Market Research for MicroFinance

Participant’s Manual
Graham A.N. Wright and Leonard Mutesasira
Acknowledgements

This toolkit was developed and tested over a number of years on two continents in a wide variety of urban and rural settings on long-suffering clients of nearly two dozen microfinance institutions.

In particular, we must thank the clients and staff of the following MFIs who provided particularly important and extensive opportunities for us to test and refine the methods/tools used.

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<th>Country/Programme</th>
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<td>The Central Cordillera Agricultural Programme II (Philippines)</td>
<td>Kenya Post Office Savings Bank (Kenya)</td>
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<td>Ibanda Small Scale Industrialists Association (Uganda)</td>
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Those people who have made particularly important contributions to its development are: Graham A.N. Wright, Shahnaz Ahmed, Leonard K. Mutesasira, Stuart Rutherford, Monique Cohen and Jennyfer Sebstad.

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Contact: **MicroSave**
Overview of Product Development & Market Research

**MicroSave**

*Market-led solutions for financial services*

**Day 1**

Overview of Product Development and Market Research

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*MicroSave*

Shelter Afrique Building, Mamlaka Road, P.O. Box 76436, NAIROBI, KENYA
Tel: 254 (0)20 724801/724806/726397 Fax: 254 (0)20 720133

PO Box 7184, 18 Shimoni Road, KAMPALA, UGANDA
Tel: 256 (0)41 349911 Fax: 256 (0)41 344801

Email: info@MicroSave.net Website: http://www.MicroSave.net

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*MicroSave’s “Market Research for MicroFinance” – Day 1*
Day One

OVERVIEW OF PRODUCT DEVELOPMENT & MARKET RESEARCH

Session One
Introduction

Session Objectives:

- Get to know one another – introductions
- Overview of course outline/schedule

You will become very familiar with this chart throughout this course, as we follow its progression.

Setting the Scene:
This course focuses on market research – a key part of the process of new product development or product refinement, which is … but one of the basic components of the market-led approach to microfinance. Under the Strategic Marketing for MFIs, framework developed by MicroSave and TMS Financial, it falls under the “Product Strategy” 1st tier strategy, which encompasses product development and differentiation.

Product development and differentiation is but one critical/key component of the strategic marketing framework. As a result of the history of the microfinance industry, many MFIs have used fairly standardised products, often developed on the basis of copying what has worked in other countries and institutions. There is a growing acceptance of the need to tailor products to specific socio-cultural situations and market segments. As a result, product development/differentiation is the component of the strategic marketing framework that most MFIs start with since it is one of the more obvious and tangible components of a market-led approach. But usually product development is but the beginning of MFIs’ move towards a full-fledged market-led approach.

Finally, as we start this course, it is important to note that the market research techniques we will cover are extremely useful for informing many, many of the components of the strategic marketing framework. So as MFIs move into other areas of the framework, they will be able to use these skills to use them on the basis of an understanding of the market, their customers and the environment in which the MFI is operating.

Overview:
Using qualitative research techniques, we try to understand clients’ needs for financial products and services. After comprehending their needs, we develop a product concept and refine this idea into a prototype (model) of the final product.

Using quantitative research techniques, we test the product prototype, make necessary changes, and get ready to pilot test the product.
The process will be broken down, and all terms explained in the upcoming sessions.
Session Two
Background to Market Research for Microfinance Institutions

Session Objectives:
This session will provide an overview of:
- MFIs and Their Markets
- The New Microfinance Landscape
- Trends in the New Microfinance Landscape
- Reasons for Developing New Products
- Marketing for Microfinance Institutions

The Evolution of Marketing
Successful companies’ ideas about serving their customer have evolved. In the first years of total quality, companies focused on making a product so reliable that it did what exactly what the company said in its marketing campaigns. Later the focus switched to understanding what the customer wanted and then providing reliable products that responded to those needs. Today, leading companies focus on understanding what customers might want but have never experienced or would never think to ask for … and then providing products in response to those needs.

“Good ideas don’t start at the conference table. They begin with the consumer”
Charles Hooper, Executive Vice President, Helene Curtis

Marketing Framework

Many different factors have an impact on the nature of marketing within an MFI. These factors can be largely grouped as either environmental (external) or institutional (internal) in nature. Ultimately, the level of marketing programs is determined and shaped by the combination of these two sets of factors.

Environmental Factors

- **Level of Development of Market For Microfinance**
  - **New markets**, characterised by few or limited available financial services with little effective demand for financial services, where the focus for the institution is on developing appropriate products and creating a market for microfinance products, in general; or
  - **Developing or growth markets**, where there is substantial unmet demand for existing financial products and institutional focus is on developing the institution and systems to meet that demand; and
  - **Developed or mature markets**, where financial services are readily available to the population, where competition is developing among service providers, and MFIs need to focus on improving responsiveness to client interests and on diversifying their products.

Handout: 2.1 Marketing Framework

Some of the key elements affecting the nature of the markets are the economic development of the country/region, the size

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1 from “Marketing in Microfinance Institutions: The State of the Practice” by William Grant of DAI – prepared for USAID’s Microenterprise Best Practices Project
of the population, the physical location of the market (rural vs. urban) and the presence/history of prior microfinance activities.

- **Regulatory Framework**
  Many MFIs are still operating outside of a highly legislated environment. However, all of them must be involved with some kind of legal framework; Is the MFI operating within a regulated financial environment? Are there any Capital Requirements? Are interest rates regulated? etc.

- **Competitive Environment**
  What kind of competition is there among MFIs? Can it be characterised as co-operative, competitive (that is, a healthy competition) or cut-throat?

If you are looking only at other MFIs or Banks, you are missing the point! In Bangladesh MFI workers were asked how much of their clients’ financial flows went through MFIs. Knowing that one household might have membership in 5 or more MFIs, a confident “85%” was the response.

In reality however, researchers discovered that only about 15% of cash based transactions went through MFIs! The remainder was through the informal sector.

Stuart Rutherford: Money Talks: Conversations with Poor Households in Bangladesh about Managing Money, March 2002

**Institutional factors**

- **Type Of Institution**
  Is the institution an NGO, Donor Project, Savings & Credit Union, Village Bank or Commercial Bank, etc.?

- **Maturity Of The Institution**
  How mature, not how old, is this institution? Is it a start-up, intermediate or sophisticated institution?

  - **Start-up:** These MFIs (or often projects) are commencing operations - often in new and challenging markets - and are designing a new system/products from scratch.

  - **Intermediate:** These small to medium sized MFIs have typically been running for a few years following a specific system and are seeking to reach scale through expansion using this system. These MFIs have limited institutional capacity to make significant changes to products and systems since this would require radical re-engineering of their MIS, training etc. They can however “tweak” or make minor adjustments to their programmes.
• **Sophisticated**: These larger, well-established MFIs have the institutional capacity to make significant changes to products and systems in response to needs and opportunities in the market.

• **Purpose Of The Institution**
  Many institutions have developed from a “charity” background, or have had a more “poverty alleviation” focus rather than a focus on profitability.

• **Availability Of Financing**
  Many MFIs in many countries are facing a situation whereby donor funds are no longer available, Commercial Banks remain reluctant to lend to MFIs and savings are not able to be intermediated by law! Discuss how financing would force an MFI to shape their marketing program?

