Mobile Money for the Unbanked

Big ambition meets effective execution:

How EcoCash is altering Zimbabwe's financial landscape

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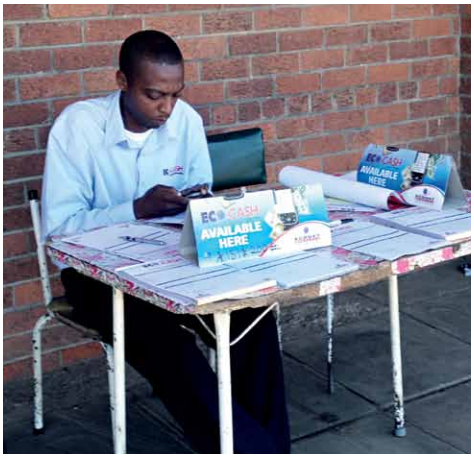

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31%
THE PERCENTAGE OF ZIMBABWE'S ADULTS WHO REGISTERED WITH ECOCASH WITHIN 18 MONTHS OF LAUNCH.

JUST 18 MONTHS AFTER launch, the results are impressive: 2.3 million Zimbabweans have registered for EcoCash mobile money accounts, outnumbering all of Zimbabwe's traditional bank accounts combined. Over 1 million of these accounts are active[3] and push US$200 million of volume over the EcoCash platform every month. When annualised, that volume represents an amount equivalent to 22% of Zimbabwe's GDP.[4] This case study highlights how big ambition matched with effective execution has allowed EcoCash to fundamentally alter the financial landscape in Zimbabwe in such a short period of time.

EcoCash is part of Econet Services, an independent company set up in 2012 by Zimbabwe's largest mobile network operator, Econet Wireless. EcoCash's fast start has been achieved through an effective operational strategy, but also through an unusually large investment in mobile money. Excluding customer support, EcoCash staff number 110 full-time employees and EcoCash represents the largest component of Econet's marketing budget. Econet's leadership justifies this investment as necessary to achieve equally big ambitions. The vision extends far beyond P2P money transfer: Econet wants to completely alter how financial services are delivered in Zimbabwe. Their goal is to become the dominant payment infrastructure in Zimbabwe by making EcoCash the primary way people pay for goods and services – from sweets to school fees.

ECOCASH AT A GLANCE (APRIL 2013)

Operator: Econet Wireless Zimbabwe
Launch date: October 2011
Product: Wallet-based mobile money service offering P2P remittance, merchant payment, bank interoperability, bill payment, bulk payment, payroll, and other services

Users: 2.3m with over 1m 90-day active
Volume: $200m per month

3 On a 90-day basis

4 CIA World Factbook, nominal GDP, 2012, https://www.cia.gov/library/publications/the-world-factbook/geos/zi.html

FINDING A STRATEGIC OPPORTUNITY

The first part of the case study examines the economic challenges in Zimbabwe that spurred Econet to create EcoCash. After a volatile decade of currency collapse, hyperinflation, and widespread mistrust of the formal financial system, EcoCash sees strategic opportunities in Zimbabwe's booming informal economy, where payment services are lacking and mobile phone penetration is high.

ECONET'S BIG BET

Big ambition requires sizeable investment and senior-level vision and commitment. At Econet, this commitment comes directly from group level leadership, led by founder and Executive Chairman Strive Masiyiwa. In the second part of the case study, we will discuss the Econet Wireless Group (EWG) strategy to push aggressively into financial services. The EWG recognises the need to diversify out of the core telecom business in Zimbabwe, where voice ARPUs are under competitive pressure, and to create new lines of business with significant revenue potential. Consistent with Econet's long-term commitment to revenue diversification, EcoCash has been housed within Econet Services, a separate company from Econet Wireless (the MNO) with its own C-level management, budget, governance, and dedicated staff.

STARTING SIMPLE, BUILDING A STRONG FOUNDATION

The third part of the case study examines how EcoCash has built up its service. Its long-term goals are ambitious, but Econet has opted to start with a simple use case that fills a basic consumer need: sending and receiving money. They have also chosen to sacrifice short-term profitability in order to build a robust distribution network and attract customers. For example, EcoCash is paying out 80% of revenues in the form of agent commissions to build a strong and committed agent network. Here we will see how a combination of aggressive promotions, ground-level subscriber engagement, and agent incentives has allowed EcoCash to race to 2.3 million subscribers in 18 months.

5 KEYS TO SUCCESS

The rapid growth of EcoCash is the result of five key strategies:

Finding the pain point: Identifying specific pain points in the market allowed EcoCash to meet customer needs in a targeted way.

Taking a long-term view: Long-term vision and commitment from shareholders allowed EcoCash to focus on the foundations of the business rather than short-term profits.

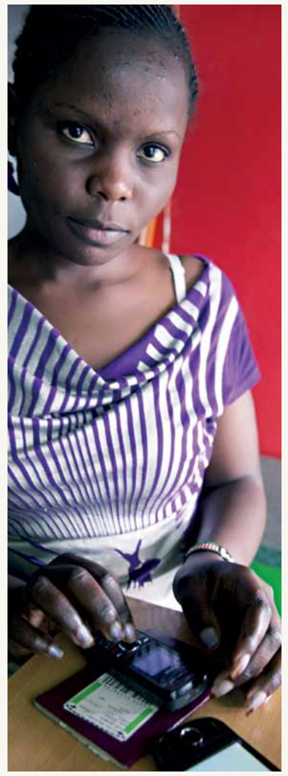
Keeping mobile money separate: Creating a new company with dedicated staff and governance gave EcoCash the focus and financial resources it needed to succeed.

Starting with a simple product: Despite broader long-term ambitions, EcoCash began by launching a product with a simple and clear proposition: "Send and receive money".

Embracing the financial ecosystem: EcoCash is working within the existing financial ecosystem and focusing on interoperability to create linkages between Zimbabwe's banked and unbanked populations.

MOVING BEYOND P2P MONEY TRANSFERS

Finally, we examine how EcoCash plans to transition from a simple money transfer product to becoming Zimbabwe's dominant payment infrastructure. Here, EcoCash sees two major opportunities: retail payments and payment flows between the banked and the unbanked. To seize these opportunities, EcoCash is working within, rather than outside, Zimbabwe's financial infrastructure. With the help of bank-grade technology, EcoCash is integrating with Zimbabwe's financial institutions to facilitate formal payments between banked and unbanked customers. To crack retail payments, EcoCash is combining an aggressive merchant acquisition drive with focused customer messaging.



PART 1

Seeing a strategic opportunity

HYPERINFLATION AND THE CURRENCY CRISIS

Once a major player in the Southern African economy with a well-developed financial services sector, in 1998 Zimbabwe descended into a volatile decade of hyperinflation, currency collapse, high unemployment, and loss of confidence in the banking sector.

