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CHALLENGES FACING MALAYSIAN E-COMMERCE
COMPANIES IN ESTABLISHED GLOBAL MARKETS

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**CHALLENGES FACING MALAYSIAN E-COMMERCE
COMPANIES IN ESTABLISHING GLOBAL BRANDS**

by

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MBA PROJECT PAPER

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ABSTRACT

In increasingly turbulent markets, brands are a key to customer loyalty, long term survival and growth. Successful global companies have long recognised that investment in plant, technology, research and development as well as human resources is no longer sufficient to guarantee long term sustainable profits. Brand has thus become a vital issue for the companies to compete in the global market. Three local Malaysian companies were chosen in this study, namely DIGICERT SDN BHD, POS Malaysia Bhd and MIMOS BHD. Through the survey, a descriptive analysis was conducted to evaluate how well these companies implement global brand strategies to their business approach and plan. The results have highlighted few pertinent issues such as the level of acceptability of Malaysian e-commerce firms in institutionalizing the knowledge of brand-building, level of understanding and acceptability of Malaysian e-commerce firms of the economic value of brand-building, level of support from the high level management of Malaysian e-commerce firms on brand-building, and adoption of customer relationship management (CRM) to build competitive edge for Malaysian e-commerce firms. The study has also highlighted some suggestions for the Malaysian firms to build strong brand name in order to compete effectively in the market place.

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Chapter 1

Introduction

Building a global brand is the dream of many companies. Successful global companies recognise that the source of their prowess in world markets is branding, and that investment in plant, technology and people is no longer enough to guarantee long-term sustainable profits. The secret to successful branding is to influence the way in which people perceive the company or products. However, global branding will not happen overnight or by itself. It will take corporate commitment, money, and funds.

Most of better-known Asian brands are from Japan, which has produced household names such as Toyota and Sony. These companies have spent an enormous amount of money and employed the right strategy to position their brand name in the marketplace. As a result, they have gained the following advantages in their business:

- (1) insulated the company from competitors
- (2) increased customer loyalty
- (3) make loyal customers less price-sensitive during the crucial purchase process
- (4) build the value of the brand as a financial assets

Malaysian companies cannot afford not to take cognizance or to ignore the importance of having a strong brand position in the market. 40 percent of online buyers bought from at least the same online retailer in 1999, therefore, it shows that online consumers buy from names they know and trust in the offline world (ActivMedia, 2000). Firms must realise the importance of customer loyalty while stressing the need to penetrate the market with a known brand name rather than getting to the market first.

Firms that are good at developing strong brands usually have a strong brand-building culture, including clearly defined values, norms, and organizational symbols. The culture of an organization, more than procedures or structures is ultimately what drives the attainment of sustainable advantage (David A. Aaker, 1996:342)

The issue of branding does not come to the fore before a company actually has significant sales (Global Reach, 2000). The real question to ask, for most companies, is how to build sales up to the point where the issue of branding becomes important.

Objectives of the Study

In Malaysia, amidst a very matured and sophisticated advertising and PR industry, the business organizations do not appear to be harnessing inherent brand-building skills to manage market signaling (New Straits Times October 8, 2000). Therefore, in view of the need for Malaysian companies to build strong brand name, thus compete in the global market, it is appropriate that this study address the following issues:

- (1) acceptability of Malaysian e-commerce firms in institutionalizing the knowledge of brand-building
- (2) level of understanding and acceptability of Malaysian e-commerce firms of the economic value of brand-building
- (3) level of support from the high level management of Malaysian e-commerce firms on brand-building
- (4) suitability of customer relationship management (CRM) to build competitive edge for Malaysian e-commerce firms

Methodology

As outlined in the introduction, the purpose of this paper is to explore the level of global branding strategy applied by Malaysian firms. As this subject area has been vaguely addressed and general market information was not readily available, it was necessary to conduct the research in stages in order to build up a picture of the general characteristics of the e-commerce market and identify the main issues such as the problems faced by e-commerce firms. This

initial exploratory work undertaken through semi-structured, personal interviews with key players in the industry and decision makers at government level which Kementerian Tenaga, Komunikasi dan Multimedia (KTKM), Multimedia Development Corporation, MIMOS, Accenture and PricewaterhouseCoopers, sought to establish the basic parameters of the research. For example, it was necessary to clarify a definition of e-commerce industry, the progress of the industry so as to measure the size of market, barriers, challenges and directions. The second stage of the research involved personal interview and email questionnaire to a number of non-Malaysian based e-commerce firms operating in Malaysian market either from their physical local office or virtual office. Of the five firms classified as e-commerce firms, only two responded. Questions posed in the questionnaire were mainly designed to understand their strategy to succeed in the Malaysian market.

