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## **CHAPTER 1**

### **INTRODUCTION**

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#### **1.1 INTRODUCTION TO PAYPHONES INDUSTRY**

Since the first telephone was invented by Sir Alexander Graham Bell in 1876 (British Telecoms; 1999), payphone services has been synonym with telecommunication industry. Bell saw a future in which all people regardless of social group they belong to would communicate with each other around the globe. It means those people who thought the telephone was a plaything for the rich now has access to it. Since then payphones industry has begun its important role in serving the entire world. In London, the red classic phone booth has always been synonym with the city. In the United States, the classic American city sidewalk feels incomplete without a hotdog stand, a newsagent, and of course a public payphone. In superman movies, there are always scenes of the man of steel searching for a payphone booth to change into his attire. In fact every life was rather incomplete, without a payphone and thus payphones became one of major contributions toward nation building all over the world. The important role of payphones was undeniable. When thought of calling someone, payphone has always strike out people's mind at the first glance.

##### **1.1.2 Introduction to Payphones Industry In Malaysia**

In Malaysia, similar trend exist. Payphones industry was regarded as an important arm in telecommunication service industry in Malaysia. Historically, the first telephone exchange was installed in Kuala Lumpur, seven years after the first telephones exchange was installed in England (Har; 1995). Since the beginning, there was hardly a payphone installed for public usage. Back then, telephone was meant for the rich; mainly for government administration usage under colonial rules. Then, ten years after independence, in 1968 the Department of Telecommunications Malaysia (JTM) was

formed to act as the regulatory body, looking after the entire telecommunication need of the nation (Telekom Malaysia; 2001). Since then payphones started to be installed nationwide although initial concentration was in town and city areas.

In tandem with the national vision to become an industrialized nation, the Malaysian Government's telecommunications sector was privatized to enhance service quality and industry growth (Ministry of Energy, Telecommunication and Post; 1995). Since then, more licenses were opened up to private telecommunication companies (telco) to provide the services which initially was monopolized by one player.

In the early years of Malaysian telecommunication, payphone industry was monopolized by Telekom Malaysia (TM) (Ministry of Energy, Telecommunication and Post; 1995). After privatization exercise, payphones service was extensively extended over the entire nation. TM operated its payphones directly under one of their divisions – Local Network Division. Realizing the need to enhance quality service, Government granted payphone operating licenses to two more operators; started with Unifon Sdn Bhd (USB) and later, Citifon Sdn Bhd (CSB) (Ministry of Energy, Telecommunication and Post; 1995). Until today, these are the three licensed payphone operators (LPO) granted by the Government to operate actively in payphones business. But later on we will discuss the need for the government's license to operate payphones business is no longer relevant due to the nature of payphones business which has changed in its operational aspect.

As more operators came into scene and competitiveness increased, payphones installation became aggressive. In 1997, there were 170,000 payphones installed in Malaysia – almost 9 payphones per 1000 population – a standard which was above the standard found in most developed countries, i.e. the United Kingdom – 1.8 payphones to 1000 population, German – 1, France – 3, the United State of America – 8 and Japan – 16 for every 1000 population (Telekom Malaysia; 2001). Thus, the Government's step to open up more licenses and increase competitiveness in the industry successfully allows more people to access to the service. As of today, there are still three main licensed players, so-called 'Licensed Payphones Operators' (LPO) in Malaysian payphones industry; namely

Telekom Malaysia Payphone (TMP), Time Reach Sdn Bhd (TRSB) and Citifon Sdn Bhd (CSB).

As mentioned earlier, TMP has been involved in the industry since the early days of the first telephony communication being introduced in Malaysia under Jabatan Telekom Malaysia (JTM), known as Unit Telefon Awam (UNITA) operating under Local Network, one of TM major division. After the privatization of JTM into a new privatized entity – Syarikat Telekom Malaysia, UNITA continued to operate under the same wing. Then in 1995; under TM's new re-structuring exercise, UNITA was abolished to form a new strategic business unit (SBU) known as TM Payphones SBU which operates as an autonomous profit center under TM proper. As of June 2001, TMP is operating 79,500 payphones nationwide (Telekom Malaysia; 2001).

