Mobile Money for the Unbanked

Mobile money profitability: A digital ecosystem to drive healthy margins

SUMMARY INTRODUCTION

Is mobile money profitable?

- It can be, but getting there requires heavy on-going investments in operational expenditures (OPEX) and a shift away from cash-based transactions to a mature digital ecosystem.

- This paper evaluates the profitability of mobile money by estimating profit margins for three different mobile money scenarios, and highlights the internal challenges mobile operators may encounter along the way.

- The financials of over a dozen mobile money deployments were analysed and interviews were conducted with managers and group-level executives across different regions.

Measuring the profitability of mobile money

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PROFITABILITY METRICS ARE DIFFERENT THAN CORE GSM METRICS

- Mobile money is an OPEX, not a CAPEX business (agent commissions for cash-in and out consume 40-80% of mobile money revenue)
- Most of the 240+ deployments to date suffer from underinvestment in OPEX
- Mobile money negatively impacts EBITDA in the short-term and mobile money can face internal KPI conflicts
- Operators and financial officers should therefore compare mobile money and GSM businesses based on free cash flow generation, that is, approximately EBITDA minus CAPEX

ASSUMPTIONS FOR THE STUDY

- Mobile money is managed through a dedicated business unit within an MNO or, in some cases, as a separate entity altogether
- Indirect benefits of mobile money, such as churn reduction, can be significant, but are not directly reflected in the P&L
- Revenue generated from the float does not contribute to the profitability of the mobile money business
- Mobile money is first and foremost a transactions-driven platform, with costs and revenues tied to the movement of value

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Three mobile money scenarios assessed for profitability analysis

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	1 START-UP, EARLY STAGE (1-2 YEARS)	2 HIGH-GROWTH, REMITTANCE-BASED (4-5 YEARS)	3 MATURE, ECOSYSTEM-BASED (>5 YEARS)
DESCRIPTION	• Customer acquisition phase • Provider focused on generating market awareness • Priority is basic foundations of mobile money	• At least 15% of GSM base active mobile money users (30-day) • Network effects kicking-in • One predominant use-case (e.g., P2P, bill pay)	• At least 30% of GSM base active mobile money users (30-day) • High growth of bill payment and bulk payment transactions
PROFITABILITY METRICS	• Highest cost categories agent commissions for registration, agent on-boarding, and marketing • Very little revenue at this point (>0.5% of total MNO revenue) • Negative net margins	• Highest cost category agent commissions • Revenue coming primarily from P2P and cash-out • Mobile money revenue approx 5% of total MNO revenue • Modest, positive net margins	• Agent commissions compressed • Revenue sources more diversified, less from cash-out • Mobile money revenue >15% of total MNO revenue • Healthy net margins

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Transaction and system overview: path to profitability

