

MARKETING ACTIVITY IN ROMANIAN MICROCREDIT ORGANIZATIONS

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Microfinance is the solution that ensures the provision of loans and other basic financial services to those entrepreneurs who have limited access to the banking sector. These financial services provided by microfinance institutions allow small business owners to take advantage of their entrepreneurship skills by developing small businesses capable of generating additional income. As they mature, Romanian microcredit organizations become gradually aware of the importance of marketing in their current activities. The paper presents the results of a qualitative research on the experience and marketing practices in major microfinance institutions in Romania, highlighting at the same time the factors influencing decisions to invest resources in this area. The conclusions of the research reveal that microcredit organizations have a limited institutional capacity to develop complex marketing programs that drive marketing activities and resources to achieve the objectives of the organization. The approach here is one of a reactive management, the situations that pushes microcredit organizations into engaging in some marketing activities and using various instruments being determined by changes in the structure and level of market development and competition or by the availability of funds for current activity. Although marketing interventions should be considered important on all markets, the truth is that different types of markets (emerging, developing, mature markets) require certain marketing activities. The proposed marketing mix contains 8 elements ("8 P") that ought to be optimally combined within the marketing strategy, in order to get the expected response from the target group: product, price, placement, promotion, processes, procedures, personnel, partnership. The topic chosen for this paper answers a need for know-how in the Romanian microcredit organizations, in terms of their marketing activity. From a scientific point of view, the paper has a pioneering role, representing the first steps taken in Romania towards the in-depth study of the field of microfinance and of marketing in the microcredit industry.

Key Words: marketing, microfinance, microcredit organizations, marketing mix, market.

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I. Introduction

Microfinance is the solution that ensures the provision of loans and other basic financial services to those entrepreneurs who have a limited access to the banking sector. These financial services provided by microfinance institutions allow small business owners to take advantage of their entrepreneurship skills by developing small businesses capable of generating additional income. The formal microcredit activity in Romania is carried out by credit institutions (commercial banks which have the microcredits part of their loan portfolio, a specialized bank - ProCredit Bank and a network of credit unions - Credit Coop) or non-bank financial institutions (NBFIs). Since the subject of this paper is related to microcredit organizations, the following lines will refer only to the NBFIs specialized in micro-lending.

II. Literature Review

In 1999, The United States Agency for International Development (USAID) sponsored a global study, *Marketing in Microfinance: the State of the Practice*, regarding the marketing activities practiced by various types of microfinance institutions. This study is apparently the only one of

this kind that has ever been done and made available to the public. It provides information on the stage of the practice of marketing in various microfinance institutions worldwide.

On the national level, scientific concerns about the microfinance in Romania in general and about marketing in the field of microfinance, in particular, are almost non-existent. This paper is an extract of the author's PhD thesis.

III. Research Methodology

The paper presents the results of an exploratory marketing research about the marketing activity performed by Romanian microfinance institutions within 2008-2009. The specific objectives of this research have been: a) to identify the characteristics of marketing programs run by Romanian microfinance institutions; b) to identify the determinants (internal and external) of marketing practices.

As the research goal was to obtain accurate and abundant information about the marketing activity practiced by microfinance institutions, the research methodology consisted of a primary-source research - qualitative research - in the form of in-depth interviews conducted with persons involved in marketing from the 8 "traditional" Romanian microcredit organizations (1).

IV. Research Results

The Romanian microfinance institutions are becoming involved in various marketing activities and use different tools, depending on the characteristics of the external environment and on the maturity degree of the institution.

The decision to invest in marketing depends on the access of microcredit institutions to sources of funds for the lending activity.

The activity of microcredit institutions is highly dependent on foreign funds attracted (2). In these circumstances, attracting the funds necessary for running the business is a priority in the microcredit organization's development strategy. As long as this issue is not solved, the management's interest in the marketing activity is minimal. The financial performance is critical to the success of the institution's fundraising strategy. To achieve positive financial results, the microcredit organization must have appropriate products and methodology to ensure a good quality of the loan portfolio.

Romanian microfinance institutions have a limited capacity to develop marketing programs.

Currently, the institutional capacity of microfinance companies in Romania to develop marketing programs is at an intermediate level. The following facts resulted from the conducted research are coming to support this statement:

- the financial ratios reflecting the sustainability and profitability of microfinance institutions are revealing their current priorities: reducing costs by developing methodologies to improve the quality of the loan portfolio;
- the microcredit organizations have begun to develop an organizational culture that supports future investments in marketing. But both customer service and internal communication are developed in an informal, unsystematic way; the systems that are transmitting and processing the information are not very much used in marketing;
- the human resources involved in marketing are usually the loan officers and general manager / credit manager, who are performing this activity along with the lending activity. There is no marketing department and no well-defined marketing strategy.

The development level of the microfinance market has a significant impact on the level of development of a marketing program in a microcredit organization.

Depending on its dynamics in time, the microcredit market in Romania can be divided into three segments: emerging markets (new markets or underdeveloped markets), developing markets (growing markets) and mature markets (developed markets). As the participation in the microfinance sector increases, both from the demand side (more customers, more diversified needs) and the supply side (several microfinance programs, many microcredit products), the markets evolve from one level to another.

