

UNIVERSIDAD PANAMERICANA

**FACULTAD DE EMPRESARIALES
MAESTRÍA EN ESTRATEGIAS COMERCIALES
INCORPORADA A LA SECRETARÍA DE EDUCACIÓN
PÚBLICA RVOE 20122890**

Elaboración de Caso

“Mach Music – Digital & Financial Inclusion in Brazil”

QUE PARA OBTENER EL GRADO ACADÉMICO DE:
Maestra en Estrategias Comerciales

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Ciudad de México, 2020.

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Company background and facts

Three friends, three entrepreneur souls that bring together their knowledge, expertise and experience to establish a company that will give Brazilian people the possibility to be part of the **digital and financial inclusion**. Bernardo Abecasis, CEO of Mach Music, with a track record of successfully starting and growing new businesses; Rodrigo Maynard, Marketing leader with many years of experience in the telecommunications and entertainment industry and Laerte Magalhães, key and strategic element for this company, with extensive experience in project management, new product development and enabling business.

Mach Music, a startup created in 2015, with head-quarters in Boston, USA, is a solution provider in the Telecom Industry for under-served consumers, especially in Latin America.

They put together a set of unique products, as: streaming music app, Ringback Tones (RBT), Business Intelligence and Mobile

Advertising; with a distribution based on partnerships with key regional groups.

Mach Music seeks to venture towards the creation of a business model for the financial and digital inclusion of the unbanked population in Brazil and Latin America. It is a new project for Bernardo, Rodrigo and Laerte, which could represent a great business opportunity and a spin-out company “Mach Money”.

Bernardo and his team started working on this; the project arisen from the strategic relationship they built with Algar Telecom, a Private Brazilian Telecommunication Company with more than 65 years in the market, the 5th largest company in the telecommunication segment serving more than 1.4 million customers - individuals, micro and small businesses, corporate customers, and carriers. Laerte had been an employee of Algar before, so he knew key people that could sponsor the project, he understood the management of the company and he had a long and win-win vision.

Based on their experience in the industry, the three entrepreneurs wanted to launch a service offering a financed smartphone and cellphone plan to unbanked people, giving them the possibility to access credit through a telecom operator (device fee along with the service fee). The mobile would be purchased by Mach Music and would be delivered to the customers through the telecom operator.

In the long term, the company intended to give the highest possible financial inclusion to this market segment through other aspirational products or services regarding their real needs until reaching a commercial strategy towards Mobile Money.

The business opportunity for Mach Music seemed to be huge: 500,000 people on Algar database / 1.5 million unbanked population / 5 million people on Algar coverage / 15 million Brazilians with good credit capacity but without access / 60 million people unbanked. *(See exhibit 1)*

Market opportunity

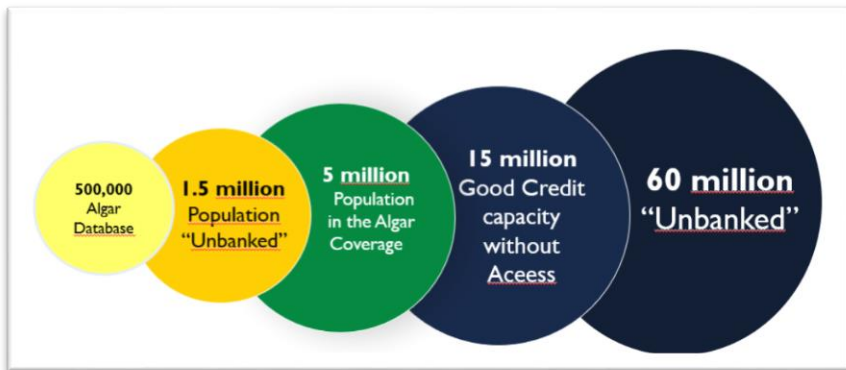


Exhibit 1

The Mach Music team was sure that financial inclusion was the provision of affordable, accessible and relevant financial products to individuals and businesses that had previously not been able to access these products.

According to a document published by EY, Brazil is one of the 10 markets with the greatest potential revenues from financial inclusion. The size of the opportunity in 2020 for Brazil would reach up to US\$20,545m. ¹

¹ EY (2017) Innovation in Financial Inclusion (Publication recovered from : <https://www.ey.com/Publication/vwLUAssets/EY-innovation-in-financial-inclusion/%24FILE/EY-innovation-in-financial-inclusion.pdf>)

The unbanked and underbanked population is increasing, which leaves people as credit invisible or unscorable.²

Many choose to retain this status due to:

- A lack of trust in banks.
- High or unpredictable bank account fees.
- Causes resonated particularly with younger adults in the millennial generation as antiquated and are far more comfortable with online-only options.

