Fairphone and the Social Entrepreneurship Model

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Team Meier: Fairphone and the Social Entrepreneurship Model

INTRODUCTION

After a successful pilot in 2013 and 2014, Dutch company, Fairphone, is launching a second round of its socially and environmentally responsible smartphones and smartphone cases. Having established a powerful global community of support along the way, the company sold more than 60,000 smartphones in its first model, priced at €325 per unit. While the first launch of the Fairphone was successful in ensuring the company’s social values were met in the making of the phone—from sourcing traceable, conflict-free minerals and producing the smartphone in socially-minded factories—the goal of the second launch is to reduce the phone’s overall environmental impact.

In its first two rounds, Fairphone has mainly targeted Europe, a large market saturated with competitors and a mature customer base. At its highest peak of sales in September and November of 2014, the company averaged sales of 200-300 phones per day. Most of the sales were completed through Fairphone’s website or alternatively through European partners (“resellers”) such as mobile providers, telecommunications cooperatives and online electronic shopping sites in the Netherlands, Germany, Switzerland and Sweden. By mid-2015 the company plans to launch pre-orders for the second round of phones. After completing these sales in 2016, the company will seek to attract customers outside of Europe, specifically where followers have expressed interest, such as in Canada, the U.S., Brazil, Australia and Taiwan.

Looking forward, the company plans to sell an additional 200,000 units by 2016 at €310 per unit. With only 27,000+ subscribers to its website (of which only 6,000+ have signed up for the second phone), how can the company meet its short term goal of selling 50,000 units in 2015 and 150,000 in 2016? How will the company attract more followers and broaden its customer base both in and outside of Europe?

MARKET ANALYSIS

The mobile broadband and mobile phone markets are highly complex. For Fairphone, determining a strategic market segment in this space is further complicated by their desire to sell a relatively high-end product in an already saturated region. Globally, smartphone shipments are already over a billion units annually, and growth projections are bullish, at an expected rate of 9.8% per year between 2014-2018. According to current projections, mobile broadband is expected to grow more in developing markets than developed markets in the short term, with growth rates of 26% and 11.5% respectively. Part of this is due

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to developed markets having already reached 84% penetration, whereas developing markets are only at 21%.4

Overall, developed markets tend to experience a high degree of “turnover” when it comes to mobile phones. For example, a phone is used for an average of 18 months in the US and 29 months in the UK, as customers purchase the next iteration or version of a phone relatively frequently.5 A 2013 Deloitte survey of mobile phone consumers found that the most salient reasons for purchase of phones were reliability, brand, operating system, and design (See Appendix 3).

This quick turnover is partially driven by Apple and Samsung’s innovation cycle, as the two manufacturers consistently create new, and coveted products. Samsung and Apple compete for the largest volume of cell phones sold, both regionally in Europe and worldwide (See Appendix 2), consistently selling more than 70 million units worldwide, each quarter. While the two giants are the largest players in the European market, there are a multitude of smaller competitors, and new entrants are common. Last year alone, 28 new brands entered the European market, which collectively now comprise 6.4% of the European market.

Despite the new entrants and almost universal growth in the handset and mobile broadband market between 2013 and 2014, interestingly, the Western European market (along with Japan) actually experienced a contraction.6 This poses important strategic questions for the management at Fairphone: Is the decline in sales a function of market saturation? Will Fairphone be able to capture market share in this crowded and diverse market?

COMPANY BACKGROUND

Shortly before taking a family trip, the current Chief Executive Officer (CEO) of Fairphone, Bas van Abel’s 11-year-old son’s Nintendo set broke. When Abel set to work on fixing the machine, he found that the video game set was not designed to be repaired by consumers. This lead to a series of questions about why products are designed a particular way. He realized that awareness of how a system works improves the sense of ownership toward the product and its creative processes and increases the likelihood that the owner will take responsibility for the use of that product. This, in turn, would encourage a drive toward ethical products, in use and in manufacture.

Fairphone was a project that started as a campaign in 2010 against the use of resources that have incited wars in the Democratic Republic of Congo ("DRC") over minerals such as gold, tin, tantalum and tungsten, often dubbed as “conflict minerals”. The mining of such minerals are also undertaken in adverse environmental conditions with little regard to the health and safety standards of the labor channeled into such projects. The campaign was started by Waag Society, Action Aid and Schrijf-Schrijf and was predominantly headed by Bas van Abel, the then Creative Director of Waag Society. The research that was culled over the years culminated in the social enterprise Fairphone in 2013, in Amsterdam, Netherlands, with Bas van Abel as the CEO.

