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A CASE STUDY OF REDTONE INTERNATIONAL BERHAD

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Abstract---*Emerging tier-2 telcos are making a big impact on the Malaysian telecommunications industry. They are capitalising on new technologies to provide traditional services such as voice calls which are much cheaper than services being offered on existing technology platforms. Creative pricing and packaging are also factors which favour these tier-2 telcos. The objective of this case study is to examine and understand the Malaysian tier-2 telco industry with special focus on Redtone International Berhad and its position in the market place. This case study will analyse the tier-2 telcos industry and operating environment. It will identify the business model of Redtone International Berhad and its strategies of product development, marketing and competition with tier-1 telcos. Focus will also be on Redtone's value proposition and how it capitalises on emerging technologies to its advantage. This case study also proposes implementation plans for Redtone to undertake in order to maintain its leading position in Malaysia and also to be regional and global player in the voice call industry. The purpose of this plan is also to offset the shrinking local market share with revenue streams from abroad.*

Keywords: *telecommunication industry, creative pricing, tier-2 telcos, operating environment*

I. Introduction

The Malaysian voice call market is pioneered and dominated by the so-called tier-1 players such as Telekom Malaysia, Maxis, Time Telekom and DiGi. These players built the physical infrastructure themselves, such as switching systems, transmission systems and network cables, and provide the services on the traditional PSTN platform. The voice call market is estimated to be worth RM5.76b including fixed line and mobile telephones calls. However with the advent of new technologies such as voice over internet protocol (VOIP), software engineering, application development, routing technologies and the abundance of bandwidth, alternative ways of routing and terminating voice calls were found. These new methods are cheap, of comparable quality and proven to be a viable business. With these developments, tier-2 telecommunication companies emerged with a business model that only requires setting up internal systems and applications while leasing external bandwidth from the tier-1 players, these tier-2 players are set to compete in the discounted voice call market worth RM600m (Khoo, 2017).

The market started when Redtone rolled out its first service in 2001. The competitors in this market for Redtone are divided into three categories.

i. Fixed lines operators such as Telekom Malaysia and Time Telekom. These are tier-1 players and are more aggressive in pricing for their local and international calls.

ii. Cellular operators such as Celcom, Maxis and DiGi. Cellular phones are good substitute for fixed lines. Competitive call rates for local, domestic long distance and IDD offered by these cellular operators are a threat to Redtone.

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iii. Other ASP licensees which currently numbered 90. Operating a discounted call service on VOIP is the tool to be competitive for these companies. Although not all these licensees are active, the price war between those operating is reducing the profit margin for Redtone. (Source: MCMC Website)

The issues at hand for Redtone are:

i. The sustainability of this business model.

ii. The shrinking market share and

iii. The availability of substitute product in the market.

Incompatibility of office communications products developed by the company with the customers' existing office communications infrastructure.

As the secondary telecommunications industry comprised a large number of participants, the company competes with tier-1 telcos which offer related services.

The "Redtone" brand of the company plays an important role for the continued growth of the business. The success of the brand name is dependent on the awareness, loyalty and goodwill associated with the brand name. Consumer favours a particular brand name due to its reliability even though there are only marginal savings (Salleh, Mahmood, & Sufian, 2013).

II. Literature Review

As an alternative voice service provider, Redtone is dependent on the telecommunications network operator to provide inter-connectivity. Telekom Malaysia is the incumbent fixed line operator in Malaysia. The company's services depends to a large extend on interconnection with Telekom Malaysia's public switched telecommunications network and the networks of other operators such as Maxis and DiGi. Redtone currently has interconnection agreements with Time Telekom, Maxis and Digi. Unfavorable terms in the interconnection agreements increase the interconnection expenses. The company's trademark is Redtone which it has registered this trademark in Malaysia, Singapore, Hong Kong, USA and Canada. The company's success depends to a large extend on its ability to protect the intellectual property rights and its ability to carry on with its operations without infringing the property rights of third parties (Abdullah, Abdullah, & Salleh, 2017).

Redtone is involved in a rapidly changing industry and its success is largely dependent on the speed of its ability to evolve and develop up-to-date products to remain competitive. However the completion and successful implementation of R&D efforts require a long lead time. These delays affect the company's overall performance (Said & Adham, 2015).

Aged 46. Obtained his Bachelor of Science degree in Management Science from the University of Warwick, UK in 1979 Joined Redtone Group in 2000 (Ridhuan & Ghani, 2018).

