“I look back and wonder how we did it all, but we did.” – Keith Davies

“Revenue and growth solves all problems. I wish we knew that earlier, we would have placed a lot more focus on it.” – Mike Quinn

“They are on fire. They are awesome. You will be reading about them in the Economist.” – Monica Brand

Zoona means “it’s real” in Nyanja, one of Zambia’s major languages.

By late 2010, Zoona was the fastest growing mobile money operator in Zambia, with over US$1.4 million in transactions per month and a network of 200 agents in every region of the country. The company had grown quickly from a start-up with few resources to a robust platform supporting person-to-person money transfers across Zambia.

Zoona believed that its simple money transfer solution, which enabled customers to send and receive money without needing an account with a bank or mobile network operator, could scale across borders to serve tens of millions of unbanked consumers in Africa. Despite the well-deserved hype generated by M-Pesa, Africa’s most successful mobile money service launched in Kenya, people in Zambia and most African markets still relied heavily on cash for making payments, often having to physically transport cash when it came to supporting dependents, ordering stock for small businesses, and paying school fees and medical bills. Recognizing the amount of time and the safety issues that were involved with moving cash, Zoona had focused on setting up agents in good locations so that customers would try the service and keep coming back. The first few years of growing Zoona had proven that there was a high demand for alternatives to moving cash.

Despite their lofty ambitions, Zoona was facing a severe working capital crisis. For several months, meeting payroll had become a recurring challenge, and their growth prospects were increasingly hindered by an inability to raise the funds required to grow the business. Zoona’s founders, two entrepreneurial brothers, were eager to professionalise the company and move out of day-to-day operational mode. With characteristic pragmatism, the brothers had boldly appointed a new CEO, Mike Quinn, to help Zoona reach the next level.

Quinn’s first task was to tackle the cash crisis. To fuel their working capital needs, Quinn knew that the company needed to swiftly raise funding. The question, however, remained: should the company continue to finance its efforts through grants and small-scale debt and equity partners, or should it open the door to a more substantial equity investment? If it did go the route of an equity partner, what sort of partnership and objectives should Zoona seek?

HUMBLE BEGINNINGS

Entrepreneurial brothers Brad and Brett Magrath had long witnessed the inefficiencies of cash payments in Africa, especially in their home country of Zambia. Traditional brick and mortar banks did not cater to the needs of the poor, and their urban-focused presence meant that they had little reach to most of the agrarian-based population. The vast majority of the population was unbanked, and consumers, corporates, and even government departments relied on physically moving cash around to pay salaries and suppliers. In rural Zambia, it was not uncommon for someone to have to ride a bike six hours roundtrip to pay school fees in cash in the nearest town.

In 2007, after entrepreneurial endeavours with limited success in Malawi and Bangladesh, the brothers had returned to Zambia with the proceeds of two modest exits and a lot of experience. Brad and Brett had grown up in Zambia’s Copperbelt region, and had become familiar with the plight of rural farmers and the challenges of moving cash around the country. They also knew that a successful business should provide a solution to a pressing problem. Over dinner and drinks with a friend from United States Agency for International Development (USAID) one night in Lusaka, Zambia’s bustling capital city, Brad came up with an idea about how to use technology to provide a
solution for companies to make payments to smallholder farmers. Brad soon realised that he had hit upon something promising, and texted Brett, who began to form the business plan. Within days, Zoona was hatched.

The business had humble beginnings. Seed financing came in the form of an initial US$200,000 grant from the USAID to launch a pilot targeting a few hundred smallholder cotton farmers. Shortly thereafter, Dunavant, a global cotton company, invested US$350,000 to purchase a 35% equity stake in the Magrath brothers’ newly-formed company. In exchange, the Magraths built a first-of-its-kind payments solution for Dunavant to manage payments to their 150,000 smallholder cotton farmers.

