

CHAPTER I

INTRODUCTION

1.1 Research's Object Overview

1.1.1 Company Profile of PT. Telekomunikasi Selular



Figure 1.1 Logo of PT. Telekomunikasi Selular

Source: Logopedia, (2016)

Started its operation in 1995, PT Telekomunikasi Selular (Telkomsel) was a private telecommunication company established by PT Telekomunikasi Indonesia Tbk (Telkom) and PT Indosat Tbk. Following in 2001, as a mark of telecommunication industry restructuring, Telkom purchased 35% shares of Telkomsel from Indosat and remove the joint ownership over Telkomsel as well as Telkomsel (22.3%) shares acquisition by foreign company which is Singapore Telecom Mobile Pte Ltd (SingTel). In the next year, SingTel increased its shares ownership to 35% and left Telkom with 65% shares and made Telkomsel as a subsidiary company of Telkom and SingTel (*Annual Report 2015* of PT. Telekomunikasi Selular).

Within 20 years of its operation, Telkomsel has established massive network infrastructure and provide widest network coverage in Indonesia, with around 99% coverage population of 2G and around 65% coverage population of 3G. In 2015, Telkomsel launched around 18.000 new Base Transceiver Stations (BTSs) to support the implementation of 4G LTE. The new technology covers 14 key cities

in Indonesia such as Jakarta, Bandung, and Surabaya and generates 2.2 million users of 4G LTE (*Annual Report 2015* of PT. Telekomunikasi Selular)

As of today, Telkomsel is a number one leading cellular operator in Indonesia with more than 152 million users and 103.000 BTSs as well as more 4900 employees operating in 34 provinces across the country. It provides its customer with two categories of network service which are post-paid and pre-paid. Furthermore, Telkomsel created 3 different brands aimed for different customers' needs of the pre-paid account users since it accounts for around 98% of its total users (*Annual Report 2015* of PT. Telekomunikasi Selular)

Along with the changing telecommunication industry, Telkomsel transforms from traditional Telco to Digico to ensure the competitive edge of it. It has been repositioning the company to transform the business, organization, culture, and people in order to adapt and capture the opportunities in the new digital era as well as stay one step ahead in the competition. (*Annual Report 2015* of PT. Telekomunikasi Selular).

1.1.1.1 Vision & Mission

PT. Telekomunikasi Selular has vision and mission as written below:

- a. **Vision** : *Be a world-class, trusted provider of mobile digital lifestyle services and solution.*
- b. **Mission** : *Deliver mobile digital services and solutions that exceed customers' expectations, create value for our stakeholders, and support the economic development of the nation.*

1.1.2 Company Profile of PT Indosat Tbk



Figure 1.2 Logo of Indosat Ooredoo

Source: Logopedia, (2016)

PT Indosat Tbk is an international telecommunication and information service provider which was established in 1967 as Foreign Investment asset in Indonesia. In 1980, Indonesia government took over all the shares of Indosat and turn it into a state-own company. Following in 1994, Indosat became a public company where it registered its name in Indonesia and New York Stock Exchange. In 2002, Indonesia government sold 50 % of Indosat share through global tender (8,1%) and to STT Communications Ltd (41,9%). In 2008, Ooredoo, a Qatar leading telecommunication company did indirect acquisition toward Indosat by took over Indosat's share from STT Communication Ltd. By 2015, Indosat reform its identity and launch a new identity as Indosat Ooredoo as well as 4G LTE service (*Annual Report 2015 PT Indosat Tbk, 2016*).

As one of member of Ooredoo group, a global telecommunication service provider, Indosat Ooredoo provide its customers with cellular, data, and broadband services as well as fixed line. In addition, supported by its subsidiaries, PT Indosat Mega Media (IM2) and PT Aplikasi Lintasarta, Indosat Ooredoo provides fixed data or Multimedia, Internet & Data Communication Services (MIDI) such as IPVPN, leasing lines, internet services and information technology services segment corporates (*Annual Report 2015 PT Indosat Tbk, 2016*).

