

Business and Consumer Markets of Hai-O Malaysia: An Overview

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ABSTRACT: (The Hai-O Group has come a long way since the first retail shop opened in 1975 in Klang, Selangor. Hai-O focused on the businesses of import trading, wholesaling and retailing of Chinese herbal products and medicated tonics.

KEY WORD: (Hai-O, Marketing, Consumer Market, Business Market, Market Segment and Targets, Brand Positioning, Brand Equity)

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I. INTRODUCTION AND LITERATURE REVIEW

Hai-O Enterprise Berhad was established in the year 1975. This business started from Mr Tan Khai Khee, a very humble Chinese man who is the founder of this company. He began this business from the small grocery stall with a little start-up capital in hand. Originally, the Company offered an assortment of Chinese medicines and healthcare products. Much later, the business grew and expended into Hai-O Group of Companies. Hai-O offering a wide range of complimentary medicines, healthcare products, medicated tonic, wellness, beauty and also clinical services. For almost 43 years history, Hai-O is one of the leading traditional healthcare companies and famous household name in Malaysia.

For over four decades, Hai-O managed to build extensive and efficient distribution network and successfully gained market leadership in Malaysia. From the humble beginning with a small start-up capital, Hai-O has over the years been resilient to ride through the many business challenges to emerge stronger now with an equity base of more than RM 280 million with market capitalization of more than RM 1.2 billion. This company had been honoured by various prestigious awards including the Forbes Awards (2007-2010).

Besides provides the benefits for society, Hai-O ultimate philosophy is providing superior quality healthcare at reasonable price, so that everyone can afford to enjoy the healthcare products. Hai-O is working hard with its commitment to treat the customers with high standards and good services. The Group also practicing integrated health services which combined the traditional Chinese medicine clinic services and non-decocted Chinese herbal consultation in their retail stores. These services were collaboration with its joint venture partner, Beijing Tongrentang Co. Ltd, a big traditional Chinese medicine provider in China.

Currently, Hai-O have business presence nationwide with 57 retail chain stores, 37 Multi-Level-Marketing (“MLM”) branches, stockists and sales point, and 2 Good Manufacturing Practice (GMP) plants across Malaysia. In addition, Peking Tongrentang (M) Sdn Bhd, a joint venture company between the world-renowned Beijing Tongrentang and Hai-O has started its business in Kuala Lumpur since 2002 and achieve remarkable performance in offering traditional Chinese medicine consultation services and high quality herbal medicines to the public.

The Group ultimate goal is to become a premiere healthcare company in Malaysia. Focusing on it, its vision reads: ‘We aim to become the premier healthcare company in Malaysia and thereby bringing the greatest value and pride to our customers, business partners, employees and shareholders’. This explained that their vision of being the leading healthcare company are much focused on delivering value to each key element that make up their business, internally and externally. Hai-O has strived over 43 years to take the brand name beyond the image of Chinese medicine. The Group genuine interests in healthy culture boost their spirit to promote human’s well-being with the mission statement that reads: ‘We are committed to promoting healthcare culture and improving human’s well-being’. Such vision and mission is incorporated into the Group’s corporate value. Hai-O means seagull in Mandarin. It is a metaphor that the Group will soar high and the Group incorporated its corporate values in the word ‘seagull’ itself and the image of a seagull is embedded in the Group’s company logo.

II. CONSUMER MARKETS AND BUSINESSMARKETS

Today, Hai-O is one of the major suppliers of Chinese herbal products and medicated tonics to a large number of traditional medical halls and duty-free shops. Throughout the years, Hai-O experienced tremendous growth and our foray into the business of MLM in 1992 marked a quantum leap of the Group's business expansion. To-date, MLM, Wholesale and Retail segments are the 3 major businesses of the Group. Hai-O business are located across the whole Malaysia which accounted for almost 100% of the Group's revenue. Hai-O also have business ventures in Brunei and Indonesia, which has minimal revenue contribution for the financial year ended 30 April 2019.

