

Lessons from Pilot Testing Financial Services

The Experience of *MicroSave*

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Acronyms used in this report

ABC	Activity Based Costing
ARP	Action Research Programme
ARPs	Action Research Partners
CI	Credit Indemnity
DQA	Domicile Quick Account – Tanzania Postal Bank’s savings product
FAQ	Frequently Asked Question
FINCA	Foundation for International Community Assistance
GWU	Grow With Us – Teba Bank’s savings product
IT	Information Technology
KPOSB	Kenya Post Office Savings Bank
LOR	Letter Of Recommendation - a review prior to rolling out new products
MIS	Management Information Systems
MFI	Micro-Finance Institution
SEP	Self Employed Partnership – FINCA Uganda’s small group lending product
TPB	Tanzania Postal Bank
TMS	The Marketing Shop, a South African financial marketing company
UMU	Uganda Microfinance Union
UWFT	Uganda Women’s Finance Trust

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Executive Summary

This paper presents key lessons learned from *MicroSave's* work with its Action Research Partners on pilot testing new financial services. Lessons are derived from successes and failures and offer the opportunity for other institutions to benefit from a wealth of product development experience¹.

The pilot testing process as defined by *MicroSave* has ten distinct steps. The following summary presents key lessons learned at each step and presents four frequently asked questions asked during pilot testing.

Step 1: Composing the Pilot Test Team: Success at this stage requires firm leadership. Unless a senior manager leads the team, and he/she has access to human, physical and financial resources, decisions take longer to make and resources are difficult to obtain. Managing time demands on the team is extremely challenging in the words of one ARP Director, "It was the most intensive interdepartmental effort we have ever made". The problem is particularly acute in the case of experienced staff whose skills are in great demand elsewhere in the organisation. Lastly, teams that fail to meet fail to act.

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

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

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

Step 5: Modelling the Financial Projections: Developing financial projections sometimes proves difficult. Reasons for this included insufficient skills in financial modelling and using spreadsheets and the lack of critical information on which to build the projection². Once the projection is constructed it is essential to revise the assumptions underlying the projection in line with actual experience.

Step 6: Documenting the Product Definitions & Procedures: Most Action Research Partners needed to strengthen the documentation of their procedures, this was particularly the case for those institutions moving from manual to computerised systems. Two factors improved the quality of the procedures developed, the formal approval of manuals by the board and the use of flow charts or process maps to document procedures.

¹ *MicroSave* has produced two toolkits to assist Microfinance institutions to pilot test new products. "Planning, Conducting and Monitoring Pilot-tests for Microfinance Institutions - Savings Products", and "Planning, Conducting and Monitoring Pilot-tests for Microfinance Institutions – Loan Products". These toolkits can be downloaded from *MicroSave's* website www.MicroSave.net

² *MicroSave's* "Planning, Conducting and Monitoring Pilot-tests for Microfinance Institutions" toolkits include simple projection spreadsheets that can be used to assist this process.

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

Step 8: Marketing: Product marketing should be perfected during the pilot test. Success factors included the effectiveness of internal marketing, the level of pre-existing marketing competencies within the ARP, adequate marketing plans and budgets, and degree of focus on customer service. During the test the effectiveness of marketing should be closely monitored³.

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

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

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

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

Frequently Asked Questions: The frequently asked questions section, answers four fundamental questions:

1. *What impact has pilot testing had on the Action Research Partners?* *MicroSave* has noted three major impacts: a. ARPs have developed several key core competencies; b. ARPs have become more customer centric or customer focused and c. ARPs corporate image has been enhanced as a result of pilot-testing new products.
2. *Does pilot testing reduce costs?* In all of its ARPs, (and many other MFIs) *MicroSave* has seen that pilot testing significantly reduces the costs of making mistakes.
3. *What challenges do single product microfinance institutions typically face in pilot testing new products?* *MicroSave* has noted several challenges facing single product MFIs – these range from lack of experience in product development, to managing the significant changes needed to accommodate several products on the MIS, to changing to a customer-focused, market-led approach.
4. *Lastly, should we always pilot test new products?* *MicroSave's* experience suggests that there are three situations when the pilot-testing process can be truncated or omitted these are: a. where the new product is a refinement of an existing product; b. where specific technical expertise is purchased to implement the product; and c. where the product itself is low-risk.

³ *MicroSave's* “Product Marketing for MFIs” toolkit provides a useful basis for much of this work.

Introduction

This paper extracts lessons from *MicroSave*'s experience in pilot testing new products with its Action Research Partners using the process outlined in "A Toolkit for Planning, Conducting and Monitoring Pilot Tests", *MicroSave*, (McCord et al, 2003).

MicroSave's goal is to promote the development of high-quality financial services for poor people. It does this through the following four key outputs:

1. "Increased knowledge and understanding of product development related issues amongst key stakeholders, through research, curriculum development and dissemination".
2. "Increased capacity of selected MFIs (ARPs) in East and Southern Africa to deliver secure, high-quality financial services for poor people"
3. "Increased capacity of local service providers and international networks to deliver technical assistance and training on market research".
4. "Effective project management and outputs quality control maintained".

Under the Action Research Programme (Output 2 above), *MicroSave* is learning and disseminating lessons relating to product development and the product development process. Currently *MicroSave* works with 9 institutions in four countries; in Kenya – Kenya Post Office and Savings Bank (KPOSB) and Equity Building Society (Equity); in Tanzania – Tanzania Postal Bank (TPB) and FINCA Tanzania; in Uganda – Uganda Microfinance Union (UMU), Centenary Rural Development Bank (Centenary); and FINCA Uganda; in South Africa – Teba Bank and Credit Indemnity. The progress of *MicroSave*'s ARPs in developing new products as at January 2003 is provided in Table 1.

Table 1: *MicroSave*'s experience in Product Development and Product Refinement

Institution	Product	Status	Brief Description of Product	Accounts	US\$
Teba Bank*	<i>Grow With Us</i> (GWU)	Rolled out	A multifunctional savings account	54,977	7,839,280
Teba Bank	Debit Card	Pre pilot	A multifunctional debit card		
TPB	<i>Domicile Quick Account</i> (DQA)	Rolling out	A basic card based savings account	43,830	6,867,000
KPOSB	<i>Bidii</i>	Rolling out	A basic card based savings account	4,403	729,686
Equity	<i>Jijenge</i>	Rolling out	A contractual savings account	1,857	128,526
Equity	Product Refinement	Rolled out	Primarily ordinary savings, business savings, fixed deposits	162,641	29,307,498
Total	Savings			267,708	44,871,990
FINCA Uganda	<i>Self Employed Partnership</i> (SEP) ⁴	Pilot	An individual lending product, guaranteed by members of a group of entrepreneurs	368	120,829
Centenary	<i>Home Improvement Loan</i> (HIL)	Rolled out	A Home Improvement Loan	660	1,034,315
Equity	<i>SAKO Plus</i>	Pilot	Loans based on savings history	502	201,592
Equity	Product Refinement	Rolled out	Business loans, farm input loans, salary loans and medical and school fee loans.	46,128	17,379,449
Total	Loans			47,658	18,736,185

Figures as at January 2003, except for those marked * which are February 2003

Why Pilot Test

There are many good reasons for pilot testing new products in terms of reducing risks, controlling costs and in carefully developing products in a controlled environment. A few of the most commonly quoted reasons are provided below:

- i. To reduce the risk of developing inappropriate new products;
- ii. To reduce the cost of making mistakes;

⁴ FINCA Uganda decided not to roll out the SEP product moving instead to develop individual loans, which are currently under pilot test. However, the lessons learned by FINCA Uganda during the SEP pilot test are still very relevant to this paper.

- iii. To grow business volumes and profits through better meeting the needs of prospective customers;
- iv. To perfect the product whilst changes can be made quickly and easily and without risk to reputation;
- v. To develop innovative new products – to be a product leader not a follower;
- vi. To develop a competitive advantage;
- vii. To experiment in a new sector; and
- viii. To understand / optimise marketing of the new product.

The rationale for pilot testing is clearer than the strategic dimensions of pilot testing.

The Strategic Dimensions of Product Development and Pilot Testing

Whilst responsibility for new product development sometimes rests in a business development department almost all departments within a financial institution are involved in developing new products. Product development can be categorised into five distinct phases, product design, development, testing, evaluation, and rollout.

Product Design: The research department determines customer needs through analysis of secondary data and through qualitative and quantitative research. Based on customer needs a product concept is developed, which undergoes preliminary costing and pricing. The product concept is presented back to clients to determine whether the concept meets customers' requirements and to ensure that it is described in clear concise and client friendly language. The product design phase is explored in detail in *MicroSave's* "Market Research for MicroFinance Toolkit".

Development: During the development phase the product is prepared for pilot testing. The finance department prepares financial projections, operations write procedure manuals that internal audit review and approve. The marketing department develops a product marketing strategy, designs marketing materials and ensures that the promotion of the product will be consistent with the corporate brand. The IT department develops appropriate systems. Management ensures that the product is reviewed for compliance with any legal requirements and coordinates the activities of different departments.

Testing: Operations run the day-to-day pilot test; the research department determines client attitudes towards the new product; the finance department updates the assumptions in its financial projections; internal audit review the operation of internal controls; marketing department test the appropriateness of their marketing and customer service strategy. IT department rationalise systems and finalise the reporting structure. The pilot test team monitor the ongoing pilot test.

Evaluation: A multidisciplinary internal team sometimes with external facilitation reviews the functioning of the pilot test. It assesses the adequacy of systems, procedures and financial projections. It determines whether key objectives have been achieved and makes recommendations to the board in respect of whether and how to rollout the product.

The development, testing and evaluation phases are explained in "A Toolkit for Planning, Conducting and Monitoring Pilot Tests" (McCord et al, 2003).

