



## Case Study: Llamadas S.A., Nicaragua

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Llamadas S.A. provides low-priced telephony and other services to low and middle-income people in Nicaragua through small local stores generally situated in the central commercial areas of small cities throughout the country. The company covers 90% of the country with 29 call centres and serves 100,000 clients per month. Founded by two young entrepreneurs in 2005 with \$4,000 of capital, the business sought to capitalize on the large number of Nicaraguans who had moved to Costa Rica and the United States.

### **Business Challenge**

At the time, telephony costs in Nicaragua were expensive and there was limited internet access. As time has gone by, however, telephony costs have declined and internet penetration has increased, making the company's core product less compelling. Given the high fixed cost nature of the business, the company has faced uneven margins and limited scope to realize economies of scale.

In addition, the company faces a human resources challenge as it evolves from a start-up to a company with over 70 employees throughout the country. Specifically, the company lacks a corporate structure or formal board and faces relatively high staff turnover.

### **Analysis of alternatives**

To address these financial and human resources challenges, the company analyzed a number of alternatives.

*Expand into internet provision* - Internet penetration in Nicaragua is low at approximately 5%, offering a significantly higher growth rate for the company than its core business of providing telephony service. The provision of internet services, however, through internet cafes is highly competitive and the margins on this product are unlikely to be very attractive. In addition, the company would incur significant fixed costs to fund capital expenditures in this area, which would need to be financed with external debt.

*Expand into other related services* - Recognizing that the market for the company's services is maturing and the benefits of economies of scale, the firm is considering expanding its service offering to include managing remittances, which amount to over 13% of GDP, providing internet access, and even assisting in filling out US immigration forms. These areas for potential growth have varying degrees of attractiveness but may also carry the downside of distracting management from the existing business as they are outside the core expertise of the business.

*Continue to innovate in the telephony space* - Given internet penetration is still low and only 60% of the Nicaraguan population has cell phones, there may still be opportunities within the company's core business. These innovations and product differentiation could provide incremental revenue growth without significant investment requirements.

*Lower costs of production* - Given its increasing size, the company could examine whether it can negotiate better terms with its telecommunications providers in order to increase their margins or pass on savings to consumers.

*Recruit more staff with different backgrounds* - Each store is currently run by one individual, typically a young person whose length of tenure with the company is short, given their stage of life and desire to be part of a more social environment. By employing older, more stable, staff members, the company would be able to potentially decrease employee turnover.

It is not clear; however, whether the company would be able to identify older potential employees in these smaller cities and towns who have the technology skills required to service the location. To improve staff morale within each location, the company could hire more people at each location, providing a more collaborative and team environment, attractive to individuals interested in a customer service position. This investment in additional staff, however, would put significant pressure on margins, particularly as it would not drive further revenue growth unless new products were introduced.

### **Action Taken**

The company has begun to address the lack of corporate structure and high staff turnover through the hiring of a human resources manager. This individual has instituted actions and policies that seek to improve staff retention, primarily by focusing on the employee experience, rather than recruiting new employees who are less likely to seek new opportunities. Communication with the central office has been addressed by the development of an advanced intranet that allows each center to communicate with the headquarters through “chat” functionality. The company has also used technology to address employee “shirking” by requiring employees to enter a changing 4-digit code into their computer every 5-10 minutes.

In order to improve financial results, the company has designed a new service for clients that allows clients to pay for calls based on minutes rather than having to invest in a calling card that has a minimum price. For example, the smallest denomination calling card available is 10 Cordobas, but the average national call that Llamadas services is 8 Cordobas.

The owners have also decided that in order to build a business that is sustainable in the long-term, the development of additional product lines will be required, which will require capital. Thus, they have sourced small business loans from a local bank, for which they have had to issue a personal guarantee.

### **Results**

Employee turnover and morale has improved significantly since these actions were taken. Turnover that used to be as high as 40% has declined significantly. In addition, the company has created a sense of team spirit by giving each store goals and holding performance competitions with other stores. The winning stores are then given the opportunity to travel to the capital to interact with other employees, receive additional training and spend an afternoon in team-building activities.

Innovations in the pay as you go model for calls has proved to be highly popular with customers, particularly as the increasing ubiquity of cell phones within the middle class means that an increasing proportion of the company’s customer base comes from the lower income brackets.

The company was also able to successfully use its scale to negotiate lower prices with the domestic fixed line and cellular companies, allowing it to compete even more effectively with the growing threat from cyber cafes. For international calls, Llamadas is able to offer rates that are 90% cheaper than its competitors. Moreover the firm has been able to provide a relatively higher quality of service due in part to the fact that it provides air conditioning in its stores. Air conditioning can provide a much more pleasant customer experience particularly during the hot summer months.

The COW-F Framework provides a means of assessing the sustainable growth potential of a firm.<sup>1</sup> Sustainable growth can only be achieved if a firm can satisfy all four of its stakeholders: customers, owners, workers, and future generations. The following table offers a summary of the value create for these four different stakeholder groups by Llamadas.

Llamadas and the COW-F Framework:

<b>Stakeholder Community</b>	<b>Current Value Offering</b>
<b>Customers</b>	<ul style="list-style-type: none"> <li>▪ By lowering the costs of communication and providing superior customer service relative to discount call centres, the company has improved the lives of its customers</li> <li>▪ Customer experience has been a focus of management. Air conditioned local stores are a key differentiator.</li> </ul>
<b>Owners</b>	<ul style="list-style-type: none"> <li>▪ The company has offered an opportunity for the two co-founders to exercise their entrepreneurial spirit and generate sufficient cash to fund expansion</li> </ul>
<b>Workers</b>	<ul style="list-style-type: none"> <li>▪ Through the actions described above, the company has provided career opportunities for Nicaraguan young people particularly located in the smaller cities of the country</li> </ul>
<b>Future Generations</b>	<ul style="list-style-type: none"> <li>▪ The Llamadas business model is about maintaining connections among family members spread throughout the country and the world.</li> </ul>

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<sup>1</sup> The COW-F Model was developed by Michael Fairbanks. It first appeared in *The Natural Advantage of Nations*, Hargroves and Smith, 2005.