

## UNDERSTANDING NATIONAL LENDING TRENDS AND LOCAL MARKETS: THE ROLE OF MARKET RESEARCH

The past two decades have seen significant changes in U.S. financial markets. One trend with critical implications for the microlending field is the increasing movement “down market” by traditional or for-profit lenders, toward customers who were previously considered unbankable.

This trend was documented in a recent report commissioned by FIELD. The study, which involved a review of literature and secondary data, as well as interviews with individuals in the private financial sector, detailed changes in lending trends among banks and other for-profit financial institutions. Key findings include:<sup>1</sup>

- Banks are the primary suppliers to the micro market and have increased their presence since deregulation.
- Credit scoring has become so precise in predicting repayment probability that it is the primary methodology used by for-profit providers to determine who is approved for credit or a small business loan.
- For-profit providers of commercial loans less than \$35,000 are aggressively reaching “down market” by using credit cards as the primary product, and credit scoring as the decision-making methodology.
- The profile of a successful applicant for microcredit from a for-profit provider is fluid because providers are actively refining credit-scoring algorithms.
- “Gaps” still exist in credit availability for small businesses that nonprofit microlenders can fill, however, borrowers in this niche are increasingly marginal and risky.

<sup>1</sup> Patty Grossman, Ellen Chen and Paige Chapel, *Findings and Recommendations: Supply-Side Scan of Microenterprise Financing*. (Washington, D.C.: The Aspen Institute/FIELD, October 2005). Available from <http://fieldus.org/Projects/pdf/SupplySideLitScan.pdf>

Taken together, these findings suggest that for-profit lenders, led by traditional banks, will continue to expand their efforts to reach toward the markets historically served by the microenterprise field. This can be viewed as a positive trend, given that one of the field's goals has been to find ways to connect low-income and underserved entrepreneurs to formal financial markets. But there are challenges for the field and its customers as well. Most importantly, the products offered by some for-profit lenders may not serve entrepreneurs well in the long term. This is particularly true for credit cards with interest rate policies that are unclear or that can escalate rapidly in the case of delinquency. In addition, if for-profit lenders succeed in taking away the microenterprise field's lowest-risk customers, this will raise costs and loss rates, making the path toward self-sufficiency in lending even more difficult.

### Responding to National Trends

The market scan identified a number of implications that these trends hold for the microenterprise field. The first is that while national trends point in one direction, they may not be experienced equally in all places, and for-profit market penetration might play out differently in some local or regional markets – or among specific populations. For example, while some banks have used the Community Express program to expand

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significantly their level of microlending, the use of this program varies widely across the nation. Furthermore, there are certain populations that tend to fall out of existing credit-scoring models. To the extent that these populations – such as new immigrants, who often lack a credit history – are concentrated in particular geographic regions, these areas may have seen fewer for-profit lenders enter their market.

Second, it is also the case that even in the face of similar trends, microlenders might choose to respond to this new context in different ways:

- Some might seek to compete directly with for-profit lenders, using technologies such as credit scoring and on-line lending to increase outreach and efficiency; or expanding market research and marketing efforts, with the goal of providing products that better fit their customers' business financing needs;
- Others might target niches that remain, although the study noted that nonprofit lenders may require more equity in their capital structures in order to absorb the losses associated with these more risky borrowers;
- Still others might choose to partner with for-profit lenders, for example, providing business loan packaging services to customers who might otherwise not qualify for bank debt.

To help practitioners begin to think about how they might respond to this new context, FIELD first shared the results of the “market scan” of private sector lending trends with a set of larger-scale microlenders during a conference call held in February 2006. After a discussion of the trends and their impact on the participating lenders, FIELD then invited participants who were interested to apply for \$7,500 grants that could be used to fund market research into whether and how the national trends identified in the scan were affecting their local markets. FIELD awarded grants to five microlenders: ACCION New Mexico, the Wisconsin Women's Business Initiative Corporation (WWBIC), ACCION New York, BiGAUSTIN and ACCION USA. This *FIELD forum* describes the market research they undertook, and presents the common lessons and findings from their efforts.

