PROFILE

THIS IS GOING TO BE FUN

Creative destruction. That's the cornerstone of everything Hello Group's founders, brothers Nadir Khamissa and Shaazim Khamissa do. It's how they've disrupted international calling, telecom distribution, money transfer and low cost banking across Africa and Asia. It hasn't been easy. R6 million in seed capital quickly turned into R30 000 after some early – and very costly – mistakes. But they persevered, and today Hello Group is changing lives at the base of the income pyramid, and the founders are having the time of their lives doing it. **BY NADINE TODD | PHOTOGRAPHY BY MIKE TURNER**

PLAYERS: Nadir Khamissa and Shaazim Khamissa
COMPANY: Hello Group (includes Hello Mobile, Hello Distribution and Hello Paisa)
EST: 2005
SEED CAPITAL: R6 million quickly turned into R30 000
GROWTH:
Hello Mobile: 718% turnover growth from 2010 to 2015
Hello Paisa: 1100% from March to October 2015
VISIT: www.hellogroup.co.za

2005
Telestream Communications, the first iteration of Hello Mobile, launches. The business model is based on Telkom payphones.

Issued one of the first Telecom licences from ICASA.

Within six months Nadir Khamissa has lost 90% of his life savings. Nadir and his brother Shaazim go back to the drawing board.

With R30 000 in seed capital, a new product is launched, this time focused on converged VoIP, GSM and VAS to create the International Calling IVR industry in SA.

"WHAT DO YOU WANT to be when you grow up?" We were all asked this at some point, and no doubt most of us have asked a child the same question. But the world is changing, and today, we ask: "What problem do you want to solve?"

That's how Nadir Khamissa and his brother Shaazim Khamissa have approached entrepreneurship. It took them a while to get it right. Nadir has lost his life savings twice, but that hasn't slowed him down. In 2015 the brothers were named Innovator of the Year and the Medium Business Entrepreneur of the Year at the Sanlam/Business Partners Entrepreneur of the Year Awards. Next they nabbed the coveted EY Southern Africa World Entrepreneur Award 2015 in the Exceptional Category.

Hello Group is clearly doing something right, and it's happening at the base of the income pyramid, that elusive market that so many businesses try – and fail – to access. So how are the Khamissa brothers doing it? The base of the pyramid is a huge potential market, but the economics of tapping into it are tricky. You need a price point that's accessible for low income earners, but still turns a profit for the business. It's all about low margins and high volumes.

The solution wasn't immediate. It took time, a lot of hard work, and some tough lessons. Emblazoned on a wall at Hello Group's offices is the Eric Reis quote: "The only way to win is to learn faster than anyone else." And that's exactly what they've done.

LESSON ONE
NEVER BUY SOMETHING YOU CAN'T AFFORD

Nadir Khamissa loves numbers and the adrenalin associated with risk – high-risk deals, tackling new challenges head-on, being first movers in untapped, untried and untested markets. Shaazim is a coder; the tech backbone of the business. It's why the brothers work so well together. Nadir is willing to dream big. Shaazim lays the tech foundations to make those dreams a reality.

Dreaming big is a major prerequisite for entrepreneurial success – especially for the business scope that Nadir and Shaazim have envisioned. But it can also land you in hot water, as Nadir discovered when he was 19 years old. "I was studying actuarial science when I discovered trading," he says. It was 1998, markets were booming, and young Nadir had one goal: to buy a brand-new BMW M3. "I borrowed R10 000 from my dad and started trading. I thought I was too smart to make a mistake." For a while he was right. Everything he bought kept going up. He stopped going to university, read everything on trading that he could get his hands on, and in six months turned that initial R10 000 into R250 000. Forget the BMW; his new goal was a Porsche 911. His broker thought he was a prodigy and gave him a big credit line.

"The problem was that I had confused brains with a bull market. It had nothing to do with me." There was an even bigger problem though. Nadir traded on leverage, which meant he had a line of credit with which to purchase stocks, and he only had to pay for them within seven days. For months everything he bought went up, so he'd already made a profit by the time he had to pay for the initial stocks. And then he made a costly mistake.

"I had read that Parmalat was going to buy Premier Foods. The announcement was imminent, and stocks were projected to rise by 30% to 40%. I bet the house on the deal: R1,5 million on leverage. Then Parmalat pulled out, stocks plummeted and I went from flush with cash, to R16 000 in debt. I was devastated.

