



# THAMMASAT UNDERGRADUATE **BUSINESSCHALLENGE**

Thailand's First-Ever Undergraduate Business Case Competition



**AMC**

**FROM COMMODITY TO BREAKTHROUGH**



ASEAN Materials Conglomerate Group of Companies |



Dear TUBC 2010 Consultants,

On behalf of the management team, I would like to inform you that you have been granted the opportunity to assist our company with a 5-year conglomerate strategic plan development. You have been invited to attend our strategy proposal presentation along with other 14 consulting teams to compete for our acceptance and future engagement deals which will be held on Saturday 21<sup>st</sup>, 2010.

The company is currently undergoing the process of revising its strategies as a part of its effort in developing its long-term plan to be proposed to the board of directors to set the direction for future implementation corporate-wide. While the company is reviewing its plan internally, we are seeking selected outside support to obtain views and ideas from a fresh pair of eyes. For this particular benefit, I strongly insist that the company's real name and certain names are to be disguised. Hence, the company would be referred to in all our meetings and reviews as the ASEAN Materials Conglomerate group of companies ("AMC").

Since the names are disguised, you will not be able to find additional internal information through secondary research. Therefore, the management team has made sure the necessary internal information is sufficiently provided as contained in this packet. Also, we will be evaluating your proposal based on your ideas supported by the internal information given in the packet only. Uncovering who we are will not give you any advantage but will rather frame your ideas and thinking. We also present the information here slightly different from the reality, so that it will create as effective level playing field as possible to all the consulting teams. With the limited time, we urge that your research effort should be focused on external market data to support your proposal.



We appreciate your effort to help us explore our strategic possibilities. Ultimately, AMC requires that your strategic plan is creative yet reasonable and achievable.

We look forward to reviewing the proposal with you in the next 40 hours. We hope you will be the one who we close the deal with.

Best Regards,

Daniel Scott

Director of AMC Business Development



## Introduction

“In a commodity world, nothing is more necessary than innovation,” was the key message communicated and lived at the ASEAN Materials Conglomerate. But how could the firm continue to grow amidst the fact that innovation is never easy?

It was mid-July 2010, and Daniel Scott, director of business development at AMC group of companies knew it was time for the next era of development at AMC. Looking out his office window, he wondered whether there were compelling opportunities out there for AMC to revamp its growth and build its future upon.

Having been in business for over five decades, AMC has expanded its business to cover a strong presence in three core material businesses throughout the Association of Southeast Asia Nations (ASEAN) region. With the weight of his company’s future success on his shoulder, Daniel realized the upcoming tasks will not be easy. Although he was eager to move forward, important concerns have arisen over the growth opportunities that existed under AMC’s current businesses. The company has long been focusing on materials with a commodity nature, and its growth has been constrained by intensifying competition. Although the company has tried to introduce a series of innovation in its product offerings to cope with the problem, it has become more and more difficult to consistently find new ideas to sustain the business. Plan to expand to new markets to capture more growth was implemented, but how far can it be stretched? These core businesses are at the center of its strengths, but they come together with the big question of how to sustain. Or an even bigger question, he asked, “How necessary is it now to sustain?” Could this be the right time to move on and consider an absolutely new business for AMC?

Excited for what lies ahead for AMC’s future, he envisioned AMC as the ASEAN market leader within the next five years. What could be the possible options to ensure that this conglomerate will successfully achieve this particular vision?



## **Company Background**

ASEAN Materials Conglomerate came into existence about 50 years ago. At that time, the petrochemical industry in Thailand was just starting to take shape as large amounts of natural gas reserves were discovered in the Gulf of Thailand. Many foreign companies jumped on the opportunity and started establishing operations in Thailand. AMC was the result of such action. It was established by a multinational company who wanted to make a long-term commitment to capture opportunities in the whole Southeast Asia region.

Although the company initially started its regional operations in Thailand, it has expanded its presence to cover more member countries in ASEAN. After several years, AMC has been diversifying to other new, important materials, namely construction and paper materials.

## **Corporate Overview**

Not long after the company operated in the various commodity businesses did it realize that achieving operational excellence is one of the key components for success. AMC has made it its priority to continuously find ways to reduce cost and maintain lean operations. This culture was built within AMC largely due to the 'commodity effect' that exerts pressure on margins as price is dominantly determined by the global demand and supply. The second aspect of achieving operational excellence is to always seek to market high quality products. As it is sometimes argued that product quality is a point of parity for commodity industries, it is crucial to meet customers' expectations.

AMC places a strong emphasis on human resource development throughout all levels of the organization. It reasons that the innovations needed to drive business growth will materialize from the minds of AMC's employees disregarding ranks. The company continuously introduces internal campaigns to drive people to think outside the box and to be creative and innovative. AMC believes it is already maximizing what it can do to push its employees to drive innovation in all aspects. In a more general term, the company also believes that developing its employees will improve the



overall performance of the company (see *Exhibit 1 and 2*). It invests heavily in providing training, organizing development programs, and many other initiatives to help equip its employees with the skills required to excel.

The businesses that AMC operates in are all capital intensive businesses. AMC needs to invest in maintaining the current capacity and activities as well as making funds available to accommodate for growth and expansion initiatives. Currently the company's main sources of funds are equity from shareholders, internally generated funds, and issuance of debentures. It has always been AMC's strength in maintaining sufficient funds for all of its operations and expansion. Any new initiatives must take into consideration the capital required to maintain current operations as well as AMC's current expansion plans on top of whatever is necessary for the new project.

## Business Units Overview

Currently, the company's businesses have been structured into three main business units, namely, Petrochemical Materials (PCM), Construction Materials (CM), and Paper Materials (PM) (see *Exhibit 3,4, and 5*).

