

MicroSave Briefing Note # 20

Lessons from *MicroSave's* Action Research Programme (2002)

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Under its Action Research Programme, *MicroSave* learns and disseminates lessons relating to market-led microfinance. This note documents lessons learned in 2002. Lessons learned in 2001 are documented in *MicroSave* Briefing Note # 10.

The Action Research Partners (ARPs) as of December 2002

Kenya – Kenya Post Office Savings Bank and Equity Building Society

Tanzania – Tanzania Postal Bank and FINCA Tanzania

Uganda – Uganda Microfinance Union, Centenary Rural Development Bank, and FINCA Uganda

South Africa – TEBA Bank and Credit Indemnity

Market-Led Microfinance: *MicroSave's* goal to “promote high quality financial services for poor people” focused *MicroSave* on product development. However, from the constraints faced by our ARPs, *MicroSave* realized that the *delivery* of demand-led financial services, required an institutional focus on market-led microfinance. And 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, and Tanzania Postal Bank, suggests that taking action to address your clients' concerns can significantly increase your volume of business and thereby your profitability. Since re-engineering its products and improving customer service, in 2002, Equity grew by 40% and its profits have doubled.

Practice Strategic Marketing: In 2001, *MicroSave* developed a “**Product Marketing Strategy Toolkit**”. Whilst performing marketing audits with TMS Financial a South African 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. Using 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, controllable aspects of financial services. Yet, MFIs 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.

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, and in developing competitive intelligence.

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

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 market place. More information on Marketing Audits will be available in *MicroSave's* “**Strategic Marketing for Microfinance Toolkit**.”

Organise the Rollout of your Products: Once a financial service has been piloted, how you introduce the product to each new location has a significant impact upon the success or failure of the 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. See “**Product Rollout: A Toolkit for MFIs Expanding a Tested Product Throughout its Market**”.

Be Proactive in Risk Analysis and Management: Proactive risk identification, analysis and management are essential in developing a market-led MFI's, 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 capacity, management commitment, financial resources, and the adequacy of information

systems. This led *MicroSave* to investigate risk within product development, to employ Shorebank to perform a risk management review and to draft a “**Toolkit For Institutional and Product Development Risk Analysis for MFIs**”.

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

Learn from the Formal Financial Sector: *MicroSave* works with a range of partners, from NGO MFIs, Parastatal savings institutions, commercial banks, to licensed moneylenders and insurance companies. Many of the lessons currently being learned by MFIs - 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.

Build a Management Team: Market-led microfinance places huge demands on a microfinance institution. The range of skills and 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.

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, disappointed customers and a declining image.

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.

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.

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.

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.

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.

References

All *MicroSave* references are available on www.MicroSave.net.

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