Rollout: In the rollout phase the tested product is extended across the entire institution in a controlled and coordinated manner. Research is conducted to refine product delivery, financial projections continue to be revised and costing is performed to ensure the product is moving towards profitability. The rollout phase is detailed in "Product Rollout – A Toolkit for MFIs Expanding a Tested Product Throughout its Market" (McCord 2003).

Successful product development requires:

A detailed understanding of customer needs: Product development starts with a thorough understanding of actual and potential customers and their financial needs and preferences. Build a detailed picture of target customers that should include sources of income, areas of expenditure, the

seasonality of cash flows and lifecycle needs for savings and credit services. Determine how customers currently meet these needs, carefully mapping out the financial options open to them.

A well-defined product that meets customer needs: Define the product carefully, keep the product simple to understand for both customers and staff and demonstrate clearly how the product meets the needs of customers. A clearly defined product is less likely to change during pilot testing, whilst high levels of understanding amongst staff and customers will increase sales of the product.

A focus on customer value: The total banking solution needs to add value to the customer. It is no longer sufficient for the features of the product to be appropriate. The product needs to satisfy most or all of Rutherford's criteria of variability, frequency, convenience, affordability and sustainability (Rutherford 2000). Delivery channels must allow frequent, convenient access. Service should be fast and friendly. The banking environment needs to be informative, clean and portray a consistent corporate brand.

Total commitment from management and staff: The level of commitment to a product from management and staff of an institution can determine the success or failure of a product. Before staff can sell a product, they must be sold on the product. Management and staff must view the product as strategically important to the future of the institution.

A wide range of skill sets: A wide range of skills must be applied in developing, testing and evaluating new products, whether these skills are internal or need to be purchased. This can be particularly challenging to an immature institution or a single product microfinance programme.

Time from often already over-committed staff: For most staff outside the marketing or business development departments, developing new products is an additional responsibility performed in addition to existing duties. Management may need to add additional capacity or reassign duties amongst staff to create time for key staff to work on product development.

Financial resources for research and monitoring: In addition to human resources pilot testing requires financial resources, not just for developing IT systems and promotion of the product, but to enable effective research and monitoring of the pilot test. Typically, research is required at client level to assess the effectiveness of the product and efficiency of its delivery. Branch level monitoring assesses the effectiveness of communications, customer service and marketing.

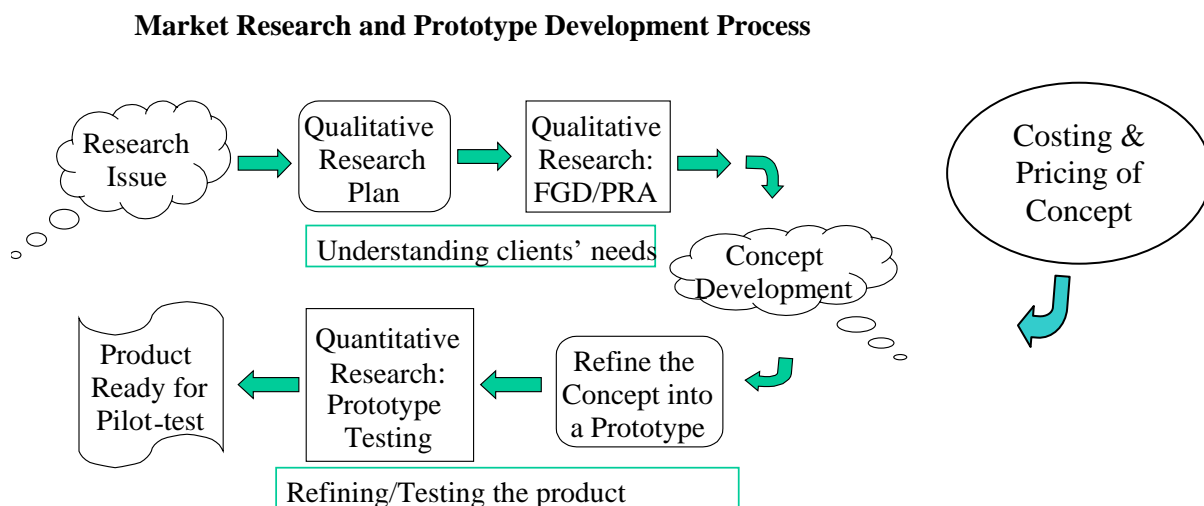
Leadership and coordination: Given the interaction of product development and testing with almost every department within a financial institution, and the interrelationships between the work of these departments high level leadership and coordination is essential. The most effective pilot-tests (and rollouts) amongst *MicroSave's* Action Research Partners were lead by the chief executive of the institution.

Internal marketing and communication: A financial institution must sell the benefits of the new product to its staff. The most significant customer focused benefits should be captured in the development of a benefit statement for the product. However, additional internal benefits are likely to be important motivators for staff - such as faster processing of transactions, computerised procedures and the image of the product.

Product Definition

Preparations for a pilot test can only commence with a well-defined product, whose features have been well researched and accepted within the financial institution. The diagram below illustrates the market research process. In the context of product definition the frequently neglected step is concept to prototype refinement.

Figure 1: Market Research and Prototype Development



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

Table 2 provides illustrations of how original product concepts have been significantly refined through the concept to prototype research phase.

Table 2: Changes to Product Definition following Concept to Prototype Research

Institution	Product	Original Definition	Definition after Concept To Prototype Research
Teba Bank	Funeral Insurance	The original funeral insurance product proposed taking over all of the funeral arrangements for the policyholder or his family.	The concept to prototype research discovered that Teba Bank’s clients wanted to be involved in making funeral arrangements. They did not want a comprehensive “funeral package” as proposed by Teba Bank.
Equity	Premium Savings and Credit	The original definition proposed a savings product with automatic access to loans.	Eventually, after extensive research and internal discussions it was decided that the product should be split into a contractual savings product, and a loan product that considered savings history as a collateral substitute.
FINCA Uganda	Savings Product Development	The original definition suggested four separate savings accounts should be designed.	Concept to prototype research prioritized two savings accounts. A group based savings account and an individual savings account.

A poorly defined product is likely to cause delays throughout preparations for the pilot test. The Grow With Us product of Teba Bank evolved throughout the development phase with the addition of features and functionalities as more departments were exposed to the product. Changing product definitions meant that the MIS system went through a number of upgrades even before the pilot test started. MIS development time and costs increased. It became difficult to keep the financial projections up to date, which were inaccurate even when the product was launched. Procedure manuals were continuously updated to correspond with the desired changes.

Risk Analysis and Management

Frequently, challenges arose during pilot testing within ARPs that should have been identified, analysed and mitigated before the pilot test started. As a result *MicroSave* started to integrate simplified risk analysis and management methodologies into the pilot testing process. Table 3 provides examples of risks experienced by ARPs within the product development process.

Table 3: Examples of Risks Within the Product Development Process

Institution	Risks	Consequence
Equity Building Society	Inexperience of team	With an inexperienced team focus was occasionally lost and preparations took longer than necessary. Having several pilot test sites made monitoring especially difficult. Equity responded to these challenges by employing a senior manager to lead the team.
Tanzania Postal Bank	High levels of bureaucracy.	High levels of bureaucracy slowed the pilot test considerably and were resolved only when the Managing Director undertook to lead the team.
Kenya Post Office and Savings Bank	Internally developed Information Systems	Information systems lacked key functionalities in the early months of the pilot test and required high levels of support. Loss of functionality led to disappointed staff and customers. Eventually the internally developed system was significantly improved, and KPOSB employed more technical staff. The product is currently being migrated to an externally developed MIS, which will increase both reliability and functionality.
	Different levels of understanding of the potential of the product within the bank	Opportunities to significantly increase the uptake of the product were lost due to the widespread perception that the product only served a specific market segment. KPOSB responded by paying staff salaries through the <i>Bidii</i> account dramatically increasing levels of support for the product. Sales of <i>Bidii</i> are increasing.
FINCA Uganda	Loss of key staff and over committed management	A key staff member left during the course of the pilot test. Management were over-committed and were unable to focus on coordinating the pilot test. After experiencing high levels of arrears the pilot test team was eventually strengthened.
Centenary Rural Development Bank	Absence of key marketing function	Limited capacity within the Head Office and the absence of the key marketing function led to lengthy preparation for pilot testing and lower quality marketing outputs.
	Failure to properly cost the HIL.	A failure to properly cost the Home Improvement Loan was partially responsible for under-pricing the product. Under-pricing the product resulted in some cannibalisation of CERUDEB's existing working capital loan.

The techniques used to identify and manage risk are described in detail in *MicroSave's "Toolkit for Institutional and Product Development Risk Analysis for MFIs"* (Pikholz and Champagne 2003). However, the basic technique is very simple. A brainstorming session is held during which participants are asked – “What do you see as the risks facing this product?” Once potential risks are collated they are discussed to ascertain the collective view of the probability of the event occurring and if it does what the impact of the event would be.

Figure 2: Risk Assessment Matrix

		Impact of the event should it occur		
		Low	Medium	High
Probability of an event occurring	Low			
	Medium			
	High			

Risks are numbered and placed into a matrix such as the one given above. Generally risks where the impact of the event is low are ignored. For remaining risks the question is asked, “What can we do, if anything, to minimise the probability of this risk occurring or to reduce its impact?”

A few generalisations can be made:

- a) Risk analysis can be conducted at any time, but it should be conducted early in the development phase, again before the pilot test commences and a third time when the pilot test is evaluated.
- b) The requirement for risk analysis and management extends considerably beyond areas of traditional banking risk, such as capital adequacy, management, liquidity, credit risk and asset liability matching. Risks faced during pilot testing are often “operational risks”.
- c) Risk management is most effective when the risk function is centralised. The most effective risk management function within *MicroSave’s* ARPs is within Teba Bank, which is the only Action Research Partner to have a centralised risk management function.
- d) If ARPs had developed risk identification and management mechanisms during their development and pilot testing phases decisions to mitigate or manage critical risks may have been taken. Instead when risks materialised extensions to the pilot test were often necessary whilst the issue was being resolved.

