

Scaling Up Microfinance



## New Product Development for the Underserved Market

Ashvin Prakash and Brenton Peck,  
Center for Financial Services Innovation

October 24, 2013



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## Go-To-Webinar

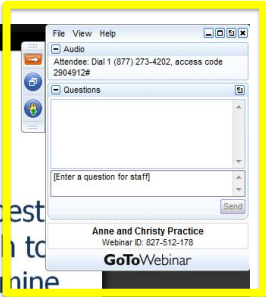
### Scaling Up Microfinance


GOAL

To enhance Microfinance CDFIs' exposure to best practices in the field as well as tools with which to analyze their own business practices and determine appropriate strategies to scale.

SUCCESS

Each microfinance organization will identify, and begin to implement, at least one new initiative to facilitate scaling operations.





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## CDFI Fund's Capacity Building Initiative

- The Capacity Building Initiative will greatly expand technical assistance and training opportunities for Community Development Financial Institutions (CDFIs) nationwide and significantly boost the ability of CDFIs to deliver financial products and services to underserved communities.
- Industry-wide training will target key issues currently affecting CDFIs and the communities they serve.



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## Scaling Up Microfinance Task Order

Expand the capacity of CDFIs that specialize in microfinance through a program focused on decreasing costs, exploring new products, building human capital, and improving business models in order to attract investments.

- 3 Trainings
  - Technical Assistance
  - Virtual Resource Bank



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## Presenter



Ashvin Prakash  
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## Presenter



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## Scaling Up Microfinance



Personal Care Services

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# New Product Development for the Underserved Market

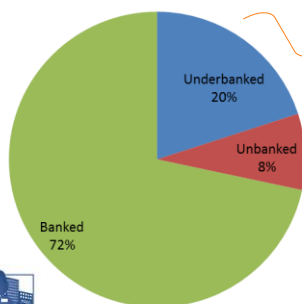
- **Goal of this session**
  - Share a structured framework and tools for approaching new product development efforts
  - Discuss in-market examples of new products being developed for this market segment
  - Hear from an innovator on the experience of developing new products



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## The Underserved Population

Approximately 34 million U.S. households – 68 million people – are financially underserved



Total Underserved (% of U.S. Households): **28%**



**Underserved: all consumers within group by ethnicity**

55% Black
48% Hispanic
41% American Indians
20% White
19% Asian

Source: FDIC 2011 Household Survey

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## Why are Consumers Not at a Bank?

### • Top Reasons Never-Banked Households Do Not Have An Account\*

- Do not have enough money to need an account (33%)
- Do not need or want an account (26%)
- Can't open an account due to ID, credit, or banking history problems (8%)
- Don't like dealing with and/or don't trust banks (7%)

### • Top Reasons Previously-Banked Households Closed Their Account\*

- Do not have enough money to need an account (33%)
- Do not need/want account/Do not see value of account (16%)
- Account was closed by the bank (10%)
- Don't like dealing with and/or don't trust banks (8%)



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## Why Underserved? Satisfaction with Providers

Almost 80% of underbanked consumers are satisfied with their preferred financial services channel

### Top Reasons for Satisfaction



- It does not take a lot of time

- "I'll go to 7-11 in the morning and check my balance, pull out some money...and I'll get the money orders while I'm there at 7-11. I try to handle everything all at once."



- Helpful employees that treat customers with respect

- "Treat people the way you want to be treated. And then educate them so that they don't have those fees and if you educate somebody and you help them, who do you think they're going to be the first person to come to when they need help?"



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## How do you effectively design products for customers who are weary of financial service providers?



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## High-Quality Products for Tomorrow



