



**Entering New Markets with New Products.
Costs and Benefits of Following New Product Development Process.**

Based on a Case Study of MDF-Kamurj (Armenia)

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The case presents a successful implementation of product and market diversification. The case draws from the experience of MDF-Kamurj – an Armenian microfinance institution which developed and launched a new credit product directed to rural microentrepreneurs involved in agriculture and livestock breeding.

The case seeks to present how the process of market research and pilot testing helps in mitigating risks related to entering new areas with a new product (a product not meeting clients' needs, inefficient procedures, resistance among staff towards innovation). Simultaneously it discusses the requirements of conducting market research and pilot testing (including financial and non-financial costs as well as the golden rules of the process).

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Figure# 1: Product Market Expansion Grid (Ansoff Matrix)

	EXISTING PRODUCTS	NEW PRODUCTS
EXISTING MARKETS	1. Market Penetration LOW RISK	2. Product Development HIGHER RISK
NEW MARKETS	3. Market Development MEDIUM RISK	4. Diversification HIGHEST RISK

Source: Strategic Marketing Training for MFIs. MicroSave

- **Overview of market and institution**

Armenia suffered an earthquake in 1988 that devastated the northern part of the country and whose impact can be observed still today. The fall of the Soviet Union in 1991 led to the collapse of local industry. The situation was made worse due to a war with the neighbouring state of Azerbaijan over the Nagorno Karabakh region, which resulted in a high rate of migration. Despite the cease-fire, there is still an ongoing economic embargo with Azerbaijan (as well as neighbouring Turkey). However, the situation in Armenia has started to stabilise. Armenia has shown economic growth since 2000, and the inflation rate has leveled off. Even so, Armenia remains one of the poorest countries in the region - approximately 50% of the population lives below the poverty line.

Table# 1: Basic indicators showing the situation of Armenia

Economic and socioeconomic indicators	2004	2003	2002	2001
Population, total	no data	3,056	3,068	3,087
Rural population (% of total)	35.87	35.54%	35.35%	35.15%
Population living under poverty line	no data	49.9%	no data	no data
GDP (US\$)	no data	2,796,581	2,366,762	2,118,468
GDP per capita (US\$)	no data	950	810	750
GDP growth rate real (%)	10.10%	11.90%	12.86%	9.34%
Inflation (%)	7.00%	4.76%	1.10%	3.14%
Unemployment (%)	9.40% ²	no data	no data	no data

Human resources are considered to be Armenia's principal strength - 98% of the population is literate. Remittances remain an important financial injection for Armenian households. According to estimations, about 5 million of Armenians live abroad (whilst the population of the country is 3 million).

More than one third of the population of Armenia lives in rural areas. Notably, there are more poor people in urban than rural areas (respectively 59% and 48%³). Nevertheless, vulnerability to poverty is higher in the rural areas than in urban ones. It results from poor infrastructure development, exposure to weather risks, weak rooting of rural microentrepreneurs in the supply chains.

The Armenian microfinance sector consists of six microfinance institutions with a gross loan portfolio of US\$14.6 million. The sector serves 36,588 active borrowers. The average loan balance stands at

² This figure may be lowered.

³ Source: Bezemer D.J., Lerman Z. (2003), Rural Livelihoods in Armenia, Discussion Paper No. 4.03

US\$474, with the average depth of outreach at 52%. According to anecdotal data, competitive pressure has also increased.

MDF-Kamurj (Armenia) is among the leading Armenian microfinance institutions. It is a non-profit foundation that began its operations in September 2000 after a successful merger between Save the Children/US (SC) and CRS microfinance programs. The mission of MDF-Kamurj is to provide accessible, long-term financial and non-financial services to micro-entrepreneurs, particularly women, in order to improve their businesses and their families' well-being.

With a staff of 72, MDF-Kamurj has seven branches (microfinance operations are decentralized to branch offices) in Yerevan (the capital city), Shirak, Lori and Tavoush marzes (northern Armenia), and Syunik marz (southern Armenia). As of November 2004, MDF-Kamurj disbursed over 72,000 loans totaling US\$21.5 million, with a repayment rate of 99.2%, operational sustainability of 140% and financial sustainability of 108%. MDF-Kamurj currently serves more than 7,000 active clients predominantly in urban areas (over 70% women) with over US\$2.66 million in loans outstanding.

Table# 2: MDF-Kamurj – Outreach and Financial Indicators

Outreach and Financial Indicators	31/06/05	31/12/04	31/12/03	31/12/02	31/12/01	31/12/00
Number of personnel	73	66	67	69	61	38
Number of Active Borrowers	7,565	6,536	5,691	5,559	5,895	4,229
Average Loan Balance per Borrower (in US\$)	352	317	248	181	194	111
Gross Loan Portfolio (in US\$)	2,660,4167	2,074,825	1,411,258	1,003,935	1,141,041	468,925
Total Assets (in US\$)	4,722,912	4,203,977	2,583,744	1,918,710	1,670,401	771,415
Portfolio at Risk > 30 days Ratio (%)	1.60%	1.50%	1.11%	2.75%	0.73%	0.59%
Operational Self-Sufficiency (%)	143%	150%	138.69%	161.06%	156.56%	85.93%

- **The rationale for developing a rural credit product**

Before September 2003 MDF-Kamurj offered loans directed exclusively to the urban clientele. Such a policy however, gave limited opportunities for institutional growth, due to the high level of urban market saturation. Thus, MDF-Kamurj had to look for opportunities for growth. One, which was considered, was new product development.

The process was implemented in close collaboration with the Microfinance Centre for Central and Eastern Europe and the New Independent States (MFC) under the SEEP Practitioner Learning Program “Putting Client Assessment to Work”⁴ which started in 2002 and finished in November 2004.

- **The process of new product development**

Initializing and advancing a new product development process

⁴ Both institutions successfully submitted a joint proposal. However, it was MDF-Kamurj who was responsible for setting objectives it wanted to meet. After consideration of the market environment and institutional capacities MDF-Kamurj identified a broader objective than only new product development - client/market orientation drift within SEEP PLP “Putting Client Assessment to Work”. Therefore, new product development activities were complemented with the establishment of an entire client monitoring system. Analyzing the specifics of the former activities and benefits drawn for them one cannot forget about influence of the latter.

The process started in March 2003 with a brainstorming meeting aimed at identifying product development opportunities, as well as planning the first steps in market research supportive to new product development. Prior to the meeting, MDF-Kamurj staff were also trained in new product development processes.

To identify product development options that would be cost-effective, the brainstorming session was carried out as follows:

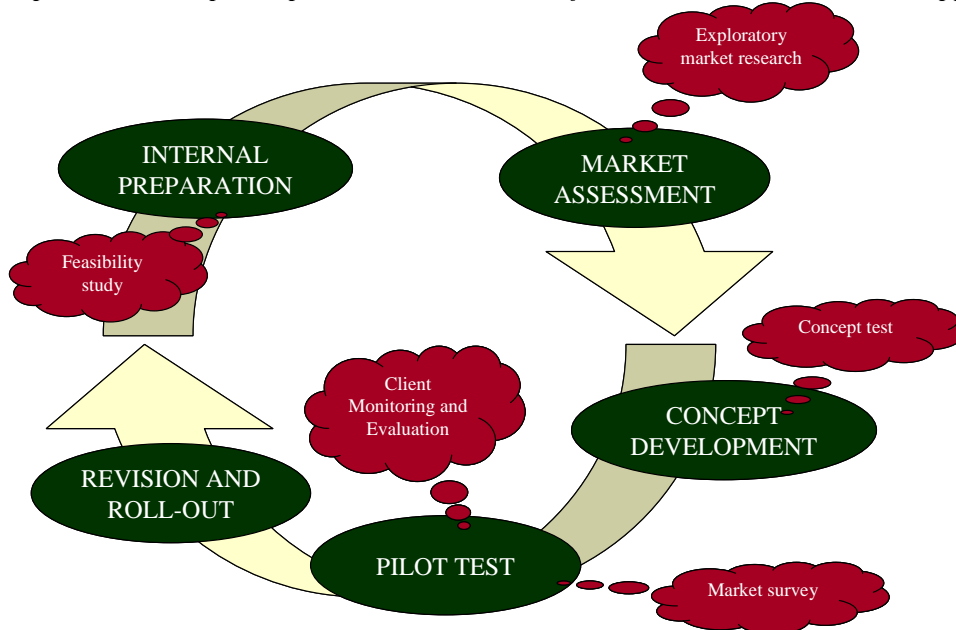
- Spotting all product development opportunities for MDF Kamurj
- Prioritizing them
- Identifying areas where there is a need for market research
- Setting general research objectives for market research and the market research plan

As a result, diversification of both product offer and target clientele was identified as a priority. MDF-Kamurj decided to develop a new product that would be directed to rural areas. This resulted primarily from recognizing a big market potential in the rural areas of Armenian. Secondly, MDF-Kamurj staff realized that its urban loan products would be not feasible for rural populations, characterized by different cash patterns, seasonality of production and exposure to multiple risks.

