

LEVEL 7 ASSESSMENT SPECIFICATION

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Assignment Title:

Analytical Report – Organisational Strategies in a COVID 19 World

“I, [Lam Lai Chun Charlotte \(Student ID: 1818502\)](#), certify this work is the result of my own investigations, except where otherwise stated. All references have been duly cited”



Signed: _____

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Synopsis

The COVID-19 outbreak that broke out in early 2020 is undoubtedly a heavy blow to all consumer industry players in the world. Affected by the outbreak, coupled with the turmoil caused by geopolitical issues such as the Sino-US trade war, consumers' confidence has been significantly affected and they have become more conservative and sensitive. This report reviews one of the Hong Kong's furniture and fixture company, Sinomax Group is facing their challenges; is taking positive actions to respond to the challenge of the new crown virus (COVID-19) epidemic; trying to build consumer confidence and ensure that companies can continue to operate normally despite the challenges.

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1 Introduction

Sinomax Group is a listed company in Hong Kong under stock code: 1418. This report will review its business performances and analysis the financial data from the company website with financial reports of 2018 - 2019; and interim report of 2019 - 2020, will be used to review its business performances. However, the Group's revenue decreased by approximately 26.3%, the gross profit ("Gross Profit") during the period decreased by approximately HK\$168.1 million or approximately 46.1% to approximately HK\$196.8 million, compared to approximately HK\$365.0 million in the same period last year. Gross profit margin decreased by approximately 6.6% to approximately 18.1% from approximately 24.7% for the six-month period ended June 30, 2019. The decrease in gross profit margin was due to the slowdown of the Group's business activities due to the outbreak of the new crown pneumonia epidemic. (Sinomax, 2020)

The Hong Kong Tourism Board (HKTb) announced that the preliminary number of visitors to Hong Kong in 2020 will be about 3.57 million, a decrease of 93.6% from 2019. In 2020, visitors mainly came to Hong Kong in January. However, with the outbreak of the new crown virus in Hong Kong and the world in February, Hong Kong has banned overseas visitors from visiting Hong Kong in mid-March. In addition, strict quarantine measures have been implemented. Visitors are mainly visiting relatives or visiting relatives in Hong Kong. There are other reasons for the need to visit, and the number of real tourists has dropped to almost zero. (HKTb, 2020)

In the three months ending December 2020, the unemployment rate in Hong Kong rose to 6.6% from 6.3% in the previous period. This is the highest unemployment rate since the last quarter of 2004, as the coronavirus pandemic continues to affect local consumer sentiment and disrupt economic activity. The number of unemployed increased by 15 to 246,000, and the employed population fell by 24 to 3.65 million. Unemployment rates in almost all major economic sectors have risen, with the most obvious rises in the retail, accommodation, and food service industries. (C&SD, 2020)

As the fourth wave of the local epidemic continues to affect local consumer sentiment and disrupt economic activities, the labor market will still be significantly under pressure in the short term.

2 Company background

Sinomax Group is the industry leading expert in slow rebound health and healthcare products. It is a resource-integrated enterprise integrating R&D, manufacturing and sales, and is committed to becoming a global leader in healthy home furnishings.

2.1 History in Hong Kong

The group was successfully listed in Hong Kong on July 10, 2014. The stock name: Sinomax Group Limited (Stock code:1418.HK)

The group is composed of the three major groups of East Asia China Assets Group, United Nations University Group and Dongda Group (hereinafter referred to as Sinomax Group). It was established in 2000 in Shengnuo Industrial City, Shahu Village, Tangxia Town, Dongguan, covering an area of more than 400,000 square meters. The company has more than 3000 people. Headquartered in Hong Kong, the group has successively established four domestic production bases, two U.S. production bases and one Vietnam production base in the country, becoming a strong backing for international and domestic sales. At the same time, Sinomax has a professional customs declaration and logistics team to provide customers with meticulous and thoughtful service at any time. It has subsidiaries in Mainland China, Macau and the United States, and its business covers Europe, America, China, Japan and other places.

