

Discussion Synthesis

How To Use Market Assessment Information To Design and Implement a BDS Market Development Program

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- Jigiyaso Ba Credit Union Federation (Mali)
- Mennonite Economic Development Associates—MEDA (Canada)
- PKPEK—Association for Community Economic Development and Study of Microenterprises (Indonesia)
 - Swisscontact (East Africa)
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September 2005

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The Practitioner Learning Program is funded by the Microenterprise Development Division of the United States Agency for International Development (USAID). The views of this paper do not necessarily represent those of The SEEP Network, USAID, the author, or any of the individual organizations that participated in the discussion. Rather, the views in this paper are a compilation of those presented during the discussion.

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The SEEP Practitioner Learning Program (PLP) in BDS Market Assessment, Discussion Synthesis #3,
How To Use Market Assessment Information To Design and Implement a BDS Market
Development Program

Printed in the United States of America

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PREFACE

This discussion synthesis, *How To Use Market Assessment Information To Design and Implement a Business Development Services Market Development Program*, is a product of the collaborative, learning-oriented forum that the SEEP Practitioner Learning Program (PLP) in Business Development Services (BDS) Market Assessment (MA) provides—in this case, a moderated, e-mail-based discussion to reflect critically on the question of how market information can inform the design and implementation of interventions to develop particular BDS and product markets.

This e-mail-based discussion was the culmination of a two-year learning process in which participating organizations planned and conducted market assessments and used the resulting information in piloting market development interventions, while sharing their challenges and lessons with PLP colleagues throughout the process. The e-mail-based discussion was invigorating and thought provoking, as the following pages illustrate. The discussion generated information and ideas that were of immediate use to the participants in piloting market development interventions. The discussion was also one of the critical last steps in enabling the PLP to address the learning agenda it had set out at its initiation—a set of questions that is relevant to individual programs in the PLP, cuts across these individual programs, and resonates with the wider BDS field.¹ The discussion assisted PLP participants in beginning to synthesize their journey of discovery by exploring and documenting experiments in conducting and using market assessments to design better programs and more targeted interventions that will develop sustainable BDS markets for microenterprises.

SEEP trusts that readers will find this particular part of the journey as invigorating and thought provoking as the discussion participants did. Other learning products from the SEEP PLP in BDS MA synthesize individual aspects of the participants' learning over the two-year program and are available at www.seepnetwork.org.

¹ See Annex I, Practitioner Learning Program in BDS Market Assessment Learning Agenda.

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ABBREVIATIONS & ACRONYMS

The following abbreviations and acronyms are identified here and are not defined again in the body of this paper.

BDS	business development services
ECDI	Entrepreneurship and Career Development Institute
EDA	EDA Rural Systems Pvt Ltd
IDE	International Development Enterprises
ITDG	Intermediate Technology Development Group
MA	market assessment
MEDA	Mennonite Economic Development Associates
NGO	nongovernmental organization
PKPEK	Association for Community Economic Development and Study of Microenterprises
PLP	Practitioner Learning Program
SE	micro, small-scale, and medium-scale enterprise
SEEP	The SEEP Network
TTO	Triple Trust Organisation

DEFINITIONS

These terms are defined as they were used in the discussion. The definitions may vary from those used in other publications.

business development services (BDS). Any non-financial service provided to businesses on a formal or informal basis.

BDS market. BDS providers and enterprises and the exchange of business services between them. This exchange may be formal or informal. It may include fee-based transactions for services and/or services provided as part of other commercial transactions.

BDS provider. A firm or institution that provides BDS directly to enterprises.

bundled services. Several business services provided together as part of a package. This package of services may be offered independently or as part of another commercial transaction; for example, a transaction between a wholesaler and a producer.

embedded services. Business services provided as part of another commercial transaction; for example, a trader provides market information and product design advice to a producer when the trader purchases the producer's products. Both the service provider and the service customer usually think of the services as a value-added feature of another product or as part of their business relationship.

facilitator. International or local institution, usually funded by governments or donors, that aims to expand and improve a particular market or markets for the benefit of specific target groups.

fee-based services. Services offered for a fee and that generally are independent of any other transaction; also called stand-alone services. Fee-based services usually are offered by a provider as one of its core products rather than as a value-added feature of another product or service.

market assessment. Market research and/or information gathering on markets and their context used to assist in program design, implementation, monitoring, and/or evaluation.

small enterprises (SEs). Micro, small-scale, and medium-scale enterprises. Although the definition includes enterprises with up to 200 employees, the organizations participating in the discussion were all targeting microenterprises with fewer than 10 employees, often in the informal sector.

stand-alone services. Services offered for a fee and generally independent of any other transaction; also called fee-based services. Stand-alone services usually are offered by a provider as one of its core products rather than as a value-added feature of another product or service.

Subsector. A network of related firms, which transform raw materials into finished products and transmit them through vertical supply channels to consumers, and the transactions among them.

value chain. An individual channel through which raw materials are transformed into finished products and transmitted to consumers; the enterprises in that channel and the transactions among enterprises and between enterprises and consumers in that channel.

INTRODUCTION

During August through December 2003, The SEEP Network's Practitioner Learning Program in Business Development Services Market Assessment (PLP in BDS MA) conducted its third e-mail-based, moderated discussion on the following topic:

How to use market assessment information to design and implement a BDS market development program.²

The aims of the discussion were to—

- Provide support (input, feedback, and ideas) to the participants as they use market information to develop and test BDS market development interventions; and
- Generate useful ideas for the field on how to use market assessment information to develop and implement BDS market development interventions.

The discussion is the culmination of two years of sharing experiences, lessons learned, and insights from planning a market assessment to the process of conducting a market assessment to piloting market development interventions. This discussion explores how to use market information to develop strategies to achieve the following objectives:

- Attract commercial BDS providers;
- Stimulate demand for business services;
- Develop attractive pricing and payment options for business services; and
- Evaluate the results of a pilot test for a new business service.

