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A Toolkit For Planning, Conducting and Monitoring **Pilot Tests**

Savings Products

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Acknowledgements

We set out to develop a very practical tool kit to guide institutions in pilot testing new savings products for the poor. The practical nature of the guide was greatly aided by work with *MicroSave's* action research partners in East Africa – the Kenya Post Office Savings Bank and the Tanzania Postal Bank, where this guide was tested. We sincerely appreciate the lessons learned from Mrs. Koigi (KPOSB) and Mr. Safe (TPB) and their pilot testing teams. Their assistance helped to ground this toolkit in practical reality.

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Also, much appreciation to Janet Schenk McCord who labored tirelessly to edit this document through several iterations. Her assistance has surely made this a dramatically more interesting and user-friendly document. Those who find it easy to read and understand have her to thank. Those who find difficulties or other issues with what follows have only the authors at whom to point their finger. Enjoy the toolkit and good luck with your new products.

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Introduction[1]

What is a Pilot Test?

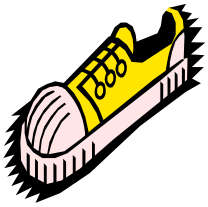
According to Collins Paperback English Dictionary, a "pilot" is a person who is qualified to operate an aircraft, or steer a ship in and out of port. In other words, a pilot acts as a guide.

A "test" is defined as something that measures the worth of a person or thing by trying it out, or an examination of a person, substance, material or system.

Combining these two words, we can say that a *pilot test* is something that measures the worth of a thing, in such a way that the test itself acts as a guide. When applied to a new product or service, a pilot test is something that measures its worth on a limited scale and scope so that the results of the test guide management decision-making about a broader rollout of the product. By pilot testing a new product before rollout, the company avoids errors on a large scale that could be corrected based on the lessons from the small-scale test.

Why Pilot Testing?

Whenever a new product is being developed, whether in manufacturing, business or banking, it is prudent to test the product.



Take shoes, for example. At Acme Shoes, market research showed that customers wanted yellow canvas shoes with rubber toes. But, before the company commences manufacturing 2 or 3 million pairs, they want to be sure that the shoes will sell and make a profit. So, the company runs a "pilot test."

The pilot test consists of making a thousand pairs of the new yellow canvas shoes with rubber toes and test-marketing them in a limited geographical area, for a limited time period, and at an initial price that is calculated to cover costs[2] plus yield a profit. All this is done to see if the new product is worth producing on a larger scale.

The limited number of shoes is manufactured. Then, in the limited geographical area (maybe one store), salespeople are trained, controlled marketing is implemented, and tracking systems are put into place. Data is collected to determine if the shoes are a "good fit" with the market and the company.

From its pilot test, Acme Shoe management wants to know several things:

- ✧ Will customers buy and wear yellow canvas shoes with rubber toes (or will they buy only Acme's traditional leather shoes)?
- ✧ Is the new shoe profitable? How much will customers pay for yellow canvas shoes with rubber toes (is it enough to cover all costs plus yield a profit)?
- ✧ Do these yellow canvas shoes with rubber toes satisfy customer desires?
- ✧ Are the shoes of good quality? Do they hold up to consumer use?

Throughout the testing period, data is collected and analyzed. Through ongoing refinement of the shoes during the pilot test, the company becomes reasonably knowledgeable about the likely market response to the shoes, and should have maximized the potential for market appeal. By the end of the testing period, the company will be able to make a reasonable and educated decision about whether or not to launch the product

[1] The authors are indebted to staff and management of the Kenya Post Office Savings Bank, Tanzania Postal Bank, Equity Building Society, Centenary Rural Development Bank, Teba Bank and the Elgon Cooperative Society Limited at which institutions this methodology was extensively discussed and applied to their product testing process.

[2] These testing prices would be calculated based on large volume projections with an amortization of research and development costs. They would not try to recoup the cost of R&D and manufacturing of a small lot in the price of that first batch of product.

on a larger scale. Without a pilot test, the company could err by manufacturing 2 million pairs of yellow canvas shoes with rubber toes, only to find that there was no market for them.

What does this have to do with microfinance and banking?

The connection between them lies in the importance of pilot testing new products. The process of pilot testing is as important in banking and microfinance institutions as it is in manufacturing and other business enterprises.

Market research may have shown that your Microfinance customers want a new savings product. The product has already been developed from concept to prototype, and the prototype has been refined based on customer responses. But it is important for institutional management to know if this new product is something that the customers will really use, with terms that result in a net positive yield to the MFI.

Your bank or MFI can gather this information through designing, conducting and evaluating an appropriate and effective pilot test of the product – a test that will accurately measure customer needs and desires, and will produce the information needed for effective institutional decision making.

This Tool Kit outlines a process of pilot testing savings products. The document will take you and your organization through a ten-step process from composing a pilot test team through reviewing the tested product at the conclusion of the pilot test period.

Why not just skip the Pilot Test?

We cannot skip the pilot test because an MFI needs to be certain that any new product is appropriate for its market, and because mistakes can be costly. Indeed, as Lord Halifax has said: "hope is generally a wrong guide, though it is very good company along the way.[3]" It is important not to be lulled into over-confidence through *hope* that a new product will be successful. New products need testing so that management can retain control of their business and not create unnecessary and expensive risks.

At each subsequent stage of product development it costs a factor of several times more to correct an error. Take this example of a major electrical product. In this case, the cost of errors in each stage of product development is a factor of ten.[4]

In other words, an error during Process Planning costs 10 times as much to correct as it would have cost during Design Testing, and an error during Design Testing costs 10 times as much to correct as it would have cost during the initial design of the product. Take a look at this table:

Increasing Cost of Correcting an Error, If Corrected in Phase Committed or in Later Phases

Production Phase	Cost to Correct Error
During *design*	$1,000
During *design testing*	$10,000
During *process planning*	$100,000
During *test production*	$1,000,000
During *final production*	$10,000,000

[3] G. Gruenwald. How to Create Profitable New Products, (NTC Business Books, Chicago, 1997). p. 343.
[4] Willard Zangwell. Lightning Strategies for Innovations, (New York: Lexington Books, 1993). p. 9.

The earlier problems are detected, the lower the cost of correction will be for the institution.

Each product in each industry will have a different cost factor as one moves along the process of mass provision of a product, and certainly this factor will vary from market to market and product to product. The key is to recognize that the more control a company has at each stage of product development, the better it will be able to minimize its costs.

How does Pilot Testing fit into the framework of product development?

When designing a new product, it is not possible to know for sure if the product, as originally conceived, fulfills the market demand and the company's objectives. This can be determined most appropriately through testing the product on a limited market and collecting relevant information. The diagrams below show how pilot testing fits into the framework of product development processes.

First, clients, colleagues, management or other sources may have identified a problem. Market research is done to clarify the problem and identify potential solutions. A concept is born, and discussed to see if it is really worth developing. If management deems the concept worthy of further exploration, they refine the product concept into a product prototype. The prototype is further designed and refined. From this evolves a product for pilot testing.

This preliminary work – problem definition, qualitative research, concept development, product refinement into a prototype, and quantitative research on the prototype – is all completed before the pilot testing phase begins. Once the prototype has been refined into a testable product, your MFI can begin the pilot testing process.

Market Research and Prototype Development
Process Overview

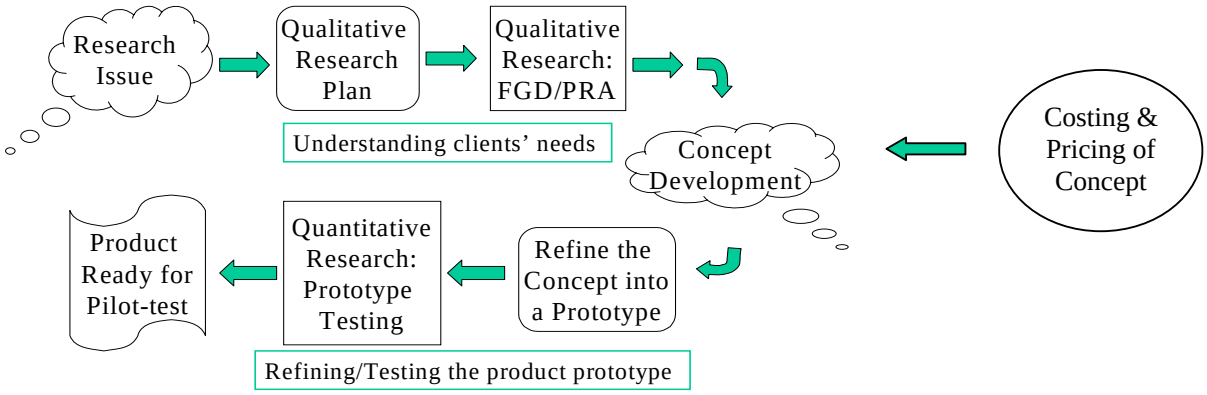
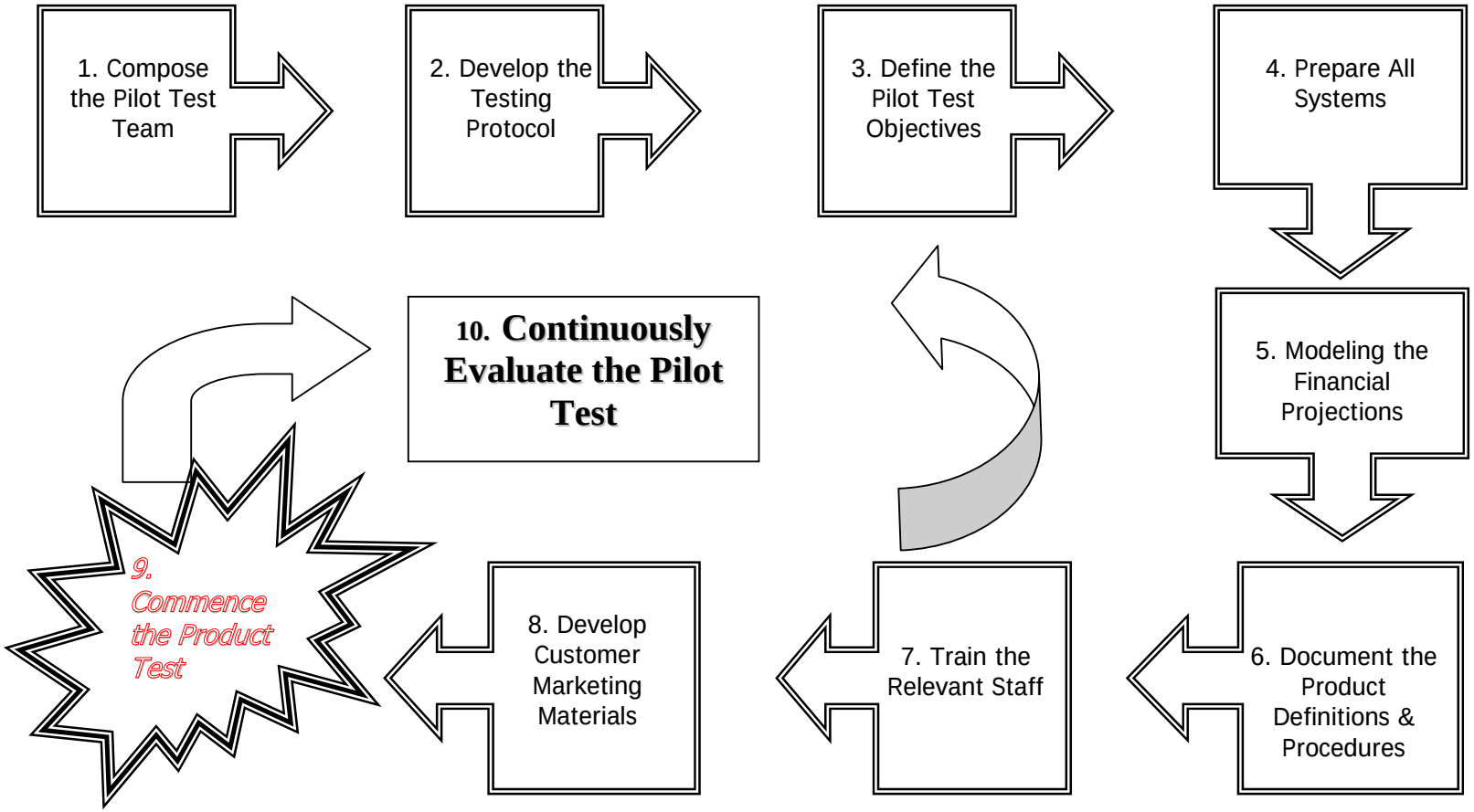


Diagram from **Wright**, Graham A.N.,, "Market Research for Client-Responsive Product Development", *MicroSave*, Nairobi, 2000


1. Compose the Pilot Test Team
2. Develop the Testing Protocol
3. Define the Pilot Test Objectives
4. Prepare All Systems
5. Modeling the Financial Projections
6. Document the Product Definitions & Procedures
7. Train the Relevant Staff
8. Develop Customer Marketing Materials
9. Commence the Product Test
10. Continuously Evaluate the Pilot Test

The Pilot Testing Overview in the previous diagram shows how the product testing process flows from a test-ready product through testing and feedback. Feedback from the Test, when reviewed against the objectives, indicates what should happen next.

In one case, the feedback shows that the product does not meet the objectives. This is the most common scenario, and sends the product looping back through the process of financial projections, systems adjustments, product definitions, staff training and marketing. In a savings product, this might mean that the interest rate must be changed, or the forms must be altered to make them easier for customers to complete, or the marketing of the product inside the office needs to be improved.

The Test continues as the appropriate adjustments are made to the product and the product procedures. Depending on the results of the next round of feedback, the product might need to be adjusted again. The product must be readdressed until all the objectives are met.

Once the product finally meets the objectives, the product can be considered successful and it can move on to the roll-out phase. This hardly ever occurs the first time through the Pilot Test. In fact, there are times when, no matter how much adjusting the institution does, the product simply does not satisfy the objectives. Most often such a product should simply be terminated. The feedback step is critical to making any decision about the future of the product.

After the product is rolled-out, the institution should continue to collect data and feedback from clients and internal sources. Feedback will help management to further improve the product.

The pilot testing process can be broken down into ten steps that, if followed carefully, can minimize potential loss of control of the Test and provide valuable information that management can use to improve the product. If all steps are followed, management can dramatically improve the likelihood of a solid decision about the roll-out of the product in its final form.

MicroSave's Market Research for MicroFinance Toolkit

Following recent developments in understanding the needs of clients and the growing competition amongst microfinance institutions (MFIs), and in the light of growing numbers of "drop-outs" or "exits" from MFIs' programmes, there has been increased interest from MFIs in improving their product development skills. Developing MFIs' capacity in market research is the first, all-important step. The qualitative skills and tools in this workshop can also be used for a wide variety of activities that are critical for a successful MFI. These include:

- developing new products and modifying old ones,
- understanding clients and their perceptions of the MFI and its services/products,
- developing/refining marketing programmes,
- analysis of clients' risks/vulnerability opportunities and how people use (formal and informal sector) financial services,
- understanding the "financial landscape", or environment, within which the MFI is operating,
- analysing problems such as drop-outs and growing trends loan default,
- impact assessment and evaluation,
- analysis of relative depth of outreach,
- detecting fraud/rent-seeking, and
- running strategic planning/staff meetings.

What must be done before the Pilot Test process begins?

In addition to the steps shown in the diagram "*Market Research and Prototype Development Process Overview*", an institution must ensure that it has the capacity to implement the process. Commencing the

pilot testing process without adequate capacity will lead to a waste of time and money, and put the institution at risk.

Key questions that should precede new product development

Prior to undertaking new product development the MFI should ask six essential questions. See Looking Before You Leap: Key Questions That Should Precede Starting New Product Development (Wright et al.) for more details.[5]

1. **Motivation:** Are we starting product development to make our MFI more market-driven?
2. **Commitment:** Are we setting about product development as a process?
3. **Capacity:** Can our MFI handle the strains and stresses of introducing a new product?
4. **Cost Effectiveness:** Do we fully understand the cost structure of our products?
5. **Simplicity:** Can we refine, repackage and re-launch existing product (s) before we develop a new one?
6. **Complexity and Cannibalisation:** Are we falling into the product proliferation trap?

Risk analysis and management

Risk analysis and management is key to developing market led financial services, whilst the pilot test is of itself a risk management tool, it is not sufficient to wait for the pilot test to identify critical risks. A more proactive approach to risk analysis and management is required.

Risk analysis and management should be integrated into the product development process. A formal risk assessment should be performed by an MFI before it commences the development of new products. The risk analysis should be updated before it undertakes critical activities, such as selection of an IT system, before the commencement of the pilot test, during the pilot test itself and in the evaluation of the pilot test prior to rolling out the new product.

The process of risk analysis and management has been explored and developed in the Shorebank / *MicroSave* Toolkit for Institutional and Product Development Risk Analysis for MFIs, outlined overleaf.

How do we assess our capacity to Pilot Test?

In general, an MFI should already:[6]

- ✓ Practice the level of tracking and management analysis required of a new product with its current products;
- ✓ Understand the capacity requirements in all relevant departments;
- ✓ Have reviewed and assessed as present and effective, the institution's:
  - o Institutional Strategy
  - o Financial Viability
  - o Organizational Structure
  - o Human Resources
  - o Marketing Systems
- ✓ Have the will of management and the Board behind the process;
- ✓ Possess, or have available, staff that can manage, implement, and develop the new product, as well as have the available capacity to train all relevant staff;

All this should be completed **before** significant funds are expended on the new product development process, and certainly before the institution enters the Pilot Testing Phase.

[5] See Looking Before You Leap: Key Questions That Should Precede Starting New Product Development (Wright et al.) for more details

[6] Adapted from Monica Brand. Guide to New Product Development Institutional Diagnostic. Early draft. USAID/MBP

ShoreBank / *MicroSave* Toolkit for
Institutional and Product Development Risk Analysis for MFIs

Proactive risk management is essential to the long-term sustainability of microfinance institutions (MFIs). This toolkit presents a framework for anticipating and managing risk in microfinance institutions with a particular emphasis on new product development. The toolkit is tailored to senior managers who play the most active role in setting the parameters and guidelines for managing risk.

There are two parts to this toolkit. Part 1 lays out a general framework for identifying, assessing, mitigating and monitoring risk in the MFI or bank as a whole. The document emphasizes the inter-relatedness of risks and the need for a comprehensive approach to managing them. Establishing a comprehensive risk management control structure in a financial institution is a necessary precondition to effectively managing risks related to new product development and roll-out.

Part II focuses on risks inherent to new product development and suggests tools to help manage the process. The toolkit's approach to managing risk in new product development and roll-out is, by intent, conservative and time-consuming. However, sometimes it will be necessary to fast – track certain steps or maybe even take the risk of leaving some steps out for the hope of a greater gain down the line. However, ShoreBank and *MicroSave* caution against too much haste in rolling out new products. Being first in a market with a new product is not a sustainable competitive advantage. We recommend following and/or adapting *all* the steps in *MicroSave's* product development process to suit your organization's needs, and complementing it with the risk mitigation tools provided in this toolkit. Managers should always weigh the costs of leaving out particular steps against the benefits that they might yield in preventing unnecessary cost and product failures, or increasing opportunities for new product successes down the line.

What are the ten steps of Pilot Testing?

These steps complement each other in a comprehensive manner:

1. Composing the Pilot Test Team
2. Developing the Testing Protocol
3. Defining the Objectives
4. Preparing All Systems
5. Modeling the Financial Projections
6. Documenting the Product Definitions & Procedures
7. Training the Relevant Staff
8. Developing Customer Marketing Materials
9. Commencing the Product Test
10. Evaluating the Test

By following these steps, your MFI will be able to control the process of pilot testing. It enables full participation, the potential for rapid trouble-shooting, effective and efficient feedback, and professional management of the product.

How do we use the Tool Kit?

The following sections will describe each step in detail and offer examples and worksheets so that your MFI can begin the product testing process right away.

We suggest that management read through all the steps carefully before beginning the pilot testing process. Make photocopies of the worksheets and use them as you go along, or modify them for your institution's

particular needs. Use the checklists that are provided at the end of each section to be sure you have covered all the steps completely. Once the pilot testing team is formed, members will generally be assigned to different steps for completion.

Some steps or parts of steps must be completed before others. For example, you need to know generally what systems your institution will use before you can complete the projections. But, you would not buy the required fixed assets until the time when you had to in order to have them in place one month prior to the planned test commencement date. During this time, several other steps would have been substantially completed.

Good Luck!

Step 1: Composing the Pilot Test Team

Your MFI has determined through market research using surveys, focus groups or Participatory Rapid Appraisal (PRA) that a new savings product is needed, and has developed a product concept management believes will satisfy that need.[7] Key management and staff, perhaps even with the Board of Directors, have ascertained key features for this product and have a prototype design of how they want it to look and act. Now is the time for a Pilot Test Team to be organized, and the pilot testing process to begin.

Conducting a pilot test and then launching a new product is similar to a team sport in that individuals with different expertise come together, and as a group they have a single goal. In the same way that a football match is neither won nor lost by any single individual, pilot tests, and ultimately the products themselves, stand or fall on the collective efforts of many people within an institution. Therefore, a Pilot Test Team is crucial to the success of the pilot test.

The first step to conducting a successful pilot test is to draw together a formal Pilot Test Team, which is ideally made up of individuals from each major area or department of the institution.

Who composes the Pilot Test Team?

This depends on the overall size of your MFI. In a large MFI, the person who puts together the Pilot Test Team may be the head of Research or the head of Marketing. In a very large institution it may be the head of New Product Development. In a medium-sized or small MFI it might be the Managing Director, Credit Manager, or a member of the Board of Directors.

Oftentimes the central person drawing the team together is the "Product Champion." This is the person with excitement and energy for the product who will pull it through all the problems and push for its success. The Product Champion also frequently serves as the "Team Leader" who must be prepared to lead his/her team, much like the Captain of a Football Team, through all the steps of pilot testing the product. S/he must be able to recognize the value of each Team member and maximize Team contributions for the value of the product and ultimately the company.

How large should the Pilot Test Team be?

The size of the Team depends on the size of the MFI. If your MFI has three to five key employees, then probably all of them will have roles to play and tasks to accomplish in the pilot testing process, and collectively will make up the Pilot Test Team. If your MFI is very large, then as many as ten key people may come together as the Pilot Test Team.

What is most important is that the composition of the Team represents all major departments of the MFI, and is thus a *representational* Pilot Test Team.

[7] This is commonly done in the research and design phase, which is preparatory to the pilot testing phase. An excellent guide for this research is ***MicroSave***'s "Market Research for MicroFinance" toolkit.

Why do we need a representational Pilot Test Team?

There are three reasons why a Pilot Test Team that represents all departments in an MFI is crucial to the success of a pilot test:

- Team members provide guidance to the Team in their respective areas of expertise within the MFI. A Team composed of a cross-section of institutional management will be able to address most of the likely problems of the test either prior to the test, or as soon as problems arise.
- A representational Team means that there will be someone in each department who understands the product and will be able to assist within the department whenever related issues come up.
- A representational Team can help to generate institutional ownership and enthusiasm for the product throughout the organization.

