

# Bismi Empire Spreads Its Wings

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## Prologue

One night in early April 1998, Mazlina (responsible for the financial affairs of Bismi Empire) encountered a worrying predicament and discussed matters with Jaffri (the owner and her husband), "Dear, I want to talk about the debtor record in this financial report. The total is RM600,000 since September 1997. The note shows 23 vendors who are indebted to Bismi Empire." Mazlina detailed each item to her husband, who examined the record intently. The record was placed open on their Mitsubishi Pajero seat, which smelled of their products. "The lengthiest debt is seven months, and the largest debt is RM73,000," Mazlina continued disgruntledly. Mazlina explained about her past week reminder to Saad, an old acquaintance of Jaffri. His repayment in the last seven months was too little, not even 20% of the total. Nevertheless, Jaffri smiled at Mazlina without a word.

"Why do you still let them owe money?" although Mazlina knew her husband's behaviour well, she found it difficult to understand. Business and personal life should be distinguished: they are two distinct spaces. "No worries, dear, we are helping other people. We are not losing money, and maybe tomorrow or the day after, they will surely pay," he responded while rubbing Mazlina's shoulders. "This has gone for too long, dear. Have a look at the figures in our account. I am worried and upset. How long will those vendors at the market continue like this?" Mazlina tried to calm her muddled emotions but persisted, "Dear, is not our business principle to avoid debts? We have to pay Ah Kong and his supplier friends immediately. I am worried that Bismi Empire will lose its blessing if we continue being in debt." Mazlina's tone went higher as she pondered how to solve the issue. Jaffri looked to his side; the noise from the vendors and buyers in the market was more interesting.

## The Poultry Industry Overview

The poultry industry is a crucial protein source for Malaysians. Nonetheless, the ex-farm value should not be confused with the Gross Domestic Product (GDP) contribution. In 2019, the agricultural sector contributed 103.8 billion (7.3%) to the Malaysian GDP, and livestock represented 14.9% of the contribution (DOSM, 2019). Overall, the total sales value for ex-farm livestock exceeded RM18.3 billion.

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## Disclaimer

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

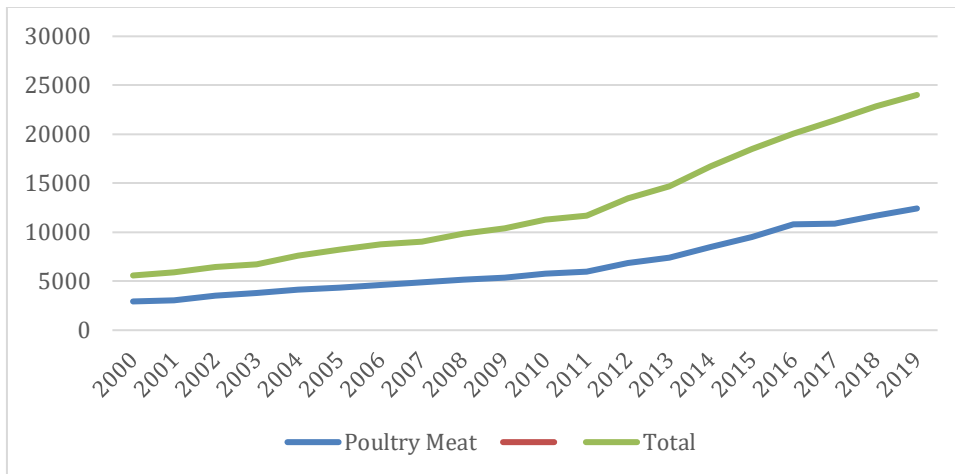


Figure 1: Ex-farm value of poultry meat products (RM million) for 2000 until 2019 Source: FLFAM (2019)

The per capita poultry consumption from 2006 to 2019 increased by 40% from 35 to 49 kg (see Figure 1). The annual consumption of chicken meat averages 50 kg per capita, which is estimated to surpass 50 kg in 2025. Malaysian poultry production is categorised into several stages, as depicted in Figure 2 below.

