

Market Research and Client-Responsive Product Development

Graham A.N. Wright¹

Introduction: What Makes MicroFinance Unique

For many years microfinance organisations have operated on the basis of replicating blueprints from Grameen Bank in Bangladesh or FINCA in Central America throughout the world. In the past few years, it has become very clear that simply replicating products and systems into very different socio-economic conditions will not work. The most compelling evidence for this is the fact that many MFIs are losing over a quarter of their clients every year – primarily because the MFI’s products do not suit them. And of course, it is much more difficult to build financially sound, sustainable organisations with such levels of client “desertion”.

Similarly the microfinance industry has traditionally seen poor people’s needs for financial services simply as “credit for enterprise”. Recently however, has it become clear to most in the sector that poor people need access to lump sums of money to send their children to school, to buy medicines etc. as well and thus that they need “financial services to reduce their vulnerability” too. So the MFIs have started thinking about developing and delivering a range of financial products.

Thus there is a clear and compelling need to develop a market-led, client responsive approach to microfinance. This approach benefits not only the MFIs that are serious about providing a sustainable service, but also the clients who need products designed to meet their needs, rather than simply those of the MFI delivering them.

The Power of Client-Responsive Financial Services

“Now our bank listens to us. They changed the rules to give us a grace period. So we can begin trading before we have to start repaying – so now we do not have to struggle so much to repay our loans”.

“Finally, [the MFI] recognises the seasons – there are many months in the year when we do not need credit. Now we don’t have to borrow all the time to stay as members”.

“The management actually came to sit and listen to us – I’ve never seen that before. Suddenly they seem to give us value. And we can really use the new savings accounts for school fees, as well as when we get sick”.

- Kenyan MFI Clients

The MicroFinance sector is unique. It is probably the only remaining “product-driven” business in the world. All other industries have long since moved from producing something and then trying to sell it to a “market-driven” approach under which they identify and meet customers’ needs on a profitable basis. In the commercial world, companies that have simply marketed a product without reference to the customers’ requirements have soon closed. The “product-driven” approach has long since been superseded by the “market-driven” approach and the recognition that there is more value in retaining customers than attracting new customers who cost more.

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In microfinance, the value of retaining clients is particularly clear. Typically, retained customers are the ones with extensive credit history and who are accessing larger, higher value loans; whereas new customers require induction training and can often weaken the solidarity of groups. MFIs typically break even on a customer only after the fourth or fifth loan (Brand and Gershick, 2000). And yet, many MFIs worldwide suffer chronic problems with clients leaving their programmes.

Careful analysis of the reasons for these “drop outs” almost invariably points to inappropriately designed products that fail to meet the needs of the MFIs’ clients (see for example Wright, 2000 and Hulme, 1999). Much of this problem is driven by the attempts to “replicate” models and products from foreign cultures and lands without reference to the economic or socio-cultural environment into which they are being imported. This has been exacerbated by the lack of competition in many of the markets in which MFIs started. This lack of competition and the demand for credit meant that the MFIs could offer almost any product, however client-unfriendly, and there would be demand. Now, with the growth of competition amongst MFIs in many of the markets in which they operate, clients have choice and are voting with their feet. And yet few MFIs have started developing client responsive, market-driven products.

Drop Outs In East Africa

In East Africa the rate of client drop out ranges between 25% and 60% per annum. Clearly this represents a substantial barrier to achieving operational sustainability. When an organisation is losing over a quarter of the clients it serves every year, it is “running hard to stand still”. In the words of Hulme, “client exit is a significant problem for MFIs. It increases their cost structure, discourages other clients and reduces prospects for sustainability” (Hulme, 1999).

Ironically, many of the clients are driven out not only by the inappropriate design of the MFIs’ loan products but also by the unwillingness of MFIs to recognize that (particularly in rural areas) there are seasons when not credit but savings services are required. Thus clients are forced either to take a loan and try (against the odds) to service it despite the low-season, or to leave the MFIs’ programme. And all the while, their need for savings services is simply unmet and ignored by the MFIs.

The irony of this situation was that the genesis of microfinance in Bangladesh was originally driven by an extensive programme of careful market and operations research designed to understand the needs of the clients and how to best respond to these. Professor Yunus’ work with his students at Chittagong University in the village of Jobra in 1976 was quintessential market research.

We Are Not Alone: The Financial Landscape

Another common belief amongst MFIs is that they are “the only game in town”, and the only source of financial services for poor people. In this belief they are invariably wrong. Long before any formal financial service provider started, poor (and less poor) people had developed their own methods for storing money. It is essential that MFIs understand not only the competition in the formal and semi-formal sectors but also, and above all, the competition in the informal sector, which will probably be the most important of all three sectors for poorer people.

Diversified and Informal Prudence

Like many women in Tanzania, Prudence, belongs to more than one Rotating Savings Credit Association (ROSCA). Prudence’s first RoSCA involves four people and requires a daily contribution of \$0.29 per person. The daily contribution goes to one person for a whole month in rotation. The monthly aggregate “prize” is \$26.57. Her second ROSCA or *kibati* consists of four people and requires a \$2.90 weekly contribution per person resulting in \$11.57 “prize” per week. “I like the first one better because it forces me to put aside that amount everyday,” she says, “Other women save much more this way.”

In addition, Prudence belongs to an Accumulating Savings Credit Association (ASCA), known as a *kibindo*, organised within her 40-member MFI solidarity group. The weekly contribution to Prudence’s *kibindo* is just over a dollar. *Kibindo* members take loans for a variety of reasons that vary from meeting emergency and consumption needs, responding to business opportunities, or simply paying the MFI’s weekly loan instalment. The loan sizes

range between around \$5 and \$250, attract 5% weekly interest rate and are repayable in three weeks. In an average cycle about 10 members out of 40 members in the MFI's centre will take a loan from the *kibindo* with some members borrowing more than once. The *kibindo* fund is distributed amongst the members just before Christmas each year – last year Prudence received \$109: “It allowed our family to really enjoy the festive season.”

Prudence also belongs to an informal insurance group organised along ethnic lines in order to cover funeral related expenses. This is extremely common and important amongst poor Tanzanians, especially for those who have to transport their dead to distant parts of the country. Prudence's group has approximately hundred members. Every member contributes \$14.29 per month and is then assured of financing in the event of a funeral or a celebration within their immediate family. A rigorous background check is done on prospective members to establish their character prior to admittance to the group. “It is very important to get a decent burial in my tribe” she says, “this means taking the body to our land of origin. That is why I joined the group so that just in case of an emergency, I have a source of money and people to help me”.