Should the Pilot Test Team be a formal team?

Yes, the Team should be formal, although many of the interactions between Team members will be informal. They should have a formal Terms of Reference (TOR) that clearly defines their role, and a Senior Manager or Board Member – someone who is not a member of the Pilot Test Team – should informally supervise them. A sample TOR is provided in Example 1.1.

The TOR clarifies the role, responsibilities, and authority of the Team, gains top management support for the test, and gives the Team clarity on what resources will be required and made available. There should be a formal meeting and communications schedule, as well as a contact list for each Team member. Finally, the TOR should identify the Team Leader, who is likely to be the Product Champion.

What do we need to consider in composing our Pilot Test Team membership?

Composing the Pilot Test Team can be problematic, depending on the size of your MFI. Take a look at *Table 1: Pilot Test Team Skill Areas.* This table lists the skill areas needed on a savings product Pilot Test Team.

Each of these skill areas is critical to the design and implementation of a successful savings product. For example, without someone skilled in finance and accounting, it will be difficult to adequately develop the projections for the new product. All of these skill areas must be addressed on a Pilot Test Team.

Table 1.1: Pilot Test Team Skill Areas

Pilot Test Team Skill Areas	Individual	Title	Expected Level of Effort (days)
1. Product Champion/Team Leader			
2. Finance/Accounting			
3. Information Technology/MIS			
4. Marketing			
5. Training			
6. Operations/Management			
7. Operations/Frontline			
8. Research			
9. Audit/Controls			

If your MFI is very large, then a sizable pool of potential Test Team members with the necessary expertise probably exists within the institution. Where possible, the person taking on the responsibility for representing a Pilot Test Team Skill Area should be from a corresponding department. This results not only

in bringing appropriate expertise to the role, but also in generating enthusiasm and a sense of "ownership" within the department.

The skill areas listed in Table 1.1 are all the basic skill areas needed for a savings product. You should supplement the core team with people who have additional specific skills if those skill areas are required for a particular product.

What will all these people do on the team?

All team members will have general and specific duties in relation to their department of representation. The general duties relate to providing input in meetings and other pilot testing fora to reflect the needs, opinions, and resources offered by their respective departments.

Additionally, there are specific tasks that members will be called upon to complete for the team. It must be recognized that in the pilot test, the Team must be self-sufficient, covering all its needs within the Team or through co-opted members. The Team should not expect to simply delegate tasks to non-Team members and expect them to be concluded within the Team's time frame.

For example, the Team will need to develop a procedures manual for the product. It would be unwise, for two main reasons, for the Team to simply inform the Director of Operations (a non-team member in this example) to have one prepared. First, only the Team members know the full details of the product in order to fully address the various activities of the Test, and second, only Team members are responsible (as per the TOR) for the outputs of the Test.

Some of the specific activities for which Team members might be responsible include:

Table 1.2: Team member Specific Activities:

Pilot Test Team Skill Areas	Specific Activity
1. Product Champion/Team Leader	Manages the Team, responsible for reporting and outputs, calls meetings, assigns tasks to Team members, and represents the team to top management, coordinates recommendation letter.
2. Finance/Accounting	Prepares costing and financial projections
3. Information Technology/MIS	Coordinates IT selection and installation, related fixed asset purchasing and installation, systems manual development
4. Marketing	Prepare marketing plan for test, test product marketing training, coordinate development of marketing documents, track marketing effectiveness
5. Training	Write curriculum for test product training, train front and back office related staff
6. Operations/Management	Develop policies and procedures documentation
7. Operations/Frontline	Provide frontline customer information to Team, distribute and collect new customer information sheets
8. Research	Collect and summarize data, prepare monthly and quarterly reports to Team and others
9. Audit/Controls	Assist in formalization of procedures, authorize procedures, conduct full product audit (and follow-up if necessary) during test

Our MFI is not very large. How do we manage to have all skill areas represented on our Pilot Test Team?

This is more challenging in small or medium-sized MFIs. In these cases, there may be few available personnel and your Team may consist of only three to five individuals, each of whom will have to cover more than one skill area on the Pilot Test Team.

But remember: it is important that the individual fulfilling a Pilot Test Team skill area have the needed expertise.

In a small or medium-sized MFI, where a Team is small and Team members are fulfilling more than one skill area, there may be skill areas for which no one on staff has the necessary expertise. In this case, the Team will have to determine the particular need for that skill area and the abilities of the rest of the Team. If

these skills are deemed necessary and unavailable within the Team, you may be forced to obtain these skills elsewhere.

For example, depending on his/her knowledge and experience, the Executive Director may be not only the Product Champion/Team Leader, but may also be responsible for Skill Area 5: Training, Skill Area 6: Operations/Management and Skill Area 9: Audit/Controls. The Accounts Manager may be responsible for Skill Area 2: Finance/Accounting and Skill Area 3: Information Technology/MIS, and the Cashier may be responsible for Skill Area 7: Operations/Frontline. This leaves Skill Area 4: Marketing, and Skill Area 8: Research, unfulfilled.

The expertise in all of these Pilot Test Team Skill Areas is critical to the success of the savings product. If no one in the management of the MFI has the necessary competence for the Pilot Test Team Skill Area, the Team must obtain it elsewhere.

Possible sources of this expertise include:

1. Members of the MFI Board of Directors[8]
2. Consultants
3. University faculty

In the above example, therefore, two Board members might step forward to fulfill Skill Area 4: Marketing, and Skill Area 8: Research, given their experience and knowledge in these fields.

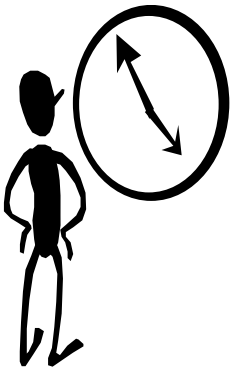
Make photocopies of *Table 1.1: Pilot Test Team Skill Areas*, and use it to draft your MFI's Pilot Test Team. Note the title of the individual relative to the MFI in the "Title" column (Finance Director, Consultant, Board Member). Make a checkmark in the right-hand column when the participation of the individuals listed in the second column has been confirmed.

We are already very busy in our current positions. Is this going to be a full time job?

No. Note that regardless of the size of the institution or the complexity of the product, participation on the Team is only an occasional activity – more frequent at some points, less frequent at others. Different members of the team will have different levels of commitment, with a few team members being heavily involved and others less so. Also, the larger the Team, the less of any one person's time is required since the duties will have been more finely distributed.

Exactly how much time is the Pilot Testing process going to take?

Developing a new product and conducting the required Pilot Test takes time, planning and hard work.



Although conducting a Pilot Test is not a full time job for any one person, it does take the occasional and concentrated efforts of many individuals within an institution. Any company embarking on the development of a new product needs to dedicate substantial resources to the process.

The Pilot Test Team, including senior management, will need to meet frequently before the pilot test starts probably weekly, after the pilot test starts the team should meet at least monthly (sometimes more frequently) to review the pilot testing process. Senior/middle management members of the Pilot Test Team and their staff will have to take the time to analyze costs and make pricing calculations (around 5-10 total person-days of the finance area representative and others depending on the state of the cost accounting systems). They will also have to take the time needed to plan, conduct, and monitor the Pilot Test (around 40-80 person-days over the 6 – 12

[8] Hiring consultants and University faculty, for example, can be expensive. It is prudent, when generating a Board of Directors for a Microfinance Institution, to be aware of potentially needed expertise so that the combined knowledge of Board Members can be drawn upon.

months of the test depending on the nature of the product, extent of revision to systems, and other particulars of the product, the MFI, and the market).

Parts of the process may have to be repeated depending on the results of the Test itself. If this is the case, it may be necessary to continue running the Test past the planned termination date. All this is *after* the initial investment of 25 to 45 person-days for the market research and analysis, and *before* the indeterminate amount of time involved in the rollout of the new product.

These are broad timing estimates. New products often require substantial adjustments to operating and management information systems, and Pilot Tests sometimes reveal important issues that require intervention. Also, the particulars of each product, market, and MFI make it difficult to project the time it will take to properly prepare a product for the market. New product development is not for the feint hearted.

Are you saying that release time may be needed?

Yes. It must be emphasized that even though conducting a Pilot Test is an occasional activity for management and staff who are Pilot Test Team members, they will nevertheless need to be released from regular activities to perform Pilot Test related tasks. The Terms of Reference should give the Team leader authority to call for release time of the team members.

It sounds like developing new products and Pilot Testing requires great institutional commitment.

It does. In fact, a significant level of commitment of resources – people, money, management – is required. Keep in mind that the lack of investment in product testing often results in failed product introductions, large costs and additional risk. Yes, it is expensive, and this is therefore a key reason why many MFIs simply allow others to lead the market with new products and then copy what is successful – this, too, can be problematic since of the three critical factors (product, market, MFI), at least one, and often more, are different from that of the copied product.

What makes a successful Pilot Test Team?

A successful Team has the following characteristics[9]:

- **Management commitment:** The Team will not be able to function without a strong commitment from institutional management, due to time and resource needs of the testing process. The Team should have at least one senior manager as a member so that they have someone who can communicate directly to the CEO and other senior managers about the product.
- **Experienced Team leader:** The product testing process requires strong leadership skills relating both to the Team itself and to the environment in which the Team works. Experienced, high quality leadership can maneuver a Pilot Test Team through the problems incumbent in this process.
- **Proper training:** The Team members must be skilled in their areas of representation. If MFI staff members do not have the necessary expertise, the MFI must obtain this expertise elsewhere.
- **Well-defined processes:** The goal of the Test and the work parameters must be clear if the Team is to complete its job effectively.
- **Individual and collective self-esteem:** The Team and its members must have the confidence to allow for free and open discussion. Individual members or others outside the Team can and will "bully" a Team with little self-confidence. The response to bullying a weak Team often results in decisions being made that are not in the best interests of the product test, and ultimately not in the best interests of the MFI.

[9] Norman Reiley, The Team Based Product Development Guidebook. (Milwaukee, WI: ASQ Press, 1999) p. 9.

Other characteristics that increase the potential success of a Team include[10]:

- **10 or fewer members:** If the Team is too large, meeting schedules are complicated and expensive to manage, and it is difficult to make critical decisions.
- **Enthusiastic service of members:** Individuals should not be coerced to serve on the Team. A successful Pilot Test Team needs members that believe in the product and want to see it succeed, not those who serve simply for "sitting fees" or other special non-performance based remuneration.
- **Membership spanning from product concept through rollout:** The work of the Team will be disrupted by changes in Team membership. Consistent membership facilitates informed decision-making throughout the Test to product rollout.
- **Proximate location of members:** Team members will need to interact frequently on an informal basis, sometimes daily. All Team members should work within the same geographical location, to facilitate both formal and informal meetings.

Who drafts the Terms of Reference?

Ordinarily, the Team Leader drafts the Terms of Reference for presentation to top management for approval. This approval may come from the Managing Director or Chief Executive in a large MFI, or the Board Chair in a small MFI.

What are the components of a Terms of Reference?

A Terms of Reference (TOR) is a formal document that outlines the background of the Pilot Test activity, as well as the specific tasks, obligations and expectations of the Pilot Test Team. The Terms of Reference will be structured in several sections to clearly define the role, responsibilities and resources of the Team.

Section I: Background of the Relevant Project, Desired Results, and Activities:
Section One summarizes the work that has already been completed on the road to pilot testing and explains the motivations and objectives of the product in both general and specific terms.

The *General Background* notes the history of the product concept and product design – product development stages which should have been completed before venturing on to the pilot test. This section should specify how the *general* need for the new product was discerned.

The *Specific Background* **identifies the desired results** for the new product in relation to both market and institutional needs. For example, it states the need for a new savings product to provide for diverse needs/desires of customers and lists those needs/desires in detail, or it might specify that customers requested a passbook-free savings account. Additionally, it should indicate the MFI's desire to makes its operations more efficient and reduce costs.

Section II: Description of Required Activities:
This section of the TOR describes the activities required of the Pilot Test Team. It lists specifically the actual activity for which the Team is composed, the methodology for conducting the test, the composition of the Team, and formally designates the Team Leader.

This section also lists specifically what the Team is to be doing – these activities might include but are not limited to:

- Developing formal quantitative and qualitative objectives
- Finalizing product design
- Preparing for the test
- Testing the product
- Identifying and developing the process to be followed in determining success or failure of the product test

[10] Preston G. Smith and Donald Reinertsen. Developing Products in Half the Time. (New York: Van Nostrand Reinhold, 1991) P.111.

Section III: Duration and Timing:
This section stipulates the time frame for the Pilot Test. It **indicates the guidelines** for when the test is to begin, and when it will be completed. This section also outlines the meeting commitment of the Team members so that the Team members and the approving managers understand the general level of time commitment that will be required.

Section IV: Monitoring/Progress Control:
This section **assigns accountability** for the test and its outputs. It also assigns the general supervisor of the Pilot Test Team.

Section V: Definition of Expected Outputs/Results:
This section defines the products expected of the Pilot Test Team. It states when the final report of the Pilot Test Team is due, stipulates what other reports are to be completed, and when and to whom the Team must provide its recommendations about the potential for future implementation and expansion of the product.

Finally, this section should **reflect the consequences** in the case of non-compliance with the guidelines of the TOR.

Section VI: Budget:
This section outlines the budget for the Pilot Test and thereby **clarifies the resources** required. Although it may be more accurate to complete a budget inclusive of the costs of management and staff time, the budget advocated here is an incremental budget which records only the costs that are additional to the company because of the pilot test. If your institution has a well-developed activity-based accounting system you may want to prepare the budget inclusive of all costs related to the pilot test.

Finally, the Managing Director (or equivalent) and the Team Leader should sign the TOR. Copies should be distributed to all members of the Pilot Test Team, and posted in private staff areas of all branches and departmental offices so all within the MFI are clear about what is happening. You do not want to post this in public areas of the branches because that would only serve to incite questions and agitation from non-pilot test branch customers.

Remember that a Terms of Reference, as with any communication designed to illicit action, should always include the following keys[1]:

- Identify the ***desired results***
- Indicate the ***guidelines***
- Reflect the ***consequences***
- Assign ***accountability***
- Clarify the ***resources***

Can we see a sample TOR?

Yes. We have provided *Example 1.1: Sample Terms of Reference* at the very end of this section. Remember, this is only a sample. Terms of Reference must reflect the particular circumstances of the Pilot Test, the Pilot Test Team, the size of the MFI, the details of the product to be tested, and the general individuality of the company. Draft the particular TOR that clarifies the issues within *your particular MFI*. After you have

examined this example carefully, and drafted your MFI's TOR, you are ready to proceed to the checklist below.

Check List: Have you . . .

- ✓ Assembled and finalized a Pilot Test Team?
- ✓ Made sure your Team is representational?
- ✓ Designated a Team Leader?
- ✓ Drafted a Terms of Reference?
- ✓ Had appropriate parties sign the Terms of Reference?
- ✓ Distributed copies of the TOR within the company?

Example 1.1: Sample Terms of Reference

Afri-Co Microfinance Company
FAST ACCESS SAVINGS ACCOUNT PRODUCT TESTING TEAM
TERMS OF REFERENCE

I. Relevant Background

a. General Background
   a. Afri-Co Microfinance Company commissioned a market study from *MicroSave* during 1999. This study showed that customers were dissatisfied with current products because of problems relating to ease of use. A more flexible product was suggested.

b. Specific Background:
   b. There is a need for a new product to compliment the existing highly restrictive Regular Savings Account.
   c. 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
      3. Accounts with no passbooks
   d. The product should also satisfy the following needs of the Company:
      1. Improve efficiency of product delivery
      2. Increase the overall value of deposits
   e. The Fast Access Savings Account (FASA), of which a prototype product has been developed, 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)
      3. Improve efficiencies in the institution

II. Description of Required Activities

a. The team will be composed of representatives of all significantly related departments in order to provide specific input during the product development process. These representatives will be expected to complete tasks related to their departmental activities for the product team. For example, the operations representative would prepare the draft policies and procedures manual, and the marketing representative would develop the marketing plan and materials for the test.

b. A team of nine staff members will be drawn together to comprise the product development team. It is to include (by name, title and expected outputs):

Pilot Test Team Skill Areas	Title	Name	Specific Activity
1. Product Champion / Team Leader / Research	Director of Research	Mr. T. Mukisa	Manages the team, responsible for reporting and outputs, calls meetings, assigns tasks to team members, and represents the team to top management, coordinate recommendation letter.
2. Finance/Accounting	Principal Accountant	Ms. M. Mungai	Prepares costing and financial projections
3. Information Technology/MIS	Deputy Manager - IT	Ms. S. Nzomo	Coordinates IT selection and installation, related fixed asset purchasing and installation, systems manual development
4. Marketing	Marketing Manager	Ms. M. Achayo	Prepare marketing plan for test, train on test product marketing, coordinate development of marketing documents, track marketing effectiveness
5. Training	Senior Trainer	Ms. A. Waswa	Write curriculum for test product training, train front and back office related staff
6. Operations/Management	Regional Operations Director	Mr. B. Okello	Develop policies and procedures documentation
7. Operations/Frontline	Test Branch teller	Mr. G. Oloo	Provide frontline customer information to team, distribute collect and collate new customer information sheets

Pilot Test Team Skill Areas	Title	Name	Specific Activity
8. Audit/Controls	Chief Internal Auditor	Mr. P. Musisi	Assist in formalization of procedures, authorize procedures, conduct full product audit (and follow-up if necessary) during test
9. Research	Economist	Ms. S. Segawa	Collect and summarize data, prepare monthly and quarterly reports to team and others

Team members will be provided time away from their regular duty stations when necessary at the request of the Team Leader and with the approval of their supervisors. Supervisors are expected to grant reasonable requests from the team leader, and the team leader will, where possible, inform the supervisors of such a request at least one week in advance.

It is expected that team members will spend an average of three days per month away from their regular duty stations working on Product Testing activities during the duration of the product testing. Some members may require additional time allocated to the testing process at certain times (such as, finance, team leader, and research), others require less time (Internal audit, marketing, IT).

c. The team will:
   a. plan, prepare, conduct and evaluate a product test of the FASA in the City Branch.
   b. complete the design of the product based on the results of the testing process
   c. develop and regularly monitor formal quantitative and qualitative objectives
   d. identify, develop and manage the process and indicators to be followed in determining success or failure of the product test
   e. team members should be responsible for discussing the test in each of their departmental meetings so that departmental staff are aware of the team, its activities, and the progress of the test, and have an opportunity to inform the team of other relevant activities that might impact the product.

d. The ten-step testing process outlined in the *Pilot Testing Tool Kit* will be used in this exercise.

e. Team leader is Mr. T. Mukisa, under whose leadership the team will regularly meet once per month, and at other times as deemed necessary for the completion of these terms of reference.
   a. The team leader will endeavor to utilize the team members in an efficient manner to minimize, where possible, any possible staffing disruptions within the institution.
   b. The team leader will provide a schedule of anticipated team and member activities to the related member supervisors covering each three-month period at least one week before the start of each calendar quarter. This will include a schedule for regular meetings and other testing activities, but does not preclude the ability to call unscheduled meetings when necessary.

f. The Team Leader is responsible for the following:
   a. Calling meetings of the team, or its sub-committees
   b. Allocating responsibilities to the team
   c. Quality control over team outputs
   d. Reporting regularly to the senior management team on the progress of the product test.
   e. Managing the team's budget
   f. Producing monthly progress reports and quarterly assessment reports within 10 days of the end of each month/quarter.
   g. The team leader will make a report to the management committee during their regular meetings while the product test is in progress.
   h. Preparation and presentation of the Team's recommendation report.

g. The Director of Operations will oversee the Team. This Director will receive all reports of the team for a period of one week for review and comments before dissemination. After one week, the team leader is given authority to disseminate any and all reports as appropriate, but always to the MD.

h. The Director of Operations will be responsible for the following:
   a. Providing guidance and assistance to the team leader
   b. Monitoring the progress of the team
   c. Representing the team when the Team Leader is unavailable
   d. Attending the regular monthly team meetings
   e. Oversight of budget expenditures

f. Providing information to the team about any other new products, or product alterations to any products of the institution.

i. The Team is responsible for any procedural, pricing, or term adjustments to the product in test. No other area, department, or manager will impose such conditions on the pilot tested product.

j. The team should be informed of any new products being considered for testing / implementation so that they might assess the potential impact of the new account on the team's new product.

k. The team is given formal authority to communicate directly to the technical assistance providers for the purposes of this project.

III. Duration and Timing:

a. These Terms of Reference become effective immediately and the Team should analyze and complete the test of the product per an approved protocol within the next twelve months.
b. It is expected that on average each team member will commit 36 person-days to this process during the 12 months of the test to attend regular and committee meetings, and conduct specific activities related to the product test. In some instances, where it is more efficient, appropriate activities will be carried out by staff under direct supervision of team members. Additionally, others may be co-opted for specific activities.

IV. Monitoring/Progress Control:

a. The MD will be informed of any significant issues relating to the progress of implementation of the Product Test.
b. The Operations Director will monitor and assist the Team Leader in completion of these Terms of Reference.
c. The completion of the Terms of Reference is the responsibility of the Team Leader.

V. Definition of Expected Outputs/Results:

a. The Team will provide monthly summary reports as should be identified in the schedule to the Operations Director by the 10th of each month, and to the MD, Department Heads, other related persons within the Organization by the 15th of each month.
b. By the end of the testing period (as noted in section III), the Team will provide a detailed recommendation (in a forum to be determined by the MD) about the product and its potential for further implementation and expansion. This report will include several documents including: the policies and procedures manual for the product, a training curriculum, and marketing documents.
c. In the case of non-compliance with this TOR at any point an immediate explanation from the Team Leader is to be provided to the Operations Director who will decide the continuing status of the test with options including a change of Team Leader or team members as well as the suspension or termination of the test.

VI. Budget:

a. This budget will include only expenses that are new to the institution as a result of the new product test.
b. New expenditures beyond the approved budget line items will only be approved after an evaluation of the benefits to the institution and with the approval of the Managing Director.
c. Specific expenditures totaling Afshs 25,850 over the period of the test are budgeted. Details of this are noted on the attached Product Testing Budget.

