CITRANET SDN. BHD. : HOW TO REMAIN RESILIENT IN THE MALAYSIAN MARKET

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This case was written by Yaty Sulaiman, Maria Abdul Rahman and Hasnizam Shaari, Universiti Utara Malaysia. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Introduction

Mr. Aftarul Izam Basri, the General Manager of Citranet Sdn. Bhd. and Mr. Hamzah Ismail, the Director of Citranet Sdn. Bhd. had a discussion on the present issue within Citranet, which was its ability to sustain in the long run and remain resilient in the Malaysian market. They locked themselves for five hours to discuss and determine the best marketing strategy to be implemented by Citranet in the future on how to remain resilient in the Malaysian market.

"I think we should come up with the best marketing strategy on our ability to sustain in the long run and remain resilient in the Malaysian market since we need to compete with many other companies that are also involved in ICT business ventures. Luckily, there are not many bumiputera-owned ICT companies in Malaysia. There are about 700 active bumiputera ICT companies from a total of about 4,000 ICT companies in Malaysia. However, we still need to compete with non-bumiputera ICT companies and 699 other bumiputera companies," said Mr. Hamzah, looking at Mr. Aftarul Izam Basri as he drank his coffee.

“Yes, sir, I will call a management team meeting to discuss the best marketing strategy on how to remain resilient in the Malaysian market as soon as possible. I promise I will update you once we finish our meeting by next week. If there is nothing else, I would like to go now because I need to continue my work. Thank you, sir,” said Mr. Aftarul Izam Basri as he walked out.

Citranet Sdn. Bhd. (Citranet) was a bumiputera company which was incorporated in 1997 in Kuching, Sarawak. Citranet was engaged in the business of trading in information and communications technology (ICT) in Malaysia. The ICT industry itself was a fast growing and robust industry in Malaysia and in the world as a whole. Citranet had ventured into the ICT business over the past 20 years in which it focused primarily on providing services and technology know-how to its clients. The company was small with a staff strength of less than twenty, but had managed to acquire a substantial amount of revenue despite its size. However, Citranet was facing a challenge in determining its future with respect to its long-term plan and strategic marketing of its organisation. Citranet being a bumiputera company realised that it faced a challenging future since it had to compete with many other companies that were also involved in ICT business ventures. However, it is worth noting that there were not many bumiputera-owned ICT companies in Malaysia. There were about 700 active bumiputera ICT companies from a total of about 4,000 ICT companies in Malaysia. However, the scale of business and its ventures vary according to the financial capabilities and technical capabilities of the companies. The ICT business was expected to grow about 10% per annum and achieve a total revenue of RM35.53 billion in 2013 and RM95 billion in 2017. ICT contributed to about 17% of the total gross domestic products (GDP) of Malaysia.

The company started out as a company specialising in civil engineering that soon evolved into a company in ICT. The drastic change to the computing field showed positive changes and reaped many benefits especially after expanding its wings into Peninsular Malaysia. This was a positive move considering the activities and encouraging business opportunities in Malaysia over the past 20 years. In other words, Citranet needed to ensure that it could sustain itself in the long run and remain resilient in the Malaysian market.

Its present business model showed that it relied solely on its customer base and services as a source of revenue. Citranet was locally based and did not have any overseas branches, and its business was restricted to the Malaysian market.
With an increasingly saturated market compounded further with the rapid change in technologies, companies like Citranet need to evolve fast and adapt itself to the changing environment to ensure it survives the economic cycle. Over the years, many companies in the ICT business had closed down due to intense competition, rising costs and inability to adapt to market changes.

Mr. Aftarul Izam Basri called a management team meeting a week after his discussion with the Director. They discussed the main issues faced by Citranet, which was on its ability to sustain in the long run and remain resilient in the Malaysian market. Citranet being a bumiputera company realised that it was facing a challenging future since it had to compete with many other companies that were also involved in ICT business ventures, totalling at about 4,000 ICT companies in Malaysia. The sound financial backing from its shareholders allowed it to remain resilient and competitive in the growing market until today. However, this was not permanent. Therefore, the meeting resulted in a list of questions for the Director of Citranet. The questions need to be answered by Citranet in order to remain resilient in the Malaysian market. Among the questions were: How can Citranet self-sustain in the long run without the backing of its shareholders? What would be the impact if the shareholders exit the business or retire? Will Citranet continue to exist or will it face a premature death since it is no longer able to exist without the support of its shareholders? Is the current business model able to suit its long-term survivability plan in order to compete with its competitors?

