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FACTORS INFLUENCING NEW PRODUCT DEVELOPMENT IN MICROFINANCE INSTITUTIONS: A PERSPECTIVE FROM NORTH INDIAN MFIs

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THE UNIQUE SELLING PROPOSITION: NEW PRODUCT DEVELOPMENT

Product development plays a vital role in increasing the client outreach for any organization. This increase in customer base, in turn, catalyzes the efforts of any organization for achieving sustainability and increasing profitability. The product development process starts with conceiving an idea for a new product and ends with its launch followed by feedback cycles. It passes through the stages of evaluating the idea of introducing new product, background preparations for designing a new product, prototype designing, and pilot testing before it is finally launched (Brand, 2001). It is also important to note here that the product development process does not end once the product is formally launched in the market. It is a recurrent process of refining the terms, characteristics, and conditions of that product, based on customer feedback and market analysis. In fact, sometimes product refinement (rather than new product development) is precisely the “innovation” that is needed.

The importance of new product development or product refinement in the life of an organization can be discovered in two different schools of thought evolved in marketing function. Traditionally marketing focuses on what is presently called as “*product driven approach*”, which signifies that whatever organization produces or makes available to the customer, it will be sold in the market. This approach assumes that the company knows what to make and the market will buy enough units to generate profit for the company. This proposition is more applicable when there is scarcity of goods and services in which the company is involved. But, gradually the scientific concept of marketing replaced this approach with a more humane concept of “*market driven approach*”. This approach places importance on customers and values their needs and demands for a particular product or service (Wright, Cracknell, 2005).

The financial services sector in India has been no exception to the above mentioned schools of thought. After economic liberalization, the private banking channel arrived with customer focused products and services which led other operators especially the public sector banks, to follow the suite (Fisher, Sriram, 2002). However, the banking services were largely accessible only by a selected few in Indian society despite several efforts by government to make these services available to the poor (Fisher, Sriram, 2002). While working with the poor, some of the voluntary development organizations (or non-government organizations, NGOs) in India felt this need for banking and financial services to the poor population in India.

Voluntary development organizations like MYRADA and PRADAN came up with the concept of informal lending and savings by forming self-help groups (SHGs) of the poor women. This initiative got boost up from National Bank for Agriculture and Rural Development (NABARD) in the early nineties. During the same time, Small Industries Development Bank of India (SIDBI) came up with the model of an organization delivering small value of loan products to rural segment, particularly the women (Sa-Dhan, 2004). However, historically most MFIs in India were methodology driven¹ rather than market-driven because until recently they operated in markets with little competition and there was huge unmet demand for financial products. During this time, MFIs offered highly standardized loans with little variation or field-officer discretion to help keep costs low and maintain internal control as the institutions expanded to meet huge demand. This

1. There were only one or two loan products and that too with fixed amounts, available to the customers through group mechanisms. The MFIs focused on building systems and processes with this type of standardized loan products during this period. In this context the word “methodology driven” is used here.

“vanilla” product was an outcome of popular “Joint Liability Group” model in Bangladesh.²

The MFIs nonetheless grew and prospered, as did their clients, creating a more sophisticated customer base and an attractive market for new competitors. This was visible in the astronomical growth rates of these institutions both in outreach and volumes. The MFIs in India grew with the compounded annual growth rate (CAGR) of 76% (during the year 2001-2005). Even between March 2006 and 2007, the outstanding portfolios of MFIs in India grew by an impressive 77% (Intellectap, 2006). This growth was further compounded in the subsequent year with 60 per cent increase in the customer base and 97% growth in the outstanding portfolio compared to previous year (Sa-Dhan, 2009). Today, MFIs either need to understand and attend to their customers’ evolving demands for financial services or face customer desertion to more-responsive, market-driven competitors. A number of MFIs have gone out of their way to design market based products and services to reach out to critical mass and to remain in the market.

This paper is based on a research study undertaken in northern part of India to understand the process of new product development in microfinance. It attempted to map the role of organizational factors in the process of new product development by some of the MFIs operating in northern part of India. It also aimed at drawing lessons from experimentation of different MFIs in this direction including the role of institutional capacities, thought processes and changes that took place in their institutional culture for adopting the new product.

LITERATURE REVIEW

A new product development plays a significant role in the life cycle of any organization. There are a number of factors that influence the decisions related to development of a new product in an organization including organizations in banking and financial services industry. These can be broadly categorized into: internal or organizational factors, external or market factors and product or process factors (Brown, Eisenhardt, 1995; Brand, 1998; Hadia, 2009). However, the research presented here focuses only on exploring the roles played by internal factors in MFIs in India in the new product development process because of our interests in studying the organizational

2. This model was based on delivering the financial services through a joint liability group mechanism and a “vanilla” product of a fixed amount for 50 weeks with weekly repayment. The success of this model as well as the credit product led many other Indian MFIs to follow the suit.

dynamics as well as unavailability of research studies on this topic (Mbogo, Ashika, 2011). This research aims at studying the internal or organizational factors for the first time in the microfinance sector in India.