### The Market Research Projects

As is described in Table 1, the five organizations sought to explore a range of issues using market research. Some, such as WWBIC and BiGAUSTIN, looked to understand the supply side of the market in their target markets – namely how banks and other for-profit lenders in their region were approaching the market for microloans – and to explore how

**TABLE 1: SUMMARY OF MARKET RESEARCH PROJECTS**

| GRANTEE                  | ACCION NY                                                                                      | WWBIC                                                                                                                                            | ACCION NM                                                                                                               | ACCION USA                                                                                   | BiGAUSTIN                                                                                                                         |
|--------------------------|------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Geographic Target Market | New York City and adjacent communities in New York and New Jersey                              | Based in Milwaukee, Wisc.; lends statewide                                                                                                       | Throughout New Mexico                                                                                                   | Nationwide lender with branches in Boston, Mass.; Miami, Fla.; and Atlanta, Ga.              | Austin, Texas MSA                                                                                                                 |
| Research Topic           | Focus on the new immigrant market; to what extent is this market being served by credit cards? | What is the current status of bank lending to microenterprises in WWBIC's market? How can WWBIC position itself to partner or receive referrals? | What is or should be the role of credit scoring in determining who will receive or repay credit from ACCION New Mexico? | What is the acceptance of and experience with Internet lending among ACCION USA's customers? | How can BiGAUSTIN reach out to businesses in suburban and rural communities? What role should the Internet and partnerships play? |

## TABLE 1: SUMMARY OF MARKET RESEARCH PROJECTS (CONT.)

| GRANTEE                     | ACCION NY                                                                                                                                                                                                      | WWBIC                                                                                                                                                                                                                                                                                                                                                                                                                               | ACCION NM                                                                                                                                                                                                                                          | ACCION USA                                                                                                                                                                                                        | BiGAUSTIN                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Key Research Questions      | <p>How are credit card companies marketing to new immigrants?</p> <p>Are credit card companies serving their needs?</p> <p>How can ACCION NY create products that better meet the needs of new immigrants?</p> | <p>Who applies for microloans?</p> <p>What is WWBIC's target market size and nature?</p> <p>What relationship-lending opportunities exist below \$50,000?</p> <p>Which for-profit lenders use credit scoring? When do they use it?</p> <p>What happens when loans are denied due to poor credit scores?</p> <p>How are Community Express vs. microloan decisions made? Who makes them?</p> <p>What is the market for referrals?</p> | <p>Do credit scores represent "perfect information" as predictors of portfolio-at-risk and/or default for nonprofit microlenders?</p> <p>Why is ACCION NM's portfolio quality healthier than its clients' typical credit scores would predict?</p> | <p>Will Internet lending satisfy our target audience's need for convenience?</p> <p>Why are applicants dropping out of the on-line application process?</p> <p>What is the profile of the Internet applicant?</p> | <p>What financial products and services do small businesses in suburban and rural communities of South Central Texas need? How do these differ from those in urban areas?</p> <p>What roles do the Internet, and on-line products and services play in serving borrowers? Would they be accessible and useful to rural borrowers?</p> <p>What partnerships can help BiGAUSTIN market to borrowers in suburban and rural areas?</p> |
| Market Research Methodology | <p>Two focus groups; one of business owners, one of non-business owners</p> <p>Individual surveys administered to focus group participants</p>                                                                 | <p>Focus group with nine bankers</p> <p>Telephone interviews with bank and credit union lenders</p> <p>Review of bank and credit union Web sites</p> <p>Review of loan tips/links on entrepreneurial Web sites</p> <p>Review of prior research</p>                                                                                                                                                                                  | <p>Analysis of borrowers' credit scores at application, and how these correlate to incidence of early delinquency or write-off</p> <p>Telephone surveys to determine which factors motivate on-time payment</p>                                    | <p>Telephone interviews</p> <p>20 minutes max; English or Spanish depending on preference of respondent; \$10 incentive</p> <p>Sought to complete 100 interviews, completed 75 (25% response rate)</p>            | <p>Survey of small business owners in the MSA</p> <p>Survey of financial institutions that make or could make loans to small businesses in the MSA</p> <p>Survey of economic development groups in the MSA</p> <p>Literature review</p>                                                                                                                                                                                            |
| Market Research Sample      | <p>Spanish speakers, recent immigrants living in Queens</p>                                                                                                                                                    | <p>Nine bankers in focus group</p> <p>19 phone interviews with lenders; selected to provide a cross-section of community with focus on those most frequently involved in microlending</p> <p>49 lending Web sites reviewed</p>                                                                                                                                                                                                      | <p>479 clients who received loans in 2005</p> <p>A sample of 194 of the above individuals. Sample participants drawn randomly from each range of credit score. Response rate: 45%</p>                                                              | <p>300 individuals accessing on-line applications; includes those who didn't complete and were withdrawn by loan officer</p>                                                                                      | <p>85 microbusiness owners in the Austin area. Approx. half reached through Las Comadres para Las Americas; other half reached through Austin-area listservs and small business membership organizations</p> <p>6 banks and 6 economic development organizations interviewed</p>                                                                                                                                                   |

