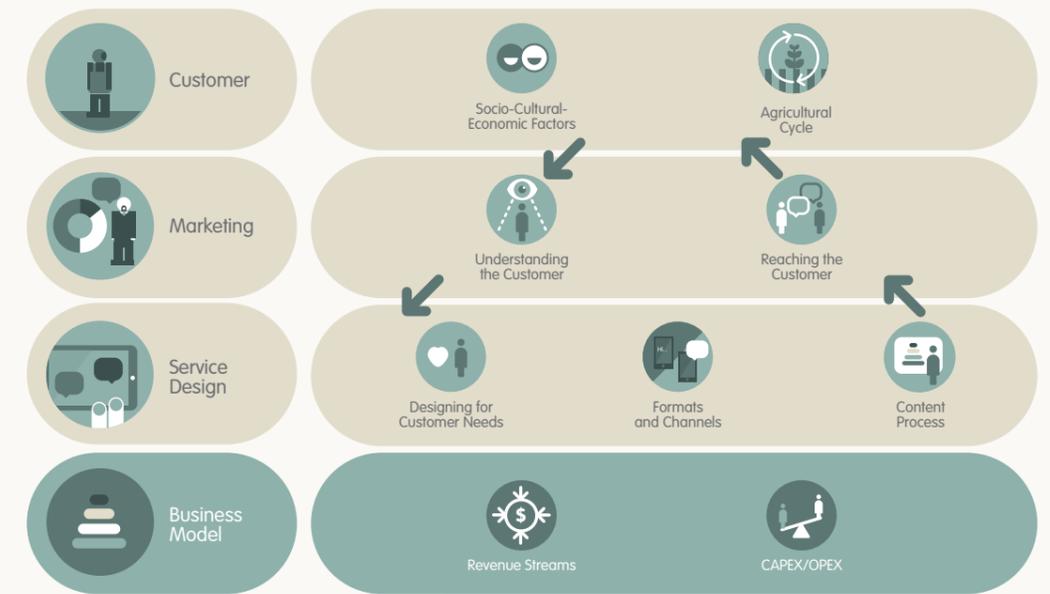




Chapter 5 Commercial Model and Business Case for Agri VAS



The Need for a Commercial Model

Agri VAS should be set up with a long-term commercial and financial model in mind. Although many Agri VAS will leverage 'seed' funding for their initial piloting and start-up phases, it is important to avoid the ensuing strictures of donor dependence by adhering to a viable, sustainable business case.

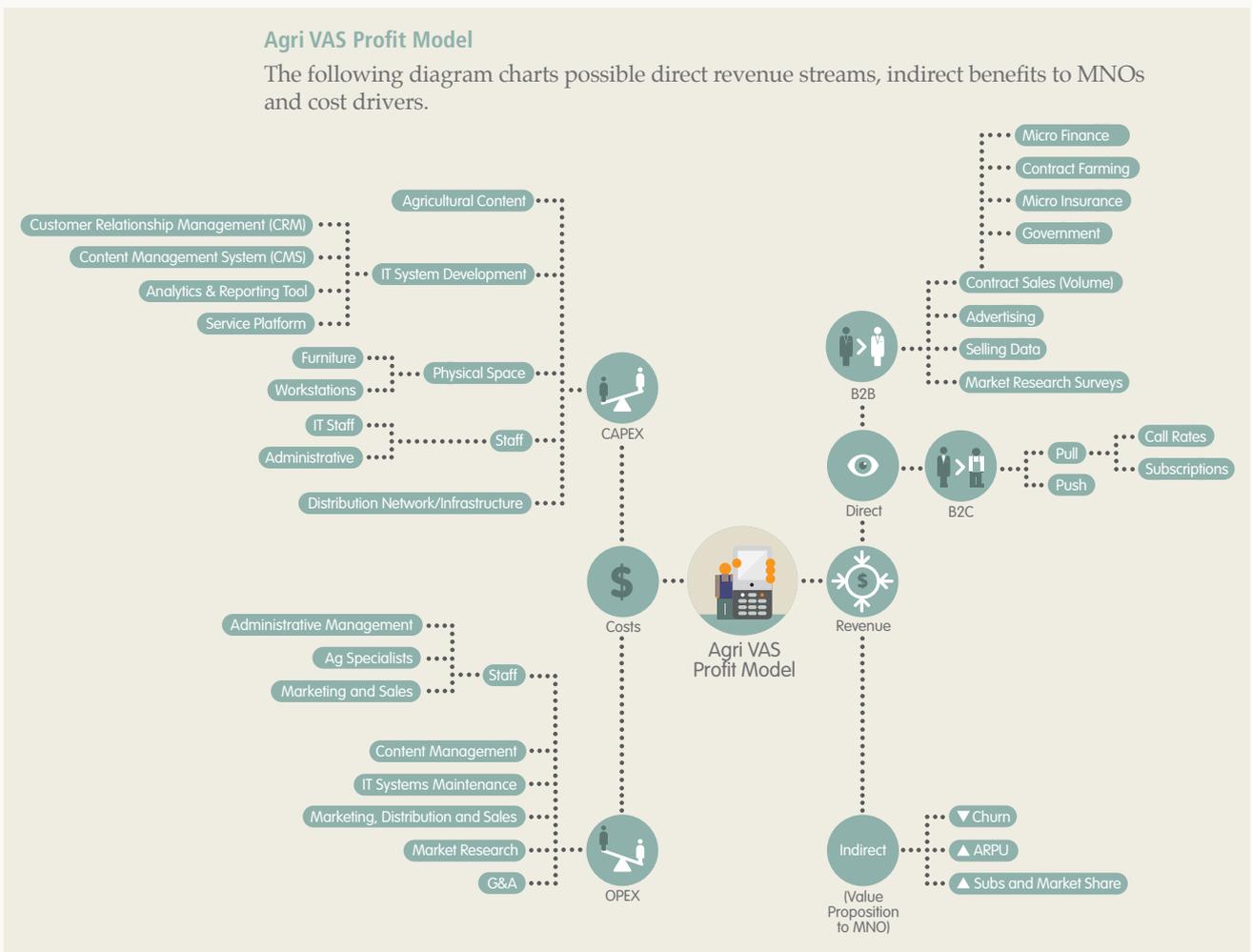
To ensure financial sustainability and commercial viability of Agri VAS, it is crucial to:

1. Develop reliable revenue streams with which to offset operational costs.
2. Provide critical partners with a unique value proposition and a clear rationale for their continued support.

This sections aims to give Agri VAS providers the tools and knowledge necessary to develop their services within financially sustainable models.

Agri VAS Profit Model

The following diagram charts possible direct revenue streams, indirect benefits to MNOs and cost drivers.



Revenue Model Considerations

Direct Revenue B2C (Business to Consumers)

Most Agri VAS collect payment directly from the consumer via monthly subscriptions or a pay-per-use model. These fees are usually deducted from the subscriber's pre-paid account (billed through the MNO) while revenue is shared according to content partnership agreements.

When designing Agri VAS, it is important to consider the consumer's ATP and WTP (ability and willingness to pay). Unfortunately, very little data exists in support of rural consumer's ability and willingness to pay for mobile VAS or other forms of extension services. Thus we must use other methods to determine how best to collect revenue from farmers (the pricing architecture) while maintaining a degree of flexibility to collect revenue from other sources.

An early model, which has achieved notable success, is the 'freemium' model used by IKSL. Farmers pay standard pricing for a 'Green SIM'. In return, they receive five, free, localised voice messages each day. Users can also access the farmer helpline to get answers to specific questions. For these calls, farmers are charged at the standard call rate.

By leveraging the complimentary nature of the push/pull model, IKSL uses the proceeds from premium services (pull) to offset some of the costs of free services (push). In this manner, IKSL can reach and impact more farmers.

Another important factor to consider in the case of IKSL is the value proposition they bring to their partnership with Bharti Airtel. This is explored in detail in the section "**The Business Case for MNOs**"

Although a rural farmer's ability or willingness to pay is uncertain, charging a modest fee may be useful to establish credibility and prevent abuse. Because these modest fees will not be a source of meaningful revenue, Agri VAS should be designed with alternative revenue streams (B2B) independent of the farmers.

B2B Revenue Models

Two approaches were taken in analysing B2B revenue streams. The first was to examine the agricultural value chain and determine what other actors would gain significant, indirect value from Agri VAS and be willing to pay for it. This leads us to a variety of contract sales and outsourcing opportunities. The second approach was to study what unique assets and resources Agri VAS develop which we can be leveraged into other products and services outside the scope of our target market (smallholder farmers). By shaping these assets and resources to fulfil other unmet market needs, Agri VAS can generate alternative sources of direct revenue. This is discussed towards the end of the section.