Several research studies have examined the impact of many internal or organizational factors on the new development process. For instance, Yapa (2008) have examined organizational strategy, structure, culture and leadership as important internal determinants influencing the new product development process in the banking industry. Another research by Hadia (2009) on innovations in financial services has explored several organizational factors which are responsible for a successful new product development. These include: strategic factors, learning organizational perspective (past experience to guide future innovations), organization culture of innovation, inter-functional coordination and communication, role of leaders and managers and strong and visible senior management support and commitment.

Hepperle *et al.* (2010) argue that organizational culture, organizational structure, and available resources have substantial impact on the new product development process. Abir and Chokri (2010) have identified diversified nature of business, size of the organization, availability of financial resources and spread as major internal variables affecting the decisions related to new product development in banking industry. Similarly, Mbogo and Ashika (2011) have attempted to establish a positive correlation between organizational specific factors such as financial and human resources for MFIs and new product development in their study of Kenyan MFIs.

Primarily, these internal factors, that have an influence on new product development process, have been used for creating a research framework for the purpose of this study (See Figure 1). The research framework is based on the classification of internal or organizational factors into the following sets viz. strategic orientation, board and governance, competitive edge and customer orientation, organizational culture and organizational capacities and resources.

At the first place, strategic orientation (especially mission and vision) plays a significant role in the process of new product development (Urban, Hauser, 1993). A successful new product development is an outcome of strong commitment to follow corporate strategies (Gruenwald, 1992). Organizations also need to clarify what they intend to achieve and how they wish to be perceived in the market. The organization is assumed to have an overall strategic vision and mission, which determine the new-product strategies of the organization (Zeithaml, Bitner, 1996). Likewise, Kotler *et al.* (1994) and Crawford (1994) have placed attention on strategic aspects like mission statement, vision, goals, and objectives as important factors in the

process of new product development. Citing examples of MFIs like BancoSol and Fundusz Mikro, Brand (1998) mentions that organizational mission and organization's integral strengths (core competencies) play a crucial role in new product development process.

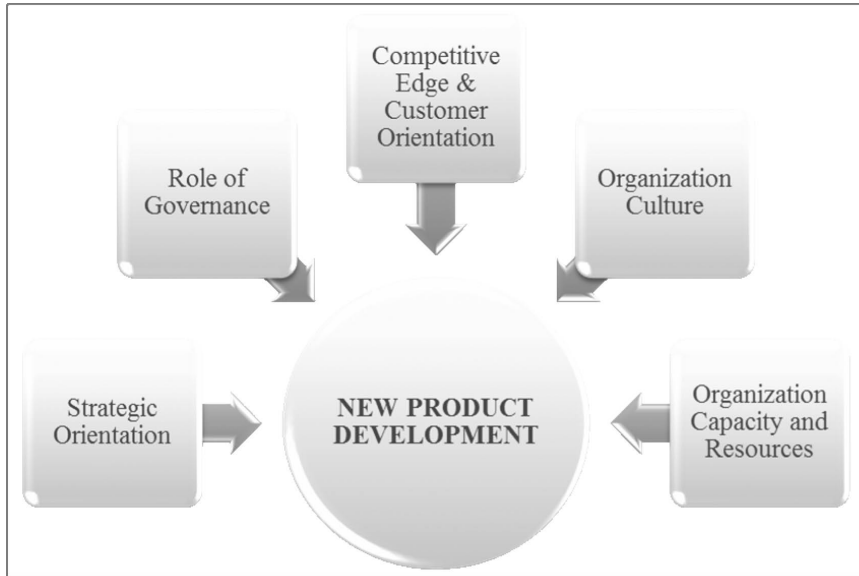
Studies have proved that the board/top management also plays a crucial role in the new product development process (Edgar, Dunn and Co., 2009). Besides providing overall strategic direction, the board/ top management helps in creating an environment of cooperation and competence among different units (Sivadas, Dwyer, 2000). Craig and Goodwin (2003) highlight commitment of board and management at an MFI, Equity Building Society (EBS) to ensure adequate staff and resources allocation for new product development as an important component in this process. Even sometimes support from board/ top management is often sufficient to marshal an organization's resources for new product development in MFIs albeit organizational mission and its core competencies are not perfectly aligned (Brand, 1998).

Corporate survival and growth, diversification and the quest for a competitive edge over rival business firms are among the factors most frequently cited by top business executives in new product development process (Hayhurst 1968; White 1976; Sachs, Benson, 1981; Kameshki 1988; Adis, Razli, 2009). Similarly a discussion paper by Edgar, Dunn and Co. (2009) focuses on the impact on new product development in financial services industry through first mover advantages in the market. Moreover, size of the organization matters in many cases and this too helps in leading a new product development process (Lazo, Woldesenbet, 2006).

