the Foodpanda top management.

It was nine hours since the first riders' demonstration in front of Foodpanda headquarters building at Bangsar, Kuala Lumpur. The issue was actively widespread through social media and made it as the trending topics for the whole day. Other than that, the riders also agreed to balk from taking any customers' order. This action led to the chaos in management regarding the significant sales drop and customers' complaints keep hitting the Foodpanda application.

At this point, he needed to consider to endure his position as a Nilai regional manager because his wife is about to deliver his second child at the end of this month. Having a financial problem at this time will give a huge burden to him. Therefore, he needed to take any action on his self to satisfy all parties involved.

GIG ECONOMY

A gig economy was a free market system in which temporary positions are common and organizations contract with independent workers for short-term engagements. The gig economy has several good and bad impacts in future. Besides, based on the analysis from Institute of Labour Market Information and Analysis on gig economy in Malaysia, more people are participating in the gig economy as a part time job or occasional freelance work.

In gig economy, people could seek out some way to earn extra income and the barrier to enter was often lower in the job market compare to the traditional employment. Therefore, it created high entrance to new players that affects employee turnover in particular company. This is because the workers will easily leave the company that they have problems with and choose other company that provides better offers.

The gig economy was increase gradually in Malaysia along with the technology development since the gig economy is an emerging economy which incurred digitalization. Besides, in the conference relating to Gojek entrance to Malaysia, the Minister of Youth and Sports, YB Syed Saddiq said, “It is our responsibility to ensure the job ecosystem can be improved. It does not only involve two-wheel transportation, we need to look at it from food delivery, e-commerce delivery and many others.”

“In terms of food delivery, in Malaysia now it is more towards established restaurants because of the lack of a good ecosystem where even a small stall in front of our house can participate in the informal economy via the digital economy”, he added. Therefore, Malaysia is going to have significant high economic growth according to the acceptance of new source economy which is gig economy by the government as well as Malaysian citizens.

COMPANY BACKGROUND

Foodpanda was a convenient online food ordering website that connects users with thousands of local restaurants. It was established in March 2012 which base located in German. Customers could browse through numerous menus and place orders for delivery or take-away at the best price.

Foodpanda believed that ordering food online should be fuss-free, fast and definitely fun. With just a few clicks, customers can order from a wide variety of delicious cuisines online. Foodpanda provides the restaurant menus, customer reviews and more for over 300 restaurants in Malaysia.

Foodpanda is open from 8am to 1am from Monday to Sunday. During closing hours, customers can browse through restaurants and place an order for later and receive it first thing when Foodpanda open. Customers needed to enter their address on the home page. Browse from Foodpanda extensive list of restaurants that deliver to the customers’ area then pick a restaurant that they like and browse its menu. The food will be delivered directly to their requested place with just one click.

The picture shown above is Sidney Ng, the founder of Foodpanda Malaysia. The Foodpanda.my story will be a set of stories committed by him. Sidney Ng was the Marketing Director of Foodpanda Malaysia before taking on the business lead role of the online food ordering company. Before Foodpanda Malaysia exist, he was from the agriculture and retail banking industry. Opening the Foodpanda Malaysia is one of his efforts to inspire people to consider entrepreneurship and to become entrepreneurs as an alternate lifestyle.

FOODPANDA OPERATIONS

1. Steps to be a Foodpanda Rider

- 1.1 Go to <https://rider.foodpanda.my/>, then choose the area and click APPLY NOW.
- 1.2 Fill in all the details needed and click SEND.
- 1.3 Applicants need to click a link to whatsapp rider captains according to their areas.
- 1.4 Then, it will directly go to captain's number with provided text.
- 1.5 Wait for captain's reply for the next 24 hours to become foodpanda rider.

2. Riders Working Hours – Roadrunner Apps

Once the application selected and approved by regional manager, rider needed to install application named "Roadrunner". Roadrunner was meant for scheduling rider working hours where rider needed to log in for their availability. Rider could select the shift which were still available and they could also cancel and swap the shift they had selected.

- 2.1 Open the application, click 'Rooster'.
- 2.2 *If there is no schedule available for that day.*
- 2.3 If there is still schedule available for the day

'Take Shift' means the runner wants to book the schedule to work. But if the rider then got something to do at the time he/she already book the schedule, he/she can 'Offer Swap'. Offer Swap means the rider can only offer his work time to the other rider who only succeed take shift. If other rider available at that time, he/she can click 'Take Swap'.

3. Foodpanda Order Application

For customers to make an order, they needed to identify their location. For example, the customer was in Nilai, Negeri Sembilan. Then, he needed to select his current location as pinpoint by the pink pin.

- 3.1 Creating an account is not a mandatory for this application but customers could choose to create one if they want a quick and fuss-free service especially for repeat order.
- 3.2 Customer can choose what they want to order by pick a restaurant and select items that they would like to order. Besides, the customers can search by restaurant name, cuisine type, dish name or by keyword. This application also provides filters for price, offers, cuisine types and attributes to ease the customers in performing their orders.
- 3.3 Once the customer has chosen their preferred restaurant, the application will list down the menu and package that available for that particular restaurant.

- 3.4 After finalized the order, customer need to add the order to cart
- 3.5 Next, the customer needs to select the delivery time and payment method before place the order.
- 3.6 After placing the order, this application needs a verification number which will be sent through a text message to the registered phone number.
- 3.7 After performing the payment, the order will be directly forward to the restaurant. Then, the application will provide the order details for customer's reference.
- 3.8 The customer will receive an email for the order confirmation.
- 3.9 Lastly, the customer can track the order and contact the rider if there is any request or other inquiries.

4. Simulation as a Foodpanda Rider

- 4.1 New delivery will be pop-up within the working time. The riders need to click ACCEPT or CANCEL for the order.
- 4.2 If the rider click "ACCEPT" this pickup detail will pop-up. Click the address and start the journey.
- 4.3 After arrived the vendor place. Double check the order. If the order completed, click "PICKED UP" and "CONFIRM".
- 4.4 Then, the Drop-Off details will pop-up. Same as before, click the address to be link to Google Maps or Waze.
- 4.5 When arrived customer place, wait for customer. Then, give the food to customers and collect cash from them.

PAYMENT

1. Cash on Delivery

Select 'Cash on Delivery' on the checkout page and pay the driver at your doorstep when receiving food.

- 1) Customer will pay cash to the Foodpanda rider.
- 2) Rider will collect all the cash throughout the day he/she work.
- 3) The rider has two choices, CDM the cash, or just transfer through online banking.
- 4) If the rider chose to wire the money through CDM, at 11.15pm, the rider must already been in front of Cash Deposit Machine to wire the money to Foodpanda's account.
- 5) If the foodpanda rider choose to transfer it online, he/she may do so before 12pm every day.

2. Credit/Debit Card

Select 'Credit Card' on the checkout page. After placing your order you will be redirected to the sere page of our payment partner, where you can follow its instructions. Please do not refresh the page or go back. Once the payment is confirmed, the order will be transmitted to the restaurant.

3. PayPal

Select 'PayPal' on the checkout page. After placing your order, you will be redirected to the secure PayPal payment page, where you can follow its instructions. Once the payment is confirmed, the order will be transmitted to the restaurant.

RIDER'S SALARY

Salary will be paid every Wednesday on the following week. It will be calculated from previous Monday until Sunday (which means it is a weekly payment). Besides, salary will be given directly to the bank account of the rider. In contrast for the new rider as the payroll calculation are as follows:

'We accept a rider as a freelance worker which means they have no EPF, no SOCSO, no basic salary, have insurance and use person sole proprietorship concept.'

