Information and Communications Services for Micro And Small Enterprises in the Philippines

A Synthesis Paper

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MICROENTERPRISE BEST PRACTICES
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by

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CHAPTER ONE
OVERVIEW OF THE STUDY

"Revolutions in communication have often been at the center of changes in society."[1]

New information and communication technologies (ICTs) are rapidly transforming business practices in many parts of the world. In industrialized countries, new ICT developments are altering internal operations of companies, as well as external relationships with buyers, suppliers, and customers. They are producing fundamental changes in the ways in which marketing and distribution networks function. They also are giving rise to new types of business services and changing the ways in which firms access and use existing services.

In many developing countries, ICTs are beginning to open up a range of new possibilities for supporting business development efforts, including those geared to the needs of micro and small enterprises (MSEs). ICT developments are giving rise to new types and combinations of business services that appear to be both effective, from the customers' point of view, and financially viable, from the suppliers' perspective.

The Microenterprise Best Practices (MBP) Project has assembled a series of case studies to examine the Philippine experience in providing basic and higher value-added ICT-based business services to MSEs. MBP examined the access, uses, and benefits of these ICT-based business services delivered to MSEs by both private and nonprofit service providers. Three key questions guided the research effort:

- How does telecommunications access affect the business operations of MSEs?
- What are viable business models for delivering ICT services to MSEs?
- What are the emerging Internet-based models in use by business support institutions?

The first two questions are answered in case studies of two telecommunications service providers, Bayantel Public Calling Offices (PCOs) and the Laguna Small and Medium Enterprise Service Center (Laguna SeCen). The series of papers contrasts Bayantel, a diversified private sector telecommunications company providing, among other services, basic telecommunications access through storefront "phone shops," with the Laguna SeCen, a subsidized, technically supported multiservice business center offering telecommunications and administrative services alongside a wide range of business development services for micro, small, and medium-sized enterprises. The case studies also address the future of each of the business models studied in delivering ICT services to MSEs.

The third question is answered in a case study that profiles four Internet-based information service providers and analyzes the potential of these models to provide information services to MSEs.

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[1] World Bank, *World Development Report*, 1998, p. 56.

The ICT sectors in many developing countries are changing rapidly as governments attempt to leapfrog into the Information Age with modern systems. According to International Telecommunications Union estimates,[2] the total value of telecommunication privatization between 1984 and 1996 was $158.5 billion, of which 53 percent, or $86 billion, was invested in the Asia Pacific region. Given the dynamic growth of this sector, this study posed another question: *What are the emerging business opportunities for MSEs as suppliers or supporters of basic communications and information services?* This question is answered in this paper, which draws on information gathered from the PCO case study, interviews with cellular phone company executives, and complementary macro data research on business opportunities for MSEs.

Based on the entire study, the author also provides her view on the following questions in Chapters Four and Five:

- What should be the service mix and delivery mechanisms for the provision of ICT services to MSEs in the future?

- What can the business models studied teach us about good practice in the delivery of business development services in general?

METHODOLOGY

The two institutional case studies relied on site visits, interviews with management at different levels, interviews with other key persons, inspections of the competition, and examination of the organizations' records to the extent possible. The usage, behavior, and impact on MSEs was assessed using a customer survey modeled on private marketing usage/attitude/image studies. Three hundred MSEs were surveyed, 100 from each of the case studies and 100 MSE cellular phone users. Internet models were examined by interviewing four business support organizations that use the Internet to provide services to businesses. Researchers relied on interviews with key informants in the telecommunications industry to understand the context of the industry and to identify opportunities for MSEs in the industry. Interviews with key government agencies were conducted to understand the situation of MSEs in the Philippines.

[2] ITU World Telecommunication Development Report, 1996/97.

CHAPTER TWO
CONTEXT

TELECOMMUNICATIONS AND MSES WORLDWIDE

Information access and telecommunications infrastructure are now widely recognized as key factors in economic growth. Countries can substantially improve their growth rates by improving their access to knowledge. Technological improvements are spurring the information revolution. For example, the volume of international telephone traffic rose an average of 15 percent a year between 1975 and 1995, thanks to higher quality and more affordable telecommunications. [3]

Worldwide MSE demand for basic communications services, such as local and long-distance phone and fax services, is growing. The availability of basic communications services helps businesses of all sizes operate more efficiently and, in some cases, grow and develop. Basic communications services can help businesses reduce their transaction costs, expand their networks of business contacts, increase their access to new markets, obtain business information faster, and generally improve their competitive position. For example:

- "Rural Costa Rican small coffee growers use telecommunications to get marketing information from central cooperatives in the capital, which have computers linked to sources of information on national and international coffee prices."

