Applying Market Research Tools to the Design and Improvement of Business Development Services

Technical Note

MICROENTERPRISE BEST PRACTICES
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by

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EXECUTIVE SUMMARY

Over the last several years, the work of the Committee of Donor Agencies for Small Enterprise Development has highlighted the importance of being demand led in the provision of business development services (BDS). Increasingly, donors are aiming to develop private sector markets for BDS rather than subsidize government or nongovermental organization service suppliers.

This technical note on the systematic use of market research tools can help BDS practitioners (suppliers and facilitators) develop or improve business services for micro and small enterprises (MSEs). The technical note also will be useful to donors that want to analyze the market for one or several business services either to choose appropriate market development interventions or to identify potential monitoring tools. The tools in this technical note will help a service supplier, facilitator, or donor learn more about consumer demand for BDS, which can then be used to improve the markets for a business service.

Three market research tools are covered in this technical note:

1. The usage, attitude, image (UAI) market study;
2. The product concept test; and
3. The price sensitivity test.

This technical note is based on the experience of BDS practitioners who used the tools in a recent research study on information and communication technology (ICT) services for micro and small enterprises in the Philippines. Elements of the UAI study also were used in a recent analysis of the market for a wide range of business services in Nepal. The Nepal survey was combined with marketing focus group discussions to provide a picture of demand for various business development services that would help suppliers improve their services.

USAGE, ATTITUDE, IMAGE MARKET STUDY

A UAI market study is a broad look at the current market for a specific service from known suppliers. The power of a UAI market study is that it provides information *from the perspective of the consumers,* MSEs. BDS suppliers and donors can use the data from a UAI survey for the following purposes:

Understanding the overall market. Using usage data, a BDS practitioner or donor can estimate the market size, in monetary terms, for the service. If the UAI survey includes all MSEs, rather than only users, it is possible to calculate market penetration. Usage data also can provide information on how much MSEs spend on a service, which would give the BDS practitioner and donor an indication of the importance of the service to MSEs.

Increasing demand. The UAI survey provides information on the percentage of consumers who know about the service (awareness), the percentage of consumers who are aware of the

service and have tried it (reach), and the percentage of consumers who have tried the service and continue to use it regularly (retention). This information helps the BDS supplier determine where to spend available marketing funds; it also helps donors pinpoint constraints to market development. Second, the UAI study shows the rate of consumer adoption of a service—that is, how fast the service is accepted by the market. A service that consumers adopt quickly would require less promotion; those services that take a while to catch on might also require some carefully designed donor interventions to stimulate demand. Third, personal and business information about survey respondents can help a practitioner identify which type of MSEs use the service. This information can help the practitioner better target these MSEs or change the service to reach a different market segment.

Developing and improving services. The UAI survey can provide information on where MSEs go to access a certain service. This information will help the BDS practitioner or donor identify the competition for a service. Studying service sources will enable the practitioner or donor to either get ideas for designing a service or find ways to build upon these services so as not to crowd out current suppliers. The survey also provides information on which service features MSEs consider important and their level of satisfaction so that BDS practitioners can improve the design of their service. The same importance and satisfaction data also can be used to compare various suppliers of the service and find opportunities in the market for improving on current supply.

PRODUCT CONCEPT AND PRICE SENSITIVITY TESTS

A product concept test is used when a practitioner has an idea for a new service but is not sure whether the service envisioned will meet the needs of MSEs and whether MSEs will demand and pay for the service. The aim of a product concept test is to learn what consumers think of the service idea and get feedback so that a supplier can either cancel development of the service or improve the service idea. A product concept test helps a practitioner learn whether MSEs understand and want the benefits offered by the service and its features. Offering a price sensitivity test together with a product concept test provides information on how much consumers will pay for the service as they understand it.

The objectives of a product concept test are to:

- Find out how target consumers will make sense of the new service concept;
- Uncover any negative aspects of the service concept; and
- Assess the motivating value of the service as conveyed by its description—that is, whether consumers want to pay for the benefit the supplier plans to sell.

The following information can be obtained from a product concept test with a price sensitivity test:

- Qualitative information on what consumers think about the service idea—both positive and negative;
- Ratings of the service features and the service overall;
- Consumers' interest in buying the service;
- What consumers will pay for the service;
- What are the "true competitors" of the service; and
- How consumers get the benefits of the service currently.

An analysis of the results of the product concept test also can tell a practitioner:

- The approximate potential market size for the service; and
- The price for the service that will maximize revenue.

LESSONS LEARNED

The following is a summary of what worked, what did not work, and the challenges in applying the market research tools covered in this technical note.

What worked:

- Using the tools to make recommendations to suppliers;
- Using the tools to identify weaknesses in the market for services;
- Studying the service and the service supplier; and
- Getting help from a market research professional to improve the quality of the study.

What did not work:

- Defining the service too broadly; and
- Trying to get market information and impact information at the same time.

Challenges:

- Comparing services offered from formal and informal suppliers;
- Writing the service description for the product concept test; and
- Testing payment options.

Overall, the authors were impressed with the usefulness of the above market research tools in providing detailed information about MSE demand for various BDS. These market research tools are extremely useful for BDS suppliers aiming to become more demand driven and for facilitators and donors that want to design and monitor effective interventions to stimulate BDS markets.

CHAPTER ONE
INTRODUCTION

This technical note is written for practitioners—both suppliers and facilitators[1]—of business development services that can benefit from the systematic use of consumer research tools to help develop or improve business services for micro and small enterprises (MSEs). The technical note also will be useful to donors that want to analyze the market for one or several business services either to choose appropriate market development interventions or to identify possible monitoring tools. The tools in this technical note will help a service supplier, facilitator, or donor learn more about consumer demand for business development services (BDS). This information can be helpful in a variety of ways at various levels to improve the market for a business service. For example, a supplier can use the information to modify existing services so that it can provide micro and small enterprises (MSEs) with the useful and innovative services they want and will pay for. BDS facilitators can use the information to identify suppliers' weaknesses in marketing services and providing the service features that MSEs demand. Donors can use the information to pinpoint constraints to increasing demand for a business service.

Market research can help BDS practitioners learn about market size, service features customers want, prices consumers will pay for a service, where consumers get their services, how they learn about sources of services, and how a service compares to its competition. In general, market research helps practitioners learn more about how to offer a service by focusing on the marketing "4 Ps":

PRODUCT: What features should the service have to deliver the benefits that customers want? Does the service have features that customers find important? Are they satisfied with those features they find important?

PRICE: What will customers pay for a particular service? Will they pay up-front, or will they demand installment plans or services on credit? Is the market price segmented?

PLACE: Where will customers come to purchase a service? Do suppliers need to have many small outlets or a few bigger ones?

PROMOTION: Are customers aware of the service and the benefits it can offer? How do customers learn about the suppliers of the service? How should suppliers focus their limited resources for promotion to increase the number of customers most?

[1] The term "practitioner" is used throughout this technical note to include BDS suppliers and facilitators. BDS suppliers are organizations or enterprises supplying a business development service *directly* to entrepreneurs or farmers. BDS facilitators are organizations that identify, develop, and disseminate business support services for micro entrepreneurs or farmers.

A range of market research tools may be helpful for BDS practitioners in developing, improving, and marketing services. They include:[2]

- Usage, attitude, image (UAI) market studies;
- Focus group discussions;
- In-depth interviews;
- Product concept tests;
- Product prototype tests;
- Price sensitivity tests;
- Advertising research and advertising tracking studies;
- Test marketing;
- User studies; and
- Customer satisfaction surveys.

This technical note covers three of the above tools:

A **UAI market study** is a broad look at the current market for a specific service from known suppliers. The survey measures customers' use of the service, attitude toward the service, and image of the service. The UAI market study is one of the most useful marketing research tools for donors and facilitators because it provides an overall picture of the market for a service. The UAI market study is flexible and can be tailored to the specific objectives of a practitioner or donor.

A **product concept test** is used to determine whether a service's intended, perceptible features fit or satisfy customers' service needs and wants.

A **price sensitivity test** can help a BDS practitioner determine (1) which price consumers will pay for a new or existing service that will yield the maximum revenues and (2) whether there are different customer segments that will pay different prices.

METHODOLOGY

The technical note is written by BDS practitioners who—with the expert advice of a marketing specialist[3]—used the tools in a recent research study on information and communication technology (ICT) services for MSEs in the Philippines. Elements of the UAI study were used in a recent analysis of the market for a wide range of business services in Nepal. The Nepal survey was combined with marketing focus group discussions to provide a picture of demand for various business development services that would help suppliers improve their services.

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[2] Compiled from Dr. Ned Roberto, *User-Friendly Marketing Research*, Life Cycle Press (Asia), 1996, and Roland T. Rust, Anthony J. Zahorik, and Timothy L. Keiningham, *Service Marketing*, Addison-Wesley, 1996.

[3] Dr. Ned Roberto, the marketing specialist, developed many of the tools and regularly uses them in marketing studies for private sector companies in the Philippines and other Asian countries. Many of the studies he has conducted have included, and even focused on, low income consumers.

In both studies, the authors were impressed by the usefulness of these tools in understanding MSEs' demand for services. This technical note is our effort to share the tools with other practitioners and donors. It presents the practical application of the three market research tools by presenting the concepts and illustrating our application from the study in the Philippines. Those aspects of the tools that were used in Nepal are noted together with an explanation of how they can assist donors to conduct a BDS market assessment.

The ICT study in the Philippines examined the provision of basic and higher value-adding ICT-based business services to MSEs in the Philippines.[4] The research examined the access, uses, and benefits of ICT-based business services delivered to MSEs from both private and nonprofit service suppliers. A key component of the study was market research on MSE users of ICT-based business services. Three surveys on ICT-based services were conducted, each targeting a different group of MSEs: public calling office (PCO) users, cellular phone users, and MSEs in a specific area of the Philippines (Calamba, Laguna). The aim of the surveys was to understand the demand for various types of services and learn about the service features that are important to MSEs. For the PCO survey, MSE customers from Bayantel PCOs were interviewed. Bayantel is a leading telecommunications company in the Philippines offering services through public calling offices. In the cellular phone survey, MSEs that owned a cellular phone were interviewed. In the area-based study, MSEs were randomly chosen and interviewed about their use of ICT-based services.

