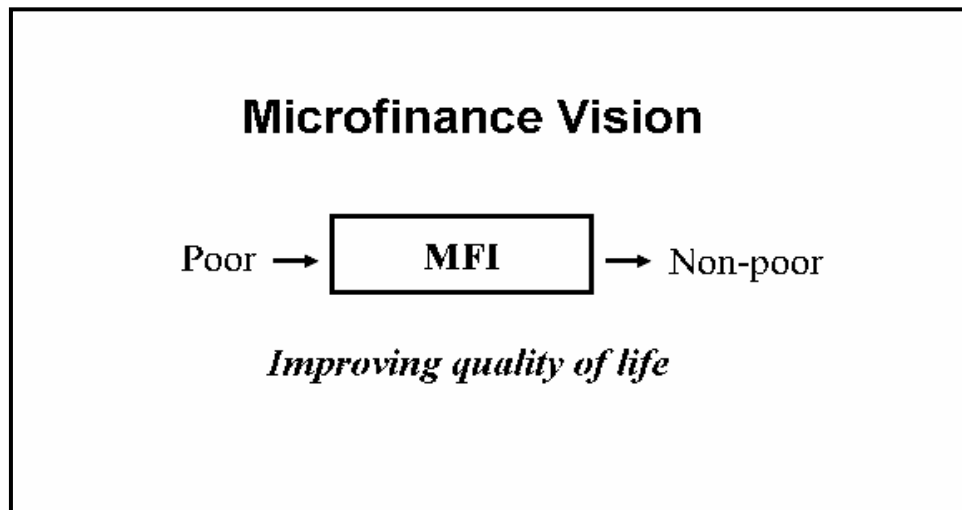


## LISTENING TO CUSTOMERS: KEY TO BEING EFFECTIVE MICROFINANCE ORGANIZATIONS

Effectiveness means being able to achieve set goals. It is therefore right that we should start with your organization's vision. This is an important starting point as it defines to whom and why your organization should be responsive. Like the northern star to a traveler, vision guides all activities. It gives life to your organization's reason for being—the market you are serving and the purpose of your service. The vision of most microfinance institutions is to improve the quality of life of the poor to a level where they are no longer poor. The main means through which MFIs aim to achieve this impact is through the provision of financial services.




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All case materials are prepared solely for the purposes of class discussion. They are neither designed nor intended to illustrate the correct or incorrect management of problems or issues contained in the case.

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Microfinance institutions aim to have a positive impact on the life of the poor. Positive impact does not only mean poverty alleviation (where the poor become less poor, where their poverty becomes less severe); it should also indicate poverty reduction (a situation where there is no poverty).

To maximize their positive impact, microfinance institutions must have both breadth (large numbers) and depth (reach the poorest) of outreach. Breadth means being able to reach large numbers of the poor. Depth means being able to reach also the poorest among the poor.

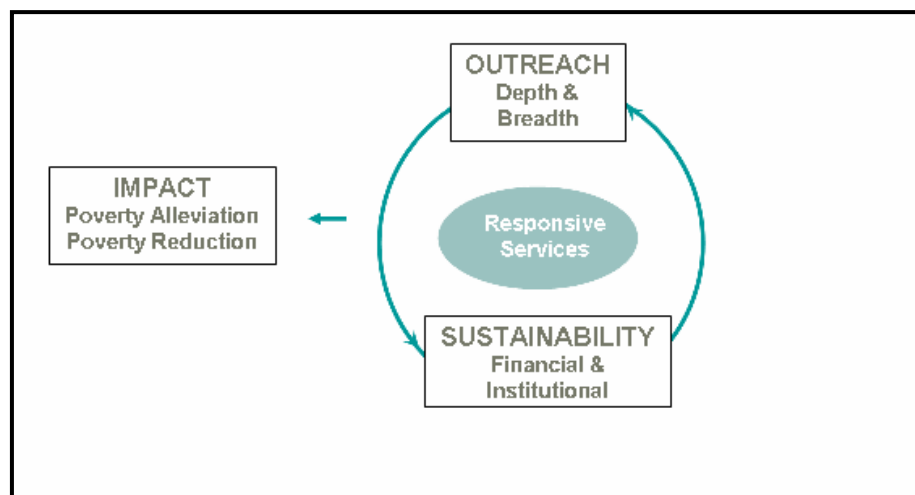
To have maximum outreach, MFIs must be sustainable. Sustainability means being able to continue to provide services into the future. For this goal to be achieved, MFIs must be financially and institutionally sustainable. To be financially sustainable, an organization must be able to cover its costs of operations from the revenues it generates for offering its services. Only then will it be in a position good enough to attract additional sources of money that it will need for expansion.