Old Payment Scheme

1. Payment for each order will depends on rider performance.
2. Guarantee payment RM4 each hour on weekday and RM5 each hour on weekend.
3. Bonus order [+RM2]

Each order completed between 11pm until 9am will be charge extra RM2.

	HOUR	ORDER	WEEKEND	BONUS ORDER
BATCH 1	RM 4	RM 5	+ RM 1	+ RM 2
BATCH 2	RM 4	RM 4	+ RM 1	+ RM 2
BATCH 3	RM 4	RM33.5	+ RM 1	+ RM 2
BATCH 4	RM 4	RM 3	+ RM 1	+ RM 2

BATCH 5	RM 4	RM 3	+ RM 1	+ RM 2
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Example A

You are a new (Batch 4) rider who's starting to work. You work on Saturday from 10am until 2pm.

Total order in 4 hours is 10 order:

Here's how to calculate your salary for the day:

$$[RM4 + RM1] \times 4 \text{ hour} = RM20$$

$$\underline{RM3 \times 10 \text{ order}} = RM30$$

$$\text{Total} \quad \quad \quad RM50$$

Example B

You are the rider form batch 1 that works on Sunday from 2pm until 5pm.

Total order in 3 hours is 8 order.

Here's how to calculate your salary for the day:

$$[RM4 + RM1] \times 3 \text{ hour} = RM15$$

$$\underline{RM5 \times 8 \text{ order}} = RM40$$

$$\text{Total} \quad \quad \quad RM55$$

Example C

You are the rider form batch 3 that works on night shift from 11pm until 4am.

Total order in 5 hours is 10 order

Here's how to calculate your salary for the day:

$$RM4 \times 5 \text{ hour} = RM20$$

$$\underline{[RM3.5 + RM2] \times 10 \text{ order}} = RM55$$

$$\text{Total} \quad \quad \quad RM75$$

New Payment Scheme

Starting 30th September 2019, the payment scheme for all foodpanda riders in Malaysia (exclusive rider in KL and SELANGOR) will be charge as the diagram below:

BATCH	RATE PER ORDER	TOTAL SCHEME (1 HOUR)	TOTAL A WEEK (30 HOURS)
BATCH 1	RM7.00	RM 21.00	RM 630.00
BATCH 2	RM6.00	RM 18.00	RM 540.00
BATCH 3	RM5.00	RM 15.00	RM 450.00
BATCH 4	RM4.50	RM 13.50	RM 396.00

Besides that, if the rider work in the “Hot Zone” that listed below, you will be entitled to a bonus of RM150 if the total number of hours you work in a week exceed 40 hours. Furthermore, the rider will be guaranteed a UTR 1 payment.

Example: Ali from batch 2 worked for 5 hours in Kulai but only got 3 hours order in that time Ali will be paid RM30 [RM6 x 5hours]

DIFFERENT BETWEEN NEW AND OLD PAYMENT SCHEME

	NEW SCHEME (EXC KL & SELANGOR)	OLD SCHEME
BATCH 1	RM 7 + RM 7 + RM 7 = RM 21	RM 4 + RM 5 + RM 5 + RM 5 = RM 19
BATCH 2	RM 6 + RM 6 + RM 6 = RM 18	RM 4 + RM 4 + RM 4 + RM 4 = RM 16
BATCH 3	RM 5 + RM 5 + RM 5 = RM 15	RM 4 + RM 3.50 + RM 3.50 + RM 3.50 = RM 14.50
BATCH 4	RM 4.50 + RM 4.50 + RM 4.50 = RM 13.50	RM 4 + RM 3 + RM 3 + RM 3 = RM 13

The difference between the previous scheme payment and new scheme payment is the previous scheme has an hourly rate, while the new scheme did not have it but the company increase the delivery rate for the new scheme by RM2 on each of the batch. On top of that, the new scheme also has bonus RM150 if the rider work in the “hot zones” and achieve a total number of hours work in a week exceed 40 hours.

COMPETITORS

GRAB FOOD

GrabFood is a food delivery service that brings great food from local restaurants, straight to the doorsteps of hungry customers. GrabFood is available in Klang Valley and has recently expanded to selected areas in Melaka, Kota Kinabalu, Penang, Johor and Kuching.

GrabFood is a service that connects local food businesses to people. When customers open Grab apps, chose “Food” from the product selection. Next, add your delivery address. Then, choose restaurant and meal and add it to your basket. Lastly, tap the place order button to complete your order. Once you’ve placed your order, Grab finds and books a delivery guy for you. The assigned person will then go to the restaurant (and line up, if needed), order your food, wait for it, and delivers it to your address riding a motorcycle. This GrabFood is available using Mobile apps only.

The order’s total cost includes the price of the menu items plus a delivery fee. The delivery fees help Grabfood pay their driver partners, and provide the best service possible. Average time per order is about 50 min per order. GrabFood accepts a variety of payment methods like Debit / Credit Cards, GrabPay Credits and even PayPal as indicated by your primary GrabPay payment method in the Grab app. While the cash payments are not accepted for GrabFood yet. Our service operates daily, between 10AM to 12AM (last order).

BUNGKUSIT

Bungkusit is an on-demand delivery app for Android & IOS which helps you run your daily tasks. Its helps to solve daily problems such as posting parcels, forgetting items, buying last-minute gifts, wanting to buy food when it’s raining and the list can go on. You need something, Bungkusit will get it for you. It saves your time in your daily hectic schedules.

Bungkusit is a local delivery service that has the same level of mobile apps with the other multinational delivery company. When customers want to use their service, they can download their apps at App Store or Play Store. Once you open Bungkusit apps, they will give an option to choose whether want to delivery now or delivery later. Next, you need to provide your delivery time, pick up location and drop off location. Then, just type in what you want the rider to do it for you. After that, choose whether to pay at pick up or pay at drop off. Lastly, Tap the Submit button to complete your order. Once you’ve submitted your order, Bungkusit will finds and books a rider guy for you. The assigned person will then go to the pickup location to do the task given and delivery it to the drop off location. This Bungkusit only available using Mobile apps only.

The Bungkusit rider will be given 1-hour allocation per order to complete it in line with their vision “To have our services provided all over Malaysia, with enough rider to get every order delivered in less than 60 minutes.” The basic fee per order is RM6 and it will change based on time and distance. Bungkusit only accepts cash for payment. Bungkusit also open 24/7, 365 days a year as long as the merchant you want to order from is open and accepting to-go orders, they will deliver.

EPILOGUE

Many netizens began to boycott and comment on social media especially on Twitter and attracted the attention of youth and sports minister, YB Syed Saddiq. It was more shocking when YB Syed Saddiq acted to bring the case to parliament for discussion with the ministers there.

CASE 4

LEKOR CHIPS TG PIAI

Agoos Munalis Tahir

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PROLOGUE

Encik Ghazaley bin Ayub who was the owner of An-Nur Food Industry, which was in Tanjung Piai, Pontian, the city of Johor, Malaysia, and had been in operation for 13 years now. The principle activities of An-Nur Food Industry consist of fresh *Keropok Lekor*, Lekor Chips and frozen food, but their main sources of income were mainly focused on Lekor Chips. In the most recent meeting, Encik Ghazaley suggested to expand his business by adding new flavors on Lekor Chips such as cheese, spicy and salted egg, and also disseminating to another outside market such as Indonesia. However, in order to do so, they need to make research and development in terms of marketing strategies, cost structure, demand and competition. Encik Ghazaley, as the founder, feeling responsible towards achieving his expansion plan in order to gain higher return from the operating activities.

