

**Lessons from *MicroSave's*
Action Research Programme
2001 and 2002**

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As at 31st December 2003 *MicroSave* worked with 9 institutions in four countries; in Kenya – Kenya Post Office Savings Bank (KPOSB), and Equity Building Society (EBS), in Tanzania – Tanzania Postal Bank (TPB) and FINCA Tanzania; in Uganda – Uganda Microfinance Union (UMU), Centenary Rural Development Bank (CERUDEB), and FINCA Uganda; and in South Africa - TEBA Bank and Credit Indemnity.

Market Led Microfinance

Market Led Microfinance: *MicroSave*'s emphasis on developing and promoting high quality microfinance services, which are valued and demanded by clients, focused *MicroSave* on product development. However, from the constraints faced by our Action Research Partners (ARPs), *MicroSave* realized that the *delivery* of demand led financial services, requires an institutional focus on market led microfinance, on improving both efficiency and effectiveness, through strategic marketing, customer service, process mapping and risk analysis in addition to market research and product development.

Being Responsive to Your Clients Concerns Can Significantly Improve Profitability: *MicroSave*'s experience, particularly with Equity Building Society suggests that taking action to address your clients' concerns can significantly increase your volume of business and thereby your profitability. Since re-engineering some of their products and improving customer service, early in 2002 Equity grew substantially and its profits more than doubled in one year.

Use Focused Market Research: Understanding customer requirements, is a critical dimension of the market led agenda. Use focused market research – in product design, in product refinement, in product marketing, in customer service, in uncovering corporate image, in developing competitive intelligence.

Practice Strategic Marketing: In 2001, *MicroSave* developed its "Product Marketing Toolkit", however, whilst performing marketing audits with TMS Financial a South African financial marketing company, *MicroSave* became aware of the strategic dimensions of marketing. Strategic marketing includes product marketing, corporate image and branding, customer service and delivery systems. Based on this awareness *MicroSave* developed a strategic marketing workshop, which will form the basis of a "Strategic Marketing for Microfinance Toolkit"

Develop a Commitment to Customer Service: Customer service represents one of the few tangible aspects of financial services; moreover, it is one that a financial institution can control. Yet, microfinance institutions are only beginning to appreciate the value and importance of customer service, as institutions focused on customer service gain market share. In 2002 *MicroSave* began to explore customer service within its ARPs, carrying out a Customer Service Audit within Tanzania Postal Bank in collaboration with UNISIS a Ugandan human resource consultancy, several additional Customer Service Audits are planned, which should enable *MicroSave* to draft a "Customer Service Toolkit" during 2004.

Build Your Corporate Brand: Every MFI has a corporate image – its image in the market place, which strongly influences actual and potential clients. To influence public perceptions about your MFI you need to consciously develop a corporate brand. Corporate branding is particularly strong in our South African

¹ The authors of this paper are the staff of *MicroSave*. This paper summarises reviews of *MicroSave*'s Action Research Programme in 2001 and 2002, which can be downloaded from www.MicroSave.net

partners, but efforts by Tanzania Postal Bank to strengthen its corporate brand have had a significant impact on the institution's credibility. (Mutesasira 2002)

Perform Marketing Audits: From the experience of *MicroSave's* ARPs most effective financial marketing functions evolve gradually over a number of years. A "Marketing Audit" aimed at improving the effectiveness of marketing, which brings experienced financial marketing consultants to examine your marketing function can have a substantial impact. The challenge is that to date few financial marketing consultancies understand the microfinance marketplace. More information on the Marketing Audit is available in *MicroSave's* "Strategic Marketing Toolkit"

Learn from the Formal Financial Sector: *MicroSave* works with a range of ARPs, from NGO MFIs, parastatal savings institutions, commercial banks, to licensed moneylenders. Many of the lessons currently being learned by microfinance institutions - as they become increasingly market led, have already been learned by the formal financial sector. The context of microfinance may be different as it works with a specific, underserved, and often hard to reach segment of the population, but microfinance remains a segment within the financial sector.

