

## **INTERNET CAFÉ INDUSTRY IN EAST BELITUNG: HAS IT COMES TO AN END?**

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### **ABSTRACT**

*Once became a phenomena all over Indonesia, the existence of browsing Internet Café (warnet) now just counting its day, especially in big cities. This paper is made to find out current situation of warnet in East Belitung (Beltim) and also to analyse causes of the current situation. Beltim was chosen as the area of study due to the area potential as a tourist destination.*

*Two frameworks were employed: Industry Life Cycle framework and the Ansoff Matrix framework. Data collection methods used were both primary such as interview with warnet owners, warnet association, warnet users and government officers represented by the office of Integrated Investment and Licensing Services, the Ministry of Information and Communication. Secondary data used were books, journals, government reports and websites.*

*The result of study indicated like in other areas, warnet business has passed its golden era and continue to shrink. Soon warnet browsing will be disappeared in East Belitung.*

Keywords: Analysis, Business Solutions, Business Strategy, East Belitung, Warnet.

### **1. INTRODUCTION**

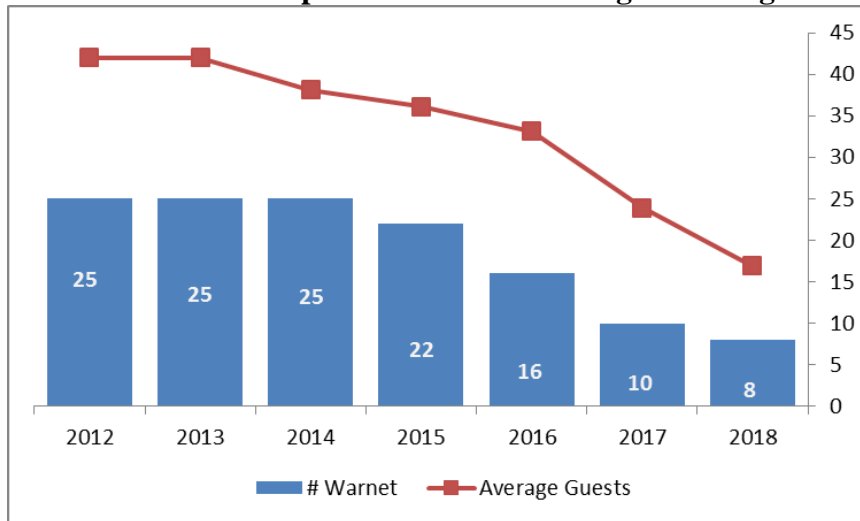
Positioned in 02°30' - 03°15' South and 107°45' - 108°18' East, and passed by the equator line. Beltim Regency was part of Belitung Regency before it became autonomous in 2003 together with South Bangka Regency, Central Bangka Regency and West Bangka Regency (RI, 2003). Beltim capital is Manggar which has been famous since the colonial era as mining area for tin. Along the time, mining activities in Beltim were significantly reduced due to reserves depletion as well as tin price reduction. Currently, people of Beltim rely on agriculture, manufacturing and mining sectors as their sources of income. In 2018, these three sectors contributed 62% of the total Gross Domestic Product (Indonesia, Biro Pusat Statistik, 2019). Tourism in Beltim gained popularity after a movie called "Laskar Pelangi" adopted from a novel with the same title wrote by Andrea Hirata hit the local market and became one of local box office movies.

History of warnet in Beltim could be traced back to 2009, when a warnet called "Franda" was established in Kampit district of East Belitung to accommodate the need of Beltim people for online information and entertainment due to lack of access to the internet connection at home

and limitation of computer, both desktop and laptop as well as mobile phone ownership. Later the year, another warnet was opened having seen the enthusiasm of Beltim people to go to warnet for seeking information, did school assignments or just simply playing games. The business reached its peak during 2010 – 2015 where there were more than 20 warnets operated in Beltim.

Warnet users were significantly decreased from the average of 41 guests per day in 2012 to 19 per day in 2018. The reduction of users brought impact to the existence of warnet business. There were 25 warnets in 2014 and in 2018 only 10 survived.

