MicroSave India Focus Note 73

Sustainability of BC Network Managers (BCNMs): Business Scenarios and its Effects

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Background

The previous two India Focus Notes (IFNs) in this series analysed various banks' commission structures and highlighted the pricing methods that may work best for BCNMs. This IFN reveals results from analyses of three different scenarios that played out over time for one of *MicroSave's* partners and how each influenced customer enrolments, transactions and revenues. Since the number of customers enrolled and the value and volumes they transact have a direct impact on revenue, BCNMs should understand the critical role that these typical business scenarios play to create an overall revenue generation strategy and in assisting them in future negotiations (or renewals of existing agreements) with banks. The business scenarios are first defined below.[1]

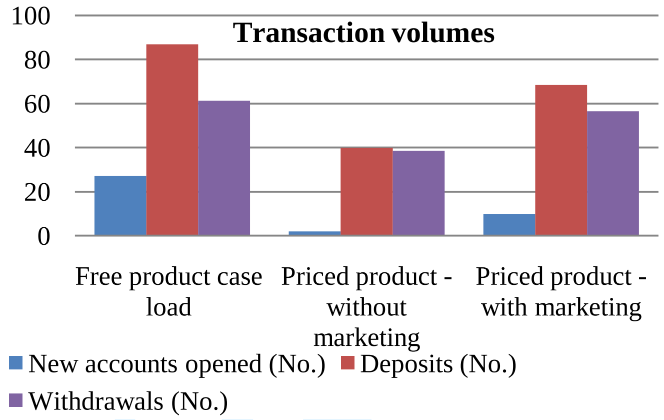
***"Free Product" (6 months)*:** In this scenario, the customer was not charged anything to open an account. Though the BCNM earned bank-established commissions as per the bank's tariff plan to open accounts, the bank did not charge anything from the customer directly. In this phase, no significant marketing activities were carried out by the BCNM.

***"Priced Product" (3 months)*:** In this scenario, the customer was charged for opening an account and to carry out deposit and withdrawal transactions. In this phase, no significant marketing activities were carried out by the BCNM.

"Priced Product with Marketing" (3 months): In this scenario, customers were charged for account opening and transactions, and the BCNM actively carried out "below the line" marketing activities such as street plays, canopies, promotions at village fairs, etc. These activities were carried out in an aggressive manner in order to increase customer outreach and transactions.

Business Scenarios and Transaction Volumes

The graph below shows the average number of transactions per month per agent of major revenue drivers, such as new accounts opened, deposits, etc. based on the three scenarios mentioned above.



It is no surprise that account opening and transaction volumes were highest for all the three revenue drivers when the products were offered to clients for free. Conversely, volumes were the lowest when the products initially cost the customers.[2] For example when a fee was first charged to open accounts, the average account opening volume per month fell from over 20 per month to just two per month, a fall of 93%!

> *"Khate kholne me bahut dikkat hai pricing ke baad se, customer razi nahi hota aur bolta hai bank me to nahi lagte" [It has become very difficult to open/operate accounts after pricing is introduced. Customers don't agree to pay! They say it does not cost anything to transact at a branch.] - Agent*

The third scenario shows that marketing efforts can make-up for some of the shortfall of lost volumes due to the introduction of pricing. For deposits and withdrawals, the effect of charging customers was almost entirely neutralised with the introduction of marketing activities (only lower by 8% and 20% respectively). The introduction of marketing activities also increased the volumes for each revenue driver by at least 50% compared to the scenario where the products were priced without marketing.

> *"Canopies lagayi hai to logon ko dikhta hai. Jahan account 5-8 khul rahe the, ab 100-150 khul rahe hain." [With canopies in place, customers easily come to know about the product. Earlier we used to open only 5-8 accounts; now we open 100-150 accounts.] - Agent*

Furthermore, when products were offered for free, there was likely a distortion in the market, encouraging uninterested/neutral customers to join and maintaining

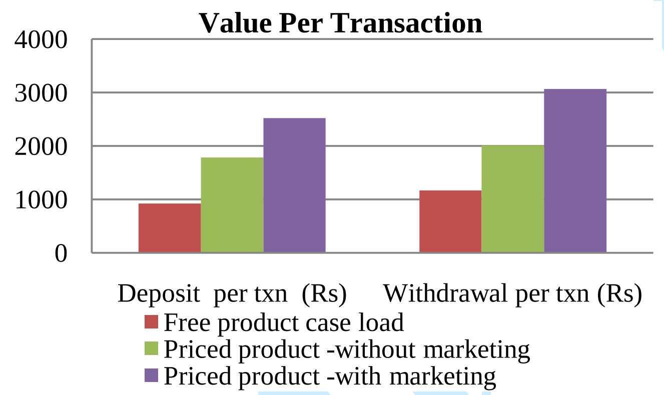
[1]Please note that this data was collected from only one BCNM and is based on limited time periods in the nascent years of the organisation's growth. Other factors were certainly at play and cannot be strictly indicative of future performance.
[2]BCNMs were remunerated the same way, though the bank charged the customers.

