# *CHAPTER 3*

# *COMPETITIVE STRATEGY FOR SURVIVAL*

We have discussed in the previous chapters that the payphones industry was attacked and continued to be attacked from various angles. This has put the industry in a very difficult situation and under tremendous threat. The external environmental and industry competitiveness environmental are not conversant for the industry to blossom. Nevertheless, as we can see from the social cultural aspect, there are some groups of people who are in need of payphone service. Despite of all the threats faced by the industry, some analysts believed that payphones industry is still relevant, currently as well as in the future; if and only if payphones operators re-visit their business model and implement suitable strategies based on the nature of threat they are facing (Dukart; 2001). This chapter will discuss on the appropriate strategies applicable to payphones industry. In order to assist us in understanding the appropriate strategy, we shall use one of the important strategy frame work - value chain analysis. In addition to value chain analysis, the chapter will also discuss one of important strategy applicable in most industry nowadays – strategy alliance.

## 3.1 VALUE CHAIN ANALYSIS

Hitt, Ireland and Hoskisson defined value chain analysis as a template that firm use to understand their cost position and to identify the multiple means that might be used to facilitate the implementation of their business-level strategy (Hitt, Ireland and Hoskisson; 1999). As we can see from the previous discussion, the down turn of the payphones business is mainly due to various threat which causes consumers to run away from the market into substitute products. Substitute products are preferred compared to payphones as the former provides enhanced value added service with state–of–the–art technologies. In addition, as mentioned earlier to operate and maintain payphones business is very costly due to the nature of its operations that deal with public properties. Furthermore, payphones are the only public properties, which exist at almost every corner of the nation, collecting cash unattended.

To see how costly it can be, a study was made from typical operators operating in the business. The following table depicted the basic cost, exclude expenses incurred due to fees and rental imposed by LA or premise owner; and losses due to vandalism and fraudulent acts. The cost presented is under normal operating condition, i.e. additional cost required to operate and maintain payphones in very remote rural areas are excluded. It is believed that to operate in such areas, the cost might be double from the normal cost.

*Figure 4: Typical Operating Cost to Operate and Maintain a Payphones Services*

***LIFE CYCLE OPERATIONAL COST PER PHONE***

| | 1 YEAR | 5 YEARS |
|---|---|---|
| **INSTALLATION COST** | 6500 | 6500 |
| **MAINTENANCE:** | | |
| **Direct Labour** | 48 | 240 |
| **Contractors** | 194.76 | 973.8 |
| **COMPONENT REPAIR** | 144 | 720 |
| **SPARE** | 162.5 | 812.5 |
| **LINE RENTAL** | 420 | 2100 |
| **TOTAL OPN** | 969.26 | 4846.3 |
| **TOTAL OPN + INSTALLATION** | 7469.26 | 11346.3 |
| **OPN COST PER PHONE PER MONTH:** | 80.77 | |
| EXPECTED REV. | 3,600 | 18,000 |
| LESS REV. SHARING | 1,440 | 7,200 |
| **NET REVENUE** | **2,160** | **10,800** |

**ASSUMPTION:**

1. Life cycle is assumed to be 5 year
2. Defect rate per month is at 4%
3. Direct labour requirement is at standard industrial index at 250 phones per manpower
4. Outsourcing required:
   a. Routine maintenance at RM12 per phone per month
   b. Corrective Maintenance is RM12 per phone per month at 4% defect probability
   c. Cleaning at RM 3.75 per phone per month
5. Component repair is based on 42% monthly faulty rate over population at RM300 per phone.

6. Spare requirement is estimated as 2.5% of equipment cost per year
7. Complete installation is considered as total expenses which include cost of phone set, booth and installation charges.
8. Revenue per phone is expected at RM300 per phone per month.
9. Line rental for telecomms network is the actual cost at RM35 per phone per month.
10. Revenue sharing is estimated at 60% 40% on average.

***Source: Telekom Malaysia Payphones(2001), Citifon Sdn Bhd(2001)***

Based on cost structure analysis presented above, the cost to operate and maintain a payphone for five years is very costly. To retaliate and stay competitive, payphones operators must re-visit their business model and to enhance the business operation. In order to do that, value chain analysis framework shall be used, which consist of two main activities, namely support activities and primary activities.

