



VALUE PROPOSITION GUIDE

> INTRODUCTION & OBJECTIVES

IMPORTANCE OF A VALUE PROPOSITION IN THE DEVELOPMENT OF A WINNING SME STRATEGY

A value proposition (VP) is an outward-looking description of the offer that a financial institution (FI) makes to its target clients. By highlighting value and thus differentiating the FI's products from competition, a VP influences a purchase decision and how much a client is willing to pay.

It is easy to lose sight of the VP in the day-to-day running of a business. The implications are significant especially when selling financial products and services to a growing and competitive market such as the SME market in Kenya.

In such a market, if a bank does not have a clear VP which it upholds, its savvy customers may leave and choose to do business with competitors. If the VP is wrong however, all sorts of commercial problems may arise.



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In attempting to address these problems, many businesses tend to misdirect their efforts in advertising, trying out a new marketing angle, sales training, developing new products or service enhancement etc. This misdirected investment not only wastes money but does not address the fundamental issue: clients are not able to derive benefits from the FI's offer.

The biggest benefit to a bank that invests in critically evaluating its VP is that its efforts and activities will be aligned to ensuring that it delivers differentiated value to clients.

This Guide has been developed to assist FIs that intend to define / review their offer for their SME customer segment. It explores a five step process that the institution may employ in order to arrive at a winning VP.

About GrowthCap

Over the past few years FSDK has been at the forefront of SME banking development through conducting market assessments and studies in areas such as trade finance and SME equity funds, as well as supporting development of the credit reference bureau. Through its partnerships with its Action Research Partners (ARPs), FSDK's GrowthCap initiative is supporting adoption of SME best practices by individual financial service providers.

This paper is part of a series of Technical Notes and Resource kits that are being developed out of work with the ARPs. These provide detailed information about the best practices and are intended for use by financial service providers and those supporting such institutions which are entering the SME market.

Abstract

This Guide has been developed to assist FIs that intend to define / review their offer for their SME banking segment. It explores a five step process that the institution may employ in order to arrive at a winning Value Proposition.

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**Written by David Reid, an international expert to GrowthCap,
and adapted by *Mary Miller and Duncan Oyaró.**

> DEFINING A VP

RIGHT PEOPLE/RIGHT PROCESS

Articulating an effective VP rests on two important success factors. These are having the **right people** working through the **right process**. There are a number of qualities that a FI should look for when assigning a team to work on a project of this nature.

This first of these is **objectivity**. It is important that the team does not approach the project with pre-conceived ideas. They must be very careful not to over-rely on their own perception of the organisation but to actively engage with all stakeholders to attain a common and unbiased view of the business.

They must be **systematic**. Working systematically through a preconceived methodology ensures objectivity and safeguards the project team from forming views based on their intuition or gut feel.

Taking into account the following points will help ensure an objective and systematic approach to articulating a VP.



They must actively engage with all stakeholders to attain a common and unbiased view of the business

- **Active listening** This has two elements:
 1. *Hearing* out what people have to say and
 2. *Understanding* what they are communicating.

Active listening is generally quite exhausting, especially when dealing with different stakeholders, all addressing a similar point.

- **People skills** People don't always express themselves well and it is important that the team members are able to create an environment where people feel comfortable in sharing their thoughts and views. Knowing when to probe, when to let people talk, and when and how to seek clarification are all vital skills.
- **Big picture problem solving** This is not a linear task. The project team ought to be able to synthesise the insights gained, narrow down on the big issues and then develop appropriate solutions. This is the key skill required to develop the VP itself.
- **Communication skills both in person and print** Words are important. They are needed to craft the VP, to summarise information into a report, and to effectively articulate ideas in person. VP projects require creativity as well as logic and structure.
- **Commercial awareness** The implications for VPs are always commercial. If done well, a VP should help direct an FI to prioritise its resources. VPs are not just about skillful writing and external communications. They have implications for every part of the business, including product design, operations, and internal culture. Understanding the commercial implications of recommendations made in each of these areas and helping the FI to prioritise its actions are key skills needed in articulating a VP.

Figure 1 shows a five step process for defining a VP.

Figure 1: Value Proposition definition process



STEP 1 BACKGROUND RESEARCH

The aim of this step is to learn as much as possible about the FI and the market it is targeting. The project team should conduct as much background research as possible including reviewing internal documentation such as the overall corporate strategy and the SME strategy, as well as any previous external market research and brand analysis work that may have been undertaken by the FI.