- "Farmers in Cote d'Ivoire use cellular phones to get international cocoa price quotations

- "A small grocer in Rosario, Uruguay, who sold and delivered groceries to homes was able to expand his clientele beyond his immediate neighborhood when residential telephones became available and customers could order goods by telephone."[4]

The availability and affordability of basic communications services are improving in many parts of the world. Governments, donors, nongovernmental organizations, and the private sector are experimenting with business models that can reach previously underserved populations. Many of these models are proving to be financially viable. Some promising business models are phone shops, telecenters, and technology-enabled postal centers. Some organizations also are experimenting with models that provide higher value-added services with the help of ICT, such as information services that rely on the Internet. For example, business information and communication centers being developed in several countries around

[3] World Bank, *World Development Report*, 1998/99.
[4] World Bank, *World Development Report*, 1998/99, p. 61.

the world provide specialized information and communication services to business clients, usually alongside other business services.[5]

OVERVIEW OF THE PHILIPPINES[6]

As of 1997, the Philippines' population was 73.4 million, and it was growing at 2.3 percent per annum.[7] With a per capita gross national product (GNP) of US$1,220, the World Bank classifies the Philippines as a lower middle income country. In 1996 and 1997, the growth in gross domestic product (GDP) was well over 5 percent per year. However, in 1998 the Philippines was hit both by the regional economic crisis and by adverse weather that severely curtailed agricultural production. In 1998, it is estimated that GNP rose by only 0.1 percent. The Philippines is also experiencing a rise in unemployment, with an increase from 7.9 percent in October 1997 to 9.6 percent in October 1998. The Philippine economy still relies on agriculture for 19 percent of its GDP. Services, the fastest growing sector, now accounts for almost half of GDP. Growth in exports has remained strong, increasing by almost 17 percent in 1998. In 1996, 33 percent of the population was below the national poverty line. In 1997, life expectancy at birth was 66 years, infant mortality was 36 per 1000 live births, and 30 percent of children under five were malnourished. However, illiteracy of people over 15 years of age was just 5 percent, and 85 percent of the population had access to safe drinking water.

TELECOMMUNICATIONS SERVICES IN THE PHILIPPINES

A wide range of telecommunications services is currently provided to the public in the Philippines. This study focused on those services delivered through mechanisms most likely to reach MSEs and the poorer or underserved segments of the population: storefront public calling offices (also called phone shops), service centers directed at small businesses, and cellular phones in areas still underserved with land lines. The basic services that the study focused on—telephone, fax, and basic administrative services—are not new. The private sector has been providing them for many years. The higher value-added services the study examined, such as e-mail and Internet access, are new because of advances in technology. Private, government-supported, and nonprofit providers have started an array of attempts to provide these services. Table 1 outlines the services examined in the study.

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[5] The MBP publication "Information and Communications Technologies: Are They the Key to Viable Business Development Services for MSEs," by Clifton Barton and Marshall Bear, looks at different business models that serve MSEs with basic communication and more value-added information services.

[6] All information in this section is from the World Bank Web page.

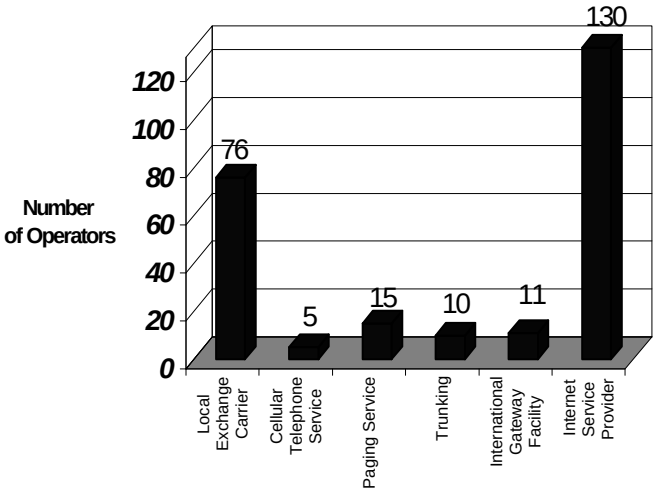
[7] 1991-1997.

