

Wonder Into the Future

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ABSTRACT

In this scenario, Yana, the director of Wonder Marketing Sdn Bhd faced several challenges in their operation. Wonder Marketing Sdn. Bhd. is a small and medium enterprise (SME) located in Senawang, Negeri Sembilan specializing in selling powdered goat's milk. The example underlines the volatility that Yana faced as a director because of Wonder Marketing Sdn. Bhd. inconsistent manufacturing capacity and pricing issues. She had to weigh the chance of entering the hypermarket against the ability to consistently produce the right ingredient of powdered goat's milk and the pricing mechanism. This predicament arose among stockists who played the price of the product and the inability of the OEM producer to get the right ingredients for the powdered goat's milk. This dilemma emerged at the peak of their growing business and Yana expected it to continue to daunt her as they grew bigger. Several customers expressed their unhappiness and dissatisfaction over the inconsistency of pricing. Yana needed to respond quickly due to the increasing number of complaints. had expressed their frustration and immense dissatisfaction. With the growing number of complaints, Yana needed to act fast. As Director, Yana is responsible for resolving the conflict between their marketing, customer service, and production with their stockists and customers. If this is not done, Wonder Marketing Sdn. Bhd. survival will be jeopardised. This means that new effective methods for Wonder Marketing Sdn. Bhd. survival must be developed right away.

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PROLOGUE

On a rainy morning on December 17, 2016, Director 1 of Wonder Marketing, Yana Samsuddin, was looking out of her office in Senawang Business District. She contemplated the growth of her company, Wonder Marketing, since it was founded in January 2015 as an enterprise together with her husband Yusof. Both the husband and wife were classmates. They began to embark in the business during their internship in the industry before they graduated with a Degree in Quranic study in 2012. With no formal business background both Yana and Yusof established the company, solely on interest, and became one of the major players in the market of powdered goat's milk. After about eight months of operating, Wonder Marketing hit RM1 million in sales in August 2016.

Notwithstanding these achievements in less than two years, Yana had to think about how to address several serious challenges to her business. The day before, Yusof found out that some stockists had sold their products at lower prices to shops, which affected the market pricing of the company's brand, Lazz. They also received many complaints from customers about the inconsistent pricing of their two products, Pure Goat's Milk and Goat's Milk with Dates. This situation might hinder the company's planned expansion to the hypermarket, which was still in the negotiation phase. Yana needed to consider how to deal with her stockists and agents to retain her company's competitive strength. How should they resolve this issue? She called up the marketing and diplomatic team for an emergency meeting to discuss and resolve this issue before the year ended. This meeting was urgent because a decision had to be made fast to avoid

dissatisfaction amongst the stockists and agents which could impact on the sustainability of the business.

THE HISTORY

Wonder Marketing was established as an enterprise company on 10th January 2015, and then became established as a Sdn. Bhd. company in February 2016. Wonder Marketing was initiated by Yana with the RM30, 000 capital she inherited from her late father. Before venturing into the business, both Yana and Yusof had a mindset of not wanting to work for others, and instead, wanted to develop a business by themselves. They started by becoming drop shipper for patchwork bed sheets imported from China where they did not hold any stocks but only promoted them online. At that time, they earned about RM3, 500 to RM7, 000 per month. However, over time, the business did not do well, particularly after the opening of GM Klang, a large wholesale trading centre in Klang. Patchwork sheets that were imported from China were a popular commodity there, and the wholesalers were able to offer lower prices compared to individual online sellers. Yana and her husband eventually ended the business and joined a multi-level marketing company called Elken and marketed several of the company's products. However, the passion was not there as they were only promoting products of other companies that they did not fully associate with. Thus, they made the decision to quit and thought of starting their own business.

Yana : Dear... our savings are running low. I still have some money from the inheritance. I don't want to invest in something that I don't have an interest in. We cannot compete with the products from China, and we are not good at doing MLM, since we like to drink coffee, why don't we do a coffee sachet?

Yusof : I think that is a good idea. But still, we don't know anything about coffee. We need someone to guide us.

Yana : Who should we meet? I can't think of anyone.

Yusof : Here it is stated that there is an OEM factory situated just around the corner. We should go there and meet

them and from there we might get some ideas on the latest products on demand.

