

Scaling Up Microfinance



Personal Care Services

The Role of Market Research in Scaling Microfinance

Tammy Halevy
AEO

November 21, 2013



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Go-To-Webinar


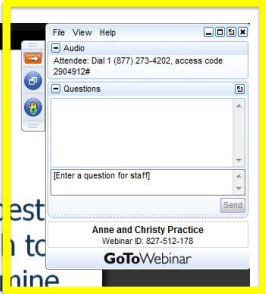
Scaling Up Microfinance

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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Presenters

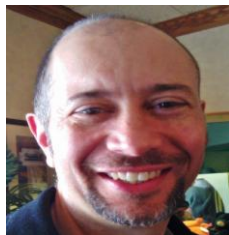


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Presenter



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Role of Market Research in Scale

- **Goals for this session**
 - Think differently: Reframe the role that market research ought to play for CDFI microlenders
 - Offer insights and experience from the working group and case studies from the field
 - Share a checklist, tools and resources to support market research efforts



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Agenda

- Market research: What, when, why?
- Working Group Overview
- Working Group Takeaways
- Tools You Can Use & Resources



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Market Research: Uses

- **Trend-spotting:** Identify growth opportunities for microlenders and your business clients
- **Demand and Supply:** Uncover market gaps and unmet needs
- **External landscape:** Identify Partners, Competitors, Investors
- **Performance improvements:** User experience, Productivity



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Trend-spotting: AEO's "Green Opportunity" Market Research Initiative

Strong "Buzz"...



...But Many Open Questions



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AEO's Green Opportunity Market Research Initiative: What We Did



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AEO's Green Opportunity Market Research Initiative: Selected Insights

- Green market segments in the United States are growing fast
- Green "operational efficiency" practices are increasingly mainstream for companies, including the smallest businesses
- Survey respondents reported growing demand for green products and services along with increasing competition for green-oriented customers
- Small businesses at the frontier of capitalizing on these opportunities are capturing outsized cost savings and revenue growth
- Many of the smallest businesses are not well positioned to benefit from the opportunities presented by the growing "Green Economy"



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AEO's Green Opportunity Market Research Initiative: Selected Survey Results

- 76% of respondents reported that their green products and services are profitable
- 75% of respondents reported that sales for green products and services increased over the course of the Great Recession. Among those businesses, the greener the companies practices, the higher the likelihood of increased sales
- 84% of respondents that reported expanding their green offerings during this period (e.g. 2008-2011) reported that investment was rewarded with increased sales growth.
- 79% of respondents strongly agreed that offering green products and services was a competitive advantage
- 75% of small businesses in the survey planned to expand their portfolio of green product and service offerings



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AEO's Green Opportunity Market Research Initiative: Takeaways & Uses

- Cross-sector collaboration valuable:
- Robust survey sample including current CDFI clients; eBay sellers; Green Business Network members, others
- Market insights from CDFIs and others informed survey design
- Engage with micro lenders and business owners to test findings against real experience and needs in the marketplace
- Basis for networking with green organizations to offer financing to businesses
- Opportunities to mine the data for further insights and open questions
- Use findings to inform product development decisions so that access to capital is not a barrier for promising green businesses



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Demand & Supply Case Study: ECDI, Columbus, OH

- CDFI/SBA Microlender provides financial literacy training, microbusiness training and financing, business incubation services for access to markets, educational access grants, down payment assistance to first time homebuyers and home repair programs for senior citizens and disabled individuals.
- 870 loans; \$15,777,232 total dollars; \$18,134 average loan size; \$15,000 median loan size.
- 2000 businesses created through loans and IDAs
- 4000 jobs created and retained since 2004



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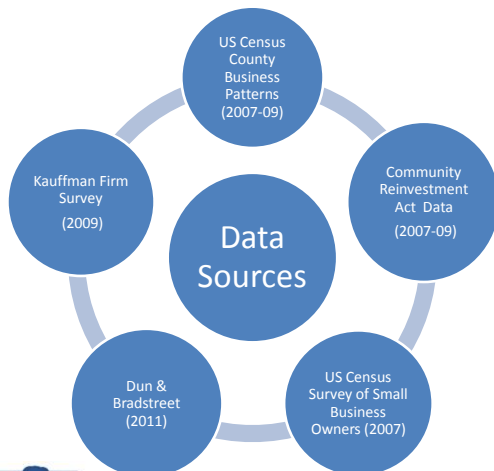
Demand & Supply: Small Business Microloan Gap Analysis

- 1. Why?** To determine the extent of the demand for microcredit to aspiring entrepreneurs and existing very small businesses in a defined area.
- 2. Quantitative:** Includes analysis of secondary data sets and proprietary data.
 - a. Analysis of trends in firm characteristics, industry sectors, lending patterns across footprint
 - b. Estimate of Demand/Supply mismatch by zip code
- 3. Qualitative:** Includes confidential key informant interviews and online surveys.