Fairphone is an extremely community-driven and consumer-oriented cell phone company, prioritizing transparency, open dialogue and a grassroots/startup approach to sustainable business. As stated on its website, “We’re leading by example to expand the market for ethical products and giving a voice to consumers that care about social values. Together with our community, we are changing the way products are made.” As part of this journey, Fairphone places great emphasis on lessons learned and inspiring behavior change, even in areas where they have yet to make progress. As stated on the fact sheet, “part of our goal is to stimulate discussions about fairness and what it means.”

Though the objective was to create ethical products, the team decided to focus on smartphones, given how popular they are among individuals at all levels of society. The enterprise may eventually spread to other products. Even in the creation of fair phones, the team realizes that it is impossible to have a 100% fair phone, but it is certainly possible to make the process of creation of smartphones-more sustainable at every stage.

Currently, Fairphone comprises a team of 31 members, across 14 countries and speaking 10 languages. It maintains a fun, community-centric ethos that emphasizes the diverse backgrounds and promotes a work-hard-play-hard attitude. There is also extensive support from Action Aid, Stichting Doen, Schrijf-Schrijf, Vodafone, Rabo Mobiel, KPN, GSM Retour Plan, GSM Loket among others.

**THE FAIRPHONE APPROACH**

**FINANCE**

To preserve the social values of the organization, the team decided to independently finance its activities. €300,000 were contributed by Waag Society, Stichting Doen and the NCDO over the course of two and half years. Fairphone won an award of €10,000 as winner of the ASN Bank World prize, €18,000 from Bethnal Green Ventures for participating in a start-up boot camp in London, and €400,000 from private sources until May 2013, when the phone was manufactured and sold. Since then their operations have been funded by sales from their phones.

**VALUE PROPOSITION**

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8 Id.
Fairphone prides itself on its ability to provide reliable, durable smartphones that perform on par with mainstream devices while also placing social and environmental values at the forefront of its business. By proving that it can attract a significant consumer base and operate profitably, Fairphone has the opportunity to inspire other companies - not only in the smartphone industry but also in others with high mineral input requirements - to adopt socially and environmentally responsible models\textsuperscript{9}.

Fairphone offers the customer the enjoyment of a great product that meets their needs while also enabling him or her to become part of a larger movement to inspire industry change. Fairphone also offers the manufacturer traceability of inputs free of social and environmental conflict, potentially saving partners time and money from possible legal disputes. This ensures the firm’s ability to share information and operate transparently with the customer and the manufacturer.

Regarding its overall growth strategy, Fairphone does not use a low-cost, high-volume, mass distribution model but rather one that is tailored to product differentiation and includes an on-demand sales model. Social and environmental values are at the company’s core. It prioritizes them throughout its value chain, emphasizing its unique choice to source safe minerals from conflict prone areas (DRC) and to produce in controversial manufacturing hubs (China) not to avoid controversy, like other sustainable competitors, but rather to inspire change\textsuperscript{10}.

The company places the following social and environmental values throughout its value chain:

**Sourcing.** Fairphone sources approximately 40 minerals from conflict-prone areas to inspire change from within. By employing small-scale miners and partnering in multi-stakeholder initiatives to trace minerals to conflict free sources, Fairphone is able to introduce local wages, provide a labor alternative to miners in volatile areas, improve working conditions, address child labor and reduce environmental degradation. With Fairphone, small scale miners do not have to resort to working with rebel controlled mines. Sourcing is not only traceable but also transparent with the cost breakdown available to the public on the company’s website\textsuperscript{11}.

**Design.** The company challenges the view that smartphones are “semi-disposable” and easily replaceable when newer models become available. Through a transparent design system online, Fairphone shows the longevity or durability of its devices, informing the customer how each unit is made and what it is composed of.

The company has also partnered with Fraunhofer IBP to design a Life Cycle Assessment tool (LCA) to trace the ecological impact of the phone through its life. The LCA tool exposes the environmental impact of producing a Fairphone from raw materials to manufacturing, consumer usage and disposal. The tool

\textsuperscript{9} Id.  
\textsuperscript{10} See: http://www.fairphone.com/2013/03/28/selecting-a-production-partner/  
\textsuperscript{11} See: http://www.fairphone.com/roadmap/mining/
“identifies hot spots” where changes in its inputs (over 500 components), suppliers and shipping, for example, will have the most profound impact\(^\text{12}\).

Fairphone also offers local design, production and distribution options for its cases to reduce the company’s ecological impact. Here the goal is to experiment with local distribution and on-demand production by hosting community “Design A Day” projects with partnering artists and printing shops. This eliminates long distance shipping and excess inventory. Consumers choose a local design and pick-up their cases at participating 3-D printing shops\(^\text{13}\).