Entering new market areas with new products increases the risk of failure for the institution. MDF-Kamurj as a typical urban lender had limited expertise in rural areas. This reduced the chance of developing a client-oriented product based only on internal knowledge. Secondly, the specifics of rural areas and its exposure to risks, put into question if there repayment capacity actually exists and whether the product will be profitable from the institution stance.

To avoid product failure according to the terms discussed above, the decision was made to pursue the product development process with a strong emphasis on market research⁵. As a result the staff would be provided with knowledge about rural areas.

Figure# 2: New product development process at MDF-Kamurj and the market research to support it



To conduct the research and coordinate the new product development process two teams were developed: the Market Research Team and the Product Development Team.

⁵ More detailed information about market research undertaken by MDF-Kamurj may be found in MFC Spotlight Note 13 “Entering New Markets: How Market Research Can Inform Product Development” under www.mfc.org.pl/research

Recruitment criteria for both teams intended to screen people with open minds, a critical approach, and possibilities of bringing different perspectives to the process. Moreover, team members should think out of the box and be knowledgeable on lending methodologies combined with practical experience. Additionally, research team members should be able to establish relationships, to analyze the data and have other personal characteristics needed to effectively participate in research. They also had to declare their ability to travel which was crucial for conducting qualitative research.

Table# 3: Composition of MDF-Kamurj Teams Involved in New Product Development

Position \ Task force	Product Development Team	Market Research Team
executive director	+	+
operations manager	+	+ (champion)
finance manager	+	--
MIS manager	+	--
branch managers	3 people	2 people
senior loan officers	2 people	1 person
rural coordinator	+ (champion)	+
external consultant(s)	+	+

Market Research Activities

General research objectives were identified during the brainstorming meeting initializing the new product development process. More detailed research issues (concerning specific research activities) were defined and prioritized at further stages.

The table below contains the detailed description of MDF-Kamurj research actions.

Table# 4: Research activities undertaken by MDF-Kamurj during the new product development process

Phase	Research activity	Description
Internal preparation	Feasibility study	The objective was to discern which products were needed for potential clients and what demand they might evoke. Group discussions with villagers, interviews with village key informants were conducted during several visits to villages. It was completed with secondary statistical data (i.e. on population size and population density). The research was a <i>first-glance</i> activity. Results allowed the decision to be taken on further research needed and how it should be organized.

Phase	Research activity	Description
Market assessment	Qualitative exploratory research	<p>The objective was to identify clients' needs in order to develop a new product responsive to clients' needs and profitable for the institution. The other objective was to segment clients to identify the most promising target.</p> <p>The activity was preceded by secondary data analysis and training on qualitative research and group moderation (based on <i>MicroSave</i> materials). The training gathered Product Development and Market Research teams. Having built staff knowledge and skills it was possible to brainstorm in order to identify research objectives, prioritize them and adjust technique of data gathering.</p> <p>Focus group discussions (driven by discussion guides and PRA <i>MicroSave</i> tools) were used. They covered 18 villages in three districts. There were four groups conducted in four different villages daily. To cope with such an amount of work the Market Research team was divided into two groups: each consisting of two people playing alternatively roles of a facilitator and assistant. Additionally, there were two MDF-Kamurj observers (operations manager and executive director), three MFC consultants who were split between groups. Focus group results were completed with individual in-depth interviews conducted with each of the village heads.</p> <p>This research generated significant benefits in building corporate culture, but it also took a lot of time. Without planning, this activity might have turned to be perceived as an additional burden and would have negatively influenced the corporate culture.</p>
A concept development	Concept Development	<p>The concept of a credit product called "Swallow loan" (a bird) was developed based on qualitative results, the feasibility study and secondary data analysis. The meeting was attended by the research team, the product development team and the executive director. Such team composition ensured that different perspectives would be obtained.</p>
	Qualitative concept test	<p>To discern how much the product was adjusted to clients' needs, focus group discussions were conducted by MDF-Kamurj employees.</p> <p>For this purpose concept test methodology was used. Based on a written description of product parameters respondents discussed their reactions and tried to identify their possible behaviour related to the product (<i>you try your product without selling it</i>).</p> <p>The Market Research team was trained in the methodology prior to going to the field.</p> <p>To make the exercise less abstract, group facilitators used some practical examples to explain product parameters (for example to avoid over-reporting on the price level, it was compared with the competitive offer). Research was conducted in a limited number of villages (3-4). It ensured that there would be no duplication of results in villages having the same characteristics.</p>

Phase	Research activity	Description
Pilot test	Quantitative market survey	<p>The objective was to estimate the market size in order to allocate resources to branches. The research also aimed at product assessment in order to introduce final changes before the product launch.</p> <p>Interviews were conducted in the mid-pilot test on a sample of 360 respondents. Current and potential clients (living both in pilot test villages and potential ones) were interviewed. The MDF-Kamurj approach was to use both external interviewers and MDF-Kamurj employees⁶.</p> <p>The main lesson learnt regarding this research was related to timing against objectives planned. As the market survey was conducted in the middle of the pilot test, clients had not captured the full picture of the product yet, thus its assessment was impossible.</p>
	Client monitoring and evaluation during the pilot test	<p>During the pilot test MDF-Kamurj constantly monitored their clients through discussions with clients and their families, interviewing village heads and other key informants and analysing the rural data base. The following characteristics were studied: profiles of clients, product assessment, repayment culture, etc.</p> <p>Moreover, group discussions with the staff involved in rural lending were organized twice during the pilot test (at the beginning and in the middle of the pilot test). The staff also had opportunity to achieve more insights into the product during informal information sharing and staff meetings.</p>

Pilot Test Activities

Pilot test of the Swallow (a bird) loan started in September 2003 and finished in October 2004⁷. It covered four regions (initially two villages per region): Lori, Kotaik, Shirak and Tavush. Pilot test villages represented different types so that it was possible to get a broader picture. There was also a limitation allowing on only two groups per village.

However, pilot test objectives were changed while advancing the pilot test. Firstly, it was decided not to limit the number of groups per village as demand was much higher than expected. Secondly, in the mid-term of the pilot test MDF-Kamurj decided to enter new regions in the area served by Yerevan branch (Aragtsotn, Kotaik and Armavir). These regions seemed promising for the rural expansion, but having different characteristics than previously covered regions. Thus, it was not possible to extrapolate results gained elsewhere.

Altogether the pilot test covered 5 regions and 18 villages⁸.

The pilot test was preceded by a detailed training session provided to the Product Development and Market Research team.

The table below presents the process of pilot testing at MDF-Kamurj.

⁶ 6 external interviewers and about 15 staff members were involved.

⁷ The pilot test duration was decided after consideration of maximum loan term (12 months) and seasonality issues (according to market research results there were two peak periods for the product: autumn and spring).