partnerships and referrals with these lenders might play a role in their future lending. Two of the projects focused more on how microentrepreneurs responded or related to the strategies used by for-profit lenders to reach this market, namely credit cards and credit scoring.

ACCION New York focused on the potential of one particular target market – new immigrants – that has a large and growing presence in its region. While new immigrants are often the targets of lending offers by credit card companies, it was less clear how well they were actually being served. ACCION New York's research sought to shed light on this issue. And ACCION New Mexico looked specifically at the issue of credit scoring: first looking at whether there was a correlation between the credit scores of customers and their subsequent repayment histories, and then exploring the factors that motivated customers – even those with relatively low credit scores – to repay their loans. Finally, ACCION USA chose to explore the initial results from its efforts to employ a new strategy – on-line lending – to compete against for-profit lenders and reach more customers.

As Table 1 illustrates, the microlenders also used a range of market research techniques, including focus groups, telephone surveys of customers and potential customers, as well as interviews with bankers, and reviews of existing literature and Web sites. Their experience with using these tools is discussed below.

## Key Research Findings

**F**IELD convened the five grantees in June 2006, at the conclusion of their research efforts, so they could share the results of their individual work, and discuss the implications of the findings for their work and the field as a whole.

Although the research efforts were modest in scope, some of the findings have led to changes in products. For example, ACCION USA is making improvements to the customer service offered to on-line applicants, and

ACCION New Mexico is considering how to provide preferential pricing and/or reduced application requirements for applicants with stronger credit scores. Other findings are leading to changes in the lending process. ACCION New Mexico is considering how to incorporate consumer credit scores into its underwriting process, and WWBIC also is considering several ways to create new lending strategies in partnership with local banks.

The research findings are also influencing the microlenders' marketing strategies and tactics. For example, both WWBIC and BiGAUSTIN have learned that many banks and other potential referral partners are unaware of or have misperceptions about their products, and that opportunities exist to improve that understanding. ACCION New York plans to position itself as the first source of credit for new immigrants, and is building marketing strategies around that goal.

While the approaches and findings of the projects were distinct in many aspects, they did yield some collective findings related to the key themes identified in the original market scan commissioned by FIELD. These findings are:

***Credit scoring is widely used by banks seeking to serve the microenterprise market; however, as yet banks are reaching only the least risky borrowers.*** Several of the market research efforts validated the finding that banks are increasingly using credit scoring as a key determinant in underwriting loans to microentrepreneurs. This is the case for a wide range of banks – money centers as well as community banks. And although some banks maintain that they continue to look at other factors, the credit score clearly plays a major role in the lending decision.

The research also found that the credit scores that are generally acceptable to banks remain higher than those of most microlending customers. Generally, banks appear to be lending to customers with credit scores above 680, while the average credit score for two of the microlenders in the group averaged around 590. At the same time, quantitative analysis



from ACCION New Mexico, as well as anecdotal evidence from the other microlenders, supports the banks' assessment that microenterprise program customers with lower credit scores are more risky.<sup>2</sup> ACCION New Mexico found a clear correlation between lower credit scores at the time of application and delinquency in the early months of loan repayment.

