



The Newest Telecommunications Operator Company in Indonesia: "A Research Case Study of Smart Telecom's Survival in the Competitive Industry"

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Abstract

This case study also provides insight into the different operational and marketing strategies used by Smart Telecom in the telecommunication industry. While other companies in the industry choose to follow the market leader and compete to reduce the rate of a voice call, Smart Telecom chooses to concentrate on developing its mobile data strategy. The case analyzes the reason for Sinarmas' enthusiasm to have a telecommunication company in their portfolio. Thus, the role Smart Telecom provides in the Group was also analyzed. – The case describes the progress of Smart Telecom from its beginning to its merger with PT Mobile-8. This case study involved interviews, observations, and personal experience on how Smart Telecom survives in the capital-intensive industry. This case study also describes the marketing, operational, and role Smart Telecom plays in the Sinarmas group. The case focuses on every stage of PT Smart Telecom's evolution until its merger with PT Mobile-8 and becoming one of Indonesia's five remaining telecommunication operators. With skillful manoeuvring by the Sinarmas group, Smart Telecom achieved backdoor listing into the Indonesian Stock Exchange. The author believes that this is the first study regarding the evolution of Smart Telecom from its inception until it merged with PT Mobile-8. It would be interesting to analyze the future of Smartfren in Sinarmas' Group. How much contribution does Smartfren (SF) have to the overall business strategy of Sinarmas' Group? Would Sinarmas' Group continue financially support Smartfren? These are some of the intriguing questions that could lead to future study.

Keywords: Financial; Marketing; Business Strategy; Operation management

Research Type – This paper is based on a single illustrative case field study research into PT Smart Telecom (ST) evolution.

1. Introduction

Cellular telecommunications was first introduced in Indonesia in 1994 by PT Radio Telephone Indonesia (Ratelindo), which later became known as Bakrie Telecom. It was only available in Jakarta, Banten, and part of West Java (datacon.id). It used the 1G analogue technology, which evolved into the Advance Mobile Phone System (AMPS). The technology later became the foundation for Code Division Multiple Access (CDMA). The Indonesian government then licensed AMPS' technology to four companies to operate: PT Elektrindo Nusantara, PT Centralindo Panca Sakti, PT Telekomindo Prima Bakti, and PT Telkom Indonesia.

Aside from AMPS, European Telecommunications Standards Institute (ETSI) also developed another technology. It is called Global System for Mobile Communications (GSM). It later became the most widely accepted standard in telecommunications. Over 193 countries in 2010 implemented GSM's technology. This type of technology required more investment than its counterpart. In-contrast AMPS' technology, which now evolves into CDMA technology, offered advantages compared to GSM. The first advantage is in terms of infrastructure. The CDMA's network required a few Base Transceiver Station (BTS) to cover the same area as GSM's network. The second advantage of CDMA's network is in terms of capacity. Each CDMA's BTS can support more subscribers than its counterpart. Lastly, the advantage occurred during data transmission; losses in the CDMA's network are minimal compared to the GSM's network. As a result, CDMA's technology offers clearer voice quality but at the expense of higher temperature for the phone. The temperature of CDMA's phone becomes hotter as it searches for better signal quality. In summary, CDMA technology is better suited to carry data, while GSM technology was for voice communication.

In-contrast, the reason for GSM's popularity is because of the customers' ability to switch phones. GSM customers would have their personal information stored in sim cards. However, for CDMA's customers, all customer data and information would be stored and embedded on the phone. As more phones were readily available and affordable, it became clear that many Indonesians preferred GSM technology over time. This obstacle for CDMA was later addressed in January 2002 when the first CDMA2000 Rev 1x EV-DO was commercially launched by SK-Telecom in South Korea. Customer information can now be stored in the Removable User Identity Module (RUIM), allowing customers to switch phones easily. A year later, that technology was available to Indonesian through PT Bakrie Telecom.

2. Indonesian Telecommunication landscape (1993-2006)

In 1993 PT Radio Telephone Indonesia (Ratelindo) was formed. Later in September 2003, it changed its name to PT Bakrie Telecom (with Esia as its brand). The Indonesian government awarded Ratelindo with a license to provide voice, data, internet, and multimedia to operate at 800MHz frequency with CDMA technology. Esia's coverage area is Jakarta, West Java, and Banten. Later it was awarded to expand its operation in other major cities such as Medan, Surabaya, Semarang, Yogyakarta, Denpasar, and Batam. However, because of financial distress, PT Bakrie Telecom eventually discontinued its' services by the end of 2016.

In 1994, PT Satelit Palapa Indonesia (Satelindo) became the first GSM operator in Indonesia. Its principal shareholders were PT Telkom Indonesia, PT Bimagraha Telekomindo, and PT Indosat.

