

Module 03 : Blueprinting the business model

cewas



Week 02:
Understand
your customers



Resource Recovery and Reuse
(RRR) Entrepreneurship

Week 2 module 3: Understand your customers

“Week 2 of module 3: understand your customers.

This week we will have a look at the first element of your business model: your customer segments. To be successful in the market, you need to design products that actually fit your customers’ needs. Or as Seth Godin, a US entrepreneur put it *“Don’t find customers for your products, find products for your customers.”*

Let me show you an example. Which compost product do you think has more success in the market? You might choose the one on the left, because the packaging is prettier, it is easier to transport and comes with usage instructions. The one on the right is not very pretty, but it is cheaper and easier to transport if customers buy compost in bulk and transport it with lorries. So the answer is: it depends! It depends on your customer needs. So, to understand your customer needs, you first need to ask yourself:

- Who are your customer segments?

Customers are at the heart of your business model. Without paying customers you are out of business.

For example, Mbale Municipal Composting Plant (MCP), a non-profit entity from Uganda, was started with the primary aim of reducing the quantity of solid waste going to the landfill and the resulting greenhouse gas (GHG) emissions. MCP uses a windrow composting technique and converts approximately 60 tons of waste a day into organic fertilizer. This initiative is based on a cost-recovery model that seeks to recover waste management costs faced by the municipality by selling compost. It mainly generates its revenue from the sale of compost and recyclables such as plastics, and plans to engage in carbon trading in the near future as an additional revenue stream. Compost is sold primarily to farmers within Mbale, however MCP’s compost product is gradually gaining popularity and is being sold in other regions. MCP has 3 distinct customer segments: Large-scale orange and mango farmers, recycling companies, as well as the Mbale municipal council and its residents. In the future they are also planning to cater to carbon credit trading companies.

Back in module 2, you had to segment the total market into groups of potential customers to calculate market size. You segmented your market into groups that have similar needs, behaviours or other characteristics like area, gender, income, values, etc. Let us imagine that you are selling organic fertilizer in Uganda (just like MCP) and you have come up with a lot of potential customer segments like fair trade farmer cooperatives, large-scale farmers, the municipal nursery and urban hobby gardeners.

Because you are a start-up and you do not have infinite resources to understand all of these customers' needs, produce advertising material to all of them and develop products that suit all of their different needs you need to choose one or a few specific customer segments to target. You might have implicitly done this already when calculating your market size in module 2. For example, you might have decided to target only fair trade farmer cooperatives with your organic fertilizer – rather than large-scale farmers – because this segment is more attractive to you. Although their willingness to pay is lower than other customer segments, the expected growth of fair trade producers, the lack of direct competitors for this segment and finally also your own limited production capacities make you decide to target this segment. If you haven't already targeted a specific customer segment, do so now. You may use the worksheet below to record your findings. When evaluating the attractiveness of your customer segments, think of the following 3 dimensions:

- Revenue potential depending on the segment size, segment growth rate and price sensitivity. Larger and growing segments with little price sensitivity are very attractive but usually also highly competitive markets – as seen with your competitor MCP targeting large-scale orange and mango farmers.
- Market structure depending on the presence of competitors and the possibility of differentiating. Penetrating a market with heavy competition and win market share is difficult but possible if the offer can be differentiated to serve an unidentified customer need.
- Your own capacity depending on your skills and resources. As a small business you may not have the resources to compete in large and competitive segments. You should target a customer segment that allows you to exploit your current strengths and resources.

Once you have identified your target customer segments, list them in the business model canvas in terms of their priority. Customer segments that are contributing the majority of your revenues should have priority. Make sure that you write each customer segment on a single differently coloured post-it.

- What jobs are your customers trying to get done by using your product, what are their problems and what added value are they looking for in a solution?

To be able to design a product that sells, you need to understand the person you are selling to. You need to understand what their typical day looks like, what problems keep them up at night and what solutions they dream about for making their life easier.

A farmer for example likely spends all day in the field working his soil, harvesting and processing his crops and selling them on the market. They might stay up all night because they are worried about their soil yielding less crops every year. They might also worry about the missing rains and the creek drying out that he used for irrigating his fields in the dry season. Due to the decreasing harvests he struggles to feed his family and pay for medical bills. On top of that the fertilizer that he buys is becoming more and more expensive.

If you are selling to institutional or business customers, so organisations as opposed to individual consumers, you have to find out who your customer really is. I'm not talking about defining your customer segments. What I'm talking about here is understanding who the decision-maker is. In a business it might not be the same person taking the buying decision and the person paying for the purchase and the person using the product. Let me give you the example of COOCEN, the briquettes business from Rwanda. Beneficiaries of the product are the inmates and prison staff, who benefit from the warmth and are not exposed to dangerous fumes anymore. The facility manager of the prison, who needs the briquettes for heating the buildings, as well as the chefs, who cook for the prisoners influence the choice of energy source. The payer of the product, who has the financial power to purchase the product, is the district administrator. Finally, the decision-maker, the person who makes the buying decision is the director of the prison. Despite this person taking the buying decision, he is being influenced by the facility manager and has to fulfil certain criteria by the district administrator. In this case, all these people are the decision-makers.

So, once you have identified your customer, so the people taking the buying decision, you start analysing what their daily activities are and what problems they are currently facing. You may download the worksheet below to record your findings.

- Your customer's activities: What is your customer trying to get done by using your product? What is your customer's daily activity? In the case of COOCEN's customers it is the heating of the prison buildings and cooking for the inmates. In the case of MCP, farmers need to supply their plants with nutrients in an effort to increase harvest yields.
- Your customer's pains: What challenges, risks, or bad experiences does your customer currently face while still using a competing product or solution? COOCEN's customers are facing increasing costs of charcoal while budgets for facility management are being cut by the regional district. On top of that public institutions like prisons need to abide by increasingly strict public health regulations that set standards for air quality – standards that are difficult to obtain while using charcoal for heating. In the case of MCP, farmers are currently using chemical fertilizers that are not only expensive, but also lack important micronutrients to restore soil fertility.

In addition the above, you may also want to think about additional characteristics of your target customers like average age, gender, income level, values and beliefs, where they shop, work and spend their spare time. If you know about your customers' buying habits and how they inform themselves before taking a buying decision, write that down too. You will find these additional questions in the worksheet.

The best way to find out more about your customers and know what keeps them up at night, is talking to them personally and observing the way they buy and use similar products. So get out there and talk to as many potential customers as possible.

After that, I will see you in week 3 to position your business according to your customers' needs!"

List of Reference:

Graph sources:

- Unless otherwise noted, all graphics and case studies from OTOO, M. (Editor), DRECHSEL, P. (Editor) (2018): *Resource Recovery from Waste. Business Models for Energy, Nutrient and Water Reuse in Low- and Middle-Income Countries*. International Water Management Institute (IWMI). Routledge

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