WHAT WORKS: VODACOM'S COMMUNITY SERVICES PHONE SHOPS

Providing telecommunications to poor communities in South Africa
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EXECUTIVE SUMMARY

Vodacom Community Services, a program of Vodacom, South Africa’s largest cellular phone company, is a successful example of how business and government can work together to achieve significant social and economic goals. Community Services began under a 1994 government mandate to provide telecommunications services in under-serviced, disadvantaged communities. Vodacom’s development of an innovative way to meet this mandate, via entrepreneur-owned and operated phone shops, has both provided affordable communication services to millions of South Africans and empowered thousands of previously disadvantaged individuals with income-generating opportunities and lasting business skills. The Community Services program now provides over 23,000 cellular lines at over 4,400 locations throughout South Africa.

BUSINESS MODEL

Vodacom Community Services provides telecommunications services in townships and other disadvantaged communities at government-mandated prices that are well below commercial rates. The program, although initially subsidized by Vodacom, now covers its costs with revenue from sales. The Community Services model emphasizes the establishment of phone shop franchises, owned and operated by local entrepreneurs from within disadvantaged communities. At a cost of about R 26,000 (US$3,450), prospective owners can start a franchise to operate five cellular lines in a pre-approved location. These franchises, commonly called “phone shops” and often operating from converted shipping containers, offer phone service to the neighboring community. Vodacom also invests about R 30,000 (US$3,950) per franchise for the modified shipping container to house the phone shop. The result is affordable access for communities and a tangible step toward Vodacom’s ultimate goal of providing all South Africans with access to mobile communications.

The phone shops are independent, entrepreneur-owned businesses, but the products and services they offer are simple and consistent. At any Community Services phone shop in the country, a consumer can make a phone call for a set rate of R.85 (US$.11) per minute, less than one-third the commercial rate for pre-paid cellular calls. Some phone shops also provide fax and data services, and the number of phone shops offering these services is expected to increase. However, phone shops cannot accept incoming calls and thus do not provide voicemail or other ways for customers to receive messages. While it is technically possible to receive incoming calls, issues such as availability of phones to accommodate incoming calls and calculating prepayment make it logistically impractical today.

Entrepreneurs pre-pay Vodacom for calls on their phones at rates that retain one-third of calling revenue for themselves. The volume of calls at most phone shops is such that entrepreneurs can cover their costs and make a profit, despite the low price. A well-located phone shop with five lines, for example, typically experiences more than 100 hours of calling per month per phone line, generating total monthly revenues of R 27,000 (US$3,550), with R 9,000 (US$1,190) of that as revenue to the entrepreneur. Brand recognition is an important component of the business model. Vodacom supplies franchisees with converted shipping containers that provide secure and affordable facilities and goes to great lengths to ensure that the phone shops are easily identified. Most South Africans easily recognize the “Vodacom green” shipping containers that dot the landscape of many communities.

The phone shops leverage the extensive reach of Vodacom’s cellular infrastructure that currently provides coverage to 93% of South Africa’s 44 million citizens. Though established to support traditional cellular

plans, it also enables the Community Services program to potentially provide services to the vast majority of disadvantaged South Africans. For a relatively modest investment in phone shop set-up costs, Vodacom and entrepreneurs are able to serve a very large number of customers that benefit from the program. Facilities and equipment make up the bulk of these costs. Vodacom provides and maintains the modified containers, while owners are responsible for all equipment inside the phone shop.

The Community Services program currently partners with 1,800 entrepreneurs who operate over 4,400 phone shops at sites throughout South Africa. Vodacom works with the entrepreneurs to provide the training and direction which is needed to assist operational success. Each phone shop is under the sole ownership of the entrepreneur and Vodacom is not liable for damages, theft, or business mismanagement. There is little risk of bankruptcy for phone shop owners given the requirement to pre-pay for services; however, profits can be dependent on the management skills of the owner. Vodacom offers owners business insight and a running start, but limits its involvement past ongoing training. An entrepreneur’s ultimate success or failure is largely contingent on his or her own skills.

DEVELOPMENT BENEFIT

The Community Services model is successful because it offers a basic and vital service to disadvantaged communities at affordable prices. Concurrently, it creates entrepreneurial opportunities for thousands of prospective business owners, generating jobs and higher incomes. In fact, it is only through the entrepreneurial nature of the program that Vodacom is able to reach the three to four million customers who make close to 100 million calls a month. On its own, Vodacom would be challenged to operate and maintain the number of phone shops that now exist throughout the country. The wide geographical distribution and high number of local operations would make management costs prohibitive for Vodacom. Additionally, phone shop owners are in a better position to assess the needs of local communities.

A local phone shop can be a valuable convenience to a South African. Affordable access to a phone allows families separated for mobile or migrant employment reasons to keep in touch and manage family needs more effectively. Some individuals use phone shops to pay bills and order personal effects. Professionals within the community rely on phone shops to conduct businesses more efficiently. Delivery drivers use the phones to keep in touch with headquarters or to report problems on their route. The result is a more functional community.

Phone shops also provide individuals with access to a range of social services which can contribute to an improved standard of living. Calling a doctor or seeking medical advice is now more possible. Consistent access to basic services such as electricity, sanitation, and water remains a problem within townships, and phone shops allow individuals to report service outages and emergencies. Ultimately, access to widespread and consistent services helps to facilitate the empowerment of individuals in South African townships.

