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Man of the Year

Ricky Wong: Chairman, City Telecom

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Never Give Up

May 1992. Armed with \$500,000 and several years experience marketing and distributing computer systems in Hong Kong and North America, Ricky Wong and his cousin establish City Telecom (HK) Ltd. Ten years later, the company is a major player in the domestic IDD, fixed line and Internet Service Provider (ISP) businesses, chalking up \$91 million net profit in its latest annual results. In selecting chairman Ricky Wong as MAN OF THE YEAR for 2003, Hong Kong Business not only considered City Telecom's meteoric rise over the past decade but also noted the company's success in an industry dominated by heavyweights. Wong in turn told us how his philosophy of persistence, belief and endeavour has transformed his company. By EDWARD CHUNG.



Given the circumstances in which Ricky Wong established City Telecom (HK) Ltd and fought to grab a quarter of the domestic IDD market in just over a decade, one would be forgiven for expecting the 41-year-old chairman to be a defiant, abrasive character.

Instead, the Chinese University of Hong Kong alumni (he earned a BSc in electrical engineering in 1985) is affable, accommodating and down to earth – as he puts it, “just a regular guy, married with two children.” The steely determination that has brought such success to his company is never far from the fore though.

“The one message I’d really like to get across is about our ‘never give up’ philosophy,” he states almost as soon as we are seated; such a mindset has proved priceless over the years.

Pooling \$500,000 of their own money, Wong and his cousin Paul Cheung (the company’s managing director) set up City Telecom back in 1992. By most people’s standards, staking a sizeable portion of your savings on a start-up in an intensely competitive telecom sector – and at the age of 30 – requires some nerve. That the business now generates annual revenues of more than \$1 billion is ample justification of that fortitude.

“In those early days, many of my friends advised me to not to get into the business, that we couldn’t compete against the established players, that we’d never turn a profit,” recalls Wong. “Then when we embarked on our local fixed network project, people were telling me that a small company like ours would never be able to attract the necessary funds for investment, that we would need \$10 billion just to build the infrastructure.”

Through dealing with these brickbats, Wong believes that the main obstacles have not been operational, or financial,

Ricky Wong: “I’ve seen many good friends start out with great ideas and good intentions, but they gave up along the way because they’d had enough. I want to continue to grow City Telecom and make the most of every moment.”

but rather psychological.

"Even now people sometimes ask me when I'm going to pack it in," he adds with a wry smile. "We've constantly had to overcome critics, analysts, and sometimes friends pouring cold water over our ambitions. These were the real challenges, because it wasn't just one or two people telling us we couldn't do it – everyone thought that way. So we had to stand firm and have faith in our ability."

Staying Connected

Trouble is, faith is hard to come by in an economy that has witnessed successive years of declining business confidence. Present circumstances fail to deter Wong and his team from their vision, but the same cannot be said of Hong Kong as a whole.

"That's the problem with many young people today – they give up too easily," notes Wong. "We need to improve young people's resilience and strength. They need to realise that life is not always like the 1980s, when they could expect a smooth ride from the economy."

Wong and his management team foresaw that Hong Kong would hit hard times some years ago, and budgeted accordingly. It was a case of recognising the need to make hay while the sun shines; Wong adds that the economy has yet to turn the corner.

"For a long period from the late 1970s through to the mid 1990s, Hong Kong experienced a great period of growth, but clearly it is not possible for the economy to be on a perpetual upturn," he notes. "The situation is bad now, and we expect tough times ahead – at least for a few more years."

With that in mind, the onus is on adapting to the times and engineering greater efficiency; that does not have to be achieved at the cost of team spirit though, notes Wong.

"We've strived to maintain an understanding with our employees," he says. "When you ask your people to go through tough times, you need good lines of communication with them. That's why we try to explain to our staff the changes and challenges that the company is undergoing."

Staying in touch with the rank and file of the company is also why Wong is a major proponent of the Outward

Bound training and motivation programme.

"We insist that all our senior staff go through the Outward Bound course each year," he says. "I'll always remember the first day of the event. You're given a lifejacket and have to make a 20 ft drop into the sea, whether you can swim or not, male or female. The emphasis is on teamwork and pitching in – for example I hadn't washed the bathroom at home for years as we have a maid, but at Outward Bound you have to take turns to clean the toilet. It's quite an experience."

Plugged in to Profit

Making the most of their resources has always been a hallmark at City Telecom, which in contrast to its major telecom rivals lacks a huge parent company to leverage resources from. So far, 65,000 businesses – or about 12 percent of Hong Kong's enterprises based on Companies Registry figures –

use the company's services on a daily basis.

In its recently announced annual results for 2002, City Telecom notched up net profits of \$91 million, a 69 percent increase over the previous year, despite turnover increasing by a comparatively tame 13 percent.