In fact, an organization's culture and its resources also play a major role in influencing the decisions related to new product development. For example, Yapa (2008), Hadia (2009) and Hepperle *et al.* (2010) have underlined the significance of organization culture of innovation and resources in new product development. Studies have mentioned that the type of staff and functional specialists needed to execute developments in an efficient manner are important catalysts for a successful new product development (Rothwell, 1977; Takeuchi, Nonaka, 1986). Besides, initiatives to improve institutional capacity like training to staff to market and deliver new microfinance products help in the process of new product development (Craig, Goodwin, 2003).

Findings of the present study attempt to substantiate the key role played by these five sets of internal or organizational aspects that influence the new product development process. These findings have been discussed in detail in the following sections according to the research framework suggested above (refer Figure 1). Prior to this, subsequent section discusses the methodology adopted for data collection and analysis.

Figure 1 – Research Framework



RESEARCH METHODOLOGY

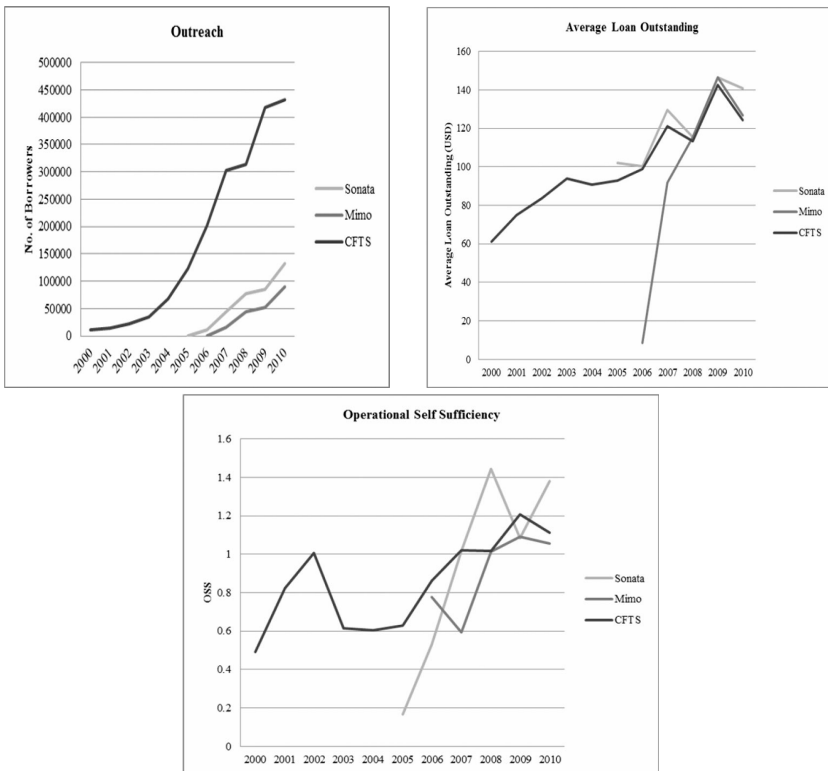
The study was qualitative in nature and used cases study method to gather data for this study. Both primary and secondary tools were used for data collection. Personal interviews, based on open ended guided questions, were conducted with the senior management and other staff of the organizations studied. Guiding questions as a precursor to the interviews were also sent to the respondents so as to make the discussions more focused. Focused group discussions (FGDs) and process documentation were also used as tools for data collection. Focused group discussions were conducted to gather data from other employees/ staff of these organizations. Process documentation helped in recording observations of the processes leading to new product development and their links to the practices being followed by the MFI. Observations served as a tool to substantiate the data obtained through interviews and FGDs. The case study method also helped in documenting significant changes that took place in MFI business portfolios and institutional culture.

Literature review such as annual reports of various years, information materials, minutes of the meetings, other official records, research studies, and other relevant documents were also studied extensively as a medium to corroborate the findings obtained through primary data.

There was an essential component of grounded analysis of the factors leading to these initiatives in order to provide a complete picture for replication and scalability. For the purpose of analysis, the responses collected through various methods like interviews and FGDs were compared and substantiated with observations, process documents and literature review. The data were tabulated, classified and entered into a matrix according to the factors mentioned in research framework.

For the purpose of this study, four MFIs from two states of India viz. Uttar Pradesh and Uttarakhand were purposively selected based on their size and operations and keeping in view the convenience of the researchers. These two states were emerging states in terms of microfinance operations at the time of selection. A brief description about the institutions studied has been presented in end (Appendix 1 and Graph 1).

Graph 1 – Comparative Picture of the MFIs studied



Note for Graph 1: Data for this section is taken from mix market <http://mixmarket.org/>. Data for Drishtee is not available for the above period. Average loan outstanding is in USD (\$) while Operational Self Sufficiency (OSS) is in percentage (%).

CATALYZING PRODUCT DEVELOPMENT IN MFIS: RESEARCH FINDINGS

This research suggests that organizations require new ideas and mechanisms to achieve their goals of reaching out to more and more customers. They require responding to changing demands of the target market and the pressure exerted by competitors in order to remain in the market. These changes are manifested in decisions related to all the functions including the development of new products.