MFIs must also be able to continue to mobilize the financial resources necessary for growth. These resources may come from an organization's surplus, from deposits that it mobilizes (if it offers savings), additional investments in the form of equity, and loans.

But financial sustainability alone is not enough. The organization has to be able to continue to develop and retain its people. After all, people run organizations.

Outreach and sustainability go hand in hand. Having an extensive outreach can contribute to financial sustainability as it increases the revenues of the MFI. On the other hand, sustainability provides an organization with a stable base from which to continue its expansion and increased outreach.

How can your organization maintain its expansive outreach and sustainability? One way it can is by providing responsive financial services to your target groups.



How does this work? If customers are happy with existing services, they will share their satisfaction with others through word of mouth. This manner of “advertising” will help your organization get more customers, which will in turn translate to higher revenues.

If customers remain satisfied with your services, they will support your program. Evidence from business indicates that it is more expensive and requires more effort to recruit a new customer than to retain an existing one. Compare the efforts exerted by your field workers to recruit a new customer as against that of keeping existing customers. In some cases, it may take two to three times more effort, not to mention cost, to get a new customer. Of course satisfied customers will be willing to pay more to avail of your financial services.

Frequently, microfinance customers require not just one type of loan, but various loan products for various purposes. They may also require other financial services such as savings, insurance, and money transfers. Satisfied customers are more likely to consider availing of the additional services that your organization offers.

If your organization is able to meet these customers’ needs successfully, then, household stability will increase. Customer household stability will, in turn, contribute to your organization’s financial sustainability. Stable and prospering households provide a strong base for building a sustainable organization.

Well-designed and responsive products also help lower the risks of non-payment or delinquency. Loan products that offer appropriate amounts based on the customers’ capacity to pay and have a schedule of payments that matches cash flows stand a greater chance of being repaid.

Microfinance has become an international movement so that it is now frequently referred to as an industry. Everyday, new developments and changes take place. Allow me to share with you what I see as new areas and future challenges in microfinance.

Pause for a moment and reflect on how you call the people you serve. Do you refer to them as beneficiaries or do you consider them customers? This question is more than just a play with words. There is a distinction between the two terms. Beneficiaries are dependent on the benefactors’ good graces so they should be grateful to their benefactor. Customers, on the other hand, make demands. They also make choices and pay for services.

Whenever we view the people we serve, that is, the poor, as beneficiaries, we may unconsciously carry with us certain assumptions about them. For example, we presume that beneficiaries cannot afford to pay, thus, they need help. But, in reality, several instances have established that the poor are actually willing and able to pay for certain services. In fact, they usually pay more for the same services than we do simply, because they do not have access to such services, services like financing. As microfinance success has proven, providing financial services to the poor is really an issue of access.

How should we look at poverty and vulnerability? Are they risks that have to be managed? Or do they represent opportunities waiting to be seized?