The Nepal study was a broad assessment of the market for 13 different types of business services. A survey of 504 enterprises, including both MSEs and larger businesses and a variety of sectors, was conducted. The survey focused on entrepreneurs' awareness and usage of business services and used many of the elements of a UAI study. The survey was supplemented by focus group discussions with various consumer segments to better understand their reasons for purchasing business services, their satisfaction with suppliers, and the features that deliver the benefits they demand. The study is being used as the basis for market development interventions designed to help suppliers develop or improve commercially viable business services for the private sector.

In this technical note, the concepts of the UAI market study, product concept test, and price sensitivity test are illustrated with actual examples from the application of these tools in the three Philippine surveys. The authors have chosen the examples based on which survey best illustrates a given concept. Tools that were used in the Nepal study and that are particularly helpful to donors in analyzing a BDS market are noted throughout.

[4] See Alexandra Overy Miehlbradt and Ronald Chua, "Information and Communication Services for MSEs in the Philippines," Microenterprise Best Practices. Bethesda, Maryland: Development Alternatives, Inc. (forthcoming).

CHAPTER TWO
THE UAI MARKET STUDY

OBJECTIVES

A UAI market study provides a good snapshot of the current market for a given service. The power of a UAI market study is that it provides information *from the perspective of the consumers,* MSEs. It can help practitioners:

- Identify constraints to increasing MSE demand for a business service;
- Identify market opportunities that a new or existing service could exploit;
- Learn about the strengths and weaknesses of various suppliers' services in the minds of consumers;
- Learn about market size and market segments for the service;
- Identify important service features that customers demand; and
- Learn about MSE satisfaction with services from current suppliers.[5]

For example, a training supplier might conduct a UAI study with the goal of increasing the revenues it earns from selling training services to MSEs. The UAI study would provide information on how MSEs learn about training suppliers, helping the supplier improve its promotion and marketing. It would tell the supplier what service features are important to MSEs, such as a clean and convenient training venue, a helpful receptionist, or trainers with private sector experience. The UAI study would help the supplier understand if MSEs were satisfied with their services and their strengths and weaknesses compared with other suppliers. This information would help the supplier improve services and become more competitive in the training market.

A BDS facilitator or donor might conduct a UAI study with the goal of designing interventions to stimulate the MSE market for marketing and market linkage services. The UAI study would tell the donor if demand for marketing services is low because of lack of information about services, MSEs' lack of willingness to try services, or MSEs' low repeat use of services. This information would help the facilitator to design an intervention to stimulate demand—one that focused on increasing awareness and information about marketing services, one that helped suppliers develop strategies to induce trial, or one that helped suppliers improve the quality and benefits of services to MSEs to increase repeat usage. The UAI study also could provide information about the size of the market and the type of consumers, thus providing a basis for monitoring a market stimulation program aimed at increasing the market size and reaching underserved consumers.

[5] Roberto, p. 13.

Some of the specific data that the UAI market study gathers directly are:

- MSEs' awareness level of a service and different suppliers of the service;
- How MSEs learned about suppliers of the service;
- MSEs' use of a service, including from whom they purchase (or get it), where they purchase (or get it), how often they use it, how much they spend on it, and when they first started using it;
- Why MSEs do not use the service;
- What service features are important to consumers;
- How satisfied customers are with the various features of the service from different suppliers;
- Demographic information about service consumers, such as education, gender, and income level; and
- Information about service consumers' businesses, such as the type of business and sales.

From an analysis of these data, a BDS practitioner can learn:

- The "true competitors" for a service—in other words, where do MSEs get the benefits of a service if they do not buy the service (often informal sources such as neighbors or relatives);
- The approximate market size for the service (in volume and monetary terms);
- The marketing challenges for the service;
- How fast consumers are accepting the service; and
- A demographic profile of consumers who took a risk in using the service when it was new and those who waited until it was well established.

Information Needed Before Starting a UAI Market Study

The most important thing to know before starting a UAI study is what service the study is investigating. Suppliers, and often facilitators, need the detailed information about consumer demand that a complete UAI study provides. When conducting a complete UAI study, it is best to study only one fairly narrowly defined service type.

The Philippine study focused on "information and communication technology services," which, the researchers discovered, was too broad a definition, making the UAI study complicated and too long. It would have been helpful to limit the study to only a few services in this service category—for example, only the services offered in public calling offices: phone, fax, telegram, and money transfer.

If less detailed information is needed, which may be the case for donors conducting broad market assessments or monitoring programs, an abbreviated form of the UAI study can be used and more services studied. For example, awareness, usage, sources of supply, and market segmentation information can be gathered across a range of business services. Because the Gesellschaft für Technische Zusammenarbeit (GTZ) wanted to understand the market for a wide range of business services in Nepal, researchers used this type of abbreviated UAI study.

Beyond defining the service (or services) to be studied, the researcher should have a good idea of the service features that interest consumers. If the service features are not known, focus group discussions can illuminate the features that consumers care about. If the researcher has some idea about the features but is not certain, questions on features can be tested and refined during the pre-test phase of the survey.

It is also useful to have a basic idea about where MSEs get the service and how MSEs use the service. For example, it is helpful to know approximately how often MSEs use the service. This information shapes the questions about service usage. If this information is unavailable, it can be gathered through the pre-test and the UAI study itself by asking broad questions about usage.

As part of the design process, the practitioner or donor should decide who will be interviewed. A UAI survey can include either the general population of MSEs in a given area or the users of the particular service in question. The benefit of interviewing MSEs in general is that the researcher can determine the level of awareness of the service in the general MSE population, the level of market penetration, and the reasons for not using the service. Market penetration data is particularly relevant for those interested in market development because it provides a baseline against which to monitor progress. However, most of the questions in the UAI study relate to the use of the service, and much of the useful information is gathered from users. If only a few MSEs in the general population of MSEs are users of the service, the number of MSE users interviewed in a study may be too small to be statistically significant.

Alternatively, the survey will have to be larger to ensure that enough users are interviewed. To interview a sufficient number of users without making the sample size too large, the researcher can limit the respondents to users of the service. If an even more narrow focus is desired—for example, the UAI study is conducted by a single supplier—the survey can be limited to users of a service from that particular supplier. The Philippine study of PCOs was limited to users of Bayantel PCOs, although the survey gathered information about the use of ICT services in other facilities as well. Interviewing only users can be achieved either by

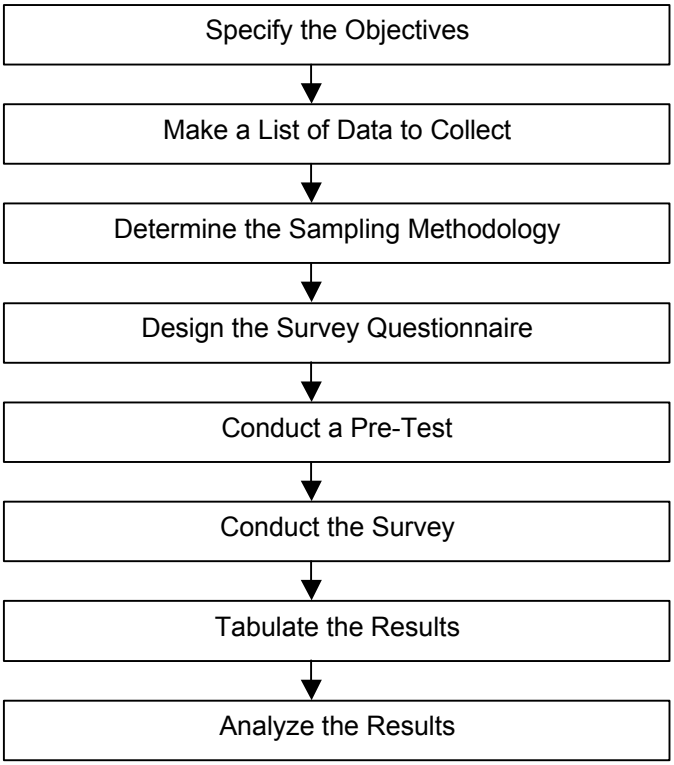
interviewing users where the service is provided or by asking respondents if they are users before beginning the interview.

STEPS IN CONDUCTING A UAI MARKET STUDY

There are eight steps to a UAI market study, as shown in Figure 1. The process does not necessarily have to follow this flow exactly. For example, determining the sampling methodology and designing the questionnaire can be done simultaneously.

The UAI market study uses survey methodology. Because survey methods are described in detail elsewhere,[6] the description of how to conduct a UAI market study below focuses on the design of the survey questionnaire and analysis of the survey results.

Figure 1: UAI Study Process Flowchart



DESIGN OF THE SURVEY QUESTIONNAIRE

A typical order for the topics in a UAI survey is:

1. Screening questions;

[6] Please refer to the Bibliography for recommended readings on survey and sampling methodologies.

2. Awareness of service and suppliers;
3. Usage (including suppliers, location, frequency, and amount spent);
4. Important service features;
5. Rating of suppliers on service features; and
6. Personal data on respondent.

Sections can be added, subtracted, or changed to meet specific information requirements.

Annex A describes how to construct a UAI questionnaire by showing:

- **Information objectives—**why each piece of information is useful to a BDS practitioner or donor;

- **Data tables—**the specific data that will be obtained from the UAI survey results; and

- **Sample questions** from the Philippine PCO questionnaire to gather data for each table.

Because it is difficult to separate the features of a service from the features of a service supplier—and both are important to the consumer—the sample questions refer to customers' use of fax service and overall service features offered by PCOs.

The questionnaire is administered through oral interviews because it is important for the interviewer to judge the respondents' awareness of services and clarify questions as necessary. Oral interviews also make the UAI survey a particularly effective tool in countries where illiteracy is high.

ANALYZING UAI DATA

Data tables themselves are not useful until they are analyzed. Some information will be quite straightforward and can be immediately applied to the design or improvement of a service or BDS program. For example, if only 10 percent of MSEs surveyed are aware of the service, there is a clear need to address the lack of information through awareness-raising activities. Data on where MSEs learn about the service will help practitioners determine how to promote the service. For other data, it is useful to have tools to interpret the results. Several helpful tools are outlined below. Although the information that the tools yield can be used for various purposes, the tools are organized according to the main BDS market development goals they address: understanding the overall market, increasing demand, and developing and improving services.

