SME PRODUCT DEVELOPMENT

By Mary Miller and Sandra Chege

GETTING STARTED WITH PRODUCT DEVELOPMENT

Banks and other financial institutions are starting to understand that SMEs constitute a market segment of their own, and require financial products that address their particular needs. These needs will be distinctive from corporate products, because transaction sizes and numbers will be smaller, but also distinctive from retail products because more customisation and sophistication is needed.

The key characteristics of SME products are that they are:

- Typically offered in volume to many SME customers.
- Easy and low cost for bank to process and administer.
- Cost-effective – smaller businesses in particular are willing to accept standardised products if they are low cost.
- Comprehensive – SMEs prefer “one stop shop” banking, which suggests offering complementary products.

Good product design and offering an attractive range of products are typically considered to be marketing challenges, but these are the precise elements that are a critical part of SME banking profitability. Making a profit on SME banking largely rests on doing a high volume of business (number of deposit accounts, loans, fee-based services) in a cost-effective manner.

There is a range of publications that describe the process of product development and particularly financial product development. Therefore this Technical Note assumes that the reader is generally familiar with the process, and will focus on those particular elements or problems that are more distinctive to SME banking. Market Research, although a significant element of SME Product Development, will not be covered here because there is a separate Technical Note on the subject.

This Technical Note also assumes that the financial institution has identified its target market segments and has developed its competitive strategy for serving those market segments. These topics are covered in depth in a related Technical Note. It is important to understand, however, that lack of good market research, as well as lack of segmentation and strategic planning for the SME banking department, may make the product development process useless or pointless.

Management and development of a line of business is an on-going, dynamic process, particularly in an ever changing SME banking market like Kenya. Product design and planning may be done prior to the point when the financial institution is prepared to actively promote the new product or product suite. However, there are conditions that should be in place before a new product release point. These require extraordinary attention, as product development initiatives may be a wasted time and effort, if results cannot be used on a timely basis. Preconditions include:

- **Portfolio quality** – if the financial institution is dealing with a significant portfolio at risk or non-performing loan problem, attention can and should be focused on addressing this. As a result, if results cannot be used on a timely basis, preconditions include:

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1. See suggestions in the References.
minimum product developers need to consider whether the new product will address or exacerbate a collection problem.

- **Liquidity** – if the new product is a loan product it will require funding. The financial institution also needs to decide how much of a new credit product that it wants to sell, and commit to an appropriate capital allocation. It may also source funding from external sources, e.g. lines of credit for on-lending from international financial institutions.

- **Financial strength** – new financial products will not be profitable immediately until certain volumes are reached – the bank needs to be prepared to cover costs during the start-up period, as well as cover product development costs.

- **IT systems capability and capacity** – system preparedness can take such a long lead time, and associated costs are so great, that this should be considered separately. This is a problem particularly for up-scaling financial institutions that are operating on systems designed for micro finance institutions (MFIs) – more than one financial institution has been on the verge of promoting a revolving line of credit product before realising that its loan accounting system could only handle monthly payment term loans. While system testing will be a part of the product development process, the system capability needs to be in place in advance.

Softer considerations for preparation include evaluating where the new product will fit with current offerings, and the financial institution's market strategy. If the innovation for the financial institution is serving a new market segment rather than offering a new product to an existing or close market segment, staff and capacity preparedness will be more of a challenge. This should be anticipated and addressed in advance.

Overall it is important to evaluate how the product will align with the financial institution's organisational strategy – whether the product and the market it serves are part of the bank's mission, what resources may need to be brought in to support the product, and how the product will fit into the bank's long term positioning.

**SME FINANCIAL PRODUCT DESIGN AND ROLLOUT**

Where does the product design process start? A diagram such as the one above generally describes the key steps that are involved in product design, starting from preparation and ending in an evaluation. As noted above the assumption is that the financial institution has an idea of what type of product it will consider offering, has done initial product concept development, and will have conducted appropriate market research.

The actual process should be regarded more as a spiral because evaluation will be an on-going process, and existing product experience will feed into new products and product changes.

### 2.1 PREPARATION (POST MARKET RESEARCH)

New product ideas come from customers, bank staff and sales force, competitors, and the bank’s market research and development unit; ideas may also come from vendors, suppliers, successful bank experience in other countries, and other industries. The screening that the product idea must pass is:
Will the target market customer benefit from this product?