Indeed, these figures overlook last month's ruling from the Office of the Telecommunications Authority, which retroactively phased out per minute universal service contribution charges paid to PCCW dating back to January 2000. City Telecom's refund for the 30 months from the turn of the century to the end of June 2002 totalled \$97 million – more than the firm's profit last year – although Wong states that the company has no firm plans for the windfall: "We'll decide later, but it makes a nice Christmas present in the meantime."

However, this payment detracts from the profitability achievements that City Telecom has built up in recent years,

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Dialling the Right Numbers

City Telecom Rings Up Impressive Growth

	1997	1998	1999	2001	2002
Turnover (\$ '000s)	700,707	1,045,696	1,234,127	1,016,634	1,150,200
Net Profit (\$ '000s)	37,216	27,481	70,001	53,927	91,129
Registered international telecom subscribers	441,000	718,000	906,000	982,400	1,148,000
International telecom traffic volume (millions of minutes)	161.5	301.5	505.4	579.9	915.9



Source: City Telecom (HK) Ltd

feats that Wong attributes to constant striving for greater efficiency and cost control.

"In the past, many of our operations were subcontracted, but we've undergone a restructuring exercise to improve our operations," he says. "The best case of this is in our Guangzhou call centre established two years ago, which employs 600 staff, or about a third of our workforce."

Wong adds that the cost-cutting exercise was achieved without affecting customer service levels thanks to the highly skilled workforce in Hong Kong's near neighbour. He notes that 80 percent of City Telecom customers speak Cantonese or Putonghua, making Guangzhou a natural choice for basing the company's call centre.

Unlike in Shenzhen, where much of the workforce has immigrated from China's inner provinces, the local dialect of Guangzhou is Cantonese, while the better Putonghua standard in mainland cities compared to Hong Kong is well documented.

"Another factor to consider is the ease of finding skilled labour," says Wong. "There is a surfeit of university graduates in Guangzhou, with many willing to work in the service industries and attracted by the prospects of working for an international company. To be honest, it is difficult to hire Hong Kong people to work in call centres, as they view it as an unfulfilling position with few prospects – which is not really the case. Guangzhou graduates work hard, approach the task with enthusiasm and provide better service than their local counterparts."

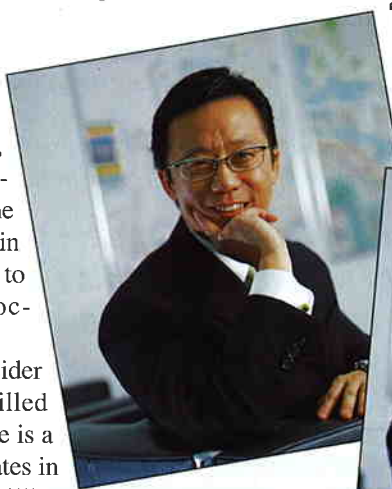
Neither is cost the primary concern, despite the company's commitment to maximising its investment dollar.

"The Guangzhou call centre is entirely operated by City Telecom," explains Wong. "We didn't consider outsourcing this function because of the large scale. Outsourcing works fine for short-term promotions or smaller projects, but not when you are employing 600 people in a critical area of your company. The call centre is the heart of our business, and our first point

of contact with our 1.1 million customers – how can we place our heart into someone else's body? Even if such an option were cheaper than running the centre ourselves, we would have to carefully consider the quality of service before going ahead."

Spreading the Net

Technology has also been at the fore of City Telecom's cost-cutting success. Wong points to the completion of the company's local fixed network in June last year as a prime example, where it became the largest user of Cisco's Metro Ethernet Switching in the world and the second largest broadband network in Hong Kong.



"We are expanding not just with the overall rate of market growth, but at the expense of the competition."



"This new network provides us with the tools to be the lowest cost provider, yet still be able to deliver a wide range of services on top of broadband Internet access – with minimal additional costs on the network infrastructure," he says. "This means it can help us generate extra revenue streams without major costs. We are offering broadband Internet access at a very low cost per subscriber, yet we are still able to provide a dedicated 10 Mbps connection to each user. Thanks to this competitive advantage we have increased our subscriber base to 200,000 already."

On the horizon, Wong reveals that City Telecom will be unveiling its pay-TV service in mid-2003 based on this same high-speed network.

"By adopting this technology, we are

the only telecom company in Hong Kong able to offer broadband access at 10 Mbps on a bi-directional connection," he says. "This allows the user to access three services simultaneously – voice, data, and video."

As for the doubters who questioned the possibility of building such a network on a relative shoestring budget, Wong points out that the cost of laying a local fixed network in Hong Kong is actually not so high given the small size of the city – in fact only about \$300 per ft of cabling.

"Because our network has only been laid down in the past two years you cannot really compare it to existing service providers such as Hong Kong Cable Television Ltd," he says. "That network was built 10 years ago and is mostly analogue, whereas our network can offer three services simultaneously – which means we can drive down the cost of each constituent service."