The Pilot Testing Process

The pilot testing process adopted by *MicroSave* and its ARPs is summarised below. It provides a framework around which pilot tests can be developed, commenced and evaluated:

1. Composing the pilot test team
2. Developing the testing protocol
3. Defining objectives
4. Preparing all systems
5. Modelling the financial projections
6. Documenting the product definitions & procedures
7. Training the relevant staff
8. Developing a marketing plan and marketing materials
9. Commencing the pilot test
10. Evaluating the test

Step 1. Composing the Pilot Test Team

Establishing the pilot test team for the product can be a daunting task especially in a larger, bureaucratic organization. *MicroSave’s* “*Toolkit for Planning, Conducting and Monitoring Pilot Tests*” suggests the pilot test team should be established around key competencies. Each team should have a senior product champion or team leader and include representation from finance, information technology, marketing, training, operations management, branch operations, research and audit.

Once the team has been formed, the first and most critical success factor is leadership. Within *MicroSave’s* Action Research Programme most pilot tests are coordinated either by a senior manager or by the Managing Director, as can be seen in Table 4 below. Early experiences demonstrated that unless a senior manager leads the team, who has access to human, physical and financial resources, decisions take longer to make – and resources for the pilot test are difficult to obtain. Where Managing Directors are involved, it is less in day-to-day management of the pilot test and more in a review capacity.

Table 4: Team Management Within MicroSave ARPs

Institution	Management of the Team
Teba Bank	Employs product managers reporting to the senior management team at weekly meetings, with resources coordinated by a project management office.
Equity Building Society	Employs a senior manager to head the team, as it was realized that the Director of Operations was not able to provide the team with sufficient management and guidance due to other commitments.
Tanzania Postal Bank	The <i>DQA</i> Product Champion reports directly to the Managing Director who acts as Team Leader. Previously the <i>DQA</i> Product Champion reported to the Director of Research – however, this arrangement resulted in delays in authorizing essential activities and expenditures.
Kenya Post Office and Savings Bank	The <i>Bidii</i> Product Champion who was the Business Development Manager reported to the Managing Director. The promotion of the Business Development Manager to the position of Director of Operations – a position with much greater authority appears to have a positive impact on the <i>Bidii</i> account pilot test and subsequent rollout.
FINCA Tanzania	The Managing Director of FINCA Tanzania drives the activities of the product development team human and physical resources are being allocated as necessary to compete preparations for the pilot test.
Uganda Micro-finance Union	The Managing Director is working closely with the Assistant Director Research to coordinate the inputs of the team.
FINCA Uganda	The Operations Manager coordinates inputs from the pilot test team.
Centenary Rural Development Bank	The General Manager – Credit, coordinated the Home Improvement Loan pilot test, however, there was no effective multidisciplinary pilot test team as recommended in the pilot testing toolkit.

MicroSave has observed that in the majority of pilot tests there is effectively a team within a team. Product development places great demands, on research, operations and marketing and lesser demands on internal audit and finance. Demands on information technology staff vary from pilot test to pilot test depending on the degree of flexibility built into the existing information system.

Product development team members usually have an existing full time position within the institution. Managing the competing demands placed by department heads along with the demands of the product development team has proven particularly challenging to *all* ARPs.

FINCA Uganda's Operations Manager, was managing such a diverse range of activities that, when the previous product champion left for another assignment the Operations Manager found it difficult to devote the time necessary to properly oversee the pilot test.

In Centenary Rural Development Bank the challenge was so acute, that the product development team hardly existed as a team at all. Instead the General Manager – Credit attempted to manage the coordination of essential inputs into the pilot test.

ARPs have responded to the challenge of managing competing demands for time in different ways. Tanzania Postal Bank designated a member of staff as Product Champion and relieved her of many of her other duties. Teba Bank formed a project office to coordinate staff resources into numerous different projects. The project office staffed by professional project managers coordinates competing demands directly with departmental heads. Uganda Microfinance Union made very effective use of a series of international interns to contribute to the development of new products, effectively managing time demands on its senior management team.

A third success factor is to hold regular meetings - teams that don't meet don't act. After the departure of FINCA Uganda's Self Employed Partnership (SEP) Product Champion, the product development team met infrequently when there were specific issues to resolve. This approach failed to respond to problems as they arose, and contributed to rising levels of loan arrears.

Step 2. Developing the Testing Protocol

The pilot testing toolkit refers to Step 2 of the pilot testing process as developing the pilot test protocol. This is simply listing out the tasks to be performed, by whom, in what time frame and with what resources. The formats presented in the toolkit are generic and have been adapted for each pilot test.

Planning the Pilot Test: The adage “If you fail to plan you plan to fail”, is particularly appropriate in the case of pilot tests. The length of the pilot test is critically affected by the quality and coordination of preparations during the development phase. The eventual product and its delivery system require mutually dependent inputs from research, marketing, finance, operations, internal audit, information technology and management. A delay in any one input may delay the start or the conclusion of the pilot test.

Table 5 indicates some of the causes of delays within the ARPs pilot tests. In many cases these delays were a function of the failure to properly identify risks and inexperience in developing new products and services. As the table shows, problems are eventually resolved, normally after committing additional resources.

Table 5: Causes of Delays Within the Pilot Tests of MicroSave ARPs

	Delays	Resolution	Impact
KPOSB <i>Bidii</i>	Failure of IT systems and insufficient levels of IT support	Development of new IT system, increasing the level of IT support	Halted rollout of the product at four branches, and resulted in very low sales of the product. Corrective action has improved sales. <i>Bidii</i> is rolling out to new branches.
	Low staff awareness of product	Paying staff salaries through <i>Bidii</i>	
	The prevailing attitude was that card-based <i>Bidii</i> was a special purpose product for market traders rather than an efficient savings account for all KPOSB customers. There was a negative attitude towards cannibalization of the less efficient, passbook-based Ordinary Savings Scheme	Gradually changing as benefits of product in terms of lower operating costs are realized, and staff awareness of the benefits of the product increases	
Equity <i>Jijenge</i> and <i>SAKO Plus</i>	Unrealistic expectations – the initial six week pilot test was unlikely to adequately prepare Equity to roll out the products	Lengthening duration of pilot test	Extended pilot test and increased the costs of the pilot test.
	Relative complexity of product led to confusions during the definition phase	Split of single product into two products	
	Relatively inexperienced team	Training and exposure of team	
	Maintaining financial projections	Resolved with technical assistance	
	Limited mentoring of team	Employment of a senior manager	
TPB <i>DQA</i>	Resource constraints affected the quality of marketing.	Some additional resources were allocated especially in marketing	Lengthened pilot testing and rollout process.
	Initial leadership given to the <i>DQA</i> product was insufficient	MD taking on team leader function with considerable delegation	
	Developing clear procedures and marketing materials	Development of procedure manuals	
FINCA Uganda <i>SEP</i>	Departure of key staff	Eventually hiring new staff	Extension of pilot test whilst procedures were tightened and arrears brought under control.
	Over committed senior staff	Delegation of some of the senior managers other functions.	
	Limited review, failure to meet regularly	Delegation of some of the senior managers other functions.	
Teba Bank <i>GWU</i>	Redefinition of Grow With Us (GWU) product	As the Grow With Us product was being developed the product features gradually extended as more people within Teba Bank became involved.	Slowed product development and increased systems development cost

Step 3. Defining Objectives

MicroSave's Action Research Partners have found defining pilot test objectives difficult. The most common objectives set related to growth and profitability. Less common institutional objectives include institutional efficiency and the effectiveness of the marketing. Customer focused objectives relate to customer satisfaction and the efficiency of the overall banking process.

- i) *Growth*: Growth is easily measured in terms of number of new accounts or loans and the value of deposits or loan portfolio. The difficulty has been to establish realistic growth targets.
- ii) *Profitability*: Profitability is difficult to measure in the early life cycle of a product. Few institutions have an Activity Based Costing system, which can be used to estimate the cost of key processes. Instead financial projections are created built on assumptions, which the pilot test then proves or disproves. Longer-term profitability can be ascertained only through carrying out a series of product costing exercises over time.
- iii) *Institutional efficiency*: The most common institutional efficiency measures amongst *MicroSave* ARPs are expressed in terms of time taken for particular transactions, and in the case of deposit products the total number of transactions per teller per day.
- iv) *Customer efficiency*: Customer efficiency, measures efficiency from a customer perspective, it requires much more careful thought than institutional efficiency. Customers are more interested in *total service time*, for example the time a customer spends in the branch, rather than the time taken for an individual transaction. A similar measure for loan products would be the total time and effort taken to obtain a loan.

Customer efficiency should measure “value for the customers’ time”, for example the degree of effort that a customer undertakes to open an account or obtain a loan. Focusing on customer efficiency led Equity Building Society to purchase digital cameras, so that customers did not have to obtain photographs before opening accounts. UMU established customer service desks to facilitate customer enquiries and to open accounts. Teba Bank introduced additional tellers to meet peak time workloads.

- v) *Customer satisfaction*: Before working with *MicroSave* few ARPs measured customer satisfaction, except through proxy indicators such as dropout, default or dormancy rates. The assumption appeared to be “If customers are banking with us, they must be satisfied”. However, whilst high dropout, default and dormancy rates indicate customer dissatisfaction, they are not good measures of customer satisfaction. Institutions need to develop indicators, which measure trends in customer satisfaction *before customers decide to leave*. Common approaches for measuring customer satisfaction include focus group discussions, mystery shopping and service quality questionnaires.
- vi) *Marketing effectiveness*: The effectiveness of marketing is difficult to measure; the most common approach used by *MicroSave* ARPs is account-opening questionnaires, which ask customers where they heard about the product or the bank. Another approach is to plot sales growth against time and to mark on the graph the timing of key marketing initiatives such as roadshows or radio publicity.