⁸ See Annex#4 Pilot Test Description for details

Table# 5: Pilot Test Activities

Activity	Description
Developing and using pilot test protocol	<p>MDF-Kamurj planned the pilot test main points (duration, people involved, activities needed and targets) at the very beginning of the pilot test. Outcomes are documented in the minutes from meetings. Different participants were involved in the planning phase depending on the level of decisions. There was one person assigned to coordinate all the activities connected with rural expansion (rural coordinator).</p> <p>To sum up, MDF-Kamurj revised the pilot test protocol form to make it less standardized (minutes from meetings).</p>
Designing pilot test objectives, setting targets	<p>Targets were changed during the pilot test (number of villages, number of groups per village, number of branches and staff involved in the pilot test). For example, at the very beginning MDF-Kamurj had fewer villages planned and there was a limitation of two groups per village. However, these objectives were changed due to higher than expected demand.</p> <p>Having stiff targets and not responding to market demand may have influenced negatively MDF-Kamurj's image and the number of information supportive to the evaluation of the pilot test.</p>
Preparing all systems, integration with existing systems, use of them	<p>People from different departments participated in the preparation of systems (i.e. the financial manager worked with the operations manager on the loan contract). It enabled capturing different perspectives and rooting systems in the entire institution.</p> <p>Characteristics on clients were tracked through Excel sheets. Data gathered was analysed at the end of the pilot test to obtain a picture of clients' profiles.</p> <p>Each time a change (system of loan tacking, accounting procedures, contract documentation, and metodological issues) was implemented, systems were refined. Changes were discussed by a task force team who prepared an action plan highlighting a division of responsibilities. The plan was approved by the Executive Director.</p>
Product documentation and promotional materials	<p>Product documentation was developed before the test. It included loan application, business/income verification forms, loan contract; loan approval documents checklists for loan officers and supervisors, data entry and finance officers, and reporting forms. Loan analysis and approval procedures were drafted and served as a guide for the staff during the pilot test.</p> <p>Based on information gathered during market research and the initial phase of the pilot test, promotional materials (flyers, calendars and presentations) were developed. However, their form was relatively rough (they were copied with the use of a normal printer). Promotional materials whose form was more sophisticated (cards for clients) were developed and tested at the end of the pilot test. It resulted from the fact that, MDF-Kamurj created new position of Marketing Manager in the mid-term of the pilot test.</p>
Staff training	<p>To foster staff knowledge about rural areas MDF-Kamurj used both informal (mentoring) and formal (training) techniques.</p> <p>Mentoring meant conveying knowledge by more experienced employees (rural coordinator, operations manager) across the institution. It was possible due to the learning atmosphere that was enhanced during exploratory market research. Moreover, a newly appointed rural loans coordinator was serving as a resource person, travelling through all the branches, consolidating and sharing in-depth knowledge and information and supporting loan staff in making loan decisions.</p> <p>Secondly, there was training on rural areas and its specifics, developed on research results. It included research materials, information about the specifics of rural areas, methodology for loan analysis and approval. After the pilot test,</p>

Activity	Description
	these materials were combined into the training module for new loan officers and into the promoters' handbook.
Number and composition of staff involved; work division	There were one or two officer(s) dedicated to the pilot test in every branch. Work was clearly divided, though some people may have felt overworked: <i>for some people it (the pilot test) was just an additional commitment.</i>
Staff feedback mechanisms (focus groups, other)	MDF-Kamurj used both formal and informal channels to gather feedback about the product - focus groups with the staff (organized twice during the pilot test), informal conversations, Product Development team meetings (held once a month plus additional meetings in case of emergency situations) and visits to branches. The institutional culture which favours openness in expressing opinions played an important role in facilitating information exchange. On the other hand, the staff's feedback was not formalized; however it did not lead to losing information during the pilot test.
On going client monitoring and evaluation (visit, forms and spreadsheet)	Loan analysis includes visiting clients' home and family members, obtaining information about businesses and incomes from different sources, which assisted in reducing lending risks. Clients are also visited during monthly repayment meetings, which helps the updating of information for further loan cycles. Information is consolidated in loan officers' and clients' records and statistical data is inputted in MIS directly.
Communication during the pilot test; feedback loop – flow of information	Communication with clients went smoothly partially due to establishing close relationships with committed clients in some of the villages. There were many opportunities for loan officers to talk to clients (business verification, loan disbursement and repayment visits). Within the institution, many communication channels (mostly informal) were used. For example, senior staff presented changes in policies, procedures and the product. These changes were also documented in special documents and are incorporated into a manual at the end of each year ⁹ . Additionally, there were a lot of informal discussions among the staff: <i>if someone received information from the other branch, it was shared immediately with others.</i> However, the communication channels were not formalized sufficiently. Information needs were not precisely defined and this resulted in lots of information being obtained that has not yet been used.
Problem solving and decision making	There was a spirit of mutual help and information exchange, so problems were solved jointly. Efficient communication enabled timely recognition of problems. Decisions regarding loan approval and maintaining contacts with clients were decentralized while the overall coordination of the pilot test was conducted by the means of head office staff.
Product costing and modeling financial projections	At the beginning of the pilot test the exercise on product costing and modelling financial projections was conducted as well as a general assessment of the product costs, price. The possible growth of incomes and estimation of expenses were defined. However, MDF-Kamurj did not implement costing and pricing on a routine base as this would require a lot of procedural and technical changes (tracking time sheets on a product base, changes in some accounting and data entry procedures, etc.), that MDF-Kamurj was not ready to undergo at the time of pilot testing. The institution considered product costing and financial modelling rather as a good decision-making filter prior to the pilot test and expansion of the product.

⁹ According to MDF-Kamurj procedures the manual has to be approved by the board, thus changes implemented during a year are documented in separate files to allow immediate reactions.

Activity	Description
Evaluation of the pilot test	It was conducted twice: in mid-term to support planning for the spring season and at the end of the pilot test to evaluate its results. It gathered people involved in rural lending representing different positions. The meeting enabled discussions to take place and brainstorming of the main product strengths and weaknesses, lending methodology and procedures, loan approval process, marketing channels, etc.

Golden Rules When Conducting Market Research and Pilot Testing

The approach to the new product development process was considered a crucial element in generating benefits. MDF-Kamurj's approach was called INSIDE¹⁰ and is characterized as follows:



- **Internal preparations** – before undertaking any activity, prepare the institution internally, plan it and revise all the information that is already available. It is also indispensable to discuss objectives and build a common understanding of them;
- **Non stop human resources feedback and appraisal** – focus on the staff, understand their needs and expectations;
- **Staff training and development** – provide staff training based on their needs;
- **Information needs mapping** – to conduct research cost-effectively set the priority of information needs and focus

on important ones;

- **Developing task forces** - to build staff buy-in task forces representative of different departments should be created. Task forces members may further become agents for change and disseminate knowledge within the institution. Different people may be members of several teams which fosters a communication exchange;
- **Effectively following guidelines to the process of designing a system** – establish and follow clear, simple guidelines when designing a system. Answer why, what for, by whom, how, how often, and when to start before system design;

One of the important lessons learnt was related to maintaining a level of staff commitment. One of the techniques used was **showing results immediately** no matter what their scale and **communicating it properly to the staff**. Thanks to it, people feel that their work is purposeful which enhances their interest in problem-solving.

¹⁰ INSIDE approach was initially treated as a way to institutionalize learning from clients. Though, during the pilot test it was proven to be a way to conduct and institutionalize any client-led activities. To read more about INSIDE approach refer to MFC Newsletter Issue No 1/2004 available at www.mfc.org.pl

MDF-Kamurj also managed to identify several rules that are exclusive either for **the effective conduct of market research** and / or **pilot testing**.