Brazilian consumers are ready for digital disruption:

- *More than two out of three Brazilians have access to smart-phones and internet*
- *Brazilians spend more than 9 hours per day connected and 44% by mobile (among the highest rates in the world).*

² Utianet (2018) "From Underbanked to Understood" (Ebook recovered from https://gob.urjanet.com/rs/426-GYT-566/images/0026_6.17%20ACS%20eBook.pdf?mkt_tok=eyJpIjoiTvdNek5EZGtORFUyTXpJMSIsInQiOiJaV3Njazd0ZzNaTkFFV3dWVjQyc2pkem5zMkZndW00aDBkSW5xMTZrRGNgb2JqWnQ1bGxlUkhsdVoxM1VcL09NV0pPTkVrc2lDdnpkc0NlelFyVHVpc1FiVnl5SjhScXFWMzBiMmRSXC93Rmx3OTA4ZUhpMkhkbjIjTkplYnRLQUd3In0%3D)

- *Brazil ranks #2 or #3 in the world in using leading social media platforms including Facebook, Instagram, YouTube, Netflix, WhatsApp and Pinterest.*
- *Digital advertising continues to grow in double digits, as does e-commerce, the shared economy, and home delivery services.*

But digital inclusion has only begun:

- *Access and proficiency vary widely across regions, social classes and age groups.*
- *Internet speeds are slower than in many developed and emerging economies.*
- *E-commerce penetration is still low –entire categories are still in their infancy.*

- *While Brazilians are avid consumers of digital media, they are not yet making many transactions or spending money online.*³

(See exhibit 2 & 3)

³ McKinsey & Company (2019) "Brazil digital report" (Publication recovered from: https://www.mckinsey.com/br/~ /media/McKinsey/Locations/South%20America/Brazil/Our%20Insights/Brazil%20Digital%20Report/Brazil-Digital-Report-1st-Edition_Portuguese-vAjustado.ashx)

Brazilian's internet usage is highly concentrated on social and content-related apps and sites

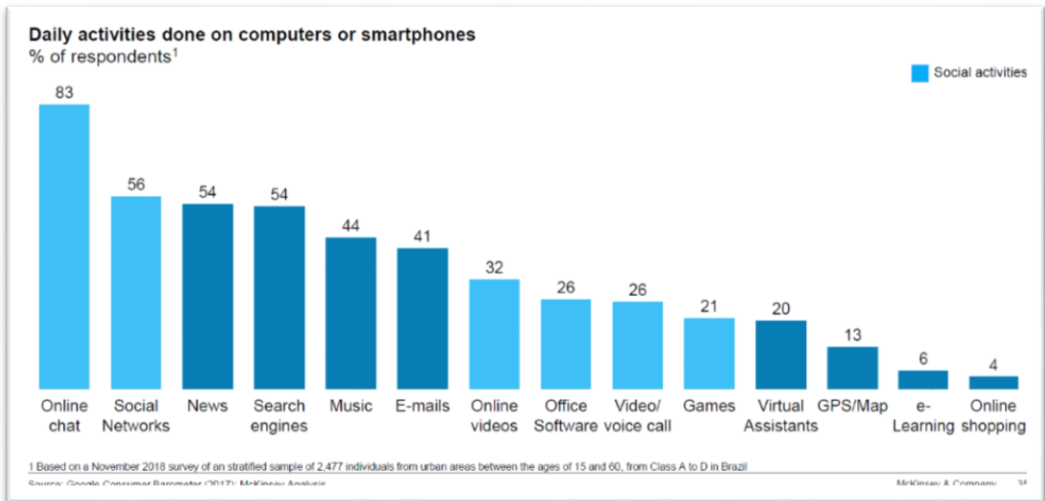


Exhibit 2

Source: McKinsey & Company/Google Consumer Barometer/Brazil digital report (provided by MM)

Digital inclusion has only just begun: Digital access varies across geography and demographics