In the longer term, the effectiveness of marketing should result in an improved corporate image, and should generate positive public relations. *MicroSave* research with Tanzania Postal Bank, clearly demonstrates that new products can positively influence customer and public perceptions of a financial institution. (Mutesasira, 2002)

- vii) *Cannibalisation*: Several ARPs have experienced cannibalisation whereby the new product negatively affected an existing product. However, cannibalisation can be positive, for TPB the introduction of *DQA* dramatically decreased the number of new Postal Accounts being opened. TPB actively promotes cannibalisation of the Postal Account because *DQA* has a much lower operating cost. TPB identifies existing postal account holders who can benefit from *DQA* and encourages them to transfer to the new product. For CERUDEB there are early indications that the Home

Improvement Loan is cannibalising the working capital loan. As the Home Improvement Loan is priced lower than the working capital loan CERUDEB is likely to lose money.

The important point is that cannibalisation may need to be expressed as a specific objective for the pilot, either that cannibalisation occurs and (by extension) is encouraged, or that it does not.

Table 6 summarises potential objectives, provides possible indicators and suggests measurement options. (see Table 10 for further elaboration)

Table 6: Potential Pilot Test Objectives

Objective	Indicators	Measurement
Growth	Number of accounts	MIS
	Value of accounts	MIS
Profitability	Achievement of financial projections	Financial projections, accounting system, MIS
Institutional efficiency	Number of transactions in a given time	MIS, observation
	Number of accounts per loan officer	MIS
	Value of accounts per loan officer	MIS
	Loan processing speed	MIS
Customer efficiency (Value for time)	Customer service time	MIS, observation
	Ease of account opening process	Process mapping, Focus Group Discussions with customers and staff
	Speed of decision on loan	MIS, Focus Group Discussions with customers and staff, questionnaires
	Time in branch	Observation
Customer satisfaction	Time at counter	Observation
	Proxy – low drop out rates	MIS
	Proxy – low default rates	
	Proxy – low dormancy rates	
	Proxy – exit interviews	
	Word of Mouth marketing	Account opening questionnaires and Focus Group Discussions
SERVQUAL Score	Service Quality Questionnaire	
Marketing effectiveness	Positive feedback	Mystery shopping
	Positive opinions	Focus group discussions
	Increased sales after promotional campaigns	Account opening questionnaires, close monitoring of sales against marketing activities.
	Improved corporate image	Focus Group Discussions
	Positive public relations	Press articles

Step 4. Preparing All Systems

Underlying the development of flexible financial services are systems that can be adapted as knowledge or circumstances change. This implies, firstly, that the IT solution must allow key parameters to change and new variables to be added at a later stage. Wherever possible, IT support should be available locally. To ensure that the IT solution can support the proposed product, the product development team must set up the master record for the new product very early in the pilot test. Lastly the team must confirm that reporting modules meet user requirements. Taking each factor in turn:

- i) *Ensuring flexible IT solutions*: The IT solution should enable changes to the pricing structure, such as allowing:
 - Fees on transactions - deposits, withdrawals
 - Fixed charges - monthly or annual ledger fees
 - Tiered interest rates on savings
 - Different interest rate calculations on loans (flat or declining)
 - Flexible repayment schedules

- ii) *Availability of IT support*: The availability of local IT support is a critical factor in developing a flexible IT solution that is responsive to the changing requirements of the institution and its customers. However, no fewer than five *MicroSave* ARPs have sourced their IT solutions internationally. FINCA Uganda and FINCA Tanzania use the SIEM system sourced from Guatemala, KPOSB uses SYMBOLS, a system with Filipino support, Centenary Rural Development Bank and Tanzania Postal Bank use Equinox the product of a UK – Nigerian partnership.

In four of the five cases, using long distance support proved costly – in terms of time lost due to unavailability of consultants and financially as consultants travel internationally and are paid international consulting rates. For FINCA Uganda and FINCA Tanzania there are added complications, as the SIEM software is written in Spanish, and changes to the system require local, regional and international approvals.

Given that internationally supported systems have proven expensive should IT systems be developed internally? - Probably not. Microfinance is developing into a multi-product industry focused on the needs of customers. An in-house system risks being designed around existing products or methodologies. This makes it difficult to adapt the system for new products or delivery channels. Commercially produced software has already been developed which is flexible, widely tested and within the budget of many microfinance programmes, although frequently, additional modules need to be developed to meet the needs of group based microfinance programmes.

- iii) *Setting up the master record*: On most banking software every product has a master record which lists the features of the product in terms of interest rates, repayment periods, fees and charges. Early in the development phase a senior member of the product development team and an IT specialist must set up a master record for the new product. By setting up a master record for the proposed new product the product development team is performing the very first test – determining whether the IT system can accommodate the new product as designed. By testing the master record Uganda Microfinance Union identified that their system could not tier deposit interest rates and did not produce critical reports. As the tests were performed early in the development phase there was sufficient time to upgrade their systems without delaying the start of the pilot test.
- iv) *Reporting requirements*: Reporting requirements are frequently overlooked during the development phase, with MFIs trusting to a limited suite of reports generated by the banking software. There are several approaches to improving reporting. The first approach is to ensure that the most common reports produced by an IT system are suited to the requirements of the MFI. The second approach is to train staff within the MFI to use specialist software to generate reports – a report generator. A third approach that is increasingly adopted by formal financial institutions in developed countries is to develop a data warehouse – a system that interrogates the financial database. Clearly ensuring the system delivers appropriate reports is critical during the development stage of an IT system, ensuring staff have the skills to use a report generator is medium term maintenance strategy, and the creation of a data-warehouse is a longer term strategic decision.

Unfortunately, many ARPs reporting systems require strengthening. Too often key management information such as transaction volume by teller, or by product is not available. Loan management systems calculate portfolio at risk incorrectly, or fail to properly display default rates by loan officers. Most institutions need to use information more strategically, for example, information systems can also be used to process marketing intelligence, and to provide information for product costing and credit scoring.

Step 5. Modelling the Financial Projections

Financial modelling is a vital step in testing the potential viability of a new product, but one that is frequently overlooked by MFIs developing financial services. Difficulties ARPs have faced in developing financial models have derived from:

- i) *Lack of skills in financial modelling*: To use and adapt even basic spreadsheet models such as those contained within the *MicroSave* pilot-testing toolkit assumes intermediate level skills in financial

modelling. If these skills are not available within the financial institution – then a short consultancy assignment to develop the financial model is the only logical alternative.

- ii) *Lack of intermediate level spreadsheet skills*: Other ARPs lacked staff trained in the use of Excel to intermediate level, though they were able to use the *MicroSave* models as supplied, they were less able to adapt the models to suit their particular circumstances.
- iii) *Lack of critical information on which to build financial models*: On other occasions ARPs have struggled to set reasonable assumptions on which to develop their financial models. Assumptions proving particularly troublesome have included:
- *Number of deposits and withdrawals*: Field based research amongst ARPs tends to overestimate the average number of deposits and withdrawals that a customer will make, and so financial models tend to overstate fee based income. In part this is due to the requirement to model dormancy rates in deposit products. Amongst ARPs dormancy rates have ranged from between 25-40 % of all deposit accounts.
 - *Average value of deposits held*: Teba Bank in South Africa, KPOSB in Kenya and TPB in Tanzania underestimated the average value of deposits held by as much as 100%. This is because research typically identifies the most common value of deposits customers will hold, it does not identify the impact that a relatively small number of large depositors can have on the average value of deposits held. In the example below taken from Tanzania Postal Bank’s Arusha Branch, only 49 depositors out of 2,309 accounted for 55% of total deposits!

Table 7: Stratification of DQA balances at the Pilot Test Branch as at 31st December 2000

Tsh Ranges (millions)	Number DQAs	% of total accounts	Value of all Accounts in Range (millions)	% of Total Value	Average Balance in Range	% of Accounts this Range and Above	% Balances this Range and Above
0-0.049	1,614	69.90%	27.745	8%	0.017	100.00%	100%
0.05-0.1	288	12.47%	23.365	7%	0.081	30.10%	92%
0.11-0.5	328	14.21%	75.603	23%	0.230	17.63%	85%
0.51-1.0	30	1.30%	25.121	7%	0.837	3.42%	62%
1.1-5.0	41	1.78%	79.930	24%	1.950	2.12%	55%
5.1-10	4	0.17%	20.658	6%	5.165	0.35%	31%
10.1-15	3	0.09	26.043	8%	13.022	0.17%	25%
15.1-20.0	-	0.00%	-	0%	-	0.09%	17%
20.1-25.0	1	0.04%	21.197	6%	21.197	0.09%	17%
25.1-30.0	-	0.00%	-	0%	-	0.04%	11%
30.1-35.0	-	0.00%	-	0%	-	0.04%	11%
35.1-40.0	1	0.04%	35.498	11%	35.498	0.04%	11%
	2309	100.00%	335.160	100%	0.145		

- *Indirect Cost Allocation*: The *MicroSave* financial model uses direct costs as a base on which to calculate profitability. It then applies a percentage of direct costs to represent the total of indirect costs. The indirect cost allocation has been difficult for ARPs to validate. A good proxy for indirect cost allocation is the percentage of total overheads that relate to the Head Office.

Sensitivity Analysis: Sensitivity analysis is an extremely useful tool in establishing the degree of significance of different assumptions in the financial model. However, from the ARPs only FINCA Tanzania, Uganda Microfinance Union, Equity and Teba Bank have used this technique. Sensitivity analysis enables institutions to answer “what if” questions, such as “What would the impact on our profitability be if our tellers became more efficient and decreased transaction time by 50%?” The technique is described in greater depth in the Pilot Testing toolkits.