an unsustainable scheme of "free pricing". Therefore, the true demand for the product was likely not reflected. Once customers were charged, this conclusion seems confirmed, as the original customers may not have seen real value in the product. Adding in marketing and informing customers not only improved financial results but attracted customer types desired for the long-run.

Business Scenarios and Transaction Values

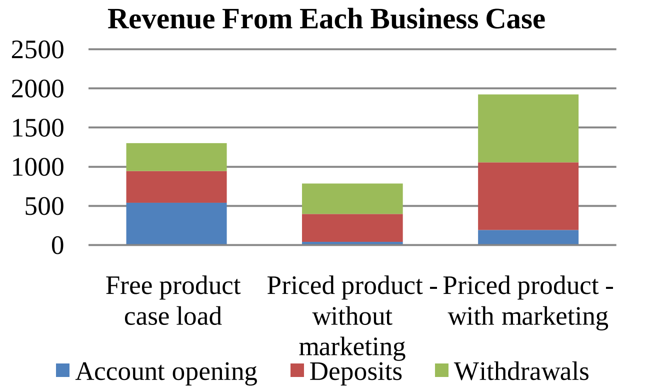
To further comprehend the effect of each of the three business scenarios, the effect on transaction values was also analysed. The graph below indicates the average per value transaction during each of the three scenario-time periods. The per transaction value was highest when the products were priced along with marketing and the lowest when the products were offered for free.

When marketing efforts were carried out and the customers were charged for the products, only those customers who found a significant value proposition likely enrolled for the services. Also since the products were priced at a flat fee, generally, customers may have increased the transaction size in order to make it cost effective.[3] Marketing efforts possibly imparted critical information and educated clients enough to encourage them to adopt BC services. What is interesting to note is that the value of deposits and withdrawals increased by 93% and 72% respectively even with customers being charged (without marketing). The possible reasons for this could be that true non-users were weeded out.



Business Scenarios and Revenue Generation

The following graph depicts the revenue that an average agent contributed to the BCNM in a month.[4] The BCNM agent earned maximum revenue levels when the products were offered for free to the customers. (The BCNM earned 83% of revenues for opening new accounts and providing account booklets). Many in the industry know that this dependency is a red herring and poses serious concerns to the true sustainability of the BCNM. Accounts cannot continue to be opened at a high growth rate forever, and many customers who do not find any value proposition in the services may have opened the accounts, leading to costly dormancy of accounts. As account opening fees are one-time revenue, BCNMs must focus real return expectations on more sustainable revenue sources such as transactions.



The BCNM earned the least when the products were priced with no marketing, but revenues recovered with the introduction of extensive marketing efforts. In this marketing scenario, the BCNM's agent earned a more balanced revenue mix from each of the revenue drivers (account opening 10%, deposits 45%, and withdrawals 45%), and as the revenue was more transaction driven it likely was more sustainable for the long-term.

Conclusion

In summary, it was observed that the average transaction value was the lowest, yet the transaction volume the highest, in the free product scenario. When pricing was introduced to customers, business significantly declined, with transaction numbers and averages values decreasing. Yet business sprang back once marketing efforts were carried out, explaining basic features and encouraging the "right" kind of customer to join. These conclusions: 1) offering free products is not sustainable and 2) marketing can overcome pricing resistance may not seem terribly ground-breaking; yet Indian banks and BCNMs continue to ignore this reality.

With marketing and reasonable pricing, the customer, the BCNM and the bank find themselves in a win-win situation. The customer carries out transactions and pays for them because he finds value in doing so. The BCNM earns revenue which is regular, diversified and transaction driven. Best of all, banks gain the most as they need not subsidise financial inclusion initiatives by paying out of pocket to simply comply with RBI mandates. They also benefit from the increase in the value of transactions and balances maintained, as it generates additional "float". It would therefore behove all players, banks, BCNMs and the RBI, to provide more extensive and coordinated marketing efforts to promote BCs as a legitimate alternative channel.

[3] Banks charged flat fees to the customers, while they paid percentage fees to the BCNM.

[4] Revenues from account opening, deposit and withdrawal transactions have been included as they contributed 99% of the revenues. The remaining was realised through account maintenance and balance maintenance fees earned.