Prudence also has a small secret fund of cash (typically of around \$3-5) that she keeps in her house to meet emergencies requiring rapid response. For longer-term savings, Prudence has a cow that is looked after by her brother back in her home village some 250 km from Dar-es-Salaam. “I have to think about when I am older and this is a start ...”

The research of *MicroSave* (and many others throughout the developing world) indicates that the informal sector is far more vibrant than the formal or semi-formal financial sectors. It draws its appeal from some of the following features (Adams and Fitchett, 1992):

- the range of services provided especially small daily deposits, short-term loans, and small loans,
- speed with which services are provided,
- reciprocity, which is often a strong basis for financial transactions,
- financial innovations that engender flexibility, speed and suppleness,
- unwavering discipline because non-performance is quickly punished and borrowers have to earn their loans,
- low transaction costs especially on the part of the borrower,
- proximity of the service provider to the clients, and
- savings as the basis of transactions and not subsidised outside cash.

They Are Not Homogeneous: Clients' Needs Are MFIs' Opportunities

Implicit in MFIs' failure to assess the “financial landscape” and the potential market in order to develop products in response to clients needs is the assumption that microfinance clients worldwide are essentially homogenous. Essentially, a “one product fits all” approach continues to dominate the industry. This “monoproduct” culture serves, at best, a small section of micro-entrepreneurs – primarily those with regular and predictable cashflows that allow them to service the weekly repayment schedules. Typically, as a combination of restrictive regulatory environments, a perception that savings services cannot be delivered on a sustainable basis and failure to understand the potential market, MFIs restrict themselves to what are designed as working capital loans (and that are often used as consumer loans to finance school fees, respond to emergencies etc.).

In reality, the financial service needs of poor people are as diverse and complex as those of richer people. For forward-thinking MFIs, these needs represent opportunities that can be met on a profitable basis.

The Basis for Designing Quality Financial Services

An organisation wishing to get involved in financial services for the poor might ask the following questions during its surveys of its proposed area of operation.

- **How do poor people manage their savings deposits?** Are there savings banks, or deposit takers, or insurance salesmen, or savings clubs? Do the poor have access to them? If not, how do they save, and how convenient do the poor find the available forms of savings?
- **Can poor temporarily realise the value of assets they hold?** Are there pawnbrokers or are there schemes that allow them to mortgage land or other major assets safely? If such devices exist, are they exploitative or enabling?
- **Can poor people get access to the current value of future savings?** Are there moneylenders willing to advance small loans against future savings? Are there rotating savings and credit associations (ROSCAs) or managed or commercial chits, or co-operative banks or NGOs that offer loans against small regular repayment instalments? Do the very poor have access to them?
- **Can poor people make provision for known life-cycle expenses?** Can they provide for daughters' marriages, their own old age and funeral, and for their heirs? Are there clubs that satisfy these needs, or general savings services or insurance companies that will do as well? Are there government or employer-run schemes?
- **Can poor people secure themselves against emergencies?** What happens when the breadwinner is ill, or when a flood or drought occurs? Does the government have schemes that reach the poor in these circumstances? If not, what local provision can people make?
- **Can poor entrepreneurs get access to business finance?** If so, in what amounts and at what cost?

(Rutherford, 1996b)

Understanding and responding to these needs is more difficult than many MFIs believe. Throughout the industry, even once MFIs have outgrown the basic “blueprint replication” of Grameen or FINCA-inspired working capital loan products, there is a tendency to copy other ideas without fully understanding them or tailoring them to the market. Savings products are a case in point of this generalisation. The prevailing wisdom holds that poor people will need three basic types of savings product: the fully liquid (such as an open-access current account), the partially liquid (with restrictions on the number of withdrawals and a higher interest to recompense this) and the illiquid (such as a fixed or term deposit account). In reality, this varies substantially from market to market.

ASA's Discovery

ASA in Bangladesh conducted limited market research and decided to offer the following products:

1. A current account
2. A contractual savings account (with savings instalments payable monthly)
3. A fixed deposit account

The ways that ASA's clients used these accounts was instructive. There was almost no real demand for the fixed deposit account. There was substantial demand for the contractual savings account, but many clients preferred weekly instalments. The current accounts were used in a wide variety of ways but yielded a very low level of net savings deposits that ASA could use for on-lending. Most ASA clients' cash income was already encumbered by loan commitments and compulsory savings requirements, and thus the potential for mobilising savings from this group was limited.

It soon became clear that mass savings mobilisation would depend on ASA diversifying their client base by understanding and responding to the needs of people from a much broader range of socio-economic strata than they had typically served with their micro-loan products. In many Bangladeshi villages, for example, remittances from relatives working abroad are likely a very important source of cash income and thus potential savings.

A more extensive process of market research could have saved ASA the large amounts of time and energy they had put into reorganising their systems and rolling out these products.

(Wright et al., 2000)

What is Market Research?

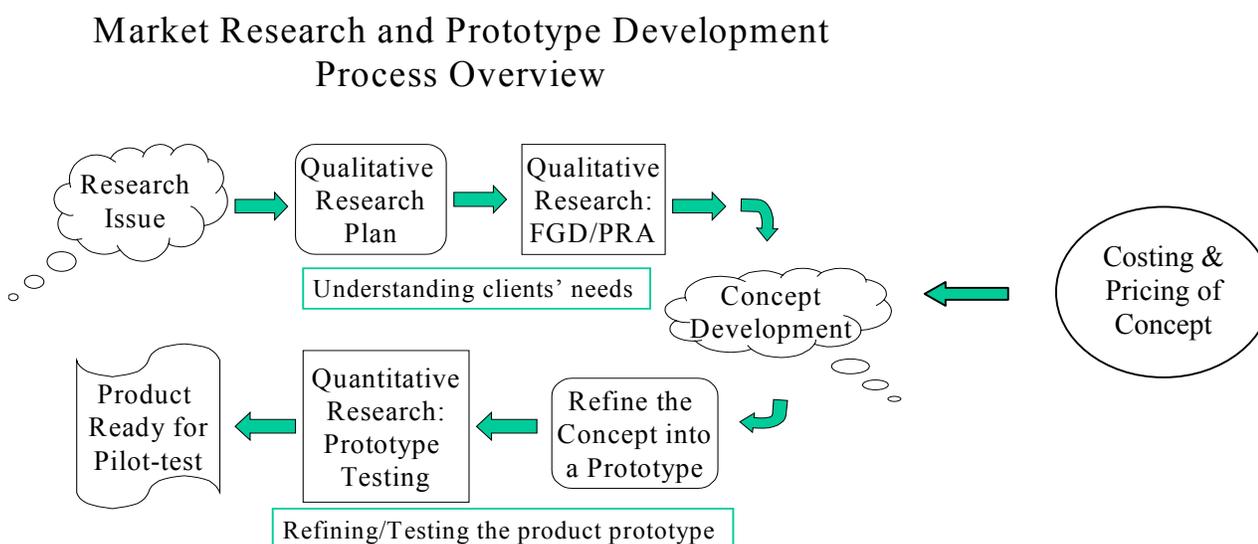
Market research is an activity designed to understand the environment in which the MFI is operating and to identify the needs of the MFI's clients and potential clients. Market research is usually conducted with a view to responding to those to the needs and opportunities by:

- Improving current marketing/promotion/outreach activities;
- Refining existing products;
- Developing new products; and
- Re-engineering delivery systems.

The Process of Market Research and Product Development

As can be seen from the above, market research usually results in a process of product refinement or development.

MicroSave uses the following flow-chart to illustrate this:



FGD = Focus Group Discussion

PRA = Participatory Rapid Appraisal

The **MicroSave** approach to this process is now in use in a wide variety of settings throughout the world. Under this approach, the definition of the *research issue* is usually driven by initial analysis of secondary data and then focuses the market research effort on the specific issues to be examined. This in turn allows the development of a *qualitative market research plan* typically involving a variety of *qualitative research* techniques including focus group discussions and Participatory Rapid Appraisal (PRA) sessions. The results of this work then allows the product development team to *develop a product concept* which is subjected to appropriate costing and pricing analysis to ready it for the process of refining the *concept into a prototype*. In some cases the product prototype is subjected to *quantitative research* to provide a final check of the marketability of the prototype before investing in the *pilot test*.

Currently **MicroSave** is using this approach with nine institutions in four countries:

1. **Kenya** – Kenya Post Office Savings Bank and Equity Building Society
2. **Tanzania** – Tanzania Postal Bank and FINCA Tanzania
3. **Uganda** – Uganda Microfinance Union, Centenary Rural Development Bank, and FINCA Uganda
4. **South Africa** – TEBA Bank and Credit Indemnity

Microfinance institutions in West Africa, South and South East Asia and Eastern Europe as well as Latin America are also using this approach to guide their product development process.

Strategy for Defining the Research Issue and Market Research

What?

The nature of market research that MFIs should conduct inevitably depends on the questions they wish to ask, which in turn depends on the nature and maturity of the MFI's programme. Table 1 analyses this issue.

Table 1. Questions and Characteristics of Marketing Programmes

Level of Marketing	Concerns/Questions for the MFI	Characteristics of Marketing Typical Programme
Start-up Programme	<ul style="list-style-type: none"> • What is the “financial landscape” of my proposed working area? • What is the competition? • What are the socio-cultural/ historical issues that I will face? • What products are required? • What are best systems/approaches to deliver these products 	<ul style="list-style-type: none"> • Identifying formal and informal financial services operating in the proposed working area • Understanding the history of financial services in the area (are there instances of collapsed financial service organisations? etc.) Leading to ... • Systematic product development process²
Elementary Programme	<ul style="list-style-type: none"> • Will people buy my products? • Where should I put my office/branch? • How should I promote my services? • How much should I charge? 	<ul style="list-style-type: none"> • Defining their target market • Elementary information collection • Nascent use of MIS program, no link to marketing • Use generic information in public domain for market analysis • Collect some more in depth info on clients • Have a single elementary product, or slight variations on the same product
Intermediate Programme	<ul style="list-style-type: none"> • Are my customers satisfied? • Am I going to be profitable and what are the elements in my profitability? • Why am I losing clients? • Why am I not getting more clients? • What is my growth rate and what is it a function of? • What is my competition doing? • How am I perceived in the market? 	<ul style="list-style-type: none"> • Periodic study of the market – every 2 years or so (evaluations of entire program) • Loan officers are the primary point of contact with clients. • Institution still small, so internal direct communication between director and loan officers. • Specific marketing budget used to develop corporate band and “position” • Initiation of focus on customer service • MIS programme being integrated into marketing effort • Beginning to offer multiple products, but still focused on main line activities.
Advanced Programme	<ul style="list-style-type: none"> • Is my clientele the right clientele?/ Who do I really want to reach? • What products are most marketable? • How can I improve my products? What new products can I introduce? • How do I stay a step ahead of the competition? • How am I differentiated in the market and how is this position perceived by the market? • How do I become the most profitable institution possible? • What do I need to know to be able to respond to outside threats? • How do I diversify my products? 	<ul style="list-style-type: none"> • Developing marketing department to co-ordinate market research with new product development and promotion • Significant marketing budget set aside • Strong market brand and position • Customer service standards in place • Tracking clients on a regular basis • MIS system is linked into marketing effort. • Segmenting the market to understand where new products should be placed. • May have separate marketing departments - by region if it is a large programme. • Multiple products covering a range of product areas. • Institutional promotion is designed to link the differentiating characteristics to establish market position.

Adapted from “Marketing in Microfinance Institutions: The State of the Practice” by William Grant of DAI – prepared for USAID’s Microenterprise Best Practices Project

² This is the idea but is rarely followed !!

How?

There are many forms of market research and many differing sources of information. To understand these, it is perhaps best to think in terms of the source of information (internal or external to the MFI) and the nature of data or information (primary – requiring the MFI to go and collect the data; or secondary – requiring the MFI to review or re-analyse existing data). This is illustrated in Table 2.

Table 2. The Nature of Data.