In early 2009, the explosive success of M-Pesa’s mobile money solution in Kenya had started making headlines, which piqued the Magrath brothers’ interest. At the time, they were busy building the payments platform for Dunavant, but had yet to generate recurring revenue. With the launch of M-Pesa, they saw an opportunity to bring a similar model to Zambia. The market demand was clearly there, but M-Pesa was a product launched by a well-resourced team at Safaricom, Kenya’s largest mobile network, with millions of customers and tens of thousands of airtime agents. Despite their obvious disadvantages, the Magrath’s were excited by the opportunity. After some consideration, the brothers decided to transition their business model to create a money transfer service for people to send and receive money using a network of small business agents. However, they knew that they would need to set up the entire system from scratch.

Growth came quickly. Within a year, Zoona’s agents were transacting over US$1.4 million per month with growth rates exceeding 10% per month. However, this growth was having a draining effect on the company’s working capital, causing the team to continuously search for new sources of funds to support development. Finding capital as an innovative tech start-up in Zambia was a challenge for the team due to the undeveloped capital market in Zambia and the high risk associated with tech start-ups in Africa. While the team had succeeded in getting their business off the ground with some early investment, they were heavily reliant on grants to fund the business.

Receiving “free” money from donors had many benefits, but there were also many distractions that came with it. If Zoona was to grow towards being a pan-African payments company, the team suspected that it would have to shed its reliance on grants and focus on growing revenues to build a sustainable business model.

**MOBILE MONEY IN ZAMBIA**

The market for mobile money in Zambia was in its infancy when Zoona entered in 2008. Africa had been a key proving ground for mobile financial services, where the combination of poor infrastructure, underdeveloped financial institutions and market inefficiencies had resulted in the uptake of the technology as a low-cost, scalable solution. The most notable was the example of Kenya’s M-Pesa, which had achieved global accolades and, by 2013, had captured a large share, estimated at approximately 70%, of Kenya’s domestic market of remittances. The company had subsequently introduced a variety of transactional, credit and insurance products to the market.

While there was a competitive banking environment in Zambia, there was little focus on penetrating the rural and unbanked in the country. Up until 2009, only 15% of Zambia’s population of 14 million people were banked in any form. Arguably, the only real competitors to Zoona were the post office, an inefficient parastatal, and the practice of money being hand delivered in cash via minibus taxi. For an entrepreneur with the fortitude to surmount the many challenges, there was a significant gap in the market that a mobile money provider could potentially fill:

“In developing economies, one of the greatest challenges is providing convenient options for cash deposits and withdrawals. ATMs, point-of-service devices, and agent networks must be conveniently located throughout a community. The up-front investments this requires can be substantial, but they are necessary to provide a solid foundation for future growth”

The first mover in Zambian mobile banking was Celpay in 2002, a subsidiary of Celtel, an African telecommunications provider. While having retail functionality, Celtel had a business-to-business focus in the supply chains of large corporates. The entry of Zoona in 2009 prompted Celpay into introducing a person-to-person service offering shortly thereafter in order to compete.
entrants into the Zambian market were MTN Mobile Money, developed in South Africa as a joint venture between Africa’s largest network operator MTN and Standard Bank, and Airtel Money. Both MTN Money and Airtel Money were modelled after M-Pesa, but they weren’t introduced into the Zambian market until after 2012.

In a report by MFTransparency, Zambia’s microfinance industry was found to be young, small and fragmented. Limited outreach, poor geographic coverage, gender disparities and limited financial product offerings resulted in a poor service offering. A lack of access to capital to finance micro-lenders was further compounded by poor management information systems and technical capacity to screen for risk. Thus the opportunity existed for a well-funded, professionalised mobile money operator to fill this gap in the market.

ZOONA’S BUSINESS MODEL

Zoona was addressing a common problem in emerging markets: the expense of holding and transacting in cash. Zoona estimated the total cost of these transactions to be as high as 15-20% for many businesses and individuals when factoring in time and transport costs, a strong inhibitor to growth. The regional success story of M-Pesa in Kenya was both an inspiration to the founders of Zoona, as well as a caution. Merely trying to replicate their model would not work in the Zambian context, as understanding local market needs would be crucial to success: “Contrary to what many people think, this is not the United States of Africa!” – Keith Davies, Zoona CFO.