The following organizations participated in the discussion:³

- EDA Rural Systems Pvt Ltd (India)
- Entrepreneurship and Career Development Institute— ECDI (Pakistan)
- Intermediate Technology Development Group— ITDG (Kenya and the United Kingdom)
- International Development Enterprises— IDE (Bangladesh, India, Nepal, and the United States)
- Jigiyaso Ba Credit Union Federation (Mali)
- Mennonite Economic Development Associates— MEDA (Canada)
- PKPEK—Association for Community Economic Development and Study of Microenterprises (Indonesia)

² PLP in BDS Market Assessment Discussion Synthesis #1, "Building a Team for Market Assessment and Key Issues to Consider when Starting BDS Market Assessment," and PLP in BDS Market Assessment Discussion Synthesis #2, "Assessing BDS Demand and Supply in Weak or Limited Markets," are available at www.seepnetwork.org.

³ See Annex II, Summary of Participants' Programs, for a brief description of the participating organizations' programs under the PLP in BDS MA.

- Swisscontact (East Africa)
- Triple Trust Organisation— TTO (South Africa)
- World Education (South Africa and the United States)

The discussion was participant led. For each discussion theme, several participating organizations developed questions based on the issues they were struggling with in their own work and posed these questions to the group. The following questions were posed and discussed:

1. How can market assessment information be used to attract commercial BDS providers?
2. When is it appropriate for intervening organizations to share financial risk with BDS providers, and to what extent should they do this?
3. How can organizations stimulate demand for BDS in weak markets among marginal microentrepreneurs?
4. How can facilitators promote commercial service provision in the context of free services provided by the government and NGOs?
5. When providers work with the poor, how can they collect the full price of services?
6. What participatory strategies can facilitators use to develop appropriate prices and payment mechanisms for services?
7. How can organizations measure the success of a new business service after the pilot phase?
8. What are the greatest challenges in using market assessment for program design, and what are strategies and/or tools to overcome them?

Each of the discussion issues in the *How To Use Market Assessment Information To Design and Implement a BDS Market Development Program* is synthesized in the following sections.

1) How can market assessment information be used to attract commercial BDS providers?

For many projects, particularly those working in weak markets, one key challenge is attracting commercial BDS providers to work with the project. The aim is to persuade new commercial providers to enter the market or existing commercial providers to diversify their markets to serve new clients. In the case of embedded services, projects often aim to persuade businesses to offer or improve services to their suppliers, buyers, or subcontractors. Based on findings in their market assessments, the strategies and methods that the discussion participants developed to meet these goals are the following:

- Identify potential commercial providers;
- Build awareness of market opportunities;
- Assist providers with developing viable business models and plans;
- Assist providers with product development and promotion; and
- Create demand in the market.

Identify potential commercial providers

In weak markets, organizations sometimes find that no viable existing providers are available for a particular type of service. In this situation, the first challenge is to identify potential commercial providers. Discussion participants found the following strategies useful for identifying potential BDS providers.

Identify potential providers in value chains. Several discussion participants identified potential commercial providers among the market players in the particular subsector they were targeting. Market assessment interviews provided information about market players with the capacity and interest to diversify into service provision in the subsector in which they already worked. For example:

- To promote training and technical assistance in the leather subsector of Rajasthan, EDA identified “master artisans,” producers in the subsector who are well respected for their technical skills and their ability to teach others.

Identify potential providers outside the market. Identifying providers outside the market may alleviate the issue of an existing provider’s reluctance to share its business ideas and innovations. Two examples follow.

- MEDA discovered that some noncommercial providers (NGOs and/or their staff) who provide services to women microentrepreneurs are interested in becoming commercial providers.
- EDA encouraged a Jaipur-based design organization, Indian Institute for Craft and Design (IICD), to develop a design bank for new leather sandal designs. IICD started selling designs to producers directly through other service providers, such as trainers, or other market players, such as traders.

Build awareness of market opportunities

After existing or potential commercial providers are identified, the facilitating organization must persuade them that a market opportunity exists to serve particular business customers. The following strategies were found to be useful for building awareness of market opportunities.

Share market assessment findings with targeted providers. Why do providers not enter new markets on their own? Often providers or potential providers focus on their day-to-day operations and have limited time or capacity for strategic decisions. Facilitators can assist in developing a BDS market by showing providers the demand in the market.

Specifically, facilitators can highlight the percentage of potential customers who expressed interest in the service, provide an estimation of potential revenues, and describe the various features customers expect from the service, including modes of payments for services and delivery mechanisms. Facilitators can use a variety of forums for encouraging businesses to invest in service provision, including workshops, seminars, one-to-one discussions, association meetings, and trade publications. Two examples follow.

- PKPEK held a seminar for BDS providers to share the results of their market research.
- ITDG conducted research on high-volume buyers that highlighted the opportunities and barriers that potential network brokers who source from small enterprises and sell to large buyers must address to be attractive suppliers. They plan to share this research with potential network brokers through workshops, trade publications, and the media.

Assist providers in seeing beyond their own stereotypes of poor SEs. Often providers do not believe that micro or small-scale enterprises can be good customers. Market assessment data can show that SEs purchase services and are willing and able to pay for services that benefit them.

Involve BDS providers in the market assessment process by having them perform their own market assessments under supervision. This strategy encourages BDS providers to be committed to entering the market. Two examples follow.

- PKPEK used subsector analysis to educate BDS providers about underserved markets. PKPEK then trained the BDS suppliers on how to conduct an MA and supervised their research.
- ITDG developed a tool for network brokers to use to identify which BDS are needed among SEs. They plan to test this tool through an actual trial.