Planning And Control

Plan, Review and Re-plan: The truthfulness of the old adage, "If you fail to plan, you plan to fail" is self evident, but frequently ignored. Failing to have a product development team meeting regularly undermines the value of forming the team. Not providing the product development team with sufficient time or budget to monitor the pilot test means that lessons take longer to learn and longer to internalize. Conversely good planning combined with adequate resources pays dividends, as shown by Equity Building Society in their allocation based costing exercise.

A Project Management Approach Can be Adapted to the Pilot Testing Process: A project management approach that draws upon defined project phases from conception and start up, to definition, to risk management, to planning and executing the project, closure and project evaluation – can be adapted to the pilot testing process, with the major proviso that the pilot testing process needs to be more iterative than is common in a project management approach.

Ensure Control: Feedback loops need to be built into the process of product development. This is done through setting up a product development team that meets regularly, building continuing market research into the pilot test process and being concerned about customer satisfaction.

Organise the Rollout of your Products: Once a financial service has been pilot tested, how you introduce the product to each new location can have a significant impact upon the success or failure of a product. In each new location as a minimum, staff training, marketing the product to clients *and staff* and customisation of systems and procedures will be required. A draft "**Rolling Out Financial Services Toolkit**" has been produced.

Product Development

Design a Winning Product: Do not shortcut the research process. TEBA Bank in South Africa were about to go to the market with a funeral insurance product, this product was designed to free clients from the burdens of financing and arranging a funeral for their family at a time of grief. Surely a winning product! However, participative research demonstrated that planning a funeral was an important family obligation to the deceased and a part of the grieving process. Had TEBA Bank's original funeral insurance product gone to the market it would have failed.

Use Market Research to Identify Quick Wins: *MicroSave's* market research uncovers a significant number of "quick wins", ways to improve existing or new products, which do not take an elaborate pilot test. In the case of FINCA Uganda, this was in improving communication to field staff when policies changed. For Equity Building Society – it was in rephrasing their interest rates and making the furniture at their branches more user-friendly.

Mainstream the Product: In larger institutions, new products can become sidelined, identified as a niche product developed by a particular department. In Kenya Post Office Savings Bank, some senior managers regarded the *Bidii* product an initiative of the business development division, as a niche product for market traders, rather than as a step towards modernizing their core products. New products should be regarded as priorities for the institution if they are to receive the support they require to make it to the market.

Communicate your Product: Good communication of the product is essential to successful product development. In respect of clients and staff, examples of poor communication are all too common, whether in communicating new policies, designing incentive schemes, training staff, or marketing the product. Fortunately, *MicroSave's* market research for microfinance tools have proven useful in identifying communication lapses, and in communicating the product to customers and staff, in clear, concise, client friendly language, through developing benefit statements and Frequently Asked Question (FAQ) guides.

Risk Management

Be Proactive in Risk Analysis and Management: Proactive risk identification, analysis and management are essential aspects of developing market led microfinance institutions, products and services. Frequently challenges that arose during pilot testing within our ARPs, could have been identified, analysed and managed before the pilot test started; problems related to staff capacity, management commitment, financial resources, and the adequacy of information systems. This led *MicroSave* to actively investigate risk within product development, to employ Shorebank Advisory Services to perform a risk management review and to draft a "Toolkit For Institutional and Product Development Risk Analysis for MFIs"

Management And Human Resources

Build a Management Team: Market led microfinance places huge demands on a microfinance institution. The range of skills and the high degree of competency required, demands the creation and building of a competent cross functional management team. Several ARPs had to significantly upgrade their management teams during 2002, in preparation for transformation and / or growth.

Mine Your Data: Typically microfinance institutions gather mountains of data, on client selection and impact, and through client application, exit interviews and in routine monitoring. Few MFIs maximize the use of this data, for example in creating client scorecards for risk assessment, in analysing the behaviour of different market segments, or in product costing and pricing. Institutions that actively mine their data can develop a key strategic advantage over their competition.