Brett Magrath, COO of Zoona observed:

“My concern is that this combination of the massive success of M-Pesa with the large number of theorists commenting or driving the industry direction is leading to a situation where much of the most creative and real value-added services are not being focused on, as many people have been brainwashed into believing the only route to success in mobile money is following or trying to be an M-Pesa.”

Zoona’s platform was built for Zambia, a vast country of 14 million people with an increasing penetration of mobile phones and high use of cash. The Magrath brothers designed their solution to accommodate rural unbanked and unconnected customers, since this was still the norm in Zambia. Unlike M-Pesa, whose primary business model required customers to transact via a mobile wallet linked to the Safaricom sim-card on their mobile phones, Zoona’s platform could be accessed via physical agents who would process transactions on behalf of consumers. The sender would pay a fee on top of the money transfer value, and the receiver would withdraw cash for free. Zoona’s model therefore allowed consumers to send and receive money without being linked to any particular mobile network, opening an account or filling out paperwork, thereby eliminating barriers to adoption that had hampered the growth of mobile money models elsewhere.

The social impact that Zoona had was central to the business, presenting a much-needed alternative to the expense and time spent on cash payments: “Boniface Mwale used to travel to Petauke to pay his K150 (£20) school fees, spending K150 on transport along the way, but now he can send money to his child for a K8 (£1) fee.”

Critical to Zoona’s business model was its extensive network of “Zoona Agents” who were independent franchisees who earned a commission on each transaction. In addition, Zoona supported their agents by providing them with a branded kiosk, float financing, and business training and support. The combination of Zoona’s business model, agent network, and technology platform primed the enterprise for success should it be able to successfully finance the growth of its operations. Key to this would be to secure the right investment partners to provide capital and expertise to achieve their stated objectives.
KEY RELATIONSHIPS

The strength of Zoona lay in the dedication of its team. The Magrath brothers were serendipitously introduced to Canadian Mike Quinn, who, on behalf of the Grassroots Business Fund (GBF), had travelled to Zambia to look for innovative social enterprises in which to invest. Mike immediately saw the potential of Zoona and its founders, and, through GBF, facilitated a US$200,000 convertible debt investment in the company. Following the investment and getting to know Zoona, Mike made the decision to join the Magraths full-time as a partner.

A crucial step taken early in the business was for the Magrath brothers to appoint Mike Quinn as CEO. This was done for three reasons: firstly, as an Oxford MBA graduate and Skoll scholar with years of focus on development in Africa, Mike had the requisite skills, knowledge and ability to establish a framework under which committed, passionate and driven people could thrive throughout the team. Secondly, it allowed Brad and Brett to focus their talents and energy on what they did best. Thirdly, and crucially, it sent a signal to the investment community that Zoona had the flexibility and commitment to make changes in order to scale. The fourth and final addition to the management team was Keith Davies, an investment banker and colleague with whom Mike had studied on the Oxford MBA program, who joined as CFO.

A saying developed between the team: “when you sit down to a breakfast of eggs and bacon – the chicken is involved, but the pig is committed.” Keith had shown his commitment when he joined Zoona in 2010 by cashing in his pension and depositing it in the business, and Mike had convinced his parents in Canada to mortgage their house and give him the capital to keep the business liquid a year earlier. But even those contributions dulled in comparison to the years of sacrifice, both financially and personally, of the Magrath brothers.

The Zoona team, and Mike in particular, had built up a network of trusted advisors to assist in their decisions around funding. One such advisor was John Schroeder, former CIO of Grassroots Business Fund and an experienced entrepreneur, who provided crucial mentorship and guidance to the team throughout the investment process. At Schroeder’s suggestion, Zoona set up an Advisory Board in 2010 that could shepherd Zoona through the process of becoming “investment ready” should they decide to seek a larger-scale equity partner. Zoona had also invested in setting up the legal and governance structures early on through their legal counsel Adrian Dommisse.