Background research should also include reviewing external documentation in order to map out the SME market in which the FI is operating. A more elaborate external market research exercise could also be commissioned to get better understand the market as well as client needs.

STEP 2 STAKEHOLDER IDENTIFICATION

The following SME stakeholder groups should be engaged by the project team as part of the VP definition process.

1. **Senior SME management:** They drive the FI's SME business from a strategic point of view. Their input is crucial to ensure that the VP is aligned to the FI's strategic intent.
2. **Front line SME banking staff:** They deal with the SME clients directly and offer invaluable input in terms of identifying the clients' needs and wants, as well as in identifying the FI's strengths in delivering its offer.
3. **Back office staff and managers supporting the front line staff:** Input from this group is critical because they are instrumental in delivering/ implementing the VP.
4. **SME clients in the target market:** Of all the stakeholders these are the most important. The FI's VP must be aligned to the SME clients' needs. Their input also gives the project team a good idea of what the market perceives the FI to do well and what it does badly.

STEP 3 STAKEHOLDER INTERVIEWS

In-depth interview methodology should be used for this step. The key to using this methodology is asking all the stakeholders the same questions, listening carefully to their responses and accurately recording these.

VP questions seek to understand perceptions of key stakeholders in relation to:

- Current overall success of the FI with the SME market;
- Perceived relevance of the FI in the market;
- What needs do the SME clients want the FI to meet;
- The most attractive opportunities for success;
- Key barriers to success from their experience and perspective;
- Brand elements to optimally position the FI to its target markets.

The first task is to develop the questions appropriate for this project reflecting on the above points and the insights gained from Step One.

Interview questions should be open ended and designed to allow the stakeholders to freely express themselves. Questions need to be prepared for both the internal and external stakeholders.



The questions may include but are not limited to the following:

INTERNAL STAKEHOLDERS

About the FI /bank

- What is XYZ bank as regards SMEs?
- What should it be?
- How do you ideally want to be viewed in the SME market?
- How can you be distinctive in the market?
- Where do you make your money?
- Where do you want to make your money?
- What are your competitive advantages?
- Where are the market gaps?

About the SME Clients

- Who are they as people?
- What are their emotional drivers?
- Where are their constraints or pain-points?
- How do they make decisions?
- What do they want? (highest level)

EXTERNAL STAKEHOLDERS

- When you hear the name XYZ Bank what is the first thing that comes into your mind?
- Briefly describe your involvement with XYZ Bank?
- How would you describe XYZ Bank to a client?
- What do you want from organisations like the XYZ Bank?
- Does anything stop you getting the things you need?
- Who do you believe the greatest competitor is to XYZ Bank?
- Why is this the greatest competitor – what are they better or worse at doing?

A working document should then be prepared and populated with the answers to each question from each stakeholder. This is a simple but useful step. As the project commences, it gains momentum rapidly and it is important to have a single document to refer to when reflecting on the outcome of the interviews.

Once the questions have been prepared, the next task is to conduct the actual interviews. An interview schedule should be developed to ensure that all stakeholders are met. The focus of the interviews is to listen carefully to the responses by stakeholders and to record these as accurately as possible.

Working through this step as outlined will enable the project team to have a single document where good insights are captured. These insights will lay the foundation for each of the subsequent steps.

STEP FOUR ANALYSING THE INTERVIEW FINDINGS

Once the stakeholder findings have been completed, the task of the project team is to analyse all the findings along with the background research work.



Target Market

In order to define a target market it is useful for the FI to segment the market. While segmentation may be done in several ways (e.g., industry, geography, ownership, legal status, growth characteristics), the most common segmentation is by size.

The stakeholder interviews as well as the market research provide insights for the project team to identify which segments the FI is best suited to serve. Segmentation is important given:

- Each segment has distinctive needs;
- The FI has limited ability to address all market segments' needs;
- Products should be developed to meet a particular segment's needs;
- The FI needs to respond to specific market opportunities;
- It is important to communicate value (marketing) to target markets.

Gaining clarity about the target audience is the most important step in developing a VP that resonates with SME clients. They resonate best when the FI is really clear about the target audience. The analysis should provide insights on:

- Who the target audience is
- What the bank needs to do differently to help these customers
- What the bank needs to communicate to these customers

Archetypes

The perceptions gained through the interviews should then be synthesised into an 'archetype template'. An archetype is a fictional character that best represents a particular segment of the customer market that the FI can relate to. See Annex A for a sample of archetypes. Archetypes are useful as they help bring a market segment to life. They are representative of the constraints and wants, as well as needs of each segment.