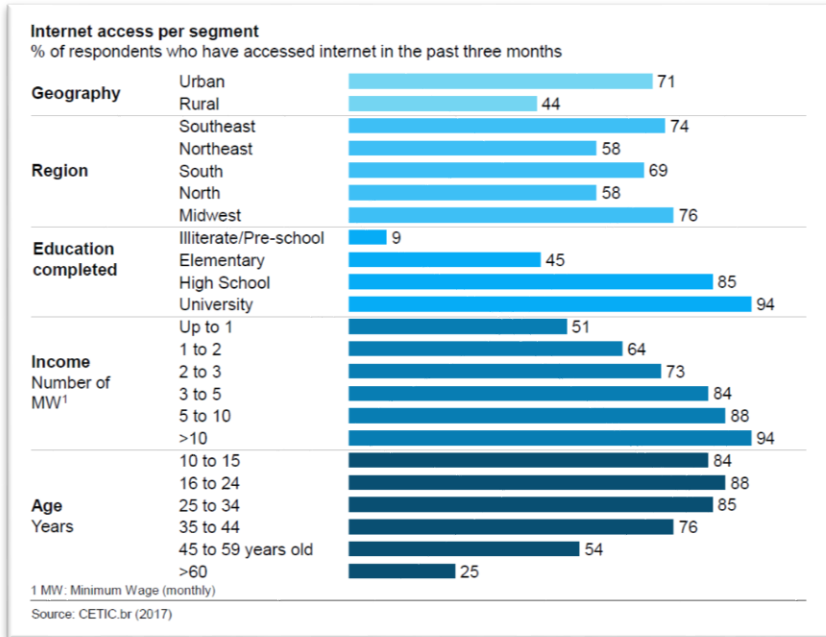


Exhibit 3

Source: McKinsey & Company/CETIC.br (2017)/Brazil digital report
(provided by Mach Music)

The Mach Music team studied the market as well as identified problems and solutions that they could offer to handle this project. They wanted to start the project with a pilot test with 200 devices only in the first stage of 2019, although they knew there was a tremendous risk involved because of the type of segment they were focused on. In addition to this, they had not yet developed a formal credit risk model because they did not have information about these customers.

Company's situation analysis

The Mach Music team had some specific needs to solve in parallel with project release and they realized they would need some help, so they invited a group of consultants to support them with specific topics. They needed to construct a go to market strategy and solidify the credit risk model, as main factors.

The teams started working together and Mach Music shared some information. The consultants' first approach was to construct a decision tree based on Mach Music's business options, which helped them start understanding the main problems. *(see exhibit 4)*

Decision tree

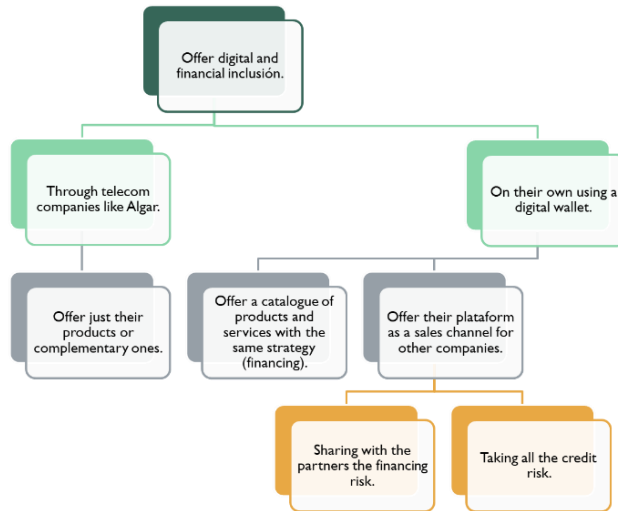


Exhibit 4

SWOT Analysis

After working on the Decision Tree, the consulting team realized they needed to go back to basics and conducted a SWOT analysis that would help them evaluate the company's competitive position in order to develop strategic planning⁴.

⁴ Mitchell Grant. (2019). Strength, Weakness, Opportunity, and Threat (SWOT) Analysis. December, 2020, Investopedia recovered from <https://www.investopedia.com/terms/s/swot.asp>

Strengths

- Great knowledge of the market (regulatory laws, social context, economy, etc.)
- High quality and experimented team members.
- Strong and close relationship with a dominant regional telecom company.
- A telecom company brand well positioned and with strategic points of sale.
- Existing customer database (Algar's)
- Advantage of business proximity and expertise in telecom market.
- Ability to develop software, technology and mobile apps.
- Possibility of developing block software to control the risk of non-payment of customers.

