

Qualitative Study on Customer Attrition in Microfinance Institutes of Pakistan

¹Gilal Rehman Gul, ²Memon Salman Bashir, ³Chandan Lal Rohra

¹Department of Business Administration SALU-Khairpur.

²Lecturer Department of Business Administration SALU-Khairpur

³Professor and Chairman Department of Business Administration SALU-Khairpur

Abstract: The accomplishments of microfinance institutes in helping poor have attracted lot of interest worldwide. Almost all the governments around the world are replicating Grameen model in their respective countries to fight against poverty. However considering the cause, microfinance institutes are serving, most of these institutes are suffering from very serious problems, like employee turnover and customer attrition, making these financial institutes economically unviable. This research paper is an effort towards solving the dilemma by identifying and classifying the reasons in three main categories. First customer attrition due to organizational performance second, customer attrition due to customers own characteristics and third customer attrition due to industry structure and competitive actions. Finally, this paper will suggest some recommendations to improve customer retention in microfinance institutes.

Key words: Microfinance Institutes, Customer Attrition, Customer Retention

INTRODUCTION

The accomplishments of microfinance institutes in helping poor have attracted lot of interest worldwide. According to Littlefield (2003), Microfinance has demonstrated its potential to assist the poor to make significant strides towards reducing their vulnerability, improving their livelihoods, paying for basic health care and financing their children's education. Almost all the governments around the world are replicating Grameen model (a pioneer bank in microfinance industry) in their respective countries to fight against poverty. Pakistan is also not an exception in doing so. Khushhali bank was the first specialized microfinance institute established in Pakistan, in year 2000, in government sector. Presently nineteen microfinance institutes are functioning in country, majority in private sector.

At beginning, the focal point of most microfinance institutes in Pakistan was on replicating the Grameen model and on acquiring new customers. consequently most microfinance institutes followed "Selling philosophy" of marketing in the expectation that market potential is unlimited and customer will come, the only focus was on making financial products and services available and selling aggressively to customers. The main reason of adopting this strategy was huge untapped demand of microfinance products in market place. In spite of the fact that existing customers are easier to sell and are frequently more profitable, microfinance institutes have put greater emphasis on acquiring new customers, where as existing customers were taken as for granted. For many years some microfinance institutes were successful. However in the past few years, it has become very evident that simply replicating products and systems into very different socio-economic conditions will not work (Graham A.N. Wright 1997). Besides; the environment for microfinance sector has changed considerably over the period of time because of the several dynamics including:

- Substantial growth and profit potential has attracted variety of private organization in the market resulted in fierce competition among competitors for market share.
- Because of the growing numbers of microfinance institutes offering similar products customer started switching off from one provider to another to avoid sturdy conditions.
- Customers are become more conversant than before resulted in the need of market oriented financial products and services.

All these factors have made "selling philosophy" inadequate. The most compelling evidence for this is the fact that many microfinance institutes are losing over a quarter of their clients and substantial profits every

year, and of course, it is much more difficult to build financially sound, sustainable organizations with such levels of client “desertion” (Graham A.N. Wright 2004). In this paper our effort is to understand the problem of customer attrition and suggest some concrete steps toward solving the problem.

The main objective of this paper is to identify the reasons of customer attrition in microfinance institutes and suggest some recommendations to retain profitable customers. Considering the severe problem of customer dropout and employee turn over in microfinance institutes very little research has been carried out to address this issue. It is therefore in this paper our effort is to understand the reasons behind above said problem. This makes the paper unique. The information and data collected for this paper are from both sources, primary and secondary. Primary data consists of interviews from top and middle level employees. Interviews with dropout customers were also carried out to understand problem more clearly. To get accurate picture of situation in microfinance institutes interviews were conducted from Customer Service Officers (CSO) and branch managers of institutes because these employees have direct contact with customers and other stakeholders. For the purpose of validity and reliability of interviews we traveled extensively with CSO’s in the field and observed, what they said was accurate or not. Considering the nature of research secondary data was also collected from various sources including the websites and internal records of these institutes.