Driving this economic upheaval was the collapse of Zimbabwe's currency, which caused inflation to rise by an unfathomable 231,000,000%.[5] Prices in shops and restaurants rose exponentially, changing by the hour or even the minute, peaking during the evening commute.[6]

Money held in bank accounts became worthless as quickly as people queued to withdraw it. Banks responded by imposing withdrawal limits on accounts, prompting bank customers to open multiple accounts to access more cash.[8] Meanwhile, the government printed more and more bills, including a hundred trillion dollar note so worthless it would not even buy a loaf of bread.

In 2009, the local currency (Zimbabwean dollars) was abandoned and replaced with a multi-currency system dominated by the U.S. dollar. This shift has stabilised inflation, but it has created new challenges such as coin shortages.

HYPERINFLATION BY THE HOUR[7]

- At the peak of hyperinflation in July 2008, a Coke bought at 8 a.m. cost ZIM$50 billion
- At noon, the same Coke cost ZIM$100 billion.
- By 7 p.m. that day, the same Coke cost ZIM$150 billion.

5 The Economist, 27 April 2013, "In dollars they trust," http://www.economist.com/news/finance-and-economics/21576665-grubby-greenbacks-dear-credit-full-shops-and-empty-factories-dollars-they.

6 "Hyperinflation in Zimbabwe", http://en.wikipedia.org/wiki/Hyperinflation_in_Zimbabwe (accessed 8 June 2013).

7 As cited in Ahmed Dermish, Ben Hundermark, Caitlin Sanford, 2012, "Mapping the Retail Payment Services Landscape", FinMark Trust, p.11, http://www.cenfri.org/documents/Payment%20systems/BFA%20country%20studies/RPS_Zimbabwe.pdf.

8 Ibid., p.17.

THE ZIMBABWE OPPORTUNITY

Bring payment services to the informal economy
Zimbabwe's economy is rebounding and the informal economy is thriving, but cash is still king. Most of Zimbabwe's employed work in the informal sector and do not have access to payment services.

Replace cash in the retail environment to solve the "change problem"
Introducing electronic payments would allow consumers to pay exact prices instead of rounding up to the expensive $1 minimum currently required with cash.

Bridge the formal and informal economies
EcoCash is not only a product for the unbanked – cashless transactions also need to appeal to wealthier, banked customers and provide a practical way for money to be transferred between people in both sectors.

THE MOVE TO THE INFORMAL ECONOMY

One of the results of hyperinflation was a dramatic rise in unemployment, which pushed people out of salaried jobs and into the informal economy. The majority of the employed (84%)[9] still work in this sector, which can bring in more money than a low-wage job in the formal sector. This is not a minor, underground economy – US$2.8 billion passes through Zimbabwe's informal sector each year, and in 2009 it accounted for more than half (52%) of the country's productive output.[10]

THE BANKS LOSE CONFIDENCE

The impact of hyperinflation on consumer trust in Zimbabwe has been profound, especially faith in financial institutions. When the multi-currency system was introduced, it was difficult for banks to assign value to account balances of largely worthless Zimbabwean dollars, and many customers had their balances completely wiped out.[11] A certain segment of the public still blames the banks for this and are reluctant to open new accounts. This view is particularly prevalent among the "ex-banked" – roughly 12% of the population who have had a bank account in the past, but are now choosing to use informal financial services instead.[12]

SEIZING THE OPPORTUNITIES

With 8 million subscribers and 70% GSM market share,[13] Econet has a reach many times greater than the formal financial sector and a high level of consumer trust. Econet management knew there was an opportunity to play a role in financial service delivery, but wanted to address Zimbabwe's most acute pain points.

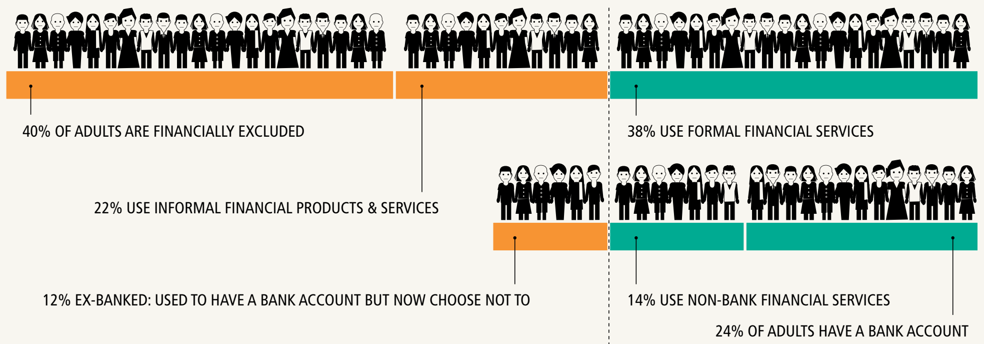


FIGURE 1
Formal financial service penetration in Zimbabwe

9 Zimstat, "2011 Labour Force Survey", p. 113, http://www.zimstat.co.zw/dmdocuments/Laborforce.pdf.

10 Albert Makochekanwa, 2013, "Measuring the second economy in Zimbabwe", African Journals Online, p. 51, www.ajol.info/index.php/boje/article/download/85407/75332.

11 Ahmed Dermish, Ben Hundermark, Caitlin Sanford, 2012, "Mapping the Retail Payment Services Landscape", FinMark Trust, p.17, http://www.cenfri.org/documents/Payment%20systems/BFA%20country%20studies/RPS_Zimbabwe.pdf.

12 Ibid., p.9

13 Estimate from IHSecurities, "Econet Wireless 1H12 Earnings update," http://www.ihsecurities.com/images/pdf/lrg/Econet_1H12_Earnings_Update:_Valuation_Disconnect.pdf

Where does EcoCash see the greatest opportunities?

SERVING THE PAYMENT NEEDS OF THE INFORMAL ECONOMY

With most employed people working in the informal economy and 65% of business transactions moving through this sector, bringing the informal economy into a electronic transaction system would capture massive amounts of payment flows. Current alternatives, such as transferring money through bus companies, can be inconvenient, slow, insecure, and expensive. Mobile money, on the other hand, fits the needs of the informal economy because it does not require customers to have a bank account – something many Zimbabweans are reluctant to embrace again. Part 3 will describe how EcoCash built a critical mass of subscribers and agents within this informal economy.

REPLACING CASH IN THE RETAIL ENVIRONMENT AND SOLVING THE "CHANGE PROBLEM"

The switch to the U.S. dollar has helped to stabilise inflation, but it has created what is known in Zimbabwe as the "change problem": $1 minimum transactions. The weight of U.S. coins makes them expensive and difficult to import, so with little U.S. change available, goods that used to cost 99 cents or less now cost a dollar. Sometimes merchants offer credit notes or even sweets as change. Shoppers are often forced to buy additional, non-essential items – essentially impulse buys – to bring their total purchase to one dollar. In a nation where the average person lives on less than two dollars a day, a dollar is still a lot of money. As one journalist put it, "Once worth too little, money in Zimbabwe is now worth too much."[14]

EcoCash aims to solve the change problem by replacing cash in the retail environment. Using mobile money would allow customers to pay the exact price electronically, eliminating the expensive headache of the $1 minimum.