The Group is a leading marketer, manufacturer and distributor of slow rebound products, with an outstanding position in the international market. According to Frost & Sullivan, in terms of retail sales in 2013, the Group is the second largest supplier of mainstream slow-rebound health and healthcare products in the United States, accounting for 30.2% of the market share, and slow-rebounding health in Hong Kong and China And health products ranked first in the retail market, accounting for 41.9% and 4.4% of the market share respectively. With its leading market position and the Group's good layout, it will benefit from the market growth in the next few years, especially in the Chinese market where the demand for quality products continues to increase and the awareness of healthy living is increasing.

In Hong Kong, China and Macau, the Group mainly sells products under the flagship brand "SINOMAX" through an extensive network. As of December 31, 2019, the Group's "SINOMAX" products were sold in more than 185 stores in Hong Kong, China and Macau. In the international market, the Group sells most of its products to leading retailers in the United States, and they resell the Group's products to consumers through their own retail network throughout the United States. As of December 31, 2019, the Group supplied its products through these retailers at more than 10,000 points of sale in the United States. The extensive sales network allows the Group to reach a more diversified consumer group and promote the Group's brand awareness and trial products to target customers.

2.2 Product portfolio

The Group has a series of well-known brands and a diversified product portfolio, which can strategically target a wide range of consumer groups and markets, helping it to meet the preferences and needs of different consumers. Since the launch of the flagship brand "SINOMAX" in 2001, it has been recognized by the market as a brand that provides high-quality slow-rebound products in the mid-to-high-end markets in Hong Kong and China. As far as the international market is concerned, the Group's "ComforZen", "Dream Serenity", "SPA Supreme", "Customizer" and "Zeopedic" brands target the U.S. slow-rebound health and healthcare mainstream product market; and its "Sharper Image", "Authorized brands such as "Awaken by Joan Lunden" and "HoMedics" focus on the high-end product market.

Table 1 Share of total retail sales value by product and by market in 2019

	Domestic market	China market	North America market	Europe market
Sales of health and household products (%)	7.8	29.2	21.3	1.68
Sales of polyurethane foam (%)	5.2	19.5	14.2	1.12
Total value (HKD)	389,979	1,459,149	1,064,520	83,673

Sources: Sinomax Group Annual Report of 2019

Table 1 shows the revenue and segment information of the Group is currently divided into the

following four geographic markets: Domestic and China market-manufactures and sells health and household products and polyurethane foam for customers in China, Hong Kong and Macau. North America market-manufactures and sells health and household products for customers in the United States, Canada and other North American countries. European and other overseas markets-manufacture and sell health and household products for overseas customers (except customers in the Chinese market and North American markets). It exposed the significant market share in Domestic and China market, due to the COVID-19 impact

2.3 Industry competition

The furniture industry in Hong Kong has a long history, producing furniture for homes, offices, and kitchens, as well as cushions, bedding and furniture components. There are many types of raw materials used in the production of furniture, including wood, rattan, plastic, and metal. Among all kinds of furniture, wooden furniture is the main product and export category of the industry.

Hong Kong furniture manufacturers are good at design and can also meet the needs of overseas buyers and accept OEM orders. Some companies use bidding contracts to manufacture high-end furniture sets for hotels, offices, and other real estate projects. They have also begun to establish their own brands. To comply with international standards, as well as to comply with the regulations and other environmental protection requirements of the target market, manufacturers are becoming more cautious when selecting raw materials.

Sinomax faces intense market competition, such as Samson Holdings Limited and Man Wah Holdings Limited etc. There are many competitors also have unique resources are manufacturing bedding products with the performance apparel market to gain market share in the newly launched high-end premium products.

