

Entrepreneurship and Small Business

2nd Pacific Rim Edition



Michael Schaper

SCHOOL OF BUSINESS, BOND UNIVERSITY

Thierry Volery

UNIVERSITY OF ST GALLEN, SWITZERLAND



John Wiley & Sons Australia, Ltd



CASE STUDY 3

Macrokiosk

On 6 April 2006, Henry Goh, Chief Operating Officer of Macrokiosk in Kuala Lumpur, Malaysia, received the quarterly results from its Chinese subsidiary. Macrokiosk, a mobile messaging technology enabler, operates in seven Asian countries, of which China represents by far the largest potential market. About two years after entering this market, Henry was curious to see whether the Chinese venture was getting close to breaking even.

Messaging technology

Although the original invention of short messaging service (SMS) technology took place in the UK around 1986, it did not gain popularity until the advent of the mobile phone. During the 1980s and 1990s, pagers had been messaging devices, primarily in commercial and medical applications. With the arrival of the mobile phone, the opportunity for sending messages was extended to the general population. Because telecommunications companies and other mobile operators were primarily interested in selling and growing voice communications, they deemed the text messaging potential of mobile technology as just another value-added service. Compared to Europe and North America, with their long history of non-mobile technology, Asia was ripe for mobile technology, as 90 per cent of its population could be reached through this medium.

Macrokiosk

In 1995, 17-year-old Kenny Goh decided he would supplement his pocket money by starting a small business with his two younger brothers, Henry and Chee Seng, aged 14 and 11 respectively. The third-generation Chinese brothers convinced their father, a distributor for a Japanese handphone company, to invest RM10 000 in a server to provide miscellaneous services such as website design for school clubs and broadcasts over paging networks for a taxi company. For the next few years, the brothers enjoyed relative success, but completing their studies was their priority; therefore the business, registered as Macrokiosk Sdn Bhd in 1998, took a back seat until term breaks and holidays. They felt indebted to their parents, who both worked hard to pay for their education. Kenny majored in accounting and finance at Australia's Curtin University, and Henry, after an engineering degree, had completed an MBA at Boston University.

Henry explains: 'Dad gave us exposure to Japanese technology but we are really pioneers in the mobile telecommunications industry, providing mobile messaging platform services to companies, helping them build their own business, gain competitive advantage and stay at the forefront of their industry. Our business just evolved very naturally. We are neither inventors nor creators of technology but we find applications for it. We provide connectivity for any mobile

device with messaging capability. We're also educating industry as to the potential of SMS technology. We're helping to make businesses more cost effective, convenient and competitive. These are the three Cs at the heart of our value proposition.'

With a staff of nine employees, Macrokiiosk was incorporated in July 2000, with the vision of becoming the leading mobile messaging technology enabler in Asia. An early accomplishment of Macrokiiosk was the development of etracker, a home-grown global mobile messaging network that allowed the company to build and offer a variety of secure value-added messaging services to the community at large. The etracker provided multiple connections to the SMS centres of the world's major mobile operators. This enabled it to handle a huge volume of bi-directional, multilingual, mass broadcasting, premium, transactional and smart messages.

Initially, Kenny and Henry had problems being taken seriously because of their age. They sent their business plans to a multitude of venture capitalists around the world with no success. In despair, Kenny charged into the office of a local newspaper editor complaining about the lack of local support for small entrepreneurs. Not long after this, Tan & Tan Developments Berhad, a local venture capitalist, approached Kenny and agreed to invest in their business. By 2001 this corporation, later known as Goldis Berhad, a publicly listed Malaysian company, owned 70 per cent of Macrokiiosk.

Macrokiiosk sales approach

Kenny and Henry knew that the typical Asian manager's attitude to sales representatives was one of fear and avoidance. Therefore, they avoided the term 'sales representative' but used the term 'consultant' instead. After weeks of fruitless attempts to make appointments with certain managers, they tried a simpler 'just walk in' approach. Having studied an industry, and specific companies in it, Kenny and Henry knew what kind of pitch might get a top manager's attention. For example, avoiding any technical jargon, they might say to a bank manager, 'Wouldn't it be great if you could send a message to remind a customer that his loan payment is due shortly?' Kenny and Henry discovered that if they did not get a positive response in the first five minutes of their meeting with a manager, they had lost.

Typically, a first application — a basic one just requiring a one-way message — would represent a new client's first SMS offering. It would be ready for implementation three days to a month later. After this first successful adoption, other possible uses for SMS would be explored with the client. Phase 2 SMS services were bi-directional, requiring a simple response such as 'yes' or 'no'. Phase 3 messaging was also bi-directional, more complicated and required information from the recipient. Once customers were satisfied with one solution, they would tend to return to Macrokiiosk for repeat and new services.

