

# ***HOW CAN THE INDONESIAN TELECOMMUNICATION GIANT PERSIST AMID THE COMPETITION? A CASE OF TELKOMSEL INC.***

Egi Arvian Firmansyah  
Dosen Tetap Fakultas Ekonomi dan Bisnis Universitas Padjadjaran  
egi.firmansyah@unpad.ac.id

## **ABSTRAK**

Salah satu ciri dunia bisnis (*business world*) di era ini adalah persaingan. Dibandingkan dekade-dekade sebelumnya, kini perusahaan menghadapi persaingan yang jauh lebih ketat (*hyper competition*). Hal ini seiring pula dengan semakin terintegrasinya ekonomi dunia (*integrated economies*) sehingga persaingan tidak lagi berasal dari dalam negeri, melainkan juga dari luar negeri. Sebagai perusahaan telekomunikasi terbesar di Indonesia dan perusahaan telekomunikasi paling Indonesia, Telkomsel kini menghadapi persaingan yang semakin ketat dari beberapa perusahaan lain. Beberapa perusahaan pesaing tersebut mayoritas sahamnya dimiliki oleh asing. Layanan dari *provider* pesaing menawarkan servis yang serupa namun dengan biaya yang lebih terjangkau bagi semua kalangan. Dengan demikian, posisi Telkomsel sebagai *market leader* semakin terancam dan *profit* perusahaan dikhawatirkan cenderung menurun di kemudian hari. Tulisan ini membahas mengenai isu-isu yang dihadapi Telkomsel (pada tahun 2014) dan menstimulus pengambil keputusan untuk mengambil keputusan strategis. Formulasi keputusan strategis dalam perusahaan dilakukan secara terstruktur. Terlebih dahulu, manajer perusahaan di tingkat *top management* melakukan analisis posisi perusahaan di dalam persaingan. Tulisan ini menyajikan beberapa *tools* yang dapat digunakan untuk menganalisis posisi perusahaan dan posisi pesaing.

Keywords: *Competition, Telecommunication Industry, Strategy Formulation, Telkomsel*

## **I. INTRODUCTION**

### **1.1. Indonesia Telecommunication Industry**

Telecommunication has stepped up to be one of the primary needs of people who live in this century, both of those who live in developed country and in developing country such as Indonesia. Getting in touch with people out there through an electronic device has been much easier and appealing in the last decade, making people become 'addicted' to any technology means, especially to smartphone. The growing trend of using smartphone is both a

threat and opportunity for the service providers which are the telecommunication firms. The firms who can meet these things can win and the firms who cannot have to be ready to lose the market share in the industry. **Exhibit 1** shows a portrayal of telecommunication industry analysis in Indonesia.

The growing trend in technology has made the user of telecommunication goods and services undoubtedly increase. The growth of internet user in Indonesia is somewhat remarkable. According to the report of Ministry of Communication and Informatics (Kemkominfo), the internet users in Indonesia in 2014 reach 82 million people<sup>1</sup> (ranked eighth globally). According to APJII, this is predicted to keep increasing in the years to come (**Exhibit 2** shows the APJII prediction of Internet user in Indonesia).<sup>2</sup>

The sale of mobile telecommunication device such as smartphone and tablet (mostly used to access internet) has grown fast. It is reported that in 2014<sup>3</sup>, the sale of smartphone in South East Asia worth \$16.4 billion (around IDR 198 trillion), this number increases 33% from the previous year. The growth of smartphone sale in Indonesia is around 70% in the last one year, this is recorded the highest in the region. This huge number of smartphone users has attracted players of mobile telecommunication firms to gain more share, making the field become a hyper-competition industry. Some current major telecommunication firms in Indonesia are four main GSM mobile operators [Telkomsel, Indosat, XL (recently acquired AXIS), HCPT] and three CDMA mobile operators (Smartfren, Esia, Ceria). In 2012<sup>4</sup>, Telkomsel leads the market share with 44.55%, followed by Indosat and XL. For CDMA operators, their combined results represent less than 5% of the total market share. The market share of each company is shown in **Exhibit 3**.

