



**Koda Limited:  
Building Strategic Foundations  
for Internationalisation**

## **Building Strategic Foundations for Internationalisation: Lessons from Koda Limited**

From a cottage industry set up in 1972 producing wooden speaker boxes and jewelry boxes selling in Singapore and to the United States, Koda has over the years grown into a global player with manufacturing facilities in Malaysia and Vietnam, exporting to over 50 countries. Today, headquartered in Singapore, Koda exports over 95% of its products and it is a leading furniture exporter in this region.

Stock Code: KODA.SI, Koda is a Singapore public listed company with total sales revenue of USD60.3 million as of June 2020. This sales revenue has almost doubled from what the company achieved a mere four years ago in 2016 (USD37.1 million). At the time of publishing, Koda has more than 2,000 employees, with more than half (55.3%) of its revenue coming from North America, with another one-third (35%) from the Asia Pacific.<sup>1</sup>

*“When I was a little boy, my father took from me \$600, from my POSB Bank account to pay his creditors, it was all my savings I had at that time. Two weeks later, he brought me to the bank, returned the money. An entrepreneur must be agile, able to maximise your resources to capture opportunities when they come.”*

*--- Ernie Koh, Executive Director, Koda Limited (Koda).*

Mr. Ernie Koh, Executive Director of Koda, is also the Chairman of the International Furniture Fair Singapore Pte Ltd and a member of the Singapore Furniture Industries Council (SFIC) Finance Advisory Committee. He is the Chairman of the Local Enterprise and Association Development (LEAD) Programme for SFIC, a capability-building programme that aims to enable trade associations in enhancing industry and enterprise competitiveness. A council member of the Singapore Business Federation (SBF) and the Singapore Chinese Chamber of Commerce and Industry (SCCCI), Mr. Ernie Koh also sits on numerous industry committees.

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For more information, kindly contact [research@sbf.org.sg](mailto:research@sbf.org.sg).

<sup>1</sup> Source: KODA 2020 annual report

Feature No. 6 of the SBF Company Case Study Series looks at how a Singapore original design furniture manufacturer, retailer, and e-tailer, navigated through multiple challenges and unprecedented events to evolve into an international player that enabled its successful growth and expansion regionally and globally.

***The vision that propelled the organisation forward***

Since its inception, the company's vision has been to expand internationally. It was the company's commitment to this goal that made a difference in its success. During the early days, Ernie followed his father on business trips everywhere. He observed his father running the business, dealing with customers, and making investment decisions, all of which have become a part of his daily life, and the company has become a part of his DNA.

*“Global markets offer unlimited potential. You must build your company with internationalisation as the guide-post.”*

*--- Ernie Koh, Executive Director*

When local manufacturing costs increased and eroded Koda's profit margins, the company began offshoring its manufacturing operations to Malaysia. Koda however, still kept its Singapore factory. There were multiple decisions to be made, such as asset write-off, staff redeployment, and retrenchment when local costs became prohibitive. The final verdict was not an easy one when Koda decided to close down its production facilities in Singapore. Despite the need to re-think its operations, Koda knew that it needed to stay agile and moved into Vietnam and subsequently China, as its offshore manufacturing locations.

In the late 1980s and early 1990s, the cost of production in China was attractive, Koda purchased a piece of land, built a factory, and began manufacturing. However, no one anticipated that the cost of production would increase by more than 10-fold over a decade, in particular, labour cost. Fortunately, with China's economy expanding, the piece of land that was acquired fetched a welcomed gain for Koda, turning what was supposed to be an investment write-off into a profitable exit for the company.

### ***Picking yourself up from where you've fallen***

Koda realised that the downstream revenue potential of the distribution chain, i.e. the retail business, is where most of the profits are made. With the experience gained from its manufacturing venture in China, Koda developed its furniture retail concept, Commune, intending to grow the business globally. Koda started its first Commune store in Singapore as a flagship showcase.

China, given its blazing rate of economic growth, makes an ideal market for Koda to enter the retail business. Koda subsequently acquired the ownership of the 10 retail stores in China from its previous local manufacturing partner.

Through its retail brand Commune, Koda rode the waves of China's consumer market boom, penetrating the up-and-coming middle-class consumer segment with its lifestyle products.

### ***Accelerating Growth Through Franchise and Partnership***

To accelerate the growth of its retail network and to maximise its revenue base, Commune offers both franchise and partnership, injecting capital into franchisees when it partners with them to grow the retail chain and meet store expansion targets.