Yana : *Ok. Tomorrow, I will call them for an appointment.*

Yana and Yusof later thought of producing and selling their own products. They managed to find an OEM company located in Seremban and went there to discuss about their potential business plan. Yana and her husband saw the opportunity to introduce premix drinks for easy consumption, seeing that more and more people preferred the grab-and-go style beverages due to their hectic lifestyle. Their initial idea was to produce instant coffee sachets, but after discussing it with the manager of the OEM company, he suggested that Yana and Yusof venture into goat milk instead as the market was still new and the penetration to consumers was still low. In this light, the potential for the market was huge given the low supplies of ready to drink goat's milk in the market.

Previously, goat's milk was largely available only in the form of fresh milk and some people found its distinct smell to be unpleasant. However, this issue was overcome by having the milk processed into powder, which could be done by OEM. In addition, the milk became long-lasting and easy to pack. At that time, the best suppliers for powdered goat's milk were from Holland and if the suppliers supplied different grades of powder, the taste of the goat's milk had high variations, from the usual formularised taste.

Yana and Yusof later invested their first RM30,000 to produce 1,000 boxes of pure goat's milk sachets and goat's milk with dates sachets, including marketing and delivery costs. They operated the business from home and managed to sell all 1,000 units in just a few weeks and submitted their second order after two weeks of operations. Yana also frequently went to kiosks and shops selling her competitors' products to look at their pricing and placement strategies. Since the introduction of Wonder's products into the market, their products had gone through several changes in packaging to comply with the regulation for Halal certification.

"I never imagine it can be this fast when I first started, but as time goes by, my vision keeps growing by grabbing whatever comes into the pipeline. Now I feel I can grow

to any heights, even entering the international market with this orgamilk of mine”.

Yana, Owner, and Director 1 of Wonder Marketing.

In January 2017, the company employed 13 workers to assist them with their daily operations (refer to Figure 1). At that time, Yana, who held the position of Director 1 dealt mostly with the contents of promotional materials and customer databases and testimonials (including the company’s careline number), while Yusof, who was the second Director handled most of the financial matters. Within the company’s organization structure, several departments or “unit” had been created – order, diplomatic, delivery, production, customer service, marketing, and database. Diplomatic and delivery (including drivers) units had three staff, customer service with two staff and the rest with one staff each. The delivery unit handled all the company’s stockists all over Malaysia (which in early 2017 was approximately 75 persons), while the diplomatic unit was responsible for doing the dealing arrangement with the hypermarkets and other collaborations that benefited the company. Most of the company’s daily routines were conducted online [through Facebook (FB) pages and WhatsApp]. The company’s headquarters occupied two units of rented shop houses - one unit was a warehouse full of goat’s milk boxes to be delivered and another one unit was a small office for the staff. The main company FB page has 125,307 likes (as of August 2016).

To speed up the delivery of its products, the company bought two lorries – 1 and 3 tonnes lorries to deliver the goat’s milk around the Klang Valley areas, the furthest being Kuala Selangor areas. The deliveries to other areas were completed using various courier services and the costs were borne by the company.

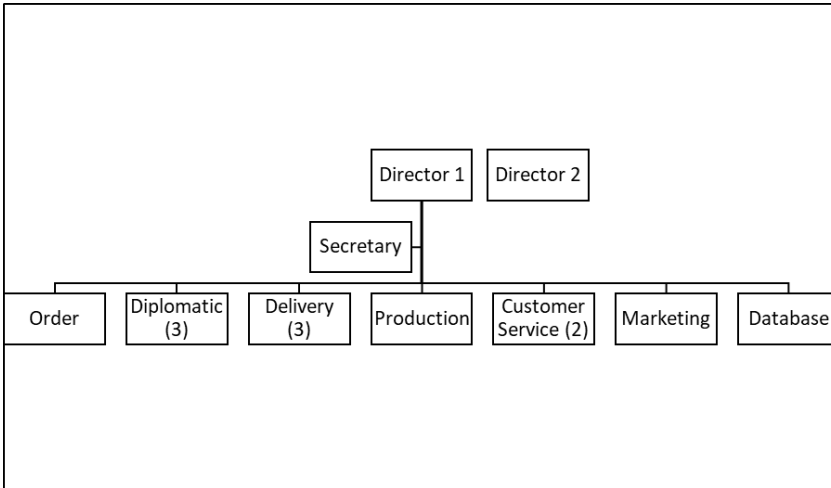


Figure 1: Organization chart of Wonder Marketing Sdn. Bhd. Number in () represented the number of staff in that particular unit

