

o Distribution

Growing Big while Still Small

A Case Study on Kazang Prepaid

Acknowledgement

This case study is part of a series of publications aimed at addressing the global learning agenda of UNCDF MM4P. The learning agenda includes four areas relevant to digital finance, namely: customer adoption; distribution; high volume payments (HVP); and partnerships for products and delivery. The Kazang case study focuses on distribution, exploring one provider's approach to dealing with the classic challenges impeding the expansion of agent networks in Zambia.

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Kazang Prepaid is a third-party, digital financial services (DFS) provider that has been operating in Zambia since 2007. Kazang Prepaid offers customers the opportunity to buy airtime and pay utility bills.



Corporate Information:



Parent company:
Paycorp Group (Pty) Ltd



Brand name:
Spargris Zambia Ltd



Banks integrated with Kazang: 11



Monthly turnover:
K30 million (US\$3 million)

Agents:



Agents:
1,000



Daily transactions per agent:
15



POS devices at agent locations:
2,500



Daily transactions via Kazang system:
50,000



Digital financial services 'plus' initiative:
Pay-as-you-go solar (with Azuri Technologies)

Services offered: Airtime distribution, bill payments



Introduction: Innovations in digital finance

Sales and distribution is a difficult business because the small revenue margins mean successful companies need large operations to make a meaningful profit. Small companies that want to compete in this space must find clever ways to grow quickly with minimal staff and limited budgets. Being in this position is especially hard in an industry like digital finance, where it means competing with large corporates (e.g., mobile network operators) offering mobile money services.

Kazang Prepaid is in this position in Zambia. It has been scaling up aggressively, but the company wants to grow smarter by better understanding how to select and support successful agents as well as to offer more products. However, it did not have the required data to make these improvements internally or to convince partners that it had a desirable distribution channel for the partners' products.

UNCDF MM4P has partnered with the consulting firm HORUS Telecom & Utilities to help Kazang develop a strategy to address its needs, a strategy that will include a mobile-based application to collect the needed information on its agent network.

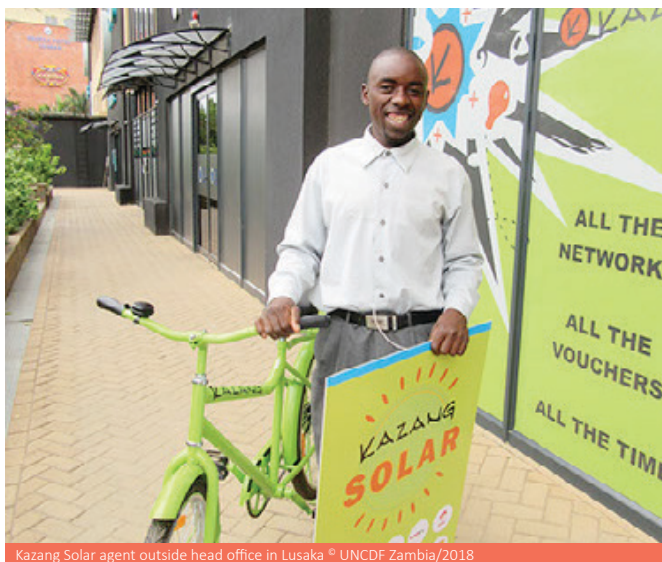
Kazang is piloting a quick and cost-effective development process that could work for other small organizations looking to scale up without spending a lot of capital up front. While the application is still in a very early stage of development, it is already showing some positive results. The industry will be better positioned for innovation if it has more companies like Kazang with viable agent networks that can provide cash-in and cash-out services for new product offerings.



Partner profile

Paycorp Group, which is based in South Africa, began working in Zambia by building an independent network of ATMs. In 2014, it acquired the micropayments firm Kazang Prepaid, which now functions as a division of Paycorp. Kazang has been operating in Zambia since 2007 as the brand of Spargris Zambia. It has focused on airtime distribution and bill payment solutions via online payments and agents with POS devices.