### 3.1.1 Support Activities

Support activities provide the support necessary for primary activities to take place, namely firm infrastructure, human resource management, technological development and procurement. (Hitt, Ireland and Hoskisson; 1999)

#### 3.1.1.1 – *Firm Infrastructure*

In order to operate a payphones service, the operators must ensure the telecommunication network infrastructures are in place. However, from the cost analysis above, we can see that the cost to obtain and maintain a telecommunication line is costly. Under typical agreement with network operators, revenues obtained are shared on the basis of 60:40, that is 60% is to be retained by the operators and 40% to be paid to network operators; apart from normal monthly line rental of RM35. The 60:40 revenue sharing means that 40% of any revenues obtained will be automatically deducted, leaving operators with only 60% of it (Citifon; 2001, Telekom Malaysia; 2001). Taking into account other expenses, i.e spare part and maintenance cost, the margin for profitability will definitely be low. Apart from that, the monthly rental fee of RM35 per line, which constitutes almost 20% of total operational cost structure, seems to be quite high. In order to have a comfortable profit margin, payphones operators must find a way to re-negotiate the revenue sharing as well as rental fees with relevant network operators. Payphones must take advantage of their high bargaining power over network operator since they hire a huge number of network lines, i.e. more than 100,000 in total for the three operators. It is also advisable that the three operators to join effort in their re-negotiating exercise so that their bargaining power even stronger. The right revenue sharing must obtained under win-win situation, so that everyone shall survived in the long run.

### 3.1.1.2 *Human Resource Management (HRM)*

Human resource is a very important part in all business structure. A firm may have a very sophisticated and state of the art technology's equipment, but if their human resources are not up to the required standard, the firm will not be able to survive in a long run. In payphones business, HRM plays an important part of day to day business operations, such as maintenance task and coin collection. Appropriate HRM strategies such as proper training, motivational scheme, putting right people for the right job, must be imposed. This will not only save the firm from unnecessary cost due to incompetence, but also creating a healthy employee's environment at workplace. From an in-depth interview with one of the payphone operators reveals that the morale of employees in the industry is very low, which is quite common in most unprofitable company (Citifon; 2001). Everybody keeps blaming on each other for any hiccups in the firm, i.e. marketing staffs point fingers at technical people for low serviceability of phones that make it hard for them to sell the product while technical group blamed marketing people for poor performances in revenues generated that hinder the firm from purchasing enough spare-part for maintenance purposes.

According to a research (Hamermesh and S.B Silk; 1993), top management role is very important in ensuring success for stagnant and declining industry. Hamermesh and Silk gave their guideline as follows:

- Avoiding Labels
- Avoiding Milking
- Choosing Managers

- **Avoiding Labels** - Although it is essential that top management consider harsh reality when developing business plan for stagnant industries, it is also important not to assign harsh labels to these businesses. One label often used for low growth businesses is 'dog'. Such characterization can have a debilitating effect on morale within the division, and it suggests that not much attention need to be given to these businesses. But, from a study, competition in a stagnant industry is usually intense and success is dependent on creative strategies and skilled implementation. Top management do have responsibility to ensure that business unit accepts stagnant industry demand as facts. Stagnation does not mean that successful ways of competing do not exists. Successful strategies are more likely to be adopted when the stagnant condition is accepted as a fact of life rather than labeling them as a dreaded condition.

- **Avoiding Milking/Harvesting** - Another inappropriate top management response is to require these businesses to adopt milking or harvesting strategies automatically. The overwhelming defect on these strategies is that they are internally oriented ignoring events in the external environment and assuming a lack of change within the industries. This attitude is often reflected by attempt to harvest the businesses for cash and thus minimize investments in research and engineering. Many successful businesses that compete in stagnant industries do generate cash than the amount they consume and in these sense could be considered cash cows. But there is an important distinction between generating positive cash flows as the result of strategic action aimed at improving a business competitive position, and making positive cash flows should be the major objective of a business; not merely as a milking cow.

- **Choosing Managers** - It is noted that there is a tendency of most top management to assign their most talented and aggressive managers to their rapidly growing divisions while leaving their stagnant division with less aggressive and competent managers. Keeping in mind that competition in stagnant industries is usually more intense than in growth situation. It is easy to see the problems that arise when less competent managers are assigned to these businesses. Choosing appropriate managers for low growth business is a major challenge. Some studies have shown that it is crucial for an experienced manager to be assigned to run one of these businesses and that his or her future promotion be tight to success of these divisions. Of course choosing good people becomes a hollow gesture if it is not back up by bonus and promotions for outstanding performance. And it is important to remember that success will usually not manifest itself in high rate of sales growth but rather in high levels of return in investments. Nothing signals top management expectation more clearly than the promotion of managers who have competed successfully in stagnant market place.