Indosat Ooredoo is the second biggest operator in Indonesia with 69.7 million subscribers all around the regions. Currently, they're focusing on rebranding their

company as Indosat Ooredoo to complete their transformation to become a leader of public digital services and a leading digital telecommunication company in Indonesia (*Annual Report 2015 PT Indosat Tbk, 2016*).

1.1.2.1 Vision and Mission

PT Indosat Tbk has vision and mission as written below:

- **Vision** : *Become a Leading Digital Telecommunication Company in Indonesia.*
- **Mission** :
 - *Freedom in Products and Services*
 - *Superior Data Network*
 - *Friendly Customer Service*
 - *Digital Transformation*

1.1.3 Company Profile of PT XL Axiata



Figure 1.3 Logo PT XL Axiata Tbk

Source: Logopedia, (2016)

PT XL Axiata is one of dominant Telecommunication Companies in Indonesia. It was first established in 1989 as Trade and Service Company under the name of PT Grahame Metropolitan Lestari. In 1996, the company started its operation as Telecommunication Company after it got GSM 900 operation license and officially launch its GSM services. Later on, the company made a cooperation agreement with Rajawali Group and three foreign investors (NYNEX, AIF and

Mitsui), and the name was changed to PT Excelcomindo Pratama. Indonesia (*Annual Report 2015 PT XL Axiata Tbk*).

In September 2005, XL launched an Initial Public Offering (IPO) and listed its shares on the Indonesia Stock Exchange (IDX). At that time, XL was a subsidiary of Indocel Holding Sdn. Bhd., which is now known as Axiata Investment (Indonesia) Sdn. Bhd., which all shares owned by TM International Sdn.Bhd. through TM International Limited. In 2009, TM International changed its name to Axiata Group Berhad (“Axiata”) and in the same year PT Excelcomindo Pratama Tbk. also changed its name to PT XL Axiata Tbk. for synergy purpose. Indonesia. Currently, its shares owned by Axiata Investment Sdn Bhd (66.4%) while the rest owned by public (33.6%) (*Annual Report 2015 PT XL Axiata Tbk*).

XL Axiata is one of top four players in Indonesia Telecommunication Industry. XL provides services for retail customers and offers business solutions to corporate customers with wide network and service coverage throughout Indonesia. The services include Data, Voice, SMS and other value added digital services. In 2014, XL Axiata officially did acquisition over Axis Telekom with transaction value of USD 856 million. This was a strategic decision with two main benefits: additional 1,800 MHz spectrum allocation that enabled XL to launch 4G LTE; and the AXIS brand to deploy our dual-brand strategy with XL, with each brand addressing different market segments. Currently, XL focus on delivering the transformation strategy to ensure value creation and building a sustainable business for the benefit of all stakeholders (*Annual Report 2015 PT XL Axiata Tbk*).

1.1.3.1 Vision and Mission

PT Indosat Tbk has vision and mission as written below:

- **Vision** : *Be a Number One Cellular Operator in Indonesia.*
- **Mission** : *Enrich lives by digitally connecting Indonesians in a simpler way.*

1.1.4 Company Profile of PT Hutchison 3 Indonesia



Figure 1.4 Logo of PT Hutchison 3 Indonesia

Source: Logopedia, (2016)

Started its operation in 2007, PT Hutchison 3 Indonesia is a member of CK Hutchison Holding group, which comprises mobile telecommunications operations in the markets of Indonesia, Vietnam, and Sri Lanka, Australia, Austria, Denmark, Hong Kong, Ireland, Italy, Macau, Sweden, and the UK. PT Hutchison 3 Indonesia was formerly known as PT Hutchison CP Telecommunications before it changed its name to PT Hutchison 3 Indonesia in February 2013. In Indonesia, PT Hutchison 3 Indonesia operates as GSM cellular operator and mobile broadband service provider. Its shares owned by Hutchison Wampoa (65%) and Northstar Pacific (35%) (About 3, 2016)

Currently, PT Hutchison 3 Indonesia is operating under the National 2G/GSM 1800 MHz and the 3G/WCDMA licenses in Indonesia under the brand of “3” (Tri). Tri provides quality, innovative mobile data, and affordable voice and SMS services also moves with nationwide 3.5G network expansion to provide world-class internet experience for Indonesia. On March, 2016, Tri officially launched its 4G LTE network commercially in 6 big cities in Indonesia (About 3, 2016).

