CGAP

PRODUCT DEVELOPMENT FOR MICROFINANCE INSTITUTIONS

Consultative Group to Assist the Poor
1818 H Street, N.W.
Washington, DC 20433

Internet: http://www.cgap.org
Email: cgap@worldbank.org
Telephone: +1.202.473.9594

Table of Contents

Acknowledgments ... iv
Introduction ... v
Overview of the Course ... vii
References for the Course ... ix

Course Materials

Session 1: Welcome and Introduction ... PD-1
Handouts ... PD-21

Session 2: What is Product Development? ... PD-27
Handouts ... PD-39

Session 3: Product Development – An Overview ... PD-43
Handouts ... PD-51

Session 4: Market Research ... PD-69
Handouts ... PD-97

Session 5: Product Concept and Design ... PD-117
Handouts ... PD-127

Session 6: Costing ... PD-137
Handouts ... PD-153

Session 7: Pricing ... PD-177
Handouts ... PD-187

Session 8: Pilot Testing and Rollout ... PD-197
Handouts ... PD-209

Session 9: Case Study Epilogue and Summary ... PD-217

Session 10: Action Plan, Evaluation, and Closure ... PD-219
Handouts ... PD-221

Case Study: The UNIbank Chronicles ... PD-231

Acknowledgments

CGAP would like to thank those who were instrumental in the development and design of the Product Development for Microfinance course: Janis Sabetta, Brigit Helms, Monica Brand, Kim Craig, Monique Cohen, Javier Fernandez, Lorna Grace, Imran Matin, Mike McCord, Benedito Murambire, Zan Northrip, Elma Valenzuela, Niraj Vermat, Graham Wright, Nicola Young, Jennifer Isern, Leslie Barcus, and all CGAP training hubs and partners.

Introduction

BACKGROUND OF THE CGAP *SKILLS FOR MICROFINANCE MANAGERS* COURSE SERIES

In 1997, Jennifer Isern and Brigit Helms of CGAP launched a pilot program in Africa to provide financial management courses to microfinance institutions (MFIs), based on industry-wide observation that the greatest constraint to the development of microfinance in the region was the lack of management capacity. The Pilot initiative had two complementary long-term objectives: 1) to improve the institutional viability of MFIs in Africa and 2) to enhance the human resource base in microfinance in Africa through sustainable training programs that would help develop stronger MFIs and increase the market for local training services. By 1999, the Africa Pilot program had become the MFI Training Program, with new partners in South and South-East Asia, Central Europe, and the Newly Independent States (NIS). In addition, CGAP launched AFCAP, an East/Southern Africa program focusing on 12 countries and CAPAF, the Francophone Africa program focusing on 19 countries, to build the capacity of national training service providers to offer training and consulting services. During the early years, Jennifer Isern and Brigit Helms served as overall coordinators of the MFI Training Program and regional programs with colleagues Tiphaine Crenn, Nathalie D'Ambrosio-Vitale, Mike Goldberg, and Joyita Mukherjee, and primary consultants Janis Sabetta, Ruth Goodwin, and Kim Craig.

Through this initiative, CGAP developed seven courses for MFI managers conceived to be globally relevant, short and practical, and incorporating adult training design. These courses are collectively called the *Skills for Microfinance Managers* series. Based on feedback from trainers and participants from hundreds of courses, the courses were revised and improved over several years. As the program matured, Jennifer Isern, Leslie Barcus, and Tiphaine Crenn managed the Global MFI Training Program. By the time CGAP transferred its training activities to the Microfinance Management Institute in January 2007, CGAP's 39 training partners had trained more than 12,000 people in 52 countries.[1] In 2007–2008, Tiphaine Crenn coordinated revisions and overall editing of the MFI courses to reflect changes in microfinance standards, especially in financial statements and ratios.

In line with CGAP's role as a global resource center on microfinance, the full trainer materials for the seven courses developed under the MFI Training Program are now being made publicly available.

NOTICE ABOUT USING THE CGAP *SKILLS FOR MICROFINANCE MANAGERS* COURSE MATERIALS

In parallel to developing course materials, the program aimed to identify qualified national and regional training institutions and help build their capacity to deliver high-quality courses, expand their training markets, and offer courses on a cost-recovery basis. Hundreds of training of trainer (ToT) sessions were organized for the seven courses throughout the world. In some regions, CGAP also developed a certification process, and certified trainers were given broad access to the training materials. Certified training partners invested heavily in building their reputation for offering high-quality, useful courses and building up their businesses.

Although the CGAP *Skills for Microfinance Managers* course materials are now publicly available, CGAP recognizes only those partners and trainers who went through the certification process as CGAP training partners. Others who offer a course using materials from one of the CGAP *Skills for Microfinance Managers* course should not refer to themselves as CGAP trainers or CGAP-certified.

CGAP also requests that all those who offer the "Product Development" course use the following text in their marketing materials and course descriptions: "The Product Development course is based on the materials developed by CGAP which are publicly available on http://www.cgap.org. CGAP is a leading

[1] By December 2008, the number of people trained was closer to 14,000, given the ongoing training activities of CAPAF's 19 training partners in Francophone Africa.

independent resource for objective information, expert opinion, and innovative solutions for microfinance. CGAP works with the financial industry, governments, and investors to effectively expand access to financial services for poor people around the world."

HOW TO WORK WITH THE COURSE MATERIALS

The CGAP *Skills for Microfinance Managers* course materials are all organized in the same manner, with eight to twelve sessions in each course. Each session generally consists of the following sections:

1. **Trainer Instructions** give step-by-step instructions to trainers on how to lead the session, including when to show which PowerPoint slide, distribute handouts, organize participant activities, discuss during short lectures or general discussions, etc. The instructions include suggested timing, although this should be adapted according to the context. The first page (Session Summary) of the Trainer Instructions section in each session lists all the supplies, technical materials, overheads, handouts, and case study sections that will be required for that specific session. ***Optional overheads and handouts, which are included in the course material for use at the discretion of the trainer, are clearly identified within shaded boxes in the Session Summary.*** If there are additional technical materials in the session, the Trainer Instructions include a section called Trainer Materials, marked M in the right-hand top corner. Trainer Instructions are not intended for participants. If technical explanations are included in the Trainer Instructions, they are also generally provided in the handouts for the participants.
2. **Overheads** introduce topics, underscore key messages, and summarize issues. Overheads are clearly marked O in the right-hand top corner. (For example, PD3-O2 means that this is the second overhead of the third session in the Product Development course.) ***Optional overheads*** are identified by black (as opposed to white) reference numbers. The overheads are in PowerPoint format but can be printed out on transparencies and shown using an overhead projector. Overheads are not meant to be distributed to participants since the handouts in the same session will cover the same points, generally in greater detail.
3. **Handouts** are marked H in the top right-hand corner, in the same manner as the overheads. Handouts include exercises, instructions, and financial statements, as well as additional reading and in-depth information on the topic. Some handouts give instructions to the trainers about a publication to distribute, and these publications may need to be ordered or downloaded separately.
4. **Case studies** are used in most of the CGAP courses. Files for the case study are sometimes kept separate from the other handouts. The instructions in the Trainer Notes explain the section of the case study at each point in the session. Printing case studies on colored paper (and using different colors for different sections of the case) makes it easier for participants to organize their materials.
5. **Reference materials** and additional reading are listed for each course. Excerpts or the entire document are often included in the handouts. On the Web site, each course home page contains a box on the right-hand side with links to download the documents, if they are available publicly, or information on how to purchase them.

Please note that the overheads in PowerPoint format need to be downloaded separately. The course file contains the trainer instructions, the trainer technical materials, the overview of the overheads, the handouts, and the case study. The pages are formatted to be printed double-sided and blank pages are included as necessary.

Overview of the Course

The “Product Development for Microfinance Institutions” course is one of the four courses in the Operational Management Curriculum, along with “Business Planning,” “Information Systems,” and “Operational Risk Management.” The need to develop increasingly flexible and responsive financial products constitutes perhaps the most compelling challenge facing the microfinance industry today. In response to this growing need, a number of donors, practitioner networks, and projects are in the process of developing operational tools that practitioners can use to design demand-responsive microfinance products. This four- to six-day course covers both the process of developing a new product (market definition, market research, product prototype, costing and pricing, pilot testing, rollout, marketing, lifecycle management, and so forth) as well as the impact of introducing new products on the MFI (human resources, corporate culture, operations and systems, financial results, operating results, and the like).

INTENDED AUDIENCE

This course is recommended for Executive Directors, Finance Managers, Credit Managers, Operations Managers, Branch Managers and Board Members from Microfinance NGOs, credit unions, banks and other financial institutions.

COURSE OUTLINE

Session 1: Welcome and Introduction

Session 2: What is Product Development?

- The characteristics of a microfinance product
- The difference between a new and refined product
- Definition of a process of product development

Session 3: Product Development – An Overview

- The importance of product development to an organization’s strategy
- The steps involved in a systematic product development process
- Implications of the steps on human resources, risk management, organizational structure, institutional culture, vision, and so on
- Identification of the optimum product development team

Session 4: Market Research

- Market research and its importance to product development
- The advantages and disadvantages of different market research approaches
- Developing a research problem
- Designing focus group sessions
- When and how to use Participatory Rapid Appraisal
- Analysis of research findings

Session 5: Product Concept and Design

- Using market research results to design product prototypes
- Institutional issues in product design
- Ongoing solicitation of client comments

Session 6: Costing

- The difference between cost allocation and activity based costing
- Basic procedures and benefits of ABC
- The implications of new products on an MFI’s systems

- Estimating the total cost of a new or refined product

Session 7: Pricing

- The main factors that influence pricing
- Introduction to different pricing strategies
- Determining the price for a new product
- Using a focus group to get feedback on pricing

Session 8: Pilot Testing and Rollout

- The importance of pilot testing in product development
- The ten steps of a pilot test
- Identifying and sequencing the key variables in product roll out

Session 9: Case Study Epilogue and Summary

Session 10: Action Plan, Evaluation, and Closure

Date of last substantive update: 2002

References for the Course

(updated in 2008)

Key Documents

Product Development

ACCIÓN Network. 2004. *Pro-Poor Consumer Pledge.* Boston: ACCIÓN Network.

Helms, Brigit and Lorna Grace. 2004. *Microfinance Product Costing Tool.* Washington, D.C.: CGAP. http://www.cgap.org/p/site/c/template.rc/1.9.3005

McCord, Michael J., Graham A.N. Wright, and David Cracknell. 2001. "It Can Work: A Toolkit for Planning, Conducting, and Monitoring Pilot Tests for MFIs—Loan Products." Nairobi, Kenya: MicroSave-Africa. http://www.microsave.org

MicroSave. *Institutional and Product Risk Management Toolkit.* http://www.microsave.org

Pikholz, Lynn, et al. 2005. "Institutional and Product Development Risk Analysis Toolkit." Nairobi, Kenya: MicroSave. http://www.microsave.org

Porteous, David, and Brigit Helms. 2005. "Protecting Microfinance Borrowers." Focus Note 27. Washington, D.C.: CGAP. http://www.cgap.org/p/site/c/template.rc/1.9.2571/

Rhyne, Elisabeth. 2003.*Taking Stock of Consumer Protection in Microfinance—A Non-Regulatory Approach.* Boston: ACCIÓN Network. http://www.microfinancegateway.org

SEEP Network. 2003. *Trust through Transparency: Applicability of Consumer Protection Self-Regulation to Microfinance.* Washington, D.C.: SEEP Network. http://www.seepnetwork.org

Stevens, Robert, Wrenn, Ruddick, and Sherwood, 1997. The Marketing Research Guide. Birmingham, N.Y.: Haworth Press.

Wright, Graham, Monica Brand, Zan Northrip, Monique Cohen, Michael McCord, and Brigit Helms. "Looking before You Leap: Key Questions That Should Precede Starting New Product Development." 2001. http://www.microfinancegateway.org/p/site/m//template.rc/1.9.28773

Wright, Graham, Shanaz Ahmed, and Leonard Mutesasira, with Stuart Rutherford. "Focus Group Discussions and a Participatory Rapid Appraisal for MicroFinance—A Toolkit/Course." [Kampala, Uganda: MicroSave-Africa, 1999]

Savings

CGAP. 2005. *Microfinance Consensus Guidelines: Developing Deposit Services for the Poor.* Washington, D.C.: CGAP. http://www.cgap.org/p/site/c/template.rc/1.9.2786/

Other financial products

Churchill, Craig, Dominic Liber, Michael McCord, and James Roth. 2003. *Making Insurance Work for Microfinance Institutions: A Technical Guide to Developing and Delivering Microinsurance.* Geneva: ILO.

Fletcher, Matthew, Rachel Freeman, Murat Sulatnov, and Umedjan Umarov. 2005. "Leasing in Development: Lessons from Emerging Economies." Washington, D.C.: International Finance Corporation.

Isern, Jennifer, Rani Deshpande, and Judith van Doorn. 2005. “Crafting a Money Transfers Strategy: Guidance for Pro-Poor Financial Services Providers.” Occasional Paper 10. Washington, D.C.: CGAP. http://www.cgap.org/docs/Occasional Paper_10.pdf

Isern, Jennifer, William Donges, and Jeremy Smith, 2006. *Making Money Transfers Work for Microfinance Institutions: A Technical Guide to Developing and Delivering Money Transfers.* Washington, D.C.: CGAP.

ITCLD. “Leasing: Exploring Micro-Leasing Services for Poor People’s Enterprises.” http://www.itcltd.com/microleasing/

———. “Leasing in Development: Lessons from Emerging Economies.” http://www.ifc.org. See also http://www.itcltd.com/microleasing/.

Westley, Glenn. 2003. *Equipment Leasing and Lending: A Guide for Microfinance.* Washington, D.C.: Inter-American Development Bank. http://www.iadb.org/sds/publication/publication_3402_e.htm

OTHER DOCUMENTS

Isern, Jennifer and Julie Abrams with Matthew Brown. 2008. *Appraisal Guide for Microfinance Institutions. Resource Manual.* Washington, D.C.: CGAP, March. http://www.cgap.org/p/site/c/template.rc/1.9.2972

Isern, Jennifer and Julie Abrams with Matthew Brown. 2008. *Appraisal Guide for Microfinance Institutions. Revision of 1999Appraisal Handbook.* Washington, D.C.: CGAP, March. http://www.cgap.org/p/site/c/template.rc/1.9.4394

Isern, Jennifer, Julie Abrams and Kim Craig with Matthew Brown. 2007. *Appraise.xls: Spreadsheet for Appraisal Guide for Microfinance Institutions*. Washington, D.C.: CGAP, March. http://www.cgap.org/p/site/c/template.rc/1.9.2968

Rosenberg, Richard. “Microcredit Interest Rates.” CGAP Occasional Paper No. 1. Washington, D.C.: CGAP, revised November 2002. http://www.cgap.org/p/site/c/template.rc/1.9.2696/

WEB SITES

MicroSave. Toolkits: http://www.microsave.org

CGAP Microfinance Gateway Hot Topic on Savings. http://www.microfinancegateway.org/p/site/m/template.rc/1.11.48257/

CGAP Microfinance Gateway Hot Topic on Microinsurance. http://www.microfinancegateway.org/p/site/m/template.rc/1.11.48248/

Microinsurance Network. http://www.microinsurancenetwork.org/

SESSION 1: WELCOME AND INTRODUCTION

Session Summary

OBJECTIVES: By the end of the session participants will be able to:

- State each other's names
- State the training objective and agenda
- Relate objectives to their own expectations

TIME: 85–93 minutes

SUPPLIES: Flipchart paper
Markers
Name tags or name tents (samples included)
Masking tape
Index cards
LED projector or overhead projector
Transparencies and markers

COURSE REFERENCE MATERIALS

For this session, the trainer should distribute all reading materials for advance reading at the beginning.

The *MBP Guide to New Product Development*, Monica Brand, ACCION International, August 2001
It Can Work: A toolkit for planning, conducting and monitoring pilot tests for MFIs: Loan Products, Michael J. McCord, MicroSave, 2003
It Can Work: A toolkit for planning, conducting and monitoring pilot tests for MFIs: Savings Products, Michael J. McCord, MicroSave, 2004
Microfinance Product Costing Tool, Brigit Helms and Lorna Grace, 2004
Looking Before You Leap (MicroSave-Africa) (PD3-H4)
Market Research for Client-Responsive Product Development (MicroSave-Africa)

TRAINER MATERIALS

PD1-M1 Product Development – Precourse Skills Audit Answer Guide
PD1-M2 Suggested Duration of Sessions
PD1-M3 Sample Subgroup File Folder Cover
PD1-M4 Sample Name Tents

PARTICIPANT MATERIALS

OVERHEADS: PD1-O1 Goal
PD1-O2 Objectives

HANDOUTS: PD1-H1 Product Development – Precourse Skills Audit
PD1-H2 Product Development Goal and Objectives

PREPARED FLIPCHART:

Prepare a flipchart with the list of personal information that participants will share during introductions including name, institution, position, time in position, one thing you would like the other participants to know about yourself, and the like.

Session 1: Welcome and Introduction

MICROFINANCE INSTITUTION BACKGROUND

1. *(2–5 minutes)* Representative of sponsoring organization welcomes participants and opens workshop.

2. *(2 minutes)* Representative introduces and turns session over to trainers.

3. *(5 minutes)* To set the stage, welcome participants to the course using the following points as a guideline:
    - Over the past 20 years a microfinance industry has emerged in response to the lack of access to formal financial services for most of the world's poor. Microfinance institutions (MFIs) serve an ever-increasing number of poor clients, but the demand for such financial services still far outstrips their capacity.
    - Many MFIs began as nongovernmental organizations (NGOs) that initially entered the financial business for social reasons. There are now thousands of new MFIs around the world; many are small but many more have grown to reach millions of people. As MFIs grow and become more business-oriented, managers have found they gradually lose their ability to maintain personal contact with what is happening at the field level and realize they cannot adequately manage their portfolio and financial operations without better information.
    - CGAP designed this course to share tools with microfinance institutions so that they may develop new or refined products in a systematic, ongoing process that will yield results. The course presents an overview of that process, providing definitions, tools, and examples. Nearly every component of the process can be followed up with a separate course (or even a PhD). Additional courses that are available are MicroSave Market Research for Microfinance and MicroSave Pilot Testing Products.
    - Though MFIs develop products all the time, some of them are not successful, or are successful without the MFI knowing why. The process introduced in this course is methodical, market driven, and client oriented. It promotes continuous feedback and sees product development as an integral and iterative part of delivering financial services. Using sound and tested product development techniques, the process sells investment today to prevent disasters and deliver greater benefits tomorrow.
    - Developing new products is a risky endeavor, but it is certainly necessary for the growth of your businesses and probably essential to their survival. Developing new products is generally a team effort that requires the input of a variety of people with a variety of interests, talents, and skills. Innovation in and of itself is not enough. You must market, distribute, and continually refine and improve the product in response to and anticipation of market needs and desires.

- Remember, most “new” products are not inventions (wholly new to the world), but innovations (enhancements of existing products).
- During this course we will begin to develop plans for how to research, design, cost, price, test, and roll out new and refined products for your MFI. We will give you the steps in the process, but it will be up to you to apply them in your MFI. Developing a financial product is not a simple linear process. It will require close examination and comparison of what the clients want with what you can offer and profitably provide.
- We will use a variety of adult learning techniques that will draw on your experience in this field. We also will refer to a case study throughout.
- We will work on an action plan that will help you apply what you have learned when you return to work, and together we will learn how to overcome the obstacles that may arise in product development. Remember, without your involvement, the course will not be a success.
- We hope that this course will help you understand the process of product development and apply such a process to your MFI.
- Before we get started let us find out who we are and why we came!

PARTICIPANT INTRODUCTIONS

Have flipchart with introduction instructions; substitute introduction activity as desired.

4. *(5 minutes)* Name tag mix-up**.** Explain that participants will now introduce themselves—in a participatory manner. Refer to the prepared flipchart and ask each participant to write the following on a blank piece of paper:

    - Name
    - The institution he or she works for, position, and time at that position
    - A personal/professional fact he or she would like to share with the group

5. *(10 minutes)* Give each participant the name tag of someone else in the group and ask each person to find the name tag’s owner and briefly exchange introductions. At the same time, the name tag giver should give the sheet of paper with his or her own information to the other person.

    Allow participants to circulate until everyone receives his or her name tag and has someone else’s introduction information.

6. *(15–20 minutes)* Have the group retake their seats, then have each person in turn stand up and introduce the participant whose name is on the information sheet. (This should be the person who gave back the name tag.)

7. *(2 minutes)* Explain that over the next four days they will get a number of chances to learn about each other. Then take a moment to have participants describe why they are taking the course.

Expectations

8. *(10 minutes)* Quickly divide the group into random subgroups of five or six and ask them to discuss their expectations of the course. Ask them to list the top five to seven expectations on a flipchart and prepare to present them.

9. *(5 minutes)* Post the flipcharts. Briefly review. Clarify points and merely note comments that are repeated. Tell participants that the class will review the lists in more detail shortly.

Precourse Skills Audit

10. *(15 minutes)* Explain that in order to fine-tune their time together it is helpful to hear what they already know. Tell them that there is a precourse audit they need to complete. Remind participants that if they knew all the answers there would be no need for them to attend this course. Joke that you hope there are some blank spaces so that you can keep your job! Distribute PD1-H1. Collect and mark for later analysis for group formation and course emphasis.

    While participants are taking the audit, review the expectations, note the points that will be met in the current schedule, and clearly mark the points that will not be met, in order to explain why and/or how the participants might get that information.

Workshop Objectives, Materials, Rules, and Logistics

11. *(5 minutes)* Using overheads PD1-O1 and PD1-O2 and handout PD1-H2, briefly go over the workshop goals and objectives, tying the sessions into the expectations expressed earlier by participants. If certain expectations will not be met, explain why. If you have prepared a schedule for the course (using suggested session times shown in PD1-M2), distribute as a handout and review.

12. *(2 minutes)* Explain that they have received a course binder, which will be used to file all course handouts received. Explain the handout numbering system. Distribute copies of relevant reading materials if desired.

13. *(5 minutes)* Complete a list of ground rules for the workshop by soliciting input from the participants (for example, start on time, everyone must participate, ask if anything is unclear, one person can speak at a time, there are no “stupid” questions). Main points should be written on a flipchart and posted so it can be used to remind participants later in the course what they agreed to.

    Add the following ground rule (or similar) at the end: The last person to enter the room will be the “energizer of the day.” Explain that when they feel that the session is dragging a bit, they should ask someone to lead a one-minute energizer to perk everyone up (this can be telling a joke, leading calisthenics, and so forth).

    Review any logistics (hotel, meals, break times, and so on).

CONCLUSION

14. *(2 minutes)* Remind participants that they are a vital part of the learning process; they will be able to build on the experience and knowledge of other participants, and share their own knowledge and experience for the benefit of others. State that the course will employ the latest in adult education methods: learning by doing**.** Participants will not be lectured to. They should allow the process to run its course. Although trainers will be available to answer questions, the best "remembering" comes from participants' own discoveries. End with "Let's get started!"

Trainer Notes:

- After completing this session, the trainer must remember to evaluate the precourse skills audit and decide on what basis to group participants. To facilitate group discussions, the trainer should try to form subgroups of mixed abilities and experiences. However, he or she then must monitor the groups, evaluate how they are functioning, and change group makeup as necessary. Making lists of several subgroup options at this point will help when the trainer needs to form different subgroups during the course.
- Trainers also may want to prepare the following in advance:
  – Photocopy the case study sheets on a different color paper than the normal handouts. It makes it easier to refer to and find them.
  – Create file folders in advance for the product development subgroups (use PD1-M3). In this workshop, product development subgroups will have the same group members throughout the development process. To prepare the folders in advance, glue the printout to the front of each file folder. The folders will help the groups keep their product design specs together and help them remember they are working on their own unique products. Distribute the folders in session 3 or 4, when the subgroups are formed.
  – Obviously if the groups are not working (not enough technical skill to complete the product design specs correctly or members of a group are not getting along or in a disagreement) the trainer must take steps to remedy this by either helping the group better understand the design specs, mediating the group, or changing its members.
  – Create flipcharts that summarize pertinent information about UNIbank, such as size (numbers of clients and portfolio), staff (some key names), branches, and so forth. The idea is to make it easier for participants to grasp the basic data, as well as make UNIbank more real to them. The flipcharts can be posted any time after session 3, when the case study is introduced.

PD1-M1

Product Development –
Precourse Skills Audit Answer Guide

1. Give three reasons why you would develop a new product.

- Client demand
- Unpredictability of existing products
- To increase client outreach, and so on
- To decrease client dropout rate

2. What are the steps of the product development process?

- Environmental and institutional context
- Market research
- Product concept/prototype design
- Costing
- Pricing
- Pilot testing
- Rollout

3. Who should be on a product development team? List by position.

Representatives of major departments: finance manager, management information system (MIS) manager, operations manager, head of branch supervision, and so forth.

4. Describe two types of qualitative and two types of quantitative market research.

Qualitative	Quantitative
• Focus groups, client feedback surveys • Seasonality analysis of household income, relative preference ranking, wealth ranking, cash mobility mapping, etc.	MIS portfolio reports, national interest rates survey

5. List the major characteristics of a credit product and savings product.

Credit product	Savings product
Answer examples: Amount, term, interest rate, collateral type, collateral amount, fees, and so on	Answer examples: Deposit frequency, withdrawal frequency, minimum balances, fees, and so on

6. What is activity-based costing?

Activity-based costing (ABC) is a method that traces costs through significant activities to products or other cost objects.

7. What factors would you consider when you price a product?

- Client preferences and needs
- Cost of product delivery
- Cost of borrowing funds
- Client loan servicing capacity
- Competition

8. List three to four activities that would be conducted in the testing phase of product development

- Composing the pilot test team
- Developing the testing protocol
- Defining the objectives
- Modeling the financial projections
- Developing customer marketing materials
- Installing/instilling all systems
- Documenting the product definitions and procedures
- Training the relevant staff
- Commencing the product test
- Reviewing the product, using the protocol

9. What institutional issues should be considered when developing new products?

- Institution's vision and strategy
- Institutional capacity (staffing, resources)
- Human resources and training requirements
- MIS capacity
- Risk management
- Organizational structure
- Institutional culture
- Strategic linkages

10. State two critical issues you have faced in developing products in your MFI.

PD1-M2

Suggested Duration of Sessions

(To be adjusted based on the trainer's knowledge of participants and market)

PRODUCT DEVELOPMENT COURSE

		Minutes	
		Min	***Max***
1	Welcome and Introduction	85	93
2	What is Product Development?	55	70
3	Product Development—An Overview	168	215
4	Market Research	300	350
5	Product Concept and Design	162	227
6	Costing 235		335
7	Pricing 135		180
8	Pilot Testing and Rollout	215	270
9	Epilogue and Summary	95	120
10	Action Plan, Closure, and Evaluation	30	45
	Total minutes	**1,480**	**1,905**
	Total hours *(divide by 60)*	**24.66**	**31.75**
	Total 6-hour days	**4.11**	**5.29**
	Total 6.5-hour days	**3.79**	**4.88**

UNIbank

Giving You the Credit You Deserve

Product Names:

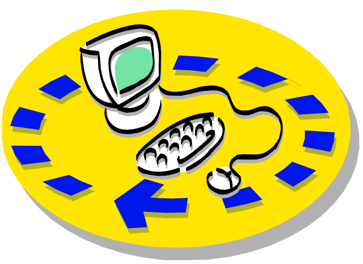
Savings	Credit

Group Members

PD1-M4

Sample Name Tents

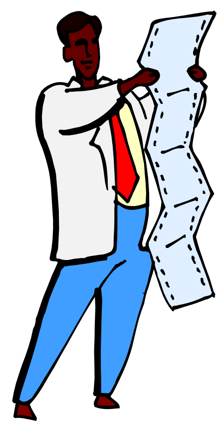
participant name goes here



I hear, I forget

I see, I remember

I do, I understand



To Use: Cut along solid lines, then fold on dotted line. Make sufficient copies (preferably copied on hard paper) for all participants. Distribute to participants and ask participants to write their name in the space provided.

participant name goes here

I hear, I forget

I see, I remember

I do, I understand

participant name goes here

I hear, I forget

I see, I remember

I do, I understand

Overheads

THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP PRODUCT DEVELOPMENT OVERHEADS"

PD1-O1

Goal

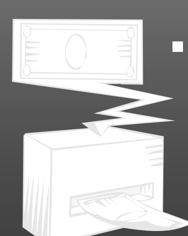
To provide guidelines for a *process* of product development that is:

- Systematic
- Client-focused
- Analysis-driven
- Results-oriented

PD1-O2

Objectives

- To describe the process of product development
- To assess institutional capacity for product development
- To apply various client-oriented market research techniques
- To interpret research results to design product prototypes
- To cost and price products
- To pilot test products



- To launch new products that result in increased profits and client satisfaction

Handouts

Product Development – Precourse Skills Audit

Name: ___________________________ Organization: ___________________________

Please answer these questions to the best of your ability. This is *not* a test, but it will help us identify which topics to emphasize during the course. Use the reverse side of this paper if necessary to complete your answers.

1. Give three reasons why you would develop a new product.

2. What are the steps of the product development process?

3. Who should be on a product development team? List by position.

4. Describe two types of qualitative and two types of quantitative market research.

Qualitative	Quantitative

5. List the major characteristics of a credit product and savings product.

Credit product	Savings product

6. What is activity-based costing?

7. What factors would you consider when you price a product?

8. List three to four activities that would be conducted in the testing phase of product development

9. What institutional issues should be considered when developing new products?

10. State two critical issues you have faced in developing products in your MFI.

Product Development

Goal

To provide guidelines for a process of product development that is:

- ✓ Systematic
- ✓ Client-focused
- ✓ Analysis-driven
- ✓ Results-oriented

Objectives

- ✓ To describe the process of product development
- ✓ To assess institutional capacity for product development
- ✓ To apply various client-oriented market research techniques
- ✓ To interpret research results to design product prototypes
- ✓ To cost and price products
- ✓ To pilot test products
- ✓ To launch new products that result in increased profits and client satisfaction

SESSION 2: WHAT IS PRODUCT DEVELOPMENT?

Session Summary

OBJECTIVES: By the end of the session participants will be able to:

- Define and list the characteristics of a microfinance product
- Distinguish between a new and refined product
- Define a process of product development

TIME: 60–80 minutes

SUPPLIES: Flipchart paper
Markers
Masking tape
LED projector or overhead projector

TRAINER MATERIALS

PD2-M1 Systematic Product Development Process
PD2-M2 Steps of Product Development Cycle – Puzzle (must be cut in pieces, one set given to each subgroup)

PARTICIPANT MATERIALS

OVERHEADS: PD2-O1 Financial Product Characteristics
PD2-O2 Definitions: New Versus Refined Products
PD2-O3 Percentages of New and Refined Products
PD2-O4 Product Development Process

HANDOUTS: PD2-H1 Product Development Process

PREPARED FLIPCHARTS:
Systematic Product Development Process (use PD2-M1)
Product Development Process (using PD2-O4)

Session 2: What Is Product Development?

INTRODUCTION TO PRODUCT DEVELOPMENT

1. *(5 minutes)* Tell participants that this is a course on financial—specifically microfinancial—product development. Ask: What is a product? Take a few answers and summarize to ensure a concrete definition is provided and the concepts in PD2-M1 are highlighted as appropriate.

   Give the answer: According to the Product Development and Management Association (PDMA), *product* is the term used to describe all the goods and services sold. Products are bundles of attributes (features, functions, benefits, delivery, and uses) that can be either tangible (as in the case of physical goods) or intangible, such as those associated with service benefits, or a combination of the two. A product is what the customer buys. The total product includes everything that is delivered to the client.

   Refer to PD2-M1 for further explanation of the systematic product development process and give analogies. Draw and show a flipchart of the process.

2. *(7 minutes)* Ask: What types of financial products do you have in your MFI? Answers should include credit, savings, insurance, transfers, and so on. For each product named, create a blank flipchart with that as the title. Then ask participants to brainstorm a list of characteristics, elements, or components of the product.

3. *(7 minutes)* Briefly review the terms listed on the flipcharts with participants. Ask them to very briefly explain or give an example of each. Use PD2-O1 as a backup. These characteristics are what define products and differentiate them from each other.

4. *(3 minutes)* Ask participants why and when the characteristics might differ by product. Steer discussion to the market focus and purpose of the product—for example, agricultural loans, working capital business loans, and short-term savings.

5. *(5–10 minutes)* Ask: Who has developed products for their MFIs? Ask for a show of hands. Ask if they were new products or refined or changed products. Now ask: What is the difference? Note that this is a much debated definition point—the PDMA defines “new” as a product (either a good or service) new to the business marketing it. That definition excludes products that are changed only in terms of promotion, price, place, and so forth.

   Ask for examples of new and refined products. Examples of new products for an MFI with only a group loan would include the introduction of an individual loan product, a savings product, or an insurance product. Examples of refinements might be a change in interest rate, in withdrawal frequency allowances, or in loan size. Consider using a quiz-type interaction to illustrate the point. For example, ask: If you were to change the interest rate of one of your products would that be a new or refined product?

Give this example: If someone only offers credit and then introduces savings, that is definitely a new product. If someone changes only the loan term or the price, that is not new—it is refined, changed, innovated. Show PD2-O2 to emphasize. Avoid getting too bogged down in the distinction. What matters most is that, whether a product is “new” or “refined”, the same product development process should be followed because the process is geared to evaluate client perception and therefore lead to products that will interest them

6. *(5 minutes)* Summarize that it is not always necessary to design a totally new product; participants should remember that they can choose to refine existing products, which is also an important strategy. Remember a new product does not have to be an entirely new invention. The majority of new products are innovations based on existing products. Emphasize this point using PD2-O3.

   Emphasize that whether the product is technically new or refined, participants should follow the same process when developing it. Even if someone is only changing the loan he or she should follow a process that includes proper research, design, piloting, costing, pricing, testing—all of which are necessary for success. How does one decide—new or refined?

7. *(10–15 minutes)* State: We have reviewed what *product* means. Now let us look at the next word: *development*. Invite participants to spend some time thinking about what product development is. Introduce a small group exercise to define product development. Divide the group into neighboring subgroups of two to four members each. Distribute the paper slips cut from PD2-M2 to each group. Tell them that they are to study the concepts on the paper slips, remove the concepts that do not apply to product development, and then sequence the remaining items that do apply to product development.

   Not all of the PD2-M2 pieces are part of the process, but have been included to provoke participants to think about the process. Consider adding or removing some of the options to reduce time or to better meet the group’s level.

8. *(5–10 minutes)* Get the group’s attention and ask participants to share their responses and sequences with a neighboring subgroup.

9. *(5 minutes)* Tell the group that many terms and flowcharts are used for this process, but all refer to the same basic activities. (For example, according to the PDMA, the process includes strategy, organization, concept generation, creation and evaluation of a product and marketing plan, and commercialization of a new product.)

   Show and explain PD2-O4; hang the flipchart of the same to give an overview of the framework of the course. Remind participants that the process is iterative and ongoing, rather than linear. Distribute handout PD2-H1.

10. *(5 minutes)* Take any remaining questions or comments. Bridge to the next session by telling the group that now that they are all on the same page with respect to what product development is, the discussion will focus next on its merits and explain the steps.

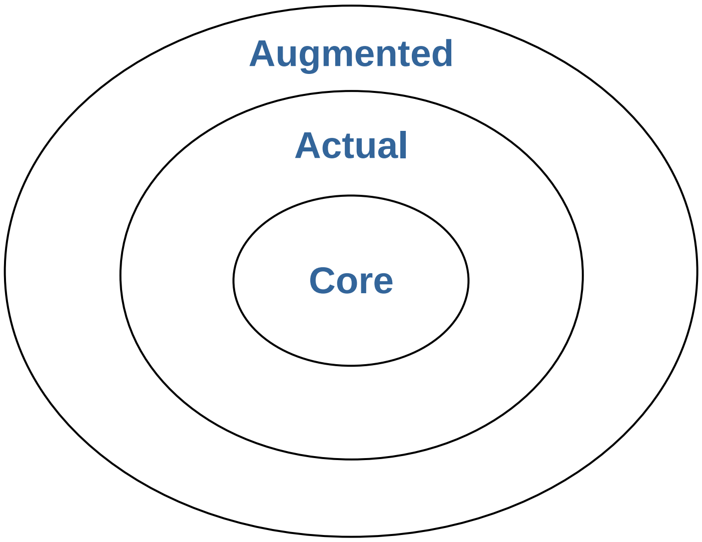
Trainer Note:

Trainer may want to give participants time to prepare for the skit to be acted out in session 3 (Case Study Part 2A).

PD2-M1

Systematic Product Development Process

What is a product?



- **Core—*why***
  - **needs**
  - **wants**
- **Actual—*what***
  - **terms**
  - **rate, guarantee, etc.**
- **Augmented—*how***

Source: PowerPoint presentation developed by Monica Brand for ACCION.

This picture helps us think about what a product is in a way that is distinct from the conventional conception. The client—or more specifically, the client's needs and wants—are seen as the core product**.**

Typically, new product development focuses on what is referred to as the actual product—in other words, the specific terms such as *interest rate*, *term length*, *type of guarantee*, and so forth. But the reason a client buys a product is about satisfying needs and wants.

The distinction might seem slight, but it has strong implications for developing products. Take the example of a florist. What does a florist sell? The common answer is flowers, but it is not quite exact. Flowers are the actual product, but the core product is love, sympathy, gratitude—even sex.

The product is augmented by its packaging and delivery method (that is, does the arrangement have a bow, arrive in a vase, come via overnight delivery, or arrive with a card?). With the focus on the core, in a situation such as sending flowers to express sympathy for someone who has lost a loved one, the most important feature of the total product is the note that's attached, not the type of flowers.

What does this conceptual framework imply for the development of new products? First, that the process needs to be bottom up (market-driven). And, second, that the product must be continually validated in the marketplace with focus groups, market research, pilot tests, and so forth.

New product development

Karen Stewart of Richard Stockton College of New Jersey offers the following approach to introducing the concept of new product development:

To help introduce the concept of new product development, I ask students to bring either a new product to class or an ad for a new product. Students are then asked to share with the class this new product idea. In addition to describing this new item, students must also indicate whether the product represents:

a. a new-to-the-world product (10 percent of all new products introduced each year)
b. a new product line (20 percent of all new products)
c. an addition to existing product lines (26 percent of all new products)
d. an improvement or revision of existing products (26 percent of all new products)
e. a repositioned product (7 percent of all new products)
f. a lower-cost product (11 percent of all new products)

From this it is evident that textbook authors who have written about new product development are correct when they state that most new products are either additions to existing product lines or improvements/revisions of existing products. We then talk about the reasons for this pattern. I also ask the students to indicate whether they believe their new product will be among the few new product ideas that are truly successful. This provides a good opportunity to address why companies spend a considerable amount of time and effort developing new products even though the chances of success are small. We can then discuss the new product development process and the factors that contribute to new product success and product failure.

Steps of Product Development Cycle – Puzzle

Cut out each topic; distribute one complete set to each subgroup in step 7. The assignment is for the participants to determine which activities are included in the product development process and in what sequence.

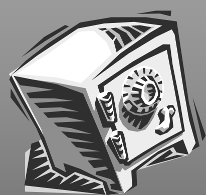
Institutional capacity assessment	**Client visits**
Market research	**Going to the bank**
Client exit data	**Collecting repayments**
Client application forms	**Paying staff**
Competition	**Taking leave**
Disbursing loans	**Evaluation**
Training credit officers	**Tea breaks**
Hiring new staff	**Staff performance appraisals**
Budgeting	**MIS**
Costing	**Financial analysis**
Pricing	**Loan portfolio reports**
Institution's history	**Recruiting clients**
Macroeconomic environment	**Attending study tours**
Market segmentation	**Launch**
Prototype development	
Product testing	
Delivery	

Overheads

THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP PRODUCT DEVELOPMENT OVERHEADS"

PD2-O1

Financial Product Characteristics



Credit

- Term—frequency, length
- Interest rate
- Interest-rate method
- Loan amount
- Collateral type
- Collateral amount
- Fees

Savings

- Fees
- Deposit Frequency
- Withdrawal frequency
- Minimum balances

Insurance

- Fees
- Premiums
- Use

CGAP

PD2-O2

Definitions: New Versus Refined Products

NEW = a product new to the MFI that is marketing it

REFINED = an improvement or addition to an existing product

The end result is….

products appear in some degree new and desirable to the consumer

CGAP

PD2-O3

Percentages of New and Refined Products

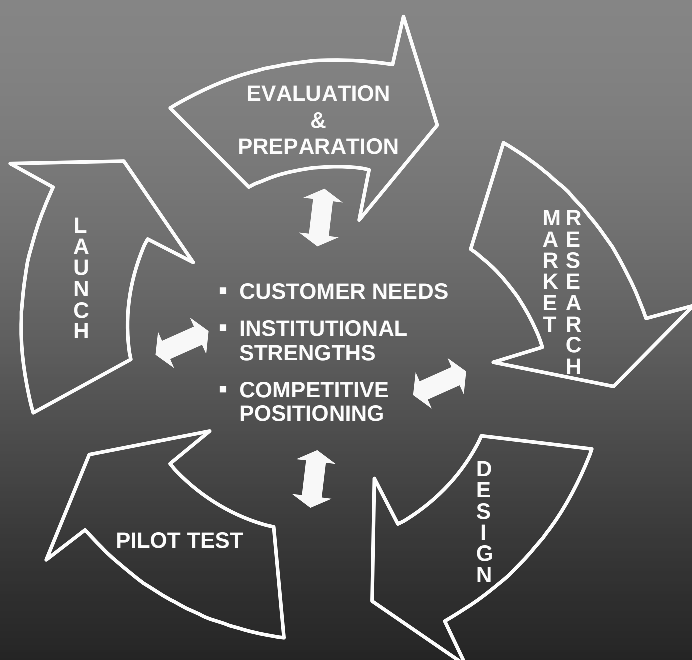
Is your product...

