

PakCu 916: The Entrepreneurial Pursuit of Two Generations

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Abstract

This case study looks upon the entrepreneurship journey of PakCu and his second-generation successors in starting up their business called PakCu 916. From a mere roadside stall focusing on selling cut fruit (guava), they were able to expand to more than 400 outlets within a year. With yearly sales of around an RM4million, they were heading into a bright future. However, unexpected problems arose concerning their "licensees," rising costs, good and services tax (GST), account receivables, rental, and layoffs. Therefore, they considered exiting their licensing business with 480 stalls to diversify their business to ready-to-drink (RTD) products to be sold in hypermarkets. However, this comes with its hurdles as most hypermarkets are not so accepting due to their strict terms and conditions and the high slotting fees needed to pay to place their product on the shelves.

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INTRODUCTION

"Business opportunities are like buses; there's always another one coming." - Richard Branson.

After a very long meeting with a new supplier, Eryn stopped at a mom-&-pop convenience store to get a refreshment while driving back to her office. She smiled to herself when she saw a box of PakCu sour plum powder being displayed. She reminisced in 2008 when PakCu Food and Beverages Sendirian Berhad (PakCu 916) was all about homemade guava cuts fruit with sour plum powder and selling only at roadside stalls.

It started with a brilliant yet simple idea of selling fruits while helping the Bumiputera to embark on a business. Eryn, the Managing Director of PakCu 916, had to decide if she should enter the hyper-market on the ready-to-drink (RTD) juice with ready-packed fruit powder or continue with the currently established business. Started with two outlets on the roadside in an early stage and after a year managing hundreds of outlets, which was well received in the local market, Eryn had to consider the company's resources concerning the potential risks and uncertainty before attempting to penetrate the hypermarket to ensure business sustainability through new

products offering and exploring new market possibilities. After having a peak number of outlets as the business has no barriers to entry, the issue of maintaining high-quality products with

fresh products offering on the roadside becomes troublesome to the company's sustainability in maintaining healthy cash flow in the long run. Eryn shared her dilemmas and challenges about her next plan to stay in the remaining business by selling the same product or exploring a new market by entering into hyper-market and improvising the product.

2.0 BACKGROUND

PakCu 916 is a locally owned Bumiputera company that started selling fresh guava cut fruits mixed with a homemade sour plum powder in 2008. Initially, the business had a simple operation of pitching a hawker stand by the roadside in Bangsar as a means for its owner, PakCu, to support his family to keep up with the high standard of living of the Kuala Lumpur metropolitan. Unexpectedly, the guava and sour plum powder mix became an instant hit amongst the

customers. This is due to the combination of the texture of specially sourced guava and the sour plum powder's special recipe that makes customers keep coming back for more.

Not long after the success of the first stall, PakCu decided to open a second stall in Kelana Jaya, about 5km away from his original stall in Bangsar. Just like the first stall, the second stall also became a huge success, which encouraged PakCu to open two more stalls in the following months. Considering the opportunity to go further and establish a competitive advantage, PakCu also expanded its product by introducing fresh guava juice and existing product lines, which also gets overwhelming demand from its customers.

Seeing that PakCu has a successful even with just a simple product for roadside stalls, several individuals contacted PakCu to express their interest in opening a stall using the same business concept but in different locations. The inquiries made PakCu believe that it would be a good idea to explore its potential to franchise his business model because he thought that the opportunity for expansion is big. Franchising is the way he could leverage his limited capital and capacity to expand. Besides, PakCu wanted to help people with little capital to start their own business. Consequently, the franchise model is the perfect vehicle to stimulate PakCu's business to an entrepreneur with small financial resources.

PakCu agreed to open several stalls by giving licensing agreements to several individuals who initially expressed interest in his business. As these initially licensed outlets realize success, he continued his licensing strategy, resulting in PakCu's business; from a single stall in Bangsar, his business grew to about 300 stalls within one year. Not only that, he expanded his product offering to make his licensing business more attractive, where guava fruit juice was introduced in addition to existing product lines. As we will discuss later, PakCu's licensing success carried the considerable financial risk

2.3 Daughter to The Rescue

Due to the dramatic growth of the increased number of stalls to 300 and new product lines which is sour plum powder and the guava juice within a year, PakCu felt that he is about to get overwhelmed with his capability limitation to properly manage his business and decided to seek help from his family. PakCu has decided not to opt for looking partners to solve this problem. Still, he is more confident with his children that he can trust to help him in the business, particularly in the areas of

production, stock management, handling hawkers licensing, and financial management.

