

Arvand Tajikistan: *Using mystery shopping to understand clients*¹



MICROFINANZA
RATING



INTRODUCTION

This case study is written for microfinance providers who seek to improve their social performance management (SPM) practices. The case of MDO Arvand (Tajikistan) highlights how an institution can use market research techniques to understand clients' needs and preferences for products and services.

The good practices discussed in this case study exemplify how providers can implement two of the standards found in the SPTF's Universal Standards for Social Performance Management:²

- The institution understands the needs and preference of different types of clients (Standard 3a).
- The institution's products, services, delivery models and channels are designed to benefit clients, in line with the institution's social goals (Standard 3b).

See the Annex for more details on how Arvand's practices compare to the practices found in the Universal Standards.

BACKGROUND

The non-bank financial institution MDO Arvand started its operations in 2002 and was incorporated as a limited liability microcredit deposit-taking company in 2008. With a network of six branches and 44 sub-branches, Arvand serves 28,000 borrowers and 7,200 savers as of March 2014. Arvand holds the second largest portfolio among the local microfinance network (AMFOT) members.

Social mission: Arvand's mission is to improve the well-being of the population and create new opportunities for the social and economic development of society by providing high-quality financial services to the citizens of Tajikistan.³ The institution targets poor and low-income people, with a specific focus on entrepreneurs, rural residents, and women.

Products and services: Arvand provides a variety of financial services including credit, savings, money transfer, and currency exchange. The range of credit products covers different types of clients' needs—including agriculture, trade, consumption, and education. Additionally, non-financial services are available for clients and non-clients in the form of financial education and training in agriculture technologies.

Table 1: Key performance indicators

Area/year	2011	2012	2013
Borrowers	15,392	19,356	24,800
Loan portfolio (\$K)	13,243	20,653	30,283
Savings clients	973	2,507	6,407
Savings portfolio (\$K)	260	589	2,790
PAR% (>30 days)	0.3%	0.4%	0.5%
Adjusted client exit (%)	48%	60%	47%
Women client (%)	43%	43%	44%
Outreach to rural clients (%)	60%	59%	61%
Staff (total)	223	300	447
Staff turnover (%)	21%	20%	18%

Box 1: The Social Performance Fund⁴

The Social Performance (SP) Fund for Networks is designed to mainstream the new Universal Standards for Social Performance Management. The SP Fund works with 10 networks that run 18-month projects to document learning and experience around innovative solutions to implementing the essential practices of the Universal Standards. They also support their members to reach full or partial compliance with one or more dimensions of the Universal Standards. Supported by the Ford Foundation, the Fund is managed by the Microfinance Centre (MFC), a microfinance resource center and network serving the Europe and Central Asia region and beyond.

¹ Written by Dinara Hering and Chiara Pescatori. The development of this case benefitted from the insights of Mrs. Shahnoz Ikromi, ARVAND's Director of Business Development. Special thanks to Tony Sheldon and Leah Wardle for their diligent peer review of this case.

² The Universal Standards are a set of management standards that apply to all MFIs pursuing a double bottom line. Learn more at www.sptf.info/spmstandards/universal-standards

³ Arvand received an A Social Rating grade from MicroFinanza Rating at the beginning of 2014, indicating good social performance management systems, good client protection practices and quality of the services, and adequate outreach. The company has been also awarded the STAR award from the MIX Market in 2014..

⁴ For more information visit www.mfc.org.pl/en/content/social-performance-fund

MARKET RESEARCH STRATEGY

Arvand's current product design system began to take shape in 2005, when competition among Tajikistani financial providers began putting pressure on Arvand to develop products and services better suited to clients' needs. The company began by identifying two clear objectives to ensure that their market position was preserved: 1) Continue to serve their original target market, 2) Deepen outreach within that market by offering products and services more tailored to clients' needs and preferences.

In order to achieve the second objective, Arvand realized that they needed a new approach to understanding client needs and preferences. They decided that market research should be the starting point for offering effective products and services. As such, the institution developed a "roadmap" to the customer loyalty that they wanted to achieve. The plan began with market research as a foundation (see **Figure 1**).

Over the next few years, Arvand tested and developed a wide range of different tools to collect client feedback and complaints such as satisfaction studies, exit surveys, and focus group discussions. These were largely effective, but by 2009, Arvand began to look at more innovative methods for collecting client input. The institution was interested in getting customer insight not only on product features and suitability, but also on the quality of service delivery.

This focus was driven by the fact that the institution's rapid growth led to questions about the quality and consistency of staff interactions with clients—particularly new staff operating in highly competitive areas of the country. Existing risk management systems were useful for controlling for major problems, but did not provide much insight into the customer experience with staff. In particular, management wanted to know whether staff members knew how to evaluate clients' needs and direct clients to the appropriate products and services.