Weaknesses

- Limited financing of Smartphones, more investment needed.
- Lack of segment characteristics and its correct gamification.
- Uncertainty of service acceptance.
- Manufacturer brand perception & low-end quality devices.
- Weak relationship with manufacturer that does not allow to share and mitigate the risk.
- Lack of a credit risk model with that contemplate clients with no credit score.

Opportunities

- 60 million of under-banked and unbanked people in Brazil.

- Digital financial transactions that represented 100 million new customers and \$380 billion dollars in new revenues for banks and lenders alone.
- Need of digital and financial inclusion due to market trends.
- Lack of trust in banks and high interest rates that made online services more efficient and thriftier.
- Excluded people of financial services with good credit quality.
- Blocked unknown brands devices policy.
- Clients' big data gathering well-paid in market.
- Lack of a Mobile Money optimal solution.

Threats

- Possible interest of Telecom Company to cover the business.
- Replicable business with few entry barriers.

- Banks developing more products to reach unattended segment.
- Fintech companies pursuing financial inclusion in a quickly way.
- Algar's strong negotiation power.
- High percentage of fraud risk.
- High percentage of mobile theft in Brazil.

Later, consultants started working on a Business Canvas as a diagnostic tool to help Mach Music add a layer that focused on problems, solutions, key metrics, unfair advantage, and a unique value proposition; thus, start from mastering the problem rather than the solution.

They created a Lean Canvas, because they realized there were some caveats they needed to take care of before tackling what Mach Music had requested.

Business model Canvas & Lean Canvas

A. Osterwalder's Business Model Canvas outlines nine segments (*see exhibit 5*) which form the building blocks for the business model in a nice one-page canvas. It is a great tool to help understand a business model in a straightforward, structured way. Using this canvas, consultants uncover general insights about the customers Mach Music intended to serve, the value proposition they offered through specific channels, and how the company intended to make money. This tool helped the consulting team describe the rationale behind how Mach Music was planning to create, deliver and capture value.⁵

⁵ Alex Osterwalder, Yves Pigneur, Greg Bernarda, Alan Smith. (2014). Canvas. En Value proposition design (10-40). Canada: Wiley.

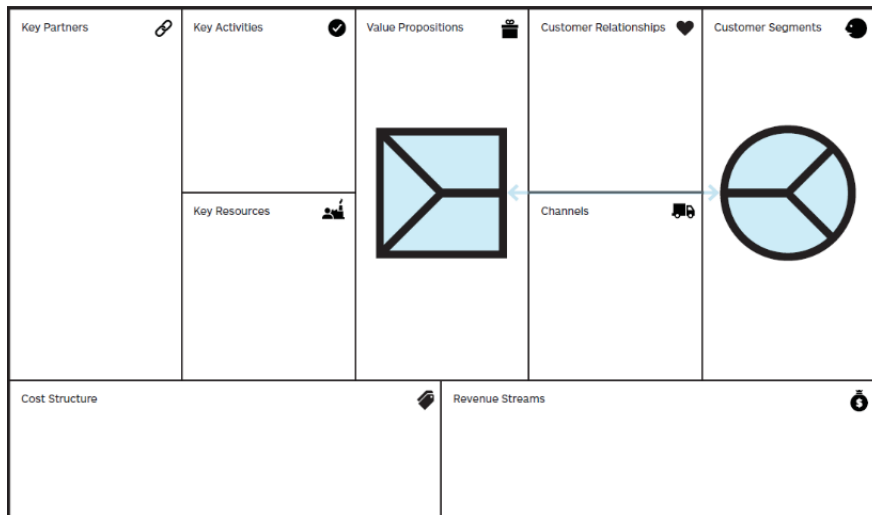


Exhibit 5

The Lean Canvas

Ash Maurya adapted Alex Osterwalder's Business Model Canvas and optimized it for Lean Startups. Especially designed for entrepreneurs, the Lean canvas replaces elaborate business plans that take too long to write, are seldom updated, and are almost never read. Instead, the Lean canvas focuses on documenting hypotheses (as showed in exhibit 5).