Is it technically feasible to design and deliver this product? For bank financial products this particularly refers to regulatory requirements, as well as IT capacity and delivery channels.

Can the product be profitable at the target price?

What is the possible impact of the new product on existing products — will this be a replacement, will it cannibalise existing products?

Throughout the product development cycle these questions will be posed over and over, and products under development must pass these tests each time. The bank wants to offer scalable products, i.e. financial products and services that can be offered in volume, and that meet bank profitability expectations at projected customer uptake volumes.

**Types of New Products**

New products succeed because they are unique and superior, fill a market need, have a high perceived value, or offer currently available functionality at a lower cost to the customer and the financial institution. The amount of effort put into product idea development will depend on what type of new product is being developed. Categories of new products comprise the following:

- **New to the world** — a totally new financial product, e.g. agent banking.
- **New category** — variation on an existing product, for example offering foreign currency-based loans.
- **New product lines** — products previously not available from the financial institution. Up scaling MFIs, for example, may be offering transaction accounts for the first time.
- **Product improvements** — changes to existing products. Many product bundles may be classified this way.
- **Repositioning** — changing the image or promotion of an existing product. Changing the qualification or entry levels on a product, for instance, to qualify more smaller businesses is an example of repositioning.

These categories also suggest that product design is not a static process, that innovative features and processes will be introduced regularly to enhance the customer relationship and benefit to the customer, to increase profitability for the financial institution, or at least to respond to competition.

**Time Needed for the Development Process**

Product design and rollout time will vary markedly depending on the level of preparedness of the financial institution, as well as the level of “newness” of the product to the financial institution. Assuming that the financial institution knows what new product it wants to offer (i.e. initial market research has been conducted), a realistic timeframe for the development process, post-market research, is four to eight months minimum. What takes up the time?

- **Product design evaluation** — after the product has been initially designed it needs to be vetted with target customers, both existing customers and non-customers. This is known as quality testing and will likely be done through focus groups. From a timing point of view an important consideration is scheduling the time for this activity. If the design evaluation is conducted by the financial institution’s own marketing or research department, that department needs to be planning for this major job and allocating dedicated time as part of its annual operating plan. The evaluation may be outsourced to save time. However, unless the financial institution regularly uses outside marketing firms for this type of work, it will also take time to interview and assess the capabilities of such firms, and this needs to be built into the development time for this process.

The product development cycle is more of a spiral because evaluation is an on-going process, and existing product experience feeds into new products and product changes.
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Building a Product Development Team
Pulling together a product development team is recommended when developing new SME financial products because this enables access to different types of expertise throughout the bank as well as providing the opportunity to inform and build institution-wide consensus about a new SME offering. This latter reason is particularly important if SME banking is new to the financial institution – this product development approach will help to further mainstream SME banking and ensure that it is a strategic part of the bank’s future. By contrast, if product development is undertaken by only one or two people, or relegated to the marketing department this may reinforce the sense that SME banking is simply a special project, perhaps done as a part of social responsibility, leaving it more vulnerable to being dropped somewhere down the line.

A good team brings in staff from multiple departments and typically includes the following:

- **Team leader/product champion/product manager** – who will be committed throughout the design process and will have the greatest number of hours/percentage of work time committed. Typically this person will be a senior manager in the SME banking department (but may be a marketing staffer who regularly does new product development). He or she will be responsible for developing timetables, Gantt charts, and terms of reference, and will also ensure the performance contributions of other team members. In his or her role as the product manager this person will write the policies and procedures to be followed for the product, although team members will contribute based on their expertise. Equally important is the team leader’s enthusiasm for the project, to encourage interest and sell the concept internally.

- **Account officers/Relationship managers** – one or two staff whose customers would directly be using the product, maybe relationship officers and/or branch staff, depending on the product being introduced. These members of the team will be speaking for the customers, thus will be both the customer voice and the line staff voice in the process.

- **Marketing / Research & Development** – this function contributes in the pre-development phase through conducting market research product design testing and competitive assessments. Later in the process it will work on the development of marketing and advertising for the product.

- **Human Resources / Training** – the main contribution of this department will come through the development and delivery of staff training on the new product as pilot testing begins followed by product rollout.