Of course, nonprofit microenterprise lenders came into existence in large part to serve customers to whom banks and other lenders were unwilling to lend. Twenty years ago, one of the reasons banks did not make microloans is that the cost of underwriting those loans was too great compared to the interest they earned. Today, credit scoring reduces the cost to banks of determining which customers are likely to repay, thereby allowing them to make some of those loans – but only to those who are the least risky. These cost reductions have made banks more willing to extend consumer credit to higher-risk customers.

As a result, it appears that the risk in microlenders' portfolios is increasing. For example, ACCION New Mexico staff has noted that customers increasingly have higher levels of accumulated consumer debt. In other words, because lenders are willing to provide credit to these individuals, they are accumulating debt, leading to weaker credit scores. Microlenders may also face increased risk because they cannot or do not report their clients' microenterprise loans to the credit bureaus. If these clients then go on to seek other forms of credit, their credit scores will not reflect their true debt exposure. If they are successful in securing additional debt, this can lead to increased risk to the lender after they already have issued a loan.

The other dynamic introduced by credit scoring is that it enables loans to be made with a very rapid turnaround time and reduced levels of documentation. Market research – both that conducted by the five FIELD grantees profiled

here, as well as larger-scale market research studies that were reviewed as part of the market scan commissioned by FIELD – indicates that these are very important product features for consumers, perhaps more important than price.

These findings have two important implications for microlenders. The first is that, as the original market scan indicates, it is likely that in the future the loan portfolios of most microlenders will hold higher levels of risk than those seen in the field to date. This in turn will affect their costs, capital structures and path to self-sufficiency. The second implication is credit scoring offers a set of benefits – in terms of the potential for cost savings, rapidity of decision-making, and the ability to predict and manage risk – that holds importance for microlenders seeking to increase the scale and self-sufficiency of their lending activities. This signals the importance for microlenders of finding ways to build their own credit-scoring models, or to use available credit-scoring models more heavily in their underwriting process.<sup>3</sup>

***Banks and other lenders are looking to credit cards as the vehicle for making the smallest microloans.*** While credit cards offer important features to borrowers, there may be room to compete against these products. Two of the market research efforts reinforced the national finding that credit cards are the tool of choice for banks and other lenders seeking to target the microenterprise market. In its focus groups with new immigrants in Queens, ACCION New York found that many of them were inundated with offers for credit cards – this despite the fact that many of them lacked a credit history. In the market research conducted by BiGAUSTIN, 24 percent of the business owners interviewed had used credit cards to finance their start-up. Credit cards were the most used source of external financing (financing from sources outside of the business owner and his or her spouse); they were used more frequently than loans from friends and

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<sup>2</sup> These comments were heard both from microlenders who engaged in these market research projects, as well as from some who participated in the FIELD conference call in February 2006.

<sup>3</sup> FIELD anticipates publishing a separate piece in fall 2006 on how microenterprise lenders are implementing various approaches to credit scoring.

family, or bank loans and lines of credit. Finally, WWBIC's focus group and interviews with bankers in the Milwaukee area revealed that, generally, credit cards were the first product offered to customers seeking very small (less than \$5,000) business loans. If the customers were not interested in a credit card they were then offered other products, such as a home equity or SBA-guaranteed loan.

The market scan commissioned by FIELD found that there are reasons borrowers prefer credit cards to other sources of debt. These reasons primarily have to do with the ease of accessing credit; namely, the short turn-around time for approvals, and the fact that relatively little information is required from applicants (as the decision is based largely, if not solely, on their credit score). ACCION New York's focus groups with new immigrants in Queens found two other reasons these individuals preferred to receive credit (including credit cards) from banks. First, the banks' name recognition and brand had meaning to them, and second, some preferred to apply in person, rather than through the mail, which created fear of identity theft.

Nevertheless, the ACCION New York focus groups identified some potential competitive advantages for microlenders seeking to tap the new immigrant market. While it is important to recognize that this research was limited in scope (involving only two focus groups with 13 individuals) and focused on a very specific market (new immigrants living in Queens), the findings raise issues that have been identified in other market research efforts, and could be worth exploring in other markets and populations. In particular, the focus groups found that potential borrowers had strong concerns, in some cases based on experience, about the lack of clarity or understanding of credit card policies, particularly regarding interest rates and fees. As such, they strongly preferred to have materials and information provided in their native language, and/or to receive information through seminars.

