

Just living is not enough...
One must have sunshine, freedom, and a little flower.

Hans Christian Anderson



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Konsult News

Business Consulting ■ Taxation ■ Corporate Services

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Business Strategy

Key Success Strategies of Dell Computer (Part II)



Previously, we explored Dell's journey to success through its cost and output efficient build-to-order manufacturing.

This issue, we further examine Dell's other key strategies – quality control, supplier partnerships, product line expansion, customer service and support...plus Dell's renowned direct sales strategy and marketing effort.

Quality Control

To ensure defined quality, Dell knows that quality control activities have to be undertaken from the start of the manufacturing process.

As such, it requires suppliers to participate in certification program that commits them to quality benchmarks. Dell also implements other quality control programs throughout its value chain, such as:

- Testing of completed products
- Production reliability audit
- Failure tracking for early detection of with new model problems
- Gathering of information from customer feedback and complaints

All of Dell's plants are ISO 9002 quality-certified.

Supplier Partnerships

Dell focuses on building its core competencies such as marketing and supply chain management, as such they do not involve in business of manufacturing computer parts.

For every component, Dell selects one or two reputable suppliers. It remains committed to them, as long as their leadership in technology, performance, quality, and cost are maintained. With this commitment, Dell's suppliers are willing to locate their plants or distribution centers within a few miles of Dell's

assembly plant. This allows them to make deliveries daily, or every few hours.

Dell's partners also willingly accommodate unexpected demand surges for a particular component. Engineers from Dell and its suppliers work closely together to develop new products. Some suppliers' engineers are even stationed in Dell's plants to collaborate, respond and correct production flaws on the spot. There are ongoing cooperation between Dell and its suppliers to drive costs out of the supply chain.

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Product line expansion



To diversify its product base, Dell has systematically expanded into other PC-related hardware such as handheld PCs, switches, printers, printer cartridges, storage devices and etc. Dell uses its capabilities in PCs and servers to systematically pursue revenue growth opportunities in other PC-related products.

This “Move into Adjacent” strategy has worked well, e.g. customers who bought servers and PCs from Dell are keen to buy switches, networking products and internet gears.

Customer service and technical support

In response to complaints from users that they have to ship their PCs back to Austin for repairs, Dell began providing a year’s free on-site service. By contracting local service providers to handle repair requests, Dell’s next-day on-site services have won over many customers.

Besides local services, Dell also provides its customers with technical support via a toll-free number and e-mail, which now accounts for over 50% of Dell’s technical support activities. Password protected web sites provide Premier Page Support services to governmental

and institutional customers worldwide. Customers can use Premier Pages to seek advance help desk support, obtain customer-specific pricing and information, and also handle internal IT procurement.

Direct Sales Strategy and Marketing Effort

Customers are encouraged to order their PCs with selected features and add-ons using internet, phone and faxes. They can also talk to sales representatives to order their PCs. Through this instant direct selling method, Dell is able to keep its finger on the market pulse, quickly detecting shifts in sales trends, design problem and quality glitches. Information is relayed to design engineers and production plants immediately, enabling Dell to respond quickly to market needs. With this, Dell is also able to keep selling prices low.

Besides using technology to sell its products, Dell also employs sales and marketing teams to pursue high volume governmental and institutional customers. Unlike others who organize their sales and marketing activities around product lines, Dell is organized around customer groups. Dell’s managers develop sales and service programs appropriate to the needs and expectations of each customer group. It is reported that Dell has a 150-strong sales personnel team to service just one of its biggest customers, General Motor

facilities, and its personnel scattered around the world.

We would like to close this series on Key Success Strategies of Dell with an extract from an article in Business 2.0. Here, Michael Dell the founder and CEO of Dell says “The best way to describe us now is as a broad computer system and services company. We have a simple system. The most important thing is to satisfy our customers, the second most important thing is to be profitable. If we don’t do the first thing well, the second one won’t happen”.

High Impact Marketing

Eight Steps to Better Pricing



Robert J. Dolan, a well-known academic pricing expert, describes pricing as “managers’ biggest marketing headache.” To relieve this headache, Dolan recommends that managers focus on the process, rather than results, of pricing. Here are eight steps by Dolan for improving the pricing process.

- **Assess what value your customers place on a product or service**
Rather than basing pricing decisions on product cost, determine the product’s value to the customer.
- **Look for variations in the way customers value the product**
Customers often vary in how and why they use the product – different customers value products differently. Customize prices to take advantage of these different values.
- **Assess customers’ price sensitivity**
Determine the price elasticity (percent change in quantity sold given a 1 percent change in price) for your products in three areas: customer economics, customer search and usage, and the competitive situation.
- **Identify an optimal pricing structure**
Rather than a fixed price, offer discounts based on quantity purchased. Alternatively, use bundle pricing to sell a combination of products. The different pricing structures can be analyzed to determine the optimal one.

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- **Consider competitors' reactions**

To avoid costly price wars, consider long-term effects of price decisions in terms of the competition.

- **Monitor prices realized at the transaction level**

Single listed price products may have many possible final prices, due to discounts and rebates. Additionally, the real net revenue from a product is affected by factors such as customer returns and damage claims. The real price of a product must account for these elements.