Table# 6: Principles of market research and pilot testing

Activity	Rules
Market Research	<ul style="list-style-type: none"> - When taking a decision it is necessary to consider and refer to several information sources, and use staff's knowledge as well; - The institution needs to balance conducting research internally and externally. This decision is taken depending how much the research phase may contribute to building staff buy-in; - The data needs to be analyzed immediately after finishing fieldwork in order to capture fresh ideas;
Pilot testing	<ul style="list-style-type: none"> - The beginning of a pilot test needs to be treated as <i>testing a pilot test</i>. After this you may start testing solutions implemented; - Research results may be used when developing training modules; - Testing the product in several branches allows capturing differences between regions, which is particularly important in the case of rural lending, taking into consideration seasonal distinctions between regions; - It is recommended to involve a limited number of people in several branches so that it does not evoke overloading with work and allows regional comparisons; - Effective communication (both within the institution and with clients) is the key to success as it ensures that pitfalls are identified in a timely manner and can be jointly tackled;

- **Costs of market research and pilot testing**

To calculate research costs MDF-Kamurj used a very simplistic formula. On one hand, it did not require establishing the whole system of tracking costs (i.e. ABC costing). However, it made it impossible to estimate costs of activities related to the pilot test which became a part of everyday work and were of ongoing nature.

$$\text{Research activity cost} = (\text{number of days spent} * \text{number of people} * \text{average time cost}) + \text{additional expenses (transport, accommodation, etc).}$$

ABC costing was needed here i.e. to compare costs of pilot testing to costs of disbursing regular loans. MDF-Kamurj does not have ABC costing system in-place, thus costs of pilot testing were estimated based on yearly salaries of people involved in pilot testing and costs of additional resources (training, preparation of promotional materials, transport, etc.).

Table# 7: Costs of Market Research and Pilot Testing

Activity	Scale	People Involved	Time	Other expenses	Cost ¹¹
Feasibility study	12 communities in 2 regions	Market Research Team	5 days	Transport, per diems	US\$1,200
Exploratory market research (including secondary data analysis)	18 communities in 3 regions	Market Research Team	10 days	Transport, accommodation, per diems, refreshments for respondents	US\$2,560
Product concept development	-----	Product Development Team	1 day	--	US\$350
Qualitative testing of the new product concept	6 communities in 3 regions	Market Research Team	3 days	Transport, per diems, refreshments for respondents	US\$310
Quantitative market survey in the middle of new product pilot testing	360 respondents in 25 communities	Market Research Team and external interviewers	6 days	Transport, accommodation, per diems	US\$800
Client monitoring and evaluation during a pilot test	-----	Product Development Team, Market Research Team and appointed loan officers	-----	Transport	US\$300
Product pilot test	800 loans in 5 regions (\$300,000)	Product Development Team, Market Research Team and appointed loan officers	One year		US\$42,288
Total					US\$47,808

The costs presented above do not cover costs of technical assistance which was covered by the grant. Altogether, three consultants spent about 100 days in assisting MDF-Kamurj in the market research and pilot test activities.

When calculating costs, one should also consider **opportunity costs**¹². The question was whether an institution wins entering rural areas or it should focus on the urban market. The rural expansion met staff's expectations who were convinced about the exploitation of the urban market. Yet, there was a peril hidden as well – MDF-Kamurj staff were so optimistic about the product expansion that they might have started neglecting urban products. Due to in-depth discussions on the mission, explanations of reasons behind rural expansion and its threats, MDF-Kamurj managed to avoid this. As a next step, MDF-Kamurj is planning to have separate urban and rural loan departments in order to increase efficiency of serving these two markets. Incentive and salary systems will also be adjusted to reflect this objective.

¹¹ Costs do not cover costs of MFC technical assistance which were covered by a grant

¹² Opportunity cost is based on what you have given up as a result of your decision. Source: www.netmba.com

- **Benefits of market research and pilot testing**

Both market research and pilot testing are business management tools that “provide knowledge so you can make good business decisions – ones that will have maximum chances for success”¹³. Let’s look first at knowledge provided by research projects and business decisions taken based on it.

Table# 8: Knowledge gained and business decisions taken

Activity	Knowledge gained	Business Decisions
Feasibility study	<ul style="list-style-type: none"> - Initial glance at the demand for new credit products and specifics of rural areas; - Basic data about competition; - Knowledge on how to conduct research in rural areas; 	<ul style="list-style-type: none"> - The decision was made to conduct further research as entering rural areas may be promising, but the institution still lacked a lot of information;
Exploratory market research (including secondary data analysis)	<ul style="list-style-type: none"> - Profiles of villages (wealth, main income generating activities, geographical location, infrastructure, main problems faced); - Risks related to agricultural and livestock breeding activities and mitigation strategies used; - Seasonality of income, expenditures, savings and need for credit; - Overall perception of credit services (including the most important aspects of the credit product) - The level of solidarity among villagers; - Use and perception of competitive services; - Learning about staff’s attitudes towards innovation; 	<ul style="list-style-type: none"> - The product concept was developed¹⁴; - Information on profiles of villages supported the decision which villages to enter during the pilot test; - It serves as a step for smooth transition to working in new rural market, helps to establish staff expectations about the market and clients; - Some knowledge was incorporated into the training on rural areas for MDF-Kamurj staff;
Qualitative testing of the new product concept	<ul style="list-style-type: none"> - Perception of a product concept (in the background of competitive products); - Expected use of product; 	<ul style="list-style-type: none"> - The product concept was revised: <ul style="list-style-type: none"> o Interest rate was changed from flat to declining; o Introducing additional fees was possible (increased upfront fee and passbook payment); o It was necessary to educate on group solidarity methodology during group forming and promotion; - The decision about starting the product pilot test was taken when the product was positively assessed;

¹³ Source: http://www.aweia.ab.ca/pf.asp?page=res_faq_mres

¹⁴ To get acquainted with the product see annex #5 Product Concept

Activity	Knowledge gained	Business Decisions
<p>Quantitative market survey in the course of new product pilot testing</p>	<ul style="list-style-type: none"> - Actual and possible use of the product; - Quantitative information on attitudes towards the product; - Information about demand in villages not covered by the pilot test; - Identification of reasons for product rejection; - Information about willingness to repurchase gave some idea about possible drop out in the future; - Recognition of most promising market segments; 	<ul style="list-style-type: none"> - Information gained during the pilot test supported the decision on geographical expansion after product launch; - Some business objectives (outreach scale) were identified based on demand estimations;
<p>Client monitoring and evaluation during pilot test</p>		<ul style="list-style-type: none"> - The information supported the decision about product launch; - The decision on how to analyse clients' businesses was made; - Methodology and loan approval process was refined; - Information on benefits and local conflicts was used during the design of promotional strategy;
<p>Product pilot test</p>	<ul style="list-style-type: none"> - Identification of product strengths and weaknesses in the perception of clients and the staff; - Comparison of the product with that of the competition; - Recognition of main benefits drawn by clients from the product; - Information on repayment culture; - New methodology tested; - Profiles of clients attracted by MDF-Kamurj; - Information on local conflicts among village leaders; - Assessment of product procedures (business evaluation and verification, loan disbursement and repayment); - Comparison of practices used in different branches; - Recognition of resources needed to conduct rural lending effectively; - Discerning of knowledge gaps and areas requiring training; 	<ul style="list-style-type: none"> - It also supported the decision on what changes should be introduced to the product and procedures: <ul style="list-style-type: none"> o Passbook payment eliminated for repeated clients; o Waiting period for the next loan was shortened; o Repayment meetings were introduced as compulsory for all the members; o The level of credit manager's and rural loans coordinator's involvement in loan approval process was defined; o Loan size for next cycles was defined; o The preliminary decision about choosing only one monthly date for each village both for disbursements and repayments was eliminated; - The decision about the necessity of establishing a long-term relationship with the client was made; - The product was launched; - The decision about final allocation of resources (people and infrastructure needed) was taken; - Training on rural areas was developed and introduced;

To sum up, market research and the pilot test equipped MDF-Kamurj with knowledge about

- rural environment,

- clients and their behavior (including repayment),
- the evaluation of the product and its perception against the competitive offer,
- demand for the product,
- staff's attitudes,
- efficiency of procedures,
- knowledge gaps among the staff;

According to the people interviewed, the information gathered enabled **timely decisions to be taken, aimed at adjusting the product to clients' needs and making it profitable for the institution.** Without it, MDF-Kamurj probably would have missed clients' needs and would not have reached the current scale.