Based on the criteria needed by PakCu, he sees that Eryn was the best among other children in the family, who has a significant potential to take over his business in the future. Eryn, PakCu's eldest daughter, agreed to assist after realizing her father's dilemma in running a growing business.

Eryn came into the business as the Managing Director. She is a graduate from a local university, a passionate results-oriented, high-achiever, and believes in continuous self-improvement, seeking to better herself even though she is busy earning a living. She attended numerous courses organized by various government agencies to gain the knowledge to effectively manage and even managed to obtain a master's in business administration in 2015. In addition to her education and professional aspirations, Eryn is very sensitive to the underprivileged group's needs and dedicated to helping the underprivileged better themselves. As a young leader, Eryn's foremost desire is to modernize her father's business and preserve his legacy. To modernize her father's business, she uses the best management practices. She is a very enthusiastic leader setting high goals to inspire all employees, guiding them in the right direction for a smooth and efficient business operation.

Thanks to guidance and advice from the courses that she attended, particularly the ones organized by MARDI, she modernized PakCu 916. Among the first steps, she took in modernizing the business is to improve the business's production standard by implementing good manufacturing practices such as seeking advice again from related government agencies involving in food manufacturing practice and improving the company's product packaging and extending fresh guava juice product shelf life.

PakCu 916 was rather fortunate as Eryn had the foresight to modernize the operations of the business. Two of the outgrowths of her modernization efforts were the diversification into guava RTD and cordial products. In contrast, the roadside stall business was doing well between the years 2009 to 2014. Eryn, on the other hand, also revisits the licensing agreement between PakCu as a licensor and the licensee by making some changes to clarify their respective roles in strengthening their business.

2.4 Husband Joins the Team

To further strengthen her father's business, Eryn used some underhanded methods to entice her husband,

Arwiz, to join the team despite his resistance. Eryn understood the need for Arwiz's expertise because PakCu916 had a relatively simple business model that other entrepreneurs could easily copy. The company was facing stiff competition from other similar businesses who also wanted to grow. Eryn also realized that his husband was the best candidate with the right skills and experience to strengthen the marketing in order to mitigate losing market share of PakCu916's products to competitors. She managed to convince her husband on the growth of her father's business need some proactive decisions and action. Finally, her husband, Arwiz, willingly joins the company and has been appointed as the Marketing Director of PakCu 916.

Arwiz shows his passion for the first move into the business. He was busy helping Eryn with their innovative product were through their research & development with MARDI; they successfully introduce the guava fruit juice in an RTD concept. With this innovative product, Arwiz worked hard to hold discussions with few hypermarkets to place their products in a broader market.

Eryn's proved to be right as Arwiz eventually became the architect that paved the way for PakCu's 916 business diversification and entry into hypermarkets. At the same time, Eryn focused on product development, production, and supply chain management. Eryn places greater emphasis on her RTD products' output. It must be of good quality, starting from selecting fresh and quality guava fruits, mixing, blending, pasteurizing, filling, and bottling until packaging using ultra clean packaging technology and stored in the refrigerator. All of this must be adhered to ensure that this product can compete in the supermarket with other competitors' product lines. They were done by introducing innovation, re-shaping the business, and strategies suitable to their business environment. The perfect partner, Eryn, and Arwiz effectively transformed PakCu 916 business model from being a simple roadside business to a company that manufactures quality food and beverage products with hypermarkets as its distribution channels.

3.0 OPPORTUNITY NEVER STOPS

3.1 Emergence of Opportunity

A humble roadside stall was the beginning of a visionary start-up selling cut guava, guava juice, and powdered sour plum dip. Initially, the opportunity was recognized because it took only less than three thousand ringgit to set up "a premise" and kick-start a business that

the initial purpose of providing monthly family expenditures. To his surprise, daily sales of RM600 to RM700 have awakened PakCu that his "Guava and such" roadside stall capable of giving him and his family a handsome revenue that not only exceeds his monthly necessities but, most importantly, significant profits. "I can have another stall. It looks like people like my guava". That moment was history, and within the next two years, PakCu expanded to 480 stalls located across Malaysia.