Educate providers on the benefits of commercialized BDS. Embedded service providers may not realize that they offer services. They may not have consciously thought about improving their services or offering them on a larger scale. For example:

- In Mali, World Education and Jigiyaso Ba found that some providers offering embedded services do not consciously realize that they are in the BDS market. They tend to think of their information services as free bonuses that are useful in maintaining client loyalty. World Education and Jigiyaso Ba plan to design their project around the way providers conceptualize their services and the market opportunities that product sales with embedded service provisions present.

Assist providers with developing viable business models and plans

Providers will not enter a new market unless they are reasonably confident that they will make money. Market information can provide much of the data needed to analyze the viability of a new business model or serving a new consumer segment. The discussion participants found that market information was useful, and in many cases essential, to assist providers in developing viable business models and a business plan. Two examples follow.

- MEDA performed a cost analysis to assist new commercial providers with budgets and cash flow projections, which reduced the risk to all players and set realistic expectations with clear work targets.
- In the Tanzanian metal sector, Swisscontact shared the risk and costs of building capacity for service delivery and service promotion. Participating providers prepared a business plan that stipulated their outreach targets, expected income and profit, and contribution to capacity building and promotion costs.

When considering which business models might work for the delivery of a particular service, the facilitating organization needs to think broadly and build on existing businesses, business models, or business relationships. The participants offered the following examples of business models that might be viable in different circumstances.

- Independent small service providers
- Bigger service businesses subcontracting to small, independent providers
- Existing service businesses extending their services to new types of customers
- Franchises
- Business linkages with embedded services
- Previously noncommercial BDS providers, such as vocational training institutions, government parastatals, and NGOs entering the commercial market

Several participants found it useful to conceptualize several different business models for service delivery and then suggest their ideas to potential providers. The feedback assisted facilitators in determining which model(s) might work best.

Assist providers with product development and promotion

Even when providers are willing to enter a new market, they may not have sufficient capacity. In particular, providers often need assistance with developing appropriate service products for new types of customers, designing workable payment mechanisms, and promoting their services to new customers. Two examples follow.

- PKPEK provides financial incentives at the new service testing stage and training in marketing to BDS providers who have conceptualized new services and are testing them in the market.
- MEDA also plans to train BDS providers in marketing and other business skills to assist them with entering new markets.

Create demand in the market

No amount of persuasion will attract commercial BDS providers if no demonstrable demand exists for the service. Indeed, if providers do not see early revenues, they will quickly drop out of the market. Particularly for new or unfamiliar services, demand creation is an essential part of attracting commercial service providers to the market. Discussion participants mentioned service demonstrations and sales agents as two useful strategies for stimulating demand. A more detailed discussion of demand stimulation is included in Section 3.

Example: Using village agents to create demand for BDS services

In its intervention in the leather sandal market, EDA identified village agents to sell training services to producers in rural villages on behalf of the trainers (service providers). The agents receive a commission from the trainers and eventually may be able to start their own training services based on what they learn from the trainer.

For their microirrigation promotion, IDE India worked with private dealers who sell treadle pumps and associated services to farmers. Private dealers have rural agents who remain in remote villages and generate orders for treadle pumps on sales commissions from the dealer. This practice assists in extending the outreach of services and increasing the volume of sales. Two ways to implement this system are to use potential new agents who do not have any other business or identify potential service agents who are already offering bundled services in rural areas.

Discussion participants emphasized that providing market information does not always attract commercial BDS providers right away. Persuading commercial BDS providers to enter new markets is an iterative process that requires patience. The speed at which new providers enter the market often depends on the developmental stage of the BDS market.

2) When is it appropriate for intervening organizations to share financial risk with BDS providers, and to what extent should they do this?

To help induce commercial BDS providers to enter new markets, facilitating organizations can share the financial risk with providers. Because sharing MA information alone often is not sufficient to attract BDS providers, sharing providers' financial costs for entering a new market may be an essential part of developing the supply of services.

When is sharing financial risk appropriate?

Discussion participants believed facilitators should share financial risk only when the market development effects would outweigh the market distortion effects. Facilitators should analyze the potential impact of risk sharing on the market. Will risk sharing distort the BDS market, limiting the entry of potential providers, or expand the market, facilitating the entry of other providers in the market? Discussion participants cited several circumstances when commercial providers may be reluctant to shoulder the full financial investment and risk of entering a new market. In the following situations, sharing financial risks is likely to be both essential and beneficial:

- When no or very few existing providers are in the market;
- When developing new services;
- In very weak markets; and
- In markets with subsidized providers.

To what extent should facilitators share risks?

Considerable debate occurred among the participants concerning the appropriate level and type of financial risk sharing. Sharing the risk will be an incentive to the providers. Is it wise, however, to reduce the risk too much? After all, commercial providers must be entrepreneurial. Examples of risk sharing that discussion participants tested follow.

- MEDA and ECDI provide support through training, introductions, and mentoring, but do not plan to provide credit or financial risk sharing.
- ITDG is considering a financial safety net for providers. Under this arrangement, ITDG would provide a "performance guarantee fund" that would protect a buyer if an order from SEs falls through.
- EDA has found that providing carefully targeted capacity building for providers assists in mitigating the risk of entering a weak market. EDA analyzes the capacity of providers against what the market expects and assists providers with developing the skills to bridge the gap.
- Swisscontact in Tanzania provides financial risk sharing but requires providers to adhere to an agreed-to business plan with financial and outreach targets.

Debate also arose concerning the number of service providers with which a facilitator should work. One discussion participant advocated cost sharing with one or two service providers, with preference for providers with multiple services. The facilitator works closely with these providers and ensures that SEs use the service and receive the business benefits. These SEs, if satisfied, will motivate others to buy the services. Other participants advocated working with more providers but less intensely on the basis that the market, not the facilitator, should pick winners. Some participants acknowledged that the decision may be one of practicality rather than theory—it depends on how many providers can be motivated to enter the market.

3) How can organizations stimulate demand for BDS in weak markets among marginal microentrepreneurs?

