Purpose of the Course
This course will allow students to examine the challenges and opportunities of doing business in emerging markets using simple frameworks and tools developed at Harvard Business School. Students will use such frameworks to think about the design and execution of successful strategies in emerging and frontier markets. The course teaches students to develop models of how the global economy works and how that is translated into investment thesis that can be applied to invest in bonds, stocks, private equity and venture capital.

Much of the focus of class is developing an investment thesis and presenting it in a clever way.

Who should be taking this course?
- Students interested in getting introductory knowledge of macroeconomics
- Students interested in doing business in emerging economies
- Students interested in the challenges entrepreneurs face in emerging markets
- Students interested in doing business at the base of the pyramid
- Students preparing for careers in economic or business consulting, entrepreneurship, asset management and managerial positions in companies and banks in emerging markets.

Learning Goals and Outcomes
1. Students will learn basic macroeconomics and its applications to business decisions
   - Students will learn basic GDP accounting, understanding of country development strategies, vulnerabilities in the balance of payments and banking systems, etc.
   - Students will learn to think about debt sustainability and how international debt markets operate, including the legal consequences of sovereign debt default
   - Students will be evaluated on these goals through a quiz and a midterm exam.

2. Students will learn to think like asset managers, they will
   a. Design investment thesis based on macroeconomic global trends
   b. Pick specific investments that follow that investment strategy
   c. Understand the risks of those investment thesis, how to prevent them, and how to sell them to potential investors
   d. We will evaluate this learning goals with a 20 page paper and a live presentation of the investment thesis

3. Students will learn how strategists and CEOs in large multinationals:
   - Design entry strategies into emerging and frontier markets
   - Tackle challenges when entering into a new market
   - Experiment and learn when implementing their business model under a new environment
   - We will evaluate these learning objectives doing discussions of case studies in class.
4. Because the course has a strong focus on team work and decision-making with limited information and under high uncertainty, students will learn how to
   • Identify your own biases, stemming from both your background and your culture
   • Work with a team under pressure, with limited resources and information, and when facing high uncertainty
   • Recognize personality traits that may handicap you in your future career
   • This learning objective will be evaluated with a team project that involves a series of presentations.

Pre-requisites
Basic knowledge of macroeconomics is recommended (or a pre-reading of David Moss, *A Guide to Macroeconomics*). Also, familiarity with competitive strategy is a plus.

Text book

Expected workload
Students should expect to invest ~8-9 hours/week outside of class on the course.
The course is divided into frameworks and each framework will have three to four different case discussions (one per class session). Students must read all the background materials for each of the frameworks before coming to class. Not reading the background materials is equivalent to not preparing the case and is penalized with negative participation grades.
Questions to prepare each session will be posted on Latte.

Materials for the Course
The case relies mostly on Harvard Business School case studies, which are available for purchase [here](#). Course packs are comprised of copyrighted materials, so please respect intellectual property by purchasing your own copy of the materials as they change year to year.

Emerging Markets Etiquette
Because this is a course about doing business in emerging markets, we will emphasize respect to others people’s cultures and beliefs. The course is design to make you realize what your cultural biases are when trying to do business in other countries. Therefore, we will take advantage of the diversity of students at IBS by making sure the classroom is a safe environment for everyone to talk, disregarding their religious and political beliefs.

Grading
The final grade will have the following components:
   • Class participation 30%
   • Macro quiz 10%
   • In-class midterm (case writeup) 30%
   • Group project 30%

Class participation will be graded as follows:
   • Students are expected to attend every class. Since the course is taught in 13 sessions, missing a session will carry a penalty. Missing two class sessions (3 hrs each) will automatically result in a failing participation grade.
   • If you need to miss class for health reasons please discuss with the instructor
• Participation grades will depend on quantity and quality factors. I use the following scale to grade participation on a daily basis:
  -5 absent without prior notification
  -3 absent with prior notification
  0 present but without a class contribution
  +1 contributed a case fact
  +2-3 good analysis and structure and allowed others to see a new insight
  +4-5 excellent analysis and structure and cracked the case

In order to be fair to students with participation grades, students will have assigned seating from the second session of the course. Please select your seat for the semester by the start of the second class, and use a name card, at least for the first several sessions.