3.2 Swift Expansion

PakCu expanded the business by improving the company's operations and strategy to exploit market opportunities. Growing from one stall to 480 stalls in three years was outstanding. PakCu deployed careful planning and strategic moves to exploit the opportunity. PakCu believes that three key factors facilitated his business; a committed entrepreneur (as PakCu's stall operator), a good guava supply, and a secret recipe for his powdered sour plum dip. According to PakCu, "It's all about the opportunity, I said to myself that I must act quick because everybody can sell guava, but those who are fast to act will enjoy the market first."

The key strategy that helped PakCu expand his business was licensing, as licensing is a great strategy to grow a company that has a proven business model and inspirational entrepreneur as its leader. Licensing is a common method that big conglomerates to small and medium-sized businesses use as their means to grow. PakCu knew that he could leverage his knowledge and business network to expand his business via licensing and offer licenses at an affordable cost of RM3000 per stall. When PakCu took off the expansion journey, he pressured him to get his daughter and son-in-law into the business to help him with the business expansion.

3.3 Opportunity Never Stops

When Eryn and Arwiz, were brought in into the business to help PakCu managed business expansion, they knew nothing about the company. Nonetheless, with some basic knowledge about managing organizations that they had learned in college, they went through the learning curves very well. They were vital in helping PakCu manage a significant demand of guava fruits, juices, and powdered-sour plum dip from the 480 stall operators that PakCu had licensed to spread throughout the country.

The typical way of blending and packaging guava juice used during their early growth period was no longer feasible because they must distribute to more stalls farther from their headquarter in Klang Valley. The existing

packaging method of freezing the guava juice in a big plastic pack then send it to places as far as Kelantan, which took two days to arrive, will damage the juice. Eryn and Arwiz did not have too many options. After a lot of observations, some homework, and discussions with PakCu and other team members, one of the feasible options they had regarding packaging and logistics issues was to modernize the packaging of PakCu guava juice and market it as a ready-to-drink (RTD) guava juice. They decided to automate the production of guava juice using machines so that they can cater to the increasing demand for guava juice and at the same time reduce the risk of expired juice when it reaches stall operators throughout the country.

A new opportunity surfaced for PakCu's RTD juice, and the team was thrilled, but at the same time, they were very concerned with their capabilities to exploit the opportunity. They conducted market research to study both the market potential for RTD juice and the potential competition for RTD fruit juice in the RTD juice market. The market research results were encouraging, as it showed that PakCu's RTD fruit juice could secure a reasonable share of the RTD juice market to give them a substantial increase in the amount of revenue.

Eryn and Arwiz were very excited about the new opportunity. They initiated meetings with several well-known homegrown grocers. The meetings' results were fruitful as the grocers did express interest in stocking their shelves with PakCu's RTD fruit juice in their outlets. However, PakCu was not very excited. Rather than visualizing RTD on the grocers' shelves, PakCu was hesitant because the grocers wanted good credit terms as any new brand entering the market typically has a lower turnover ratio. PakCu worried whether his company would be able to manage the grocers' credit demands while making sure his business survives and continues to grow.

4.0 CHALLENGES

4.1 Licensing

Despite the accolades of the meteoric rise of PakCu 916's business, unanticipated challenges arose from his licensing method. When the company first decided to license its business, PakC welcomed anyone who wanted to sell PakCu 916's guava. They needed to meet only two requirements: (1) propose a location to operate and (2) pay an upfront payment of about RM2000. In return, PakCu 916 will supply all the necessary equipment and the starting inventories to set up their stall.

However, many applicants could not pay the licensing fee as about 60 percent of the applicants come from the lower-income group, and they find it hard to amass the RM2000 upfront payment. Unfortunately, PakCu empathized with their predicament as he was initially in that income group. Due to his soft heart for low-income people's plight, he decided that his company should help these people by preceding the upfront RM2000 licensing fee, thereby making the company bear all setup costs. In addition to preceding the licensing fee, PakCu would occasionally give credit for their purchases in replenishing their inventories. Furthermore, PakCu did not require them to sign any licensing agreement to become an outlet while conducting business solely based on trust. The only condition that these all outlets were given is that they sell PakCu's fresh-cut guava, sour plum powder, and juice and obtain all their inventories exclusively from PakCu 916.