"My dad paid the debt, but only after he made sure I'd learnt the most valuable lesson of my life: Never buy something you can't afford." This lesson still drives Hello Group's financial strategy.

"We've learnt to focus on cash flow first. A positive cash flow stream means you're never over-invested in a new idea or business division and it's an excellent indicator of whether you're adding value to your target market. If people are willing to pay for your product, you're on the right track. Cash in the bank should always be your goal. If that's not happening, something is wrong with your value chain."

LESSON TWO
ALWAYS START WITH A MVP

Ten years ago a revolutionary new technology hit the market: VoIP meant that you could convert an analogue phone signal into a digital signal, provided you had a switch to do so. Digital is much cheaper than analogue, which meant international phone calls across a VoIP line were a game-changer.

> **"We thought we were going to be millionaires. Instead, our very expensive switch became a large paperweight in a matter of minutes, and I lost 90% of my savings."**

At the time, Nadir was working as a derivatives trader at Deutsche Bank in London, and Shaazim was finishing an accounting degree in South Africa. They were both searching for an entrepreneurial opportunity. For Nadir, this was it.

"I saw so many people constantly queuing at payphones in South Africa. The user experience of public phones is awful, but there was a bigger opportunity: Most of those calls were low-income workers phoning family in other countries. It was expensive, and we thought that we could offer a cheaper alternative."

With his savings, Nadir purchased a switch and set it up in London, where regulations governing telcos were more amenable for new market entrants. He also reached out to a lawyer at local law firm, Safiyya Petel at Sonnenbergs, to assist him pro bono in securing a South African telco licence.

The business idea was relatively simple: The user would buy a call card, put it into a payphone, and dial a South African number. An automated response would ask the caller to hang up. The switch in London would then phone the caller back, ask them to enter a pin code and the destination number and connect the call.

On paper, it was perfect. But, there were problems. Nadir and Shaazim had tied themselves to a payphone by basing the entire business idea around a payphone calling card and it didn't work.

"On the night we launched, we did a final test. We stopped at a payphone at a garage in Johannesburg and dialled the number. The automated response answered and asked us to hang up. Then the phone rang. It worked! We entered our pin and the number we wanted to connect to…. And then nothing. No connecting call, no additional prompts, just… nothing. It didn't work."

What the brothers were not aware of was that while they were getting their business off the ground, perfecting the tech and printing thousands of fliers, Telkom had changed the way public payphones operated, and this destroyed their business model in one swoop.

"We thought we were going to be millionaires. Instead, our very expensive switch became a large paperweight in a matter of minutes, and I lost 90% of my savings."

It was a hard blow, but Nadir says it was also the best thing that ever happened to them in business. "We learnt the value of a Minimum Viable Product (MVP) then and there. Today our balance sheet is very different, but we still don't invest in any new ideas unless we've tested them. Create an MVP and make sure your hypothesis is correct. If it's not, tweak it until it is. MVPs allow you to keep refining an idea without betting the farm on whether your first idea is right – because it seldom is."

The failure also helped the brothers to distil what it was they wanted to do. "We'd been so excited about the tech and its possibilities that we'd missed a crucial step: Who were we? What did we want the business to be? What problem were we going to solve? And what kind of business could we create based on those answers?"

LESSON THREE
CREATE A PARTNERSHIP WHERE EVERYONE BENEFITS

So what do you do when your first business idea is a failure and you've lost all of your money? Go back to the drawing board. "We needed to make sure we created value, differentiated ourselves and knew why people would buy our product," says Shaazim. "This meant challenging all of our own ideas and making sure that only the best survived. It's a process we still follow today and is part of our DNA."

It's not an easy process. You need to be able to critically evaluate your own ideas, admit when they're flawed, listen to other people's opinions and move on quickly when something isn't quite right.

Nadir and Shaazim Khamissa have won prestigious awards for their innovation and entrepreneurship.

SELLING TO THE BASE OF THE PYRAMID

Price is only one piece of the puzzle, and it's generally the easy part. If people in the base of the pyramid don't see the value in what you're offering, they won't spend their money with you. This market needs more than a lower price point.

Easy accessibility is a key factor, not just in proximity, but also time availability. If your target market can't access your product, they won't purchase it. This is a number literate market, so we've focused on numbers and multiple languages.