In addition, Patrick Pichette, CFO of Google, had taken an interest in Zoona and provided valuable guidance as a personal mentor to Mike. This relationship was built through Mike’s involvement with Engineers Without Borders (EWB), and Mike had regularly reached out to him for advice over the years. Described by Mike as a “humble and down-to-Earth guy”, Patrick’s practical insights into Zoona’s investment prospects gave Zoona much needed wisdom and maturity through the rocky period of 2010.

CAPITAL RAISING

By early 2010, it had become clear to the entire management team that significant capital would be needed to keep the business viable. However, as an early stage company in Africa, Zoona was faced with relatively few options.

Grants had formed a crucial role in providing capital to develop the business, and could still be used to fund the business. As a large source of capital for socially oriented start-ups in Africa, grant funding had the added benefit of not requiring organisations to trade away equity. In addition, grants gave organisations access to networks and internships, as well as credibility to their operations. However, the disadvantages of grant funding were slowly becoming clearer to the founders: at times, Zoona was required to service customer segments that it knew were not sustainable to ensure continuity of its grant funding, certain terms and conditions were onerous, and most crucially, there were significantly long lead times between proposal submission and funds being dispersed. Additionally, grant funding carried with it the perception that the business model was not sustainable. Breaking away from the grant funding would send a signal to the investor community that the business had the rigour of a commercial investment.
Traditional financing had equally perplexing trade-offs. Historically, financing early-stage ventures in Sub Saharan Africa had been an under-developed market in comparison to the deep capital pools of developed countries. Debt financing had the obvious advantage of maintaining ownership levels, but with the rate of growth that Zoona was experiencing, debt repayments could exert significant strain on the business. Debt was also largely non-existent for early stage start-ups without tangible assets to offer as security. On the other hand, equity financing in the form of venture capital for start-ups was still a novelty in Africa. Capital flows into Sub Saharan Africa had traditionally focused on later-stage private equity; angel investment and venture capital for a socially innovative start-up was still very hard to come by. While investment companies like Aureos had found success, there had been generally few success stories and few mentors to guide start-ups.

The growth of impact investing—investing combining financial profit with social benefit—was improving the prospects for capital raising on the African continent. Although impact investors had begun to become more active on the continent, their presence was light and their focus tended towards later-stage investment. In 2010, impact investing was still a relatively new concept and investments tended to be small (<US$1 million). It was also a widely-held perception that impact investors required extensive impact measurement which could weigh heavily on a small business.

**HARD CHOICES**

The capital raising efforts had begun to cause significant strain on the business. Mike was away from the business for months while forming relationships with investors, building the business case and, for the purpose of investment, structuring an incredibly detailed revenue model. Zoona’s revenue numbers plateaued subsequently at the temporary loss of one of their best salesmen. In addition, the legal fees and restructuring costs were proving to be considerable.

As the year progressed, the team lurched from one cash flow crisis to another. Early November presented the largest crisis so far: a US$60,000 cash hole that would need to be filled in three weeks, or payroll wouldn’t be met. The team locked itself in a room and went through every aspect of the business, adjusting pricing, cutting all unnecessary expenses and making difficult decisions such as salary and personnel cuts right before Christmas.

The business was still at an early stage, and had a long way to go towards getting the policies, procedures and accounts to the point that investors would want to see. The concern was that in pushing to tick all the boxes that would be required for investment, attention was being taken away from the core business of getting a better offering out to customers.

Mike had recently returned from a business trip to the US where he had met with a number of potential investors. The trip had energised him, but, as he put it: “They teach you that “Cash is King” in business school, but you don’t truly understand this until you work for a startup that struggles to meet payroll every single month.” Zoona needed to make some clear decisions about what type of funding to seek and what its objectives were in the funding relationship. And it needed to do so quickly.
APPENDICES

Appendix 1 – Management biographies

**Mike Quinn, CEO**
Mike is an entrepreneur with a passion for business in Africa. He has worked for Zoona since the first payment in 2009, and led the successful closure of a $4 million Series A venture capital round from international investors in early 2012, a first ever for a technology start-up in Zambia. He holds an MBA with Distinction from Oxford University, where he was a Skoll Scholar for Social Entrepreneurship, along with an MSc in Management Development from the London School of Economics. He grew up in Calgary, Canada, and completed his undergraduate degree in Mechanical Engineering at the University of British Columbia.