The consultants worked on these two tools to understand the market problem Mach Music was trying to solve and the solution

they were proposing to that problem. As they filled out the canvas, they identified key gaps the entrepreneurs needed to close to ensure good controls and project success. Both tools would allow them to align activities, understand the potential trade-off and explain on a single page the core elements that drive the business. (See exhibit 6)

Mach Music Lean Canvas

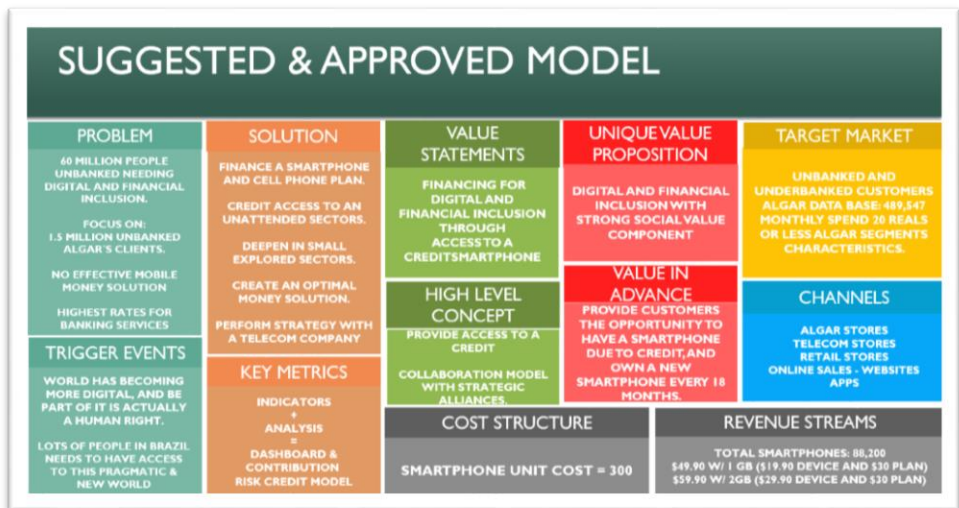


Exhibit 6

Consultants key findings

Were the following:

- Mach Music didn't have a Business Plan, not even an informal one
- Lacked data/numbers for the risk credit model they wanted to build
- Lacked Marketing & communication plan – CRM strategy
- Lacked Customer segmentation- It is important in such a big market, high-risk market (underbanked/ unbanked)
- Didn't have a clear nor solid Value proposition for their product/service- They really believed that financial inclusion was their competitive advantage
- Mach Music had a complete dependence on Algar (high risk in the long-term), they needed to have more strategic alliances
- Lacked client knowledge, they only had basic information from Algar's database

- Didn't have any control metrics tool that helped them with quick and efficient decision making, nor main KPI's defined.

Action plan

In order to start creating an action plan, consultants relied on an important methodology that Mach Music, as a startup, could start managing in a short, medium and long term.

The Lean startup is a methodology proposed by Eric Ries for developing businesses and products that aim to shorten product development cycles and rapidly discover if a proposed business model is viable⁶. This is achieved by adopting a combination of business-hypothesis-driven experimentation, iterative product releases, and validated learning. Mach Music started working on a pilot before the big launch of the product, to make sure they were attending to the problem and presenting a solution aligned with the product they were proposing to the target market. They

⁶ Llamas Fernández, F. J. y Fernández Rodríguez, J. C. (2018). La metodología Lean Startup: desarrollo y aplicación para el emprendimiento. Revista EAN, 84, (pp 79-95). DOI: <https://doi.org/10.21158/01208160.n84.2018.1918>

were willing to recollect some feedback, take some time to adjust any issues with the product and try again. (as explain in exhibit 7).

They were working with this methodology without documenting anything; but at the stage Mach Music was, it became a must to capture the results of the hypotheses validation process and pivot, if needed, before scaling the business.

Because of this, the consultants explained Mach Music the model in greater detail and outlined the advantages of applying this methodology.