### 3.1.1.3 *Technological Development*

General environment analysis revealed that rapid technological changes have given a great impact on payphones business. Thus, to stay survived, payphone operators must retaliate through the development of technology, as well. One characteristic of successful strategies in stagnant industries is the pursue of high quality and innovative products. Such innovative products allow the company to avoid some of the price competition that often typifies stagnant market. Product innovation has the further advantage of being difficult and expensive for competitors to imitate.

To some extent, payphones have changed in the past decades, at least colors has been changed; from plain orange under JTM era to blue, green and yellow presently, and phone booths can even accept other means of payment. Other than that, they are still basically just a phone in a booth. To stay survived, payphones operators must be innovative to create changes. Many former payphone users now have their own mobile phones and do not use payphone any more. The payphone cannot offer the convenience of a mobile phone. Many other mobile devices will be available in the future too, so that people will be able to access most services by means of devices that they have with them. Network intelligence will also allow people to make use of any nearby terminal as if it were of their own. So many people will have no need for a payphone. Thus as mobile penetration increases, the numbers of payphone users will decline.

Payphone operators should not just accept that the need is declining and allow them to become extinct but should justify the need for their continued existence. Some people will not have the wide range of mobile devices available and even those that do will occasionally forget them, or have a flat battery, or do not get a satisfactory signal. Some will still only use telecommunication services too seldom to save cost although they do have their own mobile devices. And it is not just about financial cost - mental investment in changing a lifestyle must also be considered. Books are cheap and easy to find, but we still have libraries. Similarly, in spite of the mobile phone, payphone will survive too by providing a range of supporting and complementary services. In order to remain relevant, payphone must adapt to changing needs. Some of the new facilities payphones operators may offer will be discussed in chapter 4.

**3.1.1.4** ***Procurement***

Re-visit the cost structure reveals there are many areas which can be reviewed for reduction. The main one is the payphones equipment cost itself. According to the cost structure, equipment depreciation itself constitutes about 57% of the total cost over the five years operations (Citifon; 2001, Telekom Malaysia; 2001). Based on this aspect, the need to lower the procurement cost is indeed another major concern of payphones operators. Payphones operators must find a way to reduce the depreciation cost. Perhaps, simpler equipment with lower cost can be procured for installation in more secured areas, such school and hospitals, leaving the current equipment for the outdoors. To avoid high maintenance cost and vandalism losses, they may focus on in-door installation and reduce outdoors. Of course, as public payphone providers, the operators must install some phones outdoor. Thus, the correct proposition between in-door and out-door must be analyzed so that the correct composition will yield profitability. In addition, expenses due to maintenance, which currently constitute about 24% of the total cost structure, can be reduced further. In short, operators must find ways and means to reduce the current cost structure and strive for low cost leadership in order to stay survived.

### 3.1.2 Primary Activities

Primary activities are group of activities which are involved with products or services creations, its sale and distribution to buyers and its service after sale. Those activities are sub-divided mainly to five categories, namely inbound logistics, operations, outbound logistics, marketing and sales, and services (Hitt, Ireland and Hoskisson; 1999). In payphones business, operators must enhance their primary activities in order to stay competitively survived.

#### 3.1.2.1 – *Inbound Logistics*

In payphones business, inbound logistic is very important and behaves as the starting point toward a quality service. Inbound logistic includes the choice of equipment type and spare part quality which are able to meet customers' needs. The following basic features must be made the main criteria in choosing payphone equipment (Citifon; 2001):

- Robust
- Reliable
- Clean & Presentable
- Multi-payment mode.
- User friendly
- Continuity – no interruption
- Workable
- Convenience
- Ergonomic factors

Apart from the choice of equipment and spare-parts, another important inbound logistic factor would be the management of asset and spare part. To reduce cost and upgrade their serviceability, operators must make an effort to apply just-in-time (JIT) approach. All relevant agencies involved must be considered, i.e from the suppliers to the site installation approval bodies and the civil work contractors, in attempt to make JIT successful.

