Theme Guide: Value Proposition & Customer Segmentation

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Theme Guide: Value proposition and customer segmentation

This Theme Guide attempts to explain the concepts of segmenting your customers and developing a value proposition.

The markets in Sub-Saharan Africa and South Asia are enormous, and it is impossible for a small company to try and reach all of them. These techniques help focus how to select which customers to focus on and what messages are likely to persuade them to buy your product or service.

What is a value proposition?

A value proposition is a promise of value to be delivered, communicated, and acknowledged. It is also a belief from the customer about how value will be delivered, experienced and acquired. It differs from a company’s business objective as it represents the key value that your customers derive from your company’s product or service, not your core objective itself.

What is customer segmentation?

Customer segmentation is the process of breaking down the market into small parts in order to be better able to target your product or services. This is particularly important when working in niche markets and with limited resources.

Why segment customers?

The market of customers within Sub-Saharan Africa and Southeast Asia for new products and services powered by renewable energy is very large and varied.

For products like solar lanterns and solar home systems, the market is reasonably developed, but for other more specific products, such as solar water pumping, the market is still nascent and developing.

Companies need to split their market into different groups or segments to make their products and services offers appropriate to their potential market segment. Different types and sizes of products at different price points, payment plans and service packages appeal to different customers.

How can you segment customers?

One way of segmenting customers is through considering the level of energy that a customer needs. The ESMAP Service tiers provides this useful framework:
Table 1 ESMAP service tiers

<table>
<thead>
<tr>
<th>Service Tier</th>
<th>Tier 0</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Tier 4</th>
<th>Tier 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak power available</td>
<td>None</td>
<td>3-50W</td>
<td>50-200W</td>
<td>200-800W</td>
<td>800-2,000W</td>
<td>P &gt;2,000W</td>
</tr>
<tr>
<td>Allowable daily energy consumption</td>
<td>None</td>
<td>12-200Wh</td>
<td>200-1,000Wh</td>
<td>1,000-3,400Wh</td>
<td>3,400-8200Wh</td>
<td>&gt;8,200Wh</td>
</tr>
<tr>
<td>Duration of supply</td>
<td>None</td>
<td>&gt;4hrs</td>
<td>&gt;4hrs</td>
<td>&gt;8hrs</td>
<td>&gt;16hrs</td>
<td>&gt;23hrs</td>
</tr>
<tr>
<td>Evening supply</td>
<td>N/A</td>
<td>&gt;1hrs</td>
<td>&gt;2hrs</td>
<td>&gt;3hrs</td>
<td>&gt;4hrs</td>
<td>&gt;4hrs</td>
</tr>
<tr>
<td>Reliability</td>
<td>N/A</td>
<td>&gt;85%</td>
<td>&gt;90%</td>
<td>&gt;95%</td>
<td>&gt;97%</td>
<td></td>
</tr>
<tr>
<td>Typical applications</td>
<td>Lighting with traditional fuels</td>
<td>Lighting of 1,000 lumen-hours/day, phone charging</td>
<td>General lighting, fans, TV, light office needs</td>
<td>Tier 2+ food processing, task-oriented food preparation</td>
<td>Tier 3+ Refrigerators, pumps, expanded food preparation</td>
<td>Tier 4+ Air conditioning, light industrial, commercial food preparation</td>
</tr>
</tbody>
</table>

Other ways to segment customers are:

**Rural and urban** customers usually have quite different needs, so the products and services they need are quite different. In the context of energy, urban customers may be connected to a poorly run grid, so can use energy products as a back-up. Rural customers, much less likely to be connected to the grid, may well need these products as their only source of energy.

**Income:** reliability and level of income is one way of segmenting customers. Many energy products are too expensive to buy in cash and customers need to pay for them over a period time. Identifying which potential customers can repay is important to avoid defaults.

**Domestic vs business use:** another way of segmenting customers is whether the product will be used for business or domestic use. The decision-making process for each purchase will generally be quite different. For a business, for example, a decision may be made based on how much money can be made; for a household, the decision could be “what is more comfortable?”, or “is this cheaper than what I was using before?”.

However, business and household uses often merge in developing markets, with many businesses being run out of the household, such as cooking meals or doughnuts on the side of the road, or making and mending clothes. The product may, therefore, be used for more than one purpose. Similarly, most rural households also own the land on which they farm and, whilst not always run like a business, this represents a large part of their annual income.

Many rural households have variable incomes. Typically, they will have one major crop harvest a year and then may benefit from a “short” season depending on their location. They may also be involved in small scale irrigation. This means that their income is not received evenly throughout the year.
Understanding customer types

Willingness and ability to pay

All customers have a variety of demands on their budgets. Their willingness and ability to pay depend on certain factors.

- Customers’ willingness to pay is often based on benchmark values of what the customer paid for energy (e.g. diesel motor) or what he heard that on-grid customers are paying.

- In areas where there have been no prior energy products available, the price of kerosene for lighting, wood or charcoal for cooking, and mobile phone charging costs can be used to determine the willingness to pay.

- Customers’ ability to pay is often about liquidity. How much does the customer have in their pocket or how much can be raised?

- Payment structures such as Pay-As-You-Go (PAYG) or loans for equipment can help customers align the payment schedule with their ability to pay.

Business customers also want to understand how they can profit more through the purchase of your product or service. You will need to demonstrate how your product will produce a positive Return on Investment (ROI).

Why do you need a value proposition?

The value proposition is the single reason why your customer decides to buy your product. 60 Decibel, a leading company working in the area, asked customer why they bought their product and what positive change they have seen.