**Number of Warnet Operated in East Belitung & Average visitors 2012 – 2018**



Source: interview

The advancement of technology reflected by easiness to access the internet through satellite supported by the widespread use of smartphone was among other to be blamed. In addition, the usage of computer in Beltim has been increased along with the decrease of it prices.

This situation has raised concern from warnet owners about their business, had it come to the declining stage? What strategies could be employed for them to survive?

**2. LITERATURE REVIEW**

Two frameworks were chosen due to their relevancy for this study. Industry Life Cycle framework is used to measure stage of a particular industry, hence it can determine in what stage the warnet industry in Beltim is currently sitting. Meanwhile, Ansoff Matrix, a framework that can be used to find types of strategy can be utilised as solutions of problems faced by organisations in that particular industry. This framework is widely used by organisations all over the world from the time it was invented until today determine corporate actions to achieve their objectives.

Hubbard, Pocknee & Taylor (1996) stated, similar to product, industry also has lifecycle. Begin with start-up phase, a growth phase, a maturity phase and decline stage. However, the difference is industry will not diminish after the decline phase. Instead, it evolves back to the start-up phase

through the use of different technology. Travel agent industry is one of good examples. These days, conventional travel agents role such as to book airplane tickets or hotel rooms have been replaced by online travel agents such as Traveloka or Agoda.

Hill & Jones (2009) wrote there are five stage of industry lifecycle: embryonic industries, growth industries, shakeout industries, mature industries and lastly declining industries. Characteristics of embryonic stage were: 1) Growth is slow due to the industry is new and people is still unfamiliar with the product offered by the industry. 2) Price is high due to companies unable to obtain economic of scales from product they produce. In addition, limited distribution channel also add to the cost of goods sold. 3) Technology plays role as barrier to entry for other companies more than brand loyalty or economic costs. Hence, companies who control the technology will have competitive advantage from new entrants. 4) Competition is more on educating customers, expanding distribution channels and perfecting product's design and/ or function. In this stage, opportunity for companies to capitalize and acquire strong market position is widely open due to lack of competition.

Growth stage characteristics are marked by 1) Growth of customers with first-time demand and people become familiar with offered products. 2) Price has fallen significantly due to companies are able to take advantage of scale of economics. 3) Distribution channels come with different types and form. 4) Barrier to entry is perceived as low since many companies control similar technology. 5) New entrants can enter the market without fearing to disrupt the market. Demand is growing fast and companies can expand their sales without taking so much market share from competitors. 6) Companies start to add their capacity to produce more and sell more.

In shakeout stage 1) Demand from first-time users is nearly exist, most come from replacement of old product with a new one. Hence overall demand is nearly saturated. 2) Excess capacity is found due to the market cannot absorb product or service due to demand is not growing as fast as in growth stage. 3) Competition is becoming stiff since companies must use the excess capacity. 4) Price war cannot be avoided, in order for companies to sell more. 5) Inefficient companies will experience bankruptcy and consolidation has started. This situation will make the industry is not attractive to enter.

Maturity stage characteristic begin with 1) the industry is totally saturated with growth is very low or even zero. 2) Barrier to entry is high and threat of new entrants is low. 3) Competition to capture more market share to maintain company internal growth often trigger price war. 4) Cost efficiency and establishing brand loyalty become companies focus on this stage. Companies start to introduce membership cards or other loyalty programs. 5) Companies enter into oligopoly in order to compromise on price and to avoid further price war which will deteriorate their profit. Instead, they enter price agreement which allows them to maintain or increase profit.

The last stage is declining, in this stage 1) Growth becomes negative for many reasons, which include: substitute technology has been found (CDMA being replaced by GSM on mobile phone). Shifted on Demographic and Social change are among the few. 2) Rivalry is once again heat up among companies, which lead to further price war. 3) The greater barrier to exit, companies have no choice but to stay in the industry and do whatever it takes to survive and utilize excess production capacity. This will lead to further and deepen price war.

Invented by Igor Ansoff, the Ansoff matrix was published for the first time in 1956 in Harvard Business Review. Nine years later it was made a book called Corporate Strategy. Until today, the matrix is still regarded as one of effective tools for companies to determine strategy to pursue

their objectives (<https://www.ansoffmatrix.com/ansoff-matrix-history/> access on October 22<sup>nd</sup>, 2019 at 10.53am).