It first experimented with communication between Batam and Bintan island. The trial was successful and led to more confidence in the government to adopt the technology nationwide. As a result, the government established a second GSM company in 1995 under the name Telkomsel. The company grew and expanded its

coverage to Medan, Surabaya, and Denpasar. To support Telkomsel and connect 17.508 islands, Indonesia's government then lower the import tariffs on handphones. Reducing taxes on handphone couple by a bright future of the telecommunication industry encourages few conglomerates in Indonesia to invest in the telecommunication industry.

In 1996, PT Excelcomindo Pratama (XL) became the third GSM company to enter the telecommunications industry. In the same year, Telkomsel introduced prepaid billing for sim cards called Simpati, while Satelindo introduced the Mentari product. The prepaid billing system introduced by Telkomsel and Satelindo was popular among many Indonesians due to the convenience and affordability. Convenience since there will be no waiting period for the customer to avail of the telecommunication company's services. In prepaid services, the customer does not need to deposit for the insurance. Now, the consumer only needs to buy a sufficient amount to keep the number active or pay as it uses its services. By the end of 1999, the number of subscribers in the telecommunications industry grew to 3.6 million (postel.co.id).

In 2001, the government deregulated the telecommunications industry. One year later, PT Telkom Indonesia established Flexi. Flexi used CDMA technology and licensed to operate at 1900 MHZ frequency. Flexi became the fourth player in the telecommunications industry. It used the Fixed Wireless Access technology, which meant that the numbering followed the same area code. Flexi becomes popular for customers who do not travel outside the city area. Since Flexi's number was similar to a landline number, this resulted in the same local phone rate. Its customers were not considered a mobile subscriber.

Later in the following year, one of Indonesian conglomerate, Bimantara group, formed PT Mobile-8 Telecom (Fren). It began its CDMA service after acquiring Komselindo, Metrosel, and Telesera. In 2003, Fren launched a promotion campaign that was well received by the customers. The promotional campaign packaged its services together with affordable handsets. PT Mobile-8 then became a public company in 2006. In 2010, it changed its name to PT Smartfren after the acquisition of PT Smart Telecom.

In 2004, PT Mandara Seluler launched services in Lampung. The company operated at the 450 MHz frequency. The company was eventually acquired by Sampoerna Telecom in 2005 and became Ceria as its brand. Ceria concentrated in rural areas because of their technology and their ability to cover a wide area. Sampoerna Telecom then relaunched services in 2017 with Net1 as its brand. During that time, it held a license to operate in the rural areas of South Sulawesi, Maluku, Lombok, Aceh, and Serang-Banten. Its advantage operating in 450 MHz meant that the company required fewer Base Transceiver Station (BTS) to cover the same areas as its rivals in the industry. However, customers need a particular type of handphone to avail of Sampoerna Telecom's services. These types of phones must transmit and receive signals at 450 MHz, which were not readily available in the market. Analyst predicts that this is the reason why Sampoerna Telecom was not successful in its operation. Since it becomes Net1, the company focuses more

on providing telecommunication services for business and individual users in the rural area.

In the same year, PT Natrindo Telepon Seluler, owned by the Lippo Group, received the 3G license from the Indonesian government. Previously, the company had only been operating in East Java since 2001. Natrindo then changed its name and became Axis on April 1, 2008. It was then was acquired by XL on March 20, 2014, and became part of XL while still retaining its brand name.

In 2006, PT Smart Telecom (ST) became known to the public. PT Smart Telecom was the result of the merger between PT Primasel, which had a voice license, and PT Wireless Indonesia that had data licensed. ST operated with CDMA's technology on the 1900 MHz frequency. It became fully commercialized on September 3, 2007. Similar to Ceria, PT Smart Telecom encountered a problem with the availability of handphones in the market.

As shown in table 1, by early 2006, there were a total of eight companies (both fixed and wireless) in the telecommunication industry. The total number of cellular users was 48.9 Million subscribers. The number of cellular subscribers soared 416.5% in 12 years.

Table 1. No of cellular subscribers

Telecommunication Operator	Years	
	2018	2006
PT. Telkomsel	150	23.95
PT. Excelcomindo	45	6.8
PT. Indosat	34	13.8
PT. Hutchison 3 Indonesia	17	
PT. Smartfren (Previously as PT. Mobile-8)	7	1.15
PT. Telkom		2.83
PT. Bakrie Telecom		0.43
PT. Sampoerna (Previously as Mandara)		0.01
PT. Natrindo		0.01
Total	253	48.98

Source Postel.go.id and Kominfo

PT Telkomsel, with its comprehensive coverage, still enjoys a hefty lead compared to other operators. However, it is interesting to note how the last company to join Indonesia's telecommunications race continues to survive. This paper will examine the evolution of the industry and, in particular, how PT Smart Telecom (ST), which eventually became Smartfren (SF), can survive in the competitive industry.