### Petrochemical Materials Business Unit (PCM)

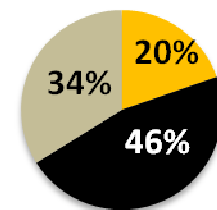
The selling of petrochemical materials was the first business AMC operated since its founding. The PCM manufactures and supplies a full range of petrochemical products ranging from upstream petrochemicals such as Olefins and intermediate petrochemicals, to downstream petrochemicals such as Polyethylene (see *Exhibit 6A*). Having been in operation for more than 50 years, it is now one of the top players in the Asia-Pacific region and one of the largest integrated petrochemical companies in Thailand.

The petrochemical products that AMC manufactures are used in a variety of industries with different applications (see *Exhibit 7*). For example, EL-Pene LDPE are used to manufacture the plastic packaging of consumable goods, whereas EL-Pro chemicals include additives that makes it the optimal choice in the fabrication of woven bags used in heavy transportations. The company has

### AMC REVENUE BREAKDOWN

2009

- Paper Materials
- Chemical Materials
- Construction Materials





developed many different variations of petrochemicals that are used in the manufacturing process of over 30 goods. AMC, however, is currently not involved in the production of the final goods.

In order to capture the increasing demand of chemical materials, AMC has expanded its export market coverage to over 100 countries across the globe. In order to receive timely market data and information while mitigating risks from market volatility, the business unit has focused its strategy on diversifying its market base to various regions and expand overseas trading office in key regions. AMC has eight chemical sales representative offices in different key Asian cities including Shanghai, Guangzhou, Jakarta, Tokyo, Yangon, Manila, Ho Chi Minh, and Hanoi. China has become one of the most important markets due to its explosive demand growth in chemicals over the years. To accommodate the expected sales growth in China, AMC has increased its allocation of expansion budget and personnel for its trading offices in Shanghai and Guangzhou. In addition, the company has spotted the opportunity to expand its sales in Europe, Middle East and Africa. To cater for this growth, it recently established an overseas sales office in Dubai. Investment in the production plant base has been expanded to cover Vietnam, Indonesia, China, and Iran.

Given that the products being sold and traded pertain to the nature of commodities, prices are predominantly dictated by the global supply and demand of the respective products. With the constant possibility of downward pressure on product prices as a result of increase in global supply of petrochemical products, this recently has been reflected through the lower overall sales performance of this business unit in year 2009 (*see Exhibit 3*). This has put a significant pressure on the margins of PCM.

The downward pressure of prices was not the only factor affecting the business, AMC has also faced highly intense competition. Both of these factors forced the company to take serious actions to mitigate this commodity effect. Therefore to cope with these demanding challenges, cost & quality control efforts has been identified to play a vital role in sustaining the performance of the business. The company has introduced and adopted the Total Productivity Management (TPM) and the Total Quality Management (TQM) to improve production as well as distribution efficiency.

A series of innovations in the production process were implemented to effectively control costs. One of the initiatives was improving the catalyst efficiency in the HDPE resin production by redesigning the production process, which allows the combustion to reach the required temperature for



production faster. This reduces the total production time and cost. Another production process innovation was to integrate HDPE compound production processes into a single process, helping AMC reduce the amount of energy consumed and other related transportation costs. The company took innovation to the next level as it went to the extent of developing substitute raw material to replace fibre stone, used in melamine stoneware production, helping AMC reduce raw material costs.

Taking the chemical business to the next level, AMC's priorities have been identified to strive for extensive development of the high value-added products (HVAs) and to broaden its range of products that offer high margins and less price volatility. As of 2009, the importance of these initiatives to AMC was reflected through its revenue contribution as the sales from high value-added products grew to over 20% of the business unit's total sales (*see exhibit 8*). To tackle volatile economic situation, AMC aims to continue to drive the growth of the HVA products, focusing on product quality and customer centricity.

With the emphasis placed on the innovation for the high value added products, technology advancement and R&D are viewed to be the main drivers of AMC petrochemical's competitiveness and its ability to survive amidst the uncertain market forces in the future.

To enhance the business unit's technological advancement and human resource capability developments in research and process design & engineering, the company pursued a series of acquisitions aside from developing the petrochemical know-how by itself. The most recent acquisition involved buying a smaller-sized petrochemical refining technology licensing company. This has allowed AMC to gain the technology and expertise required in improving its production process. It has also entered into joint venture deals with world renowned chemical firms to accelerate and strengthen its expertise in the ASEAN petrochemical markets. This allows AMC to gain access to the technology and HVA products that are currently under the partner's patent. The partners also co-invest in R&D to develop breakthrough petrochemicals and/or to meet specific customers' needs. Hence, the company is put in a position to better meet customers' demand within the region and improve its overall competitiveness.



EL Pro-PP is a perfect example of a petrochemical that was leveraged from AMC's Japanese partner. Having this product in its portfolio allowed the company to gain customers from the automotive industry as it is the preferred petrochemical to produce the plastics used for many automotive parts. There are many more variations of petrochemical products that were originated from the partnership between AMC and its partners. Currently the company has three partnerships and each one is independent of one another, meaning the partners do not cross paths. As a matter of fact, this is hardly a concern for AMC as each partnership is established to gain expertise and technologies that are substantially different.

At the moment, the management has identified that its key strategy for this business is to sustain growth through partnering with the customers. The company aims to foster long-term strategic relationships with customers that extend beyond the typical supplier-buyer relations. AMC aims to provide petrochemical solutions that are catered to individual customers' needs but at the same time not incurring major sacrifices in its margins. So far, the key activities implemented as a part of this strategy is to offer the integrated supply chain services to the customers through the active involvement in their entire production process. AMC has worked closely with its industrial customers to co-design and develop the products that would best suit the needs of all parties.

Another priority that the management is currently looking forward to is to expand further into Vietnam, specifically in the petrochemical refinery business. The rationale behind this development lies in the growth in the local consumption and the economy that is poised well to grow in the near future. Nevertheless, a more thorough cost-benefit analysis is required to assess whether the profitability and the return on investment would be worthwhile.

