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ECS ICT stays bullish

Group targets 8% annual growth despite fall in profit margins

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ECS ICT Bhd (ECSB), a leading distributor of information, communication and technology (ICT) products with an annual revenue exceeding RM1bil would like to have a revenue growth rate of between 7% and 8% for the current financial year despite slowing consumer spending and uncertain economic conditions which will impact the group.

For its nine-month period ended Sept 30, the group recorded a gross profit of RM54.6mil on the back of a revenue of RM908.9mil. Despite recording a lower gross profit margin of 6% compared to 6.4% in the previous corresponding period, the group maintained its net margin at 2.2%. It aims to improve the group's operation efficiency. The RM40mil raised from its initial public offering in 2010 has helped to reduce its bank borrowings. The group has a healthy net cash balance, with about RM55.8mil in excess cash in the bank as at the first nine months of the year.

The group largely derives its revenue from ICT distribution while other ancillary revenue streams would be the sale of enterprise systems and also the provision of ICT services.

Says managing director Foo Sen Chin: "The distribution business is all about efficiency, contrary to popular belief that the business is capital intensive with paper thin margins."

"We are targeting to close the (last financial) year with a revenue of RM1.2bil which translates to a market share of 9%. There are many more businesses we can venture into depending on how much business we want to increase. However, the volume of some of these businesses is just not enough for us and the margins are unattractive," he says.

The 7% to 8% growth rate that the company is aiming for in the current financial year, says Foo, would be in line with the growth rate of the ICT market. He also says the company is planning for more organic growth.

According to the International Data Corporation, the ICT market is expected to grow by about 8% this year with the market value at RM14bil.

Turnover of Hewlett Packard products constitutes about 50% of the group's turnover while the top 10 brands contribute about 80% of its revenue.

"We obviously will continue to look for new brands to contribute to our revenue and bottomline. The market is very dynamic and there is always a new player, but having said that we are also looking for quality instead of quantity," he says.

ECSB has a growing distribution network of 2,500 consisting of retailers, system integrators and corporate dealers.

The key would be mitigating these challenging conditions. ECSB has a diversified range of products for homes and multinational corporations.

30-day pile: ECS ICT's flagship 40,000 sq ft warehouse in Kota Damansara handles about RM100mil worth of stocks on average per month.

"We are well diversified in a sense that when a certain sector of the market slows down, we can push more sales in other sectors that are not affected," he says.

Nonetheless, the group saw a drop in sales last year due to lower spending coupled with the trend of consumers opting for a new smartphone or a tablet instead of a notebook. The company does not have a smartphone product line yet, but may launch at least one new smartphone product line in the next quarter.

Established in 1985, ECS, which stands for Engineering Computer Services, has been distributing ICT products in Malaysia, including volume ICT products (notebooks, desktop, printers and software) and value enterprise systems (network, communication infrastructure, servers and enterprise software).

Having a wide range of products, Foo jokingly says ECS also means "Everything Can Sell".

ECSB is an associate company of ECS Holdings Limited, a Singapore Exchange mainboard company and one of the leading ICT distributors in Asia Pacific with access to a network of more than 23,000 channel partners across China, Thailand, Malaysia, Singapore, Indonesia and the Philippines.

Besides HP and Dell, ECSB has a working relationship with 40 global brand names like IBM, Cisco, Microsoft, Apple, Oracle, Epson, Samsung, Buffalo, Adobe, Juniper, Blue Coat, VMWare and Google.

ECSB may be perceived as a middle man for vendors to get their products across but Foo says the company provides a good deal more value-added services and facilities.

"We want to expand our business enterprise, and enhance our profit margins in that business," he says.

Calling the business enterprise "the big boxes division" due to the sheer size of commercial grade servers, switches and storage equipment that are sold, Foo says the group needs to enhance its profitability by further investing in the training of its people to service the products.

"We must move beyond just providing a box to customers. There are more value added service we can provide," he says.

The group has invested about RM5mil to set up a technology centre in its headquarters to support resellers in pitching pre-sales demonstration, as resellers themselves would not have the economies of scale to invest in the big boxes division.

Foo: 'We are well diversified in a sense that when a certain sector of the market slows down, we can push more sales in sectors that are not affected.'

As its motto, "Technology is a tool, people make the difference", the group emphasises the importance of human resource development by providing the environment, training and incentive to achieve high performance.

"There is a new product everyday, and people who join our group are guaranteed to never have a dull day. Despite spending a substantial amount on courses conducted by our vendors, we also invest a lot in training our employees as they would be the ones servicing our clients in the future," he says.

To improve efficiency, ECSB is going to incorporate a financial system, Enterprise Resource Planning, to link up with its logistics network that will increase the amount of transactions the company can handle.

Currently, the group has a flagship warehouse in Kota Damansara spanning 40,000 square feet handling an average intake of five containers and output of 25 lorries per day. This works out to about RM100mil of stock on average per month, while daily sales amounts to RM4mil to RM5mil with 400 to 500 invoices and deliveries.

With plans to improve its operations and expansion, and as it strives to maintain its pole position, 2012 will be another busy year.

For Foo, it will be just another day in the "Everything Can Sell" company.