Table 1: ICT Services (as defined in the study)

Basic Telecommunications	Supporting Services	High-End Telecommunications	Information Services
Telephone Fax Message service	Telegrams Money transfer Photocopying Typing Courier	E-mail Data transfer Internet access	Business information from the Internet and computerized databases

THE TELECOMMUNICATIONS INDUSTRY IN THE PHILIPPINES

Figure 1: Number of Telecom Operators



Over the past six years, the Philippine telecommunications industry has undergone a dramatic transformation from a virtual monopoly to a competitive and rapidly growing subsector.[8] From 1992 to 1997, the number of telephone lines per 100 people expanded from 1.17 to 8.07, as compared to current figures of 7 in Thailand, 43 in South Korea, and 64 in the United States.[9] Industry investments are at an all-time high, with the total expected to reach more than P125 billion (US$3 billion) this year. There are currently 76 companies in the local exchange carrier market. The number of players in the lucrative international calls market has grown from 1 before 1989 to 11 and, in the cellular market, from 2 to 5. Paging services, and more recently, Internet access services have also dramatically increased. There are currently 130 Internet service providers in the Philippines (see Figure 1).[10]

In 1997, the number of wire-line telephone lines installed reached 5.77 million and served 37 percent of the country. There were an additional 1.3 million cell phone subscribers throughout the country. Paging system subscribers numbered 700,000. The coverage of telephones has improved, from 309 municipalities out of the total 1,601 in 1992 to 427 in 1996. By the end of the roll-out of required phone lines under the government's service area scheme in 2000, this figure is expected to reach 83 percent of the total municipalities in the Philippines. The industry is expected to continue growing rapidly over the next few years. By

[8] The Philippines was selected for this field research to observe the trends in MSE service access in a dynamic communications market.

[9] World Bank, *World Development Report*, 1998, p. 226-227.

[10] All figures as of 1997. Sources: White Paper on Telecommunications Policy, Center for Research and Communications and National Telecommunications Commission 1992-1997: In Retrospect.

the year 2000, the number of telephone lines per 100 people is forecast to reach 11.06, and the number of cellular subscribers is expected to reach 2.8 million.

Deregulation of the Philippine telecommunications industry began under the Aquino administration in the late 1980s. The administration provided licenses to new companies both in markets that had previously been monopolized and in new telecommunications services. In 1989, two firms were allowed into the cellular mobile telephone market; four years later, three more firms had been authorized to operate cellular services. Domestic and international trunk services were opened to competition in 1989.

The Ramos administration continued the reforms and focused on universal coverage. The Philippine government has enacted a "service area scheme" to ensure the growth of service to underserved and less profitable areas. Under this policy, international gateway or cellular licenses are tied to land-line obligations, particularly in underserved areas. The Ramos administration also promoted the integration of the telecommunications network to provide more modern and efficient services. Additional legislation is expected to deregulate the industry even further, lowering the regulatory barriers to entry for new companies, particularly in the new telecommunications markets.

MICRO AND SMALL ENTERPRISES IN THE PHILIPPINES

Micro and small enterprises form a key part of the Philippine economy. In 1993, 99 percent of registered business establishments were micro or small enterprises. Together with medium-sized businesses, these enterprises employed 55 percent of the country's job pool and contributed 28 percent of the value added in production. Almost 60 percent of small and medium-sized businesses were in services, including trade, with the remainder in manufacturing.[11] The informal sector, made up almost entirely of MSEs, also contributes considerably to the Philippine economy. In 1993, the formal sector in Metro Manila generated only 13 percent of the available jobs, with the balance coming from the informal sector.[12]

The Philippine government defines small businesses as those with capital assets of P15 million (US$375,000) and below. However, because of the difficulty in determining business assets, this study used the number of workers as an indicator of business size. Businesses included in the study had 25 or fewer employees, including family members. However, 90 percent of the businesses included in the survey had 10 or fewer workers, including family members.

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[11] Trade and Industry Information Center, *Small Business in the Philippines*. Makati City, Philippines: 1996. p. 13.

[12] Joshi, Gopal, *Urban Informal Sector in Metro Manila ~~-~~ A Problem or Solution*, Philippines, International Labour Organization: 1997. p. 8.

CHAPTER THREE
THE FUTURE OF ICT SERVICES FOR MICRO AND SMALL ENTERPRISES

The study clearly shows both a need and a demand from MSEs for basic telecommunications services. The felt need for information services is also apparent, mainly among higher end MSEs. A possible reason for the difference is that smaller MSEs are focused mainly on day-to-day operations and decisions—for which telecommunications services are ideally suited. Larger MSEs have started to think more about business development, for which information services are needed to find new suppliers, markets, and technology.