- **a new-to-the-world product?**
  (10 percent of all new products introduced each year)
- **a new product line?**
  (20 percent of all new products)
- **an addition to existing product lines?**
  (26 percent of all new products)
- **an improvement/revision of existing products?**
  (26 percent of all new products)
- **a repositioned product?**
  (7 percent of all new products)
- **a lower-cost product?**
  (11 percent of all new products)

Source: **Karen Stewart, Richard Stockton College of New Jersey.**

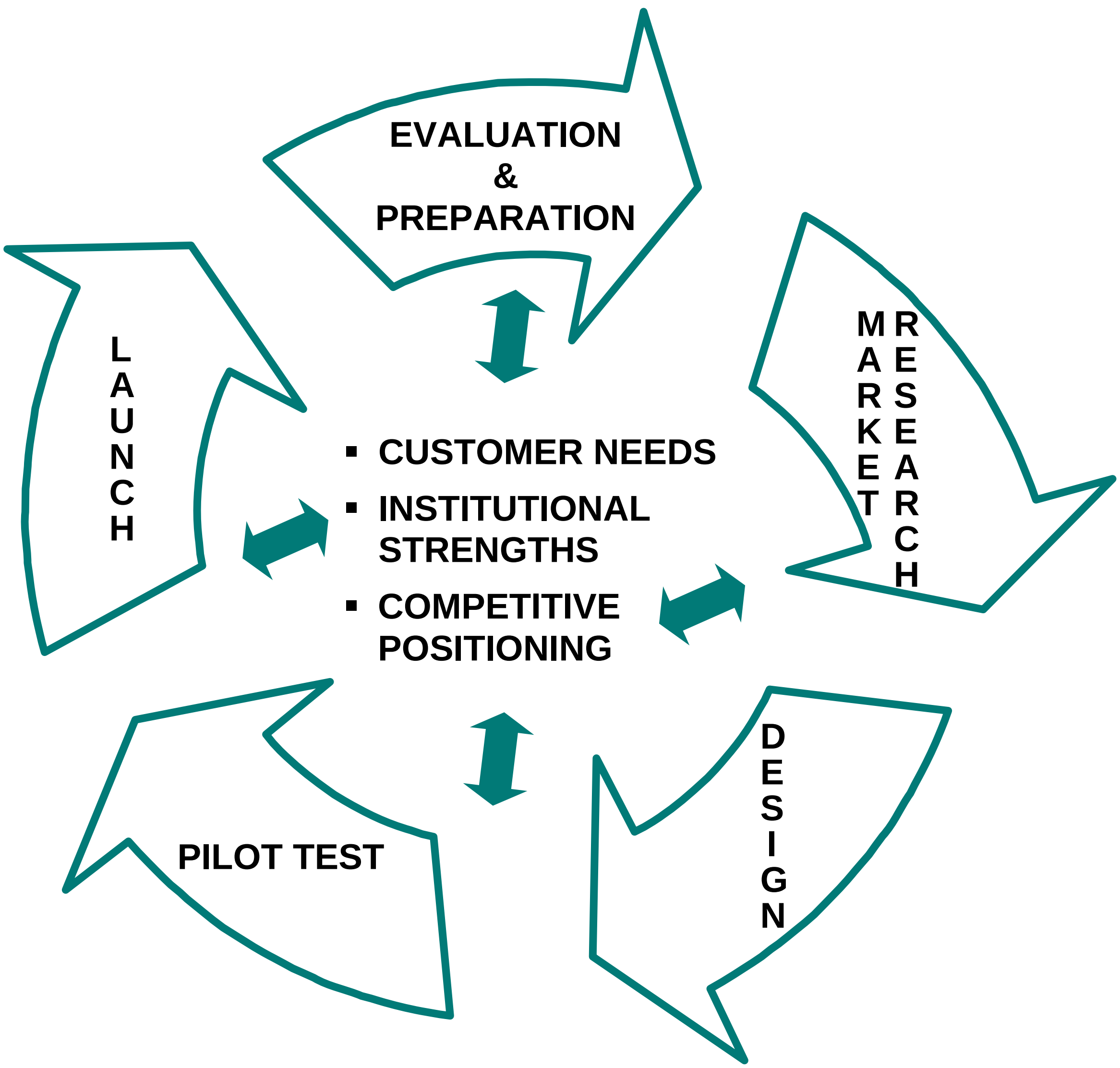
PD2-O4

Product Development Process



Handouts

Product Development Process



SESSION 3: PRODUCT DEVELOPMENT – AN OVERVIEW

Session Summary

OBJECTIVES: By the end of the session participants will be able to:

- Explain the importance of product development to an organization's strategy
- Describe the steps involved in a systematic product development process
- Discuss the implications of these steps on an MFI's human resources, risk management, organizational structure, institutional culture, vision, and so forth
- Explain the context of the case study—UNIbank
- Identify the optimum product development team

TIME: 168–215 minutes

SUPPLIES: Flipchart paper
Markers
Masking tape
LED projector or overhead projector

PARTICIPANT MATERIALS

OVERHEADS:
PD3-O1 Product Development Steps
PD3-O2 UNIbank – Giving You the Credit You Deserve
PD3-O3 Product Development Success Factors
PD3-O4 Driving the Point Home – Fail If You Want To **Optional**

HANDOUTS:
PD3-H1 Product Development Implications – Matrix Worksheet
PD3-H2 UNIbank – Overview Worksheet
PD3-H3 UNIbank – Team Formation Discussion Guidelines
PD3-H4 *Looking Before You Leap* (distributed at beginning of workshop)

CASE STUDY:
Part 1 Historical Background and Current Situation: The Senior Staff Meeting
Part 2A Skit – Ben's Presentation
Part 2B A Team Effort

PREPARED FLIPCHART:
Steps in Product Development (same as PD3-O1)

Session 3: Product Development – An Overview

INTRODUCTION TO PRODUCT DEVELOPMENT

1. *(1 minute)* Tell participants that this session will now take a closer look at the product development process and begin to identify the steps in the process. Advise them that they also will be participating in a skit to illustrate the product development process, based on a case study, and that they will be given a short break later on to prepare for this activity.

ORGANIZATIONAL IMPACT

2. *(5 minutes)* Take participants through PD3-O1, explaining and asking for questions. (Make flipchart prior to class.) Go over steps in the product development cycle. Remind participants that it is an iterative and ongoing process, not necessarily a linear process (even though the points are presented linearly). Briefly relate the process to the previous cycle discussed in session 2 (PD2-O4).

   Take any remaining questions or comments on the process. Continue on to the next section, asking what impact the process has on MFI operations.

3. *(5 minutes)* Ask participants to think about how these steps could affect their MFI's operations. For example, in general, what institutional areas, functions, or aspects might be affected when a new product is introduced? Take random answers and write them on a flipchart. Answers should include human resources, MIS, training, risk management, organizational structure, institutional culture, vision, budget and profitability, strategic linkages, operations, and so forth.

4. *(15–20 minutes)* Hand out PD3-H1, Product Development Implications – Matrix Worksheet. Ask participants to work again in the same groups as before to complete the matrix. Have them consider not only which departments or operations will be affected, but also in what ways they might be affected.

5. *(10 minutes)* Facilitate a general discussion on what was discovered. Ask participants what they learned from this exercise. Comments may include (1) PD affects every arm of the institution; (2) there are different implications for each step of the process; (3) it is not a simple task; (4) it needs to be thought through clearly: (5) it requires the involvement of many people, much time and money: and so on.

6. *(3–5 minutes)* Summarize the discussion and draw conclusions that relate back to the need for a systematic, ongoing, iterative process of product development—the reason everyone is here!

Case Study Introduction and Skit

7. *(25–40 minutes)* Explain that they will be using a case study during the remainder of this course and that, as with all case studies, it is a simulation. Tell participants that the case is based on a number of combined, real MFI experiences. Explain that, when using a case study, the trainer will use a number of shortcuts to illustrate points and techniques in a short period of time. Participants are not expected to be able to develop new products in one week! In real life, it would take participants far longer—from 5 weeks to 20 weeks—to complete the process.

   Ask again what the first step of product development is. (Answer: to understand the context, environment, and methodology of a basic institutional analysis.) Explain that they will now begin to look at the case, to examine what is going on, and to begin to identify and solve problems. Show PD3-O2—UNIbank background, and introduce UNIbank. Distribute Case Study Part 1 and ask participants to read it and be prepared to act out a skit based on their reading and the discussion that is about to begin.

8. *(5 minutes)* Ask participants for initial reactions and comments. Ask them to briefly explain UNIbank's current position**.** For example, the organization is growing, but it is experiencing client dropout. It thinks a new product will help it but does not know what the implications are.

9. *(20–25 minutes)* Divide group into preassigned subgroups (based on the precourse skills audit results). Ask them to discuss the questions on PD3-H2.

   Take great care in forming the groups at this point. Participants will need to remain in the same groups throughout most of the remainder of the course. Each subgroup will actually be conducting market research analysis and developing a prototype, including costs, price, and so on, for a unique product. The work will be much clearer if the participants stay in the same group and work with the same products throughout these stages.

10. *(5–10 minutes)* Reconvene the large group and review questions 1–4**,** discussing only the main points or controversial points. (Remember that the participants have been discussing the case study for the past 25 minutes.)

11. *(5 minutes)* Focus the discussion on UNIbank's product development process thus far. Ask rhetorically: What do you think? Are they on the road to success? Let's see what happens at Ben's next meeting.

Skit Performance and Discussion

12. *(3 minutes)* Distribute Case Study Part 2A and act out the skit.

13. *(5 minutes)* Process the skit, briefly discussing in general terms what happened.

14. *(15–20 minutes)* Divide the group into neighboring triads and ask the participants to discuss the questions on page 2 of Part 2A.

15. *(5–10 minutes)* Focus on the information available from the case study. Facilitate a discussion using the following questions as a guide:
    - What is UNIbank's vision?
    - What information is available from Ben's presentation? (Answers include exit data, portfolio – sectorwise, national statistics on poverty, statistics on competition, information from only one branch, and information on savings regulation.)
    - What information is missing? Answers include reasons for satisfaction and dissatisfaction, information from other branches, demographics, direct client needs, information on competition for saving and insurance products, technology, and more.

16. *(10 minutes)* Now focus on getting the missing information. Ask and discuss: How does your MFI go about collecting information? What information does your MFI collect? How would you rate your MFI's information-gathering efforts in its product development? Does your MFI apply a systematic process or is information-gathering haphazard? Does it succeed in gathering information?

17. *(15–20 minutes)* Distribute Case Study Part 2B and PD3-H3, UNIbank – Team Formation Discussion Guidelines. Ask participants to read the case and complete the handout. Summarize main points. Process and emphasize the purpose of the team, composition, problems arising in composing the team, team management, the time line, and so forth.

18. *(10 minutes)* Ask participants to reflect on their own experiences and think back to UNIbank. Discuss: What are some of the factors that could make product development a success or a failure? List critical points on a flipchart. Reinforce with PD3-O3, Product Development Success Factors, and PD3-O4, Driving the Point Home—Fail If You Want To. (The latter is **optional** if the group might get sidetracked and want to argue with the negative points being made.)

    Summarize, making the point that some businesses have discovered the hard way that people do not always want something new. New products do fail. Many factors contribute to the success of a product. PD3-O3 illustrates the top 10 factors for success.

19. *(5 minutes)* Close this session and link to the next session. Explain that now participants have some basic information about the product development process and about UNIbank. So far they have recognized some problems, appointed a product development team, and realized they need information before action. In the next session, they will proceed with the next step of product development, which is market research.

Trainer Note:

The trainer may find it helpful to post a flipchart that summarizes pertinent information about UNIbank. It can include size, number of clients, and portfolios; staff (some key names); branches; and so on. The goal is to make it easier for participants to grasp the basic data and also to make UNIbank more real to them.

Overheads

THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP PRODUCT DEVELOPMENT OVERHEADS"

PD3-O1

Product Development Steps

Environmental and institutional analysis

Market research

Product concept/prototype design

Costing and pricing

Pilot testing

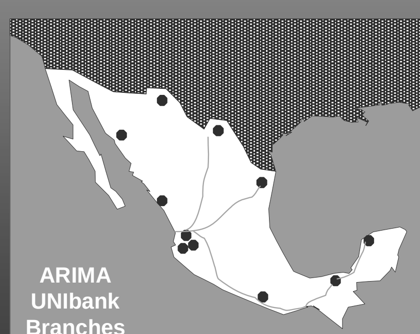
Rollout

CGAP

PD3-O2

UNIbank

Giving You the Credit You Deserve



CGAP


PD3-O3
Product Development Success Factors
1. Unique, superior product
2. Customer-focused, market-driven
3. Homework
4. Sharp, clear, early product definition
5. Quality of execution
6. Correct organizational structure and climate
7. Focused project selection decisions
8. Planning and resourcing the launch
9. Role of top management
10. Speed—but not at the expense of quality
©CGAP/World Bank, 2009
CGAP


PD3-O4
Driving the Point Home—
Fail If You Want To
Don’t bother to analyze the market
Rush to the market with a defective product
Let wishful thinking drive development projections
Don’t bother with timing
Just ignore the competition
Spend millions for R&D but not one cent on marketing
Believe a small market is better than none
Positioning!! What’s that?
©CGAP/World Bank, 2009
CGAP

Handouts

Product Development Implications – Matrix Worksheet

	Market research	Product design	Costing/ pricing	Pilot test	Rollout
Human resources					
Information systems					
Training					
Organization structure					
Institutional culture					
Profitability					
Strategy and mission					
Funding/ liquidity					
Strategic linkages					
Risk management					

UNIbank – Overview Worksheet

1. What are some of the characteristics of UNIbank's existing product(s)?

2. What prompted Ben to think about new products for UNIbank?

3. Why does it seem important for UNIbank to develop new products or refine its existing products?

4. What are some of the implications of product development for UNIbank's human resources, MIS, training, risk management, organizational structure, institutional culture, strategy, vision, mission, profitability, strategic linkages, and liquidity?

5. Comment on UNIbank's product development process so far.

UNIbank – Team Formation Discussion Guidelines

1. Do you think Ben made a wise choice of personnel for the team? Why or why not?

2. Why do you think it is important to have a team effort for product development?

3. Did Ben overlook any important skills that might be needed on the team?

4. What organizational factors can make it difficult to organize such a team?

5. When should a product development team be organized?

6. Who should decide on the makeup of the team?

7. How would you selec t (or have you sele cted) a product development team in your organization?

Looking Before You Leap:

Key Questions That Should Precede Starting New Product Development

Wright, Graham, Monica Brand, Zan Northrip, Monique Cohen, Michael McCord, and Brigit Helms. "Looking before You Leap: Key Questions That Should Precede Starting New Product Development." 2001. http://www.microfinancegateway.org/p/site/m/template.rc/1.9.28773

Introduction

The microfinance industry is one of the few remaining industries in the world that is primarily product- rather than market-driven. With the rising recognition of the costs associated with high levels of dropouts and their implications for achieving sustainability, there is a growing appreciation of the need to deliver client-responsive products. Increasing levels of competition in many markets have also highlighted the importance of a market-driven approach to microfinance. There is little reason to doubt that the microfinance industry will follow the trend of the commercial world towards a market-driven approach and that MFIs that do not respond to the needs of their clients will eventually fail.

Many MFIs are looking at new product development as a way of responding to their clients' needs. However, they often do not understand the complexity and cost of product development. This note suggests a few essential questions to ask prior to setting about new product development.

1. Motivation: "Are we starting product development to make our MFI more client-driven?"
2. Commitment: "Are we setting about product development as a systematic process based on defined objectives?"
3. Capacity: "Can our MFI handle the strains and stresses of introducing a new product?"
4. Cost-effectiveness and profitability: "Do we fully understand the cost structure of our products?"
5. Simplicity: "Can we refine, repackage, and relaunch existing product(s) before we develop a new one?"
6. Minimize confusion, complexity, and cannibalization.[1] "Are we falling into the product proliferation trap?"

1. Are we starting product development to make our MFI more market-driven?

MFIs profess many motivations to undertake product development, and it is essential that the Board, management and staff involved in the process of product development clarify their motivations. With increasing levels of competition within the industry, many MFIs set about product development to find new clients or retain existing clients whose needs or expectations have changed. Other MFIs initiate product development activities in response to high levels of dropout or exit among their clients. Still others develop new products to help leverage existing infrastructure, improve efficiency and profitability, or for other institutional considerations. These are all good, indeed compelling, reasons for considering starting the process of product development.

[1] Cannibalization is when the introduction of a new product diverts sales from a company's existing products and when revenue is displaced, rather than created.

Other less convincing reasons for initiating product development include getting access to the growing plethora of “innovation funds” available from donors and the microfinance industry’s current interest in product development. *Effective* product development is driven by an MFI’s desire to become client-responsive and rarely by external factors.[2] Those MFIs developing products for reasons other than a commitment to responding to the market and becoming demand-driven may well discover that they have entered into a more complex and time- and resource-consuming process than expected.

On the other hand, MFIs have to live with the products they deliver, and the investment in developing client-responsive services may well be the most important and cost-effective one they ever make.

2. Are we setting about product development as a process?

As with the formal sector banking industry several decades ago, the microfinance industry is largely characterized by top-down or “bathtub” product development. This model of product development typically comprises a senior manager having what appears to be a good idea in the bath and then instructing all branches to offer the resulting new product as of a specified date. Under this model, there is little or no market research, inadequate costing/pricing of the new product, no attempt to describe the product in clear, concise client language, no pilot testing, and no attempt at a planned rollout of the new product. The introduction of the new product is simply dictated from above.

A top-down or bathtub approach to product development can have expensive consequences—as many MFIs that have introduced products without following a systematic process have discovered. From Latin America to Asia, from Africa to Eastern Europe, MFIs have experienced significant and costly problems as a result of rushing new products into the marketplace without following a methodical set of procedures. These problems have arisen in such diverse areas as:

- Limited demand for the new product (in some extreme cases, additional client dropouts)
- Cannibalization of existing products by the new one
- Ineffective/inappropriate marketing of the new product
- Set-up costs far in excess of those anticipated
- Poor profitability of (or more specifically losses generated by) the new product
- Management information systems unable to monitor/report on the new product
- Poor product supervision by midlevel managers
- Serious client problems when product alterations are made to address lack of profitability
- Staff inadequately trained to market and deliver the new product
- Distortion of staff incentives and thus their activities in the field

Experience has repeatedly shown that investing small amounts up front in a systematic process of product development can save large amounts and/or generate larger amounts of business in the future. One step of the product development process leads to and informs the next…and provides a disaster/reality check that insulates the MFI from subsequent problems. A proper process also provides the MFI an opportunity to correct problems or respond to issues while they are limited by the confines of each step.

[2] Although some product development is appropriately spurred by external factors such as changes in the legal/regulatory environment.

WHAT IS THE PROCESS?

The product development process is a systematic step-by-step approach to developing new, or refining existing, products:

1. **Evaluation and Preparation**

   1.1 Analyze the institutional capacity and "readiness" to undertake product development.

   1.2 Assemble the multidisciplinary product development team, including "product champion."

2. **Market Research**

   2.1 Define the research objective or issue.

   2.2 Extract and analyze secondary market data.

   2.3 Analyze institution-based information, financial information/client results from consultative groups, feedback from frontline staff, competition analysis, and so forth.

   2.4 Plan and undertake primary market research.

3. **Concept/Prototype Design**

   3.1 Define initial product concept.

   3.2 Map out operational logistics and processes (including MIS and personnel functions).

   3.3 Undertake cost analysis and revenue projections to complete initial financial analysis of product.

   3.4 Verify legal and regulatory compliance.

   3.5 On the basis of the above plus client feedback sessions, refine the product concept into a product prototype in clear, concise, client language.

   3.6 Finalize prototype for final quantitative prototype testing or pilot testing, according to the risk/cost nature of the product.

4. **Pilot Testing**

   4.1 Define objectives to be measured and monitored during pilot test, primarily based on financial projections.

   4.2 Establish parameters of pilot test through the pilot test protocol, including sample size, location, duration, periodic evaluation dates, and so forth.

   4.3 Prepare for pilot test, install and test systems, draft procedures manuals, develop marketing materials, train staff, and the like.

   4.4 Monitor and evaluate pilot test results.

   4.5 Complete recommendation letter documenting the results of the pilot test, comparison with projections, lessons learned, finalized systems/procedures manual, initial plans for the rollout, and so forth.

5. **Product Launch and Rollout**

   5.1 Manage transfer of product prototype into mainstream operations.

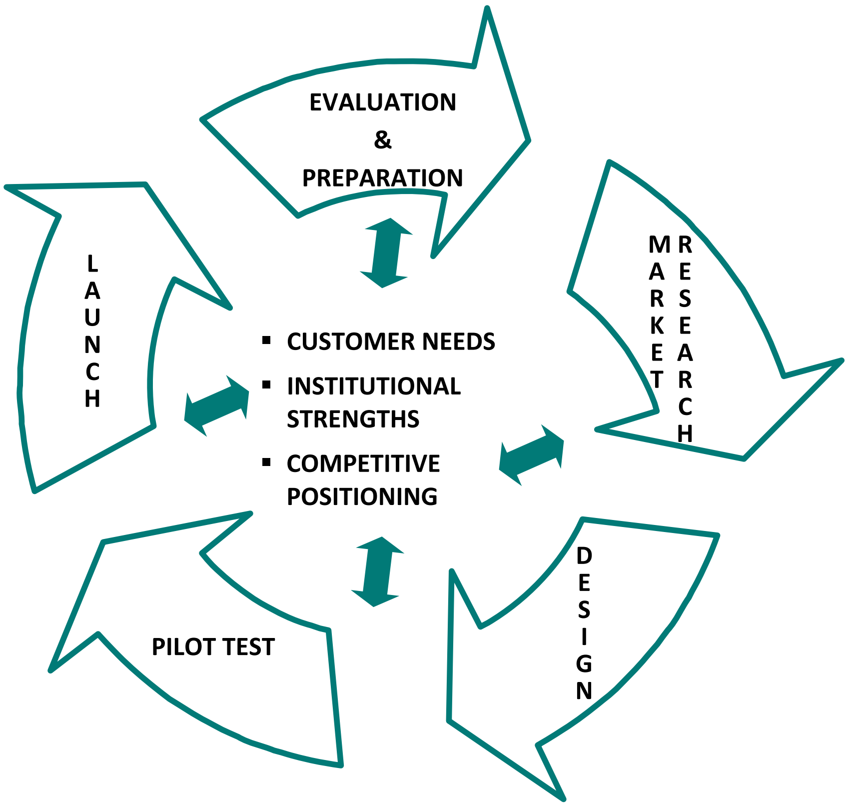
   5.2 Define objectives to be measured and monitored during rollout based on financial projections.

5.3 Establish parameters of rollout through the rollout protocol including schedule, location, tracking, budget, and process.

5.4 Prepare for rollout, install and test systems, finalize procedures manuals, develop marketing materials, train staff, and the like.

5.5 Monitor and evaluate rollout process and results.

Systematic Product Development Process



3. Can our MFI handle the strains and stresses of introducing a new product?

The process of product development consumes time and money. It often highlights opportunities or needs to change central elements of an MFI's systems. MFIs should therefore carefully consider before jumping into product development the questions: "Are we really ready?" "Do we have the resources?" and "Are we really committed to this?" As a first step to answering these questions, the MFI should conduct a thorough institutional analysis.

3.1 Institutional Strategy

The institutional analysis should start with a review of the MFI's institutional strategy and the business plan to achieve it. The MFI should have a business plan that both includes and specifically allocates funds for product development. This requirement will necessitate the preparation/ integration of the product development process into the cash flow budget prepared with the business plan to clearly document the resources allocated to product development and the expected returns. These business plan components set out the institutional priority placed on product development as a controlled and integrated part of the MFI's overall strategy.

3.2 Financial Viability

The MFI should also analyze its current and projected financial viability, including capacity for managing liquidity, ensuring full product costing of current products, and attaining self-sufficiency. A new product can seriously affect financial viability and proper financial management, and an MFI should manage and track these key performance areas prior to embarking on any product development.

3.3 Organizational Structure and Philosophy

For effective product development, an MFI needs an organizational structure and philosophy that encompasses and encourages both a customer-service orientation and a culture of innovation. This structure will require effective and efficient internal communications among all levels. Good communication allows the MFI to enforce conformity to standard procedures in branches (through the development and use of procedures manuals), with clear authority levels and successful delegation by management. In addition, the MFI will need a management culture of, and systems for, listening to its frontline staff with a view to optimizing client service. Finally, the MFI's Board must have the commitment to customer service and the will to follow the product development process in a systematic and structured manner.

3.4 Human Resources

The MFI will also need the human resources to conduct product development in terms of the availability and experience of appropriate staff. Product development requires training of existing staff and therefore a strong training department or other training options. Low staff turnover will make the product development process easier and the process of testing new or refined products more valuable and informative. Finally, the MFI will need to dedicate high-quality management resources to the product development team to oversee and implement the process.

3.5 Marketing

An MFI serious about client-responsive product development will need to focus on marketing to track progress of existing products, formally assess competition on a regular basis, and understand the MFI's strengths and weaknesses relative to that competition. The MFI should also track the results of marketing efforts on a regular basis to assess their effectiveness.

Prior to initiating product development, the MFI should ensure that it has some marketing capacity available. The MFI should **already** possess skills in assessing client needs and satisfaction (including the institutional ability to perform qualitative research), tracking results of marketing and products, and evaluating its position within the market. This capacity can be in-house or (more rarely) can be contracted out to market research companies.

3.6 Systems

The MFI should complete a thorough review of its existing systems with a view to optimizing them in response to client needs and organizational efficiency goals prior to entering into product development. Current systems form the basis of new product systems and so they should be capable, user friendly, accurate, timely, and comprehensive in reporting and tracking. These features pertain to both electronic and manual systems. A process review of the systems assesses staff satisfaction with current systems, and analyzes the ability of the systems to deliver accurate, timely, comprehensive data to users.

The system should encompass procedures for monitoring and auditing financial controls, including external audits, as well as a manual or electronic system able to track financial and nonfinancial data by product and branch.

Current systems will require the flexibility to accommodate new products. Given that new products will create additional work for existing systems, these should have significant excess capacity available or the MFI should plan to add this additional capacity. Finally, it is important to note that in many cases new products will not only require modifications to the information systems but may also necessitate completely different delivery systems.

In *summary*, an MFI should already:

- Practice the level of tracking and management required of a new product
- Understand the capacity issues in all relevant departments
- Have the will and full commitment of management and the Board behind the process
- Possess or have available staff and systems that can manage, implement, and develop the new product
- Have the capacity to train all relevant staff **before** significant funds are expended on the new product development process

4. Do we fully understand the cost structure of our products?

In view of increasing professionalism of MFIs and the competition in the MFI marketplace, it is essential that MFIs understand exactly how much each part of their operations costs to facilitate informed management decisions. Key decisions include how to increase profitability by cutting costs and/or increasing income; how to assess product-level performance, and if necessary modify the price of existing products; whether to accept and implement new products; and how to price new products.

Product costing on a simple allocation basis is a relatively straightforward exercise which provides the MFI with a wealth of information and activity-based costing, while more complex activity-based costing provides additional information on how and why costs are incurred. This information is of great value to management teams committed to cost-efficient operations and:

1. Determines the full costs of delivering products
2. Determines the profitability/contribution of the products, including over time
3. Assists making informed decisions about selection of products, including cost/benefit analysis
4. Promotes a high-quality MIS
5. Facilitates development of cost/profit centers
6. Reveals hidden costs
7. Instills cost-consciousness among product/service department managers— enhances productivity
8. Facilitates the pricing of current/future products
9. Provides a basis for business planning and investment decisions (e.g., which product to market, etc.)
10. Can be used as a basis for variance analysis (budget v. actual comparisons, etc.)
11. Provides important insights that assist with identifying inefficient procedures
12. Facilitates re-engineering processes and procedures used to deliver the MFI's products

5. Can we refine, repackage, and relaunch existing product(s) before we develop a new one?

Product refinement fine-tunes or adjusts existing products, often with limited effect on the existing systems—for example by changing the interest rate or marketing strategies of an existing product.

New product development is the process of developing a brand new product—for example a housing loan or a contractual savings product. Prior to starting the process of *new* product development, MFIs should give careful consideration to options for refining, repackaging, or relaunching their existing products. Product refinement is considerably less expensive, time-consuming, and disruptive than new product development.

Market research often shows that MFIs simply need to change the way that their staff talk about or describe an existing product to bring in new clients or retain those who might otherwise leave. This slight change is clearly one of the least disruptive forms of product refinement since it only requires that the MFI invest in retraining staff and develop appropriate marketing materials. Similarly, refining smaller, client-sensitive details of existing products can often yield significant results at a relatively low cost.

Opportunities for product refinement can arise from *both* the front- and back-office aspects of the existing product. For example, increasing the efficiency of the back-office staff or systems can have a significant effect on the demand for the product and the retention of clients. For instance, increased efficiency can result in faster loan disbursements in response to loan applications or decreased interest rate or fees as a result of cost reductions. Re-engineering back-office systems is as much of an innovation as developing a new product, a fact that should be clearly communicated to those administering donors' innovation funds.

Upon completing the process of refining or repackaging an existing product—whether in the front office, the back office, or both—the MFI can relaunch the existing product. The relaunch provides an important marketing opportunity through which the MFI can demonstrate its demand-led approach and its commitment to meeting the needs of its current and future clients.

6. Are we falling into the product proliferation trap?

Product proliferation is increasingly common among some MFIs that try to tailor products to respond to individual market segments with specific needs. These MFIs can find themselves offering many slightly different loan products. A multitude of products often results in:

- Confusion amongst front-line staff and clients
- Complex delivery systems
- Complicated management information systems
- Cannibalization among products

MFIs Cannot Do Everything!!

When evaluating the diverse needs of clients, the MFI should recognize that it cannot design a product to respond to each and every individual specific need. The MFI should group the most common and prevalent needs and develop products in response to them. The following variables must be considered when evaluating the most common needs among an MFI's clients:

- Time scale/duration/maturity of the product – short-, medium-, or long-term
- Nature of deposits/repayment – small regular, small irregular, or single/few lump sums

- Liquidity – the ease of access to savings/speed of disbursement of loan
- Access issue – branch proximity/opening hours and numbers of withdrawals/ concurrent loans

One product can be marketed in many different ways to meet a variety of clients' needs. The MFI can market the same short term emergency loan as an education loan to meet periodic school fees, a health loan to meet doctor's fees and medication, or a loan to allow clients to take advantage of an unexpected opportunity … to name but a few.

Conclusion

Product development is an essential activity for market-responsive MFIs. As clients and their needs change, so the market-driven, demand-led MFI must refine its existing products or develop new ones. But product development is a complex, resource-consuming activity that should not be entered into lightly. This paper outlines some of the basic questions and issues that MFIs should address prior to embarking on the product development process.

Recognizing all of the above, those MFIs committed to being market leaders and to responding to their clients must indeed conduct product development. Effectively conducted, systematic product development will result in products that are popular with clients (even in very competitive environments) and more cost-effective operations for MFIs. More client-responsive products will reduce dropouts, attract increasing numbers of new clients, and contribute substantially to the long-term sustainability of the MFI.

Indeed, in the long run, those MFIs that do not embark on a systematic product development process will suffer the fate of all businesses that do not respond to their clients' needs.

Annex

Selected Resources Available

Market research and product development have only recently become "hot topics" in microfinance, so there are relatively few resources available. That said, because they are now hot topics, the number of resources is growing. The best of those currently available include (as of 2002).[3]

Process Step	Resources Available
Overview of the Product Development Cycle	• **Brand**, Monica, "New Product Development for Microfinance: Evaluation and Preparation," *Microenterprise Best Practices Project, Technical Note # 1, DAI*, Washington, 1998 • **Brand**, Monica, "Product Development Cycle," *Microenterprise Best Practices Project, Technical Note # 2, DAI*, Washington, D.C., 1998 • **Brand**, Monica, "The MBP Guide to New Product Development," *ACCION International*, 2001 • **CGAP** "Training Course on Introduction to Product Development," *CGAP*, Washington, 2000 • **Wright**, Graham A. N., "Beyond Basic Credit and Savings: Designing Flexible Financial Products for the Poor," in "Micro-Finance Systems: Designing Quality Financial Services for the Poor" *University Press Ltd*, Dhaka and *Zed Books*, London and New York, 2000. • **Wright**, Graham A. N., "Market Research and Client Responsive Product Development," *MicroSave-Africa*, 2001
Market Research	• ***MicroSave-Africa*****,** "Market Research for MicroFinance" (A Training Course), *MicroSave-Africa*, Nairobi, 2001 • **Wright** et al., "Participatory Rapid Appraisal for MicroFinance," *MicroSave-Africa*, 1999. • **Wright** , Graham A. N., "Market Research for MicroFinance – Letting Demand Drive Product Development," *MicroSave-Africa*, 2001 • **SEEP Network**, "Learning from Clients: Assessment Tools for MicroFinance Practitioners," *USAID-AIMS*, Washington, 2000 • **Grant**, Bill, "Marketing in Microfinance Institutions: The State of the Practice" *Microenterprise Best Practices Project*, *DAI,* Washington D.C., 1999 • **Krueger**, Richard, "Focus Groups: A Practical Guide for Applied Research," *Sage Publications Inc.*, California, 1998 • **Lee**, Nanci, "Client-Based Market Research: The Case of PRODEM," *Calmeadow,* Toronto, 2000

[3] The list was compiled at the time of the writing of the course, in 2002. MicroSave-Africa has since become MicroSave and most of the MicroSave documents listed here were subsequently published. Most are available from the MicroSave web site (http://www.microsave.org) or on the Microfinance Gateway (http://www. microfinancegateway.org).

Process Step	**Resources Available**
Concept Development	• ***MicroSave-Africa*,** "Market Research for MicroFinance" (A Training Course), *MicroSave-Africa*, Nairobi, 2001 • **Rutherford** Stuart, "Raising the Curtain on the 'Microfinancial Services Era'" *CGAP Focus Note*, Washington, 2000
Refine to Prototype	• ***MicroSave-Africa*** and **Research International,** "Market Research for MicroFinance" (A Training Course), *MicroSave-Africa*, Nairobi, 2001
Costing and Pricing	• **CGAP** "Costing and Pricing MFIs' Products" *CGAP Toolkit (draft)*, 2001 • ***MicroSave-Africa*** and **Aclaim**, "Toolkit for MFIs – Costing and Pricing Financial Services," *MicroSave-Africa*, Kampala, 2000 • **CGAP** "Setting Interest Rates on MicroFinance Loans" *CGAP Occasional Paper*, Washington, 1997
Quantitative Prototype Testing	• ***MicroSave-Africa*** and **Research International,** "Prototype Testing Using Quantitative Techniques," *MicroSave-Africa*, Kampala, 1999
Pilot Testing	• **McCord** Michael and ***MicroSave*,** "Planning, Conducting and Monitoring Pilot Tests for MFIs: Savings Products," *MicroSave*, Nairobi, 2004 • **McCord** Michael and ***MicroSave*,** "Planning, Conducting and Monitoring Pilot Tests for MFIs: Loan Products," *MicroSave*, Nairobi, 2001 • **McCord** Michael and ***MicroSave-Africa*,** "Planning, Conducting and Monitoring Pilot Tests for MFIs: MicroInsurance Products," *MicroSave-Africa*, Nairobi, 2001
Rollout	• **McCord** Michael and ***MicroSave-Africa*,** "Planning, Conducting and Monitoring Roll out for MFIs"
Useful websites	• *MicroSave*: http://www.microsave.org • CGA P: http://www.cgap.org

SESSION 4: MARKET RESEARCH

Session Summary

OBJECTIVES: By the end of the session participants will be able to:

- Define market research and discuss its importance to product development
- Use some client-oriented approaches to market research and explain the advantages and disadvantages of each
- Develop a research problem
- Design a focus group session and questions
- Determine when and how to use participatory rapid appraisal (PRA)
- Analyze research findings

TIME: 300–350 minutes

SUPPLIES: Flipchart paper
Markers
Masking tape
LED projector or overhead projector
Prepared PRA matrix
Subgroup folder files
Focus group CD video if available (from MicroSave)
CD projector for CD video if used

TRAINER MATERIALS

PD4-M1 Market Research Key Terms
PD4-M2 Focus Group Discussions and Participatory Rapid Appraisal for Microfinance
PD4-M3 Focus Group Interviewing

PARTICIPANT MATERIALS

OVERHEADS: PD4-O1 Market Research
PD4-O2 Market Research Is Important
PD4-O3 Steps in Market Research
PD4-O4 Participatory Rapid Appraisal Toolkit

HANDOUTS: PD4-H1 Worksheet on Developing a Research Objective
PD4-H2 Focus Group Discussion Guide
PD4-H3 Action Plan – Market Research
PD4-H4 Technical Notes

CASE STUDY: Part 3 Ben's Flashbacks – Market Research
Parts 4A & B The Tatano Focus Groups
Part 5A Market Research Results

Session 4: Market Research

INTRODUCTION TO MARKET RESEARCH—WHAT AND WHY

1. *(5 minutes)* Ask: What is our first major task in the product development process? What do we mean by market research? Take a few answers, record main terms on a flipchart. Show PD4-O1, Market research definition. State that this will now be the group's focus in this session. Say: We will briefly introduce some well-used market research techniques that have been proven in the industry. Remind participants that this is not a course in market research—to become very familiar with these tools and techniques, they will need further training and exposure.

2. *(3 minutes)* Say: Let's take another look at UNIbank's environment and see what has been done there. Distribute and refer to Case Study Part 3. Ask participants to read Critical Incident 1: ABCO's savings disaster. (The lesson: introducing savings without market research leads to failure.)

3. *(5 minutes)* Conduct a brief large-group discussion: What are the main issues? Case study questions:
   - What problems did ABCO face with its new savings product?
   - What are some of the possible reasons ABCO's product failed?
   - How could it have avoided these problems?

4. *(3 minutes)* Now ask participants to read and discuss Critical Incident 2: ABCO's recovery. (The lesson: reengineering the failed savings product with market research leads to success.)

5. *(5 minutes)* Ask: How did ABCO salvage its savings product? Follow the discussion by asking participants why market research is important for UNIbank. Briefly discuss the benefits when market research is conducted properly. (Some benefits are less costly in the long run, better designed, client oriented, and so forth).

   End discussion by emphasizing that to develop good products, participants must listen to their clients, consider the environment and the institution, and determine what they want and need.

6. *(5–10 minutes)* Ask participants to share their own experiences. Ask: Who does market research? In general, what do they do, how is the information they've gathered used, and how much time do they spend on market research? What are the results—are they as expected?

   Finally, ask: What are your feelings about the usefulness of capturing market information? Why is market research important? Show PD4-O2.

MARKET RESEARCH METHODS

7. *(5 minutes)* Say: We are now going to discuss more specifically and tangibly what market research is and how we can do it. Refer to comments from the previous discussion. Ask participants how they think UNIbank can get market information. Write specific responses on a flipchart. Answers can include performing surveys, talking to clients, looking at competition, looking at own data previously collected, and so on. Respond that these are all good examples of different types and methods of collecting information.

8. *(10 minutes)* Introduce the concepts of primary and secondary data. Briefly ask the participants what each means and focus responses on the difference. Ask for an explanation of *ongoing* and *periodic* data collection. What are the differences? When are they best used? Ask for examples of each and classify those previously listed. (If desired, list terms on a flipchart, and complete gaps in the explanations as necessary.)

   Lead a discussion on the importance of the variety and mix of techniques to be used and the value of ongoing data collection to the microfinance institution in the long run. See PD4-M1 for technical notes.

9. *(10 minutes)* Tell the group that there are more categories. Ask: Who knows what they might be? Ensure that you elicit definitions of quantitative and qualitative. Ask: What do you understand by quantitative research? Qualitative research? Give an example. Use two flipcharts and label one "Qualitative" and the other "Quantitative." Using the example of gathering information related to client exits; create a list of data collection items for each. Prepare questions that will elicit at least the following answers.

Quantitative	**Qualitative**
• Number of clients leaving	• Why are you leaving?
• Which products are being left	• What would have made you stay?
• Loan balance at exit	• Why might you come back?
• When did client exit—after first loan, etc.	

   Briefly discuss the pros and cons of each category.

10. *(5 minutes)* Summarize types of research and their merits. Ask and discuss: Why is it important to use various types of research methods? What are the benefits of ongoing collection of data? What might trigger a periodic market-research effort? What are the advantages of using both qualitative and quantitative methods? Why is a mix of tools and techniques important?

COST CONSIDERATIONS

11. *(5–10 minutes)* Briefly discuss cost considerations. Ask participants what should be considered in a discussion about costs. Answers may include staff time, transport, possible consultants, and so on.

    Follow up by asking what factors to consider when conducting market research with respect to costs. What are some cost-effective ways to gather information? Answers may include using a sample of the population versus the entire population, using information that is already available, combining information gathering with other ongoing activities, having a clear idea of what information is being collected, and so forth.

    Summarize by stating the costs of all resources for market research must be taken into consideration. Remind participants that the resources expended on market research will be well spent (PD4-O2).

12. *(5 minutes)* State that you will begin by looking at the basic steps in market research. Through questioning, explain the steps and show PD4-O3. Tell the group that the remainder of the session will go through each of these steps.

RESEARCH OBJECTIVES AND METHODS

13. *(5 minutes)* Define and give guidelines for formulating a research objective**.** Ask: What do we mean by *research objective*? Why do we need one? How will we develop one?

    The research objective is a statement that precisely delineates or defines what information is needed. It details the specific, measurable outcomes or results that an organization plans to achieve with its market research. It is the breaking down of the problem into a series of statements that constitute the results sought by the research project. Defining the research objective guides the entire research process.

14. *(15–20 minutes)* Have the group divide into preassigned small groups for practice. Give them the exercise: Using all the information you have on UNIbank, formulate a research objective. Distribute PD4-H1, Worksheet on developing a research objective.

15. *(10–15 minutes)* Have a large group discussion and compare research problems generated by the small groups. State that Moona will submit the research objective to the General for approval before they begin the research. Summarize by asking why it is important to develop a clear research objective before starting to gather information.

16. *(5–10 minutes)* State: Now that we have identified the problem, how can we get the data? Brainstorm to generate a list of research activities in response to the research objective**.** Examples may include focus groups, surveys, interviews,

participatory rapid appraisal, use of secondary data, and so on. Highlight once again the need for a mix of the activities.

17. *(5 minutes)* Explain that there are many ways to capture data. The choice will depend on a number of variables: research objectives, resources available, and so forth. Emphasize that this course will present only a few of the possibilities. Ask participants where the focus of this course might be. Answer that it will focus on the most participatory approaches— those that are client-oriented, such as focus groups and PRA. Ask if anyone can describe these methods. Take a few quick responses and explain that they will experience them through UNIbank.

    Consider reminding participants that there are other courses and tools on the market that will provide more details: MicroSave's Market Research for Microfinance (MR4MF) Tools, AIMS tools, and so on.

18. *(5 minutes)* State the UNIbank is also trying to use some of these techniques. Say: Let's see how they are doing. Distribute Case Study Part 4A—The Tatano focus groups. Say: The Tatano research effort begins. Point out the cartoon of the focus group and ask participants to read the case. (This part of the case study may be replaced by a video on bad and good focus groups if available.)

19. *(5 minutes)* Facilitate a discussion on what happened. Ask: What do you think about the focus group? What might you change and why?

20. *(5 minutes)* Distribute Case Study Part 4B. Give participants a few moments to review the cartoon.

21. *(5 minutes)* Quickly review the focus group event. Ask: What changed? What made it better?

22. *(10 minutes)* Facilitate a general discussion on focus groups through questions and answers. Ask: What are they? When and how are they used? Why do we use them? What are the characteristics of a good focus group? Quickly record answers on a flipchart. These may include planning, developing questions to ask, determining which people to invite, arranging conducive seating, using skilled moderators with proven facilitation and questioning skills, having good recording devices, doing follow-up, and so on. Review strengths and weaknesses of focus groups as a technique for market research.

23. *(15 minutes)* Say: Ben has asked us as the product development team to help him design and prepare for the next focus group. Put the participants in pre-assigned small groups and ask them to complete a focus group design using PD4-H2, Worksheet on developing focus groups, as a guide.

24. *(10 minutes)* After 15 minutes, tell the groups that they will have 10 minutes to prepare a cartoon (as in the case study) of their focus group for presentation to the large group. Consider asking a group to role-play their plan.

25. *(15–20 minutes)* Small groups present their depictions of the focus group. Ask and answer the questions as per their completed handout while explaining their picture. Discuss the questions asked: How/why they think it improved on the previous two focus groups held at Tatano? How did they get additional information? What techniques did they employ and why?

26. *(5 minutes)* Summarize main points on focus groups and take any questions. Tell participants that technical notes distributed at the end of the session will have references to focus groups.

PARTICIPATORY RAPID APPRAISAL (PRA) TECHNIQUES

27. *(3 minutes)* State that MFIs often use a focus group structure to administer other types of qualitative research tools. Ask who knows what some might be. Perhaps they have used them in their MFIs. Briefly discuss and ultimately focus content on PRA techniques.

28. *(5 minutes)* Lead the group in a fishbowl simulation activity. Conduct a mini-PRA activity on some training-related issue. For example, prepare a PRA activity asking evaluation questions, or nutrition and menu questions, and so forth. Have markers and matrixes already prepared. The purpose of the exercise is to illustrate quickly how the placing of the beans works, while having fun.

29. *(5 minutes)* Ask participants what happened and offer their comments on the technique. Discuss through questions and answers the definition of and reasons to use PRA, and have the group give examples. Fill in as necessary.

30. *(5–10 minutes)* Show PD4-O4. Facilitate general discussion on the use of PRA in microfinance. Ask for examples of how to use the various tools and elicit participants' opinions of their strengths and weaknesses. See PD4-H4, Technical Notes, for complete descriptions.

ANALYSIS OF RESULTS

31. *(30 minutes)* Ask participants to resume the same preassigned subgroups as in Research Objectives and Methods above. Distribute Case Study Part 5A—Market Research, which includes all the data collected by UNIbank to date. Tell participants that they are to analyze the data and make a report for submission to the team and the general group on their research findings. They should bear in mind that this research will be used to form the product prototype.