KEY LESSONS

By investing so extensively in disadvantaged communities, Vodacom is investing in its own future, building a distribution channel for its services. It is also generating traffic that leverages the extensive cellular infrastructure it has already built. As South Africa progresses economically, and as traditional cellular plans become ever more popular, Vodacom is already seeing an increase in the number of people who own cell phones in disadvantaged communities. Familiar with the Vodacom brand because of the services rendered through Vodacom phone shops, many people feel most comfortable purchasing their
first cellular service plan through the trusted name. Though significant returns may be well into the future, Vodacom is confident that its investments will pay off both directly through sales, and indirectly by building a stronger, more connected, and economically vibrant South Africa.
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ENTERPRISE ORIGINS

The Vodacom Group is the largest cellular operator in South Africa, serving just over 8 million subscribers and employing 4,300 people as of May 2003. To date, the company has invested US$1.2 billion in building an extensive GSM cellular network infrastructure in South Africa. With 5,000 base stations, the network covers 60% of the country’s total surface area and reaches 93% of the country’s population. The Vodacom network switches 30% of telephone volume in South Africa and 10% in all of Africa. Alcatel and Siemens are its major equipment suppliers.3

Vodacom’s business model is adapted to conditions in South Africa, even for its conventional mobile service: 95% of Vodacom’s customers utilize pre-paid cellular services, enabling them to add time to their phones as needed, and to avoid monthly subscription fees or the need for credit checks. Vodacom also benefits, avoiding billing charges and bad debt. In addition to traditional cellular services, Vodacom provides network and information services. The company launched South Africa’s first mobile banking service in June 2001, which operates via encrypted Short Message Services (SMS). General Packet Radio Service (GPRS) and Multimedia Messaging Service (MMS) services called “My Life” were launched in October 2002. International roaming agreements have been established with over 186 operators in more than 100 countries worldwide including the United States and Europe.

The Vodacom Group is the holding company of Vodacom, Vodacom Service Provider Company, and Vodacom International Holdings. Vodacom is the operating company responsible for construction and maintenance of the network’s infrastructure in South Africa while Vodacom Service Provider Company interfaces with customers. Vodacom International Holdings includes Vodacom subsidiaries in Lesotho, Tanzania, Mozambique, Zambia, and the Democratic Republic of Congo. Established in April 2001, it has a target of generating 30% of the Vodacom Group’s operating profit by 2004.

Vodacom Group had revenues of R 16.2 billion (US$2.12 billion) in the year ending March 2002; it is a key competitor to Telkom, South Africa’s landline communications incumbent. Although Vodacom has consistently maintained its cellular market share between 58-62%, it has continued to suffer a decline in average monthly revenue per user, which in the year prior to March 2003 stood at R 179 (US$23.60), compared with R 259 (US$34.20) in 2000.4

VENTURE HISTORY

In the early 1990’s, as cellular telecommunications services began expanding worldwide, Vodacom initiated plans to build an extensive cellular infrastructure in South Africa. Vodacom was granted a Network Cellular Operator license in September 1993 (one of two GSM network licenses granted), but in 1994 the new post-apartheid government under Nelson Mandela requested revised terms to the license, making the licensing agreement subject to Vodacom providing affordable cellular communication to under-serviced areas (mostly black townships).

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4 Ibid.
The company agreed to provide 22,000 public cellular phones over a five-year period through a subsidized community outreach program. It also committed R 1 billion (US$132 million) to the new government’s Joint Economic Development program. MTN, the other cellular company granted a network license at that time, was similarly obligated to provide specialized services to disadvantaged communities. MTN’s early approach to meet the mandate focused on pre-paid cellular phones distributed to individuals within the community. The company has since adopted Vodacom’s model of using shipping container phone shops.

The government’s business regulating body, the Industrial Commission Authority of South Africa (ICASA), was appointed to ensure that Vodacom met its specific targets in a way that achieved the original goals of the agreement. Specifically, Vodacom was to have 22,000 phone lines in operation within five years (by June 30, 1999) or face licensing penalties. Aside from this simple mandate, Vodacom was permitted to use its own discretion in how it carried out its Community Services program. For example, the mandate stipulated no details specifying how the lines were to be allocated, but ICASA had the responsibility of auditing the company’s outcomes to determine its compliance with licensing obligations.

From the beginning, Vodacom was confident that it could not only meet its government obligations, but exceed them. While Vodacom’s main business focus was to provide cellular services to middle and top market segments, the company recognized that a majority of South Africa’s population lived in low-income communities and that it would need to embrace these groups if it wanted to become and remain the country’s leading cellular company. As such, the company committed significant resources to its Community Services program to ensure that Vodacom was helping to truly “democratize telecommunications in South Africa.”

Vodacom’s Community Services program was launched with an R 5 million (US$660,000) budget and a newly-hired team committed to its success. The team itself reflected a diversity of backgrounds, and enabled the group to quickly engage with the communities it intended to serve to determine how Vodacom could best address their needs. This dialog, introducing Vodacom and gaining buy-in to their services and approach, was critical to ensuring the new businesses would be accepted within South Africa’s close-knit communities. Vodacom has continued to maintain frequent dialog with communities over the life of the Community Services program. This approach helped the company to meet its target of 22,000 active Community Services lines in operation in June 1999, three months before its specified target deadline. Currently, Vodacom has approximately 30,000 active Community Services lines, including transportables, which the company is currently phasing out. Vodacom was the only cellular company to meet its community service goals.

Today, Vodacom has one of the largest and most developed cellular networks in South Africa, and continues to develop its infrastructure in disadvantaged areas. The company works with over 1,800 entrepreneurs operating more than 4,400 phone shops. In fiscal year 2002, the program generated about R 745 million (US$98.2 million) in revenues for Vodacom, approximately 3 to 4% of Vodacom Group’s total revenues of R 18.1 billion (US$2.4 billion). The commitment to Vodacom’s Community Services has been strengthened with the company’s creation of “The Vodacom Way,” a company-wide statement describing Vodacom’s core mission and values.

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MARKET OVERVIEW

Prior to 1994, telecommunications services to most of South Africa’s rural and urban disadvantaged areas were quite limited. Telkom SA, the government-operated telecom supplier (70% is held by the government with the remaining 30% held by SBC (US) and Telekom Malaysia), provided land-based pay and calling card phones to many townships and villages, but these phones were few in number and often out of service. Additionally, people living outside the center of a township or village who wanted to make a call had to travel extensively to reach a public phone. This often came at great inconvenience and personal cost to the caller.

