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The case for deploying Sales Agents

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Introduction

Two megatrends in the microfinance industry – increasing competition and a growing tendency for Microfinance Institutions (MFIs) to commercialize – are changing the way in which MFIs do marketing.

- MFIs are facing increasing **economic pressure** as they strive to become sustainable, profitable and investor-attractive institutions with a high market share and a large customer base. Traditional direct promotion marketing measures through loan officers or through hosting events, advertising in TV or radio no longer suffice to help the MFIs reach those goals. With consumers being able to shop around for different loans, MFIs need to do better marketing to attract choosier clients – while bearing in mind cost effectiveness. In short, there is an economic argument for MFIs to change the way they do marketing.
- MFIs are also facing **social pressure** to be more selective in the way they approach prospective clients in order to avoid adverse consequences such as client over-indebtedness. Against the backdrop of insufficiently developed financial infrastructure – such as the typical absence of credit bureaus in many of the target countries- increasing competition means that debtors are suddenly able to obtain multiple loans from multiple players without the credit-granting MFIs knowing about the clients' previous loans. Double or triple loans dramatically reduce the likelihood of repayment and also exert undue pressure on the client. This recent development has implications, of course, for the way in which MFIs are approaching new clients, requiring MFIs to enrich their marketing activities with educational work.

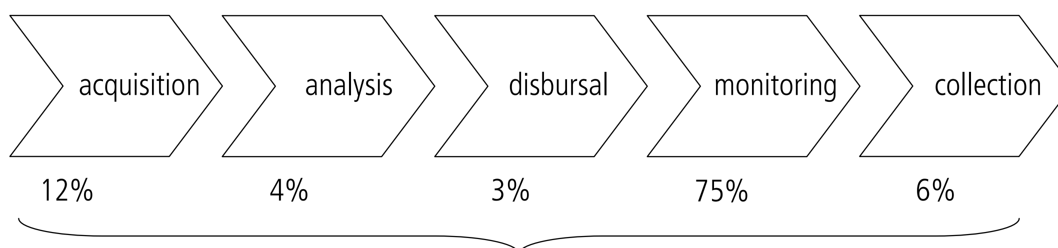
This paper describes and analyzes the recent paradigmatic shift away from direct promotion endeavours to outsourcing marketing activities to specifically recruited **sales agents**. We argue that MFIs that deploy sales agents are well-placed to cope with both the economic as well as the social pressures they are currently facing. We also outline an implementation guide and point out potential pitfalls associated with embracing this new strategy.

The traditional approach: Loan-Officer-Led Marketing

Traditionally, MFIs have relied on loan officers to take care of the entire loan cycle including client acquisition. This approach is associated with a number of benefits, in particular the fact that involving the loan officer at such an early stage reduces information asymmetries: part of the screening process is already completed before the actual loan analysis commences. In addition, loan-officer-led marketing might promote tight personal relationships between client and loan officer which is thought to be one of the secret recipes behind the astonishingly high repayment rates that are typical for the microfinance sector. Another benefit of loan-officer-led marketing in an environment in which the MFI is a monopolistic environment is that most sales-efforts led to actual contracts being signed, the time investment is efficient and there is little spillage.

Loan-officer-led marketing has implications for the time budget each loan officer has to perform each production step in the loan cycle. In the traditional model, inferring from Frankfurt School's experience in advising microfinance enterprises worldwide, we estimate that for a 1 year loan, a loan officer spends 2 days a month monitoring, 1 day each on loan analysis and dispersal, 2 days for the collection of payments and 4 for acquisition. Average time spent on acquisition amounts to 12.5%. This is a rough rule-of-thumb applicable for MFIs particularly in South-East Europe, but valid for MFIs in other regions as well. Our rule-of-thumb is supported by another estimate, according to which many MFIs in our target sample advised their loan-officers to spend at least 1 hour a day recruiting new customers, which in an 8 hour working day also amounts to 12.5%. Graphically, the steps can be broken down in the following sequence.

Traditional Approach:
The Loan-Officer is responsible for the entire value-chain



estimated average % time spent on each production step for a 1 year loan

In a changing and more competitive business environment, however, the benefits linked to loan-officers-marketing are becoming more diffuse while the associated costs and potential risks are increasing.

