

Analysis of major players in malaysian telecommunication industry



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The purpose of this report is to conduct a critical analysis of major players in Malaysian telecommunication industry; Maxis Mobile Sdn. Bhd and Digi.

This report will generally investigate the challenges faced by Telecommunication industry players in Malaysia, how key players sponsored the market challenges, and to discuss the market positioning for Maxis Mobile and Digi in specific as statistics shown that Malaysian telecommunication market is saturated with penetration market rate of more than 100 percent.

Limitation and Scope of Report

Data used in this report is 100 percent secondary as researcher is having inability in terms of funding and time to conduct proper data gathering for this report. There are constraints and difficulties in confirming data accuracy and currency as well.

Overview Of The Industry

Maxis was established in year 1995 with the dialing prefix “ 012”, “ 014”, “ 0142” and “ 017”. Maxis has the largest customer base in Malaysia consist of 42 percent of market share as of 2009. TeleNor from Norway owns 49 percent of Digi (016 prefix) and currently Digi has the largest subscriber base in Malaysia.

Product

Telecommunication providers provide basic services that facilitate communication between people. These services are based on 2G, which

stands for second-generation wireless telephone technology. The major difference between 2G and generation before that is telephone conversations are digitally encrypted. In Malaysia, telecommunication providers offer a wide range of services from the basic 2G voice call services, short messages, multimedia messages, caller ringtones and video calls. Clearly all telecommunication providers offer the similar products therefore there are very little products differentiation can be drawn. The trend in telecommunication technology is moving to 3G, 3.5G currently. 4G services will be introduced to Malaysian market by early 2011.

Price

All telecommunication players provide same services with slight differences in prices that does not exceed ceiling price determined by Ministry Of Communication Malaysia. Maxis, Digi and Celcom, the 3 major players in Malaysia, creatively market the same services with different packaging. Pricing becomes the critical buying decision factor for industry that provides identical products. Fixed line phone services are relatively cheaper comparing to mobile services but mobile services subscribers increase faster than fixed lines because of flexibility and mobility that mobile services can offer and fixed line could not. However telecommunication charges in Malaysia is still expensive comparing to other ASEAN countries. Malaysian telecommunication industry is in healthy stage and providers have relatively higher margin to survive despite the saturation of market penetration.

Place

Customer Service Outlets

2005 MCMC survey [1] showed that Selangor having the largest share of subscriber base accounting to 24.7 percent. Johor has the second largest share of subscriber (13.7 percent) and followed by Kuala Lumpur (9.7 percent). The statistic still apply for now as Klang Valley (consist of Selangor and Kuala Lumpur) has the biggest population and most developed area in country due to the strategic locations. Government and private sectors concentrate the investments in Klang Valley and created a lot of work opportunities. This subsequently encourage the migration of population from outskirts to cities.

Due to market saturation in Malaysia, telecommunication players are also looking at ASEAN market (Indonesia, Vietnam, Philippines, Thailand, Cambodia, Myanmar) for expansion rather than depending on domestic demand. There are also signs of mergers and partnership within the industry to achieve organization expansion because organic growth is too slow for sustainability in the industry.

Signal Coverage

All telecommunication players claim they have best coverage within Malaysia and international roaming however there is no formal report published to rectify the claims. General user experience concluded that Maxis has strong coverage in urban area, Celcom has good coverage in rural area and Digi has the worse coverage.

Promotion

Due to little differentiation in products and pricing, 3 major telecommunication players in Malaysia, namely Maxis, Celcom and Digi, have constantly introduced new promotions to excite the Malaysian market. Cheaper post paid plans, partnership with Blackberry, iPhone, friend finder, bubble talk, unlimited music download and other promotions were among the few promotions run to attract new or retain existing customers. Smaller telecommunication players, XOS and U Mobile, are relatively quiet and tend to be followers of promotions launched by Maxis, Celcom and Digi.

Size Of The Market

Malaysia is one of the largest export nations worldwide and is ranked 28th out of 121 countries by "Global Enabling Trade Report 2009" which published by World Economic Forum. Malaysian had RM 48 billion FDI in 2008, but dropped to RM 4.2 billion in 2009 due to economy downturn [2]. According to statistics published by The Malaysian Communication and Multimedia Commission (MCMC), penetration rate for mobile phone line subscription (pre paid and post paid) grew tremendously from 21.8 percent in 2000 to 108.1 percent [3]. The telecommunication boom wave has perceived to be stabilized as penetration rate has achieved more than 100 percent due to multiple subscriptions. New customer acquisition should not be the primary to-do for telecommunication players, but instead, key players should focus on increasing revenue per subscriber and to retain customer loyalty.