Finally, **user experience** is your key differentiator. You can have a great product, but if someone creates something that's a little bit easier to use, you're toast.

We recognised a niche market in an ignored segment that we could tap into, and we found a way to deliver on these key points, making a profound change in people's lives and building a successful business.

2007
Breaks the milestone of routing 15 million international voice minutes per month.

2010
Launches Hello Mobile, which gives customers lower cost, superior access and a simple user experience.

Builds largest informal cellular distribution network in South Africa, leveraging technology to remove all layers between Hello Mobile and informal retailers, Spaza shop-owners and street vendors.

2011
Hello Group exceeds 10 000 points of presence nationwide, making it the undisputed leader in servicing the informal retail market in South Africa.

2012
Creates digital mobile wallet to pay commission to unbanked street vendors nationwide.

More than one million Hello Mobile regular subscribers.

2013
The Hello team grows to over 200 employees.

Creates an entrepreneur programme to train, educate, fund and mentor hundreds of individuals in building their own businesses.

28 000 distributors are earning commission via Hello Group mobile wallet.

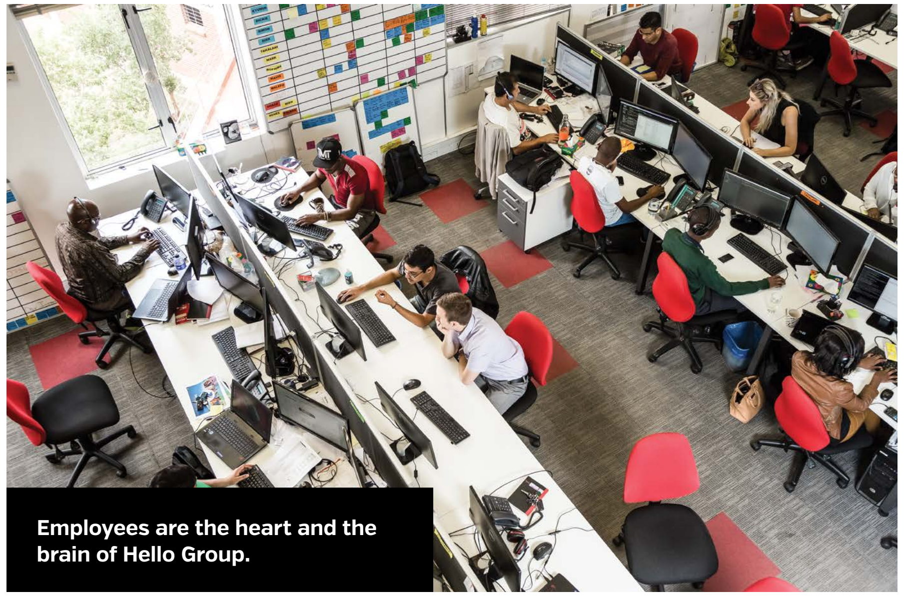
Hello Mobile subscriber base hits 1,5 million.

Begins negotiations with the Reserve Bank and secures an FSB licence in preparation for launching a new fintech division, Hello Paisa.

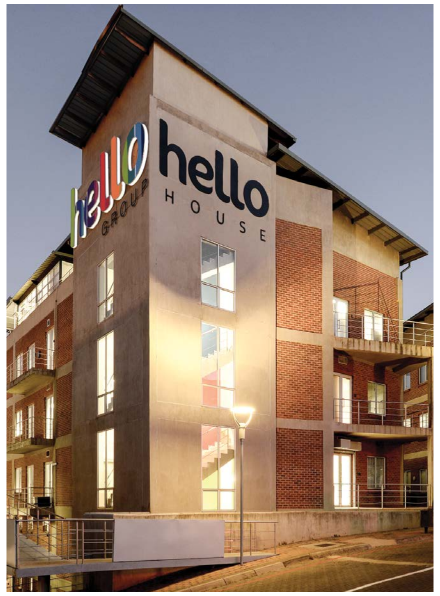
2015
Hello Paisa launches.

Send cash home

Hello Paisa hits 90 000 active customers by dropping the cost of international remittances from 12% to 5% and delivering them across the globe in seconds.



Employees are the heart and the brain of Hello Group.