Group project
The group project consists of a 20 PowerPoint presentation (with quantitative appendices if necessary) and a 10-minute class presentation in which students will present an investment thesis based on what we learned in class. One suggestion is to present a specific investment by developing an investment thesis based on the Belt and Road Initiative.

The presentation of the project has two steps. There will be an initial presentation in which the class will ask questions and the professor will give feedback and a final presentation that will also have a Q&A session and that will be graded by everyone in the room.

Disabilities
If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see me.

Academic Integrity
You are expected to be familiar with and to follow the University's policies on academic integrity (see http://www.brandeis.edu/studentlife/sdje/ai/). Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University.

Office hours
Office hours will take place on Mondays (1-4PM) and Fridays (11-noon and 3 to 5PM). Students need to book appointments directly with Prof. Musacchio (aldom@brandeis.edu). Not showing up to an appointment you book is penalized with negative participation in class due to the unprofessional nature of this behavior.
**SCHEDULE OF CLASS SESSIONS**

*All cases, notes and articles are part of the case packet you have to buy from Harvard Business Press [here](#). There is also an optional, but highly recommended, textbook: David Moss, *Concise Guide to Macroeconomics*, Harvard Business Press (available at the bookstore).*

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DETAILED SCHEDULE AND QUESTIONS

8/31 Strat in EM: the Big Picture

Readings:

-Metro Cash & Carry, HBS Case


*Optional, but highly related to class, a reading from the Economist

Case summary:

This case analyzes the globalization of Metro Cash & Carry, a German wholesaler, which has flourished in many foreign markets but struggled to gain traction in India. It considers Metro's experience in Russia and China to put the company's challenges in India in comparative perspective. Pays particular attention to the institutional obstacles for a multinational to tap into the opportunities offered by emerging markets.

Questions to prepare for class:

1) How does the supply chain for fresh vegetables work in India? What is the Metro Cash & Carry business model? What are the key competitive advantages or differentiating factors of their business model? How are they trying to alter the typical supply chain for say vegetables in India?

2) How did Metro Cash and Carry adapt itself to enter Russia and China? What adaptations were necessary across the board, and what adaptations were idiosyncratic to particular country contexts?

3) What went wrong in India? How would you fix it?

4) Using the Four Market framework from Musacchio & Werker. Think about in which quadrant Metro C&C was operating in when they entered India? Are there any insights from the framework you could use to advise Metro C&C?

9/5 Pakistan and the Belt and Road Initiative

At the end of class we will connect with Hassan Malik (bio here), Senior International Strategist at Ned Davis Research, London. Hassan is originally from Pakistan and he usually takes a very contrarian view when advising clients. He is one of the few analysts I know that is taking the Belt and Road Initiative Seriously as an investment thesis. If you don’t know what the Belt and Road Initiative is, please read this and this (The BRI will be super important for class, so take your time to read about it).

Readings:

Pakistan: Is Foreign Aid Helping or Hindering Development? (HBS Case in packet) (*required)
Objective of the session:

This session is a bit ambitious. We are going to start applying what we know of country strategy analysis (4 Market framework) and we are going to learn to use new tools (GEM15 scorecard). Also, a large part of class will be devoted to learning the basics of GDP accounting and understanding macroeconomic aggregates. That is why it is key to read Chapter 5 of the Moss book.

Here are some questions to prepare for class:

5. First, make sure you understand GDP accounting. What is Consumption? What does it measure? What is gross fixed capital formation (known also as aggregate investment)? What does it measure? What is Government Consumption? Doesn't Government Consumption double count things we add up in C (Consumption) and I (gross capital formation)? Why do we keep track of the net between exports and imports?

6. What is Pakistan's development strategy? Think about them using the 4market framework, do they have a lot of rentiers and powerbrokers? How do they get foreign exchange, do they have a lot of exports? If Pakistan were a company, what's their unique advantage? How do they exploit it?