Understanding the Overall Market

Estimating Market Size[7]

Using usage data, a BDS practitioner or donor can estimate the market size, in monetary terms, for the service. Information on market size can help a researcher understand the level of demand for a service and the amount of revenue that is made from offering the service. With this information, a supplier can estimate possible revenues from gaining a 10 percent share, for example, in the market; a donor can monitor the growth in the overall size of the market.

A market size estimate is calculated as:
% of MSE customers that regularly use the service
x the total number of MSEs in the survey population
x average MSE frequency of use
x average MSE amount spent per visit/use of service

Depending on how the survey is structured, some of this information may have to be estimated. For example, Table 1 shows how the MSE market size for cellular phone service in the Philippines was estimated.

Table 1: Estimated Market Size for Cellular Phones in the Philippines

Calculation	Data	Source of Information
% of registered MSEs who own a cellular phone	15%	MSE survey: Interviewers randomly chose potential respondents from all MSEs. Fifteen percent were users and, therefore, qualified for the survey.
x the total number of registered MSEs in the Philippines	474,466	1995 figure of registered MSEs from the Bureau of Small and Medium Business Development of the Department of Trade and Industry.
x average amount MSEs spent per month	1,100	Calculated from the MSE survey data.
x months in a year	12	
= estimated market size	P939,442,680 per year (US$23,486,067)	

Source: MSE Survey from Philippines ICT Study, MBP.

Using data from Southern Mindanao, where the survey was conducted, to estimate the market size for the entire country makes the estimate somewhat unreliable, but it at least allowed the researchers to get a rough idea of the national market size.

In the Nepali BDS market assessment, researchers were able to estimate the market size from different business segments. Table 2 shows how the estimated market size for accounting, financial advice, and taxation services for various consumer segments was calculated. The data on the number of firms in Nepal were gathered from various industry and government

[7] This technique is from Dr. Ned Roberto, *User-Friendly Marketing Research*, Life Cycle Press (Asia), 1996.

sources. These estimates will enable GTZ to monitor the absolute and relative consumption of various business services from different consumer segments.

Table 2: Estimated Market Size for Accounting, Financial Advice, and Taxation Services in Nepal

Consumer Segment	Sample				Customers			Total Spending		
	Avg. Spending	Sample Base	Sample Buying	Proportion Buying	# of Firms in Nepal	# of Firms Buying	% of Total	Rupees	US$	% of Total
Industry										
<10 employees	822	83	14	0.169	55,692	9,394	74%	7,721,729	$113,555	38%
10-19 employees	1,721	75	23	0.307	1,840	564	4%	971,103	$14,281	5%
20-49 employees	1,247	48	21	0.438	875	383	3%	477,367	$7,020	2%
<50 employees	4,698	47	31	0.660	1,020	673	5%	3,160,654	$46,480	15%
Retail										
Large & medium	760	61	5	0.082	12,000	984	8%	747,541	$10,993	4%
Medium & small	350	59	2	0.034	16,200	549	4%	192,203	$2,827	1%
Travel agencies	7,003	35	18	0.514	161	83	1%	579,848	$8,527	3%
Hotels	96,869	40	16	0.400	170	68	1%	6,587,092	$96,869	32%
Total						**12,697**	100%	**20,437,539**	**$300,552**	100%

Source: BDS Market Assessment Survey in Nepal, GTZ.

Calculating Market Penetration

If the survey included all MSEs, as opposed to only users, it is possible to calculate market penetration. If only users were interviewed but MSEs were contacted randomly to see if they qualified for the survey, market penetration also can be calculated. The Philippine cellular phone survey contacted MSEs at random within a defined geographical area and interviewed those MSEs that owned a cellular phone. By keeping track of the number of MSEs contacted, researchers were able to calculate the market penetration level: 15 percent of MSEs.

Market penetration is calculated as the number of users of a service divided by the total number of enterprises in the market. The definition of "user" may vary according to the service and circumstances. For example, a telephone service user may be an MSE that uses telephone services at least once a month, but a training user may be an MSE that has attended a training course in the last five years. In Table 2, the proportion buying can be considered market penetration. For example, 17 percent of enterprises with less than 10 employees in the industrial sector have purchased accounting, financial advice and taxation services. Although the Nepal study defined users as all those that had ever purchased the service, most had purchased services recently.

It is useful for donors and facilitators to monitor the level of market penetration so that they can gauge improvements in reaching MSEs. It is useful for suppliers to know the level of market penetration so that they can estimate the potential for market expansion.

Estimating How Much MSEs Spend on a Service

Usage data can provide information on how much MSEs spend on a service. For example, the cellular phone survey in the Philippines showed that MSEs spend an average of P737 (US$18.43) per month on business calls. The personal information on respondents showed that respondents' average monthly sales, ignoring outliers, are approximately P33,000 (US$825). Therefore, MSEs spend approximately 2 percent of their average monthly sales on cellular phone business calls (P737/P33,000). Knowing how much MSEs spend on a service gives some indication of the importance of the service to MSEs. The researchers in the Philippines felt that 2 percent of monthly sales represents a significant ongoing investment in communications. This tool also can be used to measure whether MSE customers are increasing their usage of a service.

Increasing Demand

Analyzing Awareness, Reach, and Retention

To build a market for a business development service, BDS practitioners must make sure consumers know about the service, try the service, and keep using the service. In marketing terminology, the percentage of consumers who know about the service is called the "awareness ratio." The percentage of consumers who are aware of the service and who then try it is called the "reach ratio." And the percentage of consumers who have tried the service and who continue to use it regularly is called the "retention ratio."

The UAI market study provides information on each of these three parts of marketing the service and helps a supplier determine where to spend available marketing funds: on raising awareness, on convincing MSEs to try the service, or on improving the service so that MSEs continue using it. In the Nepal study, awareness, reach, and retention information helped to pinpoint a major constraint to market development: entrepreneurs' reluctance to try services even if they are aware of them.

Table 3 shows the awareness, reach, and retention ratios for various ICT services from the Philippines PCO survey. For the Philippines study, an MSE was judged *aware* of a service if the respondent said he or she had heard, read, or seen something about the service and could accurately describe what the service is (as judged by the interviewers). *Reach* was the number of MSEs that had tried the particular service compared with those that were aware of the service. *Retention* was the number of MSEs that had used the service in the last month in relation to those that had tried the service; use in the last month was adopted as a proxy for the regular use of the service.

Table 3 shows that each service has its own marketing challenges. For example, only 37 percent of those who are aware of fax service have tried it. A fax service supplier needs to spend the majority of available resources for promotion on convincing MSEs to try fax service. A facilitator might want to help suppliers design marketing programs around

inducing trial. The retention ratio for fax service shows that the design of the service is good and that it is valued by the MSEs because all those that have tried it have become regular users. Therefore, suppliers and facilitators can feel confident that fax services are meeting MSEs' needs.

Table 3: MSE Awareness, Reach, and Retention of ICT Services in the Philippines

Service	Awareness (% aware of service)	Reach (of those who are aware, % who have tried service)	Retention (of those who have tried service, % who used it in the last month)
Phone (long distance)	100	77	94
Fax	76	37	100
Money transfer	96	74	44
Telegram	100	68	47
E-mail	28	7	*
Internet	35	3	*

* Sub-sample size is too small for reliable estimate.
Source: MSE Survey from Philippine ICT Study, MBP.

In contrast, both telegram and money transfer services enjoy reasonably high reach ratios but low retention ratios. Telegram and money transfer suppliers need to determine why MSEs do not continue to use these services. In the Philippines, the likely reason is that MSEs are turning to substitute products—checking instead of money transfer, and phone or fax instead of telegrams.

Both the awareness ratio and reach ratio of e-mail and Internet among MSEs are very low. To successfully build the market for these services, a practitioner or donor would first need to increase awareness of the service and its benefits among MSEs. It might then be necessary to offer inducements for customers to try the service—for example, a free trial use or free demonstrations.

In the Nepal study, "awareness" was divided into two parts. MSEs were judged aware of the service if they had heard of it. They were judged to understand the service if they could correctly define the service. The resulting information pinpointed two major constraints to market development of those services traditionally supported by donors: lack of understanding of services and entrepreneurs' reluctance to try services even if they understand them. Disaggregating the data by consumer segment showed that these problems were particularly acute among MSEs. Table 4 shows the awareness, understanding, reach, and retention information for four business services in Nepal. The first three services have traditionally been supported by donors while the last, advertising, has not.

Table 4: Awareness, Understanding, Reach, and Retention of BDS in Nepal

Service	Awareness	Understanding	Reach	Retention
Production advice	81%	45%	15%	89%
Management training	88%	60%	28%	63%
Trade fairs	96%	58%	27%	73%
Advertising	100%	75%	58%	88%

Source: BDS Market Assessment Survey in Nepal, GTZ.

GTZ has designed a program to assist suppliers of services traditionally supported by donors to sell services to the private sector at full cost. Based on the above information, GTZ has included, in its program support, activities to increase the understanding of services among entrepreneurs and assistance to suppliers for trial marketing. GTZ was able to encourage suppliers to target the private sector by showing them that once an entrepreneur tries a service, he or she often comes back, as illustrated by the high retention ratios.[8] Awareness, reach, and retention information is critical to donors and practitioners in determining how to stimulate demand for a business service.

Understanding Rates of Consumer Adoption[9]

A graph that plots when users of a service first began using the service shows how fast consumers adopted the service. There are two basic ways that the market accepts a new service.

Fast Consumer Adoption—the service is accepted by the market very quickly. Demand rises sharply immediately from when the service is introduced until it tapers off as a high level of market penetration is reached.

A graph for this type of service is represented in the theory line in Figure 2. The vertical axis shows MSEs that are currently using the service during that year. The information comes from the survey question: "When did you first start using the service?" When the data are plotted, the number that started using the service in 1990 is added to the number that started using the service in 1991 to give the total number using the service in 1991. The total is then added to the number that started using the service in 1992 for the total number using the service in 1992, and so on.