This research paper is an exploratory in nature. The main objective of this paper is to find out the factors that cause customer attrition in microfinance institutes. Effort will be made in subsequent research paper to quantify those factors. This paper also suggests some recommendations to improve the customer retention in these organizations. Finally this research is mainly carried out in Sindh province of Pakistan. Interviews with top official are carried in the head offices in Islamabad and Karachi Pakistan.

Causes of Customer Attrition /Dropout:

The reasons of customer’s attrition in microfinance institutes are numerous and some times inter- related with each other. To understand fully the reasons of customer attrition, we have classified the reasons into following three main heading. Figure no. one shows the overall causes of customer attrition in microfinance institutes.

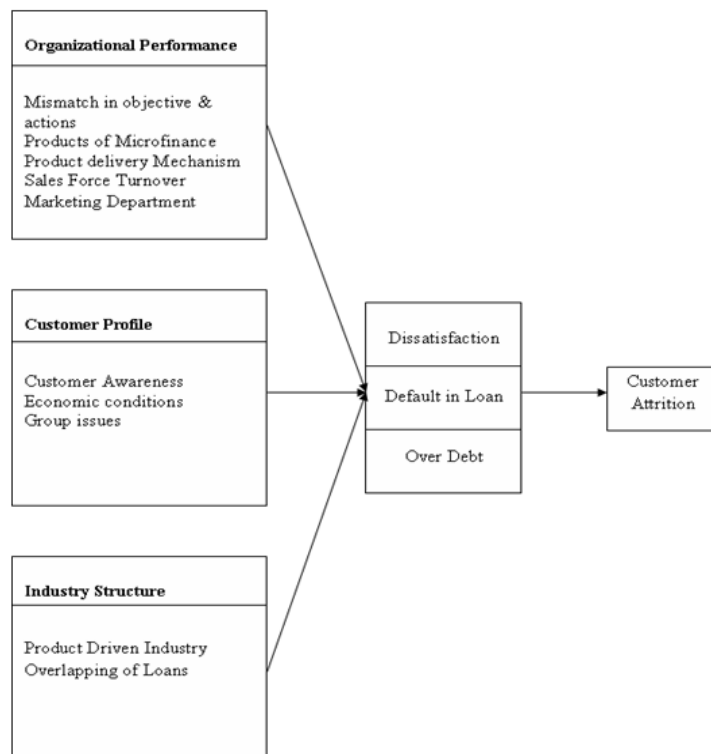


Fig. 1: causes of customer attrition in Microfinance Institutes

Source: Interviews and observations

Customer Attrition due to Organizational Structure and Performance:

Organization policies and its structure is one of major reason of customer dropout in microfinance institutes. The reasons of customer dropout because of organization structure and policies are classified as under.

- Mismatch in objectives and actions:
- Products of microfinance institutes
- Product delivery process
- Sales force turnover
- Marketing department

Mismatch in Objectives and Actions:

One of the main reasons of customer attrition in microfinance institutes is the mismatch in objectives and actions of management. The actions of management do not match the objectives of microfinance institutes. The objectives of management should be in accordance with the objectives of microfinance institute that is to reduce poverty. From the interviews with management and review of literature it has been revealed that the focus of management in microfinance institutes is more on acquiring new customers than on serving and retaining existing customers. This divergence is a direct result of huge untapped microfinance market in Pakistan. The market of microfinance in Pakistan is estimated around 10 million household, where as all microfinance institutes reach only tiny portion of that market. Clearly the demand exceeds the supply of the products of microfinance products in market. This has resulted in the shift in the focus of microfinance organizations, on acquiring new customers to improve their bottom line results. Consequently it has been observed that very few customer groups enter in the second, third and fourth cycle of credit. It is also been observed that no customer has graduated from microfinance institutes. Graduated means volunteer withdrawal of customer from acquiring credit. That means the customer become self sufficient and do not need credit any more.