Revising the financial model: Financial models can only assist in predicting profitability if the assumptions underlying the model are regularly updated. In practice this has happened rarely – usually

when the pilot test is evaluated before the product is rolled out. Projections require regular revision in order to improve the model as costs become more certain, to provide information on the rate of progress towards profitability, to reflect changes in the product and in order to review the adequacy of product pricing.

STEP 6: Developing Policies and Procedures

Developing appropriate policies and procedures is an essential aspect of new product development. In many cases policies and procedures show incremental development as procedures for existing products form the basis of policies and procedures for new products.

In practice, for ARPs the product development process highlighted weaknesses in the documentation of existing products. The experience of our ARPs is shown in Table 8.

Table 8: Development of Product Processes and Procedures at MicroSave ARPs

Institution	Development of Policies and Procedures
Teba Bank	Policies and procedures are clearly and extensively documented – in the case of the Debit Card procedures are presented in the form of flow charts with accompanying text.
Equity Building Society	Preparations for the pilot test of <i>Jijenge</i> and <i>SAKO Plus</i> demonstrated that procedures for all products needed much better documentation. This process is underway - detailed manuals and flow charts are being developed for all products.
Tanzania Postal Bank	Documentation of procedures was poorly developed within the bank. Technical assistance has improved the documentation <i>DQA</i> procedures. However, significant improvements are required in the documentation of other products.
Kenya Post Office and Savings Bank	As with TPB: technical assistance has improved the documentation of procedures relevant to the <i>Bidii</i> product.
FINCA Tanzania	Extensive, well thought through policy and procedure manuals were developed for the <i>Uvibiashara</i> pilot test. Policy and procedure manuals were scrutinised by FINCA International before permission was given to commence the pilot test.
Uganda Micro-finance Union	As part of its preparations for Microfinance Deposit Taking Institution status, and alongside the introduction of a new computer system, UMU are developing extensive procedure manuals.
FINCA Uganda	As for FINCA Tanzania, extensive policy and procedure manuals were developed for the <i>SEP</i> pilot test and are being developed for the Open Access Savings product pilot test. The problem has been indifferent application and review of agreed policies and procedures.
Centenary Rural Development Bank	Documentation for all products is built around a common core of policies and procedures. Each product has a separate annex, which provides a product definition and defines particular policies and procedures, which are relevant only for that product.

To date Teba Bank is the only Action Research Partner to make extensive use of flow charts or process maps. However, *MicroSave* has found process maps invaluable to record processes concisely and clearly, and recommends that process maps are developed for each product.

Particular challenges are faced by institutions, which as part of their product development process are moving from manual to computerised systems. The transition to computerised systems requires new policies and procedures to be given considerable thought. In a transition period, it is likely that some largely unnecessary manual procedures and controls will be adopted from the existing manual system. TPB retained a procedure to produce manual receipt vouchers for *DQA* transactions even though vouchers were produced automatically by the MicroBanker system. These excess procedures should be dropped as soon as possible after review from internal and/or external audit.

For FINCA Uganda, FINCA Tanzania and Teba Bank policies and procedures require formal sign off from senior management and/or internal audit. FINCA International goes further and requires several aspects of the procedure manuals to be vetted by a lawyer. Professional review of policies and procedures has resulted in significant improvements in the manuals.

Testing Documented Policies and Procedures: It is only when policies and procedures have been properly documented that appropriate training materials can be developed, and that divergence from policies and procedures can be identified as the pilot test progresses. In the case of FINCA Uganda

although policies and procedures were developed not all procedures were in fact implemented, there were several reasons for this:

- *Failings in the SIEM IT system:* Penalty fees could not be properly processed by the IT system, resulting in extensive manual processing of transactions and the late application of penalty fees.
- *Departure of the SEP Manager:* The SEP Manager left to take up another position within FINCA International, unfortunately the SEP supervisor failed to properly supervise the application of procedures carried out by the loan officers.
- *The absence of a formal mechanism to review the application of procedures:* Internal audit were not involved in ensuring stated procedures were being applied.

STEP 7: Training

Training can make the difference between the success and failure of a product. The objectives of training are to a) provide staff with the knowledge they require to serve customers quickly and efficiently, b) to enable them to sell the product effectively and c) to teach staff to apply due processes and procedures consistently. Typically training has been required in the following areas:

- i) *Features of the new product:* Staff should understand the detailed features of the product. In practice this extends into considerably greater depth of the product than would normally be advertised to the customer.
- ii) *Frequently Asked Questions:* In many *MicroSave* assisted pilot tests staff knowledge of the product has been inconsistent with the result that branches operated the product differently or provided inconsistent answers to customers' questions. The solution is simple. Publish a Frequently Asked Question Guide (FAQ) that is reviewed and updated as the pilot test progresses. The FAQ guide provides a uniform answer for staff to provide to customers, this not only informs the customer but also ensures that staff have a similar understanding of the product.
- iii) *Processes and procedures:* Staff require training on the processes and procedures of a new product to the extent that they differ from those of existing products. Flow charts can be used very effectively for introducing staff to new processes and procedures.
- iv) *Operation of a new system:* Where a new system has been introduced alongside a new product, staff members need to be trained one-on-one on the new system and need to be provided additional backup and support when the system goes live. In many cases staff who have been used to volume test the new system prior to introduction are used as trainers.
- v) *Customer service:* Selling new products and services may require training staff in customer service. This is particularly the case where the product requires customer service desks to be established for the first time, or where an institution is changing focus say from lending to savings activities.
- vi) *Marketing:* Branch staff need to possess basic marketing and sales skills. They need to be aware of their individual significance to the successful sales of the product.

MFIs and banks often treat training as an area of low importance. However, the quality of staff knowledge about and enthusiasm towards new products has a direct impact on the success or failure of a pilot test. Mystery shopping has shown that in branches recording very low sales of a particular product that knowledge of the product tends to be very low, whilst in branches where staff knowledge of the product is high sales have been correspondingly higher.

Few ARPs monitor the effectiveness of training provided. However, measuring the effectiveness of training is in fact relatively simple and can be achieved through a combination of mystery shopping, questionnaires and focus group discussions with staff and clients. A UK bank adopted a different approach in which at weekly staff meetings a quiz on different products was given to staff through Branch Managers and the results recorded on staff personnel files.

Step 8 Marketing:

Few activities during pilot testing have proven as variable in terms of quality and output as product marketing. Of the 8 ARPs with products under development, Teba Bank and Credit Indemnity have the most fully developed marketing departments. Though some smaller partners such as FINCA Tanzania have excellent marketing competencies in relation to their size. ARPs have faced challenges in product marketing, marketing the product internally and in the development of marketing competencies.

- i) *Product Marketing Strategies*: Prior to partnership with *MicroSave* only Teba Bank produced product-marketing strategies. Today product-marketing strategies are produced by Equity, KPOSB, TPB, Centenary and FINCA Tanzania whilst FINCA Uganda and Uganda Microfinance Union have used techniques from *MicroSave's* "Product Marketing Strategy Toolkit" to develop marketing materials.
- ii) *Internal Marketing*: The first and possibly the biggest challenge in marketing a new product has been to market the product internally. Members of staff who are not sold on the product cannot sell the product effectively. Different ARPs have adopted different forms of internal marketing. TPB paid staff salaries into Domicile Quick Accounts. By the time *DQA* was rolled out to non-pilot test branches staff were familiar with the product and its benefits. TPB staff marketed *DQA* very effectively, to the extent that in some branches 80% of new accounts opened were *DQA* accounts. Teba Bank sent staff from the marketing department around to different regions to perform roadshows during which the benefits of new products would be clearly explained. In addition, Teba Bank has placed marketing posters detailing each product around the Head Office. FINCA Tanzania produces a staff bulletin every Friday afternoon in which developments relating to the *Uvibiashara* pilot test would be detailed.

Conversely poor internal marketing can severely damage a new product. The *Bidii* product at KPOSB was developed from research, which suggested that the product was ideally suited to market traders. In fact as experience on TPBs similar *DQA* product showed the product was popular amongst many different groups of existing and potential customers. However, the perception of *Bidii* as a special purpose product was widespread within KPOSB until ...

"The Bank, in 2002, made a strategic move to have employees' salaries processed through *Bidii* Savings Account to promote internal ownership for effective external marketing."

KPOSB Pilot Testing Team

- iii) *Development of Marketing Competencies*: Many institutions delivering financial services to poorer people are not familiar with marketing financial services. This is particularly the case in single product institutions where the approach is to "mobilise beneficiaries" rather than to "attract customers". Many ARPs needed to develop basic marketing competencies during pilot testing. Frequently, this has meant that additional staff were employed to form a marketing department and at branch level that staff are expected to take a more proactive and planned role in marketing financial services to clients than previously. In fact, customer service desks have been established in two ARPs, Equity and UMU to provide customer service and to promote specific products.
- iv) *Marketing during the Pilot Test*: As discovered by several ARPs, marketing activities during pilot testing need to be considered carefully. Promotional campaigns must be centred on pilot test branches. CERUDEB discovered this to its cost when it ran advertisements relating to the Home Improvement Loan in national newspapers during the pilot test. Potential customers called in to non-

pilot test branches expecting to be given Home Improvement Loans. Promotional events provide an ideal mechanism to generate localised interest however, these need to be coordinated carefully to ensure that adequate promotional materials are available, that staff are familiar with the product, and that accounts can be opened during the promotional period. On one memorable occasion, Teba Bank were holding a promotional event over a weekend, only to discover that the IT department had taken the teller system offline for an upgrade making account opening impossible.