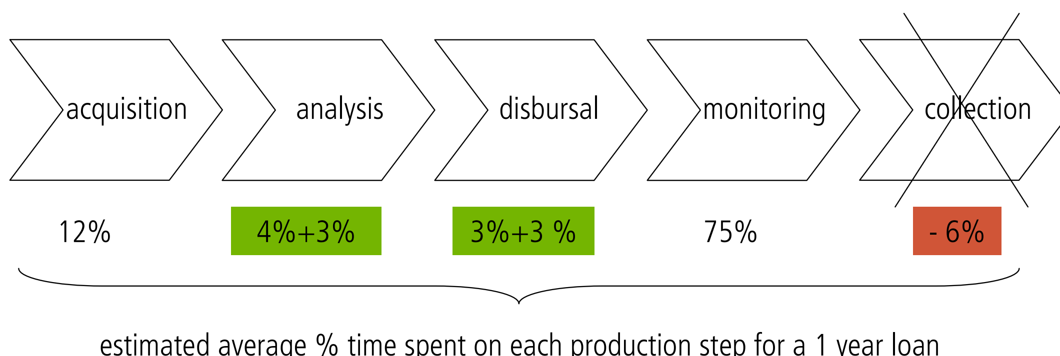
- **Benefits:** Under monopolistic competition clients couldn't shop around for the most favourable conditions – on the contrary, they were lucky to have their loans approved. For lack of alternatives, acquisition was frequently followed by entering into business relations. Given increasing competition, however, this is no longer the case: potential customers are much more likely to shop around: an initial sales conversation does not automatically lead to a signed contract.
- **Costs:** Acquisition is time- and resource intensive. The loan officer, who has been trained expensively to perform loan analysis, disburse loans and monitor the credit process, has to devote his or her precious time singling out and negotiating with potential customers. In addition, there is also a pronounced risk of skill-mismatch: a person might be very good at analyzing numbers in a loan contract or judging a business plan but not a great salesperson. In short, the opportunity costs of using fully trained loan officers for direct promotion activities are more pronounced in an environment of increasing competition.

Embracing alternatives: Outsourcing in microfinance

Outsourcing refers to obtaining or procuring goods or services from an entity that is external to the organization – mostly for (opportunity) cost reasons. Outsourcing allows a firm to strategically use external sources to perform specific activities and enables the firm to concentrate on key elements of their value chain. In many industrialized countries, the popularity of outsourcing through foreign-based customer care centres, programming and production units has surged in manufacturing, IT, telecommunications or telemarketing- permitting the outsourcing firm to cut costs and specialize.

The microfinance industry is late in embracing the outsourcing trend. One notable exception is:

Outsourcing the collection of payments: The self employed women's association (SEWA) in India is a good example. SEWA Bank involves women from communities and gives them the responsibility of collecting payments for loan repayments, savings schemes and voluntary saving amounts. These women, known as Banksathis (Bank friends) are not bank employees but an independent work force who earn commission on the collection amounts. Due to this intervention, the bank saw an increase in repayment rates and savings amounts while cutting costs and saving loan officers' time.



Outsourcing marketing functions:

With respect to marketing functions, however, there are even fewer examples of successful outsourcing initiatives. Many MFIs pride themselves in paying individual attention to each (perspective) customer, which appears at odds with standardized outsourcing. Another reason for MFIs' reluctance to outsource is the aforementioned lack of market pressure that has "spoilt" many MFIs over recent years. Implicitly, loan- officer – led acquisition also had the effect of reducing information asymmetries between debtor and creditor because it was often part of the screening process.

Yet, as we saw, the associated (opportunity-) costs of relying on loan officers to do marketing as well as their other tasks are rather pronounced and – in an environment of increasing competition – the expected benefits are rather reduced. To outsource appears a viable alternative and there are a number of options in which MFIs, co-operatives and other types of financial institutions could go about out-sourcing marketing initiatives, depending on their strategic aim. Acquisition, promotional/marketing activities and simple related services can be out-sourced namely through large-scale targeted advertising campaigns in combination with national net-works (post, phone companies, retail agents) or alternatives through individual sales agents.

