

## Entering New Markets: How Market Research Can Inform Product Development

*Based on a Case Study of MDF-Kamurj, Armenia*

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### 1. Introduction

This note discusses how market research can inform and lower the risks associated with new product development done by urban micro-lenders entering rural areas. Rather than analyzing rural market specificities this note focuses on technical considerations regarding various market research options in situations when one enters a completely new market. The content of this note is based on action research work undertaken jointly by the Microfinance Centre for CEE and the NIS (MFC) and its Armenian partner MDF-Kamurj during 2002-2004 within the SEEP Network Practitioner Learning Program.<sup>2</sup>

MDF-Kamurj has taken a strategic decision to enter rural areas due to limited growth opportunities in markets currently being served. As an urban micro-lender, MDF-Kamurj lacked rural market intelligence.<sup>3</sup> MDF-Kamurj is not the only MFI that has faced this challenge recently. According to MFC 2003 regional microfinance industry mapping, 56% of NGO MFIs from Europe and Central Asia planned to enter rural

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**MDF-Kamurj** – [www.mdf-kamurj.am](http://www.mdf-kamurj.am) – provides micro-credit to low-income women micro-entrepreneurs in urban and rural areas in Armenia. For more information see box 1.

**MFC** is the leading membership-based microfinance resource centre in the CEE and the NIS region. Its mission is to contribute to poverty reduction and human potential development by promoting a socially oriented and sustainable microfinance sector that provides adequate financial services to a large number of poor families and microentrepreneurs. The MFC fulfills this mission by providing high-quality training, consulting, research, mutual learning and legal and policy development services. More information about MFC research work can be found at [www.mfc.org.pl/research](http://www.mfc.org.pl/research).

**The SEEP Network** Practitioner Learning Program "Putting Client Assessment to Work" – [www.seepnetwork.org](http://www.seepnetwork.org) – has been a two-year action-research project with the goal of developing and promoting client-assessment best practices for microfinance worldwide.

<sup>2</sup> The microfinance market in rural areas has some very distinctive features. Notably, rural livelihoods are very much different compared with their urban counterparts, especially regarding their economic activities, cash-flow patterns and their seasonality, composition of portfolio of household assets, risk exposure, financial behavior and literacy. It is further accentuated by some structural factors characterizing rural areas, such as financial landscapes comprising mostly informal arrangements (resulting in a lack of client records and formal competition to learn from), lower population density, remoteness, price, and weather risks related to agricultural production, as well as specific institutional context (norms, values, institutions). Consequently, the needs of the target population and the risks for the urban micro-lender are of a different nature in rural areas, therefore simple replication of urban services might lead to costly failures. For more on rural microfinance see <http://www.basis.wisc.edu/rfc/agenda.html>.

<sup>3</sup> Source: Pytkowska J. (2004) *Overview of the Microfinance Industry in the ECA region in 2003*, MFC Spotlight Note 12.

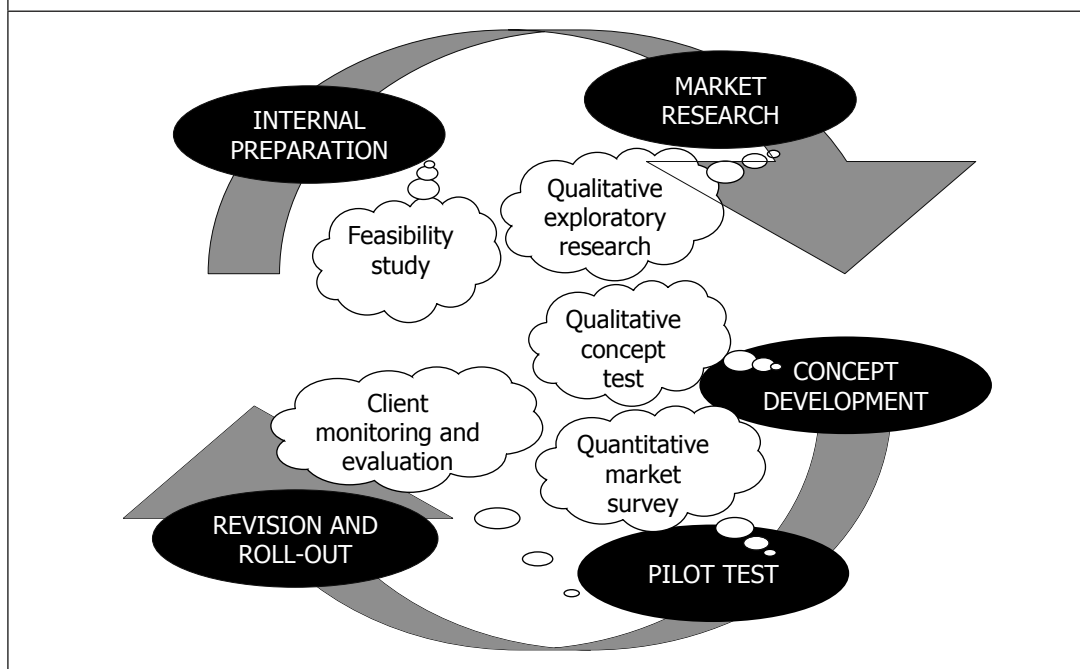


areas. This is perceived as a major institutional challenge.<sup>4</sup> If urban MFIs are to be successful in serving rural populations they need to better understand rural market needs and associated risks. This can be achieved by informing new product development through various market research activities. Market research not only has potential for reducing operational risks, thus cutting costs of product development and roll-out, but it also inspires the development of innovative solutions.

This note guides the reader through some possible options for market research that can be undertaken at various stages of product development (outlined in figure 1). For each option there are considerations related to its purpose, practical application, key methodological principles and lessons learned. These points are illustrated via the case study included in boxes and completed by information on the costs of the research (section 7).

As the project was externally funded, a holistic approach was taken to experiment and test different alternative market research options in order to generate lessons learned for the microfinance industry. This note should be considered as a menu of different options, from which microfinance practitioners can draw whatever is relevant for each of them.

**Figure 1: Market Research Options in Product Development Process**



**Box 1: Background on MDF-Kamurj and its expansion to rural areas**

MDF-Kamurj, a locally registered Armenian non-profit foundation, began operations in September 2000 after a successful merger between Save the Children/US (SC) and CRS microfinance programs. With a staff of 72, MDF-Kamurj has seven branches with microfinance operations decentralized to branch offices in Yerevan (capital city), Shirak, Lori and Tavoush marzes (northern Armenia), and Syunik marz (southern Armenia). As of November 2004, MDF-Kamurj has disbursed over 72,000 loans totaling \$21.5 million; has achieved a repayment rate of 99.2%, operational sustainability of 140% and financial sustainability of 108%. MDF-Kamurj currently serves around 6,300 active clients predominantly in urban areas (over 70% women) with over \$1.6 million in loans outstanding.

<sup>4</sup> For more on product development for microfinance please visit [www.microsave.org](http://www.microsave.org) and [www.microlinks.org](http://www.microlinks.org) (MBP Publications).

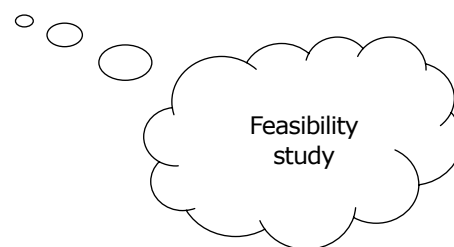
As MDF-Kamurj came to the realization that the urban Armenian markets for microcredit were saturated, it turned to rural areas, which tend to have an unmet demand for microcredit. By entering rural areas, MDF-Kamurj has expanded its portfolio and client base, diversified its risk, and remains consistent with its social mission of helping microentreprises improve their businesses and the well-being of their families.