The potential market as well as the tightening competition have made each telecommunication firm work harder and more creative to become winner. As one of subsidiaries of Telkom (state-owned company), Telkomsel (65% of its share owned by government<sup>5</sup>) has to defend its position as market leader. Formulating effective strategies is urgent. This can be done by using one of the frameworks namely Porter-five forces. **Exhibit 5** describes a clearer picture of the competition Telkomsel faces.

## 1.2. Telkomsel at Glance

PT Telekomunikasi Selular (Telkomsel) is Indonesia's leading provider of mobile telecommunications and digital data services. Telkomsel is a brand name of a GSM and UMTS Mobile phone network operator and was founded in 1995. Telkomsel is a subsidiary of Telkom Indonesia. In December 2013, the company had 131 million subscribers. Telkomsel operates in Indonesia with GSM 900-1800 MHz, 3G network, and internationally, through 323

international roaming partners in 170 countries (end of September 2008). The company provides its subscribers with the choice between two prepaid cards- *simPATI* and *Kartu As*, or the post-paid *kartu Halo* service, as well as a variety of value-added services and programs. **Exhibit 9** shows the financial highlight of Telkomsel from 2009 to 2013.

## II. LITERATURE REVIEW

The telecommunication industry consisting of network firms and mobile manufacturers is growing now. The competition within the industry is also tight. The number of research in this field is also numerous, some of the researches in this study were conducted by Fjeldstad et al (2004), Fernandez et al (2014) and Roy & Sonou (2014). Conducting business in developing countries is different from in developed countries because the challenges and natures are not the same. The markets in developing countries are more diversified in terms of income. In fact, the majority are price sensitive. Besides, compared to developed countries, the government and society in developing or emerging countries have more influences on business entities (Hoskisson, 2000). In order to survive, companies today are demanded to utilize their total strategies consisting of competitive strategy, organization strategy, and human strategy (Jensen, 1998).

## III. DISCUSSION

### 3.1. Strategic Groups and Positioning

Telkomsel is now confronted by greater challenges of its competitors who are seeking the position to be the leader. The number of telecommunication firms in Indonesia is not so huge but the product line of each firm is strong. Each firm differentiated each product line (brand) to be appropriate with each targeted market. The true competition lies here (**Exhibit 5** highlights the forces of Telkomsel). This positioning is somewhat based on the value perceived by the customers and price offered. **Exhibit 6** shows the strategic group of the telecommunication firms in Indonesia based on the author's view point.

### 3.2. Analysis of Competitors

The main competitors of Telkomsel are other GSM firms; Indosat, XL and HCPT (Hutchison). Some other CDMA firms have only little portion on the market share so they are not seemingly heavy competitors of Telkomsel. Telkomsel competes with other providers through its product lines which are *SimPATI* (symbolized red S in **exhibit 6**), *Halo* (symbolized red H) and *As* (symbolized red A).

Those main brands (GSM cards) have gained positioning from customers but the position is being derogated within the last two to five years. *Halo* service (postpaid) is positioned as flexible and high end product. This is consumed mostly by the settled people such as executives, bankers, lecturers, business men and so on. *SimPATI* (prepaid) is more general in this regard and positioned in the middle. *KartuAs* (prepaid) on the other hand is positioned for low income people and teenagers as the service pricing is more affordable.

The first and strongest competitor of Telkomsel is Indosat which sells the similar product in terms of target market. Indosat is the second GSM company and established in Indonesia in 2001. It launched *Matrix* (postpaid) card (symbolized green M in **exhibit 6**) to compete with *Halo*. The segment is pretty much the same ranging from personal to corporate. Although Average Revenue Per User (ARPU) earned by postpaid providers is higher than the prepaid, the number of Indonesian people using postpaid is so small. According to BPPT, the percentage of postpaid user in Indonesia is less than 5% in 2009<sup>6</sup>. Therefore the competition lies more on the prepaid.