• **Management/governance**
  Is management aware of the need, purpose, goals of marketing? Has management “bought in” to the idea of spending resources on marketing? Is the MFI governed by a Board? By and NGO? By and international MFI? How does this affect the marketing program?

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**EXERCISE**

What are the Needs for Market Research in the following Matrix?

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<th>Start up MFI</th>
<th>Intermediate</th>
<th>Sophisticated</th>
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<tr>
<td>Mature Market</td>
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<td>Growth Market</td>
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<td>New Market</td>
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The “answers” can be found in **Handout 2.1: Marketing Framework**

**The New Microfinance Landscape**

Many of the participants will remember the not-so-distant past when microfinance was a fairly new field. However, the industry is now witnessing:

• Increasing competition especially in the urban areas
• Threats to MFIs’ market share including commercial banks getting interested
• More institutions aware of importance of a marketing approach in their strategic plans
• Increasing interest in rural markets
• Growing demand by donors and shareholders for demonstrated profitability or sustainability

As MFIs face increasing competition with threats to their market share, more institutions are becoming aware of the importance of a sound marketing approach in their strategic plans.
This is especially so in the urban areas that are typically characterised by a growing number of MFIs. The competition is intense in spite of the small number of clients currently reached in proportion to the total potential clientele.

More MFIs are looking at a market driven approach that examines how best to address issues of sustainability by responding to and addressing their customers, needs. This is perceived to be the best way to attract and retain clients.

In addition to this there is growing demand for demonstrable evidence of profitability from shareholders in the case of banks and donors and social investors in the case of most NGO MFIs.

Trends in the New Microfinance Landscape

Marketing attempts to understand the needs of the client and adapt operations in order to meet those needs and to achieve greater profitability/ sustainability.

The following trends have been instrumental in defining the new microfinance landscape:

- **New players:** MFIs are facing competition from both ends of the financial spectrum. Non Government Organisations (NGOs) are able to access donor funds and technical assistance to promote microfinance activity. In addition, Donors are funding more non-traditional MFIs – Community Based Organisations, Financial Services Associations, Cooperatives and Managed ASCAs (Accumulating Savings and Credit Associations). At the same time, seasoned MFIs are transforming from NGOs into formal (ie, regulated) institution, demonstrating that the market can be profitably served, which has likewise attracted traditional (regulated) financial institutions to seriously explore the micromarket segment.

- **Discriminating customers:** As microfinance clients grow and develop, their needs for more comprehensive financial services also evolve. Institutions must respond to clients’ demands for more sophisticated products to meet the changing needs of enterprises.

  Recognising that the poor are a diverse group is extremely important. Thus there is a pressing need to examine the best ways of designing and introducing new financial service products into MFIs.

  In the words of Hulme and Mosley (1997): “Our main finding is the need for the designers of financial services for poor people to recognise that “the poor” are not a homogeneous group with broadly similar needs. ... Recognising the heterogeneity of the poor clearly complicates matters for scheme designers ...”

- **Increased accountability:**

  As MFIs become sustainable and profitable, and transform into regulated commercial entities, they have become accountable to new stakeholders. Providers of funds, particularly private investors, but even donors now, are becoming more vocal in requesting demonstrated performance and strategic plans that anticipate market changes.

- **Growing Interest in rural financial services:**

  Growth oriented MFIs are paying more attention to how to profitably extended financial services to rural areas where the majority of their populations are residing.
Why Develop New Products?

“What is often missing is going to the field and asking dumb questions, and smelling and feeling and getting in bed with the problem so that you understand the other side of it.”

Joe McPherson, Director of Innovation Programs, SRI International.

MFI's develop new products to address needs. Some of these are, the need to:

- **Effectively respond** to the demands and preferences of customers. The poor are not one homogeneous group with similar needs! They need products that present a solution to their problems.
- **Examine the potential for deeper outreach** especially to the hard-core poor who are currently not reached by most MFIs.
- **Improve sustainability** by generating higher revenues to cover costs.
- **Raise new sources of capital** for loans.
- **Retain loyal clients** and reduce client loss.
- **Reduce delinquency** built upon customer service / appropriate products.
- **Develop simple products** which are understood by clients and easily administered by the MFI.
- **Create an impact** on reducing income-poverty.
- **Reduce vulnerability** by introducing asset protection services.
- **Create mechanisms to bridge the gaps** created by poverty, illiteracy, gender, and remoteness.

MFI's must develop new product because when clients needs are not met,…

- **Clients desert the MFI!** - Out of frustration, customers look to the competition to meet their needs for lower rates, better terms, more convenient service, different products, and so on.

And, The MFI experiences:

- **slowed growth** as word-of-mouth marketing dissipates.
- **Increased delinquency or default**

MFI staff and officers must be attentive to clients’ concerns, complaints and negative signals. They must be able to translate customers’ needs into product refinements or new products. As difficult as it is to listen to client complaints or to raise the subject with superiors that negative signals are being “felt” from clients, these signals can spur new product development amongst the competition in the formal and informal sectors. Of course, in many ‘new markets” or in a situation whereby the MFI holds a monopoly, these negative signals will take much longer to surface – if they do at all.

Unfortunately, many MFIs do not carefully track the reasons clients leave, and lose a valuable information opportunity. Other negative signals could be increased delinquency or default, which triggers a loan officer follow-up with the borrower.
Marketing for MFIs

Marketing attempts to:

- **Understand the needs of the client and adapt operations** in order to meet those needs and to achieve greater profitability/sustainability. In all cases, it has been demonstrated that customers are interested in a range of products that are flexible and accessible services and respond to the various financial needs.

- **Adopt operations** in order to meet those needs:
  - achieve greater profitability/sustainability
  - adjust to changing microfinance landscape.

Innovative MFIs are paying careful attention to the operations of the informal sector and are learning invaluable lessons that may be useful in terms of product design and delivery mechanisms.

*Lessons learnt from the informal sector include the facts that:*

- Not all the poor are interested in credit.
- Those that are interested in credit may need protective and/or productive use - this means that there is a need for other credit products.
- The poor can and do save, and they will pay dearly for a decent savings service.

Marketing addresses issues of new product development including what are known as the **8Ps**:

- **Pricing** - this considers the demand, profit/sustainability objective using various strategies that include cost-based, cost-plus, demand-based and break-even. It looks at behavioural attitudes, perceived value, prestige etc. It seeks to determine what the buyer must give up for the product.

- **Products/services** provided to ensure complimentarily where it can be achieved and avoiding cannibalisation of one product by another. It examines such issues as product adaptability, idea generation, idea screening, prototype development, concept development, commercialisation, product growth and quality.

- **Place/distributions/location of operations** - this involves making sure that the service/product is accessible where and when it is wanted. Important lessons can be drawn from the informal sector.

- **Promotion of the products** - this refers to sales communication, which includes advertising, public relations etc. It informs and persuades and sometimes dissuades.

- **Positioning** - it 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, quick turnaround time, professional service, etc. It is a perception.

- **People** - includes how the clients are treated by the people involved with delivering the product, i.e. the staff of the MFI. Are they treated with the courtesy and attention befitting a customer? Are they made to feel welcome? etc. Good internal communications and feedback mechanisms are vital to consistently providing good customer service. Good communications facilitate the
early identification of problems and ensure the effectiveness of many of the other 8 Ps. 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. Staff performance should be monitored regularly through the analysis of data and through using tools like mystery shopping, focus group discussions with customers and suggestion boxes.