	Internal	External
Primary	<ul style="list-style-type: none"> • Feedback from front-line staff through structured staff meetings or Focus Group Discussions • Simple questions on loan application or account opening forms 	<ul style="list-style-type: none"> • Focus Group Discussions with clients, non-clients and drop outs • Participatory Rapid Appraisal Exercises including: <ul style="list-style-type: none"> ➢ Seasonality Analysis ➢ Financial Sector Trend Analysis ➢ Product Attribute Ranking ➢ Relative Preference Ranking ➢ Life-Cycle Needs Analysis ➢ Cash Mobility Mapping ➢ Wealth Ranking etc. etc. • Customer Consultative Groups • Mini Surveys • Competition Analysis (informal and formal sector)³
Secondary	<ul style="list-style-type: none"> • Analysis of own financial/management information • Evaluation and monitoring reports 	<ul style="list-style-type: none"> • Competition Analysis (formal sector) • Industry data from national/international networks • Legal/environmental issues • Industry publications/websites

When?

Differing MFIs have differing approaches to market research. Those that are committed to offering client- or market-driven financial services use a variety of market research tools in various combinations – and they are always collecting information in one form or another.

On-going activities and systems include:

- Simple questions on loan application or savings account opening forms,
- Suggestion boxes in branches
- Drop out questionnaires
- Discussing client-focused information at staff meetings,
- Monitoring of internal management/financial information and
- Reviews of industry data/trends.

Periodic activities and systems are often activated in response to signals from the on-going systems and include:

- Customer consultative groups,
- Focus group discussions with clients, potential clients and drop outs,
- 3-6 question mini surveys and
- Detailed competition analysis.

Who?

There are two alternative approaches to the periodic market research activities for MFIs: to do it “in-house” or to contract it out to a professional market research company. There are benefits and draw-backs to both and these is summarised in Table 3.

³ See Appendix 1 for an example of this

Table 3. Advantages and Disadvantages of In-House and Contracted-out Market Research

	“In- House”	Contract -out
Advantages	<ul style="list-style-type: none"> • Allows the MFI/people who understand and care about the sector (and poverty agendas) to run the process • Provides unique learning opportunities for senior management • Provides important experience to MFI staff • Allows internalisation of the issues/ lessons learned • MFI staff are likely to be better equipped to draw appropriate conclusions from the results 	<ul style="list-style-type: none"> • Should be done with maximum professionalism • Should save the MFI precious time • Will result in analysed data and a report ready for presentation
Disadvantages	<ul style="list-style-type: none"> • Requires special skills to <ul style="list-style-type: none"> ➢ moderate focus group discussions ➢ develop/administer questionnaires ➢ analyse data effectively • Will take much staff time (away from other duties) • Staff come with biases/history with the clients 	<ul style="list-style-type: none"> • Most market research companies have little/no understanding of the sector within which MFIs operate • MFIs are often “low value” clients (relative to beer or soap producers!) and thus neglected or given poor service by the market research company • If the market research company is good, it will probably be expensive

Developing the Product Concept

The development of the product concept is typically done through a mixture of brain-storming sessions on the basis of the results of the market research in order to develop ideas and then structuring these ideas for further analysis. Table 4 provides an example of how one MFI did this using *MicroSave’s* Product Concept Design Matrix. The *MicroSave* Product Concept Design Matrix is based on the “8 Ps” commonly used by marketing experts – these are summarised in Table 5.

It is important to have a good mixture of people involved in the concept development process in order to maximise the range of perspectives and understanding of the issues. Typically the team of 6-10 will include representatives from:

- Front-line staff (credit officers/branch managers who deal directly with the clients on a day-to-day basis)
- Marketing (especially those directly involved with the preceding market research)
- Finance
- Management Information Systems
- Operations
- Internal audit

Table 4. Concept Design Matrix: Bondhu Bank’s “Helping Hand” Emergency Loan Product

<i>Product:</i> Helping Hand	<i>Clients Demand</i> (as determined by the market research/segmentation exercise)	<i>Competition</i> (refer to the competition matrix and pick only the most effective competitors)	<i>Our MFI</i> (as relates to the other products currently offered by our MFI – consider cannibalisation!)	<i>Proposed Product Concept</i>
Core Product The reason <i>why</i> the customer pays money — a benefit (e.g., financial return, security) or the need it fulfils (e.g., liquidity, livelihood)				
<i>Needs and Wants</i>	What is the unmet need or want? Easy to access, quickly disbursed loans to finance health, education and other “emergency”/consumer needs.	How are these needs being met by others? Currently people go to friends and relatives (which is often embarrassing) or money lenders (which is expensive – typically 10% per month)	How are we addressing this need/want now, if at all? Around 75% of clients are diverting an average of 40% of their business/working capital loans to meet these emergency loans	Helping Hand Emergency Loan
Actual Product The specific features that characterise <i>what</i> the customer is buying—including how it is designed (terms, interest rates, eligibility requirements) and packaged (length and clarity of the application, colour of the passbook)				
<i>Product Design</i>	What terms/ conditions do the clients want? Loan size: Rp.500-5,000 Loan duration: 1-3 months Disbursed in < 30 minutes	What products compete with the proposed product concept? No formal/semi-formal competition.	How does the new product relate to the others offered by our MFI? Since the price is 1.0% per month higher than the business/working capital loan, the latter is likely to cannibalise the Helping Hand loan on some occasions. However due to timing issues and many clients’ needs to use a greater percentage of their business/working loan for the intended purpose.	<i>Product Design</i> Loan size: Rp.500-5,000 Loan duration: 1-3 months Disbursed in < 30 minutes Collateral: >A+ credit rating
<i>Price</i>	Interest Rate: up to a maximum 5% per month	Potential clients will still often go to friends and relatives (since these are typically interest-free) – but research indicates fewer loans are being made available by friends and relatives.	Since the price is 1.0% per month higher than the business/working capital loan, the latter is likely to cannibalise the Helping Hand loan on some occasions. However due to timing issues and many clients’ needs to use a greater percentage of their business/working loan for the intended purpose.	<i>Price</i> Interest Rate: 4.0% per month
<i>Physical Evidence</i> (passbooks/ cards/ statements etc.)	Collateral: Some savings and on the basis of credit history Passbooks preferred	If Bondhu Bank can find a way of disbursing these loans very rapidly, it can take the market from the money lenders	The Helping Hand loans issued will often secure the business/ working capital since they will not be diverted – and inventory/ assets will not be sold off to meet the emergency.	<i>Physical Evidence</i> Laminated Passbooks – used for multiple Bondhu Bank loans

