



# PUBLIC PREFERENCE TOWARD TELECOMMUNICATION PROVIDERS IN INDONESIA AND ITS INFLUENCE ON COMPANY FINANCIAL PERFORMANCE

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## Abstract

**Purpose** – This study aims to analyze and compare the financial performance of two main competitors in the telecommunications industry in Indonesia, namely Indosat and XL Axiata. Financial performance is assessed based on profitability ratios (gross profit margin and net profit margin) and activity ratios (total assets turnover and fixed assets turnover). This study also aims to compare customer preferences for the two companies with their financial performance.

**Method** – This research uses a comparative descriptive method to compare the financial performance of Indosat and XL Axiata based on profitability and activity ratios. Secondary data was taken from the annual financial reports of both companies at [www.idx.co.id](http://www.idx.co.id).

**Result** – Even though the public prefers XL Axiata, financial data for 2019-2022 shows that Indosat has superior financial performance. It shows that consumers' choice of telecommunications providers does not always align with the company's financial performance.

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**Implication** – The research results show that telecommunications companies' customer preferences and financial performance are not always comparable. Further research is needed to uncover the factors influencing this disproportionality, perhaps through qualitative methods such as in-depth interviews.

**Keywords:** customers' preference, financial performance, profitably ratio, activity ratio

## INTRODUCTION

The Internet has become essential to everyday life in the digital age. It has changed the way we communicate, learn and do business. It has become a basic necessity, as important as food, clothing and shelter. It has become an essential tool in various aspects of life. In education, the Internet provides access to unlimited learning resources and online learning platforms. In business, the Internet enables global transactions and electronic commerce. For communication, the Internet allows us to stay connected with people worldwide. In 2016, the UN declared internet access a human right, recognising its importance in supporting the right to freedom of opinion and expression. It shows how vital the Internet is in modern society (Vincent, 2016).

Competition between telecommunication companies encourages them to invest in better infrastructure, technology, and service packages. It benefits consumers by providing more choices and better service quality. Companies must understand customer needs and offer competitive services to attract customers. Based on data from the Central Bureau of Statistics, the number of mobile phone subscribers in Indonesia was 342.61 million people in 2022, and that year, 66.48 per cent of the Indonesian population had internet access (Mustajab, 2023; Badan Pusat Statistik, 2023).

Competition between telecommunications companies is shown by the results of a survey conducted in 2022 by the Association of Indonesian Internet Service Providers (APJII). The association illustrates that of the five largest internet providers in Indonesia, Telkomsel is the favourite mobile operator of the Indonesian people (41.94%), followed by XL Axiata (20.44%), Indosat Ooredoo (17.78%), Tri/3 (14.08%), and Smartfren (5.76%) (Dihni, 2022), as shown in the figure above.

In the business world, the number of subscribers is often considered a key indicator of company performance. However, the relationship between the number of subscribers and a company's financial performance can be complex and influenced by various factors. Generally, the more customers a company has, the higher the revenue it generates (Porter, 2011; Kotler & Keller, 2016). Each customer pays for the products or services they use, which means that an increase in the number of customers will usually result in an increase in revenue, which can ultimately impact the company's financial performance.

Financial performance is one of the internal factors that significantly affect a company's success in achieving long-term goals (Hamel, 2007). Financial performance is also one of the determining factors for companies in making decisions. Financial performance describes the company's financial condition in a certain period concerning raising and channelling funds, usually measured by capital adequacy, liquidity, and profitability (Jumingan, 2006).

Based on the overview of the financial statements of telecommunications companies in Indonesia in 2022 processed from [www.idx.go.id](http://www.idx.go.id), PT Telekomunikasi Selular (Telkomsel) is still the leader of the telecommunications market in Indonesia with the

highest net profit, the most significant total assets, and the largest sales. Telkomsel had an excellent financial performance in 2022. Telkomsel's net profit increased 10.2% to Rp27.68 billion, total assets increased 8.3% to Rp275.19 trillion, and sales increased 7.5% to Rp147.31 trillion. PT XL Axiata Tbk (XL Axiata) and PT Indosat Tbk (Indosat) had increased net profit compared to the previous year but were still far below Telkomsel. XL Axiata had an improved financial performance in 2022. XL Axiata's net profit increased 16.1% to IDR1.12 billion, total assets increased 12.1% to IDR87.28 trillion, and sales increased 10.6% to IDR29.14 trillion. Indosat had an improved financial performance in 2022. Indosat's net profit increased 13.1% to Rp5.37 billion, total assets increased 11.1% to Rp113.88 trillion, and sales increased 11.5% to Rp46.75 trillion. Meanwhile, PT Smartfren Telecom Tbk (Smartfren) had excellent financial performance in 2022. Smartfren's net profit increased 131.8% to IDR1.06 billion, total assets increased 27.6% to IDR46.49 trillion, and sales increased 22.7% to IDR11.2 trillion.