- **Operations** – this department handles the operational aspects of the product assessing the back-office policies and procedures that will need to be followed and any changes that will need to be made to accommodate these.

- **IT/MIS** – deals with systems issues. It will be important to precisely inform IT/MIS what the product parameters will be so that these can be put into the financial institution’s existing system. Having a team member from this department may assist the team in understanding what the financial institution’s system capabilities are and this person may suggest design features that can be better accommodated by these systems. As noted before if the current systems cannot handle the product type at the initial design process stage then the development process should be stopped or slowed until this is addressed. The IT/MIS department should be brought into the process early so that the team will understand systems issues.

- **Finance** – this department will work on performance and profitability projections, and will price the product.

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### Software and system changes

As noted above, weak systems may stop a new product project entirely. For upgrading institutions that are new to SME banking, the IT system may need to have additional modules installed and tested to be able to handle new product types.

### Pilot testing

This is the longest phase of the product development process because staff in the branch or part of the delivery channel will have to be trained on the new product. A reasonable period of time is needed to see what the interest and uptake are, what process bugs exist, and how the product performance is compared to projections. The pilot test phase does not need to last the full life of a product, but the individual product use should have “normalised”, and moved past the initial customer learning curves. The first user cohorts of the product will continue to be tracked, but assuming the financial institution goes forward with the product this pilot testing period will be followed by a more widespread launch.

Selling the idea internally and getting approval of stakeholders is also a lengthy process and effectively will go on throughout the product development process. The more the product development is driven by customer demand or need the easier this buy-in will be.

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1 For instance, for a term loan product it is not necessary to see full loan payout, even if collateral release procedures will be newly designed.
These calculations will be key in making the ‘go or no go’ decision as to whether the new product should be offered. This department will also work with the chief financial officer as necessary to determine an allocation of capital for new credit products.

- **Accounting/auditing** – will review the new product from an internal control point of view.
- **Legal** – depending on the type of product being developed, the legal department may be involved if central bank or other regulatory permission or submissions are required. Those from the legal department will also be involved in product documentation, and would address any trademark or copyright issues.

Specific assignments will depend on the financial institution’s organisation.

Some banks will hire a consultant to facilitate the product development process, but if it does it is critical that the financial institution see this as its product, not an external recommendation that may be pursued or not.

### 2.2 PRODUCT DESIGN

The first task of the team is to come up with a prototype, a working model of the new product which can then be tested, vetted, and adjusted to meet customer needs and bank profitability requirements. This design is likely to be based on ideas from staff, from conversations with customers, and/or from conclusions drawn from market research about opportunities and constraints faced by the target market segment. The prototype will include parameters (e.g. minimum and maximum loan amounts and terms for credit products, transaction amounts for deposit products), and processes and procedures will be specified.

Overall the process of prototype development will address the “8 Ps” of marketing:

- **Product** – characteristics as described above.
- **Price** – rates, fees, late fees, transaction fees, also administrative and filing fees.
- **Promotion** – how will the target market be informed about the product e.g. advertising, one on one promotion to existing customers by relationship managers, in-branch promotions.
- **Place** – delivery channels through branches, internet, mobile or agent banking, lead firm.
- **Positioning** – how will the product be positioned in the SME financial market place?
- **People** – what skills and knowledge are required by staff for efficient and effective product delivery?
- **Physical evidence (Packaging)** – how will be product be packaged – what are the product features & benefits to the SME customer?
- **Process** – What process will be used for efficient and effective product delivery – process mapping is an important aspect of product development.

It is helpful to think of the product and its development in terms of a core product, an actual product, and an augmented product. The core product defines the specific need or want being addressed, for instance, a loan is providing funding for purchasing fixed assets or inventory or paying suppliers and employees. An additional investment in the company or an advance from a customer could accomplish the same purpose and would be alternatives. The actual product is the nuts and bolts description of the product, for example, a term loan for X months with a rate of Y%, to be secured by Z collateral.
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The augmented product describes the additional features and benefits, for example convenience, flexibility, and the approval process.