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Part I: Quantitative Analysis



- Drills down to the zip code level in your footprint to identify those areas that are most in need of capital.
- We use 5 main data sets



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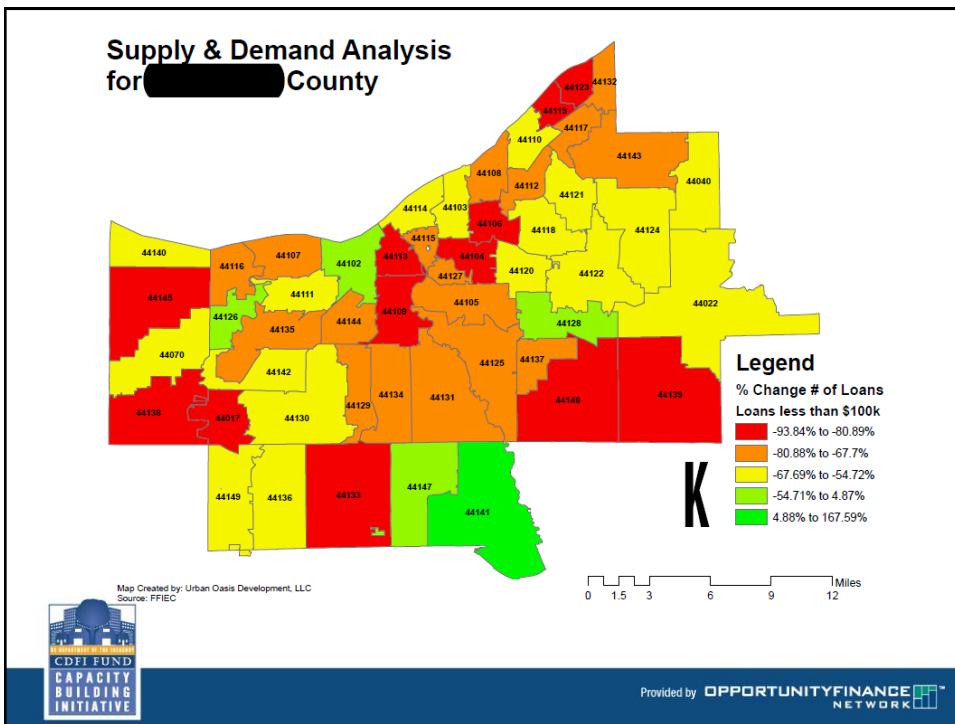
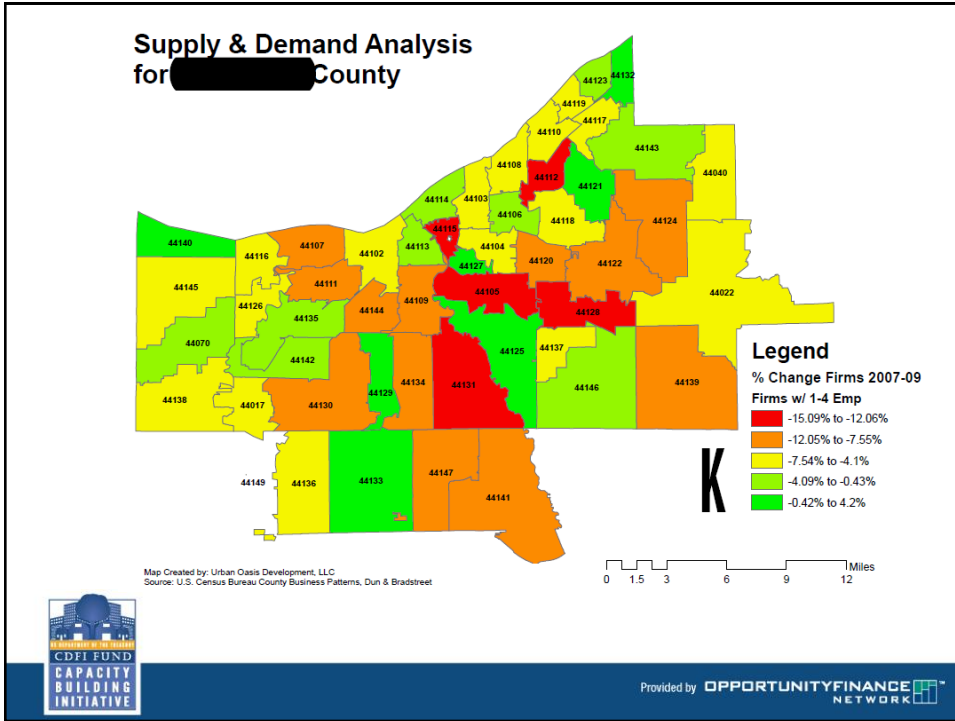
What we sought to learn