In weak markets in which the discussion participants work, many entrepreneurs have had little experience with purchasing BDS. In these cases, demand stimulation is an essential part of developing BDS markets. In fact, demand stimulation is becoming an increasingly accepted and important part of many BDS market development projects.

Strategies for stimulating demand

Participants discussed the following strategies to stimulate demand for services, particularly among microentrepreneurs and in weak market situations, such as remote rural areas.

Provide direct stimulation. A facilitating organization can employ a number of strategies to directly stimulate demand for services. For example, facilitators can meet with groups of SEs to explain the benefits of services or conduct demonstrations of the services. They can also use vouchers as a direct stimulation strategy. The idea is to illustrate to “first-time users” their need for the services and encourage them to purchase the service at full cost in the future. One discussion participant, however, urged caution in the use of vouchers: if they are not well targeted and closely monitored, they can result in low-demand stimulation and an even weaker market.

Assist BDS providers with their initial promotion. Facilitators can provide technical and/or financial assistance for providers’ initial promotion costs for new services or new markets. For example:

- EDA worked with new technical trainers to develop brochures about their services for distribution to producers in villages and rural markets. The brochures detailed the different training services, the likely benefits of the training to the producers, and the potential impact on their businesses and income. In addition, EDA plans to encourage service providers to give short demonstrations of their services and display trainees’ products.

Assist BDS providers with improving their products and marketing. As discussed in Section 1, capacity building in new product development and marketing is often an important part of supply-side development. It is also a strategy for stimulating demand. For example:

- MEDA and ECDI held three two-day marketing workshops for BDS providers that included modules on market assessment, service identification and delivery, and the four Ps of marketing (price, place, promotion, and package). Their interaction with participants assisted MEDA and ECDI with pinpointing other areas for capacity building.

Improve the level of interaction between SEs and BDS providers. Increased interaction with BDS providers can sometimes encourage SEs to purchase BDS. A facilitator can organize events that enable providers and potential SE customers to meet, for example, fairs, meetings, and technical clinics. Two examples follow.

- In Mali, World Education and Jigiyaso Ba organize “market meetings” with SEs and other market players in their value chains who provide embedded services. The meetings are designed to build stronger relationships and encourage increased service provision. World Education and Jigiyaso Ba have found that the market women have a strong “groupthink” mentality. The organizations believe that if they

can convince one of the leaders of the women to purchase particular services or strengthen market relationships, the whole group will follow.

- Swisscontact organized a fair with 12 BDS providers and the small enterprises operating in the same geographical area. It used direct mail and posters to advertise the event and trained the providers on how to promote themselves during the fair.

Introduce links between BDS providers and potential users. Providers who are unfamiliar to SE communities may have difficulty promoting their services directly. A facilitator can assist with developing links between communities of SEs and providers through commercially motivated business relationships. These links can also assist providers with increasing their outreach or penetrating new markets. For example:

- EDA encourages training providers to have agents (who have already taken the training) working on commission in different villages to promote the services among potential users.

Choosing appropriate strategies

Choosing the appropriate demand stimulation tools for particular market situations is challenging. Discussion participants debated the best strategic options and conditions to stimulate demand for BDS. Although some participants believed that a facilitator should concentrate on one strategy, others thought that sequencing or combining the strategies would be more effective. The participants thought that one strategy might work well in one situation but may not work well in another similar situation because, for example, of cultural differences and the response levels of the service providers and service users.

The adoption of one strategy over the others or their combination will depend on a variety of factors including the following:

- Structure of the existing BDS market;
- Level of commercialization of service provision;
- Awareness levels of service users and service providers about the particular business services;
- Context of the business sector targeted;
- Business models and capabilities of BDS providers; and
- Facilitator's strategy for working with BDS providers.

Participants also debated the most effective sequencing of demand stimulation interventions. One participant advocated that the facilitator should work intensively with just two providers who offer a variety of business services. When these providers begin to succeed, competing BDS providers will become interested in the market. Next, the facilitator can hold forums so providers can target groups of SEs with bundles of BDS. The SE group members can share the costs of the BDS. This resolves the SEs' financial limitations and lack of services awareness. Another participant advocated that the facilitator should first stimulate demand broadly and then improve the level of interaction between SEs and BDS providers. The experiences of other participants are described in the following examples.

- In Indonesia, PKPEK provides direct stimulation by offering incentives to the SEs to purchase BDS and improving the level of interaction between SEs and BDS providers. PKPEK offers financial incentives to SEs to purchase BDS products by providing vouchers to SEs with limited purchasing capacity and establishing group purchase schemes. PKPEK connects SEs and BDS providers by designing joint activities and having the BDS providers live in the community to do action research and reflect on their products.

- In South Africa, TTO has used two approaches. First, it directly stimulated the market by introducing SEs to specific BDS in focus group discussions. TTO presented the SEs with “what if” scenarios—“what if” a service was available that could address a specific business problem previously identified through TTO’s market research. Next, it facilitated the initial promotion of BDS providers by offering to pay part of the service fee and having the SEs pay the balance.
- ITDG Kenya has found that partially funding the initial purchases of BDS rarely works and is unsustainable. Its experience indicates that after the facilitator funds the initial promotion and he or she pulls out, the SEs also withdraw.

4) How can facilitators promote commercial service provision in the context of free services provided by the government and NGOs?

In some BDS markets, government agencies and/or NGOs are already providing free or subsidized services. This situation presents a significant challenge to facilitators aiming to develop commercial BDS markets.

Strategies for differentiating commercial services from subsidized services

Discussion participants agreed that to develop a sustainable commercial market for BDS alongside subsidized BDS, the following two conditions, at a minimum, must be met:

1. Commercial services must offer something different, better, or beyond what subsidized services offer; and
2. SEs must be aware of what these added benefits from commercial services are.

The participants suggested the following methods to meet these conditions.