For a service that is adopted quickly, a supplier does not need to put a lot of money into promotion. The service catches on through word of mouth. However, the supplier needs to have his or her organization ready to offer a high volume of the service quickly. If the supplier is not ready, customers will have to be turned away or the quality of the service will suffer as the demands of the market put a strain on the organization. In this type of market, a

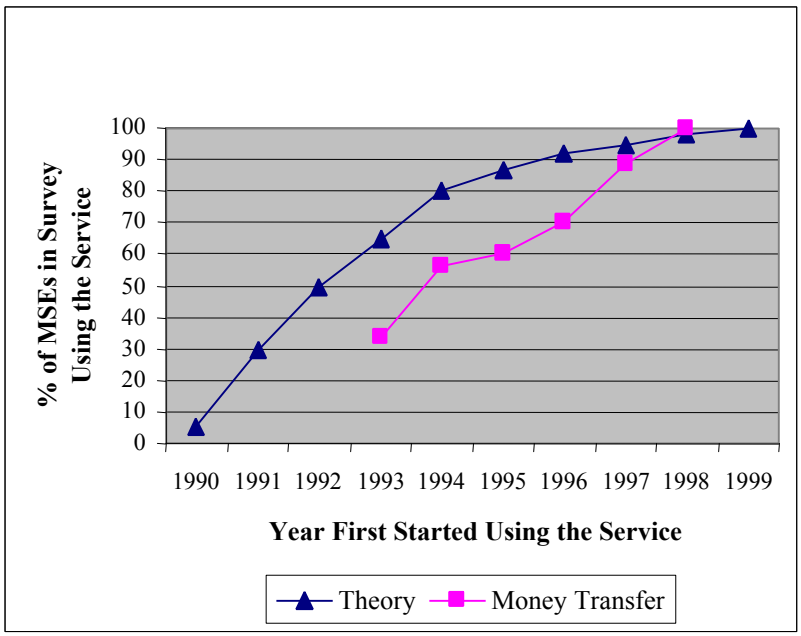
[8] Marshall Bear, "PSP's Offer to BDS Suppliers—Consultant's Report." Draft, January 2000.

[9] This tool was developed by Everett M. Rogers and published in E. M. Rogers and F. F. Shoemaker, *Communications & Innovations: A Cross-Cultural Approach,* New York: Free Press, 1971, and originally presented in E. M. Rogers, *Diffusion of Innovations,* New York: Free Press, 1962.

facilitator can help suppliers develop systems to rapidly expand capacity or provide venture capital to new suppliers to help increase supply.

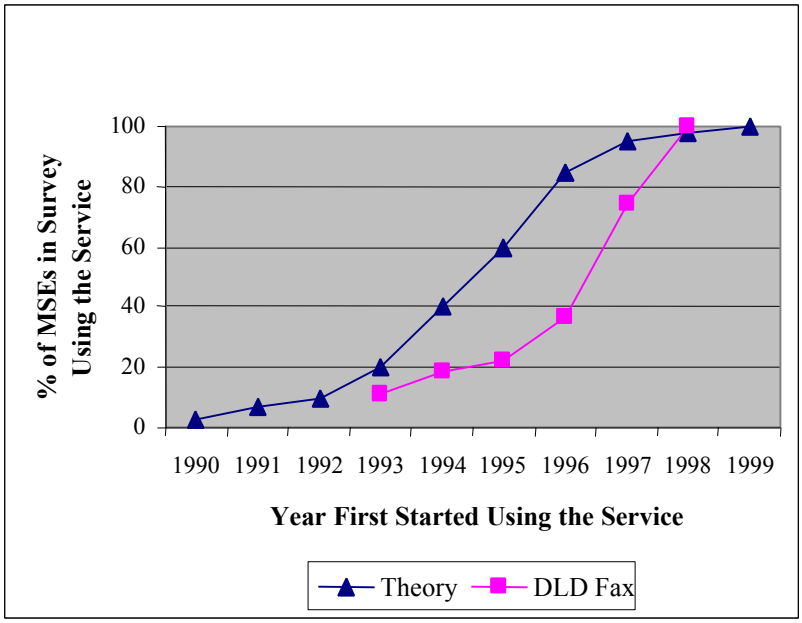
The Philippine PCO survey showed that money transfer (represented by the second line on the graph) is probably the type of service that consumers adopted quickly. It is not possible to be absolutely certain because the beginning of this curve is "missing." The possible answers on the questionnaire were only "before 1994, 1994, 1995, 1996, 1997, and 1998" so data on the first part of the curve were not gathered. Many users started using the service before 1994, represented by the first point on the line at almost 40 percent. The graph and other information from the survey indicate that demand from new users has started to level off since 1997. Thus, suppliers cannot expect many new customers for money transfer service in the future.

Figure 2: Fast Consumer Adoption



Slow Consumer Adoption—only a few consumers try the new service during the first few years that it is offered. Then the service finally catches on and many more consumers start using it. Eventually, demand from new consumers declines as the service reaches a high level of market penetration. A graph of this type of service is illustrated by the theory line in Figure 3.

Figure 3: Slow Consumer Adoption



For those services that take a while to catch on, a supplier must put a lot of effort into promotion and be prepared to weather several lean years before the customer base starts to grow significantly. A donor aiming to stimulate this type of market might use a voucher program when the service is introduced in order to stimulate trial of the service and thus increase demand faster. Alternatively, the donor could provide seminars for suppliers on how to promote the service and induce trial in the early stages.

The Philippine PCO survey showed that domestic long-distance fax is the type of service that consumers adopted slowly in the beginning. The first point on this line represents all those that started using the service before 1994. This curve starts soon after the introduction of the service when demand was still low and growing slowly. But between 1995 and 1996, demand for direct long-distance fax began to increase more rapidly. The curve is not "finished" in the sense that a high level of market penetration has not been reached so demand from new users is still rising rapidly. It appears from the last data point, however, that demand from new users may be starting to decline slightly.

As illustrated in the graphs from the Philippine study, the data from the survey often do not show an entire theoretical curve, either because the start date for using the service in the questionnaire is later than the introduction of the service or a high level of market penetration has not yet been reached. In this case, the researcher must make an educated guess as to what part and which type of curve the data represent. This will help the researcher determine how fast demand is likely to rise for the service in the immediate future.

A check of the demographic characteristics of MSEs at various points on the consumer adoption curve can help a practitioner target likely new users of a service. A practitioner can determine the characteristics of those MSEs that used the service first, the "innovators"; those that tried it next, the "followers"; and those that waited until it reached a high level of

market acceptance before trying it, the "laggards." For example, in the Philippine study, the ICT service innovators tended to be male-owned, sales/trading businesses with higher than average sales and household incomes. The laggards, which only recently started using various telecommunications services, tended to be newer, female- or family-owned businesses.

Segmenting the Market

As BDS practitioners know, MSEs are not a homogenous group. Personal and business information on survey respondents can help a practitioner identify which type of MSEs use the service. This information can help the practitioner better target these MSEs or change the service to reach a different market segment. Understanding market segments can help a donor quantify and monitor the reach of the service to various types of MSEs.

The Philippine study, for example, showed that the bulk of MSEs that use PCOs are in trading, with most of those in either food and beverage or general merchandise. The remainder are mainly in services, with only 1 percent in manufacturing. Although the proportion of MSEs in trading in the Philippines is substantial, the proportion of PCO customers in trading appears significantly higher than the average, while the percentage in manufacturing appears low. A national survey in 1993 showed that 40 percent of registered micro, small, and medium-sized enterprises were in manufacturing.

The three Philippines surveys indicated that MSEs with higher sales and wider markets are generally more interested in information services than smaller MSEs operating only in local markets. This led the researchers to conclude that growth-oriented MSEs are more interested in information services while survival-oriented MSEs are mainly interested in communications services. Building a market for information services from survival-oriented MSEs would require developing a new type of service than what is currently offered, one that met smaller MSEs' needs for local information in a timely, convenient, and user-friendly manner.

In the Nepal study, demographic information on respondents was combined with usage data to quantify market segments for various services. For example, the survey showed that the market for many services is still dominated by large companies; 73 percent of the market for legal services and 87 percent of the market for advertising comes from manufacturers with more than 50 employees. However, MSEs represent an important market segment for some services; 33 percent of the market for communications and correspondence services and 38 percent of the market for accounting/financial/taxation services comes from manufacturers with fewer than 10 employees. This information is being used to help decide on which services to focus market stimulating interventions and to monitor the market size from MSEs for various services.

Developing and Improving Services

Identifying a Service's Real Competitors

Often, the competition for a business development service does not come from another formal organization offering the same service. Instead, it comes from informal services or systems that provide the same benefit to the MSE. For example, the competition for a market information service might be information from MSEs' customers and business associates. Donors are interested in learning if a BDS program is actually displacing private sector suppliers, many of whom are informal. A UAI market study can identify informal suppliers or business service systems by asking respondents: If you cannot get this service, what will you do?

The answers will tell the researcher how MSEs get the benefit of the service from other sources. From there, a BDS practitioner or donor can study these sources either to get ideas for designing a service or to find ways to build up and improve upon these sources of the service rather than start a new service.

Analyzing Service Features

Features that a supplier designs in a service determine the benefits that MSEs get from the service. Service features often determine if MSEs will purchase a service and, given a choice, from whom they will purchase it. A UAI market survey provides two types of information that enable a BDS practitioner to analyze service features. The first are data on how important various features are to MSEs. The second is the satisfaction rating the MSEs give suppliers of the service on these features. This information can be plotted on a matrix, which shows a single supplier's or all suppliers' strengths and weaknesses in meeting MSE demand for service features. Single suppliers can use the matrix to improve the appeal of their service relative to the competition. A facilitator or donor can use the matrix to determine if services in the market are appropriately designed for MSEs and design a program to help suppliers increase the appeal of their services to MSEs.

Table 5 shows importance and satisfaction data from the Bayantel PCO survey. The first column shows the number of respondents who ranked the feature as extremely important. The second column shows how far this number is from the mean number of respondents ranking each feature as extremely important. The last two columns show the same information on the satisfaction with Bayantel PCOs.

When analyzing feature ratings, practitioners tend to use the number who stated the feature was extremely important or are very satisfied instead of the actual average rating of respondents (on a scale from 1 to 4) because these figures usually yield a bigger difference among the features and thus make it easier to analyze. Marketing experts have also found that extremely important/very satisfied figures are often more accurate than the average rating.