Completing an archetype needs to take the following into account:

- Who they are;
- Their emotional drivers;
- Their pain points or constraints;
- Their expectations;
- Their needs.

STEP FIVE

VP DEFINITION



A VP is an outward-looking description of the offer that a FI is making to its target clients.

A VP seeks to:

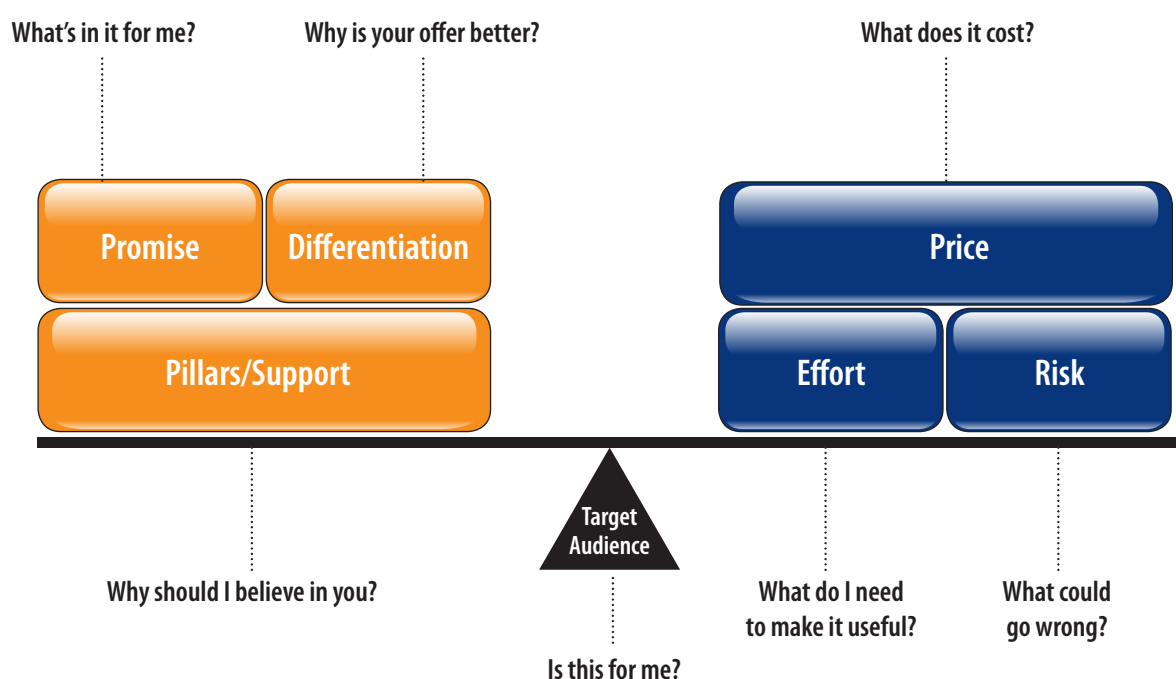
- Address customer priorities and preferences (as indicated in market research);
- Address constraints faced by the customer in using financial services;
- Differentiate the FI from its competitors.

Once an archetype has been developed, the project team needs to define a VP that speaks to that specific client profile. A VP includes the following elements:

- Features and benefits of the product or service;
- Branding and market positioning;
- Delivery channels (for both marketing and service);
- Customer servicing standards (e.g. relationship managers or mass market);
- Speed and quality of service delivery;
- Pricing and value;
- Customer appeal levels.

Testing the VP with a pilot, consisting of a small sample of clients, should be done in order to validate whether it meets their expectations and needs. The necessary tweaks to the proposition need to be made before communicating it publicly.

The overview figure below provides a quick checklist of things to think about from the small business owners perspective.



> ANNEX A

SAMPLE ARCHETYPES FOR VP DEVELOPMENT

Archetypes will be developed for different segments of the SME portfolio. Clients in a segment will be characterised – both quantitatively and qualitatively:

- **Quantitatively: what are the demographic facts** – how old is the business, where is it located, how many employees does it have, what are annual sales volume and profitability, what sector is it in;
- **Qualitatively: what is the behaviour** – what motivates the owner, why does he or she take action? What are the “pain points”, what are the emotional drivers? What are the expectations and needs?