- **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. Streamlining processes is very important especially where there are extensive manual procedures or a slow back office. Poor service driven by lengthy procedures is a major cause of customer dissatisfaction. Some MFIs go further and reward good clients with streamlined products such as automatic credit lines for their long-term, high value clients with good repayment records.

- **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 etc.

Marketing is a comprehensive field aimed at strengthening the institution by maintaining a focus on the client. The essence of marketing is simple - everything must be attacked from the customer’s perspective instead of the MFI’s.

**The Five Concepts**

There are five alternative concepts under which organisations conduct their marketing activities. The concepts include:

- production: focuses on producing goods/services as cheaply as possible
- product: focuses on making the goods/services as high quality as possible
- selling: focuses on persuading potential customers to buy the goods/services being produced

These are the two that we’ll focus on

The focus in the **marketing concept** is the target markets whose needs are understood and company efforts geared in that direction. It takes an outside-in perspective.

Using the marketing concept organisations recognise that there is more value in retaining customers than in attracting new customers who cost more. This concept works more at identifying and meeting customers’ needs profitably in addition to maximising customer satisfaction with existing products.
The societal marketing concept which is the newest of the philosophies recognises need for customer satisfaction in an age of environment problems like, population growth, resource scarcity etc. A fruit juice manufacturing company will therefore seek to add nutritional value to its product, ease container disposal, etc.

For example, Blue Band margarine in East Africa recently added Vitamin A to its product, advertising its commitment to the health of its consumers.

**EXERCISE**

**EXERCISE 1**

- What is your MFI’s marketing philosophy?
- What marketing activities does your MFI undertake?

**EXERCISE 2**

- What are the key elements/capacities/resources necessary for product development by an institution?
- What do you need to start developing new products?
Session Three

The Product Development Cycle

Session Objectives:
This session will:

- Provide an overview of the four phases of the product development cycle
- Examine the capacity considerations for successful product development
- Detail the preparations for product development
- Explain how the product prototype is designed

Four Phases of Product Development:

The methods used to develop new products for MFIs broadly follows four key phases of financial service product development:

- First, one must **research to identify needs and opportunities**
  This includes a review of the competition and products offered by both the formal and informal sectors, conducting market research as an integral and on-going part of staff’s interactions with the clients, and through contacting other market leaders in the MicroFinance industry.

  To accomplish this research, MicroSave has developed a **this course**, the manuals, the PRA toolkit and the practical field-days and interactive discussion

  **Tool**: MicroSave’s “Market Research for MicroFinance”

- Second, it is not enough to simply do the research to identify needs and opportunities, a product has to be **designed and pilot tested**.

  This includes the detailed design, costing and pricing of new products, prior to their initial implementation on a pilot-test basis. Setting prices takes into consideration the revenue objectives, profit objectives, cashflow objectives, competitive objectives. The pricing is sometimes based on costs of bringing the product to market. From the MFIs point of view prices that are less than cost yield a loss. From the clients perspective, costs that are above the value will not be recouped.

  MicroSave has other courses and “toolkits”. For designing and pilot testing, the following are available:

  **Tool**: MicroSave’s “Costing and Pricing of Financial Services”
  **Tool**: MicroSave’s “A Toolkit for Planning, Conducting and Monitoring of Pilot-Tests for MFIs”

- The product development process isn’t over at the design and pilot testing stage. The third step is **monitoring and evaluation of the pilot test**.

  This includes monitoring the financial and organisational consequences of the new product and conducting market research among the clients to review how the product was perceived and used. The monitoring will engage the market research team into continuous quality improvement in
terms of customer needs, systems and processes, impact on pre-existing products etc.

Tool: MicroSave’s “A Toolkit for Planning, Conducting and Monitoring of Pilot-Tests for MFIs”

- Finally, the fourth step in the product development process has arrived. Following the results of the monitoring and evaluation of the pilot test period, the MFI will **revise and scale-up implementation** of the product.

Once these analyses have been completed, the MFI can make the necessary amendments to the product, its pricing strategy, promotional strategies, delivery mechanisms, marketing etc. before going for scaled up implementation.

Tool: MicroSave’s “Going to Scale: Rolling out New Financial Products for MFIs”.

**Successful Product Development**

In this section, we will be discussing what an MFI has to do to successfully develop new products.

Successful Product Development Involves:

- **The team.** Multidisciplinary skills and a product champion. The team may include people from marketing, accounting, management information systems, operations etc.

- **Buy-in.** Support within the institution for the process. The process must have support and a voice from the top management or else it will face an uphill battle. Therefore the top management, and indeed the whole organization, must buy into the need for product development so secure appropriate supportive environment for the whole process.

- **Market segmentation.** Definition of the customer group to be targeted. This involves determining the boundary of the market, the segmentation variables, collecting and analysing segmentation data, developing a profile of each segment, targeting the segment to be served and designing a marketing plan.

- **Market research** focuses on understanding customer needs and identifying unmet or poorly met financial service needs and design of the product prototype. It involves focusing on understanding the customer. Questions are asked and answers found, through systematic, objective research focusing on gathering information relevant to specific marketing problems and opportunities.

Each of the participants must think about whether they have the capacity to undertake product development?
Institutional Assessment

Once an MFI has decided that it makes strategic sense to diversify its product line, it must assess the practical issues of the resources it requires for such an undertaking. In evaluating its capacity to handle an additional product, an MFI must examine the following major items:

- **Staff skills and time**: New products might require specialised expertise or a more highly educated credit officer, depending on the complexity of the product. It may require more time from existing staff.

- **Delivery channels**: If an MFI is going to successfully expand its product line, it must have sufficient capacity within its delivery channels to market and distribute the new product.

- **Systems**: An MFI’s management information system (including both accounting and portfolio monitoring) needs to track, manage, and in some cases disburse the new product. A new product will require separate bookkeeping systems at first to track demand and analyse profitability. Back-office systems might need to be versatile if the new product has non-standard payment terms or other unique characteristics that differentiate it from existing products.

- **Risk Management**: While diversification usually reduces portfolio risk, new products can create liquidity problems if they are not managed carefully. For example, introducing highly liquid savings accounts means that an MFI must manage its capital carefully to respond to sudden withdrawals by depositors.

- **Training procedures**: Staff need to be trained on the specifics of the product, how to promote it to customers, and how to track it. MFIs that offer a mono-product might try to use on-the-job training, which is generally inadequate, when diversifying a product line. Manuals will need to be developed and courses designed in order to ensure quality implementation. Other MFIs have used dedicated mentors (or floating specialists) who travel between branches, offering on-the-job training to other credit officers.

- **Financial resources**: All the above require a substantial commitment on the part of the MFI. Product development necessitates initial investments by the MFI in systems development, marketing and in training of staff to run the systems, market the product and transact the business that arises from it.

Internal Preparation:

- **Institutional Buy-in**

This is a process of getting the significant areas of influence within the organisation to be aware and supportive of the product development process.

Sudden changes can be unsettling. To avoid resistance, the product development team should regularly communicate the progress of the testing process to their colleagues and engage the organisation’s input. Interdepartmental briefings are good settings for such discussions, because the success of developing,
testing, and implementing new products requires drawing on the strengths and resources of different functional areas within the organisation.