**Production.** Fairphone partners with manufacturers that share its social values; specifically in maintaining the safe and fair treatment of workers. Together the partners have established a Worker Welfare Fund in China as well as a Social Assessment Program with manufacturers TAOS and Hi-P. In order to ensure its social values are met at this stage, Fairphone seeks new production partners for each phone launch\(^\text{14}\).

**Lifecycle.** Fairphone also explores its responsibility to customers beyond sales by offering multiple repair and recycling options to help extend the life of its products (See Appendix 5). It offers spare parts, workshops and online tutorials as well as safe recycling programs to eliminate waste in landfills. Fairphone has partnered with Closing the Loop, Umicore, Recell Ghana and maintains recycling centers in Ghana and Belgium\(^\text{15}\).

**SALES AND MARKETING**

Targeting consumers who care about where and how their products are produced, Fairphone’s marketing efforts highlight how social impact can be created at every stage of the value chain.

Without formal distribution partnerships, Fairphone’s marketing strategy is almost entirely reliant on word of mouth and social media. Its online community is the primary means through which the company advances its market research, advertising and brand awareness goals and is critical to the company’s success. An active presence on Twitter, Facebook and Instagram has proven central to establishing a sense of community among staff, consumers, and potential consumers. One way this community stays connected is through engagement with the company’s “#wearefairphone movement” - an online platform that features regular product updates, user stories, and press coverage. The company also has an online community forum for existing Fairphone users to engage with each other and post questions and technical issues. Fairphone’s newsletter is another marketing component, serving as a key indicator of consumer interest in their products. The company’s “2014 year in review” blogpost prominently featured this and other types of online metrics as successful signs of growth and momentum. (See Appendix 6).

**CHALLENGES AND THREATS**


\(^\text{13}\) See: http://www.fairphone.com/projects/3d-printed-fairphone-cases/

\(^\text{14}\) See: http://www.fairphone.com/roadmap/manufacturing/

\(^\text{15}\) See: http://www.fairphone.com/roadmap/lifecycle/
Fairphone’s challenge resides in the fact that it is a small company with little visibility seeking to break into an already saturated market. As such, it seems likely that it will face hurdles in the upcoming phases of its development. Indeed, considering the availability and affordability of advanced mobile technology worldwide, Fairphone’s competitive advantage as a sustainable option may not be sufficient to sell 250,000 units by the end of 2016. Moreover, major players (such as Apple and Samsung, see Appendix 4) are moving towards a more sustainable and fair value chain, which may further undermine Fairphone’s positioning. On the other hand, as neither of these companies are actively marketing their sustainability transitions, it is possible that the effect on Fairphone will be negligible. Nokia, for example, attempted to “clean up” its value chain between 2010-2012, an effort which did little to save the declining brand.

Three possible conclusions arise when examining these types of sustainability efforts: 1) big players are not credible as “green” companies, 2) sustainability-driven strategies are efficient only if made very explicit in branding efforts, or 3) the market is not (yet?) responsive to fair and sustainable smartphones. The first two conclusions could mean a positive outlook for Fairphone, whereas the third poses a significant threat to the viability of the Fairphone concept.

Lastly, Fairphone operates in a largely saturated and wealthy market, where consumers are more technology sensitive than price sensitive. Consumers are looking to purchase the best performing devices, and assess performance through brands’ credentials. Without a solid performance reputation to stand on, how will Fairphone convince potential customers to buy their product based on sustainability considerations alone?

In the longer term, another potential threat looms large for Fairphone. An entirely new category of sustainable smartphones called modular phones are currently in development. These devices, which can be assembled, disassembled and upgraded without purchasing a new handset, could revolutionize the smartphone landscape (See Appendix 4). Their adaptability makes them intrinsically sustainable, as it dramatically increases the lifecycle of a phone. Several different companies and groups are developing modular phones, including Google,\(^\text{16}\) which has been working on a device and a connectivity system for this new generation of smartphones. How will Fairphone compete with such a stark change ahead in the mobile phone market?

**LOOKING AHEAD**

In the short term, how can Fairphone meet its 250,000 unit total sales goal by 2016 in the face of stiff competition and a mature regional market? Given Fairphone’s broader desire to inspire change in the cellphone manufacturing industry, what should their next steps be after selling 250,000 units?

Should Fairphone try any of the following:

1) Seek outside capital to scale up the product;
2) Continue at current production capacity and pursue more of an advocacy role in the market;
3) Sell the company to a larger player in the industry that possesses an aligned value-system and the capacity for mass production; or
4) Other?