Reasons for New Product Development

The selected MFIs in this research cited various reasons for new product development. While CFTS proposed to design a new product because of the demand from mature customers on the basis of feedback from the staff and aimed at repositioning of the company, Sonata developed its own understanding on customers needing higher amount of loans and thereby earning revenues for further growth. For MIMO, it was the mandate as well as essential services required like savings linked insurance, whereas Drishtee wanted to create a niche of its own.

New Product Development – Factors

Any organization goes through distinct phases in its endeavor to serve its customers and to make itself sustainable in order to achieve its goals and missions. There are several factors both inside and outside the purview of organization which play a significant role in designing a new product. Microfinance, although being a people focused activity, is no exception to this process. The key factors that led to new product development in the selected MFIs are discussed hereunder. These factors have been classified under the research framework (Figure 1) for the purpose of clarity.

Strategic Orientation

This research study suggests that the fundamental factors which drive any organization to new product development are its mission, vision, goals and promoter's philosophy and role model. In fact, it also shows that institution's mission, vision, goals and promoter's philosophy and role model decide their target customers, ways to serve them, and offerings to them.

(a) *Organizations' mission and vision*

It is imperative to analyze the mission and vision of these organizations as it reflects their target setting or customer segmentation. The mission

and vision statements of the selected MFIs are given in Table 1. While the mission of CFTS reflects its customer segment of *poor women in rural areas*, the mission statement of Sonata focuses on targeting *only poor women*. The difference is visible in Sonata's operations as it works in urban areas also, whereas CFTS primarily focuses on rural areas. On the other side, MIMO and Drishtee have no such gender and area segmentation and these organizations are targeting micro and small business activities. Similarly, the vision of CFTS intends to focus on a narrower aspect limiting itself to two poorer regions of Bihar and Uttar Pradesh. The vision targets to enhance the *access of these women to credit services* only. However, Sonata and Drishtee work with a broader yet qualitative vision statement of catering to society. MIMO keeps its stand clear with a target fixing of reaching one million households by March 2015. Further these three organizations have also not restricted their operational areas like CFTS.

Table 1 – Mission and Vision of MFIs

Organization	Mission	Vision
CFTS	The mission of CFTS is to identify and motivate poor women in the rural areas and to deliver financial services to them in an honest, timely and efficient manner so that our vision is realized and CFTS itself becomes a financially sustainable microfinance institution for the poor.	We all see BPL women in eastern Uttar Pradesh and Bihar having access to micro credit services, and many utilizing them to lift themselves and their families out of poverty
SONATA	The mission of SONATA is to identify and motivate poor women in a cost-effective way and deliver them micro finance services in an honest, timely and efficient manner. In the meantime, SONATA commits to be professionally managed, operationally sustainable and financially profitable.	The vision of SONATA is to help building a society that contains an opportunity to develop the minimal socio economic conditions needed to live a life of dignity.
MIMO	The mission of MIMO is to strengthen the economic capacity of urban and rural micro and small business operators to ensure their economic self-reliance.	The vision of MIMO is reaching out to one million households in India by March 2015.
Drishtee	The vision of Drishtee is to make marginal communities more efficient, self-sufficient and equitable.	

The organizational mission and vision are also visible in the product offerings of these organizations. While CFTS offers a typical JLG loan with small ticket size, others followed the suit except Drishtee, which finance entrepreneurs through tying up with the companies. CFTS, which tried and

experimented with product refinement, designed an individual loan product (Bada loan) only after ten years of its inception (Table 2). However, it met failure in its offering of another innovative product, marriage loan, which resulted in high frauds and portfolio at risk, as these loans were typically used by the staff as well as the customers to cover up the late repayments. This could also be seen in its mission and vision which talked about access to micro credit services above other factors.

Even the new product development in Sonata took place after it reached a sustainable scale and earn sufficient revenue for a new product design (Table 2). A closer look at the mission and vision of Sonata answered the question of its late entry into new product development which gave preference to the sustainability and profitability of organization in addition to meeting the market demands. MIMO ventured into the new product development as soon as it realized an opportunity. It saw a silver lining in financing the people to construct houses which could be typically given on rent. Even the newly introduced micro-enterprise product was result of the same thinking. Drishtee focused on its core technology based business that led to development of entrepreneurs with kiosks. This was in line with Drishtee's mission and vision of making the people more efficient and self-sustained (Table 2).

(b) Promoters' philosophy and role model

All these institutions except CFTS came into existence in a fairly mature market. Sonata started its microfinance operations in 2006 followed by Drishtee and MIMO entering into microfinance around similar times. CFTS was started a decade back from Sonata and drew its inspiration from "Grameen model" in Bangladesh. As the promoters of Sonata worked with CFTS for long, their institutional role model led to a modified and customized version of their service delivery and product offerings. MIMO, on the other hand, with his promoter having developmental experience of nearly two decades, followed "Grameen model" of service delivery with some local modifications as well to popularize similar products like Sonata and CFTS initially, as this model and the product got wide publicity and success in India also. Contrary to this, Drishtee drew its inspiration of entering into microfinance from H R Khan Committee established by the Reserve Bank of India (Khan, 2006). This was preceded by a need based survey (baseline survey) conducted with the help of a social venture capital fund – Acumen Fund.

