

CHAPTER 1

INTRODUCTION

1.1 Overview of the Research Objects

1.1.1 Telkomsel

1.1.1.1 Telkomsel Company Profile

Telkomsel started operations in 1995, and within 20 years, Telkomsel has established itself as the leading cellular operator in Indonesia, with more than 152 million customers, 103,000 BTS as well as more than 4,900 employees operating in 11 regions across Indonesia. Telkomsel provide kartuHalo as a postpaid service, while for prepaid customers, who account for almost 98% of their base, they have three different brands targeted at different customer segments: *simPATI*, Kartu As and LOOP (*Annual Report of Telkomsel, 2015:44*).

Telkomsel is the subsidiary of PT Telekomunikasi Indonesia Tbk (65%) and Singapore Telecom Mobile Pte Ltd (35%). Telkomsel have the country's widest network coverage, with an estimated 2G population coverage of around 99% and 3G population coverage of around 65%. In 2015, Telkomsel deployed almost 18,000 new BTS, of which 89% were 3G/4G-based. Telkomsel was the first operator to commercially market the 4G LTE technologies in Indonesia and by the end of 2015 Telkomsel had coverage in 14 key cities with 2.2 million LTE users (*Annual Report of Telkomsel, 2015:44*).

Telkomsel has to undergo their own transformation from traditional Telco to Digico to ensure that Telkomsel maintain their competitive edge and to be able to continue to lead and shape the industry. Telkomsel has been repositioning the company to transform the business, organization, culture and people so that they are ready to capture the opportunities in the Digital Business and to stay ahead in the industry. As part of this transformation, Telkomsel execute three key masterpiece

programs each year and for 2015 the focus was on Building a Digital World, Great Payment Experience and TrueBEx (True Broadband Experience).

1.1.1.2 Vision and Mission

Below are the vision and mission of PT. Telkomsel

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

1.1.1.3 PT Telkomsel Logo

Below is the logo of PT. Telkomsel.



Figure 1.1 Telkomsel Logo

Source: Wikipedia, 2016

1.1.1.4 Products of Telkomsel

Below are the products of PT. Telkomsel

- a. KartuHalo
The postpaid brand of choice amongst the professionals and corporate customers segments.
- b. simPATI
The prepaid brand for the savvy middle class segment, simPATI is

Telkomsel's award winning lifestyle prepaid brand.

c. KartuAs

'Affordable, Value Prepaid Brand', KartuAs is Telkomsel's most popular prepaid brand which offers the best value to their customers.

d. LOOP

Telkomsel's new prepaid brand, targeted at the youth segment. With the tagline "Ini KITA" (This Is Us), LOOP gives a youthful impression with its brand proposition "being better together", and its focus on offering attractive Data and Digital Services.

1.1.2 XL Axiata

1.1.2.1 Company Profile

Initially starting business as a trading and general services company established on 6 October 1989 under the name of PT Grahame Metropolitan Lestari. In 1996, XL entered the telecommunications field after obtaining a GSM 900 operating license and officially launching its GSM services, becoming the first private company in Indonesia to provide cellular mobile telephony services. Later on, following a cooperation agreement with the Rajawali Group and three foreign investors (NYNEX, AIF and Mitsui), the Company's name was changed to PT Excelcomindo Pratama. (*Annual Report of XL, 2015:79*)

In September 2005, XL launched an Initial Public Offering (IPO) and listed its shares on the Jakarta Stock Exchange now known as 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., ("TMI") through TM International (L) Limited. In 2009, TMI changed its name to Axiata Group Berhad ("Axiata") which later in the same year PT Excelcomindo Pratama Tbk. also changed its name to PT XL Axiata Tbk. for synergy purpose.

Currently, the majority of XL's shares are owned by Axiata through Axiata Investments (Indonesia) Sdn. Bhd. (66.4%) and the remaining is held by the public (33.6%).

As a leading market player in Indonesia, 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. XL operates its network on GSM 900/DCS 1800 and IMT-2000/3G technologies.

XL also holds a Content Provider License, Internet Services Provider (ISP), Internet Interconnection Services License, Voice Over Internet Protocol License, Leased Line License, Money Remittance as well as E-Money Issuer License from the Central Bank of Indonesia, which enables XL to provide remittance service to its subscribers.

1.1.2.2 Mission Statement

Below is the mission statement of XL Axiata

Mission: *“Enrich lives by digitally connecting Indonesians in a simpler way”*

1.1.2.3 Core Values

1. Uncompromising Integrity

Having high ethical standards, having no tolerance for unethical behavior.

2. Team Synergy

Have fully passionate team-working spirit, ensuring every process are done for the sake of our goal.

