

6 RECOMMENDATIONS

As this paper focusing more on the Malaysia market, it would be more relevant to make evaluation on the telecommunications industry in Malaysia. Therefore the author would like to concentrate the recommendations on Telekom Malaysia instead of Lucent technologies. The Strength, Weakness, Opportunity and Threat (SWOT) analysis tool is used to evaluate Telekom Malaysia only. Then various strategic issues faced by Telekom Malaysia as an operator and Lucent Technologies as a equipment vendor are discussed. These strategic issues include customer strategies, alliances and acquisition strategies, product and technology strategies, Internet and multimedia strategies and research and development strategies.

6.1 SWOT analysis on Telekom Malaysia

6.1.1 Strength

As the dominant PTO in Malaysia, Telekom Malaysia certainly has influential market power in the telecommunications and IT industries in Malaysia. The fact that the company is selected as the sole provider of telecommunications infrastructure for the Multimedia Super Corridor has emphasised the role played by Telekom Malaysia. Until the early 90's, it was the monopoly player in the telecommunications industry in Malaysia. Even now, it controls the biggest share of market in business and residential fixed line services.

Telekom Malaysia has the largest range of services offered among the Malaysia operators. Telekom is able to cross-subsidy the new start up service which has not making any profit yet. It can do so until the new services are broadly accepted by the public and start to generate the profit. Telekom could give substantial discount on the service prices in order to attract more users to the service. It could even cutting prices to a very competitive level to increase the user base of some non-performing services, as what happened in TMTouch last year.

Due to its long history of operations, Telekom Malaysia has a very extensive network throughout the whole Malaysia. The transmission backbone links for carrying the ever-demanding traffic are quite well planned. It does not have to share any transmission link from other operators. It can use its network as test bed for any kind of new technologies and services.

Another strength that Telekom possessed is in the relationship with the regulator. In fact, some of the staffs in Communications and Multimedia Commission (formerly known as Jabatan Telekom Malaysia) are formerly Telekom staffs and vice versa. The good relationships with the government agencies have make it easier for Telekom Malaysia to

- apply new licenses for new services;
- bid for telecommunications projects;
- negotiate price increase;
- negotiate increase of service coverage area;
- get type approval for importing equipment;
- bid for allocation of wireless spectrum;
- get approval for building equipment sites;
- get approval to acquire another company; and
- set up joint venture with foreign company.

Brand name awareness is getting more and more important in telecommunications business especially in the current era of deregulation. In this aspect Telekom Malaysia does have a very strong image. Usually the first name that appears in a user mind when he want to apply for fixed line service is Telekom. This is a competitive edge for Telekom especially in area when there are several operators serving the same customers.

6.1.2 Weakness

The most important weakness of Telekom Malaysia is in the customer-care service. It usually turns out to be a not so good experience for any customer who goes into any one of Telekom's branches. Whether it is applying for new telephone line, making enquiry about a bill, applying for new services or, sometimes, paying the telephone bill, it usually takes more time than

expected. Some Telekom's staffs still have the negative government's staff thinking which see their work as repetitive and boring. They are lack of motivation to provide better customer-care services to any user.

As the major shareholder of Telekom Malaysia is the Malaysian government, its strategic business decisions are influenced strongly by the government policy. Telekom has to comply with the obligation to provide universal services even to the rural areas where the costs are high and the profits are low and even negative. Other new operators do not have to bind by this obligation as long as they can prove to government that their profits could not justify the high costs of providing services to the rural area. Even though Telekom has strong market power the regulator controls its profits. The service prices are capped and it could not charge high costs to other competitors who use its network. Telekom has only limited freedom in giving huge discounts in certain services, especially mobile services, in order to capture large market share.

Although ATUR was the first mobile phone services introduced by Telekom into Malaysia, Telekom was purposely denied any digital cellular mobile service licences. Eventually it had acquired Mobikom and TMTouch (formerly Emaltel) in order to go into digital mobile phone services. But the two companies have yet to show profitability. It reflects Telekom's weakness in running digital mobile phone services. Recent Telekom's movement to merge the two companies is regarded as a positive move as this will definitely reduce the operating costs of both companies.