Develop unique selling features of a commercial service by understanding the clients’ needs and the gaps in the subsidized services. For example, ITDG in Kenya capitalized on the slow response of government veterinarian services to stimulate demand for faster, more expensive, commercial services.

Assist providers with customizing services. Free services tend to be standardized services. Commercial providers can attract customers even in subsidized markets by offering customized, appropriate, and attractive services based on what the market wants.

Add new features to the standard service to differentiate it from subsidized services. For example, SEs often value convenient payment mechanisms, doorstep or community-based delivery methods, after-hours services, and follow-up consultations.

Enable BDS providers to address SEs’ problems that are not addressed by existing subsidized services. For example, MEDA and EDCI identified significant problems in the product design and quality of SEs’ products. Subsidized service providers were not addressing these problems. MEDA and EDCI are developing linkages between SE producers and top designers in the country through intermediaries.

Teach commercial providers how to promote their services. The commercial providers need to learn to promote their services and the resulting benefits so that SEs can clearly see why they should pay for their

services even when they can get something for free. Customer testimonials are an excellent way to promote a service. When customers describe the concrete benefits they gained from a service, other SEs are more likely to listen.

The roles of public and private actors in service provision

Within the context of BDS markets, discussion participants debated the definitions of public and private goods. A few participants cited the traditional economic definition of public and private goods, while others provided viewpoints related to defining goods in relation to the following:

- Their consumption;
- The efficiency of the sector;
- The ability of the sector to differentiate between the two goods; and
- The element of subsidy in the market.

They also discussed how the vague delineation between public and private goods affects the roles of public and private actors in service provision. In their experience, the participants believe that confusion can exist over the definitions and roles among donors, practitioners, and governments. Specifically, the participants believe that clear guidelines on the differences between public and private goods will assist in clarifying the different roles of private and public providers. The participants believe that through clear delineation of roles, competition between subsidized and non-subsidized services would be reduced, and markets could develop accordingly.

Some participants, however, thought the issue concerns not a flexible definition of public or private goods but whether the public sector should get involved in the provision of services. Debate among various donors who have their own definitions and understanding of the terms and roles has been ongoing. In practice, the definitions can vary with the country's context. Two examples follow.

- In Pakistan, overlap exists between the roles and services provided by public and private actors. Several government programs are beginning to commercialize services, some at market rates, while other programs, even those offering the same services, remain free. Many commercial organizations provide several embedded services, such as counseling and linkages, for free. Public goods can also be provided by noncommercial NGOs that provide fully subsidized services.
- In Mali, the government plays a very small role in BDS for small traders, such as market women, in the informal sector. NGOs play a huge role, however, and consider their services to be oriented toward public goods. Thus, Jigiyaso Ba's major competitors in terms of pricing and types of business services are NGOs. But the MA shows that SEs believe NGO services are not of an especially high quality nor are the services offered at convenient times or locations for SEs.

The participants suggested educating the various actors (SEs, BDS providers, and government/NGOs) about their appropriate roles in a sustainable market as a possible solution. In Indonesia, PKPEK works with commercial providers to target the SE market by creating improved, more beneficial services for SEs. In addition, PKPEK educates SEs about the benefits of commercial services and explains to them the limitations of subsidized services. PKPEK advocates for the government and NGOs to focus on creating a positive business environment, rationalizing the use of subsidies, and supporting rather than competing with commercialized service provision. PKPEK promotes intermediate measures for government, such as focusing only on high-cost services with a long return period and offering smaller subsidies or services on "soft loans" rather than providing them for free.

5) When providers work with the poor, how can they collect the full price of services?

One challenge in convincing providers that the poor are a viable market involves the ability of providers to mitigate the risk of not getting paid in full. Discussion participants identified several different strategies depending on the context and cultural norms. The following strategies focus on the providers' understanding of the preferences and limitations of the microentrepreneurs.

Use installments so clients pay a predetermined fee every week/month. For example:

- In EDA's program, the training service providers recover the full costs over the training duration in multiple installments, reducing the potential risk of default while providing flexibility and letting the client know the quality of the service before making full payment.

Collect a commission on products sold by the client to recover costs. Low-income SEs can sell their products through a middleman. The middleman links them to BDS providers and pays for the providers' services through the markup on the SEs' products.

Embed the cost of the services into fees for services or products that clients are known to value. Special attention should be given to appropriate packaging/bundling of several services together or services with products. Two examples follow.

- In Pakistan, women sales agents offer a free embedded package of services (design, inputs, and quality control) to underserved women embroiderers. The sales agents cover the costs of these services through markups on the cost of the products and pay the SEs for their embroidering time.
- TTO found that small retail shop owners are happy to pay for tangible products but are less willing to pay for intangible services. Therefore, in their pilot business linkage project to deliver bread to the shops, the delivery fee is included in the cost of the bread.

How can default payments be avoided?

- The provider can offer the service over the same time period as the payments.
- The provider and the client should determine the installments together by assessing the client's capacity to pay.
- The provider must ensure high-quality services resulting in concrete benefits for the client.
- The provider and the client should develop a trusting relationship. Full cost recovery can also depend on the strength of the existing relationship between the provider and the client. When a trusting relationship exists, greater flexibility in the payment schedule may be possible.
- The provider must monitor payments and follow up with the client.

Educate BDS providers on cost analysis to promote fair and consistent pricing. For example:

- MEDA and ECDI are educating BDS providers on costing and pricing. This assists the providers in being firm with their prices and treats all buyers equally, creating a trusting and fair environment.

Keep the price of the service within the affordability limits of the clients. The MA can provide information on the price range of the services that the clients can afford.