- v) *Marketing Budgets*: During the pilot test phase the marketing budget for a pilot test can be controlled due to the low cost marketing channels typically used at this stage, although, for MFIs unused to product marketing the budget may appear extravagant. However, part of the expenditure relates to market research to design publicity material, which will be used during the roll out of the product. In addition, effective marketing generates sales, which in turn generates profits. This linkage is very clear in the case of Western Union the international money transfer product. Western Union dictate that 10% of sales revenue should be invested in marketing and produce a marketing pack to facilitate the creation of uniform marketing material worldwide. Effective global promotion of the brand builds the sales of all Western Union franchisees.
- vi) *Customer Service*: Frequently the marketing function is responsible for measuring levels of customer service and in responding to service related issues – even though many customer service issues relate more to operations than marketing. Well-designed pilot tests have indicators for “customer efficiency” or “value for the customers time” and customer satisfaction.
- vii) *Testing the effectiveness of marketing*: During the pilot test it is important, not only to develop and refine marketing materials, but to test the effectiveness of the overall marketing effort. There are numerous ways of doing this. These include:
 - Account opening questionnaires
 - Marketing audits
 - Simple review tools
 - Survey’s testing product awareness pre and post marketing campaigns
 - Focus Group Discussions with staff and customers
 - Mapping sales growth against marketing efforts

For example, it was seen that the number of new accounts opened increased from 2 to 5 per day in TPB’s Illala branch after marketing activities took place, with a gradual reduction in the number of accounts opened per day to a steady level of 3 accounts per day.

Step 9: Commencing the Pilot Test

Review Preparations: Before the pilot test can be launched preparations for the pilot test should be critically reviewed. *MicroSave* recommends that a checklist is used and signed off by senior management prior to launch.

Launch event: The launch of a new product is a significant event in the life of any financial institution. However, most ARPs have opted for a low-key launch event to create local awareness of the product.

This is for several reasons:

- i) The product, its systems and procedures are untested in a live environment.
- ii) The terms and conditions of the product are subject to change.
- iii) Too much early publicity creates demand for the product outside the pilot test area before the product is ready to launch.

Conversely, once the pilot test has been completed and the product is being rolled out ARP’s have generated much greater publicity.

Step 10 Evaluating the Pilot Test

Before an institution can rollout a piloted product it must evaluate the pilot test. This means preparing documentation for a formal recommendation report to the Managing Director, covering the areas outlined in Box 1.

Box 1: Components of a Formal Recommendation Report to the Managing Director (McCord et al, 2003)

Components of a Formal Recommendation Report to the Managing Director

A formal report to the Managing Director that outlines the Team's recommendation should also serve as the "handing over" document and **should include at least the following sections** in this format:

- 1.0 Executive Summary
- 2.0 Recommendation with major supporting justifications. Justifications should include issues of:
 - 2.1 Institutional profitability
 - 2.2 Efficiency improvements
 - 2.3 Satisfaction of corporate and market needs
 - 2.4 Corporate image improvements
- 3.0 Full description of the product, its terms and condition, as well as basic data on product acceptance and customer attitudes about the product
- 4.0 Comparative projections to actuals objectives tables
 - 4.1 Discussion of any significant variance (>20% in either direction)
 - 4.2 Discussion of the reasons behind any significant projection adjustments made during the Test.
- 5.0 Discussion of the interrelationships of all significant departments with the product noting any material issues that arose during the Test and how they were resolved
- 6.0 Confirmation of procedures, policies and systems (software and hardware) from the internal audit department
- 7.0 Completed projections model based on actual data from the Test
 - 7.1 Note any anticipated deviations from the Test branch that are likely to be experienced in different branches
- 8.0 Discussion of potential risks to the institution posed by the product and its roll-out
- 9.0 Draft plan for roll-out, including procedures for addressing:
 - 9.1 Training
 - 9.2 Infrastructure
 - 9.3 Marketing
 - 9.4 Controls
- 10.0 Appendices containing:
 - 10.1 Full procedures manual section "draft" ready for corporate approval
 - 10.2 Training curriculum
 - 10.3 Systems manual (specific for the product)
 - 10.4 Copies of all marketing documents
 - 10.5 Copies of all audit reports of the product
 - 10.6 Copies of Team minutes

Although this task looks daunting, if the pilot test has been conducted properly, this exercise is for the most part a matter of collating information and writing a short 5-6 page covering memorandum. The challenge is that very few institutions fully document the pilot test. With an internal evaluation there is a strong temptation to evaluate the pilot test positively and rollout the product when parts of the pilot testing process have not been properly completed. For this reason, *MicroSave* recommends that a pilot test review team is constituted which consists of members of staff and at least one external reviewer. Table 9 presents the advantages of composing a mixed review team. However, many MFIs may find it difficult to finance an external reviewer – so being impartial and making the right decision on whether and how to roll out a new product is critical.

Table 9: Advantages of Internal and External Members of the Pilot Test Evaluation Team

Internal Team Members	External Team Members
Institutional knowledge Product knowledge Collating information Skill-sets that the consultant does not have	Appraisal skills Greater objectivity Brings experience from other institutions and products

Monitoring the Pilot Test

Monitoring mechanisms should operate throughout the pilot test period. A pilot test is not a scientific experiment to be evaluated after the event, rather it is an exercise during which product features, procedures, systems, marketing and promotion are continually tested, refined and retested. In FINCA Uganda's original pilot test for the SEP product, objectives were established that measured performance bi-annually. The danger in this case is that if performance is measured only after a six-month interval much that could have been learned has been lost - opportunities to make refinements and to test those refinements have been passed by.

Immediately after launching the pilot test the product development team normally issues a collective sigh of relief. Everything necessary for making the product operational has been done. However, the operational phase of the pilot test should test the:

- i) Assumptions within the financial model
- ii) Adequacy of staff training
- iii) Effectiveness of the marketing effort
- iv) Appropriateness of policies and procedures
- v) Effectiveness of systems
- vi) Effectiveness of customer service
- vii) Level of acceptance of the product by customers
- viii) Effect on other products (cannibalisation)

However, in most cases ARPs have monitored pilot tests poorly, sometimes because *MicroSave* rather than the Action Research Partner was expected to perform a review role. In practice several factors influence the effectiveness of pilot test monitoring:

- a) *The monitoring budget*: The monitoring budget needs to be sufficient, both financially and in terms of time to enable appropriate findings to be made, documented and acted upon.
- b) *The experience of the monitor*: Monitoring a pilot test requires a broad range of knowledge encompassing operations, marketing, systems and procedures, customer service. Given this requirement monitoring for most organisations will be a team event.
- c) *The tools used by the monitor*: Monitoring can be made more effective if appropriate tools are used these include, checklists, surveys, mystery shopping guides, Focus Group Discussion guides etc.
- d) *The familiarity of the monitor with the product*: To be effective the monitor must possess an intimate knowledge of the product and its features, the assumptions on which it is built, the policies and procedures followed etc.
- e) *Focus - Recording findings and making recommendations*: Finally, a monitor needs to actively record findings and make recommendations so that appropriate revisions can be made.
- f) *Follow up – Ensuring action is taken against agreed recommendations*: Paradoxically, agreed recommendations are sometimes not taken which generally leads to delays in the pilot test.
- g) *Capacity to interpret the initial results of the pilot test*: An inexperienced monitor may easily misinterpret the initial results of the pilot test.

In response to difficulties ARPs had in monitoring their pilot tests *MicroSave* developed a protocol for pilot test review missions. Alongside this there are a number of simple monitoring tools that can be used to measure progress against specific objectives – see Table 10 for details.

Table 10: Monitoring Tools

Activity	Tool and Explanation	Location of Examples
Review Missions	Review Mission Protocol: This provides guidelines for assessing pilot tests including a sample report.	Pilot Testing Toolkit – Appendix
Profitability Short-Term	Financial Projections: As the pilot test progresses it is necessary to update the financial projections on a regular basis, this gives an indication of whether the product is covering its marginal costs.	Pilot Testing Toolkit – Spreadsheets
	Medium-Term Product Costing: As the product is being rolled out after piloting it is usually possible to begin to determine a trend towards the profitability of the new product.	Product Costing Toolkit
Customer Efficiency (Value for Time)	Timings: Take timings of customer time in branch and customer time at the counter. Time key processes – such as number of days for loan approval etc.	
	Process Mapping: can be used to document procedures in use, and to compare these to the procedures documented in the procedures manual. Record timings against particular processes to identify any procedures that are slowing down delivery of the product.	Process Mapping Toolkit
Customer Effectiveness (Satisfaction)	Focus Group Discussions: are used to collect the opinions of customers and staff. Discussions are used alongside qualitative tools to ascertain which features of the product or the service around the product can be improved.	Pilot Testing Toolkit Appendix and Market Research for MicroFinance Toolkit
	Exit Interviews: are conducted when a client leaves the organisation. This tool is often not very effective during a pilot test due to the relative small number of clients leaving within the pilot test period. Qualitative research on client exits should be used to understand the quantitative data.	AIMS Toolkit – chapter 5
	Mystery Shopping: involves someone posing as a potential customer with a prepared list of questions to ask. It is used as a test of staff awareness of the product and customer service.	Pilot Testing Toolkit Appendix
	Service Quality Questionnaires: are used to assess the level of service quality (also known as SERVQUAL Questionnaires)	Strategic Marketing Toolkit – Handouts
	Suggestion Boxes: are frequently in place at branch level, but are rarely used by clients. Reasons for this include poor identification of suggestion boxes (only in English rather than in local languages), poor follow up of suggestions, and even the branch weeding out negative suggestions before they are sent to Head Office.	McCord 2002
	Staff Workshops: Workshops with staff can be a very efficient and effective way of discovering product and process related faults.	
Marketing Effectiveness	Account Opening Questionnaire: this tool is usually used to determine how particular clients heard about the product. This information is used to refine product marketing. Account opening questionnaires can also be used to collect information about the client that can be used to ascertain whether at a future point in time s/he may require other banking services.	Market Research for MicroFinance and Strategic Marketing Toolkits – Handouts
	Marketing Audit: though not specifically a tool for measuring the marketing effectiveness within a pilot test an institution can improve its marketing through a marketing audit. A marketing audit uses a firm of experienced financial marketing consultants to audit the effectiveness of the overall marketing initiative.	Strategic Marketing Toolkit – Handouts
	Product Marketing Review: is a tool that poses questions on a one to five scale to assess whether the marketing of the product at branch level is appropriate.	Pilot Testing Toolkit – Appendix
	Pictures: <i>MicroSave</i> strongly recommends the use of pictures to demonstrate marketing effectiveness - pictures of good point of sale marketing, long queues, untidy branches, inappropriate display of marketing material work etc. help management understand some of the issues. A digital camera is invaluable.	
Other Monitoring Tools	Branch Staff Training and Support Review: is a tool which poses questions on a one to five scale to assess whether staff have been appropriately trained and supported to deliver the product	Pilot Testing Toolkit - Appendix
	Physical Infrastructure: is a tool that poses questions on a one to five scale to assess whether the product has an appropriate physical infrastructure at the branch.	Pilot Testing Toolkit – Appendix

Frequently Asked Questions

This final section considers a few Frequently Asked Questions that *MicroSave* has been asked in relation to pilot testing new financial services. The questions are as follows:

- i) What impact has pilot testing had on the ARPs?
- ii) Does pilot testing reduce costs?
- iii) What challenges do single product microfinance institutions typically face in pilot testing new products?
- iv) Should we always pilot test new products?