The poor face risks daily and therefore need to manage these risks on a daily basis. Access to financial services may give them more and better options for managing risks. One response for coping with crisis (such as when a family member gets sick) is to sell off assets to generate cash needed to meet the crisis. If the asset sold is a productive one (e.g. a cow), the household's earning capacity may be impaired. Meanwhile, access to borrowing may allow the household to postpone the sale of the cow, which may then continue to produce milk for the household.

In many cases particularly those involving the poorer households, loans smoothen consumption. Given the irregular incomes of poor households, access to loans during lean periods may spell the difference between skipping meals and having meals regularly. While such access may not actually contribute to increasing incomes, should smoothening consumption merit any less?

In addition, access to financial services allows a household to build up its assets. In this case, we take on a broader definition of assets. Assets encompass human, social, physical, and financial components. Very often, when we refer to assets, we think only in terms of physical and financial ones. But for the poor, human and social assets are equally important.

The household members' health and education are important assets. Healthy household members are better able to work and earn. Skilled and educated household members stand a better chance of finding work and earning more.

A person's reputation and relationships of reciprocity are critical social assets, particularly for the poor. Maintaining a good reputation, for example, will allow a person to borrow in times of need. Investing in reciprocal relationships (where one extends help to other households in their time of need, as well) opens up another source of assistance to call upon when necessary.

By definition, poor people have very few assets, particularly physical and financial ones. Thus, they tend to be "protective" of the little that they have. They also tend to be risk averse as the consequences of asset loss for them can be grave. Losing an asset may mean missing a meal or, worse, it may be a matter of life and death.

Participation in microfinance programs, with its consequent access to financial services and a social network, can help households build up their assets. With a broader and more diversified asset base, poor households are then in a better position and become more willing to take advantage of economic opportunities and to take economic risks. To earn more, investments in time, money or both are essential, although there is no sure guarantee of returns. With a broader asset base, however, the negative impact of losses arising from risk-taking may be less.

Access to financial services allows the poor take advantage of business opportunities. In many cases, however, the capital required may exceed what a household earns on a regular basis. In such instances a loan, or a savings facility that allows the household to accumulate small amounts can provide the needed funds to capitalize on the business opportunity.

Take fiestas, for example. All communities have fiestas during which people spend money on food and gift items. Fiestas thus present an opportunity to earn to those able to provide goods and services that will be bought and consumed during such festive occasions. Access to financial services allows households to buy and sell more goods during such periods.

Allow me then to redefine microfinance. It is the provision of financial services to the poor to help them better manage the risks they face. It Microfinance helps build up their assets and enables them to take advantage of economic opportunities.

If we view the poor as customers, and consider risk and vulnerability as opportunities for providing services to the poor, a whole range of opportunities for them emerges.

What are these emerging market opportunities?

Review your own organizations' current reach. How many customers or clients do you have? How do these numbers compare with your potential reach? In most instances, you will conclude that there are still many more of the poor that can be provided with financial services.

Again, review the profile of your current clients or customers. Are you reaching the poorer or poorest segments of the population? It will most likely not be the case. With the appropriate mix of services, you may be able to effectively reach more of the poorer and poorest groups.

The poor face risks and can benefit from services that help them manage these risks. These services include microinsurance and financing schemes for health and hospitalization.

Have you explored financial services that can help the poor build up their assets such as their housing, their children's education, and their pension?

Beyond the common enterprise loans still lie a range of possible financial services that can be designed to help the poor capitalize on economic opportunities and grow. These services may include the provision of longer-term loans for the purchase of equipment, for meeting the requirements of overseas employment, and for skills training, to name a few.

The continuing challenge for MFIs then is how to push the frontiers of microfinance such that more of the poor are provided with responsive financial services in a sustainable manner. Meeting this goal will require MFIs to go beyond the tried and tested products and services currently available, and to start experimenting with new ones.