Despite contributing to the meteoric rise of the business, such a loose practice exposed the business to a host of problems. For one, it eats up PakCu 916's cash flow as a large sum of the company's cash was used for outlet expansion. Second, for the outlets that owe money to the company, PakCu 916 does not have any control in determining when they should start paying back any of the money that they owe in getting their inventories. If the outlet is honest enough in their conduct, PakCu 916 will get the money owed.

4.2 Rising Costs

The next challenge that the business faced was in the form of rising costs of guavas. One of the critical success factors to PakCu 916's company was the guavas sourced specifically from Muar. The texture and crunchiness of the fruits coming from this region perfectly complement the sweet, salty, and sour taste of PakCu 916's sour plum powder giving it a distinctive flavor that cannot be obtained from any other region. Consequently, PakCu 916's meteoric business rise caused an equal meteoric increase in the guavas' demand; this meteoric rise strained the supply chain for guavas because there are a limited number of guavas growers in the Muar. Subsequently, the cost of obtaining the guavas further worsened as competition began mushrooming after realizing PakCu's success and wanted to imitate it.

By 2012, guava's price rose eight times more than when PakCu started the business in 2008 from RM0.50 to RM4.00 per fruit. The increase in costs also impacted PakCu 916's outlets as they saw their profits steadily dwindle. To mitigate the supply shortage, Eryn recommended that its outlets sell other fruits and mix

those fruits with the sour plum powder mix to lessen their dependence on guava to maintain their sales. Operationally, Eryn also explored the possibility of going into exclusive contract farming to hedge against the short supply. However, she was unsuccessful due to her lack of expertise in this area. Eryn also tried using guavas from other regions, but the end product's quality would not meet PakCu's quality standard.

Unexpectedly, the rising guavas prices directly impacted customer satisfaction because some of the outlets began to buy guava from other suppliers to cut corners to improve margins while keeping PakCu 916 branding. As a result, there were many discrepancies in quality among the licensed stalls causing loyal consumers to complain directly to Eryn since some of the products of these stalls were different from what they are used to.

4.3 Hypermarkets and Supermarkets

Arwiz's efforts in putting PakCu's RTD product into Hypermarkets obtained mixed results. PakCu 916's products have only able to enter Mydin Hypermarkets successfully but failed to enter other hypermarkets due to their strict terms and conditions and the high slotting fees needed to pay to place their products on the store shelves. Even to enter Mydin, Arwiz had to use the Ministry of Domestic Trade and Consumer Affairs's assistance through a program that promotes local producers getting into local hypermarkets. Otherwise, they would never have the chance to get into Mydin. The program had one very strict requirement: PakCu was required to participate in a road tour of all Mydin's Hypermarkets all over Malaysia for two years before they could supply any products to Mydin. PakCu obliged, and that was being able to eventually entered Mydin in 2013.

After the foray into hypermarkets went with limited success, the next step for PakCu 916 was to go for smaller retail outlets such as supermarket chains and community sundry shops. Of all the supermarket chains available, PakCu 916 managed to place its product at Hero Supermarkets with relative ease. While Hero Supermarkets have been openly accepting PakCu 916's products, other supermarkets were not so welcoming. Arwiz attributed this to three factors. They are relatively an unknown brand compared to the successful international brands like Nestle, Kraft, or Procter and Gamble that will guarantee acceptance from the consumers. Second, these global brands offer many advertising and promotional support to supermarkets that help with the supermarkets' costs. Third, PakCu 916's products are considered to be Bumiputera products, and

Arwiz felt an ongoing stigma against Bumiputera products among the smaller supermarkets. Based on Arwiz's experience, some of these supermarkets would not even let them into the premises upon knowing that they are trying to sell a Bumiputera product. Others may not be equally hostile, but they make it rather challenging to get into their stores.