1. **Sim Hock Meng – General Manager VMS Technology Limited**

   Aged 35. Obtained his Diploma in Electronics Engineering from Ngee Ann Polytechnic, Singapore in 1991. Joined VMSTL in 1999 Division (Khaled, 2011).

2. **Law Say Chuan – CEO Redtone Network Sdn Bhd**

   Aged 37. Obtained his Bachelor's Degree in Electrical Engineering majoring in Communications from University Technology Malaysia in 1990. Joined Redtone Network in 2002 (Kalaithasan, Radzi, & Abidin, 2018).

3. **Tiew Ming Ching – Chief Technologist of R&D, Operation and Maintenance Redtone Telecommunications**

   Aged 42. Obtained his Bachelor's in Engineering degree with Honours from University Malaya in 1986. Joined Redtone in 1998.

4. **Dr Jason Tai Chen Hiung – Chief Technology Officer of R&D Redtone Telecommunications**

Aged 36. Obtained his Bachelor's Degree in Computer Science with Honours from University of Western Australia in 1991. He obtained his PhD in Computer Science from RMIT University in1999. Joined Redtone in 1997 (Injau, 2011).

5. **Alvin Ong Tuck Meng – General Manager Operations, Redtone Telecommunications**

Aged 39. Obtained his Bachelor of Science Degree from University of Canterbury, Christchurch, New Zealand in 1987. Joined Redtone in 2000.

6. **Ng Keng Chai – Senior Finance Manager, Redtone Group**

Aged 38. Obtained her Accounting Degree from University Malaya in 1989. She is a member of the Malaysia Association of Certified Public Accountants and Malaysia Institute of Accountants. Joined Redtone in 2000.

7. **Hazsliza Puspa Binti Hassan – Marketing Manager, Redtone Group**

Aged 38. Obtained her Bachelor of Science in Business Administration degree majoring in Computer Information Systems from Drake University, Iowa, USA in 1989. Joined Redtone in 2003.

Revenue from the sale of call bandwidth rose to RM168, 065,597 from RM29, 735,819 in 2004. This represents an increase of 565%. However revenue from the sale of telecommunication software and goods dropped to RM5, 038,111 from RM7, 201,236 in 2004. This represents a decrease of 30%. The other revenue source is maintenance income which recorded RM1, 557,567 compared to RM302, 243 in 2004. Maintenance income covers the maintenance and servicing of telecommunications products and services sold to customers (Hussain, Mosa, & Omran, 2017).

The Group recorded a tremendous growth of 585% in profit before taxation (PBT) from RM3, 852,151 in 2004 to RM26, 388,726 in 2005. The main contributor is the profit from operations of RM25, 041,128. The Group's fixed asset consisting of property, plant and equipment increased from RM6, 005,571 in 2004 to RM15,525,204. This is due to the purchase of office lots, plant, machinery, gateway equipment and other assets consisting of leasehold improvements, renovation, hand phone and assets in progress (Hussain, Mosa, & Omran, 2018).

Table 1: Earnings 2002 - 2005

FY Feb 28	**2002**	**2003**	**2004**	**2005**
Turnover (RM'm)	14.6	32.1	84.6	174.7
Turnover growth (%)	57.2	>100	>100	>100
Pretax Profit(RM'm)	-3.6	1.8	10.4	26.4
PBT growth (%)	NM	>100	>100	>100
PBT margin (%)	NM	5.7	12.3	15.0
Net profit (RM'm)	-2.4	1.9	10.3	25.5
Net profit growth (%)	NM	>100	>100	>100
Net profit margin (%)	NM	5.9	12.2	14.6
EPS*(sen)	NM	0.8	4.1	10.1
P/E (x) @RM1.94	NM	242.5	47.3	19.2
P/E (x) @RM2.46	NM	307.5	60.0	24.4
Issued shares (m) @RM0.10			252.0	
Market cap (RM'm) @RM1.94			488.9	
Market cap (RM'm) @RM2.46			619.9	
NTA/share (sen)			18.66	
Price/NTA (x) @RM1.94			10.4	

Price/NTA (x) @RM2.46	13.2
Net cash (RM'm)	54.0
52-w High/Low (RM)	2.22/0.95
Estimated free float (%)	30.0

Source: SBB Securities Sdn Bhd

III. Research and Development

The group allocates RM4m to RM5m per annum in the next 3 years for R&D purpose in order to enhance the existing products and develop new products. The R&D team has over 60 staff comprising hardware specialist, software applications specialists, system integrators, communication experts and database specialists that are able to assist and support the implementation of its business plan to meet the demands of its customers (Hussain, Musa, & Omran, 2019). This represents 31% of total staff strength which underlined the importance of innovation to Redtone's business. The R&D division is organized into 3 main groups that operate independently which are as follows:

i. Hardware group

The hardware group designs and develops the Group's hardware. It also includes the firmware team who writes programmes that are embedded inside the hardware boards. This group also handles the manufacturing of the hardware boards so that the group can tie the design to suit manufacturing capabilities of the third party manufacturer.

