MicroSave Briefing Note # 9

Key Questions That Should Precede New Product Development[1]

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Introduction

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 six essential questions to ask prior to setting about new product development.

1. *Motivation:* 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. The less convincing reasons for initiating product development include getting access to the growing plethora of "innovation funds" available from donors and the current interest in product development.

Effective product development is driven by an MFI's desire to become client responsive. 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/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 will ever make.

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

Under the prevalent top-down model that characterises most MFI's approach to product development, 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 roll-out of the new product. A top-down approach to product development can have expensive consequences – as many MFIs that have introduced products without following a systematic process have discovered. Problems have arisen in such diverse areas as:

- Limited demand for the new product (in some extreme cases, additional client drop-outs);
- Poor profitability of (or more specifically losses generated by) the new product;
- Management information systems unable to monitor/report on the new product; and
- Staff inadequately trained to market and deliver the new product.

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.

3. *Capacity:* 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, reviewing strategy, financial viability, organisational structure and philosophy, human resources, marketing and 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;
- Have the capacity to train all relevant staff; and
- Possess or have available staff and systems that can manage, implement, and develop the new product **before** significant funds are expended on the new product development process.

[1]Looking Before You Leap: Key Questions That Should Precede Starting New Product Development, available on ***MicroSave's*** website **www.microsave.org** under the Study Programme section.
For more on the product development process see Wright, Graham A.N., "Market Research and Client Responsive Product Development", ***MicroSave***, 2001 – available on ***MicroSave's*** website: www.***MicroSave***.org under the Study Programme section.

4.*Cost Effectiveness and Profitability:* Do we fully understand the cost structure of our products?
In view of increasing professionalism of MFIs and the competition in the MFI market place, 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 straight-forward exercise which provides the MFI with a wealth of information, while more complex activity based costing provides additional information on how and why costs are incurred.

5. *Simplicity:* Can we refine, repackage and re-launch 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 re-launching their existing products.

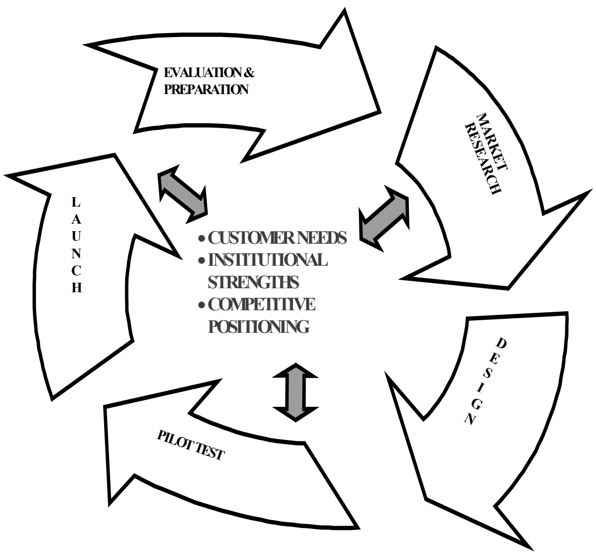
Product refinement is considerably less expensive, time-consuming and disruptive than new product development. Opportunities for product refinement can arise from *both* the front- and back-office aspects of the existing product. In the front-office, the way staff talk about, and market, a product can yield valuable benefits. In the back-office, increasing the efficiency of the staff or systems can have a significant effect on the demand for the product and the retention of clients. Re-engineering back-office systems is as much of an innovation as developing a new product, a fact that should be clear to those administering donors' innovation funds.

6. *Complexity, and Cannibalisation*[2]: Are we falling into the product proliferation trap?
Product proliferation is increasingly common amongst 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 products. A multitude of products often results in:

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

MFIs Cannot Do Everything! When evaluating the diverse needs of clients, the MFI should recognise 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. One product can be marketed in many different ways to meet a variety of clients' needs.

Systematic Product Development Process



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. Nonetheless, those MFIs committed to being market leaders and to responding to their clients must indeed conduct product development. More client-responsive products will reduce drop-outs, attract increasing numbers of new clients and contribute substantially to the long-term sustainability of the MFI.

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

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