MicroSave Briefing Note # 24

Lessons from Pilot Testing Financial Services – The Experience of *MicroSave*[1]

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Introduction

This Briefing Note presents key lessons learned from *MicroSave's* work with its Action Research Partners (ARPs) on pilot testing new financial services. The lessons derived from their successes and failures offer the opportunity for other institutions to benefit from a wealth of product development experience[2].

Successful Product Development

Pilot testing new products has revealed that the following factors underlie successful product development:

- Detailed understanding of customer needs
- Well-defined products that meet those needs
- Focus on the value of the product to the customer
- Total commitment to the product from management and staff
- Developing and retaining a wide range of skill-sets amongst staff
- Time from often over-committed staff
- Financial resources for research and monitoring
- Leadership and coordination
- Internal marketing and clear and consistent communication

Risk Analysis and Management

Proactive risk analysis and management is essential before, during and when assessing the pilot test. Risks faced during pilot testing are more often operational risks rather than classic banking risks. Risk management appears to be most effective when the risk management function is centralised. A failure to manage risk tends to increase the length of the pilot test as risks that could have been averted materialise.

The pilot testing process as defined by *MicroSave* has ten distinct steps. The following summary presents key lessons learned at each step.

Step 1 - Composing the Pilot Test Team: Success at this stage requires firm leadership. Unless a senior manager who has access to human, physical and financial resources leads the team, decisions take longer to make and resources are difficult to obtain. Managing time demands on the team is extremely challenging. The problem is particularly acute in the case of experienced staff whose skills are in great demand elsewhere in the organisation. Lastly, teams that fail to meet fail to act.

Step 2 - Developing the Testing Protocol: The pilot test protocol at its simplest is a list of tasks to be performed, by whom, in what time frame and at what cost. The length of the pilot test is critically affected by the quality and coordination of preparations during the development phase. Potential causes of delays include failure of internal marketing, problems in system development, inexperienced staff, resource constraints, insufficient leadership, and the departure of key staff.

Step 3 - Defining the Objectives: Most Action Research Partners have found defining pilot test objectives difficult. Whilst it is common to set profitability and growth targets, few institutions set targets in relation to customer efficiency, value for the customer's time, or customer satisfaction. Even fewer institutions set targets for the effectiveness of the marketing effort – even though effective marketing can significantly increase sales.

Step 4 - Preparing All Systems: Challenges related to information systems frequently delay the implementation of a new product. To reduce delays, ensure that the chosen IT solution is flexible – this will enable the product features to change as the pilot test moves forward. Secondly, ensure the availability of local or regional IT support. Thirdly, test the set up of the master record for the new product at the beginning of the preparatory phase to ensure that the system can accommodate the product. Fourthly, consider reporting requirements carefully.

Step 5 - Modelling the Financial Projections: Developing financial projections sometimes proves difficult. Reasons for this include insufficient skills in financial modelling and use of spreadsheets,

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and the lack of critical information on which to build the projection[3]. Once the projection is constructed it is essential to revise the assumptions underlying the projection in line with actual experience as the pilot test progresses.

Step 6 - Documenting the Product Definitions and Procedures: Most Action Research Partners need to strengthen the documentation of their procedures. This is particularly important for institutions moving from manual to computerised systems. Two factors can improve the quality of the procedures developed: the formal approval of manuals by the board; and the use of flow charts or process maps to document procedures.

Step 7 - Training the Relevant Staff: Sufficient and quality training is critical to the success of the pilot test. Staff need to be trained on the features of the new product, its processes and procedures, in customer service and in marketing. However, despite the importance of staff training it is usually given a low priority and where it occurs, the effectiveness of the training is rarely monitored.

Step 8 - Marketing: Product marketing should be perfected during the pilot test. Success factors include, the effectiveness of internal marketing; the level of pre-existing marketing competencies within the ARP; adequate marketing plans and budgets; and the degree of focus on customer service. During the test, the effectiveness of marketing should be closely monitored[4].

Beyond product marketing, developing new products represents an opportunity for financial institutions to improve their corporate image, through coordinating related improvements around branch infrastructure, customer communications and customer service.

Step 9 - Commencing the Product Test: Before commencing pilot tests it is important to review the adequacy of the preparations for the test.

Step 10 - Evaluating the Test: Just as pilot testing was a new activity for most Action Research Partners, so was monitoring and evaluating the pilot test. Factors that influence the quality of monitoring include: the monitoring budget, the experience of the monitor, the tools used and the familiarity of the monitor with the product. The monitor should also have the ability to interpret the results of the pilot test and to ensure action is taken against agreed recommendations. To improve monitoring *MicroSave* has developed a series of easy to use monitoring tools. These are included in the "Planning, Conducting and Monitoring Pilot-tests for Microfinance Institutions" toolkit.

Evaluation of pilot tests is built on regular monitoring and adjustments throughout the pilot test period. It is the culmination of a process of development rather than an isolated activity. However, given the time and effort invested in a pilot test, it is often difficult for the pilot test team to be fully objective in their evaluation. A possible solution is to have an external reviewer as part of the evaluation team.

Frequently Asked Questions
Three frequently asked questions on pilot testing include:
What impact has pilot testing had on the Action Research Partners?
Pilot testing has encouraged the development of key competencies. To develop new products ARPs have developed skills in market research, marketing, financial analysis, customer service, communication and risk assessment.

The most promising change is that ARPs have become more customer-centric. This is evidenced by increased customer-focused research, new customer service points, improved customer communications and refurbished branches. Such changes have significantly improved the corporate image of ARPs and along with product development and refinement resulted in rapid growth.

Should we always pilot test new products?
Generally new products should always be pilot tested. However, there are occasions when institutions can consider developing products without pilot testing. These are:
- where the new product is a basic refinement of an existing product;
- where specific technical expertise is purchased to manage the product; and
- where the product itself is low-risk.

Does pilot testing reduce costs?
In all of its ARPs, (and many other MFIs) *MicroSave* has seen that pilot testing significantly reduces the cost of making mistakes.

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[3]*MicroSave*'s "Planning, Conducting and Monitoring Pilot-tests for Microfinance Institutions" toolkits include simple projection spreadsheets that can be used to assist in this process.
[4]*MicroSave*'s "Product Marketing Strategy" toolkit provides a useful basis for much of this work and is available on the website under Toolkits.