The final stage of the research process involved the case study where survey was conducted to collect information so that a descriptive analysis can be done. Three (3) local Malaysian companies namely Digicert Sdn Bhd, MIMOS Sdn Bhd and POS Malaysia Bhd were chosen on the basis of their involvement in e-commerce industry, the nature of business of which a mix between conventional and new business model and length of time in which they have operated in Malaysia. The purpose of these interviews was to

examine more closely the application of global brand strategy in their organisations. The research design is mainly non-quantitative, and primarily involves numerous comparisons and contrast data. Data collection is based on questionnaires, interviews with key personnel, annual reports, website and other literature. A Likert scale of 1 to 5 was used in the survey to evaluate the implementation and the extend of their approaches and style, conforming to global branding strategies and principles.

Literature Review

The Structure of Malaysian E-Commerce Industry and Firms

An obvious but critical starting point for this research was the need to provide a definition of what actually constitutes the e-commerce industry and its progress in Malaysia. After consultation with Kementerian Tenaga, Komunikasi and Multimedia, MDC and the two big 5 consulting firms, namely, Accenture and PWC, a clear agreement was reached as to the questions, those are such firms that:

- (1) Have committed to offer their services and product by using Internet as a main communication medium. Therefore, the firm has embarked on e-commerce strategy to further improve their business performance,
- (2) Involved in information technology business such as software development, IT consultancy, system networking, Internet and networking security and other related areas,

Another category of firm does not fall under e-commerce firms but,

- (3) have incorporated some technology infrastructure such as creating Website with long term plan to embark on e-commerce.

There is no universally accepted definition of e-commerce; it is being defined differently by different writers or organisation. The simplest definition would be "the buying and selling of information, products, and services via computer networks (Kalakota and Whinston, 1996)." Or, "e-commerce is the act of buying selling goods and services through an electric medium. It may involve the ordering, payment and delivery of goods and services" (Varbusiness, 1995). IBM defines e-business as "business to vendors, to customers, to employees, and to suppliers via intranets, extranets and the web (internet)". From the above criteria, a database of e-commerce firms was established using such sources as Registrar of Companies and Multimedia Supercorridor Status directories. From this database, a total of 600 local e-commerce firms were identified. Of these, 80% were found to be originated from Malaysia. There were more than a hundred foreign based e-commerce firms in Malaysia. Average paid up capital is from RM25,000 to RM 100,000,000 and estimated length of business is between 1 year to 10 years.

The local Internet industry, though regarded as still at its infancy stage, have already given birth to many local dotcoms. While not all dotcoms are created equal, some have shown to have potential to surpass regional dotcoms

companies. For example Asia Travel Mart (www.asiatravelmart.com) and Jobstreet (www.jobstreet.com) are evident of the local Internet industry's progress (Jaring Internet Magazine December, 2000 Vol. 3).

However, with the current world economic situation and burst of dotcom industry last year, local dotcom companies are facing some tough times, and some are even found it difficult to sustain their operations. The proof lies in the numerous sites left idles not update plus the withdrawal of 'famous' features and services on the site. Despite all these, the e-commerce industry still have good future as long as the firms and business entity focus on delivering the real value to their clients. Malaysian Prime Minister Dato' Seri Dr. Mahathir Mohamed (NST, 1999) said that "Companies that produce goods and services, and deliver the real economic value to their customers will not only survive the Information Age but will make money long after the bubble burst on the dotcom companies". Venture Capital First Floor Capital Sdn Bhd Managing Director Fariz Ali (ComputerWorld January 2001) said that "Despite the tumble of several e-commerce companies recently, prospects for the new economy are still firm in Malaysia". He went on to say that "Unlike in the US where tech-heavy NASDAQ stocks were overvalued, thus causing the whole market to crash, Malaysian netpreneurs were slowly taking their time".

There are currently an estimated of 1.3 million Internet users in Malaysia and Internet penetration rate is estimated to 25% by 2003 (The Energy, Communication and Multimedia Ministry Report 2000). E-commerce revenue is expected to jump from the current level of US\$ 164 million to over US\$ 2 billion in 2003. Taylor Nelson Sofres Interactive, a specialist global Internet business in its Global e-Commerce Report, Malaysia has been ranked 17th amongst the top online shoppers in three continents--Europe, Asia Pacific and North America--where some five percent of Internet users in the country bought goods or services online during the past month. In comparison, the average online shopping for users across all the 27 countries surveyed was 10 percent. Taylor Nelson Sofres Interactive conducted more than 30,000 interviews in 27 countries between April and June 2000. The report also stated 14 percent of Internet users in Malaysia plan to shop online within the next six months whilst 12 percent have bought products or services offline as a direct result of information found online (Appendix 1, Table 1). Malaysia has been ranked 17th amongst the top online shoppers in three continents--Europe, Asia Pacific and North America--where some five percent of Internet users in the country bought goods or services online during the past month (Appendix I, Table 2).