The focus groups also found that this market segment was interested in some face-to-face contact with the organization from which they were borrowing; they had strong concerns

about identity theft, and they strongly disliked marketing techniques such as phone calls and e-mails that were seen as invasive. Individuals who had only an Individual Taxpayer Identification Number (ITIN), not a Social Security number, often had difficulty accessing their first loan through a bank or credit card company.

These consumer preferences and/or barriers create the potential for nonprofit microlenders to compete against their for-profit counterparts in serving the new immigrant market, as ACCION New York is seeking to do. Its strategy focuses on building the correct mix of products and services, including financial literacy education, credit builder loans (small loans for any purpose that can be obtained with an ITIN and do not require a credit history), development of a staff with a broad mix of language skills and cultural understanding, as well as marketing strategies tailored to this population. Its OnTRAC financial education program, in addition to covering financial planning and cash-flow management, covers the wise use of credit cards – when it is safe to apply for a credit card, understanding terms and conditions, limiting the number of cards, and managing the size of card balances. With business owners, the course also covers the limitations and risk of running a business with credit card debt.

***On-line lending services hold potential for increasing outreach to unserved clients, but critical issues need to be addressed in implementing this strategy.*** Banks and other lenders are increasingly using on-line lending services to increase outreach and appeal to their customers' desire for convenience. Web research conducted by BiGAUSTIN and WWBIC found that many banks now offer on-line applications, as well as informational and educational resources on small business via their Web sites.

Nonprofit microenterprise programs also are beginning to explore and offer on-line products and services to clients. There are challenges, although perhaps not those originally anticipated, in using these technologies to reach clients effectively. Many of those who have considered offering on-line



services thought the primary challenge would be a lack of Internet access among the groups often targeted by microenterprise programs: low-income individuals, new immigrants with limited English skills, and so forth.

Interestingly, the market research conducted by ACCION USA and BiGAUSTIN suggested that Internet access may not be a critical issue. ACCION USA found that 37 percent of the users of its on-line application who were surveyed had family incomes below \$40,000. Among the small and microbusiness owners surveyed by BiGAUSTIN, almost 78 percent currently used the Internet for their business, including 20 percent who engaged in on-line banking.

However, ACCION USA's market research did reveal significant challenges in implementing an on-line application process. These related to the completion of the application and follow-up during the lending process. ACCION USA found that a high number of applicants dropped out of the application process. Survey research revealed that some of those individuals thought they had, in fact, completed the application, and were surprised when no follow-up occurred. They also found that some customers felt that the application/information requirements were too rigorous, others didn't understand some of the requirements and processes, many dropped out at the payment stage (initially there was an application fee), and many who were native Spanish-language speakers used the English version of the application (even though a Spanish version was available).

Interestingly, FIELD's experience with its on-line mentoring program, MicroMentor,<sup>4</sup> echoed many of these same challenges: although participants obviously had Internet access, and some experience sending e-mails or conducting Web research, few have had the experience of filling out forms, or with providing in-depth information on-line, and many did not

understand functions such as "save." FIELD's experience also found that clients often would not follow up, and would become deflated if they did not receive immediate feedback on a request.

Based on feedback from its customer surveys, ACCION USA is making a number of changes to its on-line application process. It has developed a new 15-touch plan that includes both e-mail and telephone contact throughout the application process. Loan officers have been given customer service training in support of this new plan.

ACCION USA also is making changes to its Web site to make the Spanish-language application more prominent, and to offer video clips as an alternative means of communicating key information to non-readers. Finally, it is implementing a credit-scoring algorithm that will allow for less documentation and faster turnaround in the lending process.