### 3.1.2.2 – *Operations*

Payphones operations basically involved with three main activities, namely installation, maintenance and coin collection (Citifon; 2001). In each activities, payphones operators must adopt low cost process. In fact, according to a study, one of the characteristics of successful stagnant industries businesses is that their constant attention to cost reduction (Hammermesh; 1993). As we can see from the cost structure above, operational cost in payphones industry is relatively high. Thus, an aggressive attempt must be made to reduce cost.

The most common way to achieve lower cost seems to be by improving processes, i.e maintenance process, installation process, collection process etc. Often these improvements stem from constant and systematic attention to efficiency. Through a good and well managed operational processes, low cost leadership shall be attained.

### 3.1.2.3 –*Outbound Logistics*

In payphones business, outbound logistic deal with activities that provide the end result to the public. Quality services such fast installation request and rectification process must be continuously enforced. Apart form that, fast, wide distribution and assessable services ,must be made available. In order to achieve that, the inbound and operational activities must be efficient in the first place.

### 3.1.2.4 – *Marketing and Sales*

By realizing that payphones product and services is at the declining stage of product life cycle (PLC), marketing and sales effort of such product can be considered as a tough task. Philip Kotler, a well known marketer believes that as sales and profit declined, some firms may withdraw from the market. Those remaining may reduce the number of products they offer. They may withdraw from smaller market segment and weaker trade channel, and cut their promotional budget (Kotler; 1997). The very same thing applies to payphone business. In order to remain relevant, payphone operators must reduce the number of payphones to the economical number. Perhaps the first one to go, is the one which generate low revenue. According to the previous cost analysis presented, each payphones must generate at least RM350 to generate profit. Thus, any payphone generate less than that must go off, especially the ones that have high faulty rate due to vandalism and fraud.

To be successful, most business must compete in a limited number of segments within their industry, and the management must determine the segments carefully (Kotler; 1997). In order to segmentize payphones market, it is of a paramount importance to recognize the targeted market. Based on a survey discussed earlier, major consumers in payphones business are students, tourists, elderly, housewives, foreign workers and low income group of people (Melfi; 2001). Payphones operators ought to recognize the group's location is focus on those market penetrations.

Thinking in broader terms than only the range of location, there is another market segment to be targeted. Along with types of product offered and customers served, operators can define market segments in unique and creative ways; for example, a market can also be segmented by the level of customers service, stage of production, price performance characteristics, location of plants, channel of distribution, and equipment characteristics. Choosing what segment to compete in is at the very heart of strategy formulation and the best strategies require considerable time analyzing their industries in an effort to identify merging or growth segment (Kotler; 1997). There are some industries which is virtually impossible to identify growth segment but in most industries, opportunities do exist. It is believed that there is a high growth segment in every industry we can think of.

**3.1.2.5** – ***Service***

In any business, after sale service is very important to ensure sustenance of the business and to wider market share. The very same characteristics are applicable to payphone business. Payphone operators must continuously enhance its service quality. Recent survey by MECM showed poor level of customer satisfactory index. It is found that 98% of 2000 consumers surveyed are not satisfied with payphones service in Malaysia (Utusan Malaysia; June 2001). This means that payphones operators have a big job to turn around consumers' perception to re-gain their confidence with the service. It is strongly believed that payphones business success is related to its service quality level. From a case study, British Telecom enjoyed their first ever profitability after increasing service quality from as low as 17% level to 95% serviceability at all time (British Telecomms; 1999). It is of a paramount importance that payphone operators make some investment to recover their service quality level at the initial stage. They must rectify or take out all bad phones, leaving only working phones on site. They must re-gain new image. If there is a need to re-install new payphone with new outlook, do it aggressively, but of course cost efficiency must be imposed over the correct targeted market segments. Some quality criteria that need to be identified are cleanliness, accessibility, fast response upon complaint, wide coverage, comfortable, convenient, value for money, etc. This exercise must be implemented before any strategies could be put in place.

## 3.2 STRATEGIC ALLIANCE

Of all the trends sweeping across the business landscape, few will have more of an impact on companies in the new millenium than strategic partnerships (Hussain; 1998). We have all witnessed the power of alliances in almost every industry. The revival of the U.S. automotive industry, which was sparked by co-operative agreements with Japanese car makers, is a good example. In airlines industry, most airliners recorded an increase in their sale revenue by adopting partnership. Malaysia Airlines recorded a jump in revenue in 1996, following the tie-up with Virgin Atlantic Airways. We have also witnessed the disastrous effect of 'going it alone' - the U.S. steel industry almost collapsed because it failed to ally itself with strategic partners (Malaysian Business; 1998). A recent survey indicates that in the last two years, 20,000 alliances have been formed worldwide (Booz, Allen and Hamilton; 1999). Between 1990-1996, a total of 36,000 alliances of various kinds were formed in information technology based industries alone. 'Competition through Cooperation' is now considered as a prerequisite to effectively competing and sustaining competitive advantage, hence survivability of a company.