3. The Case of PT Smart Telecom

PT Smart Telecom (ST) can operate because of the combination of two firms holding two separate licenses; PT Wireless Indonesia and Primasel (Koran.Tempo.com,2007). In December 2006, The government awarded ST to operate in 1900 MHz with CDMA technology. Smart Telecom is the latest venture of the Sinarmas Group, owned by Eka Tjipta Widjaja (5th wealthiest man in Indonesia ranked by Forbes in 2006). Being part of Sinarmas group means that other members will support its operation. It could potentially have over 100,000 subscribers when it commercially launched.

PT Smart Telecom (ST) overcame many obstacles facing its launching. Starting with the testing for commercial use, building base transceiver station (BTS), and finding additional vendors for handphones. According to a member of the Indonesian Telecommunications Regulatory Body (BRTI), Mr Kamilov Sagala, ST operating license should have been reviewed (koran.tempo.co, 2007). In Mr Sagala's opinion, ST had no intention of launching its services but intended to sell its license to the highest bidder. In-contrast, Mr Heru Sutadi, also a member of BRTI, said that ST should launch commercially by 2007. He further informed that ST had already requested ULO in various areas in Java. He added that ST should launch in Jakarta as it is the readiest city with the largest number of BTS in operation.

ST launched commercially on September 3, 2007, in Jakarta. During its initial launch, many customers that purchased ST's services suffered drops in signal and calls. Management believes that the problem will be under control as more BTS is built over time. The launch in Jakarta was considered a success by the Management. Within the same month, Smart Telecom launched in other areas. The launch dates were as follows: September 6, 2007, in Surabaya, September 19, 2007, in Bandung, September 25, 2007, in Semarang, and September 28, 2007, in Yogyakarta (Finance.Detik.com,2007). ST considered different launched dates because of ground preparation. Management concerned was with coverages and local distributors' recruitment.

One of the critical success factors in the telecommunications industry is coverage. At the end of 2007, ST targeted the construction of 600 BTS (Koran.Tempo.co, 2007). Its competitor Telkomsel had a total of 20,844 BTS, XL had 11,157 BTS, and Esia had a total of 408 BTS in its coverage area. ST knew that the total number of BTS was not enough to cover such a wide area. According to Smart Telecom Director, Mr Ubaidillah Fatah, at its launching in 2007 ceremony, ST only had 350 BTS ready to operate (Finance.Detik.com, 2007). One of the reasons for the low number of BTS was the slow land acquisition rate. Unlike other operators, ST preferred its BTS to be built on Sinarmas's property (Warta Ekonomi 2007). PT Dian Swastika Sentosa (DSS), a member of Sinarmas Group, was tasked to negotiate in acquiring land on behalf of the Group. DSS encountered many challenges during its acquisition. The price for a strategic location to build BTS was above the market price. Should DSS be unable to acquire a particular location, it would seek the next best available nearby location. The implication of such a

decision means that the BTS could be further away, preventing the signal from reaching the targeted area and not ideal for generating sales.

The Indonesian government granted ST to operate in the 1900 MHz frequency. At this frequency, signals will be tougher to penetrate walls, making it more challenging for customers to receive or place calls in indoor areas. The network division worked tirelessly to resolve the problem. After the merger with Fren in 2010, Management realized that its own managed and operated BTS was low and would not be ideal if it wanted to continue growing. ST then started to rent and install transmitters in various public places. To fill blank spots, ST's Management began analyzing traffic generated by other telecoms providers. The result is in the increasing agreement with many of the tower providers, thus reducing blank spots.

The license granted by the government to ST was in the Code Divisional Multiple Access (CDMA) at 1900 MHz. Most handsets available in the market were at 800 MHz. Dual-band capability handsets (800 MHz and 1900 MHz), were considered mid to high-end segment. These dual-band handset prices were above Rp 700,000. It is more expensive compared to other operators that bundle their handsets with its services. To solve this issue, ST either had to import or manufacture the phone. According to opinions and discussions with many handset distributors, customers preferred to purchase handsets between Rp 200,000 and Rp 500,000. An example promotion ran by Fren in 2005, co-bundled with Samsung N356 sold at Rp 388,000, was a success.

There are many limitations to this promotion, but the customers choose to ignore and still purchase the phone. The most crucial one was that the customers accepted that they could not easily switch the phone due to their current information embedded on the phone. Fren heavily subsidized the phone for this promotion. It installed a program on the phone to prevent the customer from using the phone for other operators. At this juncture, Fren understood the customers' priority. The customer's primary importance was to receive, make a call, and send SMS. Learning from Fren's promotional program, ST had to make the phone affordable. On January 9, 2008, ST launched a low-priced handset unheard of during that period. The price of the handset was Rp 188,000 (poselmu.com, 2008).