The Computerworld Malaysia recently conducted a mini poll among its reader to gauge their perception towards e-commerce (Computerworld August/September 2000). Out of 640 readers that responded to the survey, 627

respondents or 98 percent see a bright future for e-commerce in Malaysia (Appendix I, Table 3). However, only 492 respondents or 77 percents of the readers are willing to shop online (Appendix I, Table 4). A total of 587 respondents cited 'security' as the most important issue in e-commerce implementation today (Appendix I, Table 5). Matrade (1999) study shows that almost 70% of the firms studied use email as one of the communication methods. Between 21-32% of firms utilise electronic means either for payment (to suppliers and from customers), making orders or receiving orders. About a quarter own product catalogs on the web. Almost 30% of the firms are currently selling products and services via Internet.

There were 477 Multimedia Supercorridor status company as of April 2001 (Appendix I, Table 6). Only a small number of e-commerce firms recognizes the power of online promotional content to influence overall consumer activity. This is despite online promotional content being used by more than 80 percent of consumer Web businesses on a regular basis, mostly to build awareness, maximise site traffic and drive action. Most world known firms such as NTT, Oracle, Microsoft, IBM recognise the impact of online promotional content on off-line and cross-property consumer behavior, while most of local e-commerce firms use scattershot effect to promote their content. Most local firms that are not yet factoring the brand-building vision and priorities and only have limited Web presence need to be focusing on the first

problem. Those that are more committed and active in the Web arena need to ask if they really do have a business model or are just in the .com mode of thinking. For example, a local company that have strong offline product brand but has no value in the online world. Those companies cannot have a business model without having a branding strategy. Saying that the firm is going to be a portal may look great in press announcement, but it is like saying it is going to be a brand. Customers make brands. Customers make portals. What value are they offering that will get those customers to turn their firm into their brand value. Internet business is inevitably about partnering with other websites to extend a portal's reach and presence on the Internet. The web partnership will see revenue generated shared with partners, thus it will reinforce the brand value of the firms in the marketplace. For example, in the year 2000 two local travel portal firms GettingHere.com and RelianceTravel.com reinforced their Web presence by teaming up with other community portals in Malaysia for content provision and business transactions. The local scene has witnessed the mushrooming of a number of pure-play dotcoms, each with its unique business and revenue model. These Malaysian startups exhibit the strong points of the new Net economy, characteristic by enthusiasm, entrepreneurship and a willingness to embrace risk and change. The following are examples of three (3) local dotcom companies and their profile:

- (1) Cari.com is the first local search engine in Malaysia. Their revenue model is based on banner advertising, e-commerce and

web site hosting. Eventhough business is not as what they have expected, they are still hoping to breakeven by the end of 2001.

- (2) Royal Selangor is the world's premier pewter smith, with more than 113 years of excellence in craftsmanship. Royal Selangor's Online Shop has an offering of more than 150 exclusive pewter ware, from classical tankards to award-winning desk accessories. For ease of browsing, they have classified their products to best sellers, the designer range, first day covers, and special occasion souvenirs and collectibles. Royal Selangor also offers its services in helping to pick the right gift for the occasion. Prices are quoted in Malaysian Ringgit and US Dollars.
- (3) Asia Travel Network - Aiming to be a one stop travel reservation system in Asia, this website offers a revolutionary service from Asia Travel Network, an MSC status company specialising in travel related products and services. With more than 1,000 new users registering weekly, this website is gaining popularity for its wholesale price offerings. You will be able to plan, book and settle all your travel arrangements with thousands of travel suppliers in Asia on a real-time basis. Most of all, you will have access to ATN.s travel consultants who are

available in chat mode at the website, providing you with instant answers to questions and other related concerns.

Malaysia in some instances is ahead of other nations in the world when it comes to addressing a legal framework for using the Internet. For example, the country is safely the first country in the world to design laws relating to Internet activities. Computer Crime Bill 1997; Digital Signature Act 1997; Copyright (Amendment) Act 1997; Communication & Multimedia Act 1998; Telemedicine Act 1997 are among the laws passed by the Government to protect its citizens in the Cyberworld.

Strategy of International E-Commerce Firms in Local Market

From the information gleaned at each stage of the research process, two key observations can be made about the nature of international e-commerce firms brand strategies. The first is that their foreign market involvement is extensive, particularly in partnership with other world-known player as well as with local successful firms. Foreign-based companies have been speeding up alliances, takeovers and mergers to get a piece of the rapidly growing market plus strengthening their strong brand position. To illustrate this observation, the following list provides an overview of four foreign-based firms affiliate program in Malaysia.

