The MBP Guide to New Product Development
The MBP Guide to New Product Development

by

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ACCIÓN International

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ACKNOWLEDGMENTS

This guide, originally developed in early 2000, has been substantially revised based on field tests with four very distinct microfinance institutions (MFIs) at very different stages of development—Kenya Post Office Savings Bank (Kenya), BancoSol (Bolivia), Pro Mujer (Peru), and Pro Mujer (Nicaragua). These pilots were particularly rich tests of the guide, not only because of their institutional differences but because of the very distinct markets within which they operated—from near-monopoly to oversaturated. In addition to these “formal” pilot tests, the author received feedback from practitioners who are part of ACCION International’s network in Latin America as well as MFIs from western Africa, Kenya, and the Philippines where she conducted training and presented this guide. To all these practitioners, the author offers heartfelt thanks for their thoughtful critiques, helpful suggestions, and generosity in sharing their experience and time.

The author would also like to acknowledge the invaluable insight and guidance provided to her by her colleagues who served with her on the New Product Development Task Force, a multilateral effort to coordinate several different initiatives globally in the area of new product development. The task force members comprised Sylvia Wisniwski (BankAkademie), Brigit Helms (CGAP), Dirk Steinwand (GTZ), Michael McCord (MicroSave), Graham Wright (MicroSave), Monique Cohen (USAID), and Heather Clark (UNDP). The author additionally received invaluable support and critical comments from her colleagues Susana Barton and Warren Brown, as well as from Christian Rodriguez, who helped edit and format the final document. Finally, staff and consultants at Development Alternatives, Inc., including Zan Northrip, Nancy Natilson, Bonnie Kligerman, Doug McLean, Jimmy Harris, and Nhu-An Tran, were instrumental in revising key sections of the guide and making it more user-friendly.

Despite these valuable contributions, this work is the responsibility of the author and, as such, any omissions or errors are strictly her own.
Monica Brand is senior director of research and development at ACCION International, a nonprofit organization that supports microenterprise activities throughout the Americas and in Africa. Both her field-based research and her technical assistance focus on the areas of new product development, market intelligence, and reengineering for commercially oriented microfinance institutions. Prior to coming to ACCION, Ms. Brand worked as a loan officer and for two years at the Development Fund in San Francisco, helping design and launch a $50-million statewide lending intermediary to finance small-business and community facilities. Ms. Brand’s professional experience also includes work in Cape Town, South Africa, where she founded an entrepreneurial training organization affiliated with a venture-capital fund targeted at previously disadvantaged small and medium-sized businesses. Ms. Brand has authored several publications, including three on new product development, ACCION’s monograph Maximizing Efficiency in Microfinance (www.accion.org), and numerous case studies she wrote while employed at Harvard Business School (www.hbsp.harvard.edu). Ms. Brand received a master of business administration degree and a master of education degree from Stanford University.
# TABLE OF CONTENTS

INTRODUCTION ................................................................................................................. i  
   New Product Development: An Overview ................................................................. i  
   How to Use This Resource Guide ........................................................................ iv  

Phase 1: EVALUATION AND PREPARATION .......................................................... 1  

   Section A: Situation Analysis .................................................................................. 2  
      A.1 Institutional Capacity .................................................................................... 3  
      A.2 Product Fit ................................................................................................. 10  
   Section B: Internal Preparation ............................................................................. 17  
      B.1 The Multidisciplinary Product Development Team ................................... 18  
      B.2 Building Internal Consensus ...................................................................... 24  

Phase 2: PROTOTYPE DESIGN AND DEVELOPMENT ........................................... 27  

   Section A: Market Research ................................................................................... 28  
      A.1 Market Research and Product Components ................................................ 29  
      A.2 Sources of Market Information ................................................................... 34  
      A.3 Client Feedback ............................................................................................. 39  
      A.4 Competitive Analysis .................................................................................. 42  
      A.5 Prototype Design: The Initial Terms .......................................................... 45  
   Section B: Operating Logistics ................................................................................. 46  
      B.1 Operating Logistics and Procedures ............................................................. 47  
      B.2 Information Systems .................................................................................... 50  
      B.3 Human Resources ....................................................................................... 53  
      B.4 Regulatory and Legal Compliance ............................................................. 55  
   Section C: Costing and Financial Analysis ............................................................. 56  
      C.1 Estimating Revenue ..................................................................................... 57  
      C.2 Cost Considerations ..................................................................................... 62  
      C.3 Financial Projections ................................................................................... 65  
      C.4 Finalizing the Prototype ............................................................................... 70  

Phase 3: PILOT TEST ................................................................................................. 73  

   Section A: Purpose and Design .............................................................................. 74  
      A.1 Pilot-Test Parameters .................................................................................. 75  
      A.2 Institutional Preparation ............................................................................. 82  
   Section B: Roll-out and Evaluation ......................................................................... 88  
      B.1 Monitoring the Pilot Test ............................................................................. 89  
      B.2 Analyzing the Results ................................................................................ 95  
      B.3 Making a Decision ..................................................................................... 103
Phase 4: PRODUCT LAUNCH .................................................................108

Section A: Integrated Marketing Strategy ..................................................109
A.1 Product Design ..................................................................................110
A.2 Price ..................................................................................................112
A.3 Placement .........................................................................................114
A.4 Promotion .........................................................................................115

Section B: Implementation Plan .................................................................117
B.1 Product Integration ............................................................................118
B.2 Implementation Plan .........................................................................122
B.3 Product Launch ................................................................................132

RESOURCE SECTION ..................................................................................134
# TABLE OF WORKSHEETS

## Phase 1
- Worksheet 1: Human Resource Capacity ................................................................. 7
- Worksheet 2: Strategic Analysis of New Product...................................................... 12
- Worksheet 3a: Product Overview ........................................................................... 15
- Worksheet 3b: Competitive Analysis of Products ..................................................... 16
- Worksheet 4: New Product Development Team ....................................................... 23
- Worksheet 5: Evaluation and Preparation Checklist ............................................... 26

## Phase 2
- Worksheet 6: Components of a Product .................................................................. 33
- Worksheet 7: Gathering Information from Your Organization ............................... 36
- Worksheet 8: Gathering Information about the Competitive Situation .................. 43
- Worksheet 9: Competitive Product Analysis ............................................................ 44
- Worksheet 10: Initial Prototype Design ................................................................. 45
- Worksheet 11: Operational Procedures ................................................................. 49
- Worksheet 12: Information System Modification—Product Information ............. 52
- Worksheet 13: Human Resource Requirements ..................................................... 54
- Worksheet 14: Estimating Revenue ...................................................................... 59
- Worksheet 15a: Up-Front, One-Time Costs ............................................................ 63
- Worksheet 15b: Steady-State Expenses ................................................................. 64
- Worksheet 16: Break-Even Calculations ............................................................... 66
- Worksheet 17: Projected Income Statement and Related Ratios ......................... 68
- Worksheet 18: Finalizing the Prototype ............................................................... 71
- Worksheet 19: Product Design and Development Checklist ............................... 72
Phase 3

Worksheet 20: Test Criteria ........................................................................................................77
Worksheet 21: Selecting the Test Sites ....................................................................................80
Worksheet 22: Information Tracking .....................................................................................84
Worksheet 23: Activity Agenda ..............................................................................................87
Worksheet 24: Checklist for Pilot-Test Monitoring .................................................................91
Worksheet 25a: Sample Objectives Table .............................................................................93
Worksheet 25b: Blank Objectives Table ...............................................................................94
Worksheet 26: Impact of New Product on Existing Products or Services .........................98
Worksheet 27: Institutional Capacity ....................................................................................101
Worksheet 28: Summary Table #1—Financial Impact ...........................................................104
Worksheet 29: Summary Table #2—Competitive Impact .......................................................105
Worksheet 30: Summary Table #3—Institutional Impact .......................................................105
Worksheet 31: Plan of Action ...............................................................................................106
Worksheet 32: Pilot-Test Checklist .......................................................................................107

Phase 4

Worksheet 33: Product Features ...........................................................................................111
Worksheet 34: Promotion Planning .......................................................................................116
Worksheet 35: The Incentive Scheme ...................................................................................121
Worksheet 36: The Implementation Plan ...............................................................................124
Worksheet 37: Employee Skills and Knowledge Profile .......................................................128
Worksheet 38: Employee Profile/Recruitment Guide ............................................................130
Worksheet 39: Product Launch Checklist ...............................................................................133
INTRODUCTION

The Microenterprise Best Practices (MBP) Guide to New Product Development is designed for staff of financial institutions and nongovernmental organizations (NGOs) interested in developing new products and services for their clients. Developing new products to enhance and expand an institution’s line of financial products is a complex and time-consuming activity. This guide provides a systematic approach that an organization can follow to evaluate, design, test, and launch a new product. The guide includes both technical guidance and practical exercises designed to move the reader through a structured process for new product development. This guide builds off of and complements two companion MBP technical notes: New Product Development: Evaluation and Preparation and New Product Development: Design, Testing, and Launch.¹ You can use these technical notes, and the other supplementary materials listed in the “Resource Section” at the end of this guide, as references when using the guide, to provide more detailed technical information.

The core premise of this guide is that a new product is not developed simply from a creative idea. Rather, it entails a process that will help minimize wasted resources and expand opportunities for success. The guide walks a microfinance institution (MFI) through the phases of a systematic development process to evaluate, design, pilot test, and launch new products. This guide is based on a commercial approach to microfinance, with a dual emphasis on achieving scale and financial sustainability. Yet, regardless of your financial objectives, this guide is intended to help you design a product that is appropriate for your institution and tailored to your clients’ needs. The main objective is to improve client satisfaction through better designed products.

NEW PRODUCT DEVELOPMENT: AN OVERVIEW

Why?

Historically, most MFIs were methodology-driven rather than market-driven because, until recently, they operated in markets with little competition. During this time, MFIs offered highly standardized loans with little variation or field-officer discretion to help keep costs low and maintain internal control as the institutions expanded to meet huge demand. The MFIs nonetheless grew and prospered, as did their clients, creating a more sophisticated customer base and an attractive market for new competitors.

¹ Both of these technical notes can be downloaded for free from the MBP Web site (www.mip.org).

There are five types of companies:
♦ Those that make things happen;
♦ Those that think they make things happen;
♦ Those that watch things happen;
♦ Those that wonder what happened; and
♦ Those that did not know anything happened.
These changes have required MFIs to become more attuned to their clients’ needs and to competitive threats. Today, MFIs must understand and attend to clients’ evolving demands for financial services or face customer desertion to more-responsive, market-driven competitors.

How?

Taking advantage of realities and changes in the marketplace is at the core of new product development. A product’s acceptance in the marketplace is as much about good timing as it is about following a systematic strategy to complete the development process. As competition increases and your clients require a greater diversity of financial products, devising a structured, streamlined process for product development provides you an opportunity to better serve market demands. Product development is a dynamic process that must be aligned with your organization’s strategic objectives, external market forces, and your competitors’ positions in the market. You must continually confirm that what you are designing is in line with the reality of your environment, and modify the product accordingly.

New product development has four distinct phases:

1. **Evaluation and preparation** begins when the institution decides to formally investigate the development of a new product. The institution will mobilize staff and other resources to work on the development effort and create a work plan. This guide will help you determine whether your institution is ready to undertake new product development. (This phase is described in detail in the MBP technical note *New Product Development: Evaluation and Preparation.*)

2. **Design and development** of a product prototype involves drafting the initial features and characteristics of the new product. To design a prototype, the development team must understand the clients’ needs and the competitive landscape to determine what the market (your clients) will buy. (This phase is described in detail in the MBP technical note *New Product Development: Design, Testing, and Launch.*)

3. **Pilot testing** of the prototype is an opportunity to offer the product to a sample group of clients to determine whether these customers need, and will buy, the product. The results of the pilot test will help your organization determine whether demand exists for the new product, what modifications or changes to the terms and conditions are needed to make the product more appealing, and what features or processes need

![Diagram 1: New Product Development Process](image-url)
adjustment. (This phase is described in detail in the MBP technical note New Product Development: Design, Testing, and Launch.)

4. **Product launch** involves making the new product available to your organization’s entire market. Introducing the new product to the bigger market assumes that your organization is confident that the characteristics and features of the product are in line with the needs of your clients and that your institution is prepared internally to incorporate a new line of business. (This phase is described in detail in the MBP technical note New Product Development: Design, Testing, and Launch.)

Of course, the product development process does not end after the product is launched. It is an ongoing process of refining the terms, characteristics, and conditions of a product based on client feedback and market analysis. In fact, most often product refinement (rather than new product development) is precisely the “innovation” that is needed. This process should be a strategic and integral part of your institution’s ongoing business operations so that you can maintain your competitive advantage in the marketplace.

Three key sources that influence the development of new products are

- customer needs;
- competitors; and
- core competencies (institutional strengths).

Note that in the new product development process (depicted in Diagram 1), these three sources influence every stage of the development process. The circular shape of the diagram emphasizes the interdependency of the phases. Once a product has been introduced, the organization needs to continue to monitor its success in meeting customer needs and adapt the product as necessary. If customer needs shift significantly or you decide to pursue a new market niche, you must return to the idea-generation stage.

**How Long?**

The development of new products takes place over time and will vary by project and market circumstances. Diagram 2 (an orientation to this guide, including estimates on anticipated levels of effort) and Diagram 3 (a more-detailed time line of new product development) outline a process that will involve, on average, two months for market research and design of the initial prototype, and an additional four to six months for pilot testing, or whatever the average term of the product is. For budgeting purposes, the level of effort will depend greatly on the type of product development undertaken, as illustrated in Diagram 2, which gives very rough estimates, based on the relative complexity inherent in different types of product refinements and new product development. The level of effort will also vary based on the skills and capabilities of the staff, the capacity of the systems used, and the level of process reengineering and/or infrastructure development required.
The actual time required for your organization to follow the process outlined in this guide will depend on the specifics of your situation, such as your organization’s commitment (for example, time and money) to the new product, the difference between the new product and your current offerings, and so on. Some activities occur simultaneously and other activities cannot proceed until you acquire specific information. The activities listed in Diagram 3 correspond to each phase of new product development and thus can be used as a road map to guide your organization through the process. Nonetheless, the key to successful new product development is to create a strategy adapted to the size, capacity, and objectives of your organization, as well as to the magnitude of the project.

**HOW TO USE THIS RESOURCE GUIDE**

This guide provides a road map to guide your institution through the four primary phases of new product development: evaluation, design, pilot test, and launch. These phases are described in detail throughout the following chapters, and include tools to use so that you can carry out the recommended activities. The exercises should help you implement the process and tailor it to your institution’s specific operations.

The author recognizes that some institutions do not have the resources to methodically work through all the exercises presented in this guide. Indeed, an informal approach to some new product development steps can reflect wise use of scarce resources. However, critical steps are often overlooked in an informal process. For this reason, it is recommended that readers focus on the sections “Market Research” and “Finalizing the Prototype” in the design phase, and on the sections “Purpose and Design” and “Roll-out and Evaluation” in the pilot-test phase. These sections provide important tools to lead institutions through historically weak areas in the new product development process.

The author recommends you take a few minutes to review the time line in Diagram 3 and quickly glance through the guide to help you begin thinking about a new product development work plan that fits your organization’s needs. Then, use the activities and tools in this guide as you see fit to implement your new product development strategy.
# Diagram 2: Orientation to New Product Development Guide

This section is targeted to those who have begun the process of new product development and are trying to determine where their institutions are in the new product development process. Answering the questions should help orient institutions as to where they are in the new product development process and, as a result, define which sections of the guide are most relevant.

<table>
<thead>
<tr>
<th>Evaluation and Preparation</th>
<th>If you have a new product idea, has your institution done the following?:</th>
<th>If yes, continue to the next question</th>
<th>If no, consult the section listed below</th>
<th>Approx. no. of person-days (level of effort) required</th>
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<tbody>
<tr>
<td>a.</td>
<td>Analyzed the institutional capacity to undertake new product development?</td>
<td>1A: Situation Analysis</td>
<td>2–5</td>
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<td>b.</td>
<td>Evaluated the product “fit” with the institution’s strategy and current offerings?</td>
<td>1</td>
<td>1</td>
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<td>c.</td>
<td>Undertaken the internal preparations to embark on the product development process?</td>
<td>1B: Internal Preparation</td>
<td>2–3</td>
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*Estimated time required for evaluation and preparation phase:* 5–9

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<thead>
<tr>
<th>Prototype Design and Development</th>
<th>If you have a new product idea, has your institution done the following?:</th>
<th>If yes, continue to the next question</th>
<th>If no, consult the section listed below</th>
<th>Approx. no. of person-days (level of effort) required</th>
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<td>d.</td>
<td>Undertaken market research, including competitive analysis and direct client feedback?</td>
<td>2A: Market Research*</td>
<td>15–50</td>
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<td>e.</td>
<td>Designed the initial product terms?</td>
<td></td>
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<td>f.</td>
<td>Mapped out the operating logistics and processes?</td>
<td>2B: Operating Logistics</td>
<td>5</td>
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<td>g.</td>
<td>Installed and adjusted information systems?</td>
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<td>h.</td>
<td>Analyzed human resource capacity?</td>
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<td>i.</td>
<td>Verified legal and regulatory compliance?</td>
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<td>k.</td>
<td>Estimated costs to the institution and the borrower?</td>
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<td>l.</td>
<td>Finalized projections and the prototype?</td>
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*Estimated time required for prototype design and development phase:* 42–92

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<tr>
<th>Pilot Testing</th>
<th>If you have a new product idea, has your institution done the following?:</th>
<th>If yes, continue to the next question</th>
<th>If no, consult the section listed below</th>
<th>Approx. no. of person-days (level of effort) required</th>
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<td>m.</td>
<td>Defined the objectives of the pilot test?</td>
<td>3A: Purpose and Design</td>
<td>1</td>
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<td>n.</td>
<td>Defined the parameters of the pilot test, including sample, location, and duration?</td>
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<td>o.</td>
<td>Prepared the pilot-test site, including systems, training, and materials?</td>
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<td>5</td>
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<td>p.</td>
<td>Identified and collected information to monitor?</td>
<td>3B: Roll-out and Evaluation</td>
<td>60–120</td>
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<td>q.</td>
<td>Evaluated the results of the pilot test?</td>
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<td>5</td>
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<td>r.</td>
<td>Made a decision about launching the product?</td>
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*Estimated time required for pilot testing phase:* 75–135

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<tr>
<th>Product Launch</th>
<th>If you have a new product idea, has your institution done the following?:</th>
<th>If yes, continue to the next question</th>
<th>If no, consult the section listed below</th>
<th>Approx. no. of person-days (level of effort) required</th>
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<td>s.</td>
<td>Developed an integrated marketing strategy, refining the product design, pricing, placement, and promotions?</td>
<td>4A: The Integrated Marketing Strategy</td>
<td>Will vary greatly by institution</td>
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<td>t.</td>
<td>Developed an implementation plan, including systems upgrades, staff training, and hiring?</td>
<td>4B: Implementation Plan</td>
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<td>u.</td>
<td>Launched the product?</td>
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* Should be supplemented by references listed in the “Resource Section” of this guide.

Goal: To design a product adapted to and accepted by the target market

Product: 

Target Market: 

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<th>Objectives and Activities</th>
<th>Area Resp.</th>
<th>Mo. 1</th>
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<th>Mo. 7</th>
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<td><strong>PHASE 1: EVALUATION AND PREPARATION</strong></td>
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<td>1. <strong>Situation Analysis</strong></td>
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<td>• Complete checklist analyzing minimum capacity requirements</td>
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<td>• Assess product fit with institution’s strategy and current portfolio of products</td>
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<td>2. <strong>Internal Preparation</strong></td>
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<td>• Identify product champion (team leader)</td>
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<td>• Select members of multidisciplinary product development team</td>
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<td>• Generate “buy-in” for project</td>
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<td>3. <strong>Creation of Work Plan</strong></td>
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<td>• Clarify roles and responsibilities</td>
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<td>• Establish procedures and ground rules for team functions (set forth in terms of reference)</td>
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<td><strong>PHASE 2: PROTOTYPE DESIGN AND DEVELOPMENT</strong></td>
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<td>4. <strong>Undertaking Market Research and Developing a Prototype</strong></td>
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<td>• Define product components and preliminary product prototype</td>
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<td>• Gather and analyze sources of market information, such as MFI staff and current product information</td>
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<td>• Solicit client feedback</td>
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<td>• Collect and analyze information about the competition</td>
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<td>• Design initial prototype, based on market research; describe terms and conditions</td>
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<td>• Map operating logistics and procedures for new products</td>
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<td>• Evaluate capacity of information systems</td>
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<td>• Determine human resources for each step of the mapped process</td>
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<td>• Assure legal and regulatory compliance</td>
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<td>6. Costing and Financial Analysis</td>
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<td>• Estimate revenue by projecting potential demand for and calculating financial margin of the product</td>
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<td>• Evaluate costs, including up-front development expenses and ongoing, “steady state” costs</td>
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<td>• Calculate break-even sales volume</td>
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<td>• Develop financial projections</td>
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<td>• Undertake sensitivity analysis by adjusting assumptions and product terms</td>
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**PHASE 3: PILOT TEST**

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<th>7. Preparation for Pilot Testing</th>
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<tbody>
<tr>
<td>a) Design parameters and terms for the pilot test</td>
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<td>• Determine success factors and define your objectives</td>
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<td>• Establish testing parameters (size, location, duration, and so on)</td>
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<td>b) Prepare institution</td>
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<td>• Conduct a systems implementation to prepare the organization for the pilot test</td>
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<td>• Develop the necessary printed materials to promote the product within the organization</td>
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<td>• Train the staff involved in the delivery and management of the pilot product</td>
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<td>c) Monitor the pilot test</td>
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<td>• Make development team aware of pertinent information and product terms</td>
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<td>• Process qualitative and quantitative data through direct institutional and market feedback</td>
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<td>• Specify required capacity (physical infrastructure, human resources, systems, and the like)</td>
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<td>d) Analyze the results</td>
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<td>• Decide whether the venture is financially viable (return on investment, loan criteria)</td>
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<td>Objectives and Activities</td>
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<td>• Assess competition in the marketplace (market share potential, satisfaction of customer needs)</td>
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<td>• Evaluate institutional capacity for resource-intensive launch process</td>
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<td>e) Make a decision</td>
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<td>• Determine the worth of the financial return</td>
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<td>• Establish the net impact your product will have on the market</td>
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<td>• Identify the degree of institutional readiness for the new product</td>
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**PHASE 4: PRODUCT LAUNCH**

8. The Four P’s of Marketing

• Product design: Use the results from the pilot test to refine the product’s features, terms, conditions, and characteristics

• Price: Understand cost differentials, customer sensitivities, and competition to determine the right price for the new product

• Placement: Determine channel of distribution and competitiveness in the marketplace

• Promotion: Design a promotional plan to describe the features of the product and the benefits to the target market

9. Implementation Plan

• Determine the evolution of your product or service and modify the goal accordingly

• Determine the timing, resources, and locations for product roll-out

10. Product Launch

• Finalize publicity materials for each of the branches selected for the product launch

• Identify and train sales force/loan officers

• Prepare and test internal systems

• Launch product!
The purpose of the evaluation and preparation phase is to determine whether your institution is ready to undertake new product development and, if so, to put the pieces in place to begin.

By the time you finish this chapter, you should be able to answer the following questions:

- Does my institution have the capacity to develop a new product?
- Do I need an entirely new product or just a product refinement?
- How do I prepare my institution to undertake successful product development?

This section is an important starting point to ensure successful product development, making sure the institution is ready and that the product idea is appropriate and well-conceived. This section will help you evaluate the quality of your product idea with respect to your institution’s competitive strategy, capabilities, and current portfolio of products. This section will also help you determine whether it is most appropriate to develop an entirely new product or just refine an existing one. In this chapter, you will also begin the internal preparations necessary for a systematic, successful product development process.

At the end of the next two sections, you will be able to:

- Complete a situation analysis that will allow you to evaluate how prepared your institution is for product development and to determine the most appropriate strategy (Section A).
  - A.1 Institutional Capacity
  - A.2 Product Fit

- Understand the internal preparations needed to effectively and efficiently develop new products for the microenterprise market (Section B).
  - B.1 The Multidisciplinary Product Development Team
  - B.2 Building Internal Consensus
Phase 1: Evaluation and Preparation

The situation analysis is a critical first step to evaluate whether your institution should undertake new product development or instead focus on refining its current portfolio of offerings. To be successful, new product development must consider both the institutional capacity (including staff, risk-management and information systems, organizational structure, and institutional culture) and the market situation (including client needs, competition, and the macroeconomic environment). Please reflect on both of these aspects by completing the diagnostic below.

In this section you will:

✅ Undertake a **situation analysis** in order to:

- Understand your institution’s capacity to undertake the development of a new product, based on its competitive strategy, financial and human resources, organizational culture/structure, and existing infrastructure.

- Analyze your MFI’s competitive strategy and existing portfolio of products to determine how best to incorporate the new product, and to decide whether it is better to refine an existing product or develop an entirely new one.

Though it might be tempting to think that you have already sufficiently evaluated and prepared your institution for new product development, realize that the devil is in the details. It is better to plan well, prepare adequately, project conservatively, and execute carefully. Haphazard processes will yield haphazard results.

*Invention is 1 percent inspiration and 99 percent perspiration.*
A.1 INSTITUTIONAL CAPACITY

Before you think about skipping this question and moving right into product design, think about the following questions:

Is now the right time?

Before making this investment, you should be confident that now is a good time for new product development in your organization, and that there are no other, more pressing priorities. Ask yourself, does this product build on your organization’s existing strategy? Can your organization cover the costs of product development until it breaks even? Do you have high turnover or other morale problems that might make new product development difficult? Upon completing the brief institutional assessment exercise in this section, you will have to decide for yourself whether to continue with the rest of this guide or hold off on developing the product you are considering until you have your institutional “house in order.”

What’s the worst that can happen if I start before my institution is ready?

Successful new product development requires a significant investment of both time and resources. At each succeeding stage of product development, errors become exponentially more costly. In addition, developing a new product at the wrong time can mean that a good idea gets sidetracked before it ever gets off the ground. Sometimes, there are competitive pressures or client demands that do not give us the luxury of choosing when to develop new products. In these cases, knowing what the potential pitfalls are before you embark on the product development process can help minimize any negative consequences.