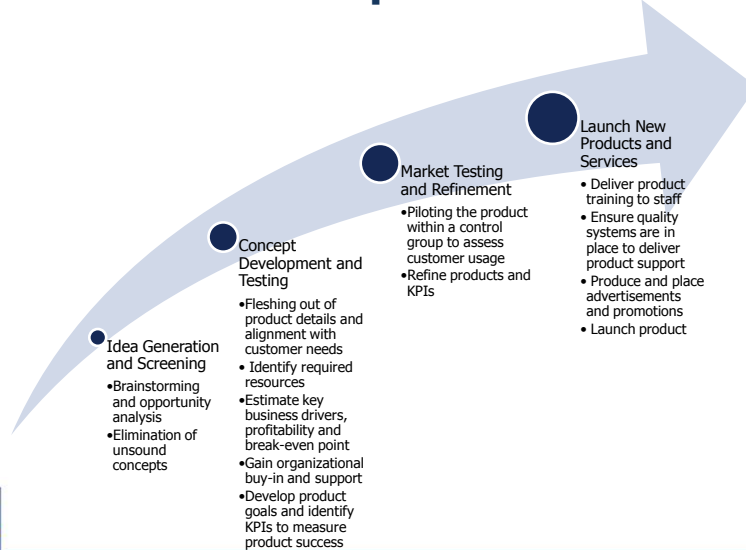
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## Product Development Gone Wrong



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## New Product Development Framework



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## Critical Steps for Successful Product Development

- 1) Identify product purpose and goal
- 2) Know your customer and marketplace
- 3) Brainstorm and ideate
- 4) Gain buy-in and support
- 5) Assess your strengths to deliver
- 6) Prepare for launch
- 7) Learn and refine



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Step One:

## **IDENTIFYING PRODUCT PURPOSE AND GOALS**



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### **Key Considerations**

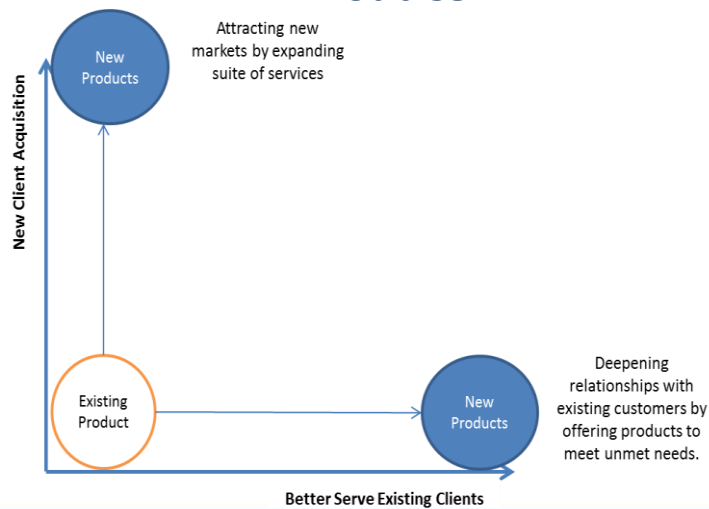


1. What is the goal of this product?
2. What does success look like?



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## What is the Purpose of this Product?



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## How Will We Measure Success?



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Step Two:

## KNOW YOUR CUSTOMER



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### Key Considerations

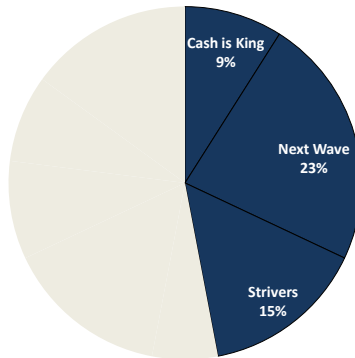
- Who is your target customer?
- What are their needs?
- What are their existing behaviors?
- What are their unique pain points and challenges?



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## Customer Segmentation

The Cash Dominant Group



### Cash is King

- Mostly unbanked
- Cash reliant
- Rarely borrow
- Low income with moderate price sensitivity
- Feel financially insecure
- Do not feel in control of their lives
- Unlikely to talk with anyone about money



### Next Wave

- Unbanked: little experience with formal banking
- Youngest segment
- Highly motivated and entrepreneurial
- Low income partially explained by age and/or immigrant status
- Future orientation with traditional financial goals
- Positive associations with banks/CUs
- Strong potential for successful transition to mainstream



### Strivers

- Underbanked; preference for cash purchases, but some use of traditional financial products as well
- Moderate borrowing for a variety of purposes
- Prefer to use banks, credit unions, and supermarkets for financial transactions
- Strong job advancement and educational aspirations
- Most are in peak earning years