    From this point forward make sure that subgroups remain the same, since they will be working on designing their products, and different groups will yield different results. Ensure, too, that folders have been distributed. It is important for the subgroups to keep their product information together.

32. *(15–25 minutes)* Ask subgroups to present their findings and describe what they consider to be the major findings of the market research regarding UNIbank product development.

33. *(10 minutes)* Synthesize discussions on PRA and market research in general. Summarize main points.

34. *(5–10 minutes)* Lead a general discussion on using the variety of research types and tools in microfinance. Ask: What conclusions can be drawn? Why? Ensure that participants leave the session knowing that (1) market research is vital to the success of microfinance product development; (2) it must be well thought out and planned; (3) MFIs must have and be willing to commit resources for market research; (4) best results come from combinations of techniques and types of market research—primary, secondary, internal, external, periodic, ongoing, qualitative, quantitative, individual, group, and so on; and (5) market research takes time—it cannot be taught or conducted in a day. There are many resources available for you to become adept at market research. Refer once again to AIMS tools and MicroSave-Africa courses and materials.

35. *(20 minutes)* Say: Given the many points presented, think about how to use them in your own MFIs. Distribute PD4-H3—Action plan worksheet. Have participants complete the work plan either individually or with people from their own organization.

36. *(15 minutes)* Ask participants to share some of their thoughts from their action plan, either in a large group or with their neighbors.

CONCLUSION

37. *(5 minutes)* Summarize main points and take final questions. Remind participants that market research must be well thought out and planned. The MFI must commit resources to this effort in advance. Emphasize that best results begin there, and that half measures don't produce half results—they produce no results.

    Bridge to the next section, analyzing the information and developing the prototype. Distribute PD4-H4.

PD4-M1

Market Research Key Terms

Different MFIs have different approaches to market research. Those that are committed to offering client- or market-driven financial services use a variety of market research tools in various combinations; they are always collecting information in one form or another.

Primary data are collected for the first time by a researcher for the specific research project at hand.

Secondary data were previously gathered for some other purpose. More often than not the proper place to begin a study is to investigate previous work related to the research issues. Secondary data can also be divided into internal and external sources.

The classification has nothing to do with relative importance. Whether the data are primary or secondary is determined by whether or not they originated with the specific preexisting study under consideration.

Ongoing *activities and systems* include:

- Simple questions on loan application or savings account opening forms
- Suggestion boxes in branches
- Dropout questionnaires
- Discussing client-focused information at staff meetings
- Monitoring internal management and financial information
- Reviews of industry data and trends

Periodic *activities and systems* are often activated in response to signals from the ongoing systems and include:

- Customer consultative groups
- Focus group discussions with clients, potential clients, and dropouts
- Minisurveys of three to six questions
- Detailed competition analysis

Examples of classifying research techniques

ONGOING		PERIODIC	
Primary	**Secondary**	**Primary**	**Secondary**
	• MIS portfolio reports • MIS other reports • Client feedback surveys	• Focus groups • Product satisfaction surveys • Individual interviews • Observation	• Client exit forms • Client intake forms • Client household survey • Branch market analysis • MIS reports

Qualitative. Data derived from behavioral sciences. Concerned with understanding, illuminating, and explaining human behavior and ideas. Not concerned with measuring. Use transcripts and grids to compare the outcome from each group or individual and draw conclusions about behavior.

Quantitative. Data with a scientific basis. A representative sample can replace a population within a measurable approximation (confidence level). In a representative sample, each individual belonging to the eligible population has an equal chance of selection.

A more pragmatic approach is to combine sampling methods using both random sampling and sampling by quotas. Data tables are used to show trends and variations.

Note: In quantitative research, the questions and range of possible answers are determined beforehand, which is not the case with qualitative research. In qualitative research, one question and its answer(s) lead(s) to another set of questions.

The sample used in qualitative research is composed of people of the same demographics, while the sample used in quantitative is representative of the population.

QUALITATIVE	QUANTITATIVE
• Unstructured questioning • For in-depth understanding of consumer behavior and motives • Output: consumer words and descriptions • Highly trained professional moderator • Moderator must understand brief (research objectives, discussion guide, etc.) • Questions not determined • Range of possible answers not determined • Sample—group of people with demographic similarities	• Use of structured questionnaire • Statistically representative of population • Used to measure behavior and attitudes • Statistical output • Analyzed by computer • Enumerators trained for consistency and accuracy in asking questions • Enumerators do not have to understand or interpret brief • Questions determined beforehand • Usually range of possible answers determined beforehand. • Sample representative of the population

Source: MicroSave-Africa toolkit/course assembled and developed by Graham A. N. Wright, Shahnaz Ahmed, and Leonard Mutesasira, with help from Stuart Rutherford.

Cost considerations include staff members' or consultants' time, transportation, and other associated costs.

Tell students: Consider using sample populations, using secondary data, and combining activities as strategies to keep costs down.

Research objective. The research objective is a statement in precise terminology of what information is needed. It breaks the problem into a series of statements that constitute the end results sought by the research project.

Defining the research objectives guides the entire research process. Translated into specific information needs, the objectives show what the project is expected to add to what is already known. It reveals any limitations to scope or scale.

Essentially there are three types of research objectives:

- **Exploratory** to gather preliminary data to shed light on the real nature of the problem and to suggest possible solutions or new ideas
- **Descriptive** to ascertain certain magnitudes (for example, how many people do or do not agree to a certain savings idea, and so forth)
- **Causal** to test cause-and-effect relationships

Here is an example of a causal objective**:** MFI A is experiencing high levels of dropouts. Initial review of secondary data suggests that this is related to the:

- Loan cycle
- Size of the installment
- Ratio of compulsory savings to loan size

MFI A wishes to understand the details behind the reasons for client dropouts with a view to refining its current loan products (both urban and rural).

Focus group. A technique for data collection that became popular in the United States in the early 1940s. Used to collect qualitative data, it provides descriptive information, not numbers and figures. Six to eight homogeneous participants discuss a particular issue led by a moderator, whose task is *probing* (not prompting) and helping the group explore the issues in depth. The discussion is recorded.

According to the Product Development and Management Association, the focus group is a qualitative market research technique where 8 to 12 market participants are gathered in one room for a discussion under the leadership of a trained moderator. Discussion focuses on a consumer problem, product, or potential solution to a problem; the results of these discussions cannot be projected to the general market.

Focus group process (using MicroSave's Market Research for Microfinance**,** MR4MF, Tools) The "focus" in focus group discussion describes the importance of focusing on a few key (generally related) issues:

- Get to know the sector
- Get to know the clients
- Arrange logistics and select interviewees/participants
- Select and train appropriate moderator
- Prepare and pretest the discussion guide
- Conduct the focus group discussion
- Analyze the data and prepare the report or presentation

UNIbank Part 4 case study guidelines

Comic strips ***(***probing the reasons for dropping out) and controlled discussion on client exits:

BAD FOCUS GROUP DISCUSSION (FGD) PROCESS:

- Only one or two people participating
- Poor handling of participant
- Many closed or prompted questions
- Illogical sequence of questioning, etc.

GOOD FGD PROCESS:

- Full participation
- All open questions
- Effective probing, etc.

CONTENT OF FGD THAT SHOULD COME OUT WHEN DISCUSSING THE CARTOONS:

- High weekly installments stretching household budget
- Seasonality of income
- Competitors offering long-term loans with lower installments
- Competitors offering open-access savings—used to manage repayments in the lean season

Source: MicroSave-Africa toolkit course assembled and developed by Graham A.N. Wright, Shahnaz Ahmed, and Leonard Mutesasira with help from Stuart Rutherford.

PD4-M2

Focus Group Discussions and Participatory Rapid Appraisal for Microfinance

Excerpted from MicroSave Africa toolkit course assembled and developed by Graham A.N. Wright, Shahnaz Ahmed, and Leonard Mutesasira with help from Stuart Rutherford.

Introduction

There is a growing recognition of the need for microfinance institutions (MFIs) to conduct market research in order to tailor financial products and services to the needs of their clients. In addition, there is also a growing recognition that the same types of procedures and methods that can and should be used to design MFIs' products and systems can (and perhaps should) also be used to examine impact. However, there are few tools available to assist those who wish to use market research in this way.

Traditional quantitative research methods fail to capture the rich complexity of poor households' reality and livelihoods. The traditional quantitative approaches (typically focusing on increasing income alone) overlook the importance of microfinance services' role in diversifying sources of income, smoothing income and expenditure fluctuations, protecting and developing important household assets (physical as well as human), and developing key social contacts and skills.

This course introduces a series of tools, including focus group discussions (FGDs) and participatory rapid appraisal (PRA) that allow the researcher or practitioner to examine the complexity of poor households' financial, economic, and social environment. It also provides guidelines on how to analyze the results to identify common trends, patterns, recurring themes and issues, and to triangulate evidence for the same.

This toolkit/course provides an introduction to FGDs and PRAs with practical in-the-field exercises to maximize the practical learning experience. Contact MicroSave-Africa for more details on this course. Course contents are outlined below.

The Workshop

Introduction:

- Semi-structured dialogue

Focus group discussions:

- What is an FGD?
- When is an FGD useful or applicable?
- How to conduct an FGD
- Qualities of a good moderator
- Preparing a discussion guide
- Pretesting a discussion guide
- Site and participant selection
- Preparing for the FGD
- Conducting the discussion
- How to analyze the FGD
- Sample FGD discussion guides on financial services and institutions

Participatory rapid appraisal:

- What is a PRA?
- The main advantages of undertaking PRA
- Basic principles of PRA
- Initial PRA meetings and consultations
- Practical tips for facilitators
- Checklist of materials required

The PRA Toolkit for Microfinance

1. ***Seasonality analysis of household income, expenditure, savings, and credit*** is used to obtain information on seasonal flows of income and expenditure, and the demand for credit and savings services. This analysis also provides insights into some of the risks and pressures faced by clients and how they use MFIs' financial services to respond to these. This tool also provides insights into the financial intermediation needs of the community and what products the MFIs can design in response to these.
2. ***Seasonality analysis of migration, casual employment, and goods and services*** provided by the poor looks at the availability of cash to the people in the community and examines how far they might have to migrate to find work (when it is available). This has important implications for their ability to make regular savings and loan repayments.
3. ***Life-cycle profile*** is used to determine which of the events require lump sums of cash, to examine the implications of these for household income and expenditure, to establish current coping mechanisms, and then finally to discuss how access to MFI financial services can help the household respond to these events. The information gathered is useful in designing financial products that match the various needs expressed at different milestones during a person's life cycle.
4. ***Venn/Chapati diagram*** allows analysis of financial service groups or organizations within the community and their roles, and helps to understand more about the social capital accumulated by participants.
5. ***Simple ranking*** can be used to explore a wide variety of issues when an understanding of the relative importance/desirability, and so on, is needed (for example, for understanding the relative importance of different elements of products—interest, rate, opening balance, grace period, and the like).
6. ***Relative preference ranking*** is used to see how clients and potential clients perceive the financial service providers and components of the financial services they provide.
7. ***Pair-wise ranking*** is used to examine in detail how clients and potential clients compare and contrast critical components of financial services, and why those elements are important for them.
8. ***Simple wealth ranking*** provides a rapid way of segregating a community into three basic categories, and is useful in situations where there are many households in a community. This exercise can also be useful in impact assessment and for examining the socioeconomic characteristics of people who chose to join (or don't join) the MFI and also those who leave or whose accounts become dormant.
9. ***Detailed wealth ranking*** provides (1) an understanding of how and why rich people are wealthy and the poor are poor and (2) a ranking of the households in the village, from the wealthiest to the poorest, as seen by the members of the community.

10. ***Cash mobility mapping*** provides an understanding of where the community goes to acquire or spend cash (markets, waged labor, cooperatives, informal financial organizations, and so on) and can be used to lead into discussions of which financial service institutions people trust or value and why. The exercise also provides initial insights into potential income-generating ventures or projects in which the clients might become involved.
11. ***Time series detailing sickness, death, loss of employment, theft, natural disaster, and the like.*** (for example, for this year, last year, 5 and 10 years before) provides an opportunity to learn how the community views change over time in various areas related to a series of crises. It also allows the research team to integrate key changes into the community profile, which will simplify problem identification, and to begin to organize the range of opportunities for improved delivery of financial services.
12. ***Time series of asset ownership*** (this year, last year, 5 and 10 years before) is useful in determining what productive and protective assets (in a broader sense) are valued the most and thus assist in evaluating the potential for designing or refining corresponding financial products, including leasing and contractual savings deposits (for example, for housing, education, health insurance, and so on).
13. ***Financial services matrix*** is useful in determining which financial services are used by which socioeconomic or sociocultural strata of society and why, and thus the potential for designing or refining appropriate financial products.
14. ***Financial sector trend analysis*** is useful in determining which financial services have been used over time by which socioeconomic or sociocultural strata of society, and thus for understanding the changes in the use or availability of a variety of financial services over time, and why participants used them.

Sample—Research Plan for MFIA

Research Issue

MFIA is experiencing high levels of dropouts. Initial review of secondary data suggests that this is related to:

- The loan cycle
- The size of the installment
- The ratio of compulsory savings to loan size

MFIA wishes to understand the details behind the reasons for client dropouts with a view to refining its current loan product.

Research Plan

Four to six PRA sessions on each of the following:

- Product Attribute Ranking

  To understand which elements of MFIA's system/product really matter to the client and which do not. To allow triangulation with the FGD information below.

- Defining and Ranking the Reasons for Client Dropouts

  To allow MFIA to get a clear understanding of the chief reasons underlying the dropouts in its program. To allow triangulation with the FGD information below.

- Wealth Ranking and Dropouts

  To allow MFIA to analyze the nature of dropouts, specifically whether they are predominantly at either end of the socioeconomic spectrum of clients (that is, are the poorer or the richer clients dropping out—and if so, for what reasons).

Two to four PRA sessions on each of the following:

- Financial sector trend analysis

  To provide the background setting and to allow MFIA to understand the competitive environment in which it is operating and changes in it over time.

- Seasonality analysis (if the results of the FGDs suggest this is important)

  To look for seasonal issues that are driving dropouts. To allow triangulation with the FGD information below.

The following discussion guide for the FGDs on dropouts may require changing, depending on the results of the PRA work.

Focus Group Discussion Guide

Welcome

- Thank you for coming—we are grateful for your time.
- We are from an organization called MicroSave. MicroSave is a research organization that looks at financial services for people who do not have access to banks. We try to ensure that the clients' voices and ideas are heard by the organizations that provide financial services to poor people.
- We are holding these discussion groups to try to understand MFIA clients' reasons for dropping out.
- We would very much like to record these discussions to help us remember them and to ensure that we do not miss any of the issues and ideas you give us. The details of these discussions will not be shared with MFIA and your names will be kept confidential, so please do not be concerned. Feel free to express your opinions about the products openly.
- As a first step, let's all introduce ourselves, beginning with you**.** My colleague here will prepare name tags to help us remember your names.

Core questions	Probes
Warmup questions: 1. How long have you been with MFIA? 2. What business do you run? 3. What makes people like yourselves decide to join MFIA? 4. What makes people decide to leave MFIA?	• (If interesting response) Have these expectations been met?
General questions: 1. For what purposes did you use the loans you took from MFIA? 2. Did the loans allow you to meet your needs? If not, why not?	• Why did you borrow from MFIA? • How did you use the loans you took from MFIA? • Were the loans offered by MFIA appropriate for your needs?

Core questions	Probes
Impact on dropouts questions: 1. What are the main reasons for clients leaving your groups? 2. Have you seen a change in the number of people leaving the group in the last year? If so, why? 3. Who makes the decision that people will leave the MFIA program? 4. What should MFIA do to further improve its loan program? 5. What procedures or systems would you like to see change in MFIA? 6. In what other ways could MFIA have better met your needs?	• For what reasons did the last three people who left your groups decide to leave? (Note: Ensure that the answers are carefully probed to discover underlying reasons.[1]) • Is the number of people leaving MFIA increasing or decreasing? Why is this happening? • Who are the people who decide that members should leave the program? • Please make recommendations on how MFIA might revise its loan program to better suit your needs. • If you were the manager of MFIA, which rules would you change to reduce dropouts from the program? • Describe other ways that MFIA might help its clients and retain them as members of the organization.
Conclusion Thank you. Your answers and discussion have been very informative. We are very grateful for the information you have provided. Do you have any questions or suggestions for us?	

Suggested Timetable

(*Note:* this may need to change as more is learned about the research issue)
Sites to be determined by the research and development department.

	9:00 a.m.	12:00 p.m.	2:00 p.m.
Week 1			
Monday	Financial sector trend analysis	Financial sector trend analysis	Analysis
Tuesday	Product attribute ranking	Wealth ranking	Analysis
Wednesday	Defining and ranking reasons for dropouts	Defining and ranking reasons for dropouts	Analysis
Thursday	FGD	Product attribute wealth ranking	Analysis
Friday	FGD	Seasonality analysis or defining and ranking reasons for dropouts	Analysis

[1] Typically clients will say, “My business was failing”—but the *reasons* for the failure of the business need to be explored and understood. Was it because of the lack of grace period? The loan size was too small? The instalments were inappropriately scheduled and the like? Or was it because the client had other responsibilities such as caring for sick household members and so on?

	9:00 a.m.	12:00 p.m.	2:00 p.m.
Week 2			
Monday	Product attribute ranking	Product attribute ranking	Analysis
Tuesday	Defining and ranking reasons for dropouts	Defining and ranking reasons for dropouts	Analysis
Wednesday	FGD FGD Analysis		
Thursday	FGD FGD Analysis		
Friday	FGD or financial sector trend analysis	Seasonality analysis or defining and ranking reasons for dropouts	Analysis

Source: MicroSave-Africa, assembled and developed by Graham A.N. Wright, Shahnaz Ahmed, and Leonard Mutesasira with help from Stuart Rutherford.

MicroSave-Africa, a UNDP/DFID initiative "Promoting secure, high-quality savings services for poor people," Centre for MicroFinance, PO Box 24204, Plot 21 Kawalya Kaggwa Close, Kololo, Kampala, Uganda Tel. 256 (0)41 347481-3 Fax. 256 (0)41 347635 Email: msa@infocom.co.ug Web site: http://www.undp.org

PD4-M3

Focus Group Interviewing

One of the most popular exploratory research techniques, focus group interviewing consists of a small group of people (usually 8 to 12) assembled for the purpose of discussing in an unstructured, spontaneous manner topics introduced by a group moderator. The objective of conducting focus groups is to accomplish the goals of a survey, but at a lower cost. In fact, focus groups, as an exploratory research technique, cannot be substituted for a descriptive research's survey design. Focus groups are such a popular technique because, when appropriately used, they can effectively and efficiently achieve the goals of exploratory research:

- Generating new ideas or hypotheses that can be tested in later phases of the research study
- Clarifying concepts, actions, or terms used by consumers
- Prioritizing issues for further investigation
- Providing an opportunity for management to see how their "real" consumers think, feel, and act
- Obtaining an early read on changing market trends

Focus groups are good at accomplishing such objectives because their relatively unstructured approach permits a free exchange of ideas, feelings, and experiences to emerge around a series of topics introduced by a moderator. The moderator works from a topic outline that covers the major areas of interest to the client firm, but because each group session consists of different individuals with their own feelings, desires, opinions, and so forth, no two sessions with the same agenda will be exactly the same in conduct or findings. The term "focus group" is used because the moderator focuses the group's attention on the predetermined subjects, without letting the discussion go too far afield. However, it is considered unstructured in the sense that a good moderator will consider the particular dynamics of each group when introducing these topics and the order in which they are brought up for discussion. Because they are so frequently used in marketing research, several books have been exclusively devoted to a discussion of how to conduct and analyze focus group sessions. We will confine our discussion here to a few of the more important aspects of using focus groups as a qualitative exploratory research approach.

Why Conduct Focus Groups?

The standard reasons for conducting focus groups include:

- **Idea Generation**

  Consumers or knowledgeable experts may provide a good source of new products or other ideas in the fertile environment of a group setting.

- **Reveal Consumers' Needs, Perceptions, Attitudes**

  Probing consumers on why they think or act the way they do may reveal less obvious, but no less important, reasons for their behavior.

- **Help in Structuring Questionnaires**

  Hearing the way consumers think and talk about a product, activity, or consumption experience not only generates hypotheses that might be tested in a descriptive research design, but also informs the researcher about how to word questions in ways directly relevant to the consumer's experience.

Some less frequently mentioned reasons for conducting focus groups include:

- **Post-Quantitative Research**

  Focus groups are most often mentioned as research done prior to a survey, but they might be of equal value in helping researchers to "put flesh on the bones" of quantitative research. Discovering that a certain percentage of consumers behave in a particular fashion may make it desirable to probe a group of those consumers in some depth to discover why and how they came to act in that manner.

- **Making the Abstract Real**

  One of the most memorable qualities of focus groups is their ability to make real what was heretofore only considered in a very abstract manner. For example, it is one thing for a product manager of a brand of dog food to know that many dog owners really love their dogs. It is quite another for that product manager to see dog owners in a focus group take obvious delight in recounting their Ginger's latest adventure with a raccoon, or grow misty-eyed in remembering Biff, now dead ten years, or hear the soft lilt in their voice as they describe the relationship they have with Jason, their golden retriever. Attendance at a focus group can infuse lifeless market data with new meaning and make its implications more memorable and meaningful. One checklist for management using focus groups to obtain a more three-dimensional understanding of their actual customers includes the following advice:

  - Don't expect your customers to look like the models in your ads. Fitness seekers don't all look like Jane Fonda—they are *trying* to.
  - Don't expect your customers to like you. Sitting behind the mirror can be blitz group therapy. Your ego and your company's ego are in the hands of a few customers. It can be upsetting and anger-provoking to hear what they have to say. Be prepared.
  - Don't expect consumers to care as much about your product as you do. It represents only a small part of their lives.
  - Don't expect your customers to be people just like you—or, on the other hand, to be unlike you.
  - Don't expect people to be consistent, and don't label them as hypocrites when they aren't.
  - Use your qualitative researcher as a consultant to put the study in context—are these customers satisfied or dissatisfied, compared to what the researcher has seen in other categories?
  - Remember, if they buy your product, they *are* your customers—whether or not you like the way they look, talk, think, or feel about you.
  - Be honest about your expectations. There is no clean slate. Everyone has preconceptions about their customers. Ask where your expectations come from—research, or prejudice.

- **Reinforcing Beliefs**

  Judith Langer recounts a focus group experience by the Gillette Company that illustrates the ability of focus groups to convey a message much more powerfully to employees than repeated admonitions by management:

The Gillette Company asked us to conduct research on "quality," a major issue in the 1980s. What does quality mean to consumers; when do they and don't they look for it; how do they recognize it? A focus group with women showed that consumers are more demanding and "educated" about quality than in the past. This comment was typical:

> I think as consumers we're becoming more aware of what goes into a product. For myself, I have become more aware of the ingredients—food or clothing or whatever. I feel that I'm not the same shopper I was perhaps six years ago. That was just fad buying. Now I look at something.

Marketing, market research, and research and development people observed the group; the videotape of the session has since been shown to others in the company. Hans Lopater, Gillette's research director, says that the focus group made what top management has been saying more tangible and believable. This wasn't another generalized corporate lecture. These were real people who cared, who could tell the difference, who shopped what they believed. Understanding the importance of quality in today's competitive marketing environment, one can argue, can affect not only a company's attitude, but ultimately its bottom line.

- **Early Barometer**

  Focus groups may provide an early warning system of shifts in the market. Probing consumers on lifestyle changes, consumption patterns, opinions of new competitive entries, and so forth, may reveal threats and opportunities entering the market long before they might be revealed in a large-scale survey. Keeping an open mind and maintaining an active curiosity allow researchers to see the far-reaching significance of seemingly innocuous observations made by focus group participants.

Focus Group Composition

Conventional industry wisdom suggests that focus groups should consist of 8 to 12 people selected to be homogeneous along some characteristic important to the researcher (for example, do a lot of baking, own foreign luxury cars, manage their own retirement account with more than $100,000 invested, and so on). Usually recruitment of focus group participants strives to find people who fit the desired profile but who do not know each other, thus reducing the inhibitions of group members to describe their actual feelings or behaviors. Typically, group sessions last from one and a half to two hours. Going against such conventional wisdom may be necessary in some cases.

For example, one of the authors conducted research for a food company that wanted a few direct questions asked prior to presenting participants with prepared versions of their food products, as well as their competitor's. While not a taste test per se, the client wanted to hear the subjects' reactions to the products and a discussion of the circumstances under which the products would be used in their homes. For this study, a series of one-hour group sessions were run with five people per group. The more structured discussion and the desire to query each participant made the shorter time and smaller group more conducive to achieving the study's objectives.

Selection and Recruitment of Group Participants

The research objectives and research design will indicate the types of people to be recruited for a focus group. If a facility especially designed for focus group use is contracted with, the management of the facility typically will conduct recruitment of focus group members. If a marketing research firm is being hired to conduct the groups, they usually hire the facility; identify, recruit, and select the participants; moderate the groups; and make an oral and written report of the findings. Sometimes the client organization will provide a list of possible participants taken from a master list of customers, members, users, and so on. It is usually necessary to provide *at least* four names for every respondent needed (that is, approximately 50 names per focus group).

Prospective participants are screened when contracted to ensure their eligibility for the group, but without revealing the factors used to assess their eligibility. For example, if the researcher is interested in talking with people who have traveled to Europe in the past year, he or she would also ask about other trips or activities to camouflage the central issue under investigation. This deception is helpful in discouraging respondents from answering in ways strictly intended to increase or diminish chances for an invitation, and to discourage selected participants from preparing "right" answers for their participation in the group sessions. It is advisable to provide a general idea of the topic for discussion (for example, personal travel) to encourage participation. Participants are usually rewarded with an honorarium (say US$25–$50 per person) for their time. The size of the honorarium depends upon the type of participant (for example, physicians expect more than mechanics). The focus group facility management usually covers the cost of recruiting, hosting, and compensating the groups in their fee.

In conclusion, here are six rules for recruiting focus group members:

1. Specifically define the characteristics of people who will be included in the groups.
2. If an industrial focus group is being conducted, develop screening questions that probe into all aspects of the respondents' job functions. Do not depend on titles or other ambiguous definitions of responsibilities.
3. If an industrial focus group is being conducted, provide the research company with the names of specific companies and employees, when possible. If specific categories of companies are needed, a list of qualified companies is critical.
4. Ask multiple questions about a single variable to validate the accuracy of answers. Therefore, if personal computer users are to be recruited, do not simply ask for the brand and model of personal computer they use. In addition, ask them to describe the machine and its function; this will ensure that they are referring to the appropriate equipment.
5. Do not accept respondents who have participated in a focus group during the previous year.
6. Have each participant arrive 15 minutes early to complete a prediscussion questionnaire. This will provide additional background information on respondents, reconfirm their suitability for the discussion, and help the company collect useful factual information.

Moderator Role and Responsibilities

The moderator plays a key role in obtaining maximum value from conducting focus groups. The moderator helps design the study guide, assists the manager or researcher who is seeking the information, and leads the discussion in a skillful way to address the study's objectives while stimulating and probing group participants to contribute to the discussion. Listed below are 10 traits of a good focus group moderator.

1. Be experienced in focus group research.
2. Provide sufficient help in conceptualizing the focus group research design, rather than simply executing the groups exactly as specified.
3. Prepare a detailed moderator guide well in advance of the focus group.
4. Engage in advance preparation to improve overall knowledge of the area being discussed.
5. Provide some added value to the project beyond simply doing an effective job of conducting the session.
6. Maintain control of the group without leading or influencing the participants.
7. Be open to modern techniques such as visual stimulation, conceptual mapping, attitude scaling, or role-playing, which can be used to delve deeper into the minds of participants.
8. Take personal responsibility for the amount of time allowed for the recruitment, screening, and selection of participants.
9. Share in the feeling of urgency to complete the focus group while desiring to achieve an excellent total research project.
10. Demonstrate the enthusiasm and exhibit the energy necessary to keep the group interested even when the hour is running late.

Reporting the Results of Focus Groups

In writing the findings of focus groups, care must be taken not to imply that results typify the target population. The groups were not formed in an effort to generate inferential statistics, but rather to clarify concepts, generate ideas and insights, make the abstract real, and so on. Therefore, it is the qualitative rather then quantitative conclusions that should be the focus of the written report. Goldman and McDonald (*The Group Depth Interview*, 1987) make the following suggestions about writing the report on focus group findings:

- The report should not be a sequential summary or transcript of the sessions, but rather a "logically organized and coherent interpretation of the meaning of these events."
- The report should begin with an introductory section that reviews the research purpose and objectives, and a short description of the research methodology. This is followed by a report of findings, the marketing implications, recommendations, and suggestions for future research phases.
- An executive summary at the beginning of the report should cover the major discoveries as well as the relevant marketing implications that can be justifiably concluded based on the qualitative research results.
- The results section is not necessarily best done by following the sequence of topics covered in the discussions. It may rather be approached as focusing on marketing problems or market segments, and may discuss the findings from the groups that might have been addressed in diverse order during the group sessions.
- The written analysis should progress from the general to the more specific. For example, a report on a new snack product concept might start with a discussion of general observations about snack eating, then go to a discussion of brand image and loyalty, then address the response to the new snack concepts.

- The marketing implications section should provide guidance for the development of the marketing response to the findings without overstating the conclusiveness of the qualitative findings. Everyone—report writers and readers—should remain aware of the limited objectives for conducting the groups, as well as the limitations of this type of research method in general.

Source: Stevens,Robert, Bruce Wrenn, Morris Ruddick, and Philip Sherwood. *The Marketing Research Guide*. Binghamton, N.Y.: Haworth Press, 1997.

Overheads

THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP PRODUCT DEVELOPMENT OVERHEADS"

PD4-O1

Market Research

Procedures and techniques:

- Involved in the design, data collection, analysis and presentation of information
- Used by managers in making marketing decisions

To respond to needs and opportunities by:

- Improving current marketing, promotion, outreach, and delivery activities
- Refining existing products
- Developing new products

PD4-O2

Market Research Is Important

BECAUSE WITHOUT IT WE FAIL!

Cost to correct product error

1,000	→	Design
10,000	During	Design testing
100,000		Process planning
1,000,000		Test production
10,000,000	→	Final production

Each step is 10 times more costly than the previous!

PD4-O3

Steps in Market Research

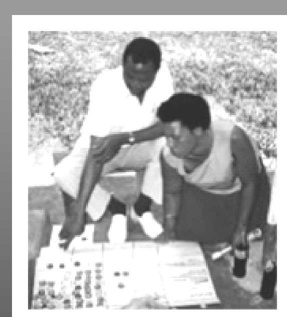
- ✓ Define research objectives
- ✓ Define research methods
- ✓ Review secondary data
- ✓ Prepare for primary data collection
- ✓ Collect primary data
- ✓ Analyze all data
- ✓ Report

CGAP

PD4-O4

Participatory Rapid Appraisal Toolkit

- Seasonality analyses
- Life-cycle profile
- Rankings
- Wealth ranking
- Cash mobility mapping
- Time series
- Financial services matrix
- Financial sector trend analysis



CGAP

Handouts

Worksheet on Developing a Research Objective

The research objective is a statement in precise terminology of the information needed. It is the decomposition of the problem into a series of statements, which constitute the end results sought by the research project. Defining the research objectives guides the entire research process. The objectives are translated into specific information needs. They are used to show what the project is expected to add to what is already known, as well as any limitations to scope or scale. Essentially there are three types of research objectives:

- *Exploratory*—to gather preliminary data to shed light on the real nature of the problem and to suggest possible solutions or new ideas
- *Descriptive*—to ascertain certain magnitudes (how many people do or do not agree about a certain savings idea, etc.)
- *Causal*—to test cause-and-effect relationships

Clearly state what you think UNIbank's problems are.

What information will you need to collect to make decisions to address the problems?

Develop one exploratory, one descriptive, and one causal objective for UNIbank.

Exploratory:

Descriptive:

Causal:

Are you satisfied that your market research goal will address UNIbank's problems?

Focus Group Discussion Guide

Use this form to plan your focus group meeting. Make notes for the introduction and closing and write out the questions for each section.

Welcome	
Core questions	**Probes**
Warmup questions:	
General questions:	

Core questions	Probes
Impact on dropouts questions:	
Other:	
Conclusion	

Describe whom you would invite.

When would you have the focus group? How many? How often?

Action Plan – Market Research

This exercise is to help you get started conducting market research for your MFI. While some of the topics and ideas are fresh in our minds, it will be helpful to think what applies to your MFI. Try to answer as many questions as possible now. This will help you discuss the areas with others once you return home.

1. Define the exact nature of your MFI's problem or opportunity, if you can.

2. If you cannot define the problem, list the symptoms being experienced.

3. Are other MFIs experiencing similar symptoms or are these symptoms unique to your MFI?

4. List the relevant research objectives stated as questions the research will seek to answer.

5. If a problem or opportunity has been defined, what kind of information would help you solve the problem or take advantage of the opportunity?

6. How would you get this information? What secondary information exists? What methods would you use to collect primary data?

7. Who would be in charge of initiating the project? Who would actually do the work?

8. What obstacles might you encounter and how would you surmount them?

Technical Notes

MARKET RESEARCH KEY TERMS

Different MFIs have different approaches to market research. Those that are committed to offering client- or market-driven financial services use a variety of market research tools in various combinations; they are always collecting information in one form or another.

Primary data are collected for the first time by a researcher for the specific research project at hand.

Secondary data were previously gathered for some other purpose. More often than not the proper place to begin a study is to investigate previous work related to the research issues. Secondary data can also be divided into internal and external sources.

The classification has nothing to do with relative importance. Whether the data are primary or secondary is determined by whether or not they originated with the specific preexisting study under consideration.

Ongoing *activities and systems* include:

- Simple questions on loan application or savings account opening forms
- Suggestion boxes in branches
- Dropout questionnaires
- Discussing client-focused information at staff meetings
- Monitoring internal management and financial information
- Reviews of industry data and trends

Periodic *activities and systems* are often activated in response to signals from the ongoing systems and include:

- Customer consultative groups
- Focus group discussions with clients, potential clients, and dropouts
- Minisurveys of three to six questions
- Detailed competition analysis

Examples of classifying research techniques

ONGOING		**PERIODIC**	
Primary	**Secondary**	**Primary**	**Secondary**
	• MIS portfolio reports • MIS other reports • Client feedback surveys	• Focus groups • Product satisfaction surveys • Individual interviews • Observation	• Client exit forms • Client intake forms • Client household survey • Branch market analysis • MIS reports

Qualitative. Data derived from behavioral sciences. Concerned with understanding, illuminating, and explaining human behavior and ideas. Not concerned with measuring. Use transcripts and grids to compare the outcome from each group or individual and draw conclusions about behavior.

Quantitative. Data with a scientific basis. A representative sample can replace a population within a measurable approximation (confidence level). In a representative sample, each individual belonging to the eligible population has an equal chance of selection.

A more pragmatic approach is to combine sampling methods using both random sampling and sampling by quotas. Data tables are used to show trends and variations.

Note: In quantitative research, the questions and range of possible answers are determined beforehand, which is not the case with qualitative research. In qualitative research, one question and its answer(s) lead(s) to another set of questions.

The sample used in qualitative research is composed of people of the same demographics, while the sample used in quantitative is representative of the population.

QUALITATIVE	QUANTITATIVE
• Un structured questioning • For in-depth understanding of consumer behavior and motives • Output: consumer words and descriptions • Highly trained professional moderator • Moderator must understand brief (research objectives, discussion guide, etc.) • Questions not determined • Range of possible answers not determined • Sample—group of people with demographic similarities	• Use of structured questionnaire • Statistically representative of population • Used to measure behavior and attitudes • Statistical output • Analyzed by computer • Enumerators trained for consistency and accuracy in asking questions • Enumerators do not have to understand or interpret brief • Questions determined beforehand • Usually range of possible answers determined beforehand. • Sample representative of the population

Source: MicroSave-Africa toolkit/course assembled and developed by Graham A. N. Wright, Shahnaz Ahmed, and Leonard Mutesasira, with help from Stuart Rutherford.

Cost considerations include staff members' or consultants' time, transportation, and other associated costs.

Tell students: Consider using sample populations, using secondary data, and combining activities as strategies to keep costs down.

Research objective. The research objective is a statement in precise terminology of what information is needed. It breaks the problem into a series of statements that constitute the end results sought by the research project.

Defining the research objectives guides the entire research process. Translated into specific information needs, the objectives show what the project is expected to add to what is already known. It reveals any limitations to scope or scale.

Essentially there are three types of research objectives:

- **Exploratory** to gather preliminary data to shed light on the real nature of the problem and to suggest possible solutions or new ideas
- **Descriptive** to ascertain certain magnitudes (for example, how many people do or do not agree to a certain savings idea, and so forth)
- **Causal** to test cause-and-effect relationships

Here is an example of a causal objective**:** MFI A is experiencing high levels of dropouts. Initial review of secondary data suggests that this is related to the:

- Loan cycle
- Size of the installment
- Ratio of compulsory savings to loan size

MFI A wishes to understand the details behind the reasons for client dropouts with a view to refining its current loan products (both urban and rural).

Focus group. A technique for data collection that became popular in the United States in the early 1940s. Used to collect qualitative data, it provides descriptive information, not numbers and figures. Six to eight homogeneous participants discuss a particular issue led by a moderator, whose task is *probing* (not prompting) and helping the group explore the issues in depth. The discussion is recorded.

According to the Product Development and Management Association, the focus group is a qualitative market research technique where 8 to 12 market participants are gathered in one room for a discussion under the leadership of a trained moderator. Discussion focuses on a consumer problem, product, or potential solution to a problem; the results of these discussions cannot be projected to the general market.

Focus group process (using MicroSave's Market Research for Microfinance **,** MR4MF, Tools) The "focus" in focus group discussion describes the importance of focusing on a few key (generally related) issues:

- Get to know the sector
- Get to know the clients
- Arrange logistics and select interviewees/participants
- Select and train appropriate moderator
- Prepare and pretest the discussion guide
- Conduct the focus group discussion
- Analyze the data and prepare the report or presentation

Source: Day 1, Slide 62: The Research Objective, from MicroSave-Africa toolkit/course assembled and developed by Graham A. N. Wright, Shahnaz Ahmed, and Leonard Mutesasira with help from Stuart Rutherford.

PARTICIPATORY RAPID APPRAISAL FOR MICROFINANCE

Excerpted from MicroSave-Africa toolkit/course assembled and developed by Graham A. N. Wright, Shahnaz Ahmed, and Leonard Mutesasira, with help from Stuart Rutherford.

1. ***Seasonality analysis of household income, expenditure, savings, and credit*** is used to obtain information on seasonal flows of income and expenditure, and the demand for credit and savings services. This analysis also provides insights into some of the risks and pressures faced by clients and how they use MFIs' financial services to respond to these. This tool also provides insights into the financial intermediation needs of the community and what products the MFIs can design in response to these.
2. ***Seasonality analysis of migration, casual employment, and goods and services*** provided by the poor looks at the availability of cash to the people in the community and examines how far they might have to migrate to find work (when it is available). This has important implications for their ability to make regular savings and loan repayments.
3. ***Life-cycle profile*** is used to determine which of the events require lump sums of cash, to examine the implications of these for household income and expenditure, to establish current coping mechanisms, and then finally to discuss how access to MFI financial services can help the household respond to these events. The information gathered is useful in designing financial products that match the various needs expressed at different milestones during a person's life cycle.

4. ***Venn/Chapati diagram*** allows analysis of financial service groups or organizations within the community and their roles, and helps to understand more about the social capital accumulated by participants.
5. ***Simple ranking*** can be used to explore a wide variety of issues when an understanding of the relative importance/desirability, and so on, is needed (for example, for understanding the relative importance of different elements of products—interest, rate, opening balance, grace period, and the like).
6. ***Relative preference ranking*** is used to see how clients and potential clients perceive the financial service providers and components of the financial services they provide.
7. ***Pair-wise ranking*** is used to examine in detail how clients and potential clients compare and contrast critical components of financial services, and why those elements are important for them.
8. ***Simple wealth ranking*** provides a rapid way of segregating a community into three basic categories, and is useful in situations where there are many households in a community. This exercise can also be useful in impact assessment and for examining the socioeconomic characteristics of people who chose to join (or don't join) the MFI and also those who leave or whose accounts become dormant.
9. ***Detailed wealth ranking*** provides (1) an understanding of how and why rich people are wealthy and the poor are poor and (2) a ranking of the households in the village, from the wealthiest to the poorest, as seen by the members of the community.
10. ***Cash mobility mapping*** provides an understanding of where the community goes to acquire or spend cash (markets, waged labor, cooperatives, informal financial organizations, and so on) and can be used to lead into discussions of which financial service institutions people trust or value and why. The exercise also provides initial insights into potential income-generating ventures or projects in which the clients might become involved.
11. ***Time series detailing sickness, death, loss of employment, theft, natural disaster, and the like.*** (for example, for this year, last year, 5 and 10 years before) provides an opportunity to learn how the community views change over time in various areas related to a series of crises. It also allows the research team to integrate key changes into the community profile, which will simplify problem identification, and to begin to organize the range of opportunities for improved delivery of financial services.
12. ***Time series of asset ownership*** (this year, last year, 5 and 10 years before) is useful in determining what productive and protective assets (in a broader sense) are valued the most and thus assist in evaluating the potential for designing or refining corresponding financial products, including leasing and contractual savings deposits (for example, for housing, education, health insurance, and so on).
13. ***Financial services matrix*** is useful in determining which financial services are used by which socioeconomic or sociocultural strata of society and why, and thus the potential for designing or refining appropriate financial products.
14. ***Financial sector trend analysis*** is useful in determining which financial services have been used over time by which socioeconomic or sociocultural strata of society, and thus for understanding the changes in the use or availability of a variety of financial services over time, and why participants used them.

FOCUS GROUP INTERVIEWING

Excerpted from Stevens, Robert, Bruce Wrenn, Morris Ruddick, and Philip Sherwood, *The Marketing Research Guide*, 1997.

One of the most popular exploratory research techniques, focus group interviewing consists of a small group of people (usually 8 to 12) assembled for the purpose of discussing in an unstructured, spontaneous manner topics introduced by a group moderator. The objective of conducting focus groups is to accomplish the goals of a survey, but at a lower cost. In fact, focus groups, as an exploratory research technique, cannot be substituted for a descriptive research's survey design. Focus groups are such a popular technique because, when appropriately used, they can effectively and efficiently achieve the goals of exploratory research:

- Generating new ideas or hypotheses that can be tested in later phases of the research study
- Clarifying concepts, actions, or terms used by consumers
- Prioritizing issues for further investigation
- Providing an opportunity for management to see how their "real" consumers think, feel, and act
- Obtaining an early read on changing market trends

Focus groups are good at accomplishing such objectives because their relatively unstructured approach permits a free exchange of ideas, feelings, and experiences to emerge around a series of topics introduced by a moderator. The moderator works from a topic outline that covers the major areas of interest to the client firm, but because each group session consists of different individuals with their own feelings, desires, opinions, and so forth, no two sessions with the same agenda will be exactly the same in conduct or findings. The term "focus group" is used because the moderator focuses the group's attention on the predetermined subjects, without letting the discussion go too far afield. However, it is considered unstructured in the sense that a good moderator will consider the particular dynamics of each group when introducing these topics and the order in which they are brought up for discussion. Because they are so frequently used in marketing research, several books have been exclusively devoted to a discussion of how to conduct and analyze focus group sessions. We will confine our discussion here to a few of the more important aspects of using focus groups as a qualitative exploratory research approach.

Why Conduct Focus Groups?

The standard reasons for conducting focus groups include:

- **Idea Generation**

  Consumers or knowledgeable experts may provide a good source of new products or other ideas in the fertile environment of a group setting.

- **Reveal Consumers' Needs, Perceptions, Attitudes**

  Probing consumers on why they think or act the way they do may reveal less obvious, but no less important, reasons for their behavior.