2.1.2 Products of Microfinance Institutes:

The products of microfinance are the major reason of customer dissatisfaction and eventually customer attrition. The small amount of loan, complex loan processing system, the high interest rate, pay back schedule and other features are main causes of customer dissatisfaction. The initial amount of credit offered to customers is approximately Rs. 10,000; where as maximum amount of loan offered is Rs.30, 000.while interviewing with customers it was revealed that small amount of money offered as credit is not sufficient to start new business or purchase any capital asset. Most customers believe the credit acquired from microfinance institutes is not productive for their business. (Table no.1 shows the various products and its features.), it is obvious from the table that most microfinance institutes offer similar products to all customers with little or no modifications. With out considering the exact needs and wants of the target market. In fact very little or no research is being carried out and there is no input from customers during the product development phase, as a result these products fail to satisfy the demands of customers groups .In an interview marketing manager of the leading microfinance bank said that “one of major reason of customer attrition in microfinance institutes is lack of innovation in the products we offer” he further added that “many customers believe that, the products offered by microfinance institutes does not help them a great deal and that they are negatively affected, therefore most customers look for alternate forms of financing, in many instances they borrow from multiple microfinance institutes or local money lenders at the same time. This worsens their credit difficulties and the result is customer attrition.”

Table1: Products line offered in Microfinance Institutes

No.	Product name	Market	initial loan amount	Maximum loan amount	Loan tenure
1	Asset purchase loan	Rural, urban	*Rs. 10.000	Rs.30,000	3-12 months
2	Live stock loan	Rural, urban	Rs. 10.000	Rs.30,000	3-12 months
3	Working capital loan	Rural, urban	Rs. 10.000	Rs.30,000	3-12 months
4	Agriculture loan	Rural	Rs. 10.000	Rs.30,000	3-12 months
5	New business loan	Rural, urban	Rs. 5000	Rs.30,000	3- 06 months

Source: microfinance institutes product brochure and websites.

*Rs. is initials of Rupee. Rupee is the unit of Pakistan currency

Complex Product delivery Process/ Mechanism:

The other main reason of customer dropout under this classification is the complex product delivery

mechanism and its monitoring process. The process of disbursing loan is complex, requires lot of time and paper work. It starts from screening, mobilizing and formation of groups known as community organization. Each community organization consists of eight to fifteen members in a group. The number of members in a group varies from one microfinance institute to another. (Table no. two shows the steps in product delivery mechanism in microfinance institutes). It was observed that most of the group members were not available during meetings except initial meetings. This indicates the interest of group members ones they obtained loan.

Table 2: steps in product delivery in microfinance institutes

Products delivery mechanism in microfinance institutes (Subject to improvement)	
1-Identifying & qualifying customers	4-Loan disbursement
<ul style="list-style-type: none"> • C R O travels to villages • Meeting with people • Promotion of organization & its products 	<ul style="list-style-type: none"> • Loan disburse to customers • Disbursement point is MFI office • Each customer personally collects loan check
2-Orientation & mobilization	5-Loan recovery
<ul style="list-style-type: none"> • C R O travels to villages • Promotion of products • Reply queries • C O's formation 	<ul style="list-style-type: none"> • C R O travels to villages • Recovery of loan in installments • Monitoring the projects
3-Loan processing	6-Loan renewal
<ul style="list-style-type: none"> • C R O travels to villages • Evaluating credit credentials • Extensive paper work • CRO questions customers to confirm awareness of customers 	<ul style="list-style-type: none"> • C R O travels to villages • Customer evaluation based on previous loan credentials • Renew of loan

Source: interviews and observation

Sales force Turnover:

Sales force have different roles within the microfinance institutes, it's because the nature of the role have a significant impact on microfinance institute-customer relationships. To the extent that sales force is customer-facing, and is in direct contact with customers, any impasse in sales force will have direct impact on customers. This fact is obvious in microfinance institutes where high sales force turn over results in loan defaults and to end with customer dropout. Most of the microfinance institutes are experiencing high sales force turnover due to several reasons including work load, and. sales force incentives. Each is briefly discussed here.

a) Work load and Stress:

employee work load, unrealistic goals accompanied with long working hours in harsh weather are the reasons of sales force attrition in microfinance institutes. Each customer relationship officer handles portfolios of thousands customers and is solely responsible for credit and managing customer groups. Normally customer relationship officer performs following day to day activities in microfinance institutes