Table 5: Importance and Satisfaction Data from Bayantel PCO Survey

Features	Importance		Satisfaction	
	# Who Rated Feature Extremely Important	Distance from Mean	# Who Rated Feature Very Satisfied	Distance from Mean
Accuracy	89	14	31	-3
Privacy	82	7	28	-6
Cleanliness	81	6	57	23
Clarity of connection/page	79	4	52	18
Confidentiality	77	2	21	-13
Comfortable waiting area	76	1	47	13
Comfort while using services	76	1	26	-8
Friendly/helpful attendants	75	0	35	1
Waiting time	70	-5	26	-8
Clear layout	70	-5	25	-9
Convenience of the location	69	-6	32	-2
Variety of services	65	-10	34	0
Distance from business	65	-10	32	-2
Mean	**75**		**34**	

Source: MSE Survey from Philippine ICT Study, MBP.

To analyze these data, plot the features on a matrix like the example shown in Table 6 for the Bayantel PCO data. Put the features with higher than average importance and higher than average satisfaction in the top left box. Put the features with higher than average importance but lower than average satisfaction in the top right box. Put the features with lower than average importance but higher than average satisfaction in the bottom left box. Put the features with lower than average importance and lower than average satisfaction in the bottom right box. In Table 6, the numbers in parenthesis indicate the distance from the mean, as shown in Table 5. The first number is the distance from the mean importance, and the second is the distance from mean satisfaction.

Table 6: Analysis of Bayantel PCOs in Meeting Customer Demand for Service Features

	High Satisfaction	Low Satisfaction
High Importance	**Strengths** Cleanliness (6, 23) Clarity of connection (4,18) Comfortable waiting area (1, 13) Friendly/helpful attendants (0,1)	**Weaknesses** Accuracy (14, -3) Privacy (7, -6) Confidentiality (2, -13) Comfort while using service (1, -8)
Low Importance	**Waste** Variety of services (-10, 0)	**Indifference** Clear layout (-5, -9) Waiting time (-5, -8) Convenience of location (-6, -2) Distance from business (-10, -2)

Source: MSE Survey from Philippine ICT Study, MBP.

The matrix represents how the supplier is doing in satisfying the customers' demands for service features. The top left box shows the supplier's strengths—where consumers are satisfied with features that are important to them. These strengths should be maintained and

promoted. The top right box represents the supplier's weaknesses—where customers are relatively dissatisfied with features that are important to them. A supplier should address these weaknesses to become more attractive to customers. The bottom left box represents wasted money—features that customers are satisfied with but that are relatively unimportant. A supplier should reallocate the money spent on these features because customers do not really care about them. The bottom right box shows features that the supplier should not worry about. Customers are not very satisfied with these features, but they do not care about them much either, so it does not matter if they are dissatisfied with them.

Table 6 shows that Bayantel PCOs are doing a reasonably good job of meeting MSE demand for service features. They offer clean offices with comfortable waiting areas, clear connections for telephone use, and friendly attendants—features that MSEs think are important. The authors used the matrix to recommend that Bayantel improve the accuracy, privacy, and confidentiality of services, as well as provide more comfort while talking on the phone. Bayantel does not waste much money on useless features. The company does not need to use resources to venture into a wide range of other services—variety of services is not important to MSEs. Bayantel has been criticized for closing some of its outlets. However, the matrix shows that this strategy is unlikely to decrease demand from MSEs, which do not mind going a little farther to use a public calling office.

Comparing Suppliers

Importance and satisfaction data also can be used to compare various suppliers of the service and find opportunities in the market for improving on current supply. The Philippine cellular phone user survey collected data on several cellular phone suppliers. Table 7 compares the various cellular phone suppliers by showing the percentage of respondents who said they were very satisfied with each feature from the suppliers. The features are listed in order of importance to MSE cellular phone users.

Table 7: Importance and Satisfaction Data from Cellular Phone Survey

Features	% of Respondents Who Said Feature Was Extremely Important	% of Respondents Who Were Very Satisfied			
		SMART	PilTel	Extelcom	Globe
Wide coverage	86	60	54	20	22
Portable/handy	84	65	58	68	44
Clarity of connection	83	55	58	44	44
Quick service	80	52	58	20	33
Waiting time for phone	71	50	46	32	44
Ease of application	71	58	48	44	22
Service location	61	47	52	36	44
Purchase location	47	45	54	40	44

Source: MSE survey from Philippine ICT Study, MBP.

It is clear in this example why SMART is the market leader among MSEs. SMART had the highest rating for the features that MSEs care about most: wide coverage and portable/handy phones. Extelcom and Globe cannot compete on wide coverage—the most important feature for MSEs. Although PilTel is better than SMART at satisfying customers for four service features: clarity of connection, quick service, service location, and purchase location, these features are less important to MSEs than wide coverage and portable/handy phones.

Table 7 shows that there is considerable potential for improving the supply of cellular phone services to MSEs. Less than half of all customers are very satisfied with many of the features they care about. A donor interested in stimulating this market might provide suppliers with information on technology for improving the clarity of the connection on cellular phones and making phones smaller and more handy. A facilitator might want to offer a seminar for suppliers on providing quick service.

CHAPTER THREE
PRODUCT CONCEPT AND PRICE SENSITIVITY TESTS

A price sensitivity test can be given together with or separately from a product concept test. This section covers the two together because this is how the Philippine study used these tools. In the Philippine study, product concept tests were done on various ICT-based services to gauge potential market acceptance among MSEs. The services tested were fax, phone message service, e-mail, Internet access, and Web page development. Each aspect of the tools is illustrated below with results from the product concept test which best demonstrates that aspect.

OBJECTIVES

A product concept test is used when a practitioner has an idea for a new service but is not sure whether the service envisioned will meet the needs of MSEs and whether MSEs will demand and pay for the service. The aim of a product concept test is to learn what consumers think of the service idea and get feedback so that a supplier can either cancel development of the service or improve the service idea. A product concept test helps a practitioner learn whether MSEs understand and want the benefits offered by the service and its features. Offering a price sensitivity test together with a product concept test provides information on how much consumers will pay for the service as they understand it.

A product concept test examines if MSEs want the benefits of the service that the practitioner envisions, rather than the service itself. If a service already exists, a product prototype test with an actual demonstration of the product will provide a more accurate idea of consumer demand. However, if a service is still just an idea or if a product demonstration is judged too expensive for an early stage of product development, a product concept test provides a good rough estimate of potential market demand. A product concept test can save money in the development of a new service by helping practitioners learn if the envisioned benefits are in demand before money is spent on designing a prototype service.

The specific objectives of a product concept test are to:

- Find out how target consumers will make sense of the new service concept;
- Uncover any negative aspects of the service concept; and
- Assess the motivating value of the service as conveyed by its description—in other words, do consumers want to pay for the benefit the supplier plans to sell?[10]

[10] Roberto, *User-Friendly Marketing Research*, p. 101.

Specific information that can be gained from a product concept test with a price sensitivity test is:

- Qualitative information on what consumers think about the service idea—both positive and negative;
- Ratings of the service features and the service overall;
- Consumers' interest in buying the service;
- What consumers will pay for the service;
- What are the "true competitors" of the service; and
- How consumers get the benefits of the service currently.

An analysis of the product concept test results also can tell a practitioner:

- The approximate potential market size for the service; and
- The price for the service that will maximize revenue.

Information Needed before Starting a Product Concept Test

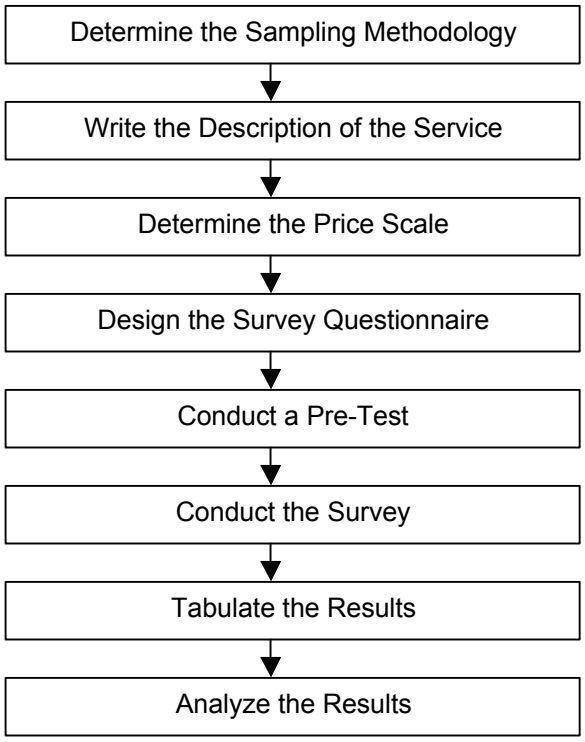
If the same or similar service is already offered elsewhere, it is important to know the prices for these services. If no similar services are offered, identify the prices of substitute services. For example, fax service might be a substitute service for e-mail. This information will be used in constructing the price sensitivity test.

Respondents to product concept tests should be MSEs that are unaware of the particular service for which the concept test is offered. If it is a new service, then all MSEs are eligible because no MSEs will be aware of the service. If the service already exists from other sources, then only those MSEs that are unaware of the service should be included in the survey.

Steps in Conducting Product Concept and Price Sensitivity Tests

Like the UAI market study, product concept and price sensitivity tests use a survey methodology. There are eight steps in conducting product concept and price sensitivity tests, outlined in Figure 4. The process does not need to follow this flow exactly as long as all of the steps are accomplished. The second through fourth steps are described in more detail, with examples in the next section.

Figure 4: Product Concept and Price Sensitivity Tests Flowchart



DESIGN OF PRODUCT CONCEPT AND PRICE SENSITIVITY TESTS

Description of the Service

An accurate description of the service concept is the starting point for an effective product concept test. The "concept" of the service should focus on what benefits the MSEs will gain from the service and the service features that will deliver those benefits. For example, no one wants to buy a computer as a paperweight. A good product concept description of a computer would describe the benefits a computer can provide, such as making writing documents easier and keeping financial records faster, rather than the actual technology itself. The description of the service should match the level of understanding and experience of the respondents. For example, the description of a computer for a product concept test for MSEs would include benefits only MSEs would get from a computer, not complicated applications relevant only for larger businesses.