The ongoing challenge for this business unit is the volatile margins. The management revealed that there could be an opportunity to create synergy with other business units within the AMC group as well as increasing value along the chain. Whatever opportunities or paths it's going to take, the key criteria remains to ensure the strengthening of AMC's petrochemicals' competitive advantage, increasing value, minimal dilution on current business returns, providing the company with long-term advantages, and utilizing experiences of partners who are keen in the industry.



## **Construction Materials Business Unit (CM)**

Having established a relatively strong foothold in the petrochemical industry, AMC sought after entering a new market to both expand and diversify its business. In the late 1960s, the residential housing market in Thailand was booming, making the construction materials business highly attractive. AMC officially entered the construction materials industry in 1969 introducing grey cement as its first product. Unlike typical companies, AMC has been actively engaged in exporting its goods to countries in the ASEAN region since its first year of operation. This laid the basis of export being an integral strategy in AMC's operations.

Slowly the company grew to offer other products such as white cement, ready-mixed concrete, concrete products, and mortar among others (*see Exhibit 6B*). Seven years after the company first started its construction materials related operations, it expanded into another part of the value chain; the building products industry. The company took this expansion as a natural step after establishing a strong presence in the raw construction materials industry. Leveraging its experience and knowledge of raw materials and concrete product design capabilities, the company manufactures all of its building products with the exception of some minor items that are not related to its core operations. Today, the raw construction material products account for the majority of this BU's revenue at approximately 60%.

AMC has expanded the number of countries where it manufactures its products consisting of plants in Cambodia, Thailand, and India. In all three countries AMC has established clinker/cement processing plants to produce all of the raw construction material products as well as factories that manufacture the building products. However, the majority of production takes place in Thailand as it has been identified as a strategic location for exporting to other ASEAN member countries.

The production of ready-mixed concrete (RMC) has a very different nature compared to the other products that AMC offers. As RMC needs to be used within 2 - 3 hours after it is mixed (produced), the company utilizes a mix of company owned and franchise network to set up production points throughout Thailand. AMC is currently looking into the feasibility of the establishment of an ASEAN-wide RMC network.



The Construction Materials BU executes its own distribution and marketing plans. AMC employs thousands of agents throughout its raw construction material markets to handle buyer accounts. Its products are also exported to be sold on retailers' shelves worldwide.

The company has established an authorized dealer network in markets where it has more than an export presence; namely ASEAN markets such as Cambodia, Indonesia, Thailand and Vietnam. These building material retail stores are dealer owned and they sell both AMC's raw construction materials and building products. Unlike retailers that AMC exports to, these dealers are not allowed to carry brands that directly compete with AMC's. Due to the number of years that AMC has been in business, the company is confident that it has optimized its business model in dealing with its distributors.

The company is increasing its emphasis on marketing as it is trying to target its communications towards the end-users. It takes a strong effort in marketing itself as a green and socially responsible company.

The company has taken a parallel strategy in growing its market presence by both expanding its operations in new geographical markets as well as exporting its products. In countries where the management perceives that there are a lot of uncertainty and wants to test the market before establishing a permanent presence, it opts for the export strategy. Another benefit of exporting is to create brand awareness for AMC's products among the customers in the new markets to lay a solid foundation for future business expansions.

The significant amount of raw construction materials exports are to countries within the ASEAN region. Bulky items like cement have its limits in terms of where it can be exported to due to high cost of transportation. Currently, around 45% of the raw construction materials sales are from exports. Although AMC exports building products such as sanitary wares and ceramic tiles worldwide, its export sales are concentrated in the ASEAN markets as well.

The demand of cement in Thailand is around 60% of the industry's capacity for the past couple of years. The global economic downturn in late 2008 and the continued political conflicts in Thailand had a significant adverse impact on this BU. The relatively low demand can be attributed to the slowdown in the residential construction sector as well as the lower number of investment projects



by the government. In addition to these woes, the government's effort in speeding up the disbursement of economic stimulus budget was delayed by the political conflicts last year.

From a macroeconomic perspective, the construction industry should be picking up as the Bank of Thailand forecasts a GDP growth of 6.5% for 2010. Over the years, the growth of the construction materials industry has been highly correlated to that of the GDP.

Although the economy as a whole is recovering from the worst, the construction materials industry does not have a very bright outlook. The construction material BU is not expecting to achieve continuous sales growth in the long run. At best, the industry will not grow more than post crisis levels. The limited amount of growth opportunities in this industry can be attributed to the highly intense competition and the nature of the products in the industry. With many market players trying to win business, there has been a lot of price undercutting. Price erosion is one of the biggest threats for this business in the recent years. To make situations worst, the majority of AMC's products in this sector are more or less commodities, hence making it hard to differentiate its products in the market.

To tackle the hard times in the past years and to minimize the 'commodity effect', the company has focused on reducing production costs and finding innovative solutions to differentiate its products.

AMC has always made it one of its priorities to reduce the production cost by improving production processes or investing in equipments that increases production efficiency. For example, the company has recently installed waste heat power generators at all grey cement plants to recycle the heat generated from the production process, which is converted to electricity that the plant can use.

As a part of the effort to both differentiate and improve the margins for its construction materials, the company has been emphasizing heavily on innovating products and services that add value to its customers. As ready mixed concrete is largely the same from all sellers, AMC has developed silo & spraying systems to be used at the customers' site as a value added service. The company also has put a strong emphasis on innovating new products in different niches such as the introduction of seawater resistant cement and concrete. Other services that have been offered are technical and consultation services related to the use of construction materials.



The company has long been focusing on industrial and mega project construction material users. However, the management is considering a shift toward putting a stronger emphasis on the end-users market.

For the building products, AMC is trying to boost the brand recognition among customers and achieve synergy by consolidating the different brands once used to market different building products into a single brand. The Optimum brand currently represents all of AMC's building products with the exception of ceramic tiles, faucets, and sanitary wares which are united under another brand called "Century". The company furthered its marketing of the consolidated brands by opening flagship showrooms to illustrate its range of products. These showrooms were also set out to emphasize AMC's total experience and total solution of its product offerings to consumers visiting these stores. Although it requires higher investments to open this type of channel, the benefits are high where it promotes holistic purchases and allows AMC to fully communicate its products superiority to customers.