6.1.3 Opportunities

The most obvious opportunity in the telecommunications industry is the convergence of voice and data networks. As discussed in the previous sections the converged industry will see traditional telecommunications service providers venture into data communications market, and vice versa. Telekom Malaysia could take this opportunity to diverse itself into IT business and lead the market trend of converged services. So far we have not seen any major acquisition of data communications companies made by Telekom.

The largest project for the converged industry in Malaysia is the MSC project, which was discussed in the previous sections.

One of the major opportunities in the industry can be seen in the increasing demand for mobile and IT services. Telekom have to do something better on Mobikom and TMTouch to make them more profitable. Better quality of service, wider coverage areas and more value-added services are important for a mobile service provider to success. The greatest demand for IT services lies in the Internet access and E-commerce. This will inevitably increase the demand for bandwidth by all companies, large and small. As most of the backbones of data networks are leased lines and packet switched, Telekom Malaysia should enjoy the most benefits.

Opportunities in the industry are usually related to new technology break through. As the largest operators in Malaysia, Telekom has the advantage of testing any new technology on its networks quite easily. But not all opportunities are technology related. New opportunities outside Malaysia are open up following the global trends of deregulation and market liberalisation. Telekom definitely has the means to venture overseas but the rewards are associate with high risks.

6.1.4 Threats

While deregulation opens up opportunities in overseas markets, it becomes a threat to Telekom Malaysia in its home market, i.e. Malaysia. Deregulation will bring along with it more competitors, local and foreign based, and will increase competitions in the market. Telekom will see its profit margins for certain services, especially the long distance call and international call, reducing due to the competition, which drive the prices closer to the costs. The major impact of deregulation in Malaysia is on the introduction of Equal Assess policy. Although the maximum discount allowed is limited to 20%, it still will force Telekom to set more competitive price on its long distance and international call services.

The other threat on Telekom is brought by the technology itself, although technology has help Telekom to grow in the pass. As voice over IP technology getting mare mature and its' services become more commercialised, Telekom might have to reduce its international call rates drastically to prevent its users switch to IP service providers. Although the costs of voice over IP is definitely higher than leased lines, the profit made from international call services is higher than leased lines. Price of leased lines will be reduced further due to availability of higher speed optical fibre and more intensive competition. The competitions come not only from local operators but also from foreign, much larger, PTOs. Multinational corporations might also switch their long distance and international calls from Telekom to their own private networks using voice over IP technology. But this might not happen in the near future.

6.1.5 Recommendations based on SWOT analysis

Based on the SWOT analysis above, Telekom should pursuit maximisation of the value of its business through:

1. Improve its customer-care services. Telekom should make its customers more pleasant when they visit any of its branches;
2. Building on its competitive advantage. It should improve and maintain the advantages and strength it possessed;
3. Lower the operational costs and overall costs in order to be more competitive;
4. Improve network and market accesses so that more potential customers can be reached;
5. Increasing market power, so that the price level can be maintained or raised.

6.2 Business Strategies

Operators and vendors are constantly facing many strategic issues, which includes ⁽¹⁾:

- Improvement of technology;
- Supply chain management; vertical integration versus outsourcing for equipment, services, and research and development;
- Managing political relationship;
- Coping with competition in traditional monopoly area caused by deregulation: local loop, long distance and international calls;
- Competition cause by new technologies: mobile communications, Internet telephony, etc;
- Different regulatory bodies overseas;
- Merger, acquisition, and alliances
- Globalisation

In the following sub-sections various strategic issues are discussed. The ideas presented are very generic to show what Telekom Malaysia and Lucent Technologies could choose in its daily business operations.