TELECOMMUNICATIONS SERVICES

Despite the increasing availability of land lines, it is unlikely that the demand for telecommunications services from common facilities, such as phone shops and PCOs, is going to disappear. Some MSEs will continue to have low enough frequency of use that pay phones or PCOs are more economical than owning a land line. As the Philippines and other countries continue to integrate their economies internally and with the world economy, the need for MSEs to communicate with buyers and suppliers beyond easy face-to-face contact will increase.

Lower end administrative services, such as money transfer and photocopying, can either be offered on their own or bundled with basic telecommunications facilities in the same offices. It will be difficult, however, to bundle higher end telecommunications services and information services with basic services because they focus on different clients and need different business structures and capacity. (See Chapter Four.)

In the Philippines, the private sector is doing a good job of supplying basic telecommunications services to MSEs and the wider population. However, there remains the danger that more remote, lower income, and lower population density areas could be left out. The Philippine government should consider measures to ensure that PCOs and pay phones continue to open in remote areas. Donors could contribute by experimenting with lower cost business models that could be viable in areas with lower incomes or lower population densities.

INFORMATION SERVICES

Information services can be offered together with other business development services because they offer a common customer benefit: They help MSEs grow their businesses. Although a few government and nonprofit organizations are starting to experiment with using the Internet to provide information to small and medium-sized enterprises, these services are

reaching only a select few MSEs.[13] Donors need to support experiments in market-oriented, Internet-based information services targeted toward MSEs. It is unlikely that the private sector will initiate these types of experiments soon because the demand for information services from large businesses is growing rapidly and is easier to meet. Useful experiments would focus on determining how to increase demand for information services, assessing the impact on MSE operations and development, and determining how to make services financially viable.

[13] For a detailed discussion on the supply of Internet-based information services for businesses in the Philippines and a potential model for the delivery of Internet-based information to MSEs, see the study on Internet-based information service models in this series.

CHAPTER FOUR
OPPORTUNITIES FOR MICRO AND SMALL ENTERPRISES IN THE TELECOMMUNICATIONS INDUSTRY

Most opportunities for MSEs in telecommunications are in the cellular phone industry. Over the last few years, the cellular phone industry has been one of the fastest growing segments of telecommunications in the Philippines. However, the industry growth rate has been affected by the current economic crisis. Slower growth should be anticipated as the market has become more mature and is not experiencing the high growth rates associated with new products.[14] All cellular phone operators use sales networks of independent sales agents, dealers, or distributors. Independent agents are primarily microentrepreneurs, while dealers are small entrepreneurs. Distributorships are larger and generally beyond the capacity of MSEs. In addition to the cellular phone industry, there are opportunities for MSEs in both basic and high-end ICT services. The main opportunity for MSEs in basic telecommunications is owning a public calling office franchise. A new opportunity for the high end of the MSE spectrum is opening an Internet café. In addition to these opportunities for MSEs to own a telecommunications business, MSE sales agents, dealers, and retail stores can boost their businesses by selling phone cards.[15] In addition, many informal retail stores boost their revenue by selling phone service from a land line or cellular phone. The main opportunities for MSEs in the telecommunications industry are described in more detail below.

Phone sales agents sell either cellular phones, land lines, or both. They work on commission. The commission offered to sales agents depends on the sales plan that the agent chooses. For SMART, the leading cellular phone company, the commission ranges from P800 to P1,000 (US$20-25) per phone sold. Agents do not carry stock and have no initial investment beyond attending a company training. However, agents are required to shoulder all their own expenses for daily travel, photocopying, and other miscellaneous costs. The majority of sales agents sell door to door in residential neighborhoods and offices, although a few have set up small kiosks in malls or on the street. Sales agents are not responsible for the quality of phone service or customer service after the sale. Instead, company-owned customer service centers handle these functions. There are approximately 1,700 to 2,000 land-line agents and 7,500 cellular phone agents nationwide.[16]

Cellular phone dealers have a place of business and carry stock in the cellular phone company. Companies have different policies, but dealers generally pay for the stock outright, pay a bond for their stock, or pay insurance on their stock. For example, SMART dealers

[14] Projection on industry growth from Hunter Consulting, Manila.

