



The Knowledge to Decide

www.spiresearch.com

Indonesia: Asia's mobile internet success story

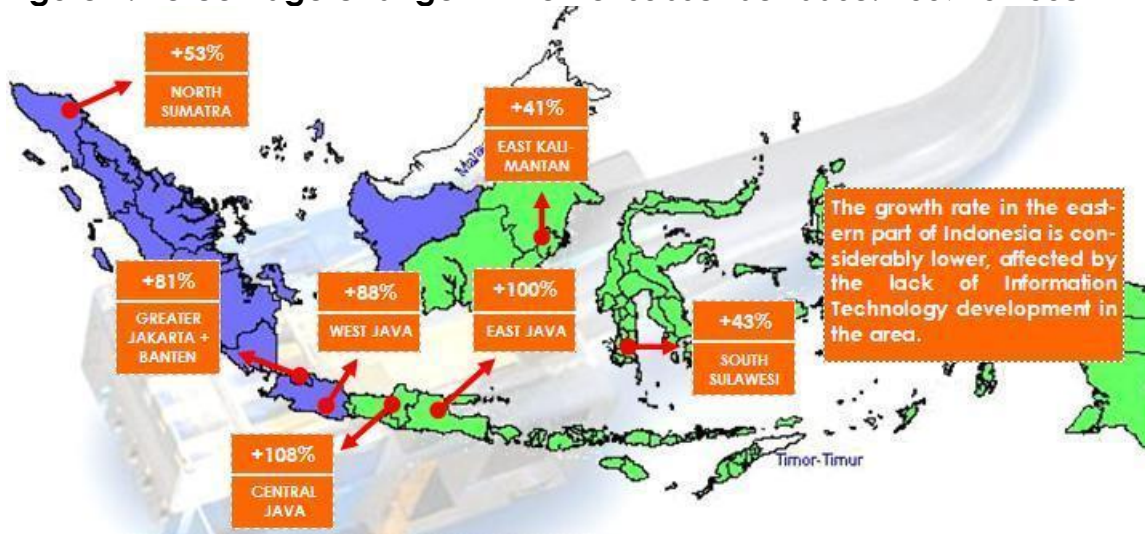
Why BlackBerry, i-phone and other mobile internet platforms are booming in Indonesia – and what that says about the “bipolarity” of emerging markets

Indonesia: Asia's mobile internet success story

Mobile internet is a product most closely associated with Japan and South Korea. But one of the biggest success stories for the category in recent years has been Indonesia. Thanks to the world's fourth largest population base and booming consumer spending, coupled with skillful regulation, Indonesia's mobile internet user base is well over one million users, having grown from 300,000 in June 2008. A major beneficiary has been Canadian vendor BlackBerry which has seen penetration explode even among housewives and younger white-collar workers. Spire takes a closer look at a phenomenon that seems to challenge the notion that demand for premium products in emerging economies is immature.

The Rise of Mobile Internet in Indonesia

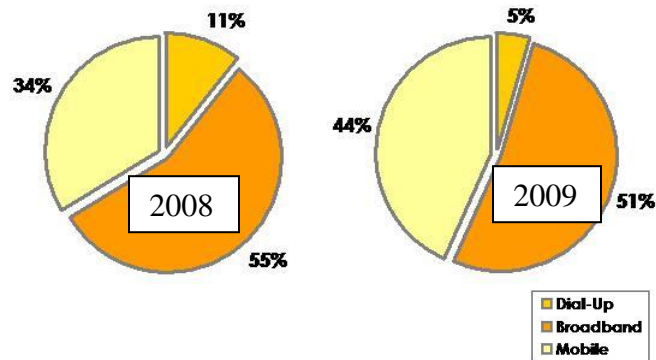
Figure 1: Percentage change in internet subscriber base: 2007 to 2008



Source: Spire Research and Consulting

Indonesia is ranked number five for internet usage amongst Asian countries, with 25 million internet users in Q1 2009, growing at 25% p.a. It is estimated that at least 10% of these users actually subscribe to internet services in their homes. The highest growth in Internet users has occurred in the Java region, which tends to see the greatest frequency of promotions and new product launches. (See Figure 1 on percentage change of internet subscribers from 2007 to 2008)

Figure 2: The Rise of Mobile Internet in Indonesia



Source: Spire Research and Consulting

Mobile Internet subscriptions are growing explosively –from 300,000 in June 2008 to almost one million in June 2009, year-on year. GSM and CDMA operators are offering a variety of data packages. Aside from the intense competition that characterizes Indonesia's de-regulated telco industry, the flexibility to move from one provider to another is one reason why mobile internet is in high demand. (See Figure 2 on the rise of mobile internet)

The Launch of BlackBerry in Indonesia

Introduced in 1999, BlackBerry is a wireless handheld device that supports push email, mobile telephony, text messaging, Web browsing and other mobile internet functions. Indonesia's biggest telecommunications operators - Indosat, Telkomsel and Excelcom - launched BlackBerry services at a relatively early stage in comparison to other emerging markets, with Indosat as the pioneer in 2005. Since then, Indonesia's BlackBerry user base has been growing substantially. The intensity of discussions on the Indonesian BlackBerry Community Support site underlines the size and involvement of the customer base.