Firms are increasingly forming strategic alliances to ensure survivability in their market place (Hitt, Ireland and Hoskisson; 1999). In payphones industry, such strategy can be rewarding, the only task is to formulate which strategic alliance to adopt which might be beneficial to the business nature. Cognizant of the growing difficulty of operating independently, payphones operators have to adopt the reliance strategy to varying degrees in an effort to meet several of their long and short term objectives.

### 3.2.1 Why Strategic Alliance

One basic question to ask - why strategic alliance? Lead us to give an outlook upon competitive landscape environment that affects all business firms today. As mentioned earlier, one of the main objectives behind forming up strategy alliance is to ensure survivability in fierce environment besides sustaining competitive advantage and gain above average return. The idea is to create a counter attack before the advantage is eroded which leads loosing the competitive edge and eventually survivability is at stake. According to a business-consulting group, slogan 'Ally or Die' has becoming so significant in today's need to form strategy alliance (Hussain; 1998). However, one may argue that apart from strategic alliances, another strategy is to obtain market share through acquisition without going through hectic and uncompromising alliance legality and agreement. Nevertheless, on the other hand, acquisition may not be practical due to significant cost involved. Obviously, it is impossible to acquire equity in full coverage of technological arena coupled with its complexity of legality aspects as well. Thus, forming strategic alliance is still one of the best strategy to compete in today's environment. Besides, acquiring new technology viz. know-how and specialization with virtually no cost involved, forming alliance has made 'competing through cooperation' advantageous over other strategies. Moreover, apart from cost factor, there are many other benefits of strategic alliance as elaborated below.

#### 3.2.2.1 – *Speed*

As Tom Peters said, "Speed is life. Get fast or go broke", time and speed are paramount important features in any business survivability (Hitt, ,Ireland and Hoskisson; 1999). In fact speed has always been regarded as the essence to competitive encounter and response that determine survivability. Speed in developing new product and moving it to the market place is extremely critical to firms' effort to ensure survivability, sustain competitiveness advantage and earn above average return. In payphones business, speed to rectify faulty phones in timely order is one of the critical success factors. Nevertheless these cannot be achieved in full efficiency under one company. To have a speedy fault rectification, payphone operators need to cooperatively work with spare-part suppliers, maintenance vendor, network operators and civil works contractors.

To pursue speed is more than just attempting to employees to work faster. It requires working smarter, using all sort of resources available and having time required to complete primary work related goal. All of those require sharing data and information internally as well as externally which require some form of strategic alliance formation. To obtain speed, one cannot depend on oneself all alone. In terms of information on quality system, an organization needs to consult each other before investing in machinery, uses each other sales representatives and refers customers to each other. This would enable a firm would be able to earn above average return and ensure survivability.

### 3.2.2.2 – *Innovation*

In order to be creative and be able to come out with innovative ideas, employees need to master new skills and knowledge in the increasing technological advancement to capitalize opportunities presented by changes in consumer taste, globalization, deregulation and technology convergence in the market place (Hitt, Ireland and Hoskisson; 1999). To survive in the fierce competition and the rapid rate of change in the market place, organizations which want to adapt and to win must practice continuous learning, change and improvement in every area of their work. All of these demand highly skilled workforce, sometimes in specialized areas, and yet highly flexible which require firms' ability to recruit and select high technical skill workers. It is also important to include people with the right combination of skills, expertise and experience to ensure that the team can solve various problems be it technical or people-oriented ones. However, it is almost impossible to exploit all those skill workers on one own organization. Under strategic alliance a wide variety of skill and talent to trigger innovation could be achieved instantly. Thus, strategic alliance shall provide the catalyst towards high innovative foundation and effective change management in the process of continuous learning organization.