Kazang has been building out its product offerings over the POS devices, which have a touch-screen interface. It relaunched an over-the-counter money transfer service under its own brand, Kazang Money, in October 2016,¹ and it has plans to begin conducting cash-in and cash-out transactions for mobile money services.² It is already integrated with 11 banks in Zambia to help Kazang agents rebalance their float.³



Kazang Solar agent outside head office in Lusaka © UNCDF Zambia/2018

Further, it has partnered with Azuri Technologies to launch Kazang Solar in order to distribute next-generation (SIM-free) pay-as-you-go solar devices. This approach allows installation beyond the GSM network and addresses the poor network coverage that has been a problem in countries like Zambia. Kazang Solar will use a lease-to-buy model, distributing, installing and servicing devices with roaming agents. Kazang sees considerable potential in such products, which include solar irrigation systems, that can empower farmers to sow crops thrice a year (instead of once) and thus greatly improve yearly income.

The current business model utilized by Kazang has allowed it to grow a network of thousands of agents but has also made it quite reliant on mobile network operators, since most payments are airtime purchases. In a sense, Kazang is being pushed into new business lines as mobile network operators migrate their airtime top-up systems from third-party agents, like Kazang, to customers themselves, who are encouraged to top-up through their mobile money wallets.

Yet, Kazang sees an opportunity to leverage its agent network to continue generating revenues from bill payments, while also capturing market share in the mobile transfer business and becoming a market leader with pay-as-you-go solar. These markets appear to have high growth potential, but entering them will be quite challenging. To address the challenges strategically, Kazang sought a partnership with the UNCDF MM4P Zambia team.

¹ This service was originally launched in 2013.

² Kazang does not currently offer cash-out services through its agents, but it plans to enable these services in the future. Three mobile network operators (Airtel, Mobile Telephone Networks [MTN] and Zamtel) all currently offer mobile money in Zambia.

³ These banks include the following: Access Bank, BancABC, Barclays Bank, Cavmont Bank, Finance Bank of Zambia, First Capital Bank, First National Bank (commonly known as FNB), Investrust Bank, National Savings and Credit Bank (commonly known as NATSAVE Bank), Standard Chartered and Zambia National Commercial Bank (commonly known as Zanaco).



Project progress and initial results

Kazang has many elements in place that will help it succeed. When it engaged with the MM4P team, it already had 2,500 POS devices at agent locations across the country, making it one of the largest agent networks in Zambia. Consequently, it already has an experienced sales and distribution team. Further, it has significant technological expertise, having already integrated with all major payment providers, and some payment experience from its bill payment services.

The Kazang system was already handling 50,000 transactions per day, with a monthly turnover of K30 million (US\$3 million).⁴ However, the average transaction value was only US\$2, since many of these transactions were very small airtime purchases. Hence, while agents were conducting about 15 transactions a day,⁵ they were only earning about 25 percent of the commissions of an average mobile money agent.⁶

Given these transactional profiles, Kazang was recruiting small agents and not requiring them to hold much float. The company was unable to provide many support services to the agents, given that they individually did not earn much revenue for Kazang. Kazang did not have agent selection criteria in place. Agent support systems were largely based in Lusaka, even though agents were spread across the country, and agents had to rebalance themselves at the nearest financial institution. Further, Kazang held no centralized records of the agents, so it was unclear where they were exactly, much less what problems they were facing.

Since Kazang was essentially offering products from other companies (i.e., airtime purchases and bill payments), it had not had to invest much in marketing and communications. For instance, only 40 percent of agent outlets had branding. While Kazang used some radio advertisements to increase brand awareness, the company made no concerted marketing effort on the ground to tie brand awareness to service points (i.e., agent outlets). Creating this brand awareness, and providing education on how to use the system, is one of the most expensive components of building a mobile transfer service.⁷



Customer completing a bill payment with Kazang agent in Ndola © UNCDF Zambia/2018

⁴ Conversion rate: US\$1=K9.6213 (Source: <https://treasury.un.org/operationalrates/OperationalRates.php>, 1 April 2018). Note: This rate is used in both instances when United States dollar equivalents are provided for Zambia kwacha.