Concerns about the security of information and identity theft also surfaced through the market research. ACCION New York focus group participants reported being leery of mail, e-mail and telephone offers for credit cards, which explains why they preferred to apply for cards in person at a bank. BiGAUSTIN's interviews with business owners also identified concerns about identity theft as a factor limiting use of Internet banking services by some. Microenterprise programs seeking to offer on-line services need to recognize and look for ways to address these concerns.

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<sup>4</sup>On October 1, 2006, MicroMentor will be transferred from the Aspen Institute to Mercy Corps, which plans to grow the program both in the United States and internationally. For more on this transfer, see <http://www.micromentor.org>.

*As microlenders seek to compete against or collaborate with banks, they must understand their positioning in the market relative to these institutions.* The market research identified a number of issues related to the positioning of nonprofit microlenders relative to banks. Banks have tremendous marketing and branding power relative to nonprofit lenders. Thus, the name awareness of banks is very strong, compared with nonprofit microlenders who are often practically unknown to the vast majority of low-income individuals residing in a market. As ACCION New York's focus groups revealed, banks are perceived as safe. Given the prevalence of predatory lenders in some communities, it is important that unknown microlenders be able to position themselves as trustworthy, community-focused institutions.

Microlenders also have strengths compared to traditional banks in some markets. Because they are smaller and have a tradition of customizing products, microlenders are often better able to deal with clients' linguistic or cultural issues. As an example, ACCION New York's staff currently speaks eight languages, and all materials are available in Spanish as well as English. Furthermore, ACCION New York accepts ITINs from applicants, while some banks require a Social Security number. Microlenders also are willing to offer educational services around financial literacy and business development that banks do not. These services appeal to some (although not all) clients. Finally, for some customers, a term loan that can be structured to the actual use of the funds, and is clearly used for business purposes, may be a better tool for building the long-term financial health of the business than credit card debt.

Pricing is another area where positioning is important. ACCION New York's focus groups reported that while its products and bank products were competitively priced, there was great concern about the pricing of the credit cards offered by non-bank financial institutions. Several participants were aware of or had

experienced instances of rates being raised dramatically, the assessment of unanticipated fees and penalties, etc. WWBIC also found that its products were competitively priced with those of banks. Interestingly, however, many of the bankers interviewed had the mistaken belief that WWBIC's rates were much higher.

While microlenders may price their products competitively with banks, they are challenged by the time it takes to process and approve loans. As noted above, this is one of the reasons that many consumers opt for credit cards, even though they may be a more expensive borrowing option. WWBIC's bank interviews found that bankers often referred customers to WWBIC only as a last option – because of its relatively long turnaround time, as well as the mistaken belief that pricing was high.

*In response to this market knowledge, the five organizations are pursuing a mix of strategies that blend competition, collaboration, and the targeting of remaining niche markets.* ACCION USA is looking to strengthen its on-line lending efforts, which compete against other on-line lenders such as Innovative Bank, by making the set of improvements identified above. At the same time, it also is pursuing a strategy of collaborating with banks, among other institutions, in seeking ways to leverage its on-line lending service. This strategy includes testing co-branded products with Banco Popular in Puerto Rico and Hope Community Credit Union in the Gulf states.<sup>5</sup> ACCION New York is targeting the new immigrant population, which remains largely unserved, although many banks and credit card companies are actively trying to tap this growing market. ACCION New York's efforts hinge on strengthening its competitive advantages vis-à-vis larger lending institutions. At the same time, however, they are seeking to collaborate with mainstream financial institutions to ensure that clients can build their credit history through products beyond those that ACCION New York can offer.

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<sup>5</sup> In addition to co-branded products, ACCION USA's strategy includes third-party referrals from banks and community organizations, and they are discussing the development of private-label products.



Both WWBIC and BiGAUSTIN are focusing their strategies around building new collaborations with banks and economic development organizations, seeking to serve clients that these organizations can't serve, or may not want to serve alone. ACCION New Mexico is looking to continue to serve a client base with credit scores that are oftentimes lower than those accepted by banks, but to do so more effectively by better utilizing credit scores to mitigate portfolio risk and speed up its underwriting process. Interestingly, one of ACCION New Mexico's primary strategies for serving clients in rural parts of the state has been to partner with banks that will accept loan applications and close loans for them.

