

Role of m-pesa business solution



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EXECUTIVE SUMMARY:

Innovation opportunities are unbounded and infinite, companies are struggling to satisfy customers or sustain growth and profitability. Economic growth in Kenya has witnessed remarkable improvement in the last five years with real GDP estimated at 7.0% in 2007. This paper examines innovative mobile solution in the mobile money transfer service using a case study from Kenya, representing the leading mobile company Safaricom and launch of the M-PESA innovation. The paper scrutinizes the strategic relevance of the approach and adoption of M-PESA, its implementation and the competitive advantage of Safaricom. The paper also presents the success of M-PESA and other innovative solutions that have emerged as a result of M-PESA launch. The conclusion gives recommendations on the role of management of technology in the organization.

INTRODUCTION

Telecommunication industry in Africa is the fastest growing industry. Survey by Ernst & Young on February 6th 2010 shows that between 2002 and 2007, the telecommunication industry grew by 49.3 percent as opposed to Asia which recorded a 27.4 percent growth. Kenya was among the highest net subscribers per month at estimates of between 20 to 49%.

The number of African mobile phone users has increased from 10 million in 2000 to more than 180 million in 2007. During 1992-2005, private sector investment in ICT infrastructure topped \$20 billion but high prices of services remain a problem. In 2007 the average price of prepaid mobile services cost \$12.58 a month in Africa, six times the \$2 cost in Bangladesh, India, and Pakistan.[1]

The sector faces major challenges that need to be addressed for the industry to reach its full potential. Among the major challenges faced is political instability in which the telecommunications operators have the fear of a potential and serious conflict. Another major challenge is the continents and more specifically regulatory bodies are not strong enough. Most of the regulators have evolved from postal and telecommunication corporations and have been run by bureaucrats who still want to play the regulatory role instead of facilitating the business. The regulators are appointed politically and therefore interfere with the market all the time. As a result there is a huge market which is run by only one to three operators making countries have high call rates. South Africa is one good example of this scenario, its calling rates are one of the highest in the continent. Kenya; our focus in this topic is slowly moving towards facilitation of business in this sector following recent enactment and amendment of the Kenya Communication Act and development of the framework for unified licensing. The heavy taxation burden on both consumers and operators is another major challenge. Kenyans, for example pay a tax of 26% on mobile communication and Safaricom our focus company is the highest corporate taxpayer in the country. The industry is highly profitable but return on investments could be delayed due to poor infrastructure such as power outages in the country. Due to the rapid growth in the industry there is a huge attraction of foreign interest and operators merging for example recently Telkom Kenya and France Telecom merged. The mobile network market share in Kenya is distributed in the following ways:

The mobile networks main role is to provide mobile converged data and voice communication solutions. Among these products and services offered majority of the mobile operators in Kenya offer money transfer service using a mobile phone. This is a relatively new innovation in Kenya that has achieved a lot of interest in the market. These financial services are divided into two sub sectors namely; mobile money transfer which is an independent business field that does not necessarily involve banks and mobile banking which can be described as the use of mobile telecommunication devices to access financial services. An academic model definition of mobile banking (1) refers to provision and avancement of banking- and financial services with the help of mobile telecommunication devices. The scope of offered services may include facilities to conduct bank and stock market transactions, to administer accounts and to access customized information.[2] The introduction of mobile banking is an innovative strategy that financial services are using to attract customers and ease on delivery of services. With the help of internet new ways of conducting banking services have been achieved. As a result new institutions such as online banks, online brokers and money transfer service companies have emerged.