- **Help in Structuring Questionnaires**

  Hearing the way consumers think and talk about a product, activity, or consumption experience not only generates hypotheses that might be tested in a descriptive research design, but also informs the researcher about how to word questions in ways directly relevant to the consumer's experience.

  Some less frequently mentioned reasons for conducting focus groups include:

- **Post-Quantitative Research**

  Focus groups are most often mentioned as research done prior to a survey, but they might be of equal value in helping researchers to "put flesh on the bones" of quantitative research. Discovering that a certain percentage of consumers behave in a particular fashion may make it desirable to probe a group of those consumers in some depth to discover why and how they came to act in that manner.

- **Making the Abstract Real**

  One of the most memorable qualities of focus groups is their ability to make real what was heretofore only considered in a very abstract manner. For example, it is one thing for a product manager of a brand of dog food to know that many dog owners really love their dogs. It is quite another for that product manager to see dog owners in a focus group take obvious delight in recounting their Ginger's latest adventure with a raccoon, or grow misty-eyed in remembering Biff, now dead ten years, or hear the soft lilt in their voice as they describe the relationship they have with Jason, their golden retriever. Attendance at a focus group can infuse lifeless market data with new meaning and make its implications more memorable and meaningful. One checklist for management using focus groups to obtain a more three-dimensional understanding of their actual customers includes the following advice:

  – Don't expect your customers to look like the models in your ads. Fitness seekers don't all look like Jane Fonda—they are *trying* to.
  – Don't expect your customers to like you. Sitting behind the mirror can be blitz group therapy. Your ego and your company's ego are in the hands of a few customers. It can be upsetting and anger-provoking to hear what they have to say. Be prepared.
  – Don't expect consumers to care as much about your product as you do. It represents only a small part of their lives.
  – Don't expect your customers to be people just like you—or, on the other hand, to be unlike you.
  – Don't expect people to be consistent, and don't label them as hypocrites when they aren't.
  – Use your qualitative researcher as a consultant to put the study in context—are these customers satisfied or dissatisfied, compared to what the researcher has seen in other categories?
  – Remember, if they buy your product, they *are* your customers—whether or not you like the way they look, talk, think, or feel about you.
  – Be honest about your expectations. There is no clean slate. Everyone has preconceptions about their customers. Ask where your expectations come from—research, or prejudice.

- **Reinforcing Beliefs**

  Judith Langer recounts a focus group experience by the Gillette Company that illustrates the ability of focus groups to convey a message much more powerfully to employees than repeated admonitions by management:

  > The Gillette Company asked us to conduct research on "quality," a major issue in the 1980s. What does quality mean to consumers; when do they and don't they look for it; how do they recognize it? A focus group with women showed that consumers are more demanding and "educated" about quality than in the past. This comment was typical:
  >
  > > I think as consumers we're becoming more aware of what goes into a product. For myself, I have become more aware of the ingredients—

> food or clothing or whatever. I feel that I'm not the same shopper I was perhaps six years ago. That was just fad buying. Now I look at something.

Marketing, market research, and research and development people observed the group; the videotape of the session has since been shown to others in the company. Hans Lopater, Gillette's research director, says that the focus group made what top management has been saying more tangible and believable. This wasn't another generalized corporate lecture. These were real people who cared, who could tell the difference, who shopped what they believed. Understanding the importance of quality in today's competitive marketing environment, one can argue, can affect not only a company's attitude, but ultimately its bottom line.

- **Early Barometer**

  Focus groups may provide an early warning system of shifts in the market. Probing consumers on lifestyle changes, consumption patterns, opinions of new competitive entries, and so forth, may reveal threats and opportunities entering the market long before they might be revealed in a large-scale survey. Keeping an open mind and maintaining an active curiosity allow researchers to see the far-reaching significance of seemingly innocuous observations made by focus group participants.

Focus Group Composition

Conventional industry wisdom suggests that focus groups should consist of 8 to 12 people selected to be homogeneous along some characteristic important to the researcher (for example, do a lot of baking, own foreign luxury cars, manage their own retirement account with more than $100,000 invested, and so on). Usually recruitment of focus group participants strives to find people who fit the desired profile but who do not know each other, thus reducing the inhibitions of group members to describe their actual feelings or behaviors. Typically, group sessions last from one and a half to two hours. Going against such conventional wisdom may be necessary in some cases.

For example, one of the authors conducted research for a food company that wanted a few direct questions asked prior to presenting participants with prepared versions of their food products, as well as their competitor's. While not a taste test per se, the client wanted to hear the subjects' reactions to the products and a discussion of the circumstances under which the products would be used in their homes. For this study, a series of one-hour group sessions were run with five people per group. The more structured discussion and the desire to query each participant made the shorter time and smaller group more conducive to achieving the study's objectives.

Selection and Recruitment of Group Participants

The research objectives and research design will indicate the types of people to be recruited for a focus group. If a facility especially designed for focus group use is contracted with, the management of the facility typically will conduct recruitment of focus group members. If a marketing research firm is being hired to conduct the groups, they usually hire the facility; identify, recruit, and select the participants; moderate the groups; and make an oral and written report of the findings. Sometimes the client organization will provide a list of possible participants taken from a master list of customers, members, users, and so on. It is usually necessary to provide *at least* four names for every respondent needed (that is, approximately 50 names per focus group).

Prospective participants are screened when contracted to ensure their eligibility for the group, but without revealing the factors used to assess their eligibility. For example, if the researcher is interested in talking with people who have traveled to Europe in the past year, he or she would also ask about other trips or activities to camouflage the central issue under investigation. This deception is helpful in discouraging respondents from answering in ways strictly intended to increase or diminish chances for an invitation, and to discourage selected participants from preparing "right" answers for their participation in the group sessions. It is advisable to provide a general idea of the topic for discussion (for example, personal travel) to encourage participation. Participants are usually rewarded with an honorarium (say US$25–$50 per person) for their time. The size of the honorarium depends upon the type of participant (for example, physicians expect more than mechanics). The focus group facility management usually covers the cost of recruiting, hosting, and compensating the groups in their fee.

In conclusion, here are six rules for recruiting focus group members:

1. Specifically define the characteristics of people who will be included in the groups.
2. If an industrial focus group is being conducted, develop screening questions that probe into all aspects of the respondents' job functions. Do not depend on titles or other ambiguous definitions of responsibilities.
3. If an industrial focus group is being conducted, provide the research company with the names of specific companies and employees, when possible. If specific categories of companies are needed, a list of qualified companies is critical.
4. Ask multiple questions about a single variable to validate the accuracy of answers. Therefore, if personal computer users are to be recruited, do not simply ask for the brand and model of personal computer they use. In addition, ask them to describe the machine and its function; this will ensure that they are referring to the appropriate equipment.
5. Do not accept respondents who have participated in a focus group during the previous year.
6. Have each participant arrive 15 minutes early to complete a prediscussion questionnaire. This will provide additional background information on respondents, reconfirm their suitability for the discussion, and help the company collect useful factual information.

Moderator Role and Responsibilities

The moderator plays a key role in obtaining maximum value from conducting focus groups. The moderator helps design the study guide, assists the manager or researcher who is seeking the information, and leads the discussion in a skillful way to address the study's objectives while stimulating and probing group participants to contribute to the discussion. Listed below are 10 traits of a good focus group moderator.

1. Be experienced in focus group research.
2. Provide sufficient help in conceptualizing the focus group research design, rather than simply executing the groups exactly as specified.
3. Prepare a detailed moderator guide well in advance of the focus group.
4. Engage in advance preparation to improve overall knowledge of the area being discussed.
5. Provide some added value to the project beyond simply doing an effective job of conducting the session.
6. Maintain control of the group without leading or influencing the participants.

7. Be open to modern techniques such as visual stimulation, conceptual mapping, attitude scaling, or role-playing, which can be used to delve deeper into the minds of participants.
8. Take personal responsibility for the amount of time allowed for the recruitment, screening, and selection of participants.
9. Share in the feeling of urgency to complete the focus group while desiring to achieve an excellent total research project.
10. Demonstrate the enthusiasm and exhibit the energy necessary to keep the group interested even when the hour is running late.

Reporting the Results of Focus Groups

In writing the findings of focus groups, care must be taken not to imply that results typify the target population. The groups were not formed in an effort to generate inferential statistics, but rather to clarify concepts, generate ideas and insights, make the abstract real, and so on. Therefore, it is the qualitative rather then quantitative conclusions that should be the focus of the written report. Goldman and McDonald (*The Group Depth Interview*, 1987) make the following suggestions about writing the report on focus group findings:

- The report should not be a sequential summary or transcript of the sessions, but rather a "logically organized and coherent interpretation of the meaning of these events."
- The report should begin with an introductory section that reviews the research purpose and objectives, and a short description of the research methodology. This is followed by a report of findings, the marketing implications, recommendations, and suggestions for future research phases.
- An executive summary at the beginning of the report should cover the major discoveries as well as the relevant marketing implications that can be justifiably concluded based on the qualitative research results.
- The results section is not necessarily best done by following the sequence of topics covered in the discussions. It may rather be approached as focusing on marketing problems or market segments, and may discuss the findings from the groups that might have been addressed in diverse order during the group sessions.
- The written analysis should progress from the general to the more specific. For example, a report on a new snack product concept might start with a discussion of general observations about snack eating, then go to a discussion of brand image and loyalty, then address the response to the new snack concepts.
- The marketing implications section should provide guidance for the development of the marketing response to the findings without overstating the conclusiveness of the qualitative findings. Everyone— report writers and readers—should remain aware of the limited objectives for conducting the groups, as well as the limitations of this type of research method in general.

SAMPLE FGD DISCUSSION GUIDES ON FINANCIAL SERVICES AND INSTITUTIONS

Developed by Graham A.N. Wright and MicroSave-Africa

1. These discussion guides and questions are *guidelines* only. Please use the results of the FGD/PRA exercises to guide you about which ones to use, to make changes to these questions, and to help you think up additional questions if they are necessary to help you understand the financial landscape of the community and its needs for financial services and new products.
2. The resulting FGD discussion guide must be pilot-tested and amended in response to the results of that test.
3. Initially, you should conduct three focus group discussions in each community (one with just men, one with just women, and one mixed) and then follow with two more (one with just men and one with just women) to see if you get broadly the same quality of information. Remember the roles of men and women in obtaining and managing household cash are different!

Illustrative FGD Discussion Guides and Probes I

Core questions	Related probe questions
General questions 1. What kind of business is your household involved in ? Or *for rural areas:* What crops/animals does your household grow/raise? 2. How have these businesses/activities been running in the last two years? 3. Are there marked seasonal changes in the flows of income and expenditure in these activities? If so please describe them. 4. How do households manage these seasonal changes?	• Probe for multiple businesses/farming activities. • Probe for what they did with additional income in the good times and how they managed through the harder times. • Probe for times when there is not enough money in the household to manage day-to-day needs and times when the household can afford a few simple luxuries. • Probe for initial comments on various financial services.
Savings questions 1. Who saves in this community? 2. For what purposes do they save? 3. How and where do they save? 4. What are the existing indigenous savings practices in the community? 5. What are the barriers to saving in this community? 6. How do people overcome these barriers? 7. In a year, generally what are the months that you would call savings months?	• Probe the varying needs/roles of men and women. • Probe roles of: – formal sector schemes/services: formal banks, NGO-MFIs, cooperatives etc. – informal sector schemes/services: "in-the-house savings," RoSCAs/merry-go-rounds, ASCAs, funeral funds, deposit collectors, savings clubs, money guards etc. • Probe why months are labeled in this way.

Core questions	Related probe questions
Credit questions 1. If necessary, where do people go to get credit? 2. What are the conditions for getting credit? 3. What are the barriers to getting credit? 4. How do people overcome these barriers? 5. In a year, generally what are the months you would call credit months?	• Probe the varying roles of men and women. • Probe roles of: – formal sector schemes/services: formal banks, NGO-MFIs, cooperatives, etc. – informal sector schemes/services: RoSCAs, merry-go-rounds, moneylenders, pawnbrokers, etc. • Probe why months are labeled in this way.
Institutional questions *Note*: You may have to ask one set of questions for the informal financial service schemes (RoSCAs/merry-go-rounds/deposit collectors, etc.) and another for more formal MFIs (post offices, banks, cooperatives, etc.) 1. How many informal financial services systems exist in this community? 2. How do they operate? (Membership, rules and regulations, amounts, regularity of meetings, etc.) 3. Which one is the most popular informal financial service scheme? Why? 4. Which one is least popular informal financial service scheme? Why? 5. If friends asked your advice and wanted to save using any financial institutions/ informal schemes in this community, which one would you recommend and why?	• Probe to generate a comprehensive list. • Ensure that you have all the information and could describe the system in detail if called upon to do so. • Probe to get a clear understanding of why people value or dislike the services offered by the various service providers.

Illustrative FGD Discussion Guides and Probes II

Core questions	Related probe questions
Wealth and poverty 1. How would you describe a poor household (HH) in your community? 2. How would you describe a not-so-poor HH in your community? 3. How would you describe a rich HH in your community? 4. What is the difference between a poor and rich household?	• Probe ability to meet basic needs (food, clothing, health, shelter). • Probe sources of income, seasonality of income. • Probe children in school. • Probe savings/membership of informal financial service schemes. • Probe access to financial services. • Probe differences between men and women.

Core questions	Related probe questions
Risks 1. What are the key sources of risk for your community as a whole and specifically for poor families in the community? 2. What are two to three key crises/shocks/pressures the poor families in your community have experienced over the past two to three years?	• Probe structural factors. • Probe unanticipated emergencies. • Probe life cycle factors. • Probe differences between men and women.
Role of existing financial services 1. What role do financial services play in the ways that the community copes with crises? 2. How can access to financial services help protect the household in times of crisis? 3. What other financial services are available to people in your community? 4. Which of these other financial services do people use and why? 5. Describe the opportunities a woman has to earn money in your community. 6. How does a woman contribute to the survival and development of the household?	• Probe roles of: – formal sector schemes/services: formal banks, NGO-MFIs, cooperatives, etc. – informal sector schemes/services: “in the house savings,” RoSCAs/merry-go-rounds, funeral funds, deposit collectors, savings clubs, moneylenders, pawnbrokers, etc. • Probe the role of both loans and savings in times of crisis. • Probe prevalence of moneylenders, savings collectors, RoSCAs, pawnbrokers, etc. • Probe whether membership in one MFI assists access to other financial services (moneylenders/RoSCAs/pawn-brokers, etc.). • Probe why other services are needed, what is lacking in the MFI’s system. • Probe contribution of assets to livelihood and risk/crisis management, particularly savings. • Probe pawning/mortgaging/selling.
Potential role of financial services 1. What kind of financial services would help you to protect against risks in the future? 2. Are you using similar services? (If not, why not?)	• Probe roles of: – formal sector schemes/services: formal banks, NGO-MFIs, cooperatives, etc. – informal sector schemes/services: “in the house savings,” RoSCAs/merry-go-rounds, funeral funds, deposit collectors, savings clubs, moneylenders, pawnbrokers, etc. – improved money management – diversification of use of schemes – increased savings

SESSION 5: PRODUCT CONCEPT AND DESIGN

Session Summary

OBJECTIVES: By the end of the session participants will be able to:

- Use market research results to design product prototypes
- Consider institutional issues in product design
- Explain why it is important to repeatedly return for client comments

TIME: 162–227 minutes

SUPPLIES:
Flipchart paper and markers
Masking tape
LED projector or overhead projector
Index cards (or blank pieces of paper of similar size)

> **PRE-SESSION READING MATERIAL (FOR TRAINER AND PARTICIPANT REFERENCE):**
>
> "Phase 2: Prototype Design and Development," *The MBP Guide to New Product Development* by Monica Brand**,** ACCION International, 2001

TRAINER MATERIALS

PD5-M1 Focus Group Role-Play Character Descriptions

PARTICIPANT MATERIALS

OVERHEADS: PD5-O1 Institutional Considerations

HANDOUTS:
PD5-H1 Product Specification Worksheets: Credit Product; Savings Product
PD5-H2 Focus Group Development Guide
PD5-H3 Product Concept and Prototype – Action Plan

CASE STUDY:
Part 5A Market Research *(previously distributed in Session 4)*
Part 5B Focus Group Transcript

Session 5: Product Concept and Design

INTRODUCTION TO PRODUCT CONCEPT AND DESIGN

1. *(5–10 minutes)* Introduce the session, saying: It seems that UNIbank has done quite a bit of research and analysis and is ready to move forward. Ask participants what they think will happen next. Take answers and refer back to the flipchart showing where the group is in the systematic product development process. Explain that UNIbank needs to conceptualize and design a product prototype. Ask: How do you think this will happen? What steps would you or have you followed to develop a prototype?

2. *(5–10 minutes)* Distribute and have the participants read Case Study Part 5B and PD5-H1—Product specification worksheets. Take any questions from the group about the specification sheets. Ask: Where did these product specifications come from? Remind them that Ben had actually started these worksheets back at the beginning of the process; they provide a beginning framework for the product design.

3. *(50–80 minutes)* Divide the group into the same preassigned subgroups as used for market research. Each group will function as a product design team for UNIbank, designing two products (one savings, one credit). Explain that they will need to use the information provided in the case, as well as their findings and conclusions from the case. Tell participants they will eventually have to present their product designs and choose which final products UNIbank will go forward with. Ensure that they name their products and create what they believe will be commercially viable options for UNIbank.

   Think about organizing the role-play while the participants are working on this exercise. Have some ideas as to who will play what roles for each group.

4. *(10–15 minutes)* Tell the groups that they will have to prepare for a focus group to get preliminary feedback from consumers on the prototypes. Distribute preparation guidelines (PD5-H2).

FOCUS GROUP ROLE-PLAY

5. *(5–10 minutes)* Distribute two blank pieces of paper or index cards to each group. Instruct them to write the name of the savings product on one piece and the credit product on the other. Collect them and randomly select one savings and one credit product to be used for focus group role-play. (Make sure the credit and savings products are from two different groups.) Distribute role-play character descriptions from PD5-M1. Have the two groups, whose products will be presented, prepare to facilitate the focus group; help the participants selected as focus group participants to develop their roles.

6. *(20–30 minutes)* Conduct two separate (*one for savings* and *one for credit*) five- to eight-minute role-plays in a fish bowl of focus groups who are being presented with a new product idea. Have observers take notes on the process and any important comments on the product.

7. *(10 minutes)* Process the focus group role-plays. First, discuss the process itself. Stimulate discussion with some or all of the following questions: Why did we go back to the clients? Were focus group rules followed? What did the facilitator do well? What could the facilitator have done better? What might you have done differently? Did you think it was successful? Why or why not? What did other groups plan? What would you change or improve for next time? Summarize the discussion.

8. *(5 minutes)* Distribute the Case Study Part 5B: Focus group transcript. Discuss results of the focus groups. Tell participants that, based on the concepts illustrated through the role-play case study and now the transcript summaries of UNIbank's work with focus groups, they are to use this information to fine-tune their product prototypes.

9. *(15–20 minutes)* Have the participants resume their small groups, and ask them to reexamine their prototype to ensure it reflects the information recently gathered in the focus group discussions.

10. *(15 minutes)* Reconvene the large group. Announce that the General has heard about the prototypes, seen some of the product specifications and read the report of the recent focus groups. Tell them she thinks it sounds as if it is all going well but wonders why no one has mentioned anything about how the product will fit into the institution. Ask: Is UNIbank capable of handling such products?

    Facilitate a discussion through questioning. Ask: What do you think the General is talking about? What does she mean by institutional issues and fit? Why is she so concerned?

    List responses on a flipchart and facilitate a discussion on each. Issues should include:

    - **Operational methodology fit.** Will methodology have to be changed? How? Do we add these products to our current menu? Do we stop offering other products? Which ones? How do we deliver it? By ourselves? Through others?
    - **IS fit.** How will IS have to be changed? Who will do it? How much will it cost? How long will it take?
    - **Staffing fit.** Do we have enough staff with the right skills? Will they need training?
    - **Infrastructure fit**. How would savings be protected? Do we have enough space for new clients? Is the space adapted according to client demand for products in the right place?
    - **Legal and regulatory issues.** Will the new products comply?

- **Competition.** Who considered this? What do we know?

(See Brand, *The MBP Guide to New Product Development* for more issue details.)

Summarize the main points of the issues discussion: Use PD5-O1 and refer participants to the *MBP Guide* for further details. Emphasize the importance of these issues in product development.

11. *(5 minutes)* Summarize the main points of product concept and design. Take any questions.

ACTION PLAN

12. *(10 minutes)* Suggest that group members take a few minutes to note some salient points that they might wish to remember and apply in their MFIs when designing the product prototype, getting feedback from clients and assessing their MFI's ability to deliver the products. Distribute PD5-H3, and have participants complete an action plan.

13. *(5 minutes)* Review the main obstacles noted by the MFIs. Discuss some solutions to overcome them.

14. *(2 minutes)* Tell the group that the General finally is satisfied that the institutional issues have been considered, but now she wants to know: How much will this cost, and what will the client ultimately pay for these products? Review the main points and where the group is in the product development process. Tell participants that the next session will be devoted to product costing.

PD5-M1

Focus Group Role-Play Character Descriptions

There are two focus group role-plays for two different products (one credit and one savings, selected randomly), chosen from two different groups. The group whose credit product was chosen will identify a facilitator from among the members of that group; the savings product group whose product was chosen will do the same, resulting in facilitators, one for each focus group. For each role-play, the other training participants will either play a role or be an observer.

Select several participants from the other product development groups to be members of the focus group. Assign them each a role as outlined below, providing them with a written description of their roles. The trainer should work with the role-players to develop roles pertinent to the products chosen for discussion. It is recommended that the trainer also play a role to ensure some controversy!

Some suggested roles (the trainer may add others) include:

Role 1

You are a happy client who doesn't really want or need anything different than what you have now. You heard that UNIbank was going to focus on smaller loans. You are very excited because you think it will be easier to repay a loan if under $300.

Role 2

You are a skeptical client. Nothing has changed in the past; you do not think this is any different.

Role 3

You are very interested in savings. You would like to be able to access your savings at least once a week.

Role 4

You are eager to get a new loan (at a lower price, of course) but actually price is not your major concern. You have no time for group meetings and, after one year of attending them, you feel that this should no longer be a requirement. You are currently saving happily at the bank, but and might be interested in a new savings product if there were lower minimum balance requirements and if you could access your savings more frequently.

Role 5

You have been a loan client in the past but are very anxious to have a savings mechanism—you want your money to be safe from relatives.

Role 6

You have never had any loans from UNIbank, but have just been made redundant and are thinking about starting a small business in banana fiber to support your family. You will need a loan to buy the machinery, but do not think you will be able to repay anything on the loan for two to three months after receiving it.

Role 7

Create your own to match the course!

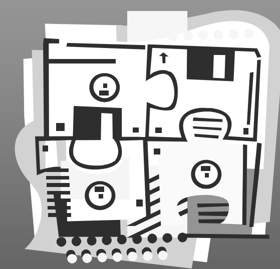
Overheads

THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP PRODUCT DEVELOPMENT OVERHEADS"

PD5-O1

Institutional Considerations

- Operational methodology
- Information system
- Human resources
- Infrastructure
- Legal and regulatory
- Competition



CGAP

Handouts

Product Specification Worksheet: Credit Product

PRODUCT CHARACTERISTICS	CREDIT PRODUCT
1. Product Name	
2. Purpose and Focus • Loan use • Client profile • Location(s) • • •	
3. Amount • Minimum loan amount • Maximum loan amount • Average loan amount • •	
4. Preconditions ***Collateral requirements (including compulsory savings)*** • Collateral type • Control of collateral • Collateral amount • Collateral basis (flat amount, % of loan, % of payment) • Collateral payment timing • Collateral payment frequency • Interest rate on collateral • Interest rate method on collateral • Savings collateral set in reserve % • Interest on reserve % • Indexing of collateral ***Other Requirements*** • Group membership • • •	

Product Specification Worksheet: Credit Product *(continued)*

PRODUCT CHARACTERISTICS	CREDIT PRODUCT
5. Pricing • Interest rate • Interest rate method • Commissions and fees – timing/frequency: upfront ongoing – basis: fixed amount or % of loan amount or % of monthly principal payments • Index to external value • Loans in foreign currency • Loans indexed to inflation rate • Penalties • •	
6. Disbursement • Loan disbursement timing • Wait period between loans • • •	
7. Repayment Conditions • Repayment frequency • Effective loan term • Grace period • • •	

Product Specification Sheet: Savings Product

PRODUCT CHARACTERISTICS	SAVINGS PRODUCT
1. Product Name	
2. Purpose and Focus • Savings use • Client profile • Location(s) • • •	
3. Amount • Minimu m balance • Minimum deposit amount • Maximum deposit • Minimu m withdrawal • Maxi mum withdrawal • •	
4. Preconditions • Opening balance • Minimu m balance • Average balance to maintain account • Basis for calculating average balance (daily, monthly, etc.) • Calculation method for average balance • Minimum and maximum deposit • Minimum and maximum withdrawal • Deposit frequency • Withdrawal frequency • • • •	

Product Specification Sheet: Savings Product *(continued)*

PRODUCT CHARACTERISTICS	SAVINGS PRODUCT
5. Pricing • Interest rate • Interest rate method • Commission and fees – timing and frequency: upfront ongoing – basis • Index to external value • Penalties • • • • •	

Focus Group Development Guide

You will be conducting a five-minute focus group to get feedback on your product design to date. Plan for that group meeting.

1. Set the climate.

2. How will you present your product? What features will you focus on?

3. What questions will you ask?

4. Who will you invite? How will you invite the participants?

5. Where will you have it? How will people sit?

6. Will you give them tea? Pay them?

7. How long will it take? How will you end the meeting?

8. Prepare any visuals.

9. Appoint a facilitator for the focus group. Help plan her or his role.

Product Concept and Prototype – Action Plan

1. How do you imagine the product specifications list will be defined in your MFI? Who will do this?

2. Describe the process of prototype development in your MFI.

3. What problems do you foresee in conceptualizing and designing a product prototype?

4. How will you get client feedback and input to the prototype?

5. What organizational issues do you anticipate arising in your MFI when introducing a new product? How will they be resolved?

SESSION 6: COSTING

Session Summary

OBJECTIVES: By the end of the session, participants will be able to:

- Distinguish between cost allocation and activity-based costing
- Describe the basic procedures and benefits of ABC
- Describe implications of new products for the MFI's systems
- Estimate the total cost of new or refined product

TIME: 235–335 minutes

SUPPLIES: Flipchart paper
Markers
Masking tape
LED projector or overhead projector

TRAINER MATERIALS

PD6-M1 ABC Optional Overhead
PD6-M2 CGAP Activity-Based Costing Paper (*Microfinance Product Costing Tool* to be downloaded from CGAP website), if not given to participants in Session 1

PARTICIPANT MATERIALS

OVERHEADS: PD6-O1 Cost Allocation
PD6-O2 Activity-Based Costing
PD6-O3 Cost Allocation and Activity-Based Costing *(comparison)*
PD6-O4 Activity-Based Costing Steps
PD6-O5 Staff Costs for Answering Client Questions **Optional**
PD6-O6 UNIbank's Previous ABC Results
PD6-O7 Driving Unit Costs

HANDOUTS: PD6-H1a New Core Processes and Activities Dictionary
PD6-H1b Revised Branch Staff Time Estimates
PD6-H1c Revised Head Office Staff Time Estimates
PD6-H2 Calculating Branch Nonstaff Costs and Total Costs *(Worksheet 1)*
PD6-H3 Calculating Head Office Nonstaff Costs and Total Costs *(Worksheet 2)*
PD6-H4 Total Branch Staff and Nonstaff Costs *(Worksheet 1 Answers)*
PD6-H5 Total Head Office Staff and Nonstaff Costs *(Worksheet 2 Answers)*
PD6-H6 All Costs Per Activity—Final

PD6-H7 Calculating Unit Costs—Assigning Driver Volumes *(Worksheet)*
PD6-H8a Drive Unit Costs to Participant Credit Product
PD6-H8b Drive Unit Costs to Participant Savings Product
PD6-H9 CGAP Activity-Based Costing Paper *(see PD6-M2),* if not given to participants in Session 1

CASE STUDY: Part 6 Costing Information for UNIbank
Note: Do not photocopy as double sided. Make sure the case study is copied on colored paper.

PREPARED FLIPCHART:
Per PD6-04: Activity-Based Costing Steps

Session 6: Costing

Note: *At least two trainers will need to be actively involved in this session. The group work and the volume of handouts need close monitoring; expertise is vital.*

Consider having participants start the session already sitting in their working groups. This way they can easily work in a subgroup or in pairs and trios within the subgroup without having to move around too much. Also, identify appropriate breaks for this session's heavy workload.

INTRODUCTION TO COSTING

1. *(5–10 minutes)* Lead a discussion using the following as probing questions: What do you think about the general's request? What is the big deal about costing? What have been your experiences? How have you gone about it?

2. *(3–5 minutes)* Brainstorm: What are the elements of a product costs?

3. *(3 minutes)* Have the group categorize them and determine when they occur. Try to arrange them into categories:
   - Product development costs—from market research to rollout
   - Product delivery costs—post-rollout
   - Operating costs—direct and indirect
   - Financ ial costs

4. *(2 minutes)* Explain that there are many factors and approaches to consider in costing, but there is agreement on a few things. First, it is easier to price a new product if the price of current products is known. Current costs can be used as a basis to estimate future costs for a new product. (Fortunately UNIbank knows the costs of its current products.) Second, the group will have to work through an activity-based costing approach to understand how this can be applied to our new product costing!

   Note: The CGAP costing paper PD6-M2 should have been previously assigned to the participants as reading. Be prepared to discuss with the group how a new MFI with no current products might go about this task.

5. *(5 minutes)* Ask: What do we mean by cost allocation? (Tie this to previous discussions as seems relevant.) Show PD6-O1 and present an overview of cost allocation as it applies to microfinance. (See CGAP costing paper for details.)

6. *(10 minutes)* Show PD6-O2. Now ask: What do you understand by activity-based costing? Then explain, using the CGAP costing paper as a reference. Summarize costing approaches using PD6-O3; compare the two approaches and discuss possible points of overlap.

7. *(5 minutes)* As time allows, briefly explore the pros and cons of each method. Through question and answer, lead a discussion of these points as highlighted in the CGAP costing paper and excerpted in PD6-M1. Close the discussion explaining that the group has chosen activity-based costing (ABC) based on its strengths, specifically the additional ability to explore inefficiencies.

8. *(10 minutes)* Introduce the specific steps of ABC. Use PD6-O4 as a reference. Previously prepare the same list of steps on a flipchart.

9. *(5 minutes)* Say that UNIbank has been using ABC in the past so the ABC system should be helpful to them when they cost the new products. Distribute Case Study Part 6, and allow time for participants to read and review it.

10. *(10–20 minutes)* Discuss Case Study Part 6, using a question-and-answer method and going through the case study page by page, relating it to the ABC steps. Make sure all participants understand UNIbank's costing results and the purpose of the information on the spreadsheets. Use **optional** overhead (PD6-O5) of the case study as needed. Be prepared to illustrate calculations on flipcharts. The level of detail and the time of this discussion will vary greatly, depending on participants' previous experiences with activity-based costing.

    ***Note**:* If a question about viability arises, say: We will get to it in the next session.

11. *(5–10 minutes)* Allow participants, individually or in neighboring pairs, time to read and begin to analyze the information from UNIbank's ABC results.

12. *(10–20 minutes)* Ask the group as a whole for general comments about UNIbank's costing dilemma. Discuss why Ben made the notes about cross-subsidizing and trimming transaction costs in his diary. (Have them look at the bottom line of the Case Study product activity costs table—Product costs; explore costs of activities for different loan types to understand Ben's suspicions.) Ask: What prompted him to ask these questions? Which activities seem to be the most expensive? What does this tell you?

13. *(5 minutes)* Ask the group: In general, how can we use the ABC results to cost our new products? What will we need to change, add, and so forth? Have participants look at the activities dictionary. Ask: How might this need to change? Are there new core processes? New activities? What about staff time allocations? Take a few answers, and focus on new savings products that will have different activities.

14. *(15–20 minutes)* Refer to the case study and explain that fortunately Ben has been up all night working on these tasks. Distribute PD6-H1a, H1b, and H1c. Allow time for participants to review the documents and ask questions. Be prepared to ask questions to stimulate discussion—for example, what is different about the activities dictionary? (Answer: deposits.) Or, how will that impact staff time? Have the group look at PD6-H1b, in which staff time estimates also have changed.

15. *(5 minutes)* Follow up by explaining that calculating costs per activity comes next. Ask: How do we do that? Direct the group to look at staff costs first.

    For example, ask: What is the cost of loan officers to answer client questions and provide advice? Take answers, then show PD6-O6 or work through an example on a flipchart.

16. *(5 minutes)* Ask: What is the monthly cost of answering client questions by the cashiers? Allow a few moments for the participants to calculate. (Answer: 5 percent of $1,200 = $60.) Explain that this is how all staff time costs are determined. Show ABC **optional** overhead (PD6-O5) if needed to summarize.

17. *(10–15 minutes)* Ask the class how it thinks that nonstaff costs per branch are calculated. Allow a few moments for the participants to think through possible responses. Take answers.

    Take the group step by step. First find out what the total nonstaff branch costs are. (This is $400,000**,** according to the branch financial statements.) Then consider how to divvy up this total**.**

    Tell the group that UNIbank has decided to allocate the nonstaff costs in the same proportion as the branch time to total time.

    Give this example (consider illustrating it on a flipchart or an overhead): The time spent by all branch staff on answering client questions is 10.5 percent. If that 10.5 percent is multiplied times 400,000, the result is $41,968—the annual branch nonstaff costs associated with answering client questions.

    Adding the staff costs to the nonstaff costs gives total costs at both the branch and head office, which in this case equals $102,688—$60,720 (total annual staff costs) plus $41,968 (annual nonstaff costs). So UNIbank's total cost for answering client questions on an annual basis is $102,688 since there are no head office costs associated with answering client questions.

18. *(10–15 minutes)* Referring to the case study, state that once again Ben has been busy calculating. He has already figured out all of the staff costs and needs a little help calculating the nonstaff costs. Distribute PD6-H2, Calculating branch nonstaff and total costs, and PD6-H3, Calculating head office nonstaff costs and total costs. Ask participants to complete the worksheets. Consider dividing the assignment, asking one group to work on only the activities within the servicing of existing loans, for example, while another works on another core process, etc.

19. *(5 minutes)* After giving the group a few moments, distribute PD6-H4, H5, and H6 solutions and have them correct their own answers. Take any questions.

20. *(5 minutes)* Ask the group: Now that we know the total costs by activity, what does activity-based costing require next? (Answer: we need to calculate the unit cost.) Pose other questions: What is the purpose of the unit cost? How will we use it? And finally, how do we do this? (Answer: by assigning drivers and determining their monthly volume, then dividing the volume of the drivers into the total costs.)

Briefly review the concepts of assigning drivers. Have them look at a few examples from the Case Study Part 6 charts showing UNIbank's original ABC numbers.

Guide participants back to the case study, not to the handouts, saying that they will be working with the colored case study parts here. Explain that they need to get the information from the case study, since they are looking for historical information, not projections—which is what we have just been working on and which the handouts represent.

21. *(5 minutes)* Show PD6-O7 and explain that participants are now looking at historical costs; the numbers in the overhead are from the case study, not the handouts.

22. *(20–45 minutes)* Tell the group members that they have reached the interesting part. They all have designed products—now it is time to cost them! From here on they will be working on their own products, assigning the driver volume to each activity for the product as designed and determining the unit costs. Remind them that the volumes must be achievable! Distribute PD6-H7 and ask participants to complete it, based on what they think their products will require.

    This can be an individual exercise within the subgroups, or subdivided further into twos and threes. It is good for everyone to practice calculating a few unit costs, assigning drivers, and so forth, but the group as a whole must agree on the drivers and come up with one cost and price for the product they have designed.

23. *(25–45 minutes)* Tell participants that they now have all the pieces of information to calculate an estimate of what their new products will cost. Distribute PD6-H8a and H8b, and have participants follow instructions to complete the separate costing of their two products.

    Note: There are no answer sheets for this exercise, since answers will be based on information generated in this and previous sessions. Pay close attention to individual work to gather material for processing and to ensure participants are calculating correctly.

    This exercise **must** be completed before the session can continue. (It is a major building block.) Participants must have sufficient information to continue with costing their products.

24. *(10–15 minutes)* Ask participants how they feel about the cost of their products: Are the unit costs comparable? What have they left out of the equation? (Answer: financial costs!) Note that fees charged to clients and the interest rate paid to clients for each product also need to be taken into account—they will work on this shortly. Take any questions on the application of activity-based costing in new product development.

GENERAL REVIEW

25. *(15 minutes)* Facilitate a discussion based on the following questions: What are the elements of product costing? Can they describe the process of how to estimate the costs of new product development? What are the critical points to remember to get the best estimates? Why is it important to understand product costs?

26. *(10 minutes)* Suggest that the group think about the implications of the exercise for their MFI. Ask for participants to share experiences of what they have done or what they will do, based on this session. Discuss how they can use this costing information in the rest of the product development cycle, and what other uses there are for this information. Briefly touch on efficiency issues and how the information is or can be used to explore cost-cutting opportunities.

27. *(5–10 minutes)* Summarize and clarify main messages.

28. *(5 minutes)* Set the stage for a brief skit: Ben is relieved that the products have been costed using the best possible data. He meets the General in the hallway. He excitedly tells her that they have costed the product down to the tiniest detail and are now ready to roll with the pilot testing. Once again the General stops him cold in his tracks: She says: Wait, that is great—but what it will cost us to get it to market and what will the clients pay for it? What is the price we will charge for these new products? And even if the clients are willing to pay, does it mean we can afford it? Will we break even? How much profit will we earn (what will be the return)? The list of questions goes on and on and on, until finally the General says, I need answers! and walks away. Ben remains speechless.

29. *(3–5 minutes)* Process very briefly. Ask: What are the General's expectations? (Answer: profit!) Encourage them; say**:** Let's see if we can get there!

    Bridge to next session on pricing.

PD6-M1

ABC Optional Overhead

PD6-O5

Staff Costs for Answering Client Questions

Staff	Percent time	Monthly salary	Cost per one staff	# staff	Total costs
LO	12.5%	200	25	200	5,000
Cashier	5%	100	5	12	60

There is no other staff involved in answering questions

TOTAL STAFF TIME FOR answering questions = A$5,060 monthly

Annually equals $5,060 x 12 = A$60,720

CGAP

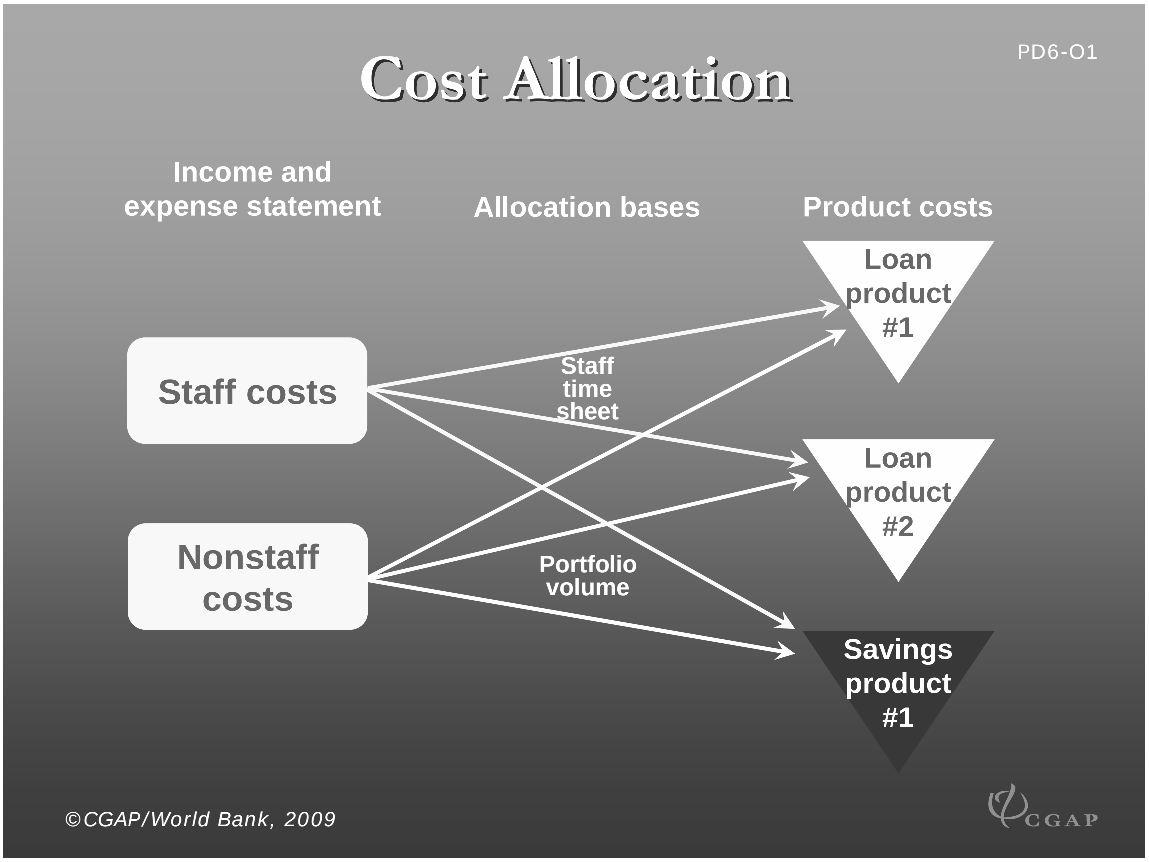
PD6-M2

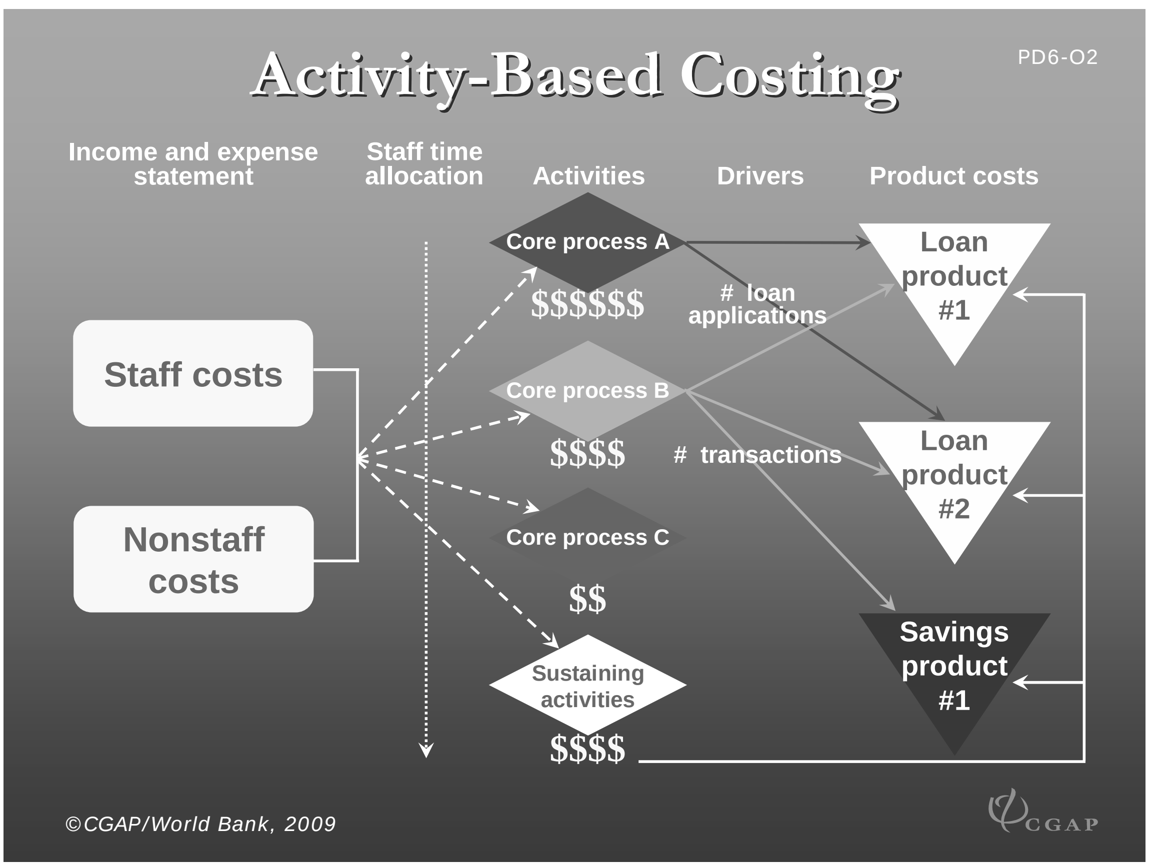
CGAP Activity-Based Costing Paper

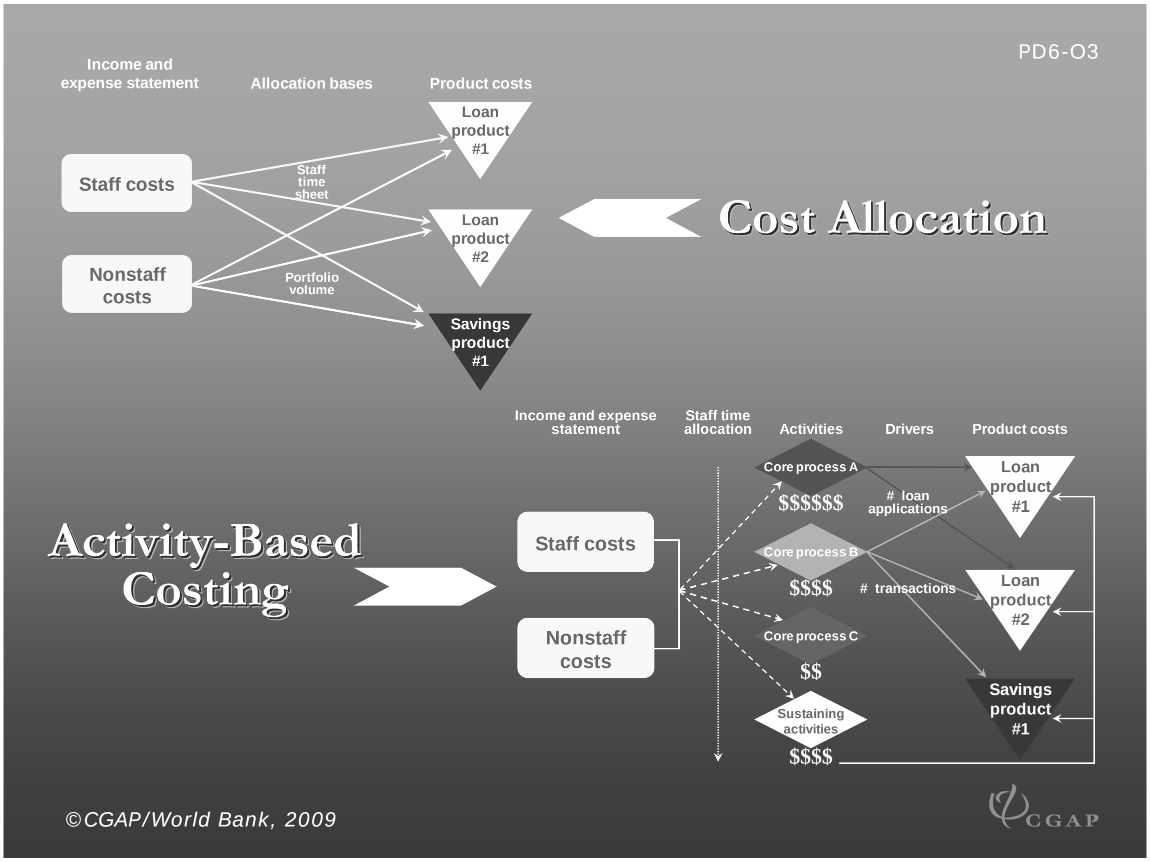
Download *Microfinance Product Costing Tool* from CGAP Web site.