Contract Sales

Contract Sales are bulk purchases or subscriptions ordered by an organisation on behalf of a particular community of farmers. Other actors in the agricultural value chain may be willing to pay for Contract Sales if presented with a compelling value proposition or a clearly defined ROI. Agribusiness Firms, Micro Insurers and Government Agencies are examples of such value chain actors who would benefit from increased agriculture output and productivity and may be willing to pay for Agri VAS for their farming partners.

1. Agribusiness Firms

Large Agribusinesses rely on contract farming to source critical raw materials, which they process into finished goods (Nile Breweries - beer, Mukwano Industries - cooking oil, Tilda Limited - rice, etc.) By ensuring their suppliers (farmers) have the best possible information to manage their business and crops, there could be a case for them (Agribusiness Firms) to benefit from the farmer's increased productivity, product quality and lower costs of production. They may be a source of contract sales whereby they purchase bulk subscriptions for their contract farmers. Many large Agribusiness firms already invest in traditional agriculture extension activities and may be qualified prospects for Agri VAS.

Example

1. Agribusiness firm buys bulk subscription to Agri VAS for their contract farmers.
2. Contracted farmers use Agri VAS to improve crop yield and quality.
3. Agribusiness firm's supply source has increased in both quality and quantity (higher quality raw materials and more options which to purchase from).
4. Financial burden can be shared between the Agribusiness firm and the contracted farmers.

Critical to Value Proposition There is a real need to prove an ROI to the Agribusiness firm (for instance the increase in yields leads to other cost reductions in their manufacturing process/ supply chain) or demonstrate increased efficiency for their agriculture extension budget.

2. Micro Insurers

Micro Insurance firms are beginning to offer crop or drought insurance to farmers. In order to reduce the risk of crop failures (the likelihood of paying claims) Micro Insurance firms may be willing to provide their clients with information services bundled into their premiums.

Example

1. Micro Insurance firm sells crop insurance policy to a farmer bundled with Agri VAS.
2. Farmer benefits by increasing yields and produce quality and reducing the likelihood of crop failure.
3. Micro Insurance firm benefits by reduced occurrence of crop failure claims.

Critical to Value Proposition Need to tie information services to a reduction in crop failures and claims.

It is important to remember that when selling or positioning Contract Sales, it's vital to have a solid ROI or business case for an organisation to participate. They need to have a clear idea as to the size and magnitude of the value they stand to receive.

Out-Sourced Services**Government Agencies**

As government extension relates to public information that may not be of immediate interest to farmers, such as soil and water conservation, governments may use the Agri VAS platform to push out such information to farmers.

Governments currently offering agriculture extension services may be willing to outsource parts (or all) of their program. Existing Government extension services are typically under-resourced, mobile networks can provide a more cost effective channel to provide agriculture extension services to these rural farmers.

Governments wanting markedly to improve the reach of their extension services may be willing to outsource parts of their services to, or partner with, an Agri VAS provider.

Example

1. An existing government extension programme possesses a great deal of locally relevant and critical agriculture knowledge, but lacks the capacity to serve a geographically diverse constituency.
2. Extension workers are under-utilised because they spend more time on administrative tasks and travelling than they do working with farmers.
3. The Agri VAS provider proposes a government partnership whereby government extension workers and knowledge is fed through the Agri VAS platform to scale up service offerings.
4. Government extension workers are able to spend more time assisting farmers through the Agri VAS delivery platform, and only needing to travel to visit farmers facing extreme cases.
5. The Government saves money by eliminating the majority of travel costs and can reposition those funds towards provisioning the Agri VAS delivery platform.

Critical to Value Proposition Agri VAS should be viewed as being complimentary to existing face-to-face interventions. It is imperative not to alienate existing stakeholders (Government extension employees). It is also necessary to tie cost savings to the amount invested in using the Agri VAS delivery platform. The extension workers can either be employed by the Agri VAS or use the service to obtain additional expert advice when in the field with farmers.

Alternative Sources of Direct Revenue

Successful Agri VAS are expected to develop a level of trusted brand recognition and a relationship with rural farming communities on a large scale. This unique asset can be leveraged to provide services to organisations wanting to connect with or learn about the rural farming sector.

1. Advertising and Public Service Announcements:

The vast sub-Saharan African mobile advertising market has yet to be explored fully. Research by advertising firm InMobi¹⁰ suggests that the market is characterised by a high demand for mobile advertising that exceeds that of Europe and the United States.