The promoters of CFTS follow the philosophy of focusing on core business product which is working with poor on small income generation loan. In case of Sonata, the promoter believes on both demand based products and

Table 2 – Features of New Product: Product Mix

Indicators	CFTS	SONATA	MIMO	Drishtee
Product	Bada Loan	Vyapar Mitr	House Improvement Loan (HL), Enterprise Loan (EL)	Category A and Category B Loan, savings through Banking correspondent (BC)/ Banking facilitator (BF)
Pricing	Similar as previous product, no changes.	Operating cost Average funding cost Portfolio At Risk (PAR) 30% pre closures can happen (based on promoter's experience)	25 customers per loan officer (LO) 2 LOs initially for 6 months Other operations costs Average funding cost Possible write off at 7% (based on discussions with banks and promoter's own understanding)	Based on the operations expenses of the company with a little margin for profit.
Place	Existing areas	Existing as well as new operational areas	HL—existing ops area EL—New operations areas	Existing as well as new areas
Promotion	Through Bada Loan Officers (BLOs)	Through specially appointed commercial executives	HL—through own field executives EL—through field executives and pamphlets The insurance product is being popularized by field executives in their compulsory group training.	Category A—Through own field staff called as sales executives Category B — Through Microfinance Executive (MFE) BC/BF—through Kiosks Owners (KOs)

sustainability of the organization. They also feel that customers know the best to utilize the amount, so the purpose of using this product rests on the customers' discretion. The promoters of MIMO prefer to introduce need/demand based product with a diverse range. They believe that customers prefer different types of products that suit their needs. However, Drishtee's promoters' focus more on use of technology to provide various kinds of services to people especially through use of its base network of Kiosks across the country.

In fact, the role model and philosophies of these institutions also led them to customize their products accordingly (Table 3). While CFTS struggled for many years and retained its focus on "vanilla" product to provide access to poor women in rural areas before finalizing an individual loan product, Sonata customized its products to suits the needs of the customers making the repayments flexible. Similarly, MIMO, since its inception, focused on different types of loan products for its customers. It sensed a need for housing loan in its area and within two years of inception it has different types of products in its kitty. Drishtee also retained its technology focus and thereby used it to promote its products through a number of kiosks.

Table 3 – Role of Governance

Indicators	CFTS	SONATA	MIMO	Drishtee
Promoters' philosophy	Promoter's focus is on core business product which is working with poor on small income generation loan	Promoters' focus is on customers' need based product and sustainability of the company. Promoters feel that customers know the best to utilize the amount, so they are least bothered about the purpose.	Promoters would like to introduce need/demand based product with a diverse range. Promoters believe that customers demand different types of products which suit their needs. Therefore, they have introduced different kinds of products and are working on two other products.	Promoters' focus is more on use of technology to provide various kinds of services to people especially through use of its base network of Kiosks across the country. Therefore there expansion is rapid.
Role of the board	Board is not much involved in product designing	Board is not much involved in product designing.	Board is actively involved in discussing new products. It was shared that the board meeting minutes had a separate agenda item for this.	Board is actively involved in product designing. There are experienced staffs appointed for designing new products.

Role of Governance

Although the governing boards of all these organizations were strong with people from diverse backgrounds and experience, there were differences in the thought processes of the board members (Table 3). The board members of MIMO and Drishtee actively discussed new products in their meetings. While Drishtee appointed an experienced board member in designing a new product, MIMO board meeting had separate agenda to discuss the new product development. In CFTS and Sonata, the boards didn't participate actively in such matters but the chief executives and senior management remained at the forefront in designing and suggesting the new products. The Casebox 1 presented here also substantiates the role played by senior management in taking decisions with regard to new product development in Cashpor.

Casebox 1 – New product development at Cashpor

Thinking of investing in milch buffalo was a far reaching dream with INR 2,000 the clients took loan from Cashpor and invested in poultry or in village grocery shop. This was despite the fact that people were aware of the deadly endemic disease that could affect poultry in the area or high probability of losing working capital within six months in a grocery shop. In 1999, this resulted in defaults by some of the clients who experienced losses after entering in this activity. Clients also stopped attending the compulsory weekly centre meetings and even in many cases instalments were stopped. Due to this, many clients also refused to share the collective responsibility of repaying the loans in several cases, while others dropped out of the programme eventually. However, the management team designed incentive scheme to re-establish credit discipline and offered cash rebate of 10% of the interest to the clients with poor repayments histories, in case if they showed perfect repayment in a quarter. This thus resulted in drop in portfolio at risk (PAR) level in a year's time to less than 2%. During this entire incidence, the management as well as the staff felt a pressing need for providing a higher ticket size loan to those clients who were engaged in animal husbandry. Therefore, in the year 2000, the loan size was increased to INR 8,000 (max) especially for the clients engaged in animal husbandry. Cashpor also experimented with other loan products such as emergency and marriage loans with a view to provide relief to the clients for repayment of loans in case of any unforeseen event. However, these loan products did not perform well in the race. The field staff used this loan as additional amount to help the clients who were not able to repay the loan. It was around 2005-06, the company started thinking on the feedbacks of the staff for the clients' needing higher loan amounts. Several meetings and discussions took place at all the levels and the senior management then decided to conduct a preliminary market survey to assess the clients' demands. Also, a thinking backed by mature clients' expectations and increase in dropout rates due to insufficient loan amounts led the management to focus on designing a new product.