When Nadir and Shaazim started from scratch, the user experience of a payphone was poor, and the call back didn't work. A solution was combining VoIP with GSM or cellular networks. An added bonus to using a WASP (Wireless Application Service Provider) was that you received a rebate every time the number was called. This meant a double revenue stream, and allowed the brothers to keep the call fee as cheap as possible for the user.

While Shaazim worked on the tech, Nadir focused on getting infrastructure in place. He sold his car for working capital, and started looking for a partner with functioning servers and links. A small business owner in Port Shepstone was identified and persuaded to allow them to use his infrastructure on a per minute fee with no fixed opex or capex. "The idea was to test the product and generate cash quickly to start carrying the costs, so we looked for the low hanging fruit – a target market that we could tap into quickly to prove the tech and generate cash flow," says Nadir.

What they found was the China Mall. "We had to be there at dawn, handing out fliers," he recalls. "Our market was illegal immigrants who arrived early and were gone before the cops arrived. We knew they'd want to call home, but money was tight."

They were right – growth was explosive. And then the cellular network decided to cut them off. "The WASP was the intermediary between us and the mobile network, and he told us he'd been instructed by the network to switch us off. It was massively anti-competitive, but South African telco regulation was in its infancy and could not prevent this from happening."

Nadir and Shaazim scrambled for a solution. While Shaazim started switching the tech to a different network, Nadir convinced the WASP to give them the weekend before pulling the plug. They used the time well. "We recorded an automated message asking customers to dial a new access number," says Nadir. "All prompts on the new number were recorded in Mandarin Chinese," laughs Nadir. "Because no-one at the network could speak Mandarin, they didn't immediately realise what we were up to, which gave us the time to approach Cell C and negotiate a partnership."

Nadir's pitch was simple and straightforward: Cell C would benefit from their exposure to new markets at the base of the pyramid if they let the brothers plug into their network and collected a small fee on a very large volume of calls. Cell C agreed. "It was a game changer for us. There was no more subterfuge or worrying. We had a fixed Cell C access number with longevity, and we could focus on real growth."

LESSON FOUR
CREATIVE DESTRUCTION, THE CORNERSTONE OF GROWTH

"I believe in creative destruction," says Nadir. "An entrepreneur needs to constantly think of ways to kill their own business, because if they don't someone else will. There is always something – a new product, service or innovation – that could destroy your current model. The trick is to be the first to spot it, and then to implement the change that would have been your downfall if you weren't the one doing it."

"In our case, the answer was one stage dialling," agrees Shaazim. "At that stage, customers had to dial twice, our number and then the number they wanted to connect to. We always put the user experience top of mind: What's the simplest, most affordable solution out there? That's what people care about: cost and ease of use."

The business needed a single-dialling solution, and so Nadir went back to Cell C with a new proposal: A single Hello Mobile branded SIM card that operated exclusively on the Cell C network. Local calls would be routed through Cell C, and international calls digitally through Hello Mobile's system. While the background was tech-heavy and complicated, for the user it couldn't have been simpler. In 2010 Hello Mobile SIM cards started hitting the market, with growth skyrocketing due to the single dial solution.

LESSON FIVE
FIND SOLUTIONS THAT SUIT YOUR TARGET MARKET

Hello Mobile quickly grew to the point where the business needed a distributor. But when you're targeting the base of the pyramid, price is always an issue. "We weren't distributors so our first solution was to start negotiating with a large distributor that already had a distribution network. But the price point was unviable. We couldn't pay them their asking price and still keep the product affordable for our consumer base," says Nadir. The only solution was to do their own distribution, but they had to get it right.

"Adding value had become our mantra," says Shaazim. "We weren't going to launch Hello Distribution unless we could use the new division to actively add value to our market."

What did that mean? "We had to ask ourselves what we wanted to achieve, and what our barriers were to getting it done. We had to evaluate the end consumer, but also who they would be buying from. Where should vendors be located? What hours were most convenient for our buyers? And where were they most comfortable?

"As we answered these questions, a pattern emerged. Vendors needed to be based in rural villages, townships and informal settlements and CBDs. They needed to trade before and after normal working hours, giving people enough time to buy Hello Mobile's products, and be situated where typical base of the pyramid buyers were comfortable." In other words, Nadir and Shaazim needed to form partnerships with Spaza shop owners and street vendors.

