Franchising Telecom Service Shops
Meeting demand from nonsubscribers in Indonesia

Rajesh Pradhan and Peter Smith

Indonesia has only about 1.3 lines per hundred people, so universal telephone service—a telephone for every household—cannot be practically achieved in the near future. Nevertheless, public access to telephone and other telecommunications services can be dramatically improved through pay phones and telecom shops. The telecom shops are retail outlets that provide telecom services to "nonsubscribers," often under a franchise from the local telephone company. These shops have turned out to be effective at meeting the strong demand the overwhelming majority of Indonesians lacking private residential or business telephone service, and their success provides a model that other countries can apply.

Harnessing small private investors

Franchised retail telecom service shops in Indonesia, known as Warung Telekomunikasi, typically are privately owned storefront operations—though some are owned by and sometimes co-located with such nongovernmental organizations as cooperatives and student or religious groups. The shops provide pay-as-you-go access to telecommunications services and are operated for profit. They usually have several phone booths and sometimes fax and telex terminals, and they employ service staff to assist customers. The first such shop was established in Bali just over ten years ago to provide telecommunications services for tourists. By 1988 these telecom shops had spread to Indonesia's other large cities, and by 1990 they were in all cities. Last year they started to spread in rural areas.

While in many countries supervised pay phones, typically located in public post offices, have provided access to telephone service for many years, what distinguishes the Indonesian telecom shop initiative is its reliance on small private investors for the commercialization and rapid expansion of service. This rapid growth can be attributed to several factors. Compared with a private telephone connection, the telecom shop offers service at a very reasonable cost—because the customers pay only for the calls or messages transmitted and not for the installation or line rental charged for private residential or business service. In addition, the telecom shops can offer off-peak discounts, ranging from 25 percent to 50 percent for domestic and international long-distance services. By contrast, pay phones typically are not programmed to provide these discounted rates. Thus, customers using the telecom shop services pay the same use charges as residential or business customers and benefit from the same off-peak discounts. The telecom shops also meet demand for a range of telecommunications services—including facsimile—and they have proved to be more user-friendly and reliable than the frequently vandalized pay phones (table 1).
On the supply side, a key to the success of the telecom shops has been the active support of the national telephone operator, PT. Telekomunikasi Indonesia (PT. Telkom), the telecom shops as a low-risk, high-return investment.

A franchise agreement

A cooperation agreement between PT. Telkom and each telecom shop establishes a franchise arrangement that sets service and performance standards, operating procedures, and other obligations of each of the parties. The agreements last for two years but may be extended by mutual agreement. The telecom shops pay installation and rental charges for each of the connected lines. They derive their income through revenue-sharing arrangements with PT. Telkom, receiving 20 percent of the gross revenue from domestic calls and 7.5 percent for international calls. The telecom shops must meet all their own operating expenses and recover their start-up costs from their share of revenues. Start-up costs range from US$1,500 to US$3,500 per line, depending on equipment, furniture and fixtures, and other setup costs.

Rapid growth

The growth in the number of telecom shops has been impressive (figure 1). Since 1990, the number has grown at an average annual rate of about 30 percent. The growth in gross revenue generated has been even more impressive, averaging about 40 percent a year since 1990. Gross annual revenue per line varies widely, but most lines generate more than US$9,000, about ten times PT. Telkom’s average gross annual revenue per line.

The shops generating the highest revenue are normally located in high-traffic areas, such as on transportation routes and near tourist centers. By 1994, there were more than 1,500 shops, and aggregate gross revenue was US$60 million. Most shops have between two and fourteen employees. After revenue sharing, most had annual revenue of less than US$300,000. But a few made much more and now rank among PT. Telkom’s top 100 customers. The Warung Telekomunikasi business association expects continuing strong growth.1

### TABLE 1 TELECOM SERVICES AVAILABLE FROM DIFFERENT SOURCES IN INDONESIA

<table>
<thead>
<tr>
<th>Type of service</th>
<th>Pay phone</th>
<th>Residential or commercial service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecom shop</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Coin-operated</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Card-operated</td>
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<td>☐</td>
</tr>
</tbody>
</table>

- Available
- Not available

a. Card-operated pay phones, unlike the telecom shop, cannot offer off-peak rates because the rates are physically set in the phone and not at the local exchange.

Lessons

The options for improving public access to telecommunications services—pay phones of different kinds and the telecom shop—are not mutually exclusive. Different options fit different situations and different categories of customers. The important message from the Indonesian experience is that the demand for service from nonsubscribers in developing countries is significant, commercially viable, and should be met. The rapid growth in the number of telecom shops in Indonesia attests to their increasingly effective role in providing public access to telecommunications services. The shops overcome some of the main barriers to access to these services in underserved or rural areas—where the communications network is thin, the range of services is sometimes limited, and the cost of terminal equipment and connections may still be too high to justify individual connections. The shops also help overcome knowledge or skill barriers to effective use of telecommunications services.

Micro telephone companies—the next commercial step

As technology advances and the cost of telecommunications equipment declines, the next commercial development could be the establishment of community "micro" telephone companies. Using a small PBX (an automatic switchboard), a telecom shop could cost-effectively service, for example, 100 telephone extensions on twenty main telephone lines (similar in size to a hotel telephone system). And using the new generation of digital cordless telephone sets, with a range of about half a kilometer or more, the telecom shop could extend its services.

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Telecom shop associations exist in many urban centers. They provide a mechanism for coordinating discussions between telecom shop owners and the Ministry of Tourism, Posts and Telecommunications and PT. Telkom.

Reference


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