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## Consumer Profiles

Cash Dominant



**Emily: "I don't have enough to need a bank account"**

**Age:** 44

**Occupation:** Church custodian

**Income:** \$26,000, paid bi-weekly by handwritten check

**Financial Transactions:** Cashing checks at Walmart

**Values:** Quick access to paycheck, help setting money aside for rainy day fund

**Short-term aspirations:** Make repairs to her car

**Long-term aspirations:** Save for her kids' education

Non-Cash Dominant



**Paul: "I keep multiple accounts for different reasons"**

**Age:** 68

**Occupation:** Retired bookkeeper, landlord

**Income:** \$40,000 (rent income in addition to 401(k))

**Financial Transactions:** Deposits rent checks at bank, receives 401(k) disbursements on credit union account, pays bills at vendor sites or at convenience stores

**Values:** Better money management tools, convenience, and savings tools

**Short-term aspirations:** Afford better health-care insurance

**Long-term aspirations:** Pay off the mortgage on his home

Mixed Use



**Emma: "I've had some bad experiences with banks in the past"**

**Age:** 31

**Occupation:** Teacher

**Income:** \$42,000

**Financial Transactions:** Receives direct deposit into checking account and uses a mix of cash and debit cards for payments. Due to overdraft history and damaged credit profile, will use payday loans from time to time to cover unexpected expenses

**Values:** Low-cost and high service. Help building short-term and long-term savings

**Short-term aspirations:** Save up for a vacation

**Long-term aspirations:** Pay down student debt, buy a house



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Step Three:

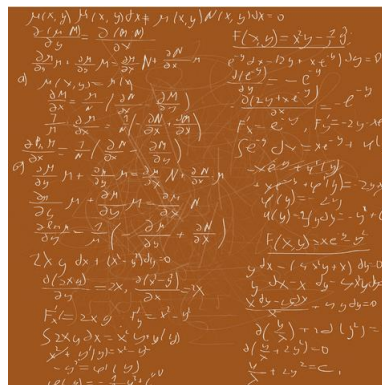
## IDEATE AND BRAINSTORM



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## Tips for Successful Ideation Sessions

- Engage a broad representation of key product stakeholders (exec team, front-line staff, compliance, finance)
- Promote open brainstorming through structured exercises and prompts
- Identify and assign next steps and tasks to maintain momentum



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Step Four:

## **BUILD AND GAIN BUY-IN**



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### **Key Questions for Gaining Buy-in**



Whose support do you need internally to execute on this product?



What are their priorities and concerns?



How can you win them over?



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## Identify Your Stakeholders

### The Final Approver

- Decides whether or not to commit resources to development of new product
- Driven by economic and organizational impact

### The Implementer

- Individuals who will actually deliver and manage the product on a daily basis
- Interested in how the new product will impact everyday operations in their own areas or departments

### The Gatekeeper

- Screens out impractical ideas
- Make judgments about the measurable and quantifiable aspects of product or service based on how well it meets a variety of specifications
- Unable to approve new products/ideas, but can shutdown new products or services that are not deemed feasible



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## Developing a Business Case

### Problem

- What is the problem we're trying to solve?
- What is the business opportunity?

### Solution

- How are we best positioned to address this problem?

### Approach

- What are the viable options for us to deliver this solution?

### Risk Assessment

- What are the risks associated with each of these options?

### Value analysis

- What business value is generated from each option?

### Recommendation

- What option/direction should the organization pursue?



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Step Five:

## ASSESS YOUR CAPACITY TO DELIVER



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### Know Your Strengths

Competency	High	Moderate	Low
Market knowledge			
Customer access			
Processing			
Technology			
Personnel			
Capital			
Relationships			
Reputation			
Infrastructure			
Distribution			

