MiroSave Briefing Note # 19

Market Orientation As The Key To Deep Outreach[1]

Gary Woller

Microfinance and Market Orientation

Accumulating evidence indicates that the exclusion of the very poor from microfinance institutions (MFIs) is a widespread phenomenon. Moreover, of the very poor who do join microfinance programs, many drop out after only a few loan cycles and many others in later loan cycles. These together belie microfinance's image as a tool for poverty alleviation.

In explaining this outcome, research points to a lack of a "market orientation" among MFIs. Market orientation holds that "*success will come to those organizations that best determine the perceptions, needs, and wants of target markets and satisfies them through the design, communication, pricing, and delivery of appropriate and competitively viable offerings*."[2] Underlying a market orientation is the principal that value creation is the key to long-term business success, and that value is determined by the benefits (adjusted for costs) that consumption of an offering makes possible to customers. In contrast to a market orientation, most MFIs possess a "product orientation," which holds that "*success will come to those organizations that bring to market goods and services they are convinced will be good for the public*."[3] Underlying a product orientation is the principal that a market offering possesses value for its own sake, unrelated to the benefits that customers derive there from. In other words, product-orientation asserts that an offering has value because the producer put it there.

The product-oriented approach to microfinance has its origins in the industry's response to its greatest initial challenges: how to deliver small loans in a cost-effective and sustainable manner to a poor and often hard-to-reach clientele, absent physical collateral, given information asymmetries, and with relatively high per-units costs. The solutions—blueprint program design, product standardization, exclusive focus on enterprise loans, forced savings, de-emphasis on voluntary savings, joint liability, heavy emphasis on repayment discipline, and an overarching emphasis on financial self-sufficiency—satisfied institutional needs at the time, but they have proven over time not to satisfy the needs of very poor customers. MFI program design also reflects a set of assumptions about the very poor (e.g., uniform market demand, no or little business cyclicity, enterprise loans as the principal financial need) that have proven increasingly out of step with emerging knowledge about the very poor as consumers of financial services. To date, MFIs have focused on the products they *could* produce rather than the products and services customers *want* them to produce; on *institutional* needs rather than on *customer* needs.

Whereas the initial challenge facing microfinance pioneers was to prove that the very poor were bankable, the challenge today is to push further down the poverty ladder with a set of sustainable financial services that meet the livelihood needs of the very poor. To fulfill this challenge will require an industry-wide shift from a product orientation to a market orientation. The relationship is simply stated: "*Success (in terms of both deep outreach and institutional sustainability) will come to those organizations that best determine the perceptions, needs, and wants of the very poor and satisfies them through the design, communication, pricing, and delivery of appropriate and competitively viable offerings*."

The transition from product orientation to market orientation is a process that has occurred in virtually all mature industries. The microfinance industry is unique only in that it is relatively young and immature, and it has yet to pass through this phase. But pass through this phase it must, if it is to survive and prosper. The question for MFIs is how to take an abstract concept like market orientation and give it real managerial operational relevance.

Research on Market Orientation

Toward this end, academic researchers have conducted research on market orientation, making it one of the most thoroughly researched and written-about topics in marketing. This research has covered three stages. The first stage sought to define market orientation. The consensus that emerged from this stage is that market orientation consists of an organizational culture and a set of functional activities aimed principally at creating customer values.

[1]This Briefing Note summarizes several of the main arguments in the article by Gary Woller "From Market Failure to Marketing Failure: Market-Orientation As the Key to Deep Outreach in Microfinance," *Journal of International Development*, vol. 14, no. 3, (2002), pp. 305-324.
[2]Kotler, P. and Andreasen, A.R. (1996). *Strategic Marketing for Nonprofit Organizations*. Upper Saddle River, NJ: Prentice Hall, Inc, p. 41.
[3]Kotler and Andreasen, p. 39

Key elements in a market orientation are:

- Customers and customer value as the core component.
- Customer value as a function of both "expressed" and "latent" (undiscovered) needs and wants.
- Inter-departmental coordination and cooperation in the acquisition and dissemination of market intelligence (e.g., a market-oriented organization is a learning organization).
- Organization-wide responsiveness to market intelligence.
- A causal link between market orientation and long-term institutional performance.

The second stage of research focused on identifying determinants of market orientation. Finally, the third stage sought to consolidate and generalize extant learning and to test empirically the actual antecedents of market orientation and the relationship between market orientation and institutional performance. Overall researchers have conducted dozens of empirical studies on market orientation. Study subjects have included large businesses, small and medium-sized enterprises, non-profit organizations, and federal government agencies in over 14 countries in North America, Europe, Asia, and Africa.

From this research, senior management, and particularly the level of senior management's emphasis on and commitment to market orientation and its willingness to undertake risk, emerged as *the* single most important determinant of market orientation. Second in importance were customer-focused reward systems. Other important determinants of market orientation were inter-department collaboration, organizational formality, and centralization.

Of 48 studies testing the relationship between market orientation and institutional performance, 44 found a positive relationship between market orientation and at least one measure of institutional performance as measured by profitability, sales, market share, or innovation success. The same studies also found positive relationships between market orientation and other organizational variables, such as customer retention, customer service, esprit de corps, trust in senior management, job satisfaction, and the intent to remain at an institution. The weight of these empirical findings offers conclusive evidence that higher levels of market orientation lead generally to higher levels of institutional performance.

Implications for Microfinance

The implications of the market orientation research for MFIs are many:

- Market orientation is by extension an important determinant of MFI performance (e.g., financial self-sufficiency, revenue growth, customer desertion, repayment rates, etc.)
- The best way to achieve long-term financial self-sufficiency <u>and</u> achieve deep outreach is to identify the needs and wants of the very poor and to provide products of value to them.
- To the extent MFIs explicitly target the very poor and create learning institutions in tune with their needs and wants, competition and the drive for sustainable competitive advantage will drive MFIs to find ways to serve the very poor in an increasingly cost-effective manner.
- The creation of a market-oriented institutional culture and market-oriented institutional practices is the distinct responsibility of senior management. Without the explicit and active participation of management (in both word and deed), the transition to market orientation will fail.
- The creation of an appropriate customer-centered reward system is an integral component of the transition to market orientation. It is an unambiguous statement of managerial values that connect rhetoric to practice. Other market-oriented practices include monitoring customer satisfaction and otherwise routinely soliciting customer feedback, hiring staff with customer-centered attitudes and firing those without, increasing interaction and decreasing conflict between functional departments, or pushing the decision-making locus closer to the customer.

Five rules of thumb can help guide the transition to market orientation for MFIs:

1. Senior management should not assume that change can be delegated to subordinates.
2. Transition to a market orientation should be viewed as a long-term evolutionary process.
3. Transition must involve all organizational levels and functions.
4. Transition requires extensive and continual training and development of staff.
5. Transition must be continually evaluated, monitored, and reinforced.

For more on the market-led approach to microfinance and toolkits to support it, see ***MicroSave***'s website: www.***MicroSave***.net