TANJUNG PIAI AS TOURIST ATTRACTION

Tanjung Piai located in Pontian District, Johor Malaysia. It is the southernmost point of Peninsular Malaysia and it is the skyline of Singapore is visible across the Johor Strait from the point. Since Tanjung Piai area was located at a very special corner in Malaysia map, where it is surrounded by the sea, Tanjung Piai was famous for its seafood restaurants and has become a significant tourist attraction place in Johor. The entire area of Tanjung Piai was covered of mangrove and muddy land which the mangrove trees protected the shoreline from erosion, flood, while provide protection of fish, crabs, shrimps, and others animal sea. Today, Tanjung Piai is declared as a National Park as it has variety of natural resource including forest, mangrove and various species of flora and fauna.

PROPOSED HIGHWAY GELANG PATAH TO TANJUNG PIAI

Since Tanjung Piai becomes eco-tourism sector, the government proposed to build new route linking from Tanjung Piai to Gelang Patah rather than through via Pekan Nenas highway which it takes one hour. According to article by Metro news on 6 March 2017, government expected to cut down a one-hour travel time by the construction of bridge from Gelang Patah, Johor Bharu to Tanjung Bin, Pontian which takes mere 15 minutes to reach.

This development will contribute in enhancement economy of local community around Tanjung Bin area including Tanjung Piai and easy for road users or tourist to travel. Automatically, it is open new opportunities for entrepreneur to develop his business.

AN NUR FOOD INDUSTRY BACKGROUND

Encik Ghazaley Ayub currently lived in Tanjung Piai, Pontian, Johor. It all began when he observed that the Tanjung Piai area had potential to move forward in the seafood Industry. Although at that time Tanjung Piai was already declared as National Park and have their own resort, but still not been able to attract people. Encik Ghazaley was an ambitious person. He began to wonder what would be happen to Tanjung Piai in the next 10 or 20 years and he further thought that producing a sea-based product might be easy because due to the geographic itself.

On May 2006, Encik Ghazaley initiated his business from home and used his own capital which amounted around RM500. At the starting of business, he decided to learn how to make wet leak with the master of *Keropok Lekor* in Kuala Terengganu. After completing his learning, he gained confidence to produce a wet leak by his own and he had been receiving orders from customers. After several years, his business began gain popularity due to high demand and Encik Ghazaley decided to rent a factory. According to that, Encik Ghazaley needs a lot of workers and machines to run the business that are capable to produce leaks and Lekor Chips quickly. Like a true innovator, Encik Ghazaley developed another use for this lekor mixture.

THE AN NUR FOOD INDUSTRY'S MANAGEMENT TEAM

Encik Ghazaley, Managing Director

He was an owner of An Nur Food Industry since 2006 and he was an engineer. He managing daily operation and implementing strategic plan for his business.

Noorbity Burhanuddin, Assistant Director

She assisting and working with the managing director to supervise daily operations.

Amer Hakim, Head of marketing

Nur Farhan, Head of Sales

Farah, Head of Production

Hayati Ibrahim, Accounting clerk

Hayati was being outsourced from outside which she only comes on weekend.

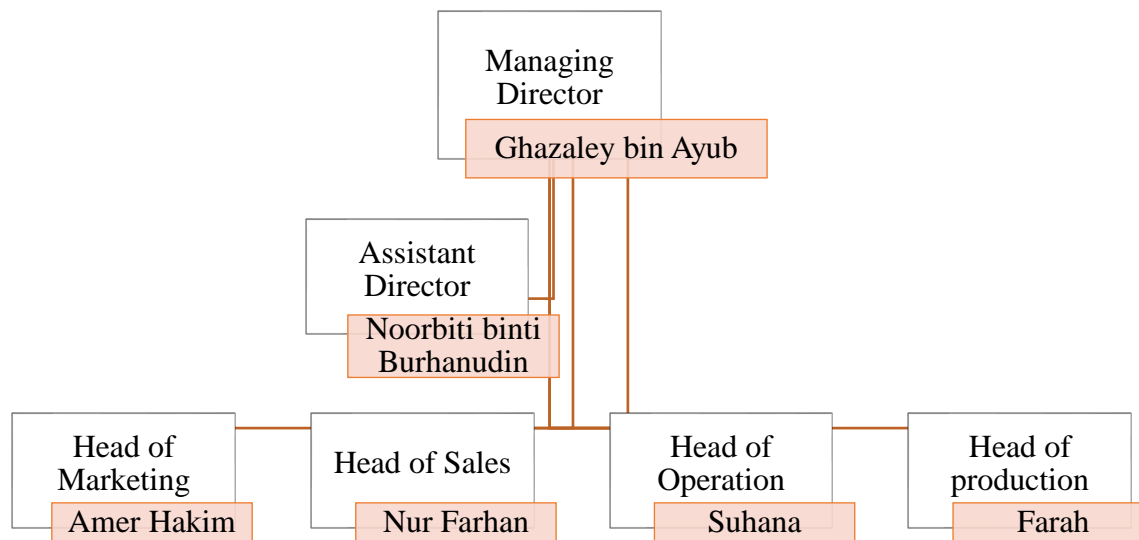


Figure 1: Organizational structure of An Nur Food Industry

OPERATIONS AND PRODUCTION

Operations

A Nur Food Industry was operated everyday where the factory for productions leakage on weekdays meanwhile for the shop only operates on Friday, Saturday and Sunday. They opened the shop during weekend due to the location of Tanjung Piai near with the shop. In addition, it is an interesting place that very suitable for visitor and people spent time their holidays there. The shop started to open from 9.00am to 5.00pm. At the same place and time, Encik Ghazaley also opened up a café for his customers and visitors to eat the fried *Keropok Lekor*.

Production

There were fifteen permanent workers worked at the factory from the villagers who work from 8.30am to 5.30pm. Mostly of them were housewives. These fifteen people including for admin, café and production line. For the raw material, basically the important part in making *Keropok Lekor* of course a bundle of fish. They used Mersings' *Selayang* and *Tamban* fish. Although Tanjung Piai known as a fish supplier, but due to care the quality of product and also which is more expensive, Encik Ghazaley had to get his fish supplies from, which is quite far away from his factory. It is all because quality concern plus the suitable price. Which is the fish coming in lumps and freezes. They received fish four times per month which is amounted three tones per week. Secondly, flour also important to make *Keropok Lekor* and chips.

Basically, there are about six machines in his factory that used for production of *Keropok Lekor* and *Lekor Chips*. There are, cutting machine, spinner, two mixers, compressor, cutter and formation. These are the machineries figure plus its function for production *Keropok Lekor* and *Lekor Chips*.

According to Encik Ghazaley, before start to process, when the fish stock arrives, the most important thing is they must look at the appearance and the smell. After that, if the condition is good, they proceed to the first step of process which is, cut the fish using a cutter machine, as shown at figure 8. Next, put the fish and all the special ingredient in mixture machine (figure 9) to get the perfect dough. Based on Miss Farhan, the flour mixture machine can hold up to 10kg of dough.