- Identifying and qualifying the prospective customers,
- Mobilization, and formation of customer groups
- Promotion of products
- Processing the loan for customers
- Paper work
- Fortnight meeting with community organizations
- Monitoring the projects for which credit is granted
- Recovery of loans

These activities are performed by customer relationship officers in the office and in fields, these activities requires lot of hard work and due diligence. Some of the customer relationship officers are unable to cope with these working pressures and the result is high employee turnover

b) Employee's Incentives and Rewards:

Except work load and stress other reason of sales turnover in microfinance institutes are inappropriate incentives and reward system. it was observed that incentives and reward systems in most microfinance institutes were tide with performances like size of the customer portfolios sales person is responsible, amount of loan collected, default in loan and number of new customers acquired during the period .In interviews with sales force about their job satisfaction it is revealed that most them were critical of the incentives and reward

system of the organization. From interviews, low compensation, little recognition, lack of career development opportunities and slow advancement were identified as major reasons of sales force dissatisfaction with job. Most of the sales force leaves microfinance institutes because they perceive that incentives do not match their efforts and skills.

Marketing Department:

Marketing department is the life line in the success of today's organization whether in government or in private sector. All organizations employ marketing techniques for their success, including consumer, business to business, service and financial sector. Considering the importance of marketing function in organizations, it was observed that still now marketing department in most microfinance institutes was playing dormant role mainly because of the reasons that:

- Huge untapped market for microfinance products
- Demand considerably exceeds supply
- Customers in microfinance are poor people and less educated
- Absence of competition
- Substantial growth potential in market

But with the passage of time the environment for microfinance institutes has changed dramatically all these factors has been reversed, as a result the microfinance industry is become much more competitive than before. The evidence of that, in year 2007 almost all microfinance institutes were unprofitable except few; it is there fore high time for marketing department in microfinance institutes that they should accept responsibilities and play dominant role in the success of these institutes

Customer Attrition due to Customers own Characteristics:

In this section we are going to discuss the reasons of customer dropout because of customers own characteristics based on research

Customer Awareness:

The target market of microfinance institutes are poor and low income segment of population. These poor people are usually self employed, often household entrepreneurs like Farmers, small shop keepers and mostly women in rural areas of the country This poor segment of population does not have access to formal financial institutes therefore they acquire credit from local money lenders with high interest rates. Microfinance institutes serve this niche market mainly for two reasons, first to bring these poor people in main stream by providing credit to them second to save them from the exploitation and high interest rates of local money lenders.

As it mentioned that target market of microfinance institutes are poor people living in country side with little or no education. So the customers are less aware about the usage, convenience, advantages and disadvantages of loan. Because of these factors it has been observed that in many instance customers do not utilize credit properly. Some times customers buy TV, motorcycle, fridge or other capital assets for home from the money they obtain as credit from microfinance institutes. In the long run because of improper utilization of credit they default and finally dropout is the result.

Economic Conditions:

Another reason of customer dropout is the poor economic condition of the target market of microfinance institutes and also unstable economic conditions of the country. Because of the sudden rise in the price of essential commodities most of these poor people struggle to win their bread and butter and they start utilizing the credit money for to fulfill their basic needs. This will turn them financially insolvent and result is default in loan and finally dropout from the program of microfinance institutes

Group Issues:

Most microfinance institutes offer credit in groups. Normally the group consists of eight to fifteen members. It has been observed that relationships in the groups are not harmonious, because just one reason that is to obtain credit from microfinance institutes unite them .once they obtained the credit, group dynamics become the major cause of customer dropout. Apart from this the other obvious reasons of customer attrition are conflict among group members and some times inactivation of group.

Customer Attrition due to Industry Structure and Competition:

Another main reason of customer attrition is structure of microfinance industry and competition in it. The following are the two main reasons of customer dropout in microfinance institutes because of industry structure and competition.