ST reduced the price of handset during this promotional campaign after approaching many telephone manufacturers. Many telephone vendors refused to manufacture for ST. The vendors explained that royalties must be paid to Qualcomm for its patent to manufacture CDMA phones. Even if they agreed to manufacture for ST, it would require large quantities with costly prices. Furthermore, telephone vendors forecasted that CDMA technology would soon be outdated. The merge between CDMA and GSM technology later became apparent in 2012. Both technologies converge into Long Term Evolution (LTE) technology.

During the time, Nokia was the number one handset brand in Indonesia. ST also approached Nokia to manufacture CDMA phones that can only receive 1900MHz

frequency. However, Nokia refuses and would continue to concentrate on manufacturing GSM's phone. In 2006 Nokia would eventually stop manufacturing CDMA handphone (inet.detik, 2006). Since Nokia refuse to manufacture CDMA phones, ST had to seek other handphone vendors. ZTE and Haier were the two other vendors willing to produce such a specific phone. ZTE's was intended to make black and white phones catering to low range market. At the same time, Haier was to create a colour phone for the mid-range market segment. After knowing that Nokia is to cease its CDMA manufacturing operation, ST's Management decided to purchase all the remaining Nokia's CDMA phones available in the market for filling the mid and higher segment of the market. As a result, during the commercial launch of Smart Telecom on September 3, 2007, customers could choose ZTE, Haier, Nokia, and Motorola branded phones.

4. Soft Launch

Before the commercial launch on September 3, 2007, ST offered its services to 118 Sinarmas companies through employee programs. The target for this soft-launched program was 100,000 subscribers. ST hoped that employees and members of their families would avail of its services. At the time of the soft launch, all effort was focused in Jabodetabek and the East Java area. More than one-third of Sinarmas's employees were located in this area.

During the soft launch, all Sinarmas Group employees and families can enlist ST postpaid and prepaid service. There were three types of handphones available: ZTE for the low end, and two Nokia dual-band phones for the mid and high-end for the employees to purchase. This strategy would allow for convenience among customers from finding compatible handphones. Each ZTE-175 was priced at Rp 369,000 per unit for Sinarmas Group families and friends. A special discount of 9.75% for the Sinarmas group employees who wish to purchase three units of ZTE's products. Another soft launch promotion was the free call among ST numbers until the end of 2007. The phone number must be active until the end of the year to avail for this promotion. However, not many Sinarmas employees choose this opportunity. In the beginning, this promotion was considered unsuccessful. The reasons for low participation was signal and the program's voluntary nature.

The participation of the soft launch was low. Sinarmas's Management then instructed all member of the Sinarmas' employees must have Smart Telecom number. Mandatory instruction was given to all companies in the Group with no exception. Furthermore, a portion of the communication allowed enjoyed by many of Sinarmas's employees were to be allocated for the use of their Smart Telecom number. One half to pay for their existing phone, and the remaining is to pay for their assigned ST's number. The objective was to force all the Sinarmas employees to use Smart Telecom. The mandate works. All Sinarmas' employees now have Smart Telecom numbers. Many of Sinarmas's employees put Smart Telecom numbers on their business cards. During office hours, employees used Smart Telecom to communicate with each other.

Although the number of subscribers was up, usage was not. ST discovered that most employees used their phones during working hours but never brought them home due to signal problems. Signal strength continued to pose a challenge for ST. Stronger signal needed to penetrate the concrete wall for the customer to place and received a call. To solve the signal problem, ST employees were encouraged to report and provide a location to build extra BTS. The responses were a success. Many employees offered their house as a means to put the antenna and strengthen ST's signal.

5. The Role of PT Smart Telecom in Sinarmas Group

PT Smart Telecom could not be as it is today without its other companies in the Sinarmas Group. When speaking about Sinarmas Group, we should mention its founder, Eka Tjipta Wijaya. In 1938 Eka Tjipta Wijaya founded Sinarmas. Its first big venture was in palm oil in 1968. He established Bimoli (Bitung Manado Oil Ltd) with another conglomerate Sudomo Salim (tirta.id). At the beginning of 1970, Bimoli becomes one of the biggest palm oil producers in the nation. Under Eka Tjipta Wijaya's tenure, Bimoli commanded a 60% market share of Indonesia's cooking oil. Realizing the agricultural product's opportunity and prospect, in 1990, Eka Tjipta Wijaya left the company and established his own brand palm oil company, Filma.