The change problem may be unique to Zimbabwe, but the bigger challenge – penetrating the retail environment – will resonate with any operator trying to expand the utility of their mobile money service. Part 4 will reveal some of the tools and merchant incentives EcoCash is using to crack this notoriously difficult problem.

BRIDGING THE FORMAL AND INFORMAL ECONOMIES

The formal and informal sectors do not live in complete isolation from one another. Wealthier, banked Zimbabweans support their unbanked extended families and social networks, and unbanked Zimbabweans still need to make payments into the formal sector, such as utility bills and school fees.

Econet management recognised that EcoCash should not only be a product for the unbanked – it needed to appeal to people operating in both economies and provide a practical way for payments to be made between them. Part 4 will explore how EcoCash is interoperating with Zimbabwe's existing banking system to create these linkages.

QUESTIONS FOR OPERATORS

What are the unmet financial service needs and true pain points in your market? How similar are these to Zimbabwe's?

14 Lydia Polgreen, 24 April 2012, "Using U.S. Dollars, Zimbabwe Finds a Problem: No Change", The New York Times, http://www.nytimes.com/2012/04/25/world/africa/using-us-dollars-zimbabwe-finds-a-problem-no-change.html?pagewanted=all&_r=0.

PART 2

Econet's Big Bet

THE VISION FOR ECOCASH comes straight from the top led by Mr Strive Masiyiwa who is the founder and Group Executive Chairman. Mr Masiyiwa is a pioneering Zimbabwean entrepreneur who originally drove adoption of mobile telephony in his home country by forming Econet Wireless, the first privately-owned MNO in Zimbabwe. EWG's approach to EcoCash shares the same long-term commitment, major investment, and broad social view that applied to the founding of its parent company.

Econet has never been just about the money. From the beginning, the company has been motivated by meeting needs that improve people's lives. At that time of its founding, 70% of Africans had never heard a telephone ring.[15] Today, Econet's investment in services, equipment, infrastructure, and customer education has helped to push mobile penetration in Zimbabwe to almost half the population.[16]

Twenty years on, Econet sees another way to make a big difference through technology: inclusive payment services that fulfill the financial needs of the poor in Zimbabwe. Still a believer in strong and focused long-term investment, this time they are counting on mobile financial services – and EcoCash specifically – to meet those needs.

DECLINING VOICE REVENUES SPUR DIVERSIFICATION

Econet's financial services push was driven not only by a desire to achieve a social impact, but also by an equally strong business need to grow new revenue streams.

This business need stems from the state of the core GSM market in Zimbabwe. ARPU growth in core GSM services has plateaued in Zimbabwe and in a number of markets across Africa as competition has saturated the market. Although the number of connections in Zimbabwe continues to

15 Mfonobong Nsehe, 24 February 2013, "Five Lessons From Zimbabwe's Richest Man, Strive Masiyiwa," Forbes Magazine, http://www.forbes.com/sites/mfonobongnsehe/2013/02/24/five-lessons-from-zimbabwes-richest-man-strive-masiyiwa/

16 Estimates from GSMA Intelligence. While penetration on a SIM basis is close to 100%, it is closer to 50% on a unique subscriber basis.

> "ECONET SERVICES IS A STRATEGIC RESPONSE TO A STRATEGIC CHALLENGE: DECLINING VOICE ARPUS."
>
> DARLINGON MANDIVENGA
> CEO, ECONET SERVICES

EXCLUSIVE TO ECONET SERVICES

- Governance
- Operating budget
- Customer support (e.g. call center)
- Sales & distribution
- Product development

SHARED WITH ECONET WIRELESS

- Network infrastructure
- Audit
- Some fraud controls
- Some marketing
- Retail service centers

rise as new subscribers sign on (as of Q1 2013, just under 50% of Zimbabweans had cellular connections, with an average of two SIM cards per subscriber), revenue per subscriber is tapering off. Average revenue per unique mobile subscriber in Zimbabwe declined by 9.6% from US$15.52 to $14.95 between Q4 2011 and Q4 2012, much of this driven by declining voice ARPUs.[17]

To Econet, the best hope for long-term growth is diversifying into financial services, data, and other overlay services that drive ARPU growth.

ECONET SERVICES: A NEW COMPANY TO FOCUS THE VISION

While most MNOs have recognised the value of services such as mobile money, Econet's level of strategic commitment in this area is unusual. Its commitment manifests itself not only in financial investment but also in how it has organised and structured the company. Rather than simply create a new department within Econet Wireless, the EWG has established a completely new entity – Econet Services[18] – to house and focus on overlay services, of which EcoCash is one.

As a part of Econet Services, EcoCash has its own governance, management team, budget, and resourcing. While strong linkages to Econet Wireless (the MNO) still exist, and some resources are shared between the organisations, Econet Services is able to forge ahead independently of Econet Wireless.

Why start fresh?

Given the size of the opportunity that Econet sees in mobile money, creating a separate company helps to ensure the right level of focus on mobile money within the overall business. GSMA's Mobile Money for the Unbanked Programme (MMU) conducted interviews with 2012 GSMA Mobile Money Sprinters – leaders of some of the fastest growing mobile deployments in the world – and it emerged that successful services tended to create an "organizational separateness" for mobile money.[19] As a mobile money sprinter, Econet's organizational choices are not unique, but it has taken it a step further by establishing separate governance and by housing the majority of the functions of the mobile money team in a new and distinct organisation.

Second, incubating a business with long-term goals within a telecom business with ambitious short-term GSM targets can make it difficult to achieve the objectives of both businesses. It can be a challenge for any MNO to allot the requisite resources and attention to mobile money services when its core GSM business is much larger and initially more profitable. Patience is easier to manage within a separate organisation, and Econet Services anticipates a 3-year path to profitability for EcoCash.

TOP-LEVEL TALENT WITH A MIX OF BACKGROUNDS

Another major investment was recruiting and hiring high-calibre executives that bring experience from a range of relevant industries and African markets. Econet Services CEO Darlington Mandivenga brought telecom experience from senior executive positions in the Econet Group in various African countries, including Nigeria, Kenya, Zimbabwe, and Burundi. EcoCash senior staff include former executives in the payment industry, FMCG, and from financial regulators.