On the technical side of its innovative efforts, AMC has developed new coating materials and other product tweaks that offer different solutions for its customers. A noteworthy innovation is the development of a special coating material and coating technique that results in a smoother surface making the tiles easier to clean. Installation improvements were also achieved through the development of interlocking features for the roof tiles. New product innovations were also achieved. Many of the products such as thermal and sound insulation materials were developed through this effort.

AMC has emphasized on these innovative and points of differentiation in a desperate attempt to reduce the 'commodity effect.' Some of these have yielded concrete results while the effectiveness of others is in doubt. Nonetheless, AMC is trying to create value, maintain its margins, and trying to be conservative with this business unit.

### **Paper Materials Business Unit (PM)**

In year 1975, AMC ventured into a new material — paper. It started off the business by acquiring a local corrugated container manufacturer. From that point on, the company has been through



extensive development and growth. Possessing world quality standards, AMC's paper products have achieved wide recognition in both Thailand and international markets. Currently, it is considered the industry leader in Thailand and in the ASEAN region.

AMC's major product lines under this business unit can be categorized into four main groups: packaging paper, corrugated containers, printing & writing paper, and pulp (*Refer to exhibit 6C*). Its products can be segmented into two main classifications: B2B and B2C.

For the B2B segment, the products mainly revolve around packaging paper and corrugated containers. Major customers in this segment are industrial firms in various industries with an obvious need for boards, sacks, and boxes to carry out their packaging process. The industrial boards, specifically core boards, are what we see being utilized for cores of tissue paper, rolling fabrics, plastic film, and paper rolls. The industrial sacks are used mainly in sack industries, for example, cement, animal feed, tapioca starch, and dry chemical products. Main customers who purchase AMC's corrugated container products are among industries such as electronic components and the automotive industries. The lists of customers now also include fast moving consumer goods (FMCG) industries where AMC supplies boxes that are used for packaging at the point of product display (POP). Food industries are also AMC's customers as the company provides boxes to be used for the packaging of vegetables and fruits. Hence, the performance of these industries listed as AMC's customers are the key drivers of the performance of the company of this segment. Their business cycle and market forces would certainly play a factor in AMC's revenue growth.

For the B2C segment, the products are mainly the printing and writing paper which are being sold through retail channel and direct sales. B2C is identified as the segment of management's current priority with the goal to maximize its reach to end users.

In terms of export products in this business unit, the company largely focuses on promoting and selling the printing and writing paper. These products are currently being sold all around the world with major markets being ASEAN countries such as Vietnam, Malaysia, and Middle East region. In the first half of 2010, export accounted for 20% of total printing and writing paper sales. The factors affecting the printing and writing paper at the moment are earthquake event in Chile, the world's largest exporter, resulting in the tight global supply as well as a strong demand from Chinese



producers. These two forces drove the market pulp prices up in the past quarter. Thailand's sales volume has increased 20-21% year-on-year as the economy improved overall post 2009. However, the market pulp prices are expected to decline as Chile experiences the recovery of capacity.

For packaging paper, exports from Thailand in the first half of 2010 account for 15% of total packaging paper sales. The major export markets still remained among ASEAN countries such as Vietnam and Malaysia. The Philippines and Vietnam sales volumes account for 20% of total packaging paper sales while Thailand's sales volume makes up the rest (65%).

Having gained the leadership position in the Thai market, AMC was set out to continuously enhance its competitiveness through its persistent effort in various project investments to boost production efficiency and reduce energy usage, both resulting in a reduced production cost. Constant improvement and optimization of sourcing, production process, technology and management have been viewed to be the key factor for the business unit's productivity and competitiveness. At times where product prices decreased, the business unit still achieved profit due to its enduring commitment to effective cost management.

In order to cater for future growth of the paper business, AMC has expanded its paper production presence to other markets in the ASEAN region where it sees rapid economic growth that indicates a growing demand for paper and corrugated containers. The financial result of this business expansion has been rewarding. Although there was lower overall demand for paper in Thailand due to the economic downturn in 2009, the demand from ASEAN countries still increased resulting in higher export volumes compared to 2008. At the moment, AMC has expanded its paper production and packaging facilities to a number of ASEAN countries. The list includes Vietnam, Malaysia, Singapore, and the Philippines.

Its sales performance is not contingent solely on the economy. Realized product prices and costs are other important factors. Pulp and waste paper prices are predominantly driven by global supply and demand. In addition, the paper business unit is also affected by a hike in oil prices and transportation costs. Given that the company is now generating export revenues from around the world, Baht appreciation could yield a negative implication to the business unit's competitive advantage as it affects the realized prices of paper products particularly its main export product, printing and writing paper.



In order to reduce the reliance on imports of pulp and paper, the company has also pursued vertical integration by establishing a forestry company of its own to ensure the supply of its raw materials to its three main paper mills in Thailand. These plantations covered large areas in the North, Central, Eastern, and Northeastern regions of Thailand. This forestry unit offers complete services for farmers including investment cost-benefit analysis, site preparation, tree plantation, care, maintenance, cutting, purchasing, as well as transporting from the plantation to the factory. It also provides the land-owning farmers with a guaranteed price no lower than the actual market price of their produce. The plantation area has been accumulated to be in the region of 75,000 acres as of this year.

Realized prices and costs are not the only two dictating forces undermining growth prospect, the paper business of AMC is also under significant pressure from competition. The company is witnessing intense competition in the export market. Moreover, additional capacity start-ups are expected in North America and China.

Nevertheless, the company is expecting to see a strong growth for this business unit. The outlook is positive. The management believes the demand in Asia will continue to be strong especially demand growth in China. The company also expects higher demand from the increase in usage of paper among various industries following growth of economy which also allows for better prices and higher volume gains. For these reasons, the company is looking forward to capturing higher sales as it plans to add new capacity to be scattered in several countries within the ASEAN region.