## Findings from the Market Research Process

The market research techniques used by the microenterprise lenders included customer surveys (with both current and potential clients), customer focus groups, interviews and focus groups with bankers, and reviews of existing literature and Web sites. In most cases, the lenders used more than one data-gathering technique to inform their market research questions. Their experiences in conducting these market research efforts can help inform other microenterprise organizations that seek to use these techniques.

Copies of many of the market research tools developed as part of these efforts – survey instruments, focus group guides, and so forth – are posted on the FIELD Web site at [www.fieldus.org/ScaleResearch](http://www.fieldus.org/ScaleResearch).

**Lessons from the customer surveys.** Both ACCION Texas and ACCION New Mexico conducted telephone surveys of past clients as part of their market research. BiGAUSTIN also conducted telephone surveys, but focused on a set of small businesses that had not, for the most part, received services from the organization. Their collective efforts yielded the following lessons:

- Customer surveys that seek to develop formative guidance about lending products and practices do not need to be particularly

detailed or long, as long as they are done well. ACCION New Mexico's survey asked six questions; ACCION USA's survey took only 10 to 15 minutes to complete. As is the case with any survey, the construction of the sample, the survey questions and the response rate will determine the usefulness of the survey information.

Organizations seeking to implement a customer survey may want to seek advice on sampling and desired response rates from those with expertise in administering surveys.

These can include academics as well as paid market- or survey-research firms.

- The customer surveys that were most effective in informing lending practices were those relating to specific product features and customer demands. Both ACCION New Mexico and ACCION USA gathered information regarding specific marketing and customer service approaches, as well as product features such as prices and turnaround time, that they were able to use in improving their product. Specifically, ACCION New Mexico is re-examining its pricing and its underwriting processes in light of customer feedback, while ACCION USA is implementing new customer service features. By contrast, BiGAUSTIN's survey focused more generally on where small businesses received their financing, their use of the Internet and their technical assistance needs. While the survey yielded some interesting information, and suggested some possible directions that BiGAUSTIN might pursue, it did not have the specificity that could lead to changes in loan products or lending processes.

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*Focus groups are best if they can be supplemented by a broader customer survey, and are particularly useful in informing efforts to target or design products for a specific population or ethnic group.*

- Customer survey data is even more valuable if gathered over time. Both ACCION USA and ACCION New Mexico found the customer survey information to be highly valuable. However, both organizations had hoped for higher response rates than they achieved during the term of the FIELD-funded projects. As a result, they both have elected to continue the survey process.

**Lessons from customer focus groups.** ACCION New York's market research focused on focus groups with a specific target market. The 13 participants in the focus groups also completed surveys that collected basic demographic and business data. Findings from ACCION New York's experience are:

- Customer focus groups are an excellent tool for developing detailed qualitative data and feedback that can be used to shape marketing and product strategies. ACCION New York used this tool very effectively to gather very specific information on how new immigrants in one of its target markets were receiving information about credit cards, and how they viewed the marketing materials they received.
- Due to the limited number of participants in a focus group, it is important to be careful about extrapolating findings. ACCION New York valued the opportunity to delve deeply into the reactions of a set of customers in Queens, but realized that the specific findings from the focus groups would not necessarily apply to clients from other neighborhoods or ethnic backgrounds. Focus groups are best if they can be supplemented by a broader customer survey, and are particularly useful in informing efforts to target or design products for a specific population or ethnic group.

- The quality of a focus group depends on several factors, including the skill and experience of the focus group facilitator, the phrasing of the questions, and the composition of focus group participants. Again, this is an area where hired expertise can be quite valuable. Both ACCION New York and WWBIC elected to hire consultants with expertise in conducting focus group research to structure and facilitate their research.