Commune provides a comprehensive franchise support system designed to strengthen the business of both the franchisee and the franchisor, including showroom designs, product displays, brochure designs, and digital marketing. The quality of customer experience and branding is managed seamlessly across franchisees. *"Our franchisee just open the shop, do business, open up new stores, everything else is taken care of by us"*, Ernie remarked.

Koda owns the Commune retail brand in China, it grows the number of outlets by appointing multiple franchisees in larger cities, while for smaller cities, a single franchisee, ensuring each franchisee has sufficient retail catchment area and business volume. Over the next few years, the number of Commune stores in the Chinese market grew 10-fold, from 10 to currently about 100, with more new stores in the pipeline.

### ***Dedicated to delivering the best experience***

Playing to its strength, Koda, an ODM (original design manufacturer) and OEM (original equipment manufacturer), targets prospective customers, i.e. furniture retailers that prefer to

source their products from Asia, especially from Malaysia and Vietnam, both of which are Koda's manufacturing bases, with the ability to produce customised furniture according to clients' requirements. Instead of going mass market, the company matches client profiles to their areas of strength, carefully selecting its prospects where its capabilities would provide an edge above the competition. Koda further strengthens its credibility with prospective clients by leveraging its relationships with its existing clients who are also well-known retail furniture brands in their home countries.



***Networking success, ‘skipping’ the middlemen and taking charge of your clientele***

The success of Koda's client networking extends to onboarding staff of existing customers as new clients. *“The most valuable client is one that knows its supplier well,”* Ernie said. When a staff who procures from Koda, joins a new employer and subsequently approaches Koda to supply products for the new company, he/she would inadvertently have become a Koda ‘client advocate’.

Before the pandemic, Koda's management team travelled far and wide, maintaining close contact with its clients all over the world. Even now, when travel is still prohibited due to the pandemic, Koda maintains contact with its customers through digital channels.

Koda does not use middlemen, also known as agents in the trade. *“Own your customer. This is a big part of our internationalisation strategy”*, Ernie said. Koda has a responsive client servicing system that directly addresses its customers' needs worldwide, responds to queries,

and provides advice, eliminating the middleman and successfully channelling customer loyalty and satisfaction sentiments to the company.

***Breeding new businesses through increased credibility via curated market insights***

Koda packages the intelligence it has gathered as value-added insights for its clients, such as the latest furniture designs and new product ideas. By doing so, not only does Koda build client rapport, but it also gains second to none market intelligence on global market trends, consumer expectations, and requirements that are critical in acquiring new clients and generating sales. Prospective clients value Koda's intelligence curated from various international markets, enabling Koda to help its clients design and manufacture new products, generating new sales. The curated intelligence becomes an asset, raising Koda's credibility and allowing it to further internationalise, and ultimately expanding its global footprint.

***Taking a long-term approach to internationalisation: Entering and exiting the market***

Having an exit policy is as important as its market entry strategy. Offshoring to Malaysia offers various cost advantages such as land and labor compared to Singapore due to its geo-proximity and accessibility, i.e. the option to travel by road from Singapore instead of relying on flights. Moreover, for the furniture export business, Koda explains that consumers do not consider the country of manufacture as an issue, provided that the products are properly marketed and competitively priced.

What is critical, however, are costs related to manufacturing – land, building, labour, logistics, utility, and other hidden costs – which are key factors shaping price competitiveness and long-term profit sustainability. Vietnam is another manufacturing location for Koda, as it has similar cost advantages as Malaysia. This is particularly so after China gradually ceased to be an optimal country to pursue manufacturing as costs have rapidly escalated over the last decade.

Koda evaluates market potential by considering both current and future market purchasing power as well as potential growth. Doing so allows them to conclude that they should remain in the China market as a retailer instead of being a manufacturer, to capture affluent consumers as the Chinese economy expands.

### ***Taking a long-term approach to internationalisation: The 40-40-20 Approach***

Koda makes a conscious effort in diversifying, by avoiding placing all businesses with a single buyer in any country. It started in the United Kingdom with one large client that accounts for almost 40% of its total sales. The company continued to relentlessly prospect and develop new buyers in the country and elsewhere. This diversification strategy paid off after a decade of business dealings, as the major buyer shut its business down. Along the same line, the company approaches international diversification using the 40-40-20 yardstick, consciously spreading out its global sales to avoid concentration risks, with 40% of sales originating from Europe, 40% from North America, and 20% from the rest of the world. It continuously ‘balances’ its client portfolio, with no more than 20% of total sales coming from any single buyer.

