

Original Article

# The Factors Influence Citranet Sdn Bhd to Remain Resilient in Malaysian Market

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**Abstract** - Citranet Sdn Bhd (Citranet) is an Information and Communications Technology (ICT) company based in Kuala Lumpur, Malaysia. Founded in 1997 in Kuching, Sarawak, Citranet started earlier as a Malaysian Bumiputera engineering company committed to the country's transformation towards being an industrialized nation under the Wawasan 2020. In 2002, Citranet empowered itself to be an ICT company and ventured into Peninsular Malaysia, realizing the greater role it can play in making the country's transformation goals and objectives a reality. Citranet aspires to become the leading integrator of competitive and innovative business solutions. The company specializes in providing professional services aimed at realizing strategic business objectives through ICT alignment and infrastructure development in accordance with industry best practices. The Company was incorporated in the year 1997 with a Paid-up Capital of RM 500,000. However, the present issue hovering within Citranet, which is, its ability to sustain itself in the long run and remain resilient in the Malaysian market. Therefore, the aim of the study is to determine the best marketing strategy to be implemented by Citranet in the future on how to remain resilient in the Malaysian market.

**Keywords** - Citranet, Marketing strategy, Financial analysis, Industry analysis, Product development strategy.

## I. INTRODUCTION

The present issue faced by Citranet is, its ability to sustain in the long run and remain resilient in the Malaysian market. Therefore, the management team should come up with the best marketing strategy for their ability to sustain in the long run and remain resilient in the Malaysian market now since they need to compete with many other companies which also involved in the 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, they still need to compete with non-Bumiputera ICT companies and other 699 Bumiputera companies. The sound financial backing from its Shareholders has allowed it to remain resilient and competitive in the growing

market. However, this has raised the issue of whether Citranet is able to self-sustain in the long run without the backing of its Shareholders. What would be the impact if the Shareholders exit this business or retire? Will Citranet continue to exist or 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?

Citranet Sdn Bhd (Citranet) is engaged in the business of trading in Information and Communications Technology (ICT) in Malaysia. The ICT industry itself is a fast-growing and robust industry in Malaysia and in the world as a whole. Citranet has ventured into the ICT business for almost 20 years in which it focuses primarily on providing services and technical know-how to its clients. The company is indeed small with a staff strength of less than twenty but has managed to acquire a substantial amount of revenue as compared to its size.

However, Citranet is currently facing a challenge in determining its future with respect to the long-term of its organization. Citranet being a Bumiputera company realized that it is facing a challenging future since it has to compete with many other companies that are also involved in the ICT business ventures. However, it is worth noting that 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, the scale of business and its ventures varies according to the financial capabilities and technical capabilities of the companies [1].

The ICT business is expected to grow about 10% per annum and achieved a total Revenue of RM 35.53 Billion in the year 2013 and is targeted to achieve RM 95 Billion by the year 2017. ICT currently contributes to about 17% of the total Gross Domestic Products (GDP) of Malaysia.

## II. COMPANY BACKGROUND

Citranet Sdn Bhd (Citranet) is an Information and Communications Technology (ICT) company based in Kuala Lumpur, Malaysia. Founded in 1997 in



Kuching, Sarawak, Citranet started earlier as a Malaysian Bumiputera engineering company committed to the country's transformation towards being an industrialized nation under the Wawasan 2020.

In 2002, Citranet empowered itself to be an ICT company and ventured into Peninsular Malaysia, realizing the greater role it can play in making the country's transformation goals and objectives a reality. Citranet aspires to become the leading integrator of competitive and innovative business solutions. The company specializes in providing professional services aimed at realizing strategic business objectives through ICT alignment and infrastructure.

### III. 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 helps its client to streamline and rationalize the requirements and help the clients focus on their core business. Citranet offered a variety of Managed Services to free its customer from mundane repetitive tasks [2].

Citranet acknowledges the real on-time need for instant communications among all components of a business, the mission-critical business applications housed on a network, coupled with the requirement that everyone in an organization is able to get immediate access to important documents and data. It means that companies are 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 have become thoroughly dependent on their network infrastructure, networks have become increasingly complex and difficult to understand and administer. Finding personnel capable of setting up, administering, and troubleshooting a network has become increasingly difficult as well as increasingly expensive.

Consequently, many Companies especially Small and Medium-sized organizations find it difficult to maintain their ICT infrastructure, launch new network initiatives, and troubleshoot network problems. In order to overcome these complex problems, companies are now turning to managed network services. In the managed services model, the company outsources part 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 have always evolved to deliver exactly the client's requirements. Through a customized service offering, Citranet addresses the basic and advanced needs that are often not addressed by other outsource agreements.

Citranet also provides ICT services beyond service delivery and support, but also includes full management of all activities throughout the services life cycle.

### IV. FINANCIAL ANALYSIS

Based on the data provided and analyzed for the past three years (2009-2012), Citranet were having sluggish financial years for 2009 till 2011. Sales were slow and they have to depend a lot on their 'cash rich' Holding Company for survival and growth. However, for the year 2012, Citranet started to incur Profit. Citranet also ventured into bigger projects with Telekom Malaysia Berhad and also with the Sarawak Government. This has allowed Citranet to register a commendable Profit of RM 8 Million in the year 2012. It is expected that the audited Revenue for 2013 reaches around RM 12 Million with a Profit of RM 2 Million. Citranet also has an Order Book of around RM 50 Million to keep it busy for the next 5 years.