WHY SUCH A BIG INVESTMENT? THE BUSINESS CASE FOR ECOCASH

Econet seems to think about mobile money differently than many operators. Their approach to mobile money shares more in common with a typical approach to building a data network than launching a value-added service. It is a long-term, ambitious investment targeting a substantial

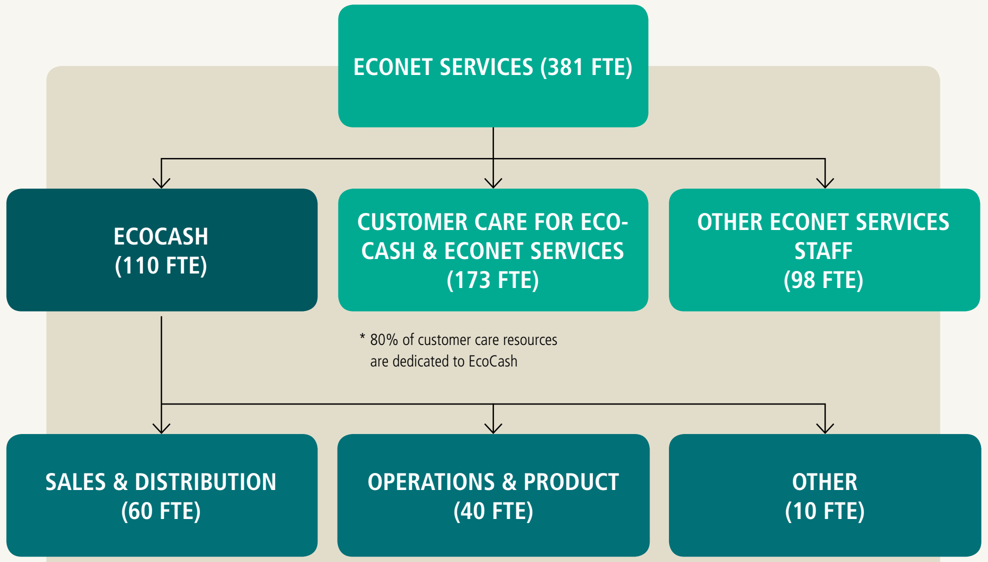


FIGURE 2
Econet Services organisational structure

future revenue stream. 3G networks are not expected to provide a return on investment in the first year of operation, nor is Econet expecting an immediate ROI from their mobile money business. Likewise, Econet does not see mobile money supporting its core GSM business. Rather, they want financial services to be a core future revenue stream that offsets anticipated pressure on the core voice business. Their aggressive organisational positioning and heavy resourcing all stem from this basic belief. Econet Services CEO Darlington Mandivenga is quite frank in saying that he does not think EcoCash would have achieved its initial success without such a high level of investment.

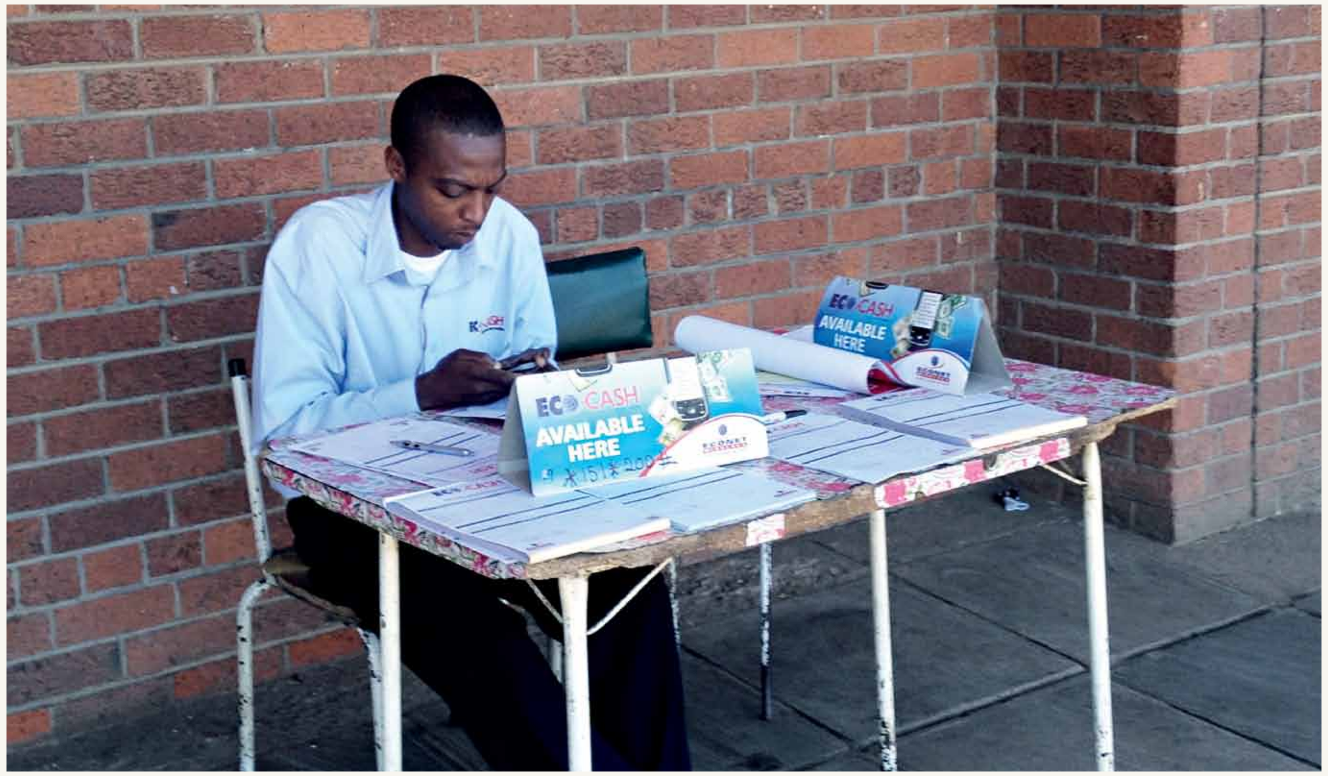
EcoCash has been built to be profitable only at significant scale and with a high level of customer activity over a range of products and services. Despite the large user numbers, senior management does not expect EcoCash to break even until three years after launch. As described in Part 3, the domestic P2P business was purposefully designed with thin margins. EcoCash plans to recoup its investment from what it sees as a larger and more profitable ecosystem built around banks and retailers. This strategy is discussed further in Part 4.

ECONET SERVICES CEO
DARLINGTON MANDIVENGA

17 Estimates from GSMA Wireless Intelligence

18 Econet Services also operates in Econet Group markets outside of Zimbabwe.

19 Claire Pénicaud, 2013, "State of the Industry: Results from the 2012 Global Mobile Money Adoption Survey," GSMA Mobile Money for the Unbanked Programme, p. 13, http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2013/02/MMU_ State_of_industry.pdf



PART 3

Starting simple, building a foundation

ECONET RECOGNISED EARLY on that mass uptake of mobile money would be won or lost on field activities – distribution and marketing – rather than the development of new product features. This initial focus was on building a robust distribution channel and acquiring a critical mass of users.

It began by building a broad network of agent outlets, particularly in semi-urban and rural areas where users cash-out the transfers they receive. It also had to ensure that the agent network had sufficient cash and float liquidity to meet the demands of its rapidly growing customer base, and for this they provided bonuses and special incentives to motivate them to invest in EcoCash and educate new customers.

Econet also understood that simply making the service available was not enough; it would also have to take an aggressive approach to customer acquisition and undertake extensive field activities to register and educate customers about the value of EcoCash.

With over 1 million 90-day active users and 4,000 active agents in only 18 months, their efforts are clearly paying off. How did they reach this point so quickly? By employing three key strategies.