Write a description of the service idea that describes the benefits the service will provide to MSEs and which features of the service "prove" that the service can provide these benefits. For example, the Philippine study used the following description for Internet access services:

> *Accessing the Internet allows you to find information on a lot of different topics. It is like a huge library with a lot of current information that is frequently updated. For example, you could learn about current prices for the types of products you make or other companies that make similar products, new processes for making the products you make, or sources for supplies. You could find the information you are looking for by typing the specific topic you are interested in on the computer—it is like searching for information in a library. For this service, you would be allowed to use the computer to search for the information you need. An attendant would help you if you needed help. You would be charged for the amount of time it took you to find the information you needed.*

If the service has existing competitors, describe the features of the service that make it better than its competitors or substitute products. For example, the service description for e-mail in the Philippine study explained that e-mail was cheaper than a long-distance phone call or fax and much quicker than a letter or telegram.

Price Scale for the Price Sensitivity Test[11]

The price scale in the price sensitivity test is a list of 11 to 15 prices for the service in ascending order. Respondents will choose at which price they are no longer interested in purchasing the service. There are three important elements to the price scale: the beginning price, the price interval, and the ending price. If the price scale is ideal, all respondents will be willing to pay the beginning price, and no respondents will be willing to pay the ending price.

Marketing experience provides some help in designing the price scale. The beginning price should be two or three levels below the current price for the service. The third or fourth price in the scale should be the current price. If the service is offered from other sources, use their price. If not, then determine a rough equivalent for the benefit of the service and use this to estimate a current price. For example, there was no current price for sending e-mail in the Philippine study. Instead, the current price was equated with a fax. It was determined that a long-distance fax costs approximately P0.50 per line (assuming 40 lines on a page). For e-mail to be attractive, it should be a bit cheaper than fax because it is not a direct reproduction of the sender's message. Thus, the current price was set at P0.40 per line.

Ideally, the price interval should be the average price increase of the service over the past two or three years. Again, this information often does not exist (for new services) or is difficult to obtain (for services offered informally). In the absence of information, make an educated guess based on the current price, progressing to an ending price that is likely to be

[11] This technique was developed by Dr. Roberto and is discussed in more detail in *User-Friendly Marketing Research*, Life Cycle Press (Asia), 1996.

too expensive for all respondents. The price scale can be improved after the pre-test of the questionnaire. In the example above, P0.05 was used as an interval, yielding the following price scale:

P0.30 P0.35 P0.40 P0.45 P0.50 P0.55 P0.60 P0.65 P0.70
P0.75 P0.80 P0.85 P0.90

The results showed that this price scale was not ideal. Five of 61 respondents found the beginning price already too expensive, while almost half the respondents would still pay P0.85 and four respondents would even pay P0.90. Therefore, the scale should have had a lower beginning price, a higher ending price, and a slightly larger interval. Despite the less-than-ideal scale, the price sensitivity test for e-mail yielded helpful results on the willingness to pay for this service.

Market research experts have found that this type of test on consumers' willingness to pay for services yields a reasonably accurate idea of the price elasticity for a product. It has been found to be more accurate than asking consumers to name a price that they would pay for a service. There is some danger that consumers might say a lower price than they would be willing to pay if they think the information will be used to determine the price of a service they may later purchase. However, market researchers have not found this to be a big problem. In the Philippine study, the prices that many consumers mentioned for services such as Internet access and web page development were actually higher than the current prices for those services.

Questionnaire

A product concept test has a set format developed by marketing specialists.[12] The basic ordering of the questionnaire is:

1. Exposure of respondent to service concept;
2. Respondent's reaction to the service concept;
3. Rating service concept on specific features;
4. Overall rating of service concept;
5. Interest in purchasing the service;
6. Price sensitivity test; and
7. Competitor/substitute services.

The design of the questionnaire is outlined in Annex B with examples from the e-mail product concept test in the Philippines.

[12] As described in Roberto, *User-Friendly Marketing Research*, pp. 101-104.

ANALYZING PRODUCT CONCEPT TEST DATA

The analysis of the product concept test is reasonably straightforward. Comments on the service concept will help the practitioner see the service from the point of view of consumers and adjust the design accordingly. Information on the service's competitors can tell practitioners what other services, formal or informal, they should investigate. The respondents' interest in purchasing the service will tell a practitioner whether it is worth launching the service or not. Experience shows that practitioners should base their decision only on the percentage of respondents who are definitely interested in purchasing the service. As a rule of thumb, a reasonable level of initial demand in a large (national or regional) market is 10 percent of consumers. For a smaller market, the level of demand can be used in a feasibility study to determine if there is sufficient demand to proceed with development of a service.

In addition to straightforward analysis, two other tools are useful in analyzing the results: estimating the potential initial market size and calculating the revenue maximizing price.

Estimating Potential Initial Market Size

Based on respondents' interest in purchasing the service as measured in the survey, a practitioner can estimate the potential initial market size for the service. This is only a "potential" market because the survey measures consumers' intentions to buy the service, which is not the same as their actual usage of the service. It is the "initial" market because the survey measures consumers' intentions to purchase before any efforts have been made to promote the service.

Although the product concept test only provides a rough idea of the actual market size, it is useful for decision making. For example, it can help a facilitator decide whether to proceed with development of a service. Or it can help a supplier decide whether to purchase the rights to sell a service that a facilitator has developed.

The proportion of respondents that are definitely interested in buying represents the proportion of MSEs that make up the potential initial market for the service. Multiplying the proportion of MSEs definitely interested in buying the service times the number of MSEs in the survey population yields the potential initial market size.

For example, the potential initial market size for Internet access in Calamba, Philippines, was calculated as:

% definitely interested in buying Internet access = 8.5%
x number of registered enterprises in Calamba = 3,300
x % of registered enterprises in Calamba that are MSEs = 80%
= 224 MSEs

Calculating the Revenue Maximizing Price[13]

The revenue maximizing price is calculated using the results of the price sensitivity test. Respondents that want to buy the service will buy it only if it costs up to a certain amount—the maximum they are willing to pay. If it costs more than this, they will do without the service. Using the price sensitivity test, a supplier can estimate the price at which it will earn the most revenue from the service.

The results of the price sensitivity test yield a table like Table 8. Columns A and B in the table show respondents' "rejection prices"—what percentage of respondents are no longer willing to purchase the service at each level on the price scale. Column C is the cumulative percentage of respondents no longer willing to purchase at each price level. Column D is derived from column C; it is the percentage of respondents still willing to purchase the service at that price. Column E, the revenue at each price level, is calculated as the percentage willing to purchase (D) multiplied by the price of purchase (A). The revenue maximizing price is the price at which the service earns the most revenue.

Table 8 shows the results of the price sensitivity test for Web page development in Calamba, Philippines. The table shows that at P1,200, 42 percent are still interested in buying Web page development services. At P1,800 only 26 percent are still interested in buying. At P2,850, only 13 percent are still interested. The revenue maximizing price, in this case, is P1,950 per page. In the price sensitivity tests in the Philippines, the researchers found that many MSEs were willing to pay higher prices for services than the current market price.

Table 8: Web Page Development Price Sensitivity Test

A	B	C	D	E
Price per Line (pesos)	**% NOT Willing Anymore to Buy at Price**	**Cumulative % NOT Willing to Buy at Price**	**% Still Willing to Buy at Price**	**Revenue at Price (pesos)**
From survey	*from survey*	*cumulative total of column B*	*100% - C*	*A x D*
1,200	57.9	57.9	42.1	505
1,350	5.3	63.2	36.8	497
1,500	10.5	73.7	26.3	395
1,650	0	73.7	26.3	434
1,800	0	73.7	26.3	473
1,950	0	73.7	26.3	513
2,100	5.3	79.0	21.0	441
2,250	5.3	84.3	15.7	353
2,400	0	84.3	15.7	377
2,550	2.6	86.9	13.1	334
2,700	0	86.9	13.1	354
2,850	0	86.9	13.1	373
3,000	2.6	89.5	10.5	315
3,150	0	89.5	10.5	331
3,300	10.5	100	0	0

[13] This technique was developed by Dr. Roberto and is discussed in more detail in *User-Friendly Marketing Research,* Life Cycle Press (Asia), 1996.

The price sensitivity test also shows the estimated percentage of potential consumers who will be lost with each price increase. With this information, a BDS practitioner can balance the twin goals of generating revenue and reaching many MSEs. If a facilitator or donor were considering a short-term subsidy to lower the price of a service, for example, the price sensitivity test shows approximately how many additional consumers would purchase the service at each lower price level.

CHAPTER FOUR
WHAT DID AND DID NOT WORK—SUGGESTIONS FOR USING THE TOOLS

The authors found that the UAI market study and product concept/price sensitivity tests are quite manageable tools. During the Philippine and Nepal studies, we learned lessons about using the tools and the survey methodology. These lessons are described below to assist practitioners who use the tools in the future. The lessons indicate what worked well in the Philippine or Nepal studies, what did not work so well, and issues that were particularly challenging and that, in some cases, we were unable to solve.

USING THE TOOLS

What Worked

Using the Tools to Make Recommendations to Suppliers. We found the tools very useful for making recommendations to suppliers about their service mix, service features, and marketing strategies.

In the Philippines, for example, the features matrix enabled us to endorse Bayantel's competitive strategy of providing a comfortable, clean place for telecommunications services and to recommend improvements where the features matrix showed weaknesses. When we analyzed the product concept tests alongside Bayantel's internal strengths and systems, we were able to recommend that Bayantel add e-mail services. The product concept and price sensitivity tests on e-mail showed the potential for a fee-paying market among Bayantel's customers; the analysis of Bayantel's internal systems showed it could add e-mail services with only a minimal incremental investment. Adding e-mail also would help Bayantel keep some of the customers who, the UAI survey showed, are starting to use their own equipment or substitute products rather than PCO services. The awareness, reach, and retention data for e-mail showed that to add e-mail services successfully, Bayantel would first need to focus promotional resources on increasing awareness of this service.

In Nepal, GTZ will distribute to suppliers service marketing profiles that include information from the UAI survey and the implications for suppliers trying to expand their sales to the private sector.

Using the Tools to Identify Weaknesses in the Market for Services. We found the tools very helpful in identifying weaknesses in the market for BDS in both the Philippines and Nepal.

