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This series showcases innovative microfinance programs from the February 2000 "Advancing Microfinance in Rural West Africa" conference held in Bamako, Mali. The programs emphasize reaching new frontiers in rural areas, particularly in West Africa. These notes are an investigation of innovative practices working in specific environments, not a general endorsement of financial products. We recommend institutions utilize these technical notes as introductory information.

Marketing in Microfinance Institutions

I. Introduction

The term "marketing" is usually associated with advertising, promotional, and public relation activities aimed at selling a product, service, or concept. In fact, marketing is a *program* encompassing a range of activities, such as demand and consumer analysis, market segmentation, competitive analysis, positioning strategy, and promotion. Broadly speaking, marketing for a microfinance institution (MFI) can be defined as an analytical tool to study and know the client. It addresses the questions of who are the institution's clients, how many clients there are, which clients should the MFI target (target market), and how many clients it hopes to capture (market share).

The concept of a marketing program has emerged as an important issue for MFIs only in the past few years because of four factors:

1. Increasing competition in some markets for microfinance;
2. Slowing growth rates in certain MFIs;
3. Increasing client desertion; and
4. Growing recognition that MFIs need to be more client led.

Until now, most MFIs have operated in a relatively noncompetitive environment, where the market for financial services to microenterprises and low-income households contains only a few players, each having its own specific target clientele, and where the level of unmet demand remains high. The priorities for these institutions in the early years dealt with refining the lending methodology, building institutional capacity, maximizing outreach, and growing the size of the lending portfolio to achieve sustainability.

In recent years, the landscape of the microfinance market has changed dramatically. Some institutions have become formalized financial institutions, commercial banks have started to downscale to serve the traditional clientele of MFIs, and additional microfinance organizations continue to enter the market. At the same time, clients have become more sophisticated and discriminating in terms of the types of products and quality of services they would like to receive from MFIs. Consequently, MFIs have been forced to focus on improving efficiency by retaining clients and identifying new clients interested in the financial services offered.

Marketing and Profitability. Another important driving force behind the move to be more client driven is the MFI's goal for sustainability and profitability. All microfinance providers, whether they are nongovernmental organizations (NGOs) with a focus on poverty lending or for-profit commercial institutions concerned with maximizing their return on investment, realize that the existence of a strong and permanent institution is crucial in ensuring the successful provision of microfinance services. The table below

Determinant of Profitability	Effects/Benefits of Marketing
Internal Factors	
Increased portfolio size	• A market and demand analysis can identify potential target markets for the institution's product. • A positioning strategy can assist the institution in better defining how clients perceive the product and how it is delivered. • Promotional activities can raise client awareness of the product.
Reduced client loss	• A marketing program allows the institution to monitor and analyze customer behavior so that it can anticipate potential problems and proactively address them before clients actually leave.
Improved repayment rates	• Consumer analysis can help an institution identify the causes for low repayment rates—i.e., inappropriate product design, external shocks, poor delivery—so that the appropriate solutions can be put in place.
External Factors	
Competition	• A marketing program allows the institution to monitor the competition and analyze its effects on clients so that the MFI can keep up with or stay ahead of the competition.
Economic environment	• Market research can highlight factors affecting the local economy (weather, religious holidays, etc.) that could affect either clients' demand for financial products or their ability to repay.
Political/regulatory environment	• Market research can pinpoint policies and regulations that could affect the interest rate an institution should charge, the level of capitalization, etc.
External shocks	• A marketing program allows the institution to analyze any potential shift in product demand because of catastrophic changes, such as floods, war, economic crises, etc.

illustrates the internal and external factors driving profitability that can be addressed through marketing programs.

II. Major Elements in a Marketing Program

There are seven principal components of a marketing program:

1. **Market Research/Market Analysis.** This first step provides the institution with the "big picture" of the overall market for financial services, current and potential. Market analysis enables MFIs to (1) develop a profile of its existing customers in terms of loan sizes and demographics, such as sector and gender, and (2) assess the characteristics of the potential target market in terms of geographic distribution and financial services needs. The analysis also allows the institution to further segment the target market to determine

- **Al Amana** in Morocco does a walk-through of a possible site to determine the number of potential customers.
- **K-REP** applies a rapid financial assessment before deciding to set up a new village bank.

which types of services are demanded by each segment and which client segments are most profitable.