Craft your Incentive Scheme: A well-designed incentive scheme can significantly enhance staff performance. However, an incentive scheme can pose significant challenges to the development of new products, especially where the new product affects the dynamics of the incentive scheme. Initially some FINCA Uganda Credit Officers were opposed to the introduction of the new Small Enterprise Partnership product, as transferring clients to the new product affected their bonus payments.

Building Capacity – Start Simple: For *MicroSave* to promote high quality financial services for poor people, it builds capacity within its Action Research Partners to develop and promote their own financial services. *MicroSave* emphasizes simplicity and incremental development. Workshops are used to introduce concepts, followed by practical work with our partners, in the field or in their offices, directly after the course, to develop tangible results. There are often technically more rigorous – but more demanding solutions, such as Activity Based Costing but these cannot always be introduced without first building capacity.

Consider Contracting-Out Services: Where suppliers exist and capacity is required, it is possible to contract out elements of a Pilot Test, whether this is the management of the test, review or evaluation, market research or marketing.

Adopt Continuous Improvement: “continual improvement of the organization’s overall performance should be a permanent objective of the organization” according to Hoyle (2002). Traditionally, “best practice” in microfinance has focused narrowly on the goals of sustainability and outreach, and more recently in improving transparency. However, the broader agenda imposed by market led microfinance, necessitates an institutional commitment to continuous improvement.

Information Technology

Ensure Your Product is Compatible with Your IT System Before Pilot Testing: IT systems should not drive product definition – however, on several occasions our ARPs have pilot tested products that were incompatible with their IT systems, which failed to calculate fees, charges or apply interest correctly. Late identification of problems led to extensive delays, and disappointed customers.

Develop an IT Solution Appropriate for your Pilot Test: Developing IT systems can be very challenging, but is made more so, as the product changes and develops through its initial design, to concept to prototype work and during the pilot test. To control costs, it is essential that the product is well designed before IT development gets underway. Where investment in IT is likely to be very heavy – it may be worth developing a low-tech interim solution for the pilot test as TEBA Bank have done for the Home Improvement Loan.

Product Costing

Operationalise Product Costing: Product Costing will provide valuable intelligence about the costs and revenues of products, but will only add to profitability when it influences strategic decision-making or it targets additional investigation.

Uncover and Understand Loss Making Products: Financial institutions need to understand the cost structure of their products. *Most of MicroSave's Action Research Partners* have at least one loss-making product. Generic reasons for loss making products, included inappropriate pricing, high head office overheads, low volumes of activity, over exposure to interest rate risk, low levels of fee income and over-elaborate back office processes.

Pay Attention to Pricing Your Products: *MicroSave's* Action Research Partners, frequently pay more attention to the costs of their operation, and indeed costing their products, than pricing their products. For Tanzania Postal Bank the problem was an institutional resistance to changing the interest rates on the Domicile Quick Account at a time when the investment income available to the bank was plummeting. In the case of Equity Building Society market research discovered that clients uniformly disliked the way that Equity priced their products, the Building Society was perceived to be expensive because of the way they communicated the interest rate on their loans when in fact they were cheaper than most of the competition.

Perform Process Analysis to Improve Efficiency: “a desired approach is achieved more efficiently when related resources and activities are managed as a process” Hoyle (2002). Mapping processes is an effective way of identifying potential improvements in the operation of a particular product, to record procedures for training manuals, to review potential risks and their associated controls, and to enable a comparison of observed against documented processes.

Work Your Financial Projections: Financial projections are used to ascertain if and when a new product is likely to become profitable. In practice the assumptions underlying financial projections are reviewed infrequently. To maximize the value of your financial projections regularly compare your projections with actual data, perform sensitivity analysis to determine the impact of key variables and check your assumptions.