- What are the trends in the number of micro and very small businesses?
- What zip codes or neighborhoods experienced growth or decline?
- What sectors experienced growth or decline?
- What are the trends for minority and women-owned businesses?
- What are the trends for the amount of lending to small businesses from commercial banking institutions?



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Estimate of supply and demand mismatch by zip code

- We estimate current capital demand using data from the Survey of Small Business Owners which provides the distribution of the dollar amounts that firms need.
- We compare these demand estimates to the dollar amounts lent for loan sizes under \$100k and loans to small businesses with less than \$1M in revenue.
- We are able to identify the gaps in the market and where capital is needed.



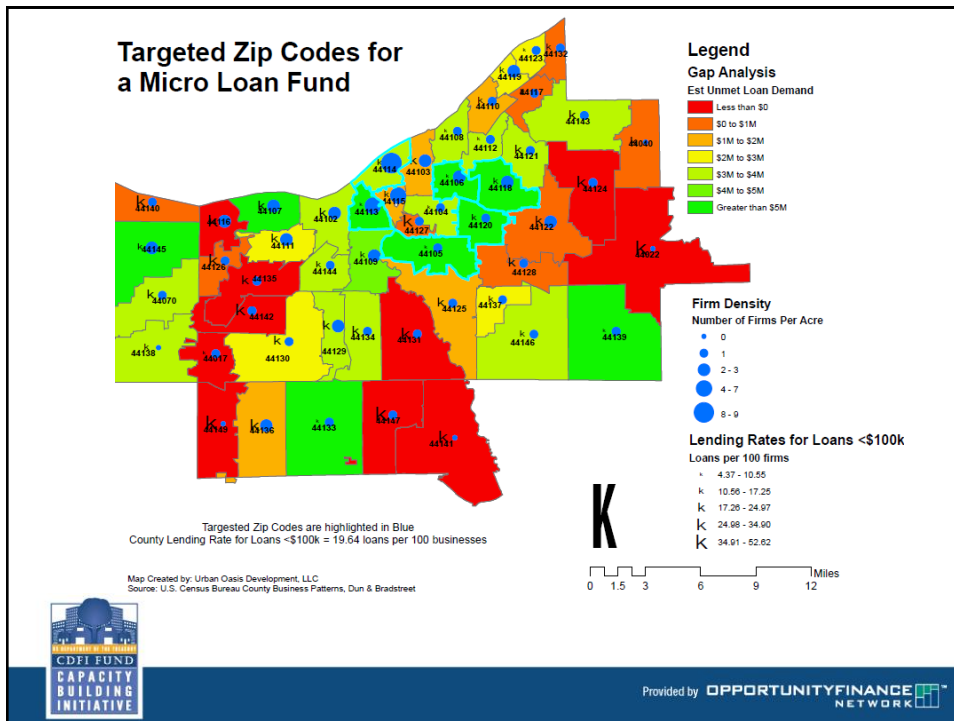
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Identify High Priority Zip Codes

- After compiling all this data, we look at each zip code across several dimensions including: estimated lending gaps, firm density, change in lending 2010-2012, lending rates for 2012, and areas where there are high concentration of small firms and minority and women-owned firms.
- In comparing this data by zip code we can identify zip codes as high priority target areas for microloan funds to focus on.