An important part of the development of the prototype is an assessment of the competitive position of the product, what are unique selling points, why would customers buy this product from the financial institution. This will consider items such as:

- What products are being offered in the market that are similar to this product, what are characteristics of the products that are strongest in the market and/or are being offered by the financial institution’s competition for the target market population?
- What alternative products are being offered, how does the prototype compare in terms of addressing market needs and constraints?
- How does the target market segment for similar products vary?
- How are competitive products delivered to the market – are there differences in the banks’ internal processes?
- How are other products being promoted?
- How will the competition react (counter) to the introduction of this product, where is the competition headed with product development and market segmentation?

This information can come from a variety of sources: account officer experience with competitor products; reports from customers; website searches and brochure reviews—occasionally from the central bank—and from information reported through banker associations. A bank that regularly tracks the products and trends from those financial institutions it considers as key competitors will be well-positioned to make this competitive assessment.

Product design evaluation

Once the prototype has been developed the financial institution should evaluate it by getting input and reactions from potential customers for the product. This is a step that financial institutions offering SME banking products often bypass, probably because they think they already understand the market well enough or because they do not want to incur the costs of good product evaluation. Some banks will simply go back to existing customers who are in the target market segmentation and vet the product with them one on one. This is helpful but not sufficient since the bank is typically looking to expand its market beyond the existing customer base. Product evaluation can be used to gauge interest from a broader market.

Product evaluation is typically done to address the following:

- How great/costly is the risk of failure?
- Identifying unanticipated problem areas.
- Assessing competitive reaction.
- Assessing delivery methods.
- Assisting in contingency planning.
- Assessing the product features and benefits from the SME customer’s perspective.
- Assessing the SME customer’s perception of the product.

SME product design evaluation of this type is typically done through the use of focus groups, with 6-12 participants in each.
group. These may or may not be actual bank clients\(^5\) but they should be representative of the target market segment. The information gained from the discussion will not only address planned product characteristics but will also provide information about market perception of the features and benefits of the augmented product (e.g., flexibility and convenience). This will guide the bank on both refining the product terms and on developing a marketing plan for the product. For reliability a marketing firm or the marketing division of the bank will typically conduct 5-10 focus groups comprising both bank customers and non-customers who might be a target for the product. Additional focus groups should be conducted if there is more than one target market segment for the product or if other differences such as urban or rural location are felt to be important to the target market segment.

A variation on the focus group is called the listening group, and may be a particularly effective way to test products and generally collect information from women, including women business owners. This is a longer meeting, usually three hours, which takes place over a meal, and is in a non-business setting with the discussion more free-form. Like a focus group there will be a facilitator.

**Measuring performance - setting decision points/ success hurdles**

As the prototype is being refined the finance department will start pricing the product and projecting revenues and profitability from the product. Considerations will include the cost of capital, cost of product delivery, fixed costs, and competitor pricing. Projections will also be done on the number and volume of the product that will be sold to estimate revenues and profits, and also to understand financially what will constitute “success”\(^5\).

At the same time that the prototype is being developed and evaluated the product development team should be setting decision points or success hurdles for product rollout. Not all products will make it to market and be successful, and the bank will be better off at times to walk away from product development and product introduction. The team should be setting measures such as positive assessments from product evaluation, certain volumes and numbers of the product to be sold during the pilot phase, and a judgment that product delivery can be done within cost and time limits. (A bank should be going through a similar process to evaluate its existing product suite on an on-going basis, to discontinue products that are not being taken by customers, or to consolidate similar products.) These measures will be both quantitative, e.g., number of products sold, contribution margin per product — and qualitative, for example, do customers understand the product and perceive it as appropriate for the bank’s image; is planned product training for staff appropriate. Product performance can then be tracked by the team, to facilitate go or no go decisions.

### 2.3 PILOT TESTING

This phase refers to actually rolling the product out to customers in order to understand and test both internal and external factors:

**Internal Factors - examples:**

- How does product delivery work operationally?
- What training is needed to sell and deliver the product?
- Is the approval process appropriate?
- How well does post-sale support work?

**External Factors - examples:**

- What is the uptake by customers?
- What are transaction sizes?
- What is the reaction to the promotion strategy?
- How are customers reacting to the enhanced product?

Pilot testing is usually done in one or two locations which should be representative for the financial institution, and driven by the target market. For instance, the product could be tested at both an urban branch and a rural branch. Alternatively the bank could choose to pilot the product both at an average performer office and a star performer office, but should not be using an office or branch that is underperforming.