2. **Competitive Analysis.** The competitive environment is made up of direct service providers (other MFIs or commercial banks), informal service providers (moneylenders or trade finance), and a number of broader exogenous variables that shape the marketplace (macroeconomic factors). By studying the competition, the MFI can be informed about the types of financial services that are offered by its competitors; how these products compare to its own products in terms of prices, delivery channels, etc.; and the types of clients who are accessing these services. The level (the number of direct competitors), the type (formal versus informal), and the nature (i.e., concentrated or fragmented) of the competition will affect how the MFI decides to position itself strategically in the market and the resulting actions that it will take.

- **PRIDE/Finance** in Guinea conducted a client analysis by interviewing past, current, and prospective clients to understand their perceptions and expectations of the institution.
- **ACLEDA** in Cambodia institutes regular questionnaires to 100 micro and small enterprises and 100 small and medium-sized enterprise clients at each of its branch every year.
- The **Coop Bank of Uganda** hold monthly meetings with customer representatives to generate feedback.

3. **Customer Behavior Analysis.** This analysis allows the institution to refine its existing products and/or develop new products according to client needs and preferences. Key questions to be addressed in this analysis include the rate of client retention, the main reasons why target customers are leaving the MFI, the cost of losing and acquiring a customer, the types of financial products in which clients are interested, customers' opinion of the MFI's current product offerings and service quality, and the components or features that clients value in a financial product.

4. **Strategic Planning and Positioning.** Strategic planning is the process of assembling the above information into an overall approach that determines the kinds of products to be offered, the location where they will be offered, and the way in which they will be differentiated from other products. The strategic plan will identify the areas in which the institution holds a competitive and comparative advantage over its competitors so that it can build on its own strengths and capitalize on others' weaknesses.

5. **Product Analysis and Product Differentiation.** In this stage, the institution should use the results from the customer behavior analysis to evaluate which products and services can be delivered to clients cost-effectively and profitably without increasing the overall risk exposure of the institution. In a competitive market, the MFI needs to define its products and services so that they are differentiated from those of its competitors in the public eye.

- **SEWA Bank** in India and **Fundación Mario Santo Domingo** in Colombia offer corresponding social services along with their credit product to create a competitive edge.
- **FINCA Uganda and K-REP** have positioned themselves as being the oldest and largest MFI in the country—that is, the market leader.

6. **Promotion and Outreach Communications.** Promotion is a marketing tool that can be used by an MFI in several ways: (1) to distinguish its products from those offered by the competition, (2) to introduce a new product to its clients, and (3) to raise client awareness about the institution and its overall product offerings. The key steps are identifying the message to be transmitted, selecting the right promotional tools, and evaluating their effectiveness.

7. **Marketing Plan.** A marketing plan presents a road map for an MFI to understand its current position and to identify where it wants to be and how to get there. To be effective, the marketing plan should have clear goals and objectives for how the marketing function will be integrated into the institution's operations,

an assignment of responsibilities, and a clear marketing budget to carry out the different steps.

Although each of the above components is part and parcel of a successful marketing program, the scale and depth to which these components are implemented by an institution depends on the environment in which it operates, its level of institutional development, and its strategic objectives. Institutions that have been in the market for a while but have experienced slower portfolio growth in recent years because of new entrants will have a different marketing approach than institutions that operate in unsaturated markets where the potential for expansion is high. The next section lays out a general framework from which an institution can determine the most appropriate type of marketing program for itself.

III. Different Levels of Marketing

Two determining factors frame the overall level of development of the marketing program in MFIs: the nature of the market and the level of sophistication of the institution.

The Markets. The nature of the market puts the primary pressure on the MFI for the kind of marketing program that it needs to succeed (i.e., become sustainable). The key factor is the level of potential demand compared with effective demand for financial services. Three main categories, or types, of markets are:

- **New markets**, characterized by few or limited available financial services with little effective demand for financial services, where the focus for the institution is on developing appropriate products and creating a market for microfinance products, in general;

- **Developing or growth markets**, where there is an increase in effective demand for financial services, but MFIs are unable to meet that demand and the institutional focus is on developing the institution and systems to meet that demand; and

- **Developed or mature markets**, where financial services are readily available to the population, where competition is developing among service providers, and where MFIs need to focus on improving responsiveness to client interests and on diversifying their products. In developed markets, effective demand is nearing the level of potential demand.

