07 / CREATING VALUE

M-PESA

The price of moving money

A useful payment service must work for customers, agents and the operator.



Mobile-money agent, Nairobi, 2016. Photograph: Fiona Graham.
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At launch, mobile money needs more than a low tariff. The case tests affordability, agent economics and the cash required to make a digital promise useful.

Michael Joseph and the launch team | Early 2007 • reconstructed launch decision

35-45 minutes to prepare / 75 minutes to discuss
Original public-source teaching case • First member edition • 1 November 2026

PRINCIPLED BUSINESS IN PRACTICE

Introduction

About Principled Business

Principled Business (PB) is a nonprofit organization that brings together business leaders to advance capitalism through education, relationships and action. It helps founders, executives and investors understand free enterprise, apply its principles in their organizations, and explain the contribution business makes to people's lives.

The PB manifesto grounds capitalism in individual agency, private ownership and voluntary production and trade. These commitments take practical form in everyday business decisions.

Creating value

PB connects sustainable enterprise with creating value for others. Customers, workers and partners must have reasons to keep choosing the relationship.

M-PESA illustrates value creation through a service that helps people move money. The customer's benefit depends on agents being available and able to exchange cash. Students must choose a price and operating model that make the relationship worthwhile for all three participants: customer, agent and operator.

PB presents this case to make the principle usable in a real business decision. Your recommendation should connect the principle to a workable policy, account for the people affected, and identify evidence that could change your mind.

What you will learn

01 Explain why a digital service depends on physical distribution and liquidity.

02 Compare customer pricing with operator contribution and agent returns.

03 Design a launch test that measures successful use, affordability and reliability.

> **Apply it to your own business**
> Map one service your business provides through intermediaries. Where could a partner's weak economics or lack of working capital make your promise fail?

Source: About Principled Business; Capitalists for Capitalism Manifesto, Section 2: Creating Value.

NOTES FOR STUDENTS AND TEACHERS

Using this case study

This packet includes the case, exhibits, worksheet, sources, answers and teaching notes. Allow 35-45 minutes to prepare and 75 minutes for discussion. Have a calculator or spreadsheet available.

Pages	What to use and when
4-8	Decision, evidence, exercise and alternatives. Read before discussion.
9	Decision worksheet. Complete before reading the answers.
10	Sources and reading notes. Check the evidence and its limits.
11-12	Worked answers, outcome and teaching plan. Read after deciding.

For students

Read once to identify the decision, then work through the exhibits. Separate historical facts from the invented classroom exercise. Use the case's decision boundary; write down assumptions when evidence is missing. Complete the calculation and worksheet on page 9. Be ready to defend your recommendation and the strongest objection to it.

For individual study, decide before turning to pages 11-12. Compare your reasoning with the worked analysis and write a short reflection on what you would change. Choose one action to try in your own organization.

For teachers and discussion leaders

Read the full packet and timed plan before teaching. Assign pages 1-10 first and reveal the final two pages after students commit to a choice. Record the alternatives, evidence and disagreements on the board.

Keep transaction revenue, agent income and cash float separate. Ask students to explain why a busier agent can earn more yet still be unable to serve customers at a peak.

> **How to assess the work**
> Look for a clear choice, accurate analysis, stated assumptions, attention to affected people, a fair objection, and an implementation plan with an owner and review point. Assess reasoning rather than agreement with the historical decision.

EARLY 2007 • BEFORE COMMERCIAL LAUNCH

The decision

A mobile service originally explored for microfinance had revealed another use: people wanted to move money between locations and recipients. Michael Joseph's later account describes a pilot in Thika and the move toward a broader transfer service. M-PESA would launch in Kenya in March 2007. [P1, P3]

Take the launch team's position before that outcome. A customer can value a transfer only if the recipient can use the money. A digital balance is less helpful when the nearby agent has no cash, the tariff is unclear or a mistake cannot be resolved. The commercial choice joins pricing with a physical service network.

Choose a launch package

Decide whether to begin with a higher contribution per transfer, a lower price intended to stimulate use, or a bounded pilot that tests the assumptions before wider rollout. Specify what agents need to participate and what service standards the operator must verify.