So don’t skip the institution diagnostic! In the pages that follow, you will evaluate the following aspects of your organization:

- Financial viability
- Organizational culture
- Human resources
- Systems

At the end of each section, rank how prepared you think your institution is for product development on a scale of 1 to 4:

1 = outstanding  2 = well-prepared  3 = could use some work  4 = poorly prepared

At the end of the diagnostic, your institution should focus on the two or three weakest areas before embarking on the product development process.

In the questions that follow, if you do not feel that a yes (Y) or no (N) accurately captures your institution’s response, please feel free to elaborate on your answer. The Y/N designations are included mainly as prompts to assist you with the ranking of each section.
Phase 1: Evaluation and Preparation

A. Financial Viability

Self-sufficiency and profitability allow an MFI flexibility in its business operations. If an MFI is not self-sufficient, the success of product development depends on continued donor support. Moreover, most new product development will take time to break even, adding financial pressure on an institution. Consider the following questions to help you assess the financial strength of your organization, and, after answering these questions, give your organization a rank from 1 to 4 (with 1 being “outstanding”).

1. Liquidity management

   *Has your institution experienced a “cash crunch” within the past six months, either to the fund portfolio or in operating expenses? Y/N*

   *If your institution were to grow at twice the rate of last year’s growth, do you have access to the sources of capital necessary to fund this level of expansion? Y/N*

   *Is there active asset–liability management? Y/N*

   Adding new products typically adds the challenge of liquidity management. Even improving an existing product can increase demand, influencing the liquidity of the MFI.

2. Portfolio quality

   Delinquency = ______
   (outstanding balance of loans with payments more than 30 days past due) / outstanding portfolio

   *Over time, has portfolio quality ____declined? ____improved? ____remained constant?*

   *Does your institution have a prudent provision policy based on historical repayment performance and portfolio risk? Y/N*

   If there are currently portfolio quality issues, introducing a new product might exacerbate problems. However, reexamining and relaunching a product that is suffering from high delinquency might actually solve the problem.

3. Operational efficiency: total administrative expenses / average portfolio _________

   *Over time, has efficiency ____declined? ____improved? ____remained constant?*

   Poor efficiency (high expenses as a percentage of portfolio) could be a justification for product development if its cause is underutilized capacity. However, if institutional inefficiency is related to structural or operational problems (such as bureaucratic decision-making, unclear delineation of responsibility or job definitions, minimal automation, and poor cost controls), new product development may exacerbate the problem.
4. Self-sufficiency:
   a. Operational self-sufficiency: operating income / operating expense = __________
   b. Profitability: return on assets (ROA) = _____%  return on equity (ROE) = _____%
      \[ \text{ROA} = \frac{\text{net income}}{\text{average assets}} \quad \text{ROE} = \frac{\text{net income}}{\text{average equity}} \]
   c. reliance on subsidized funds / ability to attract commercial sources of funds: grants / donations as percentage of total capital: ___________

   Has your rate of self-sufficiency and profitability improved over time? Y / N
   Remember: a new product will actually take time to break even, so it is important to have a stable financial base when undertaking new product development.

   RATING (1-4): FINANCIAL VIABILITY ______

B. Organizational Culture/Processes

Your organizational culture and structure will affect how easy (or disruptive) it will be to incorporate a new product into normal operating procedures. For example, the product development process will likely use existing procedures as a starting point. If the manuals are out of date or if there is poor conformity throughout the branch network, there will be extra work and cost involved in the product development process. Similarly, if job functions are not well-defined, incorporating a new product might add confusion and delay ultimate roll-out. Consider the following questions to help you assess how “innovation-friendly” your organization is and how formalized its operating procedures are. After answering these questions, give your organization a rank from 1 to 4 (with 1 being “outstanding”).

1. Customer service

   Does your organization have a “customer service” orientation? (for example, periodic focus groups, client satisfaction surveys, exit interviews, and concern with streamlined, efficient service delivery)? Y / N

2. Innovation

   Does your organization value innovation (allows experimentation, encourages questioning of protocol, maintains open channels of communication)? Y / N
3. Internal communication

Does your organization have channels of communication that extend both vertically (from management down through staff) and horizontally (across departments), such as:

- staff meetings ______Y ______N
- newsletters/memos ______Y ______N
- e-mail system ______Y ______N
- intranet ______Y ______N
- other ___________________

Does the management of your institution have ways of getting real-time feedback from front-line staff (such as branch managers, loan officers, or tellers)? Y/N

A culture that emphasizes customer service, values innovation, and allows free flow of information creates an environment conducive to product development. Strong communication channels further provide an important link for client feedback, which is critical for good product development.

4. Procedures

Are there standard operating procedures that are well-documented in a manual? Y/N
How often is this manual updated? ______________

Is there conformance to these standards at each branch? (for example, for lending institutions, treatment of delinquency, and loan approval?) Y/N

Are the lines of authority and accountability clearly defined? (For example, are there responsibility centers based on cost, profit, and so on?) Y/N

**RATING (1-4): ORGANIZATIONAL CULTURE______**

C. Human Resources

The quality and capacity of human resources are a critical part of successful product delivery in microfinance, as is true in any service-based industry. At issue here is both the staff skill level (in terms of experience and education) and staff’s willingness to modify their jobs or accept increased responsibilities. Institutions with low turnover reduce training costs and provide stability important for product development. Low levels of productivity and a low ratio of front-line personnel to total support staff suggest that an institution likely has the excess capacity (from a human resources perspective) to undertake new product development. Required experience and skill levels of staff will vary by product, but there must be available managerial capacity to manage the product development process. Finally, performance-based compensation systems can help promote successful product launches, as they provide incentives to achieve desired objectives—not only in terms of volume (such as number of clients and portfolio size) but in terms of quality (repayment, customer satisfaction, desertion, and the like).
Fill out Worksheet 1, “Human Resource Capacity,” on the next page. Use the worksheet to assess the appropriateness and capacity of your institution’s personnel to undertake new product development. Use the questions that follow to help you rank your organization’s readiness from a human resource point of view from 1 to 4 (with 1 being “outstanding”).

**Worksheet 1: Human Resource Capacity**

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<th>Indicator</th>
<th>Current Level (actual)</th>
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<tr>
<td>1. Staff characteristics</td>
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<td>Current no. of FTEs (full-time equivalents)</td>
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<td>Turnover rate (staff who left over a given period / average over the same period)</td>
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<td>Percentage of front-line or sales* to all staff</td>
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<td>2. Productivity</td>
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<td>No. of clients per loan officer</td>
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<td>No. of clients per staff member</td>
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<td>3. Experience/education level/training</td>
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<td>• Field staff</td>
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<td>• New product development team</td>
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<td>4. Compensation/incentives</td>
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<td>Incentives (% of total salary)</td>
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<td>Performance evaluation: Is it undertaken? _____ Y _____ N</td>
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</table>
| Is “sales” refers to both loan officers and tellers for lending and savings operations, respectively

**Is there high turnover in your organization? _____Y _____N**

**Are field staff at maximum capacity in terms of productivity levels? _____Y _____N**

**Do personnel feel justly compensated, to minimize any resentment against the additional workload that new product development implies? _____ Y _____N**

**RATING (1-4): HUMAN RESOURCES __________**

**D. Systems**

Systems refer to your organization’s management information system (both automated and manual), as well as the other internal and external controls your MFI uses to ensure the efficient and timely delivery of quality services. The MFI’s management information system (including both accounting and loan monitoring) needs to track, manage, and, in some cases, disburse the new product. A new product will at first require separate bookkeeping systems to track its demand and analyze its profitability. Back-office systems might need to be versatile if the new product has nonstandard payment terms or other unique characteristics that differentiate it from existing products. You must determine whether the systems can handle the disbursements, collections, and interest accruals necessary for the fluctuating terms of such products. The state of automation and the performance
of the systems are indicators of how quickly and efficiently staff can process and retrieve data critical in both the product design and testing phases. Younger MFIs may not be fully automated (nor have electronically interconnected branches), but some product development may require higher levels of automation.

Consider the following questions to help you assess how robust your institution’s systems are and how easy it would be to incorporate a new product into them. After answering these questions, rank your organization’s system capacity from 1 to 4 (with 1 being “outstanding”).

1. State of automation

   Is the head office linked to the field offices in any automated way? Y / N

   To what extent is the processing of financial services computerized? semi-automated? back office: _______________ front-line sales: _______________

2. Performance

   Are staff satisfied with how the systems function? That is, are the systems:
   a) “user-friendly”? Y / N  b) reliable? Y / N  c) useful in accomplishing one’s job? Y / N

   Is there unused capacity in the current systems? Y / N

   Are the systems easily adaptable to accommodate new products? Y / N

3. Information

   Do the systems process and produce information in an efficient, timely manner? Y / N

   Do the systems produce information that is accurate? Y / N

   Has the institution built up a database on its clients from intake to exit? Y / N

   Accessibility to reliable information is a key element of market research and pilot testing.

4. Internal controls

   Are duties segregated among different positions (linked to staff capacity?) Y / N

   Are there sufficient physical controls (guards, locks, and such) to maintain security? Y / N

   Has there ever been any breach in the security of the systems? Y / N

   New products can be an opportunity for fraud, as staff might not be as familiar with procedures, especially if the level of activity (such as in sales) is greater than anticipated.
Phase 1: Evaluation and Preparation

5. External controls

*Are there established procedures for monitoring and auditing financial operations? Y/N*

*How often are external auditors invited in to review your institution? _______________

**RATING (1-4): SYSTEMS ______**

**Should I go forward?**

Now that you have looked at all areas of your institution, it is time to think carefully about whether now is the right time for your institution to embark on a new product development process. There are no hard and fast rules as to when you should go ahead and when you should hold off on new product development (for example, it is not necessary to have a “1” rank on all of the above before embarking on a new product development process—although the more “1s,” the better). One thing to consider is your vision for your institution. Are you on the right track? Are there major problems from which the new product will detract attention? In the next section, you will examine how well aligned the product being considered for development is with your institution’s existing products and its strategic vision. The greater the variance, the more important it will be to have high rankings in all of the areas above.

After completing the questions in this section, do you feel that your institution has the capacity to carry out successfully a new product development process at this time?

---

*Yes___ No ___*

Answering no is a difficult choice; however, by saying no to product development now as opposed to midway through the process, you are actually saving your institution time and valuable resources, resources that can be better directed at addressing some of the weaknesses identified in your responses to the questions above. Revisit this section when you feel your organization has made progress on the issues that you have identified.

If you answered yes, keep reading…it is time to determine whether it makes sense to develop an entirely new product or just refine an existing one.
A.2 PRODUCT FIT

If you are reading this section, it must mean that you feel confident that your institution is ready to embark on a new product development process. However, before you start selling the idea to the rest of your organization, we suggest you take a moment to fill out the worksheets on the following pages and read through the questions in this section to help you refine and strengthen the rationale behind your new product idea. Basically, you are trying to determine how well this product fits into your institutional strategy and existing portfolio of products. This process should help you determine whether it is most appropriate to refine an existing product or develop an entirely new one.

Typically, there is a lot of excitement among their backers surrounding new product ideas. Still, to develop the product idea successfully, you need to assess it objectively, and not let enthusiasm for the idea color the determination of how well the product idea fits into your institutional strategy and current portfolio of products.

Let’s begin

The first step is to formulate and describe the idea you have for the new product. Remember, at this point, all you have is an idea. This idea could be as general as a new savings product or as specific as a service for customers to transfer money.

In the space below, describe the new product your institution is considering.

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

Now, let’s determine how well-aligned this product idea is with your institution’s strategy and current product offerings, to determine whether it needs to be refined.
Institutional Strategy

Strategy is the vision and plan that is shared by senior management and, hopefully, field staff about the goals and aspirations of the organization and how it plans to achieve them. An MFI with a clear strategy will have clear short- and long-term goals about 1) how it wants to be perceived by clients, and 2) how it will differentiate itself from other MFIs and informal providers of financial services (“the competition”) in ways that will be valued by clients and difficult for competitors to replicate. Good product development should be well-aligned with the competitive strategy and advance the goals laid out in the business plan of the institution. Do the first exercise on Worksheet 2, using the definitions below, which describe the major elements of a strategic vision. Then, consider the questions that follow to assess the extent to which the new product fits into and reinforces your organization’s strategy.

☐ **Core competency:** Core competencies define the institution’s competitive strengths or its area of expertise. For example, its target market, methodology, staff skills, or corporate culture.

*Our institution’s core competencies are:*


☐ **Competitive strategy:** Competitive strategy defines an institution’s position in the market place. Examples of competitive strategy include a focus on a niche market to serve the needs of a specific client base, a focus on a particular service or product line for a broad market, offering the lowest prices, and serving as a full-service financial institution.

*Our institution’s competitive strategy is:*


☐ **Financial goals:** Is your institution striving for sustainability? Profitability? Are there liquidity concerns?

*Our institution’s financial goals are:*


☐ **Social impact:** What is your institution’s social alignment? Are you a grassroots, nonprofit organization? Are you a self-sustaining financial service institution serving the unemployed?

*Our institution’s social impact is:*


Microenterprise Best Practices
Worksheet 2: Strategic Analysis of New Product

For management to allocate institutional resources to new product development, the decision-makers need to understand how the new product complements and affects the institution. Clarifying your organization’s strategic vision and how the new product promotes that mission will additionally help generate institutional acceptance and internal support for the product development process. Use this table to compare your institution’s strategic vision with the new product idea. Realistically evaluate the impact the new idea will have on the four areas of your organization’s strategic vision.

<table>
<thead>
<tr>
<th>CORE COMPETENCY</th>
<th>COMPETITIVE STRATEGY</th>
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</thead>
<tbody>
<tr>
<td>What impact do you expect the new product to have on your core competencies? Will it strengthen/weaken them? If this is a new area for your organization, how will the product complement your core competencies?</td>
<td>How will the new product affect your competitive strategy?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FINANCIAL CONSIDERATIONS</th>
<th>SOCIAL IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>How will the product affect the profitability, liquidity, and other financial measurements of your institution?</td>
<td>How will the new product affect or complement your institution’s mission?</td>
</tr>
</tbody>
</table>

Take some time to reflect critically about how the new product idea affects and complements your institution’s strategic vision. If the product is a good fit and complements or otherwise enhances your organization’s strategic vision, you need to identify the resources needed to develop and design the new product idea.

If it is determined that the idea does not promote or, in fact, detracts from your organization’s vision, you must either abandon the idea for the time being or refine it, perhaps by incorporating it into an existing product.
New Product Development versus Refinement

If the product idea is well-aligned with your institution’s strategy, the only question now is how best to develop the idea. In other words, should you:

- Develop an entirely new product? or
- Refine an existing product?

To answer this question, you need to compare the idea with your existing products and with those of competitors.

Complete Worksheets 3a and 3b, which will allow you to review your portfolio of products and see how they compare with competing offerings. Worksheet 3a is simply a description of your portfolio, including summaries of the requirements and estimations of the relative profitability of each product. Worksheet 3b will allow you to segment your market roughly by product and the corresponding benefits each client derives from the different offerings. Worksheet 3b will also help you clarify your institution’s core competencies and the organization’s position vis-à-vis its competitors. In other words, what benefits do you offer clients that would compel them to choose your institution over the competition? Once you have filled in the worksheets, compare the new product idea with the following:

✔ Your existing products…

If the idea is similar to your existing products, does it need to be a new product or is it easier just to refine the existing ones? Remember that during the pilot-test phase, you will need to pay close attention to cannibalization of existing clients—particularly if the new product has a more attractive price than existing ones.

If the idea is very different, confirm that you have been truly honest in the institutional capacity section above, because developing this new idea will likely require a significant investment from your organization.

✔ Competitive products…

It is important to keep in mind throughout the process how the product being developed will compare with competing products (formal and informal). You need to define what competitive advantage your product will have in the marketplace and whether your institution can sustain this advantage in the face of competitive reactions (do not start a price war, for example, if you are not confident that you are the low-cost player).

Once you have analyzed the attractiveness of the products offered by your institution against those offered by the competition, think about the following questions:
Can you refine an existing product to meet the needs and preferences of the target clients you are trying to appeal to with your new product idea?

or

Is the product idea sufficiently different to warrant a new product?

It is much less costly and cumbersome to refine an existing product than to develop an entirely new one. Moreover, product refinements can send a positive message to clients that the institution is continually trying to improve its offerings and customer satisfaction. Finally, product refinements are less likely to generate as strong a reaction from the competition as an entirely new offering will. However, if the needs and preferences that you are trying to fill with your product idea are very distinct, a new offering might be the most appropriate response. Then, the next question your institution needs to answer is:

Do we believe that our institution could offer the product being considered profitably, even in the face of a severe competitive response?

You do not need to answer this question definitively at this point, but you should think about worst-case scenarios before you invest a lot of time and money in the product development process. For now, if you have decided that your product idea is worth developing, you can move on to the internal preparation required to get the process in motion!
**Worksheet 3a: Product Overview**

<table>
<thead>
<tr>
<th>Product</th>
<th>Average Term (months)</th>
<th>Average Balance (total balance / no. of active clients)</th>
<th>Effective Yield (interest + fees)</th>
<th>Cost to Institution</th>
<th>Requirements (collateral, if loan, documentation, etc.)</th>
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### Worksheet 3b: Competitive Analysis of Products

<table>
<thead>
<tr>
<th>Product</th>
<th>Target Segment</th>
<th>Primary Benefits</th>
<th>Competitive Alternatives</th>
<th>Borrower Costs (transaction costs, including waiting time)</th>
<th>Delinquency Rate (if applicable)</th>
<th>Desertion Rate (default + non-renewals)*</th>
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* For savings accounts, one can measure the desertion rate as the rate of account closure, which equals the number of closed accounts as a percentage of all accounts.
If you have reached this stage of the guide, you must have an organization that is up for the task of developing a new product and a product idea that merits the effort. In order to get the new product development process started, your first task is to make sure you have the support of the entire organization to ensure that valuable resources are available to launch the effort. This section describes the initial activities and issues your organization must consider and act on to drive the new product development process forward.

☑ In this, section you will:

Understand the internal preparations needed to effectively and efficiently develop new products for the microenterprise market.

B1. Appoint a team of management and staff to work on the new product development; and

B2. Create institutional buy-in through an ongoing internal promotional campaign.
B.1 THE MULTIDISCIPLINARY PRODUCT DEVELOPMENT TEAM

Composing a team of staff and management to work on the design and development of a new product is critical to its success. By engaging staff and management in the development process, you are encouraging institutional support from the beginning. Before putting the team together, carefully think about the best composition of resources to move the process forward. Two primary questions that must be answered are:

1. What are the roles and responsibilities of each member of the product development team?

2. Who in the organization will be a member of the new product development team?

A new product development team has two major resources:

A **product champion**: The product champion is one staff person who is responsible for managing and leading the development process. Ideally, this person has a strong commitment or passion for the new product.

A **cross-functional team**: Team members, composed of staff from different functional areas of the organization, are responsible for carrying out the day-to-day tasks for the development of the new product.

Each member of the product development team brings specific expertise and understanding, so when working together, they will be able to look at how the new product fits within the organization.

**The Product Champion**

The product champion’s overall role is to **manage, coordinate, and monitor** the team designing the new product. Qualities that the product champion should have include:

- **Leadership**, to oversee the cross-functional team and guide the process;

- **Management and organization**, to set work schedules and maintain momentum behind the project;

- **Credibility and tenacity**, to build institutional support for the product;

- **Enthusiasm**, to sell the idea to decision-makers and key stakeholders; and

- **Spirit of collaboration and coordination**, to draw on the unique skills each team member represents.
Phase 1: Evaluation and Preparation

If your organization is hierarchical, the product champion may have to be someone in a senior management position to have credibility. Either way, the product champion needs skills, motivation, and management support to overcome the resistance to change that will inevitably arise at various stages of the process.

1. Describe and prioritize the skills and characteristics that are important for your product champion to embody.
   a. __________________________________________________________
   b. __________________________________________________________
   c. __________________________________________________________
   d. __________________________________________________________

2. Think about who in your organization has the skills and qualities to move the new product development process forward. Describe and prioritize your list of potential candidates:
   a. __________________________________________________________
   b. __________________________________________________________
   c. __________________________________________________________

The Cross-Functional Team

Key personnel from different parts of the organization will carry out the day-to-day tasks of developing a new product. These representatives form what is called a cross-functional product development team. Members of this team have different job responsibilities, backgrounds, and understandings to incorporate the different functional aspects of the organization into the new product development process. A representative team also helps generate institutional ownership for the new product, as it allows someone from each major department who understands the product to help design it.

The composition of your new product development team and the percentage of time dedicated to the development effort (half-time, one day per week, and so on) will depend on your organization and the time and resources that have been allocated to the new product. Typically, only the product champion will dedicate close to 100
percent of his or her time to the development process. The rest of the team will have periods of high-intensity involvement, though they will be working only part-time on the product development effort, given the budgetary constraints of most organizations. Other characteristics of successful product development teams include the following:²

- **Ten or fewer members**: Ideally, you should have a core team that dedicates more than half its time to the new product development effort, drawing individuals with specific expertise into certain areas of the development process where appropriate. The full team (those participating via regular memos and consultations as well as meeting attendance) should not exceed more than 10 to 12 members, as the process can get bogged down in coordination and consensus-building otherwise.

- **Enthusiastic and committed participation**: Individuals should not participate against their will. While it is important to have critical thinkers on the team, those who are coerced into the process will become obstacles to advancing the work plan. Team members should expect to be involved in the process, at differing degrees, from product design to roll-out.

- **Proximity**: The team members should work in close proximity to each other, as there will be ongoing interaction and meetings required as part of the product development process.

The table on the next page describes different members of a cross-functional team, the expertise the members bring to the team, and their responsibilities as team members.

Members of the development team will devote varying levels of time to the product development effort. This depends on their functions and the staff constraints of the organization.

---

## Phase 1: Evaluation and Preparation

### Product Development Team

<table>
<thead>
<tr>
<th>Role in Organization</th>
<th>Expertise</th>
<th>Responsibility as a Team Member</th>
<th>Percentage of Time Dedicated to Team</th>
</tr>
</thead>
</table>
| **Managerial level**                  | Experience managing projects, including staff, budgets, and time constraints. | • The product champion will manage the development team, keeping the process on track and objectives in line.  
  • Note: The champion can come from any department. | Half- to full-time                          |
| **Sales (credit officer)**            | Credit officers have the best understanding of clients’ needs and preferences based on their contact with clients. | • Interpret client needs.  
  • Analyze client information.  
  • Recommend delivery channels. | Half- to full-time                          |
| **Marketing and promotions**          | Marketing staff understand the market research process and how to deliver value to customers. | • Undertake market research.  
  • Define client profile of target market and translate into product need. | Heavy participation in initial phases and in launch |
| **Human resources (HR) and/or training** | HR staff have an understanding of staff skills and abilities to deliver a new product. | • Assess institution’s HR capacity to deliver a new product.  
  • Design and implement training for staff. | Most participation in launch                  |
| **Operations**                        | Have front-office experience with the mechanics of client intake, solicitation, and data input. | • Provide a reality check on the mechanical aspects of product design. | Ad hoc consultations                          |
| **Finance**                           | Offer a quantitative perspective on how a new product will affect the risk, profitability, and liquidity of the institution. | • Evaluate risk and return of the new product.  
  • Determine whether the institution has sufficient liquidity to meet demand for the new product. | Help with financial projections and pricing decisions |
| **Accounts/audit**                    | Ensure that product complies with internal systems of accounting and control. | • Assist with technical aspects of incorporating product into systems and internal control. | Ad hoc consultations                          |
| **Management information system (MIS)** | MIS staff develop systems to track and monitor the critical data of an organization. | • Evaluate the MIS requirements to determine whether the organization has the capacity to track data and implement the product.  
  • Develop the internal systems. | Most participation in design and scale-up phases |
| **Research and development (R&D)**    | R&D staff keeps track of industry trends, competitor activities, and changes in consumer tastes. | • Interpret and analyze the local environment.  
  • Develop a product and delivery method that fit the institutional culture. | Participation in initial design phase          |
Your institution must decide who will participate in the new product development process as a team member. Think about your organization and consider the following:

- The functional areas of your organization that need to be represented on the team
- The role that each staff will play as a team member
- Appropriate and available staff to participate as members
- The amount and cost of time for each participating staff member

Using the space provided on Worksheet 4, describe what you want your product development team to look like and who in your organization can fulfill the tasks, including the product champion and the multidisciplinary team. When recommending team members, consider the availability of each staff member, how much time they need to allocate to the project, and the cost of the resource. (Note that the cost information you develop here will be used again for Worksheet 15a, “Up-Front, One-Time Costs,” and Worksheet 15b, “Steady State Expenses,” in a more extensive exercise on new product development costs.)

The participation of each member in the cross-functional product development team should be formalized through a terms of reference. A terms of reference (TOR), which requires the formal approval of management, defines the role, responsibility, and authority of the team and clarifies what resources will be made available to it.3 Once approved, the TOR should be distributed throughout the organization so that other personnel understand the purpose behind, and the time required for, the product development activities. A sample TOR, which should be drafted by the product champion, is included in the “Resource Section” of this guide.

---

Worksheet 4: New Product Development Team

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Team Member Role and Responsibility</th>
<th>Name of Proposed Team Member(s)</th>
<th>Approximate Allocation of Time (% Time) and Cost</th>
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B.2 BUILDING INTERNAL CONSENSUS

WARNING! Some good ideas do not get implemented in organizations because of resistance that comes from a variety of sources:

- **Staff**, based on the increased burden of work and fear of change;
- **Board members** or veteran managers, based on loyalty to a particular method; and
- **Investors**, based on the changed risk profile of the portfolio or the potential for initial financial loss.

To encourage active support from the stakeholders, new product development will require planned and compelling justification to get their buy-in. To gain acceptance and support for new product development activities from these stakeholders, the product champion must actively communicate information and solicit ideas.

By this point, you should have:

- A general description of the new product and how it complements your organization’s strategic vision;
- The resources you need to design and develop the new idea;
- The key team members required for success; and
- A general idea of the budget needed to design and develop the new product.

Armed with this information, write a short memo to the head of your microfinance institution that describes the reasons for developing a new product, required resources, key players, and budget. It is the time to convince management that the idea is worth the investment!

---

**MEMO**

To:

From:

Date:

Re: New Product Idea

---

*Some people look at the world the way it is and ask, “Why?”  
I dream of things that have never been and ask, “Why not?”*  
Robert Kennedy
The product champion is responsible for making sure that the management and staff of your organization are informed about the progress of the development process. Initially, this communication helps build support among the stakeholders and consensus regarding the use of resources for new product development. Once the process gets under way, keeping everyone informed as well as soliciting their ideas will help the process run smoothly and ensure the product’s success.