Overheads

THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP PRODUCT DEVELOPMENT OVERHEADS"


PD6-O1
Cost Allocation
Income and expense statement
Allocation bases
Product costs
Loan product #1
Staff costs
Staff time sheet
Loan product #2
Nonstaff costs
Portfolio volume
Savings product #1
©CGAP/World Bank, 2009
CGAP


PD6-O2
Activity-Based Costing
Income and expense statement
Staff time allocation
Activities
Drivers
Product costs
Core process A
$$$$$$
loan applications
Loan product #1
Staff costs
Core process B
$$$$
transactions
Loan product #2
Nonstaff costs
Core process C
$$
Savings product #1
Sustaining activities
$$$$
©CGAP/World Bank, 2009
CGAP



PD6-O4

Activity-Based Costing Steps

1. Plan for the costing exercise
2. Identify products for costing
3. Ascertain core processes
4. Designate specific activities for each core process
5. Conduct staff time estimates for each activity
6. Calculate costs per activity
7. Assign cost drivers and determine unit activity costs
8. Drive unit activity costs to products

CGAP

PD6-O5

Staff Costs for Answering Client Questions

Staff	Percent time	Monthly salary	Cost per one staff	# staff	Total costs
LO	12.5%	200	25	200	5,000
Cashier	5%	100	5	12	60

There is no other staff involved in answering questions

TOTAL STAFF TIME FOR answering questions = A$5,060 monthly

Annually equals $5,060 x 12 = A$60,720

CGAP

PD6-O6

UNIbank's Previous ABC Results

Cost per activity for staff

Loan Officers spend

hours or % of their time

Answering client questions/advising

21.5 hours or 12.5% of L.O. time per month

Total Loan Officer costs per month = A$40,000

12.5% of A$40,000 = A$5,000

The costs of answering client questions/advise by Loan Officers per month is A$5,000!

CGAP

PD6-O7

Driving Unit Costs

Answering client questions for *existing* products

The total annual cost: 223,867.50
Total monthly cost: 18,655.60

- **The driver assigned is number of loan applications**
- **Monthly volume of loan applications is 3,200**
- **The unit cost for answering client question =**

18,655.60 ÷ 3200 =

5.83 cost per client question

Numbers are from case study as we are using existing product costs in this example—not projecting.

CGAP

Handouts

BEN'S REVISED UNIBANK ACTIVITIES
DICTIONARY FOR NEW PRODUCTS

Core Processes & Activities

ACTIVITIES DICTIONARY	
Core Processes	**Activities**
Making Loans	Answer client questions/advise
	Accept loan application
	Review and approve loan application
	Perform general loan disbursement admin
Servicing Existing Loans	Follow up with delinquent clients
	Track repayments and delinquency
	Perform portfolio analysis
	Perform general loan administration
Opening Deposit Accounts	Answer client questions/advise
	Issue passbook
	Perform general new deposit admin
Servicing Deposit Accounts	Update passbooks, issue replacements
	Close deposit accounts
	Perform portfolio analysis
	Perform general deposit administration
Handling Cash Transactions	Collect and record cash in
	Disburse and record cash out
	Perform general cash administration
Sustaining Activities	Engage in general marketing and promotion
	Maintain donor/investor relations
	Perform general accounting and reporting
	Recruit, train and pay staff
	Maintain information technology
	Perform general administration

BEN'S REVISED UNIBANK BRANCH STAFF TIME

Staff Time Estimates (Monthly)		BRANCH STAFF time in Hours per month (Average hours per Staff Type per Month)							
		Branch Supervisor		Loan Officer		Teller		Cashier	
Core Processes	Activities	Hours	%	Hours	%	Hours	%	Hours	%
Making Loans	Answer client questions/advise	0.0	0.0%	21.5	12.5%	0.0	0.0%	8.6	5.0%
	Accept loan application	0.0	0.0%	17.2	10.0%	0.0	0.0%	0.0	0.0%
	Review and approve loan application	25.8	15.0%	25.8	15.0%	0.0	0.0%	0.0	0.0%
	Perform general loan disbursement admin	12.9	7.5%	17.2	10.0%	0.0	0.0%	0.0	0.0%
	All Activities	38.7	22.5%	81.7	47.5%	0.0	0.0%	8.6	5.0%
Servicing Existing Loans	Follow up with delinquent clients	0.0	0.0%	17.2	10.0%	0.0	0.0%	0.0	0.0%
	Track repayments and delinquency	8.6	5.0%	8.6	5.0%	0.0	0.0%	8.6	5.0%
	Perform portfolio analysis	8.6	5.0%	8.6	5.0%	0.0	0.0%	8.6	5.0%
	Perform general loan administration	8.6	5.0%	0.0	0.0%	0.0	0.0%	8.6	5.0%
	All Activities	25.8	15.0%	34.4	20.0%	0.0	0.0%	25.8	15.0%
Opening Deposit Accounts	Answer client questions/advise	25.8	15.0%	21.5	12.5%	0.0	0.0%	8.6	5.0%
	Issue passbook	0.0	0.0%	0.0	0.0%	25.8	15.0%	0.0	0.0%
	Perform general new deposit admin	12.9	7.5%	8.6	5.0%	25.8	15.0%	0.0	0.0%
	All Activities	38.7	22.5%	30.1	17.5%	51.6	30.0%	8.6	5.0%
Servicing Deposit Accounts	Update passbooks, issue replacements	0.0	0.0%	0.0	0.0%	8.6	5.0%	8.6	5.0%
	Close deposit accounts	0.0	0.0%	0.0	0.0%	12.9	7.5%	8.6	5.0%
	Perform portfolio analysis	0.0	0.0%	8.6	5.0%	12.9	7.5%	0.0	0.0%
	Perform general deposit administration	0.0	0.0%	8.6	5.0%	12.9	7.5%	8.6	5.0%
	All Activities	0.0	0.0%	17.2	10.0%	47.3	27.5%	25.8	15.0%
Handling Cash Transactions	Collect and record cash in	0.0	0.0%	0.0	0.0%	25.8	15.0%	34.4	20.0%
	Disburse and record cash out	0.0	0.0%	0.0	0.0%	25.8	15.0%	34.4	20.0%
	Perform general cash administration	0.0	0.0%	0.0	0.0%	21.5	12.5%	34.4	20.0%
	All Activities	0.0	0.0%	0.0	0.0%	73.1	42.5%	103.2	60.0%
Sustaining Activities	Engage in general marketing and promotion	8.6	5.0%	8.6	5.0%	0.0	0.0%	0.0	0.0%
	Maintain donor/investor relations	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Perform general accounting and reporting	34.4	20.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Recruit, train and pay staff	17.2	10.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Maintain information technology	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Perform general administration	8.6	5.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	All Activities	68.8	40.0%	8.6	5.0%	0.0	0.0%	0.0	0.0%
All Processes	**All Activities**	172.0	100%	172.0	100%	172.0	100%	172.0	100%

BEN'S REVISED UNIBANK HEAD OFFICE STAFF TIME

Staff Time Estimates (Monthly)		H.O. STAFF time in Hours per month													
		Executive Director		Finance Manager		Operations Manager		Head of MIS		Head of Personnel		Accountant		Support Staff	
Core Processes	**Activities**	Hours	%	Hours	%	Hours	%	Hours	%	Hours	%	Hours	%	Hours	%
Making Loans	Answer client questions/advise	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Accept loan application	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Review and approve loan application	25.8	15.0%	8.6	5.0%	25.8	15.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Perform general loan disbursement admin	0.0	0.0%	0.0	0.0%	8.6	5.0%	0.0	0.0%	0.0	0.0%	8.6	5.0%	0.0	0.0%
	All Activities	25.8	15.0%	8.6	5.0%	34.4	20.0%	0.0	0.0%	0.0	0.0%	8.6	5.0%	0.0	0.0%
Servicing Existing Loans	Follow up with delinquent clients	0.0	0.0%	8.6	5.0%	25.8	15.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	8.6	5.0%
	Track repayments and delinquency	0.0	0.0%	17.2	10.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	8.6	5.0%
	Perform portfolio analysis	25.8	15.0%	17.2	10.0%	21.5	12.5%	21.5	12.5%	8.6	5.0%	0.0	0.0%	8.6	5.0%
	Perform general loan administration	0.0	0.0%	12.9	7.5%	17.2	10.0%	0.0	0.0%	0.0	0.0%	8.6	5.0%	8.6	5.0%
	All Activities	25.8	15.0%	55.9	32.5%	64.5	37.5%	21.5	12.5%	8.6	5.0%	8.6	5.0%	34.4	20.0%
Opening Deposit Accounts	Answer client questions/advise	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Issue passbook	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Perform general new deposit admin	0.0	0.0%	12.9	7.5%	0.0	0.0%	0.0	0.0%	0.0	0.0%	17.2	10.0%	0.0	0.0%
	All Activities	0.0	0.0%	12.9	7.5%	0.0	0.0%	0.0	0.0%	0.0	0.0%	17.2	10.0%	0.0	0.0%
Servicing Deposit Accounts	Update passbooks, issue replacements	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	17.2	10.0%	17.2	10.0%
	Close deposit accounts	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Perform portfolio analysis	0.0	0.0%	17.2	10.0%	21.5	12.5%	21.5	12.5%	0.0	0.0%	12.9	7.5%	0.0	0.0%
	Perform general deposit administration	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	25.8	15.0%	0.0	0.0%
	All Activities	0.0	0.0%	17.2	10.0%	21.5	12.5%	21.5	12.5%	0.0	0.0%	55.9	32.5%	17.2	10.0%
Handling Cash Transactions	Collect and record cash in	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	12.9	7.5%	0.0	0.0%
	Disburse and record cash out	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	12.9	7.5%	0.0	0.0%
	Perform general cash administration	25.8	15.0%	21.5	12.5%	17.2	10.0%	0.0	0.0%	0.0	0.0%	25.8	15.0%	25.8	15.0%
	All Activities	25.8	15.0%	21.5	12.5%	17.2	10.0%	0.0	0.0%	0.0	0.0%	51.6	30.0%	25.8	15.0%
Sustaining Activities	Engage in general marketing and promotion	43.0	25.0%	8.6	5.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Maintain donor/investor relations	43.0	25.0%	8.6	5.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Perform general accounting and reporting	0.0	0.0%	8.6	5.0%	34.4	20.0%	0.0	0.0%	34.4	20.0%	30.1	17.5%	8.6	5.0%
	Recruit, train and pay staff	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	86.0	50.0%	0.0	0.0%	17.2	10.0%
	Maintain information technology	0.0	0.0%	0.0	0.0%	0.0	0.0%	129.0	75.0%	0.0	0.0%	0.0	0.0%	17.2	10.0%
	Perform general administration	8.6	5.0%	30.1	17.5%	0.0	0.0%	0.0	0.0%	43.0	25.0%	0.0	0.0%	51.6	30.0%
	All Activities	94.6	55.0%	55.9	32.5%	34.4	20.0%	129.0	75.0%	163.4	95.0%	30.1	17.5%	94.6	55.0%
All Processes	**All Activities**	172.0	100%	172.0	100%	172.0	100%	172.0	100%	172.0	100%	172.0	100%	172.0	100%

WORKSHEET 1: Calculate BRANCH Non-Staff Costs & Total Costs in the blank spaces
Note: Total Branch Time in Hours was calculated as follows:
1. For each staff type: Average Time per Staff Type x Number of Staff persons
2. Total all Staff Type Time

Costs per Activity		**BRANCH**								Allocate non-staff costs in proportion to total staff time spent on each activity	
		BRANCH STAFF COSTS						**BRANCH NON-STAFF COSTS**			
Core Processes	**Activities**	Branch Supervisor	Loan Officer	Teller	Cashier	**MONTHLY TOTAL**	**ANNUAL TOTAL**	Total Branch Time in Hours	Total Branch Time as % of Total Hours	Total Branch Non-Staff Costs	**BRANCH TOTAL ALL COSTS**
Making Loans	Answer client questions/advise	-	5,000.0	-	60.0	5,060.0	60,720.0	4403	10.492%	41,967.2	102,687.2
	Accept loan application	-	4,000.0	-	-	4,000.0	48,000.0	3440	8.2%	32,786.9	80,786.9
	Review and approve loan application	540.0	6,000.0	-	-	6,540.0	78,480.0	5470	13.0%	52,131.1	130,611.1
	Perform general loan disbursement admin	270.0	4,000.0	-	-	4,270.0	51,240.0	3595	8.6%	34,262.3	85,502.3
	All Activities	810.0	19,000.0	-	60.0	19,870.0	238,440.0	16908	40.3%	[illegible]	87.5
Servicing Existing Loans	Follow up with delinquent clients	-	4,000.0	-	-	4,000.0	48,000.0	3440	8.2%		
	Track repayments and delinquency	180.0	2,000.0	-	60.0	2,240.0	26,880.0	1926	4.6%		
	Perform portfolio analysis	180.0	2,000.0	-	60.0	2,240.0	26,880.0	1926	4.6%		
	Perform general loan administration	180.0	-	-	60.0	240.0	2,880.0	206	0.5%		
	All Activities	540.0	8,000.0	-	180.0	8,720.0	104,640.0	7499	17.9%		
Opening Deposit Accounts	Answer client questions/advise	540.0	5,000.0	-	60.0	5,600.0	67,200.0	4713	11.2%		
	Issue passbook	-	-	600.0	-	600.0	7,200.0	516	1.2%		
	Perform general new deposit admin	270.0	2,000.0	600.0	-	2,870.0	34,440.0	2391	5.7%		
	All Activities	810.0	7,000.0	1,200.0	60.0	9,070.0	108,840.0	7620	18.2%		
Servicing Deposit Accounts	Update passbooks, issue replacements	-	-	200.0	60.0	260.0	3,120.0	275	0.7%		
	Close deposit accounts	-	-	300.0	60.0	360.0	4,320.0	361	0.9%		
	Perform portfolio analysis	-	2,000.0	300.0	-	2,300.0	27,600.0	1978	4.7%		
	Perform general deposit administration	-	2,000.0	300.0	60.0	2,360.0	28,320.0	2081	5.0%		
	All Activities	-	4,000.0	1,100.0	180.0	5,280.0	63,360.0	4696	11.2%		
Handling Cash Transactions	Collect and record cash in	-	-	600.0	240.0	840.0	10,080.0	929	2.2%		
	Disburse and record cash out	-	-	600.0	240.0	840.0	10,080.0	929	2.2%		
	Perform general cash administration	-	-	500.0	240.0	740.0	8,880.0	843	2.0%		
	All Activities	-	-	1,700.0	720.0	2,420.0	29,040.0	2700	6.4%		
Sustaining Activities	Engage in general marketing and promotio	180.0	2,000.0	-	-	2,180.0	26,160.0	1823	4.3%		
	Maintain donor/investor relations	-	-	-	-	-	-	0	0.0%		
	Perform general accounting and reporting	720.0	-	-	-	720.0	8,640.0	413	1.0%		
	Recruit, train and pay staff	360.0	-	-	-	360.0	4,320.0	206	0.5%		
	Maintain information technology	-	-	-	-	-	-	0	0.0%		
	Perform general administration	180.0	-	-	-	180.0	2,160.0	103	0.2%		
Sustaining Activities	**All Activities**	1,440.0	2,000.0	-	-	3,440.0	41,280.0	2546	6.1%		
All Processes	**All Activities**	3,600.0	[illegible]	0	1,200.0	48,800.0	585,600.0	41,968	100%	400,000.0	

Total Branch Non- Staff Costs (from Income Statement)

WORKSHEET 2: Calculate HEAD OFFICE Non-Staff Costs & Total Costs in the blank spaces
Note: Total Branch Time in Hours was calculated as follows:
1. For each staff type: Average Time per Staff Type x Number of Staff persons
2. Total all Staff Type Time

Costs per Activity		HEAD OFFICE									Allocate non-staff costs in proportion to total staff time spent on each activity			
		HEAD OFFICE STAFF COSTS									HEAD OFFICE NON-STAFF COSTS			
Core Processes	**Activities**	Executive Director	Finance Manager	Operations Manager	Head of MIS	Head of Personnel	Accountant	Support Staff	**MONTHLY TOTAL**	**ANNUAL TOTAL**	Total H.O. Time in Hours	Total H.O Time as % of Total Hours	Total H.O Non-Staff Costs	**H.O. TOTAL ALL COSTS**
Making Loans	Answer client questions/advise	-	-	-	-	-	-	-	-	-	0	0.0%	-	-
	Accept loan application	-	-	-	-	-	-	-	-	-	0	0.0%	-	-
	Review and approve loan application	90.0	25.0	60.0	-	-	-	-	175.0	2,100.0	60	3.5%	7,840.0	9,940.0
	Perform general loan disbursement admin	-	-	20.0	-	-	20.0	-	40.0	480.0	26	1.5%	3,360.0	3,840.0
	All Activities	90.0	25.0	80.0	-	-	20.0	-	215.0	2,580.0	86	5.0%	11,200.0	13,780.0
Servicing Existing Loans	Follow up with delinquent clients	-	25.0	60.0	-	-	-	15.0	100.0	1,200.0	60	3.5%		
	Track repayments and delinquency	-	50.0	-	-	-	-	15.0	65.0	780.0	43	2.5%		
	Perform portfolio analysis	90.0	50.0	50.0	43.8	17.5	-	15.0	266.3	3,195.0	120	7.0%		
	Perform general loan administration	-	37.5	40.0	-	-	20.0	15.0	112.5	1,350.0	73	4.3%		
	All Activities	90.0	162.5	150.0	43.8	17.5	20.0	60.0	543.8	6,525.0	297	17.3%		
Opening Deposit Accounts	Answer client questions/advise	-	-	-	-	-	-	-	-	-	0	0.0%		
	Issue passbook	-	-	-	-	-	-	-	-	-	0	0.0%		
	Perform general new deposit admin	-	37.5	-	-	-	40.0	-	77.5	930.0	47	2.8%		
	All Activities	-	37.5	-	-	-	40.0	-	77.5	930.0	47	2.8%		
Servicing Deposit Accounts	Update passbooks, issue replacements	-	-	-	-	-	40.0	30.0	70.0	840.0	86	5.0%		
	Close deposit accounts	-	-	-	-	-	-	-	-	-	0	0.0%		
	Perform portfolio analysis	-	50.0	50.0	43.8	-	30.0	-	173.8	2,085.0	86	5.0%		
	Perform general deposit administration	-	-	-	-	-	60.0	-	60.0	720.0	52	3.0%		
	All Activities	-	50.0	50.0	43.8	-	130.0	30.0	303.8	3,645.0	224	13.0%		
Handling Cash Transactions	Collect and record cash in	-	-	-	-	-	30.0	-	30.0	360.0	26	1.5%		
	Disburse and record cash out	-	-	-	-	-	30.0	-	30.0	360.0	26	1.5%		
	Perform general cash administration	90.0	62.5	40.0	-	-	60.0	45.0	297.5	3,570.0	194	11.3%		
	All Activities	90.0	62.5	40.0	-	-	120.0	45.0	357.5	4,290.0	245	14.3%		
Sustaining Activities	Engage in general marketing and promotio	150.0	25.0	-	-	-	-	-	175.0	2,100.0	52	3.0%		
	Maintain donor/investor relations	150.0	25.0	-	-	-	-	-	175.0	2,100.0	52	3.0%		
	Perform general accounting and reporting	-	25.0	80.0	-	70.0	70.0	15.0	260.0	3,120.0	163	9.5%		
	Recruit, train and pay staff	-	-	-	-	175.0	-	30.0	205.0	2,460.0	138	8.0%		
	Maintain information technology	-	-	-	262.5	-	-	30.0	292.5	3,510.0	181	10.5%		
	Perform general administration	30.0	87.5	-	-	87.5	-	90.0	295.0	3,540.0	237	13.8%		
Sustaining Activities	**All Activities**	330.0	162.5	80.0	262.5	332.5	70.0	165.0	1,402.5	16,830.0	821	47.8%		
All Processes	**All Activities**	600.0	500.0	400.0	350.0	350.0	400.0	300.0	2,900.0	34,800.0	1,720	100%	224,000.0	

Total H.O. Non- Staff Costs (from Income Statement)

WORKSHEET 1 ANSWERS

Total Branch Non-Staff Costs per Activity = Total Non Staff Costs for all Activities x Total Branch Time as % of Total Hours
Ie Making Loans/Answer client questions/Advise: Total Branch Non-Staff Costs = 400,000 X 10.492% = 41,967
(Total Non-Staff Costs for All Processes is extracted from Income Statement)

Costs per Activity		BRANCH								Allocate non-staff costs in proportion to total staff time spent on each activity	
		BRANCH STAFF COSTS						BRANCH NON-STAFF COSTS			
Core Processes	Activities	Branch Supervisor	Loan Officer	Teller	Cashier	MONTHLY TOTAL	ANNUAL TOTAL	Total Branch Time in Hours	Total Branch Time as % of Total Hours	Total Branch Non-Staff Costs	BRANCH TOTAL ALL COSTS
Making Loans	Answer client questions/advise	-	5,000.0	-	60.0	5,060.0	60,720.0	4403	10.492%	41,967.2	102,687.2
	Accept loan application	-	4,000.0	-	-	4,000.0	48,000.0	3440	8.2%	32,786.9	80,786.9
	Review and approve loan application	540.0	6,000.0	-	-	6,540.0	78,480.0	5470	13.0%	52,131.1	130,611.1
	Perform general loan disbursement admin	270.0	4,000.0	-	-	4,270.0	51,240.0	3595	8.6%	34,262.3	85,502.3
	All Activities	810.0	19,000.0	-	60.0	19,870.0	238,440.0	16908	40.3%	161,147.5	99,587.5
Servicing Existing Loans	Follow up with delinquent clients	-	4,000.0	-	-	4,000.0	48,000.0	3440	8.2%	32,786.9	80,786.9
	Track repayments and delinquency	180.0	2,000.0	-	60.0	2,240.0	26,880.0	1926	4.6%	18,360.7	45,240.7
	Perform portfolio analysis	180.0	2,000.0	-	60.0	2,240.0	26,880.0	1926	4.6%	18,360.7	45,240.7
	Perform general loan administration	180.0	-	-	60.0	240.0	2,880.0	206	0.5%	1,967.2	4,847.2
	All Activities	540.0	8,000.0	-	180.0	8,720.0	104,640.0	7499	17.9%	71,475.4	176,115.4
Opening Deposit Accounts	Answer client questions/advise	540.0	5,000.0	-	60.0	5,600.0	67,200.0	4713	11.2%	44,918.0	112,118.0
	Issue passbook	-	-	600.0	-	600.0	7,200.0	516	1.2%	4,918.0	12,118.0
	Perform general new deposit admin	270.0	2,000.0	600.0	-	2,870.0	34,440.0	2391	5.7%	22,786.9	57,226.9
	All Activities	810.0	7,000.0	1,200.0	60.0	9,070.0	108,840.0	7620	18.2%	72,623.0	181,463.0
Servicing Deposit Accounts	Update passbooks, issue replacements	-	-	200.0	60.0	260.0	3,120.0	275	0.7%	2,623.0	5,743.0
	Close deposit accounts	-	-	300.0	60.0	360.0	4,320.0	361	0.9%	3,442.6	7,762.6
	Perform portfolio analysis	-	2,000.0	300.0	-	2,300.0	27,600.0	1978	4.7%	18,852.5	46,452.5
	Perform general deposit administration	-	2,000.0	300.0	60.0	2,360.0	28,320.0	2081	5.0%	19,836.1	48,156.1
	All Activities	-	4,000.0	1,100.0	180.0	5,280.0	63,360.0	4696	11.2%	44,754.1	108,114.1
Handling Cash Transactions	Collect and record cash in	-	-	600.0	240.0	840.0	10,080.0	929	2.2%	8,852.5	18,932.5
	Disburse and record cash out	-	-	600.0	240.0	840.0	10,080.0	929	2.2%	8,852.5	18,932.5
	Perform general cash administration	-	-	500.0	240.0	740.0	8,880.0	843	2.0%	8,032.8	16,912.8
	All Activities	-	-	1,700.0	720.0	2,420.0	29,040.0	2700	6.4%	25,737.7	54,777.7
Sustaining Activities	Engage in general marketing and promotio	180.0	2,000.0	-	-	2,180.0	26,160.0	1823	4.3%	17,377.0	43,537.0
	Maintain donor/investor relations	-	-	-	-	-	-	0	0.0%	-	-
	Perform general accounting and reporting	720.0	-	-	-	720.0	8,640.0	413	1.0%	3,934.4	12,574.4
	Recruit, train and pay staff	360.0	-	-	-	360.0	4,320.0	206	0.5%	1,967.2	6,287.2
	Maintain information technology	-	-	-	-	-	-	0	0.0%	-	-
	Perform general administration	180.0	-	-	-	180.0	2,160.0	103	0.2%	983.6	3,143.6
Sustaining Activities	**All Activities**	1,440.0	2,000.0	-	-	3,440.0	41,280.0	2546	6.1%	24,262.3	65,542.3
All Processes	**All Activities**	3,600.0	40,000.0	4,000.0	1,200.0	48,800.0	585,600.0	41,968	100%	400,000.0	85,600.0

Total Branch Non- Staff Costs (from Income Statement)

WORKSHEET 2 ANSWERS

Total H.O Non-Staff Costs per Activity = Total Non Staff Costs for all Activities x Total H.O. Time as % of Total Hours
Ie Making Loans/Review and Approve Loan Application: Total Non-Staff Costs = 224,000 X 3.5% = 7,840.0
(Total Non-Staff Costs for All Processes is extracted from Income Statement)

Costs per Activity		HEAD OFFICE									Allocate non-staff costs in proportion to total staff time spent on each activity			
		HEAD OFFICE STAFF COSTS									HEAD OFFICE NON-STAFF COSTS			
Core Processes	Activities	Executive Director	Finance Manager	Operations Manager	Head of MIS	Head of Personnel	Accountant	Support Staff	MONTHLY TOTAL	ANNUAL TOTAL	Total H.O. Time in Hours	Total H.O Time as % of Total Hours	Total H.O Non-Staff Costs	H.O. TOTAL ALL COSTS
Making Loans	Answer client questions/advise	-	-	-	-	-	-	-	-	-	0	0.0%	-	-
	Accept loan application	-	-	-	-	-	-	-	-	-	0	0.0%	-	-
	Review and approve loan application	90.0	25.0	60.0	-	-	-	-	175.0	2,100.0	60	3.5%	7,840.0	9,940.0
	Perform general loan disbursement admin	-	-	20.0	-	-	20.0	-	40.0	480.0	26	1.5%	3,360.0	3,840.0
	All Activities	90.0	25.0	80.0	-	-	20.0	-	215.0	2,580.0	86	5.0%	11,200.0	13,780.0
Servicing Existing Loans	Follow up with delinquent clients	-	25.0	60.0	-	-	-	15.0	100.0	1,200.0	60	3.5%	7,840.0	9,040.0
	Track repayments and delinquency	-	50.0	-	-	-	-	15.0	65.0	780.0	43	2.5%	5,600.0	6,380.0
	Perform portfolio analysis	90.0	50.0	50.0	43.8	17.5	-	15.0	266.3	3,195.0	120	7.0%	15,680.0	18,875.0
	Perform general loan administration	-	37.5	40.0	-	-	20.0	15.0	112.5	1,350.0	73	4.3%	9,520.0	10,870.0
	All Activities	90.0	162.5	150.0	43.8	17.5	20.0	60.0	543.8	6,525.0	297	17.3%	38,640.0	45,165.0
Opening Deposit Accounts	Answer client questions/advise	-	-	-	-	-	-	-	-	-	0	0.0%	-	-
	Issue passbook	-	-	-	-	-	-	-	-	-	0	0.0%	-	-
	Perform general new deposit admin	-	37.5	-	-	-	40.0	-	77.5	930.0	47	2.8%	6,160.0	7,090.0
	All Activities	-	37.5	-	-	-	40.0	-	77.5	930.0	47	2.8%	6,160.0	7,090.0
Servicing Deposit Accounts	Update passbooks, issue replacements	-	-	-	-	-	40.0	30.0	70.0	840.0	86	5.0%	11,200.0	12,040.0
	Close deposit accounts	-	-	-	-	-	-	-	-	-	0	0.0%	-	-
	Perform portfolio analysis	-	50.0	50.0	43.8	-	30.0	-	173.8	2,085.0	86	5.0%	11,200.0	13,285.0
	Perform general deposit administration	-	-	-	-	-	60.0	-	60.0	720.0	52	3.0%	6,720.0	7,440.0
	All Activities	-	50.0	50.0	43.8	-	130.0	30.0	303.8	3,645.0	224	13.0%	29,120.0	32,765.0
Handling Cash Transactions	Collect and record cash in	-	-	-	-	-	30.0	-	30.0	360.0	26	1.5%	3,360.0	3,720.0
	Disburse and record cash out	-	-	-	-	-	30.0	-	30.0	360.0	26	1.5%	3,360.0	3,720.0
	Perform general cash administration	90.0	62.5	40.0	-	-	60.0	45.0	297.5	3,570.0	194	11.3%	25,200.0	28,770.0
	All Activities	90.0	62.5	40.0	-	-	120.0	45.0	357.5	4,290.0	245	14.3%	31,920.0	36,210.0
Sustaining Activities	Engage in general marketing and promotio	150.0	25.0	-	-	-	-	-	175.0	2,100.0	52	3.0%	6,720.0	8,820.0
	Maintain donor/investor relations	150.0	25.0	-	-	-	-	-	175.0	2,100.0	52	3.0%	6,720.0	8,820.0
	Perform general accounting and reporting	-	25.0	80.0	-	70.0	70.0	15.0	260.0	3,120.0	163	9.5%	21,280.0	24,400.0
	Recruit, train and pay staff	-	-	-	-	175.0	-	30.0	205.0	2,460.0	138	8.0%	17,920.0	20,380.0
	Maintain information technology	-	-	-	262.5	-	-	30.0	292.5	3,510.0	181	10.5%	23,520.0	27,030.0
	Perform general administration	30.0	87.5	-	-	87.5	-	90.0	295.0	3,540.0	237	13.8%	30,800.0	34,340.0
Sustaining Activities	**All Activities**	330.0	162.5	80.0	262.5	332.5	70.0	165.0	1,402.5	16,830.0	821	47.8%	106,960.0	123,790.0
All Processes	**All Activities**	600.0	500.0	400.0	350.0	350.0	400.0	300.0	2,900.0	34,800.0	1,720	100%	224,000.0	258,800.0

Total H.O. Non- Staff Costs (from Income Statement)

TOTAL ACTIVITY COSTS (BRANCH + HEAD OFFICE)

Costs per Activity		STAFF & NON-STAFF COSTS BY ACTIVITY		
		TOTAL BRANCH + H.0. ANNUAL		
Core Processes	**Activities**	**ALL STAFF COSTS**	**ALL NON-STAFF COSTS**	**ALL COSTS**
Making Loans	Answer client questions/advise	60,720.0	41,967.2	102,687.2
	Accept loan application	48,000.0	32,786.9	80,786.9
	Review and approve loan application	80,580.0	59,971.1	140,551.1
	Perform general loan disbursement admin	51,720.0	37,622.3	89,342.3
	All Activities	241,020.0	172,347.5	413,367.5
Servicing Existing Loans	Follow up with delinquent clients	49,200.0	40,626.9	89,826.9
	Track repayments and delinquency	27,660.0	23,960.7	51,620.7
	Perform portfolio analysis	30,075.0	34,040.7	64,115.7
	Perform general loan administration	4,230.0	11,487.2	15,717.2
	All Activities	111,165.0	110,115.4	221,280.4
Opening Deposit Accounts	Answer client questions/advise	67,200.0	44,918.0	112,118.0
	Issue passbook	7,200.0	4,918.0	12,118.0
	Perform general new deposit admin	35,370.0	28,946.9	64,316.9
	All Activities	109,770.0	78,783.0	188,553.0
Servicing Deposit Accounts	Update passbooks, issue replacements	3,960.0	13,823.0	17,783.0
	Close deposit accounts	4,320.0	3,442.6	7,762.6
	Perform portfolio analysis	29,685.0	30,052.5	59,737.5
	Perform general deposit administration	29,040.0	26,556.1	55,596.1
	All Activities	67,005.0	73,874.1	140,879.1
Handling Cash Transactions	Collect and record cash in	10,440.0	12,212.5	22,652.5
	Disburse and record cash out	10,440.0	12,212.5	22,652.5
	Perform general cash administration	12,450.0	33,232.8	45,682.8
	All Activities	33,330.0	57,657.7	90,987.7
Sustaining Activities	Engage in general marketing and promo.	28,260.0	24,097.0	52,357.0
	Maintain donor/investor relations	2,100.0	6,720.0	8,820.0
	Perform general accounting and reporting	11,760.0	25,214.4	36,974.4
	Recruit, train and pay staff	6,780.0	19,887.2	26,667.2
	Maintain information technology	3,510.0	23,520.0	27,030.0
	Perform general administration	5,700.0	31,783.6	37,483.6
Sustaining Activities	**All Activities**	58,110.0	131,222.3	189,332.3
All Processes	**All Activities**	620,400.0	624,000.0	1,244,400.0

WORKSHEET 3: Calculate Unit Costs

ASSIGN DRIVER VOLUME AND CALCULATE UNIT COSTS

Total Annual Activity Costs is extracted from Activity Costs Worksheet 2
Monthly Activity Cost = Annual Activity Cost / 12
Unit cost = Monthly Activity Cost / Driver Volume per Month
Refer to UNIBANK'S Original ABC Results for Unit Costs before Assigning Driver Volume. Remember: Driver Volume must be achievable given UNIBANK staffing!

Unit Activity Costs

Assign Cost Drivers & Determine Unit Activity

Core Processes	Activities	Cost Drivers	Volume per Month	Total ANNUAL Activity Cost	Total MONTHLY Activity Cost	Unit Cost
Making Loans	Answer client questions/advise	# Loan Applications		102,687.2	8,557.3	
	Accept loan application	# Loan Applications		80,786.9	6,732.2	
	Review and approve loan application	# Loan Applications		140,551.1	11,712.6	
	Perform general loan disbursement admin	# Approved Loan Applications		89,342.3	7,445.2	
Servicing Existing Loans	Follow up with delinquent clients	# Delinquent clients		89,826.9	7,485.6	
	Track repayments and delinquency	# Delinquent clients		51,620.7	4,301.7	
	Perform portfolio analysis	# Outstanding loans		64,115.7	5,343.0	
	Perform general loan administration	# Outstanding loans		15,717.2	1,309.8	
Opening Deposit Accounts	Answer client questions/advise	# New Deposit Accounts		112,118.0	9,343.2	
	Issue passbook	# New Deposit Accounts		12,118.0	1,009.8	
	Perform general new deposit admin	# New Deposit Accounts		64,316.9	5,359.7	
Servicing Deposit Accounts	Update passbooks, issue replacements	# Outstanding Accounts		17,783.0	1,481.9	
	Close deposit accounts	# Accounts closing		7,762.6	646.9	
	Perform portfolio analysis	# Outstanding Accounts		59,737.5	4,978.1	
	Perform general deposit administration	# Outstanding Accounts		55,596.1	4,633.0	
Handling Cash Transactions	Collect and record cash in	# Cash Receipt Journal Entries		22,652.5	1,887.7	
	Disburse and record cash out	# Cash Disbursement Journal Entries		22,652.5	1,887.7	
	Perform general cash administration	# Total Cash Transaction Journal Entries		45,682.8	3,806.9	
Sustaining Activities	Engage in general marketing and promotion		1	52,357.0	4,363.1	4,363.1
	Maintain donor/investor relations		1	8,820.0	735.0	735.0
	Perform general accounting and reporting		1	36,974.4	3,081.2	3,081.2
	Recruit, train and pay staff		1	26,667.2	2,222.3	2,222.3
	Maintain information technology		1	27,030.0	2,252.5	2,252.5
	Perform general administration		1	37,483.6	3,123.6	3,123.6

Product Costs : Drive Unit Costs to Products

1. Name your New/Revised Product
2. Project the average Portfolio Balance for your product (for reference refer to UNIBANK ABC results for old products)
3. Extract Total Driver Volume from Unit Cost Worksheet 3 (to use as reference). Note Total Driver Volume = Volume for ALL products
4. Extract Unit Cost from Unit Cost Worksheet 3
5. Allocate Driver volume to each product (Credit Product Driver Volume + Savings Product Driver Volume MUST equal Total Driver Volume)
6. For Sustaining Activities, allocate costs equally across both products
7. Calculate Monthly Cost for each product: Monthly Cost = Unit Cost x Driver Volume for Product
8. Calculate % of Avgerage Balance: Monthly Cost / Average portfolio Balance

	CREDIT PRODUCT
1. Name your Product =>	
2. Project Average Portfolio Balance =>	

Core Processes	Activities	Cost Drivers per month	3 Total Driver Volume (From Unit Cost Worksheet)	4 Unit Cost	5 Driver Volume for this Product	7 Monthly Cost for this Product	8 % of Avg Bal
Making Loans	Answer client questions/advise	# Loan Applications					
	Accept loan application	# Loan Applications					
	Review and approve loan application	# Loan Applications					
	Perform general loan disbursement admin	# Approved Loan Applications					
	All Activities						
Servicing Existing Loans	Follow up with delinquent clients	# Delinquent clients					
	Track repayments and delinquency	# Delinquent clients					
	Perform portfolio analysis	# Outstanding loans					
	Perform general loan administration	# Outstanding loans					
	All Activities						
Opening Deposit Accounts	Answer client questions/advise	# New Deposit Accounts					
	Issue passbook	# New Deposit Accounts					
	Perform general new deposit admin	# New Deposit Accounts					
	All Activities						
Servicing Deposit Accounts	Update passbooks, issue replacements	# Outstanding Accounts					
	Close deposit accounts	# Accounts closing					
	Perform portfolio analysis	# Outstanding Accounts					
	Perform general deposit administration	# Outstanding Accounts					
	All Activities						
Handling Cash Transactions	Collect and record cash in	# Cash Receipt Journal Entries					
	Disburse and record cash out	# Cash Disbursement Journal Entries					
	Perform general cash administration	# Total Cash Transaction Journal					
	All Activities						
Sustaining Activities	Engage in general marketing and promotion	Equal	1	4,363.1	50.0%		
	Maintain donor/investor relations	Equal	1	735.0	50.0%		
	Perform general accounting and reporting	Equal	1	3,081.2	50.0%		
	Recruit, train and pay staff	Equal	1	2,222.3	50.0%		
	Maintain information technology	Equal	1	2,252.5	50.0%		
	Perform general administration	Equal	1	3,123.6	50.0%		
	All Activities						
All Processes	**All Activities**						

Product Costs : Drive Unit Costs to Products

1. Name your New/Revised Product
2. Project the average Portfolio Balance for your product (for reference refer to UNIBANK ABC results for old products)
3. Extract Total Driver Volume from Unit Cost Worksheet 3 (to use as reference). Note Total Driver Volume = Volume for ALL products
4. Extract Unit Cost from Unit Cost Worksheet 3
5. Allocate Driver volume to each product (Credit Product Driver Volume + Savings Product Driver Volume MUST equal Total Driver Volume)
6. For Sustaining Activities, allocate costs equally across both products
7. Calculate Monthly Cost for each product: Monthly Cost = Unit Cost x Driver Volume for Product
8.Calculate % of Avgerage Balance: Monthly Cost / Average portfolio Balance

	SAVINGS PRODUCT
1. Name your Product =>	
2. Project Average Portfolio Balance =>	

			3	4	5	7	8
Core Processes	**Activities**	**Cost Drivers per month**	**Total Driver Volume**	**Unit Cost**	**Driver Volume for this Product**	**Monthly Cost for this Product**	**% of Avg Bal**
Making Loans	Answer client questions/advise	# Loan Applications					
	Accept loan application	# Loan Applications					
	Review and approve loan application	# Loan Applications					
	Perform general loan disbursement admin	# Approved Loan Applications					
	All Activities						
Servicing Existing Loans	Follow up with delinquent clients	# Delinquent clients					
	Track repayments and delinquency	# Delinquent clients					
	Perform portfolio analysis	# Outstanding loans					
	Perform general loan administration	# Outstanding loans					
	All Activities						
Opening Deposit Accounts	Answer client questions/advise	# New Deposit Accounts					
	Issue passbook	# New Deposit Accounts					
	Perform general new deposit admin	# New Deposit Accounts					
	All Activities						
Servicing Deposit Accounts	Update passbooks, issue replacements	# Outstanding Accounts					
	Close deposit accounts	# Accounts closing					
	Perform portfolio analysis	# Outstanding Accounts					
	Perform general deposit administration	# Outstanding Accounts					
	All Activities						
Handling Cash Transactions	Collect and record cash in	# Cash Receipt Journal Entries					
	Disburse and record cash out	# Cash Disbursement Journal Entries					
	Perform general cash administration	# Total Cash Transaction Journal					
	All Activities						
Sustaining Activities	Engage in general marketing and promotion	Equal	1	4,363.1	50.0%		
	Maintain donor/investor relations	Equal	1	735.0	50.0%		
	Perform general accounting and reporting	Equal	1	3,081.2	50.0%		
	Recruit, train and pay staff	Equal	1	2,222.3	50.0%		
	Maintain information technology	Equal	1	2,252.5	50.0%		
	Perform general administration	Equal	1	3,123.6	50.0%		
	All Activities						
All Processes	**All Activities**						

SESSION 7: PRICING

Session Summary

OBJECTIVES: By the end of the session participants will be able to:

- Explain three main factors that influence pricing
- Explain several different pricing strategies
- Determine price of a new product
- Conduct a focus group to get feedback on pricing issues

TIME: 135–180 minutes

SUPPLIES:
Flipchart paper
Markers
Masking tape
LED projector or overhead projector
Prizes for "The Price Is Right"

TRAINER MATERIALS

PD7-M1 Pricing focus group roles

PARTICIPANT MATERIALS

OVERHEADS:
PD7-O1 Pricing
PD7-O2 Product Viability: Savings
PD7-O3 Product Viability: Credit

HANDOUTS:
PD7-H1 Calculate Product Viability: Savings Product
PD7-H2 Calculate Product Viability: Credit Product
PD7-H3 Costing and Pricing – Action Plan

PD7-H4	CGAP Occasional Paper Number 1 *(to be downloaded from CGAP Web site)*	**Optional**

CASE STUDY:
Part 7A "The Price Is Right"
Part 7B Price Sensitivity Survey

Session 7: Pricing

INTRODUCTORY GAME

"The Price Is Right" (adapted from "Pricing…. An Art or a Mathematical Formula," by Laura Bulas, Central Community College).