Source : Based on discussions with the CEO and other senior staff, Cashpor

Competitive Edge and Customer Orientation

This study suggests that age of the organization and timing of entry impact the process of new product development in an organization. It is also important to note that entering in less matured market (with little or less competition) gives an opportunity for new product development. Additionally, the data indicates that preference of the customers associated with an organization since long drives the new product development process.

(a) Age of organization and timing of entry

CFTS being one of the oldest organizations of microfinance in India faced a little or no competition in its initial years. It started its operations in a “virgin” area where there was no competition, but misapprehension among the masses due to reputational damages caused by “fly-by-night” operators in fleeing away with people’s money, hampered its growth. The products were introduced on an experiment basis which saw product refinements in the years followed. The loan sizes were increased, small interim loans as emergency loans were introduced (see Casebox 2). However, Sonata, MIMO and Drishtee entered in a more matured microfinance market, but there was a little competition in the area because the grown up players had not entered into this part till that time. Sonata which was into an informal agreement with CFTS to operate in a different area of CFTS got almost a very little competition in its areas of operations and thus expanded rapidly. Same case happened with MIMO and Drishtee which led to their rapid expansion initially.

Casebox 2 – Role of senior management in new product development at MIMO
 The management at MIMO shifted its focus on new loans product again in March 2008 after achieving its present targets by that time. The management decided to use the existing staff (branch manager and loan officers) to carry out survey in selected areas. It was also decided to do a pilot test before its final implementation for house improvement loan. The product was priced according to the past experience of the senior management with the involvement of other departmental heads. For enterprise loan, MIMO did a proper business analysis while the management analyzed the strategy and fund requirements and then decided to venture out with the product design which could be sustainable also. The new insurance product at MIMO was a result of chief operating officer’s (COO) own understanding of micro-insurance services supplemented by an offer from the insurer (Max Vijay).
Source : Based on discussions with COO and other senior staff, MIMO

(b) Customer Orientation

The preferences of the graduate customers were taken into account by Cashpor and Sonata while designing a new microfinance product. However, MIMO and Drishtee focused on the open market for their offerings. The way, a company wants to position itself with respect to its customers, also determines the process of new product development (see Table 4).

Table 4 – Customer Orientation

Indicators	CFTS	SONATA	MIMO	Drishtee
Trust on Customers	Graduate customers who have successfully run 3 or more cycles of loans	Graduate customers as well as new customers.	HL and EL—open to any person who falls under the eligibility criteria of the MIMO loan product.	Anybody who is willing to the company's rules and regulations are eligible for loans as KO in a village.
Positioning	Through this product, CFTS remains to be a pro poor company to meet the requirements of its loyal customer base.	Through this product, SONATA wants to position itself as a company which offers demand based products at reasonable cost with quality in service delivery.	These products are designed to capture the attention of market. These are need based products, based on customers' perception of their business growth.	Through these products, company would like to position itself as a network available near people's place with a diverse range of services available to them through their retail kiosks

(c) Cannibalization

The study indicates that factors like cannibalization (one product taken over by another product) can also crop up whenever there is an introduction of new product. For example in Sonata, the new product was getting more popular among the customers as Income Generation Loan (IGL) product was of very small amount. Also the staff responsible for promoting IGL was seeing it as a threat to their pay packets which included incentives on performance as well as the amount.

Organization Culture

The culture of an organization decides its pathways of growth. This was visible in the culture of MIMO through which it dedicated itself to reach out to its customers with a wide range of products and services. MIMO is open to experimentation and since inception it has tried and tested many new products as per the demands of the market. Even Sonata has dedicated a small portion of company's budget for product innovation (Table 5). Similar is the

case with Drishtee as it is open to experimentation and believes in quality service delivery. It ensures all types of services through its kiosks including health, education and other retail products. However the culture is different in CFTS which can be considered among pioneers in microfinance. The organization is open to line experimentation in which the base delivery model remains the same, while the product features are changed a bit to suit the needs of the target segment. In the past the organization had bitter experience while changing its base model (Table 5).