[15] Opportunities for MSEs and policies in the cellular phone industry were identified through interviews with cellular phone company managers and other key personnel in Southern Mindanao.

[16] All national figures on opportunities for MSEs were estimated by Hunter Consulting based on interviews with key informants in the major Philippine telecommunications companies. Hunter Consulting is a market intelligence firm based in Manila and has worked in the local telecommunications industry for the past five years. For those telecommunications carriers that were unable to divulge this information, estimates based on market position and other industry factors were made according to Hunter Consulting's experience.

must either pay an insurance bond of P200 to 300 (US$5-7.50) per unit per year or pay a stock bond—the full cost of the cellular phone—which the company keeps in an interest-bearing account and which is refunded if the unit is returned. Many dealers either sell different brands of cellular phones or partner with another dealership to sell other items. Generally, dealerships are established in high pedestrian traffic areas such as malls or busy streets. Sales commissions for dealers are higher than that for agents, and the companies provide merchandising and marketing assistance. Among the five cellular phone companies in the Philippines, there are between 3,600 and 4,000 dealers. On average there are two agents per dealer.

Public calling office franchises are purchased from large telecommunications companies, principally Bayantel, Philippine Long Distance Telephone Company (PLDT), and Philippine Telephone and Telegraph. The franchisees generally offer the same services as owned PCOs: long-distance calling, fax, and, in some cases, other basic services such as telegrams. Franchisees pay a fee and some of the start-up costs. They get a share of the revenue from the services offered. The telecommunications company provides phone lines, some start-up costs, and some ongoing support, such as marketing, to franchisees. Owning a PCO franchise is a good opportunity for small entrepreneurs. However, the financial outlay for a franchise is beyond the capacity of would-be microentrepreneurs.[17] There are between 750 and 900 PCO franchises nationwide. The growth rate for PCOs is estimated at 10 percent per year.

Internet cafés are beginning to open in urban centers around the Philippines. Although many Internet cafés are not owned by low-income people, the capital outlay is within the capacity of small entrepreneurs. Opening a basic Internet café with five or six computers costs approximately P200,000 to P300,000 (US$5,000 to 7,500) for the initial outlay. The computers often can be purchased on an installment basis. The other major cost is the rent deposit, which depends on the city and the location. Owning an Internet café appears to be profitable very quickly. However, profits may fall as competition becomes more intense.[18]

Selling phone cards can provide a boost to a cellular phone agent or dealership and to other types of small merchandising businesses. There are two types of phone cards: regular phone cards, which are used in pay phones, and cellcards, which are used for cellular phones. PLDT developed the market for regular phone cards, with newer carriers only recently launching their own cards. PLDT estimates that less than 1 percent of its phone cards are sold through micro and small enterprises. It sells its cards to wholesalers, who then sell them to smaller enterprises. These enterprises are usually supermarkets and drug stores, not small corner stores. Philcom, on the other hand, estimates that 70 percent of the 20,000 phone cards the company sells monthly are distributed through MSEs. This amounts to approximately P840,000 ($21,000) per month going through MSEs. The difference is probably because PLDT's cards are sold mainly in Metro Manila, while Philcom's market is Mindanao, where the scale of retail stores is generally smaller.

[17] For a more detailed description of Bayantel PCO franchises, see the case study on Bayantel PCOs in this series.

[18] Information is based on interviews with three Internet café owners in Davao City and General Santos City.

All cellular phone companies have established cellular phone card systems in which customers purchase cards in advance, punch the number of the card into their cellular phones, and then draw down the balance of the card through calls. This system has allowed cellular phone companies to sell to lower end customers without checking their credit histories. Cards come in various denominations, ranging from P100 to P1,500 (US$3-35). Authorized businesses, including agents and dealers, can purchase cellcards in bulk for a 5 percent discount. These businesses then sell the cards to customers. High growth rates are anticipated for selling cellcards because this is a relatively new business in the Philippines. Sales of cellcards are handled by agents or dealers authorized by the telecommunications company, which could limit opportunities for MSEs. However, many phone cards and cellcards are distributed through “unauthorized” channels—businesses that buy the cards at value from an authorized dealer and sell them at a marked up price. These businesses are able to compete with authorized sellers despite the higher price because they offer consumers a more convenient location for purchase. Extelcom, for example, estimates that 40 percent of its phone cards are distributed through “unauthorized” resellers.