The staff and account officers in the pilot location should receive the training that the bank intends to roll out to all relevant staff, so that this can be tested also.

In addition to collecting the hard data on product and account officer performance — number of transactions, transaction size, volume of transactions — the bank also wants to collect information from customers on their reaction to and perception of the product and promotion. While input from account officers should be collected, i.e. anecdotal information that is passed on, the bank may ask some or all customers to complete a questionnaire about the product, which might cover points such as:

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5 The name of the bank that will be offering the product will be anonymous. Note that focus group participants are typically paid for their participation or at least are provided a meal or drinks and snacks.
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- Convenience – location, simplicity of process.
- How much time is needed – application, approval (if a credit product), and issuance.
- Accuracy of and how informative the marketing materials are.
- Acceptability of price and terms.
- Substitutions - will product cannibalise other bank products?

The product development team should be monitoring the process and collecting performance data from the start.

**Evaluating the Pilot Test Results**

Since the bank will have set decision points and success hurdles in advance it should be relatively easy to measure actual performance against these, and to extrapolate performance over a wider market. The results and next steps from the evaluation may be as clear as yes, roll out the product, or no, stop testing and product design. However often things are not so clear cut and additional steps are undertaken including:

- Continue test pilot to collect more data.
- Adjust product or service per feedback and continue test pilot.
- Modify evaluation information requirements and continue test pilot.
- Expand the test market.

The pilot test, and the success hurdles, are ultimately targeting three evaluation criteria:

- **Financial viability** – how profitable will this product be for the bank? This is a combination of volume, rate, and cost to deliver.
- **Competitive factors** – what will market share be, how will the product fit into the bank’s product mix and avoid cannibalisation of existing products?
- **Institutional factors** – can the bank deliver this product, including its delivery systems, IT/MIS capabilities, human resources capacity and capital requirements? The bank should also consider whether delivering the product is part of its mission.

In an ideal world a bank will be introducing first-strike products that capture target customer needs and are highly profitable, and/or capture market share and position the bank as the SME bank. In practice many products may be introduced to meet competition and timing is driven more by the market than by the bank’s own preferences. Notwithstanding this the financial institution should be following these procedures methodically, as its market and its capacity will not be identical to a competitor and so products may be received differently.

### 2.4 Product Launch

Product launch will finally take place if the success hurdles and measures have been met, and the financial institution has decided that it will go forward. The key elements of the product launch are that the product will be sold in volume by lots of bank staff, and that the rollout will typically be accompanied by a promotional campaign that was not in place or only being tested in the pilot test. The product launch team should draw up a schedule for the rollout, which for SME products is usually done unit by unit or branch by branch rather than bank-wide.

Human resources/training plays its biggest role at this point, when staff bank-wide need to be trained on the product. During the design phase the level of training needed will have been specified and training materials developed, and these will have been tested as part of the pilot test and adjusted according to feedback. Training materials, as well as product guides, should be finalised and available as part of the training process. The training itself will typically be a combination of classroom work and on the job training. The classroom work will include product parameters, case studies if appropriate, and will usually include sales role-play training.

**Incentive Programmes**

To encourage sales of the new product the bank may establish an incentive scheme targeted either at individuals or offices (e.g. lending team or branch) or both. This decision should be based on both the degree of control of the individual over the outcome (i.e. can the individual sell the product without branch support) and the patterns of rewards common in the bank and in the culture. Concerning the latter however, the new product may also present an opportunity for introducing more performance-based compensation in the bank.

Incentives may be cash, either per product or a percentage of the sale, or may be non-financial such as recognition and leader boards. Other considerations in designing an incentive programme include:

- Clear statement of the programme, how it works and what the rewards are – participants should not be able to “game” or manipulate the programme.

Positive assessments from product evaluation should be set such as certain volumes and numbers of the product to be sold during the pilot phase.
Easy to monitor.

Performance controllable by participants.

Length of the incentive programme clearly stated.