Organizational capacity and resources

The internal resources (human as well as material) of the institution catalyze its growth. While CFTS staff was new with very little exposure and work experience, other institutions got trained staff when they started. The CFTS staff grew with the experience of its own. However, organizations like Sonata took advantage of this with a number of trained staff in the field (Table 6). Similarly, in alignment with its mission and vision, MIMO appointed product development specialist to design products which suits the demands in the product (Table 6). On the basis of its marketing experience, Drishtee used a diverse range of experienced staff in the market (Table 6).

The senior management of these organizations acts as a backbone for the experimentation in the new product development process. In CFTS the senior management is always involved in consultations for any new initiative, however only Managing Director (MD) and Chairperson are involved in fund mobilization. The senior management team of Sonata is young, vibrant and capable of mobilizing resources from the market. This is visible in growth in funding agencies and their volume of funding. In MIMO, the senior management comprises of people from diverse background and experience while in Drishtee the senior management team is using technology as their major weapon to grow. The responsibilities are clearly allocated to each senior management staff (Table 6). In fact MIMO senior management played a crucial role in designing new products and taking these products to the market (see Casebox 2). The research clearly shows staff capacity coupled with promoters' own experience in the microfinance field helped these organizations in raising funds for their innovations or sustaining their efforts.

EPILOGUE: CONCLUSIONS AND LEARNING

The analysis of product development processes in the MFIs studied clearly indicates that the factors internal to the MFIs, such as vision and mission, philosophy of promoters, and organizational governance, play important

Table 5 – Organizational Culture

Indicators	CFTS	SONATA	MIMO	Drishtee
Organization culture of innovation	Open to line experimentation in which the base delivery model remains the same, while the product features are changed a bit to suit the needs of the segment. In the past the company has bitter experience with change in base model.	Dedicated a small portion of company's budget for product innovation	Company is open to experimentation and since inception it has tried and tested many new products as per the demands in the market.	Company is open to experimentation and believes in quality service delivery. It ensures all types of services through its kiosks including health, education and other retail products.
Process	Process was designed with the help of a consulting organization	Process mapping was done by <i>MicroSave</i> including three internal staff and one staff specially appointed for it.	Process mapping for HL and EL was done by appointing a consultant- <i>MicroSave</i> . Internal staff was also included.	Processes were designed by <i>Drishtee</i> in the past. However, with the new loan products, <i>MicroSave</i> has been appointed as a consultant to design the processes.
Using scientific management processes like market research	Market research was conducted by IFMR trust. Process designing was done by <i>MicroSave</i> with regular improvisation suggested by senior operations staff	A market survey was conducted with the help of a professionalized team of <i>MicroSave</i> . Accordingly, when it came out that there is a demand for higher loan product, a business plan was worked out and the product was designed based on it. The processes were designed with the help of <i>MicroSave</i> staff keeping in view a response from the staff.	Business analysis (feasibility analysis) including sampled customers' cash flow analysis, value chain analysis is done before introduction of any new product. A report is prepared and then discussed with senior management. There is a specialized person appointed for new product development and he takes care of all the requirements including preparation of business plans and pricing of products in consultation with senior management including CEO and COO.	No formal market research was done before introducing the product into the market. The decision to enter into this sector was based on a baseline survey conducted in 2006. However, the company has tied up with <i>MicroSave</i> to design its processes and business plans for their operations.

Table 6 – Organizational Resources

Indicators	CFTS	SONATA	MIMD	Drishtee
Senior management capacity	Senior management is always involved in consultations for any new initiative. Senior management comprises of experienced personnel from the existing staff with around. Senior management is yet not involved in fund mobilization except the MD and Chair.	Senior management is young, vibrant and capable of mobilizing resources from the market. This is visible in growth in funding agencies and their volume of funding.	Senior management comprises of people from diverse background and experience. They are capable of carrying out their responsibilities quite well.	Senior management is quite experienced in this area. They are using technology as their major weapon to grow. The responsibilities are clearly allocated to each senior management staff.
Employees	BLOs are selected from the existing staff, who have a successful past track record	Staff selection is on merit basis	Staff is selected from existing ones with experience	The customers are selected by KOs, who is in turn appraised for loan by MFEs.
Training to staff	Well performing staff were chosen among the existing staff. These staff were given training on the Bada Loan and its processes.	Some of the internal staff are taken from the organization and some new staff has been inducted in the ratio of 60:40 to pilot test this new loan.	Existing staff are trained for the product delivery. However, their designation changes according to the product.	Staff were trained thrice to make them aware about the product and services. Existing staff were picked up for the operations initially.
Availability of resources	Initial funding was there, but still new funding was required (gradual increase in no. of customers)	The company has assessed its position quite well and prepared its business plan accordingly. The company is all set to take off with its new loan product.	The company has been able to mobilize support from different quarters. They have also got equity investors in place. Even the banks and mainstream financial institutions are lending them regularly.	The company has been able to mobilize funds for its operations and credit linkages from both public sector and private sector banks. In addition, it has received venture investments for its operations.

role in developing the new financial products. This can also be understood given the fact that there is very less market competition and huge demand of loan products among the rural customers. According to this research study, the points critical for developing new products are listed hereunder:

- The experience and interest of promoters and chief functionary drive the organization's product development strategy.
- Sometimes, the products are developed to suit the need of the organization. However, later on modifications can be carried out considering the customers' demands and preferences.
- Product should be developed keeping in view the organizational strengths and capacity.

