

MicroSave Briefing Note # 64

Cost and Benefits of Market Research for Product Development

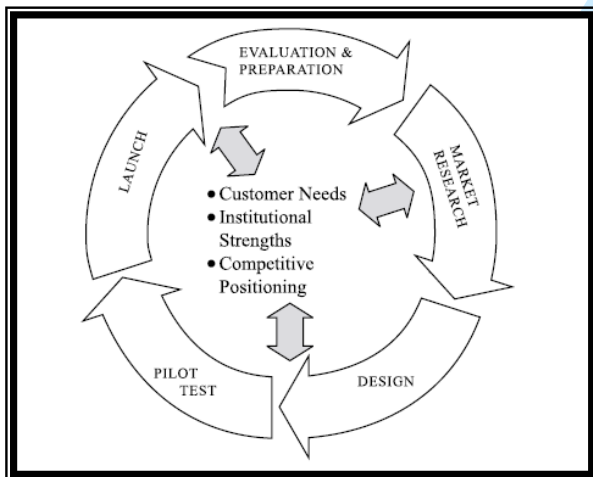
Cheryl Frankiewicz (Summarised by Corrinne Ngurukie)

Introduction

The microfinance agenda in the last decade and a half has shifted from supply- to demand-driven solutions with stakeholders having taken cognisance that poor clients demand a wider, more flexible range of financial services beyond microcredit. Microfinance institutions have realised that in order to grow, keep clients, they must introduce products that meet the demands of their existing and potential clients. The big question for many MFIs has been, and still is, “How is this done?”

Today, a successful MFI is typically defined as one that has successfully adapted the market-led approach. Essentially, such an institution has made deliberate efforts to align its business strategy and model in a way that it responds to clients’ needs and preferences. The institution has normally invested significant resources on programmes and activities to help them develop appropriate products and services that meet the needs of their target market.

MicroSave’s experience and reviews of successful new products reveal that market research is the starting point in most successful product development. The process of product development is illustrated below. Unfortunately, the market research step is too often left by MFIs. Such institutions instead opt to design the product from an internal idea and then launch the product, without direct reference to customer needs.



The Hypothesis

A simple hypothesis to explain the lack of research, which provoked an extensive study¹, is that institutions fail to believe that the benefits of market research

sufficiently outweigh the costs to make investing in this process worthwhile. Institutions are undoubtedly battling with the question, “*Is market research really worth it?*” Do the costs of market research outweigh the benefits for MFIs? Are there certain conditions that must be fulfilled in order for market research to be worthwhile?

Interestingly, the cost/benefit questions quickly moved to revolve not around *whether* to conduct market research, but rather *to what extent research* should be undertaken. And of course, the scale and scope of the research more or less dictates the costs.

Many lessons, discussed in this note, were drawn from a study that involved MFIs in seven countries namely: Kenya, Tanzania, Uganda, Bosnia, Herzegovina, India and the Dominican Republic.

The Costs

Financial Costs

Although the case study MFIs had difficulty reporting market research related costs, they nonetheless reported spending between US\$10,000 and \$63,780 (between 0.04% and 1.7% of their total assets) on market research activities designed to produce new product prototypes for testing. Much care was taken to recognise the benefits that this exercise brought when extended to other parts of the product development cycle from conducting the research phase to pilot testing before roll out.

Most of these expenses relate to human resources (approximately 15-50 person days) and the institutional resources required to support these activities.

Further observations with the study MFIs showed that variations on costs were largely attributable to the different methods used in estimating costs as well as the cost of labour employed for this process. For instance, the larger the scope of the market research and the more external consultants are employed, the more expensive the process was. The study continued to show that it indeed is difficult to gauge the relative significance of a market research investment simply by looking at the absolute costs. A small institution for example is likely to find a \$50,000 investment in market research more significant than a large institution.

The real headache, however, reported by most MFIs is the opportunity cost.

¹ The study, conducted by Cheryl Frankiewicz, builds on concrete experiences of four research partners and their member MFIs: MicroSave, Microfinance centre for Central and Eastern Europe and the New Independent States (MFC), Micro-finance Consulting Group (MCG) and Women’s World Banking (WWB) all of whom have played lead roles in development of new products and services. The full document accessible through www.MicroSave.net

Non-financial Costs

It is that delicate and difficult decision that MFIs sometimes have to make on whether to engage new opportunities or expand existing business to maximise return on investments. There is also the cost incurred due to delay of introducing a product in the market because of the time it takes to complete the market research and the product development process. This poses the threat of losing 'the first mover' position in the market.

Reputational risk is another cost borne if a product, highly anticipated by the target market, is delayed or is never offered. Clients will both be disappointed and discouraged to give feedback to the institution in the future.

The Benefits

Granted, research that leads to the development of new products demands a more involving, intense and complex exercise compared to research associated with product refinement or monitoring, which essentially seek out "quick wins" – solutions that can be generated through relatively inexpensive research.

Further study revealed with the case study MFIs revealed that there are more gains to be achieved when one engages market research for product development. In essence, market research was, and still is, regarded as an integral part of new product development largely because it is at the heart of a market-led approach. Interestingly also, despite the costs, they all responded with an overwhelming "YES!" to the need for research. The good news also is that, almost invariably, the resultant product(s) does, within reasonable time, generate sufficient revenue to cover the costs incurred during the baseline activities.

Additional benefits that the case study MFIs continued to enjoy as a result of successful market research are:

- (i) ***Better understanding of the market*** – moving beyond assumptions to hearing clients' articulate what is important to them and why.
- (ii) ***Identification of client perceptions*** – A misperception of the product pricing at Equity Building Society (now Equity Bank) caused a change in pricing that resulted in even better reward for the institution. As a result, the number of new accounts opened every day jumped from 20/30 to about 200 within two months.
- (iii) ***Better understanding of internal capacity*** – market research reveals attitudes and aptitudes of staff as well as institutional efficiency levels.
- (iv) ***Tool for managing change/buy-in*** – getting staff involved in research provides them two things:
 - a. An enlightened view of their clients and

- b. Greater institutional support as a wide range of stakeholders is involved in the process.

- (v) ***Enhanced image or reputation*** – a response to client feedback immediately creates a positive perception of an institution that listens and values the opinions of their clients.
- (vi) ***Building of internal skills while increasing staff motivation and satisfaction*** – staff gain market research skills useful in obtaining client/market feedback quickly on a regular basis in a systematic and professional manner. This role helps their institution become more market-led.
- (vii) ***An institutional culture more open to learning and experimentation*** – is developed as staff members become more eager to listen to their clients and share knowledge across the institution.
- (viii) ***Mission fulfilment*** – clients are empowered through the feedback loop process, opportunity for deeper outreach by the institution.

Lessons Learned

Institutions cautioned that poorly structured research will not yield the potential benefits, no matter the cost. Other lessons learned on how to minimise the costs and maximise the benefits of market research for product development are:

1. The first time you engage in market research get help from those who have done it before.
2. Institutionalise the capacity gained during the research process.
3. Have designated and committed multiple research teams operating simultaneously.
4. Keep the sample size manageable and use segmentation to help.
5. Start with training staff of the product development team and then involve others.
6. Drive the process with clear, focused objectives.
7. Conduct secondary data research before primary research.
8. Choose carefully, borrow, adapt and test the research tools.
9. Process research results daily.

Conclusion

"There's a perception that it's expensive, but when you look at the end results, the savings and the impact...you find out how cheap the research is".

- James Mwangi (CEO) Equity Bank.