Information about profiles of clients assisted the decision in how to assess client businesses during the loan application process, which **mitigated the risk** even further. Understanding villagers characters made it possible **to devise the product promotion strategy** and to **build clients' loyalty in the future.** The instruments provided some knowledge on **how to organize the work**, i.e. extensive travelling during the exploratory qualitative research indicated possible challenges with logistical support. Moreover, the institution was able **to identify knowledge gaps** and **to extract information necessary for getting rid of them.**

However, **to analyse success, one needs to look at how knowledge generated and decisions made based on it affected institutional performance.** It results from the definition of a benefit as an aspect that contributes to the institutional development. In the case of MDF-Kamurj benefits may be considered on the following levels:

- Client perception of the institution;
- Staff satisfaction level;
- And organizational growth;

Client perception of the institution

Firstly, thanks to attempts to make the Swallow loan responsive to clients' needs, **the product is widely accepted.** Market research conducted among potential and current clients indicated that the majority of clients are willing to recommend the product (86% of current clients and 79% of potential clients) which is also promising for market promotion.

MDF-Kamurj also learned from market research and pilot test results that clients see product flexibility and accessibility as the main benefits. On-place disbursement and repayment, lack of collateral, fast procedures, flexible repayment schedule, timeliness of the loan, little paperwork, and transparent pricing of the loan were often mentioned here. The wide array of benefits seen by clients makes **it possible for MDF-Kamurj to compete on service quality.** This is convenient as competing on price is not realistic because of the high transaction costs of mobile lending and sustainability matters.

Market research and the pilot test had a positive impact on the **clients' perception of the institution.** While participating in the new product development process, clients had an opportunity to understand institutional objectives, which fostered the promotion of the institution. Since clients noticed that MDF-Kamurj implements changes based on the feedback they provided, the institution has been perceived to be client-led and trustworthy.

To sum up, MDF-Kamurj succeeded in providing a product that is **highly competitive, easy to promote** and evolves **high demand** among potential clients. The table below presents market demand estimations, which were conducted based on research results. Provided that MDF-Kamurj covered 431 villages there would be about 35,756 clients (total qualified market size¹⁵) attracted in a future.

¹⁵ Qualified market size is calculated as potential market size * percentage of willing to buy.

Table# 9:Market size estimation

	# of target villages	potential market size (# of households in target villages)	% of willing to buy the Swallow Loan Product	qualified available market size (conservative projection)	average market size per village
Yerevan	166	37 513	48%	18 006	108
Vanadzor	94	9 921	65%	6 448	69
Gyumri	113	12 003	47%	5 641	50
Idjevan	58	10 482	54%	5 660	98
TOTAL	431	69 918	51%	35 756	83

Before product launch, there was also the promise of a relatively **high retention level among current clients** – 75% of them declared a willingness to retake a loan during the next year.

Staff satisfaction level

Both market research and the pilot test had enormous influence over MDF-Kamurj staff. As the process was mainly conducted internally and was driven by a participatory process, MDF-Kamurj staff gained **knowledge in conducting market research** (both qualitative and quantitative) **and analysis**. According to subjects, they learnt about tools supportive in their everyday work, i.e. rules of interview facilitation may be used when contacting clients. Knowledge gained about rural areas allowed the staff *to talk as experts about issues they had not the slightest idea about before*.

The way the research was conducted (especially exploratory market research) **enhanced team work**. Bringing different perspectives indicated that teamwork may **inspire innovation**. Results obtained promoted **“thinking out of the box”** and **in-depth analysis** (*without this research the product could have been low quality because it would have only covered the surface of the problem*). This was another element contributing to the building of a learning culture and stimulating innovation.

Market research also built **staff’s self-confidence** towards innovation by showing them that *the rural loans are doable*. Staff started believing in the rural product as it was the result of their work spent on market research and pilot testing (they perceived the development process as *bearing and rearing a child*). The staff was more eager to work on the launch of the product. According to them *working in rural areas has become easier as the market needs, its preferences, and behaviours are better known*.

To sum up, market research and pilot testing played an enormous role in **facilitating change management through fostering client-led corporate culture** (i.e. learning attitudes and stimulating innovation). According to the survey that was conducted when the project had finished, being more responsive to clients’ needs was indicated by 68% of staff as a main institutional objective. It is a significant increase compared to the beginning of the project (42%).

Moreover, the new product development process benefited by breeding **higher confidence in the staff and easing their work**.

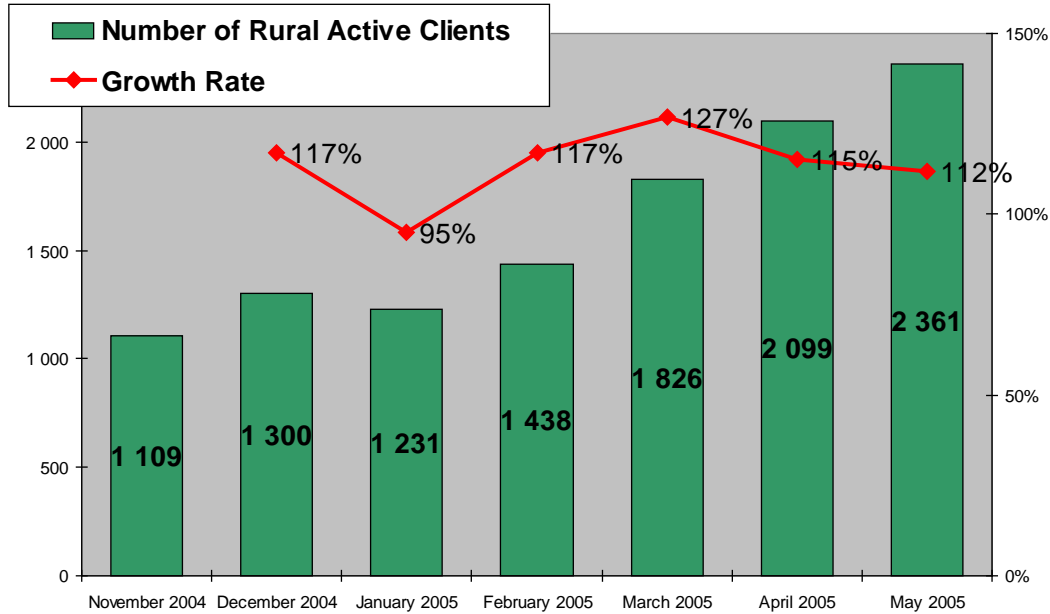
Organizational growth

The product tailored to clients’ needs allowed MDF-Kamurj to make a successful **geographical expansion**. While at the end of the pilot test (October 2004) the institution was present in 33 villages, by mid July 2005 86 villages have been reached. Evidently, it influenced **the number of clients**. While in November 2004 – just after the product launch, MDF-Kamurj served 1,109 clients, in May 2005 this number had grown by 213% to 2,361 active clients. The last number is impressive, considering that according to the business

objective, MDF-Kamurj was to serve 2,500 clients within 12 months. By now, the increase in the number of rural clients¹⁶ is observed month by month (except for January 2005) and oscillates round 17%.

The share of rural clients compared to urban ones has also been changing. While in November 2004 **the share of rural clients in total loan portfolio** stood at 18%, in May 2005 it increased to 32%. Thus, MDF-Kamurj's portfolio is getting more diversified and calamities in the urban market would not threaten the existence of the institution or put its future under a question mark.