- **Buy-in meetings** should have two main purposes:
  - to update the organisation on the current and upcoming product development activities and
  - to solicit feedback on the product development strategy and implementation.

For this second purpose, it is important that the meeting be structured as an open forum for feedback on the proposed product design, or that a brain-storming session is scheduled to generate creative ways to incorporate the new product efficiently into the MFI’s existing systems.

- **Drafting Terms of Reference, or a detailed Memorandum on the Market Research process to be undertaken by the marketing department**

- **Why draft a Terms of Reference?**

A Terms of Reference clarifies for all readers, and those undertaking the tasks, exactly what their objectives are, what activities they will need to undertake to reach them, who will be involved, how long it will take and at what cost. Even if many organisations don’t create formal internal TORs, they usually present a plan to senior management detailing the same items that would be in the TOR.

- **Who drafts the Terms of Reference?**

Ordinarily, the Team Leader drafts the TOR for presentation to top management for approval. This approval may come from the Managing Director or Chief Executive in a large institution, or the Board Chair in a small institution.

- **What are the components of a Terms of Reference?**

A Terms of Reference (TOR) is a formal document that outlines the background of the market research activity, as well as the specific tasks, obligations and expectations of the Market Research Team.

**Section I: Background of the Relevant Project Objectives & Activities**

This section of the TOR states the background of the project, in both general and specific terms. The General Background states the general reasons for conducting the research - for example high levels of drop-outs or the MFI entering a new market. The Specific Background lists the specific perceived objectives that the market research should meet - for example, to examine the nature/ reasons for drop-out and options for reducing it or the opportunities and risks in the new market.

This section of the TOR is a detailed description of the services required of the Market Research Team. It lists specifically the composition of the team, and lists by name the particular individuals that will fill those roles. This section

**Section II: Description of Required Services**

MicroSave’s “Market Research for MicroFinance” – Day 1
should also designate the Team Leader and the Product Champion (if different). This section also lists specifically what the Team is to be doing - both in terms of primary and secondary research.

Section III: Duration and Timing: Section Three stipulates the time frame for the Market Research – when the test is to begin, and when it will be completed. This section also outlines the meeting commitment of the team members so that the team members and the approving manager understand the general level of time commitment that will be required.

This section identifies the general supervisor of the Market Research Team, as well as the Team Leader. This section delegates the responsibility for the test and the outputs.

Section V: Definition of Expected Outputs/ Results: This section defines the expected outcomes of the Market Research Team. It states when the final report of the Market Research Team is due, stipulates what other reports are to be completed, and when and to whom the Team must provide its recommendations about the potential for future pilot-testing of the product prototype.

This section outlines the budget for the Market Research. Remember: Market Research requires that the institution provides training, travel, per diem and stationery, and may require funds for additional staff or other items.

In Summary, the Terms of reference, as with any other communication designed to drive action should contain the following information:

- Identify the desired results
- Indicate the guidelines
- Clarify the resources
- Assign accountability
- Reflect the consequences

EXERCISE

Write up the skills/team-members you would want on a “product development team”.

Assembling the Product Development Team

The core of the Product Development team is its leader, or…

□ Product Champion: The product champion is typically the person who becomes the product’s main proponent and assumes responsibility for managing the development process.

The product champion is the leader of the team that oversees the market research and pilot testing phases and maintains the momentum… behind what can be a tedious process at times. S/he is responsible for motivating colleagues to serve on the cross-functional team and is accountable for keeping them on track.
The product champion infuses vitality into the process, and is often called upon to sell the product to decision makers including senior management and board members.

Cross-Functional Team: Although the product champion is responsible for oversight of each step of the development process, the day-to-day tasks are undertaken by a product development team of key personnel from the different parts of the organisation, which are critical to the product’s ultimate success.

The cross-functional teams in most institutions should comprise three to seven staff members from some of the following departments:

- **SALES** (branch/outreach officers),
- **MARKETING/promotions**, 
- **HUMAN RESOURCES**,  
- **FINANCE**,  
- management information systems (MIS), 
- methodology/RESEARCH AND DEVELOPMENT  
- **OPERATIONS**, and  
- **LEGAL**

- **Sales** (Branch/outreach officers):
  - Often deliver the final product therefore it is critical they have a thorough understanding of the product to sell it more effectively.
  - Typically have the best understanding of clients’ needs and preferences, gleaned from ongoing contact with them.
  - Have a sense of price sensitivities and effective delivery channels that can be incorporated into the design of the new product prototype (model).

- **Marketing/Promotions**:
  - Critical in helping ensure that products are developed from the point of view of the market, rather than just from an internal perspective.

- **Human Resources**:
  - Someone on the new product development team should have an understanding of the ability of the MFI to design a training curriculum because training is an integral component of the new product pilot test and implementation process.

- **Finance**:
  - The finance function helps evaluate risk and return (profitability) of new product development to help balance the marketing perspective.

- **Management Information Systems**:
  - A key component of implementing the new product will be developing the internal systems to administer and track the new offering.
• Methodology/Research and Development:
  • Staff from these departments, to the extent that they exist, can bring valuable investigative skills, market information and a dynamic perspective to the product development process.

• Operations:
  • Essential for planning and implementing the new product within the operations/systems of the MFI

• Legal:
  • To address the regulatory/legal issues thrown up by the proposals for new products

Designing the Prototype:

The **8 Ps** are central to the targeted market research involved in designing the product prototype. Each of them will be refined continually during concept development and prototype testing and finalised during the product implementation stage.

The steps involved in designing the prototype are:

- **Market segmentation** — identifying and characterising the target segment; A large heterogeneous market is broken down into small homogeneous segments and a separate marketing strategy is developed for each one of them.

- **Market research** — systematically and objectively collecting, developing and providing information from various sources to support decision making; and

- **Concept development and refinement/Prototype testing** — soliciting direct customer response to the product concept to refine it into a prototype ready for pilot-testing. (Discussed in detail later in the course)

Using the 8 Ps in Designing the Prototype

To create sophisticated new products, the new product development team must consider the entire prototype in terms of all its component parts, and solicit client feedback on factors referred to as the five (5) Ps (as fully defined on page 7):

- Product (design)
- Price
- Promotion
- Place
- Positioning

Over time the Original Five Ps, have been increased by three…

- Physical Evidence
- People
- Process
Session Four
Introducing Market Research: Part 1

Session Objectives
To provide an overview of:
- The Market Research Process
- Market Research Methodology:
  - Quantitative v. Qualitative Research
- Uses of Qualitative Research

Market Research & Product Development
Process Overview

The Research Objective

The Research Objective is a statement in precise terminology of what information is needed. Defining the research objectives guides the entire research process. The objectives are translated into specific information needs.

The objectives show what the project is expected to add to what is already known. It shows any limitations to scope or scale.

Essentially there are 3 types of research objectives:

- **Exploratory** to gather preliminary data to shed light on the real nature of the problem and to suggest possible solutions or new ideas
- **Descriptive** to ascertain certain magnitudes (how many people do/do not agree to a certain savings idea etc.)
· Causal to test cause and effect relationships

**EXERCISE**

参与者决定他们的MFI的研究目标

Handout 4.1: MFIA Research Plan

Field experience has shown that until they have quite some experience, many participants find selecting the PRA tools, developing research plans and preparing FGD guides difficult. In March 2003, MicroSave introduced two new slides and 6 new hand-outs of illustrative research plans and FGD Guides to help participants over come these hurdles. These example research plans/FGD guides should be used in combination with Handout 10.1 (Day 3) “Using the Tools Framework”.