How BlackBerry gained popularity in Indonesia

BlackBerry's business model has succeeded in Indonesia for several good reasons:

- BlackBerry handhelds sold in Indonesia come with unlocked units, enabling users to freely choose their own provider.

- "BlackBerry became well-liked in Indonesia because of the parallel market," said Mas Wigrantoro, chairman of the Indonesian Telecommunications Society (Mastel), a non-profit association representing the information technology (IT) sector¹.
- The possession of a BlackBerry was at first seen as a status symbol among Indonesian businessmen. The device became much more widely popular later on because, in a country where most people still do not have home Internet access, it allows users mobile access to clients, colleagues and friends via online social networking sites such as Facebook, emails and free text messaging.

The affordability of mobile plans

Three of Indonesia's main telecom service providers - Telkomsel, Indosat and Excelcom - also offered prepaid subscriber fees that allowed for unlimited data usage for the BlackBerry Internet Service (BIS) along with e-mail services ranging from Rp. 150,000 to Rp. 180,000 per month (roughly 16 to 20 US dollars).

With this relatively affordable price point, BlackBerry developed strong appeal to housewives, who used it for the instant messaging function (BlackBerry IM). Some so-called C-class and D-class² consumers were also attracted to own this device thanks to its utility and prestige value, taking advantage of the cheaper, more limited plans rolled out by telco carriers. Operators offered cheaper data plans with limited features, such as the email and chatting function, or social networking function. Such packages were offered at prices ranging from Rp. 55,000 to Rp. 85,000 per month (roughly 6 to 9.5 US dollars).

An interesting example of BlackBerry's appeal in Indonesia resulted from a collaboration between the Grameen Foundation, Bakrie Telecom and Qualcomm in 2008. The alliance set out to work with Indonesian microfinance institutions to enable microfinance clients to borrow the money needed to purchase a Village Phone "business in a box." This

¹ Asia Times Online, BlackBerry success has sour taste, 16 Sept 09

² C&D class refers to consumers registering monthly expenses of less than US\$ 175 per month; C class designates labor and D class designates domestic workers and public transportation drivers

consisted of a wireless 3G CDMA-based phone and charger, marketing materials, tariff posters, business cards and training materials. The Village Phone Operators (VPOs) would operate their businesses in rural villages where telecommunications services did not previously exist, renting the phones within their communities on a per-call basis³. Currently, only 37,500 villages have not been covered by Village Phone Operators (VPOs). However the program is expected to cover all villages by 2010. Under a similar program in India, the Bharat Nirman Programme, a target of providing VPO equivalents in 66,822 villages was adopted, with nearly 55,851 villages being provided with telephones up till 30 November 2008⁴.

Premium products in emerging markets

According to published statistics on Indonesia's GDP per capita, the country is ranked below China and above only Vietnam and the Philippines among the major economies of Southeast Asia. The existence of a mobile internet user base exceeding one million and tripling within a year challenges notions about emerging economies being "immature" markets for premium products.

In Indonesia, a favourable regulatory environment and robust consumer spending growth (perhaps not all of which is captured in official statistics) have combined to foster a thriving base of mobile internet device users, including the BlackBerry, which in many parts of the world is still seen as a premium, business product.

The case of Indonesia's mobile internet miracle underlines a key pit-fall for marketers – assuming that countries that register low per capita incomes in terms of official statistics have little potential for premium products.

What marketers should apply in place of this outmoded assumption is fact-based reasoning on a case-by-case basis. Crucially, they need to examine the pricing potentially offered by the industry for such products, weighed against the real purchasing power that may exist in pockets such as first-tier cities (where most wealthier consumers are usually based). It is also important to consider the unique features of every country – in the

³ The Asian Banker, Grameen, Bakrie and Qualcomm join efforts in telecom access, 30 July 08

⁴ Nvo News, India Telecom Sector – Affordable communication Facilities, 12 Jan 09

case of Indonesia, the low levels of household internet penetration actually worked in favour of mobile internet sales to younger white-collar workers.

Shedding the baggage of outmoded assumptions and looking at facts on the ground is absolutely critical for marketers to see the real opportunities – and to see them in time.
