

Ruralfone Inc. – The Need for a New Methodology in Providing Telecommunications to Bottom of the Pyramid Markets

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Denis Cote is the Founder, President and CEO of Ruralfone Inc.

It is widely recognized that the majority of the next billion telephony subscribers will come from rural emerging markets. We, at Ruralfone Inc. argue that the dominant methodology for servicing this BOP (Bottom of the Economic Pyramid) market by telecoms operators – which is, to adapt *existing* telephony models – is an inferior alternative for both the population serviced and the operators' bottom line. Rather, we are convinced that the challenges presented by this market niche demands *exclusive* concentration on that particular segment.

In May 2005, we launched our service through our subsidiary “Local Serviços de Telecomunicações” (LOCAL) in one of the poorest cities in the world: Quixadá, in the northeastern state of Ceará in Brazil. LOCAL now has four cities in operation in that state.

We approached our market with a Business Model completely different from a traditional operator emphasizing:

- Maximization of local resources (decentralization)
- A completely different distribution system
- High personalized customer services

After almost three years of operation, we have proved that:

- Even in the low-income market segment (GDP being around 1/15 of the USA GDP), it is possible to be profitable.
- The social impact created by our “new approach” in telephony on the local population ensures the Business Model is highly sustainable.
- The solution to address the low-income markets resides more in a completely non-traditional approach as opposed to a new “technical solution”.



Telephony without complication

both the populations serviced and the operators. In other words, these new populations present such differences in demographics, income, and acquaintance with telephony that they necessitate an independent business model.

Ruralfone Inc. and its Brazilian subsidiary, Local Serviços de Telecomunicações (LOCAL), believe they have proven the necessity – and gains to be had – of this exclusive focus. In particular, we believe that the cost-constraints involved in servicing this

The majority of the next billion telephony subscribers will come from poorer backgrounds in rural emerging markets. We argue that adapting existing telecom models to service this BOP (Bottom of the Economic Pyramid) market will provide sub-optimal results for

newly reachable market require three fundamental shifts:

- 1 Decentralized build-up and allocation of resources;
- 2 Demographic-specific sales & customer care processes;
- 3 A willingness to enter, manage and innovate within local, rural economies.

The results speak for themselves. Two years after we launched service in rural Ceará (a poor state in Brazil's rural Northeast where income per capita is 1/6 the national average), we had doubled the tele-density of our pilot village, boosted our subscribers average monthly MOU (minute of use) to one of the highest rates in the world (7 times the Brazilian average), and earned the highest customer satisfaction ratings in the Brazilian telecom market (96 % satisfaction rating). At the same time, we marched to a 50 % fixed-line market share and sustained an EBITDA margin twice that of most of our competitors.



Some of the most industrious subscribers, who live outside of the main area of coverage, wire their handsets to an external antenna thereby ensuring proper coverage

To begin, the difference between the markets in which we operate and those of nearby metropolitan areas is striking. We provide service solely to economically underdeveloped, non-metropolitan areas with populations of less than 50,000. Currently, the average population of villages in service is 35,000, with a range between 30,000 and 45,000. (Efforts are being made to optimize the business model to support villages with populations as small as 3,000 – 4,000 inhabitants.) These villages are strikingly poor, with an average annual GDP per capita of R\$ 2900 (\$ 1660 or €1135) – roughly 1/15 that of the US, or 1/20 that of Norway. This dearth of wealth is reflected through to their uptake of technology: the average, fixed-line teledensity of each village prior to operation is 9 %, around 1/8 the level of the US.



The LOCAL team for the city of Quixada, friendly face-to-face sales and customer service

As becomes readily obvious upon viewing traffic in the streets (the vast majority of which is on motorcycle or donkey-drawn), adapting existing telephony models and distribution strategies to service this market can only bring mediocre results. The market is strongly differentiated from its urban-affluent counterpart, and demands a totally distinct set of strategies. It is helpful to think about the difference as Toyota does in marketing its cars: Toyota employs a very distinct sales organization, retail distribution, and marketing campaign to sell its more luxurious, Lexus branded cars. The strategies differ so strongly that the two brands are often not found on the same lot.

The differences between metropolitan and rural markets are more pronounced in developing markets, and thus the need for an alternative approach for each segment an even greater necessity. Telecom value for customers is an entirely different calculation, requiring market-tailored product, sales and customer service strategies. Importing a one-size-fits-all model (i.e. adapting the same as those used in local metropolitan areas) will neglect customer demands and accordingly, leave business objectives unmet.

By focusing solely on this demographic, we have eschewed differences between wealthier, metropolitan markets and more rural ones. This permits an organizational build-up and structure better suited to its environment than that of a typical operator.

Free to concentrate our resources in the cities and villages we serve, over 85 % of our workforce are sourced from – and continue to live in – villages where we offer service. This alternative is not only less costly (operation expenditures are approximately 1/3 of our closest competitor), the resources’ omnipresence within the city can be better employed to serve our customer base. From the sales side, this benefit has been realized with improved sales performance and 24-hour, 7-days a week customer service (most of which is face-to-face); from a technical side, it has enabled a nearly instantaneous response to any customer-affecting issues.