Bimoli becomes the springboard for Eka Tjipta Wijaya's other venture. In 1972 he ventured into real estate by establishing PT. Duta Pertiwi. Later in the same year, he also created Tjiwi Kimia, the foundation for his paper business. The Group then went to the financial industry in 1982 by establishing PT Internas Artha Leasing Company (Internas). To finance the group expansion, Internas in 1992 acquired Bank International Indonesia. Sinarmas Group had to relinquish the Bank International Indonesia in 2001 when the economic crisis hit Indonesia. However, realizing the bank's essential functions in its financial activities, the Sinarmas group then purchased Bank Shinta in 2005. The bank changed its name in January 2007 into Bank Sinarmas with the approval from Bank Indonesia. Thus, establishing four main business or pillars in the Sinarmas group.

With the establishment of PT Sinarmas Telecom, Sinarmas Group added another main business to its portfolio. To summarized, the five main pillars of the Sinarmas group were: Pulp and paper, Property, Financial, Mining, Agriculture and food beverages, and Telecommunication. Later in 2016, it added infrastructure to its other pillars. Of all the leading businesses in the Sinarmas group, Indah Kiat Pulp and Paper (APP) considered being labour-intensive. Most of the APP's factories are in Jabodetabek, East Java, and Riau Province. These areas were important for ST to cover. Effort and network priority in these areas were considered crucial for the success of the soft launch. The objective of Sinarmas management was that all members of Sinarmas employees should use ST as its telecommunication provider. It must reduce communication expenses incurred by individual companies while also supporting the newest member of the Sinarmas group.

Each company carries a specific function in the Sinarmas group. For example, Sinarmas Bank's role in the Group is its one-stop financial center. Asia Pulp and Paper's role is to support consumer product packaging. Then, PT Smart Tbk, which is part of Sinarmas Agro's, functions as an agricultural plantation company. ST's role was to be the telecommunication providers for all Sinarmas group. In the beginning, the Group confessed that choosing CDMA technology was a mistake (industri.kontan.co.id). However, they realized now that it is a blessing. The telecommunication industry should take Sinarmas group into the next millennial. It hoped to become the second coming of Bimoli. By entering into the technology sector, it opens up other opportunities such as digital money, optical fiber businesses, tower providers, to name a few. It was evident in 2016 when the government awarded Smartfren, Inti Bagun Sejahtera, and Moratel for building fiber optic known as the Palapa Eastern Ring (cnnindonesia.com). This optical fiber backbone will connect the main island on the eastern side of the nations. With Moratel as its infrastructure, SF as the operator, Sinarmas group is positioned to challenge Telkomsel on the country's eastern side.

6. Commercial Launch

On September 3, 2007, ST launched for commercial services. Grand Hyatt Hotel in Jakarta became the venue of the launch for Smart Telecom. During the launch, ST Director, Mr Ubaidillah Fatah, said that ST had 350 workings operational Base Transmission Station (BTS). According to him, ST was targeting 600 workings BTS by the end of the year ([Finance.detik](http://Finance.detik.com), 2007). Not to be outdone with the ST launch, on August 30, 2007, PT Bakrie Telecom began its expansion in Semarang, Yogyakarta, Surabaya, Malang, and Medan. PT Bakrie Telecom Executive Vice President Charles Sitorus and Corporate Sales Director Rakhmat Junaidi targeted 100,000 subscribers in the five expansion cities (Inet.Detik.com)

New product launching usually involves television events. However, the commercial launch for Smart Telecom (ST) was different. ST uses a below-the-line marketing strategy. On the day of launching, all shopping malls owned by the Sinarmas group branded with the ST logo. One consideration for not using the above-the-line marketing strategy during the launch was its limited coverage. The commercial launch of Smart Telecom considered by many aimed to please the regulatory board so as not to revoke its license. During the day it launched, ST unveiled its pricing strategy. Short Messaging Services (SMS) priced at Rp 25/SMS between ST users and Rp 275/SMS to other operators.

Table 2. Comparison of SMS between operators in 2007

Short Messaging Service Tariff (Rp. /SMS)		
	On-Net (Same operator)	Off-Net (Different operator)
Simpati	100	150
As	97	164
Mentari	99	149
IM3	100	100
XL	150	150
3	55	110
Flexi	85	350
Esia	55	275
Starone	25	150
Fren	100	300
Smart	25	275

Table 2 shows a comparison for the SMS rate tariff between each operator in 2007. For voice calls, ST had a rate of Rp 45 per minute between its subscribers (24 hours tariff rate). The rate for calls to different operators was at Rp 550 per 30 seconds for local and Rp 660 per 30 seconds for non-local calls. ST data tariff was at Rp 2.2/Kb. The price for its Starter Packs (SP) was Rp 20,000 (this includes a balance of Rp 10,000 for SMS or voice calls used).