STRATEGY #1: START SIMPLE

EcoCash launched with a simple product: a basic USSD interface that allowed customers to deposit, withdraw, and send money from their mobile phone or agent outlet. The initial focus on P2P transfers was driven by two inputs: a survey of existing money transfer options for Zimbabwe's large informal sector and qualitative customer research conducted prior to launching the product. The survey of existing options, including cash transfers through bus companies or the post office, revealed that EcoCash could provide a better offering in a range of areas, including price, security, and convenience.

The initial customer message was simple: "Send and receive money." By launching a product with a simple value proposition and mass appeal, EcoCash has been able to focus their efforts entirely on go-to-market activities.

It is no secret that EcoCash wants to move beyond being a simple P2P service, and it is difficult to imagine the company taking it slow. However, the foundations of a functioning mobile money service take time to build and require buy-in at all levels: consumers, agents, and the regulator. EcoCash leadership knew that to achieve its long-term goals, the company had to take a collective breath and start simple.

STRATEGY #2: BRING THE SERVICE DIRECTLY TO USERS

Since EcoCash launched in 2011, Econet has devoted a large proportion of its marketing budget to EcoCash – comparable to what they would spend to launch a data network. In the first two years, EcoCash will represent the largest share of Econet's marketing budget.

LESSONS FOR MNOS: BUILDING A FOUNDATION

Start with a simple product
Customers need to be educated on a simple value proposition that fits their needs. Keep the product simple and the message clear and relevant.

Focus on BTL
ATL can drive awareness, but rapid customer acquisition requires extensive field presence and investment.

Kick-start the agent network
Focusing on short-term margins can stifle growth. Generous benefits for the initial core agents, such as bonuses and special incentives, can help to ensure a positive initial customer experience.

BTL AND BRAND AMBASSADORS

Above the line (ATL) advertising, such as radio, TV, and print, was used to raise initial awareness of EcoCash, but given the novelty of the service, Econet believed below the line (BTL) activities would be more effective at educating consumers about the service and convincing them to try it. "Brand ambassadors," EcoCash's 300 field staff, were at the core of this strategy. Brand ambassadors were assigned to high traffic areas and economic centers of the informal economy, such as rural trade centres. The objectives were to educate people about EcoCash and to register new customers. Generally, a brand ambassador was expected to register 25–30 subscribers per day. Approximately 75% of EcoCash users were brought into the service by brand ambassadors rather than EcoCash agents.

How did EcoCash manage its brand ambassadors? EcoCash core sales staff each managed a set of brand ambassadors and allocated them to strategic areas where the EcoCash agent network was being built or fortified. Rather than working for commission, brand ambassadors were paid a flat salary, which was intended to motivate them to take their customer education role seriously. By not tying sal-

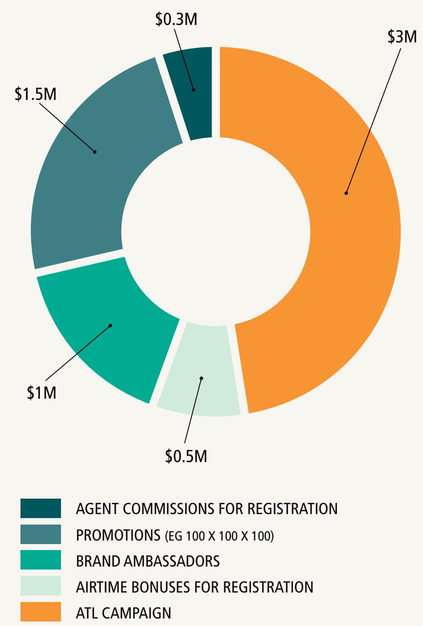


FIGURE 3
EcoCash customer acquisition expenditure by category
Total = $6.3 million

75%
THE PERCENTAGE OF ECOCASH USERS REGISTERED BY "BRAND AMBASSADORS" RATHER THAN AGENTS.

ary to registration numbers, Econet could encourage the brand ambassadors to focus on the quality of registered users rather than simply quantity. Brand ambassadors were extensively trained and closely monitored by Econet's core sales team to ensure high-quality customer engagement. Close monitoring is only one approach to managing field staff: other operators have approached this same problem by tying brand ambassador commission to customer activation.

PROMOTIONS

Econet launched aggressive promotions to attract subscribers and encourage them to use the service. Airtime bonuses lured initial customers to the service – customers who registered for EcoCash received $1 in free airtime. With over 2 million bonuses paid, this was a costly incentive, but Econet management believes it was effective in encouraging registration. Other operators have tried a different approach to airtime incentives: offering discounts when purchasing airtime with mobile money. While this approach can boost registration and initial adoption, it runs the risk of customers perceiving mobile money as an airtime purchase service rather than a financial service.

The next step was to encourage customer activity. Econet launched a major promotion focusing on usage rather than just registration. Anyone who used the service was entered into the "100 x 100 x 100" promotion, which gave away $100 to 100 people for 100 days. Then, on the 100th day, one user received a grand prize of $100,000. This was Zimbabwe's largest cash promotion ever, and proved to be effective at driving up transactions and maintaining activity over time. During the promotion, activity rates (on a 30-day basis) went up from 20% to 30%, peaking at 34% by the end of the promotion. Activity rates among these customers did not dissipate in the three months following the promotion.

STRATEGY #3: KICK-START THE DISTRIBUTION NETWORK

Econet had to quickly build an agent network to contend with the deluge of new EcoCash users brought in through the field activities and promotions described above. However, it had to carefully control the growth of the network in order to manage the ratio of active subscribers to active agents, and to ensure agent quality. Too few agents would have reduced service coverage across the country and created long queues where it was available. Too many agents would have had two negative effects: it may have forced EcoCash to compromise on quality and it would have spread the commission benefit too thinly across a large network and reduced the incentive to invest in the service and educate customers. This controlled distribution channel growth has allowed EcoCash to maintain a ratio of 250–600 active subscribers per agent and ensure these agents meet their standards for quality. These figures

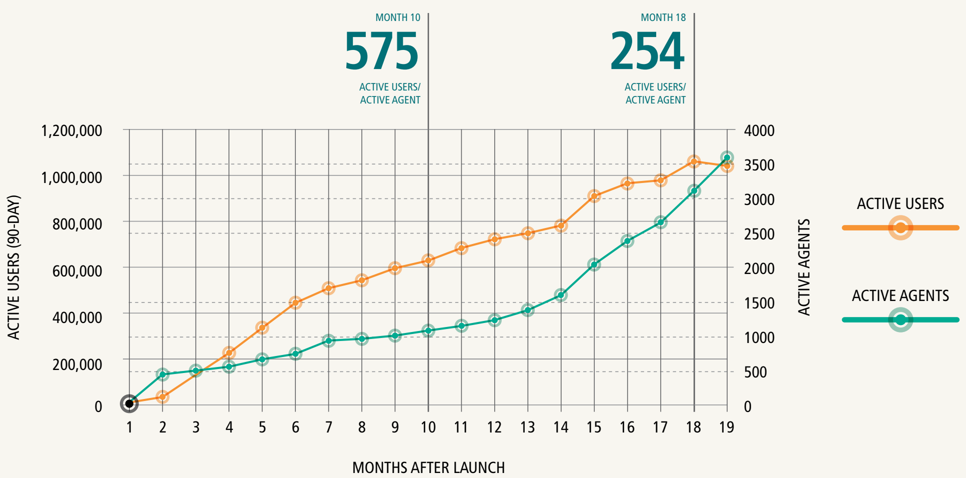


FIGURE 4
User and agent growth over time

BEFORE AND AFTER ECOCASH: THE EFFECT OF 80% COMMISSION PAY-OUTS

Phiten Moyo is a co-owner of Celzone Investments and has been operating in the peri-urban areas outside Harare for over a decade. Prior to EcoCash, his primary business was selling Econet airtime recharge cards. After EcoCash, his business focus and fortunes changed completely