Product –Driven Industry:

Microfinance industry is one of the few industries in the world which are still product driven rather than market driven (Graham A.N. Wright *et al.* 2001). Since its inception microfinance industry is product driven with internal focus, without understanding the dynamics of market and its customer needs. Although successful in the past but nowadays it has been observed that microfinance institutes are failed to identify business opportunities. Competing merely on products with competitors no longer helped the cause of these institutes as a result these organizations are facing severe problems from customer side such as customer dissatisfaction and dropout are few to name. It's high time for microfinance industry that they should adopt market-driven strategy and over come many problems including customer attrition

Overlapping of loans:

The other major reason of customer dropout because of industry structure and competition is overlapping of loans. As it is mentioned earlier, substantial growth opportunities with no barriers to entry has attracted many new entrants in the market. They compete with each other without any differentiated strategy. Most of them operate in the same geographic area, without any coordination. Consequently it has been observed, that customer acquire credit from multiple microfinance institutes at the same time. Further it has been observed that customers take credit from one microfinance institutes and pay off the debt of other microfinance institutes. While talking on this issue with one branch manager he said that “ we have asked our customers who has defaulted on our loan, that they should avail credit from competing organization and pay off our loan”. This practice of acquiring credits from competing organizations at same time and unhealthy business practices in microfinance institutes will make customers defaulter in long run and finally dropout is a result.

Observations of the Study:

- a) Microfinance institutes are still product driven rather than customer driven.
- b) Top and middle level management seems little concerned about customer attrition and high rate of employee turnover, where as they are more concerned to acquire of new customers and reduce the default ratio of the loan.
- c) Sales forces spend major portion of their time on recovery of credit portfolios left over by previous credit officers and on acquiring new customers. Existing customers are left alone with little monitoring, ones they are provided credit.
- d) Top and middle level management are not aware about the concept of life time value of customers in microfinance institutes hence don't calculate life time value of customers.
- e) There is no customer retention strategy or mechanism in place in most microfinance institutes
- f) Marketing department plays the dormant role as compared to dominant role in microfinance institutes.

Recommendations of the Study:

On the basis of the reasons of customer attrition in microfinance institutes, some of the recommendations are suggested as under

Innovative Products:

To retain and satisfy existing customers, microfinance institutes not only introduce innovative products but also take concrete steps to increase the participation of customers in the product development phases. This way customer will perceive the sense of involvement and satisfaction with the products and the organization.

Right Customers:

Microfinance institutes should realize that all the poor segment of population does not constitutes their target market. Therefore while selecting and screening customers they should take proper care and select proper customers. Microfinance institutes should give up the idea of maximum outreach while put more emphasis on serving and retaining existing customers. This way they can achieve their main objective that is to reduce poverty and at the same time these institutes become profitable and sustainable over longer period of time

Innovative Marketing Practices:

Microfinance institutes should adopt innovative marketing practices like Relationship marketing and other customer driven approaches. Relationship marketing is the set of innovative marketing techniques and guidelines, which will absolutely help microfinance institutes to develop long lasting win –win relationship with existing customers and also with other stakeholders.

Customer Education:

Microfinance institutes should take measures to edify their customers. By doing this microfinance institutes will not only end up with educating their customers but will also achieve many other objectives like promoting their products, organization and above all reducing poverty.

Retain Employees:

In today's competitive world employees are considered as the assets of the organization, so microfinance institutes if they want to be viable and successful in long run they should take concrete measures to retain their employees.

Coordination among Competitors:

Some customers obtain credit from multiple microfinance institutes at the same time which results in customer default and dropout in the long run. To tackle this problem competing microfinance institutes should coordinate among themselves in many ways so that they can discourage this unhealthy practice of customers and prevent customer attrition.

Conclusions:

In this paper effort has been made to catalog the reasons of customer dropout in microfinance institutes by categorizing them into three main categories, namely customer attrition due to organizational performance ,customer attrition due to customers own characteristics and finally customer attrition due to industry structure and competitive actions. At last on the basis of above said reasons of customer attrition in microfinance institutes some recommendations are suggested so that these institutes can improve the customer retention rate. These suggestions include introduction of innovative products, selection of right customers, use of innovative marketing practices, customer education, retention of employees, and coordination among competitors. By working on the suggestion hopefully microfinance institutes will improve customer retention rate in their institutes and will be profitable and sustainable in the long run.

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