Retail Agent Value Proposition
In order to make the value proposition work for retail agents, it is important to understand how the role that an MFSP expects them to perform fits within the agent’s existing business. Fit is particularly important when it comes to the financial return that agents can expect from their participation in the mobile money value chain.

In any distribution channel, it is essential that the business model work for all parties involved. If it doesn’t, then the entire structure will fall apart. While this may seem obvious, many mobile money initiatives have faltered because the value propositions for the agents were assumed and did not reflect market realities. In Brazil, much touted for the rapid rollout of point-of-sale terminals at merchant locations, the system suffered from high agent turnover in the early days of network development. This was due, in part, to the unrealistic expectations that many agents had on the profits that the business would generate.

Along with other tools, this document, strongly advises MFSPs to perform analysis on existing and potential agents to understand their businesses, and to develop a set of value propositions that will be attractive enough to deeply engage members of the distribution channel.
There is a considerable amount of commonality among the value propositions that are emerging as primary incentives for retail agents in mobile money businesses around the world. These are:

- Financial Remuneration
- Value Added Services
- Increased Customer Traffic (Footfall)
- Increased Status in the Community

**Financial Remuneration**

Even though other incentives are valued, financial gain remains key in most countries. The amount of energy, focus, and mind share that an agent will give to its mobile money business will be directly related to the perceived financial gain. Other values can mitigate this requirement in the short term, but experience suggests that ultimately the success of the channel will depend on whether agents perceive that they are making more money – either directly or indirectly.

On a pure revenue basis, the return an agent receives is a function of commissions, margins, and transaction volumes. The combination of these three relative to other income streams is very important in determining how valuable a particular agent considers their mobile money business line. *Refer to Assessing Financial Value for Retail Agents in Part 8 for steps in the quantitative process of determining an agent’s relative ROI.*

Other tools in the Agent Value Proposition part of the Toolkit will give examples of the type of insight this process can provide. In this section, emphasis will be on the qualitative aspects of financial value.

**Commissions**

Determining appropriate commission structures for retail agents is a critical component of building the MFSP’s business model. If agents are not reacting positively to sales efforts to have them join the network or are not performing adequately, it might be advantageous to re-assess the commissions they are receiving.

*Refer to the Agent Commission Matrix to compare commissions that are being paid by several mobile money providers.*

*The Revenue Calculator in Part 9 can be used to rapidly determine how adjustments to the agent commissions will impact other parts of the value chain, including returns to the MFSP.*

**Margins**

Margins are even more important measure than straight commissions, because this is a more important part of the measure of return on investment. Mobile money compensation has to measure up when compared to margins received on other products sold by the retail agents. If MFSP cannot, or will not, provide a desirable financial incentive, then most agents will ultimately choose not to provide the mobile money service, or, if they do, it is unlikely to be at the level that the MFSP desires.

In Kenya, for example, the average margin on selling airtime is 5%. In comparison, the average margin for mobile money is 1.1%¹. In some countries, the 1% margin may be split between the bank or operator and

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¹ CGAP. Agent Economics: M-PESA. 2009. p.6
the agent\textsuperscript{2}, resulting in even thinner returns. Generally, the commissions on other products are in the double digits, making the attractiveness of the mobile money proposition lower. This is a challenging obstacle to overcome.

Refer to the CGAP Analysis on Agent Economics M-PESA, Kenya as well as the Assessment of Agents in the Philippines for examples of how agent margins were calculated in these two markets.

A key lesson from comparing the two studies mentioned above is that airtime resellers do not necessarily make the best mobile money agents. This is the case in some countries because the returns that are made through airtime and scratch card sales are much higher than the income generated through mobile money services. In direct comparison, agents that are not providing airtime services for MNOs could see a substantial up-tick in their revenue stream if the MFSP enables them to provide electronic top-up services to their customers. Then airtime sales become a significant incentive for these retailers.

**Transaction Volumes**

In examples from several countries including Uganda, Zambia, Kenya, and India there is surprising consistency in the number of transactions that are required each day for retail agent viability. The magic range to achieve baseline success seems to be a minimum of 50 to 60 transactions per day (tpd). Volumes in the 85 to 100 range create much more viable and enthusiastic agents.

In Kenya, transaction volumes for agents that were interviewed by CGAP ranged from 40 tpd at the lowest end to more than 256 tpd for the most successful agent. At 40 tpd, the agent did not have a profitable mobile money business. The agent with 256 tpd was highly educated and quite unusual. The mean rate of daily transactions among those interviewed was 86 tpd.

