

MicroSave Briefing Note # 1

Why Bother with Product Development? ... And Where to Get Help!

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

In microfinance, the value of retaining clients is particularly clear. Typically, retained customers are the

ones with extensive credit history and who are accessing larger, higher value loans; whereas new customers require induction training and can often weaken the solidarity of groups. MFIs typically break even on a customer only after the fourth or fifth loan. And yet, many MFIs suffer chronic problems with clients leaving their programmes. Careful analysis of the reasons for these “drop outs” almost invariably points to inappropriately designed products that fail to meet the needs of the MFIs’ clients. Much of this problem is driven by the attempts to “replicate” models and products from foreign cultures and lands without reference to the economic or socio-cultural environment into which they are being imported.

Loans: Options and Opportunities for MFIs To Offer An Even Better Service

“No one has ever asked to borrow for the full loan amount they are entitled to because they can not repay over such a short period – the weekly repayment amounts are too big. If the MFI extended its loan terms we could afford to borrow more.”

“Some clients use internally generated savings when they cannot borrow from the MFI. We use them for emergencies, or when the funds from the MFI are not sufficient for the business, or to compensate for the lack of consideration of seasonality in the MFI’s loans. In the rural areas, the seasons rule our lives! We only wish that the MFI would help us meet these needs.”

Comments from Ugandan MFI Clients

The Tale of A Sick Child and A Market Opportunity

“I was finally forced to withdraw my savings because I had a crisis on my hands,” said Beatrice of Kamukamu Women’s Association in Kenya. Last March, their child was extremely ill to the point of death. She went to the MFI and withdrew more than half of the savings she had accumulated over the previous year. “It was extremely important that I meet the health care needs of my child, all my business plans had to take second place. I do not know what I could have done had I had no savings. Most of my friends were in poor financial shape at that time. It is crucially important that I work hard to rebuild my savings account just in case trouble strikes again.”

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

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

The process of market research and product development can be described as follows. The *research objective* is usually driven by initial analysis of secondary data and then focuses the market research effort on the specific issues to be examined. This in turn allows the

development of a *qualitative market research plan* typically involving a variety of *qualitative research* techniques including focus group discussions and Participatory Rapid Appraisal (PRA) sessions. The results of this work then allows the product development team to *develop a product concept* which is subjected to appropriate *costing and pricing* analysis to ready it for the process of refining the *concept into a prototype*. In some cases the product prototype is subjected to *quantitative research* to provide a final check of the marketability of the prototype before investing in the *pilot test*. Once the pilot test is completed and the *Letter of Recommendation* has been completed, the product can be rolled-out and taken to scale.

On the website www.MicroSave.net you will find:

- Toolkits (comprising slides, exercises, handouts, participants step-by-step “how to” guides and trainers’ manuals) on:
 - Introduction to Strategic Marketing
 - Market Research for MicroFinance
 - Costing and Pricing of Financial Services
 - Planning, Conducting and Monitoring Pilot-Tests: Savings Products (including projection model)
 - Planning, Conducting and Monitoring Pilot-Tests: Loan Products (including projection model)
 - Product Roll-out: Expanding a Tested Product Throughout the Market
 - Institutional and Product Risk
 - Designing Staff Incentive Schemes
 - Product Marketing Strategy
 - Process Mapping
 - Corporate Brand and Identity
 - Customer Services
 - Loan Portfolio Assessment
- A database of trainers certified to teach and provide Technical Assistance on **MicroSave** toolkits.
- Studies on the product development process, potential for new products, informal sector financial systems, how and why poor people save, impact assessment and so on, including:
 - Market Research and Client-Responsive Product Development
 - Looking Before You Leap: Key Questions That Should Precede Starting New Product Development
 - Savings and The Poor: The Methods, Use and Impact of Savings Amongst the Poor in East Africa
 - Relative Risks to the Savings of the Poor
 - ASA’s Culture, Competition and Choice: Introducing Savings Services into a Microcredit Institution
 - Needs and Savings Services – An Infinite Variety
 - Drop-outs Amongst East African MFIs
 - The Effects of HIV/AIDS—A Silent Crisis among MFI Clients
 - Health MicroInsurance: A Synthesis of Case Studies from four Health Care Financing Programmes in Uganda, Tanzania, India and Cambodia
 - Strengthening the Feedback Loop
 - Relative Risks to the Savings of the Poor
 - Process Mapping in Practice
 - Reducing Vulnerability: Demand for and Supply of Microinsurance in East Africa
 - The Competitive Environment in Uganda: Implications for Microfinance Institutions and Their Clients
 - Costing & Pricing in Practice
 - E-banking for the Poor: Panacea, Potential and Pitfalls
- Authors of **MicroSave** papers include: Stuart Rutherford, Robert Christen, David Hulme, Graham A.N. Wright, Leonard Mutesasira, Imran Matin, Michael McCord, Brigit Helms, David Cracknell, Renée Chao-Beroff, Jennefer Sebstad, Jill Donahue, Susan Johnson, Robert Hickson, Gerhard Coetzee and Monique Cohen.



- ★ “There is a range of **publications** available for fast, easy download on market research, impact assessment and financial services for remote areas and the informal sector.
- ★ “The “**Toolkits**” section, covering topics such as costing and pricing of financial services, institutional culture and change, and pilot testing of products, may be of particular interest to practitioners.
- ★ “You can spend a lot of time on this [**MicroSave**] site – it’s packed with interesting stuff... this is a weighty, content-driven site.” - Rob Hitchins in the *Journal of Small Enterprise Development* Vol. 12 No.3, September 2001.