**Brad Magrath, Chief People Officer**
Brad is a driven entrepreneur who co-founded Zoona in 2008 with his brother Brett. His core strengths are building a values-based culture where A-players thrive and grow. He has 15 years of corporate Senior Management experience and has set up and chaired the Zambian South African Business Association and the Zambian Payments Association. He holds a BComm in Business Finance from the University of Kwazulu Natal, has also held several board Directorships.

**Brett Magrath, Chief Customer Officer**
Brett is an experienced entrepreneur with core expertise in customer experience and product development. He co-founded Zoona with his brother Brad in 2008. Prior to Zoona, he spent five years working for JP Morgan as a Business Analyst in London and Cape Town coordinating business requirements from operational units in four continents and working with an IT development team based out of Mumbai. He holds a BComm in Business Finance (Hons) Cum Laude from the University of KwaZulu Natal.

**Keith Davies, Chief Financial Officer**
Keith joined Zoona in 2010 and guided the company from surviving on a weekly cash flow to a US$4 million Series A round. He then built a data, risk, legal, and regulation function before being formally appointed as CFO. Before Zoona, Keith was African Strategist at Citibank and an investment banker with Rand Merchant Investments. Keith holds an MBA from Oxford University.
Appendix 2 – Grants, convertible debt and seed funding

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<th>DATE</th>
<th>NAME OF FUNDER</th>
<th>ASSET CLASS</th>
<th>AMOUNT</th>
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<tr>
<td>JUN 2008</td>
<td>Dunavant</td>
<td>Equity</td>
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<tr>
<td></td>
<td>PROFIT+/USAID</td>
<td>Grant</td>
<td>$200 000</td>
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<tr>
<td>JUL 2009</td>
<td>Grassroots Business Fund</td>
<td>Convertible debt</td>
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<td>DEG (German Investment Corporation)</td>
<td>Grant</td>
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<td>NEXT</td>
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<td>Mennonite Economic Development Associates (MEDA)</td>
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<td>JAN 2012</td>
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Table: List of grants, debt and equity (management and founder contributions omitted);

Funders: PROFIT+ is the Production, Finance and Improved Technology Plus program funded by the United States Agency for International Development (USAID); Grassroots Business Fund is a non-profit organisation investing in viable businesses that generate sustainable earnings or savings for low-income earners (www.gbfund.org); DEG is the development finance institution of the German government-owned development bank; NEXT is a UK retailer and customer of Dunavant (www.next.co.uk); MEDA is an international economic development organisation with a mission to create business solutions to poverty (www.meda.org); Sarona Asset Management is an investment firm that invests in entrepreneurs in under-served markets to develop profitable and sustainable companies (www.saronafund.com); ACCION is a non-profit organisation investing in microfinance organisations (www.accion.org); Kiva is an online lending platform (www.kiva.org)

Appendix 3 – 2010 year end highlights

- US$15.5 million in transaction value processed over Zoona’s system (1,100% increase from 2009)
- 100,000 consumer money transfers
- 250,000 electronic voucher transactions across 30 districts with the World Food Programme, Food and Agriculture Organisation, and Conservation Farming Unit
- US$1.7 million of Dunavant cotton farmer payments
- US$500,000 in unbanked microfinance loan disbursements paid out through Zoona’s agents
- US$1.5 million in banked payments
- 272 active agents (up from 69 at the end of December 2009)
Appendix 4 – Zoona agents

Exhibit: Zoona branch

Exhibit: Zoona branch

Exhibit: Zoona branch
ENDNOTES


ii Kendall et al. 2014.


iv Kendall et al. 2014.


vi GSMA, 2010; Sufficient market capture was not achieved and ultimately the Bank of Zambia revoked Celpay’s operating license in early 2014 for failing to sustain operations as required by Zambian law, however it remains active in the Democratic Republic of the Congo, Zimbabwe and other countries in Africa.


ix Magrath, Brett. Interview with the author. 2010.


xi Quinn, Mike. “My Mobile Transactions Story.” 12 February 2012.