Figure# 3: Number of rural active clients in MDF-Kamurj



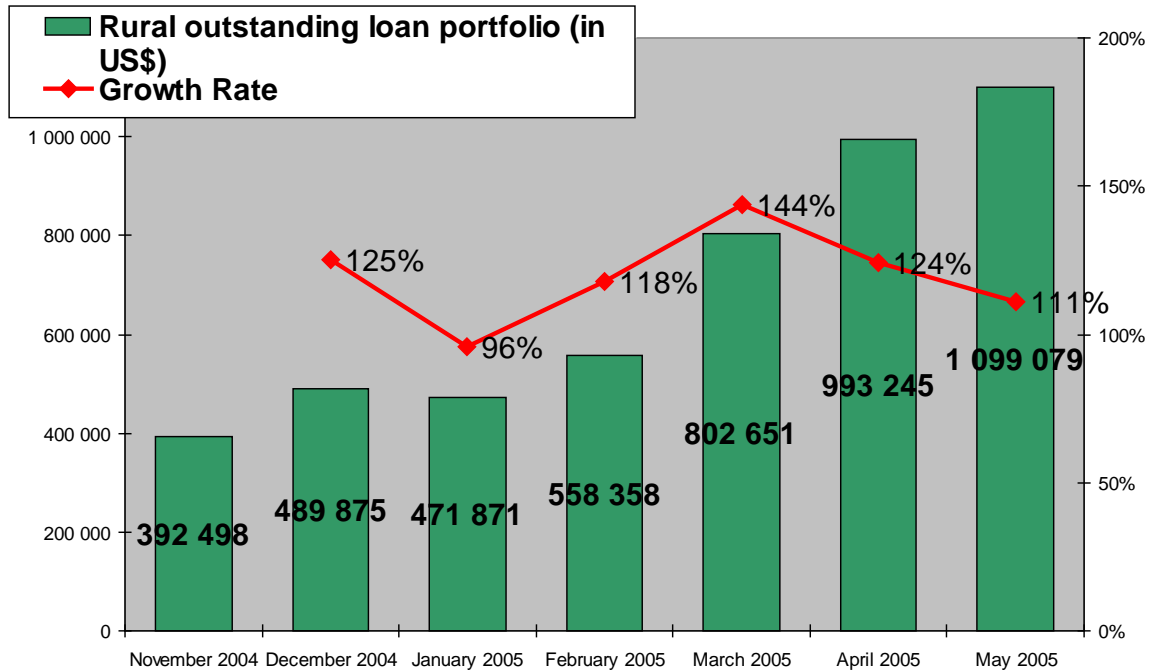
Currently, it is too early to assess **the retention rate**. Though, it is known that about 55%¹⁷ of clients returned after the pilot test. This number differs depending on each branch, and in one of them (Yerevan) equals 65%.

The increase in the number of clients is positively correlated to the increase in the **portfolio size**. Compared to November 2004, the outstanding loan portfolio has nearly tripled and currently stands at 43% of the total portfolio (23% in November 2004).

¹⁶ The dynamic in the change of clients (the growth rate) is calculated as follows: the number of clients in a given period / the number of clients in a preceding period * 100%. Results below 100 show a decrease in number, result of 100 shows no changes, while results above 100 show an increase.

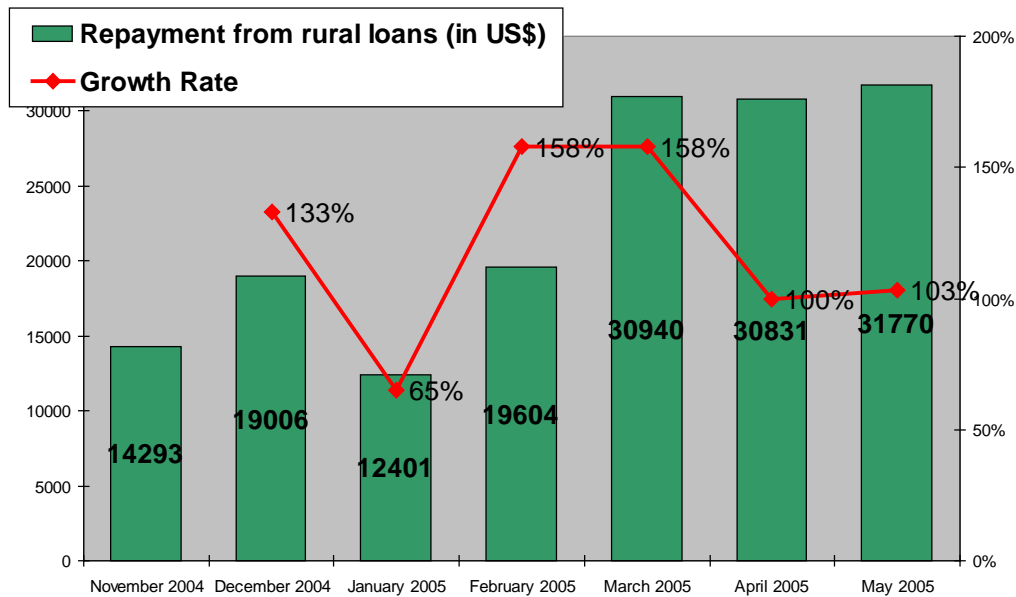
¹⁷ The retention rate is calculated with the use of Rozenberg's formula. The retention rate= the number of follow-up loans made during a period / the number of loans paid off during a period.

Figure# 4: Rural outstanding loan portfolio in MDF-Kamurj



The total repayment from rural loans (the principal and the interest rate) generates a significant income for MDF-Kamurj (presented in the figure below).

Figure# 5: Repayment from rural loans in MDF-Kamurj



Portfolio at Risk for the rural product which stood at / made up 0.41% in May 2005 is another benefit resulting from client-oriented approach used when designing the product.

Last, but not least, market research and the pilot test opened new development options. According to research results, difficulties related to market access are one of the main obstacles hampering development of Armenian rural microenterprises. That is why, in order to strengthen its mission to include rural clients, as

well as to create better opportunities for market growth in the future, MDF-Kamurj decided to implement **Business Development Services**. These services will aim at enhancing supply chains in the near future.

- **Conclusion**

MDF-Kamurj succeeded in product and market diversification thanks to conducting market research and pilot testing. The rural product launched as a result of the process, seems to offer opportunities for growth. Firstly, MDF-Kamurj may still attract a large number of new clients. According to market size estimations there are 35,756 clients in the regions that are now covered. The product that was designed to meet clients' also conceals high potential for client loyalty. This can be observed while analysing the percentage of clients willing to recommend the product (about 80%) and the number of returnees after the pilot test (more than half of the clients taking loans during the pilot test phase were re-attracted).

Market research and pilot test results inspired the implementation of Business Development Services that may open new perspectives for growth and may significantly contribute to mission fulfillment.

The process generated also many benefits that are not measurable, i.e. strengthening the corporate culture or building confidence among staff.

The process cost US\$42,808 (not including costs of technical assistance). Looking at this figure initially this cost seems to be enormous. When the scale of income is taken into account, MDF-Kamurj needs to serve more than 3,000 clients to balance this cost¹⁸. Considering the scale of growth in the number of clients it may take less than two years. However, one must not forget that the costs were partially covered from a grant. Otherwise, MDF-Kamurj would limit the scale of activities undertaken in terms of the number of respondents and locations covered to cut costs¹⁹.

¹⁸ In May 2005 income from rural loan repayment stood for US\$13.45 (income from repayment divided by a number of clients). With more than 3,000 clients, income from repayment will equal to costs of market research and pilot testing.

¹⁹ Refer to Annex#6 for details

The table below sums up costs and benefits acquired during the process of new product development.

Table# 10: Costs and benefits of conducting market research and pilot testing

	Costs	Benefits
Measurable	US\$ 42,808 (this amount does not cover costs of technical assistance)	<ul style="list-style-type: none"> - A large qualified market size for the product; - Promise for the retention level; - A scale reached in the number of clients and outstanding loan portfolio; - Income generated from loans; - Diversified institutional portfolio;
Not measurable	Staff extra workload	<ul style="list-style-type: none"> - Opening new perspectives for growth and further mission fulfilment (Business Development Services); - Building knowledge that stays in the institution (including developing training based on research results); - Obtaining information that was useful in designing and revising the product, business planning and planning everyday work; - Launching a product that is widely accepted among rural clients and may be easily positioned based on customer service; - Building a strong corporate image among rural clients; - Strengthening corporate culture; - Enhancing staff's empowerment;

A question may be raised here whether the institution could have achieved these benefits without market research and pilot testing. According to MDF-Kamurj representatives economizing on market research and pilot testing is only a virtual saving, as it may increase costs related to launching a product not serving clients' needs and not profitable for the institution:

- *You can “test” several products until you find the right one – but it will be too expensive, time-consuming and frustrating for the staff*
- *You will have a product that is competitive based on price only. Without proper research there is a temptation to provide cheaper loans than those of the competitor or at the same price. Market research can really inform management so that the right decision is taken about the market price, linked to clients' preference,*

Annex #1 Bibliography of available background material

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- 11) Strategic Marketing for Microfinance Institutions, www.MicroSave.net