As an urban microcredit lender, MDF-Kamurj realized that its urban loan products would not be realistic or useable to rural populations. MDF-Kamurj joined with the MFC under the SEEP PLP to develop a new product, termed "Swallow" (bird), to respond to rural-population financial needs.

MDF-Kamurj has tested its new rural product. The initial pilot project was to target 120 rural clients. However, demand exceeded expectations. Consequently, pilot test targets were increased and more than 800 clients received a piloted loan from December 2003 to July 2004. During this period, 162,164,000 drams<sup>5</sup> were disbursed. As of December 2004, only 0.01% of the disbursed amount was in arrears.

## 2. Is there any demand in rural areas?

Before starting any preparation for new product development, one needs to conduct a feasibility study to get a general sense of the potential demand for financial services in rural areas. This information combined with an institutional analysis results in preliminary product ideas, which provides a basis for proceeding with product development.<sup>6</sup>



### 2.1. Feasibility study purpose

The purpose of the feasibility study is to consolidate the necessary minimum of information to support the product development decision-making process. The main questions in need of answers are:

- What are the core financial needs in rural areas and which products can satisfy them?
- Is there sufficient demand in rural areas for the specific products to make the provision sustainable? What products are opportunities for the provider?

A list of opportunities and threats regarding the demand for different financial products will be provided by exploring socio-economic context; rural household economic activities and the risks they face; needs for financial services and their attitude towards them; and strengths and weaknesses of existing competition on formal and informal local financial markets. These factors will also determine the potential market size and preliminary market segments. In addition, during the feasibility study it is necessary to explore delivery infrastructure (availability of partners, transport, telecommunications and other necessary networks).

### 2.2 Methodological approach

Usually the feasibility study draws on different sources of secondary information and is based on the ongoing work of those in charge of market intelligence. The main secondary sources are: national statistics, outreach and performance of formal competitors, externally conducted studies, internal staff knowledge, etc.<sup>7</sup>

<sup>5</sup> In 2004, 1 USD = 470-490 Armenian Drams

<sup>6</sup> See also Microsave Briefing Note 9, Key Questions That Should Precede New Product Development by Graham A.N. Wright, Monica Brand, Zan Northrip, Monique Cohen, Michael McCord and Brigit Helms.

<sup>7</sup> For a review of information sources see Pawlak K. (2002) Client-Focused MicroFinance: A Review of Information Sources, MicroSave's Briefing Note 17.



However, very often secondary data is not sufficient for providing useful conclusions. In these circumstances there is a need to conduct primary research of a qualitative nature. Even if qualitative research will not provide any statistics, the gained understanding will be enough to illustrate the general picture for demand. At this stage the primary research should be very simple and be based on:

- expert methodology based on consultations with two or three specialists, and/or
- short field visits consisting of few (4-10) individual semi-structured interviews (and/or several group interviews) with key informants and villagers in each of the selected settings (i.e. 2-3).

Conducting quantitative surveys at this stage is not recommended for two main reasons. Firstly, usually there is little knowledge to correctly design a structured questionnaire that will yield credible and useful results. Secondly, in the areas where rural markets are limited, the demand for specific financial products might be not manifested as the target segment's needs are latent due to low financial literacy or other factors.

### **Box 2: MDF-Kamurj experience with the feasibility study**

As not enough information was available from secondary sources, MDF-Kamurj conducted a short feasibility study in April 2003 to collect preliminary information about the demand for microfinance services in rural areas of two Northern regions of Armenia (Shirak and Lori). For this purpose a task force team was formed including the Executive Director, Program Coordinator, Project Coordinator, two Branch Managers and local consultants. Two tools were used – village discussion meetings and in-depth individual interviews with community leaders. A total 12 villages were selected that were relatively typical and capable of providing a general picture. There were both individual interviews with village heads and village meetings concerning economic activities in the village (including access to market), credit experience and rating, potential demand and challenges of small group loans without collateral.


The main finding of the study concluded there is interest in productive credit in rural areas and it seems that a qualified available market is large enough to achieve economies of scale and provide sustainable services. Other general remarks from the feasibility study were as follows:

- Generally, rural areas are cash-poor. However, villagers often have both farming activities and cattle breeding in one household, which means that people have diversified income sources, which is an opportunity to minimize lending risks.
- Regions and even villages in the same region can vary by climate conditions, and thus by business types and income levels. That way, the needs and capacities for micro-credit will vary across sub-regions.
- The main lending player in the field is the Agriculture Cooperative Bank of Armenia (ACBA), which offers group loans with collateral and lends to limited number of people in the village. Often the village head or other local authorities are involved in the decision-making committee regarding loan approval.
- People behave differently (and give different information) with and without the presence of village heads and other authorities – they are more open and objective without them.

The feasibility study helped MDF-Kamurj to come up with a list of information needs to be explored in further research. Some lessons were learned related to the logistics, timing, and forming of discussion groups. These lessons were used later to plan and conduct exploratory market research effectively.

### 3. Exploring rural market needs and preferences further

If a demand feasibility study and institutional analysis give a green light for new product development, the next step will be to further explore rural market needs and preferences. Exploratory market research aims at in-depth understanding that is essential for the development of a detailed product concept and identification of all risks underlying product delivery.



Qualitative exploratory research

#### 3.1. Exploratory market research purpose

The basic questions one needs to answer are:

- Which groups of rural households are in need of specific product(s) and which market segments show the most promise?
- How the product(s) should be designed and what specific product design features are important to respond to clients needs, attract future clients and make it sustainable for the provider?

The exploratory market research tackles similar issues as the feasibility study but goes deeper in rural household needs for financial services (and their seasonality), financial behavior, preferences towards product attributes, attitude to financial services, financial literacy, market segmentation criteria, and product delivery risks.

It is good to have some ideas about a potential client's needs and then cross check the intuitive product concepts with reality. It may happen that preliminary ideas are abandoned when discovering other product opportunities during the research. Nevertheless, heading out to the field with some initial product ideas makes the market research less abstract and more likely to provide practical tips for product-concept development.

The exploratory research equips an MFI with the in-depth knowledge that will be useful in all stages of product development and after roll-out. Skipping the exploratory research is the most common failure of product development as fixing badly designed parameters after roll-out is so costly and frustrating that many good product ideas are abandoned after incurring significant costs.

#### **Box 3: Findings from exploratory research done by MDF-Kamurj and MFC**

The MDF-Kamurj conducted exploratory research in July 2003. The research issue was to identify the needs and opportunities for financing rural entrepreneurs in Northern Armenia that are manageable and advantageous for MDF-Kamurj. The rural exploratory market research at MDF-Kamurj brought lots of interesting insights that helped to design the product concept and allowed for the better understanding of the pilot-test outcomes and differences between villages. Some of the key findings and recommendations were:

##### NEEDS:

- A lack of funding is one of the biggest barriers to rural development in northern areas of Armenia. There is high demand for credit.
- There is clear seasonality of household and enterprises cash flows. This enforces some flexibility in product design. There are two peak seasons for agricultural credit: April (sowing) and August/September (harvest time). Cattle breeders are the exception as they have a stable income throughout the year. The peak season for credit is a bit longer in the case of cattle breeders, who need credit from July to October (hay gathering, cattle purchasing). In fall there are important pressures for satisfying household needs (school expenses, and preparation for winter).



**PREFERENCES AND BEHAVIOR:**

- A mutual trust exists in most cases and provides a solid base for group methodology. On the other hand, a limited knowledge of solidarity schemes due to lack of up-to-date experience is also a threat to MDF-Kamurj.
- There is no specific attachment to grants and zero-interest loans. This is a promising sign of a sound environment for sustainable lending. On the other hand, the price of loan is important for villagers due to the low profitability of activities.
- Interest rates, collateral and loan duration are the most important product attributes. They should be considered mainly during concept design, promotion and marketing.