Idea to Promote Institutional Buy-in on a Continual Basis

- **Interdepartmental briefings**: These are good settings for discussing the progress of product development because the success of developing, testing, and implementing new products requires drawing on the strengths and resources of different functional areas within the organization.

- **Strategic planning sessions**: Planning sessions or meetings, called by senior management, are significant opportunities to emphasize the importance of product development and the status of the project.

  It is important that meetings are structured as an open forum for feedback on the proposed product design, or that a brainstorming session is scheduled to generate creative ways to incorporate the new product efficiently into the institution’s existing systems. Transparency is critical to dealing with likely resistance because of the changes the organization will undergo if the new product is introduced.

Informal Approaches for Achieving Institutional Buy-In

In addition to formal meetings, several informal methods can be used to keep staff informed of progress and to solicit feedback.

- Include a brief product development update section in regular communications to staff members, such as in newsletters.

- Distribute the product champion’s contact information along with information regarding the process, to allow staff to provide their opinions and ideas.

- Create a brief, periodic update memo/article to be distributed from central locations (branches, for example) to all staff.
Congratulations! You have completed the first phase of new product development: evaluation and preparation. You should feel that your institution is ready to embark on the process of new product development, and that the idea you have fits well with your organization’s strategy and current offerings. Use the checklist below to review what you have accomplished to date, and verify that the pieces are in place so that the product development team you have assembled can move forward with designing the initial prototype.

### Worksheet 5: Evaluation and Preparation Checklist

<table>
<thead>
<tr>
<th>Pilot-Test Step</th>
<th>Time Frame</th>
<th>Person(s) Responsible</th>
</tr>
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<tbody>
<tr>
<td>☐ Undertake an institutional diagnostic to evaluate your organization’s financial viability, organizational culture/processes, human resources, and systems. Use Section A.1 to help you identify the relevant issues for consideration.</td>
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<tr>
<td>☐ Evaluate the product’s “fit” with your organization’s strategy and current product offerings. Use Section A.2.</td>
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<tr>
<td>☐ Decide whether it is best to design a new product or refine an existing one. See Section A.2.</td>
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<tr>
<td>☐ Identify the product champion to lead the process. See Section B.1 for a list of criteria.</td>
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<tr>
<td>☐ Assemble the multidisciplinary product development team. See Section B.1 for a list of factors to consider.</td>
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<tr>
<td>☐ Develop a plan for ongoing institutional support and buy-in.</td>
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<td>☐ Additional step.</td>
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<td>☐ Additional step.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Phase 2: Prototype Design and Development

PHASE 2: PROTOTYPE DESIGN AND DEVELOPMENT

The purpose of the product design and development phase is to develop a prototype, or “draft product,” to be pilot-tested.

A product prototype is an initial formulation of the characteristics and terms of the product to be pilot-tested. To ensure successful product design, your organization must be prepared to allocate sufficient resources and time to the development process. The next three sections outline the components of product design and development and the actions your institution should undertake for successful prototype design.

At the end of the next three sections, you will be able to:

- Undertake market research to help your institution gather and analyze information to develop market-driven products and services (Section A).
  - A.1 Market Research and Product Components
  - A.2 Sources of Market Information
  - A.3 Client Feedback
  - A.4 Competitive Analysis
  - A.5 Prototype Design: The Initial Terms

- Understand the operating logistics associated with delivering the new product (Section B).
  - B.1 Operating Logistics and Procedures
  - B.2 Information Systems
  - B.3 Human Resources
  - B.4 Regulatory and Legal Compliance

- Calculate the costing and financial analysis to finalize the prototype for pilot testing (Section C).
  - C.1 Estimating Revenue
  - C.2 Cost Considerations
  - C.3 Financial Projections
  - C.4 Finalizing the Prototype
The first step for the new product development team is to design a prototype. To become a successful product, the prototype you design must be based on market intelligence that you gain from your clients, your institutional experience, and the local environment. Note: This market research is distinct from but complementary to the much broader undertaking of developing a marketing plan for your institution. Section A focuses on the market research pertaining specifically to the new product you want to develop and the client segment to which it will be targeted.

In this section, you will:

- Undertake **market research** to help your institution gather and analyze information to develop market-driven products and services.

  - **A.1** Understand the role of **market research** and its relation to development of the different **components of a product**.
  
  - **A.2** Gather and analyze the different **sources of market information** from your institution and the external environment.
  
  - **A.3** Solicit **direct feedback from clients** to refine your product idea.
  
  - **A.4** Undertake a **competitive analysis** to compare your new product idea with other offerings in the market.
  
  - **A.5** Define preliminary features of the **product prototype** based on the information gathered.
A.1 MARKET RESEARCH AND PRODUCT COMPONENTS

What is market research?

Market research is an activity designed to help an MFI better understand the environment in which it is operating, its customer needs and preferences, and its position vis-à-vis the competition. Market research involves:

- Gathering available market data;
- Analyzing the information; and
- Refining the prototype based on the analysis.

Conducting market research is crucial to the development of your organization’s products and services, as it helps ensure that your products will be competitive and responsive to customer preferences. Market research can help you answer the following questions:

- What do your present clients dislike about the products your institution offers?
- What can you offer potential clients that will make them want to purchase your new product?
- How can you offer this new product so that it differs from what is currently available?
- Why will the customer come to your institution to purchase a new product?

How does market research tie into new product development?

Market research is the foundation that underlies all successful new product development. You must understand what your clients’ needs and preferences are, and how they are being satisfied by the competition, in order to provide a product that will have them come to your institution instead of to others. In order to undertake product-specific market research, you need to:

- Gather existing information about different elements of the product idea;
- Verify the ideas by speaking directly to clients and analyzing your competition; and
- Put the results together to come up with a product that will satisfy your customers’ needs!

This process is outlined in Diagram 4, “Market Research and Product Refinement,” below. The subsequent pages will give you an overview of how market research ties into the development of different components of the product, and the places you can mine to get information.
Diagram 4: Market Research and Product Refinement

Problem/Opportunity → Product Idea

Secondary Market Research
- Current product information (MIS reports, management information)
- Ongoing market research undertaken by your institution
- Industry data from trade periodicals, publications, or the Internet
- Government-sponsored market studies or census reports

Research Hypotheses/Product Refinements

Primary Market Research
- Focus-group discussions with clients, nonclients, and dropouts
- Participatory rapid appraisal exercises (in group settings)
- One-on-one interviews and mini-surveys
- In-depth quantitative surveys to quantify and verify qualitative research

Product Refinements

Operating Logistics

Financial Projections

PROTOTYPE
What is a product prototype?

A prototype is a representation of all or parts of a product that will be pilot-tested. How can there be “parts” of a product? It is helpful to think of a product in all of its component parts. Understanding the components of the total product can help you better satisfy your clients.

A product is something you provide to customers that satisfies their wants and needs. As illustrated in Diagram 5, every product has three component parts:

* **The Core Product**
  The reason why the customer pays money for the product/service.

* **The Actual Product**
  The specific features that characterize what the customer is buying.

* **The Augmented Product**
  How the customer receives the product.

**Why** the customer buys | **What** the customer buys | **How** the customer receives the product
---|---|---
The reason why the customer pays money for the product/service. | The specific features that characterize what the customer is buying. | How the customer receives the product.

Your job during the new product development process is to define the component parts of your product idea. As you go through the process of designing the product, the component descriptions can change based on your customers’ needs and the modifications made to the features of the product.

Remember, as you work through the new product development process, you must think about, and address, each component of the new product.
Diagram 5: The Total Product and Its Components

- Augmented
  - Customer service
  - Wait time

- Actual
  - Features
  - Brand name

- Core
  - Needs
  - Wants
  - Style
  - Packaging

- Ancillary services
  - Guarantee
Worksheet 6 defines and gives examples of a core, actual, and augmented product. The last column of Worksheet 6 is for you to complete using the product idea you described in the evaluation and preparation phase. Complete this matrix to begin to document and understand the component parts of your new product idea, even if it is general.

**Worksheet 6: Components of a Product**

<table>
<thead>
<tr>
<th>Core Product/Service</th>
<th>Example of why a customer buys a watch</th>
<th>Example of why a customer buys a savings product</th>
<th>Your new product idea:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>To be able to tell what time it is.</td>
<td>Wants to save for tuition, retirement, and unforeseen events.</td>
<td></td>
</tr>
<tr>
<td>Actual Product/Service</td>
<td>The reason why the customer pays money for the product—the benefit and want/need it fulfills.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The watch is aesthetically pleasing to the customer</td>
<td>• Interest rate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Waterproof</td>
<td>• Withdrawal flexibility</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Lightweight</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Augmented Product/Service</td>
<td>How the customer receives the product—the way in which it is packaged, delivered, and serviced.</td>
<td>• The store where it was purchased offers free repairs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The store is open at night</td>
<td>• Good customer service</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Savings book is waterproof</td>
<td>• Savings book is waterproof</td>
<td></td>
</tr>
</tbody>
</table>

**Microenterprise Best Practices**

33

Development Alternatives, Inc.
Phase 2: Prototype Design and Development

A.2 SOURCES OF MARKET INFORMATION

Looking at the total product, it is clear that to refine your idea adequately and develop a prototype, you must understand:

- What do your customers want?
- How much will they pay for it?
- What other options do they have and which do they prefer?

Where are you going to find the information you need to refine your product idea? There are many sources of information, both internal and external to the MFI, and different forms of market research, secondary and primary, quantitative and qualitative.

Primary versus Secondary Market Research

There are two types of market information that you will need to gather to advance the product development process:

1) Secondary market research: information previously collected for another purpose that your institution should review and reanalyze to help you develop your research hypothesis and narrow the questions you will still need to answer to refine the product.

2) Primary market research: information your institution will need to collect to answer the remaining questions and confirm the secondary market research. This guide gives an overview of competitive analysis and different ways to solicit client feedback.

It is important that you review existing sources of market information to save time and money.

Gathering Information from Public Sources

These sources of secondary market information can come from external sources, like governments or trade associations, which can sometimes provide useful data on market conditions and your target segments. Common examples include the following:

- Periodic household surveys carried out by the national census or statistical bureaus can provide information for estimating demand potential and market size, though the reliability and timeliness of this information will vary by country.

- Credit bureaus that operate in some countries provide valuable information about credit histories of clients.

- Trade associations and the publications they put out often provide useful updates on industry trends and performance. For example, if your institution is considering offering a rural lending product, local ministries of agriculture often provide information on crop yields and climatic variations, which will be key to your product design.
Gathering Information from Your Organization

In addition to using sources of information outside your organization, you may find that your institution undertakes ongoing market research. Common forms of ongoing market research include:4

- **Suggestion boxes** placed in your branches;
- **Questions on loan applications** or savings-account forms;
- **Exit interviews** from clients who stop using your service;
- **Surveys** to measure customer satisfaction (or reasons for desertion); and
- **Informal meetings** with clients.

Your institution is an invaluable source of information. The best place to begin to understand your customers and their needs is to ask the product development team and the staff of the institution to describe why new clients will want to buy your new product idea. Front-line staff—those who have direct contact and communication with clients, such as loan officers—have firsthand knowledge of your clients’ opinions and preferences. They have valuable information that will help shape your initial ideas about the prototype design. Similarly, examining existing products can provide valuable insight on customer preferences and behavior. For example, by examining the repayment history and other characteristics of current customers by product feature, you can gather revealing information about different market segments—which clients are price-sensitive or which prefer certain loan features, for example. Additional sources of information include company documents and market studies your organization may have already undertaken that segment potential clients into groups.

The table below describes the kind of information your organization may have and where you can go to find it.

<table>
<thead>
<tr>
<th>Information Source</th>
<th>Information Generated by the Source</th>
<th>Where to Look for the Information</th>
</tr>
</thead>
</table>
| Loan officers and credit managers | • Information on client needs, including different products for specific businesses  
• Reasons for non- or late payments | • Front-office (field) staff who have direct contact with clients |
| Current product information   | • Relationship between product features and specific client characteristics | • Management information system/electronic database  
• Tracking documents |
| Company documents             | • Client preferences  
• Trends  
• Projected demand | • Electronic database  
• Loan files  
• Hard-copy records |
| Market studies                | • Client needs  
• Competitive comparisons  
• Industry trends | • Research and development department(s) |

---

Using the worksheet below, describe the types of secondary market information that are available and identify who on the product development team will get the information. You can also use this worksheet to summarize and document the information you collect.

**Worksheet 7: Gathering Information from Your Organization**

<table>
<thead>
<tr>
<th>Information Needed</th>
<th>Date and Source of Information</th>
<th>Product Development Team Member Responsible</th>
<th>Summary of Information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Example:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment performance of a product related to the new offering</td>
<td>Repayment history, Jan. to Dec. 2000</td>
<td>Systems staff member who is member of product team</td>
<td>Clients in X branch had an average delinquency rate of 4.5 days for this product during the past six months</td>
</tr>
</tbody>
</table>
Primary Market Research

You will need to verify the relevance of the secondary information with targeted market research on your competition and clients. As described below, there are two main mechanisms for undertaking primary market research:

- **Qualitative** techniques, such as focus groups, seek to examine and understand the reasons and motivations behind consumer behavior.

- **Quantitative** techniques, which are usually conducted by means of pretested questionnaires administered to a representative sample of the population, seek to verify the statistical significance of observed behavior and opinions.

Qualitative versus Quantitative Market Research

Generally, qualitative research helps explain customer attitudes and actions in an in-depth and nuanced manner, whereas quantitative methods seek to measure the degree and frequency of this consumer behavior. In other words, qualitative research uncovers why customers make certain purchasing decisions, and quantitative research measures how representative those reasons are in the broader market population. Other distinctions are described below.

### Differences between Qualitative and Quantitative Market Research

<table>
<thead>
<tr>
<th></th>
<th>Qualitative</th>
<th>Quantitative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Use/objective</strong></td>
<td>In-depth understanding of consumer behavior and attitudes</td>
<td>Measure degree and extent these attitudes are representative</td>
</tr>
<tr>
<td><strong>Method</strong></td>
<td>Facilitated questioning</td>
<td>Structured surveys</td>
</tr>
<tr>
<td><strong>Participants</strong></td>
<td>Homogeneous, small groups</td>
<td>Statistically representative sample of population</td>
</tr>
<tr>
<td><strong>Output</strong></td>
<td>Consumer words and descriptions</td>
<td>Coded responses</td>
</tr>
<tr>
<td><strong>Required skills</strong></td>
<td>Focus-group facilitation</td>
<td>Statistical analysis and survey design</td>
</tr>
</tbody>
</table>

Your choice of market research tools—analysis of internal databases, competitor profiling, surveys, interviews, focus groups—and the degree of detail to which these tools need to be designed depend on:

- The resources and time available to conduct the market research; and
- Your organization’s familiarity with customers’ needs and with each type of research instrument.
Techniques for undertaking primary market research (such as facilitating focus groups and designing surveys) use specialized skills requiring dedicated training, and thus are beyond the scope of this guide. (See Section A, “Additional References for New Product Development,” in the “Resource Section.”) However, the techniques are not difficult to learn and can be taught in one to two weeks of intensive training. Your organization can choose either to undertake market research itself (in-house) or contract outside professional expertise. The advantages and disadvantages of each are summarized below.

### Methods for Undertaking Primary Market Research

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Conduct In-house</th>
<th>Contract Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Allows the MFI/people who understand and care about the sector (and poverty agendas) to run the process</td>
<td>• Offers specialized expertise and a professional, structured process</td>
<td>• Provides objectivity, especially in cases of high customer dissatisfaction</td>
</tr>
<tr>
<td>• Provides unique learning opportunities for senior management</td>
<td>• Provides important experience to MFI staff</td>
<td>• Saves the MFI precious time</td>
</tr>
<tr>
<td>• Provides important experience to MFI staff</td>
<td>• Allows MFI to internalize issues raised and lessons learned</td>
<td>• Will result in analyzed data and a report ready for presentation</td>
</tr>
<tr>
<td>• MFI staff are often better equipped to draw appropriate conclusions from the results</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disadvantages</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Requires special skills to</td>
<td>• Most market research companies have little or no understanding of the sector within which MFIs operate</td>
<td>• MFIs are often considered “low-value” clients and thus are neglected or given poor service by market research companies</td>
<td>• Good market research firms are expensive</td>
<td>• Offers specialized expertise and a professional, structured process</td>
<td>• Provides objectivity, especially in cases of high customer dissatisfaction</td>
<td>• Saves the MFI precious time</td>
<td></td>
</tr>
<tr>
<td>Ø moderate focus-group discussions</td>
<td>• Requires special skills to</td>
<td>• Most market research companies have little or no understanding of the sector within which MFIs operate</td>
<td>• MFIs are often considered “low-value” clients and thus are neglected or given poor service by market research companies</td>
<td>• Offers specialized expertise and a professional, structured process</td>
<td>• Provides objectivity, especially in cases of high customer dissatisfaction</td>
<td>• Saves the MFI precious time</td>
<td></td>
</tr>
<tr>
<td>Ø develop/administer questionnaires</td>
<td>• Requires special skills to</td>
<td>• Most market research companies have little or no understanding of the sector within which MFIs operate</td>
<td>• MFIs are often considered “low-value” clients and thus are neglected or given poor service by market research companies</td>
<td>• Offers specialized expertise and a professional, structured process</td>
<td>• Provides objectivity, especially in cases of high customer dissatisfaction</td>
<td>• Saves the MFI precious time</td>
<td></td>
</tr>
<tr>
<td>Ø analyze data effectively</td>
<td>• Requires special skills to</td>
<td>• Most market research companies have little or no understanding of the sector within which MFIs operate</td>
<td>• MFIs are often considered “low-value” clients and thus are neglected or given poor service by market research companies</td>
<td>• Offers specialized expertise and a professional, structured process</td>
<td>• Provides objectivity, especially in cases of high customer dissatisfaction</td>
<td>• Saves the MFI precious time</td>
<td></td>
</tr>
<tr>
<td>• Will take much staff time (away from other duties)</td>
<td>• Requires special skills to</td>
<td>• Most market research companies have little or no understanding of the sector within which MFIs operate</td>
<td>• MFIs are often considered “low-value” clients and thus are neglected or given poor service by market research companies</td>
<td>• Offers specialized expertise and a professional, structured process</td>
<td>• Provides objectivity, especially in cases of high customer dissatisfaction</td>
<td>• Saves the MFI precious time</td>
<td></td>
</tr>
<tr>
<td>• Staff come with biases/history with the clients</td>
<td>• Requires special skills to</td>
<td>• Most market research companies have little or no understanding of the sector within which MFIs operate</td>
<td>• MFIs are often considered “low-value” clients and thus are neglected or given poor service by market research companies</td>
<td>• Offers specialized expertise and a professional, structured process</td>
<td>• Provides objectivity, especially in cases of high customer dissatisfaction</td>
<td>• Saves the MFI precious time</td>
<td></td>
</tr>
</tbody>
</table>

Even if you decide to contract out the market research, it is very important that members of your product development team participate as observers in both the focus groups and the survey interviews. There is no substitute for firsthand observations of customer opinions and sentiments—direct client feedback.

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A.3 CLIENT FEEDBACK

Refining the product prototype requires direct input from potential customers. The goal of “testing” the prototype with your potential target clients is to get the clients’ direct feedback on all the characteristics of the prototype. The more the prototype incorporates known consumer preferences, the more useful the pilot-test results will be. You should solicit direct contact with customers throughout the process, as customer input is critical to successful product development. Feedback that you want from the clients at this point includes:

- Do the product terms (price, length, repayment schedule, and so on) meet client needs?
- How does the product compare with what clients have now?
- What are the benefits and shortcomings of the current product design?
- How can the product design be improved?

There are many ways to solicit this information, both quantitative and qualitative, from the target group. The most commonly used methods are described below.

→ **Focus Group.** Focus groups are targeted client feedback sessions where six to 12 people are convened to discuss some particular issue, like a new product. Although both time- and resource-intensive, this research approach allows for in-depth, qualitative feedback from potential customers, especially on the ancillary product (what kind of customer service they expect, how quickly they need loan application turnaround, what the branch environment is like, and so on). See the “Resource Section” for guidelines on conducting focus groups.

   Well-designed focus groups should:

   - Involve homogenous groups of participants and be repeated four to 10 times for reliability.
   - Be moderated by a trained facilitator, outwardly unaligned with the MFI, to maintain objectivity.
   - Offer some type of compensation to the participants.

→ **Participatory Rapid Appraisal.** PRA is a tool by which participating communities, with the assistance of outside facilitators, collect and analyze information themselves about their own lives and community. PRA information is gathered and analyzed by the participants, and thus is considered a less intimidating way for clients to share information and their opinions. Exercises based on PRA techniques have been successfully used within a focus-group setting to glean important information on client needs and preferences. See the “Resource Section” for guidelines on PRA exercises.⁶

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⁶ MicroSave offers training on PRA and focus-group techniques and how to apply these tools to microfinance markets. For background on and a description of this course, see [www.undp.org/sum/MicroSave](http://www.undp.org/sum/MicroSave).
One-on-One Interview. One-on-one customer feedback sessions are typically conducted in person, face to face. If the target market is part of your institution’s existing client base, you can schedule interviews to target specific people or conduct quick interview sessions when a client comes in to do business. The most common type of one-on-one interview is the “exit survey” one conducts for clients that have decided to leave the institution, either because they are dissatisfied or because they no longer have need for financial services. (See www.mip.org for a sample exit survey from AIMS.) If your institution is targeting new clients with whom it has no relationship, you can use “intercept” interviews, in which the researcher stops (or “intercepts”) people in shopping centers, in outdoor markets, or on busy street corners. In these public areas, the interviews will typically last about three to five minutes. Open-ended questions (versus those clients choose from a list of multiple choice responses) on surveys are another form of one-on-one interview.

Sample Survey/Questionnaire. These formats are useful if you want to generate a larger volume of data than you can cost-effectively acquire with qualitative research. These broad surveys are most appropriate when an MFI is entering an entirely new market where it does not have an existing presence or when the new product idea will require that the MFI assume significant costs and/or risks. Quantitative surveys, unlike the previously described qualitative techniques, provide more rigorous information on the degree and consistency of the qualitative research. For example, quantitative research can tell you what proportion of target clients is most (or least) likely to purchase the products and what the clients’ characteristics are.

One of the most important variables in generating meaningful, useful results is to define carefully the parameters of the survey sample to make sure the clients interviewed are representative of the market segment you are targeting. Local marketing firms and/or consultants with expertise designing unbiased questionnaires (random sampling at chosen confidence levels and so on) should be brought in to help design and conduct the survey and tabulate survey results. In developing countries where clients may be illiterate, loan officers can verbally survey clients regarding a specific product idea. Some surveys that have been used successfully in microfinance markets are publicly available, such as the “Customer Satisfaction” and “Loan/Savings Use” surveys developed by AIMS (visit www.mip.org). A sample, straightforward product questionnaire is provided below.

Real-time Research. This research approach uses a control group against which the results of the experimental group are compared. For example, during one month, an MFI could offer a promotion changing the price or terms of a product, then during another month in the same season change a specific aspect of the offer. Another example would be if the MFI introduced the same special offer in two different branches. The purpose is to obtain more conclusive cause-and-effect results than can be gleaned from observational research. Because it is difficult to control for the many variables affecting informal economies, however, a truly scientific result is not the goal. Rather, this research...
**Phase 2: Prototype Design and Development**

approach offers an opportunity to try out the prototype prior to the pilot test to find ways to refine it.

Simple product questionnaires can be incorporated into the product delivery process to gain valuable market intelligence on clients’ needs and preferences. Such questionnaires can be designed based on the results of qualitative market research, to identify what the key issues of importance are for clients and what their competitive preferences are, as illustrated below.

**Sample Product Questionnaire**

<table>
<thead>
<tr>
<th>1. How did you hear about this loan product?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. ___ word of mouth</td>
</tr>
<tr>
<td>b. ___ posters/brochures</td>
</tr>
<tr>
<td>c. ___ other</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. How were you meeting this financial need previously?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. ___ another financial institution</td>
</tr>
<tr>
<td>b. ___ friends/family</td>
</tr>
<tr>
<td>c. ___ other</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. What do you like best about this product?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. ___ interest rate</td>
</tr>
<tr>
<td>b. ___ terms of repayment/withdrawal</td>
</tr>
<tr>
<td>c. ___ other</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. Why did you come to our financial institution?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. ___ because we have the fastest application process</td>
</tr>
<tr>
<td>b. ___ because you have no other choice</td>
</tr>
<tr>
<td>c. ___ because our branches are close to your place of business or home (choose)</td>
</tr>
<tr>
<td>d. ___ because we offer the best interest rate</td>
</tr>
<tr>
<td>e. ___ other reasons</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5. Where is your place of business?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. ___ zone 1</td>
</tr>
<tr>
<td>b. ___ zone 2</td>
</tr>
</tbody>
</table>

*Thank you for your time and cooperation.*
A.4 COMPETITIVE ANALYSIS

Understanding what your competition is doing and how they are positioning themselves in the marketplace is critical for success. When you are designing a new product, it is important that the new product development team pay close attention to the competition and trends in the market. Knowing what other financial institutions are doing and how they are doing it will help you determine how to shape and market your product. Don’t forget to include informal competitors, such as moneylenders and ROSCAs, which are often the most common sources of financing for microentrepreneurs.

Questions and information you should ask and acquire about your market environment include:

- What is the competition currently charging for similar products?

- What terms and characteristics of competitor products that seem to be successful are appropriate for your market?

- What mechanism is the competitor using to deliver the product? Is the process cumbersome or streamlined?

- What is the product’s position in the market? What kind of client is the product aimed at?

- How is the product marketed to the public?

- How do you think your competition will react to your organization’s introduction of a new product? (For example, will they introduce new products? Will they adjust the price and terms of existing products? Will they ignore you?)

- What products do you expect to see your competition introducing in the near future?

- Are there other external forces (market conditions, legal restrictions, political or regulatory considerations, and such) that might affect the new product?

---

9 ROSCAs, or rotating savings and credit associations, are a very common source of informal finance in many developing countries. In these schemes, participating members make periodic contributions to the general fund, the entirety of which gets awarded to one member each period. The person who receives the “pot” of collective contributions rotates among the different members, hence the name.
What information do you need to know about your competitive situation? List below the specific information you need to find out about competitor products and other market conditions. Prioritize the information you believe is most important. Think about how you will get that information and what you will do with it. (One useful technique for conducting competitive research is the secret shopper method, whereby someone from your organization disguises him- or herself as a client and goes to a competing institution in search of a particular product.) Once you have gathered the information, fill out the competitive product analysis in Worksheet 9.