This paper analyzes the new innovative service of money transfer service using mobile phone. The focus will be on the largest mobile operator in Kenya SAFARICOM. It examines Safaricom's innovative mobile concepts and solutions. M-PESA is a Safaricom service that allows one to transfer money using a mobile phone. It assesses the nature of the M-PESA technology, the concepts adoption to the market, implementation mechanism and the success rate. The paper also identifies the results of this technology in the

market.(Recommendations on the role of a manager and the organization to support the management of the technology within the organization. The paper's structure is on the following section 2 Safaricom and M-PESA concept and nature of the technology, section 3 looks at the implementation, success rate and results of the technology. Section 4 outlines the role of a manager and organization within M-PESA department and their support on the M-PESA function. Section 4 gives and analysis of the findings and short conclusions.

LITERATURE REVIEW:

ABOUT SAFARICOM and M-PESA:

Safaricom is ranked as the leading mobile provider of integrated and converged voice and data communications solutions in Kenya. Services offered by Safaricom include PrePay, PostPay, Data and messaging, M-PESA, Bonga Loyalty Scheme, Simu Ya Jamii and Preimium Rate Services.

The following are the most recent key highlights of Safaricom:

- Its active subscribers currently stand at 14. 51 million.
- Subscriber market share estimated at 77. 5%(Source World Cellular Information Service)
- A strong M-PESA service with 7. 99 million registered users.
- Revenue market share estimated at 83%
- Current turnover of Ksh 40. 66 billion

M-PESA Pilot Project

M-PESA was originally created as a pilot funded jointly by Vodafone and the UK Department for International Development [DFID] Financial Deepening

Challenge Fund. It is a mobile money transfer service that allows one to transfer money using a mobile phone. It was launched in 2007. Kenya is the first country in the world to use this service. It is offered in partnership between British cellular giant Vodafone and Safaricom. It is available to all Safaricom users both on pre pay and post pay tariffs. Latest reports from Safaricom show that M-PESA has reached nine million registered members in a country with a population of 31 million. In this population only 5 million have bank accounts. It is a service for both the banked and unbanked populations. It is a fast, safe and affordable way to transfer money by phone. The M-PESA service initially targeted the unbanked population but has now become the most popular and convenient money transfer service due to its low transfer charges and availability in all rural areas of Kenya.

M-PESA was recently extended to Kenyan Diaspora living in the UK who are able to send money to their families in Kenya using the M-PESA.

Key highlights of M-PESA.

- One does not need a bank account to use M-PESA. All one needs to do is register at authorised M-PESA agent using their Safaricom mobile number and identification.
- Put money into their mobile account by depositing cash at a local Agent
- Send money to other mobile phone users by SMS instruction, even if they are not Safaricom subscribers.
- Withdraw cash at local a Agent
- Buy Safaricom airtime for themselves or other subscribers

- Only Safaricom subscribers can send M-PESA, but anyone who can receive an sms can receive money by MPESA.
- Cash is paid into M-PESA and withdrawn at M-PESA Agent outlets. These outlets are typically local Safaricom Dealers, but can also be other kinds of retailer such as petrol stations, supermarkets and local shops. There is currently a large network of M-PESA Agents across Kenya who have been trained to use the service. It is planned to grow this network significantly in the coming months.
- M-PESA has partnered with over 40 organizations both bank and non bank financial institutions in offering more efficient services.
- There are currently 300 bank branches that offer M-PESA services
- It has over 7, 000 agent outlets employing more than 12, 000 people directly and indirectly.
- M-PESA records a daily average of 10, 000 registrations everyday
- Customers can easily access their money 24 hours a day. Safaricom has partnered with Equity Bank Kenya a fast growing commercial bank in a service that allows registered MPESA users withdraw money from the ATM without the use of an ATM card
- MPESA has won various awards for its innovation both locally and internationally some of which are; Kenya Banking Awards 2007/2008, the Marketing Society of Kenya Best product innovation 2008, the Stockholm Challenge 2008, World Business and Development Award 2008, GSMA 2008, Africom 2008.