Handouts 4.2-7 in the “Additional Soft Handouts” folder: Various Sample Research Plans and FGD Guides on Savings, Loan and Leasing products as well as client

**Market Research Methodology**

The market research process continues to define the methodology to use in order to obtain the data in the most objective and useful manner. In a typical market research problem there are basically two primary techniques to be employed as far as the methodology is concerned.

These include the qualitative and quantitative methodology. (Each of which is discussed in detail in the captions that follow, beginning with a contrast of the two).

The technique selected is dependant of the research problem and objectives and works to provide the sought for solution.

**EXERCISE**

参与者解释在他们已经知道或已经学习的条件下，定性和定量研究之间的差异

**Qualitative Research**

Originally derived from the behavioural sciences, qualitative research is primarily used to examine and understand the complexity of human behaviour, and is more descriptive than definitive. It not concerned with measurement, and so does not show proportions rather it shows behaviour.
Qualitative data facilitates the identification of specifically relevant cultural features amongst target populations, which in turn helps to design appropriate and effective questionnaires. Used in quantitative research in order to have research attributes in consumer language.

Qualitative data is a light to illuminate rather than a lamppost to lean on. It provides in-depth understanding in a subject area and provides reasons provoking certain behaviour etc.

**Quantitative Research**

Quantitative surveys which are usually conducted by means of pre-tested questionnaires and administered to a sampled population facilitate speedy data processing as well as statements such as “75 % of the target population use bank-based savings services, 20% use money guards, and the rest do ‘do not save’”. This is obviously an attractive and effective way of presenting survey data but it restricts the data collected to answers to specific pre-determined questions. Moreover, it rarely provides the reasons for the stated practices. Reasons are the domain of qualitative research.

It is important to appreciate that the type of data produced depends not only upon the approach decided on, but also on the method of data collection used. Different methods will produce data of differing depth, breadth, quantity and content as well as differing levels of accuracy, speed and cost. For the research user, it is important to have some feel for what each method can accomplish, in order to select those appropriate for the needs of a particular problem.

**The Differences Between Qualitative and Quantitative Research**

<table>
<thead>
<tr>
<th>Qualitative Research</th>
<th>Quantitative Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unstructured questioning</td>
<td>Use of structured questionnaire</td>
</tr>
<tr>
<td>For in-depth understanding of consumer behaviour and motives</td>
<td>Statistically representative of population</td>
</tr>
<tr>
<td>Output: consumer words and descriptions</td>
<td>Used to measure behaviour and attitudes</td>
</tr>
<tr>
<td>Highly trained professional moderator</td>
<td>Statistical output</td>
</tr>
<tr>
<td>Moderator must understand brief (research objectives, discussion guide etc.)</td>
<td>Usually analysed by computer</td>
</tr>
<tr>
<td></td>
<td>Enumerators trained for consistency and accuracy in asking questions</td>
</tr>
<tr>
<td></td>
<td>Enumerators do not have to understand or interpret brief</td>
</tr>
</tbody>
</table>
The Differences Between Qualitative and Quantitative Research

The differences between the two research techniques lies mainly in the purpose, questioning process and output.

| Qualitative | Understand consumer behaviour in an in-depth manner. |
| Quantitative | Measure behaviour and attitudes. |

The questions in qualitative research are “open-ended”, loose and flexible such that they change whenever necessary in response to information previously obtained. In quantitative research, the questions are rigid and structured.

In qualitative research the output is expressed in words and descriptions, rather than figures as is the case in quantitative research.

In quantitative research the questions and range of possible answers is determined beforehand, which is not the case with qualitative research. In qualitative research, one question and its answers leads to another set of questions.

The sample used in qualitative research is composed of people of the same demographics while the sample used in quantitative is representative of the population.

Qualitative v. Quantitative Research Methods

“According to this line of argument the scientific” [quantitative] “method fails as: it ignores the complexity, diversity and contingency of winning a livelihood; it reduces causality to simple unidirectional chains, rather than complex webs; it measures the irrelevant or pretends to measure the immeasurable; and it empowers professionals, policymakers and elites, thus reinforcing the status quo and directly retarding the achievement of program goals. At heart, PLA” [Participatory Learning and Action] “theorists do not agree that ultimately there is one objective reality that must be understood. Rather, there are multiple realities and before any analysis or action is taken the individuals concerned must ask themselves, ‘whose reality counts?’. The answer must be that the perceived reality of the poor must take pride of place”.


Analysis and Reporting

The final step in the research process is analysis and reporting of research finding. Analysis involves dissecting the data collected and placing it into the context that answers the research problem. The analysed information is then forwarded to the problem owner with recommendations and conclusions. Analysis and reporting for the two techniques requires different approaches and formats.

In qualitative research, transcripts and grids/matrices are used to compare the outcome from the groups or individuals and facilitate in the drawing of conclusion.
Data tables and statistical analysis are used for **quantitative** analysis, with graphs being drawn to show trends and variations.

**But I Trust In Numbers!!**
With quantitative research you may miss the point because:

- the questionnaire may be inappropriate
- the wording may be wrong
- it is difficult to use for complex issues

However, developing the quantitative questionnaire using the understanding and insight gained during the qualitative acts as a buffer because:

- it ensures that questions are appropriate in that they can be understood by the target group
- questions used in a questionnaire may be ambiguous or leading such that the responses are not objective
- emotions, feelings and such immeasurable aspects of human (consumer) behaviour are not easy to express in a questionnaire.

**EXERCISE**

- What are the possible uses of Qualitative Research techniques in the context of managing an MFI?

**Main topics of Qualitative Research**

The main topics that are discussed in qualitative research are:

- **Market Exploration**
• **Reasons for client behaviour (drop-out/exit, delinquency etc.):** Many MFIs still use quantitative approaches to examine drop-out, but these often miss the complex and inter-related reasons for clients dropping-out.

• **Clients’ perceptions of our/the competition’s products:** There is often a gap between how the MFI thinks its products are seen/understood in the market and how they are really seen.

• **Creating new approaches to marketing:**
  Many of the issues that clients raise during market research can offer important insights into how MFIs might market (even existing products) better.

• **New product concept development:**
  Discussed in detail below

• **Programme evaluation/Impact assessment:**
  Many of the qualitative research methods used in market research are extremely useful for programme evaluation/impact assessment

• **Detection of fraud/rent-seeking etc.:**
  Qualitative techniques allow MFIs to discuss in detail with clients their experiences in dealing with their front-line staff and have been used to examine complaints/concerns about fraud etc.

**Uses of Qualitative Research**

• **Explanation**
  It can be used for explanation of behaviour and attitudes:
  - To find out why customers behave or think in a certain way
  - Why the prefer particular banks or products to others etc

The key question asked in qualitative research is **WHY…**
For every consumer behaviour or attitude towards various aspects raised in qualitative research, it is important to understand the reason behind it.

**Interviewer:** In cases of emergency what do you do?

**Respondent:** I borrow money from my employer

**Interviewer:** And why is that so?

This type of questioning can lead to important insights into the roots of delinquency problems or high rates of client drop-outs/exits - both of which are often driven by inappropriate products/delivery mechanisms.