After that, they need reform the dough to ready to eat size which is they had used energy of human to get the preferred size. Owner of this factory, try to find out the best solutions to reduce cost of hiring worker by using another innovative machine. Person in charge for forming process about five to six people. So, he decided to buy a new machine to shape the mixture but unfortunately it does not work out very well. The machine amounted RM15,000. Encik Ghazaley was not dissatisfied with the shaping because it did not go out as he wanted to. Figure below shows machine that was invested for solve the problem.

Subsequent to the problem, he needs at least five workers to pump out the mixture manually to make 1200 quantities in a day. But, due to the human involvement, Encik Ghazaley said the probability of making mistake is high. Now, Encik Ghazaley is still looking for a new machine that fits with his standard but haven't found yet. While *Lekor Chips* easily put in a machine to the chips shape with using compressor and frying machine. This machine was customizing and renovate from owner's brilliant idea.

In order to complete the finish good, one person only in charge to boils the *Keropok Lekor* in boiling water and dry it before sent to packaging department.

The following process is not as same as for chips production. There is a little bit different to get end product which is, there is no pop-up issue on forming the chips. Because it's just uses

compressor machine and then, spin it into spinner for eliminate oil and put some flavor on chips into mixer.

MARKETING

Distribution

As for the distribution process in Johor, An Nur Food Industry distribute their products to certain retail stores, school canteens, night markets and also street traders which cover the areas of Pontian, Johor Bharu and Batu Pahat. Usually, they delivered the stocks using a lorry and sometimes they need to use a car if there was not enough transportation during certain circumstances. Other than that, they also distributed at other state around Malaysia and export to Singapore and Brunei. To be specified, in Singapore, they sent to Agro Bazaar which was located in one of the Mall building there. While in Brunei, they were using a distributor which the distributor itself will send to the retail shops around Brunei.

An Nur Food Industry delivered their products to Singapore directly, but for Brunei, they delivered using courier service directly to Sarawak, and there was a factory there in Sarawak that will be responsible to process those items in order to deliver them to Brunei. Routinely, they will send orders by monthly and both Singapore and Brunei must place their orders for a minimum of 1000 packets and above.

The quantity of the Lekor Chips sent to retailers was depending on how much they had ordered. The minimum order is 1 bundle which each bundle consists of 20 packets. There were also certain retailers that ordered quite a lot of Lekor Chips which exceeded around 10 to 20 bundles every week. The payment made was also depends on different retailers might have different way of payment. Some of them paid on the spot during the delivery process, and some of the retailers that were trusted by this company were allowed to pay by weekly, as long as it was not more than a week, not to mention monthly payments.

500 grams of *Keropok Lekor* was sold to retailers with the price of RM3.50 and RM4.50 if sold directly to customer from their factory. While for Lekor Chips, it consists of original flavor. The price for packet of 40 grams cost at RM2.50 in Semenanjung Malaysia and RM3.00 in Singapore and Brunei, while for 150 grams and 400 grams cost at RM4.00 and RM10.00 each, respectively. The packaging plastics was supplied from TC Polythene Sdn Bhd for *Keropok Lekor*, while supplied from Dreamypack Solution Sdn Bhd for Lekor Chips.

Besides, An Nur Food Industry hired one of the Malaysia's so-called celebrity chefs, Jaafar Onn which endorses the product with no endorsement fee. Slogan for Lekor Chips that have been used up until present is "Tak Henti Mengunyah" in order to attract customers.

Packaging	40 gram	150 gram	400 gram
Price (RM)	2.50	4.00	10.00

Table 1: Price range of Lekor Chips product

COMPETITOR

Previously, people does not familiar with Lekor Chips in terms of their logo and thread mark because each one of the packaging must have their thread mark in order to avoid copyright. But then, even after people recognized their logo and the thread mark, they were still comparing Lekor Chips with competitor’s product which is the Fish Muruku with the logo of crawling baby. The Fish Muruku is a product that manufactured by Chinese factory named Thien Cheong Sdn. Bhd. However, their quality might be different compared to Lekor Chips as their raw materials might be supplied with different quality and different suppliers.

Despite that, people always questioned why Lekor Chips was expensive compared to the Fish Muruku. This is because Lekor Chips was guaranteed of using the high quality and fresh raw materials without any additional Monosodium Glutamate (MSG), that’s why their price a little but higher than Fish Muruku which we never know their ingredient’s level of freshness. Furthermore, since the Fish Muruku is owned by Chinese, and we as a Muslim, we must prioritise Lekor Chips compared to the Fish Muruku within the concept of “Buy Muslim First” because their taste does not make any huge differences, even though the price a little bit pricy but we will be satisfied with the product results. Even so, the competitor does not affect their business, but rather encouraged them to perform better day by day, until now.

GOVERNMENT SUPPORT

FAMA

In 2018, FAMA provided signboard for An Nur Industry for their new building after the demolition of the old building because the government need to enlarge the main road in Tanjung Piai. FAMA also gives the company 15 shelves to help them display their product at the shop. It helps the company to sell their products at the shop if they have tourists that come to their shop. FAMA also provided them two refrigerators to save their frozen food such as *Keropok Lekor* and product that the villagers sell to them. All the shelves and refrigerators was placed at the An Nur Food Industry.

Agricultural Department

In 2009, agricultural department give support for this company to make a building for production. This company use their own land and the agricultural department support them in terms of building. Next, in 2010, Kementerian Pertanian provided a machine to a company to help them

reduce the employee energy and save the time for making the batter if they do the mixture of the Lekor Chips batter manually.

Besides that, there was a factory developed and funded by Kementerian Pertanian in 2010. However, in 2017, the factory need to be removed as the government had to enlarge Tanjung Piai main road. Government gave Encik Ghazaley compensation for the demolition of his factory. Then, he built a new factory and café near to his house.

Fisheries Development Authority of Malaysia/Lembaga Kemajuan Ikan Malaysia (LKIM)

Fish is the main raw material in the Lekor Chips production. The company needs to find the fresh and quality fish. So, LKIM support the company by help them find the fish suppliers so they can get the fresh fish.

EPILOGUE

Encik Ghazaley had analyzed the existing operation and finance practices for his entire business. Subsequently, Encik Ghazaley had been thinking on how to get extra income from his business to face the challenges ahead in terms of competitors, higher cost of raw materials and economy stability. So, should Encik Ghazaley invest more on marketing strategy? It is necessary for Encik Ghazaley to expand his business? Should Encik Ghazaley increase the daily production capacity of Lekor Chips?

Appendix 1

The following budget refers to the cost of finished goods.