ii. Software research and engineering group

This group focuses on forward-looking activities where deliverables are not immediately marketable. Their mandate includes:

a. Research, design and development of distributed TECS software
b. Innovation, design and development of new methodologies, algorithms, frameworks and architectures to handle general classes of software problems
c. Overhaul and major revamp of current TECS software
d. Investigate and experiment with new technologies

iii. Software development and deployment group

This group supports newly deployed sites. Sometimes there are issues that require R&D involvement. These are usually new features or variants of current features that must be implemented urgently. For example, they could also be deployment issues where certain features are not functioning properly. These issues require urgent attention and require the R&D engineers to go to the site. This group services these requests and implements minor versions of TECS software. Redtone currently has more than 10,000 corporate customers and 150,000 consumers wide. It is also servicing about 7,000 call shops and has installed payphones nationwide. The top 10 customers of Redtone are as follows:

Table 2: Top 10 customers

CUSTOMER	PERCENTAGE OF TOTAL SALES	RELATIONSHIP SINCE
1. Citibank Berhad	10.37	Nov 2001
2. Malaysia Int. Shipping Corp Berhad	4.18	Nov 2002
3. Southern Bank Berhad		
4. Southern Finance Berhad	3.09	Feb 2002

5. AmFinance Berhad	2.52	Aug 2002
6. Bumiputra Commerce Finance Bhd	2.46	Mar 2003
7. V Source Sdn Bhd	2.42	Sept 2002
8. Perodua Manufacturing Sdn Bhd		
9. IDC Market Research (M) Sdn Bhd	2.33	Oct 2002
10. Lafarge Malayan Cement Bhd	2.06	Sept 2002
	1.72	Nov 2001
	1.66	Aug 2002

Source: Redtone International Berhad Prospectus

The current principles behind Redtone's business are:

a. Use own systems and technology
b. Will not build external physical infrastructure

Referring to Figure 1: Redtone's Telecom Service:

i. Redtone's gateway capacity is connected to PSTN multiple tier-1 telco via leased lines for outgoing calls from Redtone's customers.
ii. Redtone's own systems, technology and solutions reside at Redtone's gateway capacity and customers' site as call router, auto dialer and wizard.
iii. Redtone has access gateways distributed throughout the country which will route calls via a central gateway to domestic and international destinations.

Issues on this model are:

i. The interconnect capacity between Redtone and other telcos is costing the company very high in operating cost.
ii. The fluctuation of this bandwidth cost is subjected to various external factors such as exchange rates, regulatory, service quality and supply-demand in general which are beyond Redtone's control.