BEFORE ECOCASH

- Sold Econet Wireless airtime
- 9 outlets and 10 employees
- $12,000 in capital
- $4,000-5,000 in revenue

AFTER ECOCASH

- Focuses on EcoCash
- 17 outlets and 30 employees
- $100,000 in capital (reinvests his commission each month)
- $25,000 in revenue with a 30% profit margin

are comparable to other mobile money sprinters, which on average had 275 active subscribers per agent.

80% OF REVENUE DISBURSED IN AGENT COMMISSIONS

Econet has made a strategic decision to sacrifice short-term margins and pay out 80% of its revenue in agent commissions. This has provided agents with strong liquidity and motivated them to make higher capital investments and open new outlets, which has allowed the network to cope with rapidly growing customer numbers (see **"Before and After EcoCash"** box above). Some agents have even found it advantageous to extend their operating hours to capture additional transaction revenue, with a few even operating 24-hours.

EXTRA PERKS FOR TOP PERFORMERS

One of the most innovative EcoCash incentives has been to award top-performing agents with solar kiosks. Operated by agent staff, these kiosks have allowed agents to quickly expand their footprint into high traffic areas. In addition to attracting foot traffic, these solar kiosks provide solar charging for mobile phones to avoid any lost mobile money or GSM usage due to dead batteries.

IS ECONET OVER-INVESTING IN THE FOUNDATIONS?

Observers may see Econet's push to build the foundations of EcoCash as an over-investment. Can operators without Econet's deep pockets draw lessons from its approach?

Econet views the distribution channel and customer acquisition in much the same way as they view building a data network: a foundational investment that will pay off

SOLAR KIOSK ECOCASH AGENT

Over 170 kiosks are now live with 1,000 more being deployed

"GET YOUR PHONE CHARGED HERE FOR FREE"

> THERE IS NO BUSINESS LIKE THIS IN ZIMBABWE
>
> PHITEN MOYO, IN FRONT OF ONE OF HIS 17 OUTLETS

in the long term. If Econet's only goal was to operate a domestic P2P transfer service, this investment would not make sense – the 80% channel commissions alone would destroy the business case. However, Econet has much greater ambitions for EcoCash and achieving these ambitions will naturally bring improved margins.

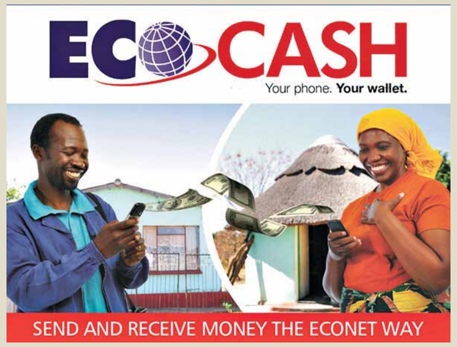
The next section describes Econet's strategy for increasing transaction volumes within the EcoCash system, including retail payments. By getting customers to perform multiple transactions in between cash-in and cash-out, EcoCash margins will increase even if its cash-in / cash-out commission rates stay the same.

QUESTIONS FOR OPERATORS

1. Should operators be concerned with profit margins in the first few years after launching a mobile money service or see customer acquisition and building a robust agent network as a one-off investment? What is the appropriate time frame over which MNOs should evaluate mobile money profitability?

2. What is the appropriate mix of ATL, BTL, registration incentives, and promotions to encourage mobile money adoption and usage?

SHIFTING CUSTOMER PERCEPTIONS: BROADENING CUSTOMER PERCEPTION OF ECOCASH



Year 1 messaging:
"Send and receive money"

Year 2 messaging:
"Live life the EcoCash way"

PART 4

Moving beyond P2P money transfers

FOR ECOCASH, OFFERING domestic P2P money transfer services is just the first step towards a much bigger goal: becoming the dominant payment system in Zimbabwe for the banked and unbanked alike. EcoCash is currently targeting two pain points with major commercial opportunity: enabling retail payments to merchants and creating a bridge between the informal and formal sectors. To capitalise on these opportunities, EcoCash is building two important structures: a merchant acceptance network and full interoperability with Zimbabwe's banks.

SHIFTING CUSTOMER PERCEPTIONS

EcoCash has spent the last 14 months convincing customers that EcoCash is a great way to send money. It is now engaging with its customers in a new way, working to change the perception that EcoCash is just a P2P money transfer service and convincing them to see EcoCash as the main financial tool in their daily lives.

EcoCash is encouraging this shift with a new marketing campaign, "Live Life the EcoCash Way". The goal of the campaign is simple but ambitious: when someone buys a loaf of bread or pays their child's school fees, EcoCash wants them to reach instinctively for their mobile phone, not cash.

Interoperating with the banks

LINKING THE FORMAL AND INFORMAL SECTORS

EcoCash sees interoperability with banks as the key to linking Zimbabwe's formal and informal economies. There is substantial demand for payment services between these sectors, with money flowing between banked and unbanked families, and between unbanked individuals and the

> "THE FUTURE OF MOBILE MONEY IS NOT IN MONEY TRANSFER. IT IS IN PAYMENTS."
>
> DARLINGTON MANDIVENGA, CEO OF ECONET SERVICES

MOVING QUICKLY IN A REGULATED ENVIRONMENT

As EcoCash expands its remit it will rely on another foundational element it has developed in its first year of operation: an open and constructive working relationship with the Reserve Bank of Zimbabwe (RBZ), which oversees the National Payments System. RBZ has made financial inclusion a priority and supports EcoCash as a powerful force in that effort. RBZ Governor Gideon Gono notes that "empirical evidence suggests that improved access to finance is not only pro-growth, but also pro-poor, thus making it a means to achieving income quality and poverty reduction."[20] In the absence of an existing mobile money regulation, RBZ has employed a "test and learn" approach. Open and frequent engagement between the parties allows EcoCash to operate safely under the oversight of RBZ while RBZ gains a greater understanding of how to regulate the new business

"INTEROPERABILITY IS CENTRAL TO THE VISION FOR ECOCASH."