Develop Strategic Collaborations: Strategic collaborations offer opportunities to gain knowledge, quickly and appropriately, whether this is through employing people who know a particular product area, through sharing knowledge or through more formalized joint venture arrangements. Properly chosen these collaborations can significantly reduce the risk involved in developing new financial services.

MicroSave's Current Package Of Services

MicroSave's focus has expanded beyond product development to cover market led microfinance. To date this has encompassed, market research for microfinance, pilot testing, product roll out, product costing, incentive scheme design, strategic marketing, product marketing, risk analysis, process mapping, customer service and strategic collaborations.

Market Research for MicroFinance: ARP staff are trained in the use of *MicroSave's* participatory research tools. Using the *MicroSave* "Market Research for MicroFinance Toolkit" ARP staff are provided with expert post workshop facilitation as they practice the skills introduced in the workshop in listening to and understanding their clients. The tools are used to develop initial product ideas into concepts and to refine the product concepts into prototypes for testing. This process can be represented as follows:

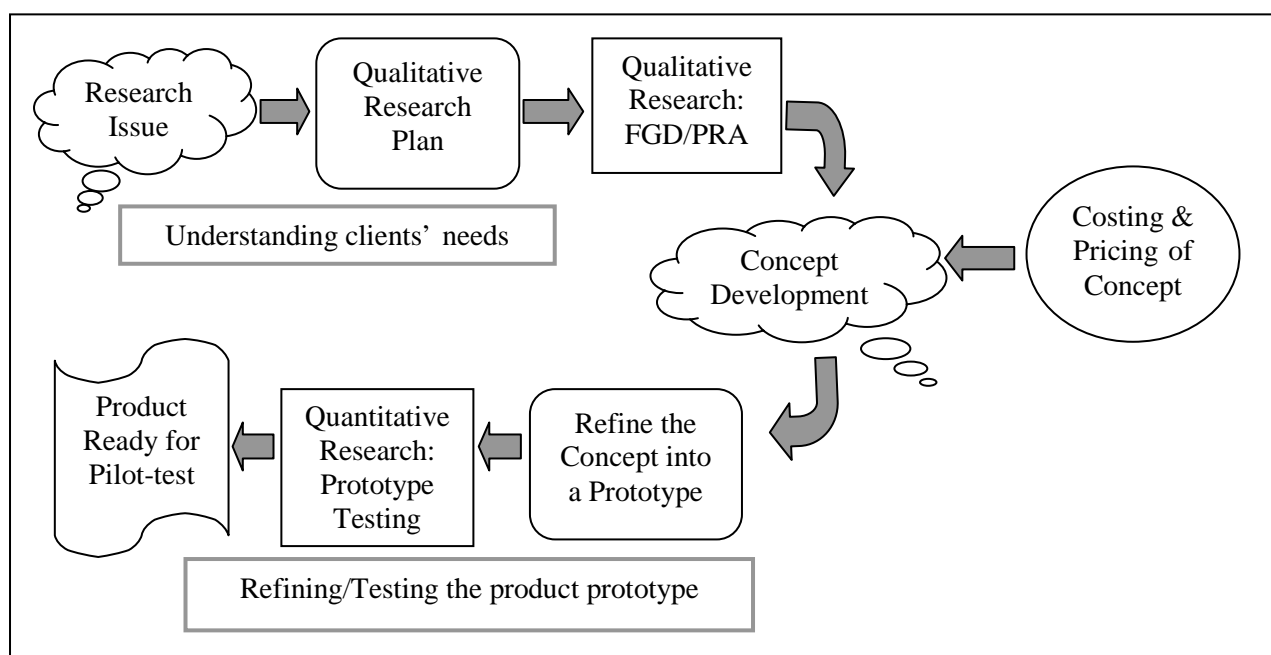


Figure 1: Market Research and Prototype Development

Source: Wright, Graham A.N., "Market Research and Client Responsive Product Development"

Pilot Testing: Our partners are assisted to establish a pilot test to test the product that they have developed. The pilot testing process has ten stages detailed in the *MicroSave's* "*Toolkit for Planning, Implementing and Monitoring Pilot Tests*". Typically assistance is given in planning the pilot test, setting goals and indicators, and in developing financial projections.