**Product Promotion**

Product promotion is communication about what the new product is, to build customer awareness. While the bank may choose to advertise the new product, with SME products and particularly with credit products the bank may use more of a “stealth” approach by introducing the product to existing customers or concentrations of new prospects for whom the product was developed (e.g. small business suppliers of a corporate client who are being offered an invoice discounting product, or customers of an equipment vendor who would be offered term loans to buy equipment). This slower, quieter approach allows the bank to make sure that its systems work in practice, and that staff fully understand the product and how to analyse requests. A lower initial volume also permits the bank to manage and monitor any problems in delivery, particularly with repayments.

A more conventional product promotion may have many elements, including:

- Advertising
- In-branch promotions
- Social media
- Brochures
- Website publicity

Presentations at business meetings

Contests for purchasers

Programs to encourage referrals from customers

All of these items do have a cost, so some cost-benefit analysis should be conducted to determine the benefits expected from each of these approaches. The selection of any particular approach would depend on the type of product, profile of the target market, and the bank’s existing delivery channels.

**2.5 EVALUATION**

Following the product launch the product design process will have come full circle, or full spiral – collection of data on performance should continue, as this information will feed into additional products and the next generation of this product.

**SPECIAL CASES OF PRODUCT DEVELOPMENT**

While not exclusive to SME banking, there are three product types that can be considered special cases in product development and are commonly offered as a part of SME financial products. These are product bundles, niche market services, and non-financial services.

**Product Bundles**

Bundles are a package of products and services that are offered...
at a discount if taken together. They are typically classified in one of two ways, although can be combined:

- **Volume bundle** – based on the level of services or income received from the customer, usually measured by minimum deposit balances.

- **Segment bundle** – targeted to a particular industry and tailored to its needs and typical operating procedures.

Bundles are valuable to SME customers as a “one stop shop” solution, and can increase the ties of the customer to the bank. Bundles typically include “sticky” products that are a nuisance to move to another bank, such as an active current account and a payroll account, and may be provided at a loss to the bank, offset by revenue from other products in the bundle. The bundle will not include high margin products that the bank can get full price for. “Free” goods such as internet banking and debit cards, for example, when bundled with a current account make a more attractive package for the customer, but significantly will reduce the bank’s cost of transactions because there will be less footfall in the branches.

A key in product development of bundles will be determining, through market research and product testing, the customer sensitivity to price, so that the bundles do not just increase the volume of products sold by the bank without increasing accompanying profitability. It is also important to ensure that the bundle is not cannibalising other products and reducing profit. Per a study done by IFC, best in class SME banks will continuously conduct market research to understand pricing sensitivity and will regularly do small scale pilot tests of new bundles. Launches of new bundles can take as little as six months at best in class banks, a much faster pace than less innovative banks.

**Niche Market Services/Corporate Social Responsibility**

These are market segments that are either considered too risky or not lucrative enough for banks to pursue, and may be served only because of the bank’s social interest or because of government requirements. In several countries banks are required to have a small percentage of assets in loans to farmers, for instance, or the central bank may fund or refinance loans to emerging target groups such as women and women-owned businesses. Frequently a ceiling is put on loan rates that can be charged to these segments, making the potential business even less attractive.

While it is understandable that a bank will not want to spend development funds on a segment that will not be profitable, there can be a payoff on doing some market research on such segments to better understand their needs and interests. Service to women-owned SMEs is a case in point. The best practice banks that have put effort into understanding the needs and constraints of women’s businesses, designed responsive products and services and have found that they have a strong first strike opportunity with an appreciative, loyal market segment that is scalable and profitable for them. In Kenya KWFT Bank is a good example of this.

Too often, however, the attitude has been that the bank is offering some concession (typically a below-market rate, whether or not required by law to do so) and considers that that is enough, and makes no further effort to understand the

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wants and needs of the niche market. A real effort at social responsibility calls for a product development procedure that will develop a solution that serves the market. A triple bottom approach works well where the social enterprise products are clearly defined. In the particular case of interest rate caps, the bank can use the lending relationship as the basis to sell fee-based products that make the relationship profitable overall.

**Non-Financial Services**

There is a separate Technical Note that describes non-financial services (NFS), and this should be reviewed for greater detail. Briefly, NFS are informational, training, and/or advisory services that are provided for SME clients, either or both as a form of marketing outreach to potential new clients or as an integral service to retain existing clients. To date the experience has been that the bank will be subsidising NFS to some extent or entirely, and typically absorbs this as part of a marketing budget.

