

Branching out: MoneyGram expands reach overseas

St. Paul Pioneer Press (Minnesota)

June 8, 2007 Friday

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Section: BUSINESS

Length: 832 words

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Body

With immigrants at the center of a national debate, one might expect businesses like **MoneyGram** International that cater to foreign workers to be suffering.

After all, Latin American immigrants, especially Mexicans living in the United States, historically have been the bread and butter of money-transfer services like **MoneyGram** and its rival Western Union, sending billions of dollars to their families back home through such companies. As the U.S. has stepped up its efforts to enforce immigration laws in recent months, money-transfer rates have slowed.

"It's affected all the players," said Anthony Ryan, president of **MoneyGram** Global Payment Products and Services.

Yet **MoneyGram** executives and the industry analysts that follow the company aren't as worried as they would have been five years ago. Mexico and Latin America still are important markets to the St. Louis Park-based company, but their importance is waning as **MoneyGram expands** outside North America.

"They are **branching out** into other locations and have decreased their dependence on the Mexico-U.S. channel, which happens to be very much under pressure right now," said Josh Elving, an analyst with Minneapolis-based Piper Jaffray.

Money transferred to Mexico from the U.S. grew 27 percent in the first quarter of 2006 compared with the same quarter a year earlier, according to the Inter-American Development Bank. By the fourth quarter of 2006, however, the growth rate slowed to only 5 percent. The amount of money transferred so far this year is essentially flat.

It's not entirely clear why transfers have slowed. Some industry observers have suggested the slump in home building, which employs a number of Mexican workers, might be cutting into what immigrants are able to send home.

Others, like Donald Terry, manager of the Multilateral Investment Fund at the IADB, are more inclined to place the blame on government raids targeting illegal immigrants and on growing confusion about proposed changes to immigration law. Many immigrants simply have stopped sending money to their families through "above-board" channels for fear of being caught and deported, he said. They probably still are sending money, but they've gone underground.

Fortunately for **MoneyGram**, the company is not nearly as dependent on Mexico as it used to be.

In 2000, Mexico accounted for roughly one-fourth of **MoneyGram**'s transactions. Last year, only 11 percent of the company's transactions came from that market.

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The company has been aggressive about its expansion, nearly doubling the number of agents through which it does business worldwide since 2002, to 114,000. Agents typically are retailers like video-rental stores, markets and tobacco shops. Western Union, the global leader in the money-transfer market, operates through a network of about 300,000 locations.

Much of MoneyGram's distribution growth has been in Asia, Africa and the Indian subcontinent. Between 2002 and 2006, the number of MoneyGram locations in those regions jumped 266 percent to 22,000, while the number of locations in the U.S. and Canada grew only about 53 percent.

Those are precisely the numbers Elving, the Piper Jaffray analyst, wants to see.

"To the extent MoneyGram can build out its network in India and China, they are going to ... show significant growth for a long time," he said.

The company's goal moving forward is to expand its agent network by 15 to 20 percent a year and hit more than 200,000 agent locations by 2010.

"There are lots of locations yet to be had," Ryan said, adding that many places today have no money-transfer services at all.

But expanding the agent network is an expensive proposition. While MoneyGram's revenue has been strong, growing 19 percent in 2006 to top \$1 billion for the first time, margins have narrowed in the last couple of quarters. In the fourth quarter of 2006, profit dropped almost 11 percent compared with the year before, and profit in the first quarter of 2007 edged down 3.5 percent.

Nonetheless, it's a worthwhile investment, Elving said.

"If it were me I'd want to pour every penny into building out more distribution locations," he said.

MoneyGram also is spending more on advertising and marketing in its new markets. In 2006, the company spent 39 percent more on marketing than it did the previous year.

Besides buying up airtime and billboard space, the company is plowing cash into gussying up agents' locations in order to attract more customers. From painting the entire facade red - MoneyGram's signature color - to putting up red awnings, MoneyGram is making its mark across the globe.

The "red shop" strategy started in the United Kingdom a few years ago and proved successful, said Ann Jackson, vice president of market development for MoneyGram. The company now has converted hundreds of agent locations across the world into red shops.

"It's better than any billboard," she said. "It's a permanent advertisement."

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Classification

Language: ENGLISH

Publication-Type: Newspaper

Subject: IMMIGRATION (92%); WIRE TRANSFERS (90%); FOREIGN LABOR (89%); IMMIGRATION LAW (78%); ILLEGAL IMMIGRANTS (73%); INTERNATIONAL ASSISTANCE (73%); DEVELOPMENT BANKS (70%)

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Company: INTER-AMERICAN DEVELOPMENT BANK (67%); WESTERN UNION CO (58%); **MONEYGRAM** INTERNATIONAL INC (58%); PIPER JAFFRAY COS (55%)

Organization: INTER-AMERICAN DEVELOPMENT BANK (54%)

Ticker: WU (NYSE) (58%); MGI (NASDAQ) (58%); PJC (NYSE) (55%)

Industry: WIRE TRANSFERS (90%); INDUSTRY ANALYSTS (88%); DEVELOPMENT BANKS (70%); RETAILERS (60%); VIDEO SALES & RENTALS (60%); TOBACCO STORES (60%)

Geographic: MINNESOTA, USA (79%); MEXICO (96%); UNITED STATES (94%); LATIN AMERICA (91%); NORTH AMERICA (79%); ASIA (79%); AFRICA (73%)

Load-Date: July 18, 2007