Managing Director: _____ Date: _____

Operations Director: _____ Date: _____

Team Leader: _____ Date: _____

AFRI-CO MICROFINANCE COMPANY
FASA PILOT TESTING CASH BUDGET
(in Afshs)

Direct Expenditures	Explanation of Expenditures	12 month budget
Staff costs	The cost of additional staff required in the process of testing. This might include new cashiers, for example. Make sure to include benefits for these staff members.	10,000
Training costs	The costs of any training materials or tools purchased for the test. Plus the cost of any trainers contracted for related trainings (these could be "Marketing Training" or "How to Use Savings Software" for example).	1,500
Marketing costs	Includes all the costs related to marketing during the test. This could include the cost of design and printing of brochures and posters, as well as street performers and give-aways.	1,000
Fixed assets	Includes the cost of any fixed assets required for the test. Examples would include: computers, software, UPS, work tables, and other furniture.	7,500
Stationery	This includes the costs of all related stationery, and might include: deposit and withdrawal slips, account opening forms, cashier activity and summary forms.	500
Transport	Includes the cost of transporting team members and others to and from the test site, and other direct transportation related costs.	650
Communications	Includes the costs of communicating between the test site and the head office, and among the team members. This might include cell phone, email, and postal charges.	1,000
Meeting expenses	Covers any costs incurred for meetings of the team or others relating to the new product pilot test.	200
Office supplies	Includes the costs of miscellaneous supplies required for the pilot test, such as rubber stamps, special paperwork separators, and other items.	150
Property Improvements	This includes the costs that might be incurred in transforming space to accommodate the needs of the pilot test, such as constructing a cashier's window, or shelving for a computer and printer.	1,000
Contingencies (10%)	Oftentimes costs arise that were unanticipated in the budgetary process. It is good practice to add in a contingency amount to cover such costs. 10% of direct costs is a common contingency amount.	2,350
Total		**25,850**

Step 2: Developing the Testing Protocol

Satisfaction of the desired results of the new product is the final destination of the Pilot Test. The testing protocol is the "road map" that will help your MFI get there. Your Pilot Test Team should craft the testing protocol carefully. It serves as your guide, and without it you will be unable to navigate the treacherous waters of the Pilot Test adequately.

What is the testing protocol?

The testing protocol provides the outline for how your Team will manage the test. It dictates the "terms" of the test, such as the specific tasks and their requirements, and guides precisely how and when the test is monitored. It should also indicate guidelines under which the test would be paused or terminated, and it specifies when other decision points have been reached.

In many ways, the testing protocol is based on the desired results as defined in the TOR. It formalizes the activities that lead to the results, and further defines the procedures and parameters for the test itself by addressing each significant activity required for success, scheduling that activity, and allocating responsibility for getting it completed.

In general, the protocol defines what will be done, by whom, and when.

What are the terms of the testing protocol?

The terms of the testing protocol should include at least the following:

- The anticipated **number** of customers that will be included in the test
- The **location** of the test
- The **duration** of the test – commencement and completion dates
- **Reporting** dates
- What **data** should be analyzed, and when
- Specific **boundaries** that may call for a pause or cancellation of the test

The Team needs to consider all points of the testing protocol carefully in terms of the product to be tested and the specific market for the product.

How do we determine the number of customers to include in the Test? And how do we decide where to test the product?

You want to have a large enough pilot test sample so that the results of the test are representative. At the same time, you do not want a sample so large that it puts the institution at risk. The actual size of the sample for your pilot test depends on the size of the MFI and the number of offices or branches available.

- **Multibranch MFIs with many customers at each branch:** For MFIs with large branch structures it is common to select one branch and offer the product to customers in the market area for that branch. This should accommodate a large number of potential customers so that the size of the market is not a strong limiting factor.

- **Multibranch MFIs with disparate clientele:** An MFI with a large branch network (>25) and highly disparate clients might pilot test the product in two or three areas. However, the pilot tests should be staggered so that one Test has operated for at least three months before the next starts, and all must be clearly defined as Pilot Tests. Multiple simultaneous testing carries the dual dangers of spreading the Team too thin, and effectively becoming an early roll-out.

- **Multibranch MFIs with homogenous clientele:** A multibranch MFI with fairly homogeneous clientele should choose one branch (easily accessible to the main office but not the main office) to run its Pilot Test.

- **Multibranch MFI's with few customers at a given branch:** For MFIs with a branch structure but with relatively few potential customers for the product at any one branch, more than one branch should be selected for pilot testing (this would also be true of some MFIs who work with clients in smaller groups).

  In these cases, it is often best to select the market areas of certain customer service personnel, and hold the Test in those areas only. This is so that the company has access to a large enough pool of clients, but does not have to train all field staff in the Pilot Test product.

  Once the Pilot Test is concluded and the product deemed successful, then others can be trained and the product can move incrementally to the rest of the branches. This facilitates control over the Test while limiting training and monitoring expenses.

- **MFIs with small clusters of homogenous clients:** MFIs with very small clusters of fairly homogeneous clients should test with multiple "branches" under one or two supervisory units. After initial results from the Test, the Test should be spread to other branches in other markets.

- **Very small MFIs:** Some very small MFIs have only one or two market areas or offices. In this situation, it is reasonable to offer the product to all the customers of one office. But it should be made clear to *all* customers that this is a Test, that they may experience changes to the features and terms of the product, and that the product may even be cancelled.

  A very small MFI might, in fact, have to offer the Test product to all clients if there is an incumbent problem with separating clients using the same facility into "haves" and "have-nots," which can create bad feelings among an MFI's customers. Still, in some cases where an MFI has a single branch and many customers, it may be advisable to offer the product on a restricted basis. See the section below on how small MFIs can reduce their risks.

Why should we limit the number of customers in the Test?

You should limit the number of customers in the test to **minimize risk to the MFI**. Part of this risk is linked to the specific terms of agreement made with customers, and the fact that your MFI will have to honor these terms. For example:

> Your MFI may commence a test on a fixed deposit account. The agreement with the initial customers was that your MFI would hold their funds for one year at 15% interest with no fees.
>
> Then your Team discovers that given the popularity of the product, utilization will be significantly different than projected. Your Team re-evaluates the financials and recognizes that to make the product profitable, a fee must be added and the interest rate reduced to 5% for all subsequent customers.
>
> Your MFI must still honor the commitment made to all customers who made deposits under the original terms – that is, your MFI must provide fee-free services and the agreed interest rate until the maturity of their initial investments. Only after these investments mature may your MFI alter the terms with these initial customers.

What circumstances might call for adjusting the terms of an account during a Pilot Test?

The only time you could, and likely should, adjust the terms of an account is when the new terms are more favorable to the customer. Because you should always ensure that your initial price is high enough to earn an adequate level of profits, there might be an occasion when you find it possible to reduce the price to the customer. This could happen with greater-than-projected volumes, for example.

In this case, even though you have a contract with the customer, if you change the account structure to one more *beneficial* to new customers, you should consider readjusting the terms for established customers as well, to give them the preferential interest/fee structure. This will help to build goodwill and loyalty among your customers.

This is an important reason why new products should be introduced in a testing process. Small MFIs with only one branch must be extremely vigilant when introducing a product test to all its clients. This is because a much larger percentage of their customers will have access to the product in the Test, and the risk of problems is thus much greater than with a multi-branch MFI that has the ability to limit its risk to a relatively small pool of customers.

When possible, even very small MFIs may need to consider limiting the number of customers within a branch for the testing of some products, such as fixed deposits. This limits the potential for problems and gives the MFI an opportunity to assess customer behavior with the account, while reducing its risk.

How can a small institution limit the risks?

Small institutions can limit the risks by offering the product to a limited number of customers. For example, your institution could offer the product, on a first-come, first-served basis, to 5% to 10% of the total clientele. Or, you could set a strict limit to the actual number of participating customers, maybe as much as 500 in an institution with 5,000 clients. Once the limit is reached, the product is not offered to anyone else during the Test. Either way, your Team should be sure that there are enough participating customers so that you have a cross-section of likely customers – a representative sample – and so that you can obtain sufficient data for making decisions.

We are a multi-branched MFI. How do we determine the best location for the Test?

Determining the site for the Test is a critical decision that will have an impact on the results. The testing site should comply with several parameters:

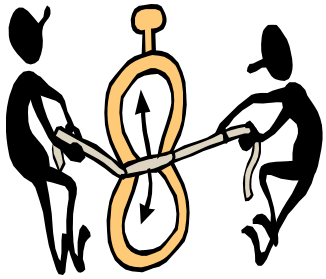
- For ease of monitoring, the site should be close to the main office, but it should not *be* the main office.
- For flexibility, the site should be completely controlled by the MFI testing the product. For example, many post office savings banks rent space in a post office and pay a commission to the post office for each transaction that is conducted for the POSB. A branch like this where the MFI does not have direct authority over the branch would be a very poor choice as a test site.
- For convenience, there should be enough space within the site to accommodate the specific needs of the product (for example: a new cashier window may be needed) if the product is delivered separately from other products (more expensive), or space may be needed for computer installation if the product uses a computerized system.
- For ease of adaptation and test management the potential site should contain an infrastructure that satisfies at least the basic needs of the product and its implementation. For example, there should be electricity if the system is computer based, and telephones for communication between the Team and the branch staff.

- For market access, the site should have within its market area sufficient numbers of potential customers for the specific product being tested, and therefore act as a reasonably representative sample of the total customer market.
- For effective implementation of the Test, staff the site with people who are enthusiastic about implementing the Test for the specific product. This may require careful incentivization of the site manager and staff.

Is it ever appropriate to conduct a Pilot Test in more than one branch or market area?

It is occasionally necessary to hold the Test in different markets if there is vast market divergence with a large MFI's full market area. This might occur with an MFI that has significant urban and rural operations, or with a postal bank that has its own branches and agencies operated by others. In these cases it is best to phase-in the Tests, with the first one completely complying with the above list, and the next reducing reliance on the first requirement and possibly the second, depending on the situation.

How long should the Test last? How do we determine commencement and completion dates?



This is a critical issue. An appropriate answer requires a balance between the desire to ensure that the product will work without problems once it is broadly expanded, and the need to get the product out to the market.

In the first case, the whole point of the product test is to ensure a quality, profitable product. In the latter case, competitors and non-test customers are not blind, and you will need to get your product out to the market before competitors take advantage of your innovation and testing, and customers run to them to be satisfied.

In general, the duration of the test is product dependent.

If the product cycle is short, six months or less (as in a school fees account that would be liquidated every three to four months), then it is preferable to implement the Test through at least one full cycle. Such a strategy provides an opportunity to assess continued use of the product by the customer. This information is invaluable in determining the value the customer places on the product, and will provide the institution with actual information on the likelihood of continued participation, or rollover.

For a high-risk product with a cycle of 6 months or less, plan a total testing time of two times the product cycle.

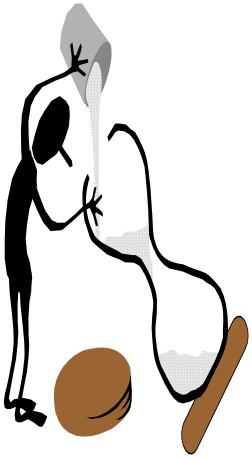
For a product with a longer or indeterminate cycle, plan a total testing time of nine to fifteen months.

Conducting the Test through one full product cycle requires a *total* testing time that is longer than the cycle itself. This is because it takes time to get to a testable level of customers, and then the customers must go through the product cycle. A reasonable guideline is that the Test for a high-risk product should run for at least twice the period of the product cycle. This allows for a buildup of a critical mass of customers, allows them to complete the cycle, and allows the Pilot Test Team to evaluate the results.

If the product cycle is long, (longer than six months, like a one-year fixed deposit), or undefined (like a regular savings account), the testing cycle should allow enough time for a critical mass of customers to be acquired. The customers then need time to get comfortable with the product and its procedures. Finally, you

need to give them time to confirm to themselves the benefits of the account, and you need time for your own analysis to include seasonality fluctuations where they are significant.

This process will most commonly take about twelve months to get good results. In a market area where seasonality issues are limited in significance, and you get rapid interest in your product, you may be able to conduct a test in as little as six months, but certainly no less than that. The common range for such a test would be between nine and fifteen months.



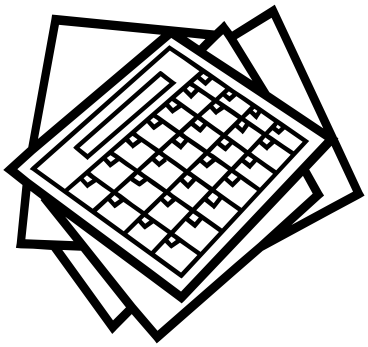
It is important to identify any significant seasonality issues within the institution's calendar that might adversely affect the Test. Especially if the duration of the Test is to be short, then the Test should be conducted, if possible, outside peak activity months, though it is recommended that the Test is conducted through periods of high and low activity. If a peak activity month falls during the test period, it should not be at the very beginning of the Test.

In East Africa, for example, customers report (through PRA) that there is a massive outflow of household funds in November and December related to the Christmas buying season. In January, there is a great need of borrowing and no availability of funds for savings, because of common overspending during Christmas (often resulting in short-term debt), school fees coming due, and slow business due to a general lack of funds in the communities. It would therefore be unwise to begin the testing of a new fixed deposit account in November, December or January, and expect similar customer responses during the balance of the year.

How do we determine reporting dates?

In order for the Team to monitor the progress of the Test, and to make informed decisions about the product, the Team members will need to be regularly and formally informed.

In the first month of the Test, consider holding weekly reporting periods so that the Team can act immediately to counter any problems that arise on introduction of the product. Thus, for the first month of Test implementation, the Team should meet weekly, with weekly reports.



After that, assuming the Test has settled into a routine, monthly review and meetings are adequate. Monthly reports allow enough data to be generated to warrant reporting and review. Reports, based on the product objectives and issues that arise during the Test, should be provided to the Team *within five business days of the end of each month*, and the Team should meet within two days of receipt of the reports to discuss them and to make decisions based on the information gathered. It is important for the Team to receive timely information so that their review and decisions are relevant.

What should be analyzed, and when?

The Team should review the objectives sheet (Step Three) at each post-implementation meeting to track progress towards the objectives. Additionally, the Team should review a comparison between the full financial projections (Step Five) and the actual results, with explanations for any deviations beyond 10%. These explanations are intended to provide a better understanding of the dynamic details of the product. Relevant adjustments to the projections should be authorized by the Team to improve reliability of future projections.

The Team should watch for any significant deviations from the planned utilization. Shortfalls, as well as overages, could impose a significant risk to the organization. These deviations need to be reviewed and reconciled against the plan. The Team should discuss any issue that appears as though it might pose an unnecessary risk to the institution. The Team then must either agree on a solution or decide that the risk is acceptable.

How about quarterly evaluations?

On a quarterly basis, or sooner if the Test is short term, the Team should hold evaluation meetings in which they review all the data of the Test and assess the status of the testing process and Test projections. Ask yourselves: Is the Test progressing as planned in the protocol – are you on target in terms of number of customers, profits, expenses?

From this review the Team should evaluate the Test in terms of the revised projections and make decisions about continuation, alteration or discontinuation of the test.

What are the options available to the Pilot Test Team as data are evaluated?

There are four options:

- **Terminate or suspend:** It may be necessary to terminate the test. See below.
- **Change and continue:** Make appropriate changes to the terms or procedures of the product. Then continue with the Test.
- **Continue:** Data may indicate that no changes are needed at this time. The Test may continue as originally planned.
- **Roll-out:** The Test is completed. The data indicates that the product is valuable to the institution and the customers. It is time to go to full roll-out.

What kinds of issues might arise that would call for a suspension or cancellation of the test?

It is important within the protocol to identify parameters that will result in immediate action by the Team. This action may be corrective or terminal to the Test.

The parameters define the extent of risk an institution is willing to take during a Test. Although this is determined on an institution-by-institution and product-by-product basis, some examples of such risks include:

- Protocol reporting is not on schedule. This is a sign that the Team is not monitoring the Test adequately.
- When the projections are adjusted by the reality of testing, the profitability targets shift more than 20% beyond original targets.
- When the projections are adjusted by the reality of testing, the consistent month-to-month break-even point is revised to a point beyond 2 years.

When such events occur it is appropriate for the Team to suspend the Test (pending further investigation) or even terminate the Test altogether with the approval of senior management.

How do we draft a testing protocol?

Your Team can use *Worksheet 2.1: Testing Protocol* to draft your MFI's testing protocol. The worksheet gives space to indicate the responsible parties for each activity, and space to list any needed or available resources. With this protocol chart, your Team can easily document all phases of the Pilot Test. This table shows activities for a fifteen-month test, but the timing can be adjusted to accommodate any duration.

Check List: Have you . . .

- ✓ Formalized your product objectives as components of your testing protocol?
- ✓ Defined the parameters of the Test, so that your Team will recognize the boundaries at which point the Test will be suspended or cancelled?
- ✓ Filled in *Worksheet 2.1: Testing Protocol*?

Worksheet 2.1: Testing Protocol

TESTING PROTOCOL
FOR

_____
(Your Institution)
_____ ACCOUNT

I. GENERAL INFORMATION

Process to be tested:

Purpose of test:

Date test team composed:

Members of test team: (From the TOR)

Product "Champion"/Team leader: (From the TOR)

Anticipated duration of test:

TESTING SCHEDULE

***Resources:** This refers to anything needed or already available such as equipment, expertise, money, staff, and consumables. Be sure to indicate if the listed resource is needed, or available.

Preparatory Phase:

Activity:	Start date:	Date due:	Responsible:	Resources:*
Define Objectives:				
Client/Branch sample size determined:				
Testing Location(s) determined:				
Perform Risk Analysis:				
Consider impact of any Staff Incentive Scheme:				
First draft financial projections:				
Working draft financial projections:				
Fixed assets (F/A) requirements determined:				
Monitoring indicators finalized:				
Marketing plan:				
Stationary and other required documents designed:				
Training plan developed:				

Activity:	Start date:	Date due:	Responsible:	Resources:*
Accounting codes and procedures finalized:				
Installation of software at training site (since new software is to be used):				
F/A ordered:				
Stationary and other required documents ordered:				
Full testing of software:				
Preparation of site for F/A finalized:				
F/A Delivered				
Monitoring forms (based on objectives) available at branch (data collection location):				
Document Operational Policies and Procedures:				
Training "curriculum" finalized:				
Operations training implemented:				
Evaluation indicators defined (what is critical to success / failure decision?):				
F/A and software installed and tested at site:				
Stationary and other required documents received in branch:				
Marketing training session with all staff at location:				
General information on test sent to any offices / staff likely to be impacted by test:				
Marketing commences:				
Product test begins:				

Testing Phase:

Activity:	Date due:	Responsible:	Resources:
Initial product launch review (basic assessment one week after launch of test):			
Initial monitoring report provided to team (after one month):			
1 month evaluation meeting (reviewing overall response to product, problems, issues, review monitoring report):			
Month 2 monitoring report:			
Month 2 monitoring meeting			
Month 3 monitoring report:			
3 month Evaluation meeting (reviewing projections against actuals, monitoring reports, issues, market response, problems) decisions about continuation, alteration,			

Activity:	Date due:	Responsible:	Resources:
discontinuation of test will be made at this meeting			
Review the impact of the Pilot-Test on the Staff Incentives Scheme			
Quarterly presentation on progress to Senior management			
Revising projections:			
Month 4 monitoring report:			
Month 4 monitoring meeting			
Month 5 monitoring report:			
Month 5 monitoring meeting			
Month 6 monitoring report:			
6 month evaluation meeting (reviewing projections against actuals, monitoring reports, issues, market response, problems) decisions about continuation, alteration, discontinuation of test will be made at this meeting, as well a review of the test completion date projected:			
Review the impact of the Pilot-Test on the Staff Incentives Scheme			
Quarterly presentation on progress to Senior management			
Semi-annual one-page progress report for general posting throughout the institution			
Revising projections:			
Month 7 monitoring report:			
Month 7 monitoring meeting			
Month 8 monitoring report:			
Month 8 monitoring meeting			
Month 9 monitoring report:			
9 month evaluation meeting (reviewing projections against actuals, monitoring reports, issues, market response, problems) decisions about continuation, alteration, discontinuation of test will be made at this meeting, as well a review of the test completion date projected and date for expansion of the test:			
Review the impact of the Pilot-Test on the Staff Incentives Scheme			
Conclusion of test:			
Final test report and presentation:			

Key evaluations issues to illicit immediate action by the Team to correct, pause, postpone, or cancel remainder of the test:

- √ If protocol reporting is not on schedule
- √ If profitability targets move more than 20% below original targets
- √ If break even point in revised projection moves beyond 2 years

Step 3: Defining the Objectives

In order to determine the success or failure of the Pilot Test, it is essential that the objectives for the new product be clearly defined. This step is a two-stage process. Here, you will generate a list of general objectives, from which you will set specific targets based on the financial projections.

What do formal objectives "do" for us?

Clearly defined objectives provide key indicators that are important for at least two reasons:

: They help the Pilot Test Team to recognize quickly if the product needs any remedial action or adjustments during the Test.

: They provide criteria against which the Team can interpret the results of the Test.

How specific should the objectives be?

Objectives should be very specific, quantifiable, provided with baseline data where appropriate, and cover the full period of the Pilot Test. Objectives specify the desired end point of the testing phase. Once you have defined each *general* objective (for example, "growth in numbers of accounts") you will need a *specific target* within the objective to aim for (for example, "2400 accounts in twelve months"). With this level of specificity you will know where you need to aim and from there you can determine what you will need to do to service this volume of customers.

How do we establish clear product objectives?

Objectives define the critical success factors of your Test. When choosing objectives, think about them in terms of the MFI's and customer's key factors of interest:

- √ Central issues of profitability
- √ Growth (in terms of volume of accounts and the value of their balances)
- √ Customer and institutional efficiency
- √ Customer service
- √ Effectiveness of marketing efforts

If all is right with these factors, it is likely that all is right with your product.

Each MFI will have a very distinct set of objectives with regards to the specific values, or targets, assigned to the different objectives. However, because most institutions are focused on the above-mentioned central issues, the general objectives are likely to be somewhat similar among MFIs.

What kind of process is involved in formalizing product objectives?

Setting objectives is a two-stage process.

Stage One: Define the General Objectives.

Let's look at some examples.

1) Afri-Co Microfinance Company has a profitability focus for all products. Management has set a policy that the Team must follow, stating that any new product must break even on a net present value basis, within 24 months of launch. Thus, the general objective is:

   Break even within 24 months of start of Test.

2) In their initial PRA research, clients noted a significant demand for efficient services, which the institution wants to address. To the customers, the bank is efficient when they are in the bank for less than ten minutes. Thus, the general objective is:

   Maintain customer time in the bank to less than ten minutes.

3) AMC also wishes to expand their customer base. Thus, the general objective is:

   Enlarge overall customer base by 10% over two years.

   We now have three objectives with quantifiable targets, responding both to institutional and customer demands.

Stage Two: Formalize the endpoint targets and the month-to-month targets through the financial projections that come in Step 5.

When do we do Stage Two?

Much of Stage Two will be completed during Step 5: Modeling Financial Projections.

For example, although the policy of the institution may be for break-even in less than 24 months, this is simply an outer parameter for the product. It is impossible at this point to determine the break-even point of this product until it has been fully modeled.

If your Team does the financial projections properly, you will:

- √ Have monthly targets.
- √ Know if the variables are realistic.
- √ Know if the cost/price mix is adequate.

At this point, what you want is general objectives, (profitability, efficiency, growth) with their general targets (profitable in less than 24 months, customers in bank for less than 10 minutes, 10% growth).

Can we quantify any objectives at this point?

Yes. Some targets you can quantify before you get to the financial projections. For example, AMC could quantify their endpoint target for customer growth based on information they already had.