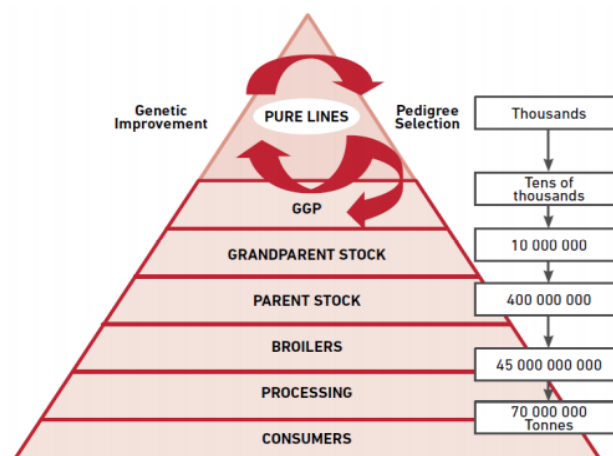


Figure 2: The life of broilers from pedigree to consumers

Source: McCay (2008); Ferlito & Respatiadi (2019) in Ferlito (2020)

Figure 2 presents the development flow of broilers through genetic improvements conducted in special pedigree hatcheries. The process involves selecting good breed hatchlings to be raised as great grandparent (GGP) and grandparent (GP) generations. The eggs will move to a particular GP hatchery to produce the parent stock (PS, followed by breeding in open and closed farms. The growing quantity of the chickens depends on the current consumer demand who buys the chickens in various forms: fresh and frozen products, such as nuggets, sausages, and burgers.

The NCER (2020) stated that most of Kedah GDP come from services (56%), manufacturing (29%), agriculture (12%) and others, such as tourism, mining and quarrying (3%). The shares are a result

of a mix of planning and spontaneity. Population density and a clear economic direction would cause hinder any effort to change the features. Nonetheless, incentivising the industries in the poultry value chain is reasonable, which do not directly produce chicken but are essential for its production. Table 1 illustrates that Kedah is seventh on the list. The statistics could change considering the present consumer food trend, which exhibits more demand for poultry-based products annually.

Table 1: Farm distribution in Malaysia

State	Kind of chicken		Breeder		Grand parent	Total	Farm / 100,000 ppl
	Broiler	Kampung	Broiler	Kampung			
Terengganu	190	192	0	0	0	382	42.50
Pahang	205	254	2	0	0	461	35.78
Malacca	103	85	12	0	4	204	32.09
Johore	624	11	30	5	6	676	24.67
Kelantan	212	95	1	0	0	308	23.46
Negeri Sembilan	173	2	18	0	0	193	22.44
Perak	365	23	13	3	0	404	19.7
Kedah	238	27	10	4	0	279	16.91
Perlis	14	13	0	0	0	27	13.21
Penang	90	61	2	8	0	161	12.26
Sarawak	195	32	8	0	0	235	11.34
Selangor	204	122	1	1	0	328	7.83
Sabah	63	0	9	2	0	74	2.84
Total	2676	917	106	23	10		

Source: DVS Malaysia and FLFAM (2017, 2019) in Ferlito (2020).

In 2017, four GP stock farms supplied all parent stock (PS) chicks to PS farms with 20 PS farms in the Peninsular. The farms produced over 807.52-million-day-old broiler chicks in 2017. Cobbs and Ross were the predominant breeds, accounting for 92%. Meanwhile, approximately 2,606 broiler-breeding farms produced 767 million birds in the same year. Approximately 52.71 million live birds and 15.01 thousand tonnes of chicken meat and processed products were exported, mainly to Singapore, where the most significant Malaysian player, Leong Hup, owns three large processing plants (Ramanee, 2020).