**RISKS:**

- The financial markets are limited. There are virtually no informal group schemes, some degree of borrowing from kinship networks, and only one important formal player: the ACBA. While this presents an opportunity, it is also a threat to MDF-Kamurj in terms of financial education and the culture of repayment.
- There is a good base for credit portfolio risk management as economic activities are diversified.
- The main risks include weather and climate, limited income flows from non-farm activities, limited financial education, no direct access to markets, poor supplies, and corruption. Road infrastructure and a poor transport system are further obstacles as they limit access to the market. The market situation is made worse by a shortage of marketing skills among villagers with less profitable businesses. Whereas only a few villages in all regions have a stable client base (i.e. processing factories), most sell to local markets.

**3.2. Selected methodological principles**

Exploratory research by definition requires the use of qualitative methods that aim at an in-depth understanding of investigated issues. Much was written about the use of qualitative research methods in microfinance. Thus, we are limiting ourselves to presenting some methodological principles (figure 2).<sup>8</sup>

<i>Done internally</i>	If possible, exploratory research should be done by MFI staff because benefits usually go beyond collecting the data and extend to staff development and buy-in of the product development process. The internal research design process should be participatory.
<i>Limited scope</i>	It is sufficient to run 8-16 focus groups in 3-4 different locations. The number of groups or individual interviews depends on the complexity of the research issue and homogeneity of the target segment. The more complex the issue, the more sub-segments (gender, business type, etc.) need to be run. The number of research activities should be kept to a necessary minimum, balancing research objectives with logistical burden and staff opportunity costs. If possible, research locations should be easily accessible and not too far apart. Research activities should be frequent but planned so that there is enough time for onsite data analysis.
<i>Narrowing scope using secondary data</i>	Use of a wide range of potential information sources to narrow information needs for primary research is key to making the primary research more focused and cost-effective (see box 4). A clear distinction has to be made between critical and less relevant information.

<sup>8</sup> See Pawlak K., M. Matul (2003) Improving Cost-Effectiveness of Exploratory Practitioner-Led Research: Key Factors to Consider When Selecting Tools, MFC Spotlight Note 3, [www.mfc.org.pl](http://www.mfc.org.pl). For more information on exploratory research and qualitative techniques see: [www.microsave.org](http://www.microsave.org), [www.imp-act.org](http://www.imp-act.org), MBP and AIMS publications available through [www.microlinks.org](http://www.microlinks.org).

<i>Careful sampling linked to segmentation</i>	The exploratory research should be run on already-defined target segments, and not on the entire population. Usually, the insights gained through the feasibility study help to define the main target segment and some potential criteria for more detailed segmentation. An accurate sampling plan is key for the success of qualitative research. The locations should be selected carefully. It is recommended to select typical units of analysis, both regarding respondents and locations. This helps to get a reliable picture of the community.
<i>Mix of techniques</i>	Using a mix of qualitative techniques is highly recommended as it enriches the analysis and provides an opportunity for triangulation.
Immediate analysis	The full analysis of the data should be done just after the fieldwork; the results should be presented immediately to the product development team, and product concept development should follow at once. This ensures urgency and that the concept will be developed using all that was gained during the research.

#### **Box 4: Exploratory research design and lessons learned**

MDF-Kamurj paid plenty of attention to carefully designing the research objectives through a highly detailed process of information needs generation and prioritization based on secondary sources. As a result, MDF-Kamurj prioritized its information needs and came up with a narrowed list of six core objectives for primary exploratory research (figure 3).

Two main techniques used for exploratory research at MDF-Kamurj were focus group discussions with villagers and individual interviews with key informants. The research covered 18 villages in three districts in Northern Armenia. 18 Focus Group Discussions (FGDs) were moderated by 4 MDF-Kamurj employees trained in qualitative research techniques and tools. These FGDs were driven both by a discussion guide and Participatory Rapid Appraisal (PRA) tools adapted from the MicroSave toolkit for market research for microfinance.<sup>9</sup> Individual interview techniques were used to collect information from village heads and other key informants in the villages visited. In total, 18 individuals were interviewed.

As mentioned, the exploratory research was conducted using MDF-Kamurj staff assisted by MFC consultants. The internal participatory process resulted in significant ownership of the process among staff. This significantly lowered the costs (as staff was more efficient in their work) and increased the quality of work (as they were motivated). The research team felt strongly that because this particular rural research was conducted using MDF-Kamurj, staff added much value in terms of learning experience. If this research had been outsourced it would not have provided a comparable understanding of rural markets among MDF-Kamurj staff. The research process brought numerous additional side benefits such as: naturally selecting strong candidates for rural product staff, stimulating innovation by getting the staff to think “out of the box,” building relationships with potential clients, building skills in qualitative exploratory research, learning how to organize logistics in rural areas and fostering a client-focused culture at MDF-Kamurj. The staff is now better prepared to identify market opportunities and innovate future products.

<sup>9</sup> [www.microsave.org](http://www.microsave.org)



**Figure 3: Narrowing the research objectives at MDF-Kamurj**

Detailed information need	Current knowledge	Importance (for MDF-Kamurj)	Priority objective	Secondary objective
<b>What is the general socio-economic situation in rural areas?</b>				
village socio-economic profiles	medium	high		+
favorable conditions for agriculture lending	high	medium		
infrastructure level / legal and regulatory environment	high	low		
<b>What are main rural enterprise sectors?</b>				
development prospects and risks associated with main rural enterprise sectors	medium	high		+
level of business diversification	medium	high		+
access to input and output markets	medium	high		+
seasonality of typical business sectors	high	high		
<b>What is the financial landscape in rural areas?</b>				
main credit schemes and their design, popularity and importance	low	high	+	
potential main competitors for MDF Kamurj	medium	high		+
savings behavior and what are the main savings schemes and their design, popularity and importance	medium	medium		+
knowledge about insurance and available insurance schemes	medium	medium		+
<b>What are the household and enterprise needs and capacities for financial services?</b>				
business opportunity needs	low	high	+	
household sources of income, asset ownership and repayment/saving capacity	low	high	+	
general seasonality of household cash-flows, financial needs and capacities	low	high	+	
life-cycle needs	low	low		
emergency needs	low	low		
consumption smoothing needs	low	low		
<b>What are the preferences regarding financial services?</b>				
specific preferences toward the 8 P's and the importance of specific attributes	low	high	+	
„wants“ (demand) for specific products	medium	high		+
attitude towards borrowing, insuring, saving	medium	medium		+
level of solidarity and mutual trust	medium	medium		+
<b>What are promising target-market segments?</b>				
characteristics of specific market segments	low	high	+	

The following insights were gained in the area of exploratory research methodology:

- Using a wide range of secondary sources makes the primary research much more cost-effective.
- Qualitative research must be more localized and several groups have to be conducted in one setting to better understand the investigated issues in various market segments. In the case of the research done by MDF-Kamurj and MFC, the initial idea was to visit as many villages as possible. That is why only one focus group per village was done. This was done to the detriment of collecting in-depth information in each village. It was not possible to identify the opinions and behaviors of various groups in the community.
- The moderators were trained just before the research and the objectives were not internalized enough to facilitate probing. The research team felt that more time should have been spent on training fresh moderators. In particular, more focus on matching the tools with the objectives should contribute to a better understanding of the potential of each tool applied.