4/1/2018
ANALISA KOS PENGELUARAN - KEROPOK LEKOR

BAHAN MENTAH	BIL DOH	FORMULA	KUANTITI (KG)	HARGA/UNIT	JUMLAH	PKT / 500GM	HARGA	(RM)
IKAN TAMBIN P	10	4	40	5.30	212.00	1200	3.50	4200.00
IKAN TAMBIN QL	10	12	120	4.90	588.00	(1.50)		
IKAN SELAYNG QL	10	4	40	4.50	180.00			
TEPUNG -U	10	18	180	2.10	378.00			
TEPUNG MCS	10	0.8	8	3.58	28.68			
TEPUNG JAGONG	10	1.2	12	1.90	22.80			
GARAM	10	0.52	5.2	0.90	4.68			
GULA	10	0.32	3.2	2.95	9.44			
MSG	10	0.32	3.2	6.27	20.06			
GMS	10	0.2	2	9.54	19.08			
AMONIA	10	0.2	2	1.80	3.60			
ISP	10	0.2	2	14.84	29.68			
IG	10	0.01	0.1	95.40	9.54			
JUMLAH KOS PER BATCH					1505.36			
BIL BATCH PER BULAN (26 HARI)				26	39139.46		26	109200.00

MARGIN KASAR : UNTUNG 1PKT / HARGA JUALAN

JENIS PERKHIDMATAN / KOS OPERASI	BIL / UNIT	HARGA	JUMLAH SEHARI	26 HARI	JUMLAH SEBULAN
AIS		LS	5.00	26	130.00
GAJI PEKERJA	9ORG	LS	450.00	26	11700.00
BIL AIR /API	LS		60.00	30	1300.00
SEWA	LS				
GAS	2	30	60.00	26	1560.00
MINYAK MASAK	4	13.3	53.20	26	1383.20
PLASTIK	1200	0.056	70.00	26	1820.00
LORI			12.50	26	325.00
AGRO			15.00	26	390.00
PETROL	LS		30.00	26	780.00
TOTAL			755.70		19648.20

JUMLAH PENDAPATAN KASAR			
JUMLAH PENGELUARAN	4200.00	26	109200.00
JUMLAH KOS BAHAN MENTAH	1505.36	26	39139.46
JUMLAH KOS OPERASI	755.70	26	19648.20
JUMLAH KOS	<u>2261.06</u>	26	<u>58787.66</u>
PENDAPATAN KASAR (LEBIHAN PENDAPATAN)	4200.00	26	109200.00
	<u>2261.06</u>	26	<u>58787.66</u>
	<u>1938.94</u>	26	<u>50412.34</u>
KOS PER PKT (500GM)			KOS BAHAN MENTAH +KOS OPERASI / 1200 PKT
	2261.06		2261.06
	1200.00		1200.00
	<u>1.65422</u>		<u>1.65422</u>

Appendix 2

AN NUR FOOD HOLDING SDN. BHD.

Profit and Loss Statement From 01/01/2019 to 31/08/2019

		This Year	%
SALES			
500-0000	SALES	478,733.00	42.58
500-1000	CASH SALES	358,626.80	31.90
500-3000	SALES - ONLINE	69,013.00	6.14
500-4000	SALES - KEDAI	213,129.75	18.96
500-5000	SALES - EXPO MUAR	1,927.00	0.17
500-6000	SALES - EXPO TANI	2,847.90	0.25
		<u>1,124,277.45</u>	<u>100.00</u>
COST OF GOODS SOLD			
600-0000	STOCKS AT THE BEGINNING OF YEAR	32,958.35	2.93
610-0000	PURCHASES - RAW MATERIALS	394,445.45	35.08
611-0000	PURCHASES - PLASTIC & PACKAGING	66,741.92	5.94
614-0000	PURCHASES - ANGSANA (RAYA PROJECT)	57,474.70	5.11
615-0000	PURCHASE - KEDAI	34,815.35	3.10
620-0000	STOCKS AT THE END OF YEAR	-32,958.35	-2.93
		<u>553,477.42</u>	<u>49.23</u>
		<u>570,800.03</u>	<u>50.77</u>
GROSS PROFIT/(LOSS)			
OTHER INCOMES			
540-0000	DIVIDEND RECEIVED	0.01	0.00
		<u>0.01</u>	<u>0.00</u>
EXPENSES			
900-A001	ACCOUNTING FEE	6,170.00	0.55
900-B001	BOOT AND UNIFORMS	456.80	0.04
900-C001	CLEANING EXPENSES	1,890.42	0.17
900-C002	CASUAL WAGES	4,354.00	0.39
900-E001	EPF CONTRIBUTION	11,069.00	0.98
900-M001	MARKETING	1,430.11	0.13
900-P001	PETROL	13,781.25	1.23
900-P002	PARKING & TOLL	720.60	0.06
900-P003	POSTAGE&COURIER	10,886.75	0.97
900-R002	REPAIR & MAINTENANCE - OFFICE EQUIPMENT	35.00	0.00
900-R003	REPAIR & MAINTENANCE - MACHINERY	5,948.40	0.53
900-R004	REPAIR & MAINTENANCE - FACTORY	7,619.70	0.68
900-R005	ROAD TAX & INSURANS	1,594.90	0.14
900-R007	REGISTRATION FEE	100.00	0.01
900-S002	STAFF WELFARE	19,974.90	1.78
900-S003	SEMINAR & TRAINING	50,164.04	4.46
900-S005	SOCSSO CONTRIBUTION	1,449.45	0.13
900-T001	TRANSPORT CHARGES	720.00	0.06
901-0000	ADVERTISEMENT & PROMOTION	90.00	0.01
902-0000	BANK CHARGES	323.50	0.03
903-0000	DEPRECIATION OF FIXED ASSETS	34,258.29	3.05

904-0000	SALARIES	84,587.73	7.52
905-0000	TRAVELLING AND ACCOMODATION	1,442.00	0.13
906-0000	UPKEEP OF MOTOR VEHICLE	12,225.00	1.09
908-0000	TELEPHONE CHARGES	3,119.15	0.28
910-0000	PRINTING & STATIONERY	2,782.77	0.25
914-0000	RENTAL	27,517.40	2.45
916-0000	REPLACEMENT TOOL & EQUIPMENT	1,631.98	0.15
917-0000	DIRECTOR REMUNERATION	95,561.26	8.50
918-0000	UTILITIES	28,162.54	2.50
920-0000	EIS CONTRIBUTION	331.40	0.03
921-0000	FINE & PENALTY	200.00	0.02
922-0000	SECRETARY FEE	960.00	0.09
923-0000	WAGES	101,402.64	9.02
926-0000	SERVICE TAX	228.00	0.02
927-0000	PEST CONTROL EXPENSES	60.00	0.01
928-0000	TAX CONSULTATION FEE	1,300.00	0.12
929-0000	SUBSCRIPTION FEES	350.00	0.03
		<u>534,898.98</u>	<u>47.58</u>
NET PROFIT(LOSS)		<u>35,901.06</u>	<u>3.19</u>

CASE 5

FOREVER 21: DOES E-COMMERCE MATTER

*Nurul Nazlia Jamil
Faculty of Economics and Muamalat,
Universiti Sains Islam Malaysia (USIM)*

PROLOGUE

DWC: We are lacking in the source of money right now. Our new stores are too costly and there are too many clothes to stock. What are we going to do now?

JSC: Yes, it is getting worse! Our international expansion morphed into a money-loser. We failed to expand abroad, particularly in Asia. There is no other way for us to gain money. All sources are most likely to reject our proposal to lend our company some money.

DWC: Oh, you are right. These new stores project has affected the earning down by 137 percent.

JSC: So how are we going to solve this problem?

DWC: We do not have another choice other than to spend our own money. I will spend about \$10 million from my account as a loan.

JSC: Really?! Okay, I agreed if this is the only way that we can do to lessen the burden of our company. Is it enough?

DWC: I don't think so. But I have an idea of how to top up the total.

JSC: How is it?

DWC: In this critical situation, the most possible way is to ask our daughters (Linda and Esther) to lend their money. The amount needed for the time being is about another \$5 million.

JSC: Do you think they will agree with your suggestion?

DWC: Most probably they will agree. We will persuade them by paying them back with an interest amounting to 2 percent.

JSC: Okay if that is the only solution. I'm in.