Nature of the Institution. MFIs are not homogeneous. There is a wide array of legal structures for MFIs, such as NGOs, credit unions, village-based organizations, and commercial banks. They can have various stated goals and target audiences, be at different levels of maturity and development, and have different levels of available financial resources.

- **Institutional type.** NGO programs tend to focus on credit delivery to the poor or to those who do not have access to financial services. These programs usually do not have professional finance or business staff on board so awareness of marketing is relatively low and usually limited to promoting the credit product. Commercial banks, on the other hand, tend to have the most organized marketing programs, and their decision to enter the microfinance market usually arises from careful market analysis and market segmentation.

- **Level of development/maturity.** The more developed the institution (the greater the number of clients, the size of the portfolio, and the progress on the path to sustainability), the greater is the understanding of the need for good information and feedback from its clients to ensure sustainability. As institutions grow, they also need more formalized systems of collecting and transmitting information throughout the organization. Smaller organizations can monitor client behavior through informal meetings, but as the number of clients grows and the range of products offered increases, more formalized systems will be needed.

- **Purpose of the institution.** MFIs that focus on poverty alleviation tend to develop monitoring systems to measure the impact of their program on clients, rather than to assess the responsiveness of their financial products to the needs of clients. Commercial banks, on the other hand, are purely profit driven in their goals and objectives. Hence, commercial banks that enter the microfinance market dedicate more time and place more emphasis on collecting the information needed to make their institution more profitable, like competition analysis and market segmentation, than on gathering information on client and household welfare.

- **Financial resources.** The level of financial resources tends to vary according to the level of development and maturity of the MFI. Younger MFIs, particular NGO programs, usually are unable to access financial resources to meet demand. It is only when MFIs have solved the problem of accessing loan funds does marketing become an important issue. Although some institutions do not have the level of funding necessary to develop an extensive marketing system, there are many interventions that could be done cheaply to help build a stronger marketing culture within the institution, such as tracking client desertion rate over time, holding occasional focus groups to solicit client feedback, and so on.

Current experience in the field seems to show that MFI marketing programs can be grouped into three main categories:

1. **Elementary program.** The main concerns for the MFI revolve around who are its clients, where they are located, how to adapt basic products, and how to communicate with clients. On this level, the marketing program consists of defining a target market, promoting a single product and possible slight variations on that product, and informally collecting information on clients.

2. **Intermediate program.** The main concerns for the MFI in this case relate to client satisfaction, institutional profitability, and understanding of the overall environment. Under this program, periodic study of the market is conducted, a management information system is linked to the marketing effort, an internal communication system between directors and loan officers is formalized, and the product line is expanded beyond the core services.

3. **Advanced program.** The main issues for the MFI at this level deal with finding the "right" clients and the appropriate mix of products, and identifying the institution's strategic position within the market through product diversification and differentiation. Characteristics of this marketing program include the development of a marketing department with an allocated budget, segmentation of the market to understand where new products should be placed, and the offering of a wide

range of products and services tailored to the characteristics of the targeted market segment.

	Start-Up Institution	Intermediate Institution	Sophisticated Institution
Mature Market for Microfinance	**None**—a start-up institution should probably not venture into this type of market.	**Limited** "closed-box" market research to: • Understand clients' perceptions and use of existing products. • Refine/"tweak" existing products. • Track clients' perceptions of the quality of services offered. • Examine program and product-specific issues—e.g., delinquency, drop-outs, etc. • Look for new marketing strategies. • Examine the use of products and the impact of the program.	**Extensive** "open-field" market research to: • Understand the "financial landscape"—primarily (but not exclusively) formal sector competition. • Scope out opportunities for business. • Look for alternative market segments. • Track clients' perceptions of the quality of services offered. • Develop new products and delivery systems. • Examine pricing issues. • Train staff. • Look for new marketing strategies. • Understand the dynamics of the market and its future. • Examine the use of products and the impact of the program.
Developing Market for Microfinance	**Extensive** "open-field" market research to: • Understand the "financial landscape"—formal and informal sectors. • Examine clients' perceptions of the competition. • Seek out market niches. • Develop new products and delivery systems. • Examine pricing issues. • Examine options for branch placement. • Train staff.	**Limited** "closed-box" market research to: • Understand clients' perceptions and use of existing products. • Examine clients' perceptions of the competition. • Refine/"tweak" existing products. • Track clients' perceptions of the quality of services offered. • Look for alternative ways of marketing products. • Examine program and product-specific issues—e.g., delinquency, drop-outs, etc. • Examine the use of products and the impact of the program.	**Extensive** "open-field" market research to: • Understand the "financial landscape"—formal and informal sectors. • Seek out market niches. • Develop new products and delivery systems. • Examine pricing issues. • Examine options for branch placement. • Track clients' perceptions of the quality of services offered. • Train staff.
New Market for Microfinance	**Extensive** "open-field" market research to: • Understand the "financial landscape"—particularly the informal sector. • Scope out opportunities for business. • Develop new products and delivery systems. • Examine pricing issues. • Examine options for branch placement. • Train staff.	**Extensive** "open-field" market research to: • Understand the "financial landscape"—particularly the informal sector. • Understand if existing systems would be appropriate. • Examine pricing issues. • Examine options for branch placement. • Train staff.	**Extensive** "open-field" market research to: • Understand the "financial landscape" —particularly the informal sector. • Scope out opportunities for business. • Develop new products and delivery systems. • Examine pricing issues. • Examine options for branch placement. • Train staff.