How is this done?

One way to calculate the endpoint target for a new savings product is to look at the monthly average account openings for the nearest similar product that your MFI offers.

Then, using your knowledge of the market, and the level of expressed interest identified in the research phase of product development, you can identify a multiple of the monthly average account openings (for the similar product) that will represent the anticipated new product openings. This multiple is both product-dependent and market-dependent, and reflects your Team's best understanding of the probable market response to the new product. This understanding derives from the initial market survey work that was done to identify client needs.

Your Team is effectively assessing whether the new product will grow quickly (a multiple of ≥1) or slowly (a multiple of ≤1), and by how much and why. It is important to document your reasons for the selection of the multiple so that you can review them during assessment and review periods This multiple will rarely be more than a factor of 2.0 even for a product that seems as if it will attract great attention from potential clients.

How do we know if our objective targets are realistic?

After you have defined and formalized the objective targets, make sure to perform a "reality test". Clearly, if you have 1,000 customers and open 10 new accounts per month on a similar product, you will not likely gain 2,400 customers for a new product in twelve months, and therefore a 2,400 end-of-test target would be unrealistic. If this is your situation, and 2,400 accounts is your end-of-test target, then you need to go back and review the assumptions. Make sure to document your method for obtaining these targets. Your rationale will be important as you complete the financial projections.

A "reality test" is an overview of a decision in terms of common sense. For example, an MFI that has been operating for two years and has 200 customers today, and it has taken two years to attract those customers, should not expect that it would get 500 new customers in the month after the introduction.

Additionally, it is unlikely that the MFI would have the capacity to properly absorb all these new clients.

Thus, no matter what the calculation might say, it is highly unlikely that 500 new customers will, or even could, be served in the first month.

We think that our new product is going to be very popular.

If this is true based on your market research and on realistic assumptions, your Team may decide on a multiple above 1, but it is unlikely that your factor would ever be above 2.0 times.

For example, your new account may be very attractive to existing customers who may shift (this often happens in large numbers during the first few months of the product introduction). It may also be attractive to current non-customers (such as a dramatically more efficient product that is new to the market). These may be legitimate reasons to expect rapid growth of about two times the similar product growth.

The target is something that is *aimed* at. There is absolutely no way to know for sure how many new product accounts will be opened.

But it is important to remember that the target number has to be *calculated*, not wished for.

Can you provide an example of how this works?

Yes. Let's take the Afri-Co Microfinance Company's FASA account. The Pilot Test Team had to calculate an end-of-test target for the product based on the general objective: **Enlarge overall customer base by 10% over two years.**

1. First, the AMC Team looked at the current activity in a similar account, and added their knowledge of the market and expressed interest derived from the market research. They have a Regular Savings Account, and the number of new accounts opened in an average month is 200. Using this information, they arrived at a best *guess* for a target figure.

   AMC had 200 customers coming into the institution each month to open new accounts. They estimated that in an average month, 50% of that number would open a FASA, and 50% would still open a Regular Savings Account. That meant that they anticipated 100 new FASAs would be opened, on average, each month.

2. Next, they anticipated that one-quarter percent of the 10,000 customers who already had Regular Savings Accounts would close their Regular Savings Accounts each month and open FASAs, because the new account served their needs more adequately. In the industry, this is called "cannibalization."

3. Finally, since AMC had a normally aggressive outside marketing campaign, they estimated that another 75 customers per average month would come into the institution intentionally to open a FASA. This would result in a total of 200 FASAs for an average month. Since their data showed that in an average month 200 customers come into AMC to open Regular Savings Accounts, their end-of-period target factor is a factor of 1.0.

4. Since the test period is twelve months, and their calculations showed a target factor of 1.0 times the average number of Regular Savings Accounts opened, it was reasonable to anticipate 2,400 FASAs in the first twelve months. After applying the "reality test" to these numbers, they set 2,400 FASA accounts as their end-of-period target.

Again, setting end-of-period targets is highly specific to an MFI, its market, and the product. It is also important to recognize that these are *projections only*. In *reality* (and in your financial projections, covered in Step 5), you will not likely have the same number of new accounts every month – for seasonality reasons, product build-up reasons, and others. Therefore, these endpoint targets might be adjusted based on the realities of the financial projections.

How will the financial projections (Step 5) affect the objectives?

General objectives will not be impacted by the projections. The general objective: "Enlarge overall customer base" will not be changed. "Enlarge overall customer base by at least 10%" will also not be changed, because it is an overall company objective that must be met by all products.

Financial projections may show that the customer base can be enlarged by as much as 15%, which might then become the endpoint target for the product in test.

What if we do not have a similar account on which to base our estimates?

If the product you plan to test is the first in a new product line, or it is dramatically different from any other product that your MFI offers, the process of estimating becomes much more complicated.

In forecasting product usage an MFI needs to consider the following types of markets:

- *Potential Market* - The consumers who state some level of interest in a particular product.
- *Available Market* - The consumers with the interest, as well as the required income, and access to the product.
- *Qualified Available Market* - The consumers with the interest, the required income, access to the product and meet the qualifications of the product.

Which of these is most important for forecasting product usage?

It is the ***Qualified Available Market*** that an MFI with a new product is looking to attract. Determining the size of this market and its particular characteristics (how much will they deposit, how long will it take them to decide to open an account, how frequently will they access the account, what their maintained average balance will be) is a very difficult and potentially costly exercise. There are several market research tools that have proven effective in gathering this type of information as well as being cost efficient. These tools can be found in *MicroSave's* "Market Research for MicroFinance" Toolkit.

What happens if a competitor offers a similar product?

If a competitor begins to offer a similar product there is likely to be a dip in overall clientele as the competitor pulls your clients to them (as happens to them when another competitor enters their monopolistic market). But don't worry: while the competition can copy the visible "externalities" of your product, they cannot copy your systems for delivering it – it is better to take the time to get the systems right and deliver the product in an efficient manner than to be rushed into delivering it before you are ready to manage it effectively.

Is there any other way to determine potential interest in our new product?

In general, qualitative analysis, such as that detailed in *MicroSave*'s "Market Research for MicroFinance" Toolkit, will help your Team gain a basic understanding of the relative interest in your product, and the basic details of the customer's likely utilization. This is likely to provide *close enough* data without expending a great deal of money. Your MFI could hire consultants to conduct market surveys, but it is unlikely that their data would significantly enhance yours, since your institution is likely to have better sense of the market than would outside consultants. A market where the product is completely new to consumers is the most difficult market for assessment of demand.

Our new product is similar to one offered by a competitor. How does this affect our objectives?

If your product is similar to that of a competitor in a similar market, and you can get any data from them (for example, annual reports, promotional materials, national compilation data), it would be helpful to assess the growth rate they had with the product. In order to be competitive, your product should have improved features over theirs. This would increase the demand, however you must also recognize that the overall external market is likely to be very limited since consumers who wanted the product could have gotten it from your competitor, and those with the competitor may be hard to acquire.

Thus, it is important to recognize that if you introduce a product that is very similar to a competitor's, product utilization is likely to come from current clients. This has costing implications that you will address while calculating the financial projections (Step 5). Expect slower external growth from such a product versus the competition, and expect a larger percentage of your own customers transferring to the new account.

That being said, it may be that your monopolist competitor has abused their position and clients may rush to leave them because of product and service issues. Assessment of competition is always a specific assessment of the competitor's client satisfaction with products and services.

Following the procedures in this toolkit are especially important when a product is new to the market (not just the company) because when you have less reliable data to work with, you need more controls over the process. This toolkit assists an MFI to develop and use these controls.

Another way to think about this is through a three-point process:[1]

1. *Visualize* the result you want at the end of the test. This gives you the ***objectives***.
2. *Think backwards* to where you are now. This gives you the ***baseline***.
3. *Implement forward* to where you wish to be. This gives you the ***financial strategy*** to achieve your objectives.

Looked at in this way, the objectives form the foundation of all subsequent work and the financial strategy is derived from them.

How many objectives should we have?

The number will depend on the product to be tested, but the objectives should be reasonable in number –five to seven should be sufficient, though there could be as many as ten and as few as three. Again, these objectives should be easily quantified, and they should commence with baseline data (in cases where there is baseline data for your specific objective), so that they can be interpreted during and at the end of the test.

In the Pilot Testing process, virtually all lists of Test objectives should include some target for at least the following areas:

- √ Growth
- √ Financial results
- √ Efficiency
- √ Marketing effectiveness, and
- √ Customer satisfaction

Do we need to consider the impact of our Staff Incentive Scheme on our objectives?

Yes. The existence of a staff incentive scheme can significantly impact on the performance of targets set for the new product. This is especially true if staff members are incentivised for achievements on existing products and not for performance on the new product. The MFI may decide to introduce specific incentives for the duration of the pilot test, or simply to adapt its existing incentive scheme to accommodate its new product.

***MicroSave*'s Toolkit for**
Designing and Implementing Staff Incentive Schemes in MicroFinance Institutions
Martin Holtmann

Well-designed staff incentive schemes can have positive and powerful effects on the productivity, efficiency and quality of MFI operations. Conversely poorly developed schemes can have serious detrimental effects. Incentive schemes must be transparent so that staff members affected can easily understand the mechanics of the calculation. Thus the system should not be overly complex and should contain as many objective factors and as few subjective variables as possible. Furthermore, the "rules of the game" should be made known to everyone and should not be changed arbitrarily. In addition, it is essential that the incentive scheme be perceived as being fair, and thus the goals set out by the scheme must be attainable, and better performing staff members must indeed be rewarded with higher salaries. Finally, everyone must be able to achieve a higher compensation by working better and harder.

This *MicroSave* toolkit provides a detailed examination of:

1. The Theoretical Background of Staff Incentive Schemes
2. Basic Building Blocks for Staff Incentive Schemes
3. Principle Design Questions for Staff Incentive Schemes
4. Incentive Schemes for Different Functional Areas in MFIs
5. A Step-by-Step Approach to the Design of Incentive Schemes
6. A Cost-Benefit Analysis of Incentive Schemes
7. Incentive Schemes in Other Areas of Microfinance

Once we set the product objectives, are we done with this step?

No. Remember what we said at the beginning of this step. Although you will set specific targets as part of your product objectives, these targets may change based on your financial projections and the need for the product to be profitable. Profitability and sustainability for the institution should ultimately guide decisions regarding product targets.

Could you give us an example?

Sure. Take our example, the Afri-Co Microfinance Company (AMC):

The AMC is a very large MFI that already offered a regular passbook savings account. This is an account that many customers used because it was the only savings account available. Their customers had indicated that they wished for faster service, more flexibility in withdrawals (better access to their accounts), and they wished to be rid of the passbook. The AMC Pilot Test Team recognized that in addition to satisfying customer demands, any new product they offered would have to satisfy institutional demand for a product that is both efficient and profitable.

After Market Research the Pilot Test Team designed an account that would allow customers to make unlimited withdrawals, it would be computer-based and therefore passbook-free, and would have a tiered fee structure that rendered the account ultimately profitable. The computer systems needed to make the account passbook-free would render the account more efficient.

From those guidelines, the AMC team compiled the Objectives Table 3.1 below. This example shows ten objectives with end-of-test targets. Because of the nature of the product and the objectives, the *baseline* for all objectives is zero and is therefore not included in the table. This example clearly shows the objectives, the endpoint targets, as well as an explanation for the targets. A column also links the objectives to the five critical objective areas noted above.

How do we use the objectives?

The objectives and their targets will be continually monitored as the key indicators for success of this product. Any problems with satisfaction of the objectives will result in adjustments to the product. Ultimately, if these objectives are not met, the product should be suspended or terminated.

How to monitor the Test against objectives is covered in detail in Step 10.

Check List: Have you . . .

- ✓ Visualized the desired product results in terms of five to seven quantifiable and achievable *objectives*?
- ✓ Thought backward to where you are now (recognized the *baseline*)?
- ✓ Identified the objectives targets in the objectives table?

Table 3.1: AMC Fast Access Savings Account Objectives (1US$ ~1000Afshs)

Item	Objective	Objective Target End of Test (M12)	Type of Objective (Target Area)	Explanation
1	Net Number of FASA Accounts	2,400	Growth	Explained in example above.
2	New FASA accounts as a percentage of all new accounts opened at the AFRI-CO test-branch	≥ 75%	Growth	The institution already has a restrictive basic savings account and a term deposit account. It is anticipated that some customers will still want these accounts. However, the Team believes that the flexibility and transaction speed of the FASA account will be very attractive to new customers, and AFRI-CO wants to promote the new account among new depositors because it is much more efficient for AFRI-CO. Thus, heavy utilization of this account will make the institution more efficient overall.
3	Total FASA Account Liabilities	AFshs 6.6 million	Growth	This is the total amount of deposits AFRI-CO expects from the 2,400 new accounts. The regular savings account has an average balance of AFshs1,900. Management believes this product will attract a slightly more affluent customer who, because they know that they have access to their account, will maintain less liquidity and increase their savings balances. Management desires a somewhat higher average balance (without moving away from their market niche) to improve their efficiency.
4	% Increase in net branch deposits value attributable to FASA account	≥60%	Growth	Because of the term deposit account with much higher average balances this projection is lower than the 75% of new accounts. Again the Team wants to promote this account to improve their efficiency.
5	Cumulative NPV loss/profit (net of Regular Savings transfers)	Loss is ≤ AFshs 600,000	Financial Results	This is the limit of loss during this period that the Team and management are willing to accept for this product.
6	Bank efficiency	Average transaction time Deposits = 2.0 minutes	Efficiency	Based on the general objective to make the transactions more efficient for both the client and AFRI-CO, the product is to be implemented to meet this specific objective.
7	Bank efficiency	Average transaction time W/D = 2.5	Efficiency	Based on the general objective to make the transactions more efficient for both the client and AFRI-CO, the product is to be implemented to meet this specific objective. Because of verification procedures the Team expects withdrawals to take longer than deposits.
8	Efficiency for customers	Customer in lobby ≤ 6 (six) minutes on average	Efficiency	Based on the general objective to make the product more efficient for the client.
9	Market target Objective	Marketing staff activities result in average 50% of new accounts	Marketing Effectiveness	The Team wants quantitative measures to track the results of the marketing department.
10	Customer satisfaction	Score > 3.5 average on 5-point scale on a PRA rating exercise designed by marketing	Customer Satisfaction	The Team wants a mechanism to determine overall client satisfaction and they are aiming for satisfied clients, within reason given the potential issues incumbent in testing a new product.

Step 4: Preparing All Systems

Many banks and MFIs are expanding operations to include computer-based systems. This can be an important step in expanding operations, but is not always needed, especially if your institution is a small one.

Consider carefully if computers are really needed in your institution. Computers require a constant source of electricity and a reliable source of maintenance, and those using them require specialized training. Though computers can make operations more efficient, for an MFI without these staples – electricity, service, and trained operators – they can easily bring business to a halt.

Our new product will be computer-based. What do we need to think about?

If your new product will operate from computer systems, it is imperative that the systems be in place prior to commencement of the Test. All hardware and software should be fully installed and tested in the relevant teller/cashier stations at least two weeks before the Test begins.[11] Should this be postponed until after the introduction of the product, delays (which are so common with computers and software) could have a disastrous impact on the introduction of the product. This, in turn, could have disastrous future repercussions.

If you are planning a computerized product, be sure that all hardware and software are installed and tested at least two weeks before the Test begins!!

As an example, one MFI used the efficiency of computerization to promote a new product against the rest of its product line. Within two days of commencing the test the system went down due to electrical issues. It was three weeks before the computer was back on line and the operations went back to plan. This had a serious negative impact on the new product test, brought into question the credibility of the institution, and growth was much slower than planned until credibility could be regained.

So that this doesn't happen in your MFI, plan ahead. Make sure that all computer hardware and software has been ordered well in advance. Be certain that everything has been installed properly and tested *at least two weeks* before launching the test [12]. Train all relevant staff in use of the software, and be sure that all problems with the software applications have been solved before the test is launched. Once the software has been proven stable, make sure that no new software is installed unless in a controlled manner.

How do we go about introducing a new computer system?

If the decision has been taken to consider introducing a new computer system. Get advice. Introducing a new computer system is costly – and getting the correct advice is likely to save money. Secondly, follow a systematic process for developing and implementing a management information system, such as the process outlined in the CGAP Management Information Systems Handbook and reproduced below. The handbook can be downloaded from CGAP's website www.cgap.org

[11] This offers several benefits, including those of marketing (customers see the new activity and, especially in an institution that will begin branch computerization with this product, they see advancement) and testing (by having the computers in the actual work site staff can practice in real office conditions). Also, supervisors, managers and other staff can get used to the issues of having computers in the office.

[12] Note that these comments relate to the pilot test branch. The software and hardware to be used with the product test need to be need to be well tested, have procedures manuals and have relevant staff trained on their use more than one month before projected test commencement.

Table 4.1 Steps in Developing and Implementing a Management Information System

Phase 1: Conceptualization
Step 1: Forming the task force
Step 2: Defining needs
Step 3: Determining what is feasible
Step 4: Assessing the alternatives
Step 5: Preparing the MIS needs assessment report

Phase 2: Detailed assessment and design
Step 1: Performing a detailed assessment of software
Step 2: Completing the design
Step 3: Finalizing the MIS plan

Phase 3: System development and implementation
Step 1: Developing the software
Step 2: Setting up the hardware
Step 3: Preparing and revising documentation
Step 4: Configuring the system
Step 5: Testing
Step 6: Transferring the data
Step 7: Training
Step 8: Running parallel operations

Phase 4: System maintenance and MIS audits

Source: Management Information Systems for Micro-finance Institutions Handbook

Thirdly, read through Appendix 4.1 "Key questions that a bank should consider when introducing a new computer system" extracted from the CGAP Handbook.

How can we reduce the risk that the system fails to perform to our expectations?

- *Design your product with care:* The more changes you make to the design of your product, the more changes you are likely to have to make to the set up of your computer software. Use market research to ensure your product meets the needs of your customers
- *Specify your user requirements carefully*: Any IT system designed around erroneous specifications is unlikely to meet needs, this is one of the most crucial steps in developing an IT system
- *Follow a structured IT development process:* Such as the one mentioned above
- *Use risk management procedures*: See *MicroSave's* Risk Management Toolkit for ideas on proactive risk management
- *Specifically consider communications risk*: Many computer systems, which, are feasible as standalone solutions fail in a networked environment in developing countries as communication options were not properly considered and tested during the establishment of the pilot test.
- *Project management process:* Consider employing a professional project manager with experience in IT projects to manage the process on a part time basis.
- *Extensive user acceptance testing*: Extensively test the system with users, using extreme conditions. A user acceptance testing protocol is annexed
- *Audit your system*: Internal audit must test and approve the system before it is used
- *Pilot Test site*: Consider testing your system in a single test site
- *Recognise system limitations*: It is extremely unlikely that any computer system is going to meet every expectation demanded of it, especially given changing needs and expectations

- *Ensure local support*: Ensuring adequate systems and software support is available locally allows the system to be responsive to changing needs.

How do we choose a software package?

Choose a software package that can process the data you need. In a savings product, your system must be able to accommodate at least:

- Specifics of the customer and general ledger account codes
- Flexible interest rates
- Interest accrual and calculation in the manner the MFI states
- Minimum balances and other requirements
- Flexible fee structures (deposits, withdrawals, ledger, "grace" transactions)
- Customer account history generation
- Detailed reporting on customer balances, periodic activity, and aggregate transactions
- Preferably, the ability to input a photo and signature of each customer with account records
- Any additional features required by your MFI

Commonly, MFIs will search for the perfect software package to satisfy all their needs. Also commonly, many institutions are disappointed in that search. This has led to a preponderance of MFIs developing their own software systems. Often they remain unsatisfied and continue in a vicious cycle of software dissatisfaction. This is expensive not only in direct costs, but also in management and staff costs. It can also be expensive in terms of opportunity costs – the MFI simply delays introduction of new products until the system is "perfect" or until they give up, whichever comes first.

But, isn't it important to have the "right" software system?

Yes, it is important to have a system that works for you. However, do not let minor issues hold back your progress *as long as* you are able to track the key data that your MFI requires.

There are many systems in the market, and at most price levels. None of them are perfect, but it is likely that there is at least one available that is sufficient for your institution's needs. Look at those first, and recognize the basic needs that they satisfy.

Using preexisting software packages saves a great deal of time and money. When you are working to introduce new products, the longer you wait to launch your product while you search for the perfect software, the more time your competition has to develop their own new product.

When should we purchase our hardware and software?

You have defined software and hardware needs early in the process for the benefit of objectives and financial projections. For the benefit of cash flow, delay these purchases as long as practical, recognizing that all equipment must be completely in place at least one month before anticipated Pilot Test commencement.

How do we test the system?

Whoever installs the software should be required to extensively test all the installed systems and their interrelation with any other linked systems. This will involve the installer (who may be external to the company), as well as the MIS, audit, accounting, and operations departments. All these should have been involved in the selection and installation of the software with respect to their various mandates. Additionally, at least a month of cashier time should be spent practicing all transactions and all operations (including month- and year-end processing) several times. It is especially important to test the controls designed into the system, for example, controls which prevents deposit accounts being overdrawn.

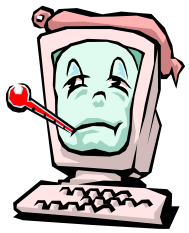
Where should we install our front office computers?

Install the computers so that access is convenient for relevant tellers/cashiers, most preferably in their stations. This means that there must be an adequate power supply to the stations, and that all relevant computers are connected to a printer and other needed peripherals.

In all cases make certain that your computer systems are connected to an electricity protection system the moment they are installed. In areas with constant reliable electricity this will mean a good surge protector. In areas where power is available reasonably consistently, a surge protecting uninterruptible power supply (often called a "back" UPS) is essential to minimize "down time" and to reduce the chances of damage to your computer hardware and software when the power fails. If electricity is often down for more then thirty minutes, an institution will require a generator or inverter *and* a back UPS. In general, the less reliable the electricity in an area, the more expensive it becomes to maintain computer systems.

Computer systems can be frustrating and difficult to maintain. In your area, they may also be items that are frequently stolen. Therefore, it is also important to purchase good quality insurance coverage (against theft and damage) and a quality maintenance agreement from a reputable local firm. If maintenance is not available, you need to re-think the manual systems verses computer system decision.

What happens if the power goes out, and we must shut our computers down for a day or two?



Computer down time can be a great inconvenience to your customers and a source of much cost and frustration to your MFI, so you will need to minimize this as much as possible.

You must be certain that you have a tested and effective *manual* back-up system and any other related guidelines drafted and well-documented as part of the new product operations and procedures manual. At a minimum, you will need to ensure the daily back-up of your computerized systems, and a daily hard-copy printout of customer balances[13].

Our computers are installed. Now what?

Make sure that all relevant personnel receive quality training on the computers, and are comfortable using the computers and software. Relevant personnel must be able to correctly and comfortably input transaction information for any type of transaction, obtain customer information, and prepare beginning- and end-of-day processing *before* launching the product test. Supervisors must be able to manage the computer security controls system and back-up and restore data. This information can be conveyed through quality staff training (see Step 7: Training the Relevant Staff).