As mentioned in earlier chapters, innovative is one the main payphones characteristic to stay survived. Beside knowledge and skill requirement, in order to gain high innovative foundation requires significant allocation for research and development (R&D). According to a research over 100 largest companies, R&D involvement and organization long-term survival has a high significant relationship (Ingrid Bonn; 1993). However, it may be very costly to conduct R&D in a full range of technology. Besides, conducting successful R&D program can be time consuming not to mention the degree of complexity and difficulties. Again, to have an effective innovative measure through R&D, one cannot do it alone and must depend on others some how. It is crucial for a firm to form a strategic alliance with other firm, especially in a fast and wide technological change environment.

**3.2.2.3 – *Know How***

As elaborated in earlier chapters, it was recognized that payphones declining trend was the result of rapid technological changes impact. In fact, information, intelligence and expertise are the basis of technology and its applications. Knowledge is a critical organization resource and has become a valuable source of competitive advantage. Many companies are now trying to put the accumulated knowledge of employees as corporate assets. The value of knowledge for a company might have some significant effect upon shareholders value. All of these may translate into the need of training and technology investment. Not only are hardware and software important, 'peopleware' is also a key to competitive success, which increase the need to focus on developing core competencies and skills (Hitt, Ireland and Hoskinsson; 1999). According to AT Kearney Research, nearly 60 per cent of top performing organizations worldwide have a strong core business that kept on enhancing on their people's core competencies needs.

Most experts in business strategy agreed that the foundation for competitive advantage lies upon their valuable capabilities and core competencies. Core competencies are world-class skills, technologies and processes that build customers' satisfaction and give economic efficiency advantages over competition. Core competency is the essence that makes an organization unique in its ability to produce value to customers over a long period of time. Professor Christopher J Clarke, Vice President & Managing Director of AT Kearney mentioned "A key implementation step from scenario planning is to determine what core competencies are relevant to the consequent strategic opportunities. These then have to be deployed or acquired". McKinsey & Co, a world renowned business consulting group, recommended that an organization should focus on 3 to 4 competencies around which their strategic actions can be framed. He added, too many competencies to focus on will not do any good, in fact would be burdensome (Hitts, Ireland and Hoskisson; 1999). However, on the other hand reducing competency may expose one to a vulnerable situation as they may loose comprehensiveness and would end up with core rigidity which prevent firms from responding appropriately to environment changes needs. This leads us to a situation whereby too little or too much of one aspect, viz. core competency or comprehensiveness, will not benefit an organization. Most experts agreed that transferring types of competency to another may reduce cost and enhance an entire firm's strategic competitiveness but on the other hand may loose their comprehensiveness and flexibility. Therefore, through strategic alliances, firms may increase the intensity of core competency and knowledge gained as well as comprehensiveness within the alliance partnership circle and at the same time flexible enough to correspond to environmental changes needs.

### 3.2.2.4 – *Quality*

In payphone business, in fact in all business – without quality, product and service, competitive advantage will not be gained. Quality simply means meeting and exceeding customer's need. To achieve quality payphones operators must be able to reduce failure rate, which is associated with cost reduction to become more efficient and effective. Quality is also associated with specialization. The more specialization needed in a product line and services, the more time and effort required towards its development (Hussain; 1998). Obviously, time and effort are paramount important to produce a quality product while maintaining the lowest cost possible. CEO of Compaq – Pfeifer said, 'The future belongs to whichever company provides the right bundle of quality products, technology, solution and service with the lowest cost of ownership to customers'. On the other hand, one may wonder of a formula to obtain quality while maintaining low cost. The only formula to achieve it, as suggested by Pfeifer is through strategic alliance formation whereby each partner share their resources, capabilities and competencies collectively and synergistically to reduce cost while uncompromising on the quality aspects. Low cost/differentiation strategy would be effectively viable through strategic alliance approach. (Hitt, Ireland and Hoskisson; 1999)

### 3.2.2.5 – *Reducing Investment Cost and Risk*

In payphones business, we have seen how expensive it would be to operate and maintain a payphone. Thus cost saving is one of the important key success factors. On the other hand, they must not forego the need to invest on R&D in the search of new technologies. One firm would not be able to be a champion in a full extends of a product within the industry circle. This is especially so in an environment whereby technological change is so drastic. In payphones business, obsolesces rate is so fast caused by rapid technological changes in telecommunication industry. This factor lead to the requirement of aggressive and progressive R&D. All of these requirements need a substantial amount of investment which could be extremely costly for any one firm to swallow. Thus, through collaborating with alliance partners, operators would be able to reduce the need to invest in their product development and production. Instead, one would only focus on its core competency, while leaving other parts of it to alliance partners.