Obviously, the market conditions play an important role, which can make the MFIs follow a "push strategy" rather than "pull strategy" in the marketing of their financial products. The present research also supports the hypotheses that MFI own institutional strengths and weaknesses rather than market opportunities, play more important role in designing the microfinance products. It further points out that at present, given the huge market potential and low competition, whatever loan products are developed, would be successful among the customers. However, in India, the process of product development based on customer requirement has started, albeit at a low scale and in a fragmented manner. Hopefully, Indian MFIs would learn from the market over time when customers would start discriminating the different attributes of loan products offered by MFIs.

SUGGESTIONS FOR FUTURE RESEARCH

The present study adds new understanding in the product development literature regarding the factors affecting the process of product development in microfinance sector in India. This is the first of its kind of study in the microfinance industry in India which has attempted to study the process of new product development in microfinance institutions. There are no such empirical research studies on microfinance institutions in India studying the process of new product development. However, the small sample size of 4 organizations because of qualitative nature of research may influence the generalization of the finding. Since the microfinance industry in India is going through transitory phase, it is pertinent to study the nuances of this industry in detail. Therefore, there are a lot of opportunities in this area for studying various factors including external and environmental factors affecting new product process. Specifically, the future research can examine the impact of

strategic orientation, role of governance and institutional culture and resources on the process of new product development in detail which might result into better understanding and generalization of knowledge for product development. This research also provides cues to go for in-depth analysis studying the impact of new product development on the institutional systems and culture of MFIs. Besides, one possible direction for future research could be based on the rating of the importance of these factors influencing the new product development process.

APPENDIX 1 – BRIEF DESCRIPTION OF MFIS

Organization	Description
Cashpor Financial and Technical Services (CFTS)	Cashpor Financial and Technical Services (CFTS) started as a private limited company in 1996 with its registered office in Hyderabad. It began its operations in 1997 in Mirzapur (located in the eastern part of Uttar Pradesh) for facilitating financial access to poor population who were dependent majorly on private money lenders for meeting their day to day needs at that time. However, at that point of time the major challenge was to convince the poor about the mission and activities of CFTS, as the financial companies in the past fled away with the hard earned money of the poor and this thus created a bad reputation of these companies. This resulted in a slow progress initially with only twelve branches opened in 1997 and 1998, respectively. These initial hiccups continued till 2003, the year of break even for CFTS. In 2002, CFTS registered as a section 25 company, namely Cashpor Micro Credit (CMC) for its micro finance operations.
Sonata Finance Private Limited	Sonata Finance Private Ltd (Sonata) is a Non-Banking Finance Company (NBFC) with its registered office at Allahabad, Uttar Pradesh. Sonata began its micro finance operations in January 2006. In 2004, the concept of formation of a company registered under the section 25 of the Indian Companies Act, 1956 for microfinance operations was underway. In 2005, the Board decided to approach equity investors for leveraging out more funds to expand the operations. In 2005 itself, discussions with Bellwether Fund brought a positive result to Sonata with Bellwether showing its interest in capital financing of a new NBFC. An NBFC was acquired by the promoters soon and the operations started in January 2006. In the month of August 2007, SONATA acquired the portfolio of Jeevika Livelihoods Support Organization based at Jabalpur in M.P., making its outreach to two major states in Central India.
Mimoza Enterprises Finance Private Ltd (MIMO)	Mimoza Enterprises Finance Private Ltd (or MIMO) is a new generation microfinance organization based at Dehradun. Initially the promoters of this company started with a Non-government organization called "Partners in Prosperity" registered under the Societies Registration Act, 1860 at Delhi in the year 1998. However, the society started its microfinance operations in the year 2006 with its own resources in Dehradun. With the pressing need of mobilizing finance for on-lending, the promoters acquired a non-banking finance company (NBFC) namely, Shah Sandhu Finance Company Private Ltd (SSFC), registered with the Reserve Bank of India in the year 2007. Subsequent to the acquisition of SSFC, Partners in Prosperity's loan portfolio and borrowers were transferred to SSFC during May 2007. It further received equity support from Bellwether Microfinance Trust for its microfinance program. The company changed its name to Mimoza Enterprises Finance Private Ltd after due approvals.
Drishtee	Drishtee was incorporated as a for profit company in the year 2000 as a service provider in the field of information technology. It aimed at creation of a successful network of service providers to deliver services. Earlier it was providing education as a major service. Drishtee is a group of three companies—Quiver Info Services Limited (Quiver), Drishtee Development and Communication Ltd (DDCL), and Drishtee Foundation (DF). Drishtee has laid a network of entrepreneurs through kiosks which sell different kinds of products which are related to financial services, health, education and supply chain management (basically retail rural products of different consumer goods companies).

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