The feedback loop

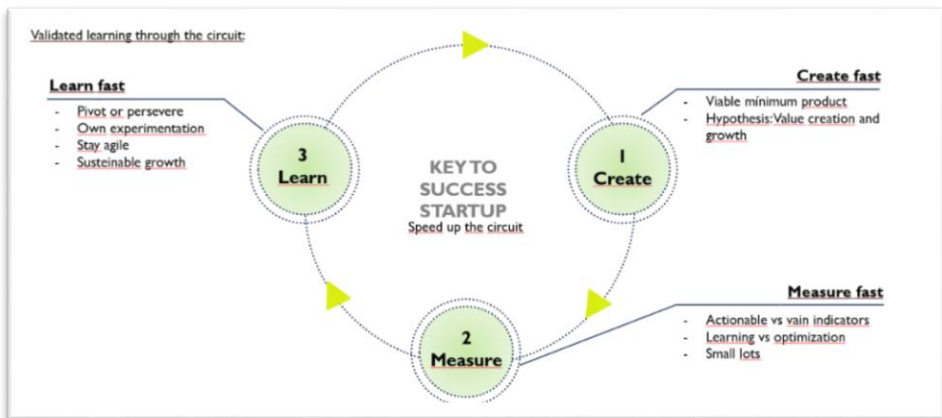


Exhibit 7

This methodology would allow Mach Music to work under a much more “dynamic” business plan scheme, in which they could be much more agile and flexible than traditional businesses are.

This was also because this methodology aligned well with the “go to market” strategy Mach Music wanted to carry out, as not only focused on understanding the market, its segments and the real needs of the clients, but also on optimizing resources (time, investment, etc.) by eliminating uncertainty through the validation of the hypotheses or theories Mach Music already had. This would help them to create a successful business through continuous innovation and most importantly ensure that it is a sustainable business in the long term.

To get this, they needed to quickly learn what were their potential customers’ needs / wants and how much they were willing to pay for this good or service. This model would allow Mach Music to have a much clearer approach to the outside, taking advantage of the inner knowledge that already existed.

In conclusion, the consultants understood there was a market need and Mach Music was offering a solution to that need. The big problem was that Mach Music did not know their clients and they needed to beef up their value proposition and give stakeholders a reason to believe in Mach Music. Why would Algar or any other telecom company having the strength to do this business by their own would prefer to work with Mach Music as strategic partners? Mach Music had a strong infrastructure and technological solutions to launch this project and start positioning their brand in the Brazilian market.

Recommendations

After analyzing all the data, the consulting team came up with a set of recommendations to help Mach Music ensure that the business could pay its operating costs and make a profit. Consultants wanted to make sure Mach Music could run a sustainable business in the long term, and gave them tools to adapt their business model to an ever-changing, high-risk market.

Short-term

1) Develop a sound Value Proposition

According to the Value Proposition Canvas, the value proposition has two sides: the Customer Profile that helps clarify the company's understanding of their customer, and the Value Map, which describes how the company intends to create value for that customer. Fit between the two is achieved when one meets the other.

a) Create value – this refers to the set of value proposition benefits that Mach Music had developed: “Control POP” that includes a cellphone plan and a smartphone at an affordable price to be paid in a monthly basis, which focused on attracting customers by giving them the chance to have something they did not expect to have before.

b) Observe Customers- Mach Music had mapped the whole opportunity universe but they did not know the customer segments that were part of it. This could not be done until they had understood customers in a more structured and detailed way.

Value proposition: The initial value proposition was based on digital and financial inclusion to customers in a not attended market. Consultants recommended to strengthen this value proposition by including a social

component that would made the product/service more competitive among others in the market.

Some ideas included:

- Incorporate Financial education themes
- Offer community health needs (insurance, assistance, etc.)
- Partner with community leaders
- Send frequently information through SMS, Chats & Focus groups



2) Sell solutions, not products

- Integrate products, services and prices into a single offer

- Execute simultaneously right product, feature set, and price initiatives

3) Identify key market segment(s)

Market segmentation was an important point for Mach Music when entering such a big and risky market, (underbanked unbanked); therefore, they needed to be assertive in order to generate profitable customers as resources are finite.

- a) Deep client knowledge, fair treatment of customers and segment analysis by including aspirational products or services that really meet clients' needs.
- b) Improve market segmentation
 - Perform a segmentation based on a greater number of variables and behavior.
 - Incorporate personalized blocking APP based on consumption behavior, finding similar characteristics in the market segments.

4) Mitigate risks

- Determine proposals by market segment, based on the cellphone plan, price and credit term.
- Offer customers different options of monthly payments from 3 to 18, by market segment.
- Reduce risk through the most profitable customers.