DWC: Do Won Chang, JSC: Jin Sook Chang

COMPANY BACKGROUND

Forever 21, once a hot spot for teen clothing as it offers trendy and low prices clothes that suit their preferences. Many teenagers will choose Forever 21 as a must-go shop to purchase their clothes especially in 2015 as this year the company at the peaked of their success. When it comes to fashionable clothing, there are lots of great fashion lines that Forever 21 produce, as in line with their objective to ensure they make an excellent look for all people everywhere. This clothing store produces a wide range of classy, stylish shirts, pants, suits, and accessories as well as beauty products, home goods for women, men and children.

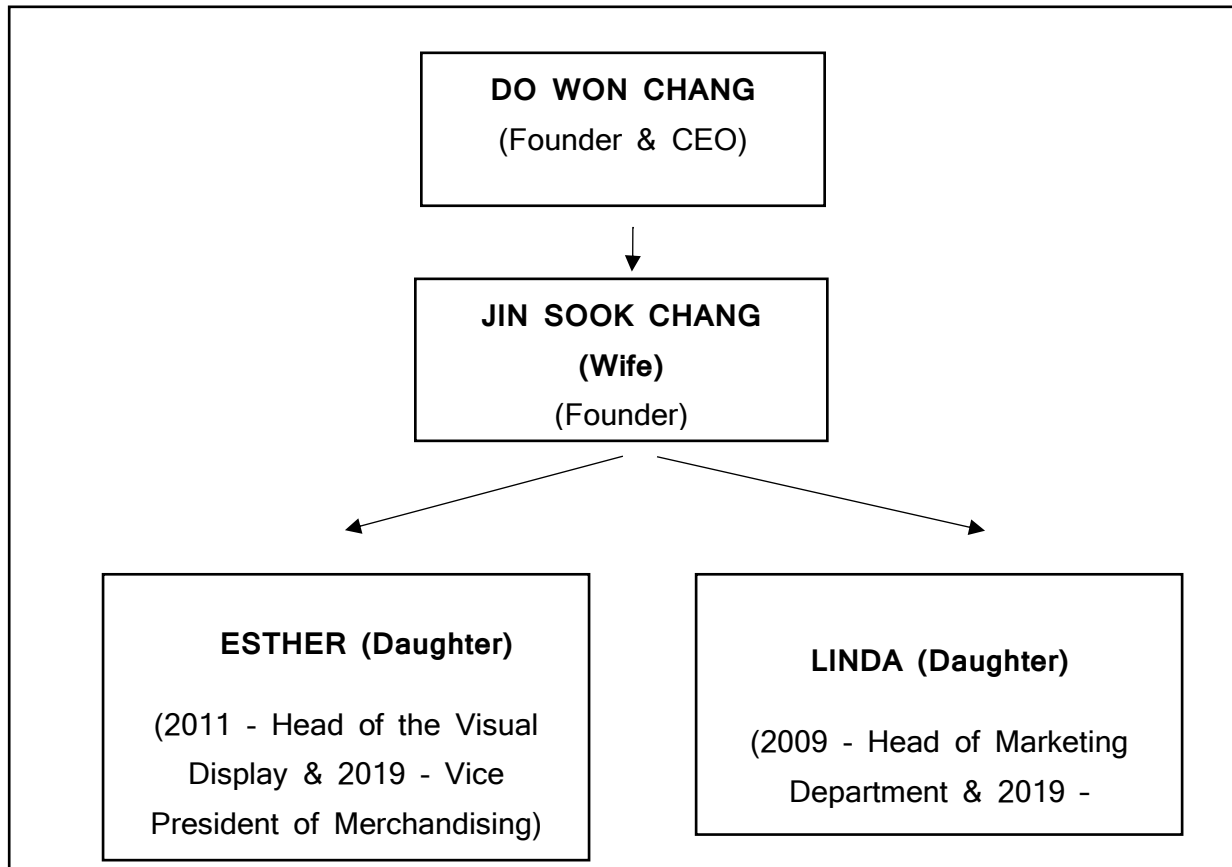
The story of Forever 21 began with a dream. The dream started when Do Won “Don” Chang who is now the owner of Forever 21 which back then worked as a janitor and coffee server noticed that the people who drove the nicest cars were all in the garment business. From there, he was determined to take the challenges and form a fashion business. A dream does not remain just a dream, when in 1984 Don and his wife Jin Sook emigrated from South Korea to America with ambitions to start a business opened a 900-square-foot clothing store in Los Angeles, California called Fashion 21, the predecessor to Forever 21. Now, the dream has become true as the business took off with over 700 stores in the Americas, Asia, the Middle East, and the UK.

In its first year, the retailer pulled in \$700,000 worth of sales. The retailer thrived through the early 2000s. With this success, Forever 21 launched its website in 2003 to reach out to more customers to keep in tune with emerging markets that living in the decade of the digital transformation. On its website, it sells all the products that offer in the physical store include all types of clothing as well as home and lifestyle products. Originally, Forever 21 only sold clothes for women but later expanded to sell menswear right in the year 2006. Most Forever 21 stores now sell clothes for men and women, including plus size clothing for women. Forever 21 was soaring by 2010 and this had made Don listed to No. 79 on the year’s Forbes 400 list of the richest Americans. By 2013, there were more than 480 stores and revenue of \$3.7 billion and eventually booming in 2015 when its founders were worth a record high of \$5.9 billion from over 600 stores.

It was not long before Forever 21 made itself known as a destination for trendy clothes at affordable prices, a specialty that has been dubbed as a fast fashion. Forever 21, once one of the world’s leading clothing retailers has fallen on hard times. The company has been involved in various controversies, ranging from labor practice issues to copyright infringement accusations to religion. Rising competition from other fast-fashion brands like H&M was causing real problems for this family-owned business. Things soon start going downhill from there. September 2019, Forever 21 has announced it has filed for Chapter 11 bankruptcy protection. The bankruptcy filing comes as brick-and-mortar fashion chains face increasing competition from online fashion retailers and dwindling foot traffic in shopping malls. Linda Chang, Forever 21’s executive vice president said they went from 7 countries to 47 countries within a less-than-six-year time frame and with that came a lot of complexity. The main reason this happens because the retail industry is changing.

There has been a softening of mall traffic and sales are shifting more to online. Currently, the company employs only about 32,800 people worldwide. The company announced that it was ceasing operations in 40 countries and closing most of its international and 178 of its US stores. The company plans to close most of its stores in Asia and Europe and focus on the profitable core part of its operations.

ORGANIZATIONAL STRUCTURE



Don the founder of Forever 21 opened his first store with his wife, Jin Sook, and has run the privately held company as a family business ever since. Forever 21 is a family business with the couple's daughter are helping to run the business. Don has two Ivy League-educated daughters, Linda and Esther Chang. Daughter Linda heads the company's marketing. Meanwhile, his other daughter, Esther, is in charge of visual elements of the chain, such as graphics and window displays. Their two daughters are also the co-founder of the company Riley Rose, a make-up and accessory company that Forever 21 carries in its stores.

Don believes that only his flesh and blood will do better in looking out for their best interests. Don also wanted to teach her daughter how important to learn from the hard work he and his wife have put into the company. Do Won and Jin Sook Chang, and their two daughters get involved in business planning by sharing their goals, needs, priorities, strengths, weaknesses, and ability to

contribute that will eventually help create a unified vision of the company that will guide in the future dealings. Don tells her daughter to be an entrepreneur they need to be perseverance and they better need to know their stuff as making a big business is not easy. A person who enters into the business cannot think that success will come to them in just one or two years. Don insists that a deep understanding of business and legal culture was key to his success.