While the quantitative information will be important for sizing and pricing products, the qualitative information informs on how the bank should present itself to its customer segments, by responding to the customer triggers.

Think about these points as you review the archetype customers described below. The first is a series of archetypes for a bank that segments its SME customer base by business size.

SEGMENTATION BASED ON BUSINESS SIZE

> MEDIUM SIZE BUSINESS

James is 52 years old is married with two children. He has been running his business for 20 years now. He is proud of what he has achieved, especially considering where he came from. He has done a few different businesses and more recently he has found a very good niche in construction. He's mixing with a different crowd now, successful business people like himself, and he is excited about the future and what his business could become.

While he got his first business loan from Bank XYZ, he now has lots of banks calling on him, and has also borrowed elsewhere.

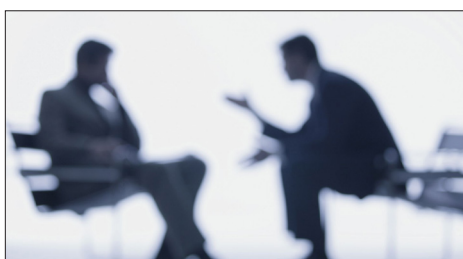
He's got a soft spot for Bank XYZ as it helped him when he was starting out, he encourages his subcontractors to open accounts with Bank XYZ and recommends the bank to his customers. However, he himself doesn't feel he belongs with Bank XYZ anymore, especially after the very good experience he has had with other banks.

Pain Points

James often feels that he is not understood by the bank – while the staff in the branch are always pleasant, they don't seem to understand his business, and loan sizes are too large to be approved in the branch. Loan approvals take a long time, and rates and fees are often not competitive. Why doesn't the bank recognise that the business is established and profitable?

Wants

James wants to be treated differently, and wants his success to be acknowledged. He would like to deal with someone at the bank who understands his business, and who could be another advisor to him. He would like the bank to be more flexible on credit applications. He would like to improve his network, and get more contacts to grow, and would like help on improving his business.



➤ **SMALL BUSINESS**

Sarah is young business owner, doing well. She formed her importing and textile design business seven years ago and though she finds it challenging, she wouldn't look back now. She's well travelled, tech savvy and has established some good connections in Africa and elsewhere overseas. She can see good opportunity everywhere she looks, and she moves quickly.

Sarah put a lot of hard work into her business. She's better off financially than she was before, and she doesn't mind showing it – up to date cars, and the most up to date computer-aided design technology.

There is still so much more she wants to achieve. Sarah is talking to a few different banks to get what she wants, but she always seems to be getting her finances sorted at the last minute.

Pain Points

Sarah wants quick access to capital when opportunity knocks. She finds presenting the case to the bank for increased funding to be tedious. No, she does not understand why the bank insists on lots of documents – her success and payment record should speak for themselves. Sometimes she just does not understand what information the bank really wants – seems like the bank is always stalling.

Wants

Sarah wants credit when she needs it, also a bank to take a risk with her, share her vision, expand her knowledge. She wants help in growing the business, and she wants things fast.



➤ **VERY SMALL BUSINESS**

Eugene has been a customer of the bank since he went into his machining business three years ago. He is well known at the branch and is doing OK – always pays his loan payments on time. The branch has been good to him.

He is trying his hand at a few different things, doing some specialty work for a couple of big buyers, and he's getting more confident in himself as a businessman. He is switched on, tech savvy and really keen to succeed. He doesn't mind who he deals with in the branch as long as he gets help.

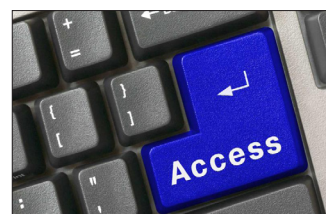
He has improved his circumstances but he wants to take the next jump, grow his business and get some assets behind him. He's seen others get to the next level and he wants to join them there.