"The next question was: How could we add value to the vendors?" If we cared about adding real value for customers, we should do the same for vendors who would become our distribution channel."

The answer was simple. Recruit people from within the targeted communities to become the sales people and account managers for vendors. "Our vision and philosophy is to maximise revenue for merchants. We needed to find a way to help them convert their time into money."

Hello Distribution offers a business in a box which functions as Hello Mobile's starter pack, including branding and simple accounting and payment solutions. "If you step into an informal settlement, you see us, Dstv and Coca-Cola; we're the dominant brands," says Nadir.

Creating and fostering strong relationships on the ground makes it easy for vendors to sell Hello Mobile goods for a profit, and for end users to access the products easily at times and in areas that suit them. Hello Distribution's army of street vendors currently earn R30 million per annum in commissions. "Our top seller went from unemployed to making R30 000 a month," says Nadir. "That's what we're trying to achieve – a way to service our market by creating additional value along the entire supply chain."

LESSON SIX
ALWAYS ASK 'WHAT ELSE CAN WE DO FOR YOU?'

A widespread distribution channel to informal markets created a new challenge: How to pay commissions? "Business boomed, but we'd spend hours each week counting cash into hundreds of envelopes that then needed to be hand delivered," says Nadir.

So Shaazim got to work building a mobile wallet for Hello Distribution's vendors. "This sparked an idea, and we went back to the market and asked our customers what other problems we could solve," says Nadir. "Once you're a trusted brand that delivers on its promises, your consumers are more comfortable sharing their challenges with you – particularly those they will pay you to solve."

As it turned out, transferring money home was almost impossible. "Southern Africa is the most expensive money transfer jurisdiction in the world," says Nadir. "This dramatically affects the poorest of the poor. We spent two years talking to the South African Reserve Bank (SARB), World Bank and other global organisations, which wanted to see costs declining and low value money transfers being regulated."

The solution, Hello Paisa, has been a collaborative effort by the SARB, which has designed a strategy to facilitate low value remittances, and the Hello Group, which secured a Financial Services Board licence and created a high-tech solution to bridge technological innovation with rural and informal markets. It's a game changer.

"This is the solution we're most excited about," says Nadir. "If we hadn't built Hello Mobile and Hello Distribution, we wouldn't have the capital, on-the-ground know-how and tech platforms to design a solution that's going to change lives on a global scale."

Today, Hello Paisa can facilitate an international money transaction from a spaza shop in rural Eastern Cape to a rural village in Ethiopia in 2,8 seconds. "Of the $550 billion annual transfers, $40 billion occur in Africa, at an average transaction fee of 12%. Our aim was to reduce that price by a factor of three and still be profitable. At the base of the pyramid it's a numbers game; low margins and many small transactions, so scale is important."

Nadir and Shaazim Khamissa recognise that Africa is not the only continent that needs this type of solution. Millions of migrant workers and immigrants around the world work in one country and send money home to another. They created a global solution for a global problem, and are disrupting a 200-year-old business model in the process. Watch this space. **EM**

LESSONS LEARNT

1. If you're not solving a problem and creating value, don't ship it – throw it away. That's cheaper than selling a bad product.

2. Sustainable businesses are built on: Solving a problem that people care enough to pay for, and doing it profitably. That can be high margin, low volume, or in our case, low margin, high volume.

3. Make sure you have a crazy, audacious goal. Ours is to positively impact the lives of a billion people by 2025.

4. Cash flow is the base of all successful businesses: Get it in, save it, use it to build the next level of growth.

5. The ability to persuade others and show them your dream is vital. It's how we secured our first partner, how we convinced the WASP to give us a weekend to find a solution to the mobile network cutting us off, how we formed our first game-changing partnership with Cell C, and how we convinced the Reserve Bank to help us build a new model for the base of the pyramid.

6. Understand that you can bootstrap almost anything. This is a high capex business, and yet it was seeded with R30 000.

7. Your team is everything. We have two core groups, and without them there would be no Hello Group. The first are our field staff and agents on the ground who interact with their communities, ensure our product reaches the target market and send suggestions back to us, allowing for constant improvements in our service. The second is our head office team, a young exco that we recruited, and their teams. We believe in transparency and debate. They believe in what we're doing, and are always looking for disruptive innovations.

8. Make yourself redundant. The more our team can do without us, the stronger and more valuable the business becomes.