- **Assess customers' emotional response**

A customer's emotional response to a price can have long term effects that outweigh a sale's short-term economic impact.

- **Analyze whether the returns are worth the cost to serve**

High cost-to-serve customers do not necessarily pay high prices, just as customers who spend little do not always receive low-cost-service. Where possible, aim to get customers to spend in accordance with the cost of serving them.

Tax Konsult

Medical Expenses Paid For Directors of Controlled Companies: The Tax Perspective



Let us explore the tax implication of medical expenses incurred by directors of controlled and family-owned companies in this article.

It is common for a company to provide employee medical benefits for treatment of general symptoms such as flu, cold or common ailments. Some more generous companies may also cover dental treatments. Employee medical expenses incurred by a company are generally allowable under Section 33 of the Income Tax Act (ITA)¹. Up to this point, we can also establish that as directors are employees, medical

expenses incurred by the company for them are equally allowable.

However, employees (including directors) who receive medical benefits (including dental benefits) will not be subjected to tax for the value of the medical benefit. This is specifically provided under Section 13 (1)(b)(i) of ITA.

Do note that the company must document, keep and maintain relevant records of medical expenses incurred. This information may be required by the tax officer during tax or desk audit.

But then again... Are medical expenses incurred for Directors of controlled companies (or family owned companies) allowed as deductible expense?

A controlled company is a company having not more than fifty members and controlled, in the manner described by Section 139, by not more than five persons. In Malaysia, most companies registered with the Companies Commission of Malaysia would fall under this category. The term "family owned company" is not defined by ITA, but basically means a company where shareholders are made up of the parents, children, uncles, brothers, sisters or close relatives. In such instances, the shareholders usually also act as directors.

During a tax or desk audit, the Inland Revenue Board (IRB) may disallow such medical expenditures as deduction. This happens if the IRB discovers that the said expense was not wholly and exclusively incurred in gross income produc-

tion. Rather, it was incurred for dual purposes (i.e. partly business and partly private) or for domestic and private purposes.

It is not wrong for such companies to make claims. However, medical expenses incurred for a controlled company's director are sometimes not direct arms-length transactions either.



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What needs to be done?

Some companies have taken the following actions to make grounds for deduction clearer :

- Establish that the director has rendered services or contributed to gross income production of the company's business. The director should be actively involved in the business, not a passive director who merely sits in for Board Meetings.
- Execute a written contract (service agreement) between the company and the director specifying his/her job scope, responsibilities, rewards and benefits.
- Execute a resolution to indicate the position of the director and benefits (including medical benefits) he or she is entitled to.

The measure of rewards and benefits must match the director's responsibilities and contribution. An unbiased and reasonable test can help judge if the benefit is arms-length, and qualified for deduction.

Alternative options

What happens if deductibility of the medical expense is doubtful? The director who has paid for treatment of his personal, wife's or child's serious disease² is entitled to claim personal deduction of not more than RM5,000 in the relevant year of assessment (pursuant to Section 46(1)(g) of ITA).

Children can also pay their parent's medical bills and claim the payment as their personal deduction (not more than RM5,000 in the relevant year of assessment). For this section of claims, medical expenses are not limited to serious illness.

Understandably, the IRB is extra cautious about dubious deductions e.g. medical expenses, traveling, and motor vehicle expenses of private cars used for business. To ensure compliance of ITA and income tax rules, taxpayers should exercise care and diligence when making such expense claims.

Footnote

1. "...outgoing and expenses wholly and exclusively incurred during that period by that person in the production of gross income from that source ..."

2. "Serious disease" includes acquired immunity deficiency syndrome, Parkinson's disease, cancer, renal failure, leukemia and other similar diseases.

News in Brief

Please note the dateline for submitting income tax returns for 2006 is as follows:-

Form	Category	Filing Deadline
BE	Resident Individual (without business income)	30 April 2007
B	Resident Individual (with business income)	30 June 2007
M	Non-resident Individual	30 April 2007 (without business income)
TP	Decreased Person's Estate	
TF	Association	30 June 2007 (with business income)
TJ	Hindu Joint Family	
P	Partnership	30 June 2007
E	Employer	31 March 2007
C1	Co-operative Eociety	Seven months from the close of the accounting period
TC	Unit Trust / Property Trust	
TA	Trust Body	
TR	Real Property investment Trust / Property Trust fund	
C&R	Company - Accounting period ending : January 2006 - March 2006 April 2006 - June 2006 July 2006 - September 2006 October 2006 - December 2006	Seven months from the close of the accounting period

To find out how StanleyCo can transform your business, please contact us at info@stanleyco.com.my or visit us at www.stanleyco.com.my.

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Kuala Lumpur (HQ) B-13A-6, Block B, Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Malaysia
Puchong Suite 15, 6th Floor, IOI Business Park, Bandar Puchong Jaya, 47100 Puchong, Selangor, Malaysia

Tel : (603) 2166 0717 Fax : (603) 2166 9717
Tel : (603) 8076 8717 Fax : (603) 8076 8719