The introduction of cellular service by Vodacom and MTN in April 1994 quickly changed the face of telecommunications services in South Africa and the country is now among the most cellular-dominated markets outside Europe. The country’s cellular market is currently valued at more than R 23 billion (US$3.03 billion) and is expected to grow to around R 45 billion (US$5.94 billion) by 2004.7

Since the launch of cellular services, many people have been able to make their first-ever phone call. In 1996, for example, the Transkei region in the Eastern Cape Province had only 19,000 telephones servicing a population of 4 million. No network extension or upgrading had taken place since 1988. The waiting time for installation of a new fixed-line connection was more than a year and the immediate backlog had 30,000 potential customers waiting for services. In 1996, the cellular network was extended to the region and tapped huge unmet demand. The two base stations in Umtata, the main town in the region, started clocking up to 10,000 calls a day.8

However, even after 1994, with the prospects of cellular communications being extended to millions of South Africans, cost was a tremendous inhibitor. Most South Africans simply could not afford a mobile phone. As a result, cellular services provided a catalyst for a new breed of communications entrepreneurs, particularly in disadvantaged communities where telephone access was most limited. Thousands of individuals who were able to secure cellular phones began charging variable rates for others to use their phones. While consumers were typically paying several times the actual cost of the call, the pre-paid system suited the economic needs of many people.

While Telkom struggled to install and maintain new fixed-line services throughout the country, Vodacom and MTN rushed to capture as many new users as possible before the government awarded a third cellular license to an additional company, Cell-C. Cell-C was finally introduced to the market in November 2001. The three networks now supply more than 71% of the population and boast over 14 million subscribers.9 Currently, the government is testing market feasibility for a fourth mobile operator, with the hopes that it might further increase the country’s mobile teledensity with the launch of new products and services at cheaper prices.

BUSINESS MODEL

For customers with sufficient income, Vodacom sells individually-owned handsets and traditional mobile phone service plans, both subscription and pre-paid. This is Vodacom’s core service. However, the company also remains committed to promoting widespread affordability, accessibility, and usability of its services within disadvantaged areas of South Africa. To this end, Vodacom operates the Community Services phone shops as franchises, setting standards and pricing and usually providing the physical

7 Budde, Paul.
8 Ibid.
9 Ibid.
facility (shipping container), but allowing the shops to succeed or fail under the management of their entrepreneur-owners. The phone shops themselves operate with a shared-access business model that aggregates demand, serving many customers with (typically) five cellular phone lines. Pricing, set at levels mandated by the government regulatory authority, is less than one-third of normal cellular rates and, until a recent increase, required some subsidy from Vodacom. Entrepreneurs retain one-third of phone shop calling profit, or gross margin. Operators are expected to pay for operating expenses and taxes from the one-third profits they retain.

Affordability

The Community Services per-minute rate is determined by the government’s ICASA and is set significantly below regular cellular rates. Community Services rates are R .85 (US$.11) per minute versus Vodacom’s commercial “Vodago” pre-paid rates of R 2.75 (US$.36) to ensure affordability for target consumers. All phone shop owners are required to offer the mandated per-minute rate to consumers. As the largest provider of Community Services phones in South Africa, Vodacom works closely with ICASA to set and periodically evaluate the rate used by Vodacom and MTN within their programs. In May 2003, community service rates increased from R .70 (US$.09) to R .85 (US$.11) per minute after ICASA agreed that the rates should cover the fixed costs required to achieve program goals.

Phone shop profit margins are fixed, with owners earning 33% of the R .85 (US$.11) per minute fee. Despite low margins and low per capita income in rural and disadvantaged townships in South Africa, aggregate buying power of a community provides sufficient revenue to support the operating costs of Vodacom and the shop owner, who is able to maintain a relatively high cash flow. The shared-access model, providing telephone connectivity for entire communities at an affordable cost per use, is quite profitable. For example, a phone shop located in central location in a typical township can generate average revenues of approximately R 9,000 (US$1,190) per month for the owner, and twice that for Vodacom.10

The community service per minute rate applies to calls anywhere within South Africa. International calls to neighboring countries of Lesotho, Swaziland, Botswana, Zimbabwe, and Mozambique are charged at R 3 (US$.40) per minute. ICASA regulations currently do not allow international calls outside of this coverage area; pending regulatory approvals will relax these restrictions. Similar to the emergency use of 911 in the United States, Vodacom provides free calls to emergency access numbers.

Perhaps the most important factor of Community Services’ affordability is that its services are offered on pre-paid cash basis, which allows users to purchase precisely the amount of call time that they want or can afford. This method is far preferred over calling services that require the purchase of a calling card, such as some Telkom public phones, because it prevents consumers from having to come up with the initial calling card investment and eliminates the risk of card theft.

As cellular phones are becoming more widespread, some people in disadvantaged areas are purchasing traditional cellular phones while still benefiting from Community Services. For example, it is not uncommon for phone shop customers to look up contact information from their personal cellular phone address book prior to using the Community Services phone to place a call.

Consumer risks still exist within these communities as well. Thousands of unofficial phone shops throughout the country claim low “per unit” pricing. Consumers are easily fooled into spending over R 2 (US$.26) per minute for units that last only 15 seconds. There is little that can be done to put a stop to these deceptive variable-cost services, and some consumers may prefer immediate access to a more-costly portable cellular phone over a walk to a Community Services phone shop farther away.

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10 Interview with Nobuhle Chonco, Senior Manager, Vodacom Community Services, May 2003.
**Accessibility**

Vodacom Community Services reaches consumers via phone shops, facilities containing multiple phone booths or stalls, which are placed within disadvantaged communities. Vodacom does not oversee its services directly, but instead empowers hundreds of local entrepreneurs to establish Vodacom franchises and provide the services themselves. These individuals assess the needs of their own communities and seek approval from Vodacom for a selected site where they would like to start a franchise. (See *Ownership* for how this process works).