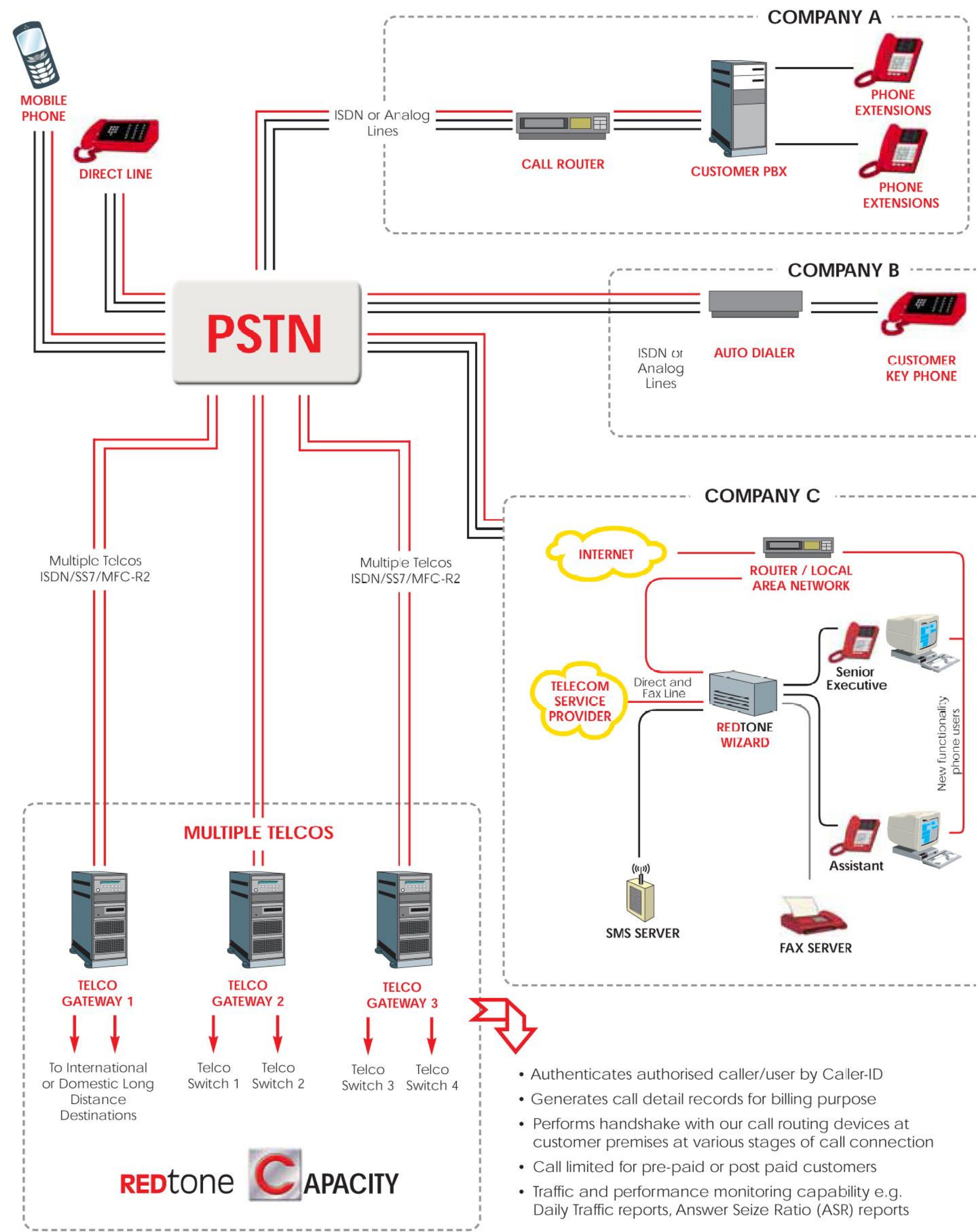

Figure 1: Redtone's Telecom Service

i. The biggest market for Redtone's prepaid customers is the migrant workers. They are mainly from Indonesia, India, Pakistan, Bangladesh, Myanmar and Nepal. However with the recent strict government entry policy, many workers are being repatriated to their native country. This affects the company's revenue.

ii. They are already many players in this discounted call service industry. Examples are NasionCom, Next Telecommunication, Exira Communication, Axis Technology Solution and Telshine. The market share for Redtone is slowly eroding.

i. Undoubtedly voice call is and will remain a major means of communication by both consumers and businesses. However the issue for Redtone is, there is a substitute for people to make voice calls instead of using the conventional telephone and cellular phones. Broadband phone is an alternative way of voice calls using internet connection with softphone or broadband telephone set. It has been proven to be of acceptable quality and cheaper in terms of calling rates. Redtone's corporate customers and consumers with broadband connection will slowly use this means of communication.

i. A defamation suit filed in Pakistan against wholly-owned Redtone Telecommunications Pakistan (Pte) Ltd by the former chief executive officer.

ii. Chairman and Managing Director being charged for forgery following a police report lodged by a former dealer.

iii. The Malaysian economy has developed a strong degree of economic resilience despite concerns in the external environment and high oil prices. In the first quarter of 2005, the economy performed with a 5.7 per cent growth in gross domestic product (GDP), the third fastest growth in this region after China (9.4 per cent) and Indonesia (6.4 per cent). The Malaysian economy was also accelerating faster than that of the developed economies such as the US (3.5 per cent annualised) and the Euro zone (1.4 per cent) (Table 3).

Table 3: Real GDP Growth of Selected Economies

	2004			2005
	1Q	4Q	Year	1Q
	Annual change (%)			
US	4.0	3.8	4.4	3.5
UK	3.0	2.9	3.1	2.8
Euro Zone	1.6	1.6	2.0	1.4
Japan	6.0	0.1	2.6	5.3
China	9.8	9.5	9.5	9.4
Indonesia	5.0	6.7	5.1	6.4
Korea	5.3	3.3	4.6	2.7
Singapore	7.9	6.5	8.4	2.5
Taiwan	6.7	3.3	5.7	2.5