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Part II: Key Informant Interviews

- Confidential interviews with individuals and organizations on the issue of access to capital:
 - Financial Institutions
 - Public and private economic developers
 - Small business development providers
 - Government officials
- Obtain candid observations on their assessment of the effectiveness of your current program.
- Supplement with anonymous survey



What did we learn?

- Size of the gap? In the Columbus area, we found the gap to be **\$33 million**.
- Six zip codes in Cleveland account for ~\$25 million of the lending gap.
- In Toledo, the gap was **\$15.6 million**.
- Looking now at Summit County (Akron)



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Demand & Supply: 50+ LMI Entrepreneurs



- Are there opportunities for CDFIs (and others) to better serve 50+ LMI business owners and aspiring entrepreneurs?
- Size of the prize?
- Unique needs relative to other age brackets and socio-economic status?
- Partnership opportunities for CDFI microlenders?
- Product development opportunities?
- Market research kicking off in Q4 2013



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Market Research: Uses

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External Landscape Mapping: Partners and Investors



Source: "Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry" Prepared for Rockefeller Foundation, July 2012



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Performance Improvements: On-Time Repayments



- Default rates soared during the financial crisis
- ~15% of borrowers missed payments each month resulting in NSF fees from banks and late fees from Accion Texas
- Qualitative market research to understand client behavior and barriers to on-time repayment
- Hypothesis-led approach
- In-market testing of tweaks and changes
- Assessment strategy defined in advance
- Led to series of small tweaks to process and improvements to user experience



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Market Research is a Critical Capability if We are Going to Scale Microfinance

- Ensures relevance in marketplace
 - To clients vs. their alternatives
 - To investors / funders
- Lays groundwork for new products, services and delivery models
 - Trends
 - Unmet needs
 - Potential partners
- Lays the foundations for new business models, often with lower cost structures



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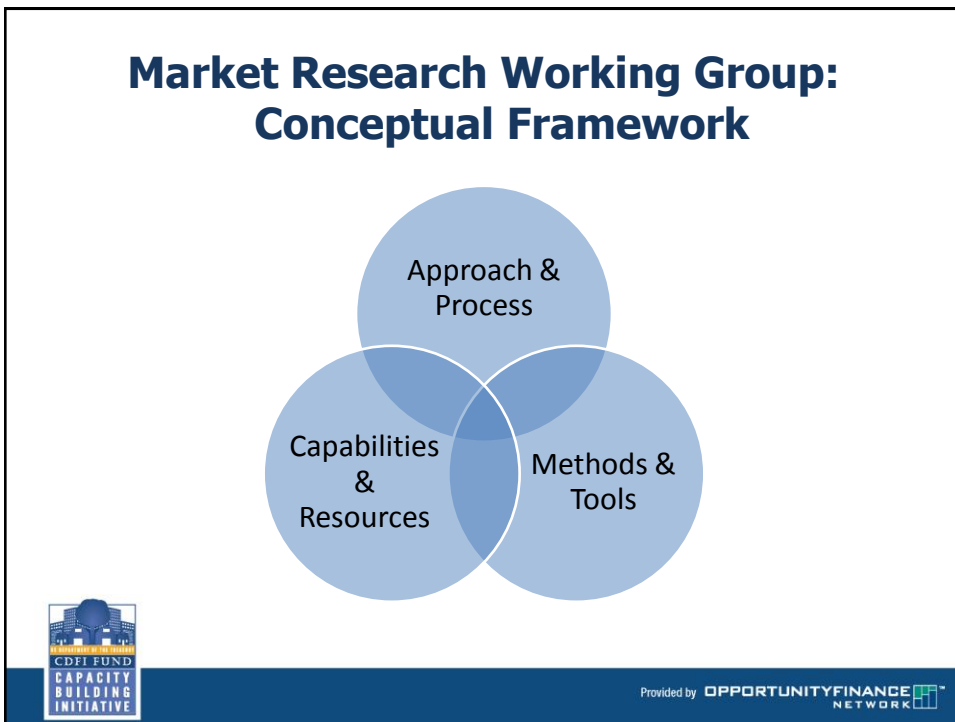
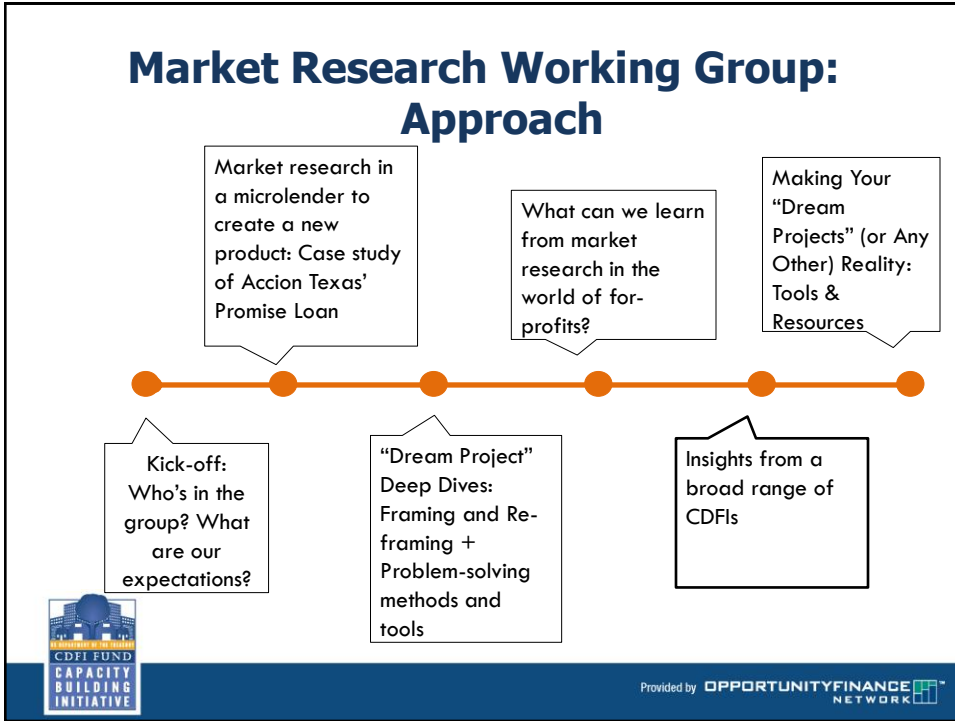
How does your organization use market research?

