

# MicroSave Briefing Note # 10

## Lessons from *MicroSave's* Action Research Programme 2001<sup>1</sup>

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Under its Action Research programme, *MicroSave* is learning and disseminating lessons relating to the product development process. This note documents the progress made during 2001.

### The Action Research Partners (ARPs)

As at December 2001 *MicroSave* worked with eight institutions in four countries:

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

### The Lessons Learned To Date:

**Plan, Review and Re-plan:** The truthfulness of the old adage, “If you fail to plan, you plan to fail” is self evident, but frequently ignored. Failing to have a product development team meeting regularly undermines the value of forming the team. Not providing the product development team with sufficient time or budget to monitor the pilot test<sup>2</sup> means that lessons take longer to learn and longer to internalise. Conversely, good planning combined with adequate resources pays dividends, as shown by Equity Building Society in their allocation based costing exercise.

**Mainstream the Product:** In larger institutions, new products can become sidelined, identified as a niche product developed by a particular department. New products should be regarded as priorities for the institution if they are to receive the support they require to make it to the market.

**Design a Winning Product:** Do not shortcut the research process<sup>3</sup>. TEBA Bank in South Africa was about to go to the market with a funeral insurance product. This product was designed to free clients from the burdens of financing and arranging a funeral for their family at a time of grief. Surely a winning product! However, participatory market research demonstrated that planning a funeral was an important family obligation to the deceased and a part of the

grieving process. Had TEBA Bank's original funeral insurance product gone to the market it would have failed.

**Use Market Research to Identify Quick Wins:** *MicroSave* market research uncovers a significant number of “quick win” ways to improve existing or new products, which do not take an elaborate pilot test. In the case of FINCA Uganda, this was in improving communication to field staff when policies changed; for Equity Building Society one quick win was in relating charges more clearly to services delivered and for many other ARPs' opportunities to improve marketing of their products.

**Develop Confident Financial Projections:** A product will only be successful if it can make a profit. A financial institution needs to develop financial projections that demonstrate *on the basis of the best knowledge available*, that the product will be profitable. A financial model is built based upon key assumptions, *which must be reviewed as the pilot test progresses*.

**Ensure Feedback:** Feedback loops need to be built into the process of product development. This is done through setting up a product development team that meets regularly, building continuing market research into the pilot test process and being concerned about customer service standards and satisfaction. Client based feedback loops can be especially powerful<sup>4</sup>.



<sup>1</sup>See Cracknell, David, et al. “Lessons from *MicroSave's* Action Research Programme (2001)”, *MicroSave*, 2002 under the Study Programme Section.

<sup>2</sup>For more on *MicroSave's* Toolkit on “Planning, Implementing and Monitoring Pilot-Tests”, on *MicroSave's* website under the Toolkits section.

<sup>3</sup>For more on the product development process see Wright, Graham A.N., “Market Research and Client Responsive Product Development”, *MicroSave*, 2001 –on *MicroSave's* website under the Study Programme section.

<sup>4</sup>See McCord, M.J., “The Feedback Loop: A Process For Enhancing Responsiveness to Clients”, *MicroSave*, 2002 on *MicroSave's* website under the Study Programme Section.

### **Uncover and Understand Loss Making Products:**

Financial institutions need to understand the cost structure of their products<sup>5</sup>. Most of *MicroSave*'s Action Research Partners have at least one loss-making product. Generic reasons for loss making products, include inappropriate pricing, high head office overheads, low volumes of activity, over exposure to interest rate risk, low levels of fee income and over-elaborate back office processes.

*“Product Costing has already become an indispensable tool... after only three months costing it is impacting on many of the strategic decisions being made within the institution”*

### **Pay Attention to Pricing Your Products:**

*MicroSave*'s Action Research Partners, frequently pay more attention to the costs of their operation, and indeed costing their products, than pricing their products. For Tanzania Postal Bank one problem was an institutional resistance to changing the interest rates on the Domicile Quick Account at a time when the investment income available to the bank was plummeting. In the case of Equity Building Society market research discovered that clients uniformly disliked the way that Equity priced their products, the Building Society was perceived to be expensive because of the way they communicated the interest rate on their loans when these were in fact cheaper than many competing products.

**Craft Your Incentive Scheme:** A well-designed incentive scheme can significantly enhance staff performance. However, an existing incentive scheme can pose major challenges to the development of new products, especially where the new product affects the dynamics of the incentive scheme. Initially some FINCA Uganda Credit Officers were opposed to the introduction of the new Small Enterprise Partnership product, as moving their existing, high-value clients to the new product affected their bonus payments.

**Building Capacity – Start Simple:** For *MicroSave* to promote high quality financial services for poor people, it builds capacity within its Action Research Partners to develop and promote their own financial services. *MicroSave* emphasises simplicity and incremental development. Workshops are used to introduce concepts, followed by practical work with our partners, in the field or in their offices, directly after the course, to develop

and embed tangible results. There are often more rigorous – but more demanding, technically sound solutions, such as Activity Based Costing, which cannot always be introduced without first building capacity.

### **Develop an IT Solution Appropriate for Your Pilot Test:**

Developing IT systems can be very challenging, but is made more so when the product changes and develops through its initial design, to concept to prototype work and during the pilot test. To control costs, it is essential that the product is well specified before IT development gets underway, where investment in IT is likely to be very heavy – it may be worth developing a low tech interim solution for the pilot test as TEBA Bank have done for their Home Improvement Loan.

**Consider Contracting-Out Services:** Where suppliers exist and capacity is required, it is possible to contract out elements of a Pilot Test, whether this is the management of the test, review or evaluation, market research or marketing.

*MicroSave* assists its ARPs in the process of market-led product development, providing a varied package of services. It helps ARPs understand the issues involved in moving from product design to full-scale implementation. *MicroSave* serves as a sounding board and documents at least some of the partners' experiences.

**Communicate Your Product:** Examples of poor communication are all too common, whether in disseminating new policies, training staff or marketing products. Fortunately *MicroSave*'s “Market Research for MicroFinance” tools can clearly identify lapses in communication and can be used to facilitate the communication of products to staff and customers in “clear, concise client-language” through developing benefit statements and FAQ guides.



<sup>5</sup>For more on *MicroSave*'s Toolkit on “Costing and Pricing Financial Services”, visit *MicroSave*'s website: [www.MicroSave.net](http://www.MicroSave.net) under the Toolkits Section