4.4 GST, A/R, Rent, and Layoffs

PakCu 916 most significant and most damaging challenge came in 2014 with the advent of the Goods and Services Tax (GST) to all Malaysians. Overnight, consumer spending came down drastically, impacting every type and size of the business, including the small-time peddlers such as PakCu 916's guava stall outlets. Many had to close down their businesses, and PakCu 916's outlets reduced from about 480 in 2014 to about 100 stalls by the end of 2015. These closures meant that PakCu 916's income was significantly reduced, and a lot of the money owed to them by these stalls had to be written off.

As if the condition is not already bad enough, PakCu 916's account receivables (A/R) worsened as the hypermarkets and supermarkets started to become bad paymasters. If before GST implementation, hypermarkets and supermarkets paid within 30 days of shipment, after GST, these businesses began to stretch the payment periods longer, sometimes up to three months after shipment.

At this time, the owners of PakCu 916's main business premise decided to increase rent significantly. The rent increase could not have occurred at the worst time when PakCu 916 was cash strapped, and the unexpected rent increase was certainly unwelcome. Eryn recalled: "This was the time when my child fell ill and needed to be brought to the clinic, but I could not afford it. I only had RM10 with me and nothing in the bank. We had to make do with Panadol obtained from a nearby convenience shop and hope for the best. Luckily nothing happened, but it was worrying, and I never want to go through it again".

At the lowest point of their slump, PakCu 916 had to terminate all its employees, leaving only two people running the entire show were Eryn and Arwiz. They were the ones who had to do all manufacturing, promoting as well as delivering the products to their customers as there was no one else to depend on. The volume was also relatively small so being the few people running the show is adequate considering the circumstances.

5.0 TURN AROUND

The problems that emerged after the implementation of GST in 2014 forced Eryn and Arwiz to rethink their business model. They decided that the company can no longer depend on the roadside stalls because the costs went out of control. The current business model puts the company at a considerable disadvantage compared to the licensee.

Pak Chu 916 was at a juncture at this point. It had to choose between being the franchisor of roadside stalls or being a modern food and beverage company. Both of these businesses require many resources to develop from where they are, and they have very limited of them. In the end, after much consideration, they chose to pull the handbrake on the roadside stalls and focus on getting products into retail outlets.

Arwiz felt that they were lucky to manage to take advantage of the meteoric success of their roadside stall business to diversity into selling products at retail outlets such as Hypermarkets and Supermarkets. They had the affordability to explore and experiment during the time of success and has provided them with an exit option when things turned south with their roadside stall business. Although he felt there is still much more to do, half of the battle getting into retail outlets has already been won despite the challenges mentioned, particularly in hypermarkets and supermarkets. Amid getting RTD into the retail market, they also have started retail sales of their sour plum powder mix were well received. Initially, the sour plum mixed was only sold to their franchisees with the roadside's fresh-cut guava, but it is now being sold in 200 grams and 1kilogram packs in hypermarkets and supermarkets. Today, PakCu 916 is getting more revenues selling more sour plum powder than their RTD and cordial products.

Things were looking better now. Their revenues have steadily increased, and they are already beginning to hire workers to help PakCu 916 increased the workload. "I can now look forward to a sale of RM200,000 a month and probably grow to RM1 million. Our target is to grow big. So far, the early signs of our success are there. Still, we need to reinvent and innovate ourselves to achieve it continually - you cannot expect different results if you keep doing the same thing over and over again."

5.0 CONCLUSION

Based on the case study, it shows the characteristics and competencies of PakCu as an

entrepreneur in making crucial business decisions not only during the early stage of starting up his guava stall business but also during its early growth stage. The entrepreneurial competencies are essential at all entrepreneurship levels; start-up, survival, and growth of a venture (Bird, 1995; Baum et al., 2001; Colombo and Grilli, 2005).

PakCu also foresees the importance of having a capable team; his daughter Eryn and son in law Arwiz, to assist with expanding the business. They were able to modernize the business model of PakCu 916 with the product automation and innovation, even amid many issues about the licensees, rising costs, suitable and services tax (GST), account receivables, rental, and layoffs, to ensure that the business stays relevant to the market.

Despite facing many hurdles in pursuing their vision, Eryn and Arwiz could materialize their dream of breaking into hypermarkets, which is one episode of the many "growth episodes" that they have to encounter. Their target is getting bigger and aims to go to another level of revenue, but will they maintain the same spirit, enthusiasm, and wisdom to work their way to the level they are aiming for? Only time will tell.

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