- **Detection**
  It can be used to examine issues relating to the delivery of products and services from the clients perspective with a view to detecting fraud and rent seeking by frontline staff

- **Evaluation**
  - Can assess why things work and which things work best
  - Can examine the impact of programmes on clients
  - Can look at how clients are using MFIs services
  - Assess depth of outreach

Evaluation is not really the domain of qualitative research and as such it is used in very broad circumstances. For a credible/effective impact assessment/evaluation usually it is necessary to combine qualitative with quantitative techniques.

However, Qualitative Research can provide important information for impact assessment at MFIs’ client level – on how they perceive and use the products on offer, how these products have helped/hindered them in managing their household economic portfolio of financial, physical, human and social assets.

- **Creation**
  It can be used for developing/creating ideas for:
  - refining existing products
  - developing new products
  - new programmes
  - new logos
  - new marketing/ advertising campaigns etc.

Qualitative research is used to gather the complex information necessary to design new products or launch new programmes/logos or advertising campaigns

Qualitative research is necessary, and desirable, to understand the reactions, understanding and belief systems of the customers.

Some organisations even use PRA tools like “ranking” and Focus Group Discussion techniques in strategy-formulation and other staff meetings.
Limitation of Qualitative Methods

Results are susceptible to misuse rather than any inherent shortcomings.

There is the great temptation among many managers to accept small sample exploratory results as sufficient for their purposes because they are so compelling.

The dangers in accepting the unstructured output of a focus group or an in-depth are twofold:

- The results are not necessarily representative of the would-be population and hence can be projected.
- An analyst with a particular point of view may interpret the thoughts and comments selectively to support that view.

In view of these pitfalls, these methods should be used strictly for insights into the reality of the consumer perspective and to suggest hypotheses for further research.
Session Five
Introducing Market Research: Part 2

Session Objectives:
To provide an overview of:
- Why Conduct Market Research?
- Secondary Research:
  - Internal Records
  - External Trends
- Primary Research
  - Front-line Knowledge
  - Consulting Customers/Drop-outs
- BRI Case Study

Why Conduct Market Research?

Effective marketing requires information on consumer needs and wants. MFIs require information in order to make relevant and tactical decisions.

Market research increases:
- **Market intelligence**: everyday information about developments in the marketing environment that helps managers to prepare and adjust marketing plans.
- **Market orientation and preliminary understanding**: important in markets that are unfamiliar and therefore preliminary understanding is required.
- **Strategy orientation**: understanding various strategies and working out which of these the MFI requires in order to meet its objectives.
- **Understanding motivations**: consumers are motivated in their purchase/consumption decisions by various factors that organisations should understand.

**EXERCISE**

- Describe the sources of market information data that your MFI currently use.
- Describe the sources of information data that your MFI might use.
Types of Research and the Research Continuum
Market research is divided into both primary and secondary research, all of which cover a continuum of uses and needs.

Primary research consists of compiling primary data that is information collected for a specific purpose at hand, and is only for that purpose. On the other hand, secondary research reviews and compiles data from existing documents and sources.

It is advisable to start with secondary data, which then allows you to better define the primary data collection instruments, such as:

- **Observational Research** – watching clients in the relevant settings, best suited for exploratory research.

- **Focus Group Research** – of use as an exploratory step before designing a large-scale survey, best suited for exploratory research.

- **Survey Research** – to learn about people’s beliefs, preferences, satisfaction etc. best suited for descriptive research, and measure these magnitudes in the general population.

- **Experimental Research** – most scientifically valid, calls for selecting matching groups of subjects, subjecting them to different treatments, controlling for exogenous variables and checking whether the responses differences are statistically significant.
Secondary Research
Secondary research consists of data in which information already exists somewhere, having been collected for another purpose. It is a good starting point for research and can help define problems and research objectives.

There are various sources of secondary data, namely, internal and external. Secondary data usually can be obtained more quickly and at a lower cost than primary data.

Sources of secondary data include internal sources:
- loan ledger
- loan applications
- client passbooks
- client exit forms, etc.

For example, information on clients’ savings habits can be derived by looking at a two-year history of several savings accounts with information derived from client passbooks.

Identifying Needs Using Internal Records

Some of the financial signals that indicate a need for new product development or refinement are outlined below:

- **Poor Growth Rates:** Limited growth in the take-up of savings or loan products may well be indicative of inappropriate products. If many of the savings accounts are dormant or maintained at the minimum levels necessary, this is may be indicative of a need to review and improve the products. Similarly, if the clients are only taking limited loans, despite expressed needs for additional credit, the design of the loan products may be restricting their desire or ability to use them. This type of analysis should be conducted on a product by product basis. Thus if the MFI offers several savings and loan products each should be analysed separately to review the clients’ use of these.

- **Liquidity:** Limited and excess liquidity can both serve as signals to an MFI to develop new products. Such a signal occurs, for example, when an MFI cannot meet its loan demand. An MFI might also determine that its funding sources are too concentrated or too expensive and seek to diversify to in order to manage its liquidity risk or reduce the cost of capital.

- **Profitability:** Profitability pressures arise when an MFI strives to maintain its self-sufficiency, or to meet investors’ and stakeholders’ demands as a transformed financial institution. These financial demands can motivate an MFI to develop new products (other than the traditional working capital loans
and compulsory savings programmes) tailored to the needs of lucrative repeat borrowers or to attract new clients in profitable markets.

**Identifying Opportunities Using Internal Records**

- **The MFI’s Records.** Loan files of both accepted and declined clients contain valuable information about client preferences and projected demand. If this information is stored in a database, files can be sorted by geography, income level, type of business, and so forth to see if any trends surface that can provide insight into target markets for the new product. Similarly, increasing numbers of dormant accounts or clients closing their accounts and leaving the MFI are clear indicators of dissatisfaction with the services being provided. If possible, the MFI should seek to disaggregate this information to search for patterns/trends amongst its clientele.

*For example,* this analysis might reveal the probable source of the problem, or at least areas for further investigation:

- all the high-value savings accounts are leaving, or
- clients always leaving after their fourth loan etc.

**EXERCISE**

- Break into groups
- Analyse the data in the handout “MFIA Handout”
- Answer the following questions:
  - What are the important trends described by this data?
  - What are the likely implications for the MFI and its products?
  - What additional information do you need to know & how might you set about getting it?

Don’t worry – there are solutions coming also!!

**Macro-Economic, Industry and Environmental Trends**

Broad macro-level economic, industry, or environmental trends can create a demand for new products. Following are some examples:

- **Macroeconomic factors:** High inflation would spark a need for highly liquid savings products. Not surprisingly, the majority of BancoSol’s depositors keep small balances in the most liquid types of accounts and choose the U.S. dollar option to maintain value.

  For the same reason, BancoSol’s U.S. dollar-denominated savings product was more attractive than the relatively less stable Bolivar product. Maria Otero noted, however, that since most
developing countries operate in only one currency, the option of offering loans denominated in more stable, foreign currencies would be prohibitively expensive for many MFIs.