With the pressure in costs, fluctuating prices, and intensifying competition, the company has begun serious efforts in increasing its profit margin and stepping away from the commodity nature of its products through a series of innovation and differentiation to pursue higher value added product offerings.

In order to diversify the market and better meet the consumer demands, the company has introduced paper products under the new brand “Superior”. The brand targets two clearly distinctive and differentiated segments: “Superior Earth” being targeted towards environmentally friendly users and “Superior Pro” being targeted towards a new niche market for premium paper products in office.

Superior Earth reflects the management’s philosophy in sustainable development business practice. The green strategy was seen as an important step to create a differentiation for the company in the



consumer's eyes. For the most part, the public at large view the paper industry with negative scrutiny when it comes to creating pollution and deforestation. AMC is at the forefront in its effort to change this consumer perception and gain the public's favor by making a positive contribution to environment conservation and protection. The company is not just proactive in the area of its products. The green strategy is extended to also cover the production process and even the mindset of every employee in the organization. The environmental friendly process means a wise use of natural resources throughout the entire production process. Wastes or by-products are treated using internationally accepted standards. It starts from growing trees through responsible use of energy such as electricity and water throughout the production. The environmentally friendly products mean papers that are recyclable and have minimized impacts on the environment. To enforce the green mindset among employees, the company tries to instill a new culture of paper use within the organization encouraging employees to take actions and do their parts in responsible usage of paper. Hence, under this brand, the company's goal is to promote environmental awareness and serious consideration and purchase of recycled paper. A part of its marketing effort also involves joining forces with universities and community to educate people and foster environmental concerns among consumers. The development of Superior Earth paper which reduces the use of tree consumption by 30% has gains overwhelming response from environmentally conscious consumers.

Another example of innovation is the brand "Superior Pro". The company has researched and developed several advanced products to differentiate itself from the competition. Superior Pro papers are designed for a new attractive niche, modern offices that require the maximum efficiency. It delivers excellent printing quality and works efficiently with all office printing equipments. These products ranged from the Nano-coating paper that entails a smoother and high white finish, a lightweight paper which is eyesight-friendly, durable and ideal for offset printing, to professional note paper especially for writing that can quickly absorb ink. This enables users to produce clear text without ink stain on their hands, making this suitable for notebooks and diaries. The company projects a strong growth in the office paper market. In 2009, an estimated volume of up to 200,000 tonnes and value of 6 million Baht of office paper was consumed in the Thai market only. AMC expects that this will continue to grow at the rate of around 10% per annum due mainly to the growing importance of computers in offices nowadays.



Moreover, the priority of this business unit is to better cater to the needs of customers. It focuses on fostering good relationships with customers to better understand their needs, and therefore develop products that better meet the market's demand. The resulting products from this priority are, for example, producing paper splint used in the treatment of fractured arms or legs. Low-price, safe, and clean, this innovative product acts as an attractive substitute of costly imports for consumers. The moves to accommodate the needs of business clients have resulted in various innovation developments such as scented cartons that add an exciting touch to packaging. Apart from its innovation in the area of products, the company has also expanded its effort to innovation in its services to better meet the needs of business customers. It has implemented the e-ordering system and supply chain management to allow for accurate and timely product delivery and real-time tracking of the order's status.

For its current vision, the company strives to strengthen its leadership position in the ASEAN region. It looks forward to maintain its direction in becoming the world-class paper company with the focus to innovate continuously for higher value products to better meet the needs of customers while stressing its ideals in the sustainable development philosophy.

Regarding the current business challenges, the company is mainly looking forward to paper asset acquisitions. It specifically plans to acquire and expand paper plants in Thailand, Vietnam, and the Philippines for increased supply chain and integration competitiveness. The management revealed that that this year it may conclude some paper asset acquisitions in Southeast Asia in the second half to tap into the growing regional economy. Agreements with as many as 10 operators in Indonesia, the Philippines and Vietnam are under negotiation. The focus of the Thai market will remain in cost control and innovation for high value added products. It plans to emphasize more complicated designs, more durable packages and total packaging solution for the packaging business segment as well as begin commencing exports of its "Superior" umbrella brand outside Thailand to cover other ASEAN countries in the future.



## **Conglomerate Management Priorities**

Looking at the current situation from a high level strategic planning perspective, the management has identified the main priority for the company to achieve its vision of AMC becoming the ASEAN market leader within the next five years. What do you think is a reasonable interpretation of the “ASEAN market leader” as AMC’s most important goal? What could be the possible options to ensure that this conglomerate will successfully achieve this particular vision?

## **Challenges Faced**

Despite having set the general direction of where the management would like to see this company heading towards, AMC needs to identify the best path for it to take that will lead to the least amount of obstacles but the highest upside potentials.

With all business units currently producing and supplying products with a commodity nature, the most crucial obstacles that impede its growth and something the company need to overcome is the difficulty to differentiate. The commodity effect of all products across its businesses is forcing the company to seek to offer higher value added products to be able to sustain its profit margin due to the intensifying competition. More players are starting up new capacities in AMC’s existing markets, and in markets where AMC is looking to enter into all already have strong competition established as well. This entails price war possibilities that will further erode its profitability. In the markets where AMC is currently taking the leadership position, the company believes it has pretty much covered and exploited all the opportunities it sees present. The economic threats force us to look beyond the current boundary both in terms of products and markets. Everyone was well aware that the current businesses seem no longer attractive unless innovation can be sought to sustain and add value. This explains the move of the company in recent years to foster a strong culture of innovation development to pave way for business growth. Although the management is aware that these forces necessitate innovation, ones need to keep in mind that there is a distinction between improving and innovating. Things can be easily improved, but innovation takes a much bigger leap. This comes with the major issue lived by people at this company as it is always difficult to define a breakthrough idea when the company have already developed so much.



## **Issues to be addressed**

All in all, the different forces lead to several questions by which the management is seeking your support to address.