TRSB, formerly known as Unifon Sdn Bhd was established and awarded license by the Government in 1990 to operate payphones in cities areas only. However, in order to promote equal social obligation, the Government changed the license *modus-operandi* and instructed the company to install payphones in the rural areas as well. In 1999, as part of a business re-structuring by the company owner, Unifon Sdn Bhd was taken over by Time Engineering Bhd to form a new company under the name of Time Reach Sdn Bhd. However, the brand name remains the same as Unifon for strategic marketing purposes. As of June 2001, the company is operating 41,600 units of payphones nationwide, mostly located in major cities and towns. (Telekom Malaysia; 2001)

CSB is the smallest and the latest comer into the Malaysian payphones industry. It was established six years ago in 1995 under the equity of various investors. Initially, the main thrust of the company was to promote smart card utilization, which is the latest technology in payphones technology. Since the early years of its establishment, CSB's aggressive marketing and operational strategies were geared towards smart card utilization. However, based on some studies on the company, CSB's smart card utilization was not doing well due to its high operational cost coupled with high capital requirement and the highly competitiveness nature of the payphone market during that

period. As of today, CSB operate 9,000 units payphones nationwide, mostly in major cities. (Citifon; 2001)

## **1.2 SIGNIFICANCE OF THE RESEARCH**

On a global scale, in the United States of America (USA), a few companies such as BellSouth – one of the big players in the US telecommunication industry had given up its payphones business and let the business be taken over by other firm. They used to operate 2 million payphones installed nationwide, but over a period of two years, about 300,000 booths were removed (Feldner; 2001). In the UK recently, it was reported that the number of payphones were gradually reduced till a point where British Telecommunication plc. (BT) had to double its basic charge to retain constant revenue stream (British Telecomms; 1999). Across the Straits of Johore, Singapore payphone's usage rate had declined as high as 30% over the last two years (Singh; 2001).

With the current events that are happening worldwide, the Malaysian payphones operators must re-visit their current business strategy based on the current environmental landscape in which they operate in. They cannot afford to leave the service as it is. A recent survey done by the Ministry of Energy, Communication and Multimedia (MECM) in June 2001 revealed a shocking outcome – 98% out of 2000 consumers surveyed in Malaysia identified payphones services as unsatisfactory and in inefficient state (Utusan Malaysia; June, 2001).

It is not difficult to agree with the survey conducted by the Ministry; just have a drive across the Klang Valley vicinity, and we will find almost eighty percent of the public payphones in sorry states, ranging from dirty and dusty condition to nasty and badly vandalized booths which seems unattended for years! If we come across a line of payphones on a sidewalk, we will be lucky to find two out of five phones are in working states. Most of the time, all of the payphones are either dead or at most one is working out of four or five lined up in a row.

### 1.3 RESEARCH QUESTIONS

As elaborated earlier, during the early years of payphones business, it was regarded as lucrative whereby the services were very much sought after. Most people depends on the service as payphone is the only means to send and receive messages while on the move or away from homes and offices. But, what the public used to think of public payphones as a great deal of contribution to the public, not to mention a number of life saving occasions via emergency calls made from it - is totally diversified today. According to the recent survey done by the MECM in June 2001, 98% out of 2000 consumers surveyed in Malaysia identified payphones services as unsatisfactory and in inefficient state (Utusan Malaysia; June, 2001).

Based on the above statement, some questions ought to be revealed:

- What had happened to payphones industry all this while and where are the service operators heading to?
- What is the future of the industry?
- Are payphones services still a relevant industry with the current technological advancement which has swept across the nation?
- Some people regarded payphones as endangered species which sooner or later may be fit in a Museum as an historical object. They just counted their days to be extinct. Are those statements true?
- If payphones were to remain relevant, what strategic alternatives ought to be employed?

Those are the big questions by which this paper tries to explore and explain in further detail.

## **1.4 RESEARCH OBJECTIVES**

The purpose of this research paper is to provide an insight on the current and the future of payphones industry in Malaysia. In doing that, first of all, we shall discuss the current industry's landscape which shall be based on external environmental analysis and industry environment analysis. Upon the outcome of the analysis, we shall have a fairly good understanding on the industry background and some factors that causes the industry to end up with the current state. For better insight, some comparison with other countries on a global scale will be made to relate the issues with its significance. With the understanding of industry environmental background, at the end of this paper, we shall conclude the future of the industry and relating it with some strategic models to deal with future outcome. Some frameworks such as Porter's Model, Value Chain Analysis, Business Level Strategic and Competitiveness Dynamics will used from time to time in our analysis.

## **1.5 RESEARCH METHODOLOGY**

This research paper will be based primarily on secondary data, in the form of reviews, reports and statistical data, specifically telecommunications review by Commerce International Merchant Bank (CIMB), annual economic report for the year 2000 by Ministry of Finance , telecommunication industry review by MECM, as well as reports and analysis from the players themselves, i.e. CSB and TMP. In addition to it, a series of interviews were also carried out with the CSB's Chief Financial Officer (CFO) and TMP's Business Controller (BC) to understand some of the related issues as stated in the research questions above.

To formulate the future of the industry and its relevant strategies, data and information gathered will be analyzed based on the following frame works - External Environmental Analysis, Industry Environment Analysis, Porter's Model, Business Strategic Model and Value Chain Analysis.