Hai-O was listed on the then Second Board of Kuala Lumpur Stock Exchange ("KLSE"/"Bursa Securities") in December 1996 as the first traditional healthcare company being listed on KLSE. Hai-O was subsequently transferred to the Main Board of Bursa Securities in October 2007 reflecting the scale of the Group's achievement throughout the years. From a humble beginning with a small start-up capital, Hai-O has over the years been resilient to ride through many business challenges with an equity base of more than RM300 million to-date.

Business activities include any activity engaged in the primary purpose of making a profit. These are the synopsis of Hai-O business activities:

Wholesale Division

The Wholesale Division is one of the main pillars in Hai-O Group. The wholesale division have secured exclusive agency rights for importing and distributing of more than 200 branded products from China under the company names Hai-O Medicine Sdn. Bhd., Kinds Resources Sdn. Bhd., Grand Brands (M) Sdn. Bhd., Chop Aik Seng Sdn. Bhd. and Vintage Wine Sdn. Bhd. These products include a wide range of traditional Chinese medicines, teas and wines that are distributed through Hai-O's multi-distribution channels. These channels offer a broad access to Chinese medical halls, hypermarket, supermarkets, convenience stores, retail outlets and restaurants. Currently, Hai-O have more than 50 experienced and dynamic sales personnel and promoters to serve for over 2,000 wholesale customers and retailers throughout Malaysia. The focus on delivering quality products with efficient logistic services has earned Hai-O a good reputation and trust from our principals and customers.

Direct Selling Division (Multi-Level Marketing)

The direct selling division, Sahajidah Hai-O Marketing also known as MLM division has been the Group's fastest growing segment since it is first introduced in 1992. It has been leveraging on a strong partnership with its distributors. This division has a strong distribution force that helped the company to emerge as a leading local direct selling company. Sahajidah Hai-O Marketing has been rewarded with robust and continuous growth. Today, the company is one of the leading local multi-level direct selling companies in Malaysia.

Moreover, as an established corporate brand name, the success of Sahajidah Hai-O Marketing can also be traced by its reliable and fair system that offered to their distributors. Sahajidah Hai-O Marketing committed by providing reward program and comprehensive support. Sahajidah Hai-O Marketing has witnessed an increasing number of new distributors and the rapid growth in their productivity due to quality products offered, highly attractive rewards and dedicated support given. Sahajidah Hai-O Marketing is synonymous with high quality and safe products offering wide range of outstanding items such as beauty lingerie series, beauty products, water filter and long renowned wellness products series.

Now, they are serving over 34,000 distributorships, through more than 50 distribution centres throughout Malaysia. With the product mix ranging from healthcare to household products, Hai-O Marketing Sdn. Bhd. also owns a subsidiary company, PT Hai-O Indonesia which took up a 60% stake in a joint-venture company with an Indonesian partner. The company has started business in August 2009, selling products manufactured from Malaysia.

Retail Division

The Group has over 60 chain stores in major cities and towns across Malaysia. Operating under the company name Hai-O Raya Berhad, the Group also owns retail counters in some of major supermarkets namely Carrefour and AEON Jusco. These chain stores carry an extensive range of Traditional Chinese Medicines (TCMs), teas, health tonic, gift packs or hamper, wines and other healthcare products. As part of quality service, these stores are staffed by professional herb masters to provide advice on herbs and TCMs to customers. In addition, some of these stores are also providing integrated medical services by making available in-house consultations by qualified TCM physicians. Hai-O Raya Berhad also provides a franchise program for entrepreneurs who are interested in operating a professional TCM store. In 2002, the Group expanded to also offer integrated clinical service under the company name, Peking Tongrentang (M) Sdn. Bhd. This integrated

clinic is a joint-venture between Hai-O and Beijing Tongrentang Co Ltd, the largest producer of traditional Chinese medicine in China. Besides that, the Group also owns another subsidiary company that offers extensive traditional Chinese medicine products and service, Hai-O Polaris (M) Sdn. Bhd.