In 2016, PT Hutchison 3 Indonesia able to climb up the ladder and become the third dominants operator with 55.5 million subscribers in Indonesia. Currently, their focus is to present internet freedom for Indonesia, combining high-speed access and convenient to use services. Tri continuously develops innovations and breakthroughs in order to maximize overall user experience in enjoying mobile internet (About 3, 2016).

1.1.4.1 Vision and Mission

PT Hutchison 3 Indonesia has vision and mission as written below:

- **Vision** : *Delivering Innovative and Affordable Telecommunication Services with the Best Value Deals.*
- **Mission** : *Providing a Wide Range of Innovative and Quality Telecommunication Service under the brand of 3*

1.2 Research Background

Telecommunication has been an important aspect of human daily life. It connects people and allow them to exchange information. The advancement of telecommunication technology helps people to communicate in any form of data such as text, image, and video. Thus, telecommunication now is considered as one of primary needs in life. The awareness of the importance of telecommunication has increased the value as well as competition among telecommunication company especially cellular operator since almost all of telco customers use this type of service.

As of today, the number of mobile subscribers in Indonesia has reached 326.3 million subscribers. With the penetration rate of 126%, the number surpass the actual total population number of 259.1 million which means that on average each users are using 1.7 active sim cards (We Are Social, 2016). In practice, one user can holds 2 or 3 active sim cards at the same time, the reason behind this behavior is that users want to have the fastest and efficient access in communication (Redwing Asia, 2016). In fact, Indonesia Cellular Telecommunication Industry has been going into a new phase, where the competition among the operators is in high

intensity due to market saturation. Below is the figure illustrates the number and growth of mobile subscription in Indonesia.

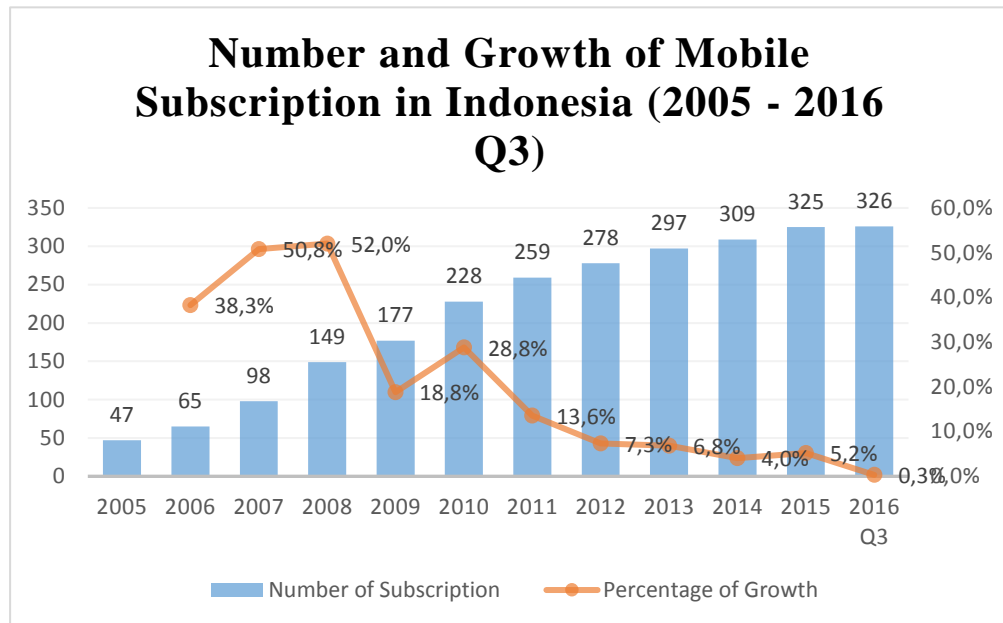


Figure 1.5 Number and Growth of Mobile Subscription in Indonesia (2005 – 2016 Q3)