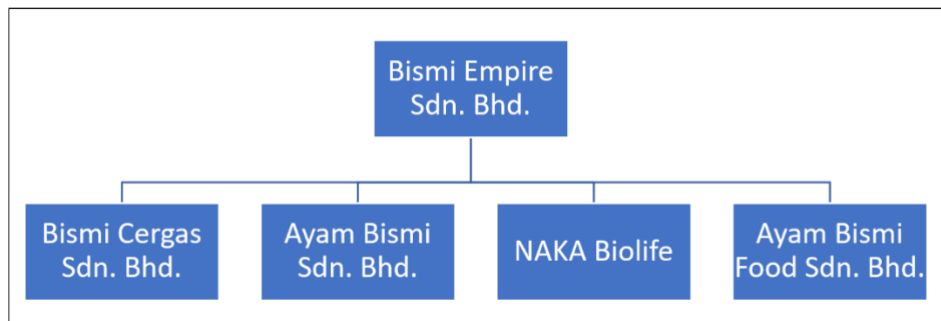
The poultry industry is the most successful Malaysian livestock segment with the highest output value and daily production, averaging approximately two million birds (Ferlito, 2020). Around 30% of broilers are distributed to modern processing plants and are sold in supermarkets and fast-food outlets, while the excess is sold as live or dressed birds in wet markets. The government has employed tentative measures to cease chicken slaughter in live bird markets for hygiene and environmental purposes (Asian Poultry Magazine, 2020).

### Bismi Empire Background

Bismi Empire (also known as Ayam Bismi) has become a successful organisation, guided by its vision and mission. The vision of turning into the most trusted halal chicken brand across Malaysia is embedded in the owners and staff. The organisation also practices the values of employer-employee compassion (sponsoring an employee to continue studies) and cooperation within and without the organisation. The company also participates in industry-community relationships. For instance, Bismi Empire collaborates with the National Youth Skills Institute (IKBN) and offers students internship opportunities. Several internship positions are allocated in the company farms, factories and outlets to share expertise with the students. Additionally, the company applies the business integrity principle, producing halal and wholesome products for customer consumption. Nevertheless, the sky is not always bright, the company growth from 2012 to 2016 began to decline due to intense competition from other expanding outlets, such as Elrah Exclusive, Prima Valet and other online businesses serving readymade clothing. Meanwhile, sales started to rise again in 2017 as Achutra's company strategised the business. The strategies involve emphasising online sales, providing sewing courses and selling sewing tools.

Jaffri Ahmad completed his studies at ITM Arau 32 years ago. Jaffri's first company highlighted chicken processing and sales, which earned the trust of locals surrounding his residence and company. In 1994, Bismi Cergas Sdn. Bhd. was established as a development strategy by Jaffri and his wife, Mazlina Kamarudin. Subsequently, Jaffri continued to raise the production capacity and diversify the selection of chicken-based food products.

Figure 3: Bismi Empire and its subsidiaries



Source: Bismi Empire (2019)

Figure 3 demonstrates that Bismi Empire is the parent company that wholly owns four subsidiaries. The first subsidiary is Bismi Cergas Sdn. Bhd., which manages Kedah farming activities. The company owns 18 farms with 1.9 million chickens. Secondly, Ayam Bismi Sdn. Bhd. oversees the processing, production and sales activities while marketing Bismi Empire products. Thirdly, NAKA Biolife Sdn. Bhd. is involved in laboratory activities. All samples from the chickens, rice bran and medicine are first examined in the laboratory before being used in the farms. The fourth company is Ayam Bismi Food Sdn. Bhd, responsible for added-value products, such as popcorn chicken, marinated chicken and chicken floss.

Bismi Empire aims to increase the number of closed farms to guarantee higher quantity and quality of chicken production. The advantages of closed farms include better control of air circulation and

humidity, preventing outside diseases and reducing workers' tasks due to the controlled farm temperature. The added-value products are also diversified, including nuggets, fried chickens, and chicken balls.

The local youth are adequately trained and appreciated considering that Bismi Empire provides job opportunities in management, marketing, farming, processing and logistics. The outlets are headed by youth of diverse backgrounds, willing to remain with Bismi Empire through the company success and failures in the poultry industry. The agents, stockists, and contact farmers collaborate with the parent company to expand the chicken business empire. Additionally, the company is presently developing a build-operate-transfer (BOT) system in collaboration with Perbadanan Nasional Berhad (PNB), which offers top-performing sales managers the opportunity to own an independently operated Ayam Bismi outlet. The company has been honoured with prestigious awards from industrial communities for its excellence, such as Excellent Agropreneur from Agrobank in 2018, Pemasar Tani Jaya 2017 and Pemasar Tani Jaya Negeri Kedah 2017 from FAMA.