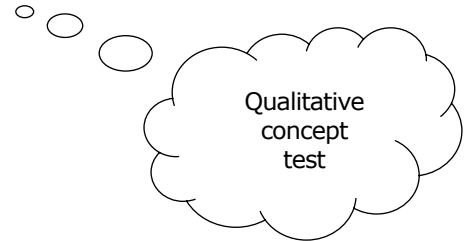


#### 4. Getting potential clients feedback on product concepts

##### 4.1. Purpose of product concept test

- There must be sufficient time (3-5 hours) for the feedback session at the end of the day. The fieldwork planned with MDF-Kamurj was so intensive that there was not enough time to discuss moderation, tools applied, information obtained and to decide on the next day's activities.
- The data has to be analyzed very quickly after the team is back from the field when their ideas are still fresh. This was the case for MDF-Kamurj, where the results were used immediately to conceptualize new product concept.

The inspiration gained through the exploratory research and further institutional analyses (including product costing and pricing)<sup>11</sup> support development of detailed product concepts. Soliciting potential clientele feedback before turning the concept into a prototype is useful to correct some product parameters before launching the pilot test. It helps save money as the later one introduces changes to the product the more costly it is.



The areas covered during the product concept test are: first reaction to product idea, reaction to product name/slogan, detailed feedback regarding all product attributes, and general intent to purchase the product (based on planned usage).

The main rationale of testing the product concept is that during exploratory research it is hard to collect in-depth information about people's preferences toward some features of actual and augmented products.<sup>12</sup> This is because during the exploratory research the preferences are analyzed in an abstract way (i.e. what are the most important attributes of a credit product?), and it is hard for respondents to talk about actual and augmented product features if they cannot see a specific product. In the concept test, the analysis can be more concrete as a detailed product concept is presented to potential clients. This gives additional insights about clients' preferences towards actual and augmented product features, therefore making the product more attractive to potential clients.

Lastly, product concept test results are very helpful for developing product marketing materials.

#### Box 5: Findings from new product-concept evaluations by clients

The product concept test for the Swallow loan resulted in significant changes in product pricing (interest rate and upfront fee) and flexibility of individual repayments within a group. Other key parameters met potential clients' preferences and remained unchanged (see figure 4). The key findings from the product concept test were as follows:

- Potential clients had no specific comments on the product name or logo.
- The product parameters that were accepted with great enthusiasm and are MDF-Kamurj strong points in comparison with the competition are no collateral, limited paperwork, lending in local currency, and mobile

<sup>10</sup> Product costing and pricing at MDF-Kamurj was done using the *MicroSave's* toolkit: *Costing and Pricing of Financial Services*; [www.microsave.org](http://www.microsave.org).

<sup>11</sup> The exploratory research helps predominantly to identify the needs and describe core product features.

*Core product*: answers the question why we are interested in serving a specific market segment- what are the needs and how we want to meet them;


*Actual product*: the specific features that characterize what the customer is buying —including how it is designed (terms, interest rates, eligibility requirements) and packaged (length and clarity of the application, color of the passbook);

*Augmented product*: how the customer receives the product — the way in which it is delivered and serviced (application turnaround time, hours of operation, waiting room facilities, and customer service — in terms of friendliness, accessibility before and after the loan is closed; product knowledge of loan officers, product positioning).



- banking (disbursing, collecting in the village). These differences set a firm backdrop for competing with other formal providers.
- During the discussion, the idea of a flat interest rate was not accepted - "why should I pay interest on the principal that I have paid back?". MDF-Kamurj decided to revise its pricing policy by setting the interest rate at 2.7% on a declining basis, increasing the upfront fee and introducing additional payments in the passbook.
  - Another dislike was the "waiting period for the next loan." The preliminary idea was that the group members would get a loan with the same repayment duration and corresponding schedule. This aspect needed to be rethought to allow individuals to repay their loans individually and solicit a new loan within the group cycle.
  - Doubts about solidarity group methodology were confirmed. The respondents liked the fact there is no collateral but were afraid the efforts to form a group would outweigh the benefits. Therefore, MDF-Kamurj loan promoters were trained to provide potential clients with very detailed instructions on how to form the groups.

**Figure 4: Final product concept after the test**

Term	Description
Name	Swallow Loan 
Collateral requirements	No collateral
Guarantee system	Group guarantee - minimum 10 members in group, maximum - 15
Loan cycle duration	3-12 months
Repayments frequency	<u>Interest</u> - monthly repayment <u>Principal</u> - flexible but it is compulsory to make at least 3 repayments during the loan cycle - 20%, 30% and 50% correspondingly.
First loan size	60000 - 300 000 drams (100-500 USD):
Interest rate	2.7% on declining basis
Up-front fee	1.5%- 6% depending on loan cycle duration (0.5% for each month of loan cycle duration)
Payment for obtaining loan passbook	1000 drams (around \$1.7)
Other	Limited paperwork
	Loan disbursement and repayment is done in the village
	If the client is prepaying the loan, and finishes the loan cycle earlier than defined in the loan contract, then s/he may get another loan within 1 month in the same cycle
	Loan disbursement and repayment is done in drams.
	The client should have two sources of income in order to qualify for the loan.

Last but not least, except gathering basis for further product refinement, conducting the concept test showed the potential clients that the exploratory research conducted before brought some tangible effects. This contributed to building MDF-Kamurj image as a trustworthy institution.



#### 4.2. Methodological approach

Qualitative tools are recommended for product concept test as they are sufficient to collect the required client feedback. The most common approach is conducting focus group discussions with 3-4 groups of potential clients. During the focus group, clients' opinions are cross-checked in a discussion and the debate stimulates clients to provide many insights.

Respondents evaluate the product and its parameters based on a written description of the product that is a sufficient stimulation to make respondents imagine a product, its use and their likes and dislikes towards it. The concept should give a general idea about the main potential benefits to clients and a short description of the product's main (i.e. most important to clients) parameters. It should be brief and written in understandable language.

#### Box 6: Lessons learned regarding the concept test methodology

MDF-Kamurj conducted a qualitative concept test in August 2003 in six different villages that were covered by the exploratory research and were chosen for the pilot test. Altogether, six focus group discussions (FGDs) were conducted by MDF-Kamurj staff using moderators that were trained in qualitative research techniques. The main lessons learned are as follows:

- The number of villages and focus groups should be limited to a few as even in the case of MDF-Kamurj, a small-scope product concept test, the information obtained was repetitive.
- Discussion on name, logo and slogan can be too abstract in rural villages that are usually not very much influenced by consumer culture. Additionally, intangible nature of financial services makes it difficult for discussion. If it is the case, the discussion should be omitted as it does not serve very productive as a warm-up activity.
- Discussion about concept is vulnerable to bias if it is run by moderators who are involved in product development and naturally attached to some product parameters. Commonly, this bias is a result of a transaction-oriented approach to the discussion, i.e. treating FGD as an opportunity to sell. This can be easily mitigated if the moderator is conscious of this possibility; presents the concept in an objective way, and directs the discussion in such a manner that encourages respondents to express freely their dislikes or lack of interest.
- A generic outline for conducting a product concept test can be adapted. At the end of the discussion MDF-Kamurj introduced a comparison table between its Swallow Loan and a product of its main competitor in rural areas. That step enabled the studying of the product in a competitive environment and identifying competitive advantages.

#### 5. Estimating market size and further segmenting the market

All the above-presented market research activities increase understanding of potential clients needs for financial services and preferences regarding the new product being developed. In addition, managers often require market size estimation for the new product to inform financial projections and a more detailed market segmentation to feed new product strategy. This information can be gained through a quantitative market survey.



#### 5.1. When is the right moment to conduct a quantitative market survey?

The timing of a quantitative market survey is an important issue. Generally speaking, there are two options: 1) conduct the survey before the pilot test; or 2) conduct the survey at the end or just after the pilot test.