Manufacturing Division: Pharmaceutical (SG Global Biotech Sdn Bhd)

Realizing the importance and the fast growing demand of traditional Chinese medicine in the country, the Group made a decision to open up its own pharmaceutical manufacturing plant in 1994. Operating under the name SG Global Biotech Sdn. Bhd., it was the first traditional medicinal manufacturer that complies with the Good Manufacturing Practice (“GMP”) standards in the country. The company’s obligation to quality assurance has obtained the qualification under ISO 9002 in 1999 and ISO9001: 2000 in 2002. Its core businesses is producing and processing of herbal and other health products and SG Global is also active in a lot of research and development activities. The company shared the technology and expertise with China and several local counterparts in Malaysia. Riding on the potential growth of the research and development area in herbal and traditional medicine in Malaysia, the Group extended its operation into another subsidiary that focuses on laboratory research to increase product innovation.

QIS Research Laboratory Sdn. Bhd. is established to offer a full service in analytical laboratory, microbiology and chemical analysis of traditional medicine. SG Global provides pharmaceutical contract manufacturing services in herbal natural medicine, food supplements, and health food for clients from Malaysia and overseas. The production processes include using herbs as raw materials and ready-made medicines based on proven formula to meet clients' specifications. The company is also actively involved in various research and development (R&D) activities to ensure high quality and innovation in its products. SG Global also forms a synergistic partnership with a local Bio-Nexus firm Avenue Biotech Sdn Bhd to develop and market Pu-Er Tea and Ginkgo extract using SFE (Super Critical Fluid Extraction) technology.

In the past years, the Group has also ventured in several other business segments. Other subsidiary companies include Seagull Advertising Sdn. Bhd., Hai-O Credit and Leasing Sdn. Bhd., Sri Pangkor Credit and Leasing Sdn. Bhd., Hai-O Energy (M) Sdn. Bhd. And Hai-O Properties Sdn. Bhd. The Group other supporting businesses involved the leasing of machinery and equipment, advertising, services, investment holding as well as insurance agency.

Chinese Consulting Clinics

Further, in 2002 Hai-O had successfully established a joint venture with Beijing Tongrentang. This corporation is opened under named of Peking Tongrentang (M) Sdn bhd. Peking Tongrentang (M) Sdn Bhd initially opened a retail and a combination of service centre in the Sun Complex in Kuala Lumpur. The success of this operation has prompted the opening of another two Tongrentang outlets in Penang and Petaling Jaya. These outlets provide "integrated clinical services", medical consultations by qualified traditional physicians and the dispensing of prescribed herbs and drugs are available in one location.

This business is part of good innovations which always offers by Hai-O. The physicians of Tongrentang are highly trained and professional in their approach. This is a legacy of the standards set by the Tongrentang physicians who served the imperial court during the Qing Dynasty. The Tongrentang service outlets in Malaysia are fortunate enough to be staffed by physicians from China. Tongrentang is also famous for manufacturing the finest traditional Chinese pharmaceutical products by using raw materials which are well known for their effectiveness. Examples of famous Tongrentang products include the Angong Niu Huang Wan (Heart-Refreshing Bezoar Pill) and the Wuji Baifeng Wan (Black-Bone Chicken Pill), which have found a ready market both in China and abroad. The name "Tongrentang" is synonymous with fine quality in traditional Chinese medicine.

The high performance in offering Traditional Chinese Medicine (TCM) Consultation services and high quality herbal medicines to the public has achieved through this business. All production linen have reached GMP standard, all herbal drug stores have obtained Good Supply Practice (GSP) standard and all herbal plantation bases have achieved Good Agricultural Practices (GAP) standard. The name of Peking Tongrentang has been increasingly enhanced with the application of modern technology. Peking Tongrentang has opened branches in England, Australia, Canada, Malaysia, Thailand, Philippines, Vietnam, South Korea, Macau and Taiwan.