7. Work with the GEM15 scorecard and try to fill in the boxes as much as you can using the exhibits of the case.

8. If you were an investor looking to sell consumer goods in Pakistan, what would be the attractive features of this economy? What would be the non-attractive features? What is the mental model that would make you believe that Pakistan is the next emerging market to invest?

9. Read the article on the current economic crisis in Pakistan. Why is there a crisis in Pakistan today? Why can't they export more? Is the Belt and Road Initiative helping or hindering Pakistan's development?

10. If you were an investor in Pakistani sovereign bonds, what are the main risks you face? Would you invest in such bonds today? (These bonds have a yield of 10% at the moment) Is it too risky?

9/12 China and Growth Accounting

Readings:

2. If you want to simplify how you organize macroeconomic information use the GEM15 note...or, I have simplified the scorecard to 4 very simple boxes (here)
3. Also, read how the slowdown in China is connected to the Belt and Road Initiative here
We will connect via videoconference with my former student Rawen Huang (bio), CEO and Founder of Petrel Capital, a hedge fund in HK for all of China. His fund actually just got acquired by Oasis Capital and now he is the manager for all of China and has over $1 billion in assets under management.

Objectives of this class session:

This class session will look into detail at some of the challenges of the Chinese development strategy of the last three decades. First, we will use this case to talk about GDP growth accounting and to understand the importance of productivity growth (labor productivity and/or total factor productivity growth) for improving living standards in the long run. Second, we will discuss how the Belt and Road Initiative is tied to the slowdown in GDP growth in China.

Questions to prepare for class:

1) Why has China been growing so fast for so long (and continues to grow over 6% per year)? (Use what we discussed last class about what explains increases in GDP: labor, capital or improvements in total factor productivity).

2) Using the exhibits, explain China’s development strategy and prospects (use GEM15 and the 4M framework).

3) What are the main vulnerabilities of the Chinese development strategy? Are you bullish or bearish on China?... or the more interesting question, why is everyone in the West so bearish about China? Why is everyone always predicting that the Chinese economy is going to collapse? Why have they been wrong for so long? (for instance, see the Economist recent article here)

4) What is the Belt and Road Initiative? How can it save China from slowing down? Should the US as a global power be afraid of this Initiative?

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9/26 Emerging Mkt Crises: Mexico in 1994

### PUT TOGETHER TEAMS OF 4 FOR FINAL PROJECT ...sign up sheet###

Readings:

1. Mexico C, HBS Case study


Objective of this class:

In this class we will develop a very simple framework to think about why crises are created, in particular in emerging markets. We will discuss the process of asset appreciation and rapid depreciation. This framework relies on simple ideas from economics on expectations, so please read Chapter 3 of the Moss book to prepare. We will also use this case to understand two key
concepts in macroeconomic analysis, the balance of payments and the appreciation/depreciation of the real exchange rate and what that entails for competitiveness (so please read Chapter 6 of the Moss book and re-read Chapter 7). Even if this is an old crisis, it is a fantastic case study with important lessons for investors interested in emerging markets.

Questions to prepare for class:
1. Who is to blame for the crisis in Mexico? Was it the government’s fault? Investors?
2. Examine the balance of payments and identify the main signals that there was a crisis in Mexico. Could investors have known there was a crisis coming? Explain your analysis.
3. Was the peso to US dollar exchange rate overvalued before 1994? What measures are used to disentangle such things?
4. Imagine you are a Portfolio Manager at Fidelity in 1993 and your performance was measured against the average return for the emerging markets index at the time. Would you have invested in Mexican stocks and/or bonds? Why or why not? Could you afford not to invest in Mexico?
5. After the crisis erupted, what did the Mexican government need to do to prevent a deep depreciation of the Mexican peso? What other options were there? If investor expectations are key for an economy, what was the best thing Mexico could have done to get back on track to getting foreign investment?

MACRO QUIZ IN A WEEK. HOW TO PREPARE FOR THE MACRO QUIZ of 10/3:

Find a sample set of questions and answers on Latte. Our quiz will have about 10 questions at the most.
*I strongly recommend that you prepare with your peers as many of the questions are tricky.