**5.2. Quantitative market survey purpose**

Conducting the survey before the pilot test is recommended if:

- It was not possible to perform some basic estimations of market size at the beginning of the product development process or the market size data gained through the feasibility study was not credible to management.
- The new product is so unique that it is not possible to draw on any existing experience.
- The product delivery infrastructure is expensive (opening a new branch, new IT system, etc.) so that the pilot test costs are high. Before the initial investment in the pilot test, managers would normally want to see a more long-term financial projection to calculate the level of return.
- If there is stiff market competition and there is a need to get more data to see whether it is realistic to find the right place on the market for the new entrant.

The results can be “negative” and may lead to termination of product development.

However, it must be noted that the circumstances highlighted above are rare for credit products. Usually the market size estimation performed during the feasibility study and basic understanding of segmentation gained through qualitative exploratory research is sufficient to take a decision about a pilot test. In most cases, the information is not necessarily needed for a pilot test but is usually more necessary for a product launch. Therefore, it is sufficient to run a market survey in the final phase of a pilot test.

The quantitative market survey aims to further segment the market by different criteria and estimate the market size on different segments. The quantitative market survey covers:

- Different segmentation variables, including socio-demographic characteristics and financial behavior/literacy.
- Basic feedback of potential clients regarding the product concept, including likes/dislikes and comparison with competitors’ products.
- Intent to purchase a product, including reasons for purchasing/rejecting, planned usage, willingness to buy/recommend.

If a market survey is run in the final phase of the pilot test, the pool of respondents can be broadened by current clients. This allows for the expansion of the research framework by a satisfaction/retention analysis.<sup>12</sup> That way, the market survey also contributes to further fine tuning of the new product.

**Box 7: Main findings from MDF-Kamurj’s market survey**

The market survey conducted by MDF-Kamurj provided estimates of the qualified available rural market size in branch areas (figure 5). These are conservative projections and realistically, demand should be much higher in the future if MDF-Kamurj’s brand building and clients’ financial education are managed correctly. Given the low maturity of the rural market it was hard to evaluate the research for MDF-Kamurj’s potential share of the market.

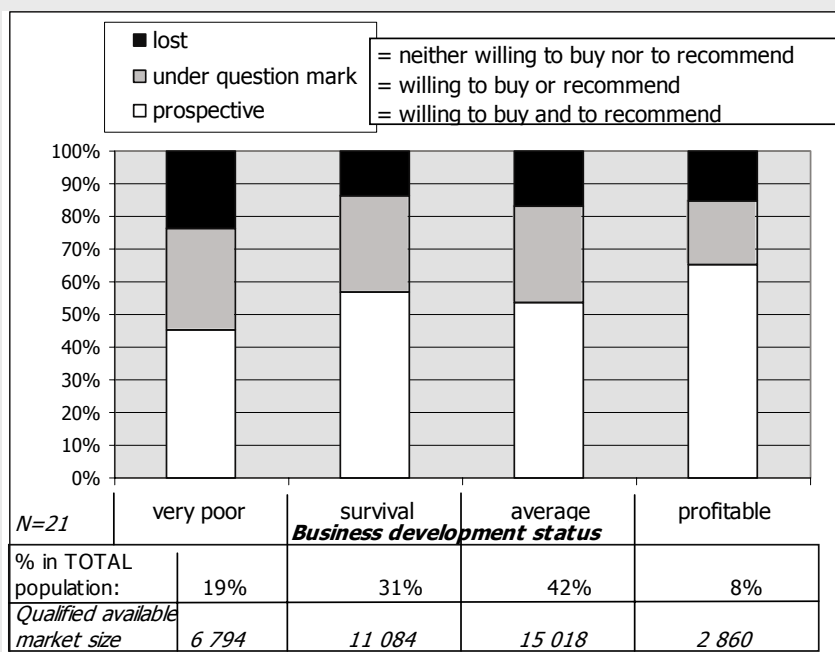
**Figure 5: Market size estimation**

	# of target	potential market size (# of households in target villages)	% of willing to buy the Swallow Loan Product	qualified available market size (conservative projection)	average market size per village
Yerevan	166	37 513	48%	18 006	108
Vanadzor	94	9 921	65%	6 448	69
Gyumri	113	12 003	47%	5 641	50
Idjevan	58	10 482	54%	5 660	98
<b>TOTAL</b>	<b>431</b>	<b>69 918</b>	<b>51%</b>	<b>35 756</b>	<b>83</b>

<sup>12</sup> See Pawlak K., D. Szubert (2004) Counting (On) Your Prospective Clients: Guiding Principles in Measuring Microfinance Client Satisfaction and Loyalty, MFC Spotlight Note 8, [www.mfc.org.pl](http://www.mfc.org.pl).

MDF-Kamurj selected business criteria as most important for further main market segmentation.<sup>13</sup> The main segments by business development status were described as very poor, survival, average, and profitable. Figure 6 shows that the demand for the Swallow loan is significant on all segments.<sup>14</sup> The most promising is the average business segment so that further product refinements should be done on the basis of this market segment's preferences in order to streamline operations and reach scale in a shorter period of time. However, from a social-mission standpoint, the survival business market segment is of a significant scale and should be considered in the future.

**Figure 6: Intent to buy and recommend the Swallow Loan Product by potential client business development status**



The other insights into demand for the Swallow Loan Product are as follows:

- Among the most important reasons for product rejection, potential clients mentioned: not considering taking a loan (36%), perceiving a loan as too risky for them (21%), and the group guarantee scheme (13%).
- Loan is perceived by the potential clients to be most appropriate for such purposes as cattle breeding, land cultivation, cattle purchase and inputs. More than one-fifth indicated family consumption and only a few (9%) education expenses.
- The potential clients (usually having limited experience on the financial market) dislike group size and group guarantee features of the product. At the same time it is not a serious weakness for current clients, who have already tested the group scheme.

<sup>13</sup> A business development status index was constructed using the following criteria: business income level comparison with other villagers, access to market, number of business sources of income, ownership of productive assets.

<sup>14</sup> This is typical on a new market when options for clients are limited. The real benefits from the segmentation will be seen in the future when the market becomes more mature and the segmentation techniques will be the main weapon for identifying market niches and sustaining operations.