Source: Redwing Asia, (2016)

As can be seen in Figure 1.5 that the number of mobile subscription has been increasing over the years. However, in contradict to it, the overall growth of mobile subscription has been decreasing and hits its lowest point in the Q1 of 2016 with only 0.3% of customer growth. With the insignificant customer growth and mobile penetration that had been surpassing the total population, it switches the competition focus within the industry towards retaining the current customers to increase the sales volume per user rather than leveraging their customer base (GBG, 2016).

Looking back at the history of telecommunication industry in Indonesia, over years, telecommunication industry was monopolized by two state-owned companies which are PT. Telekomunikasi Indonesia Tbk (Telkom) for fixed line and PT Indosat Tbk for international direct service, in which shut down any possibility of competition. However, in the absence of competition, the service

provided tends to be expensive, quality tends to be lower, and the development tends to be slower. Therefore, in 1999, to keep the existence of national telecommunication industry in the international world, Indonesia government deploy UU No. 36/1999, a new regulation in telecommunication industry that eliminate monopoly practice and open a gate for competition within the industry (Ariansyah, 2014). As of today, there're 6 cellular operator operating in Indonesia as can be seen in the table below.

Table 1.1 the Number of Cellular Operator in Indonesia

| No | Operator | Product | Type |
|----|-----------------|------------------------|-------------|
| 1 | Telkomsel | simPATI, kartuAS, Loop | GSM/4G LTE |
| 2 | Indosat Ooredoo | IM3, Mentari, Matrix | GSM/4G LTE |
| 3 | XL Axiata | XL, Axis | GSM/4G LTE |
| 4 | Hutchison | 3 | GSM/4G LTE |
| 5 | Smartfren | Smartfren | CDMA/4G LTE |
| 6 | Sampoerna | Ceria | CDMA |

Source: kios-pulsa.com/, (2016)

As can be seen above, currently, Indonesia have 6 operators that provide several brands with different services targeted for different customers segment. In addition, table above also shows that the majority of operators in Indonesia are GSM provider which means that GSM operators are dominating the competition within the industry. In 2016, more than 90% of cellular market share is owned by GSM operators (XI Annual Report, 2016). In fact, the number of CDMA operators decreased over the past two years. By 2013, 4 out of 6 CDMA operators shut downed their business due to being overshadow by high competition from GSM operator that cause great loss on their financial report (harian TI, 2016). Furthermore, smartfren as the biggest CDMA operators is also in the middle of introducing their current customers in using the new 4G LTE technology as they're transitioning from CDMA becomes 4G LTE provider. Hence, according to Dian

Siswarini, Deputy of CEO of PT. XL Axiata (2015) that during the transition, it is predicted that the competition will be focused on GSM until 2020. Below illustrates the market share gain among GSM player in Indonesia from 2013-2016.