Wed 10/3 Does macroeconomics matter for business strategy?

Readings

1. Vale: Global Expansion in the Challenging World of Mining (HBS Case 710-054)

In 2009 the management of Vale, a Brazilian diversified mining company and the largest iron ore producer in the world, was under pressure from at least two fronts. First, the emergence of China as the most important consumer of iron ore in the last few years had changed the pricing system for iron ore from long-term contracts based on negotiated "benchmark prices" to contracts based on spot prices, usually forcing mining companies to pay for shipping. Second, for Brazil's charismatic president, Lula, a former union leader, Vale’s layoffs during the global financial crisis and its perceived move away from Brazil (as Vale increased its exports to China and purchased Chinese vessels to ship iron ore to Asia) were reasons to start an open campaign to pressure Vale and Agnelli to invest in integrated steel mills in Brazil. In October of 2009, the CEO of Vale, Roger Agnelli was going to meet with Lula and had to decide what to do to attenuate these political pressures. What could Agnelli do to deal with political pressures at home? Was the purchase of large vessels to ship iron ore to Asia a good decision at a time when the shipping industry had spare capacity?
Assignment Questions

1) What could Agnelli do to deal with political pressures at home?

2) Map out the supply chain for a typical mining firm. What does Vale do different? What is its competitive advantage? Does it make sense for Vale to get into the steel business? (use exhibit 13 Top Iron Ore and Steel Producers in 2008 and the internet to examine how common is to have vertical integration in the mining and steel business). When would it make sense for a mining and steel firm to be vertically integrated?

3) Was the purchase of large vessels to ship iron ore to Asia a good decision at a time when the shipping industry had spare capacity?

#MACRO QUIZ TODAY

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**Tue 10/10 Session 5. Institutional Voids and Successful Strategies in Frontier Markets**

###TEAMS SUBMIT THEIR INITIAL IDEAS FOR THE FINAL PROJECT FOR REVIEW (SUBMISSION ON LATTE)###

**READINGS**

2. Institutional Voids Note, HBS.

3. Sherritt Goes to Cuba (A) (B) Harvard Business School Case 711-001, 002

4. *Also see macro data from the C case in the following spreadsheet

Manager guest: We will connect with Ian Delaney, case protagonist and former CEO of Sherritt International (bio here)

**Summary of Sherritt Goes to Cuba**

Sherritt Goes to Cuba (A), (B), and (C) cases describe the adventurous investments of Sherritt International, a mining and energy company, in the island of Cuba. Ian Delaney, CEO of Sherritt International, decides to invest in Cuba in the early 1990s and has to create a framework to operate in the island from scratch. Moreover, as the economic situation of the island deteriorates in 2008 the government of Cuba starts to delay the payments it owes to Sherritt. As Fidel Castro falls sick and leaves his brother Raul Castro in charge political risk seems to increase for Sherritt.

**Assignment Questions**

1. In the A case. Examine the economic situation of Cuba in the 1990s? How are they doing? Is this a good place to do business? (download the macro exhibits here (C) case)

2. Given this macro framework, does it make sense for Sherritt to go to Cuba in the early 1990s? [i.e., think about institutional voids, etc..]
3. In what quadrant of the 4M is Sherritt operating?

4. Let’s analyze in detail the business lines of SHerritt and their business model in general. What institutional voids are they filling in? How? What’s their main competitive advantage? (or simply explain why they have managed to operate in Cuba for over twenty years)

5. The United States government announced a couple of years ago that they may re-open diplomatic relations with Cuba and they will consider opening up trade with them. How is that going to affect Sherritt? Are you optimistic or pessimistic about this? What would you recommend Ian Delaney and the board of Sherritt to do now?

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10/17 MIDTERM EXAM

MIDTERM EXAM

It will have two sections, the first part of the exam will be a quick macro quiz (no notes allowed for this part). You will have 30 minutes to work on the quiz. It will start at 9:30AM sharp.