What are the some of the ways that market research has contributed to your impact?

What, if any, challenges have you experienced?



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Market Research Working Group: Participating Organizations



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Market Research "Dream Project"

Problem / Opportunity

- 35% of Vermont's population resides in the four southern counties of the state while only 10% of the CCV's loan portfolio is originated in those counties
- Referral pipeline from partners in these counties is not robust
- Unmet demand for debt among LMI entrepreneurs in this geography for both start ups and existing businesses
- Opportunity for CCV loan product in the southern part of Vermont

Desired End State

- CCV is the preferred business lender in the state relative to other alternative and conventional lenders

Barriers

- Opportunity cost (e.g. time) spent networking
- Out of pocket expenses for travel



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Elements of the Solution Proposed

- Interviews with owners to understand how they currently finance their businesses, drivers for the choices they make and “pain points”
- Use insights from interviews to design survey of individuals who registered businesses with the Secretary of State’s Office
- Use survey results to support lead generation
- Use survey results to inform marketing messages



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Market Research “Dream Project”

Problem / Opportunity

- Gap in understanding of financial behavior of consumers with thin or no credit files
- Granular, specific and actionable insights into behavior could yield new offers and/or user experiences that better meet financial needs of low-wealth underserved

Desired End State

- “Financial stability for low-wealth consumers who are provided CGF small loans and CGF educational workshops”
- Robust set of financial products and services that meet the needs of low wealth people in Rhode Island and in nearby states

Barriers

- Access to commercially available data is often cost prohibitive
- Open questions about predictive nature of “alternative data”: (e.g. *What data is available? What would expand access for low-wealth individuals? What is predictive?*)
- Funding for research efforts
- Expertise / In-house capabilities
- Technology to automate scale distribution



Source: Extracted from Jose Fonseca's Market Research Dream Project



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Elements of the Solution Proposed

- Tap into networks focused on “Big Data” to learn more about the external landscape and establish contacts
- Define distinctive value proposition to potential partners with data analytics capabilities but limited market access
- Explore opportunities for data aggregation opportunities across network of Rhode Island nonprofits