*Mentari*, symbolized green T in **exhibit 6**, is a prepaid service offered by Indosat and it is now offering lower price. This for sure threatens Telkomsel. And yet, a stronger competitor of Telkomsel, *simPATI*, and *As* is actually the second line of Indosat sim card which is *IM3* (symbolized i in **exhibit 6**). *IM3* was initially advertised for the teenagers but it now targets almost all segments in terms of ages and incomes. *IM3* provides the similar services (internet data, SMS, call) but with a reasonably cheaper price, appealing to the youngsters and to the price sensitive customers. In fact, in some locations in the big cities, Indosat internet service is faster than Telkomsel since Indosat has been using 4G LTE network.

The bottom line as well as upper line ads of both companies are actually strong. TV stations, billboards, events are chosen by both to attract the audiences. The core problem for Telkomsel is that, its products have been positioned as the most expensive ones. Some its loyal customers have switched to the cheaper service such as *IM3* from Indosat.

For Telkomsel's customers who have been using the simcard for years, keeping Telkomsel sim card active is important, due to the fact that the number of that sim card has been known by families, relatives, friends, and others. And yet, the the prevailing dual-sim-card phones which actually give benefits to customers has indeed put some threats on Telkomsel.

Many of Telkomsel's customers use cheaper services from another telecommunication provider in sim card 1 (or 2) and at the same time keep its Telkomsel card active in sim card 2 (or 1). **Exhibit 1** highlights this

phenomena. This situation ultimately results in lesser buying of Telkomsel credit, making the ARPU of Telkomsel fall.

Another highly potential of Telkomsel's rival is XL Axiata (symbolized blue X in **exhibit 6**), providing identical services with again a lower price. XL service is now targeting all segments, too. XL Axiata has become even stronger now as it just performed acquisition of Axis company in 2014. Axis products were well-known for its cheaper prices, enabling XL to compete with Telkomsel, *KartuAs* and *simPATI*. This acquisition is a brick-hit-on-head for Telkomsel as its lower segment is again competed away.

HCPT (Hutchison), an emerging telecommunication firm in Indonesia has given more pressure on Telkomsel. HCPT, selling product branded Tri (pronounced three), is specialized in internet data and sells internet data with the cheapest in the nation. Tri's main internet data packages which are AON 2GB<sup>1</sup>, AON 5GB, AON 6 GB, AON 8GB, and AON 10GB have barely any enemy in terms of affordability. The market for this data is miraculous -- teenagers and people in productive ages. The teenagers and smartphone users just love them, especially those who have dual-sim mobile phones. Telkomsel's struggle to gain market share in this field faces challenges because the image of expensiveness is still embedded in its products. According to the research of *jurnalgadget.com*, Telkomsel service for data internet is the most expensive one (IDR 27,777/GB). **Exhibit 7** shows the comparison of internet data tariff provided by telecommunication firms in Indonesia<sup>7</sup>.

### 3.3. Other Issues Faced by Telkomsel

*What's wrong with Telkomsel product name?*

The product of *LOOP* is positioned as cheap internet data service of Telkomsel. It was initially introduced as *simPATI LOOP* to beat *IM3* and *Tri*. The name of *simPATI* which has expensive image has seemingly made the 'cheap image' of *LOOP* fail. The name of *LOOP* (English word) is somewhat odd, regarding the naming of *simPATI*, *As* and *Halo* are all Indonesian words.

*Terms and Conditions Apply?*

Too many requirements (conditions) in giving the services has been viewed as an insincere act. This leads the customers switch to the service which has no complicated TC (terms and condition). In the services given, Telkomsel is deemed to have more complicated requirements. For example, its internet data can only be enjoyed at 2G and 3G network. In fact, customer do not understand how to switch between these two G's or they just do not really care. What Telkomsel customers care about is the "true cheap" in the service they

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<sup>1</sup> GB stands for Giga Byte

use.

### *Competitor Acquisition*

To the extent of tightening competition and the quest for searching an ideal number of telecommunication player in Indonesia, acquisition and merger are prevalent in any mature industry. Acquisition and merger will loosen the competition and result an increased margin for each player. Axis acquisition by XL is an evident. This gives sign that the forthcoming acquisition might happen again. Should Telkomsel do this? If yes, which player should be purchased?