Research Laboratory Sdn Bhd (QIS Laboratory Sdn Bhd)

QIS Lab is accredited to ISO 17025 by the Department of Standard Malaysia (“DSM”) of the Ministry of Science and Technology. It is a traditional medicine manufacturing plant with complies with the Good Manufacturing Practice (GMP) standard in Malaysia. QIS Laboratory also adheres to Good Laboratory Practice (GLP) standard to perform various testing services to meet the stringent Quality Control in place. QIS also provides Original Equipment Manufacturing (OEM) services for TCM and food products. The plant and

laboratory are run by a team of qualified professionals, Microbiologist, Chemist and well experienced supporting staff to meet client requirement. QIS Laboratory analytical method have been adopted from the recognized sources and the validated internally which includes Association of Official Chemist (AOAC) and British Pharmacopeia (BP). In continuing effort to produce quality products, QIS have successfully acquired HACCP certification for our Manufacturing Division of Food Products in 2012.

Besides, Hai-O operates in leasing of machinery and equipment, licensed money lender, insurance agent, advertising services, rental income and investment holding. The company's subsidiaries include Hai-O Credit & Leasing Sdn Bhd and Hai-O Properties Sdn Bhd. The reason behind this is because, the company tries to diversify into various business sectors to gain more market shares, maximum profits and revenue based on scarcity resources available.

III. MARKET SEGMENTS AND TARGETS

Hai-O continues to operate under 3 core business segments which are Multi-Level Marketing ("MLM"), Wholesale and Retail, which collectively contribute approximately 93% of Hai-O Group's earnings for the financial year ended 30 April 2019 ("FY2019"). Hai-O non-core divisions of manufacturing, credit & leasing, insurance agent, investment holding and property holding contribute approximately 7% of the Group's earnings.

- **MLM** is multilevel marketing of nutritional food & beverage, wellness supplements, skincare, beauty & cosmetics, personal care and household products
- **Wholesale** is wholesaling and trading in patent medicines, medicated tonics, healthcare products, herbs and tea.
- **Retail** is operating traditional complementary medicines (TCM) retail chain stores and provide Chinese physician consultation services.

The Group operates primarily in Malaysia with a total of 96 business setups comprising of:

- 37 MLM branches, stockists and sales points spanning across both Peninsular and East Malaysia as well as 1 branch in Brunei
- 57 retail chain stores and franchises, primarily located in Klang Valley, with a foothold in all major states in Malaysia
- 2 international-standard manufacturing facilities with accreditation from ISO, HACCP, GMP and US FDA. One of Hai-O manufacturing facilities located in Klang, Selangor is Halal Certified by Jabatan Kemajuan Islam Malaysia (JAKIM).

Currently, Hai-O's Wholesale segment supplies to more than 100 wholesalers and 2,000 retailers including Chinese Medical Halls, restaurants, supermarkets, hypermarkets and pharmacies in Malaysia. We are the exclusive distributor for over 50 renowned brands of traditional Chinese medicines, health tonics, teas and other healthcare products.

Malaysia's traditional and herbal industry is growing at 15% to 20% due to the increasing interests from consumers. Malaysia is preparing to position itself as the leader in the herbal market because of its wealth in natural resources and biological heritage. Consequently, the government is keen in providing local companies that are interested in the herbal industry with numerous incentives for their R&D activities.

Collaboration with Malaysian Investment Development Authority (MIDA), FAMA, FELDA and FRIM that focus on research and development towards herbs processing, ethno botany and agricultural practices helps to increase the added value of nutritional plants that are being researched. The government's committed to realize the potential of herbs through research & development. Introduction of various technologies at its Herbal Technology Center to meet factory and industry needs. The initiative by FRIM proves Malaysia's seriousness in optimizing the global inclination towards natural ingredients, multiplying commercialization efforts and elevating the status of the Malaysian herbal industry.

