PROFIT IMPROVEMENT ANALYSIS
A CASE STUDY OF AIR KELANTAN SDN BHD

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A consultancy report submitted to the College of Business in partial fulfillment of the requirements for the degree Doctorate of Business Administration University Utara Malaysia

COLLEGE OF BUSINESS
UNIVERSITI UTARA MALAYSIA
NOVEMBER 2009
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EXECUTIVE SUMMARY

Air Kelantan Sdn Bhd (AKSB) is the sole operator for treated water supply company in Kelantan. Total privatization was exercised in the year 1995. Being among the earliest company in Malaysia to be privatized in water industry, AKSB is supposed to progress and excel. Ironically, a company that is supposed to be a ‘bench mark’ in the water privatization concept has been lagged behind in terms of management and technology to later company such as Syarikat Air Johor Holding (SAJH), SYABAS, PUAS etc.

The annual profit before tax was significantly reduced year after year. Year 2008 has been a dismal year for AKSB as the profit was diminished to 70 per cent compared to what AKSB has obtained in 2007. The income has soaring with the amount of almost RM 10 million from previous year but the profit before tax has shrank to a nasty figure. Therefore the biggest challenge for AKSB management now is to inflate the profit despite the rising operation costs.

The analysis shows that AKSB suffers from its high operational costs, lost of income due to Non Revenue Water (NRW), low tariff and bad debts. This project studied the structure of AKSB and most importantly analyzing the NRW problem. AKSB is suffering the NRW at an average of 49 per cent which is among the highest rate in Malaysia. 1 per cent of NRW is equivalent to RM 1.80 million worth of money. In terms of Water Treatment Plant (WTP), the rising of operational costs is partly due to less efficiency of the plants where the production is reduced because of plants ageing. Some plants have to run on over capacity due to budget constraint on upgrading works.
From the finding, AKSB has to resolve the NRW problem, as this issue will deteriorate the profitability further. Probably the restructuring process shall be exercised at management level in order to avoid the conflict among the top management and superintendents. The billing and collection units have to be efficient so that the bad debts and ageing collection can be improved. The productivity of employees is another crucial factor that determines the increment in profitability. Most of the employees in AKSB used to work with Jabatan Bekalan Air Kelantan. Working style as government servant is very much different with private employee. Even though AKSB has been privatized and exist more than 10 years ago, the attitude and working style has not been changed and the employees have difficulty to adapt to privatization. So in this case, AKSB has to shift the paradigm in order to remain competitive and able to generate significant profit.
RINGKASAN EKSEKUTIF


Analisa menunjukkan bahawa AKSB terpaksa menanggung kos operasi yang tinggi, kehilangan punca pendapatan kerana Air Yang Tidak Berhasil, kadar tarif air yang rendah dan hutang lapuk yang tidak dibayar. Projek ini mengkaji struktur AKSB dan paling penting menelami masalah Air Yang Tidak Berhasil. AKSB terpaksa menanggung kerugian akibat Air Yang Tidak Berhasil sebanyak 49 peratus yang mana kedudukan ini adalah antara yang tertinggi di Malaysia. 1 peratus dalam Air Yang Tidak...

1.1 Scenario

A reliable water supply system is crucial to support population and economic growth. And a state like Kelantan, where development is taking place at a relatively moderate to fast pace such as East Coast Economic Region, dependable and continuous water supply simply cannot be compromised. To provide uninterrupted supply of good, clean water in a state which encompassed of 14,931 square kilometers is certainly no mean feat. Progressive development has brought a shift from agriculture to an industrialized economy where urbanization progresses to meet the needs of the population. As such, developments has taken place in line with world trends, water is increasing becoming scarce and more polluted in the 21st century.

This project will focus on Air Kelantan Sendirian Berhad (AKSB) as the sole water utility company in Kelantan. AKSB supplies water to more than 190,000 people in the state of Kelantan with the production of 320 million litres per day (MLD). The fiscal year ended 31st December 2008 indicated that AKSB profit has reduced significantly. AKSB recorded a profit before tax of RM 262,750 which is a 69.30% decreased from the profit before tax of RM 856,630.00 recorded in the financial year of 2007.

AKSB as the sole provider of treated water in Kelantan has to face with the increasing uncertainties of weather patterns; the scarcity of water as well as pollution threats to water sources and catchments, the task and responsibility of providing safe drinking water to consumers have always been and will continue to be a challenging one.
The contents of the thesis is for internal user only
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