CUTHBERT TEMBEDZA,
CEO OF ECOCASH

USE OF A BANK-GRADE SWITCH ALLOWS ECOCASH TO INTEGRATE WITH BANKS IN JUST
1-3 WEEKS

formal sector in the form of retail payments, school fees, and utility bills.

However, EcoCash believed that wealthier, banked customers would use mobile money services differently than their unbanked counterparts. Instead of making transactions through traditional mobile money agents, EcoCash anticipated that they would want more convenient payment options.

Bank interoperability meets this need for convenience by creating a direct link with a customer's bank account, allowing them to load their EcoCash wallet directly from their phone. This creates a clear value proposition for a new set of customers and provides a convenient and practical way for money to be transferred between Zimbabwe's formal and informal sectors. Attracting active, high-value banked customers has the added benefit of injecting liquidity into the mobile money system.

SPEEDY INTEGRATION WITH THE BANKS THROUGH A SWITCH

MNOs have found bank integrations to their mobile money platforms to be costly and time consuming. Some report that a typical integration might require six months (or more) of technical development as both the mobile money platform vendor and bank decide how to create a secure and reliable interface between the two systems. EcoCash has managed to avoid these timely and costly procedures, however. In just six months, it has integrated with 10 banks in Zimbabwe, five of which are already live.

How did EcoCash accomplish this? Instead of connecting directly to each bank through their core mobile money platform (Comviva's Mobiquity), Econet opted to purchase a bank-grade switch, Postilion from ACI Worldwide, based on ISO 8583 standards. The Postilion switch acts as an intermediary layer between the mobile money platform and the banking platforms, allowing instructions to be transmitted through commonly accepted banking sector standards rather than through a bespoke integration. Integrating new banks has become routine, and the technical process now only requires one to three weeks of work. The majority of time is now spent securing bank approvals rather than engineering complex technical connections.

THE EARLY RESULTS

EcoCash registers approximately 200 customers per bank each month. Small totals, but these have been very active, high-value customers who are transferring on average $145 per month between their bank account and EcoCash wallet. The banks are also happy because queues are shorter and their banking halls are less congested.

Can EcoCash crack retail payments?

Despite the quick growth of the mobile money industry in Africa, building a scaled retail payment business has proven elusive to most operators. As of June 2012, retail payments accounted for less than 1% of total mobile money transactions globally.[21] MNOs are learning that simply adding a "pay merchant" menu item to a mobile interface is not enough.

20 Herald Online, 24 June 2011, "Banks still shun rural areas: RBZ", http://www.herald.co.zw/index.php?option=com_content&view=article&id=13423:banks-still-shun-rural-areas-rbz&catid=41:business&Itemid=133#.UbXgfefVB8E"

21 Claire Pénicaud, 2013, "State of the Industry: Results from the 2012 Global Mobile Money Adoption Survey," GSMA Mobile Money for the Unbanked Programme, http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2013/02/MMU_State_of_industry.pdf

Accepting retail payments is a two-sided market: customers will only load their wallets to purchase everyday items if they feel there is widespread merchant acceptance, and merchants will only offer digital payments if they feel there is sufficient customer demand.

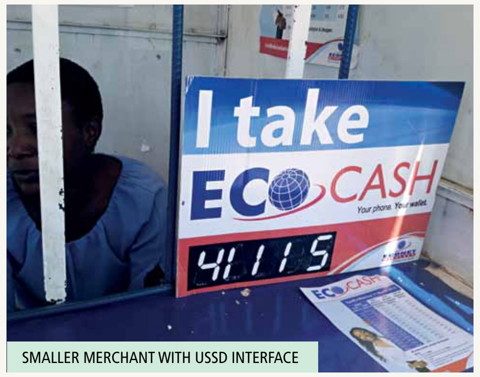
Retail payments took decades to gain full acceptance in western markets, with companies like Visa and MasterCard focusing exclusively on certain pieces of the problem. Econet has made a major investment in cracking the retail payment business; in fact, the scale of its investment may be unprecedented for an MNO.

How is EcoCash responding to the challenges of retail payments?

CHALLENGE #1: FORM FACTOR

Problem: USSD-based payments are much slower than cash at the checkout and do not print receipts. Retailers, especially larger ones, fear that digital payments will create queues and confusion at the tills.

EcoCash's planned approach: EcoCash has purchased and distributed 10,000 **point-of-sale (POS) terminals** to large merchants. This is a huge increase over the 4,800 terminals currently in Zimbabwe. The POS terminals are USSD- and SMS-enabled to work in areas without data coverage. Transactions are initiated on the customer's phone, which then communicates with the merchant POS terminal via the EcoCash network to print a receipt. For agents that double as retailers, merchant accounts are separated from agent accounts to simplify record keeping. EcoCash calls this transaction flow a "virtual debit card". The POS terminals are NFC-enabled to prepare the retail payment solution for the expected proliferation of smartphones in the coming years.



SMALLER MERCHANT WITH USSD INTERFACE

It is not economical to provide smaller merchants with $400 POS terminals, so EcoCash has designed a lower-overhead solution for them. These smaller merchants interact with customers through a phone-based **USSD interface** rather than a POS terminal. These merchants are provided five-digit merchant pay numbers and signage, to make it clear that customers can pay using EcoCash and prevent mistakes in keying in 10-digit telephone numbers.

$145
AVERAGE MONTHLY VALUE USERS WITH LINKED BANK ACCOUNTS TRANSFER BETWEEN THEIR BANK ACCOUNT AND ECOCASH WALLET

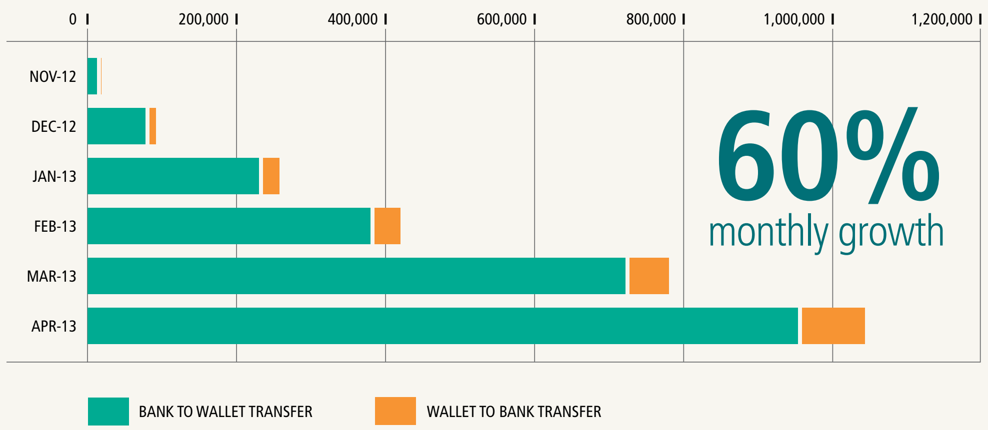


FIGURE 5
Bank interoperability volumes (USD)

CHALLENGE #2: MERCHANT ACCEPTANCE

Problem: In other markets, merchants have been reluctant to accept digital payments. Why should they pay a fee to accept a payment – something that used to be free? Merchants also sometimes fear that terminals may not be well supported by the supplier.