### *Loyal Customer Maintenance*

Maintaining loyal customers are indeed a priority. The customers who have been using Telkomsel services for let us say five or ten years expect a special treatment from the firm. Few years ago, Telkomsel delivered a free magazine (called simPATI Zone) to its loyal customers in monthly basis. Telkomsel stopped this program and has not started to give any 'gift' again for its customer maintenance program.

## **3.4. Competitive Positioning**

Being the first-mover in telecommunication industry and the government ownership give Telkomsel some real benefits. Firstly, it could be the first to cooperate with many suppliers, distributors, merchant and the like. Secondly, Telkomsel has the first opportunity to get trust from Indonesian people and then maintain its relationship. Thirdly, the number of BTS which is around 85,000 can cover most of Indonesia's areas (98%)<sup>8</sup>. This coverage is unquestionably a strength of Telkomsel as the signal it has is the strongest. These things for sure give Telkomsel a superior competitive advantage among others. The excellent corporate culture which has been built for years gives more opportunity for the future innovation.

## **3.5. Capability Analysis**

In the era of economic hardship and fluctuated economy, price is the first consideration of most people who live in developing country such as Indonesia. With the capabilities and resources that Telkomsel has, providing a cheap internet data service is feasible. **Exhibit 8** shows Telkomsel capability analysis.

## **IV. CONCLUSIONS**

Referring to one of its competitors which performed acquisition, XL Axiata, the notion to perform acquisition might be quite promising because acquiring another firm has always been believed to strengthen the acquirer.

The question remains, which one to be acquired? How can Telkomsel undergo this action after considering the cost and benefit that will incur? Another issue regarding ownership is Singtel that owns 35% of Telkomsel share. The plan of Telkom to maximize its ownership has been made but this always result in failure. A carefully and meticulously plans are required to be made in order to succeed. But one thing to ponder is that regarding the governance. If Telkom successfully gets its share back from Singtel, will the management of Telkomsel perform better because its parent now is “the real one” i.e. a hundred percent state-owned enterprise? The supervision and corporate governance matter.

In order to keep its position as market leader, the issue of maintaining customer loyalty is crucial because loyal customers are the keys that ultimately generate profits. The consequence of increasing number of competitor for sure decreases the number of Telkomsel customer because “the pie is now shared”. The query to answer is that how to keep its customer loyal? This is due to the fact that each customer now can have more than one active provider in his dual-simcard phone, preferring the cheaper one for a certain service.

Finally, as in the present time, Indonesian people tend to use more internet data (for chatting, browsing etc) than SMS and calling, Telkomsel faces greater challenges in terms of providing internet data service. The challenges come from local companies (Tri, IM3 and XL) which sell cheaper services with a comparable quality. The homework of the new elected president director, Alex Sinaga, is even greater in 2015 as the ASEAN Economic Community prevails. Will Telkomsel be able to stand its position in the years to come? What strategies it needs to implement in dealing with the tightening competition and in a more integrated economy? All these things are somewhat the puzzles that need to be solved by Sinaga’s management.

## ADDENDUM

### Exhibit 1

#### Telecommunication Industry Analysis

Industry Analysis	
Demographic Trend	Socio-cultural influences
<ul style="list-style-type: none"> <li>✓ teens are starting to have smartphone</li> <li>✓ elder people start to chat, too. While in the past preferred to make call.</li> </ul>	<ul style="list-style-type: none"> <li>✓ People using smartphone increases</li> <li>✓ Data usage is used more, SMS is lessened.</li> </ul>

<b>Technological development</b>	<b>Political Legal pressures</b>
<ul style="list-style-type: none"> <li>✓ Phones bundling</li> <li>✓ the number of phone manufacturers increases</li> <li>✓ Dual sim card phone enables customers to use cheaper service (using sim card 1) and at the same time keep its main sim card (sim card 2).</li> </ul>	<ul style="list-style-type: none"> <li>✓ The regulation of telecommunication often changes, depends of the ruling government.</li> <li>✓ Government regulation on network</li> </ul>
<b>Macroeconomic impact</b>	<b>Global trade issues</b>
<ul style="list-style-type: none"> <li>✓ Spending on telecommunication is linked to Indonesia economy</li> </ul>	<ul style="list-style-type: none"> <li>✓ Free trade of South East Asia countries</li> <li>✓ Imported gadgets increase annually</li> </ul>