### **Life with a Broken Wing**

The Malaysian ringgit was under intense pressure from speculative attacks in May 1997, causing the Central Bank of Malaysia (BNM) to intervene in the foreign exchange market to uphold the ringgit value. The BNM upheld the value of ringgit approximately for a week before finally being compelled to float the currency on 14 July, during which the bank had already lost roughly \$1.5 billion in an attempt to strengthen the ringgit. At its lowest point, the ringgit depreciated against the dollar by approximately 50%, reaching a high of RM4.88 to the dollar on 7 January 1998. Following a brief moment of stability from February to March, the exchange rate continuously deteriorated with extensive fluctuations in the subsequent months until the value was set at a rate of RM3.80 to the dollar in September 1998.

The current economic news on the main local newspaper worried Jaffri. He believed that the situation would directly and negatively impact him and the national economy. Weak stock prices, the property market slump and the net contractionary effect of the ringgit depreciation caused a negative wealth impact, resulting in a general contraction in domestic demand. "Are the vendors at the market really affected now?" Jaffri mused. He remembered his wife's barrage of questions, why was he so soft in allowing the local market chicken vendors to owe him? He viewed that the direct impacts were possibly minor given that subsistence vendors would typically own little working capital. Jaffri also heard that some vendors wanted to quit the poultry business and seek other sources of income. Regardless of the decisions in their plans, he was certain of the risks in any sector. Moreover, food prices and the cost of living at the national level continued to increase. Jaffri was in the same position when he started the business 10 years ago.

"Jaffri... oh Jaffri!" He was surprised by a call from his front garden and immediately headed to the front door of his mother's house. Jaffri's friend, Saad, was invited to sit under a tree at the corner of the garden. "I do not know how to tell you, Jaffri. I am a bit embarrassed," said Saad reluctantly. "Talk to me first. If I could help, I will try to help," pushed Jaffri, anxious to hear Saad. "It is like this. I want to continue doing business at the shop. I am aware that I have owed you for seven months already. My debt to you has piled up. I could only pay bit by bit," his friend's voice was low as he continued to talk. "I learned the

business from you, Jaffri. After deducting the costs of petrol, rent and wages, I feel that I could not repay you by much for those chickens,” he explained with a sigh. “Sales for the other items in my shop are quite slow, except the main ones like rice, oil and eggs. But I still want to continue the business, Jaffri. I hope you can keep trusting me to continue this business,” Jaffri’s friend proceeded. “We have been friends since primary school. Mazlina also often reminded me to keep going on with the business and to keep buying stocks from your company, Jaffri. But I should still try to repay those debts.” Jaffri nodded while smiling, “Just continue with what you have done. I hope we can keep on selling these chickens. You have to support me.” Jaffri was relieved to listen to his partner. He was concerned when Mazlina reminded the market vendors of their debts, worried that Mazlina’s weekly reminders might dishearten them. He also felt anxious about the challenging situation.

The power to control chicken prices in the market and retail shops extend beyond Jaffri considering that he was only a wholesale purchaser of local chickens in his area. According to him, his profit was only between 30 and 40%. He was accustomed to the conditions of chicken vendors in the market and retail stores in his area. Most individuals with high credit terms were market vendors because he knew many of them. He listed the terms according to the trust that they would perform the business to the full extent and intend to transform their household economic situation. Nevertheless, some vendors were committed buyers: they would immediately repay Jaffri as soon as cash was received from the customers. Jaffri would then treat them based on their repayment ability. Similarly, the retailers that Jaffri supplied also owed him a significant sum of money as fresh chickens only constitute a small portion of total sales, as Saad experienced. The payment for the chickens Bismi Empire supplied was on a bill to bill basis according to the credit terms arranged by both parties.