How would you define the goal of becoming the ASEAN leader? How would you take the company from where it is now to where it envisions itself in the next five year? What options should the management consider and when will it be appropriate to implement?

Given the current issues, Should we stick to our current businesses or consider leveraging our strengths to explore more compelling opportunities in new markets, either related or completely non-related ones?

We have stayed close to our current businesses and taken so much effort to sustain it. How necessary is this now? Should we try to expand our current business units? If yes, then how to strengthen AMC's position and fend off competitions? What are the possibilities you see for the innovation to strengthen current businesses' position and profitability? Anywhere you spot what we can do more with our current businesses? How difficult and what would it take to scale up our current area?

Should we consider building a new foundation for the company to thrive on for the long term? What do you see as the possibilities/opportunities in terms of new businesses? What makes them a great fit? What strengths and competencies can the company leverage to ensure success, if any? How would they fit into the bigger picture and help the management achieve their 2015 vision?



## **The Clock is Ticking**

It appears that there are many options as to what AMC is in a great position to pursue, but there is not much time. The management certainly cannot choose to pursue them all. Although it is going to be a tough call, decisions must be made. Setting priorities and establishing clear goals will be crucial for AMC. Regardless, Daniel Scott believes the company is ready and is open to all possibilities so long as it is realistically achievable and will lead AMC on the right path to its vision, even if it will take a new group of shareholders to accept what it will do.

*\*All information and data provided in this case packet are sourced from the actual company.*



**Exhibit 1 – Consolidated balance sheet of AMC Group of companies**

**AMC GROUP & SUBSIDIARIES**  
**BALANCE SHEET**  
AS OF DECEMBER 31 OPERATING YEAR 2007, 2008, and 2009  
(Baht, Millions)

	Year		
	2007	2008	2009
<b>Assets</b>			
Cash& equivalents	6,874	40,406	43,768
Accounts receivables	39,770	29,211	34,876
Inventory	56,100	45,538	46,867
Other current assets	16,276	11,634	10,598
<b>Total current assets</b>	<b>119,021</b>	<b>126,789</b>	<b>136,109</b>
Investments	74,598	79,960	92,031
Plant, property & equipment	170,599	212,366	234,619
Other assets	11,674	13,039	15,289
<b>Total assets</b>	<b>375,891</b>	<b>432,154</b>	<b>478,047</b>
<b>Liabilities</b>			
Short term loans	46,388	57,748	29,853
Accounts payable	35,808	18,208	26,103
Other current liabilities	16,742	21,684	23,149
<b>Total current liabilities</b>	<b>98,937</b>	<b>97,640</b>	<b>79,104</b>
Long-term debt	110,554	163,545	197,301
Other LT liabilities	2,231	2,496	2,863
<b>Total LT liabilities</b>	<b>112,785</b>	<b>166,041</b>	<b>200,165</b>
<b>Total liabilities</b>	<b>211,723</b>	<b>263,680</b>	<b>279,270</b>
<b>Shareholders' Equity</b>			
Registered capital	1,815	1,815	1,815
Paid up capital	1,815	1,815	1,815
Share premium	0	0	0
Retained earnings	128,460	130,163	156,259
Minority Interests	33,893	36,496	40,704
<b>Shareholders' equity</b>	<b>164,168</b>	<b>168,474</b>	<b>198,778</b>



**Exhibit 2 – Consolidated income statement of AMC Group of companies**

**AMC GROUP & SUBSIDIARIES**  
**INCOME STATEMENT**

FOR THE YEAR ENDED 31 DECEMBER 2007, 2008, and 2009  
(Baht, Millions)

	Year		
	2007	2008	2009
<b>Revenue</b>	<b>357,281</b>	<b>391,301</b>	<b>318,486</b>
Cost of sales	289,942	331,071	247,482
<b>Gross profit</b>	<b>67,340</b>	<b>60,230</b>	<b>71,003</b>
Selling expenses	16,857	19,088	14,938
Administrative expenses	16,621	17,206	19,218
Directors' remuneration	111	100	88
<b>Profit from sales</b>	<b>33,750</b>	<b>23,836</b>	<b>36,760</b>
Gain(Loss) from investments and assets for restructuring	8,839	493	(69)
Other income	7,132	5,546	5,727
<b>Profit from operations</b>	<b>49,722</b>	<b>29,875</b>	<b>42,418</b>
Share of profits from JVs & associates	11,000	6,230	9,608
<b>Profit before financial charges &amp; tax expense</b>	<b>60,722</b>	<b>36,105</b>	<b>52,026</b>
Financial charges	7,037	8,125	7,538
Tax expense	7,870	6,087	6,897
<b>Net Profit</b>	<b>45,815</b>	<b>21,893</b>	<b>37,590</b>
Attributable to parent's equity	40,503	22,380	32,488
Attributable to minority interest	5,312	(487)	5,102



### Exhibit 3 – Simplified financial statements of the Petrochemical Materials business unit

## PETROCHEMICAL MATERIALS BUSINESS UNIT SIMPLIFIED BALANCE SHEET

AS OF DECEMBER 31 OPERATING YEAR 2007, 2008, and 2009  
(Baht, Millions)

	<b>2007</b>	<b>2008</b>	<b>2009</b>
Current assets	48,052	37,417	41,820
Assets	164,411	184,827	221,471
Liabilities	79,832	104,561	129,439
Shareholders' equity & minority interest	84,579	80,266	92,032

## PETROCHEMICAL MATERIALS BUSINESS UNIT SIMPLIFIED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007, 2008, and 2009  
(Baht, Millions)

	<b>2007</b>	<b>2008</b>	<b>2009</b>
Net sales	173,776	182,188	134,933
Costs and expenses	158,176	178,408	119,309
Normalized Earnings	18,337	7,832	16,922
Net profit	22,662	8,188	16,755
EBITDA*	30,173	16,811	25,998

\*Profit before income tax, interest costs, depreciation and amortization and includes minority interests from associate companies.