Once you have the system installed and tested, it is appropriate to have it reviewed by both your internal and external auditors.

What should we think about if we only need to adapt our existing system?

In many cases, a computerized system can be adapted to accommodate a new product. Either a new module needs to be designed into the system, or the new product needs to be set up on the computer system.

[13]Do this in very small but legible fonts with multiple columns per page to minimize the amount of paper involved in this process.

Where a new module needs to be designed into the system, the MFI should go through the steps outlined in Table 4.1. It is important to take the time to consider alternatives, if the existing system is towards the end of its lifecycle, it may be more appropriate to opt for a new computer system than design a new module.

If a product needs to be set up on an existing system – it is important to establish as early as possible after the design phase that the system can accommodate the features of the product prototype. Normally each product has a master record where the parameters of the product are defined. For most products with simple charging structures, it will simply be a matter of setting up appropriate parameters. However, there can be difficulties, particularly with conditional pricing structures (for example a savings product which allowed 2 free withdrawals per month after which a charge is levied on each withdrawal).

The second area to examine on your existing system is reporting. A new product may have different reporting requirements than existing products in this case, either

a) A new report will have to be designed using the existing computer system's report generator; or
b) Reports can be designed using specialized external report generating software which interrogates the existing computer databases; or
c) New reports have to be coded into the system

Our institution just cannot afford computer systems. Are they really necessary?

No. It is a common belief that all MFIs need computerized systems. This is clearly untrue and many large MFIs operate well without such systems. If you do not have the infrastructure or the computerized systems, and you can appropriately manage your accounts, then a manual system is a reasonable solution.

That's great. We will continue using a manual system. What issues do we need to think about?

Just as with a computerized system, you should ensure that complete documentation of your manual system has been drafted and approved before the test. This must have detailed sections addressing transaction handling in both the front and the back office (see Step 6).

Be certain that all appropriate account numbers and transaction codes have been assigned for each related type of transaction[14]. Make sure that all relevant staff are well trained in your new product system, and that they know all the relevant codes and account numbers. If the account is interest bearing, provide tellers/cashiers with the correct formula and a calculator so they can calculate it. You will also need special files near the tellers/cashiers in which to maintain customer records, and these records should be protected from fire and theft.

Introducing or adapting a computer system sounds very complicated, where could we get additional information?

The following documents are available on the Internet, and provide a fuller discussion of the complex issues involved in introducing or adapting a computer system than is possible in this toolkit.

CGAP Technical Tool #1: "Management Information Systems for Microfinance Institutions", Charles Waterfield and Nick Ramsing (www.cgap.org)

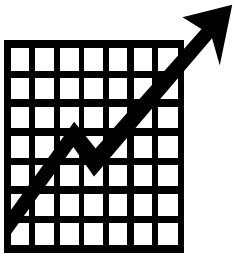
[14] These include at least: Account numbers for the deposit liability, fee income and interest expense accounts, as well as codes for deposits, withdrawals, fees, interest, fee reversals, interest reversals.

"Banking Institutions in Developing Markets: Volume 1: Building Strong Management and Responding to Change", Ikkramullah Khalifa in McNaughton Diana ed.
(www1.worldbank.org/finance/CDRom/library/docs/mcna1/mcna107e.htm)

Check List: Have you . . .

- ✓ Conceptualized, defined, developed and implemented your systems in a systematic manner?
- ✓ Identified risks associated with the new systems and set in place risk management procedures to respond to these?
- ✓ Installed all needed computer hardware and software systems?
- ✓ Connected your computer systems to an electrical protection system (surge protector or back UPS)?
- ✓ Installed and tested all the hardware and software that you require to manage the new product?
- ✓ Made sure that all appropriate staff-persons are well trained and comfortable with the new computer system?
- ✓ Prepared a manual backup procedure for your computerized transaction processing?
- ✓ Confirmed your new systems with both internal and external auditors?
- ✓ Assigned comprehensive account numbers and transaction codes?
- ✓ Developed a backup system for electronic data or security system for your manual data?

Step 5: Modeling Financial Projections



Your MFI wants all new products to be profitable, and profitability is one of the most important objectives for your new savings product. Given this objective, keep in mind that it is never appropriate to make a decision that will significantly impact the financial stability of the institution – like launching a new product – without first assessing its likely financial impact on the institution. This step will help your Team to analyze the potential impact your new product will have on the financial position of your institution.

How does a financial institution usually make financial projections?

When projecting the geographical expansion, or even merely the continuation, of an existing product, management looks at the historical results of the product. If they are projecting for continuation of the product for the same market, they can extrapolate, based on its historical results, to get an idea of how the product is likely to behave in the future. If they are projecting for geographical expansion of the product into a new market, management can sometimes replicate, with minor adjustments, the initial stages of the product in the old market, to get a rough idea for growth in the new market.

This is a new product. How can we prepare financial assumptions if we have no experience with this product?

When a company decides to test a new product, it has no historical data to draw upon in order to project costs and revenues. With a new product, your Team has no product-specific historical data. Thus, projecting for a new product is more difficult than projecting for an existing product. A new product also requires more careful monitoring by the Team once the test is in progress because the projections are based more on assumption than history. However, during the pilot test the institution quickly builds history on the account and becomes better able to predict future outcomes.

Many of the costing factors are easily determined, such as the direct costs of staff, training, fixed assets, and others. Indirect costs and overheads can be very complicated to assess and require expertise in costing methodologies. To do this properly, institutions will need to have an accommodating chart of accounts and applied allocation tables. Though this is a difficult process, it is critical for understanding the full costs of your product. There are several projections that can and should be made.

- ***Transaction time projections*:** This is part of defining specific objectives for the new account (see Step 3). Once there is a basic understanding of how the transaction will work, it is a relatively easy matter to project the average transaction time and to project the paperwork cost per transaction. This could be done as a paper walkthrough projecting the time required for each step of the transaction. The projection can be adjusted once the full procedures are written, and adjusted yet again once there is actual history of client transactions.

- ***Cost of funds*:** Depending on the desired interest rate policy for the new account, a cost of funds can be estimated. From the return on the MFI's regular investments (based on the institution's investment policy), your Team should be able to set a reasonably close interest earnings rate.

- ***Earnings on deposits*:** By combining the return on regular investments with your MFI's investment policy, your Team can also project the earnings on customer deposits for the new account.

> For example, your institution's investment policy may limit investment in loan assets to 60%, liquid investments to 20%, and cash as at least 20%. Thus, your actual yield on the total deposits will be less than the average yield on investments.

- ***Deposit volume and value growth assumptions*:** Ask yourselves: At what pace will the account progress, and how much will people actually deposit? No one knows for sure, but educated assumptions can be made. To make these assumptions, your Team can examine several factors, which may include the following:
  - Growth rates from similar products introduced previously.
  - Growth rates for similar products in a similar market that might be available from different institutions (companies with an international network could potentially utilize this option).
  - Market intuition of operational and marketing staff.
  - Results of market research done with respect to the product.

As noted above, the reality test must be applied to these projections. If your MFI has been operating for five years and has one thousand customers with an average balance of $100, it is unlikely that in six months there will be a gain of one thousand more customers with an average balance of $1,000, unless such an increase can be *realistically* justified. The key at this point is to have *reasonable and justifiable, though conservative, assumptions*.

Once the Test has commenced, the Team will be able to obtain actual data rather quickly through close monitoring. But be careful! The "curiosity effect" – customers purchasing your product simply because they are curious about it, but cancel it later on – may skew early data. Keep a careful eye on continuing data.

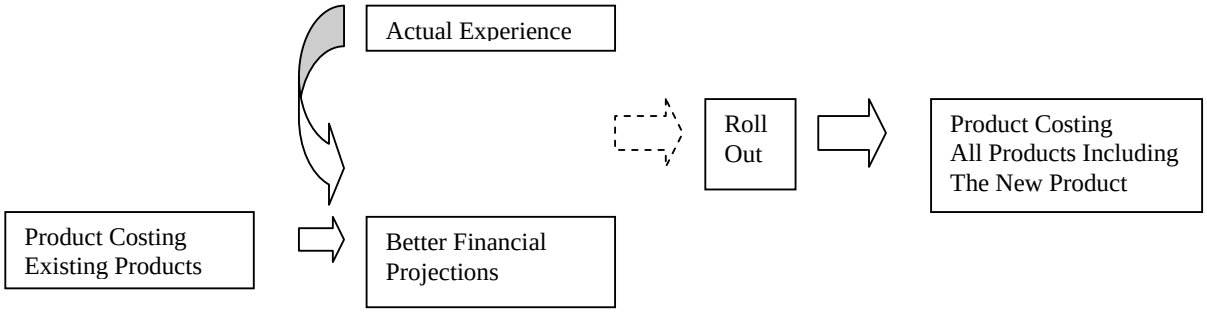
Overall, actual data will supplant the historical estimated values. When that happens, and your Team re-projects the results, then the evaluation criteria from the Testing Protocol can be applied to the new numbers.

Should we prepare financial projections for one year, or longer?

Because new products are unlikely to reach their full potential within the first year, the financial projections are usually prepared for between three and five years. This gives a broader picture of the potential for the product, and provides a better base for managerial decision-making.

What is the relationship between product costing and developing a financial projections model?

The link between product costing and the development of financial projections is explored in the diagram below, an initial product costing of existing products can be used to establish the ratio of direct to indirect overheads - and this ratio can be applied to the financial projections. As the pilot test progresses actual experience is compared with the financial projections and used to update the assumptions underlying the model. It is only after the product has been rolled out that the institution can produce a product costing to determine the actual profit or loss of a product. Remember that losses are likely early in the product life-cyle as the product takes time to get develop profitable volumes of business, at this stage it is the products trend towards profitability, which is more important.



The Link Between Product Costing and Financial Projections

***MicroSave's* Toolkit for Costing and Pricing Financial Services**

Why bother to cost products? In the right environment, the benefits of product costing are considerable. Identifying sources of profitability (and losses) allows a financial institution to focus on promoting their winning products, and redesigning those less profitable. Understanding of processes facilitates improvements in efficiency and a detailed understanding of cost structures allows more informed pricing decisions to be made.

MicroSave's work with its Action Research Partners (ARPs) has clearly demonstrated that product costing interacts strategically with a huge and diverse range of business areas including pricing, efficiency, outreach, the design of incentive schemes, the identification of the most suitable product mix, marketing, customer service, staffing patterns, profit centre accounting and budgeting.

The *MicroSave* Toolkit for Costing and Pricing Financial Services, demonstrates allocation based product costing, and provides key insights into the three principle methodologies for pricing products, competitive pricing, cost based pricing and demand based pricing.

How can we assess the financial impact on our institution?

This exercise allocates the array of fixed and variable costs of the new product to the line items on a deposit product-costing model. Such a model helps management to make appropriate decisions about the full cost of a new product to the institution.

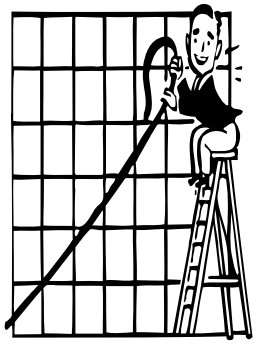
In this exercise, the Team can determine an appropriate, profit-producing **cost/price mix** (operations, investments, interest, fees, and restrictions).

The cost/price mix, when combined with realistic growth projections, will show whether or not the product is likely to be profitable within the parameters set by the TOR, the objectives and/or the protocol. If the projections show that the product is not likely to be profitable, changes can be made to the design of the product *before* the Test. The price you set for the product should produce a profit for the institution.

Once the projections are agreed upon, the price is set, and the Test is implemented, the projections can be tracked against actual results and adjusted periodically according to the Testing Protocol.

Doesn't everyone set prices for profitability?

They certainly should, but often fail to do so. In determining the proper revenue/expense mix[15], it is not uncommon for MFIs to develop a mix that ultimately results in a financial burden on the institution. This can happen due to several reasons.



√ Most common among them is excitement about the product, which leads to overestimating customer volumes. This results in lower-than-anticipated actual volumes, and lower earnings to cover fixed costs.

√ Another common reason is management worries that customers will not accept the interest rate offered or the fees charged with the account, and thus they perceive that the product will die for lack of customer interest. Their response is to offer high interest rates and charge minimal-to-no fees to attract customers. However, this leaves them with an unprofitable product.

[15] The income with regards to a savings product is derived from fees to the customer and earnings on the investment of the customer's deposits. The expense is related to the operational costs for the MFI to market, manage and service the accounts as well as the interest paid to the customer on their deposits.

Given the nature of the sources of the projections it is advisable to commence with a set of customer prices (fees) and institution costs (interest) that clearly provides an adequate level of profit for the institution. It is always easier to reduce the price and increase the income to the client, once you find that you realistically can without harming the profitability of the product, than it is to increase the fees and reduce the interest rate once the product is offered.

This sounds like a lot of work!

Step 5 is a critical step and will likely be the most time consuming. It is very important that the assumptions be well derived, and the financial projections as accurate and realistic as possible.

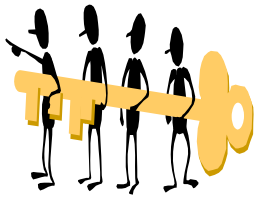
How can we obtain a deposit product-costing model?

There are several models available in different regions. One that has been used extensively by the author is the one developed by *MicroSave* for work with its action research partners. That model is available from *MicroSave* for product-costing analysis.

What are the key issues that we should look for in a savings based financial projections model?

A comprehensive financial projections model will have several key features. Look for these when choosing a model. They include:

- Basic factors for growth of volume and value of the account
- Detailed cost factors for all related operations, including staff and set-up costs as well as fixed assets acquisition (for cash flow and depreciation calculations).



- A factor to calculate close-outs
- A discount factor to calculate the impact of inflation
- The ability to make general periodic cost adjustments (such as regular scheduled salary increases).
- A factor to account for product cannibalization (when deposits leave one account for another within the same institution, resulting in a net zero change in institutional deposit liabilities).
- Costs by transaction type (cost of deposit, withdrawal, and other transaction paperwork)
- Flexibility in setting interest rates depending on balance amounts and duration
- An allocation for indirect costs based on the MFI's indirect cost rate. (Indirect costs are those general costs that the company incurs related to its overall operations that cannot be easily allocated to one product or another. These might include a portion of the annual audit, or a portion of the maintenance costs of the headquarters photocopier, or an unallocated portion of the accounting department's costs to cover the costs of accounting for the product.)
- A mechanism for not only tracking month-to-month break even, but for tracking the cumulative net present value of the product so you can determine when the product has actually broken even.
- The data input should be tied to a graph or series of graphs to make it more easily understandable.
- The ability to track income from investments, fees and any other relevant earnings.

Could you give an example of how to assess the financial impact of a new product?

Take our example, the Afri-Co Microfinance Company (ACM).

Remember that ACM already had a Regular Savings Account that utilized passbooks, and customers used it because it was the only one offered. Their customers had indicated that they wished for faster service, more flexibility in withdrawals (better access to their accounts), and to be rid of the passbook. AMC management recognized that any new product they offered would have to be both efficient and profitable.

The Pilot Test Team visualized an account that would allow customers unlimited withdrawals, be computer-based and therefore passbook-free (and more efficient), and would have a profitable fee structure.

1. Their regular account was passbook-based, and they did not have enough computers to operate a computer-based accounts system. This meant purchasing and installing computers, providing computer training to staff, and purchasing an adequate software system. The costs of new computers, software and training were calculated.

2. Next, a new account meant designing and printing the appropriate deposit and withdrawal slips, as well as marketing materials and customer identification documents. The costs of marketing materials and stationary were calculated.

3. The Team recognized that unlimited access to the account would likely mean a higher volume of customers, but they calculated that the efficiency of computer-based accounts would more than make up for the time normally spent making passbook and ledger entries by hand, and seeking Supervisor approvals. The team also decided that the product could be offered from the same cashier windows as other products. These decisions helped the Team to decide that additional staff was not required.

4. Even though there would be no additional wage costs, there would be staff training costs. All staff relevant to the new account would have to be trained in how the account works, and in the use of the computers and software. The costs of training were calculated.

5. These, and all other costs listed in the costing model, were calculated. Once all costs were input into the costing model, the Team knew what the costs would be for the new account.

6. The next step was to calculate the fee structure so that the new account would be profitable. The Team worked to create a price mix of interest, fees and restrictions that would make the product profitable.

7. After the appropriate price mix was determined, the Team then had to apply the reality test. *Their central question was: Could they sell this product to targeted customers with those particular features and the pricing structure?*

What did the AMC Pilot Test Team decide about the product's profitability?

The AMC Pilot Test Team, after careful consideration, decided that they could not sell their product with the initial fees, interest, and restrictions structure. It was just not affordable for their clients. They had to adjust the product.

What did they do next?

Their initial question at this point in the process was: *Can we sell this product to targeted customers with these features and this pricing structure?* This is what every Pilot Test Team must ask at this point in the pilot testing process. It is extremely rare that the initially determined pricing mix is the right one. The entire process must be reassessed, and the appropriate pricing mix will eventually be determined.

Can we sell this product to targeted customers with these features and this pricing structure?

1. First, they reassessed expenditures and decided to cut the cost of marketing. After looking at the adjusted figures, the product was still "unmarketable" in their estimation.

2. Next, they decided to create a tiered structure for interest rates paid to customers. They created a four-step hierarchy to allocate different interest rates to four different ranges of deposit balances. This would result in higher balance customers receiving a higher interest rate.

3. Then, they had to make assumptions about the volumes anticipated within the different levels. Their new assessment of the product was that it was now marketable.

4. They knew that they would have to track the testing data very carefully and would likely have to return to the assumptions once actual data was available, but at this point they believed that had a marketable product.

How would this look when it is modeled?

Using the *MicroSave* costing model, we can present a good view of how the plans for Afri-Co Microfinance Company would work in terms of a profitable product. Consult the tables provided at the end of this Step.

Table 5.2: ACM/FASA Account Assumptions represents the start of the projections activity. In the left-hand column, the different income and expense source areas and key data sets are defined. In the center column, the specific values for the assumptions are input. These are directly linked to the rest of the projections model that is presented in Table 5.3.

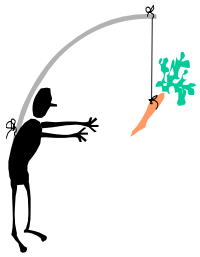
It is important that when your organization completes the assumptions page the *specific reasons* for each assumption are listed in the far right "comments" column.

Table 5.3: ACM/FASA Account Projections shows the impact of each assumption and provides an opportunity to input period-by-period assumptions, such as the number of new accounts. This table calculates the ultimate cumulative net present value. Note that this sample shows projections only to month 15. Actual projections were calculated to month 60, as is shown in Table 4.4, where basic month-to-month break even occurs in month six and the cumulative NPV breaks even in month 60.

Table 5.4: ACM/FASA Cumulative Net Present Value Graph charts the results, showing break-even on a month-to-month basis at around month six and break-even on a net present value basis in month twenty. These were satisfactory to the Board and complied with the Terms of Reference.

What if we cannot determine a pricing mix that customers will accept?

It may be that your institution will be unable to arrive at a pricing mix that works. It may be that the cost of the product is just too high, and that the pricing mix needed to render the new product profitable will not sell. If that is the determination of the Team, then it is best at this point to cancel the Pilot Test.



It might be that the desired product is just out of reach for your institution.

The Pilot Test Team **must not be afraid to terminate the pilot test plans at this point,** if the product will not satisfy *both* institutional and customer objectives!!

It is important to understand how changes in key assumptions can affect profitability.

Sensitivity analysis is used to understand how much a given change in a key assumption will affect the results reported by the financial model. For loan projection models some of the key assumptions are number of accounts, average loan size, pricing, portfolio at risk, levels of dropout, cost of capital, etc. For savings projection models the key assumptions might be, the number of accounts, transaction times, investment yields, product price, and the volume of transactions.

Sensitivity analysis is sometimes called "what if" analysis, the reason is that it is always possible to frame a "what if" question in sensitivity analysis, for example *what* would the impact on profitability be *if* treasury bills fell from 10% to 7%, holding everything else the same?

Answering this question is simply a matter of changing the investment rate variable on the financial model from 10% to 7% and noting the results. For example:

Interest income falls

Annual Summary	Year 1	Year 2	Year 3	Year 4	Year 5
Income – Interest Treasury Bills 10%	655,240	1,661,709	2,405,452	3,218,781	4,181,460
Income – Interest Treasury Bills 7%	458,688	1,163,196	1,683,817	2,253,147	2,927,022

And the net income becomes

Annual Summary	Year 1	Year 2	Year 3	Year 4	Year 5
Net Income Treasury Bills 10%	(104,208)	1,019,357	1,590,277	1,971,899	2,968,806
Net Income Treasury Bills 7%	(300,780)	520,845	868,641	1,006,265	1,714,368

Another example could be to look at different levels of efficiency – *what* would the impact on profitability be *if* transaction time decreased by 50% from two minutes for a deposit and three minutes for a withdrawal to an average of one minute for a deposit and one and a half minutes for a withdrawal. Changing the transaction time variables on the financial model produces the following results:

Annual Summary	Year 1	Year 2	Year 3	Year 4	Year 5
Net Income Original Efficiency	(104,208)	1,019,357	1,590,277	1,971,899	2,968,806
Net Income High Efficiency	273,136	1,761,545	2,563,193	2,944,816	3,941,723

In both cases of increasing efficiency and decreasing interest rates, there is a significant impact on projected profitability. In this example, sensitivity analysis has allowed us to identify two key assumptions, efficiency and interest rates.

During the *planning stage* the team must ensure that key assumptions are validated and were there is doubt key assumptions *must be set conservatively*. During the *implementation stage* of the pilot test the team should remodel the financial projections whenever a key variable changes.

It sounds like doing the financial projections is going to take a long time. How long must we spend on this exercise?

Developing reasonable financial projections is time consuming and very, very important. A good, but broad estimate of the time to prepare the projections is about 5 – 10 person days, depending on the state of the MFI's MIS systems. But *remember*, although you do need to have confidence that a new product will yield a positive financial impact on your MFI before testing the product, do not allow work on financial projections to delay the Test for too long. As long as you have reasonable data, gathered in a responsible manner, you can move forward. Once the Test starts you will quickly populate your projections with *data based on reality* and thus gain a more accurate perspective.

The important issues here are that there must be timely and relevant monitoring, and the MFI must commence a Test with the authority and the will to alter or terminate the product when real data shows serious problems. These "serious problems" were defined in Step 2: Developing the Testing Protocol.

Now that the projections are "completed," what should we do next?

Now is the time to finalize product targets and set up month-to-month projections leading to these targets, as seen in Table 5.1. This will provide a concise monthly tool to help the institution track its progress with the Test.

Check List: Have you . . .

- ✓ Obtained a projections model to project the financial impact of the product on the institution?
- ✓ Included reasonable assumptions in your projections?
- ✓ Made sure that the projections show the product at least breaking even on a month-to-month basis within the pre-determined time frame?
- ✓ Made sure that the projections show the product obtaining a positive cumulative net present value within the pre-determined time frame?
- ✓ Completed the month-to-month data on the objectives table?

