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Ready for the future: Emtek's pole position in Indonesia's digital transformation

In late February this year, the **first ever stars Indonesia study tour** took place in Jakarta. Through a range of discussions with senior Indonesian government representatives as well as c-level business leaders from Indonesian and foreign companies, the stars participants gained valuable first-hand insights into the business and investment opportunities of ASEAN's largest economy.

As part of the study tour, the stars participants paid a visit to **Emtek** - short for PT Elang Mahkota Teknologi Tbk. - **one of Indonesia's largest media groups and an innovative leader in Indonesia's digital economy**. As an integrated group of companies, Emtek consists of three main business divisions: media (incl. three television channels with more than 160 million viewers across Indonesia), telecommunications and IT solutions (e.g. for the banking and retail payment industries), and connectivity (e.g. new initiatives like wireless digital TV and wireless broadband internet).

In the wake of our visit, **Pak Sutanto Hartono, Vice President Director (COO) of PT Elang Mahkota Teknologi Tbk (Emtek) and President Director (CEO) of Emtek's largest subsidiary PT Surya Citra Media Tbk (SCM)**, gave an exclusive interview to David Erne, Director Asia at stars.

Erne: For Indonesia's entire modern history, money grew on trees, bubbled up from beneath the sea and was dug out of mines. However, Indonesia cannot lift its long-term growth rate if the economy remains reliant on extractive industries. It therefore needs a broader range of manufacturing and service industries. How far has this shift already advanced? And how does Emtek position itself in this transition?

Hartono: Under the SBY and Jokowi administrations, Indonesia has made good progress towards being less commodity dependent. Over the past 11 years commodity exports have fallen from ~19% of GDP to ~11% of GDP. Today Indonesia has a young and vibrant workforce that naturally leans towards the service industry, supported by the growth in domestic consumption, which is currently at ~57% of GDP.

Whilst Emtek, along with the rest of the country, has certainly benefited from the economic growth that came from exporting commodities, Emtek has never been directly involved in the commodity sector. As a media, technology and services company Emtek's development has been tied to the rapid growth in private consumption, which in turn was driven by the commodity boom between 2005-2012. Today more of the economic growth is coming from the growing middle class and is seen as more sustainable than it was at the beginning of the boom years. This underpins the revenue growth of our Free-to-Air TV business.

Now we find ourselves pivoting around technology and connectivity changes in the country more than the shift between commodities and services. As traditional consumption of media has evolved with improvements in connectivity and the availability of low cost smart phones, we have been pivoting towards the digital economy where we can leverage our content and media expertise to meet the growing demands of consumers to receive content and services through mobile and online devices.

Indonesia is currently in the midst of an e-commerce startup boom. It is the world's fourth-largest mobile phone market and two-fifths of its 255m population already has a smartphone. To some extent, the rapid success of e-commerce could be attributed to the fact that the government has not yet worked out how to regulate it. Do you expect this to change anytime soon and what impact would it have on Bukalapak?

The government of Indonesia has been vocal in its commitment to regulate and promote the development of the local digital economy, so there is no doubt that more regulation is on the way, and we welcome it. Regulations bring clarity and reduce uncertainty to any emerging sector. The fast growth in online availability of goods - especially in areas previously under-served by retailers - has changed the habits of consumers who have leapfrogged to online shopping. This has brought many new companies to the market. Regulation will ensure the legitimacy of these companies and lead to an increase in consumer confidence in their new habit of online activities. Such development is an important future economic driver, and opens significant opportunities to a very young Indonesian workforce to innovate and develop new business.

The benefit to Bukalapak of properly directed regulation is that it levels the playing field in areas such as taxation and employment law, where the lack of regulation in relation to foreign service providers has provided some advantage in delivering online content and services in Indonesia. The scalability of digital business models often means market share can accrue to foreign businesses without much local investment. In such circumstances, there are benefits in enforcing foreign ownership restrictions, which allows local players time to grow and gain market share, thus becoming an important part of the development of the online businesses.

Twitter users in Jakarta send out more tweets than users in any other city in the world. Jakarta has therefore gained the title as social media capital of the world. How does Emtek capitalize on this enthusiastic embrace of social media in Indonesia?

We believe very strongly in the growth of mobile internet in Indonesia as a means to connect people, inform people, entertain people, facilitate commerce and reduce agency costs in traditional business models. We operate right in the middle of convergence in communication, entertainment, commerce and financial services on mobile platforms. To gain the lead in social media in Indonesia, Emtek entered into a strategic partnership with BlackBerry Limited and licensed the consumer BBM for Android, iOS and other mobile operating systems globally. It is one of the largest messaging and social networking applications in Indonesia with over 63 million active users. We have updated and redesigned the interface and are populating the platform with 'app's within an app' so as to provide a broader service offering to BBM users through a single mobile platform.

By adding media and entertainment content such as TV, sports, news, music and games, and various classified business verticals, with online shopping and soon peer-to-peer payments, we are benefitting from Indonesia's prolific use of social media by becoming the go-to mobile smart app preferred by most Indonesians.

As Indonesia gradually opens up to the world, are you concerned that international competitors will come to challenge Emtek on its home turf? What are your plans to stay ahead of the curve?

Indonesians love to consume local content and as a media group we have focused on producing high quality popular content for our Free-to-Air TV channels. As new platforms emerge online, the economies of scale provided to us by our TV business – TV still garners ~65% of total Adex – gives us a competitive advantage to produce the best quality local content for any platform, offline and online alike.

On the technology side, we have the first mover and local knowledge advantage in several areas in which we have invested. When it is advantageous to do so, we enter into JV's with global leaders in some of these areas such as Interpark of South Korea for our OTA (reservasi.com), Car Dekho of India for our auto listing business (oto.com) and locally, Kalbe Pharma for our online medical service (klikdokter.com). So, international competitors are not just a threat, but also an opportunity to share in the deep know-how of market leaders and enhance the development of our own businesses through JV's in key areas.

Disclaimer: The views expressed here are solely those of the interviewee and they do not necessarily represent or reflect the views of the stars Foundation.

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