We summarise their findings below:

- 69% of Africans are 'very' or 'somewhat comfortable' with mobile advertising. This figure is world-leading and in advance of the US and Europe (at only 61%). Consequently, African publishers have a significant opportunity to capitalise on this consumer interest in mobile. Early movers will secure a sizeable competitive advantage over their rivals.
- Typically, men are more accepting of mobile ads (76%) than women (63%). However, African women remain more receptive than their peers in America or Europe. Mobile is an empowering tool conferring manifold benefits to women including the ability to connect more widely with their peers, friends and families and conferring significant increases in personal security and business opportunities.
- Users see "helping me find new information" as the primary value-add of (45%) of mobile advertising.
- In exchange for mobile advertisements on their phone, consumers prefer a relevant message (57%) over 10% savings on the phone bill (55%) or free content (49%). Advertisers, therefore, need to offer genuine value in the content of their mobile advertising. Free content or discount campaigns will not suffice.

Given these findings, Agri VAS suppliers should explore the possibility of working with producers of agricultural inputs, banks or Consumer packaged Goods (CPG) companies who have an interest in connecting with rural users and who purvey services or information, which those users would find beneficial. Currently, not many platforms exist to reach out to this market on a large scale. However, an Agri VAS platform may well have the resources to satisfy this need.

Example 1

1. By tracking and logging farmer behaviour, the Agri VAS develops enough intelligence to predict when a subset of farmers may need to replenish certain supplies (fertiliser, seeds, pesticides, etc.)
2. An agricultural input supplier needs to distribute its marketing message to its target market (farmers in need of fertiliser).
3. An agriculture input supplier pays to send a targeted advertisement to the subset of farmers who are within the target market and who are expected to replenish their supplies.

Example 2

1. The Agri VAS collects demographic data on subscribers and their families.
2. A healthcare NGO plans an immunisation event for children of particular ages in rural communities.
3. A healthcare NGO pays to distribute this notification to Agri VAS subscribers with children within the age range.

Critical to Value Proposition: The more targeted and more personalised the advertising is, the more value it is for the farmer and the more effective it will be for the advertiser.

2. Data Collection and Market Research Sales

Research organisations, government agencies, NGOs and corporations require specific and unique sets of data to support their decision-making. Gathering timely and customised data can be expensive, time consuming or simply impractical. An Agri VAS may have the tools and resources in place to collect such data with less time and financial requirements.

10 In Mobi research "A Global Consumer View of Mobile Advertising: Africa Results" is available at http://www.inmobi.com/wp-content/uploads/2010/11/InMobi_Consumer_Mobile_Ad_Effectiveness_Africa_Nov_2010.pdf

Example

1. A CPG Company needs to conduct market research surveys to feed into the development of a new product for the rural market and its accompanying advertising campaign (income levels, willingness to pay, desires and preferences, etc.)
2. An Agri VAS has a large enough sample size (in the CPG Company's target market/ demographic) ready and willing to be the subject of market research activities.
3. Agri VAS carries out the market research surveys on behalf of the CPG company.
 - a. Based on their intimate understanding of the rural market, Agri VAS providers could add value by assisting the CPG Company in designing the market research survey.

By thinking creatively about how its specialist access to, and understanding of, these remote, underserved and (often) ignored market segments can be leveraged, an Agri VAS can open up additional income streams by partnering with other businesses who are looking to penetrate this territory.

The Business Case for MNOs

Because a typical MNO's existing infrastructure reaches deeply into rural villages, their platform is best positioned to launch and scale Agri VAS. Non-MNOs seeking to launch Agri VAS should consider a strategic partnership with an MNO. The right partnership can be an attractive opportunity to reach rapid scale.

In order to get the most value from the MNO and make best use of its scale, it is critical to provide it with a clear business rationale for their support beyond philanthropy or CSR. The more Agri VAS are aligned with the MNO's core business and strategy, the more willing an MNO is likely to be to resource such a partnership.

Since the farmer's willingness to pay is uncertain and limited, this cannot be relied upon to provide significant revenue for the Agri VAS or the MNO. Instead, value will be realised by focusing on longer-term objectives, which support the realisation of an MNO's rural extension strategy.

Indirect Commercial Value

We expect successful Agri VAS to provide some of the following indirect commercial benefits to an MNO:

1. Reduction in churn

An Agri VAS product offering provides a real differentiator to the MNO's SIM card in a crowded market place. It therefore gives the customer a real reason to select it over other VAS-less SIMs. MTN's Ugandan Mobile Money product exemplifies this perfectly as it demonstrated a significant drop in churn rate from 4.5% to 0.2%. An Agri VAS is likely to have a similar impact on churn; a phenomenon that will excite significant interest for most MNOs engaged in the race to saturated rural teledensity.