Table 5.1: AMC Fast Access Savings Account Objectives: Completed

AFRI-CO MICROFINANCE COMPANY FAST ACCESS SAVINGS ACCOUNT (FASA) OBJECTIVES

(NOTE: This sample covers only the first six months of the twelve-month test. Parts of this document should tie into the costing and sensitivity analysis)

Item	Objective	Objective Target End of Test (M12)	M1 Status		M2 Status		M3 Status		M4 Status		M5 Status		M6 Status	
			Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
1	Net Number of FASA Accounts	2,400	150		325		500		700		950		1,200	
2	Percentage of FASA accounts from new AFRI-CO test-branch customers	>/= 75%	75%		75%		75%		75%		75%		75%	
3	Total FASA Account Liabilities	AFshs 6.6 million	375,000		812,500		1,250,000		1,780,000		2,435,000		3,100,000	
4	% increase in net branch deposits value attributable to FASA account	60%	40%		45%		50%		55%		60%		60%	
5	Cumulative NPV loss/profit (net of Regular Savings transfers)	Loss is </= AFshs 560,000	(180,000)		(320,000)		(420,000)		(500,000)		(570,000)		(630,000)	
6	Bank efficiency	Average transaction time Deposits = 2.0 minutes	3.0		3.0		2.5		2.5		2.5		2.0	
7	Bank efficiency	Average transaction time W/D = 2.5	4.0		4.0		3.5		3.5		3.0		2.5	
8	Efficiency for customers	Customer in lobby </= 6 (six) minutes on average	8.0		7.5		7.0		7.0		7.0		6.5	
9	Market target Objective	Marketing staff activities result in average 50% of new accounts	40%		45%		50%		55%		55%		60%	
10	Customer satisfaction	Score > 3.5 average on 5-point scale on a PRA rating exercise designed by marketing	3.5		3.5		3.5		3.5		3.5		3.5	

Table 5.2: ACM/FASA Account Assumptions

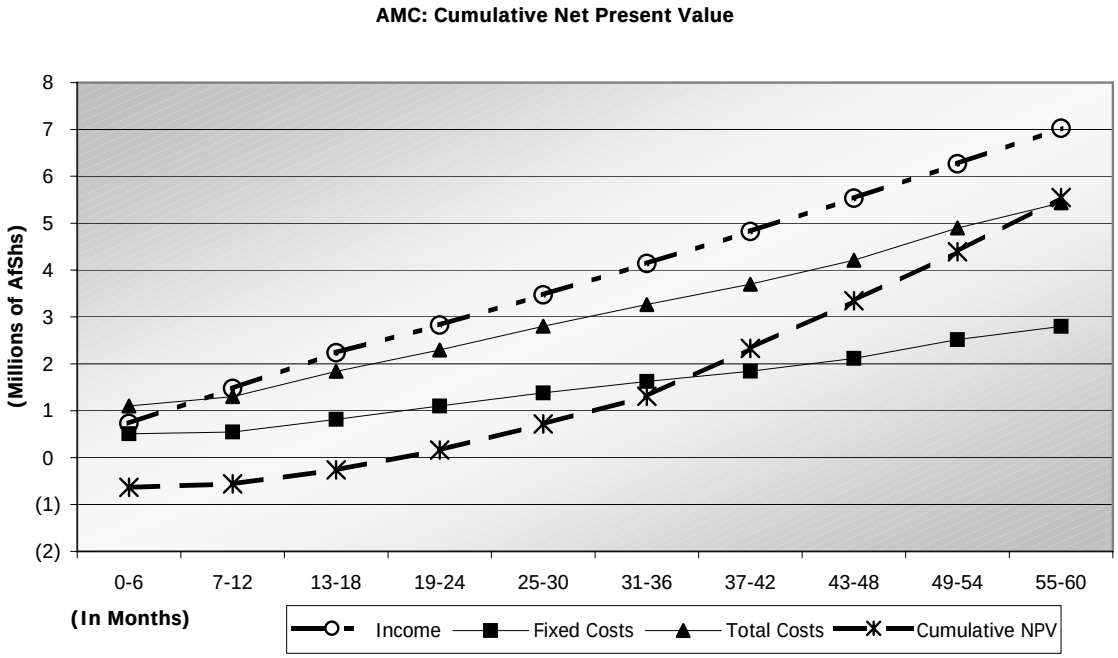
Afri-Co Microfinance Company Fast Access Savings Account Assumptions (Currency is AFshs)		
Transactional demographics:		**Comments**:
Accounts Closed in Period (as % of total accounts)	0.15%	Estimate based on regular savings activity
Annual Increase in Savings Balances	13.0%	Estimate based on regular savings activity
Percentage Available for investment	70.0%	Limit set by Board of Directors
Monthly Transactions Per Account:		
Deposits	2.0	Based on actual transaction experienced by the Regular Savings account at the test branch plus a factor to account for anticipated increased activity with the FASA account.
Withdrawals	3.0	Same as above
Staff Time on Transactions (minutes)		
Deposits	2.0	Estimated based on review of procedures from Step 3
Withdrawals	2.5	Estimated based on review of procedures from Step 3
% Regular savings accounts transferred to FASA	25%	It is not a primary objective to transfer these accounts but to gain new clients, however it is expected that a significant number of current customers will find the FASA more appropriate to their needs.
Average Regular savings balances transferred to FASA	500	A conservative estimate that transferring customers will transfer the minimum opening balance from the Regular to the FASA accounts. Subsequent funds assumed to be new money.
Interest and fees earned from accounts:		
Interest Earned on Investments	12.0%	Actual current yield on investments
Account Opening fee	200	Set to cover account opening costs
Ledger Fees (per quarter)	0	Set at zero because customers do not see a relation between these fees and service
Deposit Fee	10	Covers transactional costs plus a labor premium
Withdrawal Fee	20	Covers transactional costs plus a labor premium
Account closing fee	150	Covers transactional costs plus a labor premium
Account Costs to the institution:		
Interest rate paid on accounts in 1st Tranche (> 5,000)	2.5%	Tiering structured to provide incentive for higher balances
Interest rate paid on accounts in 2nd Tranche (>50,000)	3.5%	Tiering structured to provide incentive for higher balances
Interest rate paid on accounts in 3rd Tranche (>100,000)	5.0%	Tiering structured to provide incentive for higher balances
Account Opening Documentation	200	Includes cost of customer identifier and paperwork
Deposit Documentation	2	Actual stationary cost
Withdrawal Documentation	3	Actual stationary cost
Daily Closing Documentation (per cashier)	150	Actual stationary cost
Account Closing Documentation	50	Actual stationary cost
Institutional Set-up and On-going Costs:		
Equipment (computer/printer/back UPS)	150,000	Covers computer, printer, software and UPS for one teller
Furniture/fittings	10,000	Covers cost for new cashier station set-up
Years to Depreciate Equipment	3	Set by policy
Years to Depreciate Furniture/Fittings	5	Set by policy
Office Rent: Additional space required if staff is >	3	Given space availability in average branch and test branch
Additional Office Rent per quarter	60,000	Average additional cost for expansion space
Additional Staff Monthly Salary bill	25,000	Cashier wages and benefits
Computer Maintenance per quarter per machine	1,000	Based on cost of service contract
Refresher Training (Annual)	20,000	Based on regular cashier training schedule
Induction Training	10,000	Based on expected cost of one week new cashier training if the training includes ten participants
Indirect Cost Allocation (as % of total direct costs)	30.0%	Indirect cost rate based on the total institution's budget for the testing period.
Discount Factor	8.0%	Based on Central Bank inflation projections
Anticipated annual staff increases	10%	Average annual increases using Inflation plus premium

Table 5.3: ACM/FASA Account Projections

Afri-Co Microfinance Company Fast Access Savings Account Projections Months 1-60 (In thousands of Afshs where appropriate)						
	Months:	0-3	4-6	7-9	10-12	13-15
	Variables:					
New Accounts In Period		500	701	600	600	700
Regular accounts transferred	25%	125	175	150	150	0
Accounts Closed in Period	0.15%	0	1	2	3	4
Number of Accounts		500	1,200	1,798	2,395	3,091
Average Net Balance per Account	13%	2,500	2,581	2,665	2,752	2,841
Projected Net Savings		1,250,000	3,097,200	4,791,670	6,591,040	8,781,531
Percentage Available for investment	70%	875,000	2,168,040	3,354,169	4,613,728	6,147,072
Average Balance transferred	500	500	500	500	500	500
Amount of Regular deposits transferred		62,500	87,500	75,000	75,000	0
Cumulative Regular transferred		62,500	150,000	225,000	300,000	300,000
Net non-Regular Deposits		1,187,500	2,947,200	4,566,670	6,291,040	8,481,531
% Regular only balances		5%	5%	5%	5%	3%
Percent Value of Accounts:						
Below Interest Earning Balance		60%	60%	60%	60%	50%
In 1st Tranche (> 5,000)	2.5%	32%	32%	32%	32%	25%
In 2nd Tranche (>50,000)	3.5%	6%	6%	6%	6%	20%
In 3rd Tranche (>100,000)	5.0%	2%	2%	2%	2%	5%
Check = 100%		100%	100%	100%	100%	100%
Quarterly Transactions:						
Deposits	2.0	3,000	7,200	10,788	14,370	18,546
Withdrawals	3.0	4,500	10,800	16,182	21,555	27,819
Staff Time on Transactions (hours/day)						
Deposits	2.0	1	3	5	6	8
Withdrawals	2.5	2	6	9	12	15
Total Hours/day		3	9	14	18	23
Number of months	0	3	6	9	12	15
Number of Staff		1	2	2	3	3
Equipment	150,000	150,000	150,000	0	150,000	0
Furniture/fittings	10,000	10,000	10,000	0	10,000	0
Cumulative Equipment		150,000	300,000	300,000	450,000	450,000
Cumulative Furniture/fittings		10,000	20,000	20,000	30,000	30,000
Direct Expenditure - Fixed						
Equipment Depreciation Charge	3.0	12,500	25,000	25,000	37,500	37,500
Furniture/Fittings Depreciation Charge	5.0	500	1,000	1,000	1,500	1,500
Computer Maintenance	1,000	1,000	2,000	2,000	3,000	3,000
Office Rent (if additional space required)	60,000	0	0	0	0	0
Additional Staff	25,000	75,000	150,000	150,000	225,000	247,500
Head Office/Manager Monitoring		23,750	24,000	23,485	22,963	25,683
Initial Training		100,000				
Induction Training	10,000	10,000	10,000	0	10,000	0
Refresher Training	20,000				20,000	
Marketing		50,000	25,000	15,000	10,000	10,000
Other						
Total Fixed Direct Expenditure		272,750	237,000	216,485	329,963	325,183
Direct Expenditure - Variable						
In 1st Tranche (> 5,000)	2.5%	2,500	6,194	9,583	13,182	13,721
In 2nd Tranche (>50,000)	3.5%	656	1,626	2,516	3,460	15,368
In 3rd Tranche (>100,000)	5.0%	313	774	1,198	1,648	5,488
Account Opening Documentation	200	100,000	140,200	120,000	120,000	140,000
Deposit Documentation	2	6,000	14,400	21,576	28,740	37,092
Withdrawal Documentation	3	13,500	32,400	48,546	64,665	83,457
Daily Closing Documentation	150	10,125	10,125	10,125	10,125	10,125
Account Closing Documentation	50	0	50	100	150	200
Other						
Total Variable Direct Expenditure		133,094	205,769	213,644	241,970	305,451
Indirect Cost Allocation	30%	121,753	132,831	129,039	171,580	189,190
Total Costs		527,597	575,600	559,168	743,513	819,824

Afri-Co Microfinance Company Fast Access Savings Account Projections Months 1-60 (In thousands of Afshs where appropriate)						
	Months:	0-3	4-6	7-9	10-12	13-15
Income						
Interest	12%	26,250	65,041	100,625	138,412	184,412
Account Opening fee	200	100,000	140,200	120,000	120,000	140,000
Ledger Fees (per quarter)	0	0	0	0	0	0
Deposit Fee	10	30,000	72,000	107,880	143,700	185,460
Withdrawal Fee	20	90,000	216,000	323,640	431,100	556,380
Account Closing fee	150	0	150	300	450	600
Other		0	0	0	0	0
Total Income		246,250	493,391	652,445	833,662	1,066,852
Less: income from regular accounts transferred	12%	1,313	3,150	4,725	6,300	6,300
Adjusted Total Income		244,937	490,241	647,720	827,362	1,060,552
Total Net Income		(281,347)	(82,209)	93,277	90,149	247,028
Adjusted Net Income		(282,660)	(85,359)	88,552	83,849	240,728
Total Net Cash Flow		(428,347)	(216,209)	119,277	(30,851)	286,028
Discount Factor	8.0%	0.98	0.96	0.94	0.93	0.91
Net Present Value		(419,780)	(207,561)	112,120	(28,691)	260,285
Cumulative NPV		(419,780)	(627,341)	(515,221)	(543,912)	(283,627)
ADJ NPV		(421,067)	(210,585)	107,679	(34,550)	254,552
Cum NPV (adjusted for account transfers)		(421,067)	(631,652)	(523,973)	(558,523)	(303,971)

Table 5.4: AMC/FASA Cumulative Net Present Value Graph



Step 6: Documenting the Product Definitions & Procedures

Your Pilot Test Team has carefully defined all product objectives based on the desired product characteristics, the financial projections, and the MFI's need for the product to not only break even, but be profit-generating as well.

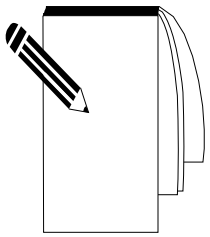
Now your Team is ready to document the product definitions and procedures.

Why should we document product definitions and procedures?

Clear documentation is necessary so that those who implement the product Test will fully understand both the policies surrounding the product, and the procedures for its operation. Policy and procedure definitions must address all areas that affect the product or are affected by the product, including:

- Front and back office operations
- Technical operations
  - Accounting
  - MIS/IT

Must this be a formal document?



Yes! In fact, before beginning the pilot test it should be in "near final draft" form. This is so that it will be comprehensive enough for the implementation of the test, yet still a "draft," so managers are comfortable making reasoned adjustments. The realities of the product test will teach new lessons on implementation, which should then be used to update and further clarify the draft.

What format is best?

Your MFI should already have a formal Policy and Procedures Manual, and it is best from the beginning to draft the new product policies and procedures in the same format. When the test is completed, the "near final draft" form of the new product policies and procedures can be presented to the appropriate authorities for approval (this is likely your Board of Directors), and it will then become part of the institution's formal Policy and Procedures Manual.

What kinds of issues should the document include?

This document should address the policies and procedures that are relevant for the new product. It should cover both Front and Back Office Operations and key accounting procedures.

What should we include in Front Office Operations?

This section should detail all front office procedures, including all procedures that the cashier or teller, as well as the supervisors, will follow. Include detailed instructions on how to use the product-related forms, such as deposit and withdrawal slips, passbooks, or other related documents. Document in detail the procedures for each different process relating to the product. With a savings account, for example, these processes would include:

Savings Account Activities Requiring Formal Procedures:

- Account opening
- Deposits (including cash, check or other payment instruments)
- Withdrawals
- Interest calculation and posting (if paid on the product)
- Account inquiries
- End-of-day procedures
- Replacement of lost passbook, card, or other account identifier
- Correction of posting/entry errors
- Imposition and posting of penalties
- Account closure
- Supervisor approvals and authorizations

Could you give an example?

An example of the procedure for a deposit transaction is presented in Example 6.1. This procedure would be documented and included as part of the Pilot Test Policies and Procedures Manual.

Example 6.1: Procedures for Deposits Transactions:

2. Procedure for Deposits
   - 2.1: The customer completes a deposit slip found:
     - 2.1.1: In the lobby on the customer convenience table
     - 2.1.2: At the customer service desk, or
     - 2.1.3: At the teller stations, with a counterfoil (i.e., 2 copies) indicating the:
       - 2.1.3.1: Amount of the deposit,
       - 2.1.3.2: Name of the customer, and
       - 2.1.3.3: Customer's account number

       (A complete sample of the deposit slip is D-1 in the sample section of these procedures, and the deposit slip stationary code is FASA-D-4.)
   - 2.2: Customer hands cash/cheque, FASA Card, and deposit slip to the cashier.
   - 2.3: The cashier:
     - 2.3.1: Confirms the deposit by counting cash, or by reviewing check as per policy and setting them in a secure place on the cashier work table.
     - 2.3.2: Prepares cash-in ticket.
     - 2.3.3: Confirms the details of the deposit slip by comparing with FASA card details.
   - 2.4: Cashier calls up Option 3 "Enter Deposit" on the FASA-Soft transaction software system. Enters information from the deposit slip onto the computer form. Complete all required fields. After entry, confirm and then press "enter." A copy of input screen is provided as Sample D-2.
   - 2.5: Cashier stamps the deposit slip and counterfoil with the dated cashier stamp.
     - 2.5.1: Gives the stamped counterfoil and FASA card to the customer (the transaction is now complete for them)
     - 2.5.2: Puts the original deposit slip in the transaction holder, places the cash or check in the cash drawer. The transaction is now complete for the cashier.

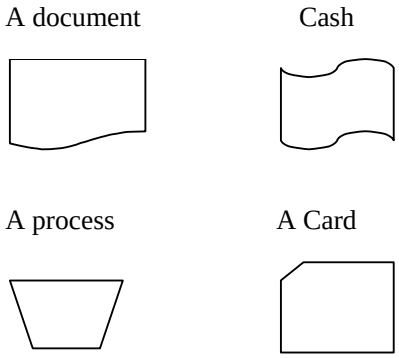
What if we have not documented our procedures before?

Many MFIs and small banks have systems and procedures that are not comprehensively documented, as they have developed over time in response to changing circumstances. Against this background documenting procedures can appear a daunting task. However, a few steps can be taken to develop process maps that describe quite complex procedures using a combination of symbols and words.

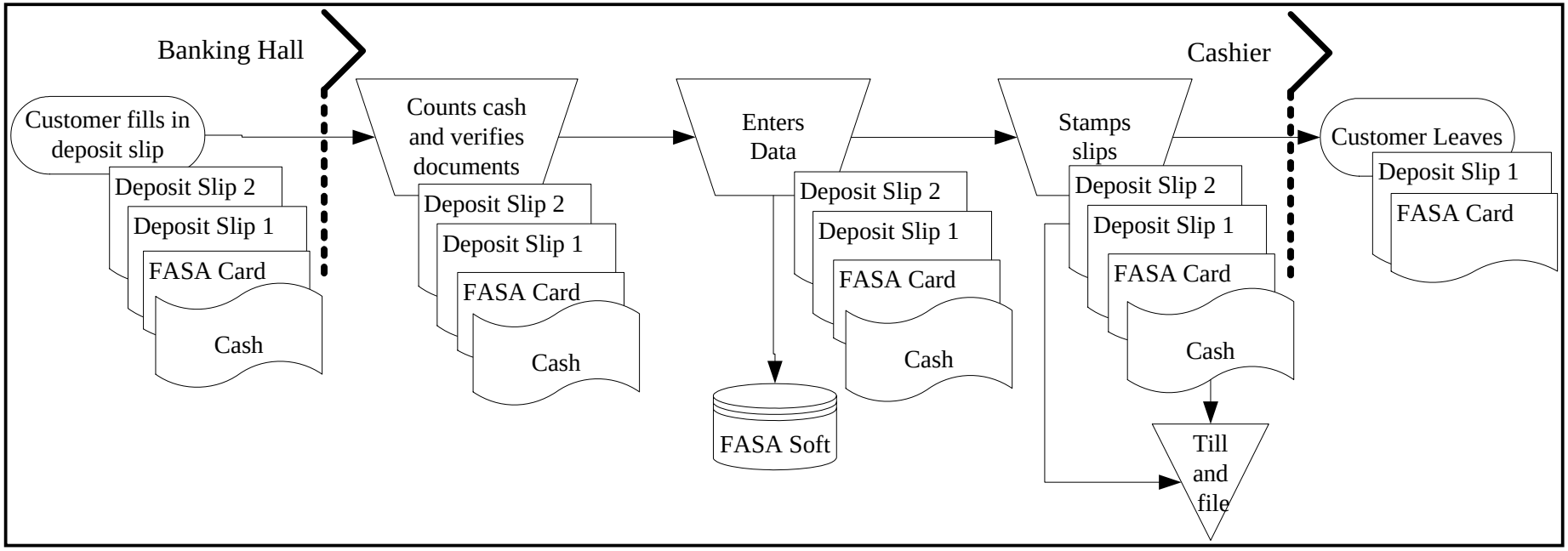
An example of a process map is given in Example 6.2 - which develops Example 6.1. Note how the process map has been extended to include a table that identifies risks and controls associated with particular parts of the transaction. This level of detail is intended for senior management only.

Process maps can be developed from observing existing procedures in the case of existing products, or through mapping out envisaged procedures in the case of new products. Process maps can be used directly for training staff and as a step in creating a written policies and procedures manual.

Symbols used in process mapping



Example 6.2 Process Map 1: FASA Deposit Account – Cash Deposits



Process	Customer walks into the banking hall and completes deposit slip in duplicate showing amount, name and account number	Customer hands deposit slips, cash and FASA Card to teller	Cashier counts cash, compares cash to deposit slip, compares deposit slip to FASA Card and prepares cash in ticket	Cashier calls up "Enter Deposit" on FASA Soft. Cashier enters deposit slip information into the required fields.	Cashier stamps deposit slips, returns deposit slip 1 to customer, with FASA card, places cash in cash draw and files deposit slip 2 in transaction holder
Risk		Fraud risk that customer deposits fake notes into his / her account	Transaction Risk that teller deposits incorrect amount or in incorrect account	Transaction risk that teller enters amounts incorrectly on FASA Soft	
Control		Tellers are trained to recognise fake notes.	Cash must tally with deposit slip, cashier has to stamp and sign deposit slip.	End of day cash to system reconciliation	

What else should we include in our procedure manual?

This section should detail how transactions will be input into the MIS system and should describe, in detail, the accounting transaction. This section should also specify all required codes and/or account numbers.

An example of the account number and code listing section of a Pilot Test Policy and Procedures Manual follows in Example 6.3.

Example 6.3: Account Numbers and Code Listing

Transaction Type:	Transaction Code:	Account Number:	Transaction type:
FASA Cash Deposit	400	2-100-40	CR
FASA Check Deposit	401	2-100-40	CR
FASA Transfer Deposit	402	2-100-40	CR
FASA Deposit Reversal	409	2-100-40	DR
FASA Withdrawal	410	2-100-40	DR
FASA Withdrawal Reversal	410	2-100-40	CR
FASA Deposit Fee	435	3-401-40	CR
FASA Withdrawal Fee	436	3-402-40	CR
FASA ID Fee	438	3-400-40	CR
FASA Fee Reversal	439	3-409-40	DR
FASA Interest Posting	420	4-250-40	DR
FASA Interest Reversal	429	4-250-40	DR
FASA Marketing Costs		4-530-40	DR
FASA Pilot Test Expenses		4-585-40	DR

Transaction code series 400 is allocated for the FASA account (300 for the Fixed Deposit, and 200 for the regular savings). These codes match the codes for the other account types (for example: a regular savings withdrawal is code 210).