Emerging markets (new markets or underdeveloped markets)

This category includes those geographical areas where there have been no microcredit programs or where, although they existed, they have not obtained favourable results. In these markets, potential customers have limited knowledge (even no knowledge at all) about financial services in general, as these products and services either have never been available or they were not fit to their real needs and possibilities. These emerging markets can be found both in rural areas (in small communes and villages) and in urban areas (various market niches among disadvantaged groups – unemployed, Roma population etc.). In many cases, these areas are isolated communities where the access and communicational infrastructure is underdeveloped. The economic opportunities often have an impact on the initial demand for financial services and on the speed with which the population adopts them.

The challenge for the microfinance institution wishing to enter such a market is to accurately assess the potential demand and then to develop a sustainable model to transform this potential demand into effective demand. This takes time and energy to understand customer needs and to develop (or improve) an appropriate lending methodology. Undeveloped markets are areas of interest for the international donors involved in social development projects. In these circumstances, microfinance companies accessing funds from the international market must develop innovative lending models to ensure the long-term sustainability of the program. In this case, the elements of the marketing mix that require special attention are those related to: distribution (what distribution systems are optimal in approaching these markets?, where must the local office be placed?); promotion (what communication channels must be chosen to inform potential consumers about the availability of products on the market?); personal (can current employees be used or should additional staff be hired to serve a new market?); processes (what changes are internal processes suffering by extending the work on a new market?); partnerships (how should the client be "educated" about the financial behaviour he/she must adopt and the financial discipline he/she must obey to). The other marketing mix elements relating to products, pricing and procedures can be reproduced from the experience already accumulated on other markets.

Developing markets (growing markets)

Developing markets can be found in rural areas (bigger communes) and small towns (<50,000 inhabitants) that have economic potential for development. These markets are characterized by an increasing demand for microcredit, which is and will be met by existing or future microfinance programs. This demand comes from existing customers and potential customers who have heard of the available microcredit products and see their effect on customers who have accessed them. In many cases, there is only one microcredit supplier operating in the area. The challenge in this situation is to develop appropriate internal systems to manage growth. Attracting customers is relatively easy and the lack of competitive environment offers these customers few options, so the microcredit organization has a high retention rate. As a developing market proves to be profitable, it gradually attracts the attention of other microfinance and credit institutions (banks). The introduction of a microcredit program in a growing market is relatively easy. The stages of market research and product development - which are difficult and expensive components - have already been made. The awareness of the products among customers is high, so new microfinance institutions would only have to simply reproduce the existing experience. The size of the population and the economic potential of the area play an important role in the market

growth rate. As the market matures and there is more competition between microcredit organizations, the clients portfolio growth rate decreases and customer retention becomes more difficult. On a developing market, the elements of the marketing mix that require attention are (3): promotion (on what elements must the communicational strategy be built and what communication channels should be used?); staff (what incentive must be used so that the staff is motivated to manage a growing demand?); processes (how can the internal processes be optimized, in particular those related to documents and information flow?); procedures (what are elements that can be optimized so that the customers are served very fast?); partnerships (is there a maximum customer satisfaction?). On developing markets, the microcredit organizations are not investing resources in developing new products, but in diversifying the existing range of products by improving the some attributes of existing products, often as a response to competitors' actions.

Mature markets (developed markets)

Mature markets (developed markets) are usually found in bigger cities (> 50,000 inhabitants). In a developed market, a higher percentage of potential demand has been transformed into effective demand, customers already being extensively using various financial services. Microfinance institution's efforts are focused now on keeping the clients and increasing the productive loan portfolio (disbursing bigger loans), taking care that this is done by keeping a high quality of the lending activity. Increased competition is a characteristic of mature markets. Many suppliers mean that customers have more options to choose from. At the same time, competitive forces put pressure on the price to be charged to customers (effective interest rate). In these conditions microfinance institutions must improve their operational efficiency. The marketing mix elements that deserve attention in this case are: product (what new products have to be developed to meet the customers' increasingly diversified needs?); price (what price strategy should be applied to ensure the maintenance of customer relationships?); promotion (what promotion techniques must be developed?; does the real image of the institution correspond to the desired one?); procedures (what procedures should accompany the new products?); personnel (how must the sales force be managed so as to avoid "downtime" in work and to motivate of employees?); partnerships (how to optimized customer service?).

The challenge to invest in marketing is given by an increasing competition on the market.

The development of the competitive environment often takes place in parallel with the market development. On emerging markets, competition is very low, often nonexistent. It increases on developing markets and is very strong on mature markets. Once competition becomes more intense, microcredit organizations feel the threatened that they might lose the market share they have, and they start to invest resources in marketing activities to help them maintain their market position. In urban areas (cities), the main competitors are other microfinance institutions. Also banks, with the consumer loans are major competitors. The rural market (small cities and towns/villages) is relatively divided geographically between microcredit organizations. Here, banks have just started to open small local offices.