For example, the Philippine study showed that stimulating demand for ICT services from MSEs would require different strategies for different services. For modern ICT services

such as e-mail and Internet access, the biggest obstacle is raising awareness of the services and their potential benefits to MSEs. For fax and typing services, suppliers need strategies for stimulating trial. The cellular phone survey identified service features which MSEs care about and on which all current suppliers need improvement, demonstrating a weakness in supply.

In the Nepal study, survey data showed that basic awareness of business services in Nepal is not a problem. Retention also is not a problem; for the most part, entrepreneurs who try business services continue to use them. This indicates that suppliers are probably offering services of reasonable quality. The major weakness in the Nepali market for business services is entrepreneurs' reluctance to try services. This problem is often exacerbated by a lack of complete understanding about services and their potential benefits. Demographic data helped pinpoint the consumer segments where these problems are less or more severe. This type of information can help donors and facilitators design interventions to address market weaknesses and stimulate the market for BDS.

Studying the Service and the Service Supplier. When analyzing the features of a service, it is difficult to differentiate between the features of the service and the features of the service supplier.

On the Philippine PCO study, the researchers chose to analyze the features of the supplier, such as cleanliness, as well as the features of a service, such as line clarity for the phone service. This decision was made because the survey was examining many different services. In retrospect, we think that it is as important to examine the features of the service supplier as the service because MSEs interact with the supplier. Therefore, the features of the service supplier are part of the service and, as the survey showed, important to the MSEs. It worked to include both features that applied to the service and those that applied to the service supplier in the same list.

Getting Expert Help. Although a BDS practitioner can be the main organizer of a UAI study, help from a market research professional will improve the quality of the study and thus the results. BDS practitioners conducted the Philippine study, but a market research specialist looked over the plans at each stage, provided suggestions, and assisted the practitioners in interpreting the results. The market research specialist, for example, helped the practitioners properly formulate the questions for the survey and determined the sampling methodology. Expert advice also enabled us to make a more thorough analysis of the results.

What Did Not Work

Defining the Service Too Broadly. If a service is defined too broadly, researchers and respondents might interpret the service that is being investigated differently. For example, management training and skills training are not the same service. If a UAI study on training does not specify the type of training, different types of training that are not comparable will be included in the responses. The mix will lessen the value of the

information to improve each specific type of training. Similarly, if the service is defined as a category of services rather than a single service, the survey questionnaire becomes complicated because it must investigate all the various services in the category.

This was the case in the Philippine study where a UAI market study was used to investigate ICT-based services. Because this service category included many services, the questionnaire became longer and more complicated than it would have been for a single service. The Nepal study investigated many services but reduced the depth of detail to accommodate the breadth of services. For example, the Nepal survey did not gather data on service features.

Trying to Get Market Information and Impact Information at the Same Time. Trying to get too much out of a single survey may reduce the quality of the results. The Philippine surveys gathered both UAI data and impact data, making the survey questionnaire quite long. Asking impact information may also have made respondents question why the survey was being administered and, thus, may have biased some of their answers. In retrospect, we think it is better to gather only market data during a UAI study and conduct a separate survey to measure the service's impact on MSE customers.

Challenges for Users

Comparing Services Offered from Formal and Informal Suppliers. A UAI market study can be very helpful in comparing competing services. However, the UAI market study was originally designed to compare different brands of the same product, such as shampoo. Comparing different sources that MSEs use for information is not like comparing different brands of shampoo. Services offered from the formal and informal sectors are likely to be quite different—in the way services are offered, their price (if they are paid for in monetary terms at all), and service features. The UAI methodology needs to be adapted so that it can enable BDS practitioners to better understand and compare the same service from informal and formal suppliers. This is an ongoing challenge for those using the UAI market study as a BDS design, market assessment, or monitoring tool.

Writing the Service Description for the Product Concept Test. The description of the service for a product concept test has to give the respondents a good idea of the benefits of the service and the features that will deliver those benefits. It is difficult to write a service concept description in a way that adequately makes the service idea concrete in the minds of respondents. We think that the ICT service descriptions would have been better with additional information about the service features. As practitioners develop more examples of business development service descriptions, this step should become easier.

Testing Payment Options. One of the challenges of BDS is to offer consumers payment options that make services accessible. The price sensitivity test measures consumers' feelings about prices but not payment options. A new or adapted tool is needed to help practitioners make decisions about the best payment options for a service.

USING THE SURVEY METHODOLOGY

What Worked

Reasonable Resource Requirements. The UAI market study is reasonably cost-effective. The time and effort needed to gather a lot of helpful information using a UAI study is not onerous. It is possible to be reasonably confident about the results of a survey with a small sample size. A sample size of 100 will provide the BDS practitioner with a margin of error of ±10 percent and a confidence level of 95 percent.

The resources used in the Philippine study follow.

People

Managers/Researchers. The Philippine study had two manager/researchers, who split the work of designing and overseeing the surveys. It would have been possible to do the study with only one manager, but it was helpful to have two to share ideas. Although neither researcher is a marketing specialist, both had experience with BDS as practitioners and some background in marketing.

Marketing Specialist. The Philippine study had the advice of a marketing specialist at critical junctures during the study.

Survey Team/Company. The Philippine study used a professional Filipino survey company experienced in marketing surveys. The survey team had a manager who coordinated the pre-test and interviews and acted as a liaison between the interview team and the study managers. The team manager also trained the two supervisors and 10 interviewers. The team included a translator who translated the questionnaires from English into local languages. It was helpful to have an experienced survey company because their personnel made useful suggestions on the design and implementation of the survey. Having a local company conduct the survey helped ensure that the survey was appropriate for the local context.

Time

The Philippines study took approximately four months from start to finish, as follows:

Forming the team: One-and-a-half weeks.

Designing the study: Two weeks, including writing the design, having it reviewed by the marketing specialist and others, and making revisions.

Designing the questionnaire: Two weeks, including the same review process as above.

Pre-Testing the Questionnaire: One week—actual interviewing took only two days but time was needed to travel to the survey site, go over the questionnaire with the survey team, organize the interviewing, identify respondents, and copy the questionnaires.

Questionnaire Revisions: One week, including another review.

Survey: Two weeks.

Tabulation: Three weeks.

Analysis: Two-and-a-half weeks.

Report preparation: Two weeks.

Money

Funds were primarily used to pay the research team. The only key assets used by the survey firm were a computer and software for tabulating the results of the survey. In the Philippines, most survey companies charge a fixed rate per interview for surveys. The rate depends on the length of the questionnaire, the data tables required, and other services needed, such as translation. The company conducting the Philippine study charged approximately P800 (US$20) per interview for the following services:

- Commenting on the survey design and questionnaire;
- Translating the questionnaire into local languages;
- Field testing the questionnaire and providing feedback;
- Formatting the questionnaire for the interviews;
- Printing and copying the questionnaires;
- Hiring and training interviewers;
- Conducting interviews;
- Supervising interviews;
- Cleaning and tabulating the data; and
- Producing data tables.

Travel expenses for the survey team and tax were extra. Although some firms will design and revise the questionnaire, we did these tasks ourselves.

What Did Not Work

Making the Study Too Complicated. The Philippine study sought to cross-reference the respondents' demographic characteristics against almost all of the other data. The resulting data tables were voluminous, and many of the cross-references put the base number of respondents under 30, which means the results are not statistically significant. In retrospect, all of the cross-references were not needed to achieve the objectives.

For example, cross-referencing suppliers used for various services with respondents' demographic information was unnecessary for the analysis. Thinking more carefully about the data needs would have saved time and money in data tabulation and analysis.

Challenges for Users

Using Good Survey Methods. Information from a survey is only as good as the survey itself. Good survey practices lead to useful results. Where there are mistakes, the results were more difficult to interpret and less useful. Some of the survey practices we found useful to keep in mind were:

- Make sure to refine the questionnaire thoroughly using one or more pre-tests before the survey.
- Ask respondents for personal data *at the end* of the questionnaire. Asking for personal information at the onset often makes respondents suspicious and less willing to cooperate with the survey.
- Include directions for the interviewer in the questionnaire. For example, if a respondent is not aware of a service, direct the interviewer not to ask the respondent the questions on usage.
- Use a "show card" to help respondents choose an answer. This not only makes it easier for respondents to answer, but it also makes them more willing to give sensitive personal information, such as income level.
- For data on income level and sales, use a show card that has income ranges and ask respondents only to indicate the letter of their answers. This way, respondents do not have to give their income aloud, which often results in inaccurate answers.
- If the researcher is writing the questionnaire in a language other than the one in which it will be conducted, make sure that the questions are translated accurately and appropriately. In other words, the translation of each question should reflect what the researcher meant. Local languages and colloquial expressions should be used so that the respondents understand the question as the researcher meant it.
- Keep the questionnaire as concise as possible. We found that some MSEs got impatient with the length of the Philippine questionnaire.
- Try to choose the respondents randomly from the survey population to avoid biasing the survey. We found that we had to balance practicality and scientific rigor in the sampling methodology.
- The results are only generalizable to the survey population, which may be MSE users of the service only in a particular area, rather than MSEs in general.

- If the base number of MSEs for a given question falls below 30, the results are no longer statistically significant.

IMPLICATIONS FOR DONORS

The UAI market study is extremely useful for facilitators and donors that want to design and monitor effective interventions to stimulate BDS markets. The information yielded by a UAI study is much more useful in understanding the market for a service than needs assessments and other tools traditionally used by MSE support institutions. The UAI study offers detailed information on demand and a clear picture of supply from consumers' point of view. Even for donors assisting only one or two suppliers, the information from a UAI study will show what effect the program has on the market at large, as well as how the suppliers can expand sales.

An analysis of UAI data can pinpoint constraints to market development both on the demand and supply sides. Accurately pinpointing the constraints to market development will help donors focus their resources effectively. For example, if awareness is a key problem, donors can focus on raising awareness of services among MSEs. If retention is a key problem, donors can focus on supporting suppliers' efforts to improve services by including the features that MSEs want. On the other hand, without a clear understanding of the market, a donor might design a program that does not address the constraints in the market. For example, a donor might choose a voucher program to stimulate demand when the actual problem is that suppliers do not offer the features that MSEs care about—thus, they do not want the services at any price.