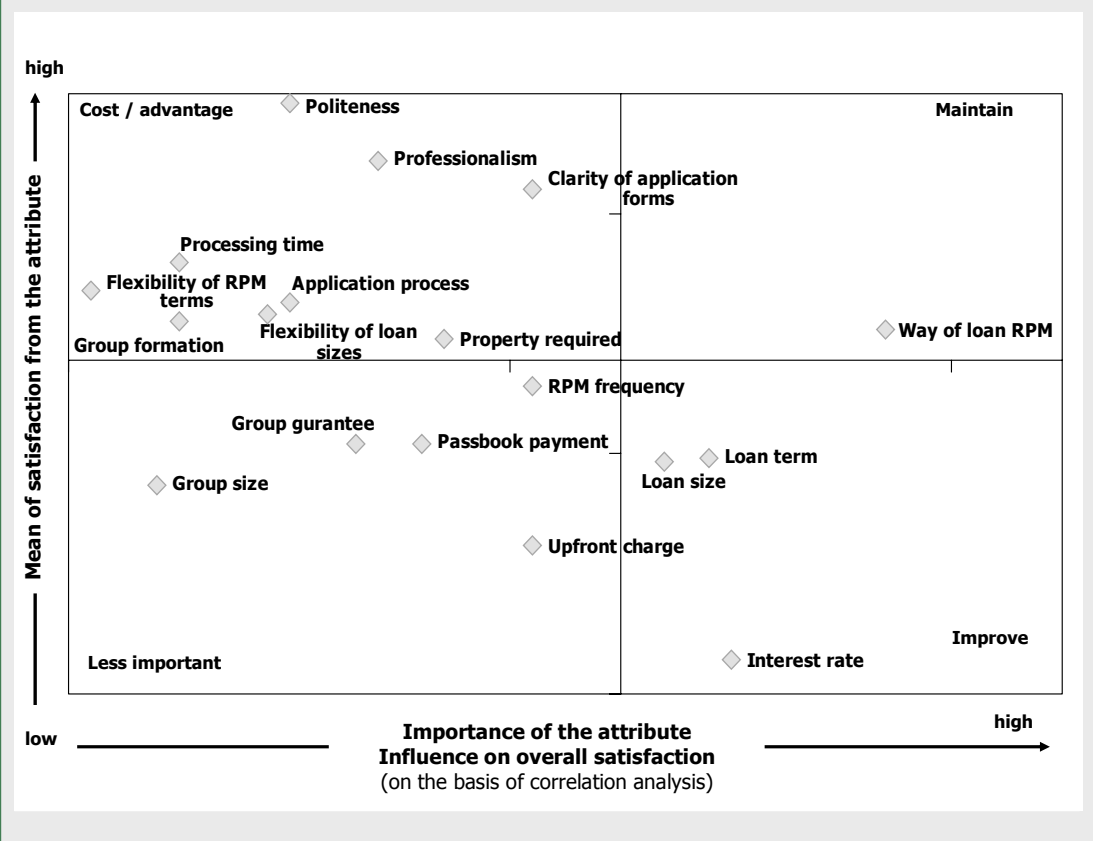


The market survey was also conducted on current clients and resulted in the following key observations:

- An overwhelming 89% were satisfied with the new product.
- 22% mentioned they took the rural loan as there is not another financial provider in the area. Indeed, only 8% uses competitive sources currently (7% ACBA) - not very prospective for MDF-Kamurj in terms of client relationship building.
- Loan money was in most cases spent on agricultural inputs (66%), land cultivation (58%) and cattle purchase (40%).
- Most clients made a decision about taking a loan in consultation with other family members (76%).

The satisfaction map (combining detailed satisfaction from specific attributes and importance of the attributes for the clients) was constructed to guide decisions about further product refinements (figure 7).

**Figure 7: Client satisfaction map for current users of Swallow loan**





**5.3.**  
**Market**  
**survey**  
**methodological**  
**principles**

The market survey is conducted as a representative sample of potential (and current) clients using a questionnaire that covers all the areas listed above. The more detailed description of quantitative approach, and techniques goes beyond the scope of this paper. We would like to highlight briefly three methodological issues that are usually the biggest challenges for microfinance practitioners: study design and interviewer selection, segmentation criteria, and sampling plan.

Regarding interviewers the choice is: use your own staff or hire external interviewers. Contrary to the exploratory qualitative research it seems as though hiring external interviewers to conduct interviews within a quantitative survey is more appropriate for several reasons.<sup>15</sup> However, it is important to note that MFI staff should take an active part in the design of the study. There might also be some circumstances that will make using your own staff as interviewers more beneficial (see the box 8).

It must be decided which segmentation criteria will be important to inform product strategy in the future. All necessary indicators describing the target segment should be included in the questionnaire. During the feasibility study, the main target segment characteristics are pre-defined in broad terms (e.g. only male farmers with land or entire families without land, etc.). Segmentation criteria are further developed through the qualitative exploratory research - the best way to learn what sub-segments on the market there are and what indicators are the best to describe them. The main market segment might be further disaggregated using some of the following criteria:

- Geographic (i.e. distance to village), demographic (i.e. gender), firmographic (i.e. business size)
- Needs (for specific products, preferences for product attributes)
- Psychographic, attitudes and other (degree of risk aversion, loyalty, etc.)

A carefully designed sampling plan is very important to get useful and reliable data. First of all, the study should be undertaken only in the areas included in the new product preliminary strategy. If there are significant cultural, economic, social or political differences across some areas under consideration they should be divided into regions. Furthermore, there are two main issues to be taken into account:

- selection of study locations - a pool of typical villages in each of the distinctive regions will form geographical clusters. The characteristics of selected clusters should correspond with the target village profile. In other words, if one wants to serve only the villages that are within X kilometers from the current branches, only the villages that fit this criterion should be selected.
- criteria for screening respondents – usually there is a need to develop a list of characteristics of respondents to be interviewed that corresponds with the profile of the target segment client. That way, the sample is limited to the target segment for the new product.<sup>16</sup>

<sup>15</sup> Firstly, it costs less given the opportunity costs of your staff (including loss of morale when they are overburdened with additional tasks). Secondly, the learning experience for an interviewer is very limited in case of the market survey. Contrary to qualitative research when the bulk of learning occurs during the study, in case of quantitative research the learning occurs when all data is consolidated and analyzed. Thirdly, your staff knowledge and experience will not add much value to the process of data collection as the questionnaire is structured and most of the questions are closed-ended. Importantly, professional interviewers will be more objective and will do higher quality work as they are trained.

<sup>16</sup> There is a need for information about general population on the target segments in the target villages to further extrapolate the results from the study to the entire market.



**Box 8: MDF-Kamurj market survey methodology and lessons learned**

MDF-Kamurj conducted a market survey in the middle of the pilot test period in June 2004. The research design followed a participatory process involving MFC and MDF-Kamurj staff. The data was analyzed by MFC. Both clients currently testing the product and potential clients were surveyed using a face-to-face questionnaire (figure 8).<sup>17</sup> External interviewers were used for current clients, whereas MDF-Kamurj staff interviewed potential clients. This approach was taken to marry the research with product promotion in new villages.

**Figure 8: The final sample plan for MDF-Kamurj market survey**

Region	Current clients	Potential clients		Total
		Current villages	Potential villages	
Shirak	20 (1 village)	10 (1)	50 (4)	80
Lori	50 (2)	10 (1)	--	60
Tavush	50 (2 or 3)	10 (1)	30 (2 or 3)	100
Yerevan	--	--	120 (12)	120
<b>Total</b>	<b>120</b>	<b>40</b>	<b>200</b>	<b>360</b>

Two main key learning points were gained regarding the methodological approach:

- The research was conducted too early as current clients were in the middle of their repayment periods. It was hard to research client satisfaction and intent to take another loan because clients were only about to start repaying the principal (product with delayed principal payment).
- The screening questionnaire is a useful tool to make the research more cost-effective. It was assumed that all villagers should fulfill MDF-Kamurj target criteria and the screening questionnaire was not prepared. The analysis showed that some of the respondents are out of the target segment.
- Doing promotion and research at the same time is tricky and costly, therefore these two activities should be separated.

<sup>17</sup> The MDF-Kamurj took the following steps to prepare a sampling plan for the market survey:

- All branch areas were selected but the Sisian branch, which was considered the smallest and too far from the main branch;
- A pool of villages of certain characteristics that were within MDF-Kamurj target in a medium-term were defined. The villages that were very small, very poor, and very remote were excluded from the list.
- A number of target villages were sampled for the survey making sure there is some diversity among sampled villages: size, predominant activities, geographic conditions, distance from the branch, and competition on the financial market. This created sample clusters.
- Target segments in the target villages were defined by identifying certain characteristics of households for whom the product would be targeted. The main criterion was to exclude the destitute, the not economically active, and those who do not participate in the cash economy.

Regarding the sampling technique, a random walk with the agreed itinerary was used to identify respondents among potential clients in all villages. The current clients were selected randomly from the client database.



## 6. Monitoring clients during the pilot test and evaluating pilot test results

### 6.1. Purpose of client monitoring and evaluation during the pilot test

One cannot underestimate the volume of information about the market needs and preferences that can be gained during client monitoring and evaluation (M&E) during the pilot test. If the M&E methodology is well designed, the pilot test is a critical source of information to further refine the product and inform its strategy.