APPENDIX LIST

1. Worldwide smartphone vendor market share.
2. Top European vendors.
3. Factors that influence phone selection.
4. Competitor Fact Sheet.
5. Comparing longevity across cellphone categories to Fairphone.
6. Fairphone’s Growing Market Reach.
Appendix 1.

Worldwide Smartphone Vendor Market Share
(Share in Unit Shipments)

Source: IDC, 2014Q4

- Samsung
- Apple
- Lenovo
- Huawei
- Xiaomi
- Others

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Appendix 2. Top European Vendors.

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Samsung</td>
<td>61.4</td>
<td>35.3%</td>
<td>77.7</td>
<td>42.3%</td>
<td>-21%</td>
</tr>
<tr>
<td>2. Apple</td>
<td>30.9</td>
<td>17.7%</td>
<td>26.9</td>
<td>14.6%</td>
<td>14.9%</td>
</tr>
<tr>
<td>3. Nokia/Microsoft</td>
<td>19.7</td>
<td>11.3%</td>
<td>25.9</td>
<td>14.1%</td>
<td>-23.9%</td>
</tr>
<tr>
<td>4. Sony</td>
<td>15.2</td>
<td>8.7%</td>
<td>14.8</td>
<td>8.1%</td>
<td>2.7%</td>
</tr>
<tr>
<td>5. LG Electronics</td>
<td>8.7</td>
<td>5%</td>
<td>8.1</td>
<td>4.4%</td>
<td>7.4%</td>
</tr>
<tr>
<td>6. Others</td>
<td>38.2</td>
<td>22%</td>
<td>30.3</td>
<td>16.5%</td>
<td>26.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>174.1</strong></td>
<td><strong>100%</strong></td>
<td><strong>183.7</strong></td>
<td><strong>100%</strong></td>
<td><strong>-5.2%</strong></td>
</tr>
</tbody>
</table>

Source: IDC European Quarterly Mobile Phone Tracker, February 2015
Appendix 3. Factors that influence phone selection.

Source: Deloitte Global Mobile Consumer Survey Netherlands, July 2013
Base: Respondents that have standard phone as main phone (738) or smartphone as main phone (1078), respondents that own / have access to a tablet (836)
### Appendix 4. Competitor Fact Sheet.

<table>
<thead>
<tr>
<th></th>
<th>Apple</th>
<th>Samsung</th>
<th>Nokia</th>
<th>Modular phones</th>
<th>FairPhone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>Worldwide</td>
<td>Worldwide</td>
<td>Worldwide</td>
<td>Worldwide</td>
<td>Europe</td>
</tr>
<tr>
<td>Units sold in 2014</td>
<td>192.7 million[1]</td>
<td>317.2 million1</td>
<td>34.9 million[2]</td>
<td>Not Applicable</td>
<td>60,000</td>
</tr>
<tr>
<td>Positioning</td>
<td>Leader in high technology, of quality and design. Luxury good.</td>
<td>Largest smartphone manufacturer. Affordable, reliable, high-tech phones</td>
<td>Simple affordable smartphone. Responsibly produced.</td>
<td>Smartphone that can be upgraded though attachment or replacement of parts</td>
<td>Sustainable, affordable, efficient, conflict free smartphone</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Reducing its environmental footprint and banning toxic inputs[5]</td>
<td>Certified by TCO for sustainable value chain and waste management</td>
<td>Reduction of waste program, signatory of UN Global Compact</td>
<td>Reduces waste: phones can be upgraded rather than replaced</td>
<td>Sustainably sourced and made smartphone</td>
</tr>
<tr>
<td>Use of conflict minerals</td>
<td>No available data</td>
<td>No available data</td>
<td>Company policy prohibiting the use of conflict minerals</td>
<td>No available data yet</td>
<td>Conflict free minerals from conflict regions</td>
</tr>
</tbody>
</table>

Appendix 5. Comparing longevity across cellphone categories to Fairphone.

5a. General categories.

5b. Fairphone.

Source: “Examining the Fairphone’s environmental impact”, 2015
Appendix 6. Fairphone’s Growing Market Reach.

The exact number of people in our global community is impossible to accurately count. So instead we took a look at our various community channels. Currently, we have 75,224 fans on Facebook, 15,700 followers on Twitter, 43,632 subscribers to the Fairphone newsletter and almost 60,000 of you are proud Fairphone owners. In 2014, our website was visited 2,365,732 times, from 196 countries, with the Germans, Dutch, French and British being the most frequent visitors.

You may remember reading Second batch delivery begins, this year’s most popular blog post with 364 comments. Or you may have been 1 of the 1,121 people on Facebook to like our post We're making 35,000 Fairphones shared 398 times. As a community we're united around a common mission and these growing numbers show we're a few steps closer on our journey to creating a fairer economy.