Product: Helping Hand	Clients Demand (as determined by the market research/segmentation exercise)	Competition (refer to the competition matrix and pick only the most effective competitors)	Our MFI (as relates to the other products currently offered by our MFI – consider cannibalisation!)	Proposed Product Concept
Augmented Product				
<i>Promotion</i>	How do we communicate with the clients? <i>Advertising</i> at branches – the product is only for clients with extensive credit history	How do the competitors reach the target market? What is the image of the competitors and the product(s) in the market?	How does our MFI sell its current products (e.g. marketing, incentives etc.) How is our MFI perceived in the market?	<i>Promotion</i> “Helping Hand – because Bondhu Bank cares for you and your family”
<i>Place</i>	<i>Delivered at branches</i> – with emphasis on speed	What can we learn from this? Friends and relatives are part of the (declining) social capital network. The decline is particularly marked in the more urban areas.	How is the current product perceived by the clients (and non-clients)?	<i>Place</i> Delivered at branches only - for clients in good (>A+) credit standing only so they must be used to coming to the branches
<i>Positioning</i>	Bondhu Bank as “The Bank that Cares for You and Your Family”	The money lenders are seen as greedy and often ruthless – either to recover their loans or sometimes to realise the land offered by the borrower to secure the loan. They do however offer rapid response loans.	Marketing and credit officers visit clients in their groups and businesses.	<i>Positioning</i> Bondhu Bank “The Bank that Cares for You and Your Family”
<i>Physical Evidence</i> (branch appearance etc.)	<i>Physical Evidence</i> : Continue with Bondhu Bank’s royal blue. Consider a special counter dedicated or part-dedicated to “Helping Hand”. <i>People</i> : Bondhu Bank emphasises caring for the customer – “Helping Hand” could be communicated as part of this commitment. <i>Process</i> : This is key: it must be as simple as possible	The decline is particularly marked in the more urban areas. The money lenders are seen as greedy and often ruthless – either to recover their loans or sometimes to realise the land offered by the borrower to secure the loan. They do however offer rapid response loans. Both friends and relatives/ money lenders deliver money quickly and locally with minimum process.	Bondhu Bank is seen as a business-oriented/focused – and not as “caring” as it aspires to be. The business/working capital loan is seen as a valuable/ important source of credit, but as inflexible. Clients actually like going into the branches – they are often proud to be “members” of Bondhu Bank.	<i>Physical Evidence</i> (branch appearance etc.) Continue with Bondhu Bank’s royal blue – hire “Impact” graphic design company to design posters/image. Establish special counters dedicated to “Helping Hand”, with staff moving to them each time they see a customer there.
<i>People</i>				<i>People</i> Continue to focus Bondhu Bank’s emphasis on caring for the customer – and promoting the “Helping Hand” product as part of this commitment.

Product: Helping Hand	Clients Demand (as determined by the market research/segmentation exercise)	Competition (refer to the competition matrix and pick only the most effective competitors)	Our MFI (as relates to the other products currently offered by our MFI – consider cannibalisation!)	Proposed Product Concept
<i>Process</i>				<p><i>Process:</i> Outline (to be developed in detail by Operations Department/ Internal Audit) Client to present 1. Helping Hand loan application form plus 2. loan passbook Credit Officer to validate credit rating on IT system Credit Officer to authorise loan application form and update loan passbook. Credit Officer to update client’s loan ledger on IT system. Credit Officer to pass loan application form and loan passbook to the Cashier Cashier to check loan application form and loan passbook Cashier to update cashbook Cashier to issue cash/passbook to client Client to sign “cash received” section of loan application form Cashier to return loan application form to Credit Officer Credit Officer to file loan application form in client’s physical file</p>

Table 5. The “8 Ps” of Marketing

The “P”	Details of the “P”
Product (design)	Includes specific product features, opening/minimum savings balances, liquidity/withdrawal terms, loan terms, ancillary services such as loan review and disbursement times, collateral or guarantees, amortization schedules, repayment structures (e.g. balloon payments or interest-free grace periods etc).
Price	Includes the interest rate, withdrawals costs, statement/ledger fees, loan fees, prepayment penalties, prompt payment incentives, transaction costs and other discounts.
Promotion	Includes advertising, public relations, direct marketing, publicity, and all aspects of sales communication.
Place	Refers to distribution and making sure that the product/service is available where and when it is wanted. This includes such options as outreach workers or agents, mobile bankers, ATMs, working with the informal sector financial services etc.
Positioning	Is the effort by the MFI to occupy a distinct competitive position in the mind of the target customer. This could be in terms of low transaction cost, low price, high quality, security of savings, quick turnaround time, professional service, etc. It is a perception.
Physical Evidence	Includes the presentation of the product: how the branch physically looks, whether it is tidy or dirty, newly painted or decaying, the appearance of the brochures, posters and passbooks etc.
People	Includes how the clients are treated by the people involved with delivering the product – in other words the staff of the MFI. It also includes recruitment, internal communications, performance monitoring and training. To get the best performance from staff, MFIs need to recruit the right staff then invest in training on customer service and in products, the MFIs processes and procedures.
Process	Includes the way or system in which or through the product is delivered: how the transaction is processed and documented, the queues/waiting involved, the forms to be filled etc.

The involvement of the staff from finance is of critical importance since it is essential that the product concept be developed with a clear understanding of its potential direct and indirect costs, which in turn will allow the MFI to examine options for pricing it appropriately. This crucial product costing analysis is often simply not performed by MFIs.

Refining the Product Concept into a Prototype Ready for Pilot Testing

The product concept is then refined using a series of “mini focus group discussions” which are designed to test the concept and revise it to reflect clients’ preferences and language. This is performed by a structured process involving showing the product concept to a group of clients and eliciting their reactions to it. On the basis of each focus group discussion, the concept is further refined prior to presentation to the next focus group discussion, until the product concept has been polished into a product prototype that is:

- Clear and simple to understand;
- Expressed in clients’ language; and
- Priced in the most acceptable way for the clients.

Table 6. provides an example of what happened when one MFI took a product concept for testing with clients.