Target Segments

As of 2nd July 2010, Malaysian population count is 28.25 millions, with more than 60 percent of the population between 15 to 64 years of age. 4.7 percent of Malaysian populations are 65 years and above and there are 27.2 percent of youngsters below 15 years old [4]. Population for age between 15 to 64 years old has the biggest spending power since they are the group that formed the working force for Malaysia. Marketing mix should be designed with the end in mind to target population between 15 to 65 years old. However, in 5 years to come, telecommunication players would have to redesign the focus as the old population will grow and young generation will drop due to low birth rate. Population in the city is traditionally the target for telecommunication services comparing to rural area. Therefore telecommunication players concentrate the marketing activities to population in city.

Development In The Industry

Exhibit : Malaysia Telecommunications Revenues, 2008

Source: IDC(http://www.idc.com/getdoc.jsp?containerId=IDC_P6105)

Mobile communication brought the world closer and Malaysians are also enjoying the convenience of mobile phone services, which is the main revenue stream for telecommunication industry currently. People are substituting fixed lines with mobile telecommunication services which provide mobility and higher accessibility. However with the estimated 2010 penetration rate of 108 percent, the mobile voice revenue has reached the maturity level, so as text messaging business. Whilst little growth for both

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categories above, multimedia messaging services and mobile data are expected to take off as the latest wave of growth for Malaysian telecommunication industry.

Challenges In The Industry

Political/Legal

Malaysian government has strong control on the overall economy sector. It is not a freely open liberal society and usually the government policies are set up to protect local based bumiputra(indigenous) companies, as well as companies that are deemed ' pro-National Party government'. Formulation of policies in Malaysian telecommunication sector is done by The Energy, Telecommunication and Posts Ministry. Take 3G license as example, TM (used to own by government in 90s), Celcom(subsidiary of TM) and Maxis were awarded with 3G license where as Digi whose major shareholder is TeleNor from Norway lost the bid. Having said that, Malaysia is going through a phase whereby people are encouraging a ' different' voice rather to have National Party as the ruling party (which they were for the past 50years). The change of people's preference could bring threat to ' pro-National Party government' companies when the opposition party takes over as Malaysian government in the time to come.

Economic

Malaysia's Gross Domestic Product in 2009 was RM 679, 687 millions and RM 183, 364 millions in 2010 [5]. The GDP growth rate is 8. 9 percent for quarter 2 in 2010, GDP growth for Malaysia was forecasted to be 6. 2 percent growth year on year [6]. Overall Malaysian economy is resistant towards the world

economy turmoil and telecommunication players are not impacted. There are signs of strong growth for Malaysia domestic market with the recent announced 10th Malaysia Plan as well as the New Economic Model. The execution of 10th Malaysian Plan especially benefits the telecommunication industry because Malaysian government is moving the country towards knowledge based workforce rather than labour based. Information Communication Technology is the key infrastructure to achieve the target. Telecommunication carriers are given incentives such as tax exemption to develop their core business to support the national plan. With the strong economy growth, there is no doubt for telecommunication industry to continue to experience growth despite market saturation. Telecommunication carriers should leverage and ride on the economy recovery trend to achieve new high records in revenue.

Social And Cultural

Malaysia is a multi racial nation. Malays are the majority, followed by Chinese and Indians in Peninsular Malaysia. There are also minority groups like Ibanese, Bajau and Kadazan which are mostly reside in the Sabah and Sarawak. Due to the multilingual culture, telecommunication carriers need extra effort to please all customers. Example, major languages use in Malaysia including English, Mandarin, Bahasa Melayu and Tamil. Advertisements have to be published via various media, with different languages. This would result in increment of marketing cost compared to single language dominant countries such as America.

More than 80 percent of Malaysians are young, IT-oriented and there are constantly signs of population moving into cities. Due to Malaysian's colonial
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history, Malaysians are somewhat receptive to Western influence while preserving their roots of origin. This would mean customers of the telecommunication industry are closely interacted, well informed, and refuse to accept anything but the latest information of everything. The world now is very informative as there are a lot of channels to source for information.