Vodacom follows specific criteria to determine the feasibility of site locations and ensure that a community’s needs will be met. Site locations must:

- Meet specific demographic and population criteria (i.e., be located in relatively densely populated, disadvantaged communities)
- Have a high profile (be along a major road, near a taxi rank, or inside a store, etc.)
- Be located an acceptable distance from existing phone shops
- Have authorized access to electricity (or be willing to purchase a large operating battery as an alternative)

The acceptable distance from another phone shop is determined on a case-by-case basis. Some unofficial phone shops are small and informal structures, offering consumers variable-rate access to one individual’s mobile phone. These phone shops typically warrant less competitive concern for Vodacom phone shop owners, because they are unpredictable, offering varying rates and moving locations to suit the preferences of the phone owner. Conversely, MTN phone shops offer consumers access to the same community service rates through similarly modeled phone shops. ICASA works with Vodacom and MTN to define and mandate appropriate distances between phone shops to meet the needs of a community. Locations of competing phone shops are taken into serious consideration; business impropriety such as infringement upon another’s territory have resulted in “turf wars” and violent retributions.

**Technology**

The technology behind Vodacom Community Services helps to make such services successful. Owners buy from Vodacom phones that are uniquely designed to suit the needs of a phone shop. These units are known as SIGIs and were originally manufactured by Siemens. In recent years, Vodacom has sourced phones from a national supplier allowing the company to work closely with the supplier to evolve the phones to meet the changing needs of owners. For example, recent models of phones allow easier programming of call time and access to visual displays which alert users as to how much time is left. Modifications are also in progress to make the phones fax- and data-friendly to support future user needs. Owners pre-pay buy phone time from Vodacom which gets credited directly to their phones. Phones are pre-programmed to charge at a certain rate, currently at the mandated rate of R .85 (US$.11).

The phones resemble traditional landline phones, consisting of a simple handset, cradle, and number pad which enables users to dial to their desired location; attached is a small device which tracks the amount of time users have left for their call. Wires connect each phone to units at the attendant’s service counter, where he/she programs in the amount of money collected for each call. Wires usually run from the units behind the service counter up the wall of the container to small antennas, which facilitate transmission for each phone. Phones, as well as lights within the containers, run off grid electricity or large batteries. Transmission is conducted through Vodacom’s cellular network, though the phones used are not mobile handsets.
Phone Shops
The physical structure of the phone shop is a key distinction for Vodacom. When Vodacom first launched its Community Services program in 1994, the company knew it needed to facilitate owners’ access to structures in which they could operate. While some owners identified retail space in traditional shopping centers, most high-traffic locations within the community required some sort of new structure. However, widely available building materials in disadvantaged communities, consisting of plywood and sheet metal, would leave structures highly susceptible to theft. In response, Vodacom resourcefully began providing owners with refurbished shipping containers. There are now over 3,500 Vodacom containers in use throughout South Africa.

Vodacom’s refurbished shipping containers are 18 feet (six meters) long, and are remodeled to suit the unique requirements of the phone shop (see Appendix 1). Each container has been modified to fit a service counter at one end, where the phone shop control units are located and where employees are stationed to collect money and program phone time into the control units. Each container also contains at least five phones (with a maximum of ten) located within phone stalls along the walls of the container. Insulation and ventilation are also added to containers during the modification process. Prior to the time a container is shipped to owners for use, Vodacom paints the container a distinctive “Vodacom green” and attaches branding signs and functional promotional materials throughout.

Vodacom works with six container dealers located throughout South Africa to supply containers to new owners, and in some cases replace existing damaged containers. Each container costs about R 30,000 (US$3,950) to purchase and modify. Dealers buy used containers from shipping lines after five-to-eight years of active use, and then modify them to suit the needs of various clients. Vodacom was one of the first companies in South Africa to utilize shipping containers for business purposes, but the method has gained widespread popularity in recent years to address a number of client needs. For example, the South African government recently purchased and modified shipping containers to create mobile kitchen facilities for its military stations in remote locations.

This shipping cost can range anywhere from R 200 (US$26.50) to R 1000 (US$132) depending on the distance to the site; owners are responsible for the cost of transporting a new container to its final site. It takes approximately one month from the time a container is ordered to the time of delivery to the phone shop site. A container is delivered to operation sites by a transport crane truck.

Because phone shop owners do not own the containers, it is difficult for Vodacom to persuade owners to spend time and resources for container upkeep. As a result, many are in a state of disrepair and need replacing. Vodacom assumes all responsibility and cost of maintaining the containers. Unfortunately, all containers requiring servicing must be returned to the container dealer via the same transport trucks. Because of crime and safety concerns, container dealers are unwilling to service containers on-site.

Ownership Structure
Vodacom embraces the use of phone shop franchises as the ideal means to promote entrepreneurship in South Africa while providing phone service to disadvantaged South Africans. These franchises enable Vodacom both to empower people within disadvantaged communities and to minimize its management responsibilities once its phones are deployed. Today, 1,800 entrepreneurs own over 4,400 phone shops. 3,500 of operate out of shipping containers while the remainder operate out of storefronts and owner-supplied booths or kiosks.
Prospective business owners learn about the Community Services program in various ways. The most common way is through word of mouth. Many owners have friends or family who started a successful franchise somewhere in the country, and this encouraged them to take advantage of the same entrepreneurial opportunity. Vodacom also produces marketing material targeting prospective owners and explaining the process for application and approval.

New owners selected for the program are responsible for an initial investment of R 26,000 (US$3,450) to cover the cost of equipment for five phone lines (each phone comes with R 750 [US$100] of free airtime), as well as the cost of transporting the container to their location, paid directly to the transport company. Owners are also responsible for identifying the proposed location of their phone shop. As the location is an important factor in the phone shop’s future success, Vodacom representatives work closely with prospective owners to evaluate the feasibility of a site. Owners also need to provide Vodacom with a rental agreement or a municipal permit for the land. Shops that plan to use electricity need to provide Vodacom with a Certificate of Compliance (COC) stating that the required electrical work has met national regulatory standards.