### Worksheet 8: Gathering Information about the Competitive Situation

<table>
<thead>
<tr>
<th>Describe the specific information you need to find out about the competitive situation</th>
<th>Describe who will get the information and how they will get it</th>
<th>Summarize the information collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example: What are my competitors’ requirements for opening a savings account?</td>
<td>Loan officer who is familiar with competing offerings, and who will verify knowledge with her clients</td>
<td>The savings program Bank X offers has the following conditions: 1. Clients carry minimum deposit of $200 2. No more than four withdrawals per month 3. Interest rate = X% if the minimum balance is greater than $500</td>
</tr>
</tbody>
</table>
Note below the different elements of your product’s component parts, including the specific needs and wants of the target clients you are trying to reach with your new product. Then, evaluate each component against similar products your competition currently offers that satisfy some of your target market’s needs and wants. Rate your competition on each product characteristic on a scale of 1 to 5, with 1 being the weakest and 5 the strongest.

**Worksheet 9: Competitive Product Analysis**

<table>
<thead>
<tr>
<th>Product idea: _________________</th>
<th><strong>Primary Competitors</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component Characteristics</strong></td>
<td>Your MFI</td>
</tr>
<tr>
<td><strong>I. Core</strong></td>
<td></td>
</tr>
<tr>
<td>Needs/preferences:</td>
<td></td>
</tr>
<tr>
<td><strong>II. Actual</strong></td>
<td></td>
</tr>
<tr>
<td>Min./max. balance</td>
<td></td>
</tr>
<tr>
<td>Min./max. term</td>
<td></td>
</tr>
<tr>
<td>Interest rate</td>
<td></td>
</tr>
<tr>
<td>Fees/penalties</td>
<td></td>
</tr>
<tr>
<td>Monthly payments*</td>
<td></td>
</tr>
<tr>
<td>Guarantees*</td>
<td></td>
</tr>
<tr>
<td>Grace period*</td>
<td></td>
</tr>
<tr>
<td>* for loan products</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td><strong>III. Augmented</strong></td>
<td></td>
</tr>
<tr>
<td>Convenience</td>
<td></td>
</tr>
<tr>
<td>Accessibility</td>
<td></td>
</tr>
<tr>
<td>Application process</td>
<td></td>
</tr>
<tr>
<td>Customer service</td>
<td></td>
</tr>
<tr>
<td>Flexibility</td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td></td>
</tr>
<tr>
<td>Product portfolio</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td><strong>Average Score</strong></td>
<td></td>
</tr>
</tbody>
</table>

The characteristics with low average scores indicate the areas in which your product is vulnerable to competition. Think about adjustments you could make that would make your product more competitive.

You should repeat this exercise after you solicit your clients’ direct feedback regarding their impressions of the competition. In other words, determine how your clients rate the competition.
A.5 PROTOTYPE DESIGN: THE INITIAL TERMS

The product development team should review and analyze the information it has gathered to draw conclusions about the specific features of the new product to define the initial terms of the prototype. (To define the initial terms of the new product, refer back to Worksheet 6, and think about the three basic parts of a product—core, actual, and augmented.) Based on the information gathered and analyzed, describe the preliminary terms of the new product that you believe best meet the needs and wants of your clients. The description should be clear and concise and use client language.

Worksheet 10: Initial Prototype Design

Using the matrix below, briefly describe the information gathered from your market research. After reviewing the information, describe, using the last column, the initial terms of your new product.

<table>
<thead>
<tr>
<th>Your New Product/Service Idea</th>
<th>Your Clients</th>
<th>Your Competition</th>
<th>Your Organization</th>
<th>The Initial Terms of Your New Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Product/Service</td>
<td>What is the unmet need or want?</td>
<td>How is this need being met by the competition?</td>
<td>How is your organization addressing this need now?</td>
<td>A description of the direct benefit, need/want</td>
</tr>
<tr>
<td>Augmented Product/Service</td>
<td>What is the best channel to deliver the product to the client?</td>
<td>How are competitors reaching the market?</td>
<td>How does your organization sell its products and services?</td>
<td>A description of the indirect benefits, how the client will receive the product/service</td>
</tr>
</tbody>
</table>

This prototype will form the basis of the policies manual you will need to develop for the pilot test.
Now that the preliminary research is complete and the product development team has structured the terms and conditions of the new product, you can begin understanding the operating logistics involved in delivering the product.

Successful new product development always requires balancing the needs of clients with the capacity of the organization to meet them. Thus, to finalize the product prototype, your organization must consider:

- Operational procedures and logistics
- Corresponding capacity requirements
- Regulatory and legal compliance

This section constitutes the “nuts and bolts” of building and delivering your product. It is usually where the product development process gets complicated, because “the devil is in the details.” Your organization is like a machine whose internal wiring is designed around a certain set of policies and procedures focused on its existing products. When you add a new product or change an existing one, you need to rewire the machine so that it continues to run smoothly.

In this section, you will:

- Define the **operating logistics** in order to estimate the costs of the new product and prepare the organization for pilot-testing.

  - **B.1** Examine internal logistics and specific procedures associated with the new product.

  - **B.2 and B.3** Determine the required systems upgrades and other capacity-building needed to deliver the new product, including modifying the organization’s management information system and developing human resources.

  - **B.4** Verify legal and regulatory compliance of the initial terms of the product design.
B.1 OPERATING LOGISTICS AND PROCEDURES

Processes refer to the organizational policies and procedures that your institution follows to deliver your products and services. These policies and procedures provide direction and standards of operation to the staff. It is the job of the product development team to review the existing processes to ensure that the new product or service will be handled in accordance with institutional procedures.

Understanding the internal logistics to deliver a product to a client—from the initial client application to collection, loan renewal, or workout—is critical to estimate the costs involved in product delivery. Now, you need to understand in more detail the specific steps to deliver the product or service and the policies and procedures that will govern each step.

In the case of developing a loan product, some of the areas the product development team needs to review include:

- **Promotions**: visits by loan officers to market, flyer distribution, information sessions;
- **Application process**: application procedure, initial criteria to apply;
- **Loan approval and underwriting**: site visits, decision criteria, guarantee requirements, approval authority, and so on;
- **Back-office processing**: inputting client information, registering collateral, and so on;
- **Sales**: information sessions, delineation of responsibilities, zonification, and other strategies for improving loan officer productivity;
- **Collections/delinquency**: notice to clients, follow-up procedures, transfer to collections, legal recourse, and the like; and
- **Portfolio management/risk control**: loan classification, portfolio aging, and other reports.

The product development team must define the steps involved in these different processes in order to map them out. One helpful way to outline the required logistical procedures is to diagram them in a flow chart.

Using Section H of the “Resource Section” as a guide, visually map out all the steps involved in selling and delivering the product by creating a flow chart for each phase of the process. Use the experience and knowledge of the product development team to identify the different steps. These flow charts will provide the basis for 1) the written procedures manual you will need to pilot-test the product, and 2) the written specifications you will need to define the systems requirements.
Once you have finalized the flow chart, you are ready to define written procedures. Using Worksheet 11, describe and elaborate on the steps needed to provide the new product or service to a client. Remember to provide as much detail as you can. Describe each step in the first column.

Use the second column of Worksheet 11 to describe the specific institutional procedures or policies that need to be in place to provide direction and standards of operation to staff. Eventually these policies and procedures will be part of your operating manual.

In the third column of Worksheet 11, describe the staff person who will be responsible at each step. This will later help you identify the requirements for administering the new product or service, the responsible staff person, and the training or additional support requirements needed for adequate implementation.

You may wish to make copies of Worksheet 11 before beginning, as the exercise may require several pages. A short sample is provided below to illustrate how to use the worksheet.

### Sample Operational Procedures Chart

<table>
<thead>
<tr>
<th>Description of Step</th>
<th>Description of Institutional Policy or Procedure</th>
<th>Staff Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>(What needs to happen to provide the new product or service to the client)</td>
<td>(What staff does and what guidelines they use)</td>
<td></td>
</tr>
<tr>
<td>1. Potential client visits office and first meets with assistant loan officer. Assistant loan officer conducts a brief discussion to ascertain whether client meets eligibility criteria.</td>
<td>• Assistant loan officer ascertains whether client meets initial criteria: ✓ Existing business for at least one year, ✓ Has a copy of business license, and ✓ Has a legal identification.</td>
<td>Assistant loan officer.</td>
</tr>
<tr>
<td>2. If client meets criteria, he or she is given a loan application to fill out.</td>
<td>• Assistant loan officer explains application process.</td>
<td>Assistant loan officer.</td>
</tr>
<tr>
<td>3. Client submits completed application.</td>
<td>• Assistant loan officer reviews application for completeness. If necessary, officer helps client complete form.</td>
<td>Assistant loan officer.</td>
</tr>
</tbody>
</table>
### Worksheet 11: Operational Procedures

<table>
<thead>
<tr>
<th>Description of Step (What needs to happen to provide the new product or service to the client)</th>
<th>Description of Institutional Policy or Procedure (What staff does and what guidelines they use)</th>
<th>Staff Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
B.2 INFORMATION SYSTEMS

Information systems are used in financial institutions to:

- **record information** about the client, product, or service;
- **track and monitor financial information**: calculate loans, record payments, and so on; and
- **produce reports** that are written forms of this information.

Many institutions use computers for their information needs, while others use a manual system. Whatever system your institution uses, you must ensure that the system can accommodate the information requirements of the new product or service.

Before you begin the pilot test, you have to determine:

What financial calculations and tracking reports does the system need to generate and deliver the product or service?

(For a list of system specifications associated with credit and savings products, see the next page.)

When you have answered these questions, you must ask:

Can the system produce the information presently?

or

Does the system have to be modified to produce the information?

In determining the capacity of your institution’s management information system to deliver the new product, you need to consider:

- System capacity in terms of volume,
- The flexibility of the system to incorporate new loan terms, and
- Required upgrades or reprogramming.

---

Note: A sophisticated guide to modifying and reprogramming systems is beyond the scope of this manual. For a more thorough guide, see *Management Information Systems for Microfinance Institutions: A Handbook*, by Charles Waterfield and Nick Ramsing, prepared for the Consultative Group to Assist the Poorest (CGAP), the World Bank, Washington, D.C.
System Specifications

Once the procedures are in place, you must define specifications for the system to meet the needs of the new product. The resulting specifications sheet will be given to the information technology staff member on your team as a guide that defines the systems requirements of the new product. Some critical features to consider in defining the system specifications to accommodate the new product include:

- **Interest calculations**: flat versus declining balance, variable versus fixed rate, discounts, fees and charges, payment schedules and accrual process, and so on;

- **Withdrawals/payment types and frequency**: fixed versus variable amortization schedules, grace periods, balloon payments, prepayment penalties, minimum balances, and such;

- **Reporting requirements**: loan activity, portfolio quality, financial statements (income statement, balance sheet, cash flow), and operations (loan officer productivity, branch costs); and

- **Tracking information**: customer information (identification number, outstanding balances, location, financial statistics, demographic information, and so on), marketing and accounting codes, and the like.

*Note: This list is not comprehensive; there may be additional features specific to your product or service that you need to consider.*

Remember: The business needs should drive the technology, not vice versa! Like the old accounting adage of “garbage in, garbage out,” a management information system will depend heavily on the quality of inputs. If policies, procedures, job descriptions, work flow, and the like have not been properly established, no MIS will function well.

Use Worksheet 12 to help you identify whether your information system is collecting all the necessary product information, or whether it needs to be modified or adjusted before you begin the pilot test.

Once you determine the modifications that are necessary, you will need to answer the following key questions, which will feed into the financial projections for the product:

1. Does the current MIS system have the capacity to manage the new product, or will it need to be upgraded?

2. How much will reprogramming or upgrading the system cost?
Worksheet 12: Information System Modification—Product Information

List all relevant product features and corresponding reporting requirements to determine what adjustments are needed to the information system.

<table>
<thead>
<tr>
<th>Product Feature</th>
<th>Corresponding Reporting Requirements</th>
<th>Required Adjustments to the System So Data Can Be Produced (if system can produce the information as is, mark “OK”)</th>
</tr>
</thead>
</table>
B.3 HUMAN RESOURCES

Once each step of the process is identified, the product development team can begin estimating more accurately the institutional capacity required to deliver the product. The major components of this institutional capacity and the corresponding costs of delivering the new product are related to human resources:

- Can existing loan officers be trained to deliver the new product, or will you need to hire new staff with specialized skills?
- How much will the training or new-hires cost?

To answer these questions, you must decide whether your institution will train staff to deliver the entire portfolio of products (“generalists”) or have specific people designated to particular offerings (“specialists”). Factors that affect the decision include:

- Education/skill level: for example, the ability to undertake financial analysis.
- Current caseload: Are staff at capacity or can they improve their productivity?
- Attitude: How entrepreneurial is existing staff? How willing are they to adapt to change?

New products may require specialized expertise or highly educated individuals for front-office positions (those who have direct contact with the client, such as a credit officer), depending on the complexity of the product. An MFI must assess whether its current credit officers can be trained to deliver the new product, or whether it will have to hire new, more experienced staff. Unless the product is highly specialized, your MFI should use existing front-office staff for the purpose of the pilot.

Other people who will be involved in delivering the product include back-office processors, cashiers, branch managers, field coordinators, and even a percentage of time from headquarters staff. You cannot accurately know the level of effort (in terms of human resources) that the new product will require until you complete the projections exercises in Section C of this phase. (For example, serving 1,000 clients requires a different level of effort than serving 5,000.) What you can estimate at this time is the type of people you will need to deliver your product, based on the policies and procedures you have outlined.

Review the operating logistics that you outlined to deliver the new product. For each step that you identified as part of the process, describe the person in the organization responsible for undertaking the job, how much time would be spent at each step, and approximately how much it would cost. Use Worksheet 13 to estimate the level of effort (in terms of percentage of time required for each position) for the different operational processes.
**Worksheet 13: Human Resources Requirements**

<table>
<thead>
<tr>
<th>Operational Process</th>
<th>Position/Job Title (from most junior/lowest paid to most senior/highest paid)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Promoter</td>
</tr>
<tr>
<td>Example: Promotional/advertising campaign</td>
<td>50%</td>
</tr>
<tr>
<td>Processing applications</td>
<td>20%</td>
</tr>
<tr>
<td>Evaluating applications</td>
<td>30%</td>
</tr>
<tr>
<td>Preparing loan documentation</td>
<td>15%</td>
</tr>
<tr>
<td>Approval process</td>
<td>10% 15% 15%</td>
</tr>
<tr>
<td>Loan disbursement</td>
<td>20%</td>
</tr>
<tr>
<td>Follow-up/monitoring</td>
<td>15%</td>
</tr>
<tr>
<td>Loan collections</td>
<td>15% 10%</td>
</tr>
<tr>
<td>Loan renewals</td>
<td>10% 15%</td>
</tr>
<tr>
<td><strong>Total Level of Effort</strong></td>
<td>50% 35% 45% 100% 15% 15% 10%</td>
</tr>
</tbody>
</table>

*Note: The above is a fictitious example based on a new loan product.*
B.4 REGULATORY AND LEGAL COMPLIANCE

Ensuring regulatory and legal compliance can be done at any stage during the development of the product prototype. It involves verifying with the appropriate legal and regulatory authorities that the initial terms of the product design comply with established laws. The following are some examples of legal and regulatory considerations that can arise with different aspects of product features:

- Do the collateral requirements call for registering property or checking on existing liens?
- Do the terms of the new loan require special provisioning requirements?
- Do any debtor or consumer protection laws prohibit certain eligibility requirements?

What changes do you need to make to your product prototype to ensure legal and regulatory compliance? List below the specific issues you must address before you can pilot-test the product.

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
Now that you have analyzed both the market conditions and the internal logistics required to deliver the product, you must determine what the impact of this new product will be on your organization’s bottom line—the financial implications. Just the way your organization prepares budgets for its existing products, you must estimate the expected costs and the projected revenues associated with this product to determine whether it is commercially viable.

In order to ensure that your organization is able to deliver the new product independently for the long term, you must be able to break even with the product. The critical question is, how much revenue does the new product need to generate to cover its costs? For example, a client might desire biannual repayments and below-market interest rates, but such terms would be imprudent based on the MFI’s need to control risk and be financially viable. In order to finalize the product prototype, your organization must take into account:

- Cost considerations based on operating logistics, and
- Revenue estimates to complete the break-even analysis.

Section C.4, “Finalizing the Prototype,” discusses the activities and issues the product development team needs to address to finalize the new product prototype. Completing this section will help your team determine whether it can deliver the new product to the client in a cost-effective, viable way. While intensive, this section provides information vital to the success of new product development.

In this section, you will:

- **Calculate costs and financial projections** to finalize the prototype for pilot-testing:
  - C.1 **Estimate revenue** based on market share projections and product characteristics;
  - C.2 **Consider costs** based on internal logistics and required capacity-building;
  - C.3 **Prepare financial projections** to determine break-even sales volume; and
  - C.4 **Finalize the product prototype** for pilot-testing, after conducting sensitivity analyses.
C.1 ESTIMATING REVENUE

If your new product is not financially viable, you will not be able to deliver the product to your customers for the long term. Determining a product’s financial viability involves estimating the potential revenue it can generate and comparing these sales with the cost of developing and delivering the product.

You cannot completely determine the product’s viability now because you do not yet have complete information about what the product will cost to develop and implement. However, you can at least make an educated guess about what the potential upside is, based on the information you have gathered about the size of the target market and initial product terms. So we focus now on determining whether sufficient demand exists (in terms of sales revenue) to justify developing the prototype.

Revenue, as described below, is based on two factors: number of units sold and the contribution per unit, often expressed as the financial margin. Calculating the potential revenue from the new product based on your initial prototype design will give you a general idea of whether the potential market is large enough to justify continuing with the product development process.

To estimate revenue, the following variables are needed:

1. **Number of clients:** This variable consists of new clients, existing clients who are using other products from your MFI, and deserting clients.

   (a) **New clients:** This number represents the percentage of the market you can attract with the new product. These clients can either be ones who do not currently have a relationship with any institution or those attracted (“captured”) from competitors. You should be conservative with this number, because even if you develop a superior product, there might be high “switching costs” (the hassle for the client to switch financial institutions, once he or she has established a relationship with one MFI). Also, your competition will likely respond to your new product with refinement of its own to keep its clients from switching. Any market studies you have done, especially those that include competitive data, may shed some light on the size of the target market and the likelihood of attracting new clients.

   (b) **Existing clients using other products:** These are existing clients who adopt the new product either in addition to (a product complement) or instead of (a product substitute) the product they currently use. Cross-selling to clients already known to your institution is an effective method for marketing a new product. Clients who switch from an existing product to the new one, however, will become the variable used in the calculation of “cannibalized income,” which you will subtract from the total estimated product income on Worksheet 14.
(c) Deserti ng clients: This figure includes both voluntary desertion (those clients who try your new product but then drop it) and involuntary (those borrowers who cannot get another loan because they were delinquent). Given that there will inevitably be some clients who close savings accounts or who want to take a break from borrowing or who just find your competitor’s products more attractive, you must discount your sales targets by this desertion factor.

2. Net financial margin: The net financial margin of the new product (how much is earned with each sale) is based on the product characteristics you came up with in your final prototype on Worksheet 10 and estimated loan losses, to be conservative. The most important factors influencing the financial margin for a loan product are the interest rate charged and the expected losses. The formula for the net financial margin is effective annual interest rate – cost of funds – loan loss provision (as a percentage of gross portfolio).

The effective annual interest rate reflects the total return on capital, including commissions and fees. For a deposit-taking institution that invests its proceeds in government bonds, the effective annual interest rate is the return generated by these instruments. For a loan product, the effective annual interest rate is based on many variables, including:

- Method of interest rate calculation (flat or declining balance);
- Frequency of payments;
- Average term; and
- Commissions and fees (and the method of calculation and collection of each: flat, per annum, or collected up front).

Cost of funds is calculated as the weighted average cost of capital (see Section F of the “Resource Section”), which for a lending MFI is the blended rate paid for funding the portfolio. The cost of funds is zero if the funds are donated or if equity is used. To be more accurate, one can also calculate the cost of capital to include the impact of inflation on an MFI’s net worth (equity from donated funds and quasi-equity from concessional loans). For a savings institution, the cost of funds is the interest paid on deposits.

Loan loss provision is calculated by dividing estimated loan losses by the gross portfolio. It is an estimate of what percentage of your loan portfolio will be uncollectable.

Pricing is an art that should be thought through carefully, taking into account competitive as well as strategic and financial considerations. See Section E of the “Resource Section” for a brief discussion on pricing considerations.

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11 Financial calculators can compute the effective interest rate for a loan based on the amount the borrower receives (“present value”), the number of payment periods, and the amount to be paid each period (usually entered as a negative number because it is a cash outflow).
3. **Average outstanding balance of new product per client:** To calculate revenue using the effective rate of interest, it is important to consider the average outstanding balance for the year per client, NOT the amount disbursed. For a loan that does not have a grace period for principal payments, a very rough estimate is that outstandings equal the average of the starting balance (the amount disbursed) and ending balance (zero)—in other words, the amount disbursed divided by two. To be more accurate, average outstanding balances will vary depending on term and frequency of payments.

4. **Loss of cannibalized income:** This occurs when an existing client buys a new product instead of a current product, rather than in addition to the current product.

**Worksheet 14: Estimating Revenue**

\[ \text{REVENUE FOR NEW PRODUCT}^{12} = (A \times B \times C) - D \]

(A) **Number of clients**

New clients (including those from competing institutions) + current clients with other products – clients lost to desertion.

(B) **Net financial margin**

Effective annual interest rate (including commissions and fees)

– cost of funds – loan loss provision (as a percentage of gross portfolio).

(C) **Average outstanding balance of new product per client**

This figure is distinguished from the amount disbursed, as it is the amount on which the financial margin generates income. If increases in the outstanding balance are projected according to renovations (repeat clients), retention rate is an important variable. Average balances will increase substantially more slowly if customers leave and new customers have to start in the minimum range.

(D) **Loss of cannibalized income** = lost volume \times relevant contribution margin

This figure is included when existing clients switch to the new product and therefore no longer generate income from a current product.

\[ \text{REVENUE FOR NEW PRODUCT} = (A \times B \times C) - D \]

12 For more detailed income projections, use a model such as Microfin (a financial model written by Tony Sheldon and Charles Waterfield for the Consultative Group to Assist the Poorest), with which numerous assumptions and variables can be manipulated to produce detailed projections and sensitivity analyses.
Sensitivity Analysis

Once you calculate total revenue for the new product, you can repeat this exercise by changing the product terms relative to the current (old) product to conduct a basic sensitivity analysis. A sensitivity analysis will give you a better understanding of the tradeoffs involved as you finalize the terms of the prototype.

To conduct the sensitivity analysis, repeat the exercise from Worksheet 14 several times, but each time adjust one variable, such as the interest rate, the average loan size, or the term. Calculate the new total revenue below so you understand how different adjustments affect revenues.

1) Adjustment: *Example: increase the average term of the loan from four months to six months*

Let us assume that the MFI charges 3 percent monthly (using a flat amortization schedule) and a 1 percent up-front commission. The MFI anticipates that the average loan size of its new pawn loan product will be $400 and the loan loss will be 3 percent. Payments will be spread out evenly over the average term of four months. The weighted average cost of capital is 12 percent a year. The MFI estimates a market of 5,000 clients, one-fifth of whom will be those who currently use its traditional working capital product, which has an average loan size of $600 and a financial margin of 1.5 percent. The calculations for the total revenue, old and new, appear below:

<table>
<thead>
<tr>
<th>Steps to Calculate Adjusted Total Revenue Based on Increased Term</th>
<th>Old Terms</th>
<th>New Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Increase in market share</strong></td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>No. of new clients who “switch” = 1/5 (5,000) = 1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>B. Financial margin</strong></td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td>= interest rate spread – loan loss provision + commission</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual spread = (3% x 12%) – 12% = 36% – 12% = 24%</td>
<td>24% – 3% + (1% x 12/4) = 21% + 3%</td>
<td>24% – 3% + (1% x 12/6) = 21% + 2%</td>
</tr>
<tr>
<td>Provision = 3% and commission = 1% x 12/term of loan = 1% x 12</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>C. Average outstanding loan balance</strong></td>
<td>$200</td>
<td>$200</td>
</tr>
<tr>
<td>Loan balance = average disbursement/2</td>
<td>$400/2</td>
<td>$400/2</td>
</tr>
<tr>
<td>Total revenue contribution, without loss of cannibalized income</td>
<td>$240,000</td>
<td>$230,000</td>
</tr>
<tr>
<td><strong>D. Loss of cannibalized income</strong></td>
<td>$0</td>
<td>($54,000)</td>
</tr>
<tr>
<td>= lost volume x relevant margin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>= clients who switch x average outstanding balance x relevant annual margin</td>
<td>N/A</td>
<td>$300,000 x 1.5%</td>
</tr>
<tr>
<td>Total revenue contribution = (A x B x C) – D</td>
<td>$240,000</td>
<td>$176,000</td>
</tr>
</tbody>
</table>

Even though the earnings for the longer loan term would be greater than for the original four-month loan, the proposed new loan product would have a lower contribution margin on an annualized basis because commissions would be collected only twice a year, rather than three
times. In addition, the new loan product would siphon away existing clients, resulting in a cannibalization of income that must be taken into account. Thus, a seemingly minor product change can have a big impact on the bottom line!

Now, try another type of sensitivity analysis with an adjustment in product terms that you are considering.

2) Adjustment: ________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

*Fill in all the items that are applicable, based on the product adjustment you have proposed:*

Number of clients: ______________

New financial margin: ______________

New average outstanding balance per client: ______________

Loss of cannibalized income: _________________________

\[
\text{New Total Revenue} = A\text{________} \times B\text{______} \times C\text{______} - D\text{______}
\]

Sales volume is just one factor among many that you must consider before deciding what the terms of the prototype will be. Nonetheless, it is important to understand how much small changes in loan terms can affect total revenue.
C.2 COST CONSIDERATIONS

Revenue is obviously only half of the financial picture. To determine whether a product is financially viable, you must also consider the costs the product will generate and the indirect costs (overhead) that support all the activities your MFI undertakes.