Table 6. Njema Bank’s Concept to Prototype Analysis

Product Concept	Mini Focus Group Reactions	Product Prototype
The “Savings for Kids” scheme offers savings services for school children and draws them into the MFI bank as new customers.	Don’t call us kids! We’re smarter than that Children prefer to save at home in a box Children fear going to banks They want to know how much savings they have once in a while	The “Smart Student’s Savings Scheme” gives students the chance to save in the MFI bank for their own important needs. Students’ savings are collected weekly at school assembly Statements are issued quarterly
The “Savings for Kids” account offers: <ul style="list-style-type: none"> • Opening and minimum balance of Ksh. 500 • Unlimited access and • 2.5% interest on accounts >Ksh.5,000 	Increase the opening balance – our parents will pay this anyway! Interest is not important A chance to win a prize in a lottery would be preferable	The “Smart Student’s Savings Scheme” account offers: <ul style="list-style-type: none"> • Minimum balance of Ksh. 1,000 • Unlimited access and • A quarterly lottery for savers with more than Ksh. 2,500 in their accounts. Great prizes: bikes, cell phones and cash !

Thus the refined product prototype communicates the benefits putting the concept the way consumer would understand and relate to it. The prototype is a simple, unambiguous, simple description of the product. Most MFIs fail to conduct this important little step and many have suffered as staff struggle to communicate their products to the clients and potential clients. Furthermore, many MFIs take excessively complex products described in technical language to the market. The result is that the MFIs then discover that their clients have misunderstood the products and are angered to learn that the terms are not as they had thought. Or that potential clients have not been able to understand the product and thus make a decision on whether to buy them. It is a reasonable rule of thumb to say that if it is not possible to describe the product’s terms and conditions in 5-7 concise sentences, it is too complex for staff and clients alike.

Testing the Product Prototype Through Quantitative Research

The next and final step before moving to pilot test is optional, and usually only undertaken when the product prototype will cost a great deal of time/effort to pilot test (for example if the MFI’s systems will require significant re-engineering) or is considered high risk by the MFI.

Once the MFI has developed the product prototype qualitatively, it is important to find out:

- The proportion of target customers who find the idea appealing;
- Who are most and least likely to buy the product;
- How different the product is perceived to be from the competition; and
- If the appeal of the prototype is limited, to find out why that is.

A well-conducted prototype test will allow the MFI to find out the level of appeal of the prototype. This is done through a survey instrument that involves describing the product and asking the respondents if they would buy it and why/why not. This information will allow the MFI to further refine the idea if necessary or to refine the marketing of the product so that it is targeted more specifically to the most appropriate market.

On the other hand, a well-conducted pilot test will also find out this information with an even higher degree of certainty since quantitative research asking potential clients “would you buy this product” leads to information on theoretical demand, whereas a pilot test will provide actual demand.

Thus, if the risks and costs are low, the MFI might want to move straight into pilot testing. Directly pilot-testing a product provides a more comprehensive overview of the issues/opportunities that the MFI may face as it “rolls-out” the product. Moving directly to pilot testing is more likely to be appropriate for small/medium MFIs able to react/adjust quickly to the results of the pilot test.

The Pilot Test

How?

Of the series of activities that make up the formal process of product development, one of the most important is pilot testing of the product prototype. The pilot testing process can be broken down into ten steps that, if followed carefully, can minimise the chance for a loss of control of the test and provide valuable information that management can use to improve the product. If all steps are followed, management can ensure a successful decision about the roll-out of the product in its final form.

These steps complement each other in a comprehensive manner, and flow easily from one activity to the next:

1. Composing the multi-disciplinary pilot test team
2. Defining the objectives of the pilot test
3. Documenting the product definitions and procedures
4. Developing the testing protocol/performance indicators
5. Modelling the financial projections
6. Developing customer marketing materials
7. Installing/instilling all systems
8. Training the relevant staff
9. Commencing the product test
10. Reviewing the product as per the protocol

The pilot-test can examine: how many people join, what type of people join, how the product is perceived/used, “cannibalisation”, clients’ positive and negative reactions and impact on staff/finances. In many cases full analysis of these issues will require the MFI’s staff to go back to market research techniques outlined above – thus completing the iterative, feed-back loop-based process of product development. This is done in order to adjust initial costing data, delivery mechanisms/systems, pricing, marketing etc.

The MFI should pay careful attention to both the financial and organisational results of introducing the new product, both on a short and medium term basis. Regular visits to the pilot branch(es) should examine the effects on the number and nature of clients, on the workload of staff at all levels of the organisation, and on costs, liquidity, capital funds and ultimately profitability.

Clearly, these will change over time and the “short and medium term”, and will vary according to the speed of marketing outreach and resulting client take-up of the new products, as well as the timeframe of the products on offer. It is often easier to understand the dynamics of products with a shorter maturity than those that require longer-term commitments from the MFI and its clients. Nonetheless, as soon as possible, the MFI should attempt to project the long-term financial and organisational implications of the product being pilot tested.

How Long?

How long the pilot-test should run depends on the nature of the product being tested. Longer-term products will require a longer pilot-test (1-2years), whereas shorter-term ones a shorter time (6 months -1 year). This also depends on how effectively the product is marketed and thus the level of knowledge and uptake in the community. Under all circumstances, the MFI should monitor the pilot-test carefully and continue it until they feel that they have gathered all the information necessary on delivering the product and its implications for the institution’s finances and systems.

Note also that the seasonal nature of income and expenditure can have important implications for financial services: savings dependent on harvests, loans required for specific events (school fees or planting/weeding seasons) etc. Thus these can have important implications for the length of time that a pilot test should run.

Does it Really Work?

This approach to market research and product development is built on years of practical work in Asia and Africa. It has been used successfully from East Europe to Latin America and diverse institutional settings from monolithic Postal Savings Banks to small NGO-MFIs. It has been used to develop start-up rural financial systems to simply refining existing products.

BURO, Tangail in Bangladesh continues to be one of the more profitable and innovative MFIs in that country and is distinguished by its broad-range of financial services as well as an ability to charge an interest rate on its loans that is higher than that of the fierce competition in its area. It is able to charge this interest rate to cover the costs of providing the highly-valued, broad range of savings services it offers to its clients. *“Why would I go anywhere else? BURO bank gives me everything I need to manage my household’s budget: a place to store money, an account to save for longer-term dreams and a place to borrow for business and for emergencies”* – A BURO, Tangail client.