Source: Bank Negara Malaysia

Table 4: Malaysia Key Economic Indicators

	2000	**2001**	**2002**	**2003**
Population (million persons)	23.5	24.0	24.5	25.0
Labour force (million persons)	9.6	9.9	10.2	10.5
Employment (million persons)	9.3	9.5	9.8	10.2
Unemployment (% of labour force)	3.1	3.6	3.5	3.4

Per capita income (RM)	13,333	12,867	13,716	14,098
National Product (% change)				
Real GDP	8.3	0.4	4.2	4.5
(RM billion)	209.5	210.5	219.3	229.2
Real GNP	6.0	1.2	4.8	3.7
(RM billion)	190.5	192.8	202.1	209.6
Real aggregate demand	15.4	2.8	4.3	5.9
Gross national savings (% of GNP)	39.9	34.8	34.4	33.5
Balance of Payment (RM billion)				
Goods	79.1	69.9	68.9	72.5
Exports (f.o.b)	374.0	334.3	354.9	378.5
Imports (f.o.b)	294.9	264.5	285.9	306.0
Current account balance	32.3	27.7	27.4	27.9
(% of GNP)	10.3	9.0	8.1	7.9
Net international reserves	113.5	117.2	131.4	-
(months of retained imports)	4.5	5.1	5.4	-
Prices (% change)				
Consumer Price Index (2000=100)	1.6	1.4	1.8	1.5
Producer Price Index (1989=100)	3.1	-5.0	4.4	-

Source: Bank Negara Malaysia

With strong economic fundamentals in place, the government is now focussing to ICT as an engine of growth, promoting both the use of ICT to increase productivity and wealth as well as developing Malaysia into an ICT hub for the region. Towards this end, the government has undertaken a number of initiatives such as the establishment of the MSC, revamping of the regulatory and institutional framework for the communications industry to promote the use of ICT (Hussain, Musa, & Omran, 2018).

Analysis

SWOT Analysis

SWOT analysis is an analysis of the strategic environment of an organization. It provides an overview of the internal and external environmental factors for the purpose of strategic planning. These internal factors can be classified as strengths (S) and weaknesses (W), while external factors can be classified as opportunities (O) and threats (T). The following table shows the analysis for Redtone.

Table 5: SWOT Analysis

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
• Responsive in-house R&D team	• Limited range of products • Does not own infrastructure	• Replicate business model in developing countries	• Competition from 1st tier telcos • Competition from other 2nd tier telcos and service providers

• Own Intellectual Property Rights • MSC status incentives • 5 years of revenue growth • Large customer base	• Dependent on inter-connectivity with other telcos	• Investment & expansion overseas	• Foreign exchange risk on wholesale traffic purchase

Ranking of Strategies

1. Market Development
2. Differentiation and Focus
3. Product Development
4. Backward Integration and Joint Venture
5. Focus
6. Market Penetration and Concentric Diversification

Immediate Solution and Strategy based on TOWS Matrix

To remain profitable and competitive, Redtone must adopt the following short and long term solutions.

a. Financial

Redtone should maintain its leading position and grow its domestic voice market through aggressive marketing and promotions and offering related value-added products and services. With this strong domestic base, Redtone should invest and expand its market within the region where demand for discounted voice service is high. This will add up to the profitability (Hussain et al., 2012).

b. Customer

With a large domestic customer base, it is important for Redtone to retain them by implementing a customer relationship management drive to instill good customer service and high quality of voice service.

c. Organization

Redtone must have the organization to serve the whole nation and also to manage the business partners which an integral part of the Redtone team. The organization should be flat enough to ensure efficiency and accountability (Nawaz, Afzal, & Shehzadi, 2013).

d. Marketing

- Product

Redtone portfolio of products and services is limited compared to its Tier 1 competitors. However the market for its core products is very large. The product can be creatively customized to suit the different market segments. New technologies must also be harnessed to give high service quality. Good customer relationship management is important to get customers to stick to Redtone’s products.

- Price

Redtone's VOIP call pricing is obviously cheaper than PSTN rates offered by Tier 1 telcos. However as VOIP infrastructure is readily available, this will become a commodity. Redtone has to constantly reduce its calling rates as bandwidth is getting cheaper to be competitive in the market.

- Place

Redtone has a network of business partners acting as resellers, call shop operators and public phone operators. All of them promoting and selling Redtone's branded products and services. Redtone has to increase this business partners numbers throughout the country to make its presence felt and serve target market segments (Nawaz, Azam, & Bhatti, 2019).