Company Background

Citranet Sdn. Bhd. (Citranet) was an ICT company based in Kuala Lumpur, Malaysia. Founded in 1997 in Kuching, Sarawak, Citranet began as a Malaysian bumiputera engineering company committed to the country’s transformation towards being an industrialized nation under Wawasan 2020.

In 2002, Citranet empowered itself to be an ICT company and ventured into Peninsular Malaysia, realising the greater role it can play in making the country’s transformation goals and objectives a reality. Citranet aspired to become the leading integrator of competitive and innovative business solutions. The company specialised in providing professional services aimed at realising strategic business objectives through ICT alignment and infrastructure development in accordance with industrial best practices.

The company was incorporated in 1997 with a paid-up capital of RM500,000. The shareholders of Citranet were Citra Alti Sdn. Bhd – 55% (Citra Alti Sdn. Bhd. was a bumiputera company jointly owned by Zailani Ismail, Mohd Durri and Samat Othman as shareholders based in Kuching, Sarawak), Hamzah bin Ismail – 20%, Amir Bin Zamiri – 20 % and Othman Bin Sulaiman – 5%.

Citranet became known as Muliatek Technology Sdn. Bhd. effective on 9 July 2019, with the shareholders being Hamzah bin Ismail (99.25%), Amir Zamiri Arshad (0.60%) and Osman Suleliman (0.15%).

The Company Structure

The company’s operation was divided into three divisions namely the Operations Division, Business Development Division and Corporate Affairs Division. The structure is shown in Figure 1 below.
The business of Citranet Sdn. Bhd. was divided into two main categories, namely core business activities and non-core business activities.

### Core Business Activities

The company’s core business activities can be divided into three business areas under the managed services namely, managed applications, managed networks and managed security.

#### Managed Applications

Companies today prefer to avoid the problem of buying and managing high-end business applications. With Citranet’s managed application services, an organisation can lease leading-edge applications, leveraging on skilled staff and the latest technology to solve critical business needs. Citranet’s model, unlike that offered by application service providers, delivered these services on a personalized one-to-one basis.

#### Managed Network

Citranet understood the importance of a flexible deployment model that matches the changing business environment of its customers. Citranet thus offered a comprehensive portfolio of network deployment options that leveraged a mixture of internet and dedicated bandwidth to its clients. All products were designed with the flexibility and scalability to meet customer’s needs. Citranet’s managed customer premises equipment (CPE) services was part of the managed services portfolio, which provided end-to-end network and CPE monitoring and management services for customer’s data transport infrastructure.
Managed Security

Citranet also established its central monitoring centre (CMC) to increase its network, system support and provide the most reliable and value-added information management services and systems (IMSS) solutions. Citranet had a network operations centre (NOC) which was a monitoring centre equipped with suitable hardware and software tools managed by a dedicated support engineering team. Operating 24x7x365, the CMC was designed to monitor, identify and solve any kind of encountered system and network irregularity. The IMSS was well positioned to serve the growing IMSS solution market in years to come.

Market Penetration Strategy for Core Business

Citranet needed to develop its stronghold in its core business area. The core business accounted for 30% of its total revenue for year of 2012. The core business area was the star as the future of Citranet was based on the BCG matrix portfolio. Star warranted that it was the future cash cow for an organisation. Aligned with the strategy, Citranet also employed a new team to market its core business area for wider penetration. Citranet shared the same vision that the core business needed to be developed for its future survival and growth. The core business managed to bring in a total of RM2.4 million in revenue in 2012, as mentioned by its Director.

“Our vision is to deliver a holistic approach towards understanding organisational needs that add noticeable value with impeccable service, delivered at the highest degree of service to all clients”.

(Mr. Hamzah Ismail, the Director of Citranet Sdn. Bhd.)

The existence of Citranet was based on its strong presence and strategic positioning for growth. In this respect, Citranet needed to take advantage of this position and capitalise it further. The recent announcement by the government to develop the Sarawak Corridor put Citranet in a driving seat and strategically put them for further growth. As a company primed in Sarawak, Citranet needed to develop itself further due to its strategic presence. Citranet needed to take advantage of its relations with its parent company, for example Citra Alti Sdn. Bhd., and expand further. This advantage of having an edge in Sarawak would propel Citranet further in its growth. Citranet needed to take all possible chances to widen its market presence and strengthen its position.