The early venture involved private enterprise and public support. Vodafone's account identifies a partnership with the UK development department. That context matters: the case is about how a useful service is organized, not a claim that one actor alone supplied every condition for success. [P3]

> **Decision boundary**
> Judge the launch using what a team could reasonably test then. Later scale cannot establish that any particular initial tariff or distribution choice was inevitable.

THE BUSINESS LOGIC

A transfer is a chain of promises

Value to the customer

The relevant comparison is the customer’s complete alternative: fees, travel, delay, loss risk and the effort of collecting money. A lower posted tariff may be less valuable than a slightly higher tariff with dependable cash access. The team needs evidence about actual use, not only expressions of interest.

Value to the agent

An agent supplies location, time, cash and electronic value. Commission must make participation worthwhile after operating costs. At the same time, the agent must keep enough of each form of value to serve deposits and withdrawals. Income and liquidity answer different questions.

Value to the operator

The operator needs sufficient contribution to support technology, customer service, monitoring and the agent network. Rapid transaction growth can still destroy value if the price falls below the cost of serving the activity. It can also strain a network that was designed for a smaller peak.

A launch plan should connect the three views. It should define a transaction customers can complete, the agent resources needed to complete it, and the economics that fund reliable delivery. It should also allocate responsibility for identification, errors, complaints and applicable regulatory requirements.

> **The practical question**
> When a customer says “the service worked,” what exactly happened from the first cash exchange to the recipient’s successful use of the money?

EXHIBIT 1 • HISTORICAL CONTEXT AND ANALYTICAL QUESTIONS

From pilot to service

Historical context	Question for the launch team
The initial concept involved microfinance. [P1]	What did actual behavior reveal that the original proposition missed?
The service evolved toward transfers. [P1]	Which customer task should the first commercial offer make dependable?
Commercial launch came in March 2007. [P3]	What evidence should justify moving from a pilot to a wider service?
Early development included public and private participation. [P3]	Which responsibilities and risks belong with each participant?

Evidence worth collecting

Observe completed transfers, unsuccessful cash-outs, repeat use, customer understanding of charges and resolution of errors. Ask agents about both earnings and the difficulty of rebalancing cash. A high registration count can conceal infrequent use or a service that fails at the moment customers need it.

Bound the experiment

Define the geography, customer task, operating hours and maximum supported load. Test a tariff alongside the replenishment arrangements that make it deliverable. Expanding a low-price offer before verifying the service network could generate adoption without dependable value.

> **Historical facts versus the model**
> The next exhibit is a fictional network designed to expose tradeoffs. Its tariffs, commissions, volumes and float are not historical M-PESA data.

EXHIBIT 2 • INVENTED CLASSROOM EXERCISE

Price and cash availability

Use Kenyan shillings (KES) and a 20-day month. A hypothetical network has 20 identical agents. The operator pays an agent commission of KES 18 and incurs other variable cost of KES 7 per transaction. Monthly fixed cost is KES 100,000. Each agent incurs KES 8,000 monthly operating cost.

Package	Fee per transaction	Monthly transactions
A. Higher contribution	KES 40	10,000
B. Lower tariff	KES 30	18,000

Distribute transactions equally among agents. Seventy percent are withdrawals averaging KES 2,000. On a peak day, withdrawals are twice the average daily amount. Each agent starts that day with KES 100,000 cash and receives no replenishment or offsetting deposits during the peak. Treat these as fixed teaching assumptions.

01 Calculate monthly operator profit and agent operating surplus under each package.

02 Calculate each package’s operator break-even transaction volume.

03 Calculate an agent’s peak-day withdrawal cash requirement. Does the starting cash cover it?

04 Choose a package and describe the service changes needed to make it credible.

> **Three different quantities**
> Customer funds passing through the system are not operator revenue. Agent float is a liquidity resource, not commission income or an operating expense consumed on every transfer.

ALTERNATIVES • IMPLEMENTATION • ASSIGNMENT

Build a service worth choosing

Alternative	Commercial argument	Execution risk
Package A	Higher contribution can fund support at lower volume.	Price may limit adoption; the forecast still needs testing.
Package B	A lower price could support more frequent use and agent earnings.	Modeled volume misses operator break-even and strains peak cash.
Bounded pilot	Tests repeat use, cost and liquidity before expansion.	Delays scale and must have a clear decision rule.