Annex #2 Market Research - Analysis framework

Step in the Process	Process	Costs	Lessons Learnt and Benefits
Defining Research Objective	Business opportunities and general research objectives were identified during a brainstorming meeting initiating the new product development process. More detailed research objectives and research plans concerning specific research activities were defined and prioritized at further stages.	n/a	This initial meeting considered long-term institutional benefits in planning the product development process. Further meetings enabled adjusting research objectives and plans to institutional capacities and knowledge. The other benefits: <ul style="list-style-type: none"> ▪ Representatives of different departments brought different perspectives to the process; ▪ Team work increased buy-in to the process;
Assembling the Team	Market Research Team consisted of 2 branch managers, 2 senior loan officers and an operations manager (who was a team leader). The screening criteria were as follows:	n/a	Lessons learnt and benefits: <ul style="list-style-type: none"> ▪ task forces should be composed of staff from different organizational levels and departments to have a wide variety of

	<ul style="list-style-type: none"> - Extensive knowledge in lending methodologies connected with practical experience; - Being open to changes; - Abilities to establish relationships and other personal characteristics needed to effectively participate in research (particularly in case of the research team); - ability to travel; - ability to step back and forget the job experience of loan officers, while facilitating focus group discussions; - ability to think out of the box; 		<p>perspectives and competencies;</p> <ul style="list-style-type: none"> ▪ Involving various stakeholders helps to keep momentum and builds staff ownership of the new tools; ▪ It also facilitates change management in the later stages; ▪ If some people participate in several task forces it enhances communication across the groups. However, the right balance needs to be kept between participation and distraction from daily duties; ▪ Each task force needs to have a champion who coordinates group activities, prepares necessary materials and keeps momentum;
<p>Feasibility study</p>	<p>The objective is to discern products which satisfy potential clients' needs and identify demand for them. Group discussions with villagers, interviews with village heads and other authorities were conducted during several visits of the task force team to villages. The meetings were arranged in advance by local consultants (who are familiar with the local context) which saved time and reduced costs. MDF-Kamurj also used the secondary sources (statistical data and population density).</p>	<p>USD 1,200</p>	<p>The results allowed further decisions to be taken on entering the new area.</p> <p>Lessons learnt:</p> <ul style="list-style-type: none"> - This study allows for a timely gathering of a lot of information (the context, competition, etc.); - Due to this study villagers may understand institutional objectives; - It is also useful for follow – up research. You may learn how to select locations, conduct sampling; - The information gained is sometimes not enough and has to be completed with other sources;

<p>Designing/Planning the Qualitative exploratory research Qualitative exploratory research</p>	<p>The objective was to identify clients' needs in order to develop a new product responsive to clients' needs and profitable for the institution. The other objective was to segment the clients to identify the most promising target. The first step was to conduct training on qualitative research and group moderation (based on <i>MicroSave</i> materials). Having built staff skills it was possible to brainstorm research objectives, prioritize them and adjust the technique of data gathering. The main techniques used were focus group discussions (driven by discussion guides and PRA <i>MicroSave</i> tools) that covered 18 villages in three districts. The groups were moderated by 4 facilitators. The results were completed with individual in-depth interviews. Extensive travelling was the main difficulty during this stage. It resulted in limited possibilities in having daily discussions on results.</p>	<p>U\$2,560 (does not include TA costs U\$11,500)</p>	<p>This part generated most of the benefits. Firstly, due to conducting research internally, a huge buy-in among MDF-Kamurj staff was built. It further led to increasing work efficiency as the staff was more motivated. The internal participatory process was also the key to getting useful results. The main success factors were: good planning, setting objectives that were commonly understood and accepted by the staff, composing a multi-level and inter-departmental team, and incorporating local staff knowledge into the research design. It resulted in better understanding of the uniqueness of the rural context, and the complexity of methodological approach needed among MDF-Kamurj staff. Research results were also further used in developing training. The research process brought many more side benefits such as: naturally selecting good candidates for rural product staff, stimulating innovation by getting the staff "out of the box", building relationships with potential clients and fostering client-focused culture at MDF-Kamurj.</p>
<p>Concept Development</p>	<p>A concept was developed during a one day meeting based on qualitative results, feasibility study and secondary data analysis. The</p>	<p>\$350-400</p>	<p>Lessons learnt are similar to those as in the case of exploratory qualitative research:</p> <ul style="list-style-type: none"> ▪ a process needs to

	meeting was attended by the research team, the product development team and the executive director.		<p>be participatory which builds staff buy-in;</p> <ul style="list-style-type: none"> ▪ if conducted correctly after the research, information is still fresh and may be used practically
Qualitative concept test	<p>The objective was to identify if the product concept was adjusted to clients' needs. Focus group discussions were conducted by MDF-Kamurj employees in a limited number of villages. The so called concept test methodology was used (respondents reacted to a written description of a product and tried to identify their possible behaviour based on that).</p>	U\$310	<p>If research is conducted in villages previously covered by exploratory research it may enhance the institutional image (the institution is responsive to clients' needs). This research also provides information on what product changes may be introduced.</p> <p>It is cheap: <i>You try your product without selling it</i></p>
Quantitative market survey	<p>The objective was to estimate the size of the market in order to allocate resources (through branches). The other objective was to assess the product in order to introduce final product changes before the product launch. Interviews were conducted in the mid-term of the pilot test. Respondents were current and potential clients (living both in pilot test villages and potential ones). Both external interviewers and MDF-Kamurj employees interviewed clients.</p>	U\$800 (and TA costs U\$11,500)	<p>Results informed the decision about further geographical expansion. Though, it was not possible to assess repayment rate of the product, as the research was conducted too early (some clients did not start their repayment).</p>
Client monitoring and evaluation during the pilot test	<p>During the pilot test MDF-Kamurj constantly monitored clients' perception of the product through discussions with clients and their families, interviewing village heads and other key informants. Moreover, group discussions with the staff involved in rural lending were organized twice during the pilot test (at the</p>	U\$300	<p>A variety of tools used gave insights into the product perception. The results combined with quantitative research findings gave the opportunity to introduce changes to the product.</p>

	beginning and at the end of pilot test). The staff also had the opportunity to gain more insights into the product during informal information sharing and staff meetings.		
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Benefits in terms of:	Notes
Product quality and viability	<ul style="list-style-type: none"> ▪ The product is perceived as attractive for clients ▪ It communicates clear benefits - the loan is positioned as easily accessible. ▪ Accessibility (according to research results) was also recognized as the main competitive advantage of MDF-Kamurj, which made the marketing communication process more effective. Understanding the rural specifics resulted in reducing delivery risks and the shortening of timely transaction ▪ There is a lot of interest in the product among potential clients ▪ The profit margin is around 20% depending on the branch
Building new internal research and analytical capacities	As research was mainly conducted internally and was driven by a participatory process MDF-Kamurj staff gained knowledge in conducting research (both qualitative and quantitative) and data analysis. This knowledge is now further used (MDF-Kamurj is developing new products).
Building knowledge that will remain in the institution	Research (especially the exploratory one) equipped MDF-Kamurj with the in-depth knowledge that was useful in all stages of product development and after roll-out. This knowledge was also helpful in building MDF-Kamurj's image among clients – respect was gained as staff now knows a lot about rural areas. In MDF-Kamurj's case knowledge gained through research was further used in trainings for the staff involved in rural lending.
Motivating staff	Thanks to market research, staff had a better attitude towards the rural product as it is the result of their work (they perceive the product as <i>their child</i> and are more eager to work on its launch and further refinement). Research also benefited in strengthening team work as task forces created proved to be efficient. At the same time research meant additional commitments, which sometimes were not in line with daily work. It again proves the importance of research planning and constant adjusting of the plan to capacities.
Building staff self-confidence	Market research also built staff self-confidence by showing to staff that the rural loans are doable. The success gained through product development enabled confidence to be retained at a high level.
Increasing staff satisfaction, enhancing team work	It contributed to increasing staff satisfaction from working in rural areas. It has become easier because the market needs, preferences, behaviors are better known. Staff also feel that the institution they represent is positively perceived by clients.
Other	<ul style="list-style-type: none"> ▪ Assisting in setting business goals as the potential market size is estimated; ▪ Helping to build the image on the market as staff are more open to clients, talks and listens to them; ▪ Making the product development process more effective; ▪ Inspiring development of client screening and evaluation tools; ▪ The results of the research itself showed the opportunities for product development in the future (Business Development Services);