BUSINESS ACTIVITIES

Don Won Chang proudly mention to the media that they are the only fast-fashion retailer that quickly move the design from Catwalks to Fashion Shows up to mainstream consumers. Fashion always inspired by the celebrity’s style that reflected the seasonal trend. The first store was called Fashion 21 which expanded into a clothing line of stores with the brand name Love 21, Forever 21, XX1 Forever and Heritage. 60% of Forever 21’s clothes have been designed and manufactured in China because it is cheap and way faster. It aligned with the company’s goals which are to ensure every people can follow the trend at economical prices. The mission is “To Offer customers with an unprecedented selection at affordable prices and to be always changing and always in style” while their most famous tagline is “Fashion is For Everyone”.

Forever 21 offers a product such as clothing, shoes, bag, and accessories for every age. Forever 21 main targets are teenagers age 18 to 24 years old, who are always eager to try new styles and trends but are limited by budget. They exactly know what their customer wants which is fashionable, trendy, chic, stylish and most importantly, it suits their wallet size and value for money.

Some of Forever 21’s product includes:

Clothing and Apparels: Man/Women/Kids	Dresses: Tunic, t-shirt, maxi, party dresses, daywear Tops: Crop, Camis, Graphics, Vests, Bodysuits, High necks and kimonos Jumpers: Sweatshirts, hoodies, jumper dresses, cropped jumpers, cardigans Jackets: Faux fur, Bombers, leather, denim, coats Jeans: Dungarees, flare, Mid-rise, low-rise, boot-cut & Skinny Lingerie: Robes, slippers, Pajamas, women and men Undergarments
Jewellery and Accessories	Brooches, Pins, Watches, Body Jewellery, Rings, Bracelets, earrings and Necklaces. Socks, Belts, Gloves, Hats, Sunglasses and Ties etc
Footwear	Slipper, Sandals, Loafers, Wedges, Heels, Boots

LABOUR

Have you ever wondered about the person behind the clothes? If a jeans cost \$10, how much was the garment worker being paid to make them? If a tank top cost \$1.80, how much is the girl behind the scenes making per item?

In 2001, the Asian Pacific American Legal Center and the Garment Worker Center, filed a lawsuit against Forever 21, charging them of violating labor practice laws. They claimed that Forever 21 is using 'sweatshop-like' factories to manufacture their clothes. Moreover, there are 19 contracted employees received less than the minimum wage, which is \$4 an hour only, less than half of the state-mandated hourly minimum wage of \$10 and they have to work six days per week. Worse, any workers who tried to complain to the state were fired. This has turned Forever 21's reputations and sales falling off due to the protests and allegations, especially during the crucial holiday season.

After three years of being boycotted by the garment worker, Forever 21 filed a defamation lawsuit against an anti-sweatshop group as unfairly being targeting the label in a "vicious" public campaign. The Chang claimed they did not employ those workers because and had no control over wages and conditions because the workers were employed by subcontractors. The attorney defended Forever 21 as they are not the causes of the issue and that the owner is truly good and decent people. Kimi Lee, the director of the worker center, said Forever 21 was targeted because of a high number of complaints associated with the label. "We got so many workers from different factories in a short time. In four to five months, about 20 workers came to us from six different factories," Lee said. Even though the cases are dismissed, people start to think cheap pieces of clothing are from the sweatshop-labor industry.

In 2012, Forever 21 was being sued again. This time, it was by its employees. Five workers filed a class-action lawsuit as they have been forced to work off the clock and did not have meal breaks. They were frequently kept at stores during lunch breaks and after the ends of their shifts. Also, Forever 21 has a loss prevention policy where there were employee bag checks which require them to submit before clocking out. Thus, it takes a lot of time for an employee to wait for the security guard to leave the floor. Again, Forever 21 failed to pay for the time they took to search those bags. These unpaid hours could result in millions of damages if other workers are treated the same way.

Forever 21 is getting worse when the 2017 Ethical Fashion Report gave them a D+ score based on the way they gave a wage, transparency and worker environment.

MARKETING

For marketing, Forever 21 does it like what they always did. There is not much improvement or additional effort that they put when it comes to maintaining their customer satisfaction. As we know, nowadays e-commerce has become one of the essentials when it comes to business. This is especially for garments and clothes industry because customers usually will take a glance at the pictures of models wearing the outfit that they want to buy. This is where good marketing and advertising are needed.

Nowadays, people spend most of their time with their smartphone scrolling through their social media. Shopping has become easier for customers as they do not have to go to physical stores anymore but instead, they can shop anywhere and anytime just by using their smartphone. This is where e-commerce plays its roles. Businesses need to join in and attract their new customers here while maintaining their existing customers. Social media are the cheapest platform for all the business to advertise their product. It is also where most people look at their phones.

Forever 21 has not been keeping up to date with the current trend. In this developing and online world, customers have been shifting from the traditional way of shopping which was by going to the stores into online shopping. Customers have been choosing online shopping because it saves their time more and much convenient for them.

Forever 21 does have its own websites but unfortunately, they do not put much effort into utilizing it. There are so many inconveniences that customers faced when browsing through their website. The design of the website was also not attractive, and some customers even said that it makes their shopping spirit gone. Hence, customers were not satisfied with the services provided and then shifted to other stores.

The store's interior design was also one of the factor customers look at when going for shopping. A customer's first impression will be made based on what the store looks like. It will be an attraction if it suites the customer's preferences. But Forever 21 was not putting their effort into making the stores attractive enough for their customers to come and shop. Most of their competitors have a better and neat kind of designs that can attract people and moreover pleasant to eyes too. And this is why their customers decided to just buy at their competitor's store such as H&M and ZARA rather than their own store.

COPYRIGHT

Apart from that, according to Forbes, 50 cases of copyright infringement have been filed against Forever 21. The lawsuit has taken place by popular names such as H&M, Adidas, Puma, and Ariana Grande against Forever 21. This is because, Jin Sook was eventually approving over 400 designs a day. Which meant the company could sell trends as they were happening even if some

of those designs landed Forever 21 in trouble.

H&M sued Forever 21 in September 2015 for copying. The Swedish fast-fashion giant filed a lawsuit against the fast-fashion giant based in Los Angeles for copyright infringement, trade dress infringement, false designation of origin and unfair competition, claiming that Forever 21 copied its tote bag "Beach Please."

Other than that, the fast-fashion retailer headquartered in Los Angeles had filed his lawsuit against the German sportswear giant on the heels of Adidas filing (and eventually settling) a trademark infringement lawsuit against Forever 21 in 2015. The retailer alleged in his lawsuit that he received a letter dated February 24, 2017, in which Adidas counsel threatened to sue Forever 21 for using stripes on six clothing items.

The German sportswear giant slapped the copycat retailer with a design patent, trade dress, and copyright infringement lawsuit in April 2017 on the heels of reports that Forever 21 offered lookalike versions of footwear from Rihanna's Fenty line for Puma. According to Puma's suit, the fast-fashion brand based in Los Angeles has copied three of Rihanna's most prominent footwear designs for Puma in an attempt to "trade on Puma, Rihanna, and the Fenty's substantial goodwill."

American singer Ariana Grande charged and sued Forever 21 in September 2019 for \$10 million to copy her image and likeness by dressing up her models the same way in her photoshoot for her 7 Rings music video. Some of these examples show that Forever 21 has to incur a lot of cost in paying all the lawsuit against them.