Source: Author's viewpoint

### Exhibit 2

#### Prediction of Indonesia Internet user (in million) according to APJII (Indonesia Internet Service Provider Association)

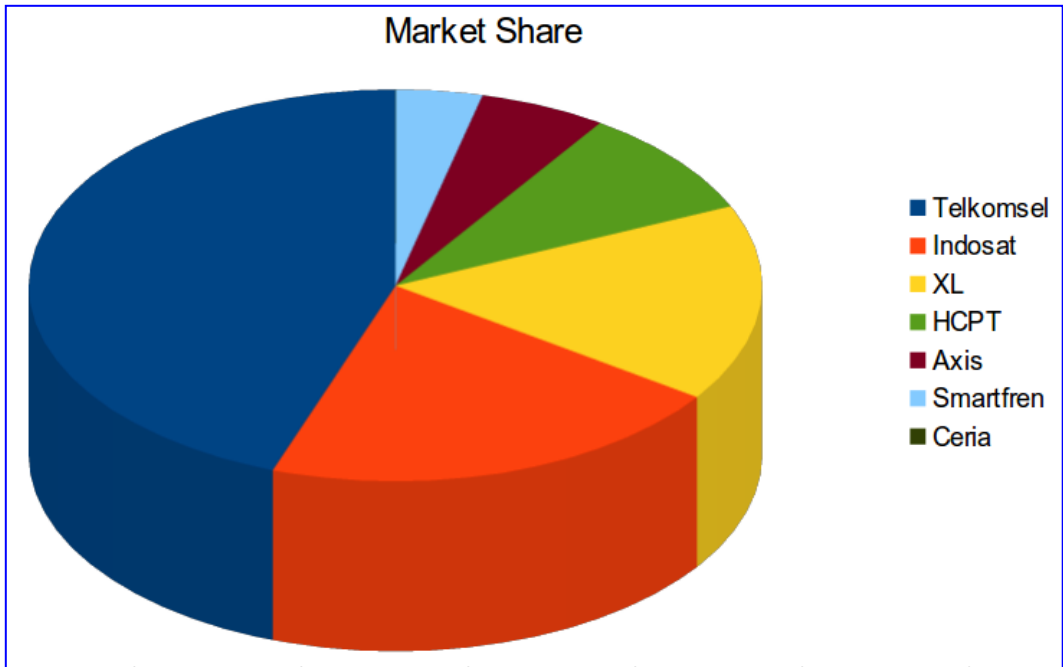


Source: [www.apjii.or.id](http://www.apjii.or.id)

### Exhibit 3

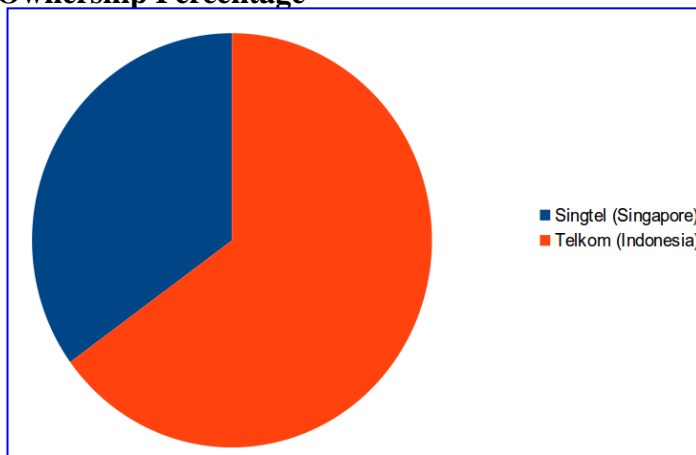
#### Market share of mobile telecommunication firms in Indonesia





