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

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.
**LESSON ONE**

**NEVER BUY SOMETHING YOU CAN’T AFFORD**

Nadir Khamissa loves numbers and the adrenaline associated with risk—high-risk deals, tackling new challenges head-on, being first movers in untapped, untried and untested markets. Shaziaam is a coder; the backbone of the business. It’s the brothers who work so well together. Nadir is willing to dream big. Shaziaam lays the tech foundations to make those dreams a reality. Dreaming big is a major prerequisite for entrepreneurship success—especially for the business scope that Nadir and Shaziaam 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,” he 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 R25 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 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 on 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.

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

**SELLING TO THE BASE OF THE PYRAMID**

Price is 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.

At the time, Nadir was working as a derivatives sales rep at Deutsche Bank in London, and Shaziaam 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.”

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“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 and that and there. Today our balance sheet is very different, but we still don’t invest in any new ideas unless we have customers. 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 distill what they wanted to do. “We’d been so excited about the tech and its possibilities that we’d missed a crucial stop: 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 are out of money? Go back to the drawing board. “We needed to make sure we created the right alignment and knew why people would buy our product,” says Shaziaam. “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.
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 used. 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 setup or capex. “The idea was to test the product and generate cash quickly to start carrying the costs, so we looked for the low hanger 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 at the dawn, handing out fliers,” he recalls. “The 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 be instructed by the network to switch us off. It was massively anti-competitive, but South African telco regulation was 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 his 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 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 collect a small fee on a very large volume of calls, Cell C gained revenue. “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 ONE**
**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 know it, and then implement that change before you would have 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 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.”

**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,” agrees Shaazim. “At that stage, we looked for the low hanging fruit – a target market we could tap into quickly to prove the tech and generate cash flow.”

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.

**LESSON LEARNED**

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 foundations that make it easy for vendors to sell Hello Mobile goods for a profit, and for end users to access the products easily at all times and in areas that suit them. Hello Distribution’s army of street vendors currently earn R30 million per annum in commission. Top-tier vendors want from unemployed to making R30 000 a month,” says Nadir. “That’s what we’re trying to achieve – a way to sustain our market by creating additional value along the entire supply chain.

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, 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 act as 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 $300 000.

7. Your team is everything. We have been very fortunate that we have an a young exco that we recruited, and the second is our head office team, both of which we had to grow. We have the capital, on-the-ground know-how and for end users to access the products easily at all times and in areas that suit them. Hello Distribution’s army of street vendors currently earn R30 million per annum in commission. Top-tier vendors want from unemployed to making R30 000 a month,” says Nadir. “That’s what we’re trying to achieve – a way to sustain 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,” recalls Nadir. “Once you’ve a trusted brand that delivers on its promises, your customers are more comfortable sharing their challenges with you – particularly those they will pay you to solve.”

“As it turned out, transferring money 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 cost 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 secures 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 Shaazim. “Hello Mobile and Hello Distribution, we wouldn’t have the capital, on-the-ground know-how and the right focus if it wasn’t a deep value product.”**

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 $500 billion annual in the world,” says Nadir, “$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.