Apart from that, Citranet should capitalise on its bumiputera status and continue to prosper and participate in contracts provided by the government, its related agencies and government linked companies (GLCs). These organisations are the catalyst for the economy. Citranet should take advantage of these opportunities to develop it further. There exist huge underlying opportunities for Citranet under various ministries, agencies and GLCs. The ultimate aim was for survival and growth, as mentioned by its Director.

“At Citranet, our services enable, enrich and empower our clients to focus on what really matters to them - their core businesses. We provide solutions customised to our client’s IT needs and further manage their IT requirements, freeing them to optimise time and maximise quality and money to achieve respective business goals.”

(Mr. Hamzah Ismail, the Director of Citranet Sdn. Bhd.)
The ICT business was expected to grow about 10% per annum and achieve a total revenue of RM35.53 billion in 2013 and is targeted to achieve RM95 billion by 2017. ICT currently contributes to about 17% of the total GDP of Malaysia. In today’s world, setting up a business may require a platoon of resources and equipment to cater to every facet of ICT requirements. Citranet helped its client to streamline and rationalise the requirements and help the client focus on their core business. Citranet offered a variety of managed services to free its customers from mundane repetitive tasks.

Non-Core Business Activities

The non-core business activities by the company were related to the supply of hardware and software of ICT products and services, such as the call centre system for local agencies, selected tender projects in association with joint-venture arrangements, and other granted direct negotiation projects. The non-core business activities were generally customised to specific project needs of clients.

Strengthening the Dominance in Non-Core Business

The non-core business for Citranet has contributed a staggering RM5.6 million or 70% of the total revenue for 2012. Its tremendous and overwhelming growth was far beyond expectations. It was the present cash cow for the company as depicted by the BCG matrix and provided a steady stream of income for Citranet. Without it, Citranet is not able to sustain its operating expenditure. The steady stream of income helped Citranet achieve a profit of RM997,961 for 2012. The strength of the non-core business should be capitalised and strengthened to allow Citranet to widen its presence in the market. Citranet admitted that competition was stiff in the market; hence, the ability to capture a significant portion of the market is vital for Citranet’s survival and growth.

Citranet Achievement

In today’s world, setting up a business may require a platoon of resources and equipment to cater to every facet of ICT requirements. Citranet helped its client to streamline and rationalise the requirements and help clients focus on their core business. Citranet offered a variety of managed services to free its customers from mundane, repetitive tasks.

Citranet acknowledged the real on-time need for instant communication among all components of a business, the mission-critical business applications housed on a network, coupled with the requirement that everyone in an organisation need to be able to get immediate access to important documents and data. This means that companies were highly dependent on their network infrastructure for data access and storage. Any outages or performance problems would most definitely have a direct impact on efficiency. Whilst companies had become thoroughly dependent on their network infrastructure, networks had become increasingly complex and difficult to understand and administer. Finding personnel capable of setting up, administering, and troubleshooting a network had become increasingly difficult and expensive (David, 2007).

Consequently, many companies especially small and medium-sized organisations found it difficult to maintain its ICT infrastructure, launch new network initiatives, and troubleshoot network problems. In order to overcome these complex problems, companies were now turning to managed network services. In the managed services model, companies outsourced parts or their entire ICT infrastructure and network management tasks to a managed service provider (MSP). This allows
clients to concentrate on their core business, save money, easily launch new initiatives, and have a more stable infrastructure.

By understanding the above opportunities, Citranet’s strategic planning and issues had always evolved to deliver the client’s requirement exactly. Through customised service offerings, Citranet addressed the basic and advanced needs that were often not addressed by other outsource agreements. Citranet also provided ICT services beyond service delivery and support, as it also included the full management of all activities throughout the services life cycle.

The Competitors

The direct competitors of Citranet were TM Net Sdn. Bhd. and Felda Prodata Systems Sdn. Bhd. TM Net Sdn. Bhd. was a fully-owned subsidiary of Telekom Malaysia Berhad (TM). It was envisioned to support TM Group in the new business era where media was fast converging with access in addressing customers’ needs. As with the wave of triple or quadruple play that was seen in more mature markets, its primary role was to create demand for media-related services. In 2007, the Malaysian Communications and Multimedia Commission granted TM Net the CASP license to operate IPTV services in Malaysia. TM Net’s main services was HyppTV: a local pay IPTV service that offered high-quality up-to-date content, and which formed a key component of TM’s triple play offering via increasing companies’ unifi VIP packages. Having established its footprint as the TV of choice for flexibility in content and viewing options, HyppTV was fast evolving to offer even more premium channels, video-on-demand and interactive services. The vision of TM Net Sdn. Bhd. was to become Malaysia’s leading online company that inspires and encourages creative talents to produce strong, vibrant and indispensable online contents and applications. The mission was to leverage on creative talents and committed individuals to enrich customers’ experience in exploring and sharing services.