3. Simplicity

Doing our best to provide a solution that easy-to-use and beyond customer's expectations

4. Exceptional Performance

Always be enthusiastic in providing the best performance

1.1.2.4 XL Axiata Logo

Below is the logo of XL Axiata



Figure 1.2 XL Axiata Logo

Source: Wikipedia, 2016

1.1.2.5 Products of XL Axiata

Below are the products of XL Axiata

- a. Corporate GSM
Various options of GMS services for company needs such as CUG-GSM, International Roaming, PABX Integration, VoIP, and SMS Broadcast
- b. Corporate Data Services
Solution for the data plan and payment , wireless communication, and business support. This includes Data Package Service and Blackberry Package Service.
- c. Domestic Network
Domestic network support for communications in national area includes services such as Leased Line, IP/VPN-MPLS, NAP/ISP, Metro Ethernet and Collocation.
- d. International Network
Communication with international coverage that gives efficient cost for

customers. Services include International IP/VPN MPLS and International Leased Line.

1.1.3 Indosat

1.1.3.1 Company Profile

Established in 1967, PT Indosat Tbk (Indosat Ooredoo) is a leading telecommunication and information service provider in Indonesia and a member of Ooredoo Group, a global telecommunications provider. Indosat Ooredoo provides cellular, fixed data and wireless broadband services as well as fixed telecommunication or fixed voice offerings including IDD, fixed wireless and fixed phone services, and digital services. In addition, together with its subsidiaries PT Indosat Mega Media (IM2) and PT Aplikanusa Lintasarta, Indosat Ooredoo provides fixed data or Multimedia, Internet & Data Communication services such as IPVPN, leased line, internet services and IT services to corporate segments. The Company is listed on the Indonesia Stock Exchange (IDX: ISAT) (*Annual Report of Indosat 2015:37*).

1.1.3.2 Mission and Vision

Below are the mission and vision statements for Indosat

a. Vision: *“Indonesia’s Leading Digital Telco”*

b. Mission:

- *“Liberating Products and Services”*
- *“Data Strong Network”*
- *“Treat Customer Like a Friend”*
- *“Digital Transformation”*

1.1.3.3 Indosat Logo

Below is the logo of Indosat



Figure 1.3 Indosat Ooredoo Logo

Source: Wikipedia, 2016

1.1.3.4 Indosat Products

- a. IM3 Ooredoo
Prepaid SIM that frees you to communicate without limits
- b. Mentari Ooredoo
Prepaid GSM cellular targeting mature segments which offers simplicity and lifestyle
- c. Matrix Ooredoo
Postpaid GSM cellular service for high end professional and corporate user that offers best service quality and experience

1.1.4 Tri

1.1.4.1 Company Profile

PT Hutchison 3 Indonesia (H3I) is a rapidly growing telecommunications service provider operating under the National 2G/GSM 1800 MHz and the 3G/WCDMA licenses in Indonesia. H3I provides quality, innovative mobile data, and affordable voice and SMS services under the “3” brand, and moves with nationwide 3.5G network expansion to provide world-class internet experience for Indonesia. H3I is a member of CK Hutchison Holdings 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 (About 3, 2016).

Tri believes that internet has become one of the basic needs for today's society. Tri is here in Indonesia to provide a better internet experience to more users, offering real flexibility according to what they really needs. This is their passion ever since they first launched in 2007 and Tri's network has been built differently to meet this purpose. 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).

1.1.4.2 Tri Logo

Below is the logo of Tri



Figure 1.4 Tri Logo

Source: Wikipedia, 2016

1.1.4.3 Tri Products

- a. Kartu Perdana Nonstop 4G
Internet quota that can be used in every network (2G/3G/4G) and also 1GB 4G quota bonus every day when the internet is active
- b. Cengli is a new Tri SIM card that gives Internet credit bonus of Rp 5,000/day that can be used to access Internet for 24 hours in 30 days.
- c. Indie+ is the service that combines the benefits of prepaid card and the

convenience of postpaid service. For every purchase of Indie+, you will not only get phone credit but also credit bag.

1.2 Research Background

Communication has become very important in our lives as it is very inseparable from our daily activities. In recent era, one of the tools used for communication is the mobile phone. As of January 2016, the number of mobile connection subscription in Indonesia stand at 326.3 million, way more than the population (Tech in Asia, accessed on 1 December 2016).