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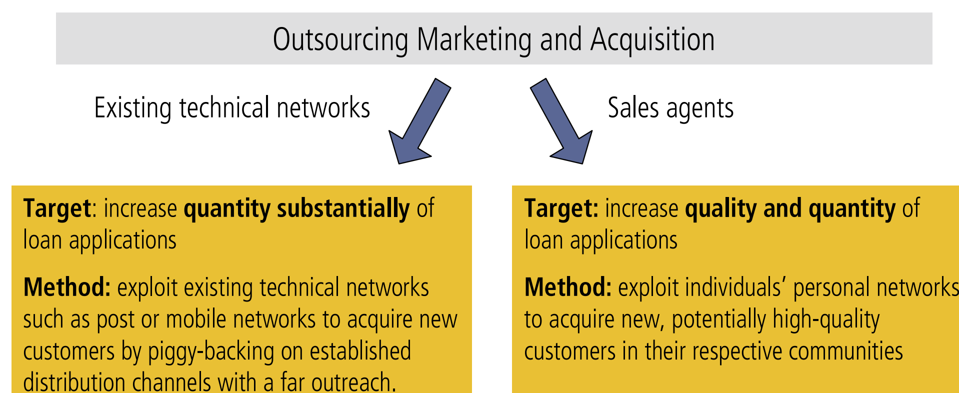


Exploiting existing technical networks as Marketing Channels

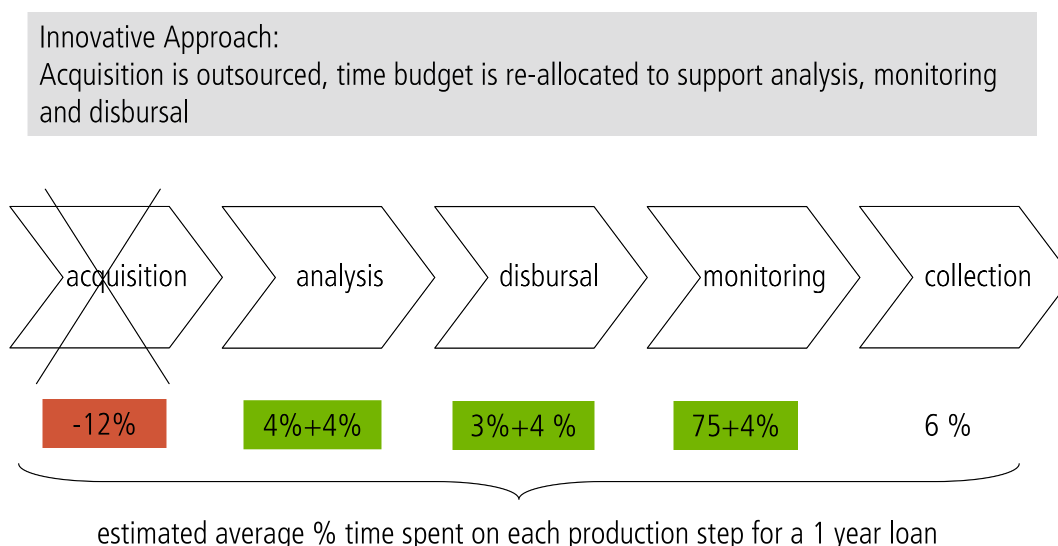
This approach, which piggy-backs on existing national (technical) infrastructure networks has worked successfully e.g. in Brazil, where Banco Bradesco uses the postal network to deliver simple financial services to its target group and thus has tremendously increased its outreach. In India, the banking correspondent model becomes increasingly attractive for MFI NGOs (that are not entitled to collect savings) to partner with a local bank to collect savings on their behalf, thus being able to offer a broader range of services to the MFI's clients.

However, there are certain downfalls involved in choosing this particular outsourcing approach (even though admittedly the focus on this particular approach is not foremost on loans only but on access to financial services). Most obviously, the focus on quantity (number of clients) rather than quality increases the screening costs, i.e. the necessary time spent, in the loan-analysis phase. In addition, there is a potential for attracting clients that are financially illiterate, so that relying on networks/retail agents to increase customer base does not aid the current move to promote consumer protection and therefore need careful selection and training. Thus, outsourcing marketing functions through existing technical networks might increase the customer base – but is highly risky in that the customers that are approached might already have multiple loans.

Deploying specifically trained sales-agents

Focusing on the latter alternative, deploying sales agents, the associated opportunities are promising. Deploying specifically trained, free-lance sales agents who work on commission basis and who enter into personal dialogue with prospective customers regarding their business visions and previous financial history can be a good method to increase both the quality and quantity of loan applicants- meeting both economic and social goals.

For example, Sales Agents were very successfully deployed by a partner bank in Macedonia, in a business environment of increasing competition amongst MFIs and increasing donor pressure for MFIs to cut costs. The results were more than encouraging: the client base expanded, existing and new clients showed an active interest in new non-credit bank products (cross-selling opportunities) and loan-officers could focus on their core competence: review of the loan application, disbursal of credit and monitoring of repayment activities. For the partner bank, using Sales Agents represented an intelligent strategic move to cut costs, win market share and increase revenues.