The product development process for these services should be comparable to the development of any financial product. The direction of this product development will come from the bank’s reasons for wanting to offer such a product, whether it is primarily looking for a promotional vehicle, or is trying to provide a more in-depth service to clients, often specifically to certain market segments. Market research on client needs and constraints is particularly needed the more the NFS is directed towards service to clients.

**COMMON CHALLENGES**

Not all new products introduced to the market are successful, and it is important to build in success hurdles to the project so that progress can be measured, or so the entire process can be reassessed if success hurdles are not met.

There are some common mistakes made in product development that should be avoided. This is not to say that a product cannot be successful if a mistake is made, however there are places or steps which are often skipped in the product development process, and should not be if this process is to be successful:

- **Inadequate resources provided** — product development is not an overnight process. Adequate resources are required to research, design, test, and introduce a new product and steps should not be skipped.

- **Not understanding the target market’s needs** — while a bank may get a new product idea from talking to customers and bank staff, the product design should be vetted by potential SME customers. This should particularly include those SMEs that would be coming to the bank for the new product, and that would expand the bank’s SME customer base.

- **Lack of market research** — this problem typically results from trying to cut corners in the development process and relying too much on direct experience in the bank or with existing clients.

- **Pushing a project through by management** — A bank may develop a product because a champion thinks it is a good idea, not because the market is actually demanding the product (or demanding a solution to a problem). Product design should be demand-driven. This is true even if a bank is offering the product as a part of social responsibility.

- **Poor design** — this usually results from not listening to what current and potential clients say they want and will use, and what they will pay for.

- **Not enough differentiation from existing products** — many banks find that they have too many products that are indistinguishable from each other, or which cannibalise each other.

- **Not reacting quickly enough to changing competition and market dynamics** — another reason to regularly track bank competitors.

- **Weak communication to the target market** — including poor choice of channels.

- **Ineffective working relationship between marketing and sales functions** — results in poor management of leads.

- **Inadequate training of staff** — the product will not be immediately understood by staff, and training needs to also include information on positioning of the product and expectations re target market.

- **Lack of key stakeholder buy-in** — acceptance of the introduction of the product is part of the on-going process, not a one-time step.

Another issue that may arise in development and product rollout is the potential for fraud, particularly as staff are learning procedures and if sales volume is high, or if the product is copied from elsewhere without attention to detail. The internal audit team should be carefully monitoring the development and rollout process and potential loopholes should be addressed in the process mapping.
CONCLUSION

Financial product development for SMEs will follow typical product development steps, even if the product itself is not new, but an adaptation of an existing banking product modified for an SME market. The steps in product development are straightforward:

**Preparation** – for the product development itself market research on targeted SME market segments will be the prerequisite to understanding what is needed by the target SME sector and how large the potential market for the product is. Other important elements of preparation include institutional stability and an IT system review and upgrade as necessary.

Product development is typically done by a cross-organisational team that includes representatives from SME banking, marketing, IT/MIS, human resources/training, finance, accounting, and operations. If SME banking is relatively new to the bank another advantage of this type of multi-disciplined team is that it increases buy-in and acceptance for the SME line of business.

**Product Design** – ideas for products will usually come from customers and staff, and will be further shaped by the initial market research. The initial design should be reviewed by current and potential SME customers, using formalised market research techniques such as focus groups, to assess whether the product will address needs and constraints, and how much uptake of the product is likely to occur. The product design will then be adjusted to respond to expressed interests. Also important is an assessment of products and services offered by competitors.

While this market review is going on the product development team will be busy with several tasks that are part of an eventual rollout, and initial development of product policy and procedures, training, and promotional plans will be drawn up. A significant step here will be projections of revenue and costs for the new product, and success hurdles/decision points will also be established for the rest of the product development process, leading to a constant ‘go—no go’ review of whether to continue the product development and rollout.

**Pilot Testing** – this is the limited introduction of the product in one or two markets (branches or SME offices) to gauge interest in the product and customer acceptance or resistance, also to evaluate employee capabilities and operational issues. The pilot testing will contribute to fine-tuning of projections, and may result in modifications to the product. Experience from presenting the product to eligible customers will be important in developing the promotion campaign for the product. Evaluation of the pilot test will inform the decision on whether to introduce the product or drop development.