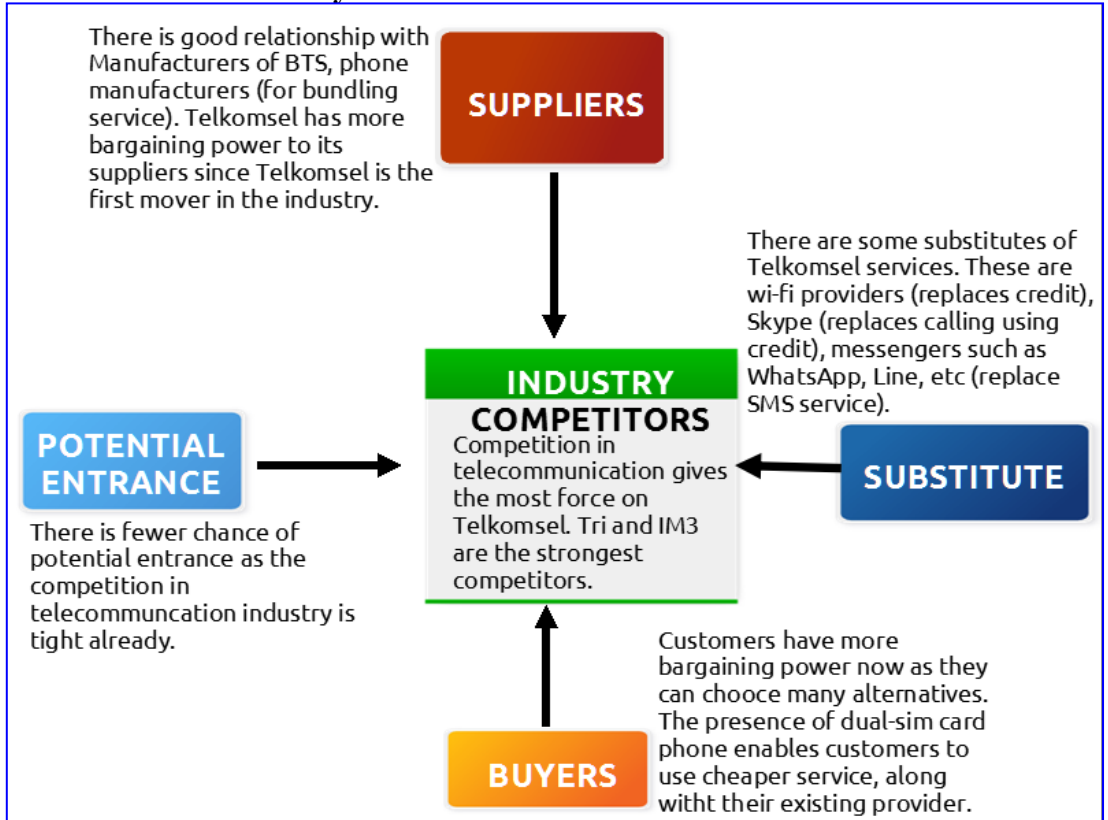
Source: GSMA Green Power for Mobile report