Being one of the leading manufacturing companies in traditional medicine, Hai-O certainly has an opportunity to take advantage of upon this growth. Aside from dominating the local market, the Group also sees opportunity to expand into new overseas market. Hai-O now aims to become a multinational company with diversified businesses. The group aims to expand to the Middle East, China, India, Sri Lanka and Europe via partnerships to explore the market for products for women, such as fashion, accessories and cosmetics.

The Group also sees opportunity in new innovative products to enhance group earnings. The Group is in a joint venture with two Chinese TCM clinic services companies namely Tong Ren Tang which is listed in Hong Kong and Shanghai and Sanjiu Enterprise Group, listed in Hong Kong and Shenzhen to provide Chinese herbal medicines, acupuncture and massage (often known as 'Qigong') treatment. Despite minimal revenue contribution from this division, the JVs have seen to widen Hai-O's reach to end users while creating greater brand and TCM recognition.

III. BRAND POSITIONING AND CREATING BRAND EQUITY

To penetrate a new product market, the MLM segment introduced Kidivo for infant care, using only all natural and non-GMO sources of raw materials in the production. We kick-started Kidivo product range with 2 products, namely, “Natural Head-to-Toe Wash” and “Natural Moisturizing Lotion”, which received encouraging response from our members.

Leveraging on the success of one of our best-selling products – Bamboo Salt, Hai-O introduced “Sweetality”, a low-calorie natural sugar replacement derived from sugar cane extract. Hai-O also launched 2 other nutritional food & beverage in FY2019: “Shake Me Cocoa”, a wholesome delicious protein drink and “Prolicious”, a special blend of food and vegetable enzyme, prebiotics and probiotics which promote digestion and gut health.

To prepare the business for the inevitable disruption caused by technology, Hai-O have embarked on the journey of digitalization since 2016. During year 2019, we focused on enhancing applications which enabled distributors to monitor their routine tasks or sales and to get updates on periodic promotions. Amongst various changes we introduced/enhanced during the financial year were e-Renewal-for- Distributors, Members’ E-Commerce Portal, as well as e-Customer Services channel e.g. WhatsApp and telegram as marketing tools. New applications and updates were added to the existing digital platforms to increase efficiency and effectiveness. The features of our members’ online portal which could be viewed on mobile phones has been enhanced to cover areas such as product information, marketing and event updates and registration, business opportunities and e-commerce. Some of the enhancements for e-application pave the way towards a paperless business environment, while other added features help to provide frequent updates on promotional activities.

In 2019, the Retail segment has identified several focus areas to improve product mix, expand new promotional activities, increase collaborations with strategic business partners and step up staff training to increase productivity.

Improve Product Mix

The focus will be to expand house brand products which command higher margins as the measure to catalyze an improvement in product mix. Currently, products distributed under the Hai-O house brand contribute more than 40% of total retail sales. Our house brand products are primarily manufactured by our in-house GMP manufacturing facilities, which will also help in cost control and margin optimization. During the financial year, the new SKU added to the retail list included Purple Great Multi-Grain Drink, Cordy Essence Plus and meal supplements product – Five Grains Porridge, Organic Three Treasures and Organic Hulled Millet.

New Promotional Activities

New promotional activities are needed to sustain buying interests in a weak market environment. As such, the Retail segment conducts regular in-shop marketing campaigns such as 1st Weekend Sales, Key Product Special Sales and Year End Prestock Count Sales. Promotional activities are intensified during festive seasons to capitalize on increased spending by consumers, reaching out to customers via social media networks, print advertisement, radio broadcast and Chinese New Year Roadshows. In particular, Hai-O held a roadshow at Universiti Sains Malaysia, Penang to target the young consumer market and to create brand awareness.

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