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Jaring evades entanglement

By S. Jai Shankar

LAST September, the then Prime Minister, Tun Dr Mahathir Mohamad, revealed that the country's first Internet Service Provider (ISP), Jaring, would be merged with Telekom Malaysia's TM Net.

Dr Mahathir, who made the surprise announcement when presenting Budget 2004 in Parliament, did not elaborate except to say that it was to 'ensure wider and more efficient internet services,...'. The local ICT industry was taken aback by the decision. Some industry players were jubilant; others were saddened.

However, almost eight months passed with hardly any news on merger talks between the Internet entities of MIMOS and Telekom. There was little information as to whether there were any talks in the first place, raising doubts if the two parties themselves were aware of the merger plans in the first place.

But early last month, Datuk Seri Dr Lim Keng Yaik, who now heads the Ministry of Energy, Water & Communications, dropped a bombshell. He announced that the merger would not go through as it will not promote competition - something his ministry is trying to raise within the industry.

The minister's announcement took many by surprise. For one thing it ran smack against Dr Mahathir's proposal. As recent as end of last year, Datuk Tan Chai Ho, who was then the Deputy Minister of Energy, Communications & Multimedia, was quoted saying that the deal was moving ahead smoothly.

To add a further twist to the saga, in March this year, there were indications that the Energy, Communications & Multimedia Ministry was trying to match-make Jaring and AtlasONE Malaysia Sdn Bhd. Avenue Capital Resources Bhd was given the task to do a due diligence on the possibility. It is reliably learnt that all parties involved had received letters from the ministry and were waiting for further instructions. Thus, Dr Lim's announcement in April changed everything.

If his rationale of promoting competition is to be taken to its logical end, then it is also implied that Jaring's courtship with is AtlasOne could be a non-starter.

But before Jaring could take stock of the announcement, reports emerged in May, which further changed the scenario. Jaring will now be sold to the highest bidder via an open tender exercise. Industry observers agree that the manner and speed in which these developments have taken place is tied to the Government's desire to complete MIMOS's restructuring process soon. But beyond that, it also creates an impression that Jaring is almost in dire need for external support and cannot sustain itself independently. If so, it will be surprising because the company has a steady customer base of 800,000 and track record of about 15 years in the ISP business.

When queried about these developments, Dr Mohamed Awang-Lah, the CEO of Jaring, had a different opinion. He points out that Jaring didn't propose nor had any control over the proposed mergers and related matters. Furthermore, Mohamed believes, Jaring has the financial clout and know-how to survive independently. 'Most times people tend to forget about the 'K' in K-economy,' he says, pointing out that Jaring evolved from an R&D outfit and has been around for a long time as far as the Malaysian Internet industry is concerned. Meaning which, Jaring's experience and domain knowledge is invaluable and should not be overlooked.

Mohamed, who has been with Jaring from the very inception, contends that

it does not see financial muscle as a main driving force towards its survival. While acknowledging the importance of money for survival, he says what is more important is know-how and industry experience. 'This we have and there is no reason why we cannot attract investments based on these strengths,' Mohamed says. In fact, he adds, Jaring has received numerous enquiries from financial institutions keen on funding some of its projects. This was as recent as April and May this year.

Nevertheless, despite the brave front, indications are that it is not going to be an easy ride for Jaring one way or another.

Minefields abound

The most critical part of Jaring's future plans hinged on its ability to secure a Network Facilities Provider (NFP) licence. Basically, the Malaysian Communications and Multimedia Commission (MCMC) offers four types of licences - Network Service Providers (NSP), NFP, Applications Service Provider (ASP) and Content Applications Service Provider (CASP) to ICT players. Ideally, those who have any one of these licences should not have any of the others. This will ensure self-interest does not jeopardise growth within the industry. However, Telekom Malaysia Bhd, which owns TM Net Sdn Bhd, has NFP and NSP licences. This means it is a service provider as well as a competitor to Jaring.

Not surprisingly, without the NFP licence, Jaring doesn't have complete control over its costs and service quality. Fully aware of this, Jaring tried applying for this licence three times in the past, the latest being in August last year. Mohamed met with Dr Lim in mid May to further discuss the matter. Word has it that Jaring has been promised the licence in principal. Mohamed himself is confident on the matter. If indeed Jaring gets it, then it will be a significant step for the MIMOS unit.