ST also packaged their SP with the ZTE X-175 handphone (known in the industry as bundling). The price of the phone and the RUIM were Rp 349,000/unit. The price includes Rp 120,000 voucher for a call or sends SMS. There were also other products bundled with ST starter packs. ST had one colour model (Haier D1200P) handphone targeted for the mid-end market priced at Rp 499,000. ST also bundled its products with the Nokia and Motorola handphone. However, knowing that there would be a better chance of success with low-end handphones coupled with other considerations, ST promoted the ZTE X-175 heavily.

Reception for the promotions of the ZTE X-175 was lukewarm. Knowing that customers wanted cheap handphones, the ST management tried to reduce the prices of handphones twice. The first time is in Nov 2007 and later at the beginning of 2008. In learning from the previous launch in January 2008, the ST management launched its second bundling handphone, the ZTE X-176. The heavily subsidized handphones sold at Rp 188,000 (ponselmu.com, 2008). This time the campaign was a success. Consumers started to notice ST products. Distributors were also keen to stock the products. However, due to various external problems, the promotion was not maximized fully. Considering the hit of the program and not wanting a vacuum in the market, ST started to include other models available in their warehouse. At the beginning of February 2008, the old products (ZTE X-175) were included in the promotional campaign, reducing its sales price for the second time to Rp 188,000.

Activation for bundling products during promotion was better than the Management expected. It was a successful campaign, considering the limitation of coverage. ST managed to gather substantial subscribers with this promotion. Additional new subscriber reached an average of more than 10,000 subscribers daily. ST's leadership finally understands what the market wants. The strategy now was to flood the market with affordable handphones. On February 15, 2008, ST launched another bundling campaign. This time it tried to entice customers with colour handphones sold at Rp 288,000. As a result, ST was running two separate concurrent bundling campaigns. The colour feature handphones were not crucial for most customers since they were only using SMS and received phone calls. Thus, this promotional campaign did not go well with the customers.

Capitalizing on the success of the Rp 188,000 promotional campaign, ST this time came up with another promo at which the price of the package was Rp 110,000. The campaign enticed customers into buying prepaid vouchers instead of the handphones. The campaign theme was "buy airtime voucher get free handphone." Consumers still considered this promo as a bargain. The target market for ST was originally retailers or shops which sell airtime vouchers. This strategy was to address two problems that ST encountered. One was the difficulty among current subscribers to obtain prepaid vouchers, and the second was to raise its subscribers. The campaign ran until June 30, 2008. The retailer only needed to pay Rp 110,000 to receive a handphone plus an airtime voucher. The promotion campaign was a success. However, ST could not maintain the momentum. Demand for the product outmatches its supply. Warehouse suffers from production issues.

In learning from various issues, ST then launched similar programs targeting end-user subscribers. This time, consumers purchasing air time valued at Rp 190,000 will receive free handphones (palembang.tribunnews.com, 2008). The promotion ran from the middle of June until the end of August 2008. Initial the phone contain Rp 40,000 prepaid voucher at the start of activation. The rest of the remaining balance to be allocated equally in the next five months periods. Aside from raising the number of subscribers, ST hoped that customers would try its services and become loyal subscribers. The term subscriber in the telecommunication industry means a customer must use the operator's services for more than three months period in succession. The industry considered a churn or calling card if the consumer used below three months periods. By giving an equal amount of vouchers for five months, ST's Management can claim additional subscribers.

The introduction of affordable handphones to the market helped ST to gain a much-needed subscriber. However, the tariff war between XL and Indosat was ragging at that period. XL offered Rp 0.1 per second between their subscribers, while Indosat offered Rp 0.01 per second. In the ST case, customers were given a chance to call among themselves for free for 90 days, provided that the ruim is in the active stage. ST's promotion was to match the current promotion ran by other operators. Although this promotional campaign was enticing to customers, it also meant that the corresponding person on the other end of the line must also use ST as its

telecommunication provider. Unfortunately, consumers do not want to spend more money to buy new handsets. However, it was not unusual for many Indonesians to have two or more numbers from different operators. The reason is to avoid expensive connection charges across other operators. ST's pricing plan was more advantageous for the customer and superior as compared to other players in the industry. However, Management decided not to run a counter advertisement but decided to focus on increasing the coverage area as the best way to spend its limited resources.

7. Finding the Right Strategy

Fresh from the success of 188 campaigns, the ST management sought other means to capitalize on the momentum. During the Indocomtech show in June 2008, ST tried offering its data services by launching the EVDO technology modem below Rp 300,000 (boc.web.id, 2008). Although the handphones were an old model, it was positioned as a modem to connect to the internet. Observers considered this an attempt for ST to sell the remaining handphones currently in their warehouse. During the event, ST also introduced new products courtesy of the latest technology. New EVDO rev A technology available in Jakarta first before it rolled out nationwide gradually. Both promotion campaigns were successful. Activations for both promotions campaigns were high, reaching in the mid 20,000 per day.