⁵ If the number of daily transactions is divided by the number of agents, the result is 20 transactions per day. However, since Kazang also conducts a significant number of transactions online, the number of transactions per agent is lower, as reported in the baseline study completed in April 2017.

⁶ This finding was calculated by dividing the average commission rates collected by Kazang agents in April 2017 by the national average provided in the following report: UNCDF, 'State of the Digital Financial Services Market in Zambia, 2016: Results from the UNCDF-MM4P Annual Provider Survey' (n.p., November 2017).

⁷ In 2016, a nationally representative survey found that only 53 percent of Zambian adults were aware of mobile money, indicating that there is still significant effort needed to build market awareness. Source: InterMedia with FSD Zambia and UNCDF MM4P, 'Consumer Behaviors in Zambia: Analysis and Findings,' presentation, February 2016. Available from http://www.intermedia.org/wp-content/uploads/2016/03/zambaiintermedia_consumerbehaviours.pdf



While Kazang has agents spread across the country, it has not yet ventured into the deep rural areas that are beyond the reach of a GSM signal. The company's perspective is that the low density of populations there will require a new roving agent model, in which agents install solar arrays for households and then conduct regular collections for household members using the mobile POS system. Many components of this business model will be new for Kazang, and the company will have to figure out how to best place agents and adjust systems to accommodate this product line.

In October 2017, the consulting firm HORUS finalized a detailed strategic plan for managing these transitions at Kazang. One of the report's top recommendations was that Kazang create a mobile application to gather data on agent location and performance. This recommendation was well received, but Kazang could not spend a lot of money on a new agent management system.

Fast-moving consumer good companies and telecom companies increasingly use an agent management system to monitor their distribution network, so that they can improve the quality of support services they deliver and therefore the quality of services their agents provide. Even some smaller companies (e.g., Eko in India, PesaPoint in Kenya, Yo! in Uganda and Zoono in Zambia) have a mobile application for monitoring agents, but it is still rare for small- to mid-sized digital finance agent networks.

Kazang needed something that was right for the company. Building on the 28 Direct Sales Representatives (DSRs) that Kazang uses to recruit agents, HORUS recommended that DSRs visit the agents they recruited to capture their data and use a mobile device to capture agent data moving forward. To do so, HORUS suggested using Open Data Kit, which is a free, open-source application that runs on Android and can be downloaded from the Google Play Store. It allows users to upload audio, visual and geolocation data as well as to input data directly into surveys.

The first step was to identify what data to collect. HORUS recognized that the data would be useful for many different stakeholders. The Kazang head office not only needed data on its agents to improve strategic operations, it also needed that data to convince partners like banks and telecoms that it had the types of agents they wanted as well as to assure the regulator that it was compliant.

These needs meant mapping all strategic operations in the agent network in order to determine which questions to ask and how best to capture that data.⁸

⁸ To learn more about mapping the strategic operations of agent networks, see the following publication: Ignacio Mas and Mike McCaffrey, 'Designing Successful Distribution Strategies for Digital Money' (Nairobi, The Helix Institute of Digital Finance, May 2015).

In the next step, HORUS built the application while Kazang bought Android phones for its DSRs and embarked on mapping its agent network. HORUS also helped Kazang store the data on Google Drive and analyse it with Google Fusion, which allows sophisticated visualization and analysis for free. Despite implementation still being in the very early stages, Kazang reports being 'blown away' by how much the data is already helping it to improve its business.

From the head office, Kazang can now see each agent on Google Maps as the agent is added to the system. The company can identify which agents need branding material, which are complying with policies, how much float they are carrying and what their options are for rebalancing. Kazang has already noted that float levels are much too low and are consequently raising the minimum requirements significantly. The company has also held its first agent training session on mobile transfers and saw transaction volumes double shortly afterwards.