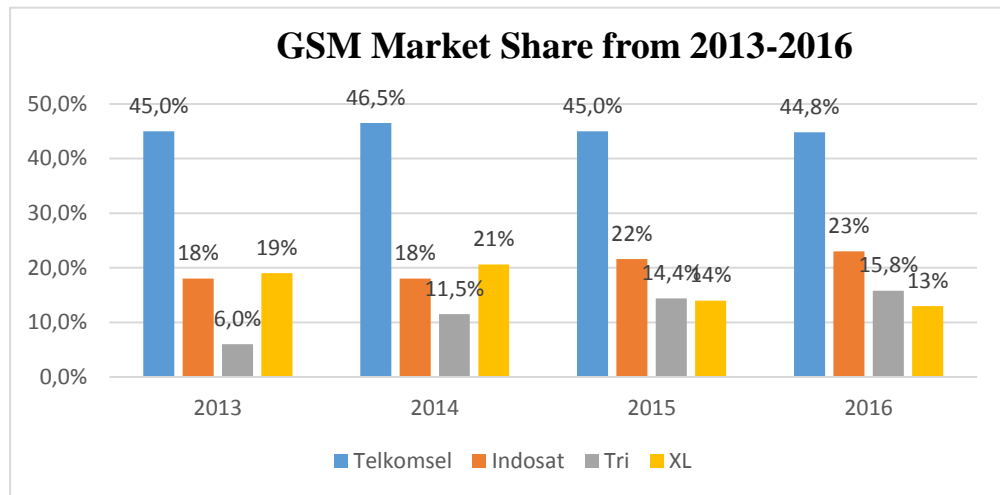


Figure 1.6 GSM Market Share from 2013-2016

Source: Compiled from Various Sources

From figure 1.1, it can be seen that there's market shifting during the 4 years period. Telkomsel as market leader experienced a light slope and XL as the third biggest player can't defend its market share, has fallen to the last place. Meanwhile, Indosat and Tri steadily increase their market share gain. Furthermore, the market will keep shifting as a result of tight competition in the industry.

Competition in cellular industry has become very sharp, marked by there's massive customers' acquisition in the recent years, remark that only the strong can survive. Furthermore, the existing operators are facing difficulty in developing their business in a very dynamic market, where consumers are easy to switch to other operator (Indonesia Commercial Newsletter, 2011). In addition, the consumer has become more selective in choosing the product or service being used. Promotion and advertisement have no longer become an effective marketing tool especially for middle-up segment when in this segment, consumer not only consider price but also the quality of product or service being delivered (KOMPAS.com, 2013).

The development of consumer behavior today is very dynamic which is influenced by the interaction between the individual and the surrounding community and in line with technological environment. According to Kotler and Keller (2009), today customers are cleverer, price-conscious, unforgiving, and have many options, therefore, become harder to be satisfied. Hence, the challenge is not to satisfy the customers but to generate happy and loyal customers to retain the customers.

Failure in retaining the customers can make the customers move to other operator and increase the churn rate. Churn rate refers to the amount of customers or subscriber who discontinue their subscription during a given period of time (Investopedia, 2016). It is used as indicator of the health of company's subscriber base. The lower churn rate delineates the better outlook for the company (Mobileburn, 2016).

Further, the fierce competition to get the customer demand cellular operators to be creative in their marketing strategy to maintain and increase their market share. As a result, cellular operators are competing on who can offer customers the lowest price that can give the biggest value. Looking from customer perspective, it is considered as positive things, since they will be provided with many options (Tekno Kompas, 2016). On the other side, this phenomenon gives negative impact toward the industry and increase the churn rate. Currently, the average churn rate in Indonesia is between 11 - 20% per year (XL Axiata Document Investor, 2016). The table below contains churn rate of PT XL Axiata from 2013 – 2015.

Table 1.2 Churn Rate of PT XL Axiata 2013-2015

| Year | Churn Rate |
|------|------------|
| 2013 | 19.1% |
| 2014 | 16.5% |
| 2015 | 16.7% |

Source: XL Axiata Dokumen Investor (2016)

As can be seen, in the previous table, XL Axiata as one of top three player experienced a really high churn rate in 2013, and it decreased by 2.6%, however it experience a light increase again. Furthermore, Indosat also stated in its Annual Report 2015, that they also experienced a high churn rate. In addition, there's no guarantee that the churn rate will decrease in the future due to aggressive promotion among operators.

There're many causes lead to discontinuance by customers. The unattractive promo, expensive tariff, and one time usage. Hence, the cheapness of starter pack is believed to be the main cause of the high churn rate. There's a tendency of customers to buy and use a card only until the balance turn to zero. In fact, with only Rp 5000, customer can buy starter pack with Rp 15,000 balance. Therefore, from customers perspective it's more profitable to buy a new start pack than top up a card (Kompasiana, 2016). The high churn rate has also resulted in high price sensitivity among prepaid customers and the low switching cost (XL Axiata Document Investor, 2016). Furthermore, the easiness to switch from one service to other service influence the intensity of usage per user.