EcoCash's planned approach: EcoCash recognised that selling the proposition to retailers would be a challenge, so it has created a dedicated company, PayBay, to focus exclusively on this problem. **PayBay** staff spend all of their time convincing retailers of the benefits of receiving digital payments, including reduction in cash handling costs, association with the EcoCash brand, and increased customer traffic.

A second company, **TPS (Transaction Payment Solutions)**, has been established to provide a high level of technical support to POS merchants. TPS trains merchants, sets up new terminals, and provides support and maintenance for existing terminals. This support structure is intended to ease merchant fears about the reliability and hassle of POS terminals.

POS terminals can be a significant capital investment, especially for smaller retailers, so EcoCash has set up an **affordable fee and leasing structure:** Retailers pay either a flat monthly minimum fee or a small percentage of purchases made through EcoCash, whichever is greater. Retailers doing a moderate level of purchase volume will only pay the small percentage fee and the POS terminal will come at no cost.

SIZING UP THE INVESTMENT IN RETAIL PAYMENTS

Adding a 'pay merchant' menu item is not enough to crack the retail payment business. This is what EcoCash is investing in the opportunity.

2
NEW COMPANIES
PAYBAY FOR MERCHANT ACQUISITION AND TPS FOR MERCHANT SUPPORT

55
DEDICATED STAFF
SPLIT BETWEEN PAYBAY AND TPS

10,000
POS TERMINALS
AT $400 EACH = $4M

$600K
SPENT ON THE "LIVE THE ECOCASH WAY"
MARKETING CAMPAIGN

Zimbabwe has experienced a proliferation of single-issuer POS terminals and retailers have accumulated a collection of different bank terminals behind the counter. EcoCash plans to make its **POS terminals compatible with Visa, Mastercard, and several banks** to help retailers move closer to a simple one-terminal system.

CHALLENGE #3: CUSTOMER NEED

Problem: To customers, electronic retail payments require a significant behaviour change. Why would a customer want to load cash in an eWallet to pay for everyday items?

EcoCash's planned approach: EcoCash is responding to this issue with a marketing campaign, "Live Life the EcoCash Way", which highlights the change problem and **promotes the benefit of paying exact prices.**

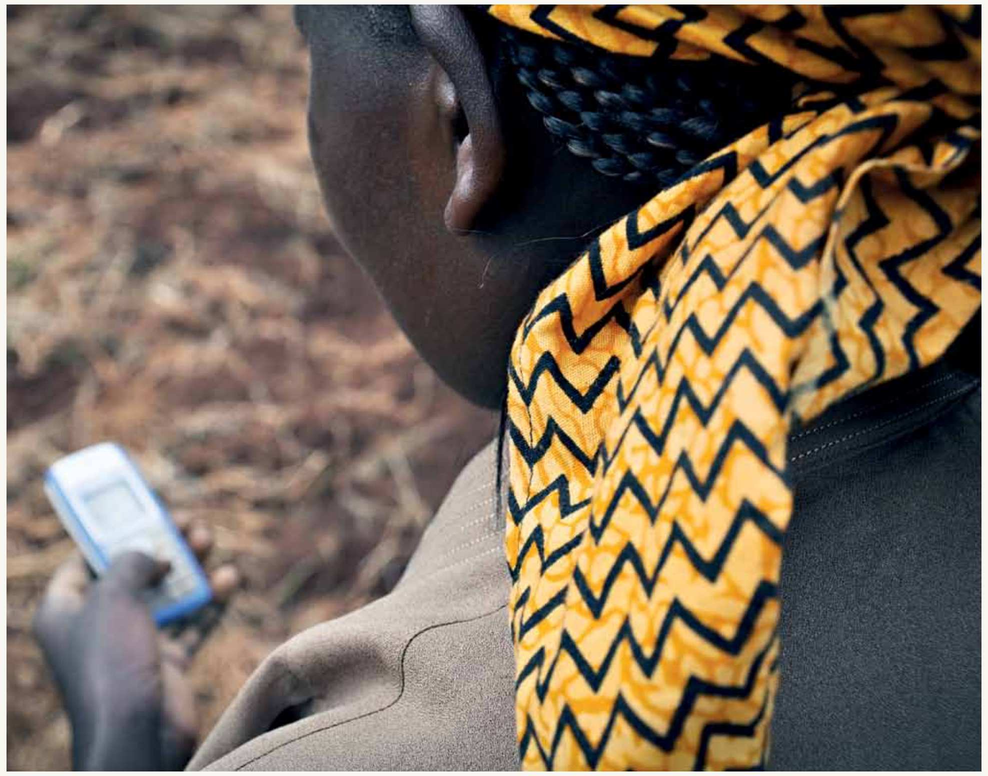
For banked customers, EcoCash is making it possible to **instantly load a wallet from a bank account.** A user with an attached bank account can load their wallet at the retail point for the exact amount and pay instantly. This solves the challenge of expecting users to pre-load their account.

Finally, EcoCash is **promoting retail payments to people who receive money transfers** by explaining that they can pay for goods electronically with received funds instead of incurring cash-out fees. There has also been a push to sign up cash-out agents and EcoCash merchants.

Will Econet be able to provide workable solutions to the retail payment problem and stand as a positive example for the mobile money industry? With Econet's level of investment and the change problem providing a unique customer motivation, the conditions in Zimbabwe are about as favourable as they would be anywhere in the world. Any MNOs thinking of launching their own retail payment initiatives should keep a close eye on this story.

QUESTIONS FOR OPERATORS

1. Should mobile money services exist outside of the banking system or actively try to integrate with it?
2. Are mobile money operators in a good position to introduce digital retail payments into their markets? What level of investment is required to succeed?



PART 5

Conclusion

THE ECOCASH STORY SHOWS just how quickly a mobile money operator can scale its service when there is a confluence of market need, effective operational execution to build strong foundations, and far-sighted commitment (and resourcing) from top leadership. In a short time, EcoCash has become a significant part of Zimbabwe's economy. When annualized, the $200 million in monthly EcoCash transaction volume represents an amount equivalent to 22% of Zimbabwe's GDP.[22] By continuing to push integration with the banking sector and by greatly expanding acceptance of digital retail payments, EcoCash seeks to become an even greater part of the national payment infrastructure.

We hope this case study will provoke a healthy debate about the size of the opportunity for mobile money operators and how far they should go to seize it. Will Econet's big ambitions end in disappointment and overzealous investment? Or will Econet end up playing a central role in rebuilding Zimbabwe's flagging financial infrastructure and bringing the blossoming informal sector back into the fold? Either way, this will be a story to watch with significant lessons for the rest of the industry.

22 Zimbabwe GDP estimate from CIA World Factbook https://www.cia.gov/library/publications/the-world-factbook/geos/zi.html

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