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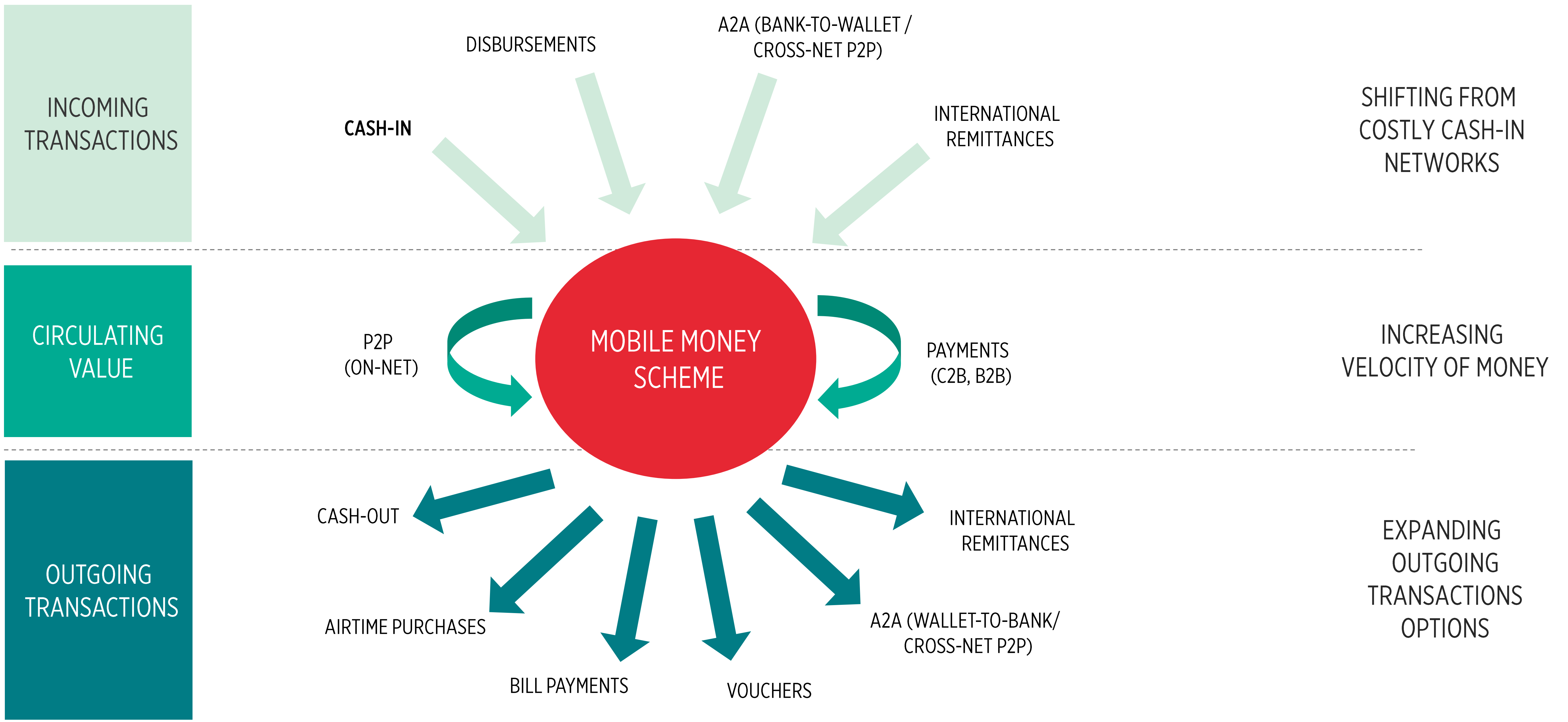

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Summary KPIs

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	1 START-UP, EARLY STAGE (1-2 YEARS)	2 HIGH-GROWTH REMITTANCE-BASED (4-5 YEARS)	3 MATURE, ECOSYSTEM-BASED (>5 YEARS)
REVENUE			
TOTAL REVENUE (% OF MNO REVENUE)	0.2%	5%	15%
AVERAGE TRANSACTION REVENUE (% OF VALUE)	1.7%	3.4%	3.3%
TRANSACTION MARGINS	31%	55%	65%
DIRECT COSTS*	719%	74%	60%
INCL. AGENT COMMISSIONS (% OF TOTAL MM REVENUE)	*369%*	*54%*	*36%*
INDIRECT COSTS**	107%	24%	20%
EBITDA MARGIN	-726%	2%	20%
CAPEX RATIO (% OF TOTAL MM REVENUE)	$1-3M USD*	8%	3%
CASH FLOW MARGIN	NA	-6%	17%

Key messages

- Shifting to a digital ecosystem can improve the profitability of a mobile money deployment by 5x to 10x.

- Operators will incur heavy losses in the early years to acquire customers and build a distribution network, and will need to invest in the system for roughly three years before breaking even. The investment has paid off for several MNOs, however, and CEOs should resist the temptation to cut into mobile money OPEX, especially during the early stages of a deployment.

- With potential direct revenue from mobile money accounting for more than 20% of total business and cash flow margins of over 15%, mobile money can be a healthy cash generator for operators already investing heavy CAPEX in last generation data deployments, and can also help to maintain loyalty and efficiency on the distribution channel.