### 3.2.2.6 – *Forming an Industry Standard*

As discussed earlier, one of the threats faced by payphones operators is inconsistency in policy, rules and regulation imposed by various regulator's viz. MECM, local authorities as well as building owners (Telekom Malaysia; 2001). To reduce the uncertainties and inconsistency, payphones operators must join hands under strategic partnership to fight back and come out with standardize policy, rules and regulations. To achieve the objective under stand alone basis would be extremely difficult or rather impossible, as the regulators bodies shall be able to manipulate the issues. Thus, operators must be able to collaborate among partners in alliance circle to benefit each other towards mutual interest and goals. All partners shall give their ideas and opinions so that it shall conform to each other requirement. In this way, firms within alliance will be able to formulate an industry standard to be followed through. Thus, strategic alliances enable development of critical standards and architectures, which in turn create new markets, joint efforts in their common interests and quickly respond to new opportunities.

**3.2.2.7** – ***Securing Competitive Edge***

Apart from the above advantages, strategic alliance will alleviate the firm's chances in securing competitive edge based on five forces of Porters Model's (Porter; 1979):

- **Rivalry among competing firms reduced** – Working, collaborating, supporting and sharing each other's resources, capabilities and competency within alliance circle would reduce the number of competing firms within the industry. Instead of competing among firms, competitions would be among alliances. Under payphones scenario, payphones operators might be able to join hand in order to compete with mobile phone operators. Hence, rivalry among competitors would be reduced which increased the survivability of all players involved.
- **Bargaining power of suppliers increased** – As firms collaborate together in an alliance to produce a full complete service, the bargaining power of suppliers will increased. Payphones operators might collaborate among themselves to agree on certain penetration areas under win-win situation. In this way, consumer as well as building owners will be left out with limited alternatives to choose from. Limited consumer's alternative will end up with dependency upon such product and hence increase the firm's survival possibility.
- **Bargaining power of buyers reduced** – As bargaining power of suppliers increased and buyers are left with limited alternatives, the later's (buyer's) bargaining power will be reduced which again can be translated into firm's above average return and increase its survivability.
- **Threat of new substitute** – As mentioned earlier, there are tremendous threat due to new substitute product. By collaborating among operators, the strategic alliance will

enabled them to retaliate more effectively, instead of operating under stand alone basis.

- **Threat of new entrants** – Collaborating among firms within alliance, means each other interest will be well protected by all partners within the alliance circle. This, will in turn creates a threat to any new entrant who wish to compete within the industry under the same product group and target market and lead to higher survivability of a firm.

### 3.2.2 Implementation Methodology of Payphones Strategic Alliance

In payphones industry, we have seen how rapid changes have given the industry a severe impact. Rapid technological change have given birth to mobile phones, Voice Over Internet Protocol (VOIP), Calling Card service as well as E-mail communication to be the preferable means of telecommunication services nowadays. Even at present moment, technical scientist and expertise are still cracking their heads in finding the fastest, cheapest, longest and widest communication means could be offered. Thus, with all of those keeps going on and on, operating in isolation will definitely shorten ones survivability chances, not to mention the ones, viz. payphone operators, which is already under tremendous threat. Payphones operators must find ways and means to cooperate with others in term of strategic alliance, in order to alleviate their chances of survivability in a long run. As stated by Hitt, Ireland and Hoskinson, there are four types of strategic alliance which could be adopted by payphones operators, namely complementary alliance, competition reduction alliance, competition response alliance and uncertainty reduction alliance (Hitt, Ireland and Hoskisson; 1999).

#### 3.2.2.1 – *Complementary Alliance (CA)*

Under CA, payphones operators' objective is to take advantage of market opportunities by combining partners firm asset in complementary ways to create new values. Currently, there is a growing trend that mobile operators offer mobile prepaid card. The sales trend of such new offer was recognized as in increasing trend. Instead of a direct competition with the operators, payphones operator might be able to combine their product under two in one basis, meaning that the same pre-paid card can be used with mobile phones and payphones as well. As payphones tariff is considered as relative cheaper compared to mobiles, it shall create a new value added service to consumers. As and when there is payphones available, consumer will have choices whether to use mobile or payphones to reduce cost or when facing flat batteries. Of course, for the partnership to be successful, a careful agreement must be formulate with appropriate clearing house required. Some additional technical modification might also be required.