Clearly link the services to increased profits for SEs. The most obvious way to make this link is to associate services with market access. After a service provider has experience with how much his or her service can increase profits, he or she could guarantee the service. For example, the service provider could guarantee that the service would increase profits by 100 percent. For example:

- In India, handicraft artisans paid full price for product design/development workshops from an artisans' association because the association purchased and marketed their products and the SEs had a strong and sustained relationship with the association. The benefits of the service in terms of increased market access and higher product prices were clear to the SEs, and the SEs were allowed to make workshop payments on an installment basis.

6) What participatory strategies can facilitators use to develop appropriate prices and payment mechanisms for services?

After completing the market assessment and identifying appropriate service providers, the facilitator faces another major challenge in developing the market: pricing services in a manner that is agreeable to both the provider and client. In an environment in which BDS may not be recognized as valuable or worth paying for, the facilitator has the added challenge of working with both parties to price services in a transparent method. In their discussion, participants offered suggestions for working with the providers and SEs to develop appropriate prices and payment mechanisms. The first section below focuses on specific factors related to developing pricing and payment mechanisms. The second section discusses using value chain analysis as a method for developing appropriate pricing.

Develop pricing and payment mechanisms

According to discussion participants, when developing pricing and payment mechanisms, the following factors should be taken into consideration:

- The quality of the relationship between the SE and the provider,
- The competitiveness of the market, and
- The level of understanding of the market players.

The participants found that appropriate payment mechanisms depend on the situation and type of relationship between the SEs and providers. In general, long-term relationships between SEs and BDS providers tend to promote a variety of payment options. IDE found that a range of payment options exists in the pineapple market in Orissa because SEs and middlemen meet regularly at weekly markets and develop sustained relationships. The payment arrangements are based purely on trust, relationships, and the volume of business.

In addition to learning about the strength of the relationship between the provider and SE, participants found that prices tend to favor SEs more as service markets become more competitive and when SEs have bargaining power. Therefore, facilitators can aim to develop competitive markets over the long term in which SEs have bargaining power equal to the service providers and middlemen. Two examples follow.

- IDE India found that SEs and middlemen conduct transactions weekly at markets. Even though some middlemen exploit the SEs through unfair pricing, others have developed strong relationships over time. Through self-help groups, the SEs are learning the techniques of bargaining and how to look for alternatives to the middlemen.
- World Education found that in competitive markets, traders and other market players who offer embedded services are interested in pricing fairly to keep present clients and obtain more clients. They found that competition among the providers can result in fair practices that can improve the trust between them and the SEs.

To strengthen relationships between providers and SEs, participants suggest training providers to enable them to undertake costing and pricing of services in a professional manner. To strengthen SEs' bargaining power, they suggest raising SEs' awareness of how to analyze the prices of services. Upgrading the skills and understanding of the market players will avoid an artificial "incubation" of the services market by market facilitators that may result in market distortion and market failure.

Use value chain analysis to develop service prices

Several participants have used value chain analysis as a methodology for developing service prices. This section discusses the challenges mentioned in the previous section in the context of analyzing the needs of each market player when developing service prices. The discussion showed that developing pricing and payment mechanisms in BDS markets should not be a separate intervention but should instead be integrated into demand stimulation and supply development interventions.

On the demand side, facilitators may need to realize the following objectives:

- Lessen SEs' distrust of middlemen and service providers,
- Increase SEs' understanding of how services add value to products, and
- Promote a culture of payment for intangible services.

On the supply side, facilitators may need to realize the following objectives:

- Increase BDS providers' capacities to price services logically, fairly, and consistently;
- Explain to SEs how services are priced to increase trust; and
- Develop payment options with input from client SEs.

Using a value chain framework can help, providing the provider and client both clearly understand the value addition of services and the techniques of costing. ITDG has found that SEs value only services that are linked to market access. It found that SEs do not mind sharing profits with providers as long as the provider has played the lead role in obtaining a particular order. If the SEs got the order themselves, they will avoid paying a provider or getting a service at all, even if this means not meeting an order. Another participant suggested that if other market players in the value chain derive a benefit from the BDS—for example, middlemen—they should also be included in the pricing discussions.

On the other hand, a value chain framework may not be successful with stand-alone services that serve many subsectors because the interests of the provider and SE are not always the same. One way to increase success is to educate SEs about the value of the contribution of service providers. In addition, empowering and educating SEs can lead to solid agreements on pricing and payment between SEs and providers without having SEs think that they are being exploited. Two examples follow:

- ITDG has found cases in which SEs were reluctant to follow through on an agreement with providers to cover the costs of services through profits when the SEs realized the providers' share of profits was large. ITDG believes this reaction reflects the attitude of SEs that providers "reap what they have not sown."
- World Education found that even in competitive markets in which providers are pricing fairly, it can take time for SEs to trust providers and recognize their contributions.

For SEs to be comfortable paying for services, some transparency on how those services are priced must exist. Value chain workshops can assist with developing this transparency. TTO will expose spaza shop owners to costing and pricing through workshops conducted by service providers followed by personalized individual meetings. The participants also suggested that role playing with the service provider and the SE (including role reversals) can assist in educating both parties on their individual needs and concerns about pricing.

Furthermore, SEs and providers can discuss long-term benefits from the service. Some services, such as training and design inputs, provide benefits that are realized over a long period of time versus one or two transactions. For example:

- EDA found that focusing on long-term benefits resulted in mutually acceptable prices for training and product design services for SEs.

Value chain analysis can also provide the basis for risk sharing. When a risk is involved with service provision, the service provider and SEs, ideally, can share this risk. For example:

- PKPEK assisted a service provider who purchases wood in bulk for furniture makers by setting up a cost sharing for the price difference. The difference in the price of the wood between the bulk purchase price and the regular market price is split between the service provider and the SEs.

Providing Education on Pricing and Payment: MEDA and ECDI BDS Provider-SE Workshops in Pakistan

MEDA and ECDI in Pakistan have conducted workshops for BDS providers (for example, sales agents who offer embedded services, government agencies, NGOs) and SEs. At the workshops, MEDA and ECDI present value chain diagrams and costing analyses illustrating to SEs and providers the costs they need to consider in their pricing and the costs that others in the value chain have to take into account for the value chain to work and the products to reach final markets. This presentation has assisted providers and SEs with calculating fair costs for their products or services.