6.2.1 Customer strategies

There is relatively small number of large companies dominating the demand side of the market for business service nationally and internationally. The business users want to cut their telecommunications costs by simplified management and lower tariffs. For them, simplified management might means availability of complete international circuits without the need to deal with foreign operators. They also desire a single bill that covers the whole of their worldwide operations. The bills must be accurate and customised on the cost and performance. The tariffs must have discount structures that are easy to understand and apply. It should also run across service boundaries if the customers have use more than one service. Telekom Malaysia should prepare its customer strategies to fulfil the needs of these business users.

Lucent technologies should work closer to the customers, becomes their business partners in providing them the most cost-effective solutions. Lucent has started to provide the customers, especially the new operators, financing services in order to capture larger market share. While this strategy works for operators in a politically stable country, it might fail if the operators are linked to a weak political figure that might lose his power in political upheaval.

6.2.2 Alliances and acquisitions strategies

Most large operating companies have made overseas expansion an important element in corporate strategy because it affords a means of expanding into a business area, which is outside the reach of domestic regulation. Many of them have found that making money abroad is harder than making it in the domestic monopolies to which they had been accustomed.

When Telekom Malaysia wish to expand into other territories it often try to take stakes in existing enterprises if there are any because this is quicker and the outcomes are more predictable. A strategic alliance with partners in other countries offers a way of expanding overseas with relatively low risk. It does not require the construction of physical assets or the complexity and finality of a merger. Telekom is expecting three advantages from the alliances:

1. The chance to develop better products based on end-to-end service provision, which matches the requirements of multinational customers.
2. Access to foreign expertise and customer bases, which could help with the provision of international leased lines.
3. Greater market power which come with the capture of traffic from the dominant local carrier.

Telekom Malaysia should see the alliances as a strategic necessity to protect its market. However, the alliance strategies may not be stable or durable. In the other hand, vendors such as Lucent should be aware of the movement of the alliances in order to quickly addressing its customers' needs.

6.2.3 Product and technology strategies

The evolution of new products is an essential in telecommunications industry. Migration strategies should be used by Telekom to move existing customers to the new product rather than losing them to a similar product produced by competitors.

Competition between fixed and mobile networks, and the desire of operators to enter each other's markets can lead to mergers or collaborative ventures between fixed and mobile operators. This has already happened in Telekom but it might be just started in other countries. Lucent should be aware of it and should encourage the convergence of fixed and mobile networks.

Product and technology strategies should be closely linked to the forecast of demand of the technology. To do so, the decision-makers of Telekom and Lucent should be aware of the market trends and the changes in customers' demands.

6.2.4 Internet and multimedia strategies

The convergence of voice and data networks is one of the management issue more than of hardware issue since data traffic, including Internet traffic, is carried mainly over leased lines. However, the consequence is that in the longer term, the value added by the conveyance of voice will be reduced as competition erodes prices down to the new cost base.

The network architecture of Telekom will need continued evolution to accommodate future broadband and multimedia services. Videoconferencing, audio/visual information services and the linking of computers on different sites are among the multimedia applications most often used by multinational companies. The multimedia value chain has five main elements: ⁽¹⁾

1. Service provision;
2. The access network;
3. The transmission network;
4. Terminals
5. Applications (entertainment, information, etc).

Telekom should struggle to achieve market dominance in any one of these elements because the outcomes are very profitable. Lucent is strong in providing equipment for the access network, transmission network and terminal but it face strong competition from data communications equipment supplier such as Cisco. As the IT industry could begin to control telecommunications through IP based services, lacking of IP based equipment could be a serious shortage in Lucent's product range.

6.2.5 Research and development strategies

Lucent spends about 10% of its income on R&D and it is the major part of the cost of the new switching equipment. ⁽¹¹⁾ Although Lucent has been doing extremely well in its R&D, it should emphasis more now on IP based products as the voice and data communications technologies converged. The challenge for Lucent would be to become the vendor of choice among the Internet service provider (ISP).

For Telekom, R&D represents a diversification away from its core business. The advantage from R&D may not be sufficient to overcome the extra costs. Therefore, it should not increase the R&D costs tremendously.