The true costs of delivering a product will not be known with accuracy until the pilot-testing phase. However, the product development team can begin estimating costs based on the operating logistics and the corresponding capacity requirements involved in delivering the product effectively. These cost estimates will be used to make financial projections so the product development team can adjust the terms of the product to determine its commercial viability. The process of estimating costs will also help you identify what information you need to gather during the pilot test to make more accurate predictions about the product’s commercial viability.

The exercises you did in Section B to examine operating logistics and capacity-building should have inspired you to think about the different kind of expenses you will need to incur to pilot-test the new product successfully. For the purpose of developing financial projections for the new product, we will consider two kinds of costs—up-front investments and steady-state expenses. The descriptions and corresponding worksheets below will help you estimate both in order to determine whether the new product is financially viable.

- **Up-front investments:** These costs are incurred in the design phase of new product development and are typically associated with the capacity-building that is required to initiate the pilot test. Included in these costs are the personnel time of the product development team, market studies undertaken, upgrades of the management information system, and training of loan officers. These one-time costs can either be amortized over the first years of the new product and included as part of its required break-even, or separated as general research and development that the institution undertakes, to be paid for by all products or earmarked funds.

- **Steady-state expenses:** These costs are those that are continually incurred in the ongoing delivery of the product once it has achieved a stable market penetration. These costs correspond to the final phase of a product development life cycle. The most significant steady-state expense will be staff time, including both new staff to be hired as well as the percentage of time existing staff will dedicate to the new product. It is important to consider not only direct expenses—those that are more or less directly associated with the delivery of the new product (such as loan officer time and materials that are used in the application and promotion processes)—but indirect expenses, as well. These overhead, or general administrative, expenses are necessary to keep your institution up and running to deliver any product. Indirect expenses include those not directly tied to the new product—such as the time of executive salaries, rent, utilities, vehicles and equipment, management information systems, and other expenses that need to be “allocated” to different products. You should allocate a percentage of these indirect costs to your new product so that it helps cover these expenses the way all products should in order to keep your institution afloat.
Using Worksheet 15a, list the up-front, one-time expenses incurred as part of the product development process. These are your “R&D” (research and development) expenses that can either be amortized over the life of the new product or covered separately by specifically designated funds. Use Worksheet 15b below to estimate steady-state expenses, which are the continual costs your organization will incur if it decides to launch the product. The largest line item will be salaries, so you can use your estimates regarding required human resource needs from Worksheet 13 to determine how many full-time equivalent (FTE) staff you will need to deliver your new product. To complete the steady-state expenses, you will need to estimate the other direct expenses (such as materials) and then determine how much of the institution’s indirect expenses you will allocate to the new product.

What percentage of the institution’s indirect expenses should be allocated to the new product? There is no one correct answer to this question. Some institutions allocate indirect expenses to different products based on the percentage of the overall portfolio they represent. Other MFIs allocate products based on the number of staff or proportion of personnel time directly associated with that product as a percentage of the total. Because salaries are one of the most significant expenses for microfinance institutions, prorating fixed costs by the proportion of staff time will give you an estimate of how to allocate indirect costs. The easiest method is to allocate expenses equally among all products, though this type of division is typically the least accurate.

**Worksheet 15a: Up-Front, One-Time Costs**

1. Research & Development (R&D) costs
   a. Number of staff in person-days (PD)  
      \[ PD = \]  
   b. Estimated cost of staff per day (CS)  
      \[ CS = \]  
   c. Number of person-days dedicated to project (time, or T)  
      \[ T = \]  
      Subtotal staff costs (PD x CS x T)  
      \[ \text{Staff} = \] 

2. Market research studies undertaken (MR)  
   \[ \text{MR} = \] 

3. Systems/capacity upgrades needed  
   \[ \text{Systems} = \] 

4. Other costs of pilot-testing (training and so on) (PT)  
   \[ \text{PT} = \]  

   **Total Up-Front Investment Costs**  
   \[ \text{Total Up-Front Investment Costs} = \text{Staff} + \text{MR} + \text{Systems} + \text{PT} \]

   Include this number in Worksheet 16, line a.

Now, you must determine whether you want to amortize these up-front costs, and over how many years, and the total accordingly:

**Up-front Costs (UC) / number of years = amortized UC**

---

### Phase 2: Prototype Design and Development

### Worksheet 15b: Steady-State Expenses

#### Direct Costs

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Quantity</th>
<th>Unit Cost</th>
<th>Total Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Human resources</strong></td>
<td>Person-time (level of effort from Worksheet 13)</td>
<td>Average salary + benefits + bonus</td>
<td></td>
</tr>
<tr>
<td>Operations assistant</td>
<td>25% of time</td>
<td>US$1,200/month</td>
<td>$300</td>
</tr>
<tr>
<td>Junior promoter</td>
<td>50% of time</td>
<td>US$1,000/month</td>
<td>$500</td>
</tr>
<tr>
<td><strong>Other staff</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Materials</strong></td>
<td>300 flyers</td>
<td>US$.30 each</td>
<td>$90</td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Subtotal Direct Costs**  
Include this number in Worksheet 16, line b1.

#### Indirect Costs

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Quantity</th>
<th>Unit Cost</th>
<th>Total Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>Total HR expense</td>
<td>Allocation %</td>
<td></td>
</tr>
</tbody>
</table>

**Subtotal Indirect Costs**  
Include this number in Worksheet 16, line b2.

**Total Steady-State Costs**  
Include this number in Worksheet 16, line b3.
C.3 FINANCIAL PROJECTIONS

There are two main methods for creating financial projections and ultimately deciding whether a new product is financially viable and how soon the institution can expect it to be profitable:

- A **break-even analysis**, which can be calculated to solve for the number of clients needed to cover costs, the average loan size needed, or the portfolio needed; and

- An **income statement**, which can be used to calculate various efficiency and sustainability ratios.

Break-even is the exact level of sales you need to cover the costs of developing and delivering the new product. You can develop break-even calculations based on the up-front investments in R&D and/or the ongoing steady-state expenses.

You must decide what portion of the indirect costs of operations your new product will try to recover as you set its price and terms. Once you have decided and have estimated the total costs associated with this new product, you will see how much you have to sell to recover these costs. Then, you can compare the projected demand for the new product (determined during market research) against the level needed to break even, to determine whether you can realistically expect to cover the costs identified to deliver the product.

Using Worksheet 16, develop a rough break-even for your product.

1. Estimate the new product research and development costs for the first year. The total of these costs will provide you with the total fixed costs of design and launch.

2. Go to Worksheet 14 and find the financial margin per client figure you already calculated.

3. Determine the break-even sales volume for the new product.

4. Undertake a sensitivity analysis (like you did for your revenue calculations) by changing the product terms and then repeating steps 2 and 3. Once you determine how the change in a product term affects the required break-even sales volume, you can use this information to refine the price and terms of the proposed product.
Worksheet 16: Break-Even Calculations

Costs

<table>
<thead>
<tr>
<th>Costs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a. Up-front, one-time costs</strong> (Worksheet 15a) (UC)</td>
<td>UC =</td>
</tr>
<tr>
<td><strong>b. Ongoing, annual steady-state costs</strong> (Worksheet 15b)</td>
<td></td>
</tr>
<tr>
<td>1. <strong>Direct costs (DC)</strong></td>
<td>DC =</td>
</tr>
<tr>
<td>2. <strong>Indirect costs (IC)</strong> = total indirect x allocation %</td>
<td>IC =</td>
</tr>
<tr>
<td>3. <strong>Subtotal, steady-state (SS)</strong> = DC + IC</td>
<td>SS =</td>
</tr>
<tr>
<td><strong>Total costs (TC) to cover new product</strong> = UC + SS</td>
<td>TC =</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Break-even sales volume =</th>
<th>Costs to cover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Break-even up-front costs =</td>
<td>UC/FM =</td>
</tr>
<tr>
<td>Break-even direct costs =</td>
<td>DC/FM =</td>
</tr>
<tr>
<td>Break-even steady-state (direct costs + amortized up-front costs) costs =</td>
<td>SS/FM =</td>
</tr>
<tr>
<td>Break-even total costs =</td>
<td>TC/FM =</td>
</tr>
</tbody>
</table>

* Financial margin (FM)* is from Worksheet 14.

These financial projections will be very rough. The purpose of understanding the costs at this time is to make sure the new product is in line with your organization’s financial goals. These results will help you determine whether you should proceed with developing this new product. If this check suggests that the product will not meet institutional financial goals, it is much easier to refine the product terms and features now than it would be after the product has been launched.
Phase 2: Prototype Design and Development

In order to understand the implications of the new product for your organization’s financial goals, seriously consider the following points:

1. Do you have other sources of revenue or donations to cover the costs of development? If so, move on to the steady-state break-even, which is more relevant to the real situation.

2. Given the break-even sales volume for the steady-state, divide by the average outstanding loan size to calculate the number of clients. Compare this with the estimated market share of the total potential market (determined in Section A, “Market Research”). Is it realistic to say that your organization can capture enough of the potential market demand to reach the break-even sales volume?

3. If yes, how long do you think it would take your organization to reach break-even? Do you have other sources of revenue to cover the losses in the interim?

4. Assuming a certain caseload (number of clients per account officer), calculate the average outstanding loan size needed to pay the account officer’s salary and benefits. (Divide the salary and benefits by the marginal contribution, and then divide the break-even sales volume by the number of clients per account officer.) Is this realistic given the prototype characteristics and assumptions?

5. Similar to step 4, assume an average outstanding loan size and calculate the number of clients needed to pay the account officer’s salary and benefits. Is this realistic?

6. Assuming your MFI has branches as profit centers, calculate the break-even sales volume needed to cover branch costs. Does this make sense given the number of account officers in the branch and the size of the potential market in the geographic area of the branch?

7. How will you fund the new product? Do you have sufficient liquidity? Has that cost been included in the marginal contribution?

After you calculate the break-even sales volume, you can continue with more-sophisticated financial projections.
**Worksheet 17: Projected Income Statement and Related Ratios**

You can use an Excel spreadsheet to set this up, choosing whatever categories you want depending on the detail desired. You also need to decide whether you want to project the figures monthly, quarterly, or annually, and for how many years. Following is a sample spreadsheet for the first year of a new product:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avg. O/S</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Gross port.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fin. income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fin. costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss provision</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Net fin. margin</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admin. costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net op. income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D costs (amortized?)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Keep in mind:

- Explicitly list all the assumptions, including the terms of the new product, loan loss estimates, productivity of staff, and so on.

- Be sure the figures are consistent with your previous revenue and cost estimates.

- Decide whether you want to include the research and development costs, and whether you want to amortize them or just include the ongoing, steady-state costs in your calculations.
Ratios can be calculated to evaluate the viability of the new product and compare the projected performance to your institution’s current ratios or to industry standards. Reliable sources of industry data on ratios include *The MicroBanking Bulletin*, published by Calmeadow (www.calmeadow.com), and MicroRate, a microfinance rating agency (www.microrate.com). Remember, always compare ratios with historical trends, projected goals, and/or other, similar institutions.

Following are some basic, recommended ratios:

1. **Operational sustainability** = financial income / (interest expense + loan loss provision + administrative expenses)

2. **Financial sustainability** = adjusted operating income / (interest expense + adjustments for inflation and subsidies + adjusted loan loss provision + administrative expenses)

3. **Operating efficiency** = total administrative expenses / average loan portfolio

Finalizing the prototype design will involve balancing cost and profitability considerations with customer service, competitive strategy, and risk. The following exercise will help you establish return goals for the pilot test or at least determine what information you need to gather to calculate more accurate financial projections.
C.4 FINALIZING THE PROTOTYPE

On the following page, Worksheet 18 contains a chart with general product features that will help you organize the information you have collected and finalize the prototype. Finalizing the prototype involves adjusting the terms of the product based on customer feedback. The prototype, or the initial terms and characteristics of the product, will be used during the pilot test to ascertain how the product will sell in the market.

Using Worksheet 18, describe the initial features of the product. In defining the repayment periods, for example, a risk-based view would argue for greater frequency, while a profit-seeking perspective would limit the number to keep costs down. From the client perspective, fewer repayments usually is better, but from a liquidity standpoint, the institution might need the additional cash flow of more frequent payments.

The worksheet provides similar guidelines for pricing, using a fixed-asset loan as an example. Once you have filled in the chart, you can make conclusions about what should be included in the final prototype by weighing the different perspectives.

Remember, by definition, the prototype is a set of assumptions about what your organization believes is needed and clients will buy. It will be modified throughout the pilot test and even after it is launched.
## Worksheet 18: Finalizing the Prototype

<table>
<thead>
<tr>
<th>Product Features (example: fixed-asset loan)</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Price:</strong> interest rates, fees</td>
<td>Same as or lower than competing products, based on focus-group results</td>
</tr>
<tr>
<td></td>
<td>Collateral makes this product less risky, so it will have a comparatively low price</td>
</tr>
<tr>
<td></td>
<td>Relatively high, to cover the cost of the market valuation process of collateral</td>
</tr>
</tbody>
</table>
|                                           | **Interest rate =**  
|                                           | **Fees =**  
| **Term**                                   | Term =  
| **Size**                                   | Size =  
| **Repayment period**                       | Repayment period =  
| **Guarantees**                             | Guarantees =  
| **Repayment incentives and penalties**     | Repayment incentives and penalties =  
| **Other product features**                 | Other product features =  

*Microenterprise Best Practices*
Congratulations! You have completed the product design and development phase! Use the checklist below to review all you have accomplished. The checklist may also be used as a guide to plan and conduct your organization’s new product design and development strategy. Keep in mind that not all the steps listed below are necessary for every institution. Choose those that are most important to you.

Worksheet 19: Product Design and Development Checklist

<table>
<thead>
<tr>
<th>Design and Development Step</th>
<th>Time Frame</th>
<th>Person(s) Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment the market to determine the profile of potential clients (see Section A.1).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Characterize and quantify the target market (see Section A.1).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gather and analyze sources of secondary market information, including (see Section A.2):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• MFI staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Current product information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Public documents and trade information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Company documents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collect and analyze information about the competition. Complete Worksheet 8 in Section A.4.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solicit client feedback on the product prototype using one of the research techniques described in Section A.3.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design initial prototype. Based on market research, describe terms and conditions. Use Worksheet 10 in Section A.5.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Map the operating logistics and procedures for the new product (see Section B.1).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluate the capacity of your information systems according to Section B.2.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determine the required human resources for each of the processes mapped out. Use Worksheet 13 in Section B.3.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Verify legal and regulatory compliance, adjusting the prototype accordingly (see Section B.4).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project revenue based on calculations of financial margin and other product terms. Use Worksheet 14 in Section C.1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimate costs based on operational logistics and HR requirements (see Section C.2).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop projections, including a simple break-even analysis, to evaluate financial impact. Use Worksheets 16 and 17 in Section C.3.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finalize prototype (see Section C.4).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note additional steps.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The pilot test is the introduction of the product prototype to a limited number of customers to determine whether the product’s features meet market demands before your institution offers the product to the larger market.

A pilot test allows your institution to take a trial run with the new product and confirm whether the terms and conditions of the prototype are what your customers want and will buy. It is critical to conduct a pilot before you offer the product to the market at large so that you can correct any problems internally, within your operating procedures, and/or externally, within the product terms, before the errors become costly. Your organization must be prepared to design, conduct, and evaluate carefully a test that will accurately capture customers’ reactions and measure the success of the product against the projections. This chapter will provide you with resources to manage and implement effectively your own pilot test.

At the end of the next two sections, you will be able to:

- **Design the parameters** of a pilot test that will provide qualitative and quantitative information about customers’ reactions to the prototype (Section A).
  
  A.1 Pilot-Test Parameters
  A.2 Institutional Preparation

- **Conduct the pilot test, monitoring and evaluating the results** to verify your product’s likely viability and modify product features before roll-out to the larger market (Section B).
  
  B.1 Monitoring the Pilot Test
  B.2 Analyzing the Results
  B.3 Making a Decision
Designing a pilot test is crucial because it will determine how accurately you are able to understand customers’ reactions to the prototype and evaluate its potential success. Taking the time to design a pilot test will help you determine what you are trying to test and how you are going to measure your results. This section outlines how to design and structure a pilot test. It also includes exercises and formats to help you plan your own pilot test.

In this section, you will:

- **Design a pilot test** that will provide qualitative and quantitative information about customers’ reactions to the prototype. In so doing, you will:
  - Develop rigorous test criteria to measure new product viability and define “success”;
  - Define the parameters of the pilot test, including sample size and location; and
  - Determine the duration of the pilot test.

- **Prepare the selected location** for the pilot-test implementation to ensure that responsibilities and test objectives are understood. This involves:
  - Installing information systems to incorporate the new product and track pilot results;
  - Training staff in the mechanics of the pilot test and the monitoring requirements; and
  - Developing materials for client applications, marketing, and pilot tracking.

**DEFINITIONS:** According to a dictionary definition, “pilot” and “test” can be defined as follows:

- **Pilot:** Serving as a guide or model for future development.
- **Test:** A means of evaluating or examining something.

We can deduce from the above definitions that the pilot test is a way to evaluate a product or service prototype to understand how the product will perform in the marketplace and to make refinements for future use. To add to the above definitions, a pilot test is conducted on a limited scale, under controlled conditions.
Phase 3: Pilot Test

A.1 PILOT-TEST PARAMETERS

Designing a pilot test is a systematic process:

**STEP 1** Determine the success factors to measure

**STEP 2** Determine how you will measure each factor—define your objectives

**STEP 3** Decide how you will structure and conduct the pilot test

All tests involve determining what you will test and how you will measure results.

**Step 1: Which factors will your institution measure? Choose your “critical success factors.”**

The first step in designing a pilot test is to determine which factors your institution will measure to gauge the success of the new product or service. Common factors include:

**Volume**
Volume can refer to level of sales, number of clients, and/or the market penetration of the new product or service. A common volume benchmark discussed in the previous chapter is the break-even level (such as portfolio size or number of clients) required to cover costs.

**Profitability**
Measuring profitability provides information about the financial rate of return for the new product or service. Common minimum internal or “hurdle” rates of return include an institution’s historic return on equity, competitors’ returns, and the institution’s cost of capital. (The “Resource Section” explains how to calculate some common financial objectives and how to set meaningful benchmarks.)

**Productivity**
Productivity, like profitability, measures how effectively an institution leverages its scarce resources. For example, sometimes a product is developed with a goal of improving efficiency, as measured by clients per loan officer or costs per staff.

**Resource Limits**
Resource limits define the maximum amount of resources—in terms of money, time, or staff effort, for example—to be invested in the pilot test. For example, an MFI might say that it will spend no more than $50,000 or six months on developing and testing a product before it requires a more thorough profitability analysis.

*Your institution may choose a combination of factors to define success.*

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**How do you determine which factors you will measure?**

This question goes back to why you are offering this new product. Is it to expand your market, provide broader services to clients, or satisfy a specific client group’s financing need? The answers to this question should help you determine the factors that are most important to measure during the pilot test.
Step 2: How will your institution measure the success factors? Establish objectives.

An objective is a desired goal that your institution establishes for each success factor. Establishing objectives for the new product or service to meet and surpass helps your institution decide whether it should commit resources to continue the development of the new product or whether the investment would be better spent on an alternate project.

After you have chosen which factors to measure, you have to determine the specific objectives—that is, the desired goals—that will help you measure the success of each factor. Quantifying these factors will establish a rigorous standard that must be demonstrated before your institution will launch the product.

- An objective is a quantifiable goal that the new product or service must achieve to signify that the project is in line with institutional goals. When setting objectives for the pilot test, consider the following:

  - Does it provide fair and reasonable information to make objective decisions?
  - Is it rigorous enough to define a standard appropriate for your institution?

You should choose at least two quantifiable objectives to measure success. After you have quantified the objective, you must determine what information to collect to measure it. Information is data you collect to help you calculate and measure your objectives. Generally, your institution’s information system is where these data are recorded and stored. For each objective, identify the specific information you need to collect to measure it. This information can be either:

  - Quantitative—such as data on costs, contribution per loan, repayment rates, or potential demand to measure financial viability;

    or

  - Qualitative—which measures the institutional, competitive, and social implications of launching the product. Examples include portfolio risk, competitive reaction, organizational capacity, staff resistance, and so on.

If the information is not available, the institution’s information system will have to be modified to capture the data you need.

The test criteria worksheets on the following pages define the critical success factors to measure, set objectives to measure against, and determine the information that is required to calculate the target goal. Before the blank Worksheet 20, you will find a sample Worksheet 20 showing an example of one institution’s test criteria. The blank worksheet is for you to use to develop the parameters of your pilot test.
### Sample Worksheet 20: Test Criteria

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>OBJECTIVE</th>
<th>INFORMATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>Level of sales</td>
<td>Number of inquiries versus number of sales</td>
</tr>
<tr>
<td>Volume</td>
<td>Break-even level required to cover fixed costs</td>
<td>Contribution margin per product, total fixed costs</td>
</tr>
<tr>
<td>Profitability</td>
<td>Required net income margin</td>
<td>Variable costs per loan, repayment rates, potential market size</td>
</tr>
<tr>
<td>Profitability</td>
<td>Required (or “hurdle”) return on investment</td>
<td>See below*</td>
</tr>
</tbody>
</table>

* Section G of the “Resource Section” contains formulas on how to set and calculate return on investment.

Where can you get information to define objectives?

- **Current product information**: Average outstanding balances or loan officer productivity in relation to current products can be good proxies for new products if they are similar to current offerings.

- **Competitive information**: Sometimes a product is designed to counter an offer provided by the competition. Using information gleaned during the competitive analysis can help you set realistic objectives.

- **Market research**: Information on client purchasing behavior or stated demand can give you guidelines on potential demand and profitability.
Blank Worksheet 20: Test Criteria

Using the worksheet below, develop the test criteria for your institution’s pilot test and determine how you will collect the information.

1) Choose at least two **factors** that your organization will use to measure success.

2) Identify **objectives** to quantify the factors. These objectives will be the goals the product must achieve to go forward with the launch.

3) Identify **information** that you need to collect to help you calculate and measure attainment of the objectives.

4) Develop **ideas** on how you will get the information you need.

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>OBJECTIVE</th>
<th>INFORMATION</th>
<th>IDEAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is being measured?</td>
<td>What is the quantifiable goal we are trying to achieve?</td>
<td>What information do we need to track to calculate whether we have achieved our objectives?</td>
<td>How will we get the information? Who on the team will get it?</td>
</tr>
</tbody>
</table>

**Example:**

*Profitability*

<table>
<thead>
<tr>
<th>Net margin of 10%</th>
<th>Cost per loan, average loan size, average term</th>
<th>MIS systems and loan officer tracking sheets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Step 3: How do you define the parameters of the pilot? Define sample, location, and duration.

Having defined objectives for success, the product development team must carefully set up the pilot test. The critical elements of the pilot test are:

- **Sample Size**
- **Test Sites**
- **Duration**

### Sample Size

Sample size is the number of customers involved in the test. Deciding on the number of customers to be included in your sample involves weighing the benefits of accuracy against the costs involved in terms of money and time. Generally, the sample size should be large enough so that the product development team feels confident that the data gathered will be representative of the broader, target market, but small enough so as not to make information gathering prohibitively expensive or monitoring too difficult.

Typically, most MFIs limit the pilot to a particular branch, so that the target market of that branch becomes the effective sample. Small MFIs, or those with very disparate client bases, might decide to conduct pilots in more than one branch, but simultaneous pilots in geographically dispersed areas can spread the product team too thin. Therefore, if you decide to test the product in more than one branch, you should stagger the pilots a few months apart.

### Test Sites

In determining sites for the pilot test, keep in mind the following:

- **Manageability:** Your team should select a manageable number of test sites: one or two at most. The sites should be easy to get to and located near the product development team. The pilot branch will ideally be located near headquarters but not be the main branch.

- **Market size:** The clients that the site serves should be part of the target market for the new product. Moreover, the market served by the pilot branch should be large enough to test how robust demand is for the particular offering.

- **Capacity/infrastructure:** The site must have the internal capacity, such as trained staff and the required systems, to sell and monitor the new product to conduct the pilot test. Ideally, the pilot branch will be networked to headquarters for easy monitoring and tracking of product performance. The branch MIS and its personnel must also be able to handle the additional volume generated by the pilot. A new product might overwhelm branches that are close to their maximum capacity. An MFI should not build expectations among its customer base unless it can meet the demand it elicits. Few things damage an institution’s reputation more than unfulfilled promises.
These considerations will allow the product development team to monitor the test situation carefully, confront problems as they arise, and refine the product.

**Worksheet 21: Selecting the Test Sites**

Evaluate which branches of your institution will make the best candidates for the pilot test.

1) Rank each branch on the three criteria shown below (location, percentage of clients in the target market, and capacity) using a scale of 1 to 5, with 5 being the strongest.

2) Calculate the average score for each branch.

3) Choose as your test sites the branch(es) that have the highest scores.

<table>
<thead>
<tr>
<th>Branch</th>
<th>Proximity to New Product Development Team</th>
<th>Percentage of Clients Who Are in Target Market</th>
<th>Branch Capacity *</th>
<th>Average Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch 1</td>
<td></td>
<td></td>
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<tr>
<td>Branch 2</td>
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<tr>
<td>Branch 3</td>
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<tr>
<td>Branch 4</td>
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</tbody>
</table>

*Think about the internal capacity as well as the resources of the branch—including number of personnel and their current caseloads, MIS, and physical infrastructure (such as number of cashier windows)—to determine whether there is sufficient capacity to conduct a pilot test.
Duration of Pilot Test

The product development team must determine the duration of the pilot test. Duration will vary with the specific features and terms of the product and with market conditions. For example:

- With short-term products (those with maturities of less than a year), the pilot test can last from three months to a year in order to allow the product development team sufficient time to analyze repayment patterns.

- Products with longer or more subordinated terms require longer pilot tests.

- Seasonal variations in income and expenses will require longer pilot tests to understand the varying performance and liquidity needs at different times of year. For example, products tested in rural markets or those dedicated to special events (such as school fees or harvesting loans) might require longer pilot tests.

Deciding on the time frame, you must consider:

- **Financial implications:** These represent the tradeoff between cost and the reliability of the test results. The longer the pilot test, the more costly it is but the more reliable the results.

- **Competitive costs:** These entail the potential opportunity cost of being late to market versus prematurely entering the market with a product that has not been well-refined.

- **Institutional resistance:** Longer pilot tests can allow staff to become familiar with the new product and make necessary adjustments. However, they can also become a delay mechanism to avoid change.
A.2 INSTITUTIONAL PREPARATION

The critical operational functions of your institution must be able to handle the requirements of the new product or service. Even basic product refinements often involve (re)training of operational staff on how the product works, definition of system requirements and/or modifications (tracking, reporting, and such), design and creation of product applications/forms, development of internal controls, creation of promotional materials, and so on. Many product launches also include some amount of process reengineering to make product delivery more streamlined and flexible in response to client needs.