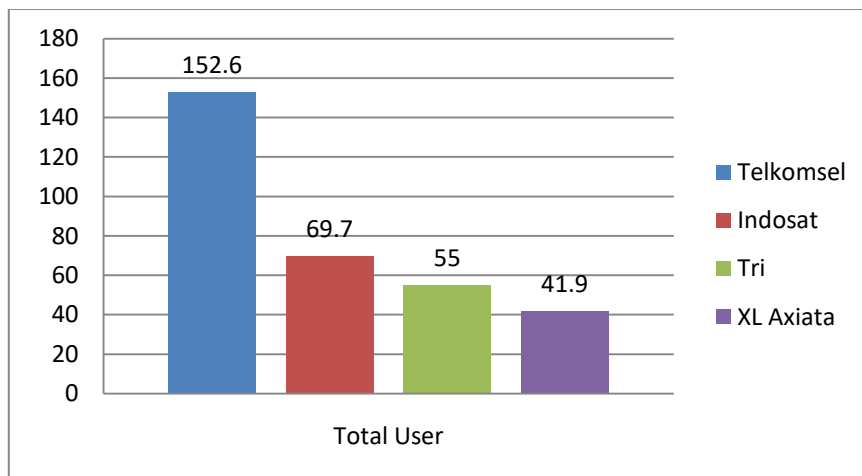


Figure1.5 Customer Base Telkomsel, Indosat, XL Axiata

Source: Annual Report of Telkomsel, Indosat, XL Axiata and Tri

As can be seen in Figure 1.5, the biggest mobile service providers in Indonesia in terms of total users are Telkomsel, Indosat, and Tri respectively. Telkomsel has the biggest total number of user with 152.6 million users. Second is Indosat who has 69.7 million users. Tri has 55 million users. XL Axiata has a total of 41.9 million total users.

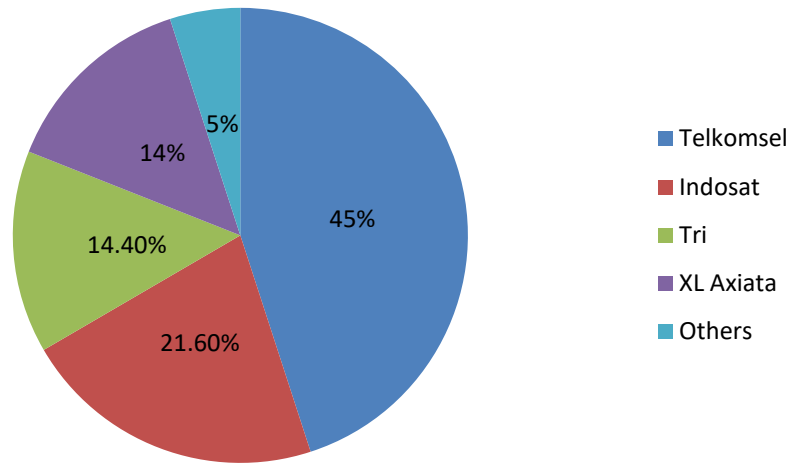


Figure 1.6 Indonesia's Cellular Operator Market Share in 2015

Source: indotelko.com/, (2016)

From figure 1.6, we can see that in terms of market share, Telkomsel is dominating with control over 45% of the market. Runner up position is held by Indosat with 21.6% market share. Tri has successfully overtaken the third position with 14.4% markets share by defeating XL Axiata market share of 14%.

Although the number of active user increased, the profit of the telecommunication industry does not follow the increase of active user. It has stimulated telecom service providers to perform a variety of business strategies to achieve customer loyalty. The increasingly fierce competition spurred telecom service companies to develop their business by strengthening digital services as well as a variety of innovative services to meet customers need. Telecom service companies need to expand from mobile and data services to value added services (Pride.co.id accessed on February 12 2017).

Service Provider	Customer Growth			
	2011-2012	2012-2013	2013-2014	2014-2015
Telkomsel	16.9%	5%	6.9%	8.6%
XL Axiata	-1.3%	32.3%	-1.5%	-30%
Indosat	13.2%	1.9%	6%	6.1%
Tri	-	46.2%	32%	9.7%

Table 1.1 Customer Growth of Telkomsel, XL Axiata, Indosat and Tri 2011-2015

Source: Annual Report of Telkomsel, Indosat, XL Axiata and Tri

To calculate growth rate, we use the following formula:

$$\text{Growth Rate} = \frac{\text{Current Year Total Customer} - \text{Previous Year Total Customer}}{\text{Previous Year Total Customer}} \times 100\%$$

From table 1.1 we can see that all the telecommunication service provider always have positive total user growth from 2011 to 2015 except for XL Axiata. Their total customer declined 3 times in the last 4 years.

Alexander Rusli the chairman of *Asosiasi Penyelenggara Telekomunikasi Seluruh Indonesia* said that currently the average ARPU in the telecommunication industry is 25,000 IDR and that the arrival of 4G can increase ARPU but not necessarily increase profit. ARPU could increase because the high usage of bandwidth causes phone credits to be refilled more frequently (indotelko.com accessed on 5 December 2016).