The data above shows that two companies are competing closely, namely Indosat and XL Axiata. Based on Indosat's profit data from 2019 to 2022, Indosat's profit has fluctuated over the last three years. In 2019, Indosat recorded a profit of Rp1.63 billion. This profit then fell to Rp630.16 billion in 2020. However, Indosat's profit rose again to IDR6.86 billion in 2021. In 2022, Indosat's profit fell again to IDR5.37 billion. Meanwhile, XL Axiata's profit has fluctuated over the past three years. In 2019, XL Axiata recorded a profit of IDR712.58 billion. This profit then fell to IDR 371.59 billion in 2020. However, XL Axiata's profit rose again to IDR 1,288 billion in 2021. In 2022, XL Axiata's profit fell again to IDR1,121 billion.

This study aims to examine the financial performance of two competing Indonesian telecommunication companies - Indosat and XL Axiata - in terms of profitability ratios (gross profit margin and net profit margin) and activity ratios (total assets turnover and fixed assets turnover) and then compare customer preferences with the performance of these two companies.

## RESEARCH METHOD

The research method used in this research is the comparative descriptive method. The comparative descriptive method is an analytical method used to compare characteristics or variables between two or more groups in a study. This method is used to identify differences or similarities between these groups based on the data collected (Sugiyono, 2020). The data used in this study are secondary. The data are the annual financial statements of Indosat and XL Axiata taken from the site [www.idx.co.id](http://www.idx.co.id). The documentation technique is applied for data collection. The technique for data analysis in this study is by calculating the profitability ratios (gross profit margin and net profit margin) and activity ratios (total assets turnover and fixed assets turnover) of two telecommunications companies in Indonesia - Indosat and XL Axiata.

## RESULTS AND DISCUSSION

### *Profitability ratios*

Based on Indosat gross profit margin data from 2019 to 2022, Indosat gross profit margin has fluctuated over the last three years. In 2019, Indosat's gross profit margin was 6.08%. This gross profit margin then fell to -2.15% in 2020. However, Indosat's gross profit margin rose again to 23.92% in 2021. In 2022, Indosat's gross profit margin fell again to 13.98%. Meanwhile, Indosat's net profit margin has fluctuated over the past three years. In 2019, Indosat's net profit margin was 6.24%. This net profit margin then fell to -2.26% in 2020. However, Indosat's net profit margin rose to 21.86% in 2021. In 2022, Indosat's net profit margin fell again to 11.49%.

XL Axiata's gross profit margin data from 2019 to 2022 has fluctuated over the past three years. In 2019, XL Axiata's gross profit margin was 4.55%. This gross profit margin then fell to 0.56% in 2020. However, XL Axiata's gross profit margin rose again to 6.38% in 2021. In 2022, XL Axiata's gross profit margin fell again to 4.64%. Meanwhile, XL Axiata's net profit margin has fluctuated over the past three years. In 2019, XL Axiata's net profit margin was 2.84%. This net profit margin then fell to 1.43% in 2020. However, XL Axiata's net profit margin rose again to 4.81% in 2021. In 2022, XL Axiata's net profit margin fell again to 3.85%.

Based on the above calculations, the results of gross and net profit margins on Indosat and XL Axiata can be seen in the table below.