The second part of the day will be the MIDTERM EXAM. You will have to answer two questions which will given to you DURING CLASS and that will come out of your analysis of the case. One will be about the country and one will be about a company or business operating in emerging markets. You will have 2:20 to work on these two answers. PLEASE BRING A LAPTOP as there will be no hand-written exams. If you have special needs to take the exam please let me know ASAP. The exam is "open book," i.e., you can use notes, bring the text book, etc. but I don’t recommend that you waste time searching for stuff on the web. You should focus on answering the questions because for most people two hours is not long enough to write the two short essays.

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10/24 How do Portfolio Managers Think

How do Portfolio Managers in EM Funds make decisions?

**Our guest today is Rahul Desai, Portfolio Manager, Global Emerging Markets All Cap fund, Fidelity Investments (bio here)**

Objective of the class:

To put yourself in the shoes of a Portfolio Manager who runs an Emerging Markets fund (like Rahul’s). You will have to use the entire kit set that we have used in class and perhaps a bit of what you know about picking stocks. You will need to decide whether to invest in a specific EM stock based on information Rahul will provide.

Last year we had to decide whether to buy CAPITEC BANK, an innovative bank from South Africa. This was the assignment:
You need to come up with a BUY or Don’t BUY decision and take note of your reasoning. You need to base your decision on the following factors:

Macroeconomic Risks/Opportunity – do we feel comfortable with the macro risks – political, economic, currency etc. – is this a safe country to invest as a US investor who seeks returns in US$ dollars?
Is this a good industry – porter’s 5 forces type evaluation or if you don’t know Porter use competitor analysis (which other players are in this space? What are the competitive dynamics in this industry in South Africa?)
Does the company have a strong business model /c competitive positioning? Are the financials strong (I would pay attention to RoE or RoIC, balance sheet, free cash flow, etc.)
Is the risk/reward from a valuation perspective attractive?
For those of you with more finance background, please make sure you consider:

a. Based on reasonable assumptions, where do you see earnings in 3 years and hence if you apply a reasonable multiple, what’s the valuation upside?

b. On more conservative/bear-case type numbers, where do you see earnings in 3 years and so what’s the downside risk? (How much money could we lose for shareholders if we buy this stock)?

5. Are there any corporate governance related concerns with this company?

Where to do you analysis:

Report on political and macroeconomic situation in South Africa

Annual results presentation
https://www.capitecbank.co.za/resources/Financial_Results_Presentation_27032017.pdf

Roadshow presentation (dated, but has good discussion on biz model):

Good interview of the CEO:

Good article/history:
http://www.leader.co.za/article.aspx?s=1&f=1&a=1650

-Use bloomberg terminals to get more information about this company; use Capital IQ, a database installed in all computers in the Bloomberg Lab; Yahoo finance in the worse case scenario

**Rahul has also facilitated to us a financial model in which you can plug in data and get price projections. Feel free to play around with it.**
10/31: Disruptive Innovation in EM
READINGS:
1. Disruptive Technologies: Catching the Wave, Harvard Business Review Article (in case course packet)
2. Novozymes: Cracking the Emerging Markets Code, HBS Case Study 112-084

Case Summary

In 2011, the management of Novozymes, the industrial enzymes leader, reflected on the viability of their positioning in the fast growing, yet increasingly competitive Chinese market. Novozymes, a technological innovation pioneer, was prominent in China’s premium enzyme markets, but felt pressure from local low-cost rivals in volume-driven, commoditized segments. How should Novozymes relate to local competitors? By competing on technological innovation only in high-margin verticals? Or, through a separate subsidiary with a new low-cost business model for commoditized verticals?

Assignment Questions

1) Should Novozyme keep the B brand (Suhong), pin-off low-cost business, or abandon the textiles and brewing verticals?
2) If Novozyme pins off local’s businesses, what characteristics should it have?
3) What kind of manager will want to lead a new locals business?