MPESA Business Technology Evaluation:

In this part this paper looks at the decision on a company's right technology. Vodafone's and Safaricom's launch of M-PESA can be followed through the following business strategy and technology management:

Step 1 Business Strategy and Plan:

The M-PESA model began when Vodafone, the world's leading telecommunications group took up a pilot project with Safaricom. It is worth noting that at the beginning Vodafone was heavily involved in launching the product. At the time Safaricom was primarily focused on growing their customer base. This project was initiated by Nick Hughes (head of International Mobile Payment Solutions Vodafone Group) Nick sold the service idea to the executive staff of Vodafone who went ahead with the project.

The M-PESA model relies on three key aspects, simplicity of the product, security and user experience.

Step 2: Business Technology Evaluation:

Vodafone identified a market, Kenya as their pilot project. This was based on the evaluation of the market needs and opportunities and availability of technology. Kenya offered an advantage for this pilot project with Safaricom because of several factors:

- Safaricom is the largest mobile operator in Kenya and has been building a successful customer base.
- Kenya is ranked as an emerging economy whose economy is primarily cash based.

- Mobile penetration in Kenya is high.
- The product is simple and easy to use driving the uptake.
- Social economics of Kenya.

Step 3: Technology Strategy Development.

The process of innovation is developed both internally (within an organization) and partially outside an organization. There were two major players involved, Vodafone and Safaricom. In the initial stages of the pilot process, Safaricom provided support in terms of working space, customer care and finance team, technical integration and support. Their involvement in the project at its initial stages was therefore less until the commercial launch when a large team had to be involved in the project.

Step 4: Technology Planning:

While Vodafone group was heavily involved other small players were also included one such player was Sagentia, a technology consultancy firm based in Cambridge UK. It played a vital role in the conceptualization and development of the application. This firm wrote the software for M-PESA, designed the business process, and provided the operational and technical support during the pilot and after launch.

Step 5: Implementation Process:

During the implementation process the system underwent different phases and design. (John E. Ettlief 2006 p 105) asserts that ' Using multiple forecasting methods and matching the appropriate method to the situation are both ways to avoid gross forecasting errors'. The product that Vodafone piloted prior to formally launching M-PESA was very different from the one they now offer to customers. This former product was much more complex,

including features such as group lending models, group products, and treasurer accounts. During the pilot, they learned that much of this complexity had to be stripped away to meet a very specific, narrow demand from the customer: person to person money transfers. This was all enabled due to research by the pilot team who were closely monitoring the usage patterns. Their findings were then fed back to into the design of the application. To do this, the team had to rely on a flexible design. This has greatly paid off as M-PESA moves across other contexts which have very different needs and usage patterns.

Stage6: Results and monitoring:

M-PESA grew rapidly surpassing 2 million customers within its first year of launch. Members of team had to be on call 24/7 to resolve system issues that kept cropping up. Dedicated team work was very vital in success of the project. M-PESA is just the beginning of a platform which will create developmental services that penetrate other sectors. This is already being done as M-PESA division through Safaricom has so far entered into partnership with over 40 organizations both bank and non bank financial institutions in offering more efficient services.

In addition, the user experience has been simplified. There are no signing-up fees and no minimum balances to confuse the customer with hidden fees or conditions. M-PESA's user interface is intuitive. It works on very basic handsets, and does not require a smart phone. Since 90% of the mobile phones in the Kenyan market are not smart phones, it was imperative that M-PESA work on the simple devices that customers already had.

Secure: Vodafone has also established a secure system that gives customers a sense of confidence. Transactions are completed within 15-30 seconds and customers receive an SMS confirmation that the money has been sent.

Vodafone has a back-office system that tracks every transaction and makes it possible to correct any errors and respond to customer concerns. The entire platform is data-rich and transactions leave a long paper trail making the platform an uncondusive place for money launderers to operate. Overall, M-PESA has high visibility and Vodafone realizes that trust must be at the heart of their business model.