Donors also can use a UAI study as a market stimulation tool in itself. Many suppliers do not have the resources and expertise to do a UAI survey themselves. However, the information from a UAI study is very helpful to them in improving their services for MSEs and expanding sales. Offering suppliers information is one of the least distortionary supply-side interventions.

Because the UAI survey is flexible, donors can use abbreviated or modified versions for monitoring purposes. Conducting periodic UAI surveys enables donors to monitor several of the Performance Measurement Framework indicators: market size and market penetration both overall and for specific consumer segments (e.g., women and microenterprises), prices and average price per unit of service, number and proportion of multiple-user customers, and customer satisfaction. In addition, a UAI survey will provide some information about the number of BDS suppliers and service types.

Considering its utility for donors, a UAI study is quite cost-effective. As discussed above in the section on "What Worked," the resource requirements to conduct a UAI study are reasonable. Conducting a UAI study every two years, for example, would help a donor to both design and periodically adjust a BDS market stimulation program, as well as monitor the changes in the market over the period of the program.

INVITATION TO USE AND DEVELOP MARKET RESEARCH TOOLS

Overall, we were impressed with the usefulness of the market research tools described in this report in providing detailed information about MSE demand for various BDS. We think that these and other market research tools are extremely useful for BDS suppliers aiming to become more demand driven and for facilitators and donors that want to design and monitor effective interventions to stimulate BDS markets. The authors welcome and encourage practitioners to test and adapt these and other market research tools. We hope that practitioners and donors will document their use of market research to contribute to the development of practical tools that help build BDS markets.

ANNEX A

ELEMENTS OF A UAI QUESTIONNAIRE

ELEMENTS OF A UAI QUESTIONNAIRE

Information Objective	Data Tables	Sample Questions (from the Philippine ICT study)
1. Screening Questions: To determine if respondent is qualified for the survey.	N/A	Have you ever used services here for business purposes? *yes = proceed no = terminate interview*
	N/A	How many full- or part-time workers does your business have now? *25 or less = proceed* *more than 25 = terminate*
	N/A	What is your current role in the business? *owner/manager/relative of owner = proceed* *other = terminate*
2. Awareness of Services: To determine how aware MSEs are of the service. This information helps BDS practitioners decide how extensive an information campaign their program requires.	% aware of service % correctly defining service	Have you heard, read, or seen anything about fax services? What have you heard, read, or seen about fax service?
3. Usage of Services: To understand users' current purchase and usage habits and practices. This information helps BDS practitioners identify suppliers that can be studied, decide how to advertise, and design services in the right quantity and the right place. It also helps BDS practitioners in estimating the level of demand for the service. This information can help donors quantify market size and market penetration and evaluate suppliers' success in reaching MSE customers. It can also help practitioners or donors understand why MSEs do or do not purchase the business service and what informal alternatives exist.	% using service	Have you ever purchased fax services anywhere for business purposes?
	Locations of use	Where have you purchased fax services for business purposes?
	How customers learn about service locations	How did you find out about (purchase location)?
	Frequency of use	How often do you use fax services for business purposes?
	Volume of use	If you used fax services in the last month for business purposes, how much did you spend the last time you sent a fax?
	When use started	When was the first time you ever purchased fax services for business purposes?
	Reasons for use (specific and general)	Who did you communicate with when you used fax services in the last month? What was the fax about? How does fax service help your business?
	Reasons for non-use (for non-users)	Why have you not used fax services?
	Competitor/ substitute services	*For users:* If you cannot get fax services, what will you do? *For non-users:* If you need to send a document quickly, how do you do it?

Information Objective	Data Tables	Sample Questions (from the Philippine ICT study)
4. Service Features:[14] To learn what service benefits customers prioritize. This information helps practitioners design a service with the features that MSEs want.	Importance of service features	I will now read to you a list of qualities and features of communications service suppliers. Please rate these features according to how important they are to you in a communications service supplier. Would you say that (mention each feature) is to you: extremely important, quite important, a little important, not that important, it depends on _____ (ask respondent to clarify). Features tested: ▪ Distance from business ▪ Convenience of the location ▪ Variety of services ▪ Clarity of connection or page ▪ Waiting time ▪ Friendly and helpful attendants ▪ Cleanliness ▪ Clear layout ▪ Available and comfortable waiting area ▪ Comfort while using service ▪ Privacy ▪ Confidentiality ▪ Accuracy
5. Customer Satisfaction: To learn how satisfied customers are with service features and to compare suppliers. This information can help individual suppliers become more competitive. This information can help BDS facilitators or donors evaluate how well suppliers are meeting the demand from MSEs and help them modify services to better reach the MSE market.	Customer satisfaction with service features	*If evaluating only one supplier:* Now, may I ask for your opinion about this service supplier? Regarding each of the features, compared to your expectations, please tell me if you are: very satisfied, a little satisfied, a little dissatisfied, very dissatisfied. *If evaluating multiple suppliers:* Now, may I ask for your opinion about this service supplier and the ones you mentioned earlier? Please rate each of them on each of the features you just rated. Let's start with (name of service supplier) . . .

[14] Do not include "price" in the list of service features. Market research has shown that this question always yields that price is of average importance and average satisfaction for customers. However, this result does not reflect the actual importance and satisfaction of customers with the price of the service.

Information Objective	Data Tables	Sample Questions (from the Philippine ICT study)
6. Personal Data: To learn about the market segments that use the service. This information helps practitioners target the service to a particular segment of the MSE market or learn that the service must be changed to reach a different type of MSE. This information can help donors understand and monitor outreach to various types of MSEs—for example, MSEs that are typically underserved.	Business type—formal or informal sector	Is your main business registered with a government agency?
	Business type—subsector	What is your business?
	Age of business	When did your business start?
	Gender of entrepreneur	Who owns the business?
	Location of business; distance of business from supplier	In what municipality is your business located?
	Business sales	What were the sales of the business last (name relevant period)?
	Income level of family of respondents	Into which category does the monthly income from all sources of your family fit? (Provide relevant categories.)
	Respondents' education level	What level of schooling did you complete?

ANNEX B

ELEMENTS OF PRODUCT CONCEPT/PRICE SENSITIVITY TESTS

ELEMENTS OF PRODUCT CONCEPT/PRICE SENSITIVITY TESTS

Information Objective	Data	Sample Questions (from the Philippine ICT study)
Screening Questions: To determine if respondent is qualified for the survey.	N/A	How many full- or part-time workers does your business have now? *25 or less = proceed* *more than 25 = terminate interview*
	N/A	What is your current role in the business? *owner/manager/relative of owner = proceed* *other = terminate*
	N/A	Have you heard, read, or seen anything about e-mail services? What have you heard, read, or seen about e-mail services? *unaware of service = proceed* *aware of service = terminate*
Expose Respondent to Service Concept: To explain the service, its benefits, and its features to the respondent.	N/A	E-mail allows you to send a message to another person through a computer. You would provide your written message to an attendant who would type it into the computer and send it. The message would appear on the computer of the person you want to send it to very quickly—within a minute or two. You also could receive messages this way. The person you want to send or receive e-mail to or from must also have access to a computer because e-mail can be sent only to and from computers. This is a very quick and convenient way to send written messages. It is cheaper than a long-distance phone call or fax. The price does not depend on distance—it is no more expensive to send an e-mail to someone in another country than it is to send an e-mail to someone in this area. *The respondent reads the description of the service clearly written on a card that the respondent can hold. To make sure he or she read it well, the interviewer can either read the description aloud together with the respondent or ask the respondent to read the description again.*[15]

[15] All MSEs in the Philippine study were literate. This step would need to be adapted for illiterate respondents.

Information Objective	Data	Sample Questions (from the Philippine ICT study)
Reaction to Concept: To learn how MSEs make sense of the service and any negative aspects of the service. This information helps practitioners see the service through the consumers' eyes and improve on the design of the service.	Qualitative data on the reactions to the service	What do you think about the e-mail service that you have just read? What else do you like (dislike) about it? Anything else?
Specific Features: To understand how the service compares to its competition or substitutes on specific service features. This information helps practitioners determine the need for the service, learn what benefits are needed, and design service features.	Ratings of service features	I would now like you to rate some specific features of the service that you just read about. For each feature, tell me if you believe that: 1 = There is no other service now available that attends to this particular feature satisfactorily to meet the needs of your business. 2 = There is at least one service that attends to this feature satisfactorily to meet the needs of your business. 3 = There are many services that attend to this feature satisfactorily to meet the needs of your business. Features: ▪ Sends messages quickly ▪ Sends messages cheaply ▪ Provides a convenient way to send messages ▪ Enables entrepreneur to frequently send messages ▪ Enables entrepreneur to both send and receive messages ▪ Allows small enterprises to do business with larger enterprises with computers
Overall Rating: To determine MSEs' perceived need for the service. This information helps practitioners decide whether to pursue development of the service.	Overall rating of service	Overall, would you say that this service would be: 1 = Extremely or often helpful for your business 2 = Somewhat or sometimes helpful for your business 3 = A little or occasionally helpful for your business 4 = Not at all or never helpful for your business

Information Objective	Data	Sample Questions (from the Philippine ICT study)
Interest in Purchasing: To gauge MSEs' interest in purchasing the service. This information helps practitioners decide whether to pursue development of the service. It provides information for practitioners and donors on potential market size.	Interest in purchasing the service	Based on what you've read about the service, would you say that you would be _____ in buying it? 1 = Definitely interested 2 = Probably interested 3 = Probably not interested 4 = Definitely not interested *The interviewer should not allow the respondent to say "not sure" and should encourage the respondent to take a stand based on his or her feelings at the moment. This helps avoid the typical tendency in a product concept test of many respondents clustering around the mid-point response.*
Price Sensitivity Test: To determine MSEs' "rejection price" for the service—the price at which they will no longer buy the service. This information helps pinpoint MSEs' willingness to pay for the service, determine a price for the service, and make projections on potential revenue from the service.	MSEs' "rejection price" for the service measured on a price scale	At what price per line on this scale do you begin to feel that you would no longer be interested in sending e-mail? (Show price scale.)
Competitor/Substitute Services: To learn what are the competing or substitute services currently available. This information can pinpoint other services for study or other sources for the envisioned benefit that donors can develop or improve.	MSEs' use of competitor/substitute services	If at (mention price threshold), you would no longer be interested in using e-mail service, how would you send your messages? How do you send your messages now?

ANNEX C

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