Still, you must remember that you are still in the pilot phase—meaning that you do not yet know whether you will launch this product full-scale throughout your institution. Therefore, you do not want to make large investments in overhauling your operations just to accommodate the new product pilot, unless it is absolutely required. For example, if your new product is a pawn loan product, you are going to need to purchase scales and ensure that you have an adequately sized safe to weigh and store jewelry. In sum, you want to build the necessary capacity to conduct an “honest” pilot test—that is, one that simulates reality as closely as possible—while being conscious of limiting your sunk costs in the event the pilot is unsuccessful and you decide not to proceed with roll-out.

Preparing the test site entails assessing the operational aspects of product delivery to ensure that the procedures in place are in line with the delivery of the new product or service. In order to assess that everything is in working order and that your institution is ready to start the pilot test, you must:

- Install information systems that will record product information and monitor performance during the pilot;
- Finalize forms, including promotional materials, operational stationery, and the like; and
- Train staff in the appropriate organizational policies and procedures so that they know how to deliver the product in accordance with the intended design.
Installing Information Systems

Systems implementation is one of the most important aspects of preparing for the pilot, as it provides the main source of information for tracking and monitoring test results. Given that you are still at the pilot phase, it does not make sense to overhaul your entire management information system. Rather, you will probably develop “patches”—or temporary adjustments—to the existing system so that you can run the pilot. Still, there are several key issues you should consider in any systems installation, temporary or permanent:

1) **Location/logistics:** Locate the systems where there is an adequate power supply with a surge protector (and backup generator, if power outages occur regularly), temperature control, and convenient access to frequent users and all required peripherals (phone lines, printers, and so on). Systems should be accessible to the product team for monitoring and reporting purposes. Insurance (against theft and damage) and quality maintenance contracted from a reputable local firm are other important considerations.

2) **Installation:** Additional computers sometimes need to be installed and networked as part of the preparation of the pilot. At times as well, new software needs to be developed or purchased in order to make the product operational, such as in the case of lines of credit or “smart” cards. It is often preferable to purchase software from a reputable vendor that provides customer support rather than develop a program in-house (see box).

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**Software Development**

The inclination of most MFIs is to develop in-house systems packages because each institution has specialized needs that become even more unique for a given product. However, each MFI must consider the direct costs not only of development but of maintenance and technical support associated with having a home-grown system. Rarely will off-the-shelf products meet all the needs of an institution, but one must make a careful tradeoff between the benefits of perfectly tailored systems and the cost of maintenance and upkeep.

3) **Monitoring:** In addition to the regular reporting information that you defined in the design phase (Worksheet 12), you must determine what additional data you need to track during the pilot test. This information includes the objectives you established in Section A, “Pilot-Test Parameters,” to test the product. You must make the necessary modifications to ensure that the system produces the information you need to monitor the pilot test. Use Worksheet 22 on the next page to help you define what adjustments, if any, need to be made to the system.

4) **Testing:** Once the team has developed a working system design, both the hardware and software must be tested for their functionality. The MFI should conduct a dry run of all the systems—including application, disbursement, payment tracking, and so on—at least two weeks before the pilot test begins. At that time, you should input into the system information about a mock account, to verify that the system is calculating payments, accruing interest correctly, and generating the appropriate reports for monitoring.

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5) **Backup:** Computerized systems should be backed up daily via a master disk and hard-copy printouts of customer tracking sheets. Other manual backups may be required in addition to a generator if power losses are frequent.

6) **Training:** Training for all users—both those who input the data and those for whom the information is developed (loan officers, managers, and such)—is a critical step to ensure that the MFI can take advantage of the valuable data collected.

Use Worksheet 22 below to determine the additional information you will need to program in order to monitor the pilot test. Any required additional information or changes will be part of the system adjustments you will need to do at this point.

**Worksheet 22: Information Tracking**

<table>
<thead>
<tr>
<th>What objective are you measuring?</th>
<th>What data do you need to process from the institution’s information system for the pilot test?</th>
<th>Describe what needs to be done to modify the system so the data can be produced. (If the system can produce the information already, mark “OK.”)</th>
</tr>
</thead>
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</table>
Finalizing Forms

Now that you have adjusted the systems and procedures, you can develop the necessary printed materials. You must strike a careful balance between promoting the product to test potential demand and managing expectations, as the product is still in the pilot phase. In other words, it must be made clear that, initially, this product will be available only at the pilot branch and not rolled out farther until there has been demonstrated demand. While seemingly confining, this controlled roll-out can actually build up demand and the allure for the product as a limited-quantity, rare commodity.

Nonetheless, a pilot is a trial run of the ultimate roll-out, so you must prepare accordingly. At least two weeks before the scheduled launch of the pilot, you should print up the necessary supporting materials. You will need to have forms related to opening and operating a product account, as well as promotional materials to communicate to customers the introduction of the new offering.

Operational stationery: Operational stationery includes all the documents related to opening a new account, such as payment, deposit, and withdrawal slips as well as application and intake forms. Intake forms allow you to track clients who had an initial interest in the product but never actually purchased it—either because they did not qualify or because they were not interested in the offering. Both factors provide information as critical as the tracking reports from clients who actually do purchase the product.

Remember to keep these forms as simple and streamlined as possible, because they might need to be modified based on the results of the pilot. Simplifying the loan documents also keeps printing costs under control. When deciding how many copies to print, consider printing about twice as many as needed to meet your expected demand.

Promotional materials: The pilot test will be the introduction of the new product to your clients. You want to make sure that the promotional campaign generates interest in the product, but at a modest-enough level to manage expectations. Word-of-mouth campaigns coupled with basic fact sheets on the product or service are a simple, controlled way to publicize the new offering. Initially, in fact, the promotional materials to market the new product or service should be limited to basic fact sheets. You do not want to spend resources and time on fancy brochures until you have finalized the terms and conditions of the new product or service. Staff also can use these fact sheets as a reference to answer general questions, conduct information sessions, and deliver a consistent message to the market.

When developing promotional materials, go back to your market research results and the concept of the “total product” to ensure that the promotional messages focus on what is important to the clients.

The best promotional messages are:
- Clear,
- Concise, and in
- Client language.
Training Staff for the Pilot Test

It is critical that the loan officers, back-office personal, systems staff, and any other personnel involved in delivery and management of the new product understand its purpose and the goals of the pilot test. For staff involved in the delivery of the new product or service, they must be trained in how to deliver the offering to the client. This entails the following:

- Thorough understanding of the terms and conditions of the new product or service.
- Knowledge of the policies and procedures to be used to deliver the product or service to the client. This includes specific knowledge and skills development in the areas in which staff will work with the new offering. Areas for a loan product include:
  - Application process
  - Approval and underwriting process
  - Back-office support
  - Sales
  - Collections and delinquency
  - Portfolio management and risk control
- Skill in using the modified computer information system, if applicable to your institution.

Typically, a member of the product development team will conduct the training, in coordination with the department of human resources or dedicated organizational development. Though there may only be one or two staff members who will immediately be involved in delivering the new product, typically MFIs train all the potential back-office and sales staff who will ultimately be involved in product delivery, as a way of leveraging the resources (time, money, and so on) involved in conducting trainings.

After the systems have been tested, you should do a walk-through of the procedures for delivering and recording the new product, so that the staff knows how to deliver it. This pre-pilot preparation might, for example, involve the sales agents and back-office staff who are underwriting a sample loan or opening a mock savings account, and will follow the procedures manual and flowcharts you developed as part of the prototype design phase. This walk-through could also be incorporated into the agenda of the testing protocol laid out in Worksheet 23. This process will further serve as a final check to verify that the processes and systems are in order. In fact, the product development team should actively solicit feedback from the staff to preempt problems before the pilot test begins. It is critical to take detailed notes on what steps require additional thought and preparation before the pilot test begins in earnest.
Worksheet 23: Activity Agenda

The new product development team should assign responsibilities to ensure that all the activities needed to prepare the pilot branch for testing are covered. Below is an example of a pilot-test agenda that may help your team organize its activities and divide up responsibilities. Develop a “to-do” list for each activity using the format below.

<table>
<thead>
<tr>
<th>Phase/Activity</th>
<th>Inputs</th>
<th>Deliverables</th>
<th>Responsibilities</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Systems</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Define system specifications</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2. Design/purchase software</td>
<td></td>
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<tr>
<td>3. Install software</td>
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<td>4.</td>
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<tr>
<td>5.</td>
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<tr>
<td><strong>B. Training</strong></td>
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<td></td>
</tr>
<tr>
<td>1. Develop training materials</td>
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<tr>
<td>2. Identify trainer and participants</td>
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<td>3.</td>
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<td>4.</td>
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<td>5.</td>
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<tr>
<td><strong>C. Materials</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Design application forms</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Finalize tracking reports</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Develop marketing materials</td>
<td></td>
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<tr>
<td>4.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>5.</td>
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</tr>
</tbody>
</table>

Congratulations! You have completed all the necessary steps. You are ready to launch the pilot!
The purpose of conducting a pilot test is to gather information regarding the client’s reactions to the new product or service and the institutional viability of providing it. The product development team must intervene at strategic times during the pilot test to collect and interpret information from a variety of sources.

This section provides helpful suggestions and guidelines on how to conduct a pilot test.

**In this section, you will:**

- **Monitor a pilot test** to determine the viability of the product or service and adjust its features to meet the needs of your clients and institution:
  - Understand team roles during the pilot test,
  - Collect qualitative and quantitative information, and
  - Readjust the features of the prototype to balance client needs with institutional viability.

- **Decide whether to continue with a full product launch**, based on:
  - The financial viability of the product,
  - Competitive considerations, and
  - Institutional factors.
B.1 MONITORING THE PILOT TEST

As you prepare to launch the pilot, you need to make sure the product development team knows what to do and what information it needs to collect so that it can adjust the product terms accordingly.

Role of Product Development Team

As the pilot test begins, the product development team plays three major roles:

- Monitors the process and progress of the product or service delivery,
- Collects and analyzes the information generated from the pilot test, and
- Adjusts product features and/or refines the test process, if necessary.

The product development team needs to determine the time frame for collecting information and monitoring the process. When scheduling, consider the following:

- Allow enough time for the entire product or service cycle to take place before making major decisions about the new product or service. For example, sales might be strong for the offering, but in the end, you could encounter consistently late repayments. Wait until a significant number of clients has completed the full cycle to decide what to do. Making decisions based on incomplete information can have negative effects.

- Spot-check to collect different kinds of information. For instance, during the early stages of the pilot test, you can acquire information about the application process, how clients are reacting to the terms and conditions of the product or service, and how the MFI staff is selling, approving, and underwriting the loans. The team also should examine client volume, staff workload, and financial impact via factors such as liquidity, costs, and, ultimately, profitability.

- Do not wait until the end of the new product or service cycle to collect information or solicit feedback. There is important information, either informal or formal, you can obtain throughout different time frames. For example, if the application process is too time-consuming or the terms and conditions of the product or service do not meet your clients’ needs, you will want to uncover this information immediately. These are factors that you can control and modify so as to maximize sales.

In general, the product development team should visit the pilot branch regularly, especially at the commencement of testing.

Information Gathering

By monitoring the pilot test, the product development team will be able to observe the process and receive direct feedback on the success of the test from both the institution and the market. The information the team will collect will be qualitative, as well as quantitative, as described below.
Qualitative Information

Two major areas on which the product development team should focus are:

- How the staff is working with the process to deliver the product or service to the client, and
- The clients’ reaction to all aspects of the total product, including the application procedures as well as financial aspects (interest rates, guarantees, and so forth).

The product development team can use this qualitative information to make immediate changes as well as to influence long-term decisions.

On the following page, Worksheet 24 provides a checklist of some of the issues the product development team should monitor to ensure that the pilot test is administered fairly, the delivery process is working, and the staff has the capabilities to deliver the product. This checklist can be used as an informal observational worksheet or as an informal survey form. Additionally, elements of this worksheet can be incorporated into the objectives table included in Worksheet 25. Complete the checklist using issues that are specific to your institution and the product or service you are pilot-testing.

It is the job of the product development team to use the information from the monitoring activity and their observations to adjust the process or parts of the new product or service to better meet the needs of the client and the institution. Lest you confuse your customers and your institution, however, the team cannot constantly change the offering! If you conducted a careful design process, there should be no major surprises. The only time you should have to consider changing the terms of your product during the pilot phase is if there has been a major market disruption, such as:

- Your competitors preempted your product launch with their own new offering;
- A market recession hits, dampening client demand for products; and
- Your institution faces some unexpected problems with another product (such as a liquidity crunch, major delinquency, and fraud).

In such cases, you might have to suspend the pilot temporarily and redesign your product terms. You would then have to establish new objectives before you repiloted the product.
### Worksheet 24: Checklist for Pilot-Test Monitoring

<table>
<thead>
<tr>
<th>Delivery Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Is the application:</td>
</tr>
<tr>
<td>- Convenient for clients (location and process)?</td>
</tr>
<tr>
<td>- Clear and simple?</td>
</tr>
<tr>
<td>- Easy to complete?</td>
</tr>
<tr>
<td>✓ Is the approval process timely?</td>
</tr>
<tr>
<td>- How long is the process taking?</td>
</tr>
<tr>
<td>✓ Is the information system performing as expected?</td>
</tr>
<tr>
<td>- Is staff using the system appropriately?</td>
</tr>
<tr>
<td>- Is staff inputting the data correctly?</td>
</tr>
<tr>
<td>- Is the system generating reports with the information the team is looking to collect?</td>
</tr>
<tr>
<td>✓ How is disbursement progressing?</td>
</tr>
<tr>
<td>- How long does it take to get the money?</td>
</tr>
<tr>
<td>- Does this seem convenient for clients?</td>
</tr>
<tr>
<td>✓ Is the flow of the delivery process as expected?</td>
</tr>
<tr>
<td>✓ Are the marketing fact sheets informative?</td>
</tr>
<tr>
<td>- Is the information correct?</td>
</tr>
<tr>
<td>- Do clients understand the product/service from reading the fact sheets?</td>
</tr>
<tr>
<td>- Is the staff using the fact sheets for reference?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Is the price too high? too low?</td>
</tr>
<tr>
<td>✓ Are the repayment periods (or withdrawal limitations) appropriate?</td>
</tr>
<tr>
<td>✓ Are the guarantees or other loan terms acceptable?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Competitive Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Is there a risk of a price war with the competition?</td>
</tr>
<tr>
<td>✓ Does this product steal sales from other products the institution offers?</td>
</tr>
</tbody>
</table>

**Remember:** The product development team should look at every aspect of the product delivery process and talk to people at different levels of the organization, including field staff (those with direct contact with clients) and back-office personnel.
Quantitative Information

In general, the quantitative information the product team will collect includes:

- **Sales**—such as loan or deposit volume and account activity, including portfolio quality; and
- **Costs**—especially cost differences by region, if any.

These data will assist the team in preparing to roll out the product to different market segments during the full-scale launch. Most important, the team must collect the information it established as being critical to predicting the commercial success of the product. In other words, the team must collect sufficient data to determine whether the product meets the objectives defined in the design phase.

**Team exercise:** Based on the benchmarks and objectives you established earlier, fill out Worksheet 25b to track your monthly progress in achieving them. A sample is included in Worksheet 25a, below. (NOTE: This sample covers only the first six months of a 12-month test.)

How frequently should progress reports be generated?

The answer will depend on the terms of the product, but initially the team should request and review weekly progress reports to make sure the product is operating as planned and to correct any problems quickly. After the first month, formal reports and meetings can be scheduled monthly and supplemented on an as-needed basis.

What are some red flags to watch out for?

In general, the team is looking for any major deviations, qualitative or quantitative, from the pilot plan. For example, are the personnel operating according to the procedures laid out in the manuals? Is there significantly weak or excess demand for the product? Any indicator that is off by more than 10 percent should be analyzed carefully to determine the cause. In these cases, the team must decide whether the problem is significant enough to warrant immediate product modification or, in the most extreme cases, a temporary halt to the pilot. Usually the team must decide what risk it is willing to take to allow the product to “work through” its growing pains as it is incorporated into the institution and accepted by customers.
### Worksheet 25a: Sample Objectives Table

#### AFRI-CO Microfinance Company Fast Access Savings Account (FASA) Objectives

<table>
<thead>
<tr>
<th>Item</th>
<th>Objective</th>
<th>Objective, end of test (M12*)</th>
<th>M1 status</th>
<th>M2 status</th>
<th>M3 status</th>
<th>M4 status</th>
<th>M5 status</th>
<th>M6 status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Net number of FASA accounts</td>
<td>2,400</td>
<td>150</td>
<td>325</td>
<td>500</td>
<td>700</td>
<td>950</td>
<td>1,200</td>
</tr>
<tr>
<td>2</td>
<td>Percentage of FASA accounts from new AFRI-CO test-branch clients</td>
<td>&gt;= 75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>3</td>
<td>Bank efficiency</td>
<td>Avg. transaction time for deposits = 2.0 minutes</td>
<td>3.0</td>
<td>3.0</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.0</td>
</tr>
<tr>
<td>4</td>
<td>Bank efficiency</td>
<td>Avg. transaction time W/D = 2.5</td>
<td>4.0</td>
<td>4.0</td>
<td>3.5</td>
<td>3.5</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>5</td>
<td>Efficiency for customers</td>
<td>Customer in lobby &lt;= 6 minutes on average</td>
<td>8.0</td>
<td>7.5</td>
<td>7.0</td>
<td>7.0</td>
<td>7.0</td>
<td>6.5</td>
</tr>
<tr>
<td>6</td>
<td>Market objective</td>
<td>Marketing staff activities result in average 50% of new accounts</td>
<td>40%</td>
<td>45%</td>
<td>50%</td>
<td>55%</td>
<td>55%</td>
<td>60%</td>
</tr>
<tr>
<td>7</td>
<td>Customer satisfaction</td>
<td>Score &gt; 3.5 average on 5-point scale on survey</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
</tr>
</tbody>
</table>


* M = month.
### Worksheet 25b: Blank Objectives Table

<table>
<thead>
<tr>
<th>Item</th>
<th>Objective</th>
<th>Objective, end of test (M12*)</th>
<th>M1 status</th>
<th>M2 status</th>
<th>M3 status</th>
<th>M4 status</th>
<th>M5 status</th>
<th>M6 status</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Projected</td>
<td>Actual</td>
<td>Projected</td>
<td>Actual</td>
<td>Projected</td>
<td>Actual</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- M = month.
B.2 ANALYZING THE RESULTS

The product development team is responsible for collecting information that will help the institution understand clients’ reactions to the new product or service. The bulk of the data will come from your information system (which you modified prior to the pilot test) and the direct feedback you solicit from clients.

Once the information is collected and analyzed, the product development team has a number of options depending on the results of the pilot test:

• Continue with the pilot test to collect additional data;
• Continue with the pilot test and adjust the product/service features based on feedback;
• Continue with the pilot test and modify the test process if the team is not capturing the information needed;
• Expand the test market to include additional target areas;
• Roll out the product or service to the entire market; or
• Cancel the pilot test because of poor response.

With these options in mind, the team must evaluate the information collected and determine how to proceed.

The central question the team must ask *continuously* during the evaluation process is:

**IS LAUNCHING THIS NEW PRODUCT OR SERVICE WORTH THE INVESTMENT BY OUR INSTITUTION?**

To help your team answer this question, consider three evaluation criteria:

• **Financial viability**, such as return on investment or loan volume. This criterion relates to the objectives established in the previous section, “Purpose and Design”;
• **Competitive considerations**, such as market share or product mix; and
• **Institutional factors**, including capacity as well as methodological and social considerations.

You will likely want to consider multiple criteria, and depending on your institution’s stage of growth and strategic priorities, you will vary the weight given to each criterion.
Phase 3: Pilot Test

Evaluation Criterion #1: Financial Viability

Based on the demand for the product or service demonstrated during the pilot test, you should be able to make reasonable predictions as to whether the product will meet or exceed the objectives you established. If the results of the pilot test are inconclusive, you can establish a likely range (of sales or profits) within which you think the product will fall, and assign probabilities based on the information you collected.

To understand the financial viability of the new product or service, you must estimate the anticipated sales and the corresponding costs to ensure that the product is financially sustainable. (See Sections E, F, and G of the “Resource Section,” which provide various methods to measure the financial viability of a product.) When projecting profitability, it is critical that you consider the implicit costs (and revenues) that are not directly tied to delivering the product but that are created by its introduction, such as those associated with upgrading systems and instituting financial controls. Other costs are tied to the risk inherent in some products, such as increased provisions for bad debt associated with higher default rates or deposit insurance that sometimes must be offered to mobilize savings. Finally, revenues will be affected by competitive considerations, including whether the new product complements or competes with other offerings of your institution (see the discussion on product mix below).

Though not the only criterion used to determine whether the product or service is worth the investment, financial viability is a critical consideration because products or services that do not help cover the costs of running the institution may jeopardize your organization’s long-term viability. Administering a diverse product line is a costly, complicated endeavor. Consequently, there must be strong market prospects to ensure the continued financial viability of the institution. It might take a few years for a product to break even, and you must make provisions for meeting the shortfall in the interim. Even when consciously forgoing short-term profits to capture a larger percentage of the market (as described below), you must have as your underlying rationale long-term financial sustainability.

Evaluation Criterion #2: Competitive Considerations

Financial projections and the product’s ultimate commercial success are tied to how competitive it is in the marketplace. Three issues your institution needs to consider to determine the product’s competitiveness are as follows:

- The market share your institution can obtain with the new product or service,
- The product mix your institution offers its clients, and
- The position your institution occupies in the market as a result of the new product or service.

Competitive Consideration #1: Market Share

By introducing a new product into the market, your institution is trying both to retain and increase its market share, or the proportion of the total market your institution serves with its
products or services. Estimating the potential market share your institution could control through its new product involves analyzing the following data from the pilot test:

1) How many existing clients has the institution **retained** as a result of the new product?
2) How many new clients have you **captured** or attracted to your institution from competing financial institutions?
3) How many new clients have you **attracted** from previously unserved parts of the market?
4) How much of the above clients’ total demand for financial services is now being met by your institution?

You can adapt your information tracking system to capture the information outlined above.

**Competitive Consideration #2: Product Mix**

Often, an institution must offer a full range of products in order to meet the diverse needs of its existing clients and/or attract new ones. However, there are costs associated with having too varied a product mix that your institution must balance with the benefit of meeting client demand. These include the cost to create the organizational capacity required to develop and manage new products. If you offer too many products with similar terms and characteristics, you can waste resources through duplication and risk diluting your institution’s *brand equity* (the value customers put on an organization’s name and reputation for quality service) by confusing your customers with too many choices.

The important question you must ask about the mix of products your institution is offering is:

**Does the new product complement or compete with your existing range of services?**

Sometimes new products and services can *increase* the demand for other products if they are complementary. For example, introducing savings accounts typically sparks demand for larger individual loan products. Sometimes, however, the introduction of a new product diverts sales from a company’s existing products—a marketing phenomenon referred to as *cannibalization*. You should take into consideration whether the new product complements or cannibalizes your institution’s existing offerings in preparing your revenue projections and, ultimately, in deciding whether to proceed with product launch.
**Worksheet 26: Impact of New Product on Existing Products or Services**

Estimate the impact your new product mix will have on the overall sales level of your institution’s products and services. Complete the following table, making revenue adjustments based on the impact the new product will have on the sales of other products in your institution’s portfolio.

<table>
<thead>
<tr>
<th>Name of Current Product</th>
<th>Current Sales Level</th>
<th>Impact of New Product on Sales of Existing Products (choose 1)</th>
<th>Net Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Cannibalizes (% loss)</td>
<td>Complements (% gain)</td>
</tr>
</tbody>
</table>

Be sure to include the sum of the results from the “Net Impact” column in conducting your financial analysis of the pilot-test results. A new product’s impact on the rest of your institution’s product mix may be what determines your decision to follow through with a complete launch.
Competitive Consideration #3: Position in the Market

An institution’s products contribute to how customers perceive the organization and affects the types of clients who will use its services. When introducing a new product to the market, your institution should consider how the new product fits with your strategic plan and organizational methodology. For example, an MFI that is transforming into a formal financial institution may have to incorporate certain core products, such as savings accounts, in order for potential clients to treat it seriously as a bank substitute. Alternately, an MFI may want to align itself with a particular market segment, such as a village bank focusing on poverty alleviation.

To answer this question, you must consider the following issues using the information collected during the pilot test:

- What are the main benefits clients receive from using the new product? How do these benefits compare with the benefits they receive from your other products?
- Do you see a shift in your market? Are the clients who are using the new product/service new or existing clients?
- Into which market segment(s) do the clients for your new product fall?

The trends you identify will help you determine how the new product will influence your institution’s position in the market.

There are no right or wrong answers to any of these questions. The important issue is that you analyze the information derived from the pilot test in the context of the market. The insights you gain from understanding your market position will help you make final decisions regarding the full roll-out of the new product.

Evaluation Criterion #3: Institutional Capacity

Introducing a new product to the market is resource-intensive and a potentially disruptive process for employees who are accustomed to certain operating procedures. Adapting to the change that is a natural part of any institution’s growth is a time-consuming endeavor that can be met with internal resistance. A critical consideration in deciding whether to move forward with product development is the potential for internal collaboration and institutional change. The pilot test will give you the opportunity to observe how the institution is accepting the new product and identify areas within the organization that need additional support.
The transition process will absorb much of the organization’s resources. To ensure that it has adequate capacity to undertake new product development, your institution must have a number of systems in place:

Remember that you have to ensure that your institution is adequately prepared to roll out a new product on a mass scale and that it has the capacity to sell and monitor the new product.

Institutional capacity can be divided into three general areas:

- **Delivery channels:** the physical infrastructure (such as branch offices) and channels of communication to market the product to the target customer group.

- **Management information systems:** accounting, loan monitoring, and other back-office systems to track disbursements and collections and monitor portfolio performance.

- **Human resources:** trained staff who understand the terms and characteristics of the new product and how to sell and market the product.

To determine whether your organization has the institutional capacity to successfully roll out the product to the larger market, you need to observe how the process is working and answer several important questions. Refer back to Worksheet 24, in which you created a checklist of issues to observe about the delivery process and client reactions to the new product. Use the information you obtained during that activity to draw conclusions about your institution’s capacity to provide the product or service on a large scale. Use Worksheet 27 on the following page to help you determine the institutional capacity and to draw your own conclusions.