OEM AND THE PRODUCTION OF PACKED GOAT'S MILK

OEM or original equipment manufacturer/manufacturing was a form of manufacturing approach that was widely used in Malaysia and other parts of the world. The OEM manufactured products of another person or company under the brand name of the person/company. No factory is needed if companies or individuals want to produce their own products, such as cosmetic products. They could request the existing OEM plant producing these products to put their brands on the product. There is an abundance of products being introduced to the markets because of OEM existence. By the 2010s, among the popular OEM-produced products were health food and supplements, cosmetics, a variety of coffee and powdered drinks and milk, peanuts, and snacks.

Earlier in the early 2000s, it was not easy to find the companies that offered OEM services in Malaysia. Potential customers had to look around, search for the OEM premises, make phone calls, and set appointments to discuss business. However, by the 2010s onward, the trend had changed, and OEM companies had now publicly advertised their services using websites, social media, and billboards along the highway – complete with contact information and the address of their premises. They even offer packages with different price ranges and some OEM companies not only produce the products but also offer coaching, marketing services, and brand

ambassadors. The OEM companies normally highlighted the years of experience they had in the industry (such as cosmetics) and showed their credentials to attract potential customers and gain their confidence.

For promotion purposes, some OEM companies also shared the sales figures of their current customers although they did not disclose their names. The minimum order quantity (MOQ) set by the OEM companies varied – with some OEM companies requiring 1,000 units, and some requiring less than that. The OEM companies also claimed that the formulation of the products was undisclosed and different from one another. Most of the OEM companies also had been granted Good Manufacturing Practices (GMP), to make sure that their companies conform to the guidelines recommended by the agencies such as the Ministry of Health Malaysia (KKM) that controlled authorization and licensing for the manufacture and sale of food, drug products, and active pharmaceutical products.

It was known that the brand owners normally did not have the knowledge of products' formulation and were not involved in the research and development (R&D) of the products as these were perceived as the duty of the OEM companies. Instead, brand owners focused on marketing and selling their product lines to potential customers. In consequence, huge capitals were needed for promotional purposes.

Most of the OEM companies controlled all the raw ingredients and dealt with the suppliers themselves. Thus, it was not peculiar if the OEM companies changed the suppliers without informing the companies what they produced for. Yana reflected on some of the problems that she faced:

“Once I faced a problem whereby the company received complaints from our regular customers regarding our products – they found out that the dates on the powder were not as usual. I called the OEM Company to verify the problem and got to know that they changed the dates of the powder supplier without informing us. Another complaint received was that the packets were less in weight than usual. We replaced new packets for several customers and later we found out with the OEM Company, that there was an issue with their machines –

which resulted in less weight of products being packed.
The costs were borne by us”.

MARKETING OF GOAT’S MILK

Wonder Marketing focused on marketing because Yana believed that marketing is the backbone of Wonder’s business. Goat’s milk was reckoned to be a trend-sensitive product and Wonder embarked into this industry at the right time as Malaysian consumers had been embracing health and beauty-conscious trends for the past 10 years. They want to stay healthy and beautiful by taking nutritional supplements, taking healthy drinks, consuming cosmetics products, and visiting spas and aesthetic clinics. Ironically, many Malaysians do not exercise regularly. Most of these supplements and healthy drinks became very popular for a few years, and then they reached the maturity stage of their business cycle in just a few years; “kacip Fatimah”, “ginseng” and “tongkat ali” drinks were used to be very popular in the early 2000s, but within just a few years, they almost disappeared from the market. There were also trends for the use of an algae known as ‘spirulina’ that was very popular in mid mid-2000s until around 2009, while in the second decade of the millennium, many people had shifted to collagen.

Since 2010, products that portray Islamic *sunnah*² have flooded the market and these include “habbatussauda”, pomegranates, “zafaran”, dates-based drinks, and many others. Goat’s milk is also a type of *sunnah* food. Furthermore, goat’s milk can be consumed by everyone because it is low in fat and cholesterol and has high contents of vitamins that can also be consumed by everyone including infants (above one year old), the elderly, and pregnant women. This created an opportunity for Yana and motivated her to venture into business because she loved marketing so much. In 2014, she immediately grabbed the opportunity to see the potential for goat’s milk.