Mid-term

1) Strengthen Marketing Strategy:

Mach Music has a lot of potential (due to its solution and the segment they are focused on) to position its brand with the final client; therefore, the consulting team recommended the following:

a) Brand positioning

At this first stage, Mach Music would need to implement a massive communication strategy in order to position its

solution. As the market is not yet segmented, and they do not know their customers; a brand positioning strategy would allow Mach Music to start identifying who are the customers that are interested in their product.

b) Co-branding strategy

Negotiate with Algar to have brand penetration in the market from launch. Both brands will have benefits through developing different initiatives. At this stage, they could start with "Plan POP", a product created together. This is considered a strategic alliance, beyond the relationship between two companies that are committing to the development of a particular good (Mach Music offering financial and digital inclusion to unbanked and underbanked and Algar offering a plan that is adapted to customers' needs). This is what synergy really means.

c) Create a CRM strategy

This is a strategic mainstay for Mach Music in order to start knowing its clients, their behaviors and needs. This will help to develop a strong relationship and give them a differentiation value, through recognizing them. (See exhibit 8)

“Is the strategy aimed at total customer satisfaction and Loyalty”.

Consultants proposed and delivered CRM strategy for Mach Music

INITIATIVE	HOW	WHEN
Welcome notification	SMS/Mail/Push notification	Day 1
Information Plan (all that includes)	SMS/Mail/Push notification	Day 1
Remember due dates payments	SMS/Mail/Push notification	1st week
Analyze payments behavior	Historic	Between month 6th -8th
TREATMENT	WHO	WHEN
Usefull information about personal financials	PAYERS	Since the beginning
Birthday discount (in the month of birth)		More investment (Recommended 1% of profits)
Free Additional month of plan		
Loyalty Program <i>Accumulate "Mach points"</i> <i>Redeeme products/cashback through mobile wallet</i> <i>Pay with "Mach points"</i>		
Financial education	INCONSTANT	Less investment
Remember payments <i>Mid month</i> <i>3 days prior payment</i>		
Offer different payment schemes		
Discount % on next payment		
Financial education	NON-PAYERS	Less investment
Remember payments <i>Mid month</i> <i>3 days prior payment</i>		
Offer different payment schemes		
Analyze clients behavior		
TREATMENT	WHO	WHEN
Differentiate clients: Gamification Strategy	CLIENTS MIGRATION	more knowledge of our clients
	Premium POP	
	Super POP	
	Basic POP	

Exhibit 8

2) Define clear communication channels:

Building trust was one of the most important values Mach Music needed to transmit their clients and the reason why the consulting team recommended the following:

- a) Algar's communication channels were strategic for this project and of course the first point of contact with clients: call center, branches, mails and SMS campaign, push notifications, customer friendly website, advertising (point of purchase material)
- b) After the first phase, a strong focus on communication channels related to client's behavior (digital, BTL, social media, etc.) was needed. Having a previous understanding about their costumers, would allow them to understand where communication investment needed to be done in order to generate an efficient communication strategy.

- c) Use both brands as a cobranded initiative in every communication made. It is not advisable to contact the clients through both brands in an independent way, as this could cause confusion and may disturb clients.

Long-term

1) Build key partnerships

Since Match Music was a small brand at the beginning of the project, it was advisable to find partners that would help them penetrate the market and build their brand. During the first phase, Algar was maybe the most relevant partner; however, based on what Mach Music was trying to develop in the future, the consulting team recommended the following:

a) Build a Collaboration Model

- Negotiate with manufacturers to achieve better financing in the purchase of Smartphones.
- Base the nature of the firm on cooperative principles and values.

b) Identify strategic alliances

- Negotiate with local channels or apps to be pre-installed in the Smartphone
- Negotiate a revenue share model with Magazine Luiza to start placement plans also in their POS.
- Start working with BRAIN (Brazil Institute of Science & Technology); to develop the app they wanted to offer financial products in a second phase. This company connects people and ideas by providing **structure for digital solutions** and disruptive innovation to improve lives and companies.



2) Define metrics

In order to have accessible metrics to make quick and wise business decisions, consultants delivered a dashboard with the main KPIs Mach Music needed to track and control relevant data regarding the business. The dashboard included useful tools that needed to be updated and analyzed in a regular basis. (See exhibit 9)