When Vodacom is approached by prospective entrepreneurs for a franchise license, Vodacom representatives are assigned to assess the candidacy of the applicant and the feasibility of the site using the following criteria:

A prospective phone shop owner must:
▪ Be South African
▪ Be at least 21 years of age
▪ Convey business acumen and entrepreneurial spirit
▪ Have sufficient funds to cover start-up costs
▪ Propose a feasible site

While race is not a predetermination in becoming a phone shop owner, it is sometimes a factor in assessing the feasibility of locating the phone shop in a certain area. In the past, disadvantaged communities have resisted attempts by white owners to locate shops in their area, even resorting to vandalism and robbery of the containers. Currently, there are many more individuals applying for Community Services franchises than Vodacom has the resources to make possible.

Organizational Decision-Making Structure
Vodacom places great responsibility on each of its six regional offices to meet monthly goals and quotas for the Community Services program. The head office sets goals of how many additional lines each region must bring into service. Every month, each region must submit a report to the head office detailing:

▪ Number of owners
▪ Number of containers
▪ Number of other sites
▪ Number of lines sold to date
▪ Number and percent of lines on the network
▪ Number and percent of lines active
▪ Number of phones stolen

Regional offices have sole discretion in selling franchises and determining who qualifies for ownership. As Vodacom is able to track Community Services line usage patterns and owners pre-pay for phone time, owners are not responsible for providing specific reports to Vodacom on a regular basis.
Owners have great flexibility in determining how they run their business. They have been required to invest heavily in their own business and therefore have incentive to make sure they run their phone shops profitably. At a minimum, most phone shops track the amount of money collected and the number of minutes used on each phone. Owners who operate multiple phone shops often require more extensive reports. For example, one owner who operates ten phone shops requires from every shop monthly: a payment schedule, a profit and loss statement, a loan report, an equipment stock list, and a general report highlighting problems encountered during the month along with suggestions on how to address those problems. These reports are usually generated by a middle manager that is hired by the owner to oversee staff in multiple phone shops.

HUMAN RESOURCES – STAFFING AND DEVELOPMENT

Staffing in Vodacom’s Community Services occurs at two levels: national and regional. Furthermore, individual owners are empowered to determine and arrange their own staffing needs on a local basis.

National Office
Community Services is directed from Vodacom’s headquarters in Midrand, Gauteng (20 kilometers north of Johannesburg). The Community Services Division Head administers the program, developing operational procedures and policies, in addition to strategic planning responsibilities. A Senior Specialist in Project Management, meanwhile, leads Community Services’ value-added services such as data storage and electronic recharge. Systems and sales integrity are the responsibility of the Community Services National Manager, who also leads the program’s marketing efforts. Community Services’ National Office staff also includes two Specialists: one in charge of entrepreneurial development, the other for coordination of reporting systems and sales contracts with phone owners. A number of administrative support professionals are also in place to assist and troubleshoot as needed.

Regional Offices
There are six regional offices that oversee areas closely aligned with South Africa’s nine provinces. Each office has a Senior Regional Executive who oversees regional Community Services staff and reports directly to the Director of Operations. Regional managers oversee all operations within the regions and report to the Regional Executive. Each office enlists one or two business consultants to assist new owners through business development and franchising. Offices also utilize one or two support technicians to address all technical issues for new and existing owners. In addition, offices enlist administrative support according to their individual needs and the size of operations in their region. No formal training is conducted by the regional offices, though informal training often occurs as business consultants work with prospective and new owners.

Phone Shops
There are over 1,800 owners nationwide, each empowered to staff and operate their phone shops according to their own needs and preferences. Most owners operate only one or two shops while a few operate as many as ten. Regardless of the size of their operations, owners may or may not be involved with the actual operations of their shops. Most oversee their own operations, but some opt to hire middle management. Hiring of middle management and staff is virtually always done based in the communities where shops are located.

One entrepreneur, Mr. Mncedisi Zungula, operates ten phone shops in the Umtata area of the Transkei region. Mr. Zungula has hired three full-time middle managers to work from an office based in Umtata to oversee operations at all of his shops. This staff includes a schedule manager who hires all shop employees and sets their schedules, a phone manager who loads the phones each morning with credit and does all necessary accounting, and a field manager who visits shops on an on-going basis, collecting money and assessing service and technical needs.
Most phone shops require at least two employees to work onsite as phone clerks at the counter. For shops with 10 lines, it is common to have two employees working during the same shift, but most shops with fewer lines require only one employee per shift. These employees, each working in shifts up to eight hours, collect money, assign customers a phone, and program the phone units. They ensure that the phone shop is kept clean, and report any damages to the owner or manager. Shop employees also show customers how to use the telephones and make calls to various parts of the country. However, as the Community Services program has been in place for several years now, most customers require little training.

Neither Vodacom nor ICASA set regulations for the level of compensation that owners offer staff; it is up to the owner’s discretion. In addition to an hourly wage, some employers offer staff various incentives and perks. For example, many owners allow employees to sell candy at the counter and retain profits from this venture. Some owners even offer staff the profits from a specific telephone line. Of course, this is assuming that profits are consistent with the other lines as well and employees are not directing more customer traffic to the phone line for which they share profits.

**Training/education programs**

As virtually all owners come from disadvantaged backgrounds and have limited financial and business operations backgrounds, training is an important component of Vodacom’s phone shop strategy. Vodacom works in conjunction with the privately-owned training company Running Business Today to provide training to owners. Company trainers, together with Vodacom representatives, travel throughout the country and meet with groups of owners to develop business competency. Owners are exposed to business training covering goal setting, profit maximization, financial statement development, staff salaries and expenses, and human resources management.

Vodacom provides training and resources to new owners, but does not “spoon feed” them along the way. Rather, owners are empowered to operate the businesses on their own accord, assuming all risk and financial liability. Vodacom is available to offer advice, insight, and lessons learned, but there are few mandates that owners must meet.

To facilitate owner learning, Vodacom publishes a quarterly newsletter, *Ringers*, which is mailed to owners and shares the experiences of owners throughout the country. This publication features helpful articles about business ownership, customer relations, crime prevention, and taxes. It provides nationwide news and updates from Community Services and often includes a profile of a phone shop owner who gives back to the community through income generated from successful business operations.