1. What impact has pilot testing had on the ARPs?

Pilot Testing has forced ARPs to develop competencies: In order to develop new products the majority of ARPs have developed new competencies. Typically skills that required upgrading included:

1. Qualitative market research for microfinance
2. Designing pilot tests
3. Planning and operating pilot tests
4. Monitoring, reviewing and evaluating pilot tests
5. Developing and modifying financial models
6. Product marketing
7. Customer service and communications
8. Product costing and pricing
9. Designing staff incentive schemes
10. Documentation of product procedures
11. Costing and pricing of financial services
12. Risk assessment

There are two important caveats, firstly, most upgraded skills are embedded within particular individuals within ARPs rather than institutionalised so there is a risk that key staff will leave; secondly, in many cases skills are still not fully developed. *MicroSave* has responded to these caveats in several ways. Firstly the project aims to train a small number of consultants and service providers in pilot testing, which will enable financial institutions in East Africa to obtain additional expert assistance. Secondly, *MicroSave* is developing and improving a range of toolkits to enable greater self-study (see Annex 2). Thirdly appropriate training courses are being designed to build the skills of ARP staff.

Developing new competencies has cascading impacts on financial institutions, some examples follow: Successive costing exercises are allowing informed decisions to be made. Improvements in marketing skills developed through pilot testing impact on the sales of all products. The ability to design and monitor a pilot test facilitates future product development.

The most promising change is that *ARPs have become more “Customer Centric”*, this is reflected in many ways:

1. A greater propensity to carry out client focused research (especially Equity, TPB, CI)
2. Greater attention to corporate image and corporate branding (TPB, Equity, UMU)
3. Expressed desire to work with *MicroSave* on Customer Service Audits (Most ARPs)
4. Positive feedback from clients (TPB, Equity)
5. Establishing or expanding customer service desks (Equity, TPB, UMU)
6. Improved customer communications (Most ARPs)

Improvement in Corporate Image: As part of its research agenda *MicroSave* occasionally studies the perceptions customers have of their banks. This research has shown that customers appreciate customer centric institutions and products. The following quotations illustrate the significance of improving corporate image:

“There are several factors that have improved the image of TPB. DQA and customer care training are only some of them. The others include the introduction of Western Union and the creation of branches independent from the Post Office”.

Source: Mutesasira (2002)

“Equity’s success has also been attributed to the sheer efficiency of its service delivery and its exemplary customer service. Since its inception, Equity had already determined to be close to its customers. Numerous positive comments from customers, staff and other stakeholders confirm that, to Equity, the customer is truly the king or queen!”

Source: Coetzee et al (2002)

Developing new products is often used as part of a strategy to improve corporate image. The following additional improvements have been adopted by East African ARPs during their pilot tests and / or during rollout of the product.

Table 11: Improvements introduced alongside new products

	TPB	UMU	EBS	KPOSB	FINCA U.
Repainting branches	✓	✓			✓
Introducing or improving customer service desks	✓	✓	✓		✓
Introducing or improving marketing material	✓	✓	✓	✓	
Increasing transaction processing speed	✓	✓	✓	✓	
Introducing corporate colour schemes	✓				

ii) Does pilot testing reduce costs?

Pilot testing reduces the costs of making mistakes: Pilot Testing reduces the cost of making mistakes. During the initial pilot test of FINCA Uganda’s Self Employed Partnership product progress was rapid. However, it was decided to extend the pilot test to a greater number of clients before considering whether to rollout the product to all branches. During the secondary phase of the pilot test FINCA Uganda started to experience repayment difficulties which led to a strengthening of appraisal processes, operational procedures and monitoring. In comparison TPB launched their micro-credit operations after a short unstructured pilot test. Operations quickly expanded beyond the capacity of the existing staff and systems. Although TPB is addressing systems and capacity issues its losses are likely to be considerably greater than those of FINCA Uganda.

iii) What challenges do single product microfinance institutions typically face in pilot testing new products?⁵

Single product microfinance institutions developing and pilot testing new products must start with a complete reassessment and enhancement in business practices and procedures. Multiple factors are driving a move from a single to a multi-product environment, namely:

- a. The gradual extension of regulation and supervision across the microfinance industry is creating an opportunity for traditional micro-credit organisations to intermediate savings.
- b. Donor funds to support institutional transformation
- c. Increasing levels of competition from the formal financial sector and amongst existing microfinance programmes
- d. Increased exposure of microfinance customers to formal sector alternatives
- e. The evolution of new competencies within the microfinance industry to support product development
- f. The re-orientation of microfinance programmes from product driven to market led institutions.
- g. The search to enhance “customer value” to gain competitive advantage
- h. The continuing drive for profitability – in an operating environment where grant capital is increasing difficult to obtain
- i. The introduction of technology based solutions such as debit cards, smart cards etc, are dramatically decreasing the costs of financial intermediation (Ketley and Duminy, 2003)

As single product institutions move towards developing new products they typically face multiple challenges, in market research, in the process of pilot testing, in changing their delivery channel, in developing new IT systems, in documentation, marketing and risk management. Challenges are explored

⁵ This section calls on the practical experience of FINCA Tanzania during the development phase of their *Uvibiashara* Leasing Product

below using the example of FINCA Tanzania during the development phase of their new *Uvibiashara* leasing product.

- i. *Market Research*: As an institution changes its focus and develops new products it needs to understand its customers much more deeply.

“FINCA Tanzania had to look at its clients from a different perspective. With a group guarantee it only had to worry about the group training and dynamics. For the leasing product FINCA now has to assess individuals, to perform financial analysis and to get to know clients businesses more intimately.”

Ben Steinberg, Managing Director, FINCA Tanzania

- ii. *The Pilot Testing Process*: Single product institutions have limited experience with developing new products. For FINCA Tanzania the development phase took much longer than expected. This was attributed to the product development process being iterative rather than linear. In the words of one staff member

“You don’t always know what you need especially when you are developing a radically new product.”

The product development team became overwhelmed with preparations for the pilot test.

“Developing the leasing product was the most intensive interdepartmental effort that we have made within the organization.”

Whilst the product development process gave junior staff the opportunity to interact with senior staff as members of the same team, the process turned into more work than anticipated. Meetings worked well and issues were discussed completely but meetings were really slow.

- iii. *Delivery Channel*: Delivery channels change as focus shifts from meeting the needs of groups of undifferentiated customers towards meeting the needs of individual customers. Non-group based products are developed such as individual loans and voluntary savings.
- iv. *Information Systems*: New products place a great demand on information systems. Information systems designed around a single product or methodology will require significant modification even replacement as an institution moves towards multiple products. Information systems will need to allow considerable flexibility in pricing options and often include both individual and group based options.

With any major investment in Information Technology, an MFI must negotiate its contract with the IT vendor very carefully to avoid cost overruns. Where the MFI does not have the experience to do this – it is frequently cost effective to hire an independent IT consultant to review the draft contract and even the implementation process at strategic points.

- v. *Documenting Procedures*: Single product MFIs rarely need to completely re-document procedures as relatively minor changes are made to their product. However, developing appropriate procedures for new products requires in-depth knowledge of the new product and its delivery channel and the ability to document processes in great detail.

FINCA Tanzania tried to develop appropriate procedures internally, but as microleasing was a completely new product and staff did not have sufficient knowledge. Product manuals were continually revised and improved as understanding of the product grew. Standards of documentation improved as FINCA reviewed other organizations’ product manuals.

- vi. *Customer Service*: Delivering market led financial services implies institutional attention on delivering total customer value and the proactive determination of the causes of customer dissatisfaction.

For FINCA Tanzania the micro-leasing product was amended prior to pilot testing to eliminate some unnecessary client related processes. FINCA's pilot test will identify adjustments to policies and procedures that will give better service to customers.

- vii. *Marketing*: Developing the *Uvibiashara* product placed a greater focus on marketing within FINCA Tanzania than any previous activity. Market research was required to understand customer needs, and to develop product related marketing material. Frequently Asked Question guides needed to be developed to explain the new product to customers, suppliers and staff. A product marketing strategy was developed to detail how the product would be marketed.
- viii. *Training*: Once procedure manuals, customer service policies and marketing strategies have been developed training materials can be produced. FINCA Tanzania has reduced the requirement for additional training by employing individuals with individual lending experience.
- ix. *Risk Management*: Developing new products can significantly change the risk profile of a single product MFI. The following enhanced risks are likely:
- *New product risk*: The risk that the product will fail to meet the needs of customers or the institution and will fail.
 - *Systems risk*: The risk of new IT systems not functioning as expected or running considerably over-budget
 - *Reputation risk*: The risk to reputation particularly for institutions moving from lending to savings activities.
 - *Credit risk*: The risk of non-payment of loans, particularly for institutions moving from saving to lending activities.
 - *Marketing risk*: The risk that sales of the product will be affected by inappropriate marketing of the product.
- x. *Quality Control*: Quality control systems must be designed into the pilot testing process. This can be difficult when experience of either pilot testing or product development is limited. FINCA Tanzania called on the experience of other FINCA programmes, and utilised much more senior management time than originally anticipated. Reviews by FINCA International and *MicroSave* were also important in providing quality control.

iv) Should we always pilot test new products?

