New Product Development for Microfinance

Nhu-An Tran

October 2000

Microfinance institutions are developing new products in response to an increasingly competitive environment. Additionally, MFIs must grapple with clients who have discriminating preferences and who leave microfinance institutions due to the inflexibility of the institution’s products. While the trend towards a broader and deeper market is a positive one, MFIs must introduce new products with proper diligence and preparation. This brief provides a roadmap for the new product development process.

Defining the New Product

What: The product is a financial offering that satisfies a customer’s need. It must offer a benefit to the customer (core product); it must have specific features and conditions (actual product); and there must be a way for the customer to receive the product (augmented product).

When: An MFI should offer a product once the institution has established itself as a stable and viable player in the market. Careful consideration should be given to issues of governance structure and control, systems and operational procedures, and organizational structure. Each of these areas of operation must be equipped to handle the delivery and maintenance of the new product.

How: The new product development process has four phases: identification and preparation; design and development of the product; pilot testing; and product launch.

Phase 1: Identification and Preparation

Opportunities for new product development are manifested through a set of market signals—customers, competitors, and the environment—as well as through the motives of the MFI itself. Therefore, institutions should begin the process by consulting clients on their needs, by following activity in the microfinance industry, and by tracking current market conditions. Once the need for a new product has been identified, the MFI should conduct an internal assessment to determine how the new product fits in with the firm’s institutional mission, competitive strategy, financial goals, etc. Additionally, the MFI will need to assemble a team of employees including a product champion to oversee the process, as well as a cross-functional team that carries out the day-to-day development process.

Phase 2: Design and Development

The MFI’s next step is developing a prototype product. This prototype will be based on demographic, geographic, financial, and behavioral data and information. MFIs can modify their product
based on past institutional experience, a study of the competition, client input, and a measure of costs and break-even volume. Finalizing the prototype design involves balancing cost and profitability considerations with customer service, competitive strategy, and risk.

**Phase 3: The Pilot Test**

A pilot test introduces the prototype to a number of customers so that it can be determined whether the product’s features meet market demands before the institution offers the product to a larger market. The MFI will need to determine criteria for success based on volume, profitability, productivity, and resource efficiency. Before beginning the pilot test, the MFI should decide where to conduct the test and for how long. Critical operations of the institution must be prepared and equipped to handle the requirements of the new product. This involves setting up appropriate operational processes, management informational systems, and marketing and promotional strategies.

The MFI should monitor the results of the pilot test by examining the success and effectiveness of the delivery process, the loan terms, and the competitive response. In order to determine whether the product should be issued on a broader scale, the institution will need to assess the financial viability of the product based on the pilot test. Additionally, the MFI should give careful thought to competitive considerations inherent in the introduction of a new product such as market share and position. Finally, the MFI should ensure that it has the institutional capacity to support the new product.

**Phase 4: Product Launch and Commercialization**

When an MFI decides to go ahead with the full-scale launch of a product, it must develop an implementation plan that addresses when and how the institution will phase in the new product line at each branch office. This plan should address all facets of the introduction of the new product, including:

- **Human Resources**—Training programs will be required to educate employees on how to administer the new product. Additionally, incentives might be developed that are appropriately structured according to performance.

- **Internal Support Systems**—The MFI’s management information system should be able to process information about the new product. Accountability and quality control systems will need to be put in place and adequate lines of communications between staff at all locations must be developed.

- **Marketing**—The MFI should develop and implement a marketing strategy so it can capture and retain a broader market for the new product. This strategy revolves around the four marketing Ps: Product, Price, Promotion, and Positioning.

Since the sustainability of MFIs depends on achieving a significant level of scale and portfolio growth, there has been greater impetus on the part of MFIs, on the one hand, to refine existing products to retain customers and, on the other, to introduce products and services to attract new clients. This process is vital to the sustainability and financial viability of MFIs; hopefully, this brief will provide MFIs with an idea of the process they must follow in order to roll out new products.