1. *(5 minutes)* To introduce pricing, place a few of the following objects on a table (these are the objects on Ben's desk): a diary, a photo frame, a banana, a map, a newspaper, a key, a calculator, and a watch. In preparation for this activity, complete small index cards that individually list specifics on each product and the purchase price.

   Announce to the class that a silent auction of sorts will be conducted. Hold up the objects (or pass them around if time allows). Ask each participant to write down the name of the object and what he or she believes to be the purchase price of each product. Explain that they are playing a version of the popular television game show "The Price Is Right."

2. *(5–10 minutes)* After participants have written down their individual prices, divide the group into two teams. Members of each team take turns at being either the game show host or the contestant. The game show host selects one product from the table and the accompanying index card of information, and orally presents a brief description of the product and its many uses and benefits. Then the price guessing begins. The contestant is given 30 seconds to randomly call out prices, with the game show host responding with "higher" or "lower" until the correct price is announced. The excitement increases with each round of price guessing until all of the products are used. Guessing the correct price within 30 seconds earns each team a point. Keep things active—limit the number of items based on available time and when a point has been earned. After points are tallied, the winning team gets a prize.

3. *(5 minutes)* Ask and briefly discuss: Who wrote the same price as the product's actual value? Did participants estimate higher or lower than the actual price? Ask: Why do you think everyone had different prices for the same product? (Answer: price perception!) Explain that people's values and willingness to pay for something differ due to many factors: their needs and wants; their familiarity with the market—knowing where they can get the same product cheaper, for example; their estimates of the product costs—"Gee, I know it only cost a dollar to make, so why would I pay $20 for it?" Ask group members what conclusions they can draw and what the implications are for UNIbank and for their clients.

4. *(3 minutes)* Explain how pricing is a game in itself. Refer to UNIbank's market research data and preference ranking in Case Study Part 6. Tell the group that they have seen how to use ABC to cover costs; they will now need to price their products to sell. Ask: What factors will you consider when pricing your products? Answers should focus on consumers' innate sense of value, competition, and profit. Emphasize the point by showing PD7-O1.

5. *(5–10 minutes)* Ask the group about the relationship between cost and price, and why it is important to cover costs. Have them argue about sustainability and profitability. Ask: How do your institutions determine price? What are some strategies? Pricing strategies and considerations can include examples such as cost recovery versus profitability; social elements and mission; competitive pricing; market positioning—penetration pricing, loss leader, cross-subsidization; and opportunity costs—can something else be done more cheaply or more profitably?

   Ask them their opinion of UNIbank: What factors will they consider when pricing their products? List and relate their answers to factors in the CGAP pricing formula.

6. *(5 minutes)* Distribute Case Study Part 7A: "The Price is Right," with the 1999 Arima interest rates survey. Have participants individually read, review, and ask questions. Focus the discussion: What are the major pricing factors that they must consider when they price their product? List the answers on a flipchart. Discuss how much leeway they have with these factors, and what other factors should be considered.

7. *(5–10 minutes)* Ask: What is the one of the first things about pricing that should be considered even before going to the clients. (Answer: viability!) Follow up by asking how they will know if their products are viable, from the institution's point of view? Have the group briefly consider how to build on its costing work to determine viability. Work through PD7-O2 and PD7-O3 with participants, presenting and discussing each point. Take questions and alert participants that next they will need to show their products' viability.

8. *(20–30 minutes)* Ask participants to price their products based on all the information they have been given. Distribute PD7-H1 and PD7-H2.

9. *(10–15 minutes)* After about 15–20 minutes, all groups should present the principal product characteristics as well as the viability of a credit product and a savings product. Ask participants to prepare a presentation that outlines the product characteristics and the price that they have determined. Tell them that its viability does not matter—but they will need to justify it later to the General! Remind them that they will present their products to the full group**.**

10. *(25–30 minutes)* Have groups present their products.

11. *(10 minutes)* Tell the group that the General says thank you very much, but wonders if anyone has carefully considered the clients and their views of the price. She also wonders why the price sensitivity survey that was conducted has not been mentioned. The General would also like to know what or if other feedback from the clients was considered. Elicit opinions and lead a brief discussion on price sensitivity and clients' willingness to pay.

Emphasize that throughout the product development process the MFI has gotten back to the client about their views of the product characteristics. Price is one area that is revisited in a number of ways: By this point the MFI should have a good idea of what is important to clients in terms of the product characteristics, including price; it is important to use this information now. A number of approaches to collecting information on price sensitivity that are currently used in the banking industry could be applied to microfinance. As a general rule in marketing and product development, it is recommended that some type of price sensitivity be conducted and used in the product development process.

Distribute Case Study Part 7B. Ask participants to regroup and reevaluate their product's prices, based on the survey results.

12. *(5–10 minutes)* Have each group quickly describe how their prices fit with the price sensitivity survey, if they made any changes to their prices, and why.

13. *(5–10 minutes)* Discuss through questioning: How did they factor their viability results into the pricing? Do they think the resulting price is fair? Do their clients think it is fair? Why? Possible topics to discuss could include the relation of price to high costs, inefficiencies; not listening to clients or the market; an MFI's greed; and so forth. Ask participants if they got any additional feedback from the client. Why or why not? How did they get this feedback? Could they have priced the product too low? How will they know?

14. *(5–10 minutes)* Summarize the main points of pricing, including fair pricing, product viability, and price sensitivity.

15. *(5–10 minutes)* Tell the group that two products must now be chosen. Ask for any remaining questions on the product specifications, the cost, or the price of any product. When it seems all questions have been answered, call for a vote: Which two products will UNIbank test? (*Note:* A voting system must be developed for this step.)

    Post the product names and congratulate the designers on doing a good job. (If possible, have prizes for winning groups.)

16. *(10 minutes)* Congratulate the winners for having a product priced to *everyone's* satisfaction. Review the lessons of the session before going on. Ask: What were the main steps in pricing our products? What was hard about it? Easy? If you had to do it all over again, what would you do the same? Differently? In the final analysis, what are the most important factors to consider when pricing products? List responses on a flipchart, and take any remaining questions on pricing.

17. *(10 minutes)* To help them remember, have the group write down some things they want to use in their MFIs. Hand out PD7-H3: Costing and pricing action plan.

CONCLUSION

18. *(2 minutes)* Close by bridging to the next session by telling participants that pilot testing is next. Distribute optional handout PD7-H4 CGAP Occasional Paper Number 1.

Trainer Notes:

- Before proceeding to session 8, the trainer should collect each subgroup's folder, quickly verifying that there are two product design worksheets—credit and savings—and one complete set of the product costing worksheets, all accurately completed. After reviewing the participants' product design and costing results, the trainer should make appropriate changes to this part of the case study if necessary, deleting or changing the following items, depending on the participants' product design:
  - Loan fee—flat amount or percentage
  - Client registration fee—flat amount or percentage
  - Collateral/compulsory savings interest
  - Savings account opening fee
  - Savings transaction fee
- Also before the next session, the trainer should remind participants to read the handout It Can Work: A Toolkit for Planning, Conducting, and Monitoring Pilot Tests for MFIs, which was distributed at the beginning of the workshop.

Overheads

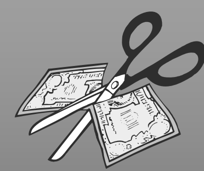
THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP PRODUCT DEVELOPMENT OVERHEADS"

PD7-O1

$ Pricing $

Consider...

Costs



Consumers' sense of value

Competition

Profit

CGAP

PD7-O2

Product Viability: Savings

Savings Product Name	SAMPLE SAVINGS PRODUCT		
Average portfolio balance	10,000,000		
Reserve rate	5.0%		Regulated by the Central Bank

	%	Amount	
Transfer rate	18.0	1,800,000	Funding alternative: rate charged if you were to borrow the funds
MINUS			
Annual account interest rate	4.0	400,000	Annual interest rate clients will earn on their savings
MINUS			
Reserve cost	0.21	21,053	Reserve cost
PLUS			(Annual interest rate/(1 − reserve rate)) − Annual interest rate
Annual fees charged to clients	1.0	100,000	Example:
			Annual interest rate = 4%
= Net yield	14.8	1,478,947	Reserve rate = 5%
MINUS			Reserve cost = (4% / (1 − 5%)) − 4% = 0.21%
Total annual activity costs	10.0	1,000,000	
= Bottom line	4.8	478,947	← If bottom line is positive, product is viable

CGAP

PD7-O3

Product Viability: Credit

Credit Product Name	SAMPLE CREDIT PRODUCT
Average portfolio balance	6,000,000

	%	Amount	
Interest and fees from loans	36.0	2,160,000	← Annual interest and fees from clients
MINUS			
Interest on borrowed funds	18.0	1,080,000	← Annual interest on funds borrowed
= GROSS MARGIN	18.0	1,080,000	
MINUS			
Loan loss provision	1.0	60,000	
= NET MARGIN	17.0	1,020,000	
MINUS			
Total annual activity costs	15.0	900,000	
= Bottom line	2.0	120,000	← If bottom line is positive, product is viable

Handouts

Calculate Product Viability: Savings Product

Savings Product Name			
Average portfolio balance			
Reserve rate	5.0%	Regulated by the Central Bank	

	%	Amount	
Transfer rate (funding alternative)			←Enter the rate (%) charged if you were to borrow the funds
MINUS			
Annual account interest rate			←Enter the annual interest rate clients will earn on their savings
MINUS			
Reserve cost			←Reserve cost
PLUS			= (Annual interest rate/(1 − reserve rate)) − annual interest rate
Annual fees charged to clients			Example: Annual interest rate = 4% Reserve rate = 5% Reserve cost = (4% / (1 − 5%)) − 4% = 0.21%
= Net yield			
MINUS			
Total annual activity costs			←Extract these figures from your PD6_H6 used during Session 6
= Bottom line			←If bottom line is positive, product is viable

Note: Each group will have different values, depending on its product design.

Calculate Product Viability: Credit Product

Credit Product Name		
Average portfolio balance		

	%	**Amount**	
Interest and fees from loans			
MINUS			
Interest on borrowed funds			
= GROSS MARGIN			
MINUS			
Loss loan provision			
= NET MARGIN			
MINUS			
Total annual activity costs			←Extract these figures from your PD6_H6 used during Session 6
= Bottom line			←If bottom line is positive, product is viable

Note: Each group will have different values, depending on its product design.

Costing and Pricing – Action Plan

List the points learned from costing and pricing your products that you think are most applicable to your MFI. Describe why you feel they are important and how you will relate the significance of the steps to your colleagues back at work.

COSTING

Point	Convincing argument

PRICING

Point	Convincing argument

CGAP Occasional Paper Number 1

(Revised November 2002)

Download "Microcredit Interest Rates" from CGAP Web site.

SESSION 8: PILOT TESTING AND ROLLOUT

Session Summary

OBJECTIVES: By the end of the session participants will be able to:

- Explain pilot testing and its importance in product development
- List 10 steps of a pilot test
- Apply pilot test processes to the case study
- Identify and sequence key variables that must be considered in Planning and executing a product rollout

TIME: 215–270 minutes

SUPPLIES: Flipchart paper
Markers
Masking tape
LED projector or overhead projector
Materials for rollout activity – The Pie Factory (see PD8-M1)

TRAINER MATERIALS

PD8-M1 Rollout Activity – The Pie Factory
PD8-M2 It Can Work: A Toolkit for Planning, Conducting, and Monitoring Pilot Tests for MFIs and It Can Work: A Toolkit for Planning, Conducting, and Monitoring Pilot Tests for MFI Loan Products

PARTICIPANT MATERIALS

OVERHEADS: PD8-O1 Definition of Pilot Testing
PD8-O2 Ten Steps in Pilot Testing
PD8-O3 Establishing the Testing Protocol
PD8-O4 New Products

HANDOUTS: PD8-H1 It Can Work: A Toolkit for Planning, Conducting, and Monitoring Pilot Tests for MFIs *(distributed at beginning of workshop)*
PD8-H2 Rollout Planning Matrix for UNIbank
PD8-H3 Discussion Guide for Case Study Part 9: Rollout

CASE STUDY: Part 8 The Pilot Test
Part 9 Rollout

Session 8: Pilot Testing and Rollout

Note: *The concepts in this session are based primarily on MicroSave-Africa's It Can Work: A Toolkit for Planning, Conducting, and Monitoring Pilot Tests for MFIs. Please refer to it as a technical reference for this session.*

PILOT TESTING

1. *(5–10 minutes)* Review for participants: The group's products are designed, costed, priced, and ready to go. Ask for a show of hands of those who have experience with pilot testing a product. Ask: What did you do? Why did you decide to conduct a pilot test? How would you rate the results? How were the results used? Summarize some points from the discussion to bridge into the session. Tell participants that they are about to learn about some tools for pilot testing their new products.

2. *(3 minutes)* Ask: What do we mean by pilot testing? Take a few responses and show PD8-O1 with a definition.

3. *(10 minutes)* Ask participants why they should bother to learn this process. Ask: Why is pilot testing used? List responses on a flipchart. Summarize.

4. *(10–15 minutes)* Refer back to some of the points discussed at step 1 to introduce the 10 steps of a pilot test. Show PD8-O2 and briefly describe each step, using participants' comments first. Ask participants to explain each step as they understand it.

5. *(5 minutes)* Facilitate a general discussion. Ask participants to comment on the inclusion, importance, and order of the steps.

6. *(10 minutes)* Tell the group that it will now apply the steps to UNIbank. Ask them to individually review and read step 1 in PD8-H1.

7. *(5–10 minutes)* Briefly process the reading. Ask: What were the main messages? How do you feel about the concept of the pilot test team? Who do you think UNIbank should have on the team? and so forth. Discuss what the first task will be, now that they have the team established.

ESTABLISH TESTING PROTOCOL

8. *(5–10 minutes)* Briefly introduce testing protocol concepts, using PD8-O3.

9. *(5–10 minutes)* Divide the group into six smaller groups of neighbors in the classroom. Each group is to take one component of the testing protocol and describe how they would plan it. For example, one group would report on the number of customers included: how they would determine the number, how clients would be selected, and the general characteristics of those chosen.

10. *(10–15 minutes)* Have the small groups report back to the large group. Discuss the results of the small groups' work, focusing on the purpose of the test, the processes to be tested, and the resources required for implementation. Refer participants to the It Can Work toolkit, which has a sample testing protocol format.

11. *(15–20 minutes)* Distribute Case Study Part 8 for discussion in the large group. Use the following instructions and questions as a guide:
    - Describe the main pilot test report results.
    - What went right and what went wrong during UNIbank's pilot test?
    - Summarize why the problems at UNIbank occurred.
    - How can you validate the information?
    - How could the problem have been avoided?

12. *(10 minutes)* Ask: What should UNIbank do, given these results? Record the most relevant answers on a flipchart. Have the group decide, for example, whether UNIbank should stop testing, take a bridge loan and continue testing, reduce the test size, market a savings product, get more clients saving more, or find out why clients aren't saving as much as they said they would.

13. *(10–15 minutes)* Have participants share experiences. Ask them what has happened in their MFIs regarding pilot testing. Have other participants' MFIs had similar problems? What happened? What actions were taken to remedy the problem? How much did the solution cost? Ask participants what their MFI would do differently, given the outline proposed in this session.

14. *(1 minute)* Show PD8-O4 to close the discussion of this topic.

15. *(10–15 minutes)* Divide the group into seven random subgroups. Assign each group one of the remaining steps (steps 4–10) of the pilot test framework. Ask them to briefly summarize the step and to list some activities that will occur in the step. Have the groups relate their step to UNIbank and to their own experiences in their MFIs. Ask each group to appoint a reporter who will summarize the main discussion points and relate them to the large group.

16. *(15–20 minutes)* Have each subgroup report on its conclusions and hold a very brief (2–3 minutes) discussion on each point.

Rollout

17. *(15–20 minutes)* Announce that it is time for a change of pace and introduce The Pie Factory. Lead the activity as described in PD8-M1.

18. *(5 minutes)* Process the simulation activity. Ask: What happened? Why? What could have been done to improve the situations? How does this all relate to microfinance product development?

19. *(5 minutes)* Have participants discuss what they mean by “rollout.” Brainstorm activities that should be included in a typical rollout plan. Record answers on a flipchart. Follow up by asking: Why should we make the investment in a rollout plan? If participants get stuck, make analogies to the previous activity.

20. *(15 minutes)* Tell the group that they are now going to look at what is up in Arima with UNIbank. Distribute Case Study Part 9. Have participants analyze the part, then adjust and complete a rollout plan using PD8-H2

21. *(5–10 minutes)* In the large group, discuss what was changed in the rollout plan and why. Specifically, explore how needs were assessed and resources were allocated—time, staff, finances, and so forth.

22. *(15 minutes)* Ask participants to return to their groups to discuss the questions in PD8-H3.

23. *(10 minutes)* Facilitate processing of the discussion questions, such as: How might your responses vary by size of the MFI? How do you know when to roll out? Is it really worth the investment?

24. *(5 minutes)* Ask the group what it has learned. (Some answers: the process takes time, requires planning, and is an iterative process.)

25. *(5–10 minutes)* Discuss how participants will be able to apply these lessons in their MFIs. Encourage participants to share their experience with rolling out products. Try to relate these experiences to the activities on the matrix (PD8-H2) that lead to successful and not so successful endeavors.

CONCLUSION

26. *(5 minutes)* Summarize the main points of pilot testing and rollout. End by giving participants the option of sitting back and relaxing now that they have a rollout plan, or…. link to next session.

PD8-M1

Rollout Activity – The Pie Factory

INSTRUCTIONS FOR TRAINER

The objective of The Pie Factory activity is to acquaint participants with the impact of various factors on product rollout. In the Pie Factory, participants work in teams to produce boxes for carrying minipies to customers. The trainer must get the participants to imagine that creating the pie boxes is like making a loan—so every pie box is a loan.

Preparation

1. Use paper to make one copy of the box pattern (see figure below) for each team.
2. Fold one box to serve as the standard.
3. Provide each team with one pair of scissors, one roll of transparent tape, one pattern for the box, and about 100 sheets of paper cut in squares the size of the pattern. Put all of the materials in paper or plastic bags, one to each table where the teams will work.
4. Prepare the production chart (below) on a flipchart to record the results of each round.

Instructions

1. Divide the participants into groups of four to six members.
2. The activity has at least three rounds (more if time permits).
3. Explain that each group is to act as a rollout team at the Pie Factory. Each team should select a team name and a supervisor. Record the team names on a chart.
4. Demonstrate how to make the box, using the construction paper, pattern, scissors, and tape.
5. Instruct each team to estimate the number of boxes they think they can produce in four minutes. Each team should write its estimate on a slip of paper, along with the team name, and give the slip to the facilitator. This prevents other teams overhearing the estimates. The facilitator records the teams' rollout goals under the goal column for Round 1.
6. Round 1: Give the teams four minutes to produce as many boxes as possible. Signal when they have one minute remaining, then 30 seconds, then have them stop. Ask the teams to turn in their completed boxes for inspection by quality

control (the facilitator). Record the number of boxes produced to standard by each team in the appropriate column of the production chart.

7. Prior to Round 2, ask the teams to revise their production estimates and record these on the chart.
8. Round 2: Hand each team an envelope. Some envelopes will contain good news, but most will contain bad news. The envelopes contain situations that can affect performance, and most will result in barriers to product rollout. These barriers will affect the team's ability to achieve its goals. After five minutes, inspect the completed boxes and record the results on the chart.
9. Discuss with the teams how their goals compare to actual production in relation to the problems they faced.
10. Prior to the third round, the teams again revise their production estimates, without knowing what news will be in their envelopes during the next round.
11. Round 3: Pick up any partially constructed boxes, along with any cut patterns and tape. Ask team members to return all of the supplies to their bags and prepare for Round 3. Prior to starting Round 3, give an envelope to each team. If a team received a "no problem" envelope in the previous round, make sure it gets a problem envelope in this round. Following Round 3, inspect the boxes and record the results.

Processing

Following Round 3, lead a discussion focused on how the various factors affected each team's ability to achieve its goals. Ask the teams to reflect on their ability to maximize performance to achieve production goals in the face of the problems presented in their envelopes. Ask whether those problems would affect performance in a microfinance institution when rolling out financial products. Summarize by brainstorming factors to take into consideration when rolling out new or revised products.

Pie Factory Rollout Chart

	Team Name		**Team Name**		**Team Name**		**Team Name**	
Rounds	***Goal***	***Produced***	***Goal***	***Produced***	***Goal***	***Produced***	***Goal***	***Produced***
1								
2								
3								

Examples of messages to enclose in the envelopes:

Monitoring shows all staff members are performing to standard. Have a nice day!

Two branch staff members have been selected for training. Two team members will sit out this round.

Two credit officers lack motivation because they have not received feedback on their job performance, so they are late to work. Two team members will start two minutes later.

The contractor in charge of building the branch cage failed to finish the construction work on time. No scissors for the first minute.

Orders for new loan application forms were not submitted on time. No access to the tape for the first two minutes.

Lack of clear job expectations results in all workers (except the supervisor) not understanding their roles on the team. No one except the supervisor works for the first minute.

The computerized MIS is not functioning due to a two-week electricity failure. No one works for the first minute.

Loan funds have not arrived in time to disburse to clients. No scissors or tape for the first minute.

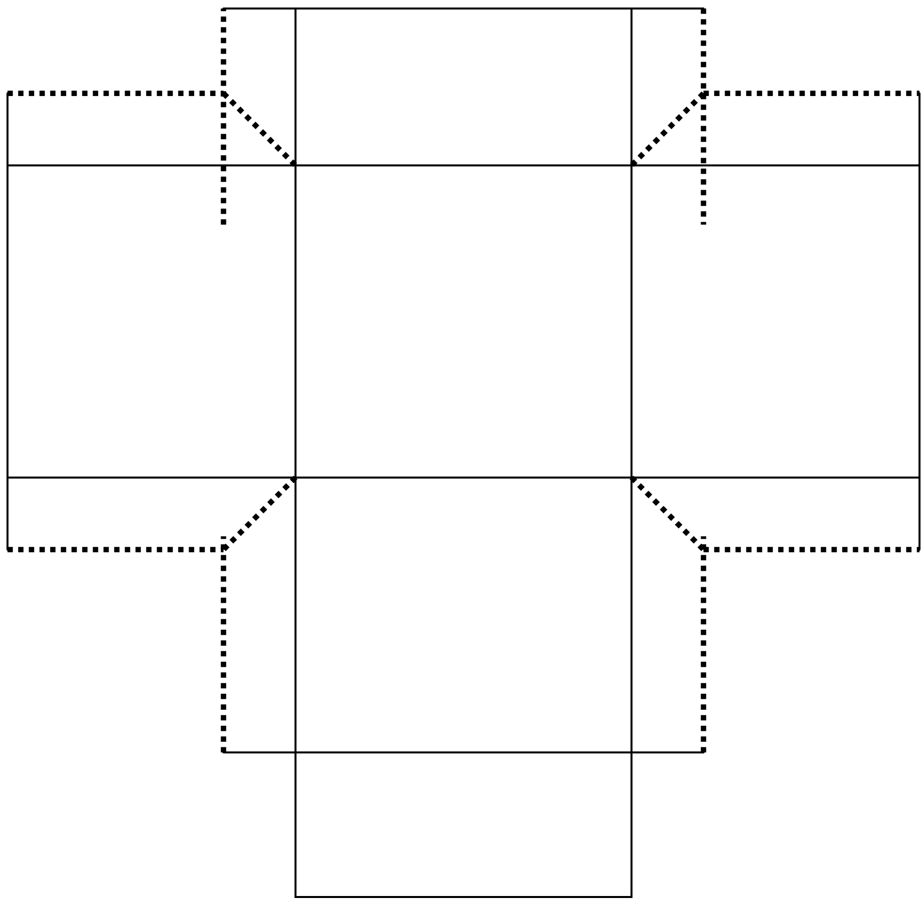
Add your own!

Add your own!

Add your own!

Add your own!

Add your own!



Overheads

THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP PRODUCT DEVELOPMENT OVERHEADS"

PD8-O1

Definition of Pilot Testing

A pilot test is something that measures the worth of a product in such a way that the results of the test guide management decision making

Adapted from the MSA toolkit

CGAP

PD8-O2

Ten Steps in Pilot Testing

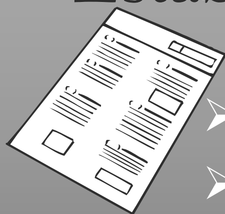
1. Composing the pilot test team
2. Developing the testing protocol
3. Defining objectives
4. Preparing all systems
5. Modeling financial projections
6. Documenting product definitions and procedures
7. Training the relevant staff
8. Developing customer marketing materials
9. Commencing the pilot test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

Source: **MSA tool kit version 9.3**

CGAP

PD8-O3

Establishing the Testing Protocol



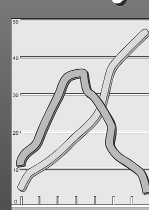
- Number of customers included
- Location of the test
- Duration of the test
- Reporting dates
- Data to be analyzed
- Boundaries that may cause pausing or cancellation of the test

CGAP

PD8-O4

New products

don't always mean



new profits

CGAP

Handouts

It Can Work: A Toolkit for Planning, Conducting, and Monitoring Pilot Tests for MFIs

Distributed at beginning of workshop.

Rollout Planning Matrix for UNIbank

Rollout activities	Start date	Level of effort in days	End date	Responsible person(s)	Resources

Discussion Guide for Case Study Part 9: Rollout

1. What is the relationship between the pilot test and the rollout?

2. How did UNIbank decide when it was time to roll out the new products?

3. What organizational issues might affect the rollout at UNIbank?

4. What problems has your own organization faced in rolling out a new product?

SESSION 9: CASE STUDY EPILOGUE AND SUMMARY

Session Summary

OBJECTIVES: By the end of the session participants will be able to:

- Demonstrate an understanding of the entire product development process and the relationship between its components
- Understand that the process is continuous

TIME: 95–120 minutes

SUPPLIES: Flipchart paper
Markers
Masking tape
LED projector or overhead projector

PARTICIPANT MATERIALS

OVERHEADS: Have all course overheads on hand to use when answering questions during the review.

CASE STUDY: Part 10 Epilogue

Session 9: Case Study Epilogue and Summary

1. *(5 minutes)* Ask: Are we really finished? Tell the group that they will now get to find out what happened at UNIbank. Distribute Case Study Part 10.

2. *(30–45 minutes)* Organize participants into four new groups. Ask each group to spend 30 minutes developing the ending to the case study (the second senior staff meeting), using the latest information Ben has just received.

   Remind them that this activity is a review of the course. Be prepared to guide the participants from the beginning of product development process, based on the information that Ben just received.

3. *(20 minutes)* Have groups role-play their case epilogues of the senior staff meeting and the way forward. Take three to five minutes for the role-playing and three to five minutes for questions and answers about each presentation. As an alternative, have subgroups role-play only one part of the process (though they should plan the whole epilogue).

4. *(30 minutes)* Review the product development process and intermediate processes. Choose an appropriate final summary activity that builds on the presentations and the points that are less well understood.

5. *(5–15 minutes)* Take all remaining questions about product development steps. Make the point that product development is not a simple 1-2-3 process, but an interwoven, ongoing loop.

6. *(5 minutes)* Bridge to the final session on action planning.

SESSION 10: ACTION PLAN, CLOSURE, AND EVALUATION

Session Summary

OBJECTIVES: By the end of the session participants will be able to:

- Plan for product development in their MFIs
- Complete the post-training audit

TIME: 30–45 minutes (adjust time depending on the circumstances)

SUPPLIES: LED projector or overhead projector
Goals (PD1-O1) } *(Optional background)*

PARTICIPANT MATERIALS

HANDOUTS: PD10-H1 Action Plan
PD10-H2 Product Development – Post-Training Audit
PD10-H3 Product Development Course Evaluation (*Note:* This should be a clean copy; no trainer notes)

Session 10: Action Plan, Closure, and Evaluation

ACTION PLAN

1. *(2 minutes)* Tell the group that they have covered a lot of ground in the past four days, but all that learning will go to waste if they do not plan how to begin the process of continuous product development in their MFIs. Announce that they will begin this process now.

2. *(15 minutes)* Distribute PD10-H1 and ask participants to complete the action plan.

3. *(10 minutes)* Ask participants to share the one thing they will try to implement first when they return to their MFIs. Ask for potential obstacles and suggest possible solutions. Be sure to give participants some words of encouragement to go home with!

EVALUATION

4. *(10–15 minutes)* Tell participants that the course has finished, and express sincere hope that it has met their goals. Ask if they will take a few minutes to complete a post-training audit (hand out PD10-H2) to help trainers check the effectiveness of their training. Note that this is the same handout as the skills audit at the beginning of the course. Say: We hope you will be encouraged by seeing how much better you can answer the questions now.

5. *(15 minutes)* Ask participants to evaluate the course, encouraging them to be objective on the evaluation form, since their input will be used to improve the course. Give participants the course evaluation form (PD10-H3) to complete before making concluding remarks. As they finish, collect the evaluations.

CONCLUDING REMARKS AND CERTIFICATES

Make closing remarks. Award certificates to the participants. Have the training institution's representative officially close the workshop and once again thank participants for their participation.

Handouts

Action Plan

The course has presented a step-by-step approach to product development. Think through the steps and how they will be applied to your MFI. Focus on the obstacles and on ideas to overcome those obstacles.

MARKET RESEARCH

Points of most interest or need to my MFI   Anticipated obstacles   Ideas to overcome the obstacles

PRODUCT CONCEPT AND PROTOTYPE DESIGN

Points of most interest or need to my MFI   Anticipated obstacles   Ideas to overcome the obstacles

COSTING AND PRICING

Points of most interest or need to my MFI   Anticipated obstacles   Ideas to overcome the obstacles

PILOT TESTING

Steps of most interest to my MFI   Anticipated obstacles   Ideas to overcome the obstacles

ROLLOUT

Steps of most interest to my MFI

Anticipated obstacles

Ideas to overcome the obstacles

ANY OTHER ISSUES OR IDEAS THAT SHOULD BE MENTIONED

Product Development – Post-Training Audit

Name: ________________________ Organization: ________________________

1. Give three signals that might indicate the need for product development.

2. What are the steps of the product development process?

3. What institutional issues should be considered when developing new products?

4. Who should be on a product development team? List by position. Explain.

5. Describe an approach to market research. List the techniques you would employ and explain your choices.

6. List the major characteristics of the following:

Credit product	Savings product

7. Explain activity-based costing. What are its advantages?

8. What factors would you consider when you price a product?

9. List three to four activities that would be conducted in the pilot testing phase of product development.

10. What problems might you anticipate when rolling out your new product?

Product Development Course Evaluation

Please rate and comment on the following:
1 = Poor   2 = Fair   3 = Average   4 = Good   5 = Excellent

Overall course   1 2 3 4 5
Comments:

Length of course   1 2 3 4 5
Comments:

Course content   1 2 3 4 5
Comments:

Course methods   1 2 3 4 5
Comments:

Course materials   1 2 3 4 5
Comments:

Trainer 1   1 2 3 4 5
Name ____________________________________
Comments:

Trainer 2   1 2 3 4 5
Name ____________________________________
Comments:

Course organization   1 2 3 4 5
Comments:

Precourse organization,
communication, advertising   1 2 3 4 5
Comments:

Facilities   1 2 3 4 5
Comments:

1. What I learned most from this course was:

2. What I still need to learn more about is:

3. I will apply the following in my organization:

4. I will have difficulty applying the following in my organization:

5. My overall feeling about the course is:

6. The course might have been more efficient if:

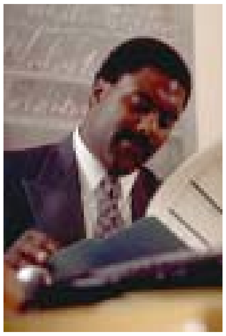
7. Any other comments *(please use another page if necessary)*:

Case Study

Case Study

The UNIbank Chronicles

Case Study Part 1: The Senior Staff Meeting



Ben Moona opened his day planner to see what Monday held in store for him. He had worked at UNIBANK for the past six years, since its inception, but lately it seemed like his responsibilities were growing exponentially, while his time was shrinking rapidly. He wondered briefly if he should have accepted the promotion to management six months ago, but he quickly brushed that thought away. He liked his new position as Supervision Manager; it was challenging, gave him some authority, and he was well compensated.

Ben was an interesting man. Nicknamed "Moon-Man" in primary school after building a 3-foot replica of the Gallileo IV Moon Rocket using Milo milk tins, coconut husks, and mango paste, he had retained his reputation as a risk-taker and his almost child-like sense of wonder and excitement at what the future might bring. He had been the main impetus for UNIbank's new MIS system in 1999 and was forever pushing the system to its limits with new queries and report formats. Today, he had to review the reports completed the previous week by his department before sending them on to UNI's Executive Director. He glanced at some of the titles of the reports produced by his staff: Consolidated Branch Portfolio Status Report, Branch Efficiency Report, Summary of Client Exit Interviews.

Each report had been commented on by one of Uni's regional managers and Ben knew the Executive Director would be pleased with the final reports. He sighed, realizing these reports would have to wait. They were not the most pressing need today. He was due to give an update on Client Retention in 15 minutes at the Senior Managers' Staff Meeting. He scanned through the MEMO from the Tatano Branch Manager he had recently received and made a mental note to remember to preface his comments with some of the statistics on client exits from the MIS reports.

Ben glanced at his watch—9am. It was time for the monthly staff meeting. He gathered up the manila folders on his desk and headed down the hall to the meeting room, stopping briefly along the way to grab a cup of tea.

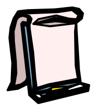
Within a few minutes, all 5 members of UNIbank's senior management team were assembled at the large oblong table. The Senior Staff meeting was ready to begin. Ben glanced at the Meeting Agenda placed at all seats.

Then he looked around the table and noticed that Seeki was late as usual. He hoped they would get started on time, with or without him. UNIbank's Chief Internal Auditor was always "out," although he usually remembered to leave his jacket perched on the back of his chair so it appeared that he was in the office somewhere. Seeki was absent at this meeting due to a family emergency.

Rila Berr, UNIbank's Executive Director, greeted everyone in the room and there were nods and shuffles as everyone got settled and reached for writing pads. Ben respected Rila. Affectionately known as "The General," Rila was professional and a born leader. Beneath the crisp exterior and a hard veneer which frequently frightened new hires, Rila was genuinely concerned with UNIbank's legacy which followed the motto "UNIbank gives clients the credit they deserve."

She was well-liked by the staff as well as by clients, and was known to show up unannounced at UNI branches to talk to clients informally.

She started the meeting: I'd like to thank you all for an excellent job in putting together our Annual Report**.** You can find it in Central Files following this meeting so be sure to get a copy. As you all know, we are embarking on a new vision in this new year. The Board has approved our new Vision Statement and I'd like us to read it now. The ED pointed to the Flipchart and began reading the final section of the Statement:



UNIbank's VISION STATEMENT

- Our understanding of our customers is superior and leads to strong and enduring banking relationships with them.
- We have the backing of a professional workforce and up-to-date information technology.
- We will become the premier microfinance institution in Arima, with a focus on providing financial products and services to the neediest segments of the micro- and small-scale enterprise sectors in the country.

She continued, We have seen tremendous growth in our client population over the past 5 years and as of last week, we have 39,000 thousand clients in our 12 branches covering all 5 regions of the country. Our loan portfolio grew from A$ 3.5 million in 1996 to A$ 7 million in 2000 and as of today, we have 254 staff members, 200 of whom are Credit Officers.

Our vision has not changed. We will continue, as we have in the past, to give clients the credit they deserve. But we are now going to focus our attention on the vast majority of poorer microenterprises whose needs are not being met. You may have all seen yesterday's article in the Daily Press entitled "Focus on Poverty." If not, I suggest you read it carefully, because it outlines some important recent surveys carried out that will help us in our mission. Again, you can find it in Central Files—under 'D' for *Daily Press*. She ended by asking: Now, are there any questions?

Elizabeth Orini, known to staff and friends as "Lizzy" jumped in, Yes, I wonder how this new focus is going to affect the branch staff. Should we plan to re-train all the credit officers? Lizzy was sometimes called "Dizzy Miss Lizzy" for her unending push for staff training.

Ben responded: Well, certainly they will need some inservice training, but first, I think we need to be careful. I have some disturbing statistics from the latest MIS reports. It appears we're losing an average of one in six clients within 10 months of recruitment, and the dropout rate is by far the worst at Tatano Branch, our oldest and largest branch. I don't know how much longer they can continue to recruit new clients.

Lizzy: Any idea why clients are dropping out?

Ben: My Client Exit report from the Tatano Branch Manager lists various reasons why we really need to take a close look at our products—and maybe even develop some new ones—if we expect to keep our clients.

John Peppa, UNIbank's Finance Manager, had remained silent, until now: Our portfolio is sound. It is growing at a manageable rate and we have a portfolio at risk rate > 90 days of only 0.6%. All microfinance institutions experience some degree of dropout. Anyway, it's a good way to weed out the possible problem clients. I think our existing products work very well so why change it all? Let the unhappy clients leave. There are 6 million microentrepreneurs in this country and we've only reached 1% of them so far. John, as the eldest and most experienced manager in the group, was a no-nonsense, facts first, bottom-line fellow. Despite his resistance to change, penny pinching strategies, and fondness of raw red hot peppers, he was viewed by senior staff as an indispensable member of the team.

Lizzy responded calmly: John, surely there is a cost to recruiting clients—and what about our competition? You know both ABCO and CCA have more clients than we do.

Ben: I think we need to start piloting some new products. I can talk with the regional managers and put together some recommendations for next week. Right now we have only have two credit products: the Home Loan Product and Micro Business Loan Product. Home Loans go mostly to Coastal Basin clients, range from A$1,000 to A$10,000, with mortgages repaid over 1 to 10 years, a 3-month grace period and attracting 28% interest. The Micro Business Loans are group-based with biweekly repayments and loans from $300 to $1,000 with a single term of 6 months, a 32% interest rate, no grace period and collateral in form of the up-front group-guarantee amounting to 20% of the loans disbursed, repaid to the group upon final loan repayment of all 10 group members. Based on our exit reports, I believe we should think about offering some new products.

ED: That's a good idea, Ben. I'll look forward to meeting with you next Monday to go over your ideas.

The staff meeting over, Ben was pleased with his contribution. He headed to Central Files to get the ANNUAL REPORT**.** While there, he also remembered to get a copy of the DAILY PRESS NEWS ARTICLE**.**

On his way home that evening, Ben mulled over the day. He had called in his 4 Regional Supervisors for a meeting in 2 days to talk about new products. He was excited but a bit overwhelmed. While the driver swerved in and out of the evening rush traffic, he began drawing a PRODUCT SPECIFICATION MATRIX in his diary. This, he thought, would help him focus the discussion about new products with the regional Managers.

INSTRUCTIONS for Participants

Please read/review the 6 items on this list. You may wish to glance at the Annual Report but, for now, in-depth study of the financial statements is not required. It will be used throughout the course, so please retain it for future use.

1. The UNIbank Chronicles Part 1: The Senior Staff Meeting
2. Memo from Tatano Branch Manager
3. The Staff Meeting Agenda
4. The Head Office Floor Plan
5. The *Daily Press* News Article
6. UNIbank Annual Report 2000

GIVING YOU THE CREDIT YOU DESERVE

MEMO FROM TATANO BRANCH MANAGER

TO: Ben Moona, Supervision Manager

FROM: Shaki Morano, Tatano Branch Manager

DATE: January 12, 2001

SUBJECT: Client Retention

The dropout rate for Micro Loan clients is alarming this month. Tatano Branch lost 17 more clients last week. I have been reviewing the client exit interview forms to determine what the problem is. These are the results:

- 55% of exiting Micro clients say the collateral rate is unreasonably high.
- 25% of exiting Micro clients say they have problems with biweekly repayments.
- 15% of exiting Micro clients say they need some type of emergency education loan and they found it at ABCO.

On the Home Loan side, all of the exiting clients have paid off their loans and, obviously do not need a second home loan. This product seems to have seen its day. I overheard some clients discussing their savings accounts at National Bank. Perhaps we should consider savings?

I am looking forward to your next visit here and would appreciate any advice you can give us. As you know, Tatano branch is almost 8 years old now and recruitment of new clients to replace the exits is moving along very slowly.

UNIbank

GIVING YOU THE CREDIT YOU DESERVE

ANNUAL REPORT 2000

VISION STATEMENT
HISTORY
ASSET GROWTH AND QUALITY
LENDING
INTEREST RATES
OPERATING EFFICIENCIES
MESSAGE FROM THE CHAIRMAN
FINANCIAL STATEMENTS

Vision Statement

We are a Nonbank Financial Institution (NBFI), publicly listed, providing professional financial services to microenterprises in Arima. Our head office is in Mindi, located at the southern tip of Arima.

Backed by a long heritage of customer service, we seek to reward our shareholders with high returns on their investment and our microenterprise customers with banking services aimed at creating wealth.

By continuing to be responsive to our customers' needs, we will be their preferred supplier of personal financial services and pragmatic business banking.

- Our understanding of our customers is superior and leads to strong and enduring banking relationships with them.
- We have the backing of a professional workforce and up-to-date information technology.
- We will become the premier microfinance institution in Arima, with a focus on providing financial products and services to the neediest segments of the micro- and small-scale enterprise sectors in the country.

History

Converted to a Nonbank Financial Institution in 1999, UNIbank was originally established as an NGO in 1992. It was founded by the HELP Foundation, with the aim of providing credit services to banana growers and retailers in the Arima Coastal Basin who were being exploited by middlemen and the monopolistic Greedi Horticulture and Shipping Company.

UNIbank's story is closely associated with recent Arima history and the geography of the country. Arima is almost entirely made up of densely wooded, steeply sloped mountains and valleys. Transportation is difficult even in the dry seasons and UNIbank's current countrywide outreach reflects its commitment to overcoming many of these obstacles.