Felda Prodata Systems Sdn. Bhd. was the IT arm to Felda Global Venture Holdings Berhad (FGV). Prodata strove to drive productivity across businesses and provide the swiftest, most reliable and most efficient services. Initially, the main focus was to provide ICT solutions and support for Felda and FGV group of companies. Prodata drew its strength from over three decades of experience by working hand in hand with the customers, transforming their business from manual processes to automated systems.

The indirect competitors were ABEO International Sdn. Bhd. and SCS Computer Systems (M) Sdn. Bhd. Abeo International was a regional consulting and outsourcing company with its headquarters located in Singapore. The company’s focus was to help clients integrate the best IT solutions for their businesses with strong partnership with industry-leading software principals such as SAP. The vertical industry focus included retail, consumer products, pharmaceutical, wholesale and distribution, and high-tech manufacturing. The company provided end-to-end services from consulting, implementation services, helpdesk support, to IT recruitment and training.

Abeo was a key SAP regional partner for both SAP Business One and SAP Business All-in-One. It was the only partner in the region with SAP qualified retail templates (Elocity), with some of the biggest regional retailers and the largest e-commerce company in the region drawing tangible benefits from Elocity. Abeo provided quality SAP helpdesk support in the region with regional offices in Singapore, Vietnam, Malaysia, Indonesia and India. The award-winning team brought innovation and differentiated capabilities that helped clients create value and deliver business outcomes. Abeo was set to become a market leader in enterprise business solutions.
SCS was an ICT company. The main focus was in the area of information technology and intelligence management. Its capability and strength were in the indigenous design of the total system including the communication network and in the indigenous development of the applications software. The vision of the company was to be a world class system house that provided information and intelligence management solutions for medium to large scale platforms, enterprise and organisations. The company had since established its track record in the delivery of command, control, communication and intelligence (C3I) system, electronic warfare system, strategic information system and cyber security system amongst others.

In pursuit of its vision, the company continuously undertook extensive research and development activities to enable them to be in the position to provide information and intelligence management solutions across the whole spectrum of needs that would satisfy the requirement of organisations such as the military, police, coast guards, immigration, customs, and so on.

**Financial Analysis**

Based on the data provided and analysed for the past three years (2009-2012), Citranet experienced sluggish financial years from 2009 until 2011. Sales were slow and they had to depend on their ‘cash rich’ holding company for survival and growth. However, in 2012, Citranet began to incur profit. Citranet also ventured into bigger projects with Telekom Malaysia Berhad and with the Sarawak government. This allowed Citranet to register a commendable profit of RM8 million in 2012. It was expected that the audited revenue for 2013 reached RM12 million with a profit of RM2 million. Citranet also had an order book of around RM50 million to keep it busy for the next five years.

Citranet set a margin of 40% in every project and products supplied. These gross margins contributed to a net margin of between 12-15% for every product and project. These margins allowed the balance sheet of Citranet to improve and achieve positive retained earnings by 2016. These encouraging results coupled with a strong financial support by its holding company put Citranet on a fast track to achieve greater heights. Citranet also managed its operational costs better. One good decision was the decision to move out from Pavilion, Kuala Lumpur, to Wangsa Maju, Kuala Lumpur, where the rental cost was far less and was more economical to maintain. Its staff costs also remained within the desired range without any sudden spike for the past three years. Citranet also had zero gearing. The only debt was its short-term banking facilities like overdraft, bankers’ acceptance and revolving credit which was pegged against projects in hand. These represent almost zero risk since all proceeds were recovered by the bank before being re-distributed to Citranet. However, this resulted in the increase of its finance and borrowing costs. The borrowing costs was now about RM0.5 million annually. The borrowing was between 6 to 8% per annum.