Jaffri was confident that the chicken vendors and retailers who owed him had led to Bismi Empire’s current position, hence feeling responsible for assisting them. He could consider the credit terms for each customer given that they required daily working capital to purchase chickens. Bismi Empire holds a strong reputation among the chicken vendors due to supplying a large quantity of dressed chickens daily. Although fulfilling the current demand is usually complicated, Jaffri made numerous efforts to remain a steady supplier in his area to realise his wish of including as many local vendors as possible in his business. He attempted his best to offer appropriate credit terms to each customer despite consistently struggling with the unstable financial position of the company following the financial crisis. He was optimistic of the growing demand for chicken as the primary source of protein in Malaysia following a report by the Federation of Livestock Farmers’ Associations of Malaysia (FLFAM) (see Figure 1). Bismi Empire clientele also included nearby restaurants, school dormitories, and factories.

### **Belong to the Same Place**

Jaffri was a local who attended school there, and he continued his studies in Perlis before returning to serve his birthplace. He was popular due to being calm and soft-spoken. Jaffri’s motivation to do business began when he was in school and persisted throughout his studies at ITM Arau, where he sold food, drinks and clothes to students living in the dormitory. During semester breaks, Jaffri gathered the courage to charter buses for the students’ return home.



He persisted with his interest in the village despite various challenges, such as customer attitudes that he must tolerate. Jaffri attempted his best upon promising to deliver fresh chickens, where his customers could expect them to arrive. Jaffri was also mindful of performing marketing activities and making promises to increase Bismi Empire sales. Unfulfilled guarantees cause customer dissatisfaction. The company demonstrated the situation and shared it with Mazlina and the employees.

Mazlina was from Perlis and an assertive speaker. She was educated in investment analysis qualified to manage the company finances. Her past experiences in the same department with other companies encouraged meticulousness in sharing the company current position. Each employee was instructed to obey all rules to protect the company. Mazlina listened to countless reasons every time a customer approached her. If the customer wished to enquire about a possible credit term, she would provide a strict reply. She only considered the number of sales and debt amount in assessing the length of the term. The discipline to repay debts on time was her main criterion. Mazlina avoided taking a debt risk that would burden Jaffri and her, particularly if the debt impacted their relationships with their suppliers, such as Ah Kong and the other three. Mazlina regarded the company money as a trust that must be appropriately managed to ensure sufficient finance for the company operations, expenditures and smart investments to expand the company further. She wanted to guarantee the long-term continuity of Bismi Empire. Jaffri looked up at the moon that night; Mazlina had gone to sleep as it was past midnight. Mazlina talked a lot, reminding him of the business. He looked at the Pajero and wondered how long it could still be used to distribute the processed chickens based on the customer locations. He did not mind the chicken smell as he was used to it. He saw maggots wriggling on the mat from spilt chicken fluids one time. Jaffri did not have the time to attend deeply to his car. He prioritised his daily tasks running smoothly and fulfilling his promises to his customers. The four-wheel-drive vehicle had limited space and used much petrol. The increasing daily demand for chicken also increased the routes from the suppliers to his mother's home (for processing) and customer locations. Jaffri planned to purchase a pickup truck to drive to the farms and carry more chickens, which would hold a larger capacity than his Pajero.

"How long do I, Mazlina and the children have to remain in mother's house?" he mused. The house was packed with his parents-in-law with almost 10 people in the place. Comfort was the furthest issue from his mind. He viewed that building a new home, even if he had land, or driving a larger car was not an investment. "It would be better for me to use the money for capital to expand the business. There is still a lot that I must do," he thought as he entered the house to prepare for tomorrow.

"Dear, Ah Kong called the office this afternoon. He asked about the RM600,000 debt," Mazlina frowned as she related the phone call. "Ah Kong said that we must settle the debt before the end of the month. His tone was a bit loud when he talked to me. I could not say much since you are the one contacting and communicating with our customers. But because of my previous management experiences... kindness was the reason for their bankruptcy, dear. It is really difficult to rise again," the condition of Bismi Empire stressed Mazlina. As the demand for chicken increased, Jaffri became more concerned as the RM600,000 debt burden increased. Occasionally, Ah Kong and the other three suppliers would display their distrust towards Mazlina and Jaffri's business management. Although she was annoyed with the customers who seemed to avoid paying their debts, she was reassured by their excuses and had other priorities. Jaffri smiled at his wife, "Of course, we will handle that later. Do you want to go with me to the market today?"