She knew that she had to structure a proper marketing plan to create brand awareness of Lazz goat’s milk. The year 2014 was among the first few years of the e-commerce platform’s move

² Sunnah is the norm practices, deeds and sayings of the Prophet Muhammad p.b.u.h.

towards social and mobile commerce. In December 2014, Yana started exploiting social media in a positive way. She promoted Lazz goat's milk through Facebook by sharing stories about the benefits of goat's milk. After officially forming the company in 2015, Yana hired a full-time copywriter to post messages on Facebook and entertain netizens' questions. In social media, the lingo was different from conventional marketing, hence, instead of advertising Lazz goat's milk explicitly on Facebook, Wonder used story sharing such as stories from satisfied customers. Yana felt that this marketing strategy was effective, especially among Gen Y who was the main target customers of Wonder. Wonder also targeted young mothers who had babies and pregnant mothers.

Other than Facebook, Wonder promoted its goat's milk on Radio Best FM, Radio IKIM, and TV Al-Hijrah. Those were Islamic radio and TV stations. Wonder chose those stations because Wonder initially positioned its product as a *sunnah* food. As a result of this aggressive marketing, Wonder hit its first million Ringgit sales in just 8 months after its inception. Among the marketing channels it had used in the first year of operation, Wonder claimed that Facebook was the most effective.

MANAGEMENT VS STOCKISTS

By late 2016, the players in the goat milk industry included Khalish, Mummylicious, HiGoat, Wildan, Susujuna, Irfan, Suffy, and many more. The company had carefully studied the competitors' prices to ensure that the prices for Wonder products were competitive. Based on their study, the pricing range of these brands was quite similar. Wonder was in a competitive price war to gain market share, as their products are OEM-based, therefore the management had decided to operate with a low profit margin for the first few years of operation. In determining its price and distribution channel, Wonder benchmarked those players which used OEM operations and used stockists and agents' structures in reaching their customers. Moreover, Wonder monitored product prices charged by its stockists and agents. Wonder's stockists and agents received fixed pricing for the products – ranging from 28-33% less than the market price or prices charged to the consumers.

Wonder's major channel of distribution method was via their appointed stockists and had an estimated of 75 active stockists, who delivered the products to agents and shops (Exhibit 1). Stockists enjoyed higher commissions compared to agents and shops. Due to this high commission, some stockists dared to offer lower prices to agents and shops. It created tension among stockists because stockists who were selling the products according to Wonder suggested retail prices might receive fewer orders compared to those who offered lower prices. Puan Aliya, the Head of Marketing and Diplomatic Team received numerous complaints from the customer service team. She needed to talk to Puan Yana on the matter.

Aliya : Puan Yana, Tuan Yusof, I need to discuss something very urgent. Have you heard about the complaints that we received through our customer care line?

Yana : Complaint? What complaint? Is it about our delivery of products?

Aliya : Nope, not about that. For the past week, I received a list of complaints from our customer service team through our careline number consumer was curious about the price of our goat's milk. There are even several stockists lodged complaints about the irregular pattern of pricing. They bought Pure Goat's Milk from different stockists and those stockists sell at various prices ranging from RM30 to RM45. This is weird. We did not issue any promotion.

Yana : Did she tell which stockist?

Aliya : Nope, she did not.

Yusof : I wanted to tell you something too. Yesterday, I found out that quite a few of our stockists sold our products to shops at lower than the suggested prices. This is something that is not healthy for our company. We need to do something urgent before focusing on our next planning for the hypermarket.

Wonder had planned to approach hypermarkets such as Mydin, Lotus, and Giant. In this regard, although entering hypermarkets would enable them to widen their distribution, Wonder was sceptical about the price margin that the hypermarkets wanted to buy which was estimated to be 30% lower than the selling price and the credit payment time could be longer. If the hypermarkets sold lower than the fixed price, Wonder was afraid that this strategy might create a strained relationship and dissatisfaction among their active stockists and agents.

In terms of product supply, wonder goat milk consisted of two flavors which were original and dates that were known as the drink supplement category. The demand from the market had shown that the flavor of the dates was preferred most, and this has made Wonder prepare 70% of the market supply for dates flavor and the remaining 30% for the original flavor. By late 2016, Wonder had started venturing into the beverage category which was named as “Wonder Café” with coffee flavor. Wonder Café brand hoped to penetrate different market segments such as restaurants and to be sold in sachets.