Customers now are well informed compared to older days.

Telecommunication players are expected to fulfill customers' needs to know everything about their products before making purchase decisions.

Telecommunication industry players need to serve the customer population which is demanding and know about their rights. However, telecommunication players also face misuse of services by irresponsible customers. For example, spam, junk messages, and circulation of rumour short messages. Increase in such incidents would eventually force the Ministry of Communication to take necessary action such as imposing tighter policies in the telecommunication sector.

There is also a unique group of population in Malaysia - foreign workers. The numbers of foreign workers increase to an alarming stage. 10 percent of the 2004 Malaysia workforce was registered foreign workers [7]. Majority of foreign workers are from Indonesia, Nepal, Bangladesh, India, Myanmar, Philippines, Thailand, and other neighboring countries. Telecommunication players should study the feasibility of capturing revenue in this market such as reaching out to foreign workers' home countries and explore the opportunity of partnership with other providers in that region.

Technological

An increasing challenge in telecommunication industry is network development and network optimization. More subscription means network traffic congestion, which is a good problem to have. As mentioned, products and pricing in telecommunication industry is identical across all players, therefore providing quality services is the key to success. If the service provider is not 'smart' and quick enough to optimize the network topology, it could bring into troubles like customer dissatisfaction and cost increase which will impact the company's revenue.

Telecommunication players also struggle to develop innovative services because the current technology in telecommunication are mostly GSM based and 3G technology is comparatively immature in Malaysia but it was to be the way to go since mobile data services are expected to boom. 3G technologies require a lot of up front investment and telecommunication players would run into chicken-and-egg contemplation. Telecommunication players will have strong debate internally to convince stakeholders to invest huge amount of money into 3G before seeing the actual revenue. It is also questionable whether how significant will 3G capture revenue differently from current 2G technologies. Internationally there is also trend of combining fixed lines and mobile services that allow customers to own one number and use that same number for fixed lines, mobile calls and internet access but it will not work in Malaysia due to TM's (Malaysian government linked telecommunication provider) monopoly in fixed line and wired broadband services.

Environmental

Telecommunication providers need to improve the network service to ensure best network quality is provided to customers. Therefore it is crucial to identify strategic locations to build telecommunication towers for strong signal coverage throughout Malaysia. There are constantly resistances from residents when a strategic location is identified because generally people think that telecommunication signal is harmful to human bodies in long run although there is no scientific research evidence to confirm the belief.

Telecommunication players also occasionally get into law suit for building telecommunication towers on private land due to lack of local authorities governance in land ownership management. Communications and Multimedia Act 1998 demanded network provider to take all reasonable steps to restore the land to a condition that is similar to its condition before the activity began if a network facilities provider engages in an activity in relation to any land. Telecommunication players must interpret Communication Act and have strong understanding of The Act before constructing towers to protect their assets and investments.

Challenges Faced By Maxis

Internal Rivalry

Although Maxis is the leader in Malaysian telecommunication industry, its leadership position has been aggressively challenged by 2 major competitors, Digi and Celcom. Both Digi and Celcom is equally established but public perception towards this 3 major players are different. Maxis viewed as the leader unchallenged and well established in the cities or area with congested network traffic. Digi is superb in marketing campaigns but

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has yet to catch up on number of subscribers. Celcom owns by TM, has strong support from the government and has strong signal coverage in rural area because Celcom leverages network services from TM.

Basic products are homogenous but Maxis has been always the first firm to offer new value added services such as I Phone, Blackberry, friend finders, Nokia unlimited music download to name a few. Maxis gets to capture the customer subscriptions by launching of value added services before Digi and Celcom do. However, customers switching cost is low with the implementation of Mobile Number Portability Policy by Ministry of Communication Malaysia. Mobile services customers are free to switch to any telecommunication providers while they get to retain the existing numbers. Therefore Maxis offers cheaper monthly rate and requires customers to sign a one year contract.

Maxis invests a huge sum of money in building the telecommunication network including launching two satellites, Binariang 1 and Binariang 2 compared to Celcom who leverages on TM, and Digi who leverages on TeleNor. Exit cost for Maxis is high and Maxis is iconic in Malaysia as the major service provider, it carries Malaysian's reputation in the telecommunication industry worldwide.

