

MicroSave Briefing Note # 17

Client-Focused Microfinance: A Review of Information Sources

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Background

The microfinance industry has for a long time been an institution-focused industry that has not paid much attention to the needs of clients. This is to some extent a consequence of the strong emphasis on control mechanisms that are a prerequisite for working with higher risk clients (as compared to those served by the formal sector). Perhaps for the same reasons the industry has focused on offering non-diversified products with limited flexibility in order to reduce the cost of services that are already very resource intensive. While this approach promotes efficiency and allows for better control, it has failed to meet the diverse and dynamic client needs that are becoming more and more sophisticated. The result has been an increase in client desertion, delinquency and limited or slow growth. With the growth of competition in the industry, these problems can only intensify.

Why Focus on the Client?

Although the industry is still fairly young and has not yet encountered fierce competition (with the possible exceptions of Bolivia, Bangladesh and Uganda), there is need to prepare for this eventuality, as it is (in most markets) inevitable. A market oriented approach and commitment to client needs² will help in reducing client dissatisfaction and thus desertion in future when the market becomes more competitive.

To be client oriented means making the client the primary focus of the institution, that is, learning about their needs and responding to them through the development of appropriate products and services³. After all, it is the client that is the basis and source of the MFI's business.

Sources of Information

Before an MFI can design products to suit its clients it must have a way of getting information about their needs. Different institutions use different methods - both informal and formal to listen to and learn from their

clients. Local government offices, municipalities and business councils among others are a good place to start to get a macroeconomic understanding of the factors influencing the market. Regional and local networks that follow developments in the industry are another possible source. Primary and secondary research methods can be used to provide information on various aspects.

Management Information Systems

A lot of the information that MFIs already have, and/or collect on a routine basis, such as loan ledgers, loan applications, loan officer forms and exit forms provide useful sources of data. Information on the seasonal demand for credit among clients involved in certain business activities can be derived from a 2-3 year history of several loan ledgers. Similarly, the analysis of some indicators and variables from the Management Information System can give an indication of the problems that the institution is facing. Limited up-take of a particular loan product, for example, may be indicative of its inappropriateness to the clients' needs. Growth variables can be broken down and analysed using different client characteristics: type of business, level of business development, residence etc. Loan files of accepted, rejected and dropout clients contain valuable information about client preferences and projected demand. Where this information is stored in a database, files can be sorted by location, income level, type of business, and so forth to bring to the surface trends that may provide insights into target markets for new products or the need for product refinement.

Competition Analysis

An inexpensive source of information is the competition. Competitors can be a resource rather than a threat in further educating and screening clients. Competition can also provide an impetus to develop new product ideas and opportunity for growth. By observing the competition the MFI learns what will work and what will not⁴. The institution can use this information to improve its products and services.

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²For more on the market oriented approach and client responsive product development see Wright, Graham A.N., "Market Research and Client Responsive Product Development", *MicroSave*, 2001 – available on *MicroSave*'s website: <http://www.MicroSave.net> under the Study Programme section.

³See McCord, Michael "The Feedback Loop – A Process for Enhancing Responsiveness to Clients", *MicroSave*, 2002. This paper is available on the *MicroSave* website under the Study Programme section.

⁴See *MicroSave*'s "Competition Analysis Matrix" in Wright, Graham A.N., "Market Research and Client Responsive Product Development", *MicroSave*, 2001 – available on *MicroSave*'s website: <http://www.MicroSave.net> under the Study Programme section.

Frontline Staff

Feedback from frontline staff is another valuable source of information. Loan officers meet with the MFI's clients on a regular basis and establish close relationships. They are aware of the clients' problems and needs. Very often this information is not communicated to management but remains at this very first level, and may only be used for risk assessment purposes. The feedback on clients' needs, perceptions and preferences is an invaluable resource for a client-oriented organization, which is why it is important for the MFI to develop a system for accessing this information – perhaps through periodic workshops with frontline staff. Although most MFIs have loan officers close to the client, this is not a substitute for management visiting the clients to discuss their expectations, perceptions and needs. Senior management officials should meet clients regularly.

Talking to Clients

Consultative customer groups that are representative of the MFI's clients can be used to collect client feedback. Such groups meet periodically to discuss client needs, progress, etc. The unfiltered information thus generated can be used to refine products and services. Another valuable procedure that most conventional banks - but few MFIs - carry out is an exit interview with clients who have decided to terminate their relationship with the financial institution, either temporarily or permanently. Exit interviews provide information about market realities and possible product shortcomings that can be addressed by the MFI. More useful information can be obtained from a focus group discussion bringing together a number of clients leaving the institution. This allows the MFI to generate more feedback and draw benefit from the dynamics of group interaction, which generally results in participants offering more frank views.

Primary Market Research Methods

To get better quality data and reliable information it is advisable to use structured methods like focus group discussions, individual in-depth interviews or surveys. There is a wide spectrum of standard research techniques and methods that can be used to collect market data. Conventional surveys tend to be resource intense and more difficult to conduct, but there is also a

range of simpler instruments such as short customer feedback forms with simple questions. A typical example is the account opening form, which seeks to capture information about clients as they join a program. Similarly, survey questions can be incorporated into loan application forms. An institution needs to select tools which will provide the desired information and respond to set objectives. The same case applies to “off-the-shelf” information gathering toolkits like the SEEP/AIMS tools or *MicroSave's* “Market Research for MicroFinance”.

It is crucial, as a first step, to establish the research questions that the institution would like answered and then select the tools that will provide the answers or information required. This is an important process that will ensure that the institution gathers clearly defined, relevant and useful information, thus saving it time, energy and financial resources.

Conclusion

As the microfinance industry matures and becomes more client-focused, or market-led, so MFIs will have to become more sophisticated in their approaches to understanding the markets within which they operate. This does not necessarily mean conducting expensive primary research. Even when primary research is necessary, it is essential that detailed secondary research is conducted to narrow down the research questions so that the MFI (or the research consultants it contracts) performs focused research that will produce useful and cost-effective results.