### ***Simplification in foreign currency management***

*“Dealing with currencies for Koda’s 50 plus export markets is a complicated task, there are risks involved in currency conversions, that’s why we don’t do it.”*

*--- Ernie Koh, Executive Director*

In accessing global markets, instead of monitoring the foreign exchange market and getting involved in hedging currencies, Koda adopts a single currency, the US dollar for invoicing, as well as to settle payments for their suppliers as much as possible. Foreign currency management involves only countries where Koda settles expenses in local currencies such as rent, rates, and wages for their local facilities in Malaysia, Vietnam, and Singapore. Foreign currency transactions involved in these 3 countries combined represent less than 30% of Koda’s total currency exposure.

### ***Cross-cultural adaptations and business communication***

Cultural adaptability empowers international businesses to synchronise with local business practices for optimal outcomes.

For its manufacturing sites, Koda selects and onboards local talents who are familiar with local business culture to manage local business functions such as legal and compliance, and operations. Foreign professionals at the management level are deployed to oversee the business, transfer the corporate vision, know-how, and best practices, with the option for

foreign employees to be very hands-on during the start-up phase. All of these are essential to lay the groundwork for successful local operations.

Business culture, which may appear to be a trivial subject matter, can at times turn into a nightmare when a familiar approach is applied in a different milieu, highlighting a case in point where the causal American way of doing business in another country may be perceived as insincere, and sometimes, even rude. Ernie is consciously aware that such matters can often be deal-breakers, making a significant difference in closing a business deal. Especially so, with export markets spanning across the globe, the company takes a serious view on communication styles, emphasising that appropriate communications add sincerity and credibility to Koda's business negotiations and help close deals.

Along with cultural sensitivity, working to Koda's advantage is Singapore's international reputation, namely 'reliability' and 'trust'. Being a publicly listed company in Singapore adds to the company's credibility when dealing with overseas business partners. Notwithstanding, Ernie is fully cognizant that what works in Singapore may not necessarily 'pull off' in other markets. One of the riskiest assumptions is to adopt a homogenous market view, i.e. what works in Singapore works elsewhere. Flexibility in dealing with different situations and having reliable referrals to new businesses in new markets are keys to the company's global expansion.

### ***Venturing far and beyond in global sourcing***

*“Time is limited, don't let the noise of others' opinions drown out your vision, on what Koda will eventually become. Have the courage to follow your heart and intuition. Make the best out of any situation regardless of what others think or do.”*

*--- Ernie Koh, Executive Director*

Supply chain disruptions are inevitable. Internationalisation takes another form when managing supply chains upstream to keep manufacturing facilities running, and to do so, Koda needs to have an uninterrupted supply of raw materials. Koda ventures far and wide, mitigating risks that emanate from a single source, procuring and performing quality control, while routing the raw materials to their manufacturing plants in Malaysia and Vietnam.

The COVID-19 pandemic has posed additional challenges in supply chain management which is essential in supporting internationalisation. Manufacturing process was disrupted as a result



of repeated or extended lock-downs that slowed or halted the flow of raw materials. The pandemic exposed previously unknown vulnerabilities as well as the risks associated with ‘just-in-time’ manufacturing.

Koda was no exception, with its offshore manufacturing facilities in Malaysia. Its Malaysian factory was closed for a month and operated on half-strength for a brief period. While its Vietnam factory was unaffected, shipments were delayed. During the lockdown in China, retail sales from its franchisees were also negatively impacted.

### *Digital transformation in the retail landscape*

The outbreak of COVID-19 curbed footfall and disrupted the retail landscape. Retailers had to seize whatever available opportunity to showcase their products on digital platforms that are scalable, for use in multiple markets, to increase their customer reach, and drive sales. Despite such hindrances, Koda took advantage of the opportunity presented by the situation and went full throttle down the digital road to prepare what would normally take the company years, and launch in a matter of weeks to allow it to continue to conduct business from home.

Supported by both the Infocomm Media Development Authority (IMDA) and Enterprise Singapore (ESG), digitalisation efforts namely Virtual Reality (VR) and Augmented Reality (AR) were created to show customers virtually anywhere in the world the company, its showrooms, products, and design and manufacturing capabilities. As a result, Koda's design, marketing, finance, and other administrative functions continue to operate normally.

One contributory success factor is the strength of Koda’s robust relationships with its overseas clients – essentially, the trust, loyalty, and rapport that they have built over the years. Coupled with going virtual, these enabled Koda and its clients to move their businesses forward during the pandemic.

Other than digital marketplace transformation, to further strengthen and support Koda’s internationalisation, the company is reviewing digital transformation for its essential internal core processes such as materials, warehouse, manufacturing, and human resource management, to increase operational efficiency and continue to stay competitive in their global markets.