The list of issues in Worksheet 27 is not exhaustive but provides a starting point for defining what kinds of information are important. You should adapt the list to ensure that you obtain the information you need to make a good decision for your institution.
### Worksheet 27: Institutional Capacity

<table>
<thead>
<tr>
<th>Delivery Mechanisms</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Are there enough branches or distribution channels in the target areas?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Does appropriate staff have the computer hardware and software needed to deliver the new product?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Can existing customer service quality standards be maintained for the new product?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Is the information provided in the marketing material sufficient?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Other issues:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Information/Operation Systems</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Have your information systems been adapted to track the new product? Can you obtain all the necessary details about the product to inform the product development process and manage the product once it has been fully launched?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Does the accounting system reflect the performance of the new product?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Have the loans been disbursed in a timely manner? (How does the new product’s loan turnaround time compare with that of other products?)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Other issues:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human Resources</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Are staff knowledgeable and informed about the new product?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Are staff members describing the product to clients in an informed way?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Is there a training mechanism to educate staff about the new product?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Other issues:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Social Considerations

Part of the analysis of a product’s “fit” with an institution involves social or methodological considerations. For example, becoming a full-service microfinance institution can cause an MFI to drift from the poorest segments of the market. Although in the long run such a move may position the MFI to serve harder-to-reach segments of the population, in the interim, self-sufficiency prevails over social goals.

Sometimes negative net present value (NPV) projects are accepted because of the social returns that come with a given product. Decisions to accept NPV status, however, should only be made if the new product complements existing ones, so that the NPV of the entire portfolio increases with the introduction of the new offering. Otherwise, your institution’s financial viability will be in jeopardy.

B.3 MAKING A DECISION

Having considered the financial, competitive, social, and institutional implications of launching the product, it is time to decide whether to go forward with product launch. The weight you give to each factor will help determine whether you need to refine the product or move forward with rolling it out at other branches.

The worksheets on the following pages should help you summarize your work thus far and provide the team with a framework for making decisions about launching the product.

Before beginning Worksheet 28, return to Worksheet 20 to review all the success factors to be used in the pilot test. List these factors in the first column of Worksheet 28. Then, use your analysis to place either a (+) for positive or a (-) for negative next to each success factor. After you have completed the worksheet, continue with Worksheets 29 and 30. For each negative (-) answer on Worksheets 28, 29, or 30, complete one row of Worksheet 31. This worksheet will help you identify the cause of the problem, brainstorm possible solutions, and decide how to respond. It is all right to move forward with product launch even if you have not identified a firm resolution to an issue, but you should do so by making conscious decisions, not by ignoring problems or covering them up.

<table>
<thead>
<tr>
<th>Be honest with your reporting!</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you are:</td>
</tr>
<tr>
<td>• <strong>Too critical</strong>, you could decide not to proceed and miss an opportunity;</td>
</tr>
<tr>
<td>• <strong>Overly confident</strong>, you could decide to proceed and waste valuable resources on a flat investment.</td>
</tr>
</tbody>
</table>

Use the next four summary worksheets to identify what you need to do to make the new product or service a successful investment for your institution...
Worksheet 28: Summary Table #1—Financial Impact

Will the new product or service’s financial return make it worthwhile to invest in the product/service?
Refer to the success criteria you developed in Worksheet 20. Based on your analysis, project the financial impact against each success factor. If the result is positive, mark (+); if negative, mark (-).

<table>
<thead>
<tr>
<th>Success Factor</th>
<th>Objective Required by Institution</th>
<th>Estimated Value for New Product Based on Pilot Test</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example: sales volume</td>
<td>&gt;$500,000 in outstanding loans by end of year two</td>
<td>Estimated at $450,000 by end of year two</td>
<td>+ -</td>
</tr>
</tbody>
</table>


Worksheet 29: Summary Table #2—Competitive Impact

Based on your analyses, identify the net impact you expect your product will have—positive (+), neutral (0), or negative (-)—by circling the appropriate symbol.

<table>
<thead>
<tr>
<th>Impact of New Product on:</th>
<th>Positive Impact</th>
<th>Neutral Impact</th>
<th>Negative Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market share</td>
<td>+</td>
<td>O</td>
<td>-</td>
</tr>
<tr>
<td>Product mix</td>
<td>+</td>
<td>O</td>
<td>-</td>
</tr>
<tr>
<td>Position in market</td>
<td>+</td>
<td>O</td>
<td>-</td>
</tr>
</tbody>
</table>

Worksheet 30: Summary Table #3—Institutional Impact

Based on your analyses, identify the degree of institutional readiness—well-prepared (+), sufficiently prepared (0), need further preparation (-)—by circling the appropriate symbol.

<table>
<thead>
<tr>
<th>Degree of Institutional Preparedness:</th>
<th>Well-Prepared</th>
<th>Sufficiently Prepared</th>
<th>Need Further Preparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery mechanisms</td>
<td>+</td>
<td>O</td>
<td>-</td>
</tr>
<tr>
<td>Information/operating systems</td>
<td>+</td>
<td>O</td>
<td>-</td>
</tr>
<tr>
<td>Human resources</td>
<td>+</td>
<td>O</td>
<td>-</td>
</tr>
</tbody>
</table>
Worksheet 31: Plan of Action

For each area receiving a negative (-) mark in Worksheets 28, 29, and 30, fill out a row of the table below.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Likely Cause</th>
<th>Options for Resolution</th>
<th>Decision (stop project, make changes, or continue anyway)</th>
</tr>
</thead>
</table>
| Example: Based on projections, product will fall short of volume objectives by $50,000 | Unable to achieve sufficient awareness of product during pilot test | • Stop project; it is too risky  
• Continue, but increase marketing effort above pilot-test levels  
• Continue, but improve loan officers’ training program to enhance their selling capabilities | Continue, but increase marketing effort above pilot-test levels |
Congratulations! You have completed the pilot-test phase! Use the checklist below to review all the steps you have taken so far. The checklist can also be used as a planning worksheet to determine time frames and responsibilities before you begin the pilot test.

Worksheet 32: Pilot-Test Checklist

<table>
<thead>
<tr>
<th>Pilot-Test Step</th>
<th>Time Frame</th>
<th>Person(s) Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determine what you will measure during the pilot test. Use Worksheet 20 in Section A.1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identify and determine the locations for the pilot test. Use Worksheet 21 in Section A.1 to help you identify the best locations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Define organizational policies and procedures to deliver the new product or service to the client. See Section A.2.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determine any needed modification of and adjustments to your information system. Refer to Section A.2.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finalize materials for the pilot test, including operational forms and promotional materials. See Section A.2.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepare product development team for pilot-test monitoring. Refer to Section B.1 for tools.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decide what information to collect from the pilot test and how to design tracking reports accordingly. See Section B.1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analyze information from the pilot test. Use information in Section B.2 and Worksheets 26 and 27.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decide how to proceed with the new product or service. Refer to Worksheets 28, 29, 30, and 31 in Section B.3.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional step.</td>
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<tr>
<td>Additional step.</td>
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<td>Additional step.</td>
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<tr>
<td>Additional step.</td>
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</tbody>
</table>
PHASE 4: PRODUCT LAUNCH

Launching a new product and integrating it with your existing products is a systematic process. This process will require your institution to balance several important internal, organizational issues with external market demands.

Based on information generated during the pilot test and your analysis of the results, your organization has decided to launch the new product or service. In other words, your institution has decided to offer the product or service to the broader market. Before you jump right in and offer the product marketwide, however, you must consider how fully prepared your organization is to launch the product to a large audience. Similar to the pilot test, the product launch should be a calculated and controlled introduction of the new product to the larger market.

The next two sections will guide your organization through the different stages in the process of introducing a new product to a broader market.

At the end of these sections, you will be able to:

- Develop and implement an integrated marketing strategy to optimize the product launch (Section A).
  - A.1 Product Design
  - A.2 Price
  - A.3 Placement
  - A.4 Promotion

- Develop a plan for successfully integrating your new product into your organization and, then, proceed to launch the new product (Section B).
  - B.1 Product Integration
  - B.2 Implementation Plan
  - B.3 Product Launch

Evaluation and Preparation
- Customer needs
- Competitors
- Institutional strengths

Pilot Test

Launch

Design
Through the pilot test, your institution was able to gauge the market reaction to the prototype and adjust the terms and conditions of the product accordingly. Now, it is time to finalize how the new product will be incorporated into your institution’s portfolio of offerings and introduced to the larger market by developing an integrated marketing strategy.

This strategy will help you capture and retain a greater share of the market for the new product. You have done some of this work through the product development process, but, as with all products and services, features must be refined as the offering evolves through its life cycle, as the institution matures, and as client needs change. To design a marketing strategy to launch the new product, use the “four P’s of marketing” to refine the components of the product:

- **PRODUCT** The terms and features that meet your customers’ needs and wants;
- **PRICE** What you charge for the product, balancing both the cost to the customer and revenue for your firm;
- **PLACEMENT** Where it fits in the larger context of competing financial services; and
- **PROMOTION** How you will communicate the benefits of the product to your customers.

Section A describes the separate components of a marketing strategy and the steps your organization must implement to inform the market of your new product or service.

At the end of this section, you will:

✅ **Develop and implement an integrated marketing strategy** to optimize the product launch. This will entail:

- Finalizing the design of the product features;
- Determining the competitive positioning and distribution plan;
- Setting the price for the product; and
- Preparing a promotional plan to advertise and create awareness of the new product.
A.1 PRODUCT DESIGN

Now that the product has been introduced to a test market, the team must use the results to refine the product features—the terms, conditions, and characteristics—so that it will appeal to the target market. The table on the following page will help you organize and understand the separate features of the product, how the target market has reacted to a specific feature, and the implications of the particular product feature for product launch.

Product Features

Complete Worksheet 33 on the next page. This exercise will help you to identify the positive and negative implications of specific product features based on the results of the pilot test.

After you describe the implications of different product features, decide how you will address or refine the issues for the larger market during the product launch.
## Worksheet 33: Product Features

<table>
<thead>
<tr>
<th>Product</th>
<th>Features of the Product at the Start of the Pilot Test</th>
<th>Results of the Pilot Test</th>
<th>Ideas for Modification</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core product:</strong> The benefits the customer derives (financial return) or the need the product fulfills (liquidity)</td>
<td>1.</td>
<td></td>
<td></td>
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<td></td>
<td>2.</td>
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<td></td>
<td>5.</td>
<td></td>
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<tr>
<td><strong>Actual product:</strong> The physical or specific features (terms) of the product and how the product is packaged</td>
<td>1.</td>
<td></td>
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<td></td>
<td>2.</td>
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<td></td>
<td>4.</td>
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<td></td>
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<tr>
<td></td>
<td>5.</td>
<td></td>
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<tr>
<td><strong>Augmented product:</strong> The ancillary services associated with the product (application, product accessibility, turnaround time, and so on)</td>
<td>1.</td>
<td></td>
<td></td>
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<td>2.</td>
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</tbody>
</table>
A.2 PRICE

Your institution must price products to generate the desired return. When finalizing the price of the product or service, you must always think about three issues:

- The cost of delivering the product;
- The customer’s ability and willingness to pay; and
- The competitive strategy, including your institution’s position in the market and your competitor’s prices.

Understanding cost differentials, recognizing customer sensitivities, and considering competition will allow your institution to price its products more effectively and make deliberate decisions about which market segments it can reach. Two key components in finalizing the price of your product—cost recovery and competitive considerations—are discussed below. (See Section E of the “Resource Section” for more in-depth coverage of pricing considerations.)

Cost Recovery

When pricing a product to recover costs, you will need to take into consideration all related expenses, over and above the cost of capital, incurred to deliver a product. In preparing for the pilot phase, you had to demonstrate the product’s financial viability, making estimates about when it would break even. You can repeat the sensitivity analysis you did in Section C.1 of the design phase, testing out different prices to determine their effect on expected income. It is particularly important to repeat the exercise in order to consider the fuller understanding of costs you now have based on the pilot-test results and your capacity-building analysis.

Some of the categories for which you should now have additional cost information include:

- **Operations:** How much person-time is dedicated to processing the product, from the time the client walks in the door to disbursement and renewals?

- **Promotion and advertising.**

- **Capacity-building:** The largest category will be MIS adjustments and modifications and infrastructure. For example, savings mobilization introduces new costs, including stepped-up security at the branch level, lotteries (which are a common form of promotion), and regulatory compliance. In addition are training costs, in the form of both direct costs (such as instructor salary and class materials) and opportunity costs (that is, what is sacrificed in order to conduct the training, such as not having loan officers deployed while they are in class).

Using the worksheets in Sections C.1, C.2, and C.3 of the design phase, test different prices to analyze the impact the new product will have in helping your organization recover its costs.
Phase 4: Product Launch

You may decide to limit what portion of overhead expenses you try to recover with your new product so as not to make the price prohibitively high for the product’s target market. If sustainability is your objective, you must identify alternative revenue streams to cover any indirect costs created by the launch of the new product that are not factored into the new product price.

Competitive Considerations

Pricing is an important factor that influences how clients perceive the product in relation to other products on the market. High prices are often associated with better quality, superior customer service, and professionalism. Low prices can be confused with slow turnaround time, poor customer service, and/or a lack of additional support services.

When making the final decisions about pricing, remember to keep informed of what your competitors are charging for similar products. When considering how competitively priced your product is, you must keep in mind the message you are sending if the product is more or less expensive than alternative offerings. Ask yourself the following questions:

• If our price is higher than the average market rate, what additional, nonprice advantages do we offer the client?

• If our price is lower than the average market rate, what is the competition offering that we are not?

• Are the advantages our institution offers important enough to retain and bring in new clients?

• What image is our institution establishing through these prices?

There are no right or wrong answers to these questions. Your institution must understand the financial viability of the full launch and then examine the competitive considerations.
A.3 PLACEMENT

The next consideration you must revisit is how the product will be delivered to the customer. In this case, “delivery” has two different and important meanings:

1) **The physical location or distribution of the product:** Your target market must have easy access to the product in order to use it. Issues that need to be reevaluated here include: Is the product available in locations to which the client has easy access? Is the product available when the client needs it?

2) **The competitive position of the new product in the market:** The issue of position in the market is important because it will help define how your institution positions itself with your customers. For example, will the product help your organization position itself as a full-service intermediary where clients can have the convenience of one-stop shopping (in other words, being all things to a narrow group of people)? Or is your organization focused more on a particular line of similar products targeted at a broader number of target markets?
A.4 PROMOTION

Promoting the new product is the primary way of communicating what the new product is and building consumer awareness. The new product development team must design a promotional plan that describes to the target market the features and benefits of the product.

Remember! Customers will only buy the new product if they know it is available and can understand how the product will benefit them.

Promotional activity can include advertising, publicity, and public relations.

Understanding promotion:

If the circus is coming to town and you paint a sign saying, “Circus coming to the Fairground Saturday,” that’s **advertising**;

If you put the sign on the back of an elephant and walk him into town, that’s **promotion**;

If the elephant walks through the mayor’s flowerbed, that’s **publicity**; and

If you can get the mayor to laugh about it, that’s **public relations**.

When considering the promotional plan, you must think about what is appropriate for the target audience. For example, advertising in the newspaper is inappropriate if the majority of your target audience is illiterate, speaks a local dialect, or lives in a remote area that does not receive the paper. Below is a list of promotional ideas your institution could use to sell your product.
**Encourage referrals**

Make your existing customers your best promoters. Create an incentive scheme for your existing customers based on how many new clients they refer.

**Make posters and signs**

Keep these simple. Describe the product and its benefits. Remember to tell people how to contact you.

**Make brochures**

Simple brochures will give potential clients enough information to decide whether they want to talk to you more about the product.

**Speak**

Let people know about your product by making presentations at public gatherings or via local institutions.

**Hold contests**

People like to play and win contests. Consider lotteries or weekly drawings for people who have purchased the new product.

### Worksheet 34: Promotion Planning

Based on the characteristics and behavior of the target market, list at least three ways you could promote your new product.

<table>
<thead>
<tr>
<th>Promotion Idea</th>
<th>Description of Plan to Develop the Promotion</th>
<th>Resources Needed</th>
<th>People Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
Making the product available to the entire target market is a demanding process, as it requires your institution to be prepared to incorporate the new product into institutional activities. To prepare for a full product launch, you will need an action plan that defines the details of your full roll-out and will need to make a final review of the budget. Three major issues that you must address are:

- Implementing a capacity-building plan;
- Finalizing cost projections and refining product terms accordingly; and
- Aligning goals with an incentive program.

In this section, you will:

**Develop a plan for successful integration** of your new product into your organization. In so doing, you will:

- Define goals and corresponding incentives to integrate the new product or service at all institutional levels; and
- Prepare an institutional capacity-building plan to ensure that the organization can manage the launch of the new product.

**CAUTION!**

Launching your new product **too quickly** could result in a lack of capacity to deliver the product efficiently, potentially **reducing market acceptance of the product and damaging your institution’s reputation.**

Launching the new product **too slowly** increases the likelihood that your competitors will develop and launch a similar product and thereby steal some of your potential market.
B.1 PRODUCT INTEGRATION

Goals

As you prepare for product launch, review the initial strategic vision exercise you completed at the start of the project. The strategic-vision exercise helped you clarify your organization’s mission and, in particular, how the new product or service promotes your institutional goals. Based on how the product has evolved, refine how the new product or service promotes that strategic vision.

Refer back to Worksheet 2 from Phase 1, the evaluation and preparation phase. Review how you described your institution’s strategic vision and how the new product will foster that vision. If the product or service has evolved or changed, modify your goals for it accordingly. As you complete this section, be as specific as you can in defining the expectations your organization has for the new product or service. In the space below, revise as necessary your concept of how the new product or service will enhance your institution’s vision.

_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________

Once you have clearly defined the expectations for your product, you need to ensure that mechanisms are in place to track the product’s progress toward achieving these goals. For example, can your information systems produce the financial and social data you need? Is there a formal mechanism for recording and communicating customers’ responses to the product? Defining goals and devising mechanisms to measure the product’s progress are essential to ensuring that the new product stays in line with your organization’s expectations. These goals will also form the basis for the incentive schemes you design for your staff and the capacity-building plan you design to make sure your institution has the resources required for success.
Incentives

Incentives are financial and nonfinancial rewards used to motivate staff to achieve and surpass their, or a product’s, goals. An incentive program is based on the specific expectations the institution has for a product or service. You want to encourage employees’ behavior by rewarding them with something when they reach or surpass an established goal.

When introducing a new product or service, you will find that an incentive program will motivate employees to promote the new product. When you are developing an incentive program, keep in mind the following:

→ **Align the incentive with product/service goals and expectations:** Any incentive program you initiate must be based on the goals and expectations your institution has defined regarding its core competencies, competitive strategy, financial considerations, and social impact. One of the most common pitfalls in designing employee incentives is misalignment between an organization’s objectives and the actual behaviors encouraged by the incentives.

→ **Clearly describe the incentive program, the requirements, and the rewards:** The purpose of the incentive program, the activities required to achieve rewards, and the benefits to be received must be specific, straightforward, and clearly understood by all staff. If an incentive scheme is not understood, staff can become disillusioned with its outcomes.

→ **Develop a simple monitoring system:** Monitoring progress toward the achievement of objectives should be simple for both the employees receiving the rewards and their managers. Employees tend to be more motivated if they can monitor their own progress and constantly know how close they are to achieving the reward.

→ **Ensure that employees have control over what is being measured:** To be motivating to an employee, an incentive must be tied to activities or results over which the employee has direct control. For example, a loan officer will be less motivated by a cost target of X percent of loan volume if the costs being measured include overhead from the head office, a cost over which the loan officer has no control.

→ **Consider the duration and timing of incentive availability:** Once you have made an incentive available to employees, it can be very hard to take it away in the future. To push a new offering, you may want to institute product-specific incentives with explicit time frames or loan volume goals so that staff do not become angry when inducements are modified or taken away.

→ **Compare financial versus nonfinancial incentives:** Both financial and nonfinancial incentives can be successful in motivating employees to work toward your institution’s objectives. Financial incentives tend to be more costly to the organization but are motivational when they represent a significant portion of the employee’s salary. Nonfinancial incentives tend to be less costly and are often motivational for employees. To be successful, however, nonfinancial incentives must be designed based on a strong
understanding of the needs and motivations of your staff. Examples of potential nonfinancial incentives include:

- Increased individual authority;
- Individual recognition (such as periodic celebrations for top performers);
- Access to further training/education; and
- Improved opportunities for advancement.

The choice of a financial or nonfinancial incentive program depends on the needs and motivations of your staff and the cultural norms and traditions in your area.

→ *Compare group versus individual incentives:* Group incentive schemes are based on the collective results of a group of employees, whereas individual incentive schemes are based on how the individual employee performs. Whether to use group- or individual-based incentives is based on two factors:

- **The degree of control over the desired result:** If an employee has a high degree of control over the achievement of a desired result (for example, number of client visits) and requires little assistance from others in the branch to achieve it, individual incentives are often more appropriate.

- **Cultural norms and traditions:** These play a significant role in the choice of incentive scheme. Cultural beliefs and norms regarding individual versus group success, status, and so on will likely dictate which incentive scheme is more appropriate for your organization.
Worksheet 35: The Incentive Scheme

List the incentive-scheme ideas you want to develop around the new product or service. Use the examples provided below to help you clarify and refine your ideas.

As you develop these ideas into workable programs, make sure the goals are in line with your strategic vision and are reasonable. If employees believe the goal is unattainable, they will not be motivated by the incentive program to sell the new product.

<table>
<thead>
<tr>
<th>Goal</th>
<th>Incentive Scheme</th>
<th>Ideas to Implement the Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Examples:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Profitability = X</td>
<td>Individual bonus of $X for every approved loan over monthly sales target or above productivity goals (clients per loan officer)</td>
<td></td>
</tr>
<tr>
<td>2. Market share = Y</td>
<td>Group bonus shared among staff based on each percentage point of market penetration over and above target goal</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
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<td>4.</td>
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<td>5.</td>
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<tr>
<td>6.</td>
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</tbody>
</table>
B.2 IMPLEMENTATION PLAN

In preparing to commercialize your new product, you must develop systems to support your expanding product line successfully. Although you may lack the resources to upgrade your systems thoroughly and immediately, it is crucial that you develop a plan to build capacity incrementally to implement and manage the new product as it is commercialized.

Two primary factors are involved in building the necessary institutional capacity:

- Training staff, to increase their skills for delivering the new product or service; and
- Upgrading office systems.

It is important to plan when and how your organization will phase in the new product line at each of your locations, especially if you plan to roll out the product at several branches simultaneously. In determining the timing and resources required for the roll-out, there are numerous issues and details to finalize. Accordingly, you should develop an implementation plan that lays out the critical steps in preparing for the product launch.

To develop an implementation plan efficiently, we recommend that you first read through the remainder of the guide to familiarize yourself with the details of the plan. Then, you will be prepared to return to this point and continue with the following worksheets.

The question to ask now is:

What is the organization’s plan of action?

Answer this question by addressing the following issues:

✍️ What locations do you plan to use to launch the new product?

✍️ What is the time frame you will use to introduce the new product at each location?

✍️ What resources need to be in place before the new product or service is rolled out at each location? Remember that “resources” refer to the following:

- Accounting system;
- Management information system;
- Promotional information; and
- Trained staff able to process, monitor, and make collections to meet the new demand.
THE IMPLEMENTATION PLAN

Use the worksheet on the following page to describe your organization’s plan of action for each branch where the product will be rolled out.

1) In the first column, under “Resources,” describe the resources that need to be in place at the location in question. Included as an example are resources that you should think about. Also, consider other resources specific to your institution that you must include, and add them in the empty spaces.

2) The time line in Worksheet 36 is delineated in both monthly (“Month one” and so on) and weekly (1, 2, 3, 4) increments. Identify on the time line when you will begin work to install the resource at the location, by marking a “B” in the box of the appropriate week. Also include when the resource will be finalized at the location by marking an “F” in the appropriate box.
# Phase 4: Product Launch

## Worksheet 36: The Implementation Plan

<table>
<thead>
<tr>
<th>Location</th>
<th>Resources</th>
<th>Person resp.</th>
<th>Time Frame</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch X</td>
<td>Trained staff</td>
<td>1.</td>
<td>Month one 1 2 3 4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.</td>
<td>Month two 1 2 3 4</td>
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<td>3.</td>
<td>Month three 1 2 3 4</td>
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<tr>
<td></td>
<td></td>
<td>4.</td>
<td>Month four 1 2 3 4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5.</td>
<td>Month five 1 2 3 4</td>
</tr>
</tbody>
</table>

1. Trained staff
2. Materials
3. Systems

1. Trained staff
2. Materials
3. Systems
Human Resource Hiring and Training

Training staff to develop the skills needed to deliver the new product will help your institution ensure consistency and quality control during the roll-out process. Before making decisions about training, however, you must understand the existing skills and capabilities of staff in relation to the requirements to deliver the new product or service to customers. This information can be gathered through a formal or an informal training needs assessment. The information you need to collect is as follows:

**Staff Profile**

- Education levels and experience of staff;
- Skills used to do present job and skills needed to work with new product;
- Current responsibilities and workload;
- Anticipated responsibilities and workload; and
- Worker initiative/attitude.

This information is important because it will help you determine:

- What kind of training is most appropriate (classroom, mentoring, or self-study);
- The content of the training; and
- Whether you need to supplement your current human capital with new-hires.

**Specialists versus Generalists**

During the pilot, you probably used existing staff to offer the product. As you think about the launch, you will need to decide whether the product is distinct or technical enough to require specialized expertise. It is typically easier and more efficient for an institution to have its front-office personnel be generalists who are capable of offering any and all products to potential clients, to optimize productivity and cross-selling opportunities. Moreover, for loan officers, generalists allow an MFI to serve the needs of microenterprises as they grow and not transfer portfolio between credit officers. Nonetheless, once the volume for a new product builds up, MFIs may assign one dedicated credit officer to specialize in that particular offering, if they think specialization will improve productivity. Generally, however, it is not cost-effective to have a specialized credit officer delivering the small loan volume of new products, so most MFIs will use existing, underutilized staff. Specializing seems to make sense when there is a unique type of underwriting or a specific target market associated with the product. Either way, the MFI must think carefully about training and incentives to help ease this transition, because often employees will resist change.