Earlier, Wonder initially positioned its product as a *Sunnah* food. However, the guidelines given by JAKIM prohibited any products from using religious terms as part of firms’ marketing strategies. In response, Wonder revamped its positioning strategy and packaging by removing the *Sunnah* word from it. By January 2017, they positioned themselves as the producer of *orgamilk*; the whole process of getting the *Halal* certification was longer than expected and had dragged on for nine months. Then, as the challenges continued the Malaysia Ministry of Health did not allow the use of infants in product labelling. Wonder replaced it using pregnant mothers. In addition, Wonder strongly believed in changing their packing outlook at least once a year as a precautionary step to avoid illegal product imitation. Wonder publicized the changing of packaging, to avoid confusion among their customers. Although this re-packaging and customer awareness consume a huge budget, Wonder was convinced it was a good strategy (Exhibit 2).

The company’s early promotion strategy mainly through social media helped Wonder to hit the sales of a million Ringgit in eight months after its inception. Wonder started advertising in Islamic media, including radio (IKIM FM) and television channel (Al-Hijrah),

and prior to the issue of *Halal* certification; Wonder had promoted its products on other radio stations and television channels as well. Wonder had spent an amount of RM200,000 monthly on promotion expenditure. These included 30 advertisement spots at the highest-rated Malay radio station, ERA, and other popular regional radio channels such as Best FM in Johor Baharu. Wonder's advertisements could also be seen on television such as TV1 (more frequently during the Ramadhan month), TV3 (5 spots a day), and Al-Hijrah TV. Furthermore, the company had invested in Billboards advertising as several billboards were placed in strategic spots along the PLUS³ highway.

Apart from that, Wonder emphasized Facebook advertising which was claimed as the most effective promotional tool during the first year of its operation. The company also spent 10-15% of the promotion expenditure on Google ads to put its products on top of Google's recommended product lists. On the other hand, Wonder created a second FB page to specifically cater to promoting the "Let's Pregnant" campaign and this page had received 24,718 likes (as of August 2016). A video showing the benefits of consuming goat's milk delivered by an O&G specialist had been published on the second FB page.

Wonder also participated in events such as MAHA⁴ and other relevant events, which successfully improved the company's sales. Surprisingly, the outcome of participating in MAHA not only helped to boost the sales but Wonder was also approached by a medical practitioner who had requested to stock Wonder products at her own clinic. In return, the doctor had agreed to become a product endorser for Lazz. This had indeed become Wonder's most exciting milestone in the context of promotion. On top of that, a consultant approached them during the MAHA for product expansion in the overseas market due to the *orgamilk* branding that they carried.

In preparing to penetrate hypermarkets and go overseas, wonder ought to consider issues such as taxes including Goods and

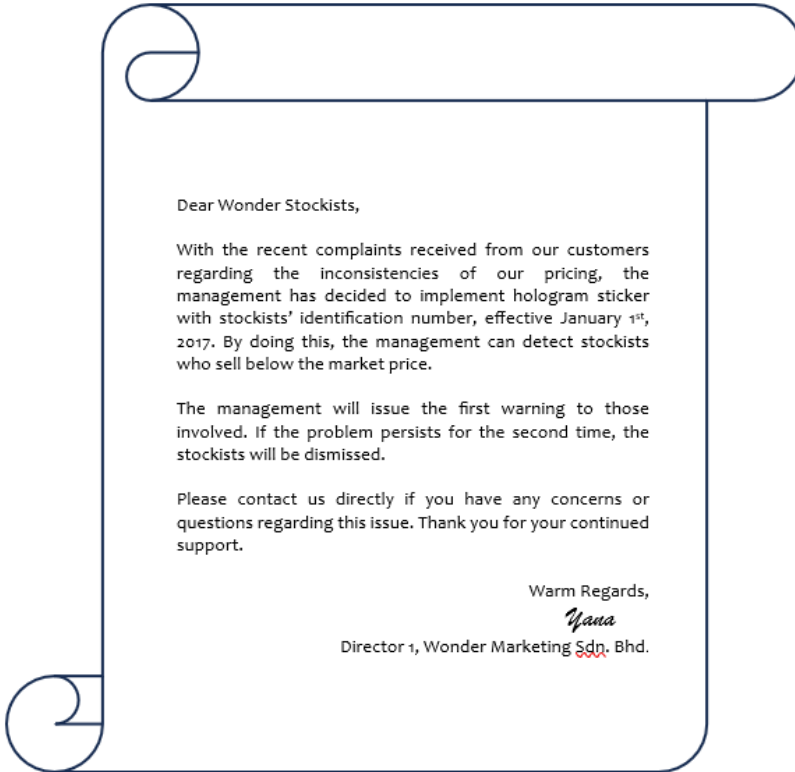
³ PLUS stands for Projek Lebuhraya Utara-Selatan (North-South Expressway), stretched over 772km from the southernmost city of Johor Bahru, Johor to the northernmost of Bukit Kayu Hitam, Kedah.