**Exhibit 4**  
**Telkomsel Ownership Percentage**



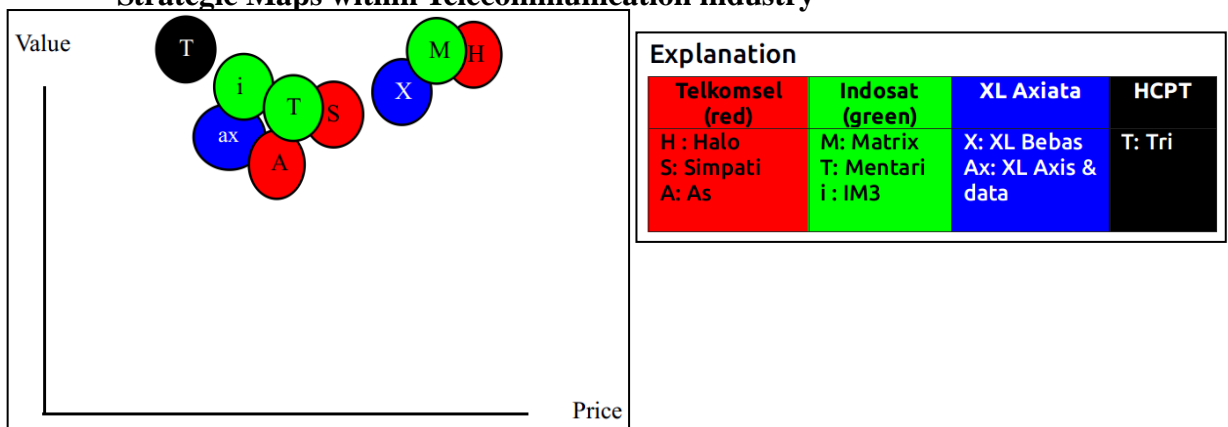
Adapted from work of Telkomsel in its 2013 Financial Report, source: [www.telkomsel.co.id](http://www.telkomsel.co.id)