Arima has enjoyed some fairly prosperous periods growing sugar, limes, and vanilla, but for the past forty years, and up until 1995, it made its living from bananas. In its initial 3 years of existence, UNIbank tried unsuccessfully to expand its client base. In 1995, Hurricane Betty swept the region and the ensuing Banana Crisis caused by the elimination of the preferential tariff protection meant that Arima could not longer compete with cheaper bananas from other countries. UNIbank seized this opportunity and met the national challenge by refocusing its services to a countrywide, mushrooming, microenterprise population made up of retrenched banana farmers. Today, UNIbank offers Micro Business Loans to assist in the initiation of new microenterprises in both urban and rural areas and Home Loans to meet the ongoing national need of rebuilding the housing devastated by the hurricane.

UNIbank currently serves 39,000 clients though its 12-branch country network. Micro Business loans account for more than half its portfolio with entrepreneurs broken sectorally as follows:

- Trade/Commerce – 40%
- Service – 40%
- Manufacturing – 10%
- Agrobusiness – 10%

UNIbank was originally funded solely by grants from the HELP Foundation and various international donors. By 1999, it had become independent of donor funding and was operating its loan portfolio on a line of credit from the largest commercial bank in the country, National Arima Bank. In January of that year, UNIbank applied to the Central Bank for a license to operate as a NBFI. While this status would place stringent regulatory demands on the company, and at the same time, restrict it from taking savings from the public, UNIbank was unable meet the capital requirements of a full-fledged commercial bank and the NBFI option was deemed the best course of action.

Asset Growth and Quality

Total assets under management by UNIbank grew to A$ 8.7 million—an increase of 30 percent on the A$ 6.1 million at June 30, 2000 and an increase of 85 percent on the A$ 4.7 million at December 31, 1999.

During the period, UNIbank increased OREO (other real estate owned) from A$ 0.4 million at June 2000 to A$ 0.8 million.

Gross nonaccruals as a percentage of the total loan portfolio stood at 1.7 percent at December 31, 2000, compared with 1.6 per cent at December 1999. The marginal increases in this ratio, which is among the lowest in the regional financial sector, reflects toughening economic conditions which have resulted in a slight increase in nonaccrual loans and arrears past due 30-day criteria.

Lending

Loan approvals totaled A$ 3.8 million for 2000 compared with A$ 1.7 million for the previous year, reflecting the country's continuing surge of microenterprise development and expansion.

Interest Rates

Interest rates in Arima are still partially regulated by the Central Bank. NBFIs have a 5-point leeway over/under the Prime Lending Rate of 28 percent.

The first six months provided a more favorable interest rate environment for UNIbank compared with the corresponding period in the previous year, due to Government's expansion of the interest rate “leeway” from 3 points to 5 points. This upturn in permissible interest rates assisted UNIbank in increasing its income while maintaining its funding costs. If, as expected, this environment continues, it will provide a positive outcome outlook for UNIbank over the course of 2001.

Operating Efficiencies

One the major factors influencing the increased profitability of the past six months was operating efficiency. UNIbank has continued to achieve operating costs that rank among the best in the region. Our aim has been to put UNIbank in the top quartile for cost efficiency in the regional banking sector—and we are achieving that outcome.

The Bank's operating costs rose by 14 percent in 2000 compared with 1999, largely due to the impact of the increases in staff costs as part of UNIbank's Staff Incentive Scheme. Over the full year 2001, total operating costs are expected to be 5 percent above those of 2000.

The Bank's operating expense to average total assets ratio continued to be reduced during the first six months of 2000, dropping from 28.3 percent at December 1999 to 18.5 per cent at December 31, 2000. This ratio is the lowest in banking in Arima.

Adjusted Return on Assets stood at 5.5 percent as at December 2000, a dramatic increase from −9.8 percent in December 1999.

Message from the Chairman

Summing up the performance for 2000, Mr.Bodi said: "Following a difficult 1999, UNIbank continued the recovery shown in the second half of last financial year into 2000. UNIbank is now seeing the first fruits of its vision developed several years ago, which has diversified the income base and helped to expand business through its strategically crafted product mix. Having implemented this diversification strategy as a core component of the Bank's growth for the next three years, we are now seeing results reflected in the Bank's bottom line.

"Loan processing excellence, system flexibility, credit scoring on home loans, and a home loan originator facility have all contributed to ensuring the Bank has achieved significant productivity gains.

"UNIbank will soon introduce straight-through processing of micro-enterprise loans—a real-time approvals and contracts system which will provide immediate loan approvals at the point of application. This will enable the Bank to handle greater volumes of loans and better serve our most needy customers in the poverty-stricken region of Tatamo.

"Importantly, with increased volumes we will also continue to achieve economies of scale, further reducing operating costs and improving profitability.

"During 2001, the Washington, DC-based Mortgage Council will be undertaking a benchmarking study into Arima mortgage lending, and UNIbank will be a participant. We are confident that this study will confirm that UNIbank's mortgage processing facilities are among the most efficient in the country.

"UNIbank remains committed to increasing returns to shareholders by growing earnings over the next two years."

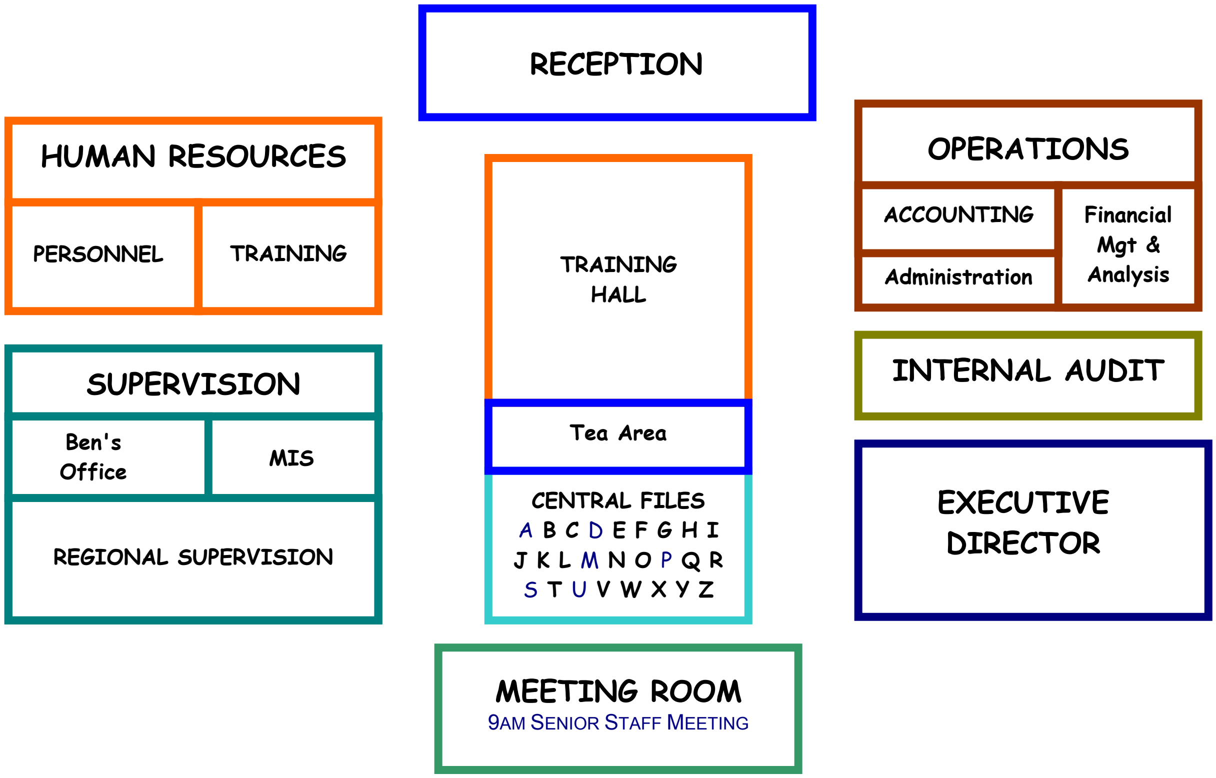
Financial Statements

UNIBANK FINANCIAL STATEMENTS

BALANCE SHEET	2000	1999
Assets		
Current Assets		
Cash in Bank	392,000	224,000
Gross Portfolio Outstanding	7,150,000	3,509,000
(Loan Loss Reserve)	(73,000)	(32,000)
Net Portfolio Outstanding	7,077,000	3,477,000
Short-term Investments	156,000	152,000
Savings reserves	-	-
Other Current Assets	68,600	57,660
Sub-total, Current Assets	7,693,600	3,910,660
Fixed Assets		
Buildings (gross)	800,000	400,000
Furniture and Equipment (gross)	354,900	298,220
(Accumulated Depreciation)	(96,000)	(73,600)
Net Fixed Assets	1,058,900	624,620
Other Long-Term Assets		
Long-term Investments	-	50,600
Other long-term assets (net)	-	150,000
Sub-total, Long-term Assets	1,058,900	825,220
Total Assets	**8,752,500**	**4,735,880**
Liabilities		
Current Liabilities		
Savings deposits	103,223	742,980
Short-term Loans	1,300,000	500,000
Long-term Liabilities		
Long-term Loans	2,500,000	1,200,000
Other long-term Liabilities	411,255	200,000
Sub-total, Long-term liabilities	2,911,255	1,400,000
Total Liabilities	4,314,478	2,642,980
Equity		
Accum. Donated equity, prev. periods	1,050,000	812,940
Donated equity, current period	-	237,060
Shareholder equity	3,466,653	1,500,000
Dividend payments	(69,333)	(15,000)
Accum. Net Surplus (Deficit), previous periods	(442,100)	(167,891)
Net Surplus (Deficit), current period	432,802	(274,209)
Total Equity	4,438,022	2,092,900
TOTAL LIABILITIES AND EQUITY	**8,752,500**	**4,735,880**

INCOME & EXPENSE STATEMENT	2000	1999
Financial Income		
Income on Financial Services	2,550,000	1,200,000
Income on Investments	56,250	41,540
Total Financial Income	**2,606,250**	**1,241,540**
Financial Costs		
Interest and fees on borrowed funds	608,000	272,000
Interest paid on savings deposits	5,161	37,149
Total Financial Costs	**613,161**	**309,149**
Gross Financial Margin	1,993,089	932,391
Provision for loan losses	130,000	111,600
Net Financial Margin	**1,863,089**	**820,791**
Operating Costs		
Program	620,400	519,000
Administration	624,000	576,000
Total Operating Costs	**1,244,400**	**1,095,000**
Net Income from Operations (before taxes)	**618,689**	(274,209)
Amount of taxes paid	185,887	-
Net income from operations (after taxes)	**432,802**	**(274,209)**
Income from grants	-	237,060
Excess of Income over Expenses	**432,802**	**(37,149)**

UNIbank HEAD OFFICE FLOOR PLAN



CENTRAL FILES

ANNUAL REPORT – 2000

Banking Act: Savings regulations

Board Meeting

Costing Tool

DAILY PRESS NEWS ARTICLE

E-mails

Focus Group Meetings

G

HEAD OFFICE FLOOR PLAN

Institutional Assessment

J

K

L

Map Showing UNIbank Branch Outreach

Market Research Data

Market Research Tools

Memos

MIS Reports

N

Organizational Chart

PRODUCT SPECIFICATION MATRIX

Product Specification Sheets

PRA

Questions for Discussion

Roll-Out Toolkit

STAFF MEETING AGENDA

Sample Survey

Testing Toolkit

UNIBANK VISION STATEMENT

V

Why Products Fail

X

Y

Zen and the Art of Product Maintenance

PRODUCT SPECIFICATION MATRIX

PRODUCT CHARACTERISTICS	CREDIT	SAVINGS
1. Product Name	▪ Product Name	▪ Product Name
2. Purpose/Focus	▪ Loan Use ▪ Client Profile ▪ Location(s)	▪ Savings Use ▪ Client Profile ▪ Location(s)
3. Amount	▪ Average Loan Amount	▪ Average Deposit Amount ▪ Average Withdrawal Amount
4. Pre-Conditions	**Collateral Requirements (including compulsory savings)** ▪ Collateral Type ▪ Control of collateral ▪ Collateral Amount ▪ Collateral Basis (flat amount, % of loan, % of payment) ▪ Collateral payment timing ▪ Collateral payment frequency ▪ Interest rate on collateral ▪ Interest rate method on collateral ▪ Collateral set in Reserve % ▪ Interest on Reserve % ▪ Indexing of collateral **Other Requirements** ▪ Group Membership	▪ Opening balance ▪ Minimu m balance ▪ Average balance to maintain account ▪ Basis for calculating average balance (daily, monthly, etc) ▪ Calculation method for average balance ▪ Min/Ma x Deposit ▪ Min/Ma x Withdrawal ▪ Deposit Frequency ▪ Withdrawal Frequency
5. Pricing	▪ Interest rate ▪ Interest rate method ▪ Commissions and Fees – Timing/Frequency: Upfront, ongoing – Basis: Fixed amount or % of loan amount or % of monthly principal payments ▪ Index to external value ▪ Loans in foreign currency ▪ Loans indexed to inflation rate ▪ Penalties	▪ Interest rate ▪ Interest rate method ▪ Commission and Fees – Timing/Frequency: Upfront, ongoing – Basis ▪ Index to external value ▪ Penalties
6. Disbursement	▪ Loan disbursement timing ▪ Wait period between loans	
7. Repayment Conditions	▪ Repayment frequency ▪ Effective loan term ▪ Grace period	

SENIOR STAFF MEETING AGENDA

Monday 9am

REQUIRED ATTENDANCE: STAFF MEMBERS

Rila Berr, Executive Director
John Peppa, Finance Manager
Ben Moona, Supervision Manager
Elizabeth Orini, Human Resources Manager
Paul Seeki, Chief/Internal Audit

1. EXECUTIVE DIRECTOR: OVERVIEW OF ANNUAL REPORT 2000

2. PAUL SEEKI: UPDATE ON CENTRAL BANK SAVINGS REGULATIONS

3. BEN MOONA: UPDATE ON CLIENT RETENTION

DAILY PRESS ARTICLE

Bringing you all the news in Arima

Monday, January 1, 2001

THE DAILY PRESS

MFIs TO ATTACK POVERTY IN ARIMA

Nothing short than an all out war on poverty has been announced by leading MFIs in Arima. At a National meeting held in Mindi last week, heads of leading MFIs in the country issued a joint statement formalizing their commitment to providing access to financial services to the poor.

This commitment comes at an opportune time. A recent survey of 9 MFIs in Arima fiound that borrower households above the poverty line experience a higher impact than households below the poverty line, suggesting that while effective, such institutions are not necessarily well-targeted towards poorest households.

Another study found that the majority of MFIs in Arima still require financial subsidies to be viable. Although the outreach to target clientele and dependence on subsidies do not provide a full assessment of the economic impact of MFIs in the country, they highlight the social cost at which MFIs have reached their objectives.

Arima National Poverty Line 2000
Population below A$ 1.08 a day
(2000 purchasing power parity)

Regions	Rural %	Urban %	Regional %
Mindi	40%	50%	52%
Tatano	68%	73%	70%
Coastal Basin	72%	83%	80%
Alanca	32%	35%	33%
Lapita	20%	22%	21%

The results on targeting and the prevalence of subsidy dependence point to the challenge faced by MFIs - continuing to move toward financial viability while extending their outreach to their target clientele.

Best practice features including interest rates that fully cover costs, availability of well-rewarded voluntary savings, performance-based compensation for staff, intensive staff training, innovative low-cost distribution centres, and products matching the demand of low-income groups, are all associated with good financial performance.

Special Supplements

- **Arima Home Owners Guide:** 5,000 new home built last year. How long will they last?
- **Get Ready for the Festival:** Recipes and shopping tips to help you prepare for the Annual Banana Festival

GOVERNMENT SHOULD HELP IMPROVE FINANCIAL INTERMEDIATION FOR THE POOR

The Government has pledged to improve financial intermediation for the poor in Arima by providing complimentary improved regulation that recognizes the special needs of microfinance schemes..— for example, better investment in rural infrastructure and literacy promotion can help expand the reach of microfinance organizations.

In 2000, The Government established a new regulatory and supervisory structure for microfinance in order to increase poor people's access to financial services. However, speaking from Government House early yesterday morning, Mr. Rali said “Innapropriate regulatory and supervisory laws preventing microfinance institutions from establishing sufficiently high spreads between savings and lending rates to allow them to cover the high transaction costs on small loans should be eliminated”.

Case Study

Case Study Part 2A: Skit – Ben's Presentation

As scheduled, one week later, Ben met with the General. He was eager to get the go-ahead to pilot test a new product idea. He cleared his throat at the entrance to her office and knocked on the door frame as he scanned the room. She was ready for their meeting, with a single folder on her desk and not a single item out of place. An award certificate and three diplomas were aligned on the wall behind her.

A Skit

The General: Good morning, Ben, let's get started immediately. Have a seat. (She points to the chair in front of her.) Now, tell me. What information do you have for me?

Ben: UNIBANK is losing clients. Our MIS shows that we are losing one in every six clients within one year of recruitment. Branch staff thinks that the trend appears to be that clients repay one or two loans and then decide to leave.

I have been working with the branch staff over the past two weeks and we believe that we should test a higher second-loan size to meet the needs of the clients who are exiting. Clients are sick of the group-based scheme after one year, so we think we need an individual loan product. Here is what we would like to start as a pilot test at the Tatano branch as soon as possible:

- A new individual credit product—No group guarantee, no group meetings. Loan sizes to be about double what they are for the group scheme and repayable monthly instead of weekly at 33 percent. The Tatano branch has asked clients if they can repay these higher loans, and they all say yes.
- We also believe we need a savings product and an insurance product, because the clients keep asking for these and we definitely want to retain our good clients.

The General: Didn't you read the *Daily Mirror* article I mentioned at the last staff meeting? I thought I made it clear that we are going to focus our efforts on the majority of our poorest clients. How are they going to be able to handle these bigger loans?

Ben: Well, the Tatano branch manager said that some of the clients said they need bigger loans.

The General: Can the existing MIS system handle these new products?

Ben: We may have to make some adjustments to handle a savings product, but the MIS people say it can be done.

The General: Well, I wonder what resources that will require. Also, Seeki isn't here today, but I believe we are not authorized to collect savings from our clients under the current regulations governing NBFIs. How are we going to get around that?

Ben: Well, I think we could possibly get a dispensation if we can get a donor guarantee.

The General: What about the other branches? Are clients dropping out of all branches? What reasons do they give? Will these new products you have proposed meet their needs as well as their capacities?

Ben: Well, I don't really know….

The General: Maybe the problem is not the product. Have you checked to see if client recruitment is being done consistently? Maybe the Tatano customer service is failing in some way.

Ben: Er...

The General: Well, Ben, this has been an interesting meeting, but I think we will need quite a bit more information before we can begin to make any decisions on new products. Please prepare a report showing what information you already have and what missing information your staff will need to get so that we can proceed with this.

Ben was deflated. His presentation had raised more questions than it had answered. He headed back to his office to call Seeki, who had not shown up at the staff meeting. He was going to need information on the savings regulations before talking to branch staff about new products. Then Ben noticed a yellow sticky note by the telephone on his desk. It was from Nora, the receptionist.

> *Jan 15, 10:15 a.m.*
>
> *Hello, Ben.*
>
> *Seeki will not be in the office this week. He said to lend you his copy of the Banking Regulations (attached). The section pertaining to savings is on page 45.*

Ben sighed. It looked like this was not going to be as easy at he had thought. “What in the world is product development?,” he asked himself as he tidied up his office at the end of the day, followed by, “...and what in the world have I gotten myself into now? It seems like I'm going to have to get into market research, finance, training, and even regulations.” He opened his diary and began making a list with two columns: available information and missing information. He would have to get organized to get what seemed like a lot of missing information.

INSTRUCTIONS for Participants

You should have a copy of the following documents:

Banking regulations—savings section

Questions to think about:

1. What information was available from Ben's presentation?
2. What information was missing?
3. What information does your MFI collect?

BANK OF ARIMA
The Banking and Financial Institutions Act 1991

SECTION VI
Page 42

Nonbank Financial Institutions

A nonbank financial institution is any person authorised by law or the central bank to engage in banking business not involving the receipt of money on current account subject to withdrawal by check.

Scope of Authority of Nonbank Financial Institutions

34. A licensed nonbank financial institution, in addition to the general powers incident to companies incorporated under the companies ordinance may, as a primary function, perform any but not all of the following activities subject to any condition and/or regulation which the bank may prescribe:

1) Extend credit facilities to consumers and to industrial, commercial, or agricultural enterprises, either by discounting or factoring commercial papers or accounts receivable, and by buying or selling contracts, leases, chattel mortgages, or other evidence of indebtedness, or by leasing of machinery and equipment or other movable property;

2) Engage in the business of an investment bank by underwriting debt or equity securities of other companies;

3) Engage in the business of a mortgage finance company by granting loans or credit facilities for the purchase of the acquisition, construction, improvement, development, alteration or adaptation for a particular purpose of land in Arima; and

4) Such other activities as may be authorized by the central bank.

35. In undertaking the activities specified in Section 34, licensed NBFIs may not borrow funds from the public through the acceptance of deposits. However, NBFIs may, with prior approval of the central bank, act as managing, collecting, or paying agent; adviser; consultant; or administrator of investment management, advisory, or consultancy accounts.

Case Study Part 2B: A Team Effort

Several hours later, Ben was busy writing a memo when he noticed a flashing "You've Got Mail" on his computer screen. He clicked into the intranet and read his e-mail message from the General.

```
Date: Mon, 5 February, 2001 17:53:04
X-Sender: Moonman@unibank.com
Mime-Version: 1.0
To: moonman@ unibank.com (Ben Moona)
From: ED@ unibank.com
Subject: New Products ready for piloting
Status: RO
-----------------------------------------------------------------------
Ben, before you embark on market research, it would be a good idea for
you to organize a product development team with representation from
UNIbank's main departments. Please let me know what you come up with.
-----------------------------------------------------------------------
```

Ben was excited. He glanced at the items on his preliminary to-do list in his market research file:

1. national survey results (from *Daily Press* article)
2. participatory rapid appraisal
3. focus group meetings
4. client exit interviews report
5. MIS report—portfolio at risk

Ben wished he had thought of putting together a product development team himself. He wondered who should be on the team and decided he would need to talk to Lizzy before organizing the team members.

He headed down the hall to the Human Resources office and walked right in. Lizzy had an "open door" personnel policy, and she was always available to talk to staff. Soon she had a stack of personnel files on her desk of possible candidates for the PDT. Ben explained that the team would be reviewing the market research data, designing the products, organizing a pilot test, and planning for implementation.

Lizzy began shuffling through the files and sorted out one pile that she handed to Ben, saying "Take a look at these. The bio data should give you a good idea of skills and the departmental task timelines will tell you who's available over the next three months." Then, as an afterthought, she said, "Don't count on Seeki."

Ben spent the next hour reading through the personnel files. Everyone seemed pretty busy. He immediately ruled out John Peppa, whom he knew was not a team player. Finally, he decided on the following core team:

1. Himself—supervision manager
2. Mary—MIS coordinator
3. Arthur—northern regional manager
4. Shaki—Tatano branch manager (Ben knew Shaki was dying for a trip to the big city and he owed him a few favors.)

He was sure his team would soon come up with at least two new products to test, and he began calling everyone on his list to set up a meeting date.

Case Study

Case Study Part 3: Ben's Flashbacks – Market Research

Over the next month, the product development team members worked diligently to gather as much information as they could from UNIBANK's MIS system and external sources. Ben was beginning to see the relevance of market research. He was working at his desk one afternoon when he suddenly had a flashback to two stories told by his colleagues at the MFI Association conference the previous week:

Ben's First Flashback – Critical Incident 1: ABCO's Savings Disaster

In 1999, ABCO senior management decided it was time to offer clients a savings product. The company spent a lot of money refurbishing branches with additional safes and cages, and hired a consultant to design the product. The consultant had designed financial products for banks in neighboring countries and it was assumed he would draw from his experiences there, eliminating the need for in-depth market research and greatly speeding up the design process.

The product designed was called Once-A-Month Pass book Savings; it allowed clients to make one withdrawal and one deposit per month. The consultant assured management that their branches would not be able to cope with more frequent transactions, at least in the first year. Tight controls were set up and clients were told they could deposit funds on the first day of the month and withdraw funds on the last day of the month. This would give ABCO branches a lot of flexibility in their cash management and ensure them of the required liquidity to handle their ongoing credit line.

Unfortunately, only 20 clients signed up for the product in the first six months and monthly withdrawals almost equaled deposits. ABCO decided to withdraw the product.

Ben's Second Flashback – Critical Incident 2: ABCO'S Recovery

A few months later, still reeling from the Once-A-Month disaster, one of the ABCO branch managers compiled a brief report outlining the reasons for the failure of the voluntary savings product and making recommendations to address the problems and revive the product.

Luckily, management took his report seriously. This time they dispensed with the consultant and decided to get their information at branch level. A focus group consisting of existing ABCO borrowers explained that they would need frequent access to their savings, since they planned to use them mainly for school fees, emergencies, and weddings. Once-monthly withdrawals didn't make much sense to them.

Another market research tool deployed was the product attribute ranking, which ABCO used to forecast the probable amounts that clients would be depositing and withdrawing, as well as frequencies. The research took three months but was well worth it. In the end, the clients flocked to the product and today ABCO Savings is the most successful microsavings product on the market.

Case Study

Case Study Part 4A: The Tatano Focus Groups

The product development team had gathered quite a bit of information, but Ben still felt uneasy about recommending products to the General. He didn't want to have another disastrous meeting with her, so he called Shaki Moro, the Tatano branch manager.

This was their conversation:

Shaki: Hola, Boss. What's up?

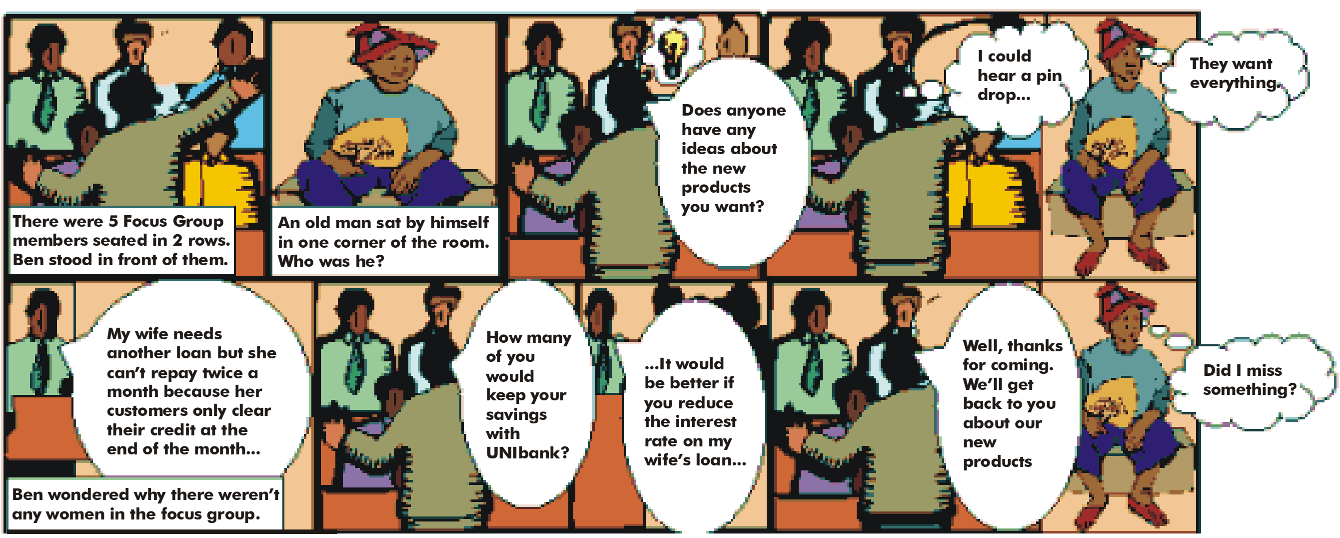
Ben: Hey Shaki, How's life? I'm calling to discuss an idea I have. You know we're working on some new products for your clients. What would you say about organizing a couple of focus groups to get answers to some of our questions first-hand from them? Can you organize it for next week?

Shaki: Give me two weeks—we're up to our necks with the Enterpriser competition next week.

Ben: Great!

Two weeks later, Ben drove five hours to Tatano, arriving two hours late due to a tire puncture. He found the first focus group waiting for him patiently. This is what happened.

Tatano Focus Group Meeting 1

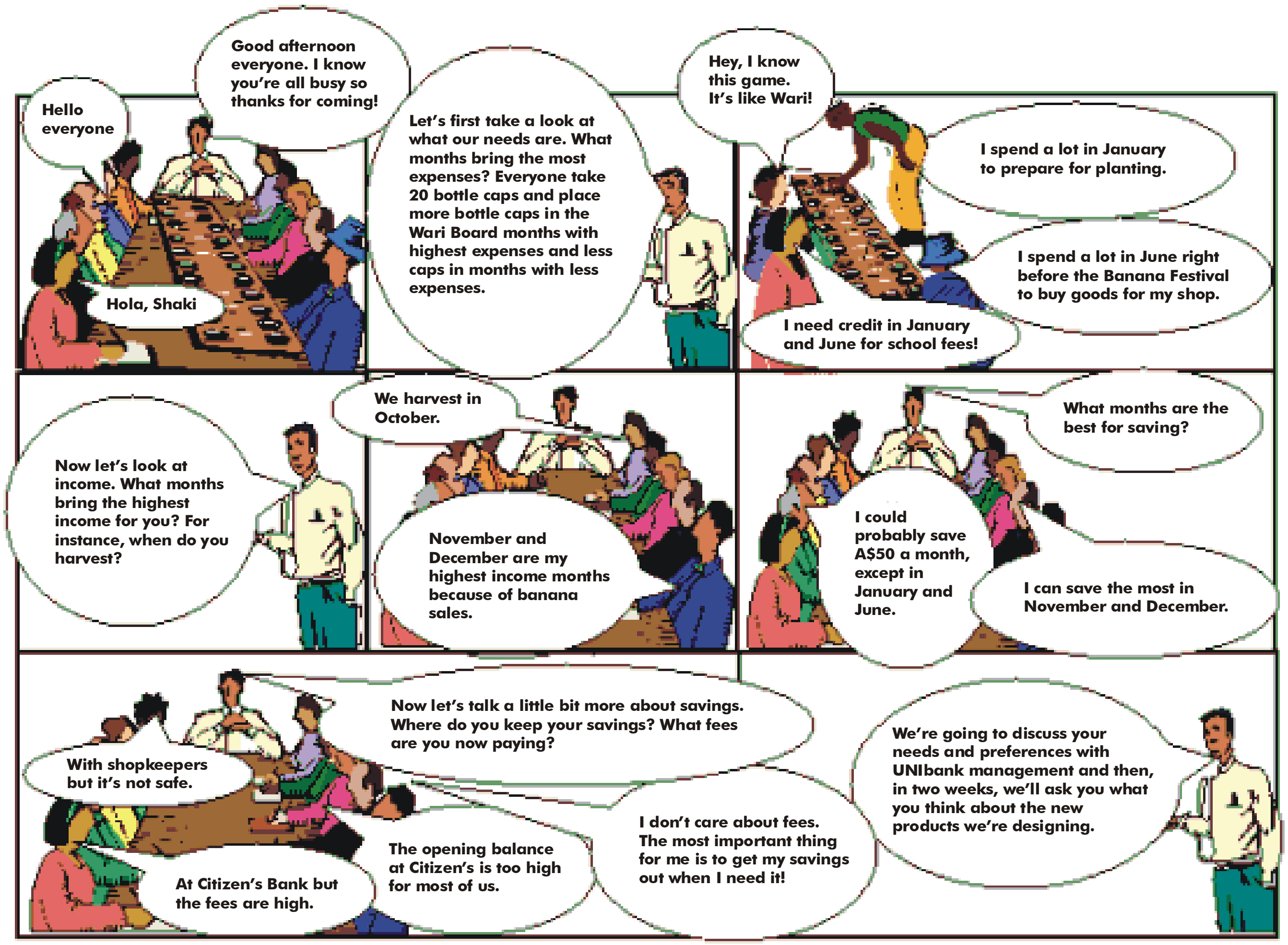


Case Study

Case Study Part 4B: The Tatano Focus Groups

Tatano Focus Group Meeting 2 (using seasonality analysis and guided discussion)

Before the second focus group meeting, Ben had a couple of hours to prepare, and he made good use of it by reviewing a list of participatory rapid appraisal techniques that might be useful to use. He was particularly interested in finding out how people in the community saved, so he made a list of questions he could use in a guided discussion. He also decided that in addition to the questions he would ask in a discussion on savings, he could also use a seasonality analysis technique to delve a little deeper into income and expenditure patterns that might affect both credit and savings products. The second focus group meeting went like this:



Case Study Part 5A: Market Research

Back at the head office, Ben was busy writing a memo when he noticed a flashing “You've Got Mail” on his computer screen. He clicked into the intranet and read his e-mail message from the General.

```
Date: Mon, 5 February, 2001 17:53:04
X-Sender: Moonman@unibank.com
Mime-Version: 1.0
To: ED@ unibank.com
From: moonman@ unibank.com (Ben Moona)
Subject: New Products ready for piloting
Status: RO
```

```
Ben, Thank you for your excellent market research over the past
few weeks. I was particularly interested in the results of your
PRA and the focus group proceedings. I think you are now ready
to begin designing our new products.
```

Ben was excited. He glanced at the stack of data in his market research file. He had:

1. national survey results (from *Daily Press* article)
2. participatory rapid appraisal (PRA) results
3. two focus group meeting reports
4. summary of client exit interviews report

UNIbank MARKET RESEARCH RESULTS

PRA techniques were used to answer the following questions:

1. What **business activities** are undertaken in Tatano? By whom?
2. In which months do households receive the highest **income**?
3. In which months do the highest **expenditures** occur and for what?
4. What are the main sources of **credit**? Which period is credit needed and for what uses? What interest rate is charged?
5. Where and how are **savings** made? Where and how are savings kept? How is savings turned into cash?

A sample (120 persons) was interviewed from among the small-scale traders in the Tatano market**,** comprising 45 percent men and 65 percent women.

The mean monthly income of the respondents was between A$100 and A$600 and the mean age of businesses one to three years. The mean age of the respondents was 25 years and 55 percent of respondents had at least a primary education.

The life cycle technique was introduced to groups of 8–12 respondents. The respondents were asked to name the key milestones in their lives, then they were asked to agree on and list important events in terms of maximum and minimum financial pressure, from the time he or she established a household to the time his or her spouse died. The events included marriage, school fees, and purchase of assets such as land.

Respondents were asked to place a minimum of 0 and maximum of 10 banana beer bottle tops on a chart to show the level of financial pressure associated with each milestone. If an element was exerting the most pressure, they should place 10 bottle tops—and 1 if it was the least. As they did this, the facilitator probed such areas as their source of money to meet those expenditures: for example, if credit was used to finance the expenditures, the facilitator probed further about the source and conditions of the credit.

Seasonality of income, expenditure, savings, and credit: To enable UNIbank to obtain information on the flows of income, expenditure, and need for credit and savings services in one calendar year, the respondents were asked to place a minimum of 0 and maximum of 10 bottle tops in each month of the year on the chart, reflecting the magnitude of income, expenditure, savings, and credit, and giving reasons for each one of the listed items (income, expenditures, savings, credit).

Ranking: Respondents were asked to identify the key elements in financial services and rank them in order, from the most important to the least important. They then were asked to explain their responses.

QUESTIONS

1. What does the data in Ben's research results tell you as a manager of an MFI?
2. What are the implications for the financial services that MFIs provide in this area?
3. What additional information would you need to develop financial services to serve the people in this area?

1. Major Business Types

Major business types	Problems identified	Causes of the problems	Possible UNIbank opportunity?
Trade/commerce ▪ Banana retail ▪ Fis h retail ▪ Used clothing retail	▪ I ncreasing wholesale costs of bananas ▪ Keeping fish fresh ▪ Dif ficulty sourcing stock	▪ Seasonality of the banana crop ▪ Lack of funds to purchase refrigerators ▪ Bad road network for sourcing supplies, expensive travel options, lack of funds	
Services ▪ Bicycle/shoe/ watch repair ▪ Banana beer kiosk	▪ Lack of funds for expansion of business ▪ Prohibitive biannual beer-selling license fees.	▪ Prohibitive bank lending conditions ▪ Timing of license fee payment corresponds with biannual school fee payment	
Manufacturing ▪ Carpent ry ▪ Metal work (household utensils)	▪ Lack of sufficient funds for materials	▪ Rising cost of materials: wood, metal	
Agribusiness ▪ Banana brewery ▪ Banana bakery	▪ Lack of funds to repair and replace equipment (ovens, distillers)	▪ Climatic conditions/ humidity causes high degree of equipment breakdown, lack of access to credit facility to purchase new equipment	

2. Savings

Location of savings	Purpose of savings	Problems encountered	Possible UNIbank opportunity?
Banks For	emergencies, business expansion, and safekeeping	Unable to meet banking conditions for opening deposit amount and minimum balance	
MFIs	To obtain loans for business expansion	High up-front required savings, restrictive withdrawal terms	

Location of savings	Purpose of savings	Problems encountered	Possible UNIbank opportunity?
Cooperative Societies	To obtain loans for business expansion	Takes too long to obtain credit	
Assets: land, livestock, and jewelry	To meet domestic needs and emergencies	Droughts leading to crop failure, loss of livestock	
Merry-go-rounds	To meet domestic and business needs	Defaulters	
Loans to friends/ family	For safety	Insecurity	

3. Seasonality Calendar

Seasonality analysis of household income, expenditure, savings, and credit is used to obtain information on seasonal flows of income and expenditure, and the demand for credit ands savings services. It also provides insights into some of the risks and pressures faced by clients and how they use MFI financial services to respond to these.

Participants placed banana beer bottle tops to show the relative levels of income, expenditure, credit, and savings during each month of the year.

Seasonality Chart: Income, expenditure, credit, savings (Tatano market)

Month	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Income	xxxxx	xx	x	x x	x		x	xxxxx	xxxxxx x	xxxxxx xx	xxxxxx xxxx	xxxxxx xxxx
Expenditure	xxxxxx xxxx	xxxxxx x	xxxxxx x	xx xx	xxxxx		xxxxx	xxxxxx x	xxxx xxxx	xxxxx		xxxxxx xxxx
Credit	xxxxxx x	xxxxxx xxxx	xxxxxx xxxx	xxxx	xxx	x	xxx	xxxxx	x x	x	x	
Savings	x x	x		x x	x		x	x	xx	xxx	xxxxxx xxxx	xxxxxx xx

Income

- November and December are seasons of high income, propelled by the banana harvest and tourism revenues. Also, people returning for the annual banana festival bring high spending power that results in high income for the region.
- February to July are months of low income because the harvest is over and heavy rains slow down tourism.
- August through October see increasing income because of harvest.

Expenditure

- December through March are high-expenditure times due to the banana festival and weddings. January is very high, due to school fees and preparation for the planting season.
- February and March continue with farming and farm-related expenses.

- April through July are low-expenditure months; August has big expenses related to protection of bananas from thieves. In June and July "everyone gets sick here," say the participants, and expenditures are related to health care.
- From August through November expenditure goes up, due to transport costs and harvest labor.

Credit

- January through April: There is a need for credit for cultivation and school fees.
- August has a big need for credit due to ill health and school fees.

Savings

- The period September through October registers increasing savings driven by harvest sales and low expenditure on farms and school fees.
- November and December is a high-savings time because of higher incomes with lower expenditure. Income is related to banana sales and tourism.

4. LIFE CYCLE PROFILE

Life-cycle profile is used to determine which of the life events require lump sums of cash, to examine their implications for household income and expenditure, to establish current coping mechanisms, and to discuss how access to UNIbank financial services could help households respond to these events. The information is useful in designing financial products that match the various needs expressed at different milestones during a person's life cycle.

Results from the use of life-cycle technique in Tatano

School fees	Marriage	Children	Household	Build house	Annual banana festival	Illness	Death of family member
x							
x							
x	x						
x	x	x					
x x		x x					
x x		x x		x			
x x		x x		x	x		
x	x x		x	x x x			x
x	x x		x	x x x			x
x	x x		x	x x x			x

5. Financial Services Ranking

Preference	Total scores	Ranking
Flexibility in withdrawals– frequency	92	1
Loan sizes from A$50–A$100	50	5
Loan sizes from A$100–A$200	30	7
Loan sizes from A$100–A$300	20	9
Interest on deposits to be offered on quarterly basis	10 10	
Interest on deposits to be offered on annual basis	25 8	
Loans with affordable conditions (collateral/group guarantee)	50 5	
Opening balance to be between A$10 and A$20	50 5	
Opening balance to be A$20	0	0
Opening balance to be between A$5 and A$0	40 6	
Opening balance to be A$2	10	10
Should accept deposits of small denominations—i.e., A$5	80 2	
Increase repayment period on loans	50	5
No service charges on customers accounts	60	4
Grace period for loans	73	3
Calculation of interest on deposits done every six months	40 6	
Loans to be given in terms of materials instead of money	30 7	
Repayment on weekly basis for six months	50	5

6. Product Attributes
(from focus group discussions)

Product attribute	Likes	Dislikes	Client comments and suggestions
Loan size	Loan size is too high for some people and too low for other people	Inflexible loan size	You should have various loan sizes for different clients
Loan term		6 months is too short for the current loan size	
Interest rate	Interest rate is fair	Interest rate is higher than National Bank rate	
Frequency of payment		After 6 months, the biweekly payments are too frequent.	There should be a grace period for loans used to purchase equipment
Collateral (upfront compulsory savings)	It helps us to save	Upfront amount is too high and we can't access it until the end of the loan payment	
Fees	Fees are OK		
Waiting period for next loan		Current waiting period of 1 month is too long	Reduce waiting period to 2 weeks

7. Product Attribute Ranking for Savings
(Client and nonclient survey results)

Most Important = 5, Least Important = 1

Product attribute	Number respondents ranking = 5	Number respondents ranking = 4	Number respondents ranking = 3	Number respondents ranking = 2	Number respondents ranking = 1
Opening balance	10 1 1			0 0	
Min balance to maintain account	6 3 1			1 1	
Interest rate	1 3 2			4 5	
Access to savings	11 1 0			0 0	
Interest-rate payout frequency	0 1 2			3 6	
Fees	2 2 5			2 1	
Penalties	1 1 2			4 4	

8. TATANO BRANCH EXIT SURVEY REPORT
(Format adapted from AIMS tools)

1. Status of Exiting Clients (Microloan Product)

Credit rating of exiting clients	% of exiting clients
A. In good standing	50
B. Inactive (not attending meetings but repaying loan by proxy)	35
C. In arrears	10
D. In default	5

2. Period in Program before Exiting (Micro Loan Product)

Period in program before exiting	% of exiting clients
Less than 6 months	15
6 months–12 months	63
13 months–24 months	17
25 months–36 months	3
37 months–48 months	2
More than 48 months	1

3. Main Reasons for Leaving the Program (Microloan Product)

Main reasons for exit	% of exiting clients
Collateral conditions (compulsory savings requirement too high upfront)	55
Repayment terms (length of loan term too long)	30
Repayment terms (frequency of repayment too high)	25
Need emergency loan for school fees	15
Business problems	12
Personal problems	4

Note: Totals greater than 100 percent due to clients not limited to one answer

4. Are They Gone Forever?

Are they gone forever?	% of exiting clients
Those who would like to rejoin if their business/personal situation changes	4
Those who would like to rejoin if changes are made to terms and conditions	80
Those who would not rejoin	13
Those who do not know	3

Product Specification Sheet: Credit Product

Product characteristics	Credit product
1. Product name	
2. Purpose/focus ▪ Loan use ▪ Client profile ▪ Location(s)	
3. Amount ▪ Minimum loan amount ▪ Maximum loan amount ▪ Average loan amount	
4. Preconditions ***Collateral requirements (including compulsory savings)*** ▪ Collateral type ▪ Control of collateral ▪ Collate ral amount ▪ Collateral basis (flat amount, % of loan, % of payment) ▪ Collateral payment timing ▪ Collateral payment frequency ▪ Interest rate on collateral ▪ Interest rate method on collateral ▪ (Savings) collateral set in reserve % ▪ Interest on reserve % ▪ Indexing of collateral ***Other Requirements*** ▪ Grou p membership	
5. Pricing ▪ Interes t rate ▪ Interest rate method ▪ Commissions and fees – timing/frequency: up-front, ongoing – basis: fixed amount or % of loan amount, or % of monthly principal payments ▪ Index to external value ▪ Loans in foreign currency ▪ Loans indexed to inflation rate ▪ Penalties	
6. Disbursement ▪ Loan disbursement timing ▪ Wait period between loans	
7. Repayment conditions ▪ Rep ayment frequency ▪ Effective loan term ▪ G race period	

Product Specification Sheet: Savings Product

Product characteristics	Savings product
1. Product name	
2. Purpose/focus ▪ Savings use ▪ Client profile ▪ Location(s)	
3. Amount ▪ Minimum balance ▪ Minimum deposit amount ▪ Maximum deposit ▪ Minimum withdrawal ▪ Maximum withdrawal	
4. Preconditions ▪ Openi ng balance ▪ Minimum balance ▪ Average balance to maintain account ▪ Basis for calculating average balance (daily, monthly, etc) ▪ Calculation method for average balance ▪ Min/max deposit ▪ Min/max withdrawal ▪ Depos it frequency ▪ Withdrawal frequency	
5. Pricing ▪ Interes t rate ▪ Interest rate method ▪ Commissions and fees – timing/frequency: up-front, ongoing – basi s ▪ Index to external value ▪ Penalties	

Case Study

Case Study Part 5B: Focus Group Transcript

Later that week, Ben sent the following e-mail to the General:

```
Date: Mon, 5 February, 2001 17:53:04
X-Sender: Moonman@unibank.com
Mime-Version: 1.0
To: ED@ unibank.com
From: moonman@ unibank.com (Ben Moona)
Subject: New Products ready for piloting
Status: RO
---------------------------------------------------------------
Our product development team has designed two products, which we
would like to begin pilot-testing next week at Tatano branch.
Please see the attached product specification sheets (one for
each product) and advise if we may go ahead with the pilot test.
---------------------------------------------------------------
```

Within 15 minutes, he had his reply. He almost choked on his tea as he read her curt message:

```
Date: Mon, 5 February, 2001 17:53:04
Mime-Version: 1.0
To: moonman@ unibank.com
From: ED@ unibank.com (Rila Berr)
Subject: New Products ready for piloting
Status: RO
---------------------------------------------------------------
Ben, Please please please slow down!

Before you pilot-test these products, I think it would be useful
for you to take them back to the focus groups to get their
reaction. You may find you have missed something.
---------------------------------------------------------------
```

Back to square one, thought Ben, but he knew th e General was t aking no chances. He thought Shaki would be the best man for the pilot-testing job and he asked him to do it.