CHAPTER FIVE
LESSONS FOR BUSINESS DEVELOPMENT SERVICE PROVIDERS

The contrast between the two institutional case studies, Bayantel PCOs and the Laguna SeCen, sheds some light on *how business development service providers can become more demand led* as well as reinforces several of the Committee of Donor Agencies for Small Enterprise Development's best practices principles:[19]

- **Define the business by benefits from the customer's point of view.** Traditional ways of defining business development services emphasize what the provider is supplying rather than what the consumer is getting. The shift to demand-led business development services must start with an understanding of the benefits from services as seen by the consumer. Bayantel PCO services provide customers with a clear benefit: facilitating communication. Part of Bayantel's success in providing a basic service in a competitive market results from integrating those service features which maximize the benefits that customers want from the services.

- **Determine an appropriate mix of services based on customer benefit and a client group.** The research indicates that MSE customers go to a business establishment for a set of services with similar benefits. In the case of the Bayantel PCOs, the benefits are the time and money saved on daily business transactions. In the case of the Laguna SeCen, the benefit is that MSEs can grow their businesses. It does not appear that MSE customers in the Philippines see an advantage in service providers that span a wide spectrum of benefits. In the Philippine market for business services, providers in the private sector, such as Bayantel, are specializing in a single line of business at the retail level, rather than diversifying into many lines.

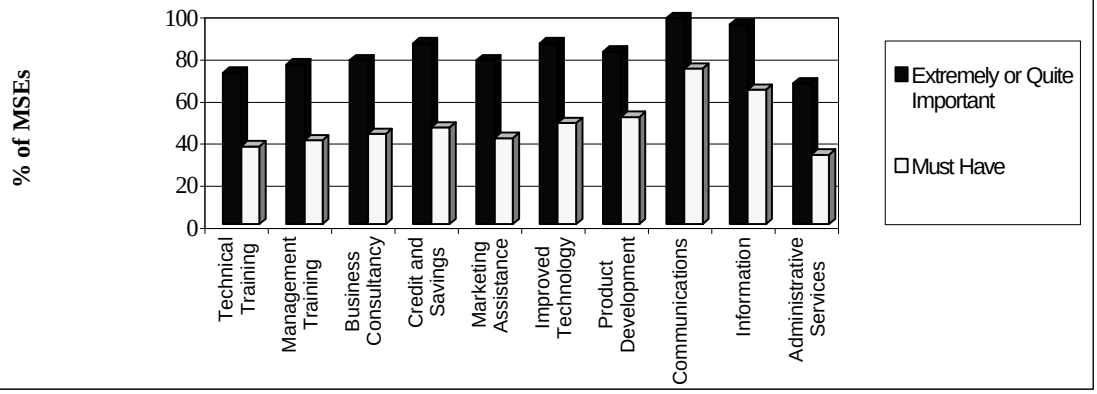
Figure 3 suggests that there is a spectrum of benefits that customers seek to gain from business development service providers, with transaction facilitation at one end and enterprise skill development at the other. Customers who purchase services to better communicate with buyers or suppliers, send or receive goods or services, or prepare documents are seeking ways to facilitate daily business transactions. Figure 3 shows a set of services that correspond to each of these benefits. The types and combinations of services change as customers seek to satisfy other benefits, such as developing their businesses (e.g., expanding sales) or improving internal operations (e.g., staff capacity building). Although it may be possible to combine services in adjacent boxes, it is difficult for any one business service provider to combine services from different ends of the spectrum.

[19] From "Business Development Services for SMEs: Preliminary Guideline for Donor report to the Committee of Donor Agencies for Small Enterprise Development, First Revision, October 1997.

The Importance of Transactional Services to MSEs

MSEs were asked to rate a range of business development services. For each service that an MSE said was extremely or quite important, the MSE was asked if it must have this service, it was nice to have the service, or it could do without the service. The results are shown in Figure 2. MSEs in the survey overwhelmingly ranked communications services as the most important, followed by information services. Although the survey may be biased because it dealt specifically with these services, the results show that these services are at least as important as more traditional business services to MSEs. The survey also indicates that "transaction facilitation services," which help MSEs lower their costs for doing day-to-day business, are as important to them as business development services, which help them grow their businesses over the medium and long term. Transactional services are particularly important for smaller MSEs, which are focused on business survival rather than business growth.