The phenomenon above also has an influence on ARPU (Average Revenue Per User) in the industry that has been decreasing for the past years as a result of intense tariff war among the operators. The figure below illustrate the comparison of ARPU of the three biggest operator in Indonesia in 2009 and 2016.

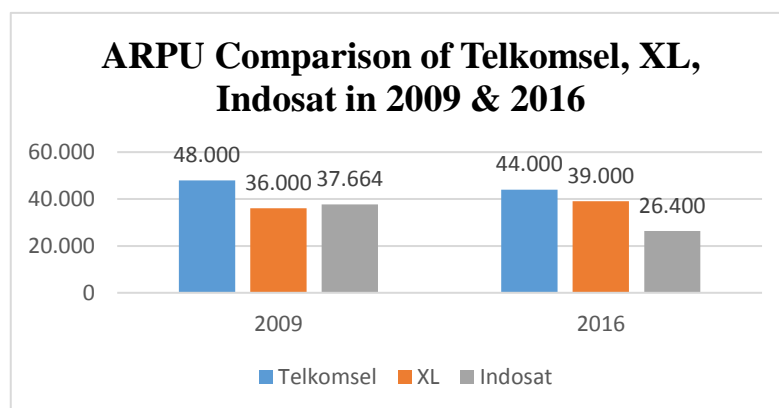


Figure 1.7 ARPU Comparison of Telkomsel, XL, Indosat (2009 & 2016)

Source: Compile from Various Sources

Figure 1.7 shows two of three operators experienced decrease in their ARPU during the last 6 years. The significant decrease is exhibited by Indosat, losing around 30% of the initial ARPU. Followed by Telkomsel losing around 10% of the initial ARPU. Lower ARPU results from the competitive market and technology advancement, especially on network, device, and application have shifted the demand from basic service to data service, in which the margin from data service is lower (PT Indosat Annual Report 2015).

In addition to the decreasing ARPU, the customers' growth of operators has been slowing down in the past year. This is due to the saturated market that left only a few part of unexplored market. The following table illustrate the customer growth of GSM operators.

Table 1.3 Customer Growth of GSM Operators

| Year | Telkomsel | Indosat | XL | Tri |
|------|-----------|---------|--------|-------|
| 2012 | 16.9% | 13.2% | -1.3% | 36.4% |
| 2013 | 5.1% | 2% | 32.3% | 36.7% |
| 2014 | 7% | 6% | -1.5% | 18.2% |
| 2015 | 8.5% | 10.2% | -29.4% | 11.4% |
| 2016 | 7.3% | 15.5% | 6.9% | 13% |

Source: Compile from Various Sources

Based on table 1.3, in general there're no operators exhibited significant and steady growth along 2012-2016. The growth is actively fluctuating indicate the instability of customer growth. With the decreasing ARPU and instable customer growth trend in a tight competition, operators need to formulate the effective and efficient strategy not only to survive but also to go front.

According to Lee et.al (2001), the lower the market growth and the intense the competition in telecommunication sector make companies tend to focus on retaining the existing customer. A survey also shows that the cost to acquire new customers can cost up to 30 times as it does to keep the existing ones Moreover,

65% percent of company's revenue comes from the existing one as the existing customers also has big potential to use other service line. Hence, focusing the marketing effort with the existing customers would be a wise option (Kingwill, 2015). Therefore, operators should think about the strategy to keep their existing customers from moving to other operator.

According to Subramanya & Yi (2007:1) to keep their customers from moving to other operator, mobile operators need to remain competitive by providing end users with an immense and satisfying experience. User experience refers to the experience that a person got from interaction with a system, product, or service. Further, the experience then will influence the perception of the system, product or service (Arhippainen & Tahti, 2003). According to Beckman (2015), user experience is critical when it comes to customer's acquisition and retention. He also predicted that by 2020, user experience will become the key brand differentiator. In which, good user experience becomes one of the most valuable and strong competitive advantage.