Annex #3 Pilot Test - Analysis framework

Step in the Process	Process	Costs	Lessons Learnt and Benefits
Developing and using pilot test protocol	<p>Main points were planned at the very beginning, but the format was not used. The outputs were documented in the form of minutes (instead of a pilot test protocol). The information was provided to all branches.</p> <p>Different participants were involved in the planning, depending on the level of decisions. One person was assigned to coordinate all the activities connected with rural expansion (rural coordinator).</p>	<p>Total costs of the pilot test activities equal to US\$42,288.</p>	<p>You will need to define people involved, areas covered by the pilot (and include reserve ones as well). Training materials also need to be developed and all the procedures/methodology documented. Also it is important to set the dates for mid-term, final and other discussion meetings and who needs to be present during these. Consequently, people feel the importance of gathering the information and sharing it with other people.</p> <p>The first period is <i>the test period in the pilot test</i>, after that you really start to test solutions implemented.</p> <p>In the planning process one should not hurry as everyone is optimistic and some expectations may be too high.</p>
Designing the pilot test objectives, setting targets	<p>When adjusting targets you need to consider internal capacities (money, people). At the same time, you need to be prepared to change targets. In the case of MDF-Kamurj, the main driver for changing these was the fact, that they were afraid of negative consequences (image injuring, lack of enough info for the evaluation of the pilot test)</p>		<p>It helps to compare your projections and judgment about the market with what is going on in reality. You should assume some flexibility both because of unknown specifics of the new markets and also because of competitors whose behaviour might be changed after your enter the market.</p>
Preparing all systems, integration with existing systems, use of them	<p>People from different departments participated in preparing the systems (i.e. the Operations Manager worked</p>		<p>All the departments and key people were involved which allowed different perspectives to</p>

Step in the Process	Process	Costs	Lessons Learnt and Benefits
	<p>with the Financial Manager on the loan contract). Though, some systems were prepared (i.e. rural loans were not incorporated into the MIS).</p> <p><i>It was a good idea to go to the field to observe what is going on, to adjust systems to reality.</i></p> <p>Each time a change in the product was introduced; appropriate adjustments were conducted in all the systems.</p>		<p>be sought and to avoid bottlenecks in communication.</p>
<p>Product documentation and promotional materials</p>	<p>The form was simplistic and papers were printed on the computer printer. This worked well as they were adjusted to clients' needs (they were developed based on research results). Consultations with local people to find the best place for the materials were conducted.</p>		<p>They supported the entire communication in villages.</p>
<p>Staff training</p>	<p>Firstly, people learnt from one another the approach, as there was effective experience exchange.</p> <p>There was also training on rural areas and its specifics. MDF-Kamurj also developed training on the rural loan and the methodology for new staff.</p> <p>Though, more knowledge is needed about rural areas – they can read more literature and contact consultants (practitioners).</p>		<p>The training was important as it set the starting point for all at the beginning of the pilot test. People (also those not involved in rural lending) were trained in the methodology, client selection, business assessments, etc.</p> <p>It was very useful to gather people at the mid-term of the pilot test. They shared the experience of different branches/ approaches/ skilled promoters and new promoters/ etc.</p>
<p>Number and composition of staff involved; work division</p>	<p>There were only one or two officer(s) allocated to the pilot test in every branch. Thus the person could focus mostly on the pilot test.</p> <p>Inter-departmental involvement gave a balance to different perspectives.</p>		<p>Starting off with a limited number of loan officers was the right decision, because the pilot test is also a learning process. However, the pilot test was conducted almost in</p>

Step in the Process	Process	Costs	Lessons Learnt and Benefits
	The work division was clear – commitments for different posts were appointed.		all branches, which was also a very good and efficient decision
Staff feedback mechanisms (focus groups, other)	<p>Focus groups with the staff were organized, to see their perception of the product. Moreover, a lot of informal communication processes exist within the institution.</p> <p>Product team meetings were also held to provide feedback on the pilot test. During MFC visits evaluation meetings were also organized.</p> <p>People visited other branches, so they had an opportunity to share information.</p> <p>There is also a learning culture in MDF-Kamurj – people are open to acknowledge mistakes and to learn from them.</p>		<ul style="list-style-type: none"> ▪ maintaining group work; ▪ influencing a culture of learning and opening communication channels; ▪ gathering first-hand information about the process;
On going client monitoring and evaluation (visit, forms and spreadsheet)	Loan officers discussions with whole families of lenders, which allowed an analysis of the results and reducing the lending risks.		<i>See above</i>
Communication during the pilot test; feedback loop – flow of information	<p>Communication both with clients and within the institution went smoothly. There were many opportunities for loan officers to talk to clients (business verification, loan disbursement and repayment visits). On the other hand, communication inside the institution was not formalized, thus a lot of information was missed under the pilot test. Moreover, there were some timing blockages. Different people also did not precisely define the information needed. Consequently, they received plenty of information and some of it has not been used.</p>		<p>They made some on-time adjustments in the product and service– for example, passbook fee was eliminated for repeat clients, waiting period from one cycle to another was shortened, etc.</p> <p>It helped to see how the competitors were doing which is important from the point of view of building advantages. Communication with clients also helped to check how the methodology is kept and whether it was consistent through different branches (the purposes of internal control).</p>
Problem solving and	There was a spirit of mutual		Communication

Step in the Process	Process	Costs	Lessons Learnt and Benefits
decision making	help and information exchange, so problems were solved jointly. A lot of decisions were decentralized.		efficiency was one of the keystones of the pilot test (also in this aspect). If one of the chains was operating poorly or was not supportive, then the whole pilot test may have been under risk. People should be open-minded and be able to solve problems in a fast and efficient manner.
Product costing and modeling financial projections.	Although, the product costing and the modelling of financial projections were conducted, they were not used. The procedures must be improved; MDF-Kamurj should have adapted a system of tracking changes in the product/methodology during the testing phase. They could have started tracking the time-sheet info from the very beginning.		n/a
Evaluation of the pilot test	It was conducted twice: in mid-term when it supported planning for spring season and at the end of the pilot test. It gathered people involved in rural lending representing different positions. The meeting enabled discussions and brainstorming of the main product strengths and weaknesses.		The meetings were an opportunity to look back and helped to objectively assess the pilot test results.

Product's performance after the rollout

Benefits in terms of:	Notes
Is the new product profitable?	<ul style="list-style-type: none"> MDF-Kamurj does not have systems in-place to assess profitability in an ongoing basis
What is the current profit margin?	The profit margin is around 20% depending on the branch. On average, the profit per first-cycle client taking the new product amounts to US\$32 per an average 12-month loan.

Benefits in terms of:	Notes
Estimated market size and market share in the future	Information about the future market size was drawn from a quantitative market survey.
Estimated profit margin	n/a
Client loyalty	According to MDF-Kamurj's experience gathered during the pilot test, medium-income clients are the most prospective ones in terms of their loyalty. Richer people will be not loyal, thus they will be rejected.

Annex #4 Pilot Test Descriptions

Region	Number of Pilot Test Villages	Starting period	Number of loans disbursed
Yerevan	4	???	94
KotaiK	3	???	55
Lori	3	???	217
Shirak	7	???	144
Tavush	5	???	125

Annex #5 Final Product Concept



Annex #6 Market Research and Pilot Test – Economical Version

	If No SEEP PLP CA Project		
	Scale	Time	Cost
Feasibility study	6 comm. in 2 regions	3 days	\$800
Exploratory market research	6 comm. in two regions	5 days	\$2 500
Qualitative testing of the new product concept	-----	-----	-----
Product pilot test	120 loans in 2 regions (\$48,000)	One year	
Quantitative market survey in the middle of new product pilot testing	120 respondents in 12 communities	4 days	\$1 200
Client satisfaction survey	120 respondents in two regions	8 days	\$800
Total:			\$5 300