- (1) NTT DoCoMo in 2000 has signed an alliance with Sun Microsystems that will help them make Java technologies a standard for mobile and wireless network.
- (2) Cisco used its financial power to make acquisitions and launch innovations through the people in the forty companies it has acquired in around the world the past six years
- (3) Verisign has introduced a program called Verisign Affiliate Network Program where local representative is appointed to resell their Internet security range of products, example MSC Trustgate Sdn Bhd
- (4) Microsoft entered into hardware business in Malaysia by appointing I-BERHAD (Malaysian based company) as Original Equipment Manufacturer (OEM) to provide solutions for the Smart Home. Microsoft used I-BERHAD extensive infrastructure to jointly organise a nation wide campaign to develop innovative and futuristic products for Smart Home.

Secondly, the foreign-based firms concentrate in building up long-term customer relationship. They deepen the customer link through personalization, customization, dynamic interaction, collaboration, and building community. For example, Amazon.com's customers are coming back time after time to buy books and other merchandise from the website compared to some of the local online bookstore. Another example is when Charles Schwab is able to

charge two to three times the commission fee that other online firm's charge (There is no comparison with local company as online stockbroking services is disallowed in Malaysia). One of the most basic principles the foreign based e-commerce firms has been using to sustain in the business and build strong brand is to emphasize customer relationship. The following are fundamental to their understanding when doing business in foreign market:

- (1) the cost of acquiring customers is so high that they must find ways of keeping them
- (2) relationships exist at the discretion of the customer, not the enterprise

In terms of the development of a successful international brand, there are three integral elements or success factors, namely; a global advertising strategy, a focused product development strategy, and a carefully controlled distribution policy. Example, they emphasized the need for the product to have a clear, defined identity and personality, generated through the images presented as part of their advertising campaigns. Advertising expenditure was found to be significant. In order to enable the expansion of the brand across a number of national markets, they have adopted global campaigns, using standardize images and media methods. This has provided the companies with scale economies in replication as well as control over the positioning of the brand image within the foreign marketplace.

The Direction of Global Branding Activity – Building Brand Losing Money

Amazon, Yahoo, and AOL have built the same degree of brand name recognition across the world as Nike, Coca-Cola, and IBM. They are among the Internet power brands that are contributing to the downfall of product brand equity. “Build a brand that attracts customers to routinely “park” at your site, and then add more and more reasons for them to come back rather than surf or search elsewhere. Turn the brand into your online market complex and the platform for a sustained stream of innovations” (Nick Earle and Peter Keen, p.130).

However, in the absence of solid evidence about what drives value for brands, companies have relied on their gut instinct and prevailing wisdom to guide multimillion dollar branding program. Rules of thumbs were followed, not because they were true, but because a constant drumbeat suggested they were. Clearly, companies facing the challenge of building more effective brands needed better information about what constitutes value for online consumers.

At present, everywhere we look, the once-limitless promise of the Internet appears to be fading. The dot-com companies that were supposed to stand in the same line with industry giants have most vanished. In Malaysia, company like Go2020 Sdn Bhd, MalaysianStreet.com Sdn Bhd, Mukmin.com Sdn Bhd and many others have disappeared from the scene.

In USA, the Net's bluest-chips Amazon.com Inc. is on the ropes as they cannot even extract a profit from its USD 2.8 billion in sales (Business Week Magazine Asian Edition, March 2001). For these companies, in pursuit to build brand name, they have incurred a great loss in the business. For example, Amazon.com, barnesandnoble.com, Egghead.com and CBS Sportline allow businesses, organizations and Web enthusiasts to recommend products from their site with a direct link to a place to buy them. These programs have the same purpose: to drive traffic and business to the companies' sites in exchange for a commission. Since, many of the products that these companies sell have lower margins, these programs don't always make money for them. Add the commission fee and the sale can even become a loss. Shawn Haynes, Amazon.com's director of business development in the interview with thestreet.com on 16th June 2000 said that Amazon.com may not making money in their associate program with partners, but the program is to attract new users and establish their presence in the market place. These sales that come in, as losses are likely regarded as just another marketing cost. Amazon.com pays 15% for sales of books or music featured on associates' Web sites and 5% for all other sales generated through an associates link (TheStreet.com Report, 16th June 2001).

So far, advertising has been the happy solution to many firms that want to build their brand name. Big firms especially with lot of money infiltrated the Internet advertising with their exciting banner and logo in their unquenchable