Service Provider	Average Revenue per User
Telkomsel	43,000 IDR
Indosat	26,045 IDR
XL Axiata	41,000 IDR
Tri	24,000 IDR

Table 1.2 Telkomsel, Indosat, XL Axiata and Tri ARPU in 2015

Source: *Telkomsel, Indosat, XL Axiata Annual Report*

Based on Table 1.2, not only Telkomsel has the biggest total user base, they also have the highest average revenue per user in 2015.

According to Pine & Gilmore (1998) more and more business are designing and promoting user experience as it becomes more important to their success. As technology develops and becomes commonplace, a high level of usability is taken for granted and something more is need to make people engaged with a product. New technology needs to fulfill not only the utility needs but also the hedonic need of the user (Roto, 2006).

In modern environment the only constant is change. Therefore businesses have to develop different strategies in order to survive in the long run. One of the best strategies is about satisfying the customers that ensure the long term growth of business. Since satisfied customer is the core concern of any organization therefore they pay close attention towards the factors that influence a customers' decision towards brand (Hafeez, 2010). In a competitive industry such as telecommunication industry, delivering high quality service is the key for a sustainable competitive advantage. Thus, measuring customer satisfaction is important for telecommunication service providers to meet customers' needs, provide more satisfaction and to ensure

their business sustainability (Thokoa & Kalebe, 2015).

In the telecommunication industry, the difficulty to switch to another service provider is referred to as the switching cost. Subscription with a service provider could probably be maintained involuntarily because a customer is prevented by the switching cost of changing service provider. Even though some customers are not satisfied with their service provider, they do not want to end subscription due to the switching cost. Therefore, the higher the switching cost, the more customers are forced to remain with their current provider (Calvo Porral & Levy Mangin, 2015).

Because of the changing trends in competition, companies are now investing more resource seeking to create a loyal base of customers. Pursuing customer loyalty as a strategic business goal is becoming more and more popular. Attracting new customers should only be viewed as a secondary strategy in the marketing process and business managers should focus on long term relationship with customers (Tarus & Rabach, 2013).

By looking at the phenomenon and how it is related to user experience, customer satisfaction, switching cost, and customer loyalty, this research is intended to analyze the relationship between user experience, customer satisfaction, switching cost, and customer loyalty. Therefore the title of this research is **“The Relationship between User Experience, Customer Satisfaction, Switching Cost, and Customer Loyalty in Indonesia Cellular Operators”**.

1.3 Problem Statement

Recently there have been very few researches done in the area of customer satisfaction, switching cost and customer loyalty in the telecommunication industry in Indonesia. In mobile services, the first aspect that user encounter is the user experience. Therefore it is important to find out how user experience is related with customer satisfaction, switching cost, and customer loyalty.

1.4 Research Question

Based on the explanation given in the background, below is the research question:

1. What is the relationship between user experience, customer satisfaction, switching cost, and customer loyalty in Indonesia cellular operators?

1.5 Research Purpose

Based on the research question, the purpose of this research is:

1. To examine the relationship between user experience, customer satisfaction, switching cost, and customer loyalty in Indonesia cellular operators

1.6 Significance of Research

Theoretically this research contribute to improve the knowledge in marketing especially in the telecommunication industry and also as a reference for further research in the field of user experience and its relationship with customer satisfaction. Practically this research can be used to improve the operational aspects of the company to better improve user experience and customer satisfaction.

1.7 Scope of Research

This research aims to find out the effect of user experience towards customer satisfaction and whether or not corporate image plays a moderating role between the two variables. The research will be conducted towards the user of Telkomsel, Indosat, XL Axiata, and Tri as the 4 biggest mobile service providers in Indonesia. Although the users of 4 different mobile service providers are observed, this research does not

compare the customer satisfaction between each provider.

1.8 Writing Systematic

The writing structure is arranged to provide a general overview and about research performed with the following structure are:

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 THEORIES AND FRAMEWORK

This chapter describes the theories that will support this research. This part also contained the Research Framework of this paper.

CHAPTER III RESEARCH METHODOLOGY

In this chapter, the subject matters are Research Methods, approaches, and analysis techniques to explain and answer the problem.

CHAPTER IV ANALYSIS AND RESULT

This chapter contains discussion and explanation regarding this research based on the analysis that done in this project, and elaborates the theories that already stated in Chapter II.

CHAPTER V CONCLUSION AND RECOMMENDATION

Consists of restatement of the problem, brief description and procedure, principal findings and conclusions, and recommendations for further research.