How can your organization face up to the challenge of pushing the frontiers of microfinance? You should be able to identify and provide responsive products on a sustained basis after finding answers to a number of important questions. First, you need to be clear about whom you plan to provide microfinance services. General statements like “the poor” or “the very poor” may not be very helpful. You need to be able to describe your target group at a level of detail that will allow you to distinguish differences in their need or demand for financial services. While there remain instances where a one-size-fits-all approach may still work, the result will be such that the one size does not fit anyone particularly well. A one-size-fits-all approach, however, may be appropriate at the early stages of development of a market where the customers are not yet so sophisticated and have limited choices available to them.

In business marketing terminology, the process of breaking up a big group into smaller groups on the basis of differing needs is called “market segmentation.” Segmentation includes making an assessment of the relative attractiveness of the segment. This process sets the stage for choosing the target segment.

Second, you should be able to identify the kind of financial services needed and demanded by your chosen target group.

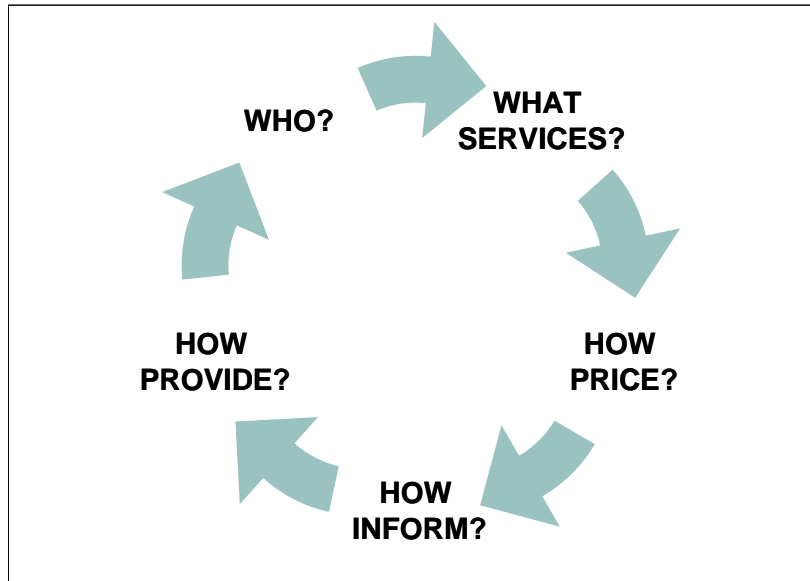
Third, what features does your target market prefer? For a loan, features may include the loan amount, and the terms and conditions of loan release and payment (frequency of payment, term of the loan—is it one quarter, one year, three years—etc.).

Fourth, what is the appropriate charge for the service?

Fifth, what is the best way to provide the service? When and where should it be given? Who should do it, and how often?

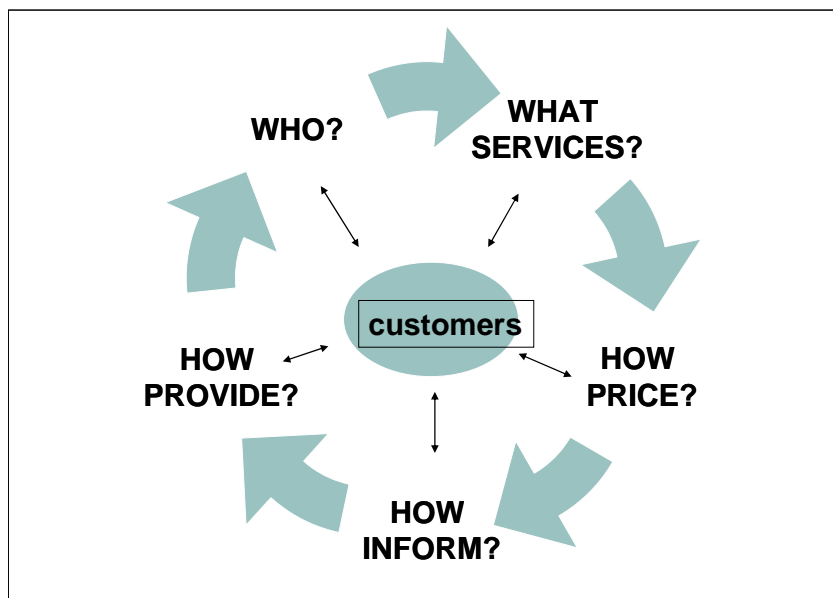
Sixth, what is the best way to inform the chosen target market about the product or service?