Threat of New Entrants

All telecommunication providers in Malaysia need a license to operate and its renewal will be granted upon multiple assessments by Ministry of Communication Malaysia. The Ministry does issue new licenses but the amount has to be proportionate to size of market. For the past five years,

there were four 4G Wimax licenses issued to YMax, Redtones, P1 and Amax. Three years have past and only P1 able to roll out services but it is not as receptive as expected. Subscription rate is low because new 4G operators do not have existing customer base and they are not allowed to offer 2G services like Maxis does. Mobile services operator licenses were issued to U Mobile and XOS but both companies are not able to penetrate to the market despite numerous of marketing effort tried. U Mobile and XOS combined have less than five percent of Malaysian mobile subscription market share. Entry barrier is high due to license requirements and huge investment for network set up and new operators have not shown threat to Maxis.

Bargaining Power of Buyers

If customers are looking for basic mobile services, then there are a few choices to select from since the products and pricing are homogenous. However Maxis partners and cross over with various companies in to provide unique proposition such as World Cup live mobile broadcast, Maxis is the only provider that offer its subscribers to watch live matches via phones. Maxis also creatively design the product packages that contain product attributes that attract customers and tie them with long term contracts. With this, Maxis increases customers' switching cost, ensure revenue stream to Maxis for sustainability instead of going for quick wins.

Buyers have strong bargaining power but Maxis is intelligent enough to package homogenous products with unique add-ons to reduce buyers' bargaining power.

Bargaining Power of Suppliers

There are two major types of suppliers to Maxis, business as usual suppliers and unique value suppliers. Maxis has strong bargaining power over the business as usual suppliers who provide network equipments, reportings, billing, traffic optimization and other 'utility' tools for Maxis to run the day to day operation. Where as for unique value suppliers such as FIFA and other marketing co-partnership suppliers, Maxis has to strive through and compete with other telecommunication providers to obtain sole partnership which is compelling reason for customers to sign up Maxis's services.

Threat of Substitute

Threat of substitute is high for Maxis because the products and price is homogenous across industry but Maxis mitigates the threat by strengthening add-on values to basic products, and offers various pricing packages which tailor customers' needs.

Summary of Existing Rivalry:

5 Forces

Weighting(5 as maximum)

Internal rivalry

5

New entrants

2

Bargaining power of buyers

3

Bargaining power of suppliers

3

Threat of substitute

4

Proposal to Maxis and Digi to Meet Challenges

Pricing

Charges on mobile voice services are regulated. However telecommunication providers are free to design the services packages block. In postpaid area, Celcom has the lowest commitment fees but Digi and Maxis have the lowest voice calls and short messages charge rate. Maxis and Digi should run researches to analyse customers' usage and payment patterns to better segregate the charging blocks. Then Maxis and Digi would be able to offer packages that deemed to be reasonable and suit most customers' needs.

Exhibit: Price comparison between Digi, Celcom, Maxis

Celcom has the lowest monthly commitment fee where as Digi has the cheapest charge rate. Although Maxis is not always the cheapest but consumers still choose Maxis for its telecommunication service as well as after sales services. Corporate customers always tend to choose Maxis because the image Maxis portrait.

Maxis can also introduce rebate system or 'talking time' accumulation like how travel miles work in airlines. Maxis can get more revenue from existing customers and increase customer loyalty by offering attractive bundled data plans. With this, Maxis can avoid the red ocean war that slash price and hurt the company's margin and increase revenue per subscriber, comfortably ahead of other competitors.

Product

In homogenous product environment, the only method to outperform competitors is to provide quality services. Maxis has to continuously provide best quality services to avoid customers switching to competitors. Currently the offerings from Maxis include prepaid call plans, monthly subscription plans, global roaming, MMS, WAP (over both GSM and GPRS), Residential Fixed Line services, Broadband Internet plans, and as of early 2009, 3G services to both prepaid and postpaid subscription customers. Apart from consumer based products, Maxis offers business customers, VSAT services (satellite based communications) and BlackBerry based mobile services besides regular services. Maxis also provide an online Music store for its customers to download multimedia content.