Lastly, Kazang is beginning to analyse the data to determine trends in its high performing agents and to figure out how DSRs can more effectively identify and register them moving forward. These may be basic observations, but they are quite enlightening for a small company like Kazang. Hopefully, they will spur continued investment in data analytics to guide growth effectively.



Agent explaining features available on Kazang system to new customers © UNCDF Zambia/2018



Key learnings

When reviewing the project with key stakeholders (including the UNCDF MM4P team, Kazang and HORUS), some key learnings emerged that would be relevant for other organizations using data analytics to improve the quality of their agent networks:

1.

The technology needs to be appropriate.

For a busy team like the one at Kazang, that meant the analytical tools had to be easy to learn; for DSRs, that meant the tools had to be able to function in offline mode as well as be portable and intuitive. Further, the systems had to be economical, as Kazang did not want to invest much capital up front.

2.

It is important to keep in mind when partnering with small companies, like Kazang, that are focused on growing very quickly, they often do not have time to sit and ponder different options.

They value strong technical advice and appreciate partners that can help them implement time-consuming mechanical components and preparing the application for field testing.

3.

Training is key.

HORUS spent a great deal of time teaching Kazang staff how the application worked and how to make changes to it in order to personalize it when needed. Kazang already had a very capable field team (i.e., the DSRs) that also went through training on how to use the application.

4.

Prototyping and testing is critical to refine the application but also to ensure the right type of data is being collected for decision-making.

All information being collected should be tied to actions that are important for the business. It should be understood how the data will be analysed and who needs to see the data to adjust business models accordingly.

5.

There is a danger that too much information will be collected.

It is important to keep the survey short. Otherwise precious time is wasted in the field and at the head office, sorting through data that will not be used. HORUS targeted a 10-minute survey. When field tested, it took 24 minutes. That time will likely decrease as DSRs become more familiar with it.



Future potential

Kazang continues to grow aggressively while building the tools to distribute its next generation of products. It reports that agents and daily transactions have doubled to 5,000 and 70,000–100,000, respectively. Growth is good, as the company generates revenue for agents as well as DSRs and finds itself in a stronger position to strike deals with banks and telecoms. Nevertheless, it remains to be seen if these players will partner with Kazang, given that they are competing with the company on money transfers.

While growing fast is good, growing too quickly is certainly a risk as operational issues magnify at scale. It makes sense then to reform operations before aggressive growth. For Kazang, it will be important for the company to analyse if many of the agents who were first recruited will be able to be trained to offer the next generation of financial services and, even if they understand the business, if the agents will be able to invest enough float to serve as viable money transfer agents.



Direct Sales Representatives after recent training in Lusaka © UNCDF Zambia/2018

Other systems under development for agent supervision and float delivery are still being thought through; they will need to be operating effectively before Kazang agents can provide a consistent, high-quality customer experience. As the company evolves, it has many big issues still to address. Finding the right cadence of growth, so that it solves more problems than it creates, will likely remain a critical success factor for Kazang.

The application will continue to be deployed until all agents are represented on the system, which should give Kazang the data necessary to see where and how to invest in strategic operations. It should also give the company the reporting information needed for the regulator and for partners that would like to use Kazang to distribute their products.

However, these steps should only be phase one of the application; much more can be done to make it useful for both DSRs and agents. For now, the application simply enables DSRs to save some time by entering data digitally instead of with pen and paper. A more sophisticated application could help DSRs plan their route in the morning and remind them of which marketing materials are needed based on the specific agents they will visit. Further, it could show DSRs how agents are performing relative to their peers, so they know what issues to address with them. Additionally, it could better capture information on what Kazang competitors are doing in the area. Lastly, it could be an important tool to help DSRs predict the float needs of their agents.

Overall, as a small organization digitizes its operations, big opportunities for smarter ways to grow emerge. Kazang now has many opportunities to improve its operations, and the company just needs to ensure it prioritizes tasks effectively and grows strategically. Kazang is an example of a small company finding ways to compete in a market that is generally dominated by large corporations. Smart investments in appropriate technologies for data analytics have helped level the playing field, and it would be wonderful to see more small companies follow in the steps of Kazang.

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