**COMPETITION**

Vodacom’s main competitors within the Community Services area are also its competitors in the commercial area. MTN launched its cellular services in the same month as Vodacom in 1994, and was subject to the same licensing obligations as Vodacom. However, whereas Vodacom was expected to provide 22,000 cellular pay-phones in underserved communities within five years, MTN was expected to provide only 7,500 within the same timeframe. MTN was originally unsuccessful in meeting this commitment relying solely on pre-paid cellular phones distributed to individuals within the community, but has since successfully adopted Vodacom’s model of using shipping container phone shops over the past few years. In densely populated areas, such as Soweto, MTN’s bright yellow shipping containers are positioned as close as legally possible to Vodacom’s distinctive green containers. Vodacom’s strengths, including its brand awareness and widespread service availability, help it to effectively compete with MTN.
Cell-C is the newest competitor in South Africa’s wireless market, launching its services in November 2001. Similar to the agreement between the government and Vodacom and MTN, Cell-C is obligated to roll out 52,000 community phones within seven years. Cell-C’s sizeable community phone commitment is influenced by the company’s partial ownership by CellSaf, an empowerment consortium of 33 black groups and by its focus on the low and mid-level markets. Cell-C has a 15-year roaming agreement with Vodacom, allowing Cell-C to use its competitor’s lines until its own network is developed. Its goal is to achieve a market share of 15-20%, or 3 million subscribers, by 2006. In April 2003, Cell-C requested that ICASA declare Vodacom and MTN as dominant players in the cellular market and thus liable to provide services, such as interconnection fees, at cost. ICASA defines a dominant player as one who controls over 35% of a market, and since Vodacom and MTN together controlled over 94% of the mobile South African market at the end of 2002, a decision in Cell-C’s favor could cause its competitors considerable loss of revenue.11

As the country’s incumbent telephone operator, Telkom has struggled over the years to install and maintain fixed-line services. Currently, South Africa’s mobile operators serve 14 million cellular customers, while Telkom oversees just 5 million fixed-line connections.12 Telkom is the sole provider of South Africa’s traditional pay phones, which are available throughout the country. Telkom’s pay phones operate at R .60 (US$.08) per minute, cheaper than the Community Services phone rate of R .85 (US$.11), but more expensive for long distance calls. However, theft and vandalism plague Telkom’s phones, particularly in urban and disadvantaged areas, rendering the pay phones inoperable most of the time. Telkom maintains some influence with mobile operators though, as network usage fees generate almost R 2 billion (US$264 million) of Telkom’s annual revenue.13

CHALLENGES AND OPPORTUNITIES

In its nearly ten years of service to South Africa, Community Services has weathered some set-backs while achieving many more successes. South Africa is a country that is still very much in political, social, and economic transition during its post-apartheid period. Challenges remain in Vodacom’s Community Services as it strives to ensure efficient, profitable operations. However, current lessons learned offer much insight as to how successful programs can evolve and operate.

Deployment Approach
Vodacom currently utilizes two methods to provide service to disadvantaged communities: “transportables” the use of individual, hand-held cellular phones at academic institutions and phone shops, the use of multiple lines in a single location. A requirement of the 1994 mandate called for 24-hour access to each of the 22,000 lines. To meet this requirement, Vodacom chose to place cellular phones directly in the hands of individuals with extensive interaction with its target market.

At the inception of the Community Services program, one of Vodacom’s deployment strategies was to issue phones to faculty and administrators at universities and technical colleges in disadvantaged areas with set expectation that the phones would be made available for student use. When a student needed to make a call, they could approach their instructor to use the phone. This strategy was originally chosen because of the ease and speed in which Vodacom could get phones into the public. Additionally, this strategy required no facilities, owners, or branding.

11 Budde, Paul.
12 Ibid.
13 Ibid.
Vodacom, in collaboration with ICASA, has since conducted audits of the transportable strategy and realized the program doesn’t achieve its intended goals; the phones are used almost exclusively by faculty and administration for personal use and rarely are students able to take advantage of the free service. Vodacom is now phasing out the transportables entirely and allocating the extra lines to the phone shops. By September 2003 all transportables will be returned, often reluctantly, by their current possessors. With the more entrepreneurial phone shop program in place, transportables are no longer an efficient means of deployment.

**Services**
The services provided by Community Services have remained fairly stable and consistent. Vodacom has added additional calling features within its phone shops such as free calls to emergency service providers and Vodacom customer service. The customer service number allows customers to comment on a specific phone shop or to report maintenance needs.

Vodacom Community Services recognizes that in order for its business owners to stay competitive for years to come, it must always think about the future and the evolving needs of consumers. A few shops currently provide, or plan to provide, fax and data services, including Internet access. Contingent upon Vodacom receiving a license from the government, a select few phone shops will offer data services such as Internet access. As customer needs evolve and the nation becomes more computer literate, the services provided by Community Services phone shops will evolve to address these needs.

**Infrastructure**
Vodacom invested heavily to develop its cellular network infrastructure. Its aggressive development plan has resulted in an infrastructure that currently reaches 93% of South Africa’s population. With the majority of the population now in reach, Vodacom must contend with the decreasing returns of infrastructure investments in less populated areas. Under the Community Service Agreement however, Vodacom is committed to further developing its cellular infrastructure in disadvantaged, commonly rural, areas. Vodacom emphasizes that there is still tremendous need for services even within the reach of its existing infrastructure. Within these areas, Vodacom continues to work with entrepreneurs to determine sites where the most people can be served.

**Equipment**
Owners are fully responsible for their own telephone equipment and as such, take considerable care of phones to ensure the upkeep of their investments. Owners assume all liability for any replacement costs of lost, stolen, or damaged equipment. The ordering process can take considerable time and often induces a greater loss than the value of the equipment itself. For example, once a phone set is ordered, Vodacom reports that it takes anywhere from one month to three months for the set to be delivered to Vodacom, and an additional three to two weeks to be delivered to the phone shop. The loss of just one phone can be enough to result in high revenue losses over the course of several months. While this challenge looks unlikely to be resolved soon, Vodacom is working with its suppliers to reduce the wait time.