⁴ Malaysian Agriculture, Horticulture and Agrotourism International Show (MAHA) is an agricultural exposition organized by the Ministry of Agriculture Malaysia (MOA). The biennial event is a platform for agricultural-based businesses and entrepreneurs to showcase and promote their products and services.

Services Tax (GST), laws and regulations for overseas markets, and supply of raw materials.

EPILOGUE

Yana and Yusof dismissed the meeting with their marketing and diplomatic team after sitting together for a few hours to brainstorm ways to monitor their stockists and agent pricing. Although Yana and Yusof had provided good incentives to their stockists and agents, the issues of inconsistent pricing still occurred. Yana knew that the task ahead would be challenging but she needed to be fair with the other stockist and agents on pricing. She snapped several sketches after the discussion to select the best approach to mitigating the problem and decided to use the hologram sticker with stockists' identification number on the product package to enable tracking of stockists. She called up Faizah, the marketing manager of Kam Packaging Sdn. Bhd., who had expertise in hologram packaging for an appointment tomorrow. She thought holograms might not be the solution, but she knew she had to resolve the issue at that point of time. After putting the phone down, she picked up a pencil and scribbled on her stick-on notes, put it on her wall, and smiled, way forward - hypermarket and overseas.



QUESTIONS

1. Which pricing strategy suits Wonder well?
2. Wonder has spent heavily on advertising. Which media selection that applicable for Wonder?
3. List the advantages and disadvantages of OEM industry?
4. Analyze the competitive environment of Wonder Marketing, using Porter's 5 Forces framework.
5. Construct a SWOT Matrix for Wonder Marketing Sdn. Bhd.

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EXHIBIT 1 DISTRIBUTION CHANNEL

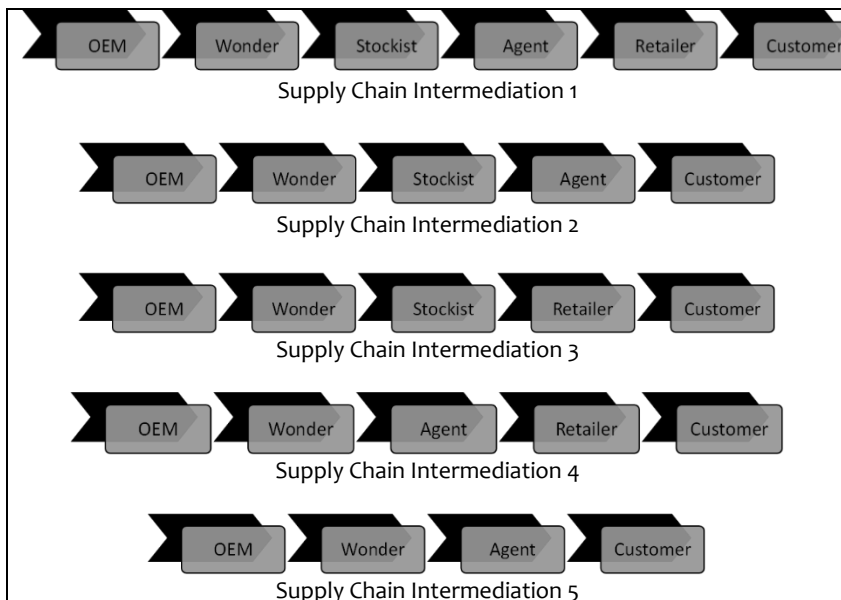


EXHIBIT 2

THE PACKAGING EVOLUTION OF WONDER PRODUCTS



Source: Owner of the company



Source: Owner of the company

Current Packaging beginning of May 2017



Source: Google Image



Source: Google Image

Packaging used in 2016