However, despite the increase in borrowings and finance costs, Citranet moved a step forward by being mature and taking some risks. Instead of totally relying on its holding company, it began to use funds from the market. This was also easy since the holding company was willing to provide a corporate guarantee for Citranet. A corporate guarantee is a guarantee given by the holding company to its subsidiaries to ensure that in the event of any default by the subsidiaries, the holding company will bail them out and repay the banks. Citranet also increased its paid-up capital in 2012 to reflect a stronger and firmer support from its shareholders.
Based on the above financial position, the financial results for 2013 and beyond was expected to be better and more resilient. Citranet showed progress and would be able to face the challenging years ahead. Citranet would survive the future.

**Analysis of Industry**

Information and communications technology (ICT) has become an important sector in Malaysia’s economic development since the government incorporated it as one of the strategies towards creating an industrial-based economy (Second Outline Perspective Plan 1991-2000) and a knowledge-based economy (Third Outline Perspective Plan 2001-2010). Currently, ICT has become the strategic enabler and key driver of the government and economic transformation programmes in Malaysia.

In line with the strong growth and vast experience gained in the electronics industry, Malaysia created the Multimedia Super Corridor in 1996 as the nucleus for the growth of ICT and technology-based industries. From the role as manufacturer and exporter of ICT products, Malaysia moved higher in the industry value chain as provider and exporter of ICT services, and made significant inroads to overseas markets.

ICT is not just only industry which stands by itself, but also complements and support the development of other industry sectors. It is the enabler of growth and is increasingly important to the government, private sector as well as the common people. The role of ICT has also expanded from being merely vertical to encompass the horizontal – cutting across all spheres of the national economy and Malaysian quality of life. This results in greater use of ICT that will not only support the growth of the sector but also boost productivity and raise the nation’s overall competitiveness.

Over the last two decades, three forces have shaped the global socio-economic landscape: forces of globalisation, liberalisation and digitisation. It is widely accepted that the latter force, digitisation of the global economy, increased the speed of globalisation and liberalisation. While the information revolution has resulted in several positive socio-economic impacts to mankind, the revolution has also intensified competition for resources globally. Traditional economic models and strategies are unable to meet the needs of people in a rapidly changing global environment. To keep pace with the information of the global economy, most countries are moving fast to transform into knowledge intensive economies.

The general consensus is that ICT is a key catalyst for the emergence of a new economy, both as a sector and enabler to enhance efficiency and productivity. The Malaysian government is proactive in promoting and developing ICT as a sector and enabler through various key strategic policies, programmes and plans. Supporting government policies, strong economic fundamentals, strategic location and a conducive living environment provide an excellent platform for Malaysia to leap-frog to a knowledge-based economy.

The Malaysian economy has undergone structural changes from agriculture and a mining-based economy to a manufacturing-based economy and is currently in the stage of a knowledge-based economy. Current plans such as the Tenth Malaysia Plan and Third Industrial Master Plan envisage that as Malaysia moves into the knowledge-based economy, the service sector will play a dominant role in the wealth creation of the nation. ICT is expected to play a key role in this wealth accumulation, both in terms of a sector and enabler. For this reason, the National Strategic ICT
Roadmap will provide a framework to enhance the productivity of key sectors of the economy and promote the development of new ICT-based and knowledge-intensive industries.

Based on the above transformation in the ICT Roadmap for Malaysia, Citranet stands to benefit from the robust growth and ICT revolution in Malaysia. In 2014, the spending of ICT was forecasted to grow by another 10.2% from 2013 and reach an amount of about RM70 billion. With the forecasted GDP of Malaysians reaching to a high USD10,380, more spending and budgets would be spent on ICT as Malaysians keep abreast of the latest technology and information needs.

Conclusion

Citranet’s main objective was survivability. It stemmed from the fact that Citranet had yet to achieve a standard that was beyond accessibility. Citranet’s business was susceptible to challenges and was considered as high risk. The technology that it offered may become obsolete and deplete in a short time. In this respect, the business needed careful nurturing to ensure it remained on the right track.

Citranet could not compete with the big boys and powerhouse of the ICT industry. It could be easily cannibalised by TM and non-bumiputera players if it was to compete in the open market. This type of business needed careful planning and a strong passion to prosper. Citranet would never succeed and survive without the support and assistance from "political links". This also meant that many bumiputera companies also suffer the same fate, for example, needing government support and projects for survival. The survival problem, low capital, difficulty to obtain financing, high staff turnover rate, stiff competition, under-cutting of prices and lacking in drive and vision hinder the progress towards Malaysia becoming a fully developed nation by year 2020. As such, it was concluded that the future for this company is bright but filled with challenges. Success will come, but with intense hardship and labour.