- Promotion

Promotional activities done have given the impact needed in projecting the image of Redtone. These are in the form of both below-the-line and above-the-line initiatives. However these activities have since been not obvious to the general public. Redtone need to constantly and frequently do these activities so as to maintain Redtone's leading position from the public's eyes.

a. Integration Strategies

i. Forward Integration

Due to the competitive nature of the industry, services and products, integration with other service providers locally and abroad will enhance Redtone's marketing and sales abilities (Nawaz & Hassan, 2016).

ii. Backward integration

As Redtone does not own any network infrastructure, integration with network and facilities service providers locally and abroad will provide competitive products with cost leadership.

b. Intensive Strategies

i. Market Penetration

Although the playing field is crowded with players, there are opportunities to increase market penetration by offering differentiated products with cost leadership to customers of competitors. Other means to increase market penetration are aggressive marketing and superior customer services.

ii. Market Development

This is the most important strategy that Redtone should adopt. As the local market is near saturation, regional markets such as Indonesia, India, Pakistan, Thailand and Philippines offers great potential to invest and expand by replicating the business model of Malaysia.

iii. Product Development

With a responsive in-house R&D team, Redtone should be able to enhance and create innovative products that meet the requirements and demands of customers locally and abroad. New leading-edge technologies can greatly contribute to differentiation of the products.

c. Diversification Strategies

i. Concentric Diversification

Redtone may consider diversifying into related areas such as IP telephones, IP PABX, office solutions and voice value added services. These development can be undertaken by creating new subsidiaries.

d. Defensive Strategies

i. Joint Venture

Investment and expansion abroad requires big capital. This can be reduced by having joint venture with local and foreign partners. This strategy will synergize all participating parties' strengths to succeed in the business.

e. Generic Strategies

i. Differentiation

Due to the crowded playing field, Redtone should create differentiated products to win over customers from competitors. These differentiated products should be able to satisfy customers for their needs and wants.

ii. Cost Leadership

A cost leadership strategy would enable Redtone to offer customers similar products with competitors but at a cheaper production cost. This will give Redtone a competitive advantage.

iii. Focus

Redtone must keep focusing on its core business and strengths in the industry. This strategy can give Redtone a leading position and maintain it for a long time. However as technology and market mature, Redtone must refocus its direction to be competitive in the market.

The Internal Factors Evaluation (EFE) matrix is an analysis that evaluates an organization's strengths and its' weaknesses in the business areas. The analysis summarized and evaluates how the company utilizes its strengths and improves the weak areas. The IFE matrix for Redtone is shown below.

Table 6: Internal Factors Evaluation Matrix

Strengths	**Weightage**	**Rating**	**Total Weight**
1. Responsive in-house R&D team	0.2	4	0.8
2. Own Intellectual Property Rights	0.2	4	0.8
3. MSC status incentives	0.05	3	0.15
4. 5 years of revenue growth	0.15	3	0.45
5. Large customer base	0.15	3	0.45
Weaknesses	**Weightage**	**Rating**	**Total Weight**
1. Limited range of products	0.1	2	0.2
2. Does not own infrastructure	0.1	2	0.2
3. Dependent on inter-connectivity with other telcos	0.05	2	0.1
Total	**1**		**3.15**

Redtone scores 3.15 points for the IFE shows that the company is capitalizing very well to its strengths and has taken positive steps in overcoming its weaknesses. The revenue is growing year by year and Redtone is using this income to boost its R&D in customizing its products and services to meet the market needs. It is also developing new range of products to expand its portfolio locally.

Porter’s Five Forces Analysis is a tool which describes five forces affecting the profitability of companies. These five forces, taken together, will give an insight into a company's competitive position, and its profitability. The five forces are:

1. Rivals

Rivals are competitors within an industry. Rivalry in the industry can be weak, with few competitors that don’t compete very aggressively. Or it can be intense, with many competitors fighting in a cut-throat environment. Factors affecting the intensity of rivalry are:

- Number of firms – more firms will lead to increased competition.
- Fixed costs – with high fixed costs as a percentage of total cost, companies must sell more products to cover those costs, increasing market competition.
- Product differentiation – Products that are relatively the same will compete based on price. Brand identification can reduce rivalry.

2. New Entrants

One of the defining characteristics of competitive advantage is the industry’s barrier to entry. Industries with high barriers to entry are usually too expensive for new firms to enter. Industries with low barriers to entry are relatively cheap for new firms to enter. The threat of new entrants rises as the barrier to entry is reduced in a marketplace. As more firms enter a market, you will see rivalry increase, and profitability will fall (theoretically) to the point where there is no incentive for new firms to enter the industry. Some common barriers to entry are:

- Patents – patented technology can be a huge barrier preventing other firms from joining the market.
- High cost of entry – the more it will cost to get started in an industry, the higher the barrier to entry.
- Brand loyalty – when brand loyalty is strong within an industry, it can be difficult and expensive to enter the market with a new product.