**Table 1.** Profitability ratio of Indosat and XL Axiata.

Year	Gross Profit Margin Ratios		Net Profit Margin Ratios	
	Indosat	XL Axiata	Indosat	XL Axiata
2019	6.08 %	4.55 %	6.24 %	2.84 %
2020	-2.15 %	0.56 %	-2.26 %	1.43 %
2021	23.92 %	6.38 %	21.86 %	4.81 %
2022	13.98 %	4.64 %	11.49 %	3.85 %

In general, Indosat's gross profit margin is higher than XL Axiata. However, Indosat's gross profit margin experienced large fluctuations, from -2.15% in 2020 to 23.92% in 2021. Meanwhile, XL Axiata's gross profit margin was more stable but tended to decline from 4.55% in 2019 to 4.64% in 2022. Indosat net profit margin is higher than XL Axiata. However, Indosat's net profit margin also experienced large fluctuations, from -2.26% in 2020 to 6.38% in 2021. Meanwhile, XL Axiata's net profit margin was more stable but tended to increase from 2.84% in 2019 to 3.85% in 2022. Indosat's net profit margin is higher than XL Axiata's. However, Indosat's net profit margin also experienced large fluctuations, from -2.26% in 2020 to 6.38% in 2021. Meanwhile, XL Axiata's net profit margin was more stable but tended to increase from 2.84% in 2019 to 3.85% in 2022.

Based on the above profitability ratio analysis, Indosat can generate gross and net profit better than Axiata. However, Indosat's ability to generate net profits still needs to be improved. The increase in Indosat's gross profit margin in 2021 may be caused by several factors, such as an increase in product and service selling prices, a decrease in

the cost of goods sold, or both. Meanwhile, the decline in Indosat's net profit margin in 2022 may be caused by increased operational expenses, such as financial and tax burdens.

### *Activity ratios*

Based on Indosat's total assets turnover ratio data from 2019 to 2022, Indosat's total assets turnover ratio has fluctuated over the past three years. In 2019, Indosat's total assets turnover ratio was 41.58%. This total assets turnover ratio then rose to 44.48% in 2020. However, Indosat's total assets turnover ratio fell to 49.51% in 2021. In 2022, Indosat's total assets turnover ratio fell to 41.05%. Meanwhile, PT Indosat Tbk's fixed assets turnover ratio has fluctuated over the past three years. In 2019, Indosat's fixed assets turnover ratio was 61.09%. This fixed assets turnover ratio then fell to 60.03% in 2020. However, Indosat's fixed assets turnover ratio rose to 68.96% in 2021. In 2022, PT Indosat Tbk's fixed assets turnover ratio fell to 67.69%.

XL Axiata's total assets turnover ratio data from 2019 to 2022, XL Axiata's total assets turnover ratio has decreased over the past three years. In 2019, XL Axiata's total assets turnover ratio was 40.07%. This total assets turnover ratio then fell to 38.39% in 2020. In 2021, XL Axiata's total assets turnover ratio fell to 36.77%. In 2022, XL Axiata's total assets turnover ratio fell to 33.39%. Meanwhile, XL Axiata's fixed assets turnover ratio has decreased over the past three years. In 2019, XL Axiata's fixed assets turnover ratio was 59.72%. This fixed assets turnover ratio then fell to 55.15% in 2020. In 2021, XL Axiata's fixed assets turnover ratio fell to 51.54%. In 2022, XL Axiata's fixed assets turnover ratio fell to 48.19%.

Based on the above calculations, the results of the total and fixed assets turnover ratios in Indosat and XL Axiata can be seen in the table below.

**Table 2.** Activity ratio of Indosat and XL Axiata.

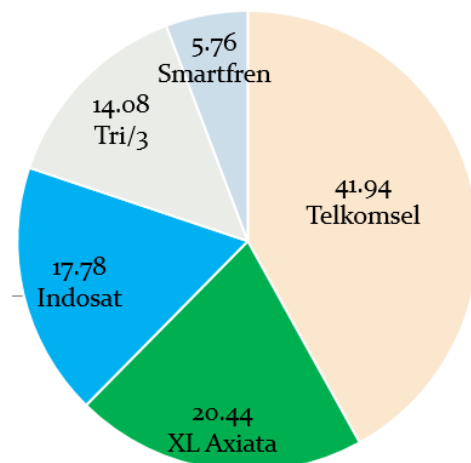
Year	Total Assets Turnover Ratios		Fixed Assets Turnover Ratios	
	Indosat	XL Axiata	Indosat	XL Axiata
2019	41.58 %	40.07 %	61.09 %	59.72 %
2020	44.48 %	38.39 %	60.03 %	55.15 %
2021	49.51 %	36.77 %	68.96 %	51.54 %
2022	41.05 %	33.39 %	67.69 %	48.19 %