Account numbers are in the format X-YYY-ZZ, where X is the general balance sheet category (Liability = 2, Income = 3, and Expense = 4), YYY is the specific account number for the general transaction (ID fees = 438 for all accounts), and ZZ is the designator for the FASA account (regular savings is 20, fixed deposit is 30).

How relevant is our choice of systems to the procedures manual?

Note that all of these procedures are relevant regardless of the type of systems in operation. Whether your system is computerized, manual, or hybrid, it is critical that all relevant staff understand their role and the specific details of the activities they are implementing. Management Information Systems must be in existence regardless of the institution's complement of computers. The procedures should simply reflect the reality of the resources, and infrastructural strategies within the organization.

Check List: Have you . . .

- ✓ Written/mapped-out the specific policies and procedures related to the new product?
- ✓ Prepared the policies and procedures in "near final" form?
- ✓ Drafted the policies and procedures in the same format as your institution's Policies and Procedures Manual?
- ✓ Covered all areas that affect or are affected by the new product, such as the relevant teller/cashier area, marketing and technical operations?

Step 7: Training the Relevant Staff

Even with all the planning and preparation done in Steps 1 through 6, without proper training of staff the product Test likely will be disastrous. Your staff will be only as good as they have been trained to be. Nothing makes a worse impression on your customers than staff that do not know the product they are trying to sell, do not know the proper information to offer customers, or do not know how to assist the customers in opening or transacting new product accounts. Quality training is the key to quality service.

Why bother with training?

Effective training is essential to ensure:

1. Standard application of policies by all staff in accordance with the manuals
2. High-quality customer service
3. Prompt, complete and accurate recording of transactions
4. Optimal use of MIS to inform management decisions
5. Effective, consistent and persuasive marketing
6. Informed risk control through internal audit and systems

Who on our staff should receive new product training?

All relevant staff – meaning, all staff that have anything at all to do with the new product – must be trained to understand the product activities related to their particular responsibilities. Generally, "relevant staff" includes:

- Tellers/Cashiers
- Supervisors
- Managers
- Accountants
- MIS staff
- Marketing staff
- Internal auditors

What should they be trained in?

There are three basic training modules that you will need to prepare:

1. Policies and Procedures
2. MIS
3. Marketing

How long should the training last, and how detailed and extensive should it be?

Some of this training will be detailed and extensive, like the training for tellers/cashiers and supervisors. Some of the training will be more cursory, like that for managers, accountants, MIS, marketing and internal audit staff who need an overview of the product details and the marketing.

In financial institutions, training usually has to be conducted "after hours" – in the evenings and/or over weekends. It is therefore important to prepare the training sessions and materials in advance and focus on communicating the key messages as quickly as possible. Many MFIs use a mixture of brief training sessions

in the evening followed-up with hands-on "learning-by-doing" sessions the following day (see AMC Fast Access Savings Account Pilot-Test Training and Launch Plan below). Remember, every hour that you have staff away from their regular duties is an hour of cost to the MFI, and trainers should always remain cognizant of this.

It is also important to involve Head Office staff and to provide them some overview training on the new product – this will reduce the likelihood of the new product being misunderstood/under-valued by staff not directly involved with it. There should be one person from each area in this overview training. Those trained should return to their departments and brief their co-workers. From that briefing they will, within their departments, finalize their activities concerning the new product. For example, the internal audit attendee would return to her department and brief the staff there. From the briefing the audit staff would develop the plan for their audits of this product in the test site.

The different staff outlined above will need different levels of training – broadly as outlined in the table below.

Staff	Policies & Procedures	MIS	Marketing
Tellers/Cashiers	Comprehensive	Comprehensive	Comprehensive
Supervisors	Comprehensive	Comprehensive	Comprehensive
Managers	Comprehensive	Overview	Overview
Accountants	Comprehensive	Comprehensive	Overview
MIS staff	Comprehensive	Comprehensive	Overview
Marketing staff	Comprehensive	None	Comprehensive
Internal auditors	Comprehensive	Overview	Overview

We have six cashiers in our institution, but plan to use only two in the Test. Should we train just those two on the new product?

When a test is just beginning for a new product, you may need only a few cashiers trained to service the account. However, it is inefficient to train one or two cashiers at a time. Plus, by training only the initially needed staff there is a risk to the MFI and the test. It is best to train several additional cashiers as well. In the worst case, these extras can replace any cashiers who do not work out. In the best case, you have cashiers trained and ready for the next site in the expansion.

Who should conduct the training?

Your MFI might be large enough to have a staff person, or even a department, whose job it is to design and conduct staff trainings. If so, then this is the person who should design and conduct training for all staff.

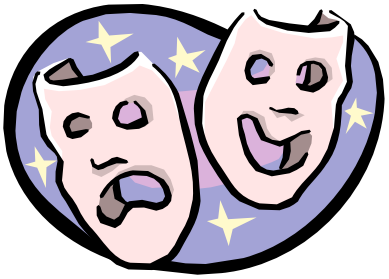
If your MFI is small, your Pilot Test Team should decide together who is the most appropriate person to design and conduct staff training. This is likely to be the Product Champion, or the Team Leader.

AMC had a pilot-test training team of three, drawn from Operations, MIS and Marketing, who (having completed the training programme for internal audit and senior management in Head Office) went to the pilot-test branch for a week. There they conducted a mixture of after hours and hands-on training at the pilot branch site.

Should our training program include "role playing"?

Absolutely! Role-playing is an excellent way for staff to practice interacting with customers in a non-threatening environment. The trainer should coordinate several "mock" transactions with and between staff. In other words, one staff member can pretend to be a new customer while another staff member pretends to assist the customer through transactions and situations as though they were real.

Each transaction type should be role-played several times with "customers" creating difficult problems or questions for the staff member. These transactions include: completing the account opening documentation, making a deposit, withdrawing, preparing the identification, charging fees, and whatever other situations are relevant to the product.



Situations such as transaction errors, lost ID, client complaints about a cashier, and convincing a customer to open the new account should also be role-played several times. It is often helpful to have the trainer participate in the first few role-play scenarios as either the customer or the staff person. This allows the trainer to show the staff-in-training how the role-playing exercise should work.

Another helpful strategy is for the trainer to encourage trainees to create difficult issues so that the whole training group can work through solutions. This method should be repeated until the relevant staff members are completely comfortable with the product, its procedures, and how to work with customers regarding the product.

We are using computer-based systems, and our staff has not used computers before.

If computer systems are being used, make sure that your staff receives the appropriate computer training, both on the hardware and related software applications. This training might extend to management, accountants, and internal auditors. This is achieved very effectively using simulated transactions.

Our staff has been trained on the operations and procedures. Anything else we should think about?

Yes. Make sure that, for the first few live transactions, the trainer is nearby to assist staff in those first few encounters with customers. This will help your staff feel more comfortable and less "alone," and will ensure that customers receive the quality of service they expect from your institution.

Example 7.1 AMC Fast Access Savings Account Pilot-Test Training and Launch Plan

Day/date	Activity
Friday	▪ Pilot-test training team travel to pilot-test branch
Saturday Office Hours	▪ Preparation including: - Collection of promotional materials - Review of training materials - Verification of computer systems/back-up etc. - Logistics – photocopies/transport/refreshments ▪ Product launch preparation - Administration and logistical arrangements - Finalize launch activity plan - Issuing invitations to key branch clients and local personalities ▪ Finalize advertising and promotion media and locations
Saturday – After Office Hours (4 hours: 2.00 – 6.00p.m.)	In-workshop training - ▪ IT and operations policies and procedures training for all tellers, supervisors and managers
Sunday (4 hours 2.00 p.m. – 6.00 p.m.)	In-workshop training - ▪ Marketing Fast Access Savings Account training for all

Day/date	Activity
Monday – Office Hours	▪ Start of a two-day marketing activities to build up to product launch – reward plan/ personal visits to target institutions and individuals/put up posters and issue brochures/make intensive announcements about the launch day ▪ Start in-branch marketing – put up posters/announce launch date and raffle to existing clients as they come to bank/ start issuing brochures ▪ Hands-on training in Marketing – selling Fast Access Savings Account to existing clients ▪ Hands-on training in IT and operations – offering Fast Access Savings Account to customers subject to demand
Monday – After Office Hours (6.00 pm – 8 pm)	In-workshop training ▪ Marketing Fast Access Savings Account for all – Specifying marketing activities for the branch ▪ IT and operations – front office activities to practice Fast Access Savings Account operations
Tuesday Office Hours	▪ High-level marketing – continue two-day build up to product launch - Hanging posters - Tellers offering Fast Access Savings Account to customers per demand - Manager/Training team make visits to priority markets – employers, small/medium entrepreneurs for direct marketing - Put up posters in strategic locations - Intensive announcements about the product launch and reward plan
Tuesday – After Office Hours	▪ Product launch planning/review meeting for all - review progress towards the launch - Allocate responsibilities for product launch activities - Finalize in-branch arrangements – put up buntings, banners, set stage - Review reward plan
Wednesday - Office Hours	**Launch:** Highest Level Marketing - Band/loud music at the branch - Bunting - Speeches by local dignitaries/AMC senior manager - Distributing brochures at the branch - T-shirt presentation to the every new customer - Raffle for all customers who take a Fast Access Savings Account within 2 months of launch - Offer Fast Access Savings Account in banking hall - Stand outside the branch to talk to enquirers ▪ Tellers offering Fast Access Savings Account to new customers – per demand - Keep tally sheet to monitor inquiries - Give flyers for raffle to customers transacting Fast Access Savings Account - Offer Fast Access Savings Account at inquiry desk - Distribute brochures from inquiry desk
Thursday - Office Hours	▪ Continued high level marketing Fast Access Savings Account at branch - Distributing brochures at the branch - T-shirt/cap/calendar presentation per schedule (subject to stock) - Continue raffle for all customers who take Fast Access Savings Account with 2 months of launch - Offer Fast Access Savings Account in banking hall - Pilot team on standby to assist branch as/where necessary and make observations of branch staff performance
Thursday – After Office Hours	Product launch/Branch marketing review meeting for all ▪ Review launch – what worked well, what did not, what actions? ▪ Plan marketing activities for the branch – review branch targets and agree on activities to attain them ▪ Review branch need for further support – computers, UPS, training, staffing, stationery, promotion and agree on a viable plan to provide
Friday	Pilot-test training team depart

Check List: Have you . . .

- ✓ Identified who will design and conduct staff training?
- ✓ Designed well-documented training programs for:
  1. Policies & Procedures,
  2. MIS and
  3. Marketing

  in comprehensive form for tellers/cashiers and in overview form for other management and staff?
- ✓ Made sure your tellers/cashiers received complete training before the test is launched?

Step 8: Developing Customer Marketing Materials and Methods

Your MFI has a new product, and your Team has developed a testing protocol, defined objectives, identified systems, modeled the financial projections, as well as documented the procedures, and trained the relevant staff. The next step is "getting the news out." That's what customer marketing materials are all about – getting the news out to customers that you have a wonderful, new product that will solve some of their problems. It also includes all those unique activities and stationary that relate to customer service.

How do we start?

First of all, design and document an overall Marketing Plan for the Test. The Marketing Plan can consist of a simple, written outline of:

- Background:
  - Macro-Environmental Analysis
  - Micro-Environmental Analysis
  - Institutional Self-analysis
- Conclusions and Key Assumptions
- Strategic Objectives
- Core Marketing Strategies
- Key Product Policies
- Activities and Results Expected
- Administration and Control/Budget
- How the Results will be Tracked and Analyzed

See *MicroSave*'s Product Marketing Strategy Toolkit for a detailed description and example of a Marketing Plan.

Setting strategic marketing objectives

The strategic objectives of the Marketing Plan should reflect and complement the objectives of the Pilot Test. In addition, they should also be SMART: Specific, Measurable, Achievable, Reasonable and Time-bound.

Example 8.1 AMC's Fast Access Savings Account Marketing Plan's Strategic Objectives

The **Strategic Objectives** of the Fast Access Savings Account are to:

- Break even within 24 months of the start of the Test
- Maintain customer time in the branch to less than ten minutes
- Enlarge the overall customer base by 10% over two years

Develop core marketing strategies and messages

Selling products is made considerably easier when approached in a systematic manner. There is a relatively straight-forward method for preparing the key messages for a product marketing strategy. This approach is built on taglines, ultimate selling propositions and benefit statements – see the Example 8.2 Roles of Different Core Marketing Strategy Components for the roles of each of these components and how they fit together. Each of these components should be developed on the basis of market research to assess clients' needs and expectations, and then quickly tested on the target market using Focus Group Discussions prior to the pilot-test.

Benefit statements are central to the sales effort. Every marketing book relates that the customer looking for a drill is not really looking for a particular piece of equipment - he or she needs a hole in something. Your customers are looking for the end result. It is important to remember that customers do not buy products and services; they buy benefits or value they expect to derive from them. It is therefore important to list out the key product attributes and translate them into benefits to the customer. These benefits should reflect the results of your MFI's market research and understanding of the needs of the target market.

Please see the *MicroSave*'s "Product Marketing Strategy Toolkit" for more details on these issues.

MicroSave's Product Marketing Strategy Toolkit

The Product Marketing Strategy includes the development and differentiation of products. It is a process of continually and systematically assessing needs of the market and its different segments to support product development and innovation that caters for those needs in the most feasible and profitable manner. Selling products is made considerably easier when approached in a systematic manner. There is a relatively straight-forward method for preparing the key messages for a product marketing strategy that is built on taglines, ultimate selling propositions and benefit statements. An MFI's sales strategy will depend on its products and its target market. These will dictate the balance between pull-and-push based strategies to selling the products.

This toolkit covers:
1. Definition of Marketing and its Role
2. Examining the Product – What Do Customers Want?
3. Benefit Statements/Unique Selling Proposition
4. Product Brands and Tag Lines
5. Exaggeration and Expectations
6. Positioning
7. Market Segments
8. Customer Service
9. Marketing Plans

Example 8.2: Roles of Different Core Marketing Strategy Components
(remember that these can be applied at the corporate or the product level
– this example illustrates the concepts at a product level)

Core Marketing Strategy	Example from AMC	Role
Brand Name	Fast Access Savings Account	Assurance or warranty of the product's quality and values, the integrity of the product. Well-established brands sell faster and easier.
Tagline	"*Unlimited Withdrawals – Fast!*"	The idea that must whiz through customers' head when they hear the brand name. A succinct statement of the product's Unique Selling Proposition and benefits.
Unique Selling Proposition	"The safe account that offers fast, unlimited withdrawals at the customer's convenience"	The compelling benefit that shouts – "no other product is like this!" The choice between service differences that you want to communicate to the market. It is the difference that makes a difference
Benefit Statement	The Fast Access Savings Account ("*Unlimited Withdrawals – Fast!)*" is ***the account for the saver who wants a secure place to save with fast and easy access to his/her money***. The **Fast Access Savings Account** ("*Unlimited Withdrawals – Fast!*") offers the following benefits: > It is a **Fast**: a computer operated account so ***you no longer have to wait in long lines***; > It is **Safe** since if you lose your card, no one can use it to withdraw money and TSB is a stable government-backed bank so ***your deposits are secure***; > It is **Easy** since the minimum balance is Tsh.5,000 and customers can deposit and withdraw money any time they need; and if they need to transact away from their Premium branch they can transfer money onto their passbook and use that, so ***it is flexible and responsive to your needs***; > And **Interest** is paid at the end of each year so ***you earn money on your deposits***.	Based on, and expanding/ explaining the Unique Selling Proposition. The basis of your advertising copy for brochures, posters etc. as well as standard marketing lines, Frequently Asked Questions etc.
Positioning Statement	AMC's Fast Access Savings Account provides fast, flexible savings account for our existing passbook savings account holders, institutions looking for an efficient way of paying salaries, traders and savings groups offering a convenient account in a secure bank. Unlike other products in the market AMC's Fast Access Savings Account allows customers to deposit and withdraw any amount as often as they want so they can make unlimited withdrawals – fast. These customers will be served by our friendly, professional staff and flexible IT system, which together will ensure that all their needs are met by AMC – the bank of the future.	The internal focused statement of the marketing perception staff are required to plant in customers' minds. Speaks of the orientation of the company/ product. How you wish the company/product to be perceived – the core message you want to be delivered in every medium in order to influence the perceptions of your company/product. Should be tattooed on the inside of your staff's heads!!

What about the sales strategy?

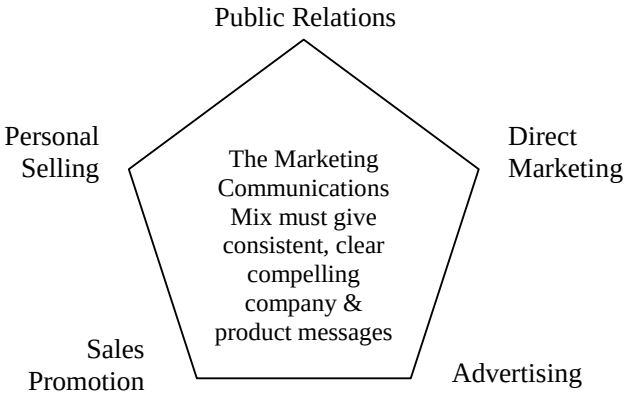
An MFI's sales strategy will depend on the product and its target market. These will dictate the balance between pull- and push-based strategies to selling the products. A **pull-based** strategy uses big spend on advertising and promotion to increase demand. This pulls the customers to demand the product on the basis of:

- Advertising
- Public relations
- Sales promotions
- Direct marketing

A **push-based** strategy uses a sales force to push the product through the following channels:

- Personal selling
- Direct marketing

The options in striking the balance between these strategies can be shown graphically as follows:



How should we begin to develop our sales strategy?

The best way to approach Step 8 is as a Team with special inputs from the people who conducted the market research. Discuss who your target market is and what it is that makes them respond, and develop the sales strategy based on that.

For instance, if people prefer a personal approach, go to the markets or other places where people gather and promote the product there. If there is a serious illiteracy problem in your Test market, use pictures instead of text in the promotion. If people must take something home to discuss it with a spouse, make sure you have a good, simple brochure. Always make sure promotional documents are in the local language. The important point is: communicate the message in a way that your potential customers will understand.

How about promotional materials?

It is important to decide what sorts of printed **promotional materials** you need. Among the most common include:

- "Handouts" (brochures etc.), and
- Display materials (posters, 3D attention grabbers, stickers, buttons)

The message of your promotional materials should focus on the benefits the product offers the customer – and these benefits should be based on the results of the market research you conducted to design the product prototype in the first place. Do not simply publish a list of the product features or components. The product was designed to respond to specific customer needs (as well as institutional needs). Use those needs and your solution to them (the benefits of the new product) to promote the product.

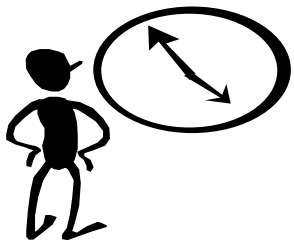
The design of these materials should be tested with Focus Groups before printing them in large quantities. The objective of the promotional materials is to get potential customers to at least inquire about the product at the branch, and at best utilize it. You cannot be reasonably sure that the promotional materials you have designed will have that effect on potential clients until you test them.

Promotional materials, once designed, tested and adjusted if necessary, should then be printed in sufficient quantity to satisfy 200% of the anticipated demand in each replenishment period (the time it takes to order, print, and get materials to the testing site). These materials must be printed and received *before* the Pilot Test is launched.

Can you show us an example of "benefit-focused" promotional materials?

Sure. If, for example, the customers want a more efficient savings product, do not advertise simply "the product is fast". Try something like this:

Example 8.3: Marketing the Product



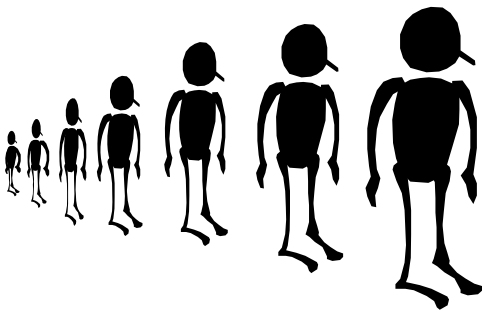
How long did you wait at the bank for your last withdrawal?

With our new "Fast Access Savings Account" we at AMC will have you back at your business in just fifteen minutes!

Another example: use a picture of two banks, one with a line that goes as far as the eye can see, and the other, yours, that has only one or two people, and ask, "Which bank is yours?" Make sure your institution name is on the one with the short line.

Or, try something like this:

Example 8.4: Marketing the Product



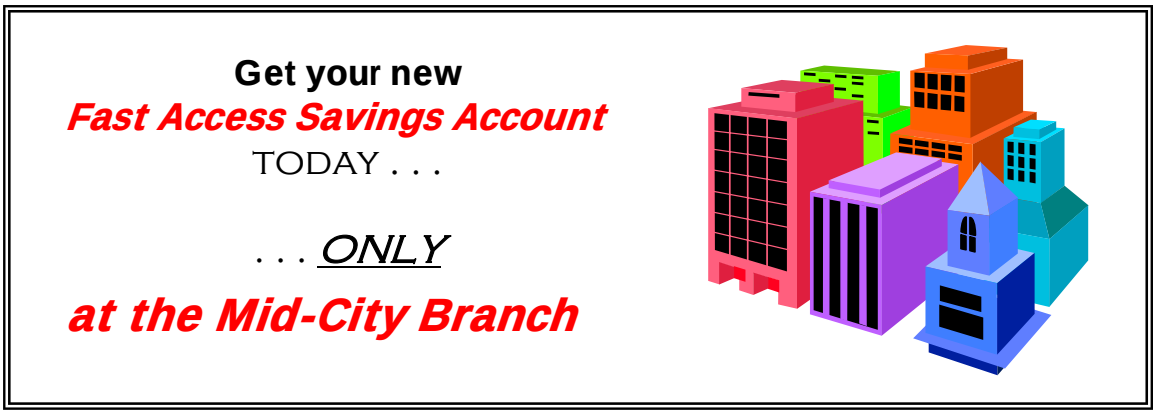
Is this how you want to spend *your* time?

We know your time is as valuable as your money. Save with Afri-Co Microfinance Company, and you won't spend all your time waiting!

Of course, once you get customers in the door you will need to prove your advertisement, so make sure your service is as fast as your promotional materials claim. **Do not advertise anything that you cannot provide**. If you mention your competition in your promotions, make sure that your claims about them are true, and that your product really *is* better.

It is important to remember that on all promotional materials you should indicate clearly that you are running a Test and in which branch you are running the Test. Do all you can to minimize the market confusion that related branches might suffer from your marketing campaign. See Example 8.6.