**Containers**
Vodacom is responsible for maintenance of the phone shop containers. While this has not been a serious challenge to date, many containers are beginning to exhibit signs of wear and need for maintenance. Owners have little incentive to maintain the containers because they pay no part of the initial and ongoing costs. It is anticipated that in a few years the maintenance cost of the fleet of containers currently in the field will become very expensive. Yet Vodacom is committed to maintaining container ownership as a way to ensure brand consistency and identification. However, requiring owners to pay the maintenance costs, or a predetermined percentage of the maintenance costs, would encourage owners to take better care of their containers and external branding.
Since the outset of the program, the container modification has evolved to ensure better quality, functionality, and usability of containers. Originally, service counters and phone stalls were made out of steel, insulation was minimal, and ventilators were located on the roof. Branding was minimal and inconsistent. Furthermore, the container design left the phone shops vulnerable to theft. Criminals learned that a small-framed person could enter through early container’s rooftop ventilators, for example. In some areas, gunpoint hold-ups were common.

To address these challenges, Vodacom worked with owners to identify solutions. Currently, wooden service counters and phone stalls, industrial strength flooring, thicker insulation, and a white wood-paneled interior all contribute to an improved user experience. Side ventilators enable more natural movement of air, and make break-ins via ventilation units impossible. Bulletproof glass, sealing employees who collect money from customers, is sometimes installed to protect employees in higher crime areas. Highly visible and consistent branding is attached to the exterior, while “no smoking” signs and additional branding is added to the interior. A small cage protects the outside padlock used to lock the container after hours. While many of the above modifications are now standard with new containers, owners with older units must pay for the installation of additional, upgraded features.

In some parts of the country, particularly around Cape Town in the Western Cape region, containers are prone to wear and rust due to increased rain levels. To reduce the amount of surface area prone to rusting (particularly the corners and seams), Vodacom sought out container dealers to build flat panel containers. While these containers are not the norm in most area because of their higher cost, they offer owners longer usability.

### Community
Theft, robbery, vandalism, and violent crime are significant challenges for owners throughout South Africa. Collectively, these social problems serve as Vodacom’s greatest challenge in providing Community Services. In the Western Cape region alone, phone shop owners lost over R 40,000 (US$5,250) to theft in 2002. Every owner contends with the real possibility of crime against the phone shop. In a few rare cases, employees have been killed during armed robberies.

A number of steps have been taken to minimize these threats:

1. Each phone has a pin code that only the operator knows, and is required for the phone to work. Without this code, stolen phones are useless.
2. Owners are encouraged to collect money and deposit it in the bank on a regular basis. In so doing, owners are advised that it is important not to collect the money at regular times each day, in order to minimize the risk of someone observing the routine and making plans to rob the collector during the daily bank deposit.
3. In areas prone to violent crime, bulletproof screens are installed in phone shop to separate the staff from customers.
4. Large antennas located outside the container, at risk of vandalism, are being replaced by smaller antennas inside the container.
5. Cages are installed around the exterior padlock, making it more difficult to cut locks.

### Policy
Balancing community expectations and needs against Vodacom interests and capabilities is another challenge for Community Services. Many areas demand service where it may not be feasible given existing infrastructure limitations. While Vodacom desires to provide its services to all areas with telecommunication needs, it simply cannot circumvent both the infrastructure and entrepreneur development processes. However, as part of its strategic growth and development plans, Vodacom actively plans for the day when it will be able to provide services to all people in South Africa.
Because ICASA sets the fee rates, phone shop owners, and subsequently Vodacom, have predetermined profit margins. On occasion, Vodacom has collaborated with government regulators to ensure the rate covers the fixed costs of the Community Services program, as demonstrated by the recent R .15 (US$.02) increase in per-minute charges. If the rate restriction was eliminated altogether, owners would likely charge rates just under standard cellular rates (currently R 2.75 [US$.36] per minute). While this is not desirable from the point of view of ensuring affordable access, some degree of flexibility in the rates would give greater business control and autonomy to the phone shop owners.

Regulatory
Vodacom demonstrated that it was committed to the long-term development of South Africa by establishing the Community Services program. ICASA assumed the regulatory responsibility to ensure that mobile network operators actively sought to reach the community goals of the agreement.

ICASA is flexible regarding certain aspects of the agreement. For example, part of the original mandate stipulated that communities should be able to access community service phones at all times. Due to high crime rates, it was not possible to keep the phone shops open 24 hours day to provide uninterrupted availability of the phones. However, Vodacom is currently exploring ways of providing a stand-alone phone located near the containers which would be accessible at any time of the day or night.

Financing
Financing is very difficult in South Africa. Banks offer limited financing options for the average customer, especially the type of prospective entrepreneurs Vodacom hopes to develop. Finding prospective owners able to invest R 26,000 (US$3,450) was a challenge, particularly at the beginning of the program. As a result, Vodacom began providing its own financing options to increase interest and help entrepreneurs get their businesses started. The financing program helped many prospective owners get started, and ensured that the overall program succeeded.

Community Services no longer provides these financing options and now requires all payments up front. The phone shop program is so successful that there are more qualified franchise candidates with the available money to invest than there are available franchises. This goes against the nature of the program somewhat, as only those who are already established or can get financing can afford to buy the phones to set up a phone shop.

Early in the program’s history, Vodacom issued credit to phone shop owners for airtime. Intended to help new businesses get established, this practice has since stopped as a result of abuse. All phone time must now be pre-paid by the owners. It is up to the discretion of individual owners to issue credit to customers for phone calls; however, as airtime is already pre-paid, this is entirely at the owner’s own risk and responsibility.