Pricing was established on a project by project basis, with recognition given to the number of development hours required by Macrokiiosk and the type and number of messages sent.

Henry believes that entrepreneurs must be hands-on. 'Entrepreneurs have to know everything,' agrees his brother. 'They need to know how to get the sales in,

how to get the engineers to deliver, making sure employees are taken care of. They are responsible to their employees as well as to their investors. We feel pressure to provide for our staff. Staff are like family as we grow the company together. It is hard work. Our father told us that when you are young, you trade your health for wealth, but when you get older, you spend all your wealth to get back your health. We have learned from our mistakes. We have learned we should not compromise quality and service for additional sales. We also know that nothing is impossible as long as you have the determination, passion and right attitude. We are young and have no interest in leaving the business. We will do our best to make Macrokiiosk a reputable global company.'

The China expansion

By 2003, Kenny and Henry Goh realised that if they wanted to become the leading SMS enabler in Asia, then they had to be a major player in the Chinese market. China, with 400 million mobile phones, was a larger market than the rest of Asia combined. After a research trip to China, it became clear to Kenny and Henry that China would represent a major challenge. Chinese government officials had indicated they were not interested in permitting a foreign company to come in, make a quick profit and leave. They indicated that a minimum investment of RM5 million would have to be made to qualify for a licence, and another RM5 million would be required if they were to be considered an acceptable telecommunications provider. Moreover, Macrokiiosk would not be allowed to be the sole owner of the Chinese company and would have to find a local partner. Kenny and Henry also believed that adjusting to Chinese culture, customs and language would not be easy.

On the other hand, a number of current clients expressed interest in having Macrokiiosk serve their operations and customers in China. Since Macrokiiosk's parent company already had various holdings in China, the board of directors approved the China market entry. Using a Malaysian bank loan, its credit line and retained earnings, Macrokiiosk found the finances for the first RM5 million. Planning to concentrate on the eastern part of China, Kenny and Henry decided to open their first office in Beijing on 1 March 2004, one year after going through the necessary ground work, registration, funding and incorporation. Revenues in their first full year in operation amounted to RM1 million in 2005.

Macrokiiosk in 2006

By April 2006, Macrokiiosk had added Hong Kong and Jakarta to their five other major city locations, and there were plans to add Vietnam, Taiwan and the Philippines in the year to come. The company worked with a variety of companies from 18 different industries, ranging from aviation to television. The staff had grown to about 100 employees with an average age of 28. The etracker network provided access to 364 mobile operators in 115 countries, totaling about two billion subscribers around the world. Macrokiiosk could process up to 300 messages a second and handled about 10 million messages a month. Pre-tax profit had grown

significantly from RM7000 in 2002, RM700 000 in 2003, RM1.2 million in 2004 and RM2.3 million in 2005. Total revenue in 2005 was RM24 million.

China costs and investments

Henry had identified the major costs of operating in China per month as follows:

Rent and utilities	RM 10 000
Licensing fees and taxes	RM 4 000
Salaries:	
Sales consultants	RM 30 000
Engineers	RM 40 000
Others	RM 30 000
Payments to mobile operators	RM 5 000
Advertising and promotion	RM 23 500
Head office charges	RM 5 000
Operational claims	RM 2 500

By April 2006, the following investments had been made in China by Macrokiosk:

Servers, routers, computers, etc	RM 500 000
Office furniture	RM 200 000
Incorporation expenses	RM 200 000
Daily operations	RM 3 600 000

First quarter 2006 results

On 6 April, Henry Goh received China's revenue figures for the first quarter of 2006. The total was RM3 million. Given the importance of the expansion into China to Macrokiosk's own performance, Henry was curious to determine if the Chinese venture was getting close to breaking even. Although the parent company had never requested any dividends from Macrokiosk, it was keenly interested in continuing evidence of Macrokiosk success. Breaking even in China would be good news at the next board meeting at the end of the month.

Questions

Put yourself in the position of Henry Goh.

1. What would be your analysis of Macrokiosk's progress to date?
2. Is China getting close to breaking even?
3. Would it be easy to copy Macrokiosk's business model?

Supplementary questions

1. What is your assessment of the decision to enter the Chinese market in 2003?
2. What are the typical entrepreneurial characteristics displayed by Henry and Kenny Goh?
3. What are the main sources of funding that were used to launch Macrokiosk?