11/7 Bitfury: Blockchain, crypto currencies and emerging markets

Readings:
Bitfury: Blockchain for Government (HBS case study)

Questions to prepare:

1. What is blockchain? What is a cryptocurrency?
2. What are the advantages and disadvantages of using blockchain for governments in emerging markets? Why aren’t all governments embracing cryptocurrencies and blockchain?
3. Beyond applications for government, what other uses do you see for cryptocurrencies in emerging markets? What kind of institutional voids can they heal? What is the darkside of cryptocurrencies?
4. Nicolas Maduro, the President of Venezuela is trying to tame inflation by linking the new currency to a cryptocurrency named Petro (read here). Is this experiment going to work? What are the advantages and weaknesses of this approach?
11/14 Business at the Base of the Pyramid: Microfinance

Readings:
1. Rangan et al., “Segmenting the Base of the Pyramid” (HBR article R1106J)
2. Banco Compartamos (Harvard Business School Case)
3. Optional reading: The promise of microfinance and women’s empowerment: What does the evidence say? (available here)

Case Summary
After an international IPO yielding extraordinary returns to original investors, Banco Compartamos, Mexico's leading microfinance institution, contemplates its future strategic and competing priorities: maintaining growth, defending industry, leadership, preserving social mission and meeting the expectations of a demanding capital market. Additionally, Compartamos’ Co-CEOs must decide how to face the highly polarized reactions in the microfinance industry to its IPO. In the process, the case examines the history of Compartamos, from its NGO origins to its license as a full service bank; describes the competitive context of low-income sector of financing in Mexico; and reviews the decisions leading to the IPO in the Mexican Stock Exchange.

Questions to prepare for class:
1. What is a social enterprise? Why bother selling to the bottom of the pyramid?
2. Why do traditional banks in Mexico not serve the poor?
3. How does microfinance work? What is the business model of a microfinance company? Is this a social enterprise or purely for-profit business?
4. The founders of Compartamos made a fortune during the IPO of the company. Are the critics of Compartamos right that it is a business to benefit the founders?
5. Should Compartamos lower its interest rates?
6. If you were to form a microfinance company in Mexico, what would you do differently? (use the frameworks you know to think about whether it would make sense to create a microfinance company in Mexico)
7. If you were an asset manager in the United States would you deploy funds in Compartamos shares? Why? Why not?

11/28 M-Pesa and The Mobile Payments Revolution in Africa

Readings:
-Mobile Banking for the Unbanked, HBS Case (on M-Pesa, Kenya)

Questions to prepare:
1. What are the main pain points or problems people with mobile phones in the Base of the Pyramid face with relation to financial services?
2. How can mobile banking add value? What kind of products are needed? How do they create economic value? How do they create social value? (what is the counterfactual without these
mobile banking services? once you figure that out you can calculate the social value/social impact). Think about this for each of the companies described in the case.

3. Explain the business model of WIZZIT and M-Pesa. What’s their monetization strategy (profit formula)? Is there a way to figure out how much money they make (at least revenues)? What are the main challenges going forward?

SECOND HALF OF CLASS:

We will discuss the business model of social enterprise Buffalo Grid.

Manager guest: Daniel Becerra, Co-Founder, Buffalo Grid

Questions to prepare for the second half of class:

a) If the cost of manufacturing the battery hub of Buffalo Grid is $880, the cost of deploying the hub in a remote village is $1400, and the average cost per charge is 20 cents, think about how long it takes them to breakeven if they get on average 40 charges per day.

b) In order to deploy the battery hub they need to partner with local store owners, sharing 30% of revenues. How does that alter your breakeven calculations?

c) If the battery hub’s life is 36 months, please calculate the net income and net income margin they make with each battery unit.

d) In what quadrant of the economic and social value are they (high/low)? To calculate social value, assume the average Buffalo Grid user had to walk 1.5 hours to charge their phone. These customers usually make $1-$2 per day of work.

e) Calculate the market size for the Buffalo Grid battery hubs worldwide. Take into account that 750M people have no access to electricity to charge their phones worldwide. What’s the potential market size if you make conservative assumptions about the market share they can capture?

12/5 STUDENT FINAL PRESENTATIONS AND WRAP UP

· Each team will present for 10 minutes and we will have a 5 minute discussion to evaluate the idea.

· All the other teams will grade the idea and presentation.