The developments in the last 12 months, from restructuring of MIMOS to the talks on possible merger, have also not helped. Mohamed admits the element of uncertainty has impacted Jaring, including customers, partners and employees. However, he doesn't believe it has affected Jaring's ability to perform. In fact, he is targeting 30-40% growth in revenue for the year. If it achieves it, then Jaring, which is debt-free, expects to break even this year.

The confidence is contrary to what Nitin Bhat, Director, Telecoms Frost & Sullivan Asia Pacific, concludes. 'Any indecision regarding the future direction of the company prevents the company from formulating and implementing its future business planning. It creates indecision across all the levels of organisation and prevents focus on core business,' says the Frost & Sullivan consultant.

Jaring is also hard pressed to assert more control over its own destiny. According to industry observers, generally Jaring is not in the loop when decisions are made pertaining to its future directions. A case in point is the recent development that Jaring is being put up for sale. According to an industry insider, Mohamed first came to know about it from a journalist. While refusing to be drawn into such speculation, Mohamed did say that communication among different parties in the industry must always be kept open to ensure an efficient decision-making process.

The Kelantanese also disagrees that he is becoming frustrated for not having better control over Jaring's future as a business entity. He notes that it is more of a case of seeing these changes, real and implied, as challenges rather than impediments. And despite these challenges, Jaring has shown growth in the past and reckons will continue to do so in the near future. For that, Mohamed is looking beyond the ISP business model.

Broad bane?

Mohamed readily acknowledges that ISP as a business model is obsolete. That's why the company has been driving hard to refashion its product mix.

Apart from dial-up Internet access, the company also provides secure network audit and monitoring service, secure Virtual Private Network (VPN) service, and Internet telephony. Growth in dial-up services is expected to decelerate over time while services like those related to security such as VPN are expected to grow strongly. Dial-up services currently contribute 50% of Jaring's revenues.

But the one that really excites Jaring is the planned rollout of wireless broadband applications this year. It expects to derive 50% of its revenues from such services within the next three years. Jaring believes it would be able to roll out wireless broadband services three months after getting the NFP licence. Based on the technology provided by Soma Networks Inc, Jaring hopes it would be able to muscle into the burgeoning broadband market without the usual associated infrastructure costs. Soma Networks is a United States' based private company, which became notable after selling its wireless broadband technology to Japanese backbone provider NTT Communications Corp in 2002.

But Jaring has to move fast because other players are already in the game of providing broadband services in various flavours. Besides the Wi-Fi service providers, there are also wireless broadband players such as Time dotCom Bhd, which is already providing such services, and AtlasONE, which targets mid-year rollout of wireless broadband services. Furthermore, Nitin points out TM Net currently provides wireless Internet access through CDMA technology while Maxis is expected to offer similar services by year-end.

And even if Jaring does well in the wireless broadband area, one has to bear in mind that such services will only make up a small portion of the broadband market, even in the near future. According to Frost & Sullivan, the market size for total broadband services including Digital Subscriber Line (DSL) and wireless was about RM206.65 million in 2003. The market is targeted to expand at a CAGR of 31.4% over the next six years. The estimate is wireless broadband services will only constitute about 23% of this growth by 2008. Nitin expects the land-line based xDSL broadband services offered by TM Net to continue to be the technology of choice.

Beyond wireless broadband, Jaring is also seeking to broach the business process outsourcing (BPO) market. This will be done when it starts offering IP based call centre services by end of the year. The service is an extension of Jaring's recent investment of RM5 million into IP Contact Centre (IPCC) Solution from Cisco Systems to improve its own customer service level. Mohamed expects this business to pick up slowly but eventually to become sizeable. One industry player estimates the local BPO market to be worth between US\$60 million and US\$70 million this year. However, Mohamed says Jaring is not moving away from its core competency, which is still on applications related to the Internet. 'That's what we know best and we will stick to it,' he says.

Like unruly cobwebs, Jaring's future has become a sticky affair. But in Mohamed one has a well-tested general. The question now is when will the general know who his comrade at arms will be or if he needs to make a solo charge.

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