Example 8.5: Marketing the Product



Do we want everyone to know about our new product?

Not necessarily. When promoting a product in a Test you will need to be somewhat careful. Of course, you will want people in the Test market area to know about the new product. At the same time, you do not want to be overwhelmed in the first few days of the Test by too many unplanned-for customers. Too many customers can result in delivery problems that will give the initial market a poor impression of the product. If your customers have a poor experience, they will convey this to all their friends, and this can mean disaster for the product.

Also, do not promote the product in non-Test Branch markets of your MFI. If you do, existing customers in those areas may become angry that they were not offered the product, and this can create serious problems for non-Test Branch staff. As an absolute bare minimum ensure that all the staff in non-Test branches are aware of the product and the Test so that they can respond to enquiries in an informed manner.

Finally, do not have too large a promotion with lotteries and raffles and expensive give-aways. Save those for the full rollout. Do not create a situation in the Test where customers are using the new product for reasons significantly beyond their actual interest *in the product itself*. If this happens, it is difficult to measure the real popularity of the *product*, as opposed to the *marketing*. The Test results will be unreliable, and create a false impression of the market and institutional expectations that will not be sustainable on rollout.

But with a new product, shouldn't our marketing efforts be particularly aggressive?

Not in a Pilot Test situation. It is tempting to give the Test product every advantage through strong marketing efforts, but it is more important for the Test to mirror as much as possible the expected *sustained* marketing of the product in roll-out.

While all normal mechanisms of the institution's marketing policies should be employed, it is important that the regular marketing program of the MFI be translated as closely as possible to the Pilot Test marketing.[16] Thus, for example, if your MFI normally uses posters and brochures to advertise its existing products, this should be done for the Pilot Test product also. The Test should measure the level of customer interest in the new product given relatively *normal marketing practices*. When, and if, the product gets to a full rollout phase, that is the time for a large marketing kick-off.

[16] G. Gruenwald. How to Create Profitable New Products, (Chicago: NTC Business Books, 1997). p. 340.

What can we do to "get the news out"?

First, review how your MFI normally markets an existing product at the Test site, and copy that effort for the new product. This is likely to include product information available in brochure form, an informational poster on the wall, or an announcement banner in the office. Your MFI probably has a special set of forms for each account (account opening documentation, transactional and account identifying documents).

Second, your Team should differentiate its marketing strategies based on the general focal market for the new product – current customers, or new customers. Your Team made decisions about market focus when defining the objectives in Step 3. These decisions have a large impact on how marketing strategy is developed and implemented.

How should we focus our marketing efforts?

Depending on the product, current customers might be the main focus. For example, you might be testing a much more efficient mechanism for processing customer transactions. By getting customers to shift into the new account, you may save significantly on transaction costs and the interest rate structure, while at the same time improve customer service. However, this might not bring any new money into the MFI. In fact, you may actually increase your overall costs if existing customers simply shift accounts, for example, from an existing low-activity, no-interest savings account to a new high-interest three-month fixed deposit.

A different product might call for focusing your marketing efforts on attracting new customers and new money.

After your Team has decided on the focal market, look at how you inform people within the test market catchment area of product changes, and at how your MFI markets products to new customers. Consider having occasional localized public meetings. Encourage staff to promote the MFI in the markets and on the streets. The manager should be making purposeful marketing visits to potential customers to inform them of the MFI and its products and services. All these activities are appropriate for the new product.

If your focus is on attracting new customers, you might want to have public meetings among potential customers to promote the product. Hang informative posters in the catchment area. Unless there is a highly localized media that can promote your new product strictly within the test market, it is unlikely that the media would be an appropriate mechanism for test promotion. Even if it is localized, you might want to wait until the second or third month to begin that level of advertising. This gives you time to get the initial problems out of the implementation before so many more are informed about it.

No matter what kind of marketing you do to advertise your new product, it should be designed to address the specific market that the new account is designed to attract. Not all of these areas are appropriate for every product or every market.

What else do we need to do?

Finally, talk to your customers *and* your front line staff about the product. Do not just rely on the numbers. Your customers will tell you, if you ask the right questions, what they really think of your product (and do not forget to ask those who have chosen *not* use your product – they can give you very valuable information). Focus Group Discussions has been shown to be very successful in this area. Your staff can also be a valuable source of information about product acceptance. Do not overlook their insights.

Operational Stationery

First, decide what kinds of printed materials you will need for the new savings product. Primarily this will include **Operational Stationery**.

The operational stationery for the new product – account opening documents, deposit and withdrawal slips, the actual account identifiers, and any others – should be easily distinguished from that of other products. Commonly, this is done using different colored paper. It should also be simple and efficient for customers to complete. Do not make customers answer the same question more than once, and eliminate needless information requests. Ask only what information is necessary for processing and security.

Operational stationery can also be used to gather critical marketing data. Savings account opening forms should be used to gather data about the client and his/her business as well as where s/he heard about the product and what prompted s/he to use it.

Example 8.6 Data Collection Using Operational Stationery

AMC Collects the following information on its account opening forms using a very simple "tick-the-box" survey instrument.

Demographic profiles:
Marital status
Age
Education
Income
Employment
Where the client lives
What languages they speak
What is the client's level of education
What newspapers or magazines do they read
Do they have TV or radio
What they do for entertainment etc.

Product usage patterns:
Which products do they use in AMC
Which products do they use in other financial service organizations
For what do they use their current financial services

Satisfaction with AMC:
Efficiency
Politeness
Ability to communicate clearly
Value for money

We are ready to get started.

Good. Use *Worksheet 8.1: Marketing Activity Plan* as the basis of a checklist for the implementation your marketing strategy. ***Note:*** You will, of course, need to adapt and expand this into a detailed checklist.

Worksheet 8.1: Marketing Activity Plan

Activity	Responsible Party	Timing	Resources	Expected Results	Actual Results
Design and order customer transactional documents (account-opening forms, paying-in and withdrawal slips)					
Design and order posted and/or display materials, brochures, buttons and other handouts					
Posting of fliers					
Event advertising (bazaars, shows, market, meetings)					
Informal public marketing by tellers/cashiers					
Design marketing results tracking tool					
Implement tracking tool					

How will we know if our marketing is successful?

A good way to find out is to track the results of the marketing efforts to determine if customers are responding to the marketing or something else. This can be done in several ways. You can ask customers verbally ("Where did you hear about this savings product?"), and record the answers in a logbook. You can also ask customers to complete a questionnaire with basic informational data.

You can also conduct Focus Group Discussions. Though they require special skills, these qualitative techniques can be superior to the questionnaire type assessments because they allow for the possibility of gaining greater insights and allowing for a better exploration of issues.

Is there a less expensive, less skill-intensive way to track marketing success?

Yes. A simple and inexpensive way to track whether or not the marketing is successful at getting customers in the door is to have a short questionnaire included as part of the account opening documentation. A sample follows in *Example 8.7: Marketing Assessment Questionnaire*. If the questionnaire is included as part of the account opening process, you should obtain reasonably reliable information quickly and cheaply.

Example 8.7: Marketing Questionnaire

1. Did you come to Afri-Co Microfinance Company specifically to open a Fast Access Savings Account?
   a. Yes
   b. No, I already had another account

2. Do you have another account at AMC?
   a. Yes
      i. Regular Savings (Balance = _____)
      ii. Our-Way Loan (Balance = _____)
   b. No

3. Where did you learn about the Fast Access Savings Account?
   a. Posters
   b. AMC staff (Name: _____)
   c. Another AMC customer (Name: _____)
   d. Meetings (Where? _____)
   e. Marketplace Event (which? _____)
   f. Other _____

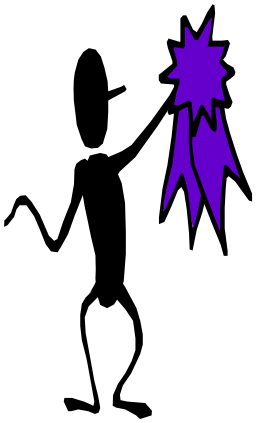
4. Where do you stay?
   a. Town 1
   b. Town 2
   c. Village 1
   d. Village 2
   e. Other _____

5. Where do you work?
   a. Town 1
   b. Town 2
   c. Village 1
   d. Village 2
   e. Other _____

The first question will help management know if customers have been attracted to the MFI because of this account. This data quantifies the satisfaction of an objective related to numbers of new customers opening a new account versus current customers opening new accounts.

The second question provides basic activity data that enables the tracking of customer levels by account type and balance. Once you have some data on customer activity, this information provides a good idea of who is opening this new account.

The third question tracks the effectiveness of the marketing efforts. This is critical for any MFI that is spending money on advertising. With some historical data, management can identify the most effective advertising media for reaching potential customers.



This question also aids in the identification of specific staff persons or customers to whom the MFI might want to show some appreciation. It is becoming more common for MFIs to pay a small commission to staff who generate new customers, or to show appreciation to existing customers who assist in new customer generation, so this is especially important if staff people are promoting the new account. By virtue of their position as responsible for all activity in the institution, senior management should be excluded from such specific incentives, though general incentives for reaching objectives could be considered.

Questions four and five help management to identify where the customers are coming from. Identifying geographic clusters of customers can be useful in future advertising, product development, and locations for future branches. See *MicroSave*'s "Designing Staff Incentive Schemes" Toolkit for more details on this complex issue.

This type of questionnaire, and the data it seeks to generate, is very flexible, allowing an MFI to ask questions relevant to its operations and information needs. It can be a useful tool for gaining better information on the customers. However, it is necessary to conduct analysis on the results. Unless someone is analyzing the completed questionnaires, the exercise is a waste of customer time. The marketing department (or operations in the absence of marketing) usually does this analysis.

Further, if no one in the MFI is reviewing and using the results of the analysis, then the MFI will have wasted the customer's and the analyst's time. This data can help management to make informed decisions about its customers and their needs. For it to be useful, the customer must respond honestly, the data must be analyzed in a timely and comprehensive manner, and the results need to be used by management. Many organizations will also supplement this data with Participatory Rapid Appraisal (PRA) techniques[17].

Check List: Have you . . .

- ✓ Prepared a Marketing Plan for the product?
- ✓ Set strategic marketing objectives for the product?
- ✓ Designed a sales strategy that makes sense for your market area and your target customer base?
- ✓ Developed the USP/Benefit Statement for the product?
- ✓ Designed and ordered operational stationery materials?
- ✓ Ensured that all operational stationery and promotional materials will be available in sufficient numbers (200% of estimated demand) at the time the product is introduced?
- ✓ Written a questionnaire that can be included as part of the loan application procedure and identified someone to monitor and report the results?

[17] For an excellent guideline and introduction to PRA see: Graham A.N. Wright, Shahnaz Ahmed, and Leonard Mutesasira. Participatory Rapid Appraisal for MicroFinance – A Toolkit, *MicroSave*, Kampala, Uganda, 1999.

Step 9: Commencing the Pilot Test

If you have followed this Tool Kit step-by-step, then you have compiled a Pilot Test Team, developed and followed a testing protocol, installed all needed systems, modeled the financial projections, defined product objectives, documented product operations and procedures, trained all relevant staff, and developed customer marketing materials.

You and your team have surely worked very hard and have accomplished a great deal by getting this far!

Congratulations! You are now ready to commence the product test.

Anything else we should do before we begin the Test?

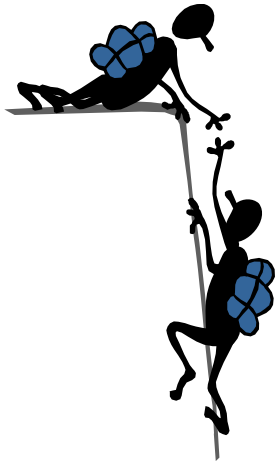
Yes. The Pilot Test Team should meet and make a final review of all steps. Once the review is complete and the Team is satisfied that all steps have been fully achieved, the Team has two additional tasks to complete before the Test commences.

1. The first task is to draft a formal letter to the MFI's senior manager (likely the Managing Director) reviewing the preparation steps and informing him/her that the Test will begin as per the protocol.

2. The second is to draft an abbreviated letter to the managers of all branches and department heads to inform them that the Test is commencing. This note should include summary information about the product being tested and the site and timeline for the Test. It is important that all managers are aware that a new product is being tested so that they will understand new information that comes available and questions that their own customers might ask. In addition, it provides a formal notification to department heads to be prepared for any relevant activity within their departments concerning the new product.

3. Once the notifications are delivered, the Test should begin as structured in the protocol and Test guidelines.

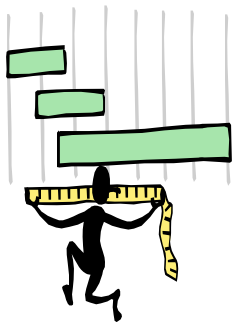
4. Finally, **expect problems**. It is very rare for a Pilot Test to progress through the testing process without problems. The important thing is to have the Team ready, willing, and able to help, so that when problems arise, relevant Team members can address them immediately. So, for example, when the computer goes down, you have a Team member who is aware and can respond straight away. When the marketing brochures run low, a Team member can quickly address their replenishment.



Check List: Have you . . .

- ✓ Carefully reviewed Steps 1 through 8, double-checked to make sure all systems are in place, all staff is trained, and that all marketing materials and stationary have arrived in good order?
- ✓ Formally informed the Senior Manager of the process and commencement date?
- ✓ Formally informed the branch managers and department heads of the commencement of the test?
- ✓ Commenced the Test?

Step 10: Evaluating the Test



Launching the Test is just the beginning. This is why we call it the "commencement" of the Pilot Test.

Your Pilot Test Team must now continue their work as they monitor and evaluate the performance of the new product. This is done through collecting and analyzing information.

If your Team has completed Steps 2, 3, 4, and 5 carefully and diligently, this should not be complicated, but will require time and thoughtful analysis of the data, compared with the needs of the Test protocol.

The Pilot Test Team must continually evaluate the value of the product to the MFI in terms of profitability and customer service. The critical question for them to ask continuously during the testing process is:[1]

IS LAUNCHING THIS NEW PRODUCT WORTH THE INVESTMENT TO OUR MFI?

As a Team, your loyalty must remain with the institution, not the new product. Ultimately the only reason for a new product is to improve the position of the MFI and the Team must recognize this continuously throughout the test.

What is the first step to evaluating the Pilot Test?

The first step is collecting, then reviewing, the data. The Pilot Test Team is responsible for ensuring the collection and review of all prescribed data.

Who should provide the data?

Collect data from the MIS department, department representatives, front line staff, marketing department, the manager of the Test site, and customers (both those who take the product and those who do not).

Summary reports should be provided to the Team members monthly, as scheduled in the protocol. The Team will also want periodic departmental reports noting any issues arising from the new product in the different areas within the institution.

Because your Team has representation from all areas of your MFI, each Team member should come prepared to provide product-related information about their area at each Team meeting.

Example 10.1 Pilot-test Review Protocol

In addition to all the reports on financial performance generated by their MIS, AMC developed and used a Pilot-test Review Protocol (Appendix 10) with a series of simple checklists and focus group discussion guides to review/evaluate their pilot-test including looking at:

- Clients' perception of the product (see Appendix 10.1)
- Staff perception of the product, client's reaction to it and how it is being implemented (see Appendix 10.2)
- Marketing of the product (see Appendix 10.3)
- Training and support for the pilot-test effort (see Appendix 10.4)
- Physical infrastructure used to deliver the product (see Appendix 10.5)
- Mystery shopping guide (see Appendix 10.6)

How do we determine reporting dates?

In order for the Team to monitor the progress of the Test, the Team members will need to be regularly and formally informed.

At the beginning of a Test, short reporting periods may be appropriate so that the Team can act immediately to counter any problems that arise on introduction of the product. Thus, for the first month of Test implementation, the Team should meet weekly, with weekly reports.

After that, assuming the Test has settled into a routine, monthly reviews and meetings are appropriate.

If the duration of the Test is longer than six months, quarterly evaluations are also appropriate.

When should reports be given to the Team members?

Monthly reports should be provided to the Team within five business days of the end of each month, and the Team should meet within two days of receipt of the reports to discuss them and to make decisions based on the information gathered. It is important for the Team to receive timely information so that their review and decisions are relevant.

What is the difference between monthly reviews and quarterly evaluations, and what is their relative importance?

Monthly reviews provide data from relatively short bursts of activity. Remember that we said in Step 9 to "expect problems." They allow the Team to see what is happening with the product, enable them to discern problems as they arise, and facilitate decision-making that keeps small problems from becoming huge ones.

Quarterly evaluations allow for a much greater degree of trend analysis. Trend analysis is helpful for making broader conclusions about the product. Thus, quarterly evaluations offer a point at which the projections may be re-written and significant decisions made about the progress of the test.

Then what?

Then, the information must be analyzed carefully to determine if the product or its provision requires adjustment. In the case of serious problems, the Test may have to be suspended or discontinued.

What is involved in analyzing the data?

When analyzing the data, the first thing for all Team members to remember is that their loyalties should remain with the MFI and the integrity of the MFI, *not* with the product. No matter how much work has gone into putting everything together to conduct a Pilot Test of the new product, the purpose of the Pilot Test is to determine if the product is likely to be profitable for the MFI and thus if it should be launched at all.

Compare the actual data closely with the financial projections, with the formalized objectives, and especially the Pilot Test protocol. The protocol formally set the parameters for continuation, suspension and termination of the Test. Review Step 2: Developing the Testing Protocol, about analyzing the actual data against the protocol.

Make management decisions based on the facts that you learn, not on how much work has gone into planning the product test or how much you wish it is a good product.

As your Team analyzes the data, they should be addressing the following questions:

- Do we have all the data we need?
- Have the test results reflected the projections? If not, why not?
- In order to reach our objectives, what adjustments need to be made?
- Are the test results still within the major parameters noted in the protocol?
- If there are serious problems, do we need to pause the test? Terminate it?
- Are we on schedule with the protocol? Do we need to adjust it?

We have collected all the data and have discussed it. What are the criteria for our recommendation about Test continuation and roll-out?

Once you have considered all the implications of the new product for the MFI as well as for the customers, you must decide whether or not to recommend going forward with the product launch.

After evaluating the Test results and the impact of the adjustments you have made during the Test, it is time to make a recommendation to the Managing Director (or the Board in the case of smaller MFIs).

Your Team must decide if this product will satisfy the fundamental need of the institution – **profits**. Based on the analysis the Team has three general options:

- **To recommend expansion of the product to other market areas.** This should be done with revised financial projections and a roll-out plan, both directly reflective of the results of the Test.
- **To recommend a continuation of the Test.** This should be done if significant adjustments were introduced late in the Test (to correct for problems with the product or its administration), and results of the adjustments are not yet conclusive.
- **To recommend termination of the product.** This should be accompanied by a report evaluating the Test and the reasons for the termination recommendation. The Test is run so that the MFI can determine if the proposed product will satisfy its objectives. Even if the product is terminated, the institution will have saved itself from a likely large-scale problem. Do not fear a recommendation of product termination when it is warranted.

When the Team has decided on a recommendation, draft a formal letter to the Managing Director or the Board of Directors of your institution.

What are the components of a formal recommendation report to the Managing Director?

A formal report to the Managing Director that outlines the Team's recommendation should also serve as the "handing over" document and **should include at least the following sections** in this format:

1.0 Executive Summary

2.0 Recommendation with major supporting justifications. Justifications should include issues of:
- 2.1 Institutional profitability
- 2.2 Efficiency improvements
- 2.3 Satisfaction of corporate and market needs
- 2.4 Corporate image improvements

3.0 Full description of the product, its terms and condition, as well as basic date on product acceptance and customer attitudes about the product

4.0 Comparative projections to actuals objectives tables
- 4.1 Discussion of any significant variance (>20% in either direction)
- 4.2 Discussion of the reasons behind any significant projection adjustments made during the Test.

5.0 Discussion of the interrelationships of all significant departments with the product noting any material issues that arose during the Test and how they were resolved

6.0 Confirmation of procedures, policies and systems (software and hardware) from the internal audit department

7.0 Completed projections model based on actual data from the Test
- 7.1 Note any anticipated deviations from the Test branch that are likely to be experienced in different branches

8.0 Discussion of potential risks to the institution posed by the product and it roll-out

9.0 Draft plan for roll-out, including procedures for addressing:
- 9.1 Training
- 9.2 Infrastructure
- 9.3 Marketing
- 9.4 Controls

10.0 Appendices containing:
- 10.1 Full procedures manual section "draft" ready for corporate approval
- 10.2 Training curriculum
- 10.3 Systems manual (specific for the product)
- 10.4 Copies of all marketing documents
- 10.5 Copies of all audit reports of the product
- 10.6 Copies of Team minutes

With this report and the documents attached, management will be able to make an informed decision about the product, and the department that "receives" the product will be fully informed about its history and status, have a plan for roll-out (which they should have had a hand in developing), and receive all the documents related to the product.

To ensure a smooth transition of the product after the handover, the Pilot Test Team should continue to work with the department to which the product is transferred (most frequently the Operations Department). The Team should continue to track and analyze the results from the Test branch for at least another six months, or as determined by the Team, based on the consistency of results.

For at least the first two new roll-out branches, the Team should prepare branch objective targets. The general objectives should be the same as for the Test Branch, with any additional objectives as *additions* and not replacements. The specific targets will be unique for each branch. These new targets should be tracked and analyzed for at least six months to ensure that any roll-out issues are identified quickly and addressed.

The Team should also prepare projections for the product and its roll-out throughout the system in order to gain an understanding of the overall profitability of the account for the institution. These projections will be based on the actual data gathered at the roll-out branches.

See *MicroSave*'s "Product Roll-out: A Toolkit for MFIs Expanding A Tested Product Throughout Its Market" for further guidance on a systematic approach to the roll-out process.

Product Roll-out:
A Toolkit for MFIs Expanding A Tested Product Throughout Its Market

Rolling-out new products and taking them to scale after the completion of a pilot-test is a difficult and complex process. This *MicroSave* toolkit covers the steps necessary for an MFI to roll-out a new product in a controlled and user-friendly manner with tips, check-lists and ideas for optimising rollout process.

The topics covered include:
1. Preparation
2. The Hand-Over Package
3. The Moving Day – Handing Over to the Operations Department
4. Financial Matters – Projections and Costing
5. Systems including the Feedback Loop
6. Human Resources
7. Marketing
8. Assessing the Rollout

When is the Pilot Test complete?

You have nearly crossed the finish line! Once the recommendation report has been presented to the Managing Director or the Board, the Team will have concluded its mandate for the Pilot Test. If the MD and/or the Board accept a recommendation for expansion, a new TOR will be formed for the roll-out.

To improve efficiency, and leverage capacity built in the testing process, the Roll-out Team should be composed of the members of the Pilot Test Team. A new TOR is written simply to provide management an opportunity to set new objectives and activities which might not have been understood when the TOR for the Pilot Test was developed.

Check List: Have you . . .

- ✓ Completed a full evaluation of the Pilot Test?
- ✓ Agreed on the recommendation for expansion, continuation, or termination?
- ✓ Prepared the formal recommendation report for the MD or the Board?

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