## Exhibit 4 – Simplified financial statements of the Construction Materials business unit

### CONSTRUCTION MATERIALS BUSINESS UNIT SIMPLIFIED BALANCE SHEET

AS OF DECEMBER 31 OPERATING YEAR 2007, 2008, and 2009  
(Baht, Millions)

	<b>2007</b>	<b>2008</b>	<b>2009</b>
Current assets	23,554	24,303	23,606
Assets	106,749	111,325	111,656
Liabilities	37,880	36,520	35,149
Shareholders' equity and minority interest	68,870	74,805	76,507

### CONSTRUCTION MATERIALS BUSINESS UNIT SIMPLIFIED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007, 2008, and 2009  
(Baht, Millions)

	<b>2007</b>	<b>2008</b>	<b>2009</b>
Net sales	87,230	97,882	98,127
Costs and expenses	76,703	86,556	85,177
Normalized Earnings	8,563	9,018	10,225
Net profit	8,558	9,053	10,450
EBITDA*	18,850	20,493	22,049

\*Profit before income tax, interest costs, depreciation and amortization and includes minority interests from associate companies.



## Exhibit 5 – Simplified financial statements of the Paper Materials business unit

### PAPER MATERIALS BUSINESS UNIT

#### SIMPLIFIED BALANCE SHEET

AS OF DECEMBER 31 OPERATING YEAR 2007, 2008, and 2009  
(Baht, Millions)

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Current assets	19,128	18,696	17,509
Assets	61,991	68,176	63,976
Liabilities	27,185	31,604	26,395
Shareholders' equity and minority interest	34,805	36,572	37,581

### PAPER MATERIALS BUSINESS UNIT

#### SIMPLIFIED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007, 2008, and 2009  
(Baht, Millions)

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net sales	58,569	62,866	57,020
Costs and expenses	54,064	59,929	53,031
Normalized Earnings	3,140	2,213	3,051
Net profit	3,140	2,213	3,051
EBITDA*	10,600	8,887	10,543

\*Profit before income tax, interest costs, depreciation and amortization and includes minority interests from associate companies.



## Exhibit 6A – AMC Petrochemical Materials BU’s list of products and services

<b>Business Unit</b>	<b>Segment</b>	<b>Products/services</b>
Petrochemical Materials	Upstream	Olefins
		Styrene monomer
		PTA
		MMA
	Downstream	Polyethylene
		Polypropylene
		Polyvinyl chloride
		Polystyrene resins

Source: Data from AMC



## Exhibit 6B – AMC Construction Materials BU’s list of products and services

Business Unit	Segment	Products/services
Construction Materials	Raw construction materials	Grey cement
		Ready-mixed concrete
		Concrete products
		White cement
		Mortar
		Refractory
		Technical and consultation services
	Building products	Fiber-cement roof tiles
		Concrete roof tiles
		Ceramic roof tiles
		Translucent roof tiles
		Wood substitute product
		Wall
		Floor
		Fence
		Landscape
		Thermal insulation
		Sound insulation
		Ceramic tiles
		Faucets
		Sanitary wares
		Interior design services
		Installation

Source: Data from AMC



### Exhibit 6C – AMC Paper Materials BU’s list of products and services

BU	Segment	Products/services
Paper Materials	Pulp	Paper pulp
		Printing & writing paper
	Printing & writing paper	Basic printing and publishing paper (of different coating finishes and weight)
		Paper for office/business use (under <i>Superior Pro</i> brand and others)
		Variety of specialty papers (note paper, postcards, and machine finished paper)
		Environmentally friendly papers (under <i>Superior Earth</i> brand)
	Packaging paper	Paperboards
		Corrugating medium
		Core boards
		Industrial sacks
		Kraft paper
		Paper bags
	Corrugated containers	Regular corrugated containers
		Designed style corrugated containers
		Paper pallets
		Paper cushion
		Corner guards
		Pulp mold
		Boxes for point-of-purchase display
		Scented cartons
Paper splint		

Source: Data from AMC



## Exhibit 7 - Application of petrochemical products

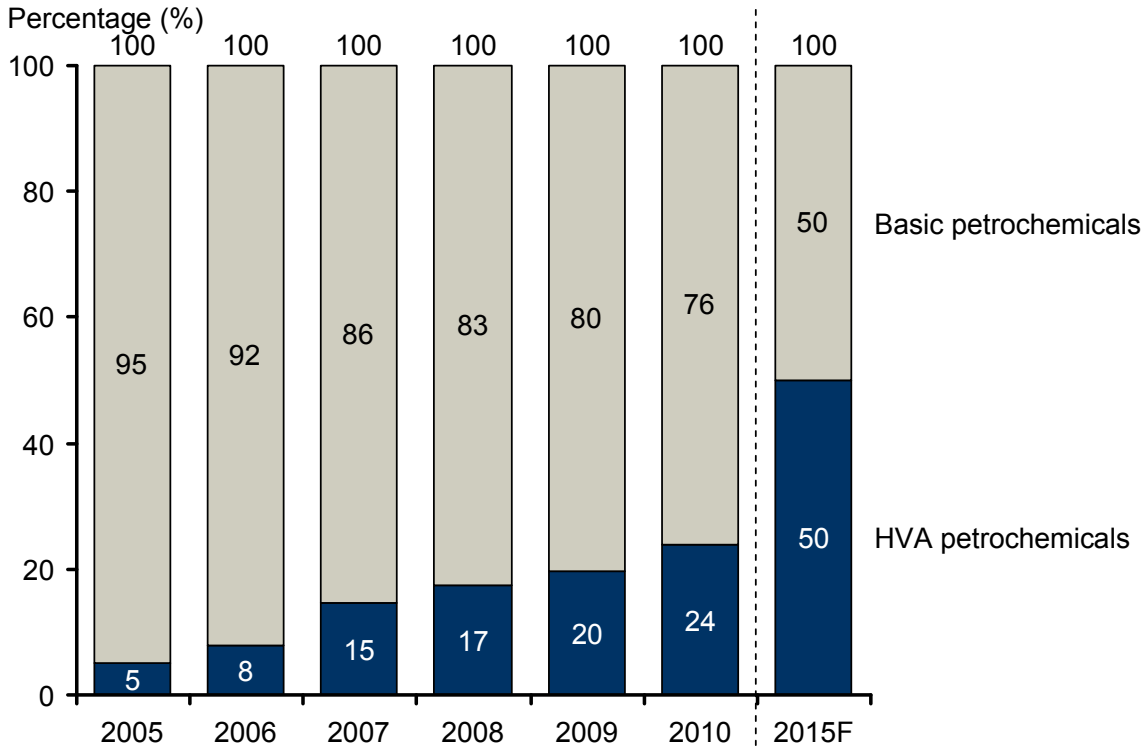
<b>Examples of petrochemical applications</b>
Chemical bottles
Cosmetics bottles
Perishable goods bottles
Oil based/lubricant bottles
Household furniture
Plastic toys
Heavy duty bags
Tarp for construction sites
Woven fabrics
Shopping bags
Ziplock bags
Ropes
PVC pipes
Insulation for wire cables
Large liquid containers (>100 Liters)
Electronic parts and components
Automotive parts and components
Healthcare equipments
Bottle caps