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Market Research Working Group: Common Challenges

- Constraints on staff bandwidth (e.g. small teams stretched thin and doing way too much already)
- Expertise may not reside in-house
- Funding scarce or not available for out of pocket expenses



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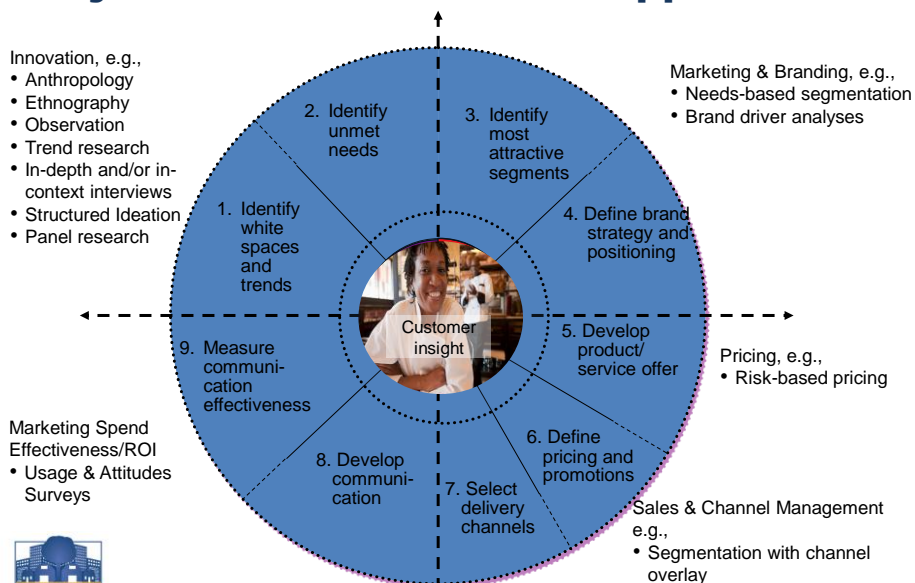
Takeaways: Approach & Process

1. **Laser-like clarity** regarding **scope and problem definition** is critical for effective market research
2. Research **objectives** drive **choice of tools and methods**
3. **Data can take many forms and the availability (or absence) of data should inform market research approaches**
 - Government data sets (e.g. Census, FRB, OCC, IRS)
 - Proprietary purchased data sets (e.g. Hoover's, youreconomy.org, D&B)
 - Data generated from operations
 - Creation of fit-for-purpose data samples via surveys, interviews, desk research, etc.



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Objectives Drive Research Approaches



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Takeaways: Capabilities & Resources

1. **Not all market research requires major project budgets:** There are low-cost ways to generate insights into how you could acquire new customers or better serve the ones you have
2. **Adopt a learn and test mindset:** Data analysis and insight generation can and should be core to the organization's DNA. Ask the right questions of the right people at the right time with the right information
3. Find **creative ways to access sophisticated technical expertise** when budgets are constrained
 - Universities (e.g. present professors with "class projects"; graduate students)
 - Volunteer Consultants (e.g Bankers without Borders)
 - Paid Consultants: Growing network of CDFI consultants increasingly "productizing" offerings



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Low-Cost Tools Available



- Easy to create online forms and surveys
- Affordable pricing options including "free"



- Advanced functionality but easy to use online survey software
- Pricing from "free" to \$159 / month



- Google Hangouts for virtual focus groups and/or ideation sessions



Examples, Not Exhaustive

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Volunteer Consultants Can Fill Gaps in Capacity & Expertise

- Expert volunteer corps with diverse talent pool covering all functions including marketing, data analytics
- Available for microfinance projects in the United States through a partnership with AEO
- Consulting project model: Based on scope of work, BwB identifies highly skilled volunteer candidates for your organization to screen and interview
- Bankers without Borders team orients the consultants, monitors project activities and evaluates outcomes and impact of each project
- Project length varies: on average 120 hours of service
- Nominal fee on sliding scale based on project complexity (~\$1,400)
- Questions? Contact Garvester Kelley, SVP, Sustainable Practices at AEO (gkelley@aeoworks.org)



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Takeaways: Qualitative Research

- Clients are individuals with unique aspirations, needs, and constraints. Mindsets, beliefs and behaviors can and do inform what products and services they will demand.
- Qualitative research can be a valuable form of market research. Observing and engaging representative sets of current customers and target customers can be an excellent source of insight for product development and/or process improvements.
- Qualitative research (e.g. observation, interviews, focus groups) can be effectively combined with quantitative market research (e.g. surveys, analysis of client data)



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QUESTIONS?