In the effort to craft an effective marketing program, particular attention should be paid to develop a marketing information system and to manage the sales force.

Microcredit organizations that started to develop marketing programs have realized that they need financial, human and information resources to make them work. Loan officers being the first line contact with customers, their activity is critical for the success of the institution. However, as the organization develops, it feels more acutely the need to develop internal systems to streamline the flow of information throughout the institution. Small institutions are able to closely monitor customer behaviour through informal meetings or occasional discussions

between management and loan officers. Larger institutions with multiple branches in the territory and large portfolio of clients need formal information systems and a marketing department.

Most microfinance institutions in Romania haven't developed complex marketing programs to guide the marketing activities and resources in order to achieve the goals of the organization. The dominant practice is the reactive management.

So far, the marketing effort in microfinance institutions was a spin-off of specific market problems to which the institution has sought solutions (increased competition, pressure from customers etc.). There was no organized effort, able to anticipate problems that may later prove to be opportunities or threats to the institution. None of the institutions started its activity with an advanced marketing program, some of them have just entered into this phase, learning from experience.

V. Conclusions and Implications

In conclusion, it can be said that, having a limited institutional capacity, Romanian microcredit organizations began to develop marketing strategies and practices that other industries have been applying for a long time. The first step to design successful strategies is to realize and understand the value and strategic role that marketing is playing in developing the institution. Then, the challenge is to develop internal capabilities to successfully apply these techniques. Although marketing interventions should be considered important in all types of markets, the reality is that different types of markets require certain marketing activities. Table 1 shows the characteristics of the marketing mix elements, depending on the level of market development.

Table no. 1 Characteristics of marketing mix, depending on the degree of market development

Marketing mix	Emerging markets	Developing markets	Mature markets
Product	<ul style="list-style-type: none"> • Copying the products from on similar markets 	<ul style="list-style-type: none"> • Improving existing products 	<ul style="list-style-type: none"> • Developing new products
Price	<ul style="list-style-type: none"> • High price, in terms of a risk management policy (loans in small amounts) 	<ul style="list-style-type: none"> • Maintaining the price 	<ul style="list-style-type: none"> • Decreasing the price for repeated loans, as a strategy of customer relationship
Placement	<ul style="list-style-type: none"> • Developing innovative distribution systems 	<ul style="list-style-type: none"> • Keeping the existing distribution systems 	<ul style="list-style-type: none"> • Optimizing the distribution systems
Promotion	<ul style="list-style-type: none"> • Commercial promotion techniques with the purpose of informing 	<ul style="list-style-type: none"> • Commercial promotion techniques with the purpose of persuading • Corporative promotion techniques with the purpose of defining the organization's image 	<ul style="list-style-type: none"> • Commercial promotion techniques with the purpose of reminding • Corporative promotion techniques with the purpose of consolidating the organization's image
Personnel	<ul style="list-style-type: none"> • Recruiting and training the new and old staff / training the old staff 	<ul style="list-style-type: none"> • Stimulating and training 	<ul style="list-style-type: none"> • Stimulating and training
Procedures	<ul style="list-style-type: none"> • Coping the procedures existing on similar markets 	<ul style="list-style-type: none"> • Improving existing procedures 	<ul style="list-style-type: none"> • Keeping existing procedures / developing new procedures
Processes	<ul style="list-style-type: none"> • Developing the processes 	<ul style="list-style-type: none"> • Optimizing the processes 	<ul style="list-style-type: none"> • Keeping the processes
Partnerships	<ul style="list-style-type: none"> • Initiating the relationship and 	<ul style="list-style-type: none"> • Developing the relationship with the 	<ul style="list-style-type: none"> • Improving the relationship with the

	educating the client	client	client
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Source: developed by author

It is obvious that most marketing interventions are required on new markets and mature markets compared with developing markets. The type of marketing instruments needed by microfinance institutions in each of these types of markets depends on the maturity (level of development) of the institution, the importance that management is paying to a customer-oriented strategy and the availability of funds for lending.

VI. Notes

(1) Romanian microfinance institutions subjects of these marketing research are: ROMCOM IFN S.A. – Oradea, INTEGRA IFN S.A. – Oradea, Capa Finance IFN S.A. – Cluj Napoca, Opportunity Microcredit România IFN S.A. – Târgu Mureș, Centrul pentru Dezvoltare Economică – București, FAER IFN S.A. – Reghin, LAM IFN S.A. – Ilieni, MicroImo IFN S.A. – Cluj Napoca.

(2) National legislation does not allow microfinance companies to mobilize savings or other repayable funds from the public (except public “microcredit” funds provided by government agencies). In these circumstances, the financial resources of a microcredit organization consist of internal resources (own resources) and external resources (loans from the various national or international donors). Between 75% and 90% of total assets of mature Romanian microfinance institutions are financed with external resources – loans from international donors.

(3) The marketing mix proposed by the author in the field of microfinance services is adding particular elements (partnerships, procedures, processes, people) to the classical “4 P” elements of the marketing mix (product, price, placement, promotion).

VII. Bibliography

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