Positioning both products as a modem was a success. It seems that Jakarta was waiting for such a product. The "Jump" modems sold at the retail price of Rp 888,000 catered to heavy internet users that enjoyed surfing the internet while demanding high speed and unlimited quota. In analyzing the success of both products, ST then concentrated on being a data operator provider. Other operators were taken by surprise with the success of "Jump." As it learned from the previous launch, ST became more cautious in rolling EVDO products based on network readiness. For the area which was not covered by EVDO technology, ST continued its voice promotion campaign. The voice promotions campaign were a success in outer islands such as Sulawesi but not in Java. Consumers in Java had already migrated to smartphones.

In capitalizing on the EVDO and Rev A technologies, Management felt it had a strong competitive advantage against other operators. With the success of "Jump." other operators started to look at revenue from data usage differently. For the CDMA technology, Esia launched its "Aha" product on June 25, 2010. The service covered ten cities that had Esia signals. As for GSM operators such as Telkomsel, XL, and Indosat, they still heavily depend from voice services. Realizing the success of ST with data, GSM's operator started looking at the 3G technology. By 2010, consumers came to know ST as a mobile data provider. Consumer purchased ST for its download speed and data reliability. Its signal coverage then started to spread to secondary cities in Java. ST was winning in the data battle. From ST management's perspective, that data is the route for the future. Understand what the market wants; ST began a series of campaign promotion for modems.

Another critical success factor in the telecommunications business is frequency. In the beginning, ST licensed to use 1900 MHz frequency. One disadvantage of using this frequency was that not many phones were available in Indonesia to receive the ST's signal. It is the reason why ST relied on creating and importing phones to the market. Thus, ST functioned as a telephone operator as well as a telephone importer. In realizing its handicap, ST continued to court other operators into a merger. By merging with another operator with a license to operate in 800 MHz frequency, ST then does not have to worry about handphone compatibility. Many handphones available in the market were compatible with 800 MHz frequency. Previously, the Sinarmas group was interested in purchasing PT-Mobile 8 (Fren). Unfortunately, the purchase did not materialize. Talks of a pending merger between ST and Fren intensified in 2009. Fren shareholders finally approved the merger on December 20, 2010, and formed the new board of directors in March 2011, forming Smartfren (SF).

At that time, Fren was a publicly listed company on the Jakarta Stock Exchange. It would be beneficial for everyone if it is known to the public that Fren acquired Smart Telecom (investasi.kontan.co.id, 2010). However, the reality was that the Sinarmas group was in control. Sinarmas group acted as a buyer and purchased all the newly issued shares. As a result, Smart Telecom achieved "backdoor listing" on the Indonesia Stock Exchange. With the merger completed, Smart Telecom also able to access Fren 800 MHz frequency awarded by the government.

The merger had little trouble from the government and even encouraged to merge to achieve efficiency. The Minister of Telecommunications at the time, Mr Rudiantara, indicated that Indonesia's ideal number of telecommunication companies should be three or four from the existing seven (kominfo.go.id, 2015). The Minister knew that without sharing some of the infrastructures, reducing the churn rate, and keeping abreast of new technologies, some industry players could not survive. The bankruptcy of PT Bakrie Telecom and the changing business model by Sampoerna Telecom was the Minister's example. Sampoerna Telecom eventually evolved into Net1 and became an internet provider for businesses and individuals concentrating in the rural area. While PT Bakrie Telecom later experienced financial distress and agreeing with SF to use its frequency in 2014.

At the end of the government's frequency reorganization in 2016, SF had two frequencies, 850 MHz (from Bakrie and Fren) and 2.3 GHz (from the exchange of 1900 MHz). With larger bandwidth, SF becomes more dominant in the mobile data industry. Operating in both frequencies allowed many SF customers to enjoy faster download and upload services while surfing the internet. When new LTE technology rolled out in 2015, SF implemented the idea, which gives a slight advantage over other competitors in the industry. In the rural area, SF uses 850 MHz (Frequency Division Duplexing or FDD technology) for coverage. While the 2.3 GHz. (Time Division Duplexing or TDD technology) where used in the city where consumers demand more speed for download and upload.

The merger between ST and Fren was imminent in 2010. The new entity positioned itself as a mobile data provider. In the following year, SF launched a series of cheap affordable modems (jagatreview.com, 2011). Finally, at the Indonesian Computer Show (ICS) in Jakarta on June 8, 2011, ST launched one of the year's highly anticipated products, the modem bundled with SF services for only Rp 199,000 (kentos.org, 2011). The response among consumers was overwhelming. The promotional campaign led to additional new subscribers and generated much-needed revenue for SF.