Once you have completed and analyzed the training needs assessment, you can move forward with developing, or finding vendors to develop and deliver, the training.
Analyzing the training needs of staff presents an opportunity to identify the skills and knowledge staff already possess and the skill and knowledge requirements for delivering the new product or service. This information will help you identify the skill and knowledge areas your staff members should develop to deliver the new product or service successfully.

The training schedule should be based on your launch plan. Locations where the new product will be introduced early in the schedule should receive training first. It is recommended that staff be trained as the product is rolled out to their specific locations, in case changes are made to the product or process along the way, based on lessons learned from earlier roll-outs at other branches.

The worksheets on the following pages will help you conduct a training needs assessment of your staff. The first step in this process is to take an inventory of your current human resource base, using Worksheet 37. Then, use Worksheet 38 to identify the necessary job positions for, and the different tasks associated with, delivering the new product. This worksheet will help you understand the separate tasks involved in delivering the new offering, as well as who is responsible for delivery and the skills and knowledge needed to deliver the offering successfully. Together, the two worksheets should enable you to uncover “holes” in your human resource base that you must fill by either hiring new staff or training existing employees.
Employee Skills and Knowledge Profile

The Employee Skills and Knowledge Profile is used to understand the current abilities of staff members who will deliver the new product or service. The responses from the profile will be compared with the task analysis to identify the skills and knowledge areas staff are lacking to deliver the new product or service successfully.

Employee profiles can be gathered through individual interviews, surveys/questionnaires, or focus groups. Worksheet 37 is an outline to use to gather information about the skills and knowledge of employees. This form can be adapted to meet the specific needs of your organization.

Once you have collected the information, it is your job to analyze what kind of training is most appropriate for specific job responsibilities. To do this, examine from a general perspective what skills and knowledge are lacking to perform the tasks successfully.

Employee Profile/Recruitment

Use Worksheet 38 to develop an initial profile of the type of people (including their job positions, responsibilities, and estimated remuneration) who will be involved in delivering the new product.

1) Using Worksheet 38, “Employee Profile/Recruitment Guide,” identify each position in your organization that might have some involvement in the delivery of the new product. Use Worksheet 13, “Human Resource Requirements,” from Section B.3 of Phase 2 as a guide. For instance, if your product is a loan product, the relevant positions might include senior loan officer, promoter, back-office staff, and so on.

2) For each job title, describe the tasks involved in the delivery of the new product.

3) Then, define the skills and knowledge needed to perform the tasks. These constitute the qualifications for hiring a person for this particular position.

4) Based on the qualifications, estimate the salary level (including benefits) required for each position. Use current staff remuneration levels as a guide.
Worksheet 37: Employee Skills and Knowledge Profile

1. Job title__________________________
2. Name ___________________________
3. Years employed in current position______
4. Description of education_____________________________________________________
5. Description of current responsibilities___________________________________________

________________________________ ________________________________ ________________
________________________________ ________________________________ ________________
________________________________ ________________________________ ________________

6. Description of skills and knowledge used in current job___________________________

________________________________ ________________________________ ________________
________________________________ ________________________________ ________________
________________________________ ________________________________ ________________

7. Description of tasks involved to deliver new product or service_______________________

________________________________ ________________________________ ________________
________________________________ ________________________________ ________________
________________________________ ________________________________ ________________

8. What skills and knowledge are needed to perform the new responsibilities?

________________________________ ________________________________ ________________
________________________________ ________________________________ ________________
________________________________ ________________________________ ________________
9. Description of training received on the job

____________________________________________________________________________

____________________________________________________________________________

____________________________________________________________________________

10. How have the skills and knowledge learned in training been applied on the job?

____________________________________________________________________________

____________________________________________________________________________

____________________________________________________________________________

11. Staff members’ understanding of the skills and knowledge they need to deliver the new product or service successfully:

____________________________________________________________________________

____________________________________________________________________________

____________________________________________________________________________
### WORKSHEET 38: EMPLOYEE PROFILE/RECRUITMENT GUIDE

<table>
<thead>
<tr>
<th>Position (job title of person responsible for performing tasks)</th>
<th>Job Responsibilities (description of tasks)</th>
<th>Qualifications (knowledge and skills needed to perform tasks)</th>
<th>Average Salary/Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoter</td>
<td>Recruit potential clients for new product, distribute leaflets, provide information, and so on</td>
<td>Sales-oriented, enthusiastic, minimal educational experience (high-school equivalent)</td>
<td>Varies by country/market</td>
</tr>
<tr>
<td>Cashier</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations assistant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan officer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Branch coordinator</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: The above is a fictitious example based on a new loan product.
Internal Systems

Your organization must determine how the new product will fit with the capabilities of existing internal systems. Your organization might have to expand or adapt certain elements of its operating systems to implement and manage the new product, depending on the product’s features. You will have adjusted these features during the pilot test, but you must remember that you have to make the same adjustments and modifications at all locations where you will roll out the product. The critical internal systems that will affect, and be affected by, a new product include the following:

- **Management information system**: An MIS can be a manual or computerized system for keeping track of information generated by your organization. The MIS is a mechanism for your organization’s accounting, loan monitoring, and other back-office operations to track disbursements and collections, as well as to monitor portfolio performance. When your organization introduces a new product, the MIS must be adjusted to be able to process information about it. Expanding your product line might, for example, require your organization to disaggregate costs and track them by product to ensure effective pricing and expense control. At a minimum, loan officers should track on time sheets the hours spent working with different products, because salaries typically represent one of the largest expenses.

- **Quality control**: A mechanism to ensure quality control can be internal to your organization or come from an external entity such as a regulatory authority. Regardless of the motivation for this control, your organization must ensure oversight of all aspects of the new product roll-out to maintain organizational integrity. Oversight controls include:
  - Portfolio reviews,
  - Performance evaluations, and
  - Credit policies and operational manuals.

- **Communication**: In preparation for the product roll-out, your institution must establish adequate lines of communication between headquarters and branches, management and staff, and your institution and its customers. For example, an MFI may require new phone systems to establish an internal computer network so that a loan can be tracked regardless of the branch in which it originated. In addition, client communication systems must be in place to ensure timely feedback.

In general, your organization must:

1) Understand how the new product fits into the processes of the existing system;
2) Determine adjustments that need to be made to the system; and
3) Plan how the system will be upgraded.

---

16 See the MBP paper “MIS for Microfinance: An Evaluation Framework” (a Development Alternatives, Inc., publication), by Andrew Mainhart, to evaluate an information system’s flexibility and expandability in accommodating a new product.
B.3 PRODUCT LAUNCH

Congratulations! You should now be ready to launch the product fully! First, however, see the checklist below to make sure you have not overlooked any critical steps.

- Finalize publicity materials for each of the branches selected for the product launch;
- Identify and train sales force/loan officers;
- Prepare and test internal systems;
- Establish lines of communication and reporting responsibilities; and
- Verify regulatory and legal compliance.

Finally, use the checklist on the following page to review all you have accomplished and determine whether you are ready for product launch.
## Worksheet 39: Product Launch Checklist

<table>
<thead>
<tr>
<th>Product Launch Step</th>
<th>Time Frame</th>
<th>Person(s) Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finalize the product terms based on the results of the pilot test. Use Worksheet 33 on product features.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Check the financial viability of the initial prototype. Use Worksheet 14 from the design phase as explained in Section A.2 of this chapter.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop a positioning and promotional strategy for the product launch. Use Sections A.3 and A.4 as guides.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reexamine goals and expectations for measuring the success of the new product.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop an incentive scheme to encourage active selling of the new product and positive returns.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decide how your organization will develop the appropriate staff skills and knowledge to deliver the new product.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modify, adjust, and test internal systems to ensure the smooth transmission of information.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional step.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional step.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional step.</td>
<td></td>
<td></td>
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<tr>
<td>Additional step.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional step.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
RESOURCE SECTION

A. Additional References for New Product Development
B. Sample Terms of Reference
C. Focus-Group Guidelines
D. PRA Exercises
E. Pricing Considerations
F. Break-Even Level Required to Cover Fixed Costs
G. Return on Investment (ROI)
H. Flow Charts
I. Developing a Training Needs Interview
### A. Additional References for New Product Development

<table>
<thead>
<tr>
<th>Topic</th>
<th>Available Resources</th>
</tr>
</thead>
</table>
B. Sample Terms of Reference

Afri-Co Microfinance Company
Fast Access Savings Account Product Testing Team

Terms of Reference
Team Composed for Testing of a Fast Access Savings Account

I. Background of the Relevant Project Objectives and Activities

a. General Background
Afri-Co Microfinance Company commissions a market study from MicroSave-Africa during 1999. This study shows that customers are dissatisfied with current products because of problems with ease of use. Clients suggest a more flexible product.

b. Specific Background
i. There is a need for a new product to complement the existing regular savings account. This product should address the following desires of customers identified in the study:
   1. Quick, fast, and high-quality services,
   2. Flexibility in withdrawal frequency, and
   3. Accounts with no passbooks.

ii. The Fast Access Savings Account (FASA) would likely be an appropriate product for both urban and rural operating units, but must:
   1. Satisfy customer objectives,
   2. Be profitable for the institution (in terms of a positive net present value within three years), and
   3. Improve efficiencies in the institution.

II. Description of Required Services

a. A team of six staff members will compose the product development team. It is to include middle-level staff members from the following areas:
   i. Finance and accounting
   ii. Information technology/MIS
   iii. Marketing
   iv. Training
   v. Operations—management
   vi. Operations—front line

   The team leader will be specifically designated.

b. The team will design and test the FASA for use in a representative trial office. The team will meet once a month or more often, as needed and determined by the team.
III. Duration and Timing

a. These terms of reference become effective immediately, and the team should fully test and analyze the product per an approved protocol within the next 12 months.
b. Team members will be provided time away from their regular duty stations when necessary and with the knowledge of their supervisors. Participation should not exceed X percent of their time on a weekly basis.

IV. Monitoring/Progress Control

a. The managing director will monitor the progress of implementation of the test process.
b. The completion of the terms of reference will be the responsibility of the team leader.

V. Definition of Expected Outputs/Results

a. The team is expected to deliver a testing protocol agreed upon by the team, as well as a copy of the financial projections showing a profitable product within two years, and written guidelines for the product.
b. The team will also provide summary reports as identified in the pilot-testing protocol.
c. By the end of the testing period, the team will provide a detailed recommendation about the product and its further implementation and potential expansion.
d. In the case of noncompliance, an immediate explanation is to be provided to the managing director, who will decide the continuing status of the test with options, including a change of team leader and the pausing or termination of the test.

VI. Budget

a. New amounts beyond the approved budget will only be expended after an evaluation of the benefits to the institution and with the approval of the managing director.
b. Specific expenditures totaling US$X,XXX over the period of the test will include:
   i. Direct expenditures
      1. Staff costs
      2. Marketing and training costs
      3. Fixed assets and related costs
      4. Interest
      5. Stationery
   ii. Indirect expenditures
   iii. Contingencies (10%)

Managing Director ____________________________ Date ________________

Team Leader _____________________________ Date ________________

C. Focus-Group Guidelines

These general guidelines are taken from Graham Wright’s “Market Research for MicroFinance,” produced by MicroSave-Africa and Research International, 2001. A more thorough discussion of how to prepare and conduct a focus group is contained therein.

1. Designing a discussion guide

- Include warm-up questions in the beginning of the discussion guide;
- Translate objectives (problem) into areas of questioning;
- Consider having one area of questioning rather than a series of “probe” questions;
- Include the general context of financial product usage;
- Move from general to specific;
- Move from past to future;
- Move from spontaneous to prompted;
- Keep language simple/translate into vernacular if necessary; and
- Use consumer terms.

2. Qualities of a good moderator

- Can get respondents to express themselves freely;
- Is considerate of others;
- Is enthusiastic and lively;
- Has a good sense of humor;
- Has a genuine interest in finding out what others think;
- Is friendly/nonthreatening;
- Is animated/confident;
- Can build rapport;
- Is respectful;
- Is outgoing;
- Is observant;
- Can control his or her tone of voice;
- Remains neutral;
- Answers the research question;
- Selects an appropriate venue; and
- Listens/is patient.
D. PRA Exercises

Below is a list of PRA (participatory rapid appraisal) exercises that have been designed to be used in focus-group–like settings to deepen the understanding of clients’ needs, preferences, and situations. This summary is excerpted from Graham Wright’s overview of the “Market Research for Microfinance” course offered by MicroSave, which trains participants in how to apply these tools to microfinance markets. See www.undp.org/sum/MicroSave/toolkits_MicroSave.html.

1. *Seasonality analysis of household income, expenditures, and savings and credit* is used to obtain information on seasonal flows of income and expenditures, and the demand for credit and savings services. This analysis also provides insight into some of the risks and pressures faced by clients and how they use MFI financial services to respond to them.

2. *Seasonality analysis of migration, casual employment, and goods/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). Understanding these trends has important implications for clients’ ability to make regular savings deposits and loan repayments.

3. *Life-cycle profile* is used to 1) determine which life events require lump sums of cash; 2) examine the implications of these requirements for household income/expenditures; 3) establish current coping mechanisms; and 4) 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 in a person’s life.

4. *Venn diagrams* allow analysis of financial service organizations or groups within the community and their roles, and help to understand better the social capital accumulated by participants.

5. *Simple preference ranking* can be used to gauge the relative importance and desirability of different product features, including interest rate, opening balance, convenience, accessibility, and the like.

6. *Competitive (or relative) preference ranking* is used to determine how clients and potential clients perceive financial service providers and how clients rank the different product components and services of each.

7. *Pair-wise ranking* is a focused application of competitive ranking. It is used to examine in detail how clients and potential clients compare and contrast critical components of financial services, and why those components are important to them.

8. *Simple wealth ranking* provides a rapid way of segregating a community into three basic wealth categories, and is useful for targeting. This exercise can also be useful in impact assessments and for examining the socioeconomic characteristics of people who choose to join (or not join) the MFI, as well as those who leave or whose accounts become dormant.
9. *Detailed wealth ranking* provides an understanding of how and why rich people are wealthy and the poor are poor, and a “ranking” of the households in the village, from the wealthiest to the least wealthy, 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 such). This exercise is a useful lead-in to discussions of which financial service institutions clients trust or value, and why. The exercise also provides initial insights into potential income-generating ventures/projects in which clients might get involved.

11. *Time series of sickness, death, loss of employment, theft, natural disaster, and so on* (this year, last year, and five to 10 years before) provides an opportunity to learn from the community about how it 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 simplifies 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, and five to 10 years before) is useful in determining what “productive” and “protective” assets (in a broader sense) community members value the most. This tool thus enables the research team to design or refine corresponding financial products, including leasing and contractual savings deposits (for example, for housing, education, and health insurance).

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 which services offer the potential for designing or refining appropriate financial products.

14. *Financial-sector trend analysis* (this year, last year, and five to 10 years before) is useful in determining which financial services have been used over time by which socioeconomic or sociocultural strata of society. This tool can help clarify changes over time in the use and availability of a variety of financial services, why clients have used them, and how clients’ preferences and priorities have evolved in that period.
E. Pricing Considerations

Pricing is a critical and sometimes complex science whose coverage is beyond the scope of this guide. However, this section provides a brief review of commonly used pricing strategies for the MFI to consider. It is important to note that this list is not meant to be exhaustive and that these strategies are not mutually exclusive.

1. Cost-plus pricing: is based on a markup over and above the financial and operating costs of a product, to ensure its financial viability. For example, as explained in “Microcredit Interest Rates,” Occasional Paper No. 1, published in August 1996 by the Consultative Group to Assist the Poorest (CGAP), interest rates are a function of administrative expenses, loan losses, the cost of funds, the desired capitalization rate, and investment income. The effective annual interest rate for a product will be based on the method of interest-rate calculations used by your institution. In the case of loan products, for example, using a flat amortization schedule will earn your institution more revenue than will using a declining balance (basically, the effective rate of interest), as illustrated below:

FLAT: loan term (months) X monthly interest rate X principal amount

DECLINING BALANCE: Payment = interest rate X payment
\[(1 – 1/(1 + interest rate)/number of periods)\]

In a similar way, many MFIs use fees to reflect and recover the true costs of delivering a product. For example, an MFI might require a withdrawal fee every time a client takes out money from his or her savings account over and above a certain minimum allowed, to reflect the operational costs associated with processing this transaction. In terms of financial costs, it is important to consider the weighted average cost of capital, as described in Section G of this “Resource Section.”

2. Competitive pricing: Under this strategy, an MFI would price its product based on what the competition charges for similar products. This strategy assumes that the new product has some substitute, however imperfect, in the marketplace. If the MFI is not in a competitive market, or if the product (and/or the target market segment) is highly differentiated, this strategy is not really applicable.

3. Creaming: This strategy is based on charging higher prices in the early stages of a product launch. The purpose of this strategy is to attract clients in market segments that are less price-sensitive, in hopes of recouping one’s investment quickly. This strategy has been successful in many cases for the following reasons:

- Demand for a new product is typically more inelastic (less price-sensitive) during its initial launch;
- High prices limit demand, which might otherwise overwhelm an MFI learning how to deliver a new product;

---

1 This section draws from MicroSave-Africa’s “Toolkit for MFIs—Costing and Pricing Financial Services.” (See Section A of this “Resource Section.”)
• High prices allow an MFI to segment the market, differentiating price-sensitive borrowers from those who are not as concerned about the financial costs. After the less-price-sensitive market segment has been tapped, the MFI can lower its prices to attract more price-elastic segments. Also, it is much easier to lower a high price than raise a low one; and
• Price discrimination, as described in the preceding bulleted point, can be very profitable, allowing the MFI to serve lower market segments or expand into other lines of business.

4. **Market penetration/preemptive pricing:** This strategy takes the opposite tack of “creaming,” by charging *lower* prices in the early stages of product launch. The main goal is to capture as much market share as possible, in order to:

- Build awareness and customer loyalty to a specific product, brand name, and/or institution.
- Realize economies of scale—the lower unit costs that come with selling higher volumes of a particular product.
- Prevent entry of potential competitors. This barrier to entry can be very effective if there are significant economies of scale, which would allow the MFI to price below the cost to lagging competitors. Even if economies of scale are lacking, preemptive pricing keeps margins unattractively low, which might deter competition.

Market penetration/preemptive pricing makes the most sense when:

- Competitive markets exist in which customers are likely to be very price-sensitive;
- Products exist with some economies of scale; and
- Price-insensitive segments are too small or too difficult to differentiate to employ the creaming strategy.

Of course, a penetration strategy must be managed carefully so that the MFI earns enough income to cover the costs of delivering the product. Accepting early losses in hopes of recouping the gains through a bigger market share later is a risky strategy. The MFI might never reach the needed market penetration levels, or it might take so long that it faces liquidity crises in the interim.
F. Break-Even Level Required to Cover Fixed Costs

The break-even point is the volume of sales a product must generate to cover the fixed costs of delivering the product, once estimates of the delinquency costs and the average loan size have been made. Any sale over the break-even volume is profit.

The break-even formula, a version of which is provided below, also shows how changes in price influence the MFI's ability to recover its costs.

\[
\text{Break-even sales volume} = \frac{\text{costs to cover}}{\text{financial margin}}
\]

There are many ways to determine which costs to with your new loan product. In order to determine whether the new product is truly sustainable, you should allocate a percentage of the fixed costs to estimate a break-even point for the new product.

One simple way to allocate fixed costs is to estimate what proportion of staff efforts will be dedicated to this new offering. Because salaries are one of the highest expenses in microfinance, prorating fixed costs by the anticipated level of staff effort would yield a good approximation of the kind of loan volume this new product would need to generate to break even. An MFI may limit the portion of its expenses it tries to recover in a product so as not to make the product price prohibitively high in a given market. If it does limit expenses in this way, however, the MFI must identify alternative revenue streams to cover any indirect costs not factored into the new product price.
G. Return on Investment (ROI)

Return on investment (ROI) is a method of comparing the benefit of employing capital to fund a particular project with the cost of doing so. The benefit, or return on the investment, is usually measured by the profits the project will generate. If the ROI is greater than the cost of capital (usually measured as the interest rate, or “r”), then the investment (C₀) should be undertaken. In other words:

\[ \text{ROI} = \frac{\text{profit}}{\text{investment costs}} \]

If ROI is greater than “r,” accept the project.
If ROI is less than “r,” the project is not financially viable.

\[ r = \text{required, or rate of return} \]
\[ \text{Profit} = \text{project revenue} - C₀ \]
\[ \text{Investment costs} = C₀ \]

How does one set the required, or “hurdle,” rate of return “r”? The most common methods are described below.

1. **Weighted average cost of capital:** Many institutions use the weighted average cost of capital (WACC) as a minimum hurdle rate of profitability any project must overcome to justify an investment in resources. As its name implies, WACC calculates an overall cost of capital by weighting the different sources of capital by their respective percentage of the total capital invested in the MFI, as illustrated in the table below. In this case, in order to proceed, the product development team would have to demonstrate that the new product would generate a return in excess of 16.6 percent.

<table>
<thead>
<tr>
<th>Source of Capital</th>
<th>Proportion of Total (A)</th>
<th>Cost of Capital (B)</th>
<th>Weighted Cost (A X B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation grant</td>
<td>5%</td>
<td>0%</td>
<td>0% (1)</td>
</tr>
<tr>
<td>Bank loan</td>
<td>30%</td>
<td>12%</td>
<td>3.6% (2)</td>
</tr>
<tr>
<td>Savings deposits</td>
<td>65%</td>
<td>20%</td>
<td>13.0% (3)</td>
</tr>
<tr>
<td><strong>WACC</strong></td>
<td>(1) + (2) + (3)</td>
<td></td>
<td><strong>16.6%</strong></td>
</tr>
</tbody>
</table>

Note: It is important to note that this WACC does not include any adjustment for risk.

2. **Opportunity costs:** The opportunity cost of any investment is the earnings forgone by the next best alternative use of the resources. Setting a hurdle rate based on opportunity costs would require estimating the expected return of the next best investment opportunity.

3. **Historic rates of return:** These are common profitability indicators, including return on equity (ROE) and return on assets (ROA), as defined below:

\[ \text{ROA} = \frac{\text{average assets/net income}}{} \]
\[ \text{ROE} = \frac{\text{average equity/net income}}{} \]
4. **Competitive or industry averages**: These time-sensitive measures are net present value (NPV) and internal rate of return (IRR).²

The two most widely used financial decision rules—*present value* and *rates of return*—are based on the *time value of money*, which is the opportunity cost of capital. This fundamental principle of finance is based on the notion that money today is worth more than money in the future because today’s funds can be invested and start earning interest immediately. Therefore, the *opportunity cost of capital*—which is also referred to as the *discount rate*—is simply the return forgone by *not* investing in interest-earning securities. The appropriate discount rate to use depends on the project’s riskiness—that is, the likelihood that the cash flows will materialize in the future. Most firms choose a discount rate based on some widely known benchmark—such as the historic rate of return of the U.S. stock market (approximately 10 to 12 percent)—for projects with moderate degrees of risk, and adjust upward for more risky investments and downward for less risky ones. The higher the discount rate, the less likely it is that the present value of future cash flows will cover the initial investment, leading the firm to reject the proposed project.

---

² These two methods of discounting future cash flows are discussed in Monica Brand’s “New Product Development for Microfinance: Design, Testing, & Launch.” (See Section A of this “Resource Section” for the complete citation.)
H. Flow Charts

A useful visual tool that diagrams the steps of the process of delivering a product to the client is a flow chart, like the one shown in the adjacent box.

A flow chart is a pictorial representation describing a process to plan the stages of a project, in which each shape represents a distinct input, activity, or result. Flow charts provide people with a common language or reference point when dealing with a process. Through the use of flow charts, you can convey to someone else the steps and decisions someone performs when they do something. The symbols used are universal and allow you to condense a lot of information into a little space. The basic flow chart symbols below are used to describe different parts of a process:

- **Oval**: (Sometimes called the rounded rectangle) is used only at the beginning or the end of a flow chart with the word “start” or “end” inside the oval.

- **Rectangle**: Used for actions or steps; for example, “Put the sugar in the coffee.”

- **Parallelogram**: Used for data; for example, descriptions of different coffee blends.

- **Irregular square**: Used for documents; for example, menus or receipts.

- **Circle**: The “go to” symbols used when a flow chart gets too large for one sheet of paper (for example, “go to page 2”) or when a flow chart becomes complicated and you want to avoid arrow lines that cross each other. If you use this symbol, you must have an exit point (for example, “go to A”) and an entry point (a place to go marked “A”).

- **Diamond**: Used for decisions or questions; for example, “lemon or milk?” (See “Branching” below.)
**Branching:** Below are two different ways to show branching. The diagram on the left is a typical way to show a question or decision that has two possible options (yes or no). If you have three possible options, you can modify the diagram on the left by adding a third arrow from the bottom point of the diamond. The diagram on the right shows how to handle multiple options. This structure is necessary if there are four or more options.

![Decision diagram](image)

**Group exercise:** Using the flow chart on the next page as a model, elaborate on the steps involved in delivering the new product to your target client. You can choose to describe procedures for underwriting, delivering, and/or managing the new loan product.
SAMPLE
FLOW OF CHART DIAGRAM
OF SALES PROCESS

Client calls for information
Loan officer answers the client
Client comes directly to the bank
Client approaches loan officer directly to talk

Give him/her basic requirements

N
Process ends if client does not meet basic requirements

Y

Client is interested

N
Fill out exit interview

Y

Presentation of information and requirements in branch or village
Information session at bank headquarters

Gather data and documentation required for the client visit

Input data into the system

Continue the loan evaluation process
I. Developing a Training Needs Interview

The training needs interview is one of the most common forms of training needs assessment. This method combines a job analysis (what has to be performed) with an individual needs analysis (what the individual believes he or she needs). Below is a five-step process to develop a training needs interview.

1. **Identify the job requirements:** What specific tasks and/or job functions must be accomplished? Sources of data for this step might include discussions with management, supervisors, and staff about the different skills used to deliver the new product or service.

2. **Determine the level of task or function importance:** How important is each job requirement to successful performance in the job? Is the task somewhat important, important, or very important (critical) for successful delivery of the product/service?

3. **Identify the skill or knowledge required:** What does one have to know or be able to do to fulfill each job requirement?

4. **Describe the level of skill/knowledge required:** What skill or knowledge level is required to fulfill each job requirement? For example, can a novice succeed at the job? Does the individual instead need to have a moderate or intermediate level of skill or knowledge? Or, is an expert needed?

Answers to steps 2 through 4 above can be collected by talking to experts and members of the new product development team.

5. **Identify the incumbent’s current level of skill and knowledge.**