The pilot test is the right moment to consolidate all the market intelligence gained through the rural product development. It will help not only to triangulate the client information obtained during client M&E during the pilot test, but it will also provide baseline information for initiation of new staff administering the product and future product refinements.

The main purpose of the client M&E during the pilot test is to further refine the product by emphasizing the key benefits and limiting the product weaknesses for clients. This complements the general purpose of the pilot test, which is to evaluate the institutional delivery model and product profitability.

Various tools applied within the pilot test M&E can provide a wide array of insights about the market: characteristics of those attracted by the new product; general satisfaction from the product and its attributes; main satisfaction factors and benefits for clients; repayment culture and characteristics of troublesome clients; profitability of certain sub-segments; sub-areas; differences between branches and specific village profiles.

#### Box 9: Findings from client monitoring & evaluation during the pilot test at MDF-Kamurj

The pilot test of the Swallow loan was run from October 2003 to September 2004.

The following client profile was obtained from the client database developed to routinely monitor the pilot test: 75% of rural clients are men. 53% of all clients have at least a secondary education. The average client has two or three land agriculture activities, with higher averages in Tavush and Sisian regions. Livestock breeding varies greatly among marzes. In Lori and Sisian marzes, three or more livestock breeding activities are the average. Overall, Sisian and Kotaik are the most diverse marzes regarding income-generating activities with 90% and 89% respectively of the clients having seven or more activities.

Additionally, through focus groups with staff involved in the pilot testing, MDF-Kamurj learned that the main benefits clients see in the product are related to its flexibility and accessibility, and especially: on-place disbursement and repayment, lack of collateral, fast procedures, flexible repayment schedule, timeliness of the loan, little paperwork, and transparent pricing of the loan. The wide array of benefits seen by clients makes it possible for MDF-Kamurj to compete on service quality. This is convenient as competing on price is not realistic because of the high transaction costs of mobile lending and sustainability matters. MDF-Kamurj will build its promotion activities around the key benefits for clients and continue to position the loan as easily accessible.

On the other hand, the client M&E during the pilot test helped to distinguish some key weaknesses of the new product in clients' eyes: big group size, high upfront charges, charging with the passbook, too small loan size.

The list below provides some examples of additional strengths or weaknesses observed by staff during the pilot test M&E:



- Shorter loan periods are more relevant for Yerevan areas and they often suggest this to clients.
- The idea to use local representatives should be considered with care. If a loan officer attends it is more official, which can be an important factor in preventing delinquency.
- If staff is knowledgeable about rural business, this significantly increases MDF-Kamurj's image.
- The secondary business assessment is an important factor to reduce lending risks.
- Village heads sometimes impair lending (i.e. blocking others because they have not paid taxes)

Observations made by staff also helped to gain an understanding of realistic market share that can be gained by MDF-Kamurj on more competitive markets in some areas.

In general, the pilot test M&E reaffirmed the high demand for loans in rural areas and a sufficient extent to which the product is tailored to rural population needs and preferences. Given the high satisfaction from the product, the core attributes remained the same. Several changes to the new product have been made, including: charging a passbook fee only for the first cycle clients, shortening the waiting period between the cycles to two weeks, increasing loan size for subsequent cycles, business verification procedures, and debt-capacity calculation taking into account seasonal calendars.

**6.2. Methodological options for client monitoring and evaluation during the pilot test**

There are many methodologies that have been developed for M&E<sup>18</sup>. In general, no matter what new product is being developed, there is a need to combine quantitative and qualitative M&E.

Regarding quantitative tools the indispensable investment is to have a client information database linked to a loan tracking system. If the current MIS can serve the new product, this is the best option as all data collection activities are integrated. If not, the simplest way is to design a spreadsheet that collects the necessary client information. The advantage of the latter is that more variables can be easily added that might be useful in monitoring the more "risky" new product.

Qualitative information obtained from the staff involved in pilot testing should be sufficient at this stage. Usually, there is no need to conduct additional research activities with clients. A good way to put more structure into staff feedback is to run moderated staff meetings regularly during the pilot test period.

**Box 10: Methodology of M&E during the pilot test applied by MDF-Kamurj**

MDF-Kamurj client M&E methodology developed together with MFC consisted of two main elements:

*1. Client information database linked to loan tracking and reporting system*

A MIS-based client monitoring system used currently in urban areas was adapted for the pilot project. It tracks basic client information, data on businesses and households.

*2. Regular staff feedback*

The regular staff feedback took two forms: focus groups and staff meetings. Two focus groups were run in the beginning and at the end of the pilot test with a field staff in order to quantify their general perception of the product and delivery process. Additionally, two larger staff meetings were run specifically to monitor and evaluate the pilot test. They gathered all staff involved in the process (different functions, levels, departments, branches). Specific sessions considered client feedback regarding product design.

<sup>18</sup> The pilot test monitoring and evaluation methodology used for MDF-Kamurj was adapted from the *MicroSave's* toolkit: *Planning, Conducting and Monitoring Pilot-Tests for MFIs*, [www.microsave.org](http://www.microsave.org).

## 7. Costs of doing market research

The information about costs of market research (summarized in the figure 9) should help in deciding how to undertake research activities. Only when the costs are compared to expected benefits (see the box 11), can one take a decision to invest in specific market intelligence activities.

**Figure 9: Costs of doing market research**

Market research type	Type of costs and necessary resources
Feasibility study	<ul style="list-style-type: none"> <li>• The scope of feasibility studies differs greatly across the institutions, as will the costs of doing it vary.</li> <li>• One person with strong analytical skills is needed to consolidate the secondary data.</li> <li>• If the primary research is needed, it is usually of smaller scope compared to the qualitative exploratory research.</li> </ul>
Qualitative exploratory research	<ul style="list-style-type: none"> <li>• If there are capacities to conduct the qualitative research in the MFI the costs of internally conducted research relate mostly to staff opportunity costs. It usually takes a five-member research team to spend 3-4 days on preparation, 6-8 days on the field, and 3-5 days to analyze the data and discuss the results.</li> <li>• Other internal costs are equivalent to the fieldwork.</li> <li>• The costs of technical assistance to build necessary skills are about 15-25 consulting days.</li> </ul>
Qualitative concept test	<ul style="list-style-type: none"> <li>• The concept test costs are limited to running 3-4 focus group discussions. This can be done effectively within two days using a two-person team assigned to a specific area to be covered by the pilot test of the new product. Two more days should be included for the team to prepare, analyze the data, and present the results.</li> </ul>
Quantitative market survey	<ul style="list-style-type: none"> <li>• Contrary to popular belief, the quantitative market survey is not much more expensive than qualitative exploratory research. As it is recommended to outsource most of the activities, the costs depend on local research firm expenses relating to study design, data collection and analysis. The most costly part to be outsourced is data analysis (15-20 person days).</li> <li>• Even if most activities are outsourced, the internal staff should take an active part in the design study, data interpretation, and discussion on findings application. This can vary from 10-20 person days.</li> </ul>
Client monitoring and evaluation during the pilot test	<ul style="list-style-type: none"> <li>• The costs of setting a monitoring system are marginal if existing systems can be used to handle client monitoring for the new product.</li> <li>• Staff feedback activities during the pilot test are usually limited to 2-3 focus groups with 6-8 staff members and 1-2 larger full-day meetings.</li> </ul>



**Box 11: Simple cost-benefit analysis for market research at MDF-Kamurj**

The costs of the market research activities done by MDF-Kamurj are estimated in figure 10.