***A final critical piece – talent management and compensation***

Koda, with its sharp internationalisation focus, scouts for talents with similar perspectives and visions. They are professionals, future leaders with the potential to take over the business when the founders eventually retire. The company believes in paying market rate for the best talents, and incentivising and rewarding its staff via a profit-sharing model. Koda treats its staff as business partners.

*“Always treat your staff as business partners who make the profits for you. Share the profits with them, the more profits the company makes, the more you share.”*

*--- Ernie Koh, Executive Director*

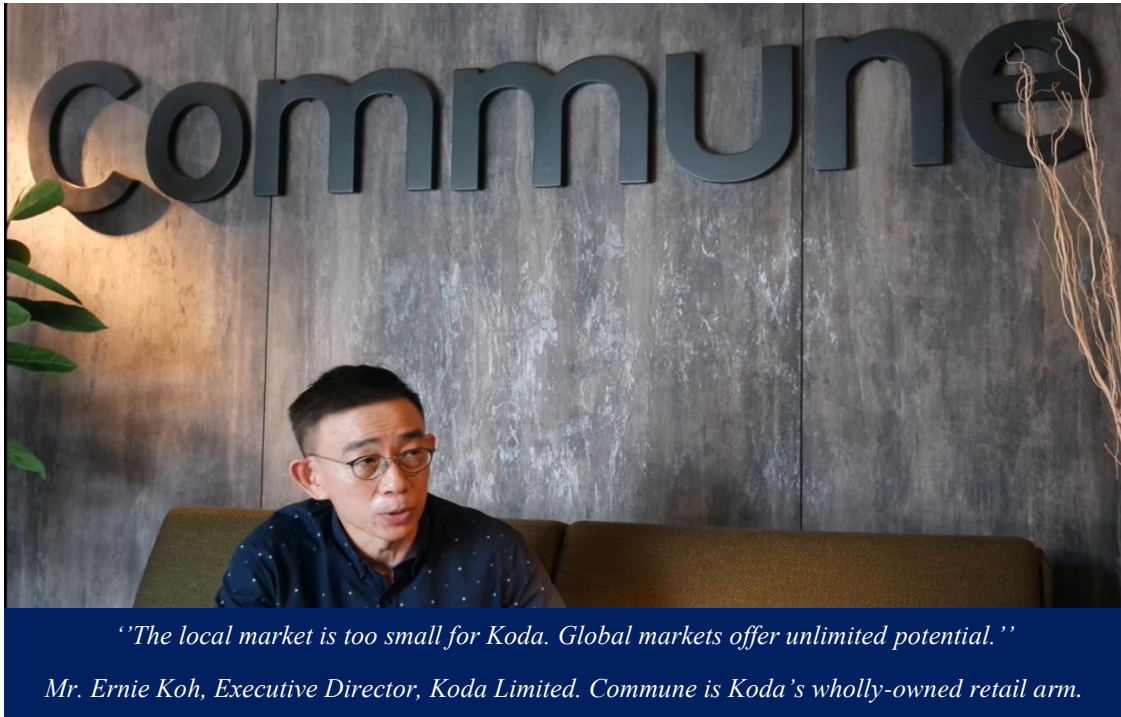
Each business unit e.g. Production, Marketing, etc has its Profit and Loss metrics. Business units are rewarded with profit-sharing when they meet their targets. *“In a good year, the Production Department receives 5-6 months of bonus”*, Ernie said. As Koda exports more than 95% of its products to overseas markets, internationalisation is a major growth strategy. Galvanising employee enthusiasm around the company’s worldwide performance can be game-changing. Helping staff understand how their actions impact financial performance, helps bolster staff interest and engagement in Koda’s internationalisation journey, its challenges, and rewards.

***Epilogue - the future is bright for internationalisation***

To be competitive in a complex and unpredictable global climate, businesses must consider the potential, profitability, and future growth of the target market. By now, furniture manufacturers would have seen how markets of today are disrupted, and how different the next few years would be, shaped by new, unprecedented events.

Koda navigated through multiple challenges and has evolved into an international player exporting more than 95% of its products to more than 50 countries. The company leveraged on the opportunities presented during the pandemic, exercised flexibility in strategy, execution, and boldness in taking on new frontiers. Despite the COVID-19 pandemic, the company achieved its best revenue performance in 2020 as they mitigated risks with carefully planned market entry and exit strategies while continuing to meet international market demands through extensive client networking that yielded client-centric product designs and manufacturing.

Koda's relentless focus on internationalisation, with sharp-sighted management and execution, along with support from various government schemes, have indeed paid off.



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