To better deliver value to this customer segment, all aspects of the sale are kept as simple and unburdensome as possible. Only two, easy to understand prepaid calling plans are commercialized. 80 % of the subscriber base have opted for a single, monthly “all-you-can-call” local fixed-line plan. The other twenty percent have signed up for a more traditional pay-per-minute, with the lowest and easiest to understand tariffs in the business. This focus on a customer’s preferred experience extends through to the recharge process as well. Subscribers are dialed once a month

by their account executive (a local employee who manages a customer's product account during their lifecycle with the company), to schedule a recharge. On the date of credit expiration, a "moto-boy" is dispatched to collect the funds and deliver the credits – all free of charge to the user. These account executives also manage problems that develop specific to the user, answering simple questions, replacing lost SIM cards, providing 15-day loaner handsets, and performing home coverage tests. Given that we actually talk to the vast majority of our subscribers at least once a month, we benefit from a relationship with our customer base that is unlike any other operator. This focus on the "experience" of telephony for our customers engenders a fierce loyalty.

From a business standpoint, being the only telephony service provider with resources in these areas has translated to a more rapid sales cycle, less billing hassles, a reduction in customer assistance calls and the best customer retention figures in the industry. Our unique distribution model eliminates the need for widespread point-of-sales recharge terminals and/or retail distribution partners, and allows for more inventory flexibility. From both a customer and operator standpoint, the returns from our sales model proves the dominant place that must be allocated to the specificity of rural, emerging market consumers.

Also, our success has been in large part due to our ability to innovate with the participation of the local community, rather than trying to import solutions from abroad. For example, we have been actively involved in using telephony to improve governance, increasing City Hall line density on average 7-fold in the cities in which we operate.

Beyond facilitating communication between population and government, it has provided a platform for various initiatives, including direct report hot-lines for abuse and violence against women and children and other job-creating public services. We also source our marketing activities from the communities in which we are present, stimulating local small businesses that run the gambit from radio advertisers to flier-runners.

Furthermore, each year in every village where we are present, we team up with some of our subscriber base and partners to provide numerous services that are inadequately available in these areas. With the help of local doctors, lawyers, professors, other public servants and members of the community, we arrange for vaccinations for the youngest members of the population, seminars on health-related issues, issuance of new identification cards for the elderly, etc.



Instead of relying on 3rd party retail distribution for pre-paid recharges, LOCAL accepts payments and delivers pre-paid credits via a "moto-boy" wherever its subscriber may ask

Aside from its downstream effects for the community at large, this local engagement has given us better traction to enter largely informal markets, where the endorsement of a mayor, small business owner or long-time friends matter more to consumption decisions than celebrity or other more expensive endorsements, sourced and distributed from a distant media center.

Nowhere have the benefits of incorporating the local community been felt more strongly than in the ingenuity harvested from a base of previously-neglected employees. Providing performance-based salaries and promotion opportunities to our workforce – usually women between the ages of 20-30 – we have provided local populations with prospects for responsibility and decision-making generally unavailable with other employers. In turn, our average employee makes double the market wage with full benefits. This local investment in managers has paid off handsomely for the business: nearly every idea, from "all-you-can-talk" plans to City Hall involvement to



Vaccination of a young child during one of LOCAL's yearly "Local Action" days

“moto-boy” recharges, stem from our interaction with our employees. We are most proud that our regional revenue streams are now fully managed by local employees, who have spent years raised in our villages to earn promotions and privileges unimaginable to their peers.

Most operators and suppliers talk about “new technologies” and “future infrastructure products” which, in their opinion, would solve the fundamental issues in addressing the BOP markets. We are convinced that technology related solutions, although helpful, are certainly not the main success contributors. We furthermore believe that existing technologies are suited to address these markets, providing that there is an all-encompassing “focus”.

In addition, we claim that although operators’ “geographical market segmentation” could help to focus overall strategy, the BOP market segmentation approach should be much more attentive to population categories and income-levels as opposed to geographical areas. Rural developing markets of similar income levels have a lot of commonality between themselves regardless of geographical location. BOP populations have similar preoccupations and priorities independently of their nationalities, as their local

political and socio-economic environments are similar. They rely more on local governments and solutions rather than central or national administrations for answers because they have different needs than those of their metropolitan counterparts.

In conclusion, servicing rural BOP telecom customers will come down to creating value for all of its stakeholders: the customer, investors and the community. By focusing exclusively on this market, we have been able to construct a business exceptional to this market:

- Customers are more satisfied and talk for longer at a fraction of the price;
- A low OPEX/sub enables an EBITDA twice that of its competitors; and
- BOP communities and employees are invested in, developed and given opportunities previously out of reach.

Ultimately, while many businesses have spotted the future importance of rural emerging markets, few have ventured to adopt a truly differentiated and exclusive approach the market demands. We have, and done so at great profit to all involved.

Denis Cote is CEO and Chairman of the Board of Ruralfone Inc., a telephone service provider that aims to be the most affordable supplier of basic telephone service to the BOP market segment outside metropolitan areas in developing countries. An American and Canadian national living in Brazil since 2004, Mr. Cote has over 35 years of international telecoms experience. Prior to founding and overseeing Ruralfone, he held executive positions at interWAVE Communications and at the microwave transmission division of the Harris Corporation.

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