Dashboard for Mach Music

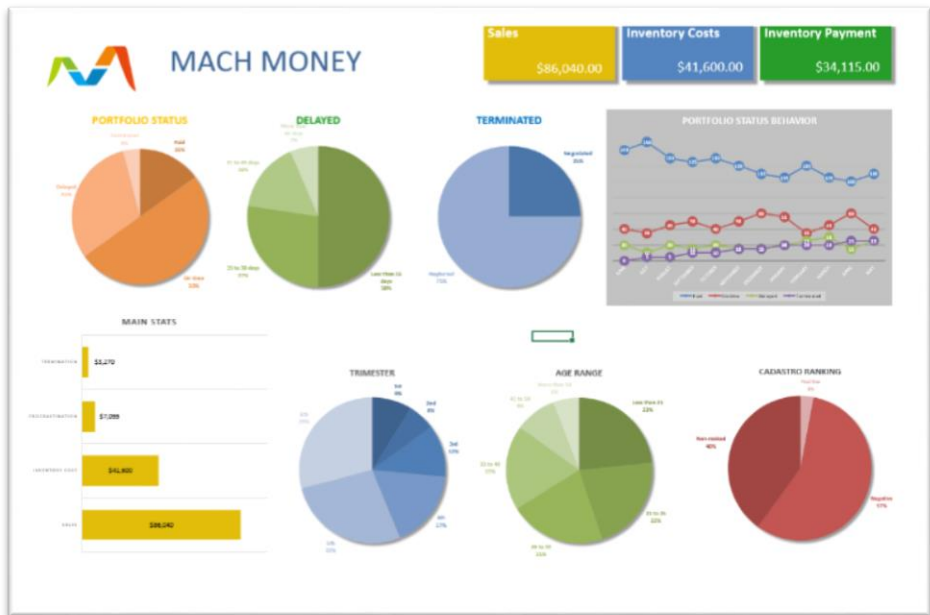


Exhibit 9

Conclusions

Commonly, startups work under the efficiency approach; they are very focused on acting fast to obtain fast results and even when they are not favorable, they adjust and try again. This constant is their nature; however, this should not prevent them from paying attention to the core and basic points that must be considered to achieve the desired objective.

Sometimes it is necessary to have the vision of external entities, which can contribute with ideas, knowledge and help to round-up the strategic vision that the company has or support them by identifying priority issues that must be corrected in advance to achieve business objectives.

Mach Music had a great vision. They detected an immense business opportunity; however, they had a basic strategy, and certain administration and structure issues that had to be corrected to achieve greater success in its ambitious project, especially in a market consider as a high-risk market.

At the beginning, they were very focused on receiving help only for the go-to-market strategy and the credit risk model. After the consulting team analyzed all the information, they recommended to work first in 3 main points:

- c) Strengthen the company's value proposition using an agile Business Modeling tool and including a Social value as differentiating value.
- d) Build an efficient client segmentation to measure the real risk by segment, creating a CRM and Marketing strategy.
- e) Handle and update the dashboard in a regular basis, to help them make business decisions in an easier and efficient way.

The consulting team managed to support Mach Music to have a much broader vision, gave greater clarity on its business model through certain strategic components, and supported them to understand the relevance of knowing their customers by establishing a long-term relationship in a profitable way. Clients'

knowledge is one of the most important things for a company to be successful.

Epilogue

This was undoubtedly a great project, a challenge in every way given the lack of knowledge that existed in different areas: language, market, industry, company objectives and needs, etc. We confronted certain limitations, such as time, lack of information, constant changes along the project, informal communication with the client through telephone conferences, e-mails, WhatsApp, etc. After we had the opportunity to meet the Mach Music team in Brazil, we realized many things that we could not have easily identified before. They shared with us a lot of relevant information and experiences and they took us to Uberlandia to attend meetings with Algar. It was then when we understood that they were not completely free to share data easily.

It was well worth waiting for the final stage in Brazil since this helped us greatly to detect the main problems the company had. During the time Mach Music graciously gave us, we were able to

analyze and propose great ideas with executable actions that made a lot of sense to the client and surpassed their expectations.

I feel very satisfied with the work done throughout the project. Beyond being a school course, which I have to say that encompassed the theoretical and practical part in an incredible way, the consulting project was a pleasant experience that not only contributed to my knowledge, but also gave me the opportunity to consult a start up from another country in its initial stage, as an active professional. I am sure that we brought valuable recommendations and made a big difference to them.

Without any doubt, the compendium of the experiences lived, enriched both my professional and personal growth, as well as the achievement of developing different skills when the need arose and met the objectives to deliver the expected results.

I wanted to share a final video that Mach Music sent us at the end of the project. <https://youtu.be/tMKMfS1yczk>

Sincerely, Cristina Corte

**MACH MUSIC (Algar + BRAIN)
&
CONSULTING TEAM**