The current City Telecom network is proof that infrastructure can be built without breaking the bank. Without dipping into its revenues (the company instead raided the funds raised from its listings on the local stock exchange in 1997 and on Nasdaq in 1999), Wong says that over the past two-and-a-half years the company has splashed out \$1 billion on its network.

"That must be a record low investment in this field," he muses. "Having said that, price is really not the key in this market. Where we want to gain ground is that we offer a fully digital network, which is also fully interactive. With regular television, the subscriber only receives a one-way broadcast of programming. With our service, the user can view multiple channels on the same display, and even access the Internet while watching television."

Market Forecasts

As for overall industry prospects, Wong remains cautious, although he insists that the economic environment will have only a peripheral impact on City Telecom's bottom line.

"To be frank, I don't hold great hope for the overall industry growing too much over the next couple of years," he comments. "There will be some natural growth of perhaps about 10 to 15 percent per year, which will be closely linked to the economy's overall performance, although our view for City Telecom is much more ambitious. We are expanding not just with the overall rate of market growth, but at the expense of the competition. The pie will remain much the same size for the foreseeable future, but we aim to grab a larger slice."

Wong notes that the IDD industry has grown at around seven to eight percent annually in recent years, yet City Telecom has increased its number of international telecom subscribers by 17 percent in the last year. Meanwhile, the number of fixed line subscribers has shot up to 50,000 in six months from its initial start-up position, and the company's ISP subsidiary Hong Kong Broadband Network now boasts 150,000 users after 18 months of operation. Given the declining growth of the telecom market, Wong feels the time is opportune to concentrate on the bottom line, especially given that in the fixed line business profit margins can run as high as 80 percent.

"When we started 10 years ago we focused on gaining market share, but over the past two years we have started to focus on profit," he says. "With nearly a quarter of the local IDD market, we are only marginally behind the market leader, and from now we will not sacrifice profit for volume. Hong Kong is a small market and is already saturated with telecom providers – after all, everyone is competing for just 3.8 million fixed lines. However, these conditions are perfect for a small company like City Telecom. We are growing in a very competitive environment, which helps strengthen a company or organisation's mindset. In order to survive, we have had to be able to take challenges head on and instil a strong work ethic."

Despite the tough economic climate and the squeeze on profits, Wong doesn't feel there will be any major restructuring among the current players in the local telecom market, although City Telecom has already diverged into

more than 10 service streams to diversify its risk.

"In the IDD market there are only five or six major players, mostly backed by huge parent conglomerates," he notes. "This makes life very difficult for smaller competitors, but despite the current business environment I don't foresee any consolidation, at least for the next two or three years. Most of the firms are posting positive earnings before interest taxes depreciation and amortisation (Ebitda), and as long as



Ricky Wong established City Telecom in 1992 with his cousin Paul Cheung (above), the company's managing director.

they have a positive cash flow they will be fine thanks to their backers."

Telecom Targets

Although City Telecom has offices in the United States, Canada and Japan, the focus of their activities will remain Hong Kong – where they generate 96.3 percent of revenue – for the foreseeable future.

"We don't plan much expansion into other markets; as we have already plunged \$1 billion into local investment we really do not have many resources left over to devote to other areas," says Wong, adding that his next targets are for City Telecom to become the best performing telecom company in Hong Kong in three areas – return on invest-

ment, excellence in customer service and employee development.

Reflecting on a whirlwind rise from start-up to major service provider, he is ebullient on the profound advantages of operating in the territory and believes that City Telecom could not have duplicated its success story anywhere else in the world.

"The government has helped tremendously by providing a level playing field," he says, citing the way the administration handled calls for telecom deregulation in 1999. "It faced pressure from both consumers, who obviously hoped to gain lower prices through competition, and the four major telecom firms at the time, who naturally wanted to maintain the status quo. However, the government decided to follow a different course by offering wireless network licences and deferring a decision on landlines until 2003. This pleased the major telecom firms while pacifying the public. Decisions like this show that the regulators are doing their job. They're not perfect, but compared to, say, the United States or Japan, the local market is very fair."

And that pretty much encapsulates the whole City Telecom tale, where dedication, application and an enterprise-friendly business environment can foster success.

"That's why our story is unique," says Wong. "Paul and I started the company in 1992 with just \$500,000 – this simply wouldn't be possible in other markets. Many of our staff have worked here for more than eight years, and while we started with an office of eight people, we now employ 1,800. I've seen many good friends start out with great ideas and good intentions, but they gave up along the way because they'd had enough. I want to continue to grow City Telecom and make the most of every moment."

To illustrate his point, Wong relates an anecdote about veteran politician Allen Lee Peng-fei.

"His wife Maria once told him that he was doing enough work for three people, with his LegCo representation, National People's Congress work and now appearances as a radio DJ," he quips. "I guess that makes him similar to our data network, which allows people to do three things at once!"