

Dialog Telekom PLC

COMPANY BACKGROUND

Dialog Telekom PLC is Sri Lanka's leading mobile telecommunications service provider with approximately 6.3 million subscribers and a market share of around 49% in 2009.

In 1993, Dialog was awarded a 20-year license to provide cellular telecommunications services by the government of Sri Lanka. The

company is 83% owned by Axiata Group Berhad, the leading telecommunications company in Malaysia, and 17% owned by independent shareholders. It is listed on the Colombo Stock Exchange.

DIALOG'S INCLUSIVE BUSINESS MODEL

In its expansion plans, Dialog has undertaken South Asia's first "quadruple play" strategy, offering mobile telephony, fixed wireless telephony, broadband internet, and satellite-based pay television services. Quadruple play is an important element in reaching underserved remote populations with wireless services, as it helps lower costs by leveraging synergies across all four product offerings.

Another important element in reaching underserved populations is Dialog's distribution network. Dialog has 32 primary distributors that work exclusively for the company servicing and supervising independent retailers. Close to 40,000 retailers spread throughout all provinces of Sri Lanka currently stock Dialog products. These include phone cards and SMS-based reloads in which a user purchases airtime electronically through a retailer. These retailers keep margins of 5–7% on the Dialog products they sell.

The typical Dialog retailer owns or operates a primary business and sells Dialog airtime as an additional source of income. Approximately 60% of these retailers run small grocery stores and 40% run shops that sell a range of communications products and services such as telephones and Internet access. On average, these shops are open 13 hours per day and have 1.8 employees: 95% are sole proprietorships, 50% have been operating for fewer than five years, and 15% are not formally registered, and 81% of them have not had any formal business training.

Because these are independent retailers without exclusive arrangements with Dialog, the company must compete with other mobile network operators for shelf space for its products. In part this is done by offering competitive margins on the Dialog products they sell. However, the company has also found that helping to facilitate business training and access to financing helps to build a loyal retail network—the key to promoting its brand and expanding its business.

To facilitate business training and access to financing for the retailers in its network, Dialog has worked with IFC on a capacity-building project called Dialog Viyapara Diriya (DVD) that leverages a local language version of IFC's SME Toolkit. So far 1,835 retailers have participated in the program.

Through this project, Dialog and IFC provide these retailers with training on business skills such as business planning and tax compliance. These sessions improve retailers' ability not only to manage and sell Dialog products but also to operate their primary businesses—grocery stores, communications kiosks, and other enterprises—a facility that has helped Dialog draw and maintain loyal retailers even while the Sri Lankan mobile sector has become increasingly competitive. This strong distribution network has provided a backbone for the company's efforts to expand further into rural markets and connect lower-income consumers.

In addition to business skills training, the DVD project aims to build loyalty and grow retailers' business by facilitating access to financing. For internal purposes, Dialog categorizes its retailers into three categories: Category A are super-grade dealers with monthly sales of Dialog products greater than \$500; Category B are average-size groceries that sell between \$250 and \$500 each month; and Category C are microenterprises that sell less than \$250 each month. The DVD training helps retailers graduate into higher categories. While the company does not provide or facilitate credit for retailers, this system is laying the foundation by tracking and grading retailer performance over time, showing the company—and prospective banks—which ones are likely to be good credit risks.

Dialog is now coordinating with IFC to train a total of 5,000 retailers by the end of 2010, including retailers in the post-conflict northern and eastern regions of the country.

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DRIVERS FOR DIALOG'S INCLUSIVE BUSINESS MODEL

- Growth and brand awareness, including in lower-income, more remote regions
- To maintain market share and competitiveness as the Sri Lankan mobile market expands
- As part of achieving these objectives, to build a loyal, high-quality retail network

In 2007, Dialog's primary business area of mobile telephony was growing at 27%, a relatively low level when compared to the rest of Asia. In addition, growth was concentrated in wealthier urban regions of the country. Dialog identified the need to connect the unconnected—to extend the benefits of connectivity and communication to underserved rural segments—and thus embarked on an aggressive

program of expansion with the provision of coverage and affordable service options as key drivers. By 2009, penetration reached 66% and the market was growing at an annual rate of 40%. With the corresponding entry of new players into the market, Dialog identified the need for a strong and loyal distribution and retail network offering economies of scale.

RESULTS OF DIALOG'S INCLUSIVE BUSINESS MODEL

- 6.3 million subscribers, an increase of 3 million since 2007
- 32% compound annual growth rate
- 49% market share
- \$16.3 million in sales income for retailers selling airtime in 2009, approximately \$408 per retailer
- 1,835 retailers trained

Since its expansion in 2007, Dialog has acquired more than 3 million new subscribers at a compound annual growth rate of 32%, reaching a 50% market share. Leveraging its quadruple play strategy to reduce prices, Dialog has remained the leader in the competitive Sri Lankan telecommunications market and has been able to expand its reach into previously underserved groups, tapping into significant unmet demand. Increased telecommunications penetration is typically associated with GDP growth and poverty reduction. It is estimated, for instance, that a 10% increase in mobile phone density leads to a 0.6% increase in per capita GDP.¹

Dialog's inclusive business model is not only expanding access to telecommunications but also expanding economic opportunity for the micro- and small-scale retailers that sell its products. During 2006, Dialog's retailers earned \$16.3 million selling airtime. This translates to an average income of \$408 per retailer. Capacity-building efforts, which have reached 1,835 retailers so far, are expected to help them increase their incomes even further.



IFC'S ROLE AND VALUE-ADD

As the Sri Lankan mobile market grew, Dialog needed large-scale, long-term financing to expand and remain competitive as well as technical assistance to strengthen its retail network.

In this context, IFC provided \$50 million in long-term debt financing (which the company prepaid in early 2009) and \$15 million in equity to finance the company's overall expansion and quadruple play strategy. IFC's involvement also reassured other lenders and helped Dialog mobilize additional financing. This was important given that Dialog's expansion efforts are amongst the largest-ever in Sri Lanka and involve communication and media business models that are new to local lenders.

IFC has also been involved in providing technical assistance to strengthen Dialog's retail network through the DVD project, delivering SME Toolkit-based training to improve their skills and business performance. A project of IFC, the SME Toolkit offers free business management information and training for SMEs on accounting and finance, business planning, human resources, marketing and sales, operations, and information technology. In collaboration with Dialog, IFC has been able to tailor SME Toolkit materials to the Sri Lankan context.



IFC's Investment:

\$50 million in long-term debt financing and \$15 million in equity

¹ Waverman, Leonard, Meloria Meschi, and Melvyn Fuss. 2005. "The Impact of Telecoms on Economic Growth in Developing Countries." Vodafone Policy Services.