**Lessons from bank interviews and focus groups.** WWBIC and BiGAUSTIN both focused part of their market research on learning more about banks' strategies toward small businesses and microentrepreneurs in their target markets. WWBIC used both a focus group with bankers as well as telephone interviews to gather this information, while BiGAUSTIN relied solely on phone interviews. The key lessons from these research efforts are:

- The focus group and interviews were effective in yielding a sense of bank strategy toward small business customers: which customers the banks are targeting, how many loans they were making per month, and which loan products they were offering their customers. In this sense, they were a means to confirm trends identified in FIELD's national market scan. WWBIC clearly found that banks faced with businesses seeking microloans offered credit cards as the first product, turning to home equity loans and then SBA-guaranteed loans for customers for whom credit cards were not a good fit.
- These research techniques were also valuable for obtaining the banks' impressions of the microlending program and their products. This information is key for programs seeking to develop partnership or referral relationships with private lenders – as their willingness to partner will depend in part on their perceptions of the program. Interestingly, WWBIC found that banks had some misperceptions about their products – namely, that prices were much higher than in

reality. They also found concerns – which were correct – about the relatively slow turnaround time for approving loans. BiGAUSTIN found that while bankers who had partnered with the organization thought highly of its services, other banks had no awareness of its program.

- Once again, professional expertise may be valuable. Both WWBIC and BiGAUSTIN used consultants with market research experience to conduct their focus groups and interviews. While it is hard to know what types of information they would have received had program staff conducted the research, given that both organizations were asking for feedback on the banks' view of their products and services, it is likely that the banks spoke more freely to a third party.

## A Final Word

The market research efforts of these five organizations indicate that it is possible to generate useful market information with a relatively small investment of resources. The funding provided by FIELD was small – \$7,500 per organization. Two factors are key to generating solid and useful information at this level of investment. First, the research should be narrowly focused – not seeking to create a comprehensive picture of the organization's market, but rather focusing on a specific issue or trend faced by the organization. Second, the use of professional expertise can help ensure that the research findings are as valid and useful as possible.

Engaging in these simple forms of market research – as well as more extensive efforts when feasible – will be essential for all microenterprise lenders in the future. As the market study commissioned by FIELD revealed, national trends in the financial industry have critical implications for nonprofit microlenders. They must find ways to understand evolving market trends and how those are playing out in their local market, in order to adapt and respond successfully to the change that is inevitable.

## For More on Scaling Up Microenterprise Services

Readers interested in learning more about the issue of scaling-up microenterprise services are invited to visit FIELD's Web site, [www.fieldus.org](http://www.fieldus.org), to find additional resources developed and/or identified by FIELD. They include:

**Lessons Regarding Scale: Findings from a Literature Review.** FIELD and the Association for Enterprise Opportunity produced a literature review on scale in 2006 as part of a project funded by the Citigroup Foundation. The review identifies key lessons on scale-up drawn from research in the microenterprise, community development finance and nonprofit fields. See <http://fieldus.org/Projects/pdf/ScaleLitReview.pdf>

FIELD's **On-Line Resource Bank** includes a section called "Think Bigger, Work Smarter," which is dedicated to the issue of scale. Included are a number of articles and tools, including resources on scale-up strategies such as mergers and acquisitions. See <http://fieldus.org/Projects/direction3.html>

**Strategic Restructuring as a Scale-Up Tool: The Case of MicroBusiness Development Corporation.** *FIELD forum* Issue 17 profiles MicroBusiness Development Corporation, a Denver-based microenterprise program that used both merger and acquisition as tools to increase dramatically the scale of its microenterprise services. See <http://fieldus.org/Publications/FieldForum17.pdf>

**Findings and Recommendations: Supply-Side Scan of Microenterprise Financing.** This study commissioned by FIELD in 2005 identifies key trends in microenterprise lending among for-profit financial institutions, and discusses the implications of these trends for the scale and sustainability of nonprofit microenterprise lenders. See <http://fieldus.org/Projects/pdf/SupplySideLitScan.pdf>

**Scaling Up Microenterprise Finance in the United States.** In 2004, FIELD convened a meeting of leading microfinance providers in the United States to discuss critical issues relating to scale. This report summarizes their discussions and recommendations. See <http://fieldus.org/Projects/pdf/Scale-UpMtgRpt.pdf>

FIELD also will publish a piece in fall 2006 on how microlenders are implementing various approaches to credit scoring in an effort to increase the scale of their lending efforts. Check <http://fieldus.org/Projects/Scale.html> for updates.

## Credits

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