He looked at his roaring Pajero. “You go first, I want to review the current remaining debts of every vendor and retailer. Several vendors had come to repay some of their debts this morning,” she replied without looking at her husband, who was heading towards the car.

### **Desire to Reach the Sky**

“Jaffri, you have a market. You have many friends there. Why did you not raise your own chickens? We do not have a market, but we still keep chickens,” Jaffri recalled his conversation with Ah Kong last year. “You know how many people want to sell chickens and the strategic locations to sell chickens. You know how to calculate chicken demand and all that,” Jaffri smiled at Ah Kong. He thought that Ah Kong only needed him as a wholesale buyer. Jaffri knew that every wholesale buyer holds a daily limit for the wholesale purchase of chickens from Ah Kong and his partners. He was quite anxious regarding the limit of his business and marketing managing capability. “You are used to going in and out of farms, driving lorries, and carrying chickens. It has been four to five years, Jaffri. You already know how to manage a farm,” Ah Kong was confident. He glanced at Jaffri, who was observing his workers loading the chickens onto the lorry.

Jaffri was busy moving around to manage his business without realising that he had developed his business mentality through daily routines, observations, and information from his customers and Ah Kong. He regarded Mazlina as a strong supporter despite her focus on administration and finances, including cash inflow and outflow. As someone passionate about business, he would not usually consider business risks. Once he stepped forward, he would spend his entire life fighting for the business.

“What else can I do to settle the debts to Ah Kong and the three suppliers?” Mazlina looked at her wrists, once bejewelled by gold bangles gifted by her parents. As the only child, her parents would instantly grant whatever she asked. As soon as reaching adulthood, she would receive gold bangles for her birthday present yearly. She owned all forms and sizes: symbols of affection towards her. Presently, her needs had changed, mainly to develop the chicken wholesaler business with her husband. She did not regret selling her jewel collections for their future legacy, sure that she had no more gold bangles.

“Dear, I want to suggest something to expand the business,” Mazlina discussed after dinner. Jaffri continued reading the newspaper in his hand since half an hour ago while listening to his wife. “Dear, when do you think we can start farming our own chickens? It is getting more difficult to depend on the supplies of Ah Kong and his three partners. We have not used the land that we bought last year. Maybe we can start there.” Jaffri was reading an article that caught his attention. The National Productivity Cooperation reported that the Sarawak Economic Development Corporation (SEDC) introduced a contract farming scheme to increase the perceived and actual living standards of Bumiputera entrepreneurs operating in rural areas. The vertical integration of the industry and stimulation of efficiency gains among small farms were the strategies to raise farmers’ living standards and poultry, consistent with the objectives of the Third National Agricultural Policy (1998-2010). “Dear, we have been living frugally, unlike other entrepreneurs that I have met. I record our daily profits each day, and we always use them to add the daily chicken stocks,” Mazlina continued despite her husband remaining silent. She was certain that Jaffri was thinking about an important for them.



## Epilogue

Wiping the sweat off her brows, Mazlina frantically searched for her husband in the chicken processing site. "Dear, Ah Kong called again just now." She felt uneasy telling Jaffri the details of the conversation with Ah Kong. "He and the other three suppliers want to stop their supply to us starting next Monday," Mazlina's voice was shaking, her eyes welled up. Jaffri stared at Mazlina for the longest time, speechless.

After dinner, Jaffri sat on the rocking chair on the porch facing the quiet and empty main road. He closed his eyes, seeking peace. Mazlina softly spoke from behind him, "You should not have done that. How much more credits are we going to give the market vendors? I have pawned all my golds for our capital." Jaffri remained silent. "What should we do now, dear? My heart races every time the phone rings. I am worried that Ah Kong would ask about our debt again," Mazlina persisted, expressing her uneasiness with her husband's behaviour. Jaffri immediately jumped from his seat, "Get ready, Mazlina! We are going to Ah Kong's house now!"

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