Strategic Motives to deploy Sales Agents and potential pitfalls to watch for

MFIs should very carefully consider the Strengths, Opportunities but also the Threats and Weaknesses associated with outsourcing Marketing Measures before embarking on recruiting Sales Agents.

Strengths	**Weaknesses**
▪ Allows the loan-officer to focus on his or her core – competence ▪ Allows an MFI to cope with rapid quantiative growth ▪ Allows greater geographic outreach as Sales Agents can regularly target rural areas (preferably their region of living) which would be very costly if LO would travel to that region just to conduct direct promotion ▪ Allows quicker and more aggressive marketing in urban areas as Sales Agents divide the city among them, every agent is responsible for one certain area of the city – big outreach in a very short time ▪ Can be seen as a means to minimize "corruptive" measures: It is not possible that LO "invents" a client who does not exist in reality, since the application is filled out by the Sales Agent, not the LO	▪ Training of Sales Agents is resource intensive ▪ Sales Agents must be monitored
Opportunities	**Threats**
▪ Sales Agents can be trained to sell any kind of product – big cross selling opportunity! ▪ In case the Sales Agents perform well, the bank can hire them as permanent staff and the sales time can be used as a testing period for the new employee ▪ Many applications lead to a fast training result for the bank's loan officers and quick establishment of a loan portfolio	▪ Sales Agents are too successful: Not enough (trained) LO are available to cope with the number of applications – bank gets "overflooded" with applications and cannot cope with them => clients have to wait very long time for their loan disbursement => bad reputation for the bank (especially critical at the beginning of starting a microlending programme!) ▪ Marketing and external communication is not controlled by permanent staff of the bank – threat of loosing reputation through wrong communication by Sales Agents

Once the MFI has concluded that deploying Sales Agents is a good thing, that overall the Strengths and Opportunities outweigh the Weaknesses and Threats, there are a number of important operational risks and challenges that the outsourcing MFI should be aware of.

Reputational Risk: The public will perceive the MFI's Sales Agents as part of the MFI. Particular attention should therefore be paid to the selection and training process of the sales agents lest they damage the outsourcing MFI's reputation. For this reason, Sales Agents must receive a training of several days duration, including the following:

1. The organizational values of the MFI and its Unique Selling Point. Should the Sales Agent sell the MFI as a traditional institution or a young dynamic one? Specialized or all-finance? What are the MFI's business principles, who are its main competitors, what differentiates the MFI from others?

2. Target Group: Sales Agents should get specific instructions on whom to approach and in which ways to do so including the enforcement of a compulsory dress code that matches the MFI's corporate values.
3. The particular product the Sales Agent is supposed to market including detailed information on the product's specific features and competitors' comparable products.
4. Other MFI products: In addition, the Sales Agent should have a clear overview over other bank products in order to be able to cross-sell