Figure 1: Market Research as the foundation for products and services that create customer loyalty



MYSTERY SHOPPING

After comparing several different methods for gaining new customer insights, Arvand identified "mystery shopping" as an innovative and cost-effective technique. Mystery shopping is a market research method by which a firm is hired by a company to "shop" within the company and report back on various elements of their experience as a customer of the company. "Shoppers" pose as normal customers and do not reveal their intentions to employees of the company—they simply attempt to buy a product and they secretly record their observations about the process.

It was determined that Arvand's Marketing Department should oversee the introduction of mystery shopping, as the institution viewed it as part of a wider framework designed to ensure that products, services, and delivery models were tailored to customer preferences.

In early 2009, the Marketing Department, jointly with the Business Development Department, carried out research to identify an appropriate company to whom they could outsource the mystery shopping. The identification of an external provider was considered crucial to ensure the full reliability and independence of the survey.

"Adequate product design and quality of services increases client loyalty. Product design is an ongoing process, and ensuring high quality services throughout the organization is an important task."
- Shahnoz Ikromi, Business Development Director

Arvand explored both national and international options but for cost reasons decided to select a local provider. The institution was conscious of the risky choice since neither Arvand nor the local company had any previous experience in mystery shopping. However, Arvand worked together with the market research firm and developed a pilot methodology for how to conduct mystery shopping in Arvand’s branch offices.

The Marketing Department took the lead on developing a pilot methodology—a checklist of six criteria and a scoring system (1=poor to 5=excellent). Mystery shoppers would score their experience against these criteria:

- How the customer was greeted by the employee
- How accurately the employee identified the customer’s needs
- The quality of the sales conversation
- The comprehensiveness of the information provided
- The privacy afforded to the customers
- The external and internal appearance of the premise.

Arvand and the marketing company piloted this methodology in 2009, visiting two branches and two sub-branches over three days. The results of the pilot were mixed, though many customer interactions were adequate, mystery shoppers also noticed problems such as failure to welcome clients to the branch and inadequate information about the products during the sales conversation.

Based on these findings, management developed a guide for staff on quality service standards. The Marketing

Department followed up by organizing several internal trainings to ensure uniform dissemination of the procedures among staff. This initiative yielded good results and Arvand was encouraged to continue with their market research efforts.

A year later, Arvand commissioned a Social Diagnostic by MicroFinanza Rating. The assessment revealed that Arvand should expand the criteria of the mystery shopping tool to include elements of client protection, in particular, transparency of information about pricing, and confidentiality of client information.

In the same year, Arvand extended the scope of the mystery shopping method to include visiting competitors, with the aim of identifying differences in delivery channels and service quality.

Currently, mystery shopping is conducted annually. The Marketing Department together with senior management defines which criteria to include based on the current conditions within the institution. This means that the tool is refined each year and is tailored to the information needs of the institution.

Mystery shoppers visit every branch office and a sample of sub-branches, which are chosen based on their performance the previous year (poorly performing branches are given priority). Each of Arvand’s main competitors are also visited and are assessed against the same criteria as the Arvand branches.

To create buy-in for the method and to make it more cost effective, the institution divides the responsibilities for the mystery shopping exercise among different staff (see **Table 2**).

Table 2: Staff involvement in the annual mystery shopping exercise

Position	Role in brief	Time required (yearly)
Business Development Department and Marketing Department	Research and identify the most appropriate tool to assess the service quality standards	2 hours/day for 1 week
Marketing Department	Develop and adapt the tool according to specific business standards and expectations of the company	4 hours/day for 3 days
	Develop guidelines for the hired company. Conduct the training and transfer of the tool	4 hours/day for 1 day
	Validate quality of the service provider report Disseminate results among personnel	3 hours/day for 3-5 days During general meeting (1 to 2 hours)
Business Development Department	Provide the CEO with the tool (description, benefits and costs) Share report with Management Board for discussion/decision-making	1 hour/day for 2 days 4 hours/quarter
Hired external market research company	Conduct market research and analyze the results	6 to 8 hours /day for 2 weeks

Each time the external firm completes a mystery shopping exercise, they analyze the results and present them to Arvand management. Managers then share the results with employees at different levels of the organizations, as well as to the Board of Directors. The results are used to make decisions about products, services, delivery models, and training topics; to create competition among branches to perform well, and to evaluate the performance of branch managers.

In the past few years, Arvand's management team has used the results of the mystery shopping exercise to discuss and implement many practical changes to the institution's products, services, and delivery methods. A partial list of such changes includes:

- Development of communication materials (e.g. leaflets, billboards) that more clearly and transparently present the range of services offered
- Clear display of phone numbers for the call centres and hotlines, contacts of the loan officer, etc.
- Creation of a packet of required documents to be handed over to the client in the consultation phase
- Introduction of new policies on customer service for money transfer and currency exchange services
- Use of the results of mystery shopping when evaluating field staff performance, as a way to control the risk of staff using aggressive sales techniques
- Creation of staff training modules on different aspects of customer service.