Samson Holdings Limited ("Samson") (stock code: 0531) is one of the world's top furniture wholesalers and manufacturers, and mainly serves large retailers and brand owners. The company's business has been vertically integrated, and we produce and sell a series of furniture with outstanding style and quality. In addition to our own brands, we also promoted to a number of leading brands through a large factory in China, Taiwan, which produces furniture for high-end hotels and offices. (Samson, 2019)

Man Wah Holdings Limited ("Man Wah") (stock code: 1999) is mainly engaged in the

production and sales of leisure sofas. The company produces lounge sofas in China, exports them to customers in overseas markets such as the United States and Europe, and sells them locally in China. The company focuses on the promotion of leisure sofas with features such as storage armchairs and rotating functions under the brand "Chivas". The company designs and promotes the company's products with the standard of high-quality, affordable, luxurious and fashionable products. (Man Wah, 2019)

According to the Hong Kong listed peers comparison, it shown that Man Wah recorded a significant growth during the challenge period, however, Sinomax and Samson also recorded a negative result, the turnover was approximately HK\$2,997 million and HK\$3,566.5 million in 2019 are also decrease over the year of 2018. Gross profit margin was recorded at 20.2% and 29.3% in 2019, with a gross loss of HK\$212 million and HK\$378 million as compared to a profit of HK\$4.8 million and HK\$148.9 million in 2018.

Table 2 Financial data comparison in 2019 for three listed companies under furniture industry
(HK\$'000)

Company Name (Stock Code)	Sinomax (1418.HK)	Samson (0531.HK)	Man Wah (1999.HK)
Revenue	2,997,321	3,566,472	11,257,792
Gross profit (Gross profit margin)	605,276 (20.2%)	1,045,426 (29.3%)	3,837,098 (34.1%)
(Loss) profit for the year	(212,002)	(378,479)	1,404,676

Sources: Sinomax, Man Wah & Samson - Annual Report of 2019

3 Company's business performance amid the economic disruption due to the COVID-19 outbreak

The Group's sales and results significantly depend on economic conditions, cost and revenue structure.

3.1 Macroeconomic environment

The global economic slowdown and the threat of the spread of the new coronavirus epidemic (COVID-19), the government predicts that Hong Kong's GDP will grow by -6% to -8% in real terms in 2020. (HKTDC, 2020)

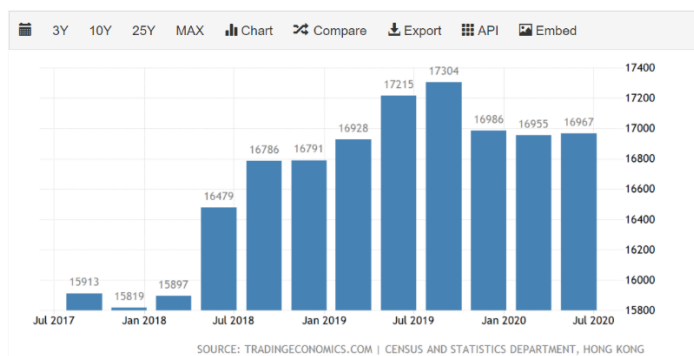
In August 2020, overall consumer prices fell by 0.4% YoY. The inflationary pressure of Hong Kong's main sources of imports will further decrease, the government predicts that Hong Kong's basic consumer price inflation will be 1.8% in 2020, which is lower than the 2.2% in the last review.

In nominal terms, retail sales fell by 23.1% in July 2020 compared with the same month last year, and in June 2020 it fell by 24.7% YoY. The labour market remains severe, with the seasonally adjusted unemployment rate from June to August 2020 at 6.1%, the same as the figure from May to July 2020. The cyclical unemployment tends was gradually spreading from industry to industry. (HKTDC, 2020)

It apparently the Hong Kong population is in doubt position for the standard of living to condense their purchasing power according to GPD and wages level is in negative growth. Coupled with the economic turndown in Hong Kong and the deterioration in personal income (Figure 1), the consumer may consider their purchasing desires before spending. However, an aging population has wide-ranging implications for textile industry. (Census and Statistics Department, HK, 2020)

Figure 1

Hong Kong Average Monthly Salaries 1999-2020 Data | 2021-2022 Forecast | Historical



If current macroeconomic policy trends persist in the longer run, the Group has adopted offensively approach to embark on the journey toward expansion of stores with bargaining power of their competitors.