3. Substitute Products

This is probably the most overlooked, and therefore most damaging, element of strategic decision making. It’s imperative that business owners not only look at what the company’s direct competitors are doing, but what other types of products people could buy instead. When switching costs (the costs a customer incurs to switch to a new product) are low the threat of substitutes is high. As is the case when dealing with new entrants, companies may aggressively price their products to keep people from switching. When the threat of substitutes is high, profit margins will tend to be low.

4. Buyer Power

There are two types of buyer power. The first is related to the customer’s price sensitivity. If each brand of a product is similar to all the others, then the buyer will base the purchase decision mainly on price. This will increase the competitive rivalry, resulting in lower prices, and lower profitability. The other type of buyer power relates to negotiating power. Larger buyers tend to have more leverage with the firm, and can negotiate lower prices. When there are many small buyers of a product, all other things remaining equal, the company supplying the product will have higher prices and higher margins. Conversely, if a company sells to a few large buyers, those buyers will have significant leverage to negotiate better pricing. Some factors affecting buyer power are:

- Size of buyer – larger buyers will have more power over suppliers.

- Number of buyers – when there are a small number of buyers, they will tend to have more power over suppliers.
- Purchase quantity – When a customer purchases a large quantity of a suppliers output, it will exercise more power over the supplier.

5. Supplier Power

When multiple suppliers are producing a commoditized product, the company will make its purchase decision based mainly on price, which tends to lower costs. On the other hand, if a single supplier is producing something the company has to have, the company will have little leverage to negotiate a better price. Size plays a factor here as well. If the company is much larger than its suppliers, and purchases in large quantities, then the supplier will have very little power to negotiate. Factors that determine supplier power include:

- Supplier concentration – The fewer the number of suppliers for a given product, the more power they will have over the company.
- Switching costs – suppliers become more powerful as the cost to change to another supplier increases.
- Uniqueness of product – suppliers that produce products specifically for a company will have more power than commodity suppliers.