- **Industry standards:** Industry standards, often in sectors inaccessible to the poor clients of MFIs, can educate clients and create demand for products. For example, in Bangladesh, the commercial banks offer a Deposit Pension Scheme. This product is extremely popular as a form of saving for medium term needs (weddings etc.) and long term (pensions etc.). MFIs’ poor clients are remarkably familiar with, and expressed strong demand for, this product. As a result, when the equivalent contractual savings agreement was introduced by BURO, Tangail (and subsequently ASA), it proved both popular and easy to market since it was well recognised as being the “poor person’s Deposit Pension Scheme”.

- **Dominant firms:** Can affect local economies, as was the case with Prodem-Bolivia, which shifted away from ACCION International’s typical practice of offering fixed amortisation schedules for its products after it spun off many of its urban branches to BancoSol. Left to serve rural areas of Bolivia, Prodem was subject to seasonal fluctuations of its agricultural-driven markets, which affected the cash flow of its clients’ enterprises regardless of whether they were directly involved in this sector.

- **Public health:** The FINCA affiliate in Uganda developed a life insurance product to address the nation’s high mortality rate. Partnering with a local commercial insurer to provide access to insurance to its members, FINCA takes a fixed percentage of the village bank loan as premium for life and limited disability insurance. In Bangladesh many MFIs offer loans tailored to buying “tubewells” (hand-pumps) or sanitary latrines.

- **Environmental factors:** SEWA Bank in India also introduced an insurance product after a survey of defaulted borrowers revealed that cyclones, floods, and other natural disasters wiped out their customers’ resources. SEWA also realised how important it was for women to have landed assets, especially for their daughters’ marriage dowries, and began offering a credit program to help its customers repurchase pawned property.

- **Natural disasters:** In the wake of the floods in Bangladesh, many MFIs introduced emergency response loans to help their clients re-establish their businesses or farms. These were repayable over a longer time period (often as much as two years) and were extremely popular.
Market Segmentation

Groups into which markets are typically segmented include:

- **Geography**: Most MFIs divide their markets into geographical units, identifying specific characteristics of regions, towns, or villages.

- **Demography**: Demographic analysis involves segmenting the population by certain shared characteristics, such as age/generation, social class, marital status, family size, ethnicity, race, religion, occupation, and level of education. The three most common demographic characteristics used to segment markets in microfinance are gender, income, and industry/occupation.

  - **Gender**: Many microfinance programs, such as the Self-Employed Women’s Association (SEWA) of India, target women explicitly both because female-headed households are among the poorest in the world and because of women’s propensity to reinvest their earnings into their family’s health and education.²

  - **Income**: Some MFIs target clients earning less than a certain amount. If an MFI serves different economic classes of the population, income segmentation can help isolate the different needs of these target markets.

  - **Industry/Occupation**: Some MFIs offer specialized products by industry, such as agriculture, fishing, and trade, or by occupation.

- **Business Size**: Business size is similar to income segmentation. MFIs can differentiate enterprises by their sales, number of employees (if any), or profit size. ADEMI in the Dominican Republic, for example, has designed specific products to target small, as well as micro, businesses.

- **Financing Need**: Commercial lending institutions often segment the market by product type or the corresponding financing need. Similarly, MFIs often segment the market by those enterprises requiring working capital (the most prevalent type of microfinance product) versus those wanting to purchase fixed assets or to finance infrastructure improvements or a variety of savings accounts.

Behavioural. Behavioural segmentation divides customers into groups based on their attitude toward, use of, or response to a particular product. Examples of behavioral segmentation include loyal, repeat borrowers versus those who are very price sensitive; borrowers who are interested in tailored financial products and hand-holding versus those who want quick, efficient service; and borrowers who begrudgingly use an MFI because they have no choice versus those who have enthusiastic feelings.

**Competition’s Activities and Products**

With competition come new ideas and opportunities for growth. Competitors themselves can be a resource, rather than a threat, to further educate and screen clients and to develop new product ideas. An MFI can copy a competitor’s product offerings and then improve upon it!

The **BancoSol** created “catch-up” individual loans to stem the desertion of its clients to the neighbouring **Cajas de Ahorro y Prestamo Los Andes**. BancoSol combined the best of its current product — the efficiency and accessibility with which it was delivered — with the flexibility of its competitor’s loans, to go beyond the solidarity group methodology.

New product development teams should pay close attention to price, packaging, and placement of competitive products when they design a new product prototype. Comparison with the competition is a critical part of product positioning. The informal sector in particular will often provide important indicators of the types of financial services and products that the poor need, as well as some options for providing these: after all the informal sector is there because there is a market for it. For a fascinating description of a wide variety of financial service systems for the poor see Rutherford’s “Savings and the Poor”

Both the informal and formal sectors will be the competition when the MFI introduces the new financial service products, so it is important to pay careful attention to their pricing, delivery and marketing strategies.

**Analysing the Competition**

To prepare a useful marketing strategy, the MFI must identify and research the other formal and informal sector competition as well as its current and potential customers. MFIs need to identify their competitors’ systems, strategies, objectives, strengths, weaknesses and the services they offer … and how the clients’ perceive them.
**Private Networks**
A number of trade associations to which conventional financial institutions belong provide information on customer trends that can be used to design new products. Although MFIs have few similar industry fora, some belong to networks that are linked to affiliated organizations in other countries.

For a list of some of these, see Wright’s “Beyond Basic Credit and Savings: Designing New Products for the Poor”. (Received earlier as Handout 3.1)

**International Networks and Literature.**
There is an increasing amount of experience with a diversified series of financial service products for the poor, and with it an increasing body of literature documenting and discussing that experience. Any organisation preparing to design a new product should examine any relevant literature that it can find and try to contact those with experience in implementing such products … there are likely to be important lessons which do not have be learnt the hard way!

As the MicroFinance net-working and e-mail and Internet services grow, this experience exchange will become more easy.

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**How To Use The Development Finance (“DevFin”) List.**
To sign onto the DFN listing, send an email to: listserv@lists.acs.ohio-state.edu with the following message as TEXT, not in the header.

SUB DEVFINANCE <your real name>

Also see Wright’s “Beyond Basic Credit and Savings: Developing New Financial Service Products for the Poor” (Handout 3.1) for a listing of some other useful sources of information.

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**LITERATURE EXAMPLES**

**Use And Impact Of Savings Services Among The Poor In East Africa**
Leonard Mutesasira, Henry Sempangi, Harry Mugwanga, John Kashangaki, Christopher Lwoga, Florence Maximambali, David Hulme, Stuart Rutherford and Graham A.N. Wright

**Background to the Study:** There was a prevalent that “the poor cannot save”, but throughout East Africa and indeed the rest of Africa, there is a vibrant and diverse informal financial sector. This report shares findings that improve knowledge and understanding of how poor people in East Africa save, how they use different savings mechanisms, the impact of those savings facilities on their household budgets/lives and suggestions on where formal and semi-formal institutions can make a contribution. It is a useful background study for understanding the complete competitive environment in the entire financial sector ranging from formal to informal operators.

**Primary research**
Primary research is usually the only way to obtain comprehensive and reliable information on a new field. This is because the entire research effort is geared towards solving one particular problem and is designed purely for the intended purpose.
Primary research costs more and may require a longer period of time to provide the data however the results answer specific research needs.