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In the three months ending December 2020, the unemployment rate in Hong Kong rose to 6.6% from 6.3% in the previous period. This is the highest unemployment rate since the last quarter of 2004, as the coronavirus pandemic continues to affect local consumer sentiment and disrupt economic activity. The number of unemployed increased by 15 to 246,000, and the employed population fell by 24 to 3.65 million. Unemployment rates in almost all major economic sectors have risen, with the most obvious rises in the retail, accommodation, and food service industries. (C&SD, 2020)

As the fourth wave of the local epidemic continues to affect local consumer sentiment and disrupt economic activities, the labor market will still be significantly under pressure in the short term.

3.2 The cost structure

Selling and distribution costs decreased by approximately HK\$59.7 million or 13.2% to approximately HK\$393.7 million from approximately HK\$453.4 million in the 2018 financial year. This decrease was consistent with the decrease in turnover during the reporting period. The decrease was mainly due to a decrease of approximately HK\$18.1 million in staff costs and commission expenses and a decrease of approximately HK\$15.7 million in transportation costs. (Sinomax, 2019)

Administrative expenses decreased by approximately HK\$7.9 million or 3.6% to approximately HK\$209.6 million from approximately HK\$217.5 million in the 2018 financial year. The decrease was mainly due to the reduction in staff costs due to the reduction in the total number of employees. Other expenses during the reporting period mainly included research and development expenses, which amounted to approximately HK\$58.2 million, compared with approximately HK\$70.4 million in the 2018 financial year. (Sinomax, 2019)

3.3 Revenue structure

As the Group's revenue decreased by approximately 26.3%, the gross profit ("Gross Profit") during the period decreased by approximately HK\$168.1 million or approximately 46.1% to approximately HK\$196.8 million, compared to approximately HK\$365.0 million in the same period last year. Gross profit margin decreased by approximately 6.6% to approximately 18.1% from approximately 24.7% for the six-month period ended June 30, 2019. The decrease in gross profit margin was due to the slowdown of the Group's business activities due to the outbreak of the new crown pneumonia epidemic. (Sinomax, 2020)

4 Analysis and discussion

4.1 Challenges facing the company

4.1.1 Costing challenges

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Meanwhile, the Group is exposed to commodity price risks caused by price fluctuations of chemical substances, including polypropylene glycol and toluene diisocyanate, which are the main raw materials to produce polyurethane foam. The Group has not entered into any long-term agreements with any raw material suppliers, nor has it entered any hedging arrangements or transactions to reduce the group's exposure to fluctuations in raw material costs. The Group implements a cost-plus-based pricing policy in the export sales and polyurethane foam sales segments. The Group negotiates order quotations based on individual orders. When determining product prices, the Group usually considers several factors, such as production costs (including raw material costs), production cycles, transportation costs, product types and specifications, market prices and global economic conditions.

4.1.2 Pricing challenges

To maximise the penetration of Sinomax's products and diversify their consumer, the Group adopts a multi-brand strategy targeting at specific consumer groups. The implication for relative price level is set price high to reinforce prestige image.

Sinomax implements a cost-plus pricing policy in respect of their trademarked or licensed brand and their authorised brand sales. Price quotations for orders are negotiated on an order-by-order basis and are generally valid for approximately three months. In determining our product prices, Sinomax consideration of different factors such as production costs (including the costs of our raw materials) and cycle, logistics costs, product types and specification, market price, and general economic conditions. (Kotabe and Helsen, 2007).

4.1.2 Market sharing challenges

Competition in the furniture industry is fierce. (Porter, 1985). Many companies are committed to reducing production costs and improving efficiency. Some companies move their manufacturing operations to other regions with lower operating costs. Hong Kong furniture manufacturers have also begun to develop their own brands. Some mattress manufacturers are produce their branded products in local and overseas markets. To comply with international standards, as well as to comply with the regulations and other environmental protection requirements of the target market, manufacturers are becoming more cautious when selecting raw materials.