Citranet has also set a Margin of 40% in every project and product supplied. These Gross Margins will contribute to a Net Margin of between 12-15% for every product and project. These margins will allow for the Balance Sheet of Citranet to improve and should be able to achieve positive Retained Earnings by the year 2016. These encouraging results coupled with the strong financial support by its Holding Company will put Citranet on the fast track to achieve greater heights. Citranet has 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 is far less and much economical to maintain. Its Staff Costs also remains within the desired range without any sudden spike for the past 3 years. Citranet also has zero gearing. The only debt is Short Term banking facilities like Overdraft, Bankers Acceptance, and Revolving Credit which are being pegged against Projects in hand. These represent an almost zero risk since all proceeds will be recovered by the Bank before distributing it back to Citranet. However, this has resulted in the increase of its Finance and Borrowing Costs. The Borrowing Costs now are about RM 0.5 Million annually. The Borrowing is between 6 to 8% per annum.

However, despite the increase in Borrowings and Finance Costs, Citranet has indeed moved a step forward by being mature ahead and taking a bit of risk. Instead of totally relying on its Holding Company, it has started using funds from the market. This is also easy since the Holding Company is 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 has also increased its paid-up capital

in the year 2012 to reflect stronger and firmer support from its Shareholders.

Based on the above financial position, the Financial Results for the year 2013 and beyond are expected to be more resilient and better. Citranet has shown progress and will be able to have the endurance to face the challenging years ahead. Citranet will survive in the future. The Balance Sheet and Income Statement for the years 2010, 2011, and 2012 for Citranet are shown in Appendices.

## V. INDUSTRY ANALYSIS

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 the 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 for 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 moves higher in the industry value chain as provider and exporter of ICT services and making significant inroads to overseas markets.

ICT is not just the industry that stands by itself but also complements and supports the development of other industry sectors. It is the enabler of growth and increasingly important either to the Government, private sector as well as the common people. The role of ICT has also been expanded from being merely a vertical to encompass the horizontal – cutting across all spheres of the national economy and Malaysian quality of life. Indeed, this will result 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 globalization, liberalization, and digitization. It is widely accepted that the latter force, digitization of the global economy has increased the speed of globalization and liberalization. While the information revolution has resulted in several positive socio-economic impacts on 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 consensuses are that ICT is a key catalyst for the emergence of the new economy, both as a sector and enabler for enhancing efficiency and productivity. The Malaysian Government has been proactive in promoting and developing ICT as a sector and enabler through various key strategic policies, programs, 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 [3].

The Malaysian economy has undergone structural changes from agriculture and 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 [4].

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 on ICT is forecasted to grow by another 10.2 % from the year 2013 and reaches an amount of about RM 70 Billion. With the forecasted Gross Domestic Products (GDP) of Malaysians reaching a high USD 10,380, more spending and budgets will be spent on ICT as Malaysians keep abreast of the latest technology and information needs [5].

## VI. PRODUCT DEVELOPMENT STRATEGY ASA TOOL FOR FUTURE GROWTH

Product Development is a strategy that seeks to increase sales by improving or modifying present products or services. Product development usually entails large Research and Development (R&D) expenditure. Citranet should focus on its Product Development to enable it to sustain itself in the long run. Product Development is important to allow for Citranet to achieve its Competitive Advantage in the long run. The Product Development strategy thus allows Citranet to be ahead in the event. In the technology world, products are known to become obsolete fast. In this respect, Citranet needs to focus on Product Development to allow it to sustain its future growth. Product Development is the future of Citranet. Without it, it'll be difficult for Citranet to achieve its goal for Sustainable Competitive Advantage. As such, it is suggested that Citranet establish a focus and develop the R&D to allow it to strengthen itself in the long run [6].

## VII. CONCLUSION

It is obvious that Citranet needs a new transformation in its Business Model. It should no longer operate on an ad-hoc basis. It should be managed in a more structured manner. Emphasis should be given more towards having a proper target in order for Citranet to achieve a desired long-term sustainability [7]. Based on the analysis done, it is obvious that Citranet has a strong foundation and various Competitive Advantages. Perhaps better-structured management is needed for Citranet to excel further. Citranet's main objective is survivability. It stems from the fact that Citranet has yet to achieve a standard that is beyond accessibility. Citranet's business is susceptible to challenges and is high risk. The technology that it offers may become obsolete and depleted in a short time. In this respect, the business needs careful nurturing to ensure it is on the right track [8].

Citranet could not compete with the big boys and powerhouse of the ICT industry. It can be easily cannibalized by TM and Non-Bumiputera players if it is to compete in the Open Market. This type of business needs careful planning and a strong passion to prosper. Citranet will never succeed and survive without the support and assistance from the "political links". It also means that many Bumiputera companies also suffer the same fate, for example needing government support and projects for survival. The discussion in this context also allays and confirms my fears that Vision 2020 will never be achieved. The survival problem, low capital, difficulty to obtain financing, high staff turnover rate, stiff competition, undercutting of prices, and lacking drive and vision will hinder the progress towards Malaysia becoming a fully developed nation by the year 2020 [9]. The findings virtually uncover another problem that has plagued many Bumiputera companies in Malaysia. These results also lead to the conclusion that Bumiputera companies lacked the proper Mission and Vision and coupled with other

disparities, could not adopt the right Strategic Management push to excel further. Strategic Management models are missing in the planning of these companies. As such, it is concluded that the future for this company is bright but filled with challenges. Success will come but with intense hardship and labor.

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