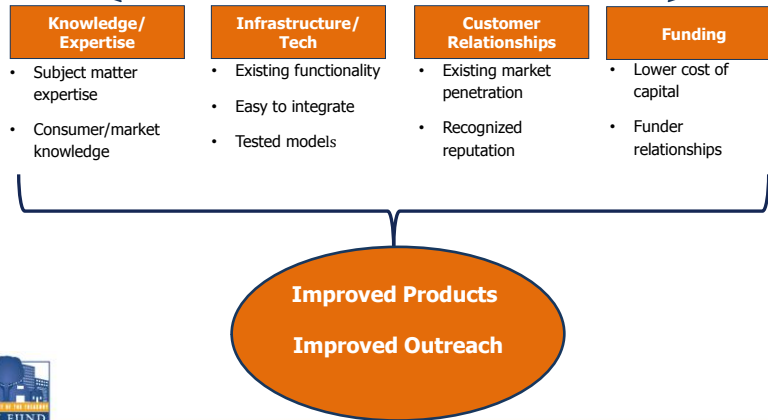


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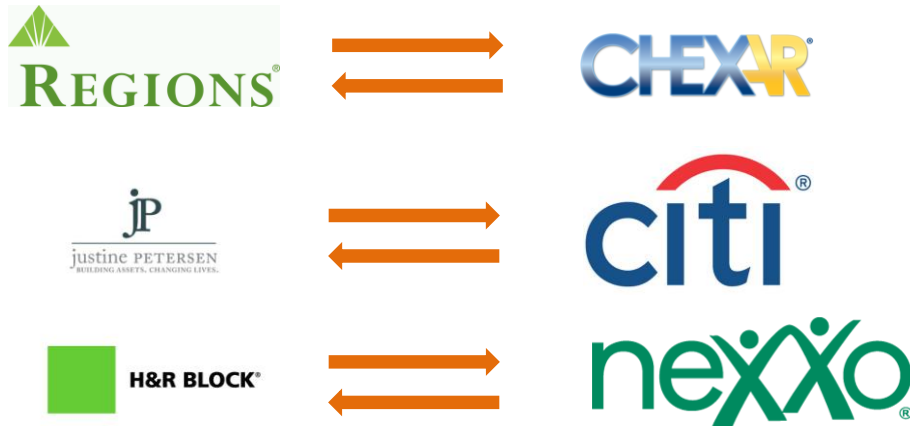
## Why Partnering Can Be Beneficial

### Examples of Partner Competencies



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## Examples of Successful Partnerships



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Step Six:

## DEVELOP YOUR LAUNCH STRATEGY



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### Launch your Product



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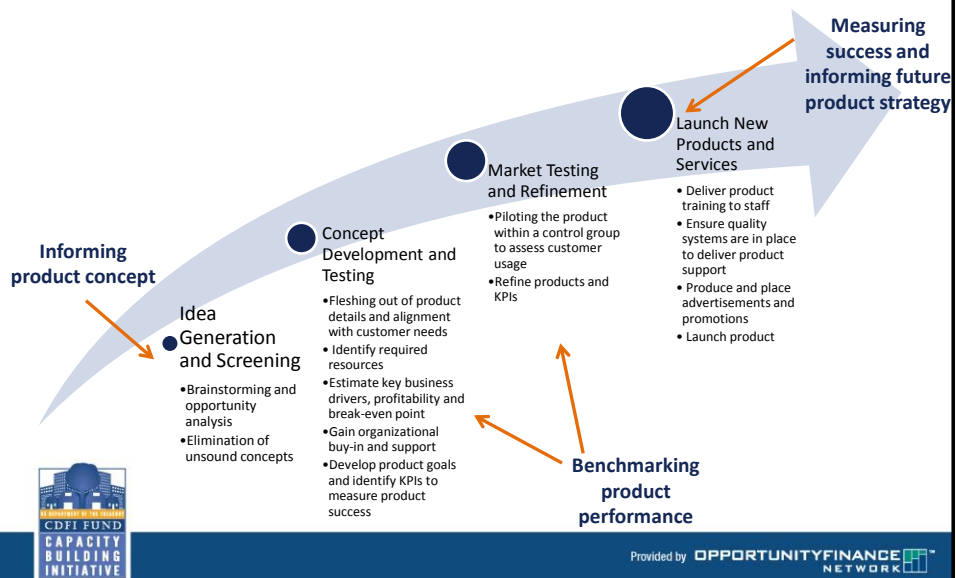
Step Seven:

## EVALUATE AND REFINE



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## The Role of Product Evaluation