Product Roll Out: *MicroSave* performs detailed reviews as its ARPs rollout products. *MicroSave* has summarised its understanding of the factors that contribute to a successful rollout of financial services in a draft "*Rolling Out Financial Services Toolkit*", which will be further refined and tested during 2003, prior to publishing on the *MicroSave* website.

Product Costing: To enable our partners to develop profitable products, and to develop credible financial projections, *MicroSave* assists its partners to implement a product costing system. As in the case of our Market Research for Microfinance course, training is followed by direct assistance to embed the skills learned. On the basis of *MicroSave's* experience with allocation based costing it has developed "*Costing and Pricing Financial Services – a Toolkit for MFIs*" which was updated during the during

the year, to include an expanded section on pricing and a practical worked example of allocation based costing.

Incentive Scheme Design: To enable our ARPs to appropriately design staff incentive schemes, *MicroSave* works with Martin Holtmann who has developed considerable expertise in designing staff incentive schemes. On the basis of this experience, *MicroSave* commissioned the development of a “*Toolkit for Designing Staff Incentive Schemes*”. The toolkit will be further refined and tested during 2003 in collaboration with the MicroFinance Network, prior to publishing on the *MicroSave* website.

Product Marketing: The successful introduction of new products often depends on the ability of the product development team to market the product to customers *and to staff*. Adapting its Market Research for Microfinance tools, *MicroSave* helps its ARPs to develop a Product Marketing Plan, which combines Competition Analysis, Benefit Statements, Tag lines, Unique Selling Propositions, Positioning Statements, and Frequently-Asked-Question Guides with an analysis of both the Macro and Micro Environments facing the institution. Through its work with its ARPs *MicroSave* has completed a “*Product Marketing Strategy Toolkit*.”

Strategic Marketing: As *MicroSave*'s experience with marketing develops, it is increasingly working with its ARPs in collaboration with specialist financial marketing companies to examine strategic elements of marketing. On the basis of a series of Marketing Audits of its ARPs conducted in collaboration with TMS Financial, a South African marketing company *MicroSave* and TMS Financial developed a draft “*Strategic Marketing for Microfinance Toolkit*.”

Risk Analysis: As some pilot tests ran into difficulties *MicroSave* became aware that in retrospect many challenges could have been predicted, and that many of the challenges faced would have been mitigated through carefully considered management responses. This led *MicroSave* to work with Shorebank Advisory Services and its ARPs to create a “*Toolkit for Institutional and Product Development Risk Analysis for MFIs*”. *MicroSave* assists its partners to consider risk at key stages of the pilot test process - during the establishment of the pilot test, during pilot test reviews, and before the product is rolled out. This toolkit is available on the *MicroSave* website.

Process Mapping: Increasingly *MicroSave* is working with its ARPs to develop process maps of key procedures or products. Process mapping involves documenting a process in a simple flow chart format facilitating a detailed understanding of the process of delivering a financial service. Process mapping is an incredibly powerful tool as it can be used to:

- a) Improve the efficiency of product delivery through identifying redundant or lengthy processes
- b) Enable a comparison of observed processes against documented procedures
- c) Design or improve procedure manuals
- d) Develop easy to understand training materials
- e) Highlight areas of potential risk within the product delivery process
- f) Consider the adequacy of internal controls

References

- Cracknell, David et al, “Lessons from *MicroSave*'s Action Research Programme (2002)”
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- Hoyle, David, “ISO 9000 Quality Systems Handbook – 4th edition”, Butterworth Heinmann (2002)
- Wright, Graham A.N., “Market Research and Client Responsive Product Development”, *MicroSave* (2001)

MicroSave papers and toolkits referred to in this paper can be downloaded from www.MicroSave.net