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Takeaways: Survey Research

- Sample selection is "critical choice"
 - Who are users of the offer generally?
 - Who are your users?
 - Who are non-users?
- Mode of interaction matters and includes tradeoffs
 - Online
 - By phone
 - In person
- Design of the questionnaire and construction of the questions requires considerable thought and attention to user experience



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Guiding Principles: Questionnaire Flow

1. Open with interesting content to engage respondent
2. Ask important questions early to avoid fatigued answers
3. General questions should come before specific questions
4. Questions that could influence subsequent responses should be asked as late as possible
5. Use transitions between topics – and keep related topics adjacent to one another
6. Mix up question types – e.g., don't ask all rating scales in a row
7. Randomize the order of questions across respondents to eliminate question order biases
8. Close with any sensitive questions that might cause termination if asked earlier
9. Put demographic questions last whenever possible - easy to answer when fatigued and avoids loss in data if respondent drops out because doesn't want to answer income, age, etc.



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Construction of Your Questions Matters!

Will the respondent understand the question?

- Is the literal meaning understood?
- Are there multiple ways to interpret a question or word in a question?
- Is the language simple, straight-forward and appropriate to the population being surveyed?

Can respondents accurately answer the question?

- Do they have sufficient knowledge?
- Is it grounded in actual experience the respondent can recall?
- Are you really asking 2 or more questions?

Will respondents accurately answer the question?

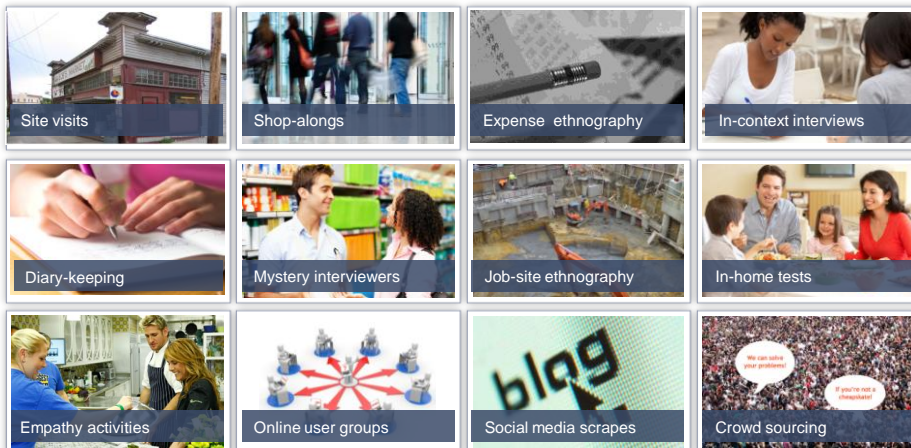
- Is the question too personal/ sensitive?
- Is the respondent motivated to provide a "socially desirable" answer rather than the truth?
- Is the question too long/ does it require too much energy to answer?
- Will respondents be biased or led by the question?
- Are the instructions clear?
- Are the questions of an appropriate length?



Source: Robert A. Peterson, Construing Effective Questionnaires, 2000 Sage University Press; pp 17-23

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Lots of Ways to Generate Qualitative Insights, Some are Low Cost



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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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CDFI Fund's Virtual Resource Bank

www.cdfifund.gov/what_we_do/Scaling_Up_Microfinance_Resource_Bank.asp

- WHO WE ARE
- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

Scaling Up Microfinance: Resource Bank

The resources for this topic can be found below. To view all of our available Resource Banks, click [here](#).

I. Training Curriculum

- Innovative Business Models
- New Products
- Talent Management
- Technology Solutions

II. Training Webinars

- Innovative Business Models
- Talent Management
- New Products
- Technology Solutions
- Loan Repayment

III. Additional Resources

- Microfinance Landscape and Borrower Experience and Need
- Innovative Business Models
- New Products and Services
- Technology Solutions
- Talent Management



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