## Exhibit 5 Porter Five Forces Analysis on Telkomsel



Source: Author's viewpoint

## Exhibit 6 Strategic Maps within Telecommunication industry



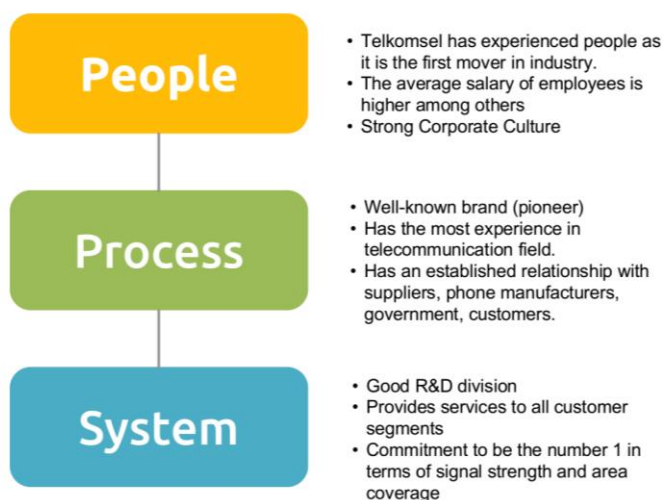
Source: Author's viewpoint

## Exhibit 7 Tariff Comparison of Internet Data Services

No	Operator	Package	Type of Connection	Speed	Quota			Monthly payment	Extra	Fee/GB. The lesser, the better.
					Quota 24hours (weight-1)	Quota morning (weight-0.75)	Quota night (weight-0.25)			
1	INDOSAT	Super Internet Kuota	DC-HSDPA +3.5G	up to 42 Mbps	600 MB	2.4 GB (9 am-5 pm)		IDR 25,000	Free Super Wifi. Quota daytime is weighted 75% and quota night is weighted 25%.	IDR 10,416
					600 MB	6.9 GB (9 am-5 pm)	500 MB (1am-6 am)	IDR 29,000		IDR 5,067
					1.5 GB	9 GB (9 am-5 pm)	500 MB (1am-6 am)	IDR 49,000		IDR 5,850
					3.5 GB	9 GB (9 am-5 pm)	500 MB (1am-6 am)	IDR 99,000		IDR 9,542
					8 GB	9 GB (9 am-5 pm)	500 MB (1am-6 am)	IDR 199,000		IDR 12,943
2	TSEL	Halo Flash Optima	HSDPA/3.5G	up to 14.4 Mbps	5 GB			IDR 150,000	Unlimited quota with FUP. For calculation, FUP number prevails as quota	IDR 30,000
					8 GB			IDR 225,000		IDR 28,125
					12 GB			IDR 400,000		IDR 33,333
					1 GB (non 3G)+600MB (3G)			IDR 55,000		IDR 40,740
		2.5 GB (non 3G)+1.8GB (3G)					IDR 110,000	IDR 29,931		
		4 GB					IDR 225,000	IDR 56,250		
		8 GB					IDR 400,000	IDR 50,000		
Halo Smartphone, tablet, modem				36 GB			IDR 1,000,000/year or 83,333 per month	IDR 27,777		
3	XL	Hotrod 3G+	3G	up to 7.2 Mbps	100 MB (quota 3G only)			IDR 5,000	Quota night is weighted 25%	IDR 50,000
					600 MB (quota 3G only)		1.5 GB (12 am-6 am)	IDR 25,000		IDR 25,641
					1.5 GB (quota 3G only)		1.5 GB (12 am-6 am)	IDR 49,000		IDR 26,133
					3.6 GB (quota 3G only)		1.5 GB (12 am-6 am)	IDR 99,000		IDR 24,905
					6 GB (quota 3G only)			IDR 199,000		IDR 33,166
					14 GB (quota 3G only)			IDR 499,000		IDR 32,071
4	TRI (3)	Paket Data Plan	HSDPA/3.5G	up to 14.4 Mbps	3 GB			IDR 75,000	Call & sms fare included	IDR 25,000
		Paket Tri Bima Tablet	HSDPA/3.5G		4.7 GB			IDR 150,000		IDR 31,914
		Paket Internet Reguler	HSDPA/3.5G		500 MB			IDR 29,000		IDR 58,000
					1 GB			IDR 35,000		IDR 35,000
					2 GB			IDR 50,000		IDR 25,000
					5 GB			IDR 99,000		IDR 19,800
5	AXIS	Internet Gaul	3G	n/a	1.5 GB			IDR 34,900	Unlimited quota with FUP. For calculation, FUP number prevails as quota	IDR 23,266
		AxisPro Basic	3G	n/a	2 GB			IDR 49,000		IDR 24,500
		AxisPro Premium	3G	n/a	3 GB			IDR 79,000		IDR 26,333
		AxisPro Ultimate	3G	n/a	6 GB			IDR 149,000		IDR 24,833
		BEST package overall			BEST package for each provider			Copyright of Jurnal Gadget Indonesia <a href="http://jurnalgadget.com">www.jurnalgadget.com</a>		

Adapted from the work of Jurnalgadget Indonesia, source: <http://jurnalgadget.com>

## Exhibit 8 Capability Analysis



Source: Author's viewpoint

## Exhibit 9 Financial Highlight of Telkomsel (2009-2013)

Despriction (in IDR billion, except for financial ratios)	2009	2010	2011	2012	2013
<b>Financial Position</b>					
Current Assets	7085	5787	9855	13582	16603
Fixed Assets	50346	49118	46208	46480	53182
Other Non-current Assets	1796	2438	2660	2855	3551
Total Assets	59227	57343	58723	62917	73336
Current Liabilities	18990	13493	13975	13039	16405
Non-Current Liabilities	9181	9644	6372	6046	9109
Equity	31056	34206	38376	43832	47821
Total Liabilities and Equity	59227	57343	58723	62917	73335
<b>Comprehensive Income</b>					
Revenues	44443	45567	48733	54531	60031
Expenses (Include Depreciation)	25227	28210	31065	33538	36761
EBITDA	27331	26598	27549	30788	33869
Net Income	13160	12362	12824	15715	17347
<b>Cash Flows</b>					
Cash Flows from Operating Activities	21690	19471	22824	26229	29602
Cash Flows from Investing Activities	-13364	-9870	-7665	-13528	-14445
Cash Flows from Financing Activities	1875	-2028	-3812	-2291	-1899
Cash Dividend	-7715	-9992	-8351	-9900	-12890
Net Increase (decrease) in cash & cash equivalent	2486	-2419	2996	510	368
<b>Financial Ratios</b>					
EBITDA Margin	61%	58%	57%	56%	56%
Net Income Margin	30%	27%	26%	29%	29%
Return on Assets	24%	21%	22%	26%	25%
Return on Equity	45%	38%	35%	38%	38%

Adapted from Telkomsel financial report, source: [www.telkomsel.co.id](http://www.telkomsel.co.id)

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**Notes: This paper is accompanied with teaching note and available upon request. Please email the author to obtain it.**