Source: Data from AMC



### Exhibit 8 - Breakdown of HVA versus basic petrochemical sales

#### High value-added vs. basic petrochemicals sales for AMC





## Exhibit 9 - Production capacity of different products

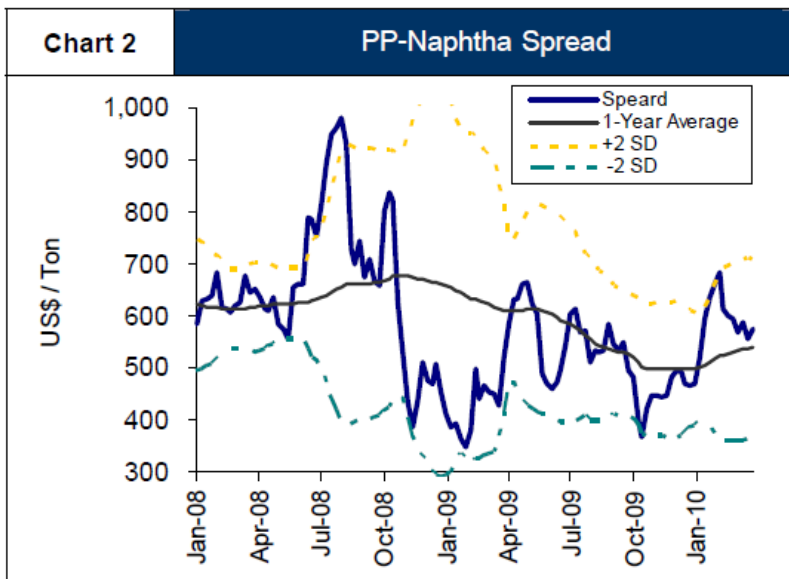
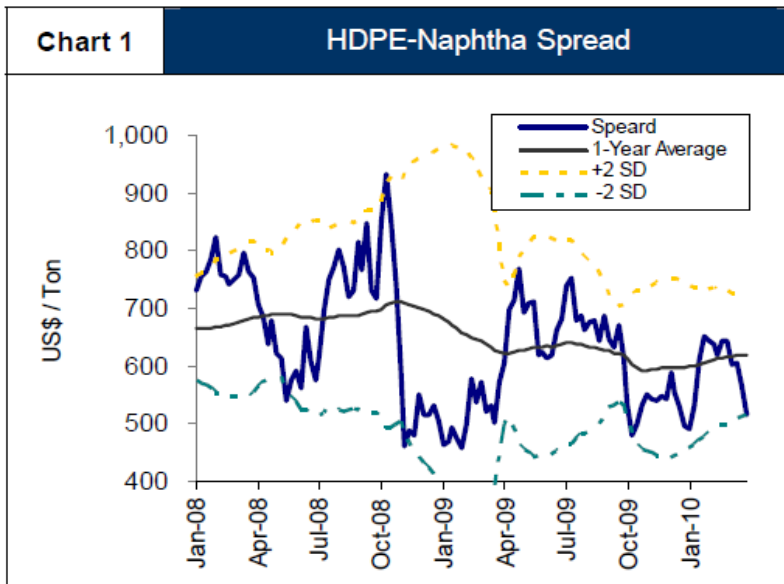
# AMC GROUP & SUBSIDIARIES PRODUCTION CAPACITY

(Capacity at year end = '000 tonnes)

<b>PETROCHEMICAL MATERIALS (PCM)</b>	YEAR 2010	YEAR 2011E*
<b>Chemicals Upstream</b>		
Ethylene	1,900	1,900
Propylene	1,340	1,340
<b>Chemicals Downstream</b>		
PE	1,320	1,320
PP	800	800
PVC	970	1050
LLDPE	335	725
Specialty Elastomers	-	250
Propylene Oxide	-	440
MMA	95	195
Cast Sheets	22	22
<hr/>		
<b>CONSTRUCTION MATERIALS (CM)</b>	YEAR 2010	YEAR 2011E
<b>Raw Construction Materials</b>		
Grey Cement (million tons)	26	26
<b>Building Products</b>		
Ceramic Tiles (M sqm)	136	136
Ceiling & Wall products (M sqm)	60	68
Lightweight Concrete (M sqm)	17	17
<hr/>		
<b>PAPER MATERIALS (PM)</b>	YEAR 2010	YEAR 2011E
<b>Paper</b>		
Packaging	2,095	2,095
Printing & Writing Paper	630	630
Box	825	825

\*Capacity expected to be in operation at year end 2011 according to the current plan of the management.

### Exhibit 10 – Relevant commodity price trends to the petrochemical business\*



Source: Bloomberg

\*These chemical prices are not exhaustive in indicating AMC's selling price as they do not represent the complete range of petrochemical products that AMC offers.