An MFI wishes to provide clients with option of having variable access to saving. They would like to know reaction to various options available like allowing access daily, once-a week, fortnightly, etc. This would require primary data and research

Examples of Primary Research

- **Branch Staff/Loan Officers**

  Important signals for new product development can come in the form of direct feedback from staff/officers who have established relationships with these customers. This customer-provider interaction is often built into the methodology, as is the case with many group-based lending strategies.

  For example, the mission of SEWA Bank in India is to create “people’s economic organisations.” Accordingly, SEWA has helped organise its microenterprise borrowers into trade unions and smaller committees to address different needs, such as inputs-sourcing, networking, and bulk purchasing. During group meetings, ideas for new products are generated: “We have many forums in which women can talk — trade unions, executive committees, co-operative bank meetings; just by listening we hear what their needs are; that’s how we get our ideas for new products.”

  The branch staff/loans officers are the “front-line” of the MFI, and the ones who deal face-to-face with clients. They are the staff in the best possible position to provide on-going feedback on clients needs, perceptions and preferences – in short an invaluable resource for a client-oriented organisation.

  It is important for the MFI to develop an organisational culture, structure and system that positively encourages feedback from its front-line staff and properly assesses the information received.

  MFIs should consider setting up formalised systems for accessing this information – perhaps through periodic workshops with selected front-line staff to allow and encourage them to provide field-based feed-back or through using account opening forms etc..

- **Accessing the Front-Line Knowledge**

  Many MFIs have management that has little idea of what is actually happening at the front-line or of how their customers view the financial products being offered.

  Organisations, like countries or demographic groups, have distinct cultures that differentiate them from others. Moreover, there is no proper or “correct” organisational culture: each develops in response to the specific realities of the market in which it operates and is shaped by the goals and work methods of its founders.
MFIs wishing to optimise their financial service products must focus on optimising the information flow from the field and their front-line workers to the organisation's management. This will be largely determined by two factors:

- the organisational structure, and
- the organisational culture of the MFI.

**Management by being there:** There is no substitute for visiting the field and sitting with the clients to discuss their expectations, perceptions and needs. Even if they can only spare a day or two every six months, senior management officials should make special efforts to go out with staff versed in eliciting clients’ opinions.

However pressing the board room affairs, the client is the basis and source of the MFI's business and should be “king” (or “queen”). The clients’ views are some of the most important information necessary for making appropriate decisions in a competitive environment.

While market research reports will provide much of the necessary data and insights, they can be clarified and strengthened by a few days of direct face-to-face experience with the clients in their businesses and homes.

**Company norm of risk taking:**
The ease with which honest communication between management and field officers can take place is driven by management tolerance for risk and dissent. Management can create open dialogue by encouraging critical thinking.

**Valuing innovation:**
What is true in human nature holds for organisations: change is difficult. This truism is especially relevant in financial institutions because of the risk-averse nature of the industry. Add to this not-for-profit (be it NGO or government/parastatal) resistance, which has been defined by stability rather than the dynamism of competition, and the difficulty in inspiring innovation becomes clear.

Most conventional for-profit financial institutions have encouraged product innovation through employee recognition – so that when an employee makes a particularly important to product development this is appropriately recognised through financial and/or non-financial means.

**Customer/Client Consultative Groups**

MFIs also have anecdotal ways of tracking loan demand and customer satisfaction. The client-credit officer relationship is often an MFI's most valuable asset in designing new products because client feedback is unfiltered information and can be used to refine product offerings.

**Customer Feedback Surveys**

These are short and simple question surveys. Typical examples are those incorporated into account opening forms to capture information about clients as they join a programme. Similarly, such survey questions can be incorporated into loan application forms. Other simple surveys can be done by staff members.
In fact, SEWA Bank of India identifies the simple act of *listening* as one of its main sources of product ideas. As their managing director explains, “When women get together they talk about their needs. At SEWA, the client is in the centre. She is the source of product ideas.” In fact, SEWA, actively consults with its group leaders to stay abreast of its customers’ needs.

In Nigeria, the “Lift Above Poverty Organisation” has institutionalised this throughout the organisation and holds quarterly meetings with all of its group leaders in each branch to examine progress and clients’ needs.

Similarly, in Bangladesh, BURO Tangail organises quarterly customers’ consultative groups to generate similar client feedback.

**Interviewing Drop-outs**

Another valuable procedure that most conventional banks — but few MFIs — undertake are exit interviews with clients who have decided to terminate their relationship with the financial institution — either temporarily or permanently. Exit interviews provide valuable information about market realities and possible product shortcomings that can sometimes be addressed in a mutually beneficial manner.

Often even better information will be derived if a group of clients leaving the organisation come together with the MFI’s trained focus group discussion facilitators. This allows the MFI to generate more discussion and benefit from the dynamics of group interaction, which generally results in participants offering more and more frank views.

Preparation for interviewing departing clients is essential:

- conduct a careful review of the departing clients’ account histories and look for trends/commonalties in these.
- it is important that those interviewing departing clients have a summarised account history detailing:
  - age/sex/socio-economic/cultural background
  - how long the client has been with the MFI
  - number/size of loans taken
  - how much saved/patterns of savings
  - how much withdrawn/patterns of withdrawal
Sample Interview Questionnaire For MFI Drop-outs

Explain that the MFI wants to learn from its clients with a view to further developing and improving its products and maximising client satisfaction.

Start with simple, non-threatening questions to “warm-up” the departing client.

Below are indicative questions only – the responses should be followed up with probing and possibly PRA methods such as ranking of needs/reasons for leaving:

☐ What is the nature of your business?
☐ How long have you been a member of the organisation?
☐ For what purpose did you join the organisation?
☐ For what purpose(s) did you save with the organisation?
☐ Did the savings services allow you to meet those needs/purpose(s)?
☐ What should the organisation do further improve its savings services?
☐ For what purpose(s) did you use the loans from the organisation?
☐ Did the credit services allow you to meet those needs/purpose(s)?
☐ What should the organisation do further improve its credit services?
☐ Why are you now choosing to leave the organisation?
☐ In what other ways could the organisation have better met your needs?
☐ What procedures/systems would you change in the organisation?

One Option: The AIMS/SEEP Tool

While this tool is probably the best client exit quantitative survey instrument on the market, we would argue that to fully understand the results, supplementary qualitative research (probably using a simple focus group discussion) is essential.

3 Handout 5.5 AIMS/SEEP Client Exit Survey

3 USAID-AIMS’ Client Exit Survey instrument and instructions on how to use it. Reference: SEEP/AIMS Manual “Learning from Clients: Assessment Tools for Microfinance Practitioners”. The 2001 version can be found in English, French and Spanish at www.seepnetwork.org. Questions and pre-coded answers must be adapted to the MFI’s context. For questions on the tool, please contact author, Carter Garber at CGARBER@mindspring.com.
EXERCISE

Four Key Phases of Financial Services Product Development Case Study

Group Exercise - BRI Case Study

The Four Key Phases of Financial Service Product Development
- Research to Identify Needs and Opportunities
- Designing and Pilot Testing
- Monitoring and Evaluation
- Revision and Scaled Up Operations

Guidelines for BRI Study - Brainstorming Session

Discussion Guidelines
- What needs and opportunities were found?
- How were these needs and opportunities identified?
- Which of the phases can you identify as part of the process of product development in each of the cases?
- Do you notice anything else that could have helped or hindered product development in each of the cases?
- How does the process compare with the process in your organization?

Optional Handout: BURO, Tangail Case Study