COMPETITIVE ADVANTAGE AT THE BOTTOM OF THE PYRAMID

Enterprise Scalability
A significant factor in the success of Vodacom Community Services lies with the existing infrastructure that was built to service Vodacom’s traditional cellular customers. These traditional users, in essence, subsidize the services provided for Community Services customers. Without the traditional services, there would be no infrastructure and Community Services simply would not be able to justify the cost to develop its own infrastructure. Community Services is successful because of its ability to utilize an existing resource without incurring additional costs. While this relationship works well for Vodacom
Community Services in South Africa, it is unclear how well this model might scale to other products, services, geographic markets, or market segments.

Community Services provides an important accessibility step in South Africa’s evolving cellular market. Extending communication services within communities that previously had limited access appears to create growing service demand for other cellular products and service areas. For example, consumers who at first find the calling service of Community Services sufficient may eventually purchase a standard cellular phone to leverage the increased functionality and convenience. The fact that Community Services phones cannot accept incoming calls is an indicator of a key need that personal mobile communications will address within rural and disadvantaged communities. Currently, there are many examples of individuals with personal cellular phones who receive and pass on incoming messages for neighbors or friends. In this way, Community Services first gets individuals using the telephone and then creates demand for Vodacom’s mobile products and services.

**Standard of living improvements**
A local phone shop can be an invaluable convenience to a South African. One only needs to sit within a Vodacom phone shop for a few minutes to observe the myriad reasons why people use the community phones. Employment opportunities in urban or distant areas have separated many families in recent years, but children, parents, spouses, and siblings often still depend on these family members for financial support. Community Services phone shops allow families to keep in touch and oversee family funds more effectively. Professionals within the community rely on Community Services phones to conduct business more efficiently. Delivery drivers use the phones to keep in touch with headquarters or to report problems on their route. Additionally, individuals use Community Services phones to pay bills and order personal effects among many other things. Ultimately, increased access to communications technology that enables customers to address family, professional, and individual needs contributes to a more functional community.

Phone shops also provide individuals with access to a range of social services that can contribute to an improved standard of living. Summoning a doctor or seeking medical advice is now more feasible. Where basic infrastructure services are available, consistent access to services such as electricity, sanitation, and water remains a problem within townships. However, individuals can now report service outages and emergencies using the phone shops. Ultimately, empowerment of individuals in South African townships comes to mean more as individuals gain access to widespread and consistent services that make their lives easier.

A cornerstone of Vodacom’s success with Community Services is the manner in which the company engages the communities in which it operates. Many South African communities today fully leverage their collective power to rally around or protest business, social, or political causes. For this reason, it is crucial that businesses operating within these communities connect productively and honestly with people there. Vodacom worked with several communities to solicit input during the development of the Community Services program, seeking to define the needs, approach, and price willingness. Vodacom continues to participate in community meetings and regularly visits the areas where it does business. This approach helps to ensure Community Services achieve its empowerment goals and continues to address the needs of the communities it serves.

**Economic empowerment of individuals**
An essential measurement of Vodacom Community Services’ success has been the development of a cadre of phone shop entrepreneurs who have invested in starting a Community Services franchise and then received business support from Vodacom via training and access to phone shop containers. The revenue generated by the phone shops suggests how powerful such a franchise approach can be. The phone shop owners and staff become empowered as they earn income and acquire key business skills.
Additional development benefits include enhanced productivity and social welfare and new sources of income within rural and disadvantaged communities. Indeed, an informal survey of phone shop staff showed that individuals are optimistic about their future employability and job opportunities. This optimism is significant as the development of professional skills, experience, and confidence will lead to increased future entrepreneurial ventures that can assist these communities even further in the future.

Vodacom has several important competitive advantages within the community service area. One is first-mover advantage. Vodacom started rolling out its Community Services phone shops earlier and on a much broader scale than MTN. Hence, it is situated in key locations within most of South Africa’s target communities and is well known by people within these communities. This familiarity will prove significant as more competition enters these markets and as consumers transition to standard mobile service plans. The second is the breadth of Vodacom’s GSM network, which is critical because it allows for a high level of service availability and consistency that supports Vodacom’s phone shops and cellular growth. Having a critical mass of users and a robust network to support growth will permit Vodacom to retain a leading role in South Africa’s future cellular communications market.

The provision of telephone connectivity to disadvantaged communities in South Africa has served two important purposes: promoting economic development by helping individuals and businesses gain efficiency through communications, and promoting social and economic empowerment for the individuals who own and/or operate the telephone enterprises.
APPENDIX 1: Photos

Example of Vodacom Phone Shop in Refurbished Shipping Container

Example of Vodacom Phone Shop in Store Front Location

Example of Vodacom Card Phones
APPENDIX 1: Photos (Continued)

Local Vodacom Phone Shop Owner
(Photo shows phone time programming machines.)

Examples Interior of Phone Shops Showing Phone Stalls
APPENDIX 2

“The Vodacom Way”

Vodacom will be one of Africa’s most admired companies. The pride of Africa.

*Vodacom is a winning company* where everyone is imbued with a spirit to win, to be passionate in whatever we do, to be the best, to never give up, to work harder than anybody else, to know that our best is better than anybody else’s best. Losing is just not an option. We are a team and competition is our sport.

*Vodacom is a respected company* where honesty, trust, good faith, and professionalism are the cornerstones of how we do business. Everyone we deal with is an equal partner, and we deal straight.

*Vodacom is a caring company* that cares about what it does and how it does it, which is always fair, and that respects every single person. Sincerely caring about everything we do every minute of every day, is our way of life.

*Vodacom believes* that it can enhance people’s lives and empower them by making it possible for all people in South Africa to have access to mobile telecommunications. We have the will and the means to do so, and will strive to do so in a sensible manner. We will democratise telecommunications.

*Vodacom will seek out the impossible* to do. Mobile communications has been made possible by the most innovative technology in the world. This technology will continue to develop and continue to make possible things we cannot even dream of today. We will remain the most competent and innovative of all in all this technology, to not only make every dream come true, but to dream the dreams. We will use our passion and our common sense to do the impossible. Indeed we will seek out the impossible to do.

And in everything we do, we will always make sure our shareholders remain happy, and proud of their investment in Vodacom.