In India, EKO’s agents say they need at least 50 to 60 tpd to view their mobile money role as an attractive one. CelPay Zambia, provides slightly lower numbers for sustainability, claiming 1,000 transactions per month, which equates to either 32 or 48 tpd, depending on whether the working month is counted as 31 or 21 days.

**Value Added Services**

The ability to provide value added services to customers is an important incentive for retail agents. This is particularly true in the early days of network build out when the transaction volumes are not substantial enough to entice agents through revenue along.

It might turn out that transaction revenues from the anchor product are not what drives the business for these agents. It is highly likely that fees from some services, such as customer acquisition and bill payments will subsidize less lower-priced transactions like cash-in. Remittance companies, like Western Union, have long known that international transfers drive the business and subsidize the far less lucrative domestic transfers\textsuperscript{3}.

One way to increase the potential for this value proposition is to increase the number of services that agents can offer their customers. In the case of mobile money this could include, electronic top-up, bill payment for school fees, and enabling electronic supply chains. Retail agents that have been most

\textsuperscript{2} CGAP. Realizing the Potential of Branchless Banking: Challenges Ahead. 2008

\textsuperscript{3} Interview with Paul Sumerall, Managing Partner at New Corridor Advisory Services, October 28, 2009.
enthusiastic about G-Cash have been more interested in being able to re-sell G-Cash or for making purchases from their own suppliers at relatively distant locations.⁴

**Increased Customer Traffic (Footfall)**

Part of the benefit of offering value-added services is that they attract customers to the agent’s store, increasing footfalls. This is a particularly strong incentive for retail agents that are hungry for more business because they are small, in a competitive environment, or slightly off the beaten track.

**Increased Status in the Community**

Another attribute of mobile money services that will bring customers to a retail outlet is an association with a strong and trusted brand. The branding provides increased credibility to the retail agent, making them more attractive to customers than other shops in the area. For smaller retailers the brand association provides a heightened status in the community. EKO’s agents receive branding from the State Bank of India. As a result, many of the smaller agents see themselves as bank branches, and view the financial services that they can now offer their customers as a change agent for their business.

Regardless of the value added services and branding, customers will not just walk in the door to request mobile money services. And international experience suggests that agents are not going to be drumming up the business on their own. Most will not consider direct sales of the product their job, especially if they do not receive a strong financial incentive to do so.

MFSPs have to PUSH customers to their distribution channel through aggressive and continuous above-the-line and below-the-line advertising and marketing campaigns. Significant amounts of capital need to be earmarked for these purposes.

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⁴ Vogel, Robert C. Mobile Phones for Banking Transactions in the Philippines: Can this Innovation Reach Unserved Areas with Financial Services?
Additional incentives that are used in the building and managing more traditional distribution channels have not been used to a large extent in mobile money yet. But these tactics could be quite important and may become more common in mobile money businesses in years ahead.

**Creative Fee Structures**

Providing all retail agents in the network with those same commissions may not be the best strategy. This is true whether the agent is receiving a flat fee, a percentage, or a combination of both. Other tactics to consider that could increase retail agent viability and commitment include:

*Fee strategy that takes agent’s perspective into consideration*

The entire commission structure, across all mobile money product lines, needs to be considered from the perspective of the retail agent. Even though the MFSP might not consider which elements of the fee structure will benefit its agents more, the agents are guaranteed to figure this out. Once they do, it is likely to influence their behavior – potentially in directions that are not supportive of the MFSP’s business objectives.

M-PESA Tanzania tried to increase customer levels by focusing their agent efforts on the fee for new registrations. Agents responded by promoting the service with their customers, but then did not follow through supporting transactions appropriately because this was considered a less desirable revenue stream.

*Structures that tie payment to customer usage*

Other MFSPs have had similar challenges when sales fees were tied exclusively to acquiring new customers. This problem was mitigated when part of the fee was paid when the customer signed-up for the mobile money service and the remainder of the fee was paid out when the customer performed transactions. This is the strategy that M-PESA uses in Kenya.

*Bonuses paid out when targets are exceeded*

Commission-based fee structures in many sales departments or sales forces are tied to bonuses that are paid out when pre-determined targets are achieved. This type of incentive-based pay could work equally well in mobile money.

In the Philippines, one of the keys to having sales agents successfully register customers was a well-articulated incentive program that paid $0.20 for each registrant above the basic monthly target and an additional $0.85 if the registrant makes an initial mobile phone banking transaction of at least $10.