Figure 2: How MSEs Feel about Various Business Development Services



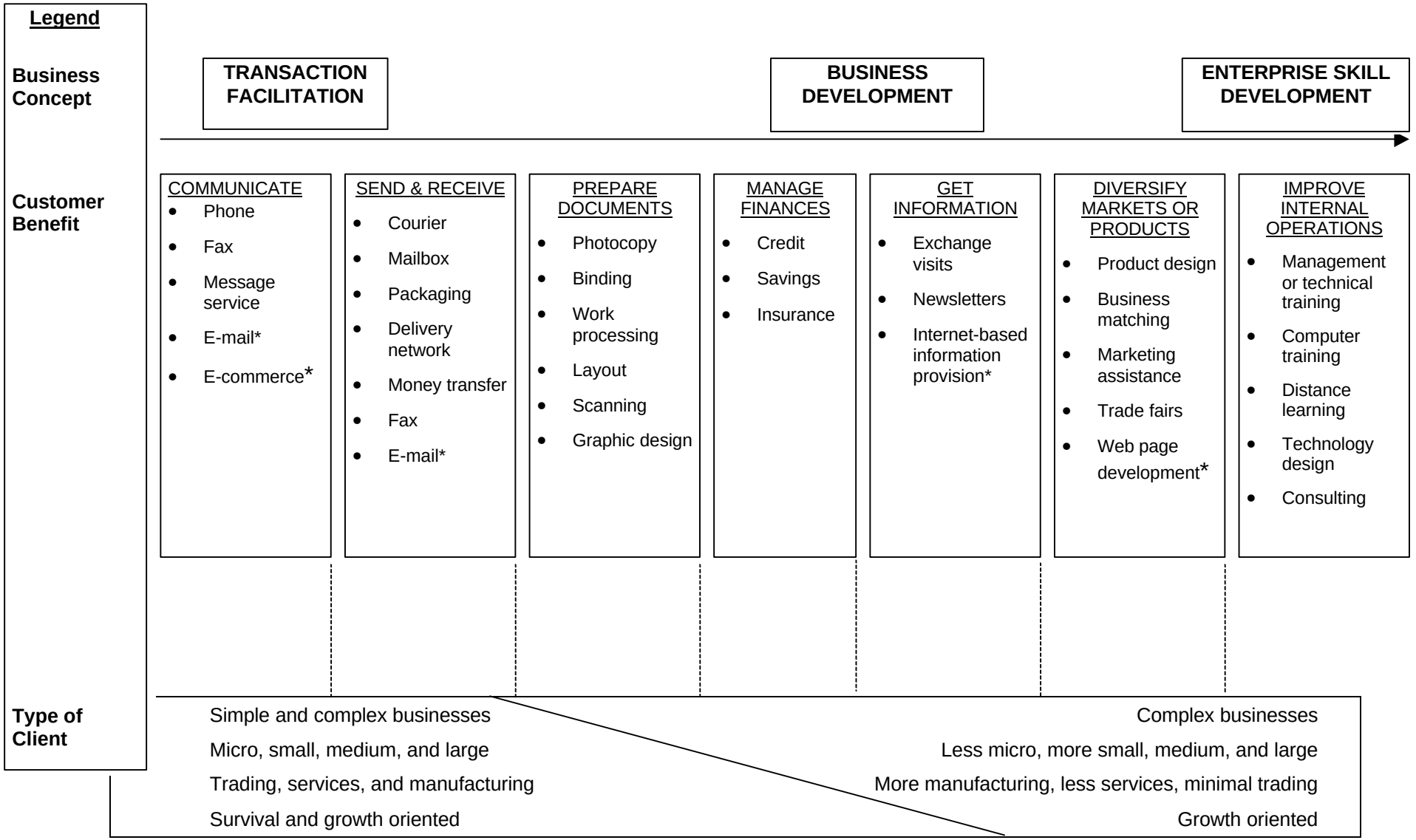
The future product and market mix of PCOs illustrates this point. The research concluded that PCOs should not try to add information services that would appeal to a different type of customer than their current business customer base—low-income MSEs seeking to lower costs for daily transactions. Trying to add information services would require too much of an investment in different marketing, new information systems, and staff skills. It also would compromise Bayantel's existing capacity to reach a high volume of people and keep costs low. Instead, PCOs should diversify into e-mail and e-commerce because these services, like its other services, facilitate daily transactions. Adding these services would also make use of and build on Bayantel's existing systems, while it would cost less in new investment and changes in internal capacity.[20] The Laguna SeCen, on the other hand, is dropping out of transaction facilitation services because its clients demand services from a common facility,

[20] For a more detailed discussion of the recommendations for Bayantel's future service mix, see the case study on Bayantel PCOs in this series.

which helps them develop their businesses, not save money on daily operations.[21] It pays to add another service if that service offers a similar benefit to existing services; requires minimal additional investment in equipment, skills, systems, and capacity; and contributes to economies of scale.