According to Doganoglu (2010), a good experience can refrain users from switching to another provider as they perceive greater risk when switching. However, a negative experience may encourage a user to induce switching cost and move to other operator. Furthermore, user experience influence the decision to switch when viable competing exist on the market, a good experience with current provider makes customers perceive the competitor as less attractive (Ye, Seo, Desouza, et.al, 2008). This indicates that experience has influence towards switching cost and alternative attractiveness.

Furthermore, in this study, user experience comprise of 5 elements which are functionality, social, monetary, trustworthiness, and perceived service quality. Previous study conducted by Bajaj (2013) found the significant and direct effect of these elements in creating the value perceived by customers. Other study conducted by Giovanis et al. (2015) found the significant and direct effect of the value being perceived towards switching cost and alternative attractiveness. However, there's

no study that has examined the direct relationship between the five elements towards switching cost and alternative attractiveness. Investigating the significance of each element will be very helpful in assessing the detail relationship among the elements.

Based on the previous explanation, this study is intended to analyze the relationship between user experience elements and switching barrier (switching cost and alternative attractiveness). Therefore, the title of the study is “**The Influence of User Experience towards Switching Barrier of GSM Operators in Indonesia**”.

1.3 Problem Statement

The players in Indonesia cellular industry currently is going under transition to a new technology of 4G LTE. Hence, during the time, the competition will be focused on GSM service until 2020. However, the competition in the market is very tight as the market has really saturated. Furthermore, with low customer growth, high churn rate, and low ARPU makes the competition even more intense. In the condition of such a market, operators have a tendency to focus on retaining the existing customers. Therefore, it is necessary for them to consider factors that helps them to retain their customers.

User experience as a factor has potential to create a barrier that able to keep a customer from moving to other operator. However, the relation between the two hasn't fully explored and understood yet.

1.4 Research Questions

Based on the background, the problem formulation is written as below:

1. Does UX elements have significant relationship with switching cost in Indonesia GSM Industry ?
2. Does UX elements have significant relationship with alternative attractiveness in Indonesia GSM Industry ?

1.5 Research Purpose

Based on the problem formulation, the purpose of the research is written as below:

1. To investigate the relationship between UX elements and switching cost in Indonesia GSM Industry.
2. To investigate the relationship between UX elements and alternative attractiveness in Indonesia GSM Industry.

1.6 Significance of Research

1.6.1 Theoretical Aspect

Through this study, the author can apply the theory and knowledge acquired from the courses and gain a deeper understanding. Furthermore, the result of this study is useful as reference for further research in the field of user experience and switching barrier.

1.6.2 Practical Aspect

It is hoped that the result of this study is able to contribute to the operational and the development of GSM Operators in Indonesia. Also provide ideas and information that can be helpful for others who want to know issues concerning user experience and switching barrier.

1.7 Scope of Research

1.7.1 Location and Object of Research

This research is conducted in Indonesia. Furthermore, the object of this study is the subscribers of Telkomsel, Indosat, XL and Tri as the existing Indonesia GSM Operators.

1.7.2 Time and Period of Research

The study is conducted during December 2016 – March 2017

1.8 Systematical Writing

This section is giving a general overview and research performed by the author:

CHAPTER I INTRODUCTION

This chapter contains a review of the object of the research, background, formulation, purpose of research, research significance and research outline

CHAPTER II LITERATURE STUDY AND RESEARCH FRAMEWORK

This chapter contains the underlying theories related and supporting the research as well as the framework of the research

CHAPTER III RESEARCH METHODOLOGY

This chapter contains the type, variables, data collection method, and analysis technique of the research

CHAPTER IV RESEARCH RESULTS AND ANALYSIS OVERVIEW

This chapter contains the findings, discussion, and explanation result from analysis of data relate to the underlying theory.

CHAPTER V CONCLUSION AND SUGGESTION

This chapter is the final chapter contains the summary derive from all the processed data as well as the recommendation for further research in this field