There are four quadrants and two Axes in the matrix. Axis X is for product (existing products on the left and new products on the right) and Axis Y is for market (existing market on upper side and new market on lower side). While the quadrants reflect strategies must be employed by companies (<https://corporatefinanceinstitute.com/resources/knowledge/strategy/ansoff-matrix/> access on October 22<sup>nd</sup>, 2019 at 11.24am).

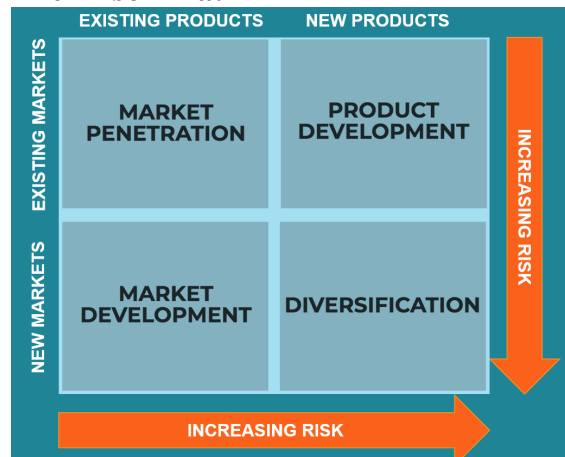
Upper left is market penetration strategy. This happens if existing product are sold in existing market. From all of quadrants, penetration strategy has the least risk since the products have been well known and it operates in growing markets. Activities can be considered in this quadrant are: price reduction to attract new and existing customers; increase promotional activities and aggressive pricing to drive out competitors

Upper right is product development strategy. Occurs when new product is sold in existing market, product development strategy is best employed when a company has had strong market share and wants to vary its product range. New product can be obtained through strong research & development activities of the company or the acquisition of another company. New product also includes modification of existing product packaging or enhancing existing product's capability.

Below left quadrant is market development strategy. Arises when existing product is sold in new market, this includes new geographical area, new regions or new customer segment. The risk is quite high since company will venture to new market. However, it might be successful if the company has strong brand awareness or holds significant market share.

Below right quadrant is diversification strategy. Happens when new product enters new market, the strategy is the riskiest among others for a company due to no previous experience in neither product nor market. Two types of diversification; related and unrelated. Related when there is synergy or similarity between existing business with the new one. For instance a transportation company expands to cargo business. Unrelated diversification is found when the new business is totally new and different from the current one.

**The Ansoff matrix**

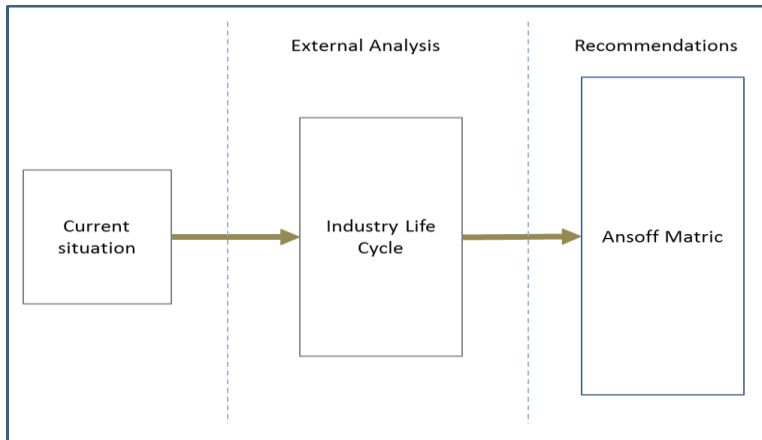


Source: <https://corporatefinanceinstitute.com/resources/knowledge/strategy/ansoff-matrix/> access of October 22<sup>nd</sup>, 2019 at 2.12pm

### 3. RESEARCH METHOD

The research is a case study to expose current condition of warnet industry. Methodology is conducted by first designing the framework used, which is industry analysis. Qualitative method is employed supported by primary and secondary data. For primary, face-to-face interview was conducted to 10 respondents consist of eight industry players, in this case warnet owners and two were key opinion leader, which were the chairman of warnet association and a local government representative that dealt with warnet industry. Secondary data is obtained from Indonesia Statistic of Bureau (BPS), journal, websites and books.