Finally, if you already have an existing product, how can you determine if you are doing well? And if you have already been doing well, how can you do better?

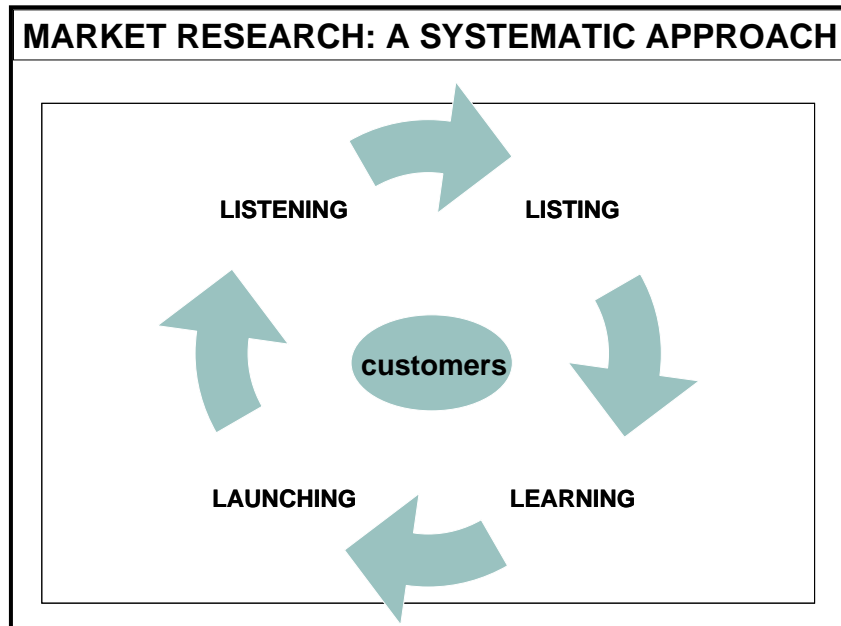


To be able to answer all these questions, you will need to gather information. But how can you get the answers and from whom? The key is to listen and learn from your present crop of customers or from prospective customers.

Why listen and learn from your customers or chosen target group? Why not? Your customers know their situation best; they understand their own problems and constraints, and very often, may actually have the solutions or ideas on how to solve their own problems. How your existing customers feel and what they think about your products and services are therefore most important. For emphasis, the figure below puts the customer at the center, being the main source of answers to questions on how you can be responsive to their needs.



What is market research and where does it come in? Market research is really a systematic process of finding answers to questions pertaining to marketing by **listening** to customers, **listing** their responses, **learning** from their responses, and finally, **launching** into action based on the insights gathered from the entire process.



It is worth noting that market research methods have evolved in both the business and social development fields. And perhaps it is appropriate that the importance of its application in microfinance is now being realized. Microfinance, after all, requires a combination of both business and social development skills and values.

In summary, microfinance is all about providing responsive financial services to the poor in order to help them improve their quality of life and to eventually move out of poverty. It is about contributing to poverty alleviation and poverty reduction. For microfinance to have an impact, microfinance organizations must have an outreach component and sustainability. Designing and providing responsive financial services are key to maintaining outreach and sustainability. Finding the appropriate answers to key marketing questions through market research will increase your organization's chances and ability to push the frontiers of microfinance so that more and more of the poor can be served!



## **The Continuing Challenge:**

**PUSH FRONTIERS**

**REACH MORE GROUPS  
WITH RESPONSIVE  
SERVICES**