COMPETITOR

As Forever 21 is becoming a fast fashion brand which also present in the international markets, its competitors are rising. Competitors such as H&M and Zara are the biggest rivals to Forever 21. There are several factors that these competitors become Forever 21 rivals.

H&M

H&M is a public company that was founded in 1947. H&M has more employees than forever 21 which is 164 600 more employees. H&M has the capability to design and produce fashion very quickly to make a variety of designs to meet customers' wants and trends. Besides, H&M also sell their products in high volumes of those fashions at the low margin to make sure that their customers get updated fashion and design. All H&M products are sold at a lower price because they want their customers to get a lot of H&M design in a time of buying their products. So, from there it leads to an increase in sales. H&M bears their cost by producing a high volume of products and they expand their size of business to make it larger worldwide. H&M also attracts youthful customers by having skilled in conventional marketing and social media marketing. Thus, it helps

the business to sell their products at high volume.

ZARA

The other competitor of Forever 21 is Zara fashion brand. Zara was founded in 1974 and it competes in the Apparel Retail industry with Forever 21. Zara present in the international market very impressively. This business produces its product with a high quality of products and goes along with their own unique style to compete with its competitors. Zara makes efficient work on its supply chain and production system and it also designed to deliver its products much faster. Zara has in-store experience which offers a great in-store shopping experience where its products create the highest satisfaction for customers. Zara produces products for middle-class customers so that their customers can buy a lot at one time. Zara also expanded its products in e-commerce into several new markets in Asia. It makes this business expanded into a global presence. They also trained their staff to provide the best customer services to their customers in Zara stores.

THE BANKRUPTCY

Pre-bankruptcy

Forever 21 goals were to become an \$8 billion company by 2017 and open 600 new stores in three years. “They went in big when everyone else was closing stores and downsizing,” says Gabriella Santaniello, founder of A Line Partners, a retail research firm. Forever 21 expanded rapidly in a short period of time, going from outlets in seven countries to 47 in just six years. In the last decade, at a time when many retailers wanted to shrink their mall presence, Forever 21 snapped up leases for big spaces that had been vacated by struggling department stores like bankrupt Mervyn’s. They have gone for rapid expansion. Forever 21 has indeed shot to the top of tenant lists at malls across the country. It is the single-largest tenant at Taubman, where it lays claim to 4.3% of the landlord’s total square footage with just 17 stores, each of which average 30,200 square feet. It is also one of the largest tenants at mall companies like Brookfield Property Partners, Simon Property Group and Macerich. Its store count swelled from 480 stores in 2010 to 800 stores in 2018.

But the company’s aggressive expansion would also lead to its downfall. This massive expansion has caused them to incur a lot of debt. This also had resulted in an increase in the fixed overhead costs where Forever 21 could be spending as much as 30% of its revenue on rent only.

In addition, Forever 21 had gotten so many complaints from the customer on their stores’ management. At many of its existing stores, the complaints on sites like Yelp are piling up, suggesting that its current fleet of stores is unmanageable. Customers complain that there aren’t enough employees on the floor available to help. A lot of displays are just a mess and there are not enough employees to go around and clean up after the customers. Shoes and clothes are left piling on the floor unattended. Customers also often find entire sections of dressing rooms that have been closed off and cash registers that have been shut down. In some stores, the display units are

neglected and the display items on the sales rack are dirty and damaged. Some of the clothes even were stained by makeup foundation. Other than that, clothes often sit on the floor or remain on the wrong rack. Some of the clothes even were jumbled together. In some stores, it goes beyond messy where dust bunnies litter the floor, spills aren't cleaned up and trash sits in plain sight.

FOREVER 21 NOW?

After years of aggressively expanding its store count and moving into supersized locations, Forever 21 is in retreat. On September 29, 2019, Forever 21 filed for Chapter 11 bankruptcy. Linda Chang, executive vice president for the company, said in a news release that filing for Chapter 11 is "an important and necessary step to secure the future of our Company, which will enable us to reorganize our business and reposition Forever 21". During a Chapter 11 proceeding, the court will help Forever 21 to restructure its debts and obligations. In most cases, the firm remains open and operating as usual. Many large U.S. companies file for Chapter 11 bankruptcy and stay afloat. In Chapter 11 bankruptcy, Forever 21 has the first chance to propose a reorganization plan. These plans may include downsizing of business operations to reduce expenses, as well as renegotiating of debts. In some cases, plans involve liquidating all assets to repay creditors.

Forever 21 now is in a "retail apocalypse" which has already closed more than 15,000 retailers across the US and could shut down 75,000 more. The retailer has declared a motion to shut 178 of its 506 U.S. stores and most of its Asian and European outlets. It has been quietly downsizing some of its biggest stores at malls across the country. The company has also been backpedaling on international expansion and pulled the plug on its China operations earlier this year, after entering the market less than a decade ago. At the Destiny USA mall in Syracuse, New York, where it expanded from one floor to two floors in 2012, it reverted to one floor earlier this year. In March, it closed a two-story location on a busy corner in Toronto and directed shoppers to visit its closest store—located one block away. In 2017, it reported a loss of \$78 million.

Steps taken by Forever 21: Global Restructuring

In an attempt to shore up the finances of their closely held family business, the Changs are looking to take out an additional loan. Forever 21's vendors whom they had decades of long relationships already agreed to support their restructuring efforts. To facilitate its restructuring, Forever 21 has obtained \$275 million in financing from its existing lenders with JPMorgan Chase Bank as well as \$75 million in new capital from TPG Sixth Street Partners. With this capital, Forever 21 intends to operate their business as usual manner.

Forever 21 adds that the financing provided by JPMorgan and TPG Sixth Street Partners will arm the company with the capital necessary to help to revitalize the brand and fuel their growth, allowing them to meet their ongoing obligations to customers, vendors and employees. "With

support from our key landlord and vendor constituents, we are confident we will emerge as a stronger, more competitive enterprise that is better positioned to prosper for years to come, and we remain committed to delivering the fast fashion trends that our customers have come to expect from Forever 21,” Ms. Chang further noted. Moreover, earlier this year, the company sold its headquarters building for \$166 million to get cash.

EPILOGUE

DWC: Since our investments on the physical stores are not giving a positive impact towards the company, we must think of other alternative in order to survive in the current market.

JWC: Yes, I think we should make a deep research about the demand in the market and the changes in the consumer behavior.

DWC: From my point of view, we must adapt with the technology and make a radical change on our business model. We must follow the trend that customer use now. So, what do you think should we take as our next step?

JWC: I am totally agreed with you! We must adapt with the current technology changes. Hence, we must slowly shift our business model towards e-commerce. All this while, that is the main matter, right?

DWC: Yes, I am agreed that we should consider investing on the e-commerce. But first, we must clear our brand name with all the bad rumors that have affected Forever 21’s reputation. Then only, we can strengthen our customer’s trust, build again our brand name and uniqueness. Lastly, we can slowly change our business model to fit the market.

JWC: I seconded that. We must settle all the problems first, then only we can start the reorganization plan. It takes time to heal anyway!

In the conversation between DWC and JWC, they are discussing on the next move that Forever 21 will impose. Do you agree with the plan? What should be the next step taken by the company? Does changing their business model will give a positive impact towards their business? Is the old business model not needed anymore? Does e-commerce is an appropriate solution?