The existing commercial providers, usually sales agents, offer market access, inputs, designs, and quality control as an embedded service package to embroiderers. Not many commercial providers exist, and they tend to work for a very limited clientele. Commercial providers and embroiderers are interested in the program because they want to access more lucrative markets, and they are aware that they need improved designs and more effective market channels. In their market development, MEDA and ECDI will replicate the embedded service package, with support for accessing high-value urban markets. For providers wanting to access new designs, this may be a fee-based service.

7) How can organizations measure the success of a new business service after the pilot phase?

Assessing the success of new or improved business services is crucial to the effectiveness of projects. How does a facilitator know to what extent a new service has generated profits for providers, benefited clients, and assisted with developing an overall BDS market? The facilitator can play an important role in gathering information on the impact of a service and providing feedback and suggestions for improvement to the providers. Although participants agreed that quantitative data may be difficult to gather, they identified several strategies for evaluating a pilot business service.

Gather feedback. Meet with SEs, providers, and other partners (for example, other subsector players or NGOs) to gather information on their experiences with the service. One strategy is to conduct a workshop with different market players and with the facilitator serving as moderator. The information gathered can be used to develop ways to improve the service and its features.

Analyze providers' bookkeeping records. An analysis of sales volumes, frequency of transactions, and repeat sales can provide information about the profitability of the service. Repeat sales indicate client satisfaction.

Analyze changes in the market. For example:

- ITDG found that in the absence of formal records, the profitability of a new business service can be assessed based on the trend of the market demand for the SEs' products vis-à-vis BDS offered to the SEs.

8) What are the greatest challenges in using market assessment for program design, and what are strategies and/or tools to overcome them?

In reflecting on their experience with using a market assessment to design a pilot program, participants discussed the greatest challenges they faced and their methods for overcoming them. Although each organization faced its own specific challenges, all organizations faced several similar challenges. Several organizations offer their solutions to the obstacles listed below.

Lack of understanding about BDS in markets. In markets with weak supply and demand, entrepreneurs and providers often fail to recognize the existence and roles of BDS services. For example:

- Swisscontact's market assessment indicated that entrepreneurs do not recognize the opportunity for improved products through the use of stand-alone services. Rather, they perceive stand-alone services as last resort solutions to problems they cannot fix themselves. Unless a problem is clearly related to an external constraint, SEs tend to first try to address the problem themselves before they turn to BDS.

The degree of this "self-help factor" is difficult to establish; however, if this factor is ignored, an MA can produce largely overestimated demand.

The participants debated whether organizations, when working with the poor, should focus only on embedded services or on both embedded and stand-alone services. One participant believes that embedded and stand-alone services are fundamentally different and that the best strategy for introducing or enhancing BDS for poor SEs is to improve embedded services.

Identifying and gathering sufficient information on service providers. Several organizations had difficulty gathering sufficient information on existing or potential BDS providers. They were faced with several challenges when trying to design a pilot program. Three examples follow.

- ITDG conducted its market assessment on the demand for “theoretical” service providers—intermediaries between SEs and high-value buyers. Its objective was to reduce the actual and perceived risks to market entry for market intermediaries. Without actual providers to analyze, however, ITDG used its own interpretations from the research, which could have been misleading. They used case studies of actual providers to address the situation.
- Swisscontact tried to assess increased demand for BDS at a BDS fair where providers and SEs had a chance to interact. Its lack of market information on providers, however, prevented the organization from finding providers to meet all the SEs’ demands. Some providers want to pursue the idea of a directory of service providers and offer it as a product to SEs.
- PKPEK had trouble identifying and convincing BDS providers to work with SEs because the providers perceive the SE market to be too risky and complex. Depending on its success with a limited number of providers, PKPEK will try to replicate the program design in other communities.

Incomplete Information. After completing their market assessments and designing pilot programs, several organizations found gaps in their research. Two participants developed strategies to obtain the needed information, however, without abandoning or derailing the project. These two examples follow.

- MEDA and ECDI had a backup plan to gather missing information after the main MA. They planned to conduct follow-up qualitative research with a subset of the MA respondents after program piloting began. They held workshops with MA respondents and local facilitators, whom they could contact afterward to collect more information if needed.
- After an outside firm completed a market survey, TTO conducted additional information gathering to fill information gaps on the demand for and supply of particular business services and solutions to spaza owners’ problems.

Creating a culture and practice of purchasing services among poor entrepreneurs. The facilitator and/or service providers can stimulate demand by assisting in changing the culture of SEs. Changing this culture requires interventions on both the demand and supply sides of the market. On the demand side, the facilitator can increase awareness about the availability, benefit, and impact of services among the targeted entrepreneurs. On the supply side, the facilitator can develop the quality of services and ensure that SEs gain financial benefits from using services.

Balancing market assessment and action. Striking a balance between investing time and money to get the program design “right” and the need to start trying things out is important because challenges and issues that the research cannot predict will crop up. Participants expressed the importance of gathering sufficient market information before designing interventions. For example, TTO found gaps in its knowledge after the initial market assessment and had to formulate new questions, research methods, and tools to bridge the gaps. The extra assessment has enabled TTO to better meet the needs of the spaza market. But participants also expressed the importance of not getting stuck in “paralysis by analysis.” Some participants believe in an incremental approach to market assessment, remaining flexible to go back and forth, learning from their experience, and responding to the changing realities of the market. For example, IDE tends to conduct a basic market assessment on both a subsector and related BDS markets. Then, it begins interventions while continuing to gather information.

Concluding Thoughts from the PLP Facilitator

This discussion highlights the participants' transition from a focus on information to a focus on action. Several lessons learned stand out as common and critical to making this transition.