#### Framework

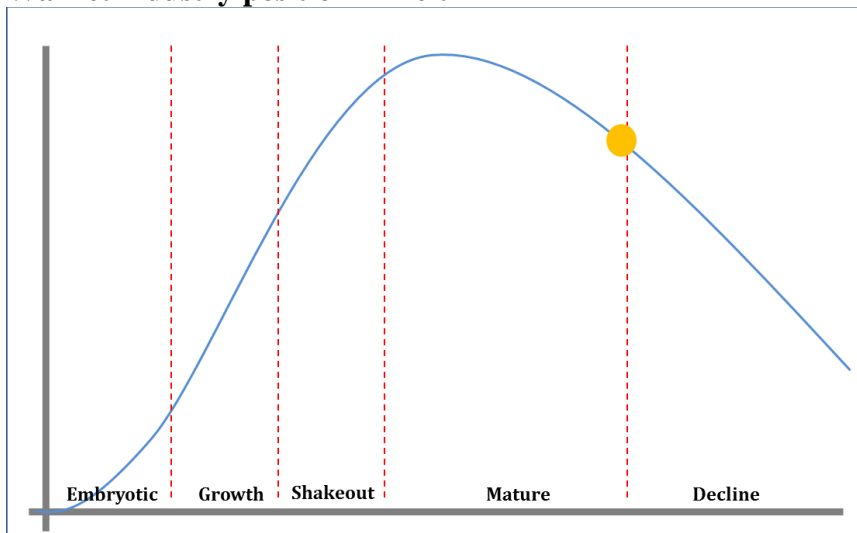


Source: authors

### 4. RESULT

Based on the research it was revealed the warnet industry in Beltim shared similar characteristics with industry in maturity toward declining stage.

#### Warnet industry position in Beltim



Source: authors

*Declining stage*

- 1) The warnet industry growth is zero or even negative, evidenced by the number of warnet operating is lesser every year. There was 10 warnet in 2017 and the number is reduced by two for 2018.

*Maturity stage*

- 1) No new warnet open in Beltim is seen for the near future, due to the industry has become unattractive and existing players close their business one by one.
- 2) Costs to run warnet has been minimized by decreasing the operational hours to reduce electricity consumption. Other method is to keep lower staff number to one only. Even for some, owners run the business themselves.
- 3) Demand for using warnet is still exist, even though it is not as high as five to six years ago. Currently daily visitors are around 17 people with average time spend in warnet is 2.3 hours per person, decrease from previously 5 hours in 2013 with number of visitors of 40 per day.
- 4) Warnet owners have informally entered price agreement to avoid price war. Shown by the similarity rental price they offer as well as duration package.

**Warnet rental price in Beltim 2018**

No	Warnet	Paket 2 jam	Paket 3 jam	Paket 4 jam
1	Edu Net	Rp 5.000	Rp 8.000	Rp 10.000
2	Sky Net	Rp 6.000	Rp 10.000	Rp 12.000
3	613	Rp 5.000	Rp 10.000	Rp 13.000
4	Ran-Net	Rp 5.000	Rp 10.000	Rp 12.000
5	Omy's com	Rp 7.000	Rp 10.000	Rp 14.000
6	Fandra Computer	Rp 5.000	Rp 8.000	Rp 11.000
7	Warnet 98	Rp 5.000	Rp 8.000	Rp 12.000
8	Vallennet	Rp 6.000	Rp 10.000	Rp 13.000
9	Sisnet	Tidak tersedia	Tidak tersedia	Tidak tersedia
10	BHS Net	Tidak tersedia	Tidak tersedia	Tidak tersedia

Source: interview

## **5. CONCLUSION**

Utilizing Ansoff matrix, recommendations for warnet owners are to focus on:

- a. Diversification. Creating online travel agent who provides affordable accommodation, restaurants and land transportations through cooperation with local businesses for tourists who wish to come to Belitim on limited budget.
- b. Product development. New product or services can be offered among other are: 1) Typing services using Microsoft words as well as presentation using Microsoft PowerPoint. 2) Computer course services, specializes in programming and editing. 3) Change the warnet from browsing warnet into gaming warnet by providing up to date online games.

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