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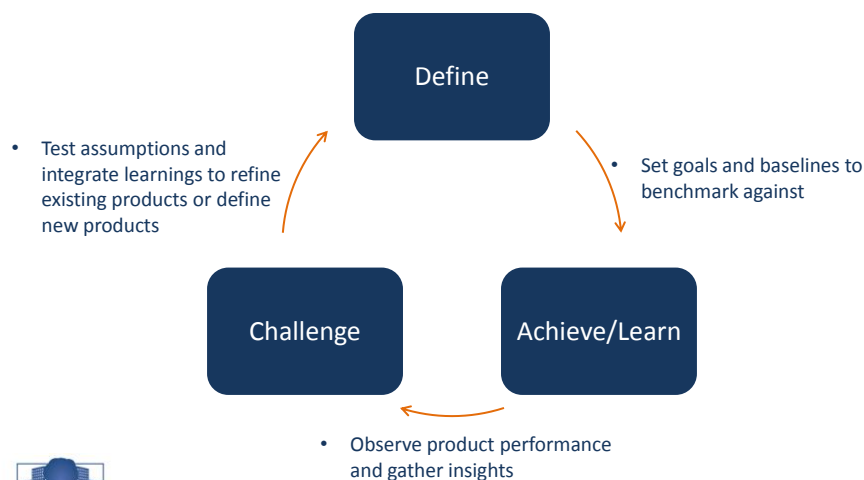
## Examples of Benchmarking

Product Goals	Key Performance Indicators
<b>Product Goal 1: Financial Performance</b> Product should be financially viable and sustainable and contribute to organizational revenue growth.	1. Product earns \$XX revenue in first year 2. Product expenses remain below X% of revenue earned. 3. Net charge-offs remain below X%.
<b>Product Goal 2: Product Growth</b> Product should attract customers based on the needs identified in the market.	1. X customers enroll with product within the first six months. 2. X% of customers who apply for product enroll.
<b>Product Goal 3: Consumer Impact</b> Product should meet consumer needs and deliver consistent value.	1. X% of customers repay loan ontime. 2. X% of customers report high satisfaction with product.
<b>Product Goal 4: Further the organizational mission</b> Improved awareness of organization and adoption of products.	1. X% of customers are new to the organization. 2. X% of customers enroll in other products offered by the organization.



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## Continuous Improvement Cycle



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## Continued Product Refinement

1. Continued research on evolving customer needs
2. Understanding market trends and competitor positioning
3. Being mindful of environmental barriers (regulation, failed partnerships)
4. Ensuring profitability and sustainability of product



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## Recommendations

- Have a structured approach to product development
- Have a clear vision for success and your overall purpose
- Keep learning



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# Practitioner Experience: Developing New Products

Brandon Napoli  
Director of Microlending  
Valley Economic Development Center



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## QUESTIONS?



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# ADDITIONAL RESOURCES & CONTACT INFORMATION



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## Scaling Up Microfinance Fall Webinar Series

- **New Product Development**
  - *Ashvin Prakash and Brenton Peck, CFSI*
- **Underwriting to Scale**
  - *Leslie Hoffman and Luz Gomez, FIELD at the Aspen Institute*
- **Customer Acquisition-Reaching and Retaining Your Customers**
  - *Ginger McNally, OFN and Maria Semple, The Prospect Finder*
- **Loan Fund and Credit Union Collaborations**
  - *Seth Julyan, OFN and Melanie Stern, The Federation*
- **The Role of Market Research in Scaling Microfinance**
  - *Tammy Halevy, AEO*

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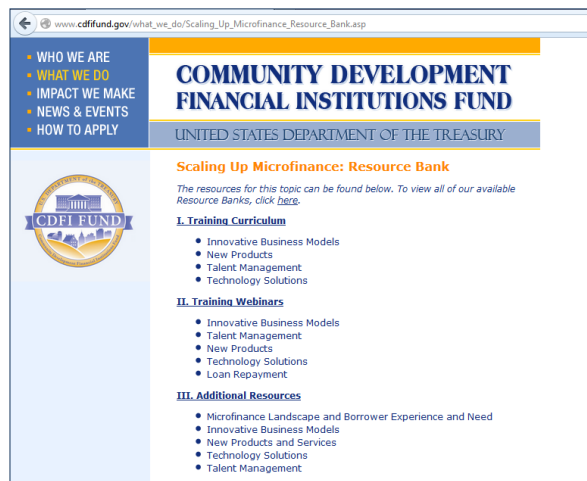
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## CDFI Fund's Virtual Resource Bank



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