



4 WAYS MOBILE PROVIDERS AIM TO BE MUCH MORE

HOW INDOSAT MOBILE IS CHANGING THE WAY MONEY MOVES

By IMD Professor Bettina Büchel – February 2015

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Three years ago Indosat was looking for new sources of revenue. It, like most mobile phone operators, was under threat from customers using services like WhatsApp, which offers text messaging that can be used by anyone with mobile internet access, rather than paying their telecommunications provider to send messages. It also wanted to reduce customer churn; in Indonesia, as in many fast-growth nations, most people buy pre-paid mobile credit and swap companies frequently in search of the best deal.

Its strategy: move into mobile financial services.

This approach was backed by Indosat's parent company, Qatar-based Ooredoo Group, and supported by Bank Indonesia's decision to put only a few restrictions on mobile operators during a pilot phase in 2013. During this time, Indosat focused on selling basic services to individual customers based around a mobile wallet branded as Dompotku (my wallet in Indonesian Bahasa). The services included the ability to buy mobile phone credit, pay electricity bills issued by PLN, Indonesia's monopoly electricity supplier; domestic customer-to-customer money transfers; and a variety of e-commerce and merchant payment options.

The idea was that these services would generate revenue via fees, while Indosat executives hoped that signing customers up to its mobile wallet would tie them more firmly to their service by making it more inconvenient to change to another phone provider.

Yet by July 2014 it was clear to Tauseef Riaz, head of Indosat's Digital Services Unit, that the strategy was not having the effect he had hoped. The mobile wallet had nearly a million registered customers, but less than 10% were active users. And to make matters worse, Indosat had lost its biggest revenue generator, the electricity company, after small retailers complained about being cut out of the loop. Other fees being generated were lower than anticipated, partly because of competition. Indosat was struggling to recruit and educate customers because resource constraints and legislation made it incredibly hard for its team of 40 field staff to train employees in more than 100,000 retail outlets.

The company found itself caught in a vicious cycle: customers didn't take up mobile finance because there weren't enough places they could use it, but retailers and utilities wouldn't sign up because Indosat couldn't offer them the customer numbers.

Learning from other markets with mobile banking, there are ways to break the cycle. For example, it took Safaricom six to seven years of investment in M-Pesa, Kenya's successful mobile payment service, to break it, but Indosat may not have the patience or the deep pockets needed to wait that long.

Riaz found himself with a number of other options to consider:

1. **A shift from the current consumer-led model to a business-to-business approach.** Under this approach, Indosat would sign up businesses that could use a mobile wallet to make and receive payments from suppliers, staff and customers. This had potential to increase the number of registered customers very quickly, as every person that the business dealt with would need his or her own mobile wallet.
2. **Partnering with a bank or banks to offer services to their corporate customers.** Although larger banks looked at telecom operators as competitors for their own online banking initiatives, smaller banks were interested in investigating mobile financial services that could enhance what they offered their customers. One particularly promising area was payroll, where banks could partner with telecom operators to offer their business clients the chance to pay their employees, particularly blue-collar workers, directly through a mobile wallet. This would cut costs for the employers and save staff from having to stand in line to get paid.
3. **Working with fast-moving consumer goods (FMCG) companies so that shops can buy goods from distributors using mobile wallets.** This would cut costs and reduce the security and fraud risk associated with physical cash.

- 4. Exploring opportunities in micro-insurance and micro-lending, taking advantage of the fact that telecoms companies already have enough data on their customers to do high-level credit scoring.** There was also precedent elsewhere: in Pakistan, telecoms company Telenor had been able to issue 2.5 million insurance new policies, when the whole Pakistani insurance industry had managed only 7 million contracts in its 67 years.

Despite the existence of these possibilities, it was not clear how much patience Indosat's parent company had with the idea of exploring alternative business models. As Nick Dent, the head of Ooredoo Group's Digital New Business Unit, put it:

"There is always short-term pressure from the top to deliver quarter by quarter results, and the new business unit is not going to move the needle in the short term. If you try to monetize too early then you can kill the whole business. You need to focus on customer relevance first: the number of customers we attract and the degree of usage in terms of total number of transactions. Ultimately it is about mass changes at customer level."

As we move forward in 2015, Indosat's actions seem in-line with Dent's idea to focus on the long-term and to keep customer needs at the center of the business. The company is actively pursuing a combination of new initiatives aimed to develop new businesses. It is partnering with many online and off-line commerce and services providers in Indonesia to provide mobile payment solutions. In addition, Indosat has started investing in a number of digital start-ups which can leverage their payment solutions. Just recently, the company funded Dealoka, a mobile app designed to allow merchants to push promotions through e-vouchers. Additionally Indosat helped launch a crowdfunding site, Crowdtivate, to help start-ups and entrepreneurs raise capital.

Yet, Indosat clearly isn't putting all its eggs in one basket. A recent partnership with Qatar National Bank has brought the introduction of a mobile money ATM card that connects to Indonesia's ATM Bersama network. Thus, partnerships may be paving the road to the future and Riaz has said Indosat will cooperate more with national banks and insurance companies in Indonesia.

With some of these initiatives kicking in, the company has started seeing strong growth in both transactions and adoption of its mobile financial services. No matter what moves Indosat takes, one thing is certain, Indosat is a shining example of how telecom is being innovative.

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