Other than telecommunication services, according to National Telecommunication Policy of Malaysia (1994-2020) [8], network Infrastructure is also key area to be explored. Maxis owns its basic network infrastructure to support the telecommunication services needs. Maxis should also explore the business opportunity to be the Mobile Virtual Network Operators since this is a untapped market in Malaysia.

The key strength Maxis has is its leadership in subscriber base and the brand is constantly perceived as the provider that has best network coverage although research results do show that the perception is remained questionable because Celcom and Digi do take over market leadership for a very short while throughout these years.

With the strong brand name, Maxis has the advantage in consumer space and Maxis should look at providing value added and diversified new services that can enhance the loyalty of existing consumers such as GPS, mobile wallet, music finder, content enhancement and basically all the other new services that consumers could enjoy from the existing Maxis phone number. New services also help Maxis to convert subscribers from other service providers without changing the mobile numbers. Since Malaysia is a Muslim country, Maxis can also work with Islamic Development Department of Malaysia to provide services such as to check 'halal status' on certain products. This will subsequently yield and drive more revenue.

Maxis also owns the license as 3G operator in Malaysia. Mobile data services are viewed as the latest trend to drive revenue growth. Other 3G licensees are struggling to meet the timeline for 3G services launch, Maxis is very comfortable in this league. Maxis 3G has the biggest market share at the moment due to its existing customer base.

Distribution

Currently Maxis has more than 50 customer service outlets in Malaysia.

These outlets are either belong to Maxis, or it operates by Maxis Exclusive Partner (MEP). These outlets are named as Maxis Center. Customers are able

to perform activities below in Maxis Center such as applying for any Maxis service, pay all Maxis bills, upgrade or replace SIM card, get Hotlink Starter Packs and top-up tickets, apply to pay bills by direct debit, suspend, terminate or reactivate Maxis line and transfer ownership. Populations in the cities are used to performing tasks online. City areas are also well connected by transportations. Therefore Maxis should select strategic locations to open customer service centers and encourage subscribers to perform administration activities online. As for rural area, the Maxis should select more authorized resellers to manage customer centers on behalf of Maxis to reach out to larger crowd.

Promotion

Since tariff charges are controlled by government body, promotion becomes very important to Maxis and Digi to sustain market leadership. Digi has strong market team and has built the image as the telecommunication provider that has most creative marketing promotions. Digi knows their position as the third place in market, and has a tagline that says 'always the smarter choice'. Digi also understand their product well and able to position their products strategically. Example while Maxis and Celcom claim that they have the fastest broadband connections, Digi emphasizes and educate the public: 'for broadband, speed is about consistency'.

Mobile line services was ranked top category in the chart for advertisement spending in Malaysia for 2009 and 2010[9]. RM 150 millions was invested by mobile line services provider in first half of 2010. Celcom was ranked number 3 as the top advertiser in first half 2010, followed by Digi at fourth position and Maxis at seventh. Although Maxis spent the least compared to other

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telecommunication giants, it has always been the first to introduce new marketing campaigns to Malaysian market such as iPhone and Blackberry. Maxis also linked up with major events such as the recent World Cup 2010 as the official mobile partner, and sponsored in local events such as Akademi Fantasia, and occasionally organize concerts for singers such as Kelly Clarkson. This helps improve brand names as well as revenue opportunities.

Therefore, Maxis should focus on increasing revenue per subscriber by encouraging data usage. The products that Maxis offers now is still very much basic and for entertainment purpose. Maxis should also venture into offering financial services as such collaborate with Bursa for share market updates, M wallet with banks for mobile payment which making the phone numbers as one of the key identifier for each individual.

Maxis can also utilize the 3G facility and work with universities to promote mobile learning, mobile university administration since education is one of the strong industry in Malaysia.

Conclusion Of The Proposal

Malaysian telecommunication sector faces challenges such as strong government influence in policies making, immature customers that abuse the convenience offered by mobile services, risk of world economy downturn, homogenous products, technology constraints, lack of telecommunication talents and intensive internal rivalry.

To address the challenges in country, telecommunication players invest in building a pool of strong marketing talents that able to design creative marketing mix to achieve business sustainability. Telecommunication players
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also realised that corporate social responsibility not only help in building brand reputation, government also receptive to it and subsequently establish good rapport with government. However overall telecommunication industry is very market driven in nature and all telecommunication players have to stay alert and must be able to respond to market fast to ensure business continuity.