Tanzania Postal Bank (TPB) has developed and refined, the “DQA”, a card-based savings account that has cut costs by around 50% and attracted 50,000 clients into the bank in the one and half years since starting the roll-out of the product. Furthermore, the new product is changing TPB’s market position from that of an old, slow parastatal bank that did not care into a fast, modern, listening bank that is responsive to its clients’ needs. *“DQA has made it possible for the bank to handle more customers faster - especially on the side of making withdraws.”* *“TPB has puts itself in our position, so I am not surprised that they introduced DQA to ease our burdens”* – TPB clients.

The Power of Client-Responsive Product Refinement

Extracted from Coetzee et al., 2002

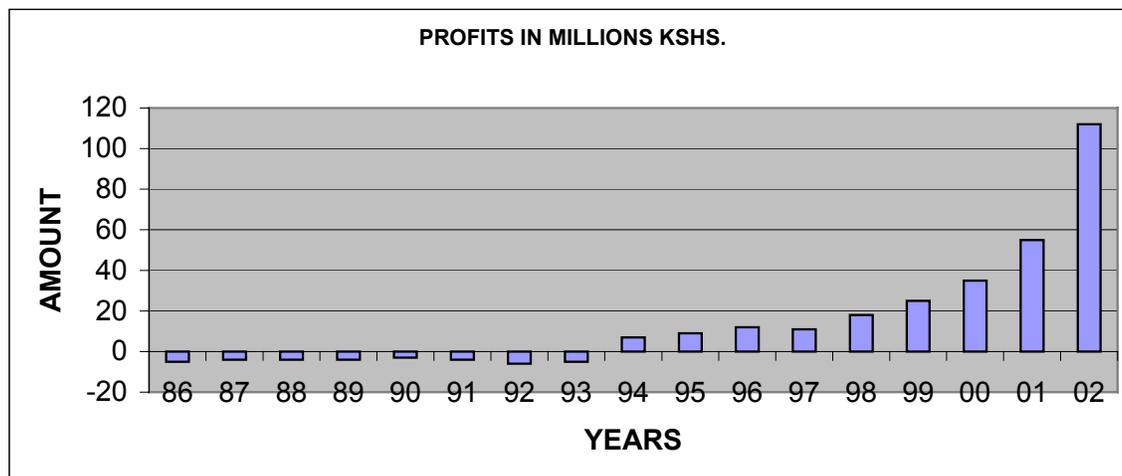
“The market research made it clear Equity Building Society would need to quickly address the perceived exorbitant price and attendant charges of the loans. Equity would have to seek to re-price and re-package its loan products if it was to counter and overcome the threat from SACCOs and other competitors.

In the short term, the company would carry out a quick product differentiation in the various features of the loan products to address the needs of each market segment. The research team prepared a list of things to be acted on immediately which included: reviewing the interest rates and restating them in client language, print brochures outlining the product changes, displaying bank tariffs in the banking halls, reconstitute a professional marketing team to carry out the changes and transform Equity’s image in the market – all these were formulated out of client responses as result of the market research.

The results of this initial product refinement were marked by an overwhelming client response towards Equity as an institution and its products and services. To test the effect of the market research, Equity decided not to aggressively market the new refinement measures but instead monitor to see what responses would ensue that could be attributed solely to the market research exercise. Soon after the market research, the number of accounts opened in a day jumped from an average of 20 – 30 to about 200.”

But do more customers necessarily translate into increase profitability and sustainability? It is for this reason that the costing of financial services is conducted as an integral and necessary part of the product development process. This allows the MFI to price its services to cover its costs.

Equity Building Society’s profits leapt by over 100% with the rapid growth in the number of customers it serves as a result of the product refinements outlined above – from Ksh.55 million (\$705,128) in 2001 before the changes to Ksh.112 million (\$1,435,897) in 2002 only twelve months after their introduction.



Nice Theory but in Practice, How Much Will All This Cost?

The cost of conducting market research and product development clearly depends on the nature and scope of the research programme. A piece of market research conducted by a medium sized MFI intent on refining its products to reduce it drop outs will cost less than an extensive programme of “open-field” market research designed to scope out business opportunities in a new area or to develop brand new products. Furthermore the cost of the pilot test will depend on the length that the pilot test will run and the number of issues that it generates. The table below provides a rough guide to how long the process of market research should take, from inception to having a prototype ready for pilot testing. Clearly this will vary from MFI to MFI depending on the skills of their staff and the quality of their management and financial information systems, but Table 7. gives a rough idea.

Table 7. Estimated Time for Systematic Product Development

Procedure	Estimated Time to Complete		
	Simple Product Refinement	Simple Product Development	Complex Product Development
Planning/Mobilisation	2	3	5
Market Research	25	30	50
Concept Development	2	2	3
Refine to Prototype	1	2	3
Costing and Pricing	2	5	7
Quantitative Prototype Testing			35
Total	32 person days	42 person days	103 person days

Selected Resources Available

Market research and product development have only recently become “hot topics” in MicroFinance and so there are relatively few MicroFinance-specific resources available. That said, because they are now hot topics, the number of resources is growing. The best of those currently available include:

Process Step	Resources Available
Overview of the Product Development Cycle	<ul style="list-style-type: none"> • Brand, Monica, “New Product Development for Microfinance: Evaluation and Preparation”, <i>Microenterprise Best Practices Project, Technical Note # 1</i>, DAI, Washington, 1998 • Brand, Monica, “Product Development Cycle”, <i>Microenterprise Best Practices Project, Technical Note # 2</i>, DAI, Washington, D.C., 1998 • Brand, Monica, “New Product Development for Microfinance: A Market-Driven Approach” (A Training Course), <i>ACCION International</i>, 2003 • CGAP “Training Course on Introduction to Product Development”, <i>CGAP</i>, Washington, 2003 • Wright, Graham A. N., “Beyond Basic Credit and Savings: Designing Flexible Financial Products for the Poor”, in “Micro-Finance Systems: Designing Quality Financial Services for the Poor” <i>University Press Ltd, Dhaka and Zed Books</i>, London and New York, 2000.
Market Research	<ul style="list-style-type: none"> • MicroSave, “Market Research for MicroFinance”, <i>MicroSave</i>, Nairobi, 2003 • Wright et al., “Participatory Rapid Appraisal for MicroFinance”, <i>MicroSave</i>, 1999 • SEEP Network, “Learning from Clients: Assessment Tools for MicroFinance Practitioners”, <i>USAID-AIMS</i>, Washington, 2000 • Grant, Bill, “Marketing in Microfinance Institutions: The State of the Practice” <i>Microenterprise Best Practices Project, DAI</i>, Washington D.C., 1999 • Krueger, Richard, “Focus Groups: A Practical Guide for Applied Research”, <i>Sage Publications Inc.</i>, California, 1998
Concept Development	<ul style="list-style-type: none"> • MicroSave “Market Research for MicroFinance”, <i>MicroSave</i>, Nairobi, 2003 • Rutherford Stuart., “Raising the Curtain on the ‘Microfinancial Services Era’” <i>CGAP Focus Note</i>, Washington, 2000
Refine to Prototype	<ul style="list-style-type: none"> • MicroSave, “Market Research for MicroFinance”, <i>MicroSave</i>, Nairobi, 2002
Costing and Pricing	<ul style="list-style-type: none"> • MicroSave, “Costing and Pricing Financial Services Toolkit”, <i>MicroSave</i>, Nairobi, 2003 • CGAP “Costing and Pricing MFIs Products” <i>CGAP Toolkit</i>, 2002 • CGAP “Setting Interest Rates on MicroFinance Loans” <i>CGAP Occasional Paper</i>, Washington, 1997
Quantitative Prototype Testing	<ul style="list-style-type: none"> • MicroSave and Research International, “Prototype Testing Using Quantitative Techniques”, <i>MicroSave</i>, Kampala, 1999
Pilot-Testing	<ul style="list-style-type: none"> • MicroSave, “Planning, Conducting and Monitoring Pilot Tests: Savings Products”, <i>MicroSave</i>, Nairobi, 2003 • MicroSave, “Planning, Conducting and Monitoring Pilot Tests: Loan Products”, <i>MicroSave</i>, Nairobi, 2003

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Coetzee, Gerhard, Kamau Kabbucho and Andrew Mnjama, “Understanding the Re-Birth of Equity Building Society”, *MicroSave*, Nairobi, 2002

Grant, Bill, “Marketing in Microfinance Institutions: The State of the Practice” *Microenterprise Best Practices Project, DAI*, Washington D.C., 1999

Hulme, David, “Client Exits (Drop outs) From East African Micro-Finance Institutions”, *MicroSave*, Kampala, 1999.

Wright, Graham A.N., “MicroFinance Systems: Designing Quality Financial Services for the Poor”, *University Press Ltd.*, Dhaka and *Zed Books*, London and New York, 2000

Appendix 1
Examples of
Product Competition Analysis Matrixes
Current Account Savings Product

Product: <i>Current Account</i>	Our MFI	Competitor 1 MicroBank Ltd.	Competitor 2 Community Co- operative	Competitor 3 RoSCAs⁴	Competitor 4 Itinerant Deposit Collectors
Product (Design)					
Opening Balance	Ksh. 500	Ksh. 5,000	Ksh. 250	Ksh.100 – Ksh. 1,000	Ksh. 50 – Ksh.500
Minimum Balance	Ksh. 500	Ksh. 5,000	Ksh. 250	N/A	N/A
Other Requirements	National ID	National ID Referral by 2 existing clients	National ID Share Capital of Ksh. 500	None	None
Deposit Policy	Any number at weekly meetings	Any number at all times (through safe deposit)	Any number in office hours	Daily/weekly/monthly	Daily
Withdrawal Policy	Maximum 3 per month at weekly meetings	Any number at all times (through ATM)	Maximum 2 per month	By rotation daily/weekly/monthly	End of the month
Price					
Interest Rate Paid	2.5% on balances > Ksh. 5,000	5% on balances > Ksh. 25,000 6.5% on balances > Ksh. 100,000	None	None	- 36% (approx) see withdrawal fees below
Overdraft Interest Rate Charged	No overdraft facilities	Nominal 24% pa = 48% APR	No overdraft facilities	No overdraft facilities	2% per week = 104% APR
Account Opening Fees	Ksh. 150	Ksh. 500	Ksh. 50	None	None
Ledger/Statement Fees	None	Ksh. 150 per month	Ksh.100 per quarter	None	None
Deposit Fees	None	None	None	None	None
Withdrawal Fees	Ksh. 25	None	None	None	1/30 th of the amount deposited
Account Closing Fees	Ksh. 150	Ksh. 500	Ksh. 150	None	None
Promotion					
Marketing/Information Dissemination	At group meetings	None	At AGM	Word of mouth	Word of mouth
Advertising	Annual “Savings Week” campaign	Radio/newspapers	Notices in branch	None	None

⁴ Rotating Savings and Credit Associations

Product: <i>Current Account</i>	Our MFI	Competitor 1 MicroBank Ltd.	Competitor 2 Community Co- operative	Competitor 3 RoSCAs⁴	Competitor 4 Itinerant Deposit Collectors
Place	In weekly groups in Nairobi (City Market, Kwangere, Kibera), Thika and Nakuru	ATM at branch in Nairobi only (City Market)	In weekly groups in Nairobi (City Market, Gymkhana Market, Eastlands) and Eldoret	In branch in Thika	In community throughout the country
Positioning					
Slogan/vision	“Flexible financial services for you”	“The solid bank”	“Co-operation for progress”	None	None
Corporate Image	The newcomer – fast, customer-responsive services.	Professional bank – but the poor are not welcome	Slow but very cheap (loan) service – get it when you can! Savings are made just to get loans	N/A	Valued at-the-doorstep service
Product Image	The business-person’s current account: earns interest and charges depend on how much you use the account	The rich person’s savings account – high interest, high charges, fast service	Save to buy share capital to get loans – no interest paid and regular ledger fees “eat your money”	The communities’ own little savings systems – but make sure you trust your partners	The most convenient and efficient service in town ... if you can find the right (trustworthy) collector
Physical Evidence	Clean new branch, clear, professional-looking passbooks	Smart cards, ATM, large, impressive branch	Increasingly shabby and run down	None – no paper work	Very simple deposit collection sheets
People	Welcoming, professional	Disdainful of poor people – not friendly at all	Most members are welcome	Our trusted friends and neighbours	The friendly mobile banker offering good service
Process	Quick and efficient but collections/withdrawals only through weekly groups causes many problems	High-tech and efficient	Lengthy queues on market days but friendly service	Fast and efficient but inflexible in times of need or when you have more than the regular contribution to save	Fast and efficient – doorstep/market stall collection