**Figure 10: Costs of doing market research at MDF-Kamurj**

Market research type	Total costs*	Notes
Feasibility study	US\$ 870	Internal personnel costs and field expenses
Qualitative exploratory research	US\$ 2,560	Includes 119 person days of staff time (4-person research team and 2 support staff; 3 days for preparation, 5 days on the field, 5 days for data analysis). Other direct expenses constitute 55% of all costs. Does not include external TA costs (US\$11,500** ).
Qualitative concept test	US\$ 310	12 person days of staff time and other expenses
Quantitative market survey	US\$ 800	Includes outsourcing data collection, internal staff costs and other expenses. Does not include external TA costs for data analysis (US\$11,500**).
Client monitoring and evaluation during the pilot test	US\$ 300	Relates mostly to staff feedback activities as outlined in the box 11.

\* All costs include preparation, data collection and analysis. Staff costs are calculated on the basis of real salaries for specific positions.

\*\* Based on estimates of consulting days needed at US\$ 300 per day

The new rural loan product developed is profitable for MDF-Kamurj.<sup>19</sup> The profit margin is around 20% depending on the branch. On average, the profit per first-cycle client taking the new product amounts to US\$32 per average 12-month loan.

When adding up all the costs incurred by MDF-Kamurj on market research activities during the rural product development, it amounts to US\$4,840 of internal costs and US\$23,000 of external technical assistance costs. In this case, the total costs of market research activities during the product development are equivalent to US\$35 per pilot test client (800 clients took part in the pilot testing). If the total qualified market size estimated (35,000) is considered and there is an assumption that MDF-Kamurj can reach a 30% market share in the medium-term, the costs per client will decrease to US\$ 2.7. Given the anticipated profit per client this seems to be a reasonable investment from a financial perspective.

In terms of benefits the market research activities undertaken by MDF-Kamurj to inform the rural product development met all critical informational needs.<sup>20</sup> Besides the market intelligence gained and deemed useful for market-led product development there were many other benefits that MDF-Kamurj staff summarized as follows:

- Understanding the rural specifics resulted in reducing delivery risks and shortening transaction time.
- Building new internal research and analytical capacities.
- Building knowledge that will remain in the institution and will be disseminated internally for an extended time.
- Motivating staff as they now believe more in the rural product as it is a result of their work.

<sup>19</sup> Based on several costing exercises done during product development.

<sup>20</sup> It might be even said that there were some duplications in type of information obtained from different activities. That said, the market research might have been conducted more cost-effectively by limiting the scope of some activities and better phasing and coordination between them.

- Increasing staff satisfaction as working in rural areas has become easier as the market needs, preferences, behaviors are better known.
- Building staff self-confidence by demonstrating to staff that rural loans are doable.
- Enhancing team work.
- Assisting in setting business goals as the potential market size is estimated.
- Helping to build an image on the market as staff is more open and clients listen to them.
- Making the product-development process more effective.
- Inspiring the development of client screening and evaluation tools.

Given the above simple cost-benefit analysis, MDF-Kamurj management believes that the comprehensive approach that they have taken to research rural markets was a worthwhile investment with short and long-term benefits significantly exceeding financial and opportunity costs.

## 8. Summary and conclusions

We have presented an overview of a wide range of market research options to inform the development of a new product completely distinct from current services (summarized in figure 11). Each of the market research options has its place and role in product development. Not all of the options are a must. Different information and its level of detail will be required at different stages of product development. It is not recommended to collect all information at once in the beginning because it might hamper the launch of the product development process, overburden staff, cause frustration, and eventually result in abandoning the product development idea. ***It is not recommended to skip the research entirely as it usually costs more to fix badly designed parameters in the future than to conduct research to inform product development.***

**Figure 11: Summary of market research needs and options in the new product development process**

Stage in PD*	Informational needs	MR* type	Methodology	Costs
Preparation for product development	<ul style="list-style-type: none"> <li>● What are the core financial needs in rural areas and which products can satisfy them?</li> <li>● Is there sufficient demand for the specific products to make the provision sustainable? What products are opportunities for the provider?</li> </ul>	Feasibility study	Secondary data consolidation and (if needed) qualitative investigation	Medium to high
Researching the market	<ul style="list-style-type: none"> <li>● Which groups of households are in need for specific products and which market segments are the most prospective?</li> <li>● How the product should be designed and what specific product design features are important to respond to clients needs, attract future clients and make it sustainable for the provider?</li> </ul>	Qualitative exploratory research	Mix of qualitative techniques	Medium to high
Developing the new product concept test	<ul style="list-style-type: none"> <li>● What is the client feedback regarding the first new product concept and what still can be improved?</li> </ul>	Qualitative concept test	Focus groups	Low



Before or after pilot testing	<ul style="list-style-type: none"> <li>• What is market size on different potential market segments?</li> <li>• (only after) What is client satisfaction from the product they have tested?</li> </ul>	Quantitative market survey	Structured quantitative survey	Medium to high
During and after pilot testing	<ul style="list-style-type: none"> <li>• Who is attracted by the new product and how they behave?</li> <li>• What is client satisfaction from the product they are testing?</li> <li>• Which segments are the most prospective from the social and financial perspective?</li> </ul>	Client monitoring and evaluation	Routine monitoring and staff feedback	Low to medium
* PD – product development; MR – market research				

The decision to conduct a given type of market research within the product development process will depend on three main factors: 1) what is known so far and what additional information is still needed, 2) what are the costs (including capacities required) in relation to benefits, and 3) what is the type of market to be served.

An analysis of what is known so far is the first and most important step. A feasibility study is a good way to inform the information needs analysis. General-demand information needed for any product development consists of: target segments needs, capacities and preferences, market type and size for specific products, competition, delivery risks and infrastructure. In some circumstances it is enough to consolidate existing secondary information, which is the least costly option. When inspiration is needed and when knowledge about the new market is limited, it is highly recommended to conduct qualitative exploratory research using your own staff. As MDF-Kamurj’s and others’ experience shows, it provides multiple benefits and baseline knowledge for product design, test, roll-out and maintenance. The qualitative concept test is a smart short-cut for obtaining very detailed information at very low costs. If quantitative information is needed, a market survey is necessary, and it does not need to be a very long questionnaire on a big sample. Contrary to qualitative activities it makes sense to design the quantitative study internally and outsource the rest of the work. Finally, the pilot test provides an excellent opportunity to learn more about the market due to its experimental nature. On the other hand, if the prototype for a product test is ill-designed because there was not enough market intelligence generated a priori, the pilot test might become a nightmare rather than a useful tool for further market research.

A basic cost-benefit analysis helps to decide if marginal benefits from the market research will outweigh their costs. As presented in this note the most expensive elements from all the options are building internal capacity to conduct qualitative research and outsourcing data analysis for quantitative surveys. The costs of the latter are fixed for any research activity. The former can be viewed as an upfront cost, if once introduced this will limit significantly the costs of any qualitative research in the future, and contribute to building a client-focused organizational culture.

The type of market determines the needs for the research. Generally, on both new (poorly developed) and mature (saturated) markets there is a need to conduct more research. On a new market there is not enough experience to draw from in order to mitigate risks. On a mature market it is hard to gain a significant market share without relevant market intelligence. In this note the rural product development by an urban micro-lender was used as an example to illustrate the situation where most of the market research options seem to be appropriate. It is because the urban micro-lenders usually know little about



rural areas and the rural financial markets in most of the transition settings across Eastern Europe and the Former Soviet Union countries are very poorly developed. In these circumstances even if the costs of taking a holistic approach to researching the market are non-negligible (in case there are no internal capacities) the benefits should significantly outweigh the costs.

Lastly, in the circumstances when an MFI wants to be sure its products are not only profitable but also have a positive impact on a target segment, there is usually a need to take a more holistic approach to market research. It is for this simple reason that there are sufficient best practices on how to sell micro-financial products, but the microfinance industry still lacks guidelines on how to maximize benefits to clients.