Pain Points

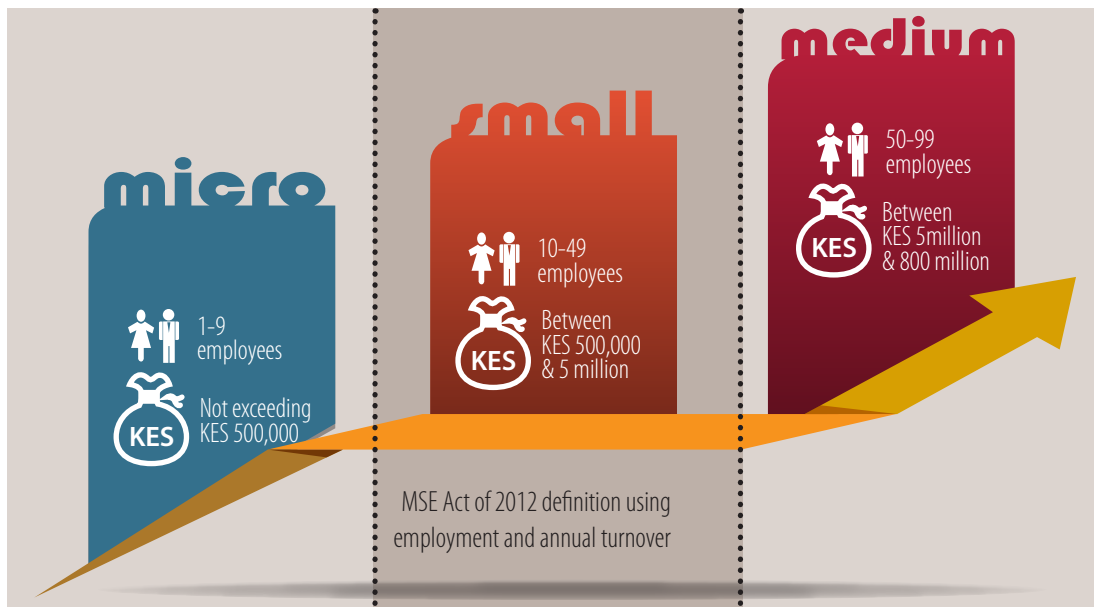
Eugene needs credit now but has no collateral – all his cash has been tied up in working capital for the business. Now he is asking for a larger loan and the bank wants more collateral and more documents than ever.

Wants

Eugene wants more access to a decision maker at the bank, and wants answers fast. He is trying to grow the business to a higher level, and wants to feel that the bank wants to grow with him.



SMEs in Kenya, defined



SEGMENTATION BASED ON GROWTH PATTERNS

Archetypes will reflect the segment choices that the bank has made. While a segmentation based on size is common (and usually is an element in all segmentation) this is not the only choice. Below are archetypes based on growth patterns.

FAST GROWING SME

Michael is 42 years old and is married with two children. He jumped into business for himself 5 years ago, having previously worked for a multinational here in Kenya, and is a broker/wholesaler for food and flower exports. His business has grown quickly. He now employs 25 people and is looking to easily double this over the next couple of years.

He's put a lot of hard work into his business. He's better off financially than he was before but there is still so much more he wants to achieve. He deals with many different banks to get what he wants but doesn't feel like any one bank really understands his business. He can see exactly where he wants to go but, truth be told, he's not sure how to sell that vision to the bank.

Pain Points

Michael wants access to capital when opportunity knocks, but the bank does not seem to understand his requests when they are presented. He lacks some of the skills needed to grow the business further, and has some personal anxiety about his ability to be successful.

Wants

Michael wants credit when he needs it, and wants to deal with someone at the bank who understands his business, supports him, and someone he can trust.



➤ STEADY STATE SME

Vincent is 38 and is now fully in charge of running the business that was established by his father – who has gone back to his village to tend the fruit trees there. The business makes and installs metal frames for doors and windows, and mostly works for two construction firms owned by family friends. It has a steady business, so Vincent does not have to looking for other contracts. He is happy with the volume of work that the business has, and prefers to be doing hands-on milling and installation himself.

Pain Points

The business never needs anything fancy, so Vincent is mostly concerned about price – he does not need a lot of bells and whistles. On the whole the local branch serves the business well, but the account officers dealing with the occasional credit requests for financing new equipment or working capital seem to change with every request.



Wants

Vincent wants standard products and low prices, as well as consistent service. His business has been around a long time, and he would like the bank to recognise that there has been a long relationship.

What is the bank's goal with each of these customer types? Consider why each of these customers is attractive to the bank, and what potential they present to the bank. What offers can the bank make that address their pain points and wants – that the bank will find profitable going forward?

About the authors: This Note has been adapted by Mary Miller and Duncan Oyaro based on work and reporting on value proposition development undertaken by David Reid for the benefit of GrowthCap Action Research Partners.

The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme's goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). In addition to the Government of Kenya, funders include the UK's Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA), Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation.



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