**3.2.2.2 – *Competition Reduction Alliance (CRdA)***

As mentioned earlier, CRdA might be implemented whereby all operators operate under strategic partnership. In this way, competitive level will be reduced, as each operator would be allocated to monopolize specified areas/zones under special agreement.

**3.2.2.3 – *Competition Response Alliance (CRpA)***

Under CRpA, payphone operator would form a strategic alliance with all CCS operators. Currently, payphones operators barred the services from payphones since the threat imposed by CCS is quite substantial. On top of it, payphones operators do not obtain any revenues when the calls are made from payphones. Thus, by forming up a strategic alliance, instead of barring the service, payphones operators offer the service from the phones with some revenue sharing with the relevant CCS operators at minimum chargeable rate.

**3.2.2.4 – *Uncertainty Reduction Alliance (URA)***

URA can be formed up to reduce uncertainties faced by payphones operators. As mentioned earlier, all payphones operators would be tied under one partnership to voice up certain issues such as network operator's revenue sharing rate and rental fees, regulator's policy and legality, etc. In this way, uncertainties will be reduced as the same policy, legal matters, rental fees, exclusive right shall be standard to all, thus reducing the threat and enhance survivability.

### 3.2.3 Strategic Alliance Implementation Issues

Despite the significant importance of strategic alliance, it is noted that many alliances partnership in fact does not last long. A study by Boston Consulting Group found that only a third of the intercontinental alliances established in 1992 were still around three years later. Alliances within the same region had a slightly higher survival rate; 59% of them lasted over the three years period. (Malaysia Business; 1998)

It is believed that those crises were mostly due to some managerial issue. While companies simply jumped into this deal-making frenzy, very few have considered the importance of developing skills to manage alliances. Institutionalizing the process of screening, forming, monitoring and nurturing alliances is becoming increasingly important for building alliance strategically success. A critical component of institutionalizing alliance skills is the effective management of a company's alliance portfolio and its implications for the focal firm's performance. For instance, if a company has formed 5 or 10 alliances over the last two years, what impact does that number of alliances and the make up of its alliance portfolio have on current and future performance?

The idea that cooperation is a prerequisite to competition has become commonplace. In fact, the slogan promoted by Cable & Wireless, 'The firm is dead--Long live the federation,' is a reflection of the rapidly growing trend of 'competition through cooperation.' But are alliances a means to an end, or an end in them? Companies, including well-known names like IBM, formed numerous alliances in an attempt to improve their competitiveness and found they had only attained a decline in their performance. Much of this decline can be attributed to a rush, ad-hoc managerial process of alliance formation. Such outcomes raised some very important issues about the prevalent approach to forming alliances. Some of the basic issues that need to be seriously considered are listed below:

- What should the nature and scope of alliances be in a company's overall strategy?
- What are the consequences of forming too many alliances?

- Is there a limit to the number of alliances in which a firm should be involved?
- Is it appropriate to ally with A & B at the same time, whereby both of them are competitors? If it is so, how to handle the confrontation in subtle way?
- What is to be shared and what is not to be shared?
- If more than one alliance know as much as possible about the alliance portfolio, how the next alliance will fit into that portfolio?
- How to determine which direction the alliance partnership is taking such a firm involved?
- Does terminating some alliances may be beneficial if they are likely to lead to dependence in the long run?
- How to assess company's position on the partnership foundation?
- How is the dependency of each and every firm in the alliance upon such partnership?
- How to maximize accumulated knowledge of collaboration to position a firm appropriately on the continuum of dependence-independence relationship?
- How to determine company's alliance threshold level and where its stands relative to its competitors in the industry?
- How to benchmark alliance portfolio and alliance practices within industry as well as across industries?
- And lastly, how to develop in-house capabilities simultaneously within alliance portfolio?

Succeeding in alliances takes some time. Alliance experience can be gained only from an in-depth study of all the alliances involved that result in the absorption of the lessons of collaboration. With knowledge and understanding of how alliances evolve which create dependencies/interdependencies, thorough studies need to be considered to leverage those relationships for maximum advantage in the long run. An important piece of advice – rather than depending entirely upon an alliance portfolio to sustain or improve the firm's competitiveness, one need to retain some independence by upholding own capabilities and skills, creating the force of attraction instead of constantly being attracted to other firms.