- **Educate market players.** The PLP participants found that market players—BDS providers and SEs—lack information about market opportunities in product and BDS markets and lack understanding about the role that BDS can play in assisting them with earning more. Indeed, a lack of information is a common characteristic of weak markets. A critical role that a facilitator can play is educating market players about market opportunities and the potential benefits of BDS. Sharing market assessment results with market players is also a useful strategy for bridging the gap between information gathering and pilot interventions.
- **Stay flexible.** None of the PLP participants anticipated all their information requirements at the outset or predicted all the challenges they would face as they initiated pilot interventions. In retrospect, they realize that developing perfect research questions when planning an MA or a perfect program design before piloting is not possible. Planning for flexibility—for example, to gather additional data or change pilot strategies—is more important for developing effective programs than trying to anticipate all requirements at the outset. Markets change, better understanding leads to new questions, and well-planned strategies may fail. Market assessments are most useful when they can be modified to meet program designers' emerging information needs. Market development programs are most effective when they are responsive to market changes and program managers' learning.
- **Pilot interventions early.** Although participants all recognize that having a reasonable understanding of markets is a prerequisite to designing useful pilot interventions, they also believe that waiting too long to act is a mistake. In fact, most participants are in favor of overlapping market assessment with pilot interventions. Some aspects of markets can be understood only after piloting starts and commencing interventions highlights information gaps. An effective program pilot is an iterative process in which a facilitator tries an intervention on a small scale, learns from the intervention, gathers more information, and adjusts the intervention.

This discussion was one of the last steps in the PLP in BDS MA learning journey. This PLP culminated in a workshop in Jaipur, India, March 2004, at which PLP participants synthesized their learning from the two-year program. They wrote technical notes that describe various aspects of their learning on conducting market assessments and using information to design and pilot market development interventions targeting microenterprises. Through these technical notes, as well as case studies of selected participants' programs, available at www.seepnetwork.org, the SEEP PLP in BDS MA aims to share its collective learning with other practitioners in the market development field and stimulate further dialogue on how to integrate microenterprises into markets on beneficial terms.

ANNEX I. PRACTITIONER LEARNING PROGRAM IN BDS MARKET ASSESSMENT LEARNING AGENDA

The learning agenda for the PLP in BDS MA, developed by the PLP participants, consists of one main, overarching question and several other related questions.

Main Question

How can market assessment be used to design a program (a program that increases commercial transactions for BDS and benefits SEs—micro, small-scale, and medium-scale enterprises)?

Other Questions

- How can MA help a program manager choose or design BDS that are relevant, have high impact, and have the greatest demand?
- How can market information be gathered and applied in weak markets;—for example, markets in which consumers have little or no understanding of BDS and markets for typically underserved groups of entrepreneurs such as low-income entrepreneurs or women entrepreneurs?
- How can MA lead to an in-depth understanding of dynamic SE and BDS markets? For example, how can MA lead to an understanding of embedded services, substitutes for transactional BDS, and latent or unexpressed demand in changing markets?
- How can a program manager choose appropriate MA tools by weighing factors such as cost vs. benefit, available time and resources, and the size of the market opportunity?

Participants address the learning agenda questions in two ways. First, they address the questions through the lens of the implementation of their individual programs. Second, as they implement their individual programs, they join together to discuss and address common learning themes.

ANNEX II. SUMMARY OF PARTICIPANTS' PROGRAMS

The following paragraphs briefly describe each participating organization's program under the SEEP PLP in BDS MA.

EDA Rural Systems Pvt Ltd in India developed BDS markets providing a range of BDS to small-scale and micro enterprises in the leather subsector in the state of Rajasthan. EDA will test MA methodologies that support BDS market development from service conceptualization through commercialization and that highlight appropriate mechanisms for delivering BDS to SEs.

Intermediate Technology Development Group (ITDG) in Kenya tested the utility of modified market research tools and methodologies typically used by the private sector in assessing markets for embedded business services targeting rural small enterprises. In particular, the activity examined embedded BDS that enable SEs to supply large buyers and mainstream markets.

International Development Enterprises (IDE) in Bangladesh formulated a new strategic approach to market development for poor rural farm households by adopting a hybrid mix of market assessment methods and best practices from the BDS and subsector analysis fields. IDE is also refining and testing its methodology in India, Nepal, Vietnam, and Zambia.

Mennonite Economic Development Associates (MEDA) and Entrepreneurship and Career Development Institute (ECDI) in Pakistan is developing a framework for evaluating a selected BDS market and the individual service providers in that market. Specifically, the methodology will emphasize the importance of research and analysis of target markets and the application of target market information for the development of BDS services. MEDA and ECDI are focusing on the embroidered garment subsector for this activity.

PKPEK in Indonesia assessed BDS markets in the wooden furniture subsector to identify weaknesses in BDS supply and develop strategies for overcoming them. The long-term aim is to raise the capacity of BDS providers to use market assessment techniques (in particular, techniques that involve participatory learning and action).

Swisscontact (East Africa) in Kenya developed and tested an action learning-based instrument that identifies and projects BDS demand. At the same time, the instrument will stimulate demand by empowering small-scale enterprises to become more active participants in BDS markets.

Triple Trust Organisation (TTO) in South Africa assessed the market constraints faced by spaza shops (microenterprise retail shops) in disadvantaged communities. The activity is geared toward understanding market constraints faced by spaza shops themselves as well as in relation to BDS services for this market. TTO uses this information to design interventions to increase the competitiveness of spaza shops in the South African grocery retail market.

World Education and Jigiyaso Ba Credit Union Federation in Mali assessed the BDS available to women entrepreneurs in the Bamako area of Mali who are member/owners of Jigiyaso Ba Credit Union Federation. By combining the fields of BDS and microfinance, the organizations' aim is to create a model that can be adjusted and replicated by other microfinance institutions.