IV. Organizing the Marketing Effort

The key issues to organizing the marketing effort within an MFI are: how the marketing plan is being done, who the marketing staff members are, how the information flows within the institution, what systems are used, and how the MFI budgets for marketing.

Marketing Plan. Marketing plans can be part of an institution's strategic plan, presenting targets for increased outreach or focusing on the advertising plan. In this case, the plan is put together by the director, with assistance from one or two other persons. In a more formalized marketing program, an outside consultant is usually brought in to collect and analyze information and then to work with a marketing team to develop the plan. This type of plan tends to integrate the different players and departments in the institution, and is often reviewed and revised annually.

Staffing. There are two levels of marketing staff in an MFI: (1) market analysts and strategic planners and (2) field officers and customer contacts. In young institutions with limited staff, the director tends to manage the marketing effort. As institutions mature, they develop specialized marketing departments and hire outside publicity firms. Nevertheless, the loan officer remains the first line of contact and primary link to the client for the MFI. Because of the lack of in-house capacity, many MFIs use outside resources to conduct consumer studies and run advertising campaigns.

Information Flow. Marketing information flows in two directions in MFIs—the findings of loan officers are transmitted to managers, are then processed by senior management, and subsequently retransmitted as product decisions or policy initiatives back down to the branch levels and the loan officers. For younger and smaller MFIs, monthly staff meetings are usually adequate for ensuring information flow. As institutions mature, however, a more formal mechanism needs to be put in place. For example, Microbank in Benin requires loan officers to pass back client information in their monthly reports.

Costing. Besides funds designated for advertising, most MFIs do not have a specific budget for marketing. Loan officers and regional managers often carry out market research via daily client contact and then provide feedback to managers. MFIs with an organized marketing program do budget for marketing. BancoSol in Bolivia, for example, has a large marketing budget where 20 percent is allocated for publicity and 80 percent is allocated for market research.

Internal Preparation. Many institutional factors combine to make an effective marketing program within an institution—its management information system, loan officer management, and incentive schemes. A good management information system can facilitate information collection and monitoring by providing timely financial and loan portfolio analysis. Reward/bonus systems set clear targets for client performance and provide incentives for loan officers to address client concerns. In addition, a properly designed incentive program that rewards loan officers on achieving performance objectives can help foster employee loyalty and retain qualified loan officers.

V. Key Lessons about Marketing

- Marketing is about knowing your client, your competitor, and your business environment. An MFI should closely monitor client needs and market conditions to become attuned with changing demand and to stay one step ahead of the competition.

- MFIs should be proactive in collecting and analyzing marketing information but should tailor their efforts according to the institution's strategic objective, institutional capacity, and available financial resources.

- As the front-line contact with the client, loan officers are usually the primary source of market information in an MFI. Making sure that they are well suited to the task is critical for the overall success of the institution.

- Market analysis is most important in completely new markets and relatively saturated markets. In developing markets, demand is great enough to generate the profits that obscure other problems that marketing programs can solve.

- Marketing should be an integrated function within an MFI, where everyone from senior management to loan officers has an important role to play. This is especially true for those MFIs with limited resources that do not have a separate marketing department or dedicated marketing team.

- The purpose of the institution often defines its target market and influences the nature of its marketing program. For example, an MFI with a focus on poverty alleviation will likely be more concerned with evaluating household impact and client welfare than client satisfaction with product or services.

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