Pilot testing new products takes time and resources yet financial institutions developing new services are generally anxious to rollout their products quickly in order to gain higher profits and a commercial advantage over competitors. So are there occasions when a financial institution can develop new products without pilot testing? Yes, but under specific circumstances.

- i. *Where the new product is a refinement of an existing product*: Where the product is a refinement of existing products it is often not necessary to pilot test the modification, as long as the modification has been properly researched and does not require major systems modifications. In October 2001, Equity received training on the Market Research for MicroFinance toolkit. During market research Equity discovered that although their clients were positive towards Equity that they strongly disliked the pricing of Equity's products. Interest rates were expressed as declining balances, which were frequently misunderstood by potential clients. Furthermore, Equity imposed a range of small charges, which were not clearly communicated to clients, such as fees for photocopying or administration. In response to client criticisms Equity simplified their fee structures, and clearly communicated the new fee structure to clients. Client reactions were very positive.

- ii. *Where specific technical expertise is purchased:* Instead of performing extensive market research and pilot testing a new housing loan. Teba Bank purchased housing loan expertise, by bringing in a team of professionals who had existing experience of offering housing loans in Teba Bank's market.
- iii. *Where the product itself is low risk:* Akiba Commercial Bank in Tanzania developed a successful salary loan product without pilot testing. For a commercial bank in East Africa, a salary loan product has become a "hygiene factor" - a commercial bank is expected to have a salary loan product with terms and conditions that are broadly similar to those of competitors. Secondly, salary loans are relatively low risk as employees frequently have a financial history with the institution that can be used to assess repayment ability, and the salary loan is usually secured against terminal benefits.

However, for every product that is successful without a pilot test, there are many products that could have been improved with a pilot test. Several examples prove this point:

Example 1. Tractor Loans: A South African bank saw that there was a high demand for tractors and decided to launch a Tractor Loan. Policies and procedures were developed, a 30% down payment was required, with 140% security, and repayments were seasonal to ensure that farmers could repay the loans from seasonal income.

What happened? The loan was very popular, but ultimately failed. Many of the loan recipients were retrenched workers who used their redundancy payments to purchase tractors. Retrenched workers failed to understand the agricultural market. Loans financed second hand tractors, which proved difficult for customers to maintain. Tractors broke down and were gradually cannibalised for parts, without an income borrowers could not repay their loans. The bank found that it had insufficient staff to perform extensive field based follow up once problems started to emerge.

Example 2. Too much success: Uganda Women's Finance Trust (UWFT) was experiencing high levels of dropout and higher than acceptable levels of default. Using *MicroSave* market research techniques, UWFT made the decision to modify its loan products. Loan terms and amounts were increased, loan qualification periods were decreased and individual assessment of loans was introduced. Client response to the changed products was enthusiastic. In three months the portfolio outstanding increased by 50%.

However, UWFT were not prepared for the rapid expansion in their portfolio and Portfolio At Risk rapidly increased. After this experience, UWFT management feel that major changes to products should be pilot tested, for several reasons; firstly, to ensure that the impact of changes to the product on the demand for the product can be properly tracked; secondly to allow the development of appropriate capacity and skills prior to the rollout of the product; thirdly to determine and plan for higher level institutional impacts such as liquidity, funding, changes in corporate image etc.

Example 3 Changing Focus: When a financial institution changes its product focus, structured pilot testing becomes critical. Tanzania Postal Bank wanted to develop a micro-finance loan - it launched a small-scale, unstructured pilot test, which went reasonably well. However, as it rolled out the product the bank realised that its policies and procedures were not adequate, staffing levels were too low, and staff were not sufficiently knowledgeable in micro-finance monitoring. The bank is now addressing these problems.

Example 4: Copycatting: A common way to reduce the risk of new products failing to meet the needs of the local marketplace is to copy successful products developed by other financial institutions. However, this too can be dangerous. Federal Savings a Cooperative based in Bangladesh tried to duplicate the innovative products of Safesave, which was successfully operating in Dhaka slums. However, although Federal Savings could copy the *features* of the product it could not duplicate the organisational culture, careful management and precise reporting systems that underpinned Safesave. With popular products, Federal Savings expanded rapidly became dangerously undercapitalised and eventually collapsed.

Annex 1: Departmental Functions and Involvements in Pilot Testing

Department	Function	Functional involvement in Pilot Testing	Departmental Involvement in Pilot Testing
Senior Management	Strategy Coordination	Senior Management guides the strategy of the institution, and coordinates the product development process. Day to day management of activities is normally delegated to a Product Champion or Team Leader.	The senior management team is usually drawn from the heads of various departments. This team needs to be continually informed about the progress of the pilot test so that departmental responsibilities can be coordinated.
Marketing	Market Research	Market research is conducted to define the product, assess customer reactions to the product, assess potential refinements, develop a product marketing strategy and explain differences in operational performance.	Marketing is heavily involved in researching and marketing new products. However, marketing is frequently insulated from active involvement in operations. Most front line staff view promotion as a function of the marketing department rather than an activity that occurs at every point of contact with the customer. Customer service is sometimes a function of marketing due to the research and communications required, and sometimes a function of operations due to the higher level of direct interaction between the operations staff and the customer.
	Product Marketing	Product marketing starts with a Product Marketing Strategy. Product marketing involves defining the benefits of the product to potential customers and promoting the product through different marketing media.	
	Corporate Branding	The new product needs to be aligned with the Corporate Brand - the product needs to promote the core values of the organisation.	
	Public Relations	The new product will create PR opportunities to promote the product and the institution and in turn PR opportunities for the institution can be used to promote the new product.	
	Internal Communications	Good internal marketing and communications are essential if the product is to be effectively promoted at branch level.	
	Customer Service	Customer service focuses on maintaining and improving the value of the product to the consumer.	
Operations	Operational Procedures	Documentation of operational procedures along with training ensures both consistency of delivery of the product and internal control.	Operations departments run the products that the marketing department have developed. There is a risk that if operations are not heavily involved in the design and development of the product that the product will not receive the level of internal support necessary for the product to be successful. Operational management need to be critically aware and involved with customer service and customer
	Operational Management	Operational management of the product should be focused on ensuring consistent and efficient delivery of the product.	
	Delivery System	Ensuring that the method of delivery of the product is appropriate	
	Branch Infrastructure	Ensuring that the branch infrastructure supports the new product, generators are in place to support new IT infrastructure, teller space is available etc. Frequently branches are upgraded when major new products are introduced as part of a campaign to support the product and to improve corporate image. Coordination with the marketing department is necessary	

Department	Function	Functional involvement in Pilot Testing	Departmental Involvement in Pilot Testing
Human Resources	Recruiting new staff	Recruiting any new staff necessary to develop new products.	The HR department is critical in defining the roles and responsibilities of any specialist staff required. HR normally leads in the recruitment of consultants that may be necessary to perform specific tasks.
	Training Staff	Training staff in new the features and practices associated with the new products. Normally performed in association with marketing and operations departments.	
	Staff Incentive Schemes	Staff incentive schemes are frequently forgotten in developing new products and services. However, an existing staff incentive scheme can significantly influence the degree to which staff are willing engage in promoting new products.	
Internal Audit	Internal Control	Internal audit should review the controls around the product. Where the new product is built on existing processes and systems this may be a simple matter of signing off on procedures. If new systems are introduced internal audit needs to have a much higher level of involvement	
Finance	Costing and Pricing	Costing and pricing existing financial services provides key information which can be used in developing financial models for the new product	Developing and pilot testing new products requires resources, which have frequently not been budgeted for. Involving the finance department in the planning and coordination of the pilot test is a critical step in releasing funds. An institution developing new products and services may require greater resources for institutional development than are available. If proposals to donors are necessary the lead time for obtaining finance needs to be built into plans for the pilot test.
	Financial Modelling	Developing financial models for the new products allows the institution to see when the product is likely to become profitable. It forces the development of targets against which staff performance can be measured.	
I.T.	MIS Reporting	Where new products require new information systems the involvement of the IT department is critical. The institution must consider its existing and likely future requirements in selecting an IT system along with the availability of support.	Reporting requirements for the product need to be developed between the finance, operations and marketing departments.

Annex 2: *MicroSave* Toolkits

The combined experience of its core research and the Action Research Programme has allowed *MicroSave* to develop and test a series of practice-based and practitioner-focused, training curricula and workshops. *MicroSave* has developed and tested or is completing the following toolkits: (see www.MicroSave.net for more details)

<i>MicroSave</i> Toolkits
1. Market Research for MicroFinance (see note)
2. Costing and Pricing of Financial Services
3. Institutional Culture Change
4. Planning, Conducting and Monitoring Pilot-tests - Savings Products
5. Planning, Conducting and Monitoring Pilot-tests - Loan Products
6. Institutional and Product Risk Analysis
7. Product Rollout: A Tool Kit Expanding A Tested Product Throughout The Market
8. Introduction to Strategic Marketing for Microfinance Institutions
9. Product Marketing Strategy
10. A Toolkit for Designing and Implementing Staff Incentive Schemes
11. Customer Service (Due 2004)
12. Process Mapping (Due 2003)
13. Corporate Brand and Identity (Due 2004)

Note: The Market Research for MicroFinance Toolkit is accessible only to those who have been certified as trainers for the "Market Research for MicroFinance" course or who have taken the course and conducted extensive fieldwork using the *MicroSave* tools.

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