*Different fees for retail agents in urban and rural locations*

Research conducted by CGAP and others, as well as common sense, shows that not all agents are created equal when it comes to their revenue potential. Retail agents in locations with higher customer traffic, such as central urban thoroughfares, are going to be able to attract more mobile money business than

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5 Interview October 28, 2009 with Gunnar Canner, co-author of “Can the Success of M-PESA be Repeated? A review of the implementations in Kenya and Tanzania”. 2009
6 Vogel, Robert, et al. Mobile Phones for Banking Transactions in the Philippines: Can this Innovation Reach Unserved Areas with Financial Services?
agents located in rural areas with smaller population concentrations. To ensure stability of the entire agent network, it may be necessary to subsidize some of the less successful locations.

PayNet Kenya, a company that builds ATM and POS infrastructures, has a different commission split with agents in rural areas than it does with agents in urban areas. The commissions in the urban areas subsidize commissions in more remote areas.

*Combination of monthly stipend and commission*

Another way to achieve the same objective in locations where commissions are not providing adequate financial return is to provide stipends as an incentive until such time as transaction volumes reach levels that make financial sense for the retail agent. This may seem to be an extreme measure, but should not be discarded as unacceptable. Different circumstances require different approaches.

*Loans for Capital Costs*

A primary challenge that retail agents have in developing and building their mobile money business is the high cost of capital. Virtually all MFSPs require agents to maintain electronic value in their mobile wallets and cash in the till to handle customer requests. Depending on the size of the retail business and the success of the MFSP, capital requirements can amount to hundreds, or even thousands, of dollars - amounts that are difficult for retail agents to set aside for a lower valued business.

In Cambodia, retail agents are required to have $200 in their mobile account and an additional $200 in cash. However, when interviewed, agents indicated that they were not keeping this cash on hand because they could turn that money into profit more quickly if they purchased phones or other fast moving products that had higher returns than mobile money.

In Vietnam, Proctor & Gamble (P&G) has the same problem with their distribution channel. In the two months preceding Chinese New Year, retailers want to carry food and clothing because these items are purchased in quantity to prepare for the holiday. They are not interested in spending their limited capital on the hair care and other beauty products that P&G provides. In order to overcome this challenge, P&G works with local banks to provide loans to the retailers in their distribution channel. To make the loans attractive to the merchants, P&G works with them to put together a 2-month sales plan and to determine how much additional capital the retailer will need during the holiday season. Then P&G provides the interest payments on the loan so the retailer does not have to incur that cost.

Other FSMCs provide short-term loans of 5 to 7 days to their retailers. This is done to help manage liquidity. In the FSMG model, sales representatives from the manufacturing company visit each retail agent at least once a week. Loans can be given to help the retailer purchase required stock for the coming week. Repayment occurs during the next visit by the sales representative.

*Training*

Retail agents are trained by MFSPs to provide mobile money services. Training often takes place in short sessions at the agent’s location and focuses on technical aspects of the solution, such as performing transactions or handling KYC. Research suggests that this level of training may not be adequate to provide the agent with the motivation or skills they need to help the MFSP expand its business. This is particularly true as MFSPs look toward their retail agents as more than cash-in/cash-out locations.

Getting the retail agents to deeply understand the product they are selling is essential to success. In Cambodia, WING obtained much higher results for their sales team (WING Pilots) when they transitioned from half-day training to a more comprehensive two-day curriculum that included sales and financial
skills. The company is now developing stronger programs for its retail agents that go beyond the brief on-site training that had been provided in the past. Retail agents have actually expressed interest in learning skills that will help them grow and manage their overall businesses better.

Dedicated and on-going training that extends beyond the mere technical aspects of selling a particular product is a core element of channel management for FMGCs as well. P&G, which has a large network of sales representatives, develops training plans that extend over several months. Each week, the plan focuses on a different concept or behavior that P&G wants to get across to the retailers in their distribution channel. Sales representatives are then tasked with providing on-site training sessions with each of the retailers they meet that week to impart that knowledge. Training sessions with the retailer could last 1, 5, 10 or 15 minutes. The next week, there is a different training session and different information.

Although P&G training takes place at the retail location, the training is constant – being metered out in a well-planned manner every week. Once or twice or year, P&G has a larger group training combined with a social event. They have competitions and other fun activities to draw their retailers and engage them in the process.

P&G really tries to understand what the needs of their retail channel. They want to understand obstacles to their business and what is required to improve their businesses. Through this effort, P&G is able to make sure that their training is valuable, attended and increases the volume of P&G products sold.

**MFSP Commitment**

Retail agents want to see commitment from the MFSP. One manifestation of commitment is for the MFSP to have dedicated sales people who work with the retail agent to help them achieve success. This also includes standing up for the retailer during conflicts and coaching the retailer’s staff in how to proficiently sell products. Without question, the ultimate success or failure of the distribution channel rests with the field salespeople who build the relationships with retail agents and get to know their businesses.