Mainland China is an important export destination for furniture and the largest source of furniture for many countries including the United States and Japan. Most domestic exports of furniture are produced in industrial clusters in southern and eastern China. Overseas furniture manufacturers such as South Korea, Singapore and the United States have also begun to follow the steps of Hong Kong companies to set up factories in the Mainland.

Mainland China is also a huge potential market for furniture manufacturers. The increasing purchasing power of mainland consumers, coupled with continued urbanization and the booming tourism industry, are driving the demand for residential and hotel furniture and other high-end products. In 2018, the total furniture retail sales of China's wholesale and retail industry above designated size increased by 10% to RMB 225 billion. Some foreign companies are actively looking for business partners in the Mainland to explore opportunities to set up factories or sell. Hong Kong companies have extensive experience in manufacturing and setting up distribution networks in the Mainland, and are known for their quality, integrity, reliable delivery and management. They can serve as an ideal platform to help these foreign companies

enter the Mainland market.

The export of furniture is regulated by relevant safety and environmental protection regulations. For example, safety regulations include the stability, strength, and even height requirements of children's furniture, as well as fire protection requirements for bedding, mattresses, fabric sofas and curtains.

4.2 Strategies to ensure business continuity under the Covid-19 epidemic situation

For Sales Channel, today, the speed, scale, and impact of innovation and disruption make technology an important force that influences business strategies, business decisions, and value-creating models. The challenges posed by the outbreak of new crown pneumonia have prompted enterprises to accelerate their digitalization.

A more active use of technology after the epidemic is a long-term business strategy (Fletcher, G. and Griffiths, M., 2020). According to figure 2, HKTDC interviewed 100 Hong Kong companies from 1 June to 8 July 2020 in three broad areas: consumer goods (e.g. fashion, electronics, gifts), consumer services (e.g. tourism, personal finance, catering) and business services (e.g. financial services, creative industries, information technology). The purpose of the survey is to understand the challenges faced by Hong Kong companies in the face of the ongoing outbreak and their prospects.

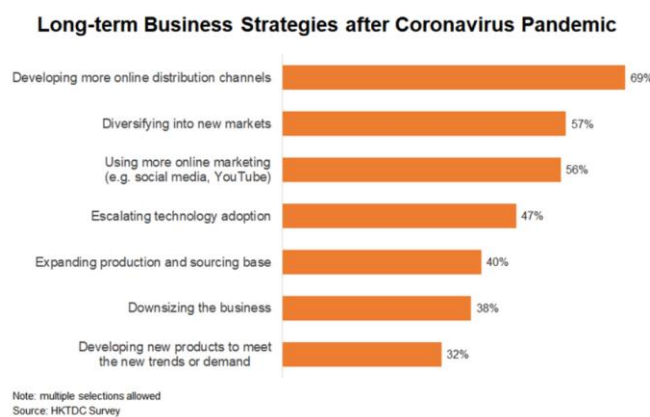
Most respondents believe they must adapt their business strategies to the current "new normal". Thirty-eight percent of the companies surveyed said they were downsizing their businesses. Other measures proposed in the current situation include: strengthening the development of the digital sector (69 per cent of respondents chose to "develop more online distribution channels", 56 per cent chose "wider online marketing"), and opening up new markets (57 per cent) and adopting technology more actively (47 per cent).

Technology is a powerful tool for people to continue living and working through online collaboration platforms and video conferencing, shopping with apps and arranging home delivery, and enjoying entertainment through streaming services. Now that fintech is on its feet, far-range medicine, which was rarely talked about before the outbreak, is beginning to receive attention. As businesses adapt to new realities and benefit from the digitalization of work practices and day-to-day operations, they are likely to generate new demands for innovation, data, business analytics, and project management.

Most of the companies surveyed said they understood that technology is a powerful force that can make a huge shift in customer expectations, workforce and the way companies are managed. However, it is not clear how companies should use technology to create value.