Indosat has a higher asset turnover ratio than XL Axiata. It means that Indosat is more efficient in using its assets to generate sales. However, the asset turnover ratio of Indosat has fluctuated somewhat, from 41.58% in 2019 to 44.48% in 2020 and then to 49.51% in 2021. The ratio then decreased to 41.05% in 2022. Meanwhile, the asset turnover ratio of XL Axiata has been more stable, but it has tended to decline from 40.07% in 2019 to 33.39% in 2022. Indosat has a higher fixed asset turnover ratio than XL Axiata. It means that Indosat is more efficient in using its fixed assets to generate sales. However, Indosat's fixed asset turnover ratio has also fluctuated somewhat, from 61.09% in 2019 to 60.03% in 2020 and then to 68.96% in 2021. The ratio then decreased to 67.69%

in 2022. Meanwhile, the fixed asset turnover ratio of XL Axiata has been more stable, but it has tended to decline from 59.72% in 2019 to 48.19% in 2022.

Based on the analysis of the asset turnover ratio and fixed asset turnover ratio, it can be concluded that Indosat is more efficient in using its assets to generate sales than XL Axiata. However, the efficiency of Indosat in using its assets has fluctuated somewhat in recent years. The increase in Indosat's asset turnover ratio and fixed asset turnover ratio in 2021 is likely due to several factors, such as increased sales, decreased costs, or a combination of both. Meanwhile, the decrease in the asset and fixed asset turnover ratios of XL Axiata in recent years is likely due to decreased sales and increased costs.

### *Costumers' preferences*



**Images 1.** Percentage of total customers from Internet providers in 2022 in Indonesia

The image above shows that PT. XL Axiata Tbk has an average customer of 20.44%, and PT. Indosat Tbk has an average customer of 17.78% in 2022, which means that PT. XL Axiata Tbk has more customers than PT. Indosat Tbk. However, Indosat's gross profit margin is 13.39%, and XL Axiata is 4.64%. The net profit margin of Indosat is 11.49%, and XL Axiata is 3.85%.

Meanwhile, in terms of activity ratios in 2022, Indosat's total assets turnover Ratio is 41.05%, and XL Axiata is 33.39%. Indosat's fixed assets turnover ratio was 67.69%, and XL Axiata was 48.19%, which indicates that Indosat is better than XL Axiata. There are several reasons why the number of customers only sometimes aligns with financial performance. Here are a few of the most common, such as (1) customer profitability, in which not all customers are created equal. Some customers are more profitable than others; (2) customer acquisition costs, which means it can be expensive to acquire new customers; (3) customers come and go; and (4) customer lifetime value (CVL), which is the total amount of revenue that a company can expect to generate from a customer over their lifetime.

In the case of Indosat and XL Axiata, Indosat may have a higher CLV than XL Axiata. It could mean that Indosat's customers are more profitable, even less numerous than XL

Axiata's. It is also possible that Indosat is more efficient than XL Axiata. Indosat can generate more profit from its customers with less cost. For example, Indosat may have lower customer acquisition costs or churn rates. Finally, Indosat may have benefited from favourable market conditions that have not benefitted XL Axiata. For example, Indosat may have a larger market share in a growing market, while XL Axiata may have a larger market share in a declining market.

## CONCLUSION AND SUGGESTION

The results of a survey conducted by the Association of Indonesian Internal Service Providers (APJII) show that the public's preference for XL Axiata is more significant than for Indosat. However, the company's financial performance in 2019-2022 shows that Indosat has better financial performance than XL Axiata. Thus, customers' preferences for telecommunications provider products are only sometimes proportional to the company's excellent or poor financial performance.

It is suggested that Indosat should maintain its ability to generate high and stable net profits, which might be done by increasing the efficiency of operational costs and controlling financial burdens. Indosat should continue to focus on improving its efficiency in using its assets, which might be done by increasing sales, decreasing costs, or both. XL Axiata should also focus on improving its efficiency in using its assets, which might be done by analyzing its current cost structure and identifying areas where it can reduce costs. For further research, exploring the factors or causes of the disproportionate number of customers and financial performance is necessary. This study can be carried out using qualitative research methods, such as in-depth interviews

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