2. Increased market share and 'sticky' SIMs

Farmers who previously had little reason (aside from price) to select one MNO over another are now able to identify a very good one in the shape of an Agri VAS. A service designed specifically for farmers significantly differentiates one MNO from the rest and offers a compelling reason for farmers to select this MNO over others and, in the case of users with multiple SIMs, use it more frequently.

3. ARPU uplift (increased share of wallet)

Drawing on another synergy from mobile money, 44% of mobile money users in the Philippines carry multiple SIMs. 68% of them report using their mobile money SIM as their primary SIM. Further, it stands to reason that if Agri VAS are successful and farmer's productivity and incomes increase, their willingness and ability to pay for mobile services increase as well.

Rural Market Strategy

As farmers benefit from Agri VAS (improved yield, quality and incomes) so their incomes rise and they become more attractive consumers to MNOs. Having an established relationship (via mAgri services) provides the MNO with a competitive advantage over other operators.

The agricultural industry's connection to finance presents an opportunity to tie mobile money services to Agri VAS. Farmers need access to financing, especially the sending and receiving of payments. This presents MNOs with a great opportunity to offer mobile money services to Agri VAS subscribers simultaneously. Also, GSMA mAgri Programme pilots in India and Kenya both experienced farmers requesting health care information services for family members. Therefore, we see an opportunity for MNO's to build a portfolio

11 For more details, please see the mAgri Programme's case study on IKSL by downloading from <http://www.gsmworld.com/documents/iksl-case-study-v2.pdf>

of services that span the industry verticals (mobile health, mobile money, mobile learning and mobile agriculture) and offer real value to base of pyramid users.

Cost Model Considerations

Along with researching revenue streams, it's important to understand the main drivers of cost in order to measure and manage them. Capital Expenditures (CAPEX), and Operating Expenditures (OPEX) typically constitute the two main cost pillars within an Agri VAS and there are a number of ways to mitigate them.

CAPEX

Most start-up and fixed costs can be classified as Capital Expenditures. The role of 'soft' funding and grants are to cover some of these costs with the aim of giving standard operations a chance to become financially sustainable.

Elements of CAPEX:

- IT System Development.
 - CRM.
 - Content database.
 - Analytics and reporting systems and tools.
- Physical Space.
 - Furniture.
 - Workstations.
- Service Platform.

Minimising CAPEX

Some elements of CAPEX can be minimised or even eliminated through certain partnerships or in-kind contributions.

Many software companies offer free or highly subsidised software licenses to non-profit organisations. Having a non-profit partner apply for such programs will help the Agri VAS provider to qualify.

Partnering with organisations that possess a high level of capacity and resources can also help lower the costs of other expenses.

OPEX

It is expected that most, or all, operating expenses will be offset by revenue. These are formed of those costs not classified as capital expenditure. It's also important to anticipate how operating expenses will increase with operations. There is an ineluctable and consonant uplift in operating expenditure as the business and customer base grows. This factor must be designed into the service's budget.

Elements of OPEX

Typical Operating Expenditures include the following:

- Staff.
 - Agriculture specialists.
 - Marketing and sales staff.
 - IT staff.
 - Administrative staff.
- Content aggregation, maintenance and quality assurance.
- IT System Maintenance.
- Marketing and Sales.
- Training.
- Market Research.
- General and Administrative.

Minimising OPEX

By working with partners who possess existing resources, it's possible to reduce or eliminate the need to invest in certain OPEX categories. Agricultural organisations may already have a network of field extension workers who could be trained in marketing and selling Agri VAS once the shared benefits are explained. Indeed this was the route taken by India's successful IKSL service who partnered with IFFCO (the Indian Farmers Fertiliser Cooperative Limited), the largest farmers' co-operative, in order to leverage their enormous membership, access to (and trust of) the target market and distribution outlets.¹¹ Alternatively, an MNO's network of sales agents and village phone operators could also be leveraged for the distribution of Agri VAS.

The obvious benefit of partnering with a mobile network operator to deliver Agri VAS is that it already possesses the infrastructure necessary for effectively reaching the target market. This infrastructure not only greatly enhances the reach of the service but also acts to drive down CAPEX and mitigates against the financial risks involved in the launch of new services. Similarly, an MNO's call centres, billing and revenue collection facilities - not to mention the bearer channel and ownership of short-codes - are all highly desirable from an Agri VAS perspective, and could be critical in helping that service achieve sustainable growth.