Value Chain Concept in MPESA Technology:

Porter identifies value chain as firms specific activities through which it creates competitive advantage. Safaricom has had to generate super value services on M-PESA to be the leader in the market. The following is a breakdown of the value chain services within Safaricom the umbrella company under which M-PESA operates. Primary activities include inbound logistics, inventory and warehouse operations, marketing and sales, services aimed at maintaining and improving the product value, customer support and training. These are services that are outsourced by Safaricom to achieve the following objectives:

- optimize costs
- Agility in meeting customer requirements and satisfaction
- Creation of a centralized as well as distributed warehouse capacity to support growth to various locations in which Safaricom operates.
- Ensure service level monitoring and reporting of customer queries. M-PESA through Safaricom has entered into partnership with over 40

organizations both bank and non bank financial institutions in offering more efficient services.

Being a blue chip company in East Africa, Safaricom ensures its support activities are of high quality. They include:

- Firm infrastructure which includes general management, finance, legal
- Human resource
- Technology development
- Procurement

M-PESA's competitive advantage can be attributed to the following factors:

Mobile Phone penetration in the market:

By the first quarter of 2006 the mobile subscribers in Africa was at 147. 4 million. Two years later the number has more than doubled to 301. 7 million representing a penetration rate of 30. 4%.(see note 11) Kenya's penetration rate rose from 2% in 2001 to 39% as of the second quarter of 2008. Kenya is the most developed mobile market in East Africa and its penetration rate is forecast to reach 67. 5% in 2012.(see note 12) . As figure 1 show, the number of mobile subscribers in Kenya has grown tremendously to over 16 million subscribers.

There are four mobile operators that are currently active in Kenya. Safaricom has the largest share of subscribers at over 14 million it is the clear market leader with an 81% of the total subscriber base. This fact has given M-PESA the advantage to penetrate the market.

Need for access to financial services:

According to national survey, as at 2007, 38% of Kenyans had no access to any form of financial services and only 19% had access to formal financial institutions such as banks. (Note 13) With over 10 million subscribers, M-PESA took off rapidly because of the low penetration of banking services and the public demand for them. Though few studies undertaken, there are several indications that the un-banked have benefitted from M-PESA, the service offers convenience, speed, and low transaction fees. For small businesses using M-PESA makes them go to the banks less often, spending more time running their businesses.

Low transaction costs

M-PESA offers a very competitive service with low transaction costs thus using the cost leadership technique. It is cheaper than using a bank account. Given their setup and operational costs, it would be impossible for banks and money transfer companies to offer such low rates.

New Innovations from M-PESA

It is worth noting as earlier stated in the paper M-PESA was originally created with features of streamlining the micro finance operations. It was then narrowed to meet simple payment method and therefore an opportunity to increase customer retention which it is has achieved.

Other unexpected uses have emerged for example all M-PESA customers can withdraw money from PesaPoint ATM's all over the country without an ATM card. This service has helped overcome the problem that agents sometimes do not have enough money to issue to M-PESA customers who want to withdraw. This agreement and outcome has also been a major milestone in linking M-PESA to the formal banking system.

Since December 2008, M-PESA has joined the international cash transactions market by signing into partnership with Western Union. This agreement was reached between Vodafone, Western Union and Safaricom, in which a cross-border mobile money transfer service between U. K and Kenya was launched.

CONCLUSION

With the launch of M-PESA in Kenya other regional transactions are taking place in which more regional cross-border system of money transfer and financial transactions will be achieved. The launch of M-PESA has seen more competitor mobile networks come up with similar services.

There reception towards the M-PESA innovation has been a positive shift making it a vital tool to generate, retain and strengthen Safaricom's competitive advantage. Banks and non bank institutions have also embraced this technology as pointed out in the many partnerships created with M-PESA.

With an ever increasing customer mobility this trend is expected to gain a higher momentum making the mobile channel an indispensable part in transfer of small sums of money country wide, regionally and internationally.

References:

1. World Bank Press Release No: 2009/AFR/138
2. Tiwari and Buse, 2007, p. 73-74