<table>
<thead>
<tr>
<th>Table 2 Example of payment plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pay as you Go - Purchase</strong></td>
</tr>
<tr>
<td><strong>Energy as a service</strong></td>
</tr>
<tr>
<td><strong>Payments reflecting customers’ fluctuating income</strong></td>
</tr>
</tbody>
</table>
Examples of cost/benefit analysis:

Household Customers

This solar light means I don’t have to buy kerosene and candles anymore, or go to my neighbour to charge my phone. It costs $20 and I spend 20 cents a day on kerosene and charging. After 100 days I will be saving money on my purchase.

Farming Customers

A farmer doesn’t currently irrigate a two-acre plot of land. If she purchases a solar water pump for $500, how much profit can she make each year? A profit can be calculated by estimating the income from the two acres and subtracting the costs of all inputs: labour, seeds, crop protection, transport.

This solar pump means that I will be able to get two crop harvests a year. And it will safeguard against drought problems throughout the year. It costs $500 and after costs I get an extra $300 a year. In under two years, I will have paid it off.

Developing a value proposition

In order to build a value proposition, you need to be able to explain the benefits of your product or service to the customer. This means gathering reliable data about the benefits of your product or service. These benefits can be broken down as follows:

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Top Positive Change</th>
<th>2nd Positive Change</th>
<th>3rd Positive Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solar Lanterns</td>
<td>Access to (better) lighting</td>
<td>Reduced energy expenditure</td>
<td>Reliability</td>
</tr>
<tr>
<td>Solar Home Systems</td>
<td>Access to (better) lighting</td>
<td>Health improvements</td>
<td>Reduced energy expenditure</td>
</tr>
<tr>
<td>Mini-Grids</td>
<td>Access to (better) lighting</td>
<td>Reliability</td>
<td>Access to appliances e.g. radio, TV</td>
</tr>
<tr>
<td>Solar TVs</td>
<td>Families are better informed</td>
<td>Improvements to family connectedness</td>
<td>Ease &amp; convenience of having a TV at home</td>
</tr>
<tr>
<td>Off-Grid Refrigerators</td>
<td>Increased income</td>
<td>Health improvements</td>
<td>Increased productivity e.g. sales</td>
</tr>
<tr>
<td>Solar Water Pumps</td>
<td>Reduced agricultural input expenditure</td>
<td>Increased income</td>
<td>Greater resilience</td>
</tr>
<tr>
<td>Clean Cooking</td>
<td>Reduced fuel consumption</td>
<td>Time savings</td>
<td>Health and well-being improvements</td>
</tr>
</tbody>
</table>

Table 3 Developing a value proposition

<table>
<thead>
<tr>
<th>Problem</th>
<th>What problem does your product or service solve?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Benefits</td>
<td>What financial benefit does your customer derive from your product or service? Reduced costs? Increased incomes?</td>
</tr>
<tr>
<td>Emotional Benefits</td>
<td>What emotional or comfort benefits do your customers derive from your product or service? More hours to study? Less smoky environment?</td>
</tr>
<tr>
<td>Competitive Advantage</td>
<td>What does your product or service do better that your competitors?</td>
</tr>
</tbody>
</table>
Pricing, payment methods and terms

Part of the value proposition is understanding how your customer will pay you. Most products are cannot be bought in cash, so the terms on which you sell your product are critical. The factors that you need to consider are:

- **Deposit**: what amount of initial deposit (if any) can you ask from your customers? This will depend on the value of your product and the amount that your customers can afford.
- **Weekly/monthly repayments**: what repayment schedule makes it easy for your customers to pay comfortably? This will depend largely on their frequency and level of income
- **Length of credit**: the length of credit will generally be dictated by the monthly/weekly payments that your customers can afford.

Reviewing and updating your value proposition

It is important that you revise your value proposition to reflect both changes in your product and changes in the desires of the target markets. Gathering good data on your current customers will also help guide future strategy. For example, if an SHS company is successful in a certain area and customers have been using their product for a while, it may consider selling new products, such as appliances, to the same customers. Furthermore, if the grid arrives in an area, that may change the value proposition or change the target market.

Example of a value proposition from an SHS company

A BBOXX customer is typically located in a rural off-grid area. Most earn their living by farming coffee, bananas or other fruit and vegetables on small plots of 1-2 acres. Some, especially around lakes and in coastal areas, are fishermen, and others are moto drivers or small business owners.

Some customers in Kenya and Rwanda earn around US $100 per month and spend $6-12 on energy expenditure, such as purchasing candles, kerosene, batteries for torches and charging their phones. **Note:** Many rural customers cannot afford to spend $6-12 on energy expenditure.

BBOXX prices its solar home systems to match these existing energy costs, spreading payments over time to widen its customer base, enabling various segments of the population to purchase clean renewable solar energy.

Customers save money and have more access capital to pay for school fees etc. They also have fewer health problems due to unclean fuel use, and children can study better during the dark hours.
References and further reading

60 Decibel report: “why off grid matters”
https://www.60decibels.com/energy-report

Pricing Quality cost drivers and value add in the off-grid solar, GOGLA
https://www.gogla.org/sites/default/files/resource_docs/pricing_quality.pdf

Rajasthan Customer Segmentation Study – Global Alliance for Clean Cookstoves
https://www.cleancookingalliance.org/resources/467.html

Market Research on Productive Use Leveraging Solar Energy (PULSE)
https://www.esmap.org/market-research-on-productive-use-leveraging-solar-energy-%28

Useful contacts

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