Your assignment

01 Recommend a tariff and a rollout boundary. Identify what customers receive for the fee.

02 Specify agent remuneration, minimum liquidity and a replenishment response.

03 Define three measures that must pass before expanding. Include a service-failure measure.

04 Explain how you would respond if registrations rise but completed repeat transfers do not.

Assign responsibility for customer complaints and failed transactions. State which decision can be made locally and which requires central intervention. A credible expansion trigger should consider both ordinary days and peaks.

> **A proposal to challenge**
> “Cut the price now; scale will solve the rest.” Identify the volume, capacity and cash conditions that would have to be true for that claim to hold.

WORKSHEET • COMPLETE BEFORE READING THE TEACHING NOTES

Your decision

Write as the decision-maker. Use the historical evidence and the classroom model for their stated purposes. A recommendation needs a boundary, an owner and a test.

My recommendation and the principle it puts into practice

The calculation or evidence that matters most; its main limitation

Who bears the risk, and how their choice or voice is protected

The strongest objection and my response

First action, accountable owner, review date and stop/change trigger

EVIDENCE • METHOD • LIMITS

Sources and reading notes

A reconstructed launch decision, grounded in participant accounts and company reporting. The tariff packages and agent network on page 7 are invented, not M-PESA's historical pricing or actual accounts.

P1 Vodafone, M-Pesa: creating the leading mobile money service

Michael Joseph's retrospective account of the microfinance pilot and shift toward transfers.

Open source document →

P2 Safaricom, Annual Report 2009

Later operating context and expansion of the agent network; used only in the debrief.

Open source document →

P3 Vodafone, M-Pesa marks 15 years

Confirms the March 2007 launch and the early partnership with the UK Department for International Development.

Open source document →

How to read the evidence

Company and participant accounts are useful primary evidence but have a success-story perspective. The case makes no causal claim about poverty reduction. Launch demand forecasts, prices, costs and cash requirements in the exercise are PB assumptions.

All quantities in the classroom exercise are invented unless explicitly identified as historical. The models omit factors deliberately for discussion; they are not company forecasts. Photographs are documentary context, with dates and licenses on the cover.

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TEACHING NOTES • READ AFTER COMPLETING THE DECISION

Worked analysis

Operator and agent economics

Monthly result	A	B
Operator contribution per transaction	KES 15	KES 5
Operator profit after fixed cost	KES 50,000	−KES 10,000
Agent transactions	500	900
Agent operating surplus	KES 1,000	KES 8,200

Operator break-even is 100,000 ÷ 15 = 6,666.67, requiring 6,667 whole transactions for A; B requires 20,000. Agent surplus equals commission times transactions minus KES 8,000. These amounts exclude the financing cost of float.

Liquidity at the peak

A requires (500 ÷ 20) × 70% × KES 2,000 × 2 = KES 70,000 cash per agent. B requires KES 126,000, leaving a KES 26,000 shortfall against the starting cash. The more profitable agent under B can still fail to serve withdrawals.

A reasoned launch recommendation

A bounded A launch could fund support while testing demand; B needs more volume, lower costs, a different tariff or a deliberate funded subsidy, plus stronger replenishment. A lower tariff is not inherently wrong, but the team must name who finances the gap and how customers will obtain cash at the promised time.

> **Key distinction**
> Adoption, profitability and successful service are separate outcomes. A sound launch plan measures all three and identifies when one is being purchased at the expense of another.

TEACHING NOTES • READ AFTER COMPLETING THE DECISION

Outcome and teaching plan

What happened next

M-PESA launched in Kenya in March 2007. Safaricom's 2009 report described an agent network exceeding 7,000 outlets. That later growth provides context for the importance of distribution; it does not validate the fictional tariff forecasts or prove that early operating problems were absent. [P2-P3]

A 75-minute discussion

Minutes	Facilitation plan
0-10	Choose a launch package and define the customer's task.
10-25	Map customer, agent and operator value.
25-40	Calculate contribution, agent surplus and peak cash.
40-55	Redesign the launch with liquidity and complaint handling.
55-65	Reveal the later network growth; discuss what it does and does not show.
65-75	Apply the three-sided model to another intermediary-based service.

> **Closing question**
> Which part of your business promise depends on someone else having enough incentive, capacity and working capital to keep it?

Assess the decision at its stated boundary. Later success cannot prove the original choice was sound; later failure cannot, by itself, prove it was unreasonable.