New Product Development for the Underserved Market

Ashvin Prakash, Center for Financial Services Innovation
October 18th, 2013

Scaling Up Microfinance Task Order

Offered by OFN through funding by the CDFI Fund, Scaling Up Microfinance is designed to expand the capacity of CDFIs that specialize in microfinance through training and technical assistance focused on:

- Decreasing costs,
- Exploring new products,
- Building human capital, and
- Improving business models
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.

Mentored Working Groups

- Eight groups led by industry experts held conference calls from May to November on microfinance topics including:
  - Collections
  - Customer Acquisition
  - Loan Fund and Credit Union Collaboration
  - Market Research
  - New Product Development
  - Underwriting

- These calls provided organizations with industry knowledge, resources and tools, collaboration opportunities, and next steps to support scaling up microfinance in their organizations.
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 in the space and experiences developing new products

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

The Underserved Population

Underserved: all consumers within group by ethnicity

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

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?”

Source: FDIC 2011 Household Survey
How do you effectively design products for customers who are weary of financial service providers?

High-quality products for tomorrow
Product Development Gone Wrong

New Product Development Framework

- Idea Generation and Screening
  - Brainstorming and opportunity analysis
  - Elimination of unsound concepts

- Concept Development and Testing
  - Fleshing out product details and alignment with customer needs
  - Identify required resources
  - Estimate key business drivers, profitability and break-even point
  - Gain organizational buy-in and support
  - Develop product goals and identify KPIs to measure product success

- Market Testing and Refinement
  - Piloting the product within a control group to assess customer usage
  - Refine products and KPIs

- Launch New Products and Services
  - Deliver product training to staff
  - Ensure quality systems are in place to deliver product support
  - Produce and place advertisements and promotions
  - Launch product
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

Step 1:
IDENTIFYING PRODUCT PURPOSE AND GOALS
Key Considerations

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

What is the Purpose of this Product?

- Attracting new markets by expanding suite of services
- Deepening relationships with existing customers by offering products to meet unmet needs
- Better Serve Existing Clients
How Will We Measure Success?

- Mission alignment: How does this product further the mission of your organization?
- Stakeholder alignment: How will this product meet the needs of all stakeholders?
- Financial performance: What will make this product a success financially?
- Consumer Impact: What consumer impacts do you hope to achieve with this product?

Step 2:

KNOW YOUR CUSTOMER
Key Considerations

Who is your target customer?

What are their needs?

What are their existing behaviors?

What are their unique pain points and challenges?

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 or 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
Consumer Profiles

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

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

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

IDEATE AND BRAINSTORM

Step 3:
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 inertia

Step 4:
BUILD AND GAIN BUY-IN
Key Questions for Gaining Buy-in

- Who’s support do you need internally to execute on this product?
- What are their priorities and concerns?
- How can you win them over?

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**
  - Make judgements 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
## Developing a Business Case

<table>
<thead>
<tr>
<th>Category</th>
<th>Key Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Problem</strong></td>
<td>• What is the problem we're trying to solve?</td>
</tr>
<tr>
<td></td>
<td>• What is the business opportunity?</td>
</tr>
<tr>
<td><strong>Solution</strong></td>
<td>• How are we best positioned to address this problem?</td>
</tr>
<tr>
<td><strong>Approach</strong></td>
<td>• What are the viable options for us to deliver this solution?</td>
</tr>
<tr>
<td><strong>Risk Assessment</strong></td>
<td>• What are the risks associated with each of these options?</td>
</tr>
<tr>
<td><strong>Value analysis</strong></td>
<td>• What business value is generated from each option?</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td>• What option/direction should the organization pursue?</td>
</tr>
</tbody>
</table>

### Step 5:

ASSESS YOUR CAPACITY TO DELIVER

---

**MANY CDFIs**

**ONE PURPOSE**

# OFNCONF

---
Know your strengths

<table>
<thead>
<tr>
<th>Competency</th>
<th>High</th>
<th>Moderate</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market knowledge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer access</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationships</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Why partnering can be beneficial?

Examples of Partner Competencies

- **Knowledge/Expertise**
  - Subject matter expertise
  - Consumer/market knowledge

- **Infrastructure/Technology**
  - Existing functionality
  - Easy to integrate
  - Tested models

- **Customer Relationships**
  - Existing market penetration
  - Recognized reputation

- **Funding**
  - Lower cost of capital
  - Funder relationships

Improved Products
Improved Outreach
Examples of Successful Partnerships

Step 6:
DEVELOP YOUR LAUNCH STRATEGY
5. Launch your Product

- Channel Strategy
- Sales training plan
- Rollout strategy
- Product positioning

Product Launch

Step 7:
EVALUATE AND REFINE
The Role of Product Evaluation

**Idea Generation and Screening**
- Brainstorming and opportunity analysis
- Elimination of unsound concepts

**Concept Development and Testing**
- Fleshing out of product details and alignment with customer needs
- Identify required resources
- Estimate key business drivers, profitability and break-even point
- Gain organizational buy-in and support
- Develop product goals and identify KPIs to measure product success

**Market Testing and Refinement**
- Piloting the product within a control group to assess customer usage
- Refine products and KPIs

**Launch New Products and Services**
- Deliver product training to staff
- Ensure quality systems are in place to deliver product support
- Produce and place advertisements and promotions
- Launch product

**Benchmarking Product Performance**

**Examples of Benchmarking**

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

Define

- Set goals and baselines to benchmark against

Challenge

- Test assumptions and integrate learnings to refine existing products or define new products
- Observe product performance and gather insights

Achieve/Learn

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
Recommendations

- Have a structured approach to product development
- Have a clear vision for success and what you’re overall purpose is
- Keep learning

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