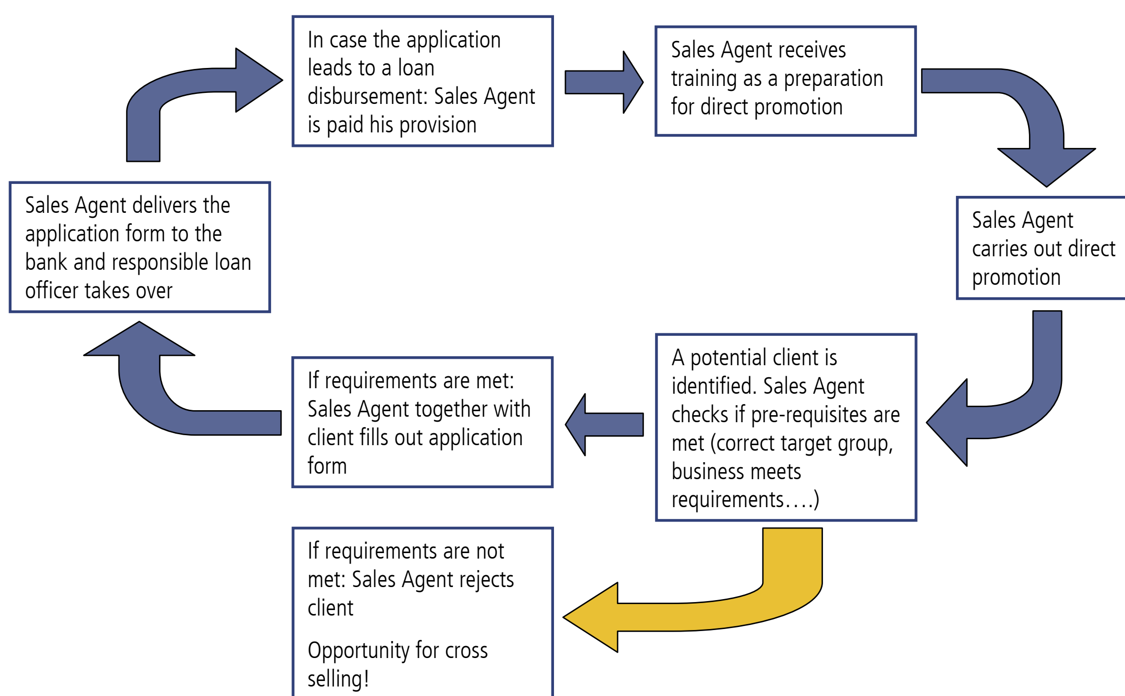
Quality Assurance: Each Sales Agents should write a detailed report over which client was visited on which date with which result. This report should be regularly submitted to the bank and checked by the responsible loan officer. In case a Sales Agent drops out of work, either the loan officer or another Sales Agent could use the visit overview in order to continue the work. This requires a data base where this information can be stored.

Geographic Outreach: In order to reach a widest possible outreach in a short period of time, the Sales Agents should be distributed over the country. Each Sales Agent should have his own sales area. In case several Sales Agents operate in the same city, again each Sales Agents must have his own sales area in order to avoid repeated approaching of the same potential client by different Agents. As above, there is a need for a data base to store respective information.

Containing Costs: MFIs should remunerate Sales Agents on a performance basis. In order to avoid loan officers wasting time screening filled-out applications from potential customers outside the envisaged target group, the Sales Agents should be paid after the successful disbursement of the loan. This way, in case the application does not lead to a successful loan disbursement, the Sales Agent does not receive any commission.

Need for revisiting targets: MFIs should match the targets set for the Sales Agents with the absorption capacities of loan officers to deal with the increasing number loan applications. This necessitates continuous monitoring and careful adjustments in order to maintain customer service quality, especially so that waiting times for loan approvals do not increase due to back logs at the MFI credit department.

Watch out for multiple loans: Sales agents should specifically be trained to spot symptoms indicating that the prospective client already has a loan with another MFI. Usually, asking a set of very specific questions aimed at revealing the financial backdrop of the prospective client will suffice.



Conclusion and proposal for further research

This paper has outlined the principles of deploying specifically trained sales agents as an instrument for outsourcing marketing functions in MFIs. Sales agents represent an economically viable alternative to the traditional, loan-officer-led marketing approach, which is high in (opportunity) costs and a socially responsible alternative to piggy-backing on the technical networks to increase the customer base.

The benefits associated with deploying specifically trained sales agents can be summarized as follows: When marketing is outsourced to sales agents, the loan officers can concentrate on their key responsibilities such as loan analysis and monitoring. This saves substantial costs and makes the management of the loan-cycle more efficient. In an environment of increasing competition, sales agents are much better positioned to engage in aggressive marketing activities than loan officers, who might not even be the best salespeople. In addition, the geographic outreach of the MFI is extended as the Sales Agents engage in marketing activities in their communities. Substantial cross-selling opportunities arise if Sales Agents are well trained and committed to the MFI. Thus, from a purely business-point, deploying sales agents in order to outsource marketing measures is advisable – as long as reputational risks are contained. In addition, if sales agents are well trained, they can assess whether or not the prospective client already has a loan contract from another MFI in this way reducing the risk of over-indebtedness.

An issue that merits further research is the question on financial literacy and consumer protection. Frankfurt School believes that deploying Sales Agents would also be an excellent way to foster financial literacy in those Sales Agents' communities. This way, MFIs and cooperatives could be spared the task of having to educate their (potential) customers themselves and could, instead, focus on their key responsibilities, achieving substantial efficiency gains. Sales Agents in contrast could use financial education sessions as a platform to attract interested potential consumers. In short, Frankfurt School believes that Sales Agents can not only be very effectively used to increase marketing outreach but also to contribute to financial literacy. More research is needed to explore this issue.

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