Additionally, Arvand wants to begin using an efficient "single-window" service system where customers can deal with all of their financial needs (borrowing, saving, currency exchange and money transfer) in a single interaction with branch staff. The institution will use mystery shopping and other market research techniques to assess client preferences for the design and implementation of this new delivery channel.

LESSONS LEARNED

Arvand has learned that mystery shopping should not be the only market research tool used to assess clients' needs and preferences, but should be one part of a market research strategy. In other words, it should be used in conjunction with other market research techniques such as client satisfaction surveys, exit

interviews, and focus group discussions. Mystery shopping should never replace direct feedback from clients.

Additionally, Arvand believes that in order for the results of mystery shopping to be useful for an organization, management must carefully decide which criteria to include in the evaluation. These criteria should be based on the institution's social objectives (e.g., to increase access for underserved people), on risk factors that the institution wants to mitigate (e.g., an overly aggressive sales force), and on new product/service ideas that the institution wants to test.

It is also essential to select a professional, responsible, and highly qualified company to perform the evaluation and analysis. The external firm should be clear on the institution's social objectives as well as the criteria to be used.

Finally, Arvand believes that in order to be cost effective, mystery shopping must yield real information that is useful for operational and product development purposes. With this aim in mind, the mystery shopping exercise should produce an analysis of:

- What the customer wants in terms of specific product features or different financial services
- How customers rank their needs or expectations
- How front office operations can be improved to better serve the target clients.

CONCLUSION

Arvand aims to become an integrated financial provider by responding to different financial needs throughout the life of its clients. The company's ultimate goal is ensure customer loyalty and increase the market share. The proper and efficient identification of needs and preferences requires several activities that are often expensive and time consuming. Nevertheless, as mystery shopping becomes part of the company routine and now its cost is more than covered by the impact on the double bottom line.

For more information:

Arvand website: www.mdoarvand.tj/en

Arvand on the MIX:

www.mixmarket.org/mfi/mdo-arvand

Microfinanza Rating: www.microfinanzarating.com

The Microfinance Centre: www.mfc.org.pl

Social Performance Task Force: www.sptf.info

Dimension 3: Design products, services, delivery models and channels that meet clients' needs and preferences.	
Standard 3a: The institution understands the needs and preferences of different types of clients	
Essential Practices	Evaluation of Arvand's practices
3a.1 The institution seeks client feedback for product design and delivery (CP standard 1.2).	Arvand uses the following methods to gather client feedbacks, with the aim to develop and improve the products offered: client satisfaction surveys, mystery shopping, call centre, log books and complaint boxes, client committees, and post disbursement surveys.
3a.2 The institution analyses client satisfaction by client characteristics.	Client satisfaction surveys are conducted twice a year, with the objective of identifying the gaps in the product offering and collecting feedback for further product development.
3a.3 The institution monitors the client retention rate by client characteristic and understands the reasons clients exit the institution.	The reasons for client drop out are collected in client exit surveys administered by the Market Research Department and analysed by the Operations Manager who shares them with senior management.
Standard 3b: The institution's products, services, delivery models and channels are designed to benefit clients, in line with the institution's social goals.	
Essential Practice	Evaluation of Arvand's practices
3b.1 The institution designs products that are appropriate to client needs and do no harm (CP standard 1.1).	Overall the product design is adequate to serve the client needs without harming or creating negative value for the customers. The company has a full-fledged system to support the constant enhancement of the products offered.
3b.2 The institution uses its understanding of client needs and preferences to reduce the barriers to financial inclusion faced by target clients.	The financial services have flexible conditions meeting various financial needs of the target clientele: a good variety and range of loan amounts, guarantee requirements adequately designed and linked to the loan amount and to the type of lending methodology (e.g., the most vulnerable target clients can rely on personal guarantee or group solidarity), flexible repayment schedules designed according to the clients' business activity and household cash flow, a low minimum saving requirement, and a widespread network of branches, sub offices, and pay points.
3b.3 The institution offers timely access to products and services that allow clients to reduce their risk and cope with common emergencies.	Arvand offers emergency loans (disbursed in one day and backed by collateral), money transfer services, and non-financial training to mitigate the risks clients face (e.g., financial education training). Additionally, the institution's rescheduling policy is adequately formalized; the final decision can only be made by a dedicated Credit Committee at headquarters.
3b.4 The institution creates benefits for clients by enabling them to invest in economic opportunities and address anticipated household needs.	Group loans are available for start-up businesses. A variety of savings products are designed for different purposes and target customers (e.g. migrants, trips, children's saving/education, etc.) and are tailored to attract a broad clientele (from individuals to legal entities).
3b.5 The institution does not use aggressive sales techniques. (Client Protection standard 1.3)	Clients are given the right to cancel the loan application at any phase of the lending process and Arvand's mystery shopping method helps control for the risk of aggressive sales by staff.