For example, many respondents recognized that the integration of the physical and digital worlds has blurred industry boundaries, tangled value chains, and upended traditional value creation models. They have identified initiatives such as digital transformation, addressing cyber threats, creating a smooth customer experience, or adopting new business models, each of which can create value for the business alone. (HKTDC, 2020)

Figure 2



For product trend to provide a tailor-made, multifunctional furniture, green furniture, increase health awareness and ergonomic office furniture.

Consumers hope that they can make the best use of their home space and show their personal style. Therefore, custom-made furniture has become more popular in recent years as the furniture is a durable consumer goods. With the flexibility and change of production technology, manufacturers can now mass-produce customized furniture with individual design styles. (Jim, 2013).

Small furniture with multiple functions and flexibility is becoming more and more popular, including tall beds with plenty of storage space at the bottom of the bed, and folding chairs that can be hung on walls to free up floor space.

The increasing environmental awareness around the world and stricter regulations have made furniture manufacturers be more cautious when choosing production materials and paints, such as using fabrics that do not emit toxic gases during the production process, such as

polypropylene. In response to concerns about tree cutting and climate change, some manufacturers use materials such as bamboo to reduce wood consumption. Some manufacturers use recycled materials to make furniture, such as old wood and teak from wooden buildings. Some manufacturers design furniture that uses fewer materials.

Consumers are increasingly aware of how sleep quality affects health and life, and there is an increasing demand for high-quality mattresses and bed sheets that can improve sleep quality. Many local and foreign mattress and bed manufacturers have introduced more innovative products specifically designed for healthy sleep.

Ergonomic office furniture: In the working environment, more and more employees are suffering from long-term pain and injury due to sitting for long periods of time and repetitive actions.

Therefore, functional furniture such as a sitting-stand dual-purpose workbench and ergonomics Seats and adjustable keyboard seats are popular in offices. Working from home is the general trend, especially in the United States, which also drives the demand for home office furniture. (HKTDC, 2020)

5 Conclusion and recommendations

Given the COVID-19 outbreak and the complex yet intense international relations, consumer confidence in the Greater China Region was severely impacted. The manufacturing industrial chain and the consumer market were among the hardest hit due to the lockdowns of various cities and the sharply reduced economic activities in Mainland China. (Fletcher and Griffiths, 2020) Regarding Hong Kong, people were encouraged not to and have generally avoided going out to public places such as the restaurants and large shopping malls since the COVID-19 outbreak, thus dealing a blow to a substantial number of sectors. Despite various relief measures introduced by the Hong Kong Government, retail spending remained very sluggish.

The Sino-US and US-Canada trade war continued to cause uncertainty for the Group's US business in 2019. The Group has set up production facilities in Vietnam in 2019. The Vietnam production facility began to supply polyurethane foam to the Group's customers in Southeast Asia in the third quarter of 2019. Vietnam's production facilities also produce end-consumer health products. The Group has factories in China, the United States and Vietnam. Therefore, the Group expects that our ability to supply products to customers with different needs around the world will be enhanced. (Sinomax, 2019)

At the same time, the Group can flexibly arrange production and logistics schedules to minimize production, tariffs and the overall cost of transportation. The Group diversified its customer base by expanding more new customers in the United States instead of relying on several major customers. Sales to these customers have gradually increased in the past few months. The Group expects to continue to grow in 2020. Sinomax will also develop direct sales to consumers and focus more on online sales to customers. (Sinomax, 2019)

The Group provides a wide range of health and household products in the Chinese market under its flagship brand "SINOMAX". The Group will use several marketing activities to further enhance brand management to enhance brand awareness and enhance the healthy, relax and comfortable image of the "SINOMAX" brand. The sales under the brands "Octaspring", "SPA Supreme" and "Zeosleep" have grown steadily. The Group will continue to promote its brands and products to corporate customers to attract more corporate sales. Although the Group's e-commerce sales recorded a decline in 2019, the Group will continue to invest more resources to strengthen sales through e-commerce. The Group will continue to upgrade its machinery to improve production efficiency and increase competitiveness. (Sinomax, 2019)

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