8. Conclusion

This paper is based on qualitative research on Indonesia's telecommunications industry. It highlighted the critical success factors of Smart Telecom (ST), the newest player in a large capitalized industry. The evolution of Smart Telecom from its earlier years did not deter Sinarmas group's commitment to the business. Sinarmas group knew the telecommunications industry required substantial investment. It could take a while for Sinarmas to see positive returns on their investments. Had it not been for the financial support from the Sinarmas group, Smart Telecom would have ceased to exist in 2010.

When Smart Telecom entered the industry, Indonesia's number one telecommunications provider already had 12 years of experience. Telkomsel had 23 million subscribers with coverage in nearly all provinces throughout Indonesia. It did not deter the Sinarmas Group from entering the industry. Sinarmas Group had little knowledge of the telecommunication business. However, the inclusion of Smart Telecom in Sinarmas Group meant that it is primed for growth for the next millennia. The Sinarmas portfolio now had banking, real estate, agricultural, consumer goods, mining and energy, and telecommunications. Smartfren complemented the Sinarmas group portfolio.

Many strategies employed by Smart Telecom were out of necessity. However, this necessity becomes a blessing. In the beginning, Smart Telecom tried to follow the industry rhythm. It tried to compete in the voice services but failed and could not win customers because coverage was issued. Even more, Smart Telecom fought on two fronts. It acted both as a handphone importer and also a telecommunication operator. Smart Telecom became an importer of handphones due to unavailability of compatible phones in the market. Sinarmas's Group knew the success factor was handphone; consequently, they supported Smart Telecom in their quest to bring affordable handphones.

Smart Telecom was not afraid to subsidize its imported phones. Many operators tried the Smart Telecom strategy in importing phones but failed. It is because of this handicap that Smart Telecom was successful. Operating in 1900 MHz frequency does not require the phone to use locking technology. Smart Telecom does not have to worry that other operators using its subsidized handphones. It was this cheap handphone promotional campaign that elevated Smart Telecom to be

recognized by other players. Now Sinarmas knew what the critical success factor for the telecommunication industry is.

The strategy used for handphone is then used again for modem. Smart Telecom saw how prepared were the market for the internet. Smart Telecom saw the opportunity offered by the internet and realized the eagerness of many Indonesians to visit the internet. Telecommunication company should not be concerned with the available device. Its objective is to bring signal so people can communicate. Once more because of the frequency it operates, Smart Telecom was able to give large subsidies for modems. Additional canal and bandwidth received from the collaboration with Esia and the merger with Fren underlined its firm footing in the mobile data.

It took coordination, a strong will, and vision from the owner to institute this commitment. Since Smart Telecom merged with PT Mobile-8 and became Smartfren, the company never posted a positive profit. However, the Sinarmas group saw the importance of technology for its future growth. Being in the telecommunication industry opened up other opportunities for the Group. The addition of Smartfren brought value and raised the valuation of the Group as a whole. The road to profit takes a long time. It requires substantial financial support and patience, but these were what the Sinarmas group had in abundance. The Sinarmas group believes in internal growth.

With the emergence of the new technology of Long-Term Evolution (LTE), Smartfren need not worry about handphone compatibility. There are no more CDMA or GSM in the LTE era. LTE technology provides Smartfren equal footing with other operators in the industry. However, it also means reconfiguring all its networks. In the beginning, Smart Telecom had to change all its current CDMA technology into LTE. CDMA technology was redundant. LTE's technology required a large investment from the Sinarmas group. By 2014, Smartfren was aggressively configuring the new technology. LTE technology will undoubtedly benefit the customer experienced. This time around, Smartfren can finally maximize both bandwidths.

The case study limits itself on the success of Smart Telecom. However, this could be a starting point for two future research. One aspect is the continuation of Smartfren in the LTE era. The other is on how the merger impacted Sinarmas group's financial performance. Would staying in the communication industry will be beneficial for Sinarmas? It should also be interesting to see if both Net1 and Barkrie Telecom managed to revive its business in this LTE era. We also wonder if all the Sampoerna company in the groups join together and support Net1. Could they alter the Indonesian telecommunication landscape?

Finally, the case study is an example of how the last company that joined the telecom industry survive by being different. It tries to follow the market leader. It wanted to become a voice operator. However, limitations indicate otherwise. In the

end, Smart Telecom realized that by pursuing a different strategy, it could capture substantial subscribers. Smart Telecom turns its handicapped into an advantage. It was also the combination of the right timing, patience, and willingness of Sinarmas Group to finance Smart Telecom that makes it today.

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