**Product Launch** – Assuming the financial institution decides to offer the product bank-wide, the product will be launched, usually through a gradual rollout through branches or SME offices over some months. By the time of the product launch the operational policies and procedures will have been finalised, and staff training on the new product will take place.

**Evaluation** – the bank will continue to track product performance over time, and this information and experience will be fed into the product development process to inform for new products, and for subsequent changes to the product.

REFERENCES


Acknowledgements: The authors wish to acknowledge the feedback given by several local GrowthCap consultants in helping to shape this final document, international consultant M. Imran Bashir as reviewer and the final editing undertaken by Dr Pat Richardson, as an international adviser to GrowthCap.
## ANNEX A: ILLUSTRATIVE IMPLEMENTATION PLAN

<table>
<thead>
<tr>
<th>Activity</th>
<th>Start Date</th>
<th>End Date</th>
<th>Comments/Responsibility</th>
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<tbody>
<tr>
<td><strong>PREPARATION</strong></td>
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<tr>
<td>Market research (covered in separate Technical Note)</td>
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<tr>
<td>Identification of target customer segments</td>
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<tr>
<td>Assessment of segment needs and wants</td>
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<tr>
<td>Developed SME strategy</td>
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<tr>
<td>Identification of competitor financial institutions</td>
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<tr>
<td>Institutional readiness</td>
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<tr>
<td>Assessment of IT capacity</td>
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<tr>
<td>Determination of capital/liquidity commitments for SME segment</td>
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<tr>
<td><strong>Working group creation</strong> – product development team</td>
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<tr>
<td><strong>Key stakeholder buy-in</strong> – on-going process</td>
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<tr>
<td><strong>PRODUCT DESIGN</strong></td>
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<tr>
<td>Initial product design</td>
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<tr>
<td>Prototype of 8 p’s – product, price, promotion, delivery channels (place), positioning, people, packaging, process</td>
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<tr>
<td>Assessment compared to competitor products</td>
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<tr>
<td><strong>Information collection and assessment</strong></td>
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<tr>
<td>Financial and profitability projections and measurement</td>
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<tr>
<td>Development and monitoring of success hurdles – volumes and dates</td>
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<tr>
<td><strong>IT Systems review</strong></td>
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<tr>
<td>Capacity to handle prototype product</td>
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<tr>
<td>Pilot testing dummy products</td>
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<tr>
<td>Monitoring actual product booking (during pilot testing)</td>
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<tr>
<td><strong>Product design evaluation</strong> – focus groups to test product concept; adjust product as necessary</td>
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<tr>
<td><strong>Operations Development</strong></td>
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<tr>
<td>Document operations manual and procedures, policy</td>
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<tr>
<td>Establish approval levels</td>
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<tr>
<td><strong>PILOT TESTING</strong></td>
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<tr>
<td>Designate test branches/sites; length of pilot test</td>
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<tr>
<td>Select staff to handle pilot test</td>
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The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme’s goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). In addition to the Government of Kenya, funders include the UK’s Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA), Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation.

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<tr>
<th>Activity</th>
<th>Start Date</th>
<th>End Date</th>
<th>Comments/Responsibility</th>
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<tbody>
<tr>
<td>Staff training</td>
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<tr>
<td>Train pilot test staff</td>
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<tr>
<td>Complete training materials and delivery choice, plan for rollout to entire staff</td>
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<tr>
<td>Start training rollout</td>
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<tr>
<td>Develop incentive programme</td>
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<tr>
<td><strong>Mid-pilot test evaluation</strong></td>
<td></td>
<td></td>
<td>formulate and execute</td>
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<tr>
<td>Development of promotional campaign</td>
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<tr>
<td>Choose promotional method (may be &quot;stealth&quot; approach)</td>
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<tr>
<td><strong>End of pilot test, final product revision, go-no go decision</strong></td>
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<tr>
<td><strong>PRODUCT LAUNCH</strong> (All factors in place)</td>
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<tr>
<td>Product rollout schedule by branch/office</td>
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<tr>
<td><strong>EVALUATION</strong></td>
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<tr>
<td>Data collection: at predetermined intervals post launch assess performance of product</td>
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<tr>
<td>Recommend changes to product design process for bank use</td>
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