A week later, Shaki sent the summary notes from the focus group discussion.

MEMORANDUM

TO: Ben

FROM: Shaki

SUBJECT: Summary Notes: Tatano Focus Group Discussion 3

There were 12 members of the focus group (7 women, 4 men).

Half of the members were existing UNIbank clients, the other half were interested community members.

Re: Credit

Most nonclients (70 percent) said they would prefer smaller loans (under A$300) with shorter terms, because it would be easier for them to repay. Most existing clients (85 percent) said loans that ranged from A$100 to A$1,000 on a graduated basis would be preferable.

Many (75 percent) said there should be a grace period for loans for fixed assets of at least one month and sometimes even up to three months.

Several clients (four) said weekly repayments were too frequent. They suggested monthly repayments.

Five members suggested biweekly repayments to keep the repayment amount as low as possible.

One client said the interest rate on loans should be as low as possible.

One member asked when the new products were going to be ready. She said she is tired of waiting.

Re: Savings

There was a lot of interest in having a savings product. Members said that the terms would have to be better than Citizen's Bank, where some of them already keep their savings.

Almost all agreed that access to their savings would be very important. They would need to be able to make deposits any time and make withdrawals at least once a week.

Half the members said the opening balance should not be higher than A$15. The others said the opening balance should not be higher than A$20.

There was consensus that there should be no minimum deposit amount.

Case Study

Case Study Part 6: Costing Information for UNIbank

Ben was hungry. He wandered over to the tea area to see what he could find. Nora sometimes stocked the tea table with biscuits and cakes. Today, he saw someone had left two large bunches of bananas. One bunch had a label marked "Mindi Bananas," the other read "Tatano Bananas." He carefu lly broke off a Tatano banana and headed into the Finance office to say hello to John Peppa. He was glad he had finally included John on his product development team. Today he desperately needed his expertise.

"Hey, John, how's it going?" he asked as he peeled his banana and took a bite. "By the way," he continued, "I need some help from you number-crunchers."

"Shoot," John replied in his usual to-the-point manner.

Ben polished off the Tatano banana: "I'm not sure how to cost our new products and I thought you could provide some insight."

John lit up with the challenge. He opened his file cabinet and pulled out a file labeled "ABC." He selected nine pages from the file and, handing them to Ben, said, "We've been using an activities-based costing approach. Check out these worksheets on the costing of our two existing products. Once you understand how much it costs to deliver our current set of products, it will be easier to estimate costs for the new products. Just follow the instructions on the worksheets. It's pretty self-explanatory."

"Thanks for the extra work, John," Ben mumbled under his breath as he headed back to his own office to begin working through the costing worksheets.

Later that day, he had estimated the costs of the two new products using John's ABC worksheets and was eager to share his findings with the team. He noted a few main points to remember for the meeting, and jotted them down in his diary:

- **Has our home loan product been subsidizing our microloans product?**
- **Do we need to trim transaction costs for the new credit product?**
- **How can we get data on activities for our new savings product?**

RESULTS OF UNIBANK'S ABC EXERCISE: Staff & Non-Staff Costs

STAFF COSTS (Salaries & Benefits)				
BRANCHES	**COST/Mth**	**# Staff**	**Total/Month**	**Total/Year**
Branch Supervisor	300	12	**3,600**	**43,200**
Loan Officer	200	200	**40,000**	**480,000**
Teller	200	20	**4,000**	**48,000**
Cashier	100	12	**1,200**	**14,400**
Total Branches		**244**	**48,800**	**585,600**
HEAD OFFICE				
Executive Director	600	1	**600**	**7,200**
Finance Manager	500	1	**500**	**6,000**
Operations Manager	400	1	**400**	**4,800**
Head of MIS	350	1	**350**	**4,200**
Head of Personnel	350	1	**350**	**4,200**
Accountant	200	2	**400**	**4,800**
Support Staff	100	3	**300**	**3,600**
Total Head Office		**10**	**2,900**	**34,800**
Total Branches + Head Office		**254**	**51,700**	**620,400**

NON-STAFF COSTS (See Income & Expense Statement for details)	
	Total/Year
BRANCHES	**400,000**
HEAD OFFICE	**224,000**
Total Branches + Head Office	**624,000**
TOTAL OPERATING COSTS (Staff + Non-Staff Costs)	**1,244,400**

RESULTS OF UNIBANK'S ABC EXERCISE: Activities Dictionary

CORE PROCESSES & ACTIVITIES	
Core Processes	**Activities**
Making Loans	Answer client questions/advise
	Accept loan application
	Review and approve loan application
	Perform general loan disbursement admin
Servicing Existing Loans	Follow up with delinquent clients
	Track repayments and delinquency
	Perform portfolio analysis
	Perform general loan administration
Handling Cash Transactions	Collect and record cash in
	Disburse and record cash out
	Perform general cash administration
Sustaining Activities	Engage in general marketing and promotion
	Maintain donor/investor relations
	Perform general accounting and reporting
	Recruit, train and pay staff
	Maintain information technology
	Perform general administration

RESULTS OF UNIBANK'S ABC EXERCISE: BRANCH Staff Time Estimates (Monthly)

BRANCH STAFF time in Hours per Month (Average Hours per Month per Employee Type)		Branch Supervisor		Loan Officers		Teller		Cashier	
Core Processes	**Activities**	Hours	%	Hours	%	Hours	%	Hours	%
Making Loans	Answer client questions/advise	0.0	0.0%	43.0	25.0%	43.0	25.0%	8.6	5.0%
	Accept loan application	0.0	0.0%	17.2	10.0%	17.2	10.0%	0.0	0.0%
	Review and approve loan application	51.6	30.0%	25.8	15.0%	25.8	15.0%	0.0	0.0%
	Perform general loan disbursement admin	25.8	15.0%	17.2	10.0%	17.2	10.0%	0.0	0.0%
	All Activities	77.4	45.0%	103.2	60.0%	103.2	60.0%	8.6	5.0%
Servicing Existing Loans	Follow up with delinquent clients	0.0	0.0%	34.4	20.0%	34.4	20.0%	0.0	0.0%
	Track repayments and delinquency	8.6	5.0%	17.2	10.0%	17.2	10.0%	17.2	10.0%
	Perform portfolio analysis	8.6	5.0%	8.6	5.0%	8.6	5.0%	8.6	5.0%
	Perform general loan administration	8.6	5.0%	0.0	0.0%	0.0	0.0%	8.6	5.0%
	All Activities	25.8	15.0%	60.2	35.0%	60.2	35.0%	34.4	20.0%
Handling Cash Transactions	Collect and record cash in	0.0	0.0%	0.0	0.0%	0.0	0.0%	34.4	20.0%
	Disburse and record cash out	0.0	0.0%	0.0	0.0%	0.0	0.0%	34.4	20.0%
	Perform general cash administration	0.0	0.0%	0.0	0.0%	0.0	0.0%	34.4	20.0%
	All Activities	0.0	0.0%	0.0	0.0%	0.0	0.0%	103.2	60.0%
Sustaining Activities	Engage in general marketing and promotion	8.6	5.0%	8.6	5.0%	8.6	5.0%	8.6	5.0%
	Maintain donor/investor relations	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Perform general accounting and reporting	34.4	20.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Recruit, train and pay staff	17.2	10.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Maintain information technology	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Perform general administration	8.6	5.0%	0.0	0.0%	0.0	0.0%	17.2	10.0%
	All Activities	68.8	40.0%	8.6	5.0%	8.6	5.0%	25.8	15.0%
All Processes	**All Activities**	172.0	100%	172.0	100%	172.0	100%	172.0	100%

RESULTS OF UNIBANK'S ABC EXERCISE: HEAD OFFICE Staff Time Estimates (Monthly)

HEAD OFFICE STAFF time in Hours per Month (Average Hours per Month per Employee Type)		Executive Director		Finance Manager		Operations Manager		Head of MIS		Head of Personnel		Accountant		Support Staff	
Core Processes	**Activities**	Hours	**%**	Hours	**%**	Hours	**%**	Hours	**%**	Hours	**%**	Hours	**%**	Hours	**%**
Making Loans	Answer client questions/advise	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Accept loan application	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Review and approve loan application	25.8	15.0%	8.6	5.0%	25.8	15.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Perform general loan disbursement admir	0.0	0.0%	0.0	0.0%	8.6	5.0%	0.0	0.0%	0.0	0.0%	8.6	5.0%	0.0	0.0%
	All Activities	25.8	15.0%	8.6	5.0%	34.4	20.0%	0.0	0.0%	0.0	0.0%	8.6	5.0%	0.0	0.0%
Servicing Existing Loans	Follow up with delinquent clients	0.0	0.0%	8.6	5.0%	25.8	15.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	8.6	5.0%
	Track repayments and delinquency	0.0	0.0%	17.2	10.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	8.6	5.0%
	Perform portfolio analysis	25.8	15.0%	34.4	20.0%	43.0	25.0%	43.0	25.0%	8.6	5.0%	0.0	0.0%	8.6	5.0%
	Perform general loan administration	0.0	0.0%	25.8	15.0%	17.2	10.0%	0.0	0.0%	0.0	0.0%	17.2	10.0%	8.6	5.0%
	All Activities	25.8	15.0%	86.0	50.0%	86.0	50.0%	43.0	25.0%	8.6	5.0%	17.2	10.0%	34.4	20.0%
Handling Cash Transactions	Collect and record cash in	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	25.8	15.0%	0.0	0.0%
	Disburse and record cash out	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	25.8	15.0%	0.0	0.0%
	Perform general cash administration	25.8	15.0%	21.5	12.5%	17.2	10.0%	0.0	0.0%	0.0	0.0%	64.5	37.5%	43.0	25.0%
	All Activities	25.8	15.0%	21.5	12.5%	17.2	10.0%	0.0	0.0%	0.0	0.0%	116.1	67.5%	43.0	25.0%
Sustaining Activities	Engage in general marketing and promoti	43.0	25.0%	8.6	5.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Maintain donor/investor relations	43.0	25.0%	8.6	5.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	Perform general accounting and reporting	0.0	0.0%	8.6	5.0%	34.4	20.0%	0.0	0.0%	34.4	20.0%	30.1	17.5%	8.6	5.0%
	Recruit, train and pay staff	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	86.0	50.0%	0.0	0.0%	17.2	10.0%
	Maintain information technology	0.0	0.0%	0.0	0.0%	0.0	0.0%	129.0	75.0%	0.0	0.0%	0.0	0.0%	17.2	10.0%
	Perform general administration	8.6	5.0%	30.1	17.5%	0.0	0.0%	0.0	0.0%	43.0	25.0%	0.0	0.0%	51.6	30.0%
	All Activities	94.6	55.0%	55.9	32.5%	34.4	20.0%	129.0	75.0%	163.4	95.0%	30.1	17.5%	94.6	55.0%
All Processes	**All Activities**	**172.0**	**100%**	**172.0**	**100%**	**172.0**	**100%**	**172.0**	**100%**	**172.0**	**100%**	**172.0**	**100%**	**172.0**	**100%**

RESULTS OF UNIBANK'S ABC EXERCISE: BRANCH COSTS PER ACTIVITY

Allocate non-staff costs in proportion to total staff time spent on each activity

BRANCH STAFF & NON-STAFF COSTS BY ACTIVITY		BRANCH STAFF COSTS						BRANCH NON-STAFF COSTS			
Core Processes	**Activities**	Branch Supervisor	Loan Officer	Teller	Cashier	**MONTHLY TOTAL**	**ANNUAL TOTAL**	Total Branch Time in Hours	Total Branch Time as % of Total Hours	Total Branch Non-Staff Costs	**BRANCH TOTAL ALL COSTS**
Making Loans	Answer client questions/advise	-	10,000.0	1,000.0	60.0	11,060.0	132,720.0	9,563.2	22.8%	91,147.5	223,867.5
	Accept loan application	-	4,000.0	400.0	-	4,400.0	52,800.0	3,784.0	9.0%	36,065.6	88,865.6
	Review and approve loan application	1,080.0	6,000.0	600.0	-	7,680.0	92,160.0	6,295.2	15.0%	60,000.0	152,160.0
	Perform general loan disbursement admin	540.0	4,000.0	400.0	-	4,940.0	59,280.0	4,093.6	9.8%	39,016.4	98,296.4
	All Activities	1,620.0	24,000.0	2,400.0	60.0	28,080.0	336,960.0	23,736.0	56.6%	226,229.5	563,189.5
Servicing Existing Loans	Follow up with delinquent clients	-	8,000.0	800.0	-	8,800.0	105,600.0	7,568.0	18.0%	72,131.1	177,731.1
	Track repayments and delinquency	180.0	4,000.0	400.0	120.0	4,700.0	56,400.0	4,093.6	9.8%	39,016.4	95,416.4
	Perform portfolio analysis	180.0	2,000.0	200.0	60.0	2,440.0	29,280.0	2,098.4	5.0%	20,000.0	49,280.0
	Perform general loan administration	180.0	-	-	60.0	240.0	2,880.0	206.4	0.5%	1,967.2	4,847.2
	All Activities	540.0	14,000.0	1,400.0	240.0	16,180.0	194,160.0	13,966.4	33.3%	133,114.8	327,274.8
Handling Cash Transactions	Collect and record cash in	-	-	-	240.0	240.0	2,880.0	412.8	1.0%	3,934.4	6,814.4
	Disburse and record cash out	-	-	-	240.0	240.0	2,880.0	412.8	1.0%	3,934.4	6,814.4
	Perform general cash administration	-	-	-	240.0	240.0	2,880.0	412.8	1.0%	3,934.4	6,814.4
	All Activities	-	-	-	720.0	720.0	8,640.0	1,238.4	3.0%	11,803.3	20,443.3
Sustaining Activities	Engage in general marketing and promotion	180.0	2,000.0	200.0	60.0	2,440.0	29,280.0	2,098.4	5.0%	20,000.0	49,280.0
	Maintain donor/investor relations	-	-	-	-	-	-	-	0.0%	-	-
	Perform general accounting and reporting	720.0	-	-	-	720.0	8,640.0	412.8	1.0%	3,934.4	12,574.4
	Recruit, train and pay staff	360.0	-	-	-	360.0	4,320.0	206.4	0.5%	1,967.2	6,287.2
	Maintain information technology	-	-	-	-	-	-	-	0.0%	-	-
	Perform general administration	180.0	-	-	120.0	300.0	3,600.0	309.6	0.7%	2,950.8	6,550.8
	All Activities	1,440.0	2,000.0	200.0	180.0	3,820.0	45,840.0	3,027.2	7.2%	28,852.5	74,692.5
All Processes	**All Activities**	**3,600.0**	**40,000.0**	**4,000.0**	**1,200.0**	**48,800.0**	**585,600.0**	**41,968**	**100%**	**400,000.0**	**985,600.0**

Interpret Cost of Tellers to Answer client questions/advise per month:

20 Tellers x $200 (teller monthly salary) x 25% (percentage of teller time spent on this activity) = $ 1,000

NOTE: Total Branch Non-Staff costs ($400.00) come from Income Statement and allocated in proportion to total Staff Time spent on each activity.

RESULTS OF UNIBANK'S ABC EXERCISE: HEAD OFFICE COSTS PER ACTIVITY

Allocate non-staff costs in proportion to total staff time spent on each activity

HEAD OFFICE STAFF & NON-STAFF COSTS BY ACTIVITY		HEAD OFFICE STAFF COSTS									HEAD OFFICE NON-STAFF COSTS			
Core Processes	**Activities**	Executive Director	Finance Manager	Operations Manager	Head of MIS	Head of Personnel	Accountant	Support Staff	**MONTHLY TOTAL**	**ANNUAL TOTAL**	Total H.O. Time in Hours	Total H.O Time as % of Total Hours	Total H.O Non-Staff Costs	**H.O. TOTAL ALL COSTS**
Making Loans	Answer client questions/advise	-	-	-	-	-	-	-	-	-			-	-
	Accept loan application	-	-	-	-	-	-	-	-	-			-	-
	Review and approve loan application	90.0	25.0	60.0	-	-	-	-	175.0	2,100.0	60	3.5%	7,840.0	9,940.0
	Perform general loan disbursement admin	-	-	20.0	-	-	20.0	-	40.0	480.0	26	1.5%	3,360.0	3,840.0
	All Activities	90.0	25.0	80.0	-	-	20.0	-	215.0	2,580.0	86	5.0%	11,200.0	13,780.0
Servicing Existing Loans	Follow up with delinquent clients	-	25.0	60.0	-	-	-	15.0	100.0	1,200.0	60	3.5%	7,840.0	9,040.0
	Track repayments and delinquency	-	50.0	-	-	-	-	15.0	65.0	780.0	43	2.5%	5,600.0	6,380.0
	Perform portfolio analysis	90.0	100.0	100.0	87.5	17.5	-	15.0	410.0	4,920.0	181	10.5%	23,520.0	28,440.0
	Perform general loan administration	-	75.0	40.0	-	-	40.0	15.0	170.0	2,040.0	103	6.0%	13,440.0	15,480.0
	All Activities	90.0	250.0	200.0	87.5	17.5	40.0	60.0	745.0	8,940.0	387	22.5%	50,400.0	59,340.0
Handling Cash Transactions	Collect and record cash in	-	-	-	-	-	60.0	-	60.0	720.0	52	3.0%	6,720.0	7,440.0
	Disburse and record cash out	-	-	-	-	-	60.0	-	60.0	720.0	52	3.0%	6,720.0	7,440.0
	Perform general cash administration	90.0	62.5	40.0	-	-	150.0	75.0	417.5	5,010.0	323	18.8%	42,000.0	47,010.0
	All Activities	90.0	62.5	40.0	-	-	270.0	75.0	537.5	6,450.0	426	24.8%	55,440.0	61,890.0
Sustaining Activities	Engage in general marketing and promotion	150.0	25.0	-	-	-	-	-	175.0	2,100.0	52	3.0%	6,720.0	8,820.0
	Maintain donor/investor relations	150.0	25.0	-	-	-	-	-	175.0	2,100.0	52	3.0%	6,720.0	8,820.0
	Perform general accounting and reporting	-	25.0	80.0	-	70.0	70.0	15.0	260.0	3,120.0	163	9.5%	21,280.0	24,400.0
	Recruit, train and pay staff	-	-	-	-	175.0	-	30.0	205.0	2,460.0	138	8.0%	17,920.0	20,380.0
	Maintain information technology	-	-	-	262.5	-	-	30.0	292.5	3,510.0	181	10.5%	23,520.0	27,030.0
	Perform general administration	30.0	87.5	-	-	87.5	-	90.0	295.0	3,540.0	237	13.8%	30,800.0	34,340.0
	All Activities	330.0	162.5	80.0	262.5	332.5	70.0	165.0	1,402.5	16,830.0	821	47.8%	106,960.0	123,790.0
All Processes	**All Activities**	**600.0**	**500.0**	**400.0**	**350.0**	**350.0**	**400.0**	**300.0**	**2,900.0**	**34,800.0**	**1,720**	**100%**	**224,000.0**	**258,800.0**

NOTE: Total Head Office Non-Staff costs ($224.00) come from Income Statement and allocated in proportion to total Staff Time spent on each activity.

RESULTS OF UNIBANK'S ABC EXERCISE:

TOTAL (BRANCH + HEAD OFFICE) COSTS PER ACTIVITY

STAFF & NON-STAFF COSTS BY ACTIVITY		TOTAL BRANCH + H.0. ANNUAL		
Core Processes	**Activities**	**ALL STAFF COSTS**	**ALL NON-STAFF COSTS**	**ALL COSTS**
Making Loans	Answer client questions/advise	**132,720.0**	**91,147.5**	**223,867.5**
	Accept loan application	**52,800.0**	**36,065.6**	**88,865.6**
	Review and approve loan application	**94,260.0**	**67,840.0**	**162,100.0**
	Perform general loan disbursement a	**59,760.0**	**42,376.4**	**102,136.4**
	All Activities	**339,540.0**	**237,429.5**	**576,969.5**
Servicing Existing Loans	Follow up with delinquent clients	**106,800.0**	**79,971.1**	**186,771.1**
	Track repayments and delinquency	**57,180.0**	**44,616.4**	**101,796.4**
	Perform portfolio analysis	**34,200.0**	**43,520.0**	**77,720.0**
	Perform general loan administration	**4,920.0**	**15,407.2**	**20,327.2**
	All Activities	**203,100.0**	**183,514.8**	**386,614.8**
Handling Cash Transactions	Collect and record cash in	**3,600.0**	**10,654.4**	**14,254.4**
	Disburse and record cash out	**3,600.0**	**10,654.4**	**14,254.4**
	Perform general cash administration	**7,890.0**	**45,934.4**	**53,824.4**
	All Activities	**15,090.0**	**67,243.3**	**82,333.3**
Sustaining Activities	Engage in general marketing and prc	**31,380.0**	**26,720.0**	**58,100.0**
	Maintain donor/investor relations	**2,100.0**	**6,720.0**	**8,820.0**
	Perform general accounting and repc	**11,760.0**	**25,214.4**	**36,974.4**
	Recruit, train and pay staff	**6,780.0**	**19,887.2**	**26,667.2**
	Maintain information technology	**3,510.0**	**23,520.0**	**27,030.0**
	Perform general administration	**7,140.0**	**33,750.8**	**40,890.8**
	All Activities	**62,670.0**	**135,812.5**	**198,482.5**
All Processes	**All Activities**	**620,400.0**	**624,000.0**	**1,244,400.0**

NOTE: Totals match UNIbank Income Statement

RESULTS OF UNIBANK'S ABC EXERCISE: UNIT COSTS

Assign Cost Drivers & Determine Unit Activity Costs

Core Processes	Activities	Total Annual Activity Cost	Cost Drivers	Driver Volume per Month	Unit Cost
Making Loans	Answer client questions/advise	223,867.5	# Loan Applications	3,200	5.83
	Accept loan application	88,865.6	# Loan Applications	3,200	2.31
	Review and approve loan application	162,100.0	# Loan Applications	3,200	4.22
	Perform general loan disbursement	102,136.4	# Approved Loan Applications	3,000	2.84
Servicing Existing Loans	Follow up with delinquent clients	186,771.1	# Delinquent clients	3,000	5.19
	Track repayments and delinquency	101,796.4	# Delinquent clients	3,000	2.83
	Perform portfolio analysis	77,720.0	# Outstanding loans	39,000	0.17
	Perform general loan administration	20,327.2	# Outstanding loans	39,000	0.04
Handling Cash Transactions	Collect and record cash in	14,254.4	# Cash Receipt Journal Entries	39,000	0.03
	Disburse and record cash out	14,254.4	# Cash Disbursement Journal Entries	3,000	0.40
	Perform general cash administration	53,824.4	# Total Cash Transaction Journal Entries	42,000	0.11
Sustaining Activities	Engage in general marketing	58,100.0		1	4841.67
	Maintain donor/investor relations	8,820.0		1	735.00
	Perform general accounting	36,974.4		1	3081.20
	Recruit, train and pay staff	26,667.2		1	2222.27
	Maintain information technology	27,030.0		1	2252.50
	Perform general administration	40,890.8		1	3407.57

Note: Total Annual Activity Cost /12/Cost Driver Volume per Month = Unit Cost

Interpret Unit Cost: Cost per Loan Application of Answering Client Questions/Advise = $5.83

RESULTS OF UNIBANK'S ABC EXERCISE: PRODUCT COSTS

Product Costs Drive Unit Costs to products			**Micro Loans**			**Housing Loans**		
			Avg Portfolio Balance->		2,500,000	Avg Portfolio Balance->		2,829,500
Core Processes	**Activities**	**Cost Drivers per month**	Driver Volume	Monthly Cost	% of Avg Balance	Driver Volume	Monthly Cost	% of Avg Balance
Making Loans	Answer client questions/advise	# Loan Applications	2,900	16,907	8.1%	300	1,749	0.7%
	Accept loan application	# Loan Applications	2,900	6,711	3.2%	300	694	0.3%
	Review and approve loan application	# Loan Applications	2,900	12,242	5.9%	300	1,266	0.5%
	Perform general loan disbursement admin	# Approved Loan Applications	2,800	7,944	3.8%	200	567	0.2%
	All Activities			43,804	21.0%		4,277	1.8%
Servicing Existing Loans	Follow up with delinquent clients	# Delinquent clients	2,700	14,008	6.7%	300	1,556	0.7%
	Track repayments and delinquency	# Delinquent clients	2,700	7,635	3.7%	300	848	0.4%
	Perform portfolio analysis	# Outstanding loans	36,000	5,978	2.9%	3,000	498	0.2%
	Perform general loan administration	# Outstanding loans	36,000	1,564	0.8%	3,000	130	0.1%
	All Activities			29,185	14.0%		3,033	1.3%
Handling Cash	Collect and record cash in	# Cash Receipt Journal Entries	36,000	1,096	0.5%	3,000	91	0.0%
	Disburse and record cash out	# Cash Disbursement Journal Entries	2,800	1,109	0.5%	200	79	0.0%
	Perform general cash administration	# Total Cash Transaction Journal Entries	38,800	4,144	2.0%	3,200	342	0.1%
	All Activities			6,349	3.0%		512	0.2%
Sustaining Activities	Engage in general marketing and promotion	Equal	50.0%	2,421	1.2%	50.0%	2,421	1.0%
	Maintain donor/investor relations	Equal	50.0%	368	0.2%	50.0%	368	0.2%
	Perform general accounting and reporting	Number of Accounts	92.3%	2,844	1.4%	7.7%	237	0.1%
	Recruit, train and pay staff	ABC	91.0%	2,023	1.0%	9.0%	199	0.1%
	Maintain information technology	Number of Accounts	92.3%	2,079	1.0%	7.7%	173	0.1%
	Perform general administration	ABC	91.0%	3,102	1.5%	9.0%	306	0.1%
	All Activities			12,836	6.2%		3,704	1.6%
All Processes	**All Activities**			**92,173**	**44.2%**		**11,527**	**4.9%**

NOTES: Total monthly cost = 92,173 + 11,527 + 103,700
Total annual cost = 103,400 x 12 = 1,244,400 (matches UNIbank Income Statement)
For each activity, total driver volume for all products = total driver volume as defined on Unit Cost sheet;
i.e., for answer questions/advise: micro loans driver volume of 2,900 + housing loans driver volume of 300 = total driver volume of 3,200

Case Study

Case Study Part 7A: "The Price is Right"

It was 7:00 p.m. and everyone was tired. Ben and his team sat around his office desk, arguing.

Ben had staged a mock auction of all the items on his desk to illustrate some of the issues involved in pricing. The team had then spent all afternoon debating the pricing of their two new products. They had all been particularly interested in the financial services ranking that had been carried out as part of the PRA market research activities over the past few months. It gave them some idea of what clients might be willing to pay for their two new products.

Shaki, the Tatano branch manager, had argued strongly for keeping the credit product interest rate as low as possible to retain clients. He was also in favor of cutting fees, which he said were viewed suspiciously by clients as "UNIbank's hidden interest." His final price for the credit product was an interest rate of 30 percent with no fees or commissions. For the savings product, he recommended only a A$0.25 fee on each transaction. He said they could consider additional fees later, but that they should launch the new savings product as cheaply as possible to entice clients to open accounts.

Arthur, the regional manager, agreed with Shaki on most issues, but thought a fixed loan fee of A$8 would be appropriate.

John Peppa kept pounding on the issue of UNIbank sustainability. For the credit product, he was in favor of charging the maximum allowable interest rate as defined by the banking regulations (five points above the prime lending rate of 28 percent on the declining balance), a client registration fee of A$10 and a loan origination fee of 5 percent on the loan amount requested. For the savings product, he favored a transaction fee of A$1, to be charged only on withdrawal transactions. This, would encourage clients to deposit and discourage them from withdrawing their savings. He reminded the group that UNIbank's concessional line of credit from Arima National Bank was costing it 22 percent per annum in interest, but that the bank had waived bank fees for the next three years.

Ben tended to agree with John, but argued to maintain the current interest rate of 32 percent on the declining balance for the credit product and to add a loan fee of 1 percent on the loans. For the savings product, he thought the paperwork of a per-transaction fee would overburden the branch staff and actually increase both teller and cashier costs. He argued for a flat account-opening fee of A$5 and a flat monthly fee of A$5.

Then suddenly, without a word to any one, Mary, the MIS coordinator, ran out of the room. Everyone wondered where she had gone. She returned 10 minutes later, slightly out of breath, and handed a sheet of paper to each person. It was entitled "1999 Arima Interest Rates Survey," and contained a listing of all the interest rates charged by all the financial service providers in the country. "This might help us make some final decisions," she said.

1999 Arima Interest Rates Survey

Institution	Type of institution	Loans: Interest rate (%)	Loans: Fees	Savings: Interest rate (%)	Savings: Fees
Arima National Bank	Commercial bank	33 (declining balance)	▪ Loan fee: 20% of loan amount ▪ Ledger fee: monthly flat fee A$5	8	▪ Account opening fee: A$20 flat ▪ Transaction monthly fee: 1% on average monthly savings balance under A$500
People's Bank	Commercial bank	32 (declining balance)	▪ Loan fee: 12% of loan amount ▪ Ledger fee: monthly flat fee A$8	8	▪ Account opening fee: A$25 flat ▪ Transaction quarterly fee: 1% on average monthly balance
UNIbank	Nonbank financial institution	32 (declining balance)	▪ Loan fee: 2% of loan amount	N/A—no savings products offered	▪ N/A—no savings product offered
ABCO (NGO)	NGO	25 (declining balance)	▪ Loan fee: 5% of loan amount	9	▪ Account opening fee: A$15 flat ▪ Transaction fee: withdrawal fee of 1% of withdrawal amount
ACC (NGO)	NGO	45 (flat rate)	▪ Loan fee: A$10 flat amount	N/A—no savings products offered	▪ N/A—no savings product offered
Greedi Group	Cooperative society	31 (declining balance)	▪ Loan fee: 10% of loan amount	5	▪ Account opening fee: A$20 flat ▪ Transaction fee: Flat monthly fee of A$10
Citizen Self Help Society	Cooperative society	23 (declining balance)	▪ None	10	▪ None

Case Study Part 7B: Price Sensitivity Survey

ARIMA Microfinance Network Price Survey–UNIBank

Price sensitivity research results: microloan product		**Proposed price-change A**		**Proposed price-change B**	
		1. Raise registration fee by 20% 2. No change in interest rate 3. New loan processing fee of 1%		1. Raise registration fee by 10% 2. Raise interest rate by 5% 3. New loan processing fee of 2%	
Cluster (by primary sensitivity)	Percent of sample (%)	Percent of cluster who would drop out (%)	# Clients in sample of 1,000 clients who would drop out	Percent of cluster who would drop out (%)	# Clients in sample of 1,000 clients who would drop out
Highly sensitive to all	26	7.3	18.98	0.7	1.85
Registration fee	21	8.4	17.64	0.6	1.30
Interest rate	8	1.5	1.20	0.8	0.67
Loan processing fee	11	1.2	1.32	0.7	0.81
Insensitive to all	34	0.6	2.04	0.5	1.67
100			**41.18**		**6.30**

Source: 2001 Micro Research Inc. survey of 1,000 UNIbank clients

Case Study Part 8: The Pilot Test

It was March 1. Ben Moona was preparing to meet with his product development team. He knew they still had quite a few steps to climb before they could begin testing their two new products. He thought about all the work that had gone into product development at UNIbank so far, and began jotting in his diary what he thought was left to do:

1. Include Lizzie on team for training input. Anyone else missing?
2. Develop test protocol

At that moment, before he could complete his list, the other members of the team showed up. Everyone greeted Ben and took seats around his desk. Ben kicked himself for forgetting to include Lizzy on the team but it was too late to call her now. They'd have to improvise on the training aspect until he could talk to her.

He pointed to a map showing UNIbank's branch outreach, and said, "We need to decide where we're going to pilot-test our two products. Any suggestions?"

Shaki said, "I vote for Tatano branch, since that's where we did our focus groups and the clients will be eager to see something happening."

Arthur, the regional manager, objected: "I think that's a bad choice. The road to Tatano is a nightmare right now and supervising the test will be difficult. Let's do it here at the Mindi 1 branch."

Shaki looked hurt. "Well, I'll be there to supervise," he said meekly.

Mary from MIS asked, "Can we afford to do it in two locations?"

The group spent the next two hours discussing the location of the test site, the number of clients to use in the test, the time required, and who would be responsible for what. By the end of the discussion, they had made the following decisions:

1. Test site locations: (1) Tatano branch, (2) Mindi 1 branch
2. Test timing: April 1–September 30 (six months) for both products
2. Documentation: regional manager to draft procedures for the products by March 15
3. Staff training: Two days for branch managers and credit officers from test locations (March 20–21)
4. Ben to work with Finance Office to finalize test budget
5. Ben to draft terms of reference for test and get the General's approval

Later that day, Ben drafted the test terms of reference and sent it off immediately to the General. He waited for her reply, hoping they could get started with the test immediately.

Ben had been lucky enough to get a copy of the MicroSave-Africa pilot-testing toolkit and his team had used it to methodically follow the steps outlined. They had decided to test both the new credit product and the new savings product at two branches. At the same time, the compulsory savings component of the existing credit product would be discontinued. Existing clients who fully repaid their loans would be eligible to use the new credit product loans and the new savings facility. In addition, both branches would try to increase their credit clients by 50 percent by attracting new clients. The new savings facility was expected to be used by both new and existing clients. The product development team estimated that a ratio of savings to credit of 6 to 1 could easily be achieved over an initial two years, and a ratio of 1 to 1 over the initial six-month testing period.

Ben was sure that all important areas had been covered; he ran through them quickly in his mind, checking them off one by one:

- Compose the pilot-test team
- Develop the testing protocol
- Define the objectives
- Model the financial projections
- Develop customer marketing materials
- Install systems
- Train staff

It was now May 30, and the pilot test had been running for two months. The initial one-month test evaluation had been successfully completed and no major glitches had been found. Ben sat down to read the results of the Month 2 test report, and soon his heart began pounding. Several serious problems had cropped up with the savings product at the Tatano branch. Actual voluntary savings balances at the end of Month 2 were only half of what had been projected. What had gone wrong? Had their savings estimates been too optimistic?

Because the compulsory savings was cut from the new credit product and because clients weren't saving at the level expected, the Tatano branch faced a serious liquidity crisis. It had more requests for loans than it could handle. Clients were waiting for loans but the branch didn't have the funds to lend!

Ben was in a state of panic—he couldn't remember seeing any savings projections and wondered if someone else on the team had them. A few hours later, he called an emergency team meeting. Arthur, the regional manager, had the projections and explained that he had based them on information received from John Peppa, the finance manager. The team reviewed the projections and it quickly became clear that there was a serious error that had been overlooked. Savings projections were for all 12 branches, while the credit projections were for the two pilot-test branches.

“This is John Peppa’s fault!” Arthur whined. “His information was unclear!”

“Well, he’s not even on the team, so what do you expect?” said Lizzie.

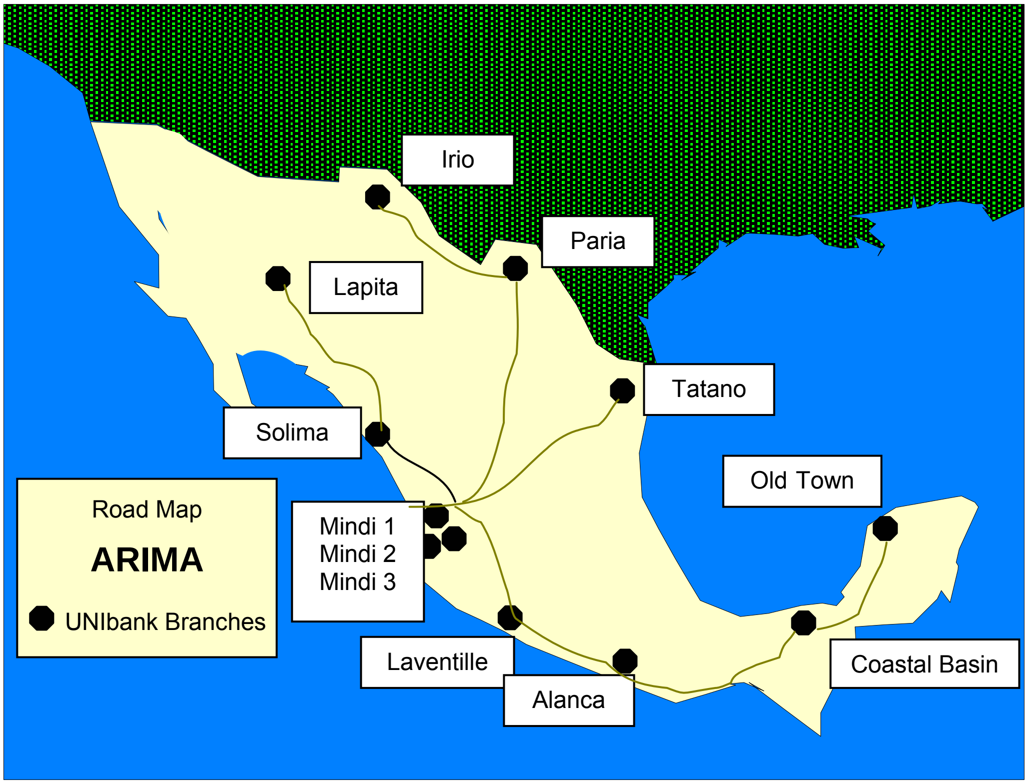
“We need to stop all loan disbursements until we can get the savings up,” Shaki said.

“That’s not a good idea. We should reinstate the compulsory savings,” someone else shouted. “Our new credit product is attracting clients—if we kill it now, we’ll lose those clients forever!”

“Well, where are we going to get the funds to lend?” Shaki shot back.

“Let’s review our testing objectives,” Ben tried to reason with them. “We may need to revise our objectives and maybe even the number of customers we plan to target.”

Map of UNIbank Branch Outreach



Case Study

Case Study Part 9: Rollout

Three members of the UNIbank board of directors and Rila Berr, its executive director, sat at the conference table as Ben and his team prepared to make their recommendations for product launching. Ben distributed copies of their formal recommendation report to everyone at the table and reflected for a few minutes while giving the five board members time to read the report. (Although he had already hand-delivered the report to each of them a few days ago, he knew they probably would not have read it.)

The pilot-test team had stayed late in the office throughout the previous week, reviewing the final test reports. Had their two new products met their objectives? They had argued their three options:

- Should they recommend terminating one or both products?
- Should they recommend continuing the test for either of the products?
- Should they recommend expanding to other market areas for one or both products?

It had been a serious discussion. A great deal of time, effort, and resources had gone into product development so far; they wanted to be sure they had covered everything.

Ben had explained that they shouldn't fear pushing the "terminate" button on either of the products if they felt it was a lost cause. Why throw more bananas into a sour soup? was the actual expression he had used, borrowing from an old Arima proverb.

He had also outlined the next steps they would need to take, should they decide to continue the test for either product, including redesigning the test protocol.

If they decided to launch either product, he said, they would need to develop a rollout plan, complete with revised financial projections.

Ben's reverie ended a few minutes later as Mr. Bodi, the chairman, cleared his throat and said, "I am most impressed with the work you have all put into this. But I must say I am a bit surprised at your decision to continue testing the savings product. Surely three months of testing is sufficient!"

Mrs. Atia, another board member, said, "We would like to see these products launched first in the Coastal Basin branch." Ben was not surprised—Mrs. Atia frequently visited the Coastal Basin branch when she was there visiting relatives.

Ben replied courteously, "Mr. Chairman, we are concerned about our branch capacity to handle the savings product and believe we need more time to train the staff and renovate our branches."

"Perhaps you should have thought of that in the beginning!" Mr. Bodi shot back.

Ben continued, "Mr. Chairman, as you have noted in our recommendation, we have run into a few other problems with the savings product, and we need time to review the policies and procedures for it."

A third board member, Mr. Jax, who had remained silent until now, said, "We have made promises to our shareholders and we need to show some results soon. The next shareholders' meeting is due two months from now, so you had better be rolling by then."

Case Study Part 10: Epilogue – The Loop

Six months had passed since the launch of the new products; Ben was in a good mood as he flipped through his day planner—it was almost 9:00 a.m., time for the monthly senior staff meeting. Then he began looking through the latest MIS reports lying in a pile on his desk. As he scanned the summary of client exits report, one item caught his eye.

The Irio branch client dropout rate had increased by 40 percent over the past six months. He also noticed that, over the same period, the Tatano branch dropout rate had decreased significantly. He read the regional manager's comments:

This is to draw your attention to the alarming increase in dropouts at Irio branch over the past six months. The exit interviews point to the following reasons:

- 70 percent of exiting clients say they need a bigger loan
- 30 percent of exiting clients say the loan term is too long
- 100 percent of exiting savings clients say they prefer ABCO's savings product

Ben sighed and glanced at the photo of Oscar, his nine-year-old son, situated prominently on his desk. "This is one weekend I won't be in the office," he promised himself and Oscar. Then he gathered up his files and headed down the hall to the meeting room with a confident stride. After all, it had been a difficult but educational year, and he felt proud to know the ropes.

The staff meeting started on time, and went like this:

THE END