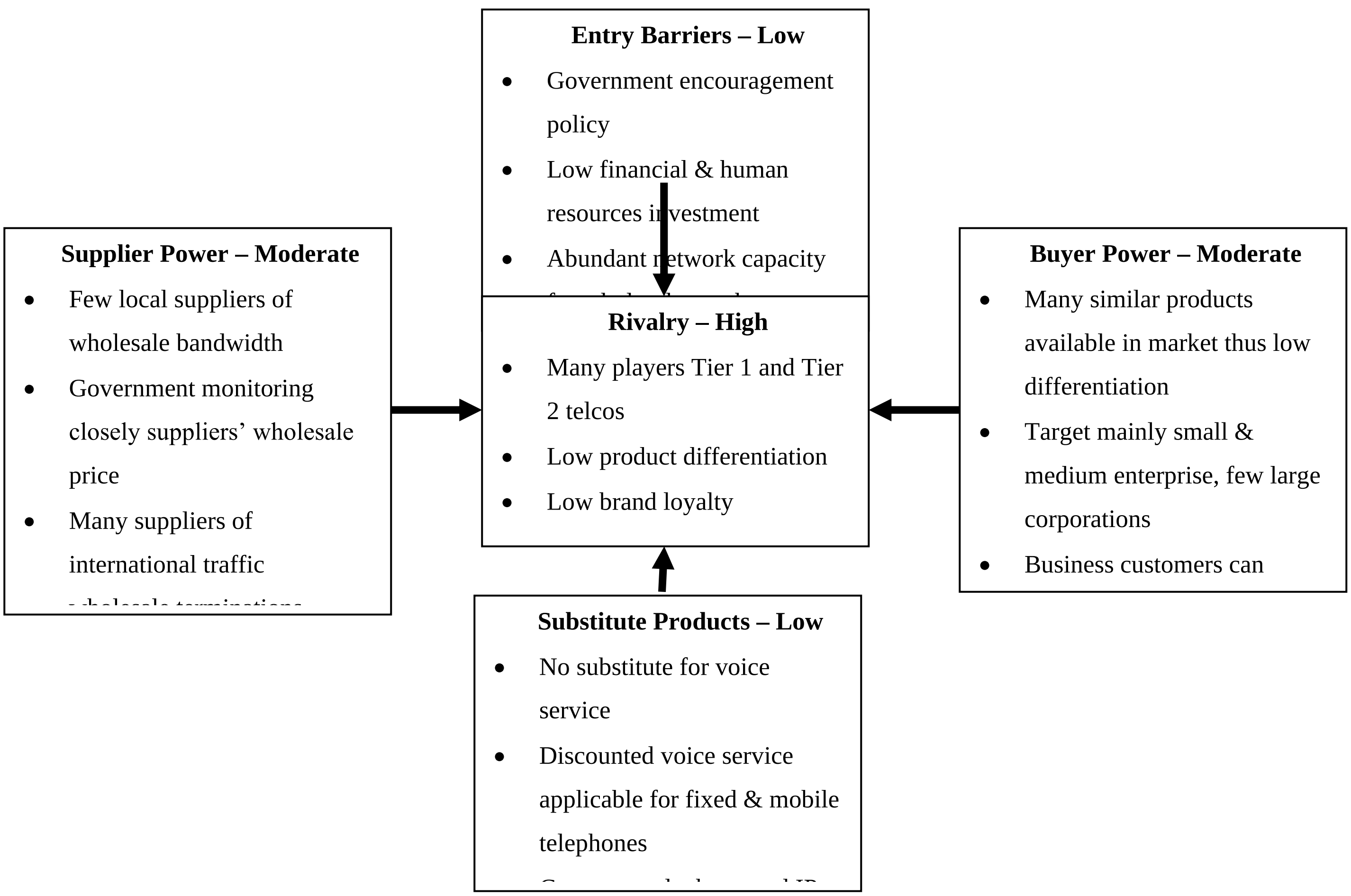

Figure 1: Porter's Five Forces Analysis

Entry Barriers – Low

1. The government through the Malaysian Communication and Multimedia Communication (MCMC) controls the issuance of Applications Service Provider (ASP) licenses. Currently there are over 50 companies with this category of

license. The government has relaxed the ruling of this license to encourage small and medium companies to participate in the information and communications technology (ICT) industry.

2. The resources required to setup this kind of service is low due to the abundant network infrastructure available locally and abroad for purchase or lease. With the established VOIP technology, the related equipment and software are also readily available at lower price.

Buyer Power – Moderate

1. There are many similar products available in the market which offers little product differentiation. These are offered by competitors in the same industry. Buyers have no choice but to choose one product to enjoy discounted calls which may not necessarily come from the provider of the fixed line or mobile operator of the customer.
2. Business customers can negotiate the call rates if their call volume is high to some particular destinations abroad. This adds up the buyer power. However for residential customers, they can only enjoy the published call rates which are fixed since their call volume is small.

Substitute Products – Low

1. Voice calls remains an important consumer product with no substitute even though email and short messaging system (SMS) is widely available. The only choice for the consumers are the methods of accessing this service either via fixed line, mobile telephones, computer telephony or IP phones. More importantly this discounted call service by Redtone is applicable through both fixed line and mobile telephones. Computer telephony and IP phones offers lower quality service and needs broadband where availability is limited in Malaysia.

Supplier Power – Moderate

1. Suppliers come in the forms of local bandwidth suppliers, international traffic termination suppliers and hardware/software suppliers. Local bandwidth suppliers are the Tier 1 telcos such as Telekom Malaysia, Time, Maxis and DiGi. Howeve their power is low due to close government monitoring and competition amongst them.
2. International traffic carriers are also many and offers competitive terminations rates to some popular destinations within Asia, in Europe, Middle East and North America. These carriers are Asia Netcom, Easy Net, Flag Telecom, Global Crossing, Telia Sonera and Trans Telecom.
3. Hardware and software suppliers have moderate power due to the established technology and widely available equipment.

Rivalry – High

1. Rivalry in the discounted call service industry is high due to the high number of players around. This is due to the ease of obtaining ASP license from MCMC.
2. Products differentiation is low as there are many similar products in the market.
3. Consumers have also no brand loyalty as their priority is cheap voice calls.
4. Voice calls is a big market in Malaysia and is considered a high growth industry.

IV. Conclusion

Redtone International Berhad is the number one discounted call service provider in Malaysia. The company has done well since its inception with a business model that depends on the company’s own systems and technology to provide discounted calls in Malaysia to a range of market segments from corporations to small and medium enterprises and from consumers to foreign workers. To date, Redtone has captured 30% of the local discounted voice calls market share. However the Malaysian discounted call market is nearing maturity and that will mean a slowdown in Redtone’s growth after two years from now.

To maintain the share, Redtone has to identify major growth strategies. At the same time, the company has put priority in the areas of customer retention, identifying and meeting customers' needs, R&D and partnerships.

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