[21] For a more detailed discussion of these recommendations, see the case study on the Laguna SeCen in this series.

Figure 3: Defining Business Development Services by Customer Benefit



* Potential ICT services in this category

- **Fit the internal structure, capacity, and operations to the defined business benefit.** The research found that every aspect of the service provider business, from structure to systems and personnel skill, must fit the defined business type for the business to operate successfully. For example, Bayantel's front line staff are not highly skilled, which saves on costs since Bayantel's business relies more on quality technology. The Laguna SeCen, in contrast, must have skilled front line staff to deliver quality services. The knowledge of the staff, rather than technology, is the key to service delivery. Bayantel has standardized systems for reaching high volume on low-margin services, while the Laguna SeCen must customize and rapidly adjust services for a select group of clients.

  Table 2 shows how different the PCO and the SeCen business models are when attempting to satisfy specific customer benefits. Transaction facilitation services rely on broad outreach to both businesses and other customers in a defined geographical area. Transaction facilitation is a high-volume, low-margin business. On the other hand, business development services rely on a niche market of businesses that can be more geographically dispersed. Business development services tend to be low volume, high margin as compared to transaction facilitation. It is difficult for a single provider to effectively satisfy a broad range of customer benefits because the internal capacity needs are so different. Instead, successful service providers design their structures and systems around satisfying a defined customer benefit.

- **Use market research to determine service features.** Being demand led means more than identifying constraints to MSEs' businesses or asking MSEs which services they need. The *delivery* of services matters as much as the *types* of services. Bayantel has managed to gain market share from Philippine Telephone and Telegraph mainly because its service features, like office cleanliness and helpful staff, appeal to customers. The price and the services offered are almost identical. Business service providers need to go beyond traditional needs assessments and subsector analysis to market research, which examines service features as closely as services.

Table 2: Summary Comparison of Two Business Models for Business Development Services

Component	Bayantel PCOs Transaction Facilitation	Laguna SeCen Business and Enterprise Skill Development
MSE Customer Benefit	▪ Save time and money daily business transactions ▪ Immediate benefits	▪ Grow and develop businesses ▪ Long-term benefits ▪ High value adding
Customers	▪ Broad based ▪ Low-end customers ▪ 70% personal/30% business ▪ MSEs are majority traders	▪ Businesses exclusively ▪ 50+% SMEs, remainder larger businesses ▪ Mainly manufacturers
Service Type	▪ Standardized	▪ Business specific ▪ Customized for groups of business clients (e.g., subsector specific)
Current Services	▪ Phone ▪ Fax ▪ Telegram ▪ Money transfer	▪ Training ▪ Marketing assistance ▪ Financial assistance ▪ Business support (including transaction facilitation)
Recommended Change in Services	▪ Add e-mail ▪ Add e-commerce	▪ Drop transaction facilitation ▪ Change to referral to financial services ▪ Add information provision and exchange visits
Market Type	▪ Area based with broad outreach ▪ High volume ▪ Low margin ▪ Low unit price	▪ Niche ▪ Low volume ▪ High margin ▪ High unit price
Market Building Strategy	▪ Increasing general awareness of service availability ▪ Quality and emphasis on benefits of services to induce trial ▪ Quality to build retention	▪ Increasing target clients' awareness of service benefits ▪ Subsidy to induce trial ▪ Building clients' businesses to increase capacity to pay for services to build retention
Ownership Structure	▪ Corporate/private sector ▪ Franchised network	▪ Not-for-profit association ▪ Membership based
Financial Sustainability Issues	▪ Broad outreach is key ▪ Expect profits within one year	▪ Increasing demand from specific client group is key ▪ Several year investment needed in development of customer base and services
Internal Capacity Needed	▪ Strong systems for high volume ▪ Keeping costs very low ▪ Local variance in features ▪ Equipment is important ▪ Low-skill staff for service delivery ▪ Broad outreach in marketing	▪ Rapid adaptability to changing needs of relatively small client base ▪ Showing value of services to customers ▪ Knowledge is important ▪ High-skill staff (or resource persons) for service delivery ▪ Niche marketing to specific business customers