



# WHY START-UPS

**NEED TO GIVE MORE ATTENTION  
TO THEIR CUSTOMERS' WILLINGNESS  
TO PAY**

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*A look into how small companies can  
effectively build customer value*

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Customer research can enable companies to measure customer value and build value models for specific target consumer segments



# Customer value and willingness to pay

Defining product value can seem difficult since it requires significant effort to measure. What are your products and services actually worth to customers? What product elements do consumers value most? Few suppliers in business markets are able to answer these questions even though diagnosing the value of a product or service for one's customer has never been more important. To persuade customers to focus on total costs rather than simply on price, companies must have a clear understanding of what their customers value in the product or service.

For the purpose of this study, we defined customer value as the perceived worth of a product or service over other alternatives in the market. Measuring customer value is not as difficult as it may seem because consumers already know what their interests are. One such way to do this is by understanding a customer's Willingness to pay, or willingness to pay, which is defined as the maximum price that a consumer will spend on one unit of a good or service.

Customer research can enable companies to measure customer value and build value models for specific target consumer segments, drawing on data gathered from several customers to unearth what matters most to them. While it is impossible to gather data from all customers in a target segment, field surveys allow teams to gather WTP data that can provide generalizable insights for the rest of the consumer segment. Below are some important core questions to ask before conducting WTP research:

Core Questions:

- How much money are consumers willing to pay for a service/product?
- What do customers value in a service/product?
- What elements of a product are consumers willing to pay more for?

Youth Impact Labs commissioned the Busara Center for Behavioral economics to explore customer willingness to pay for products and services from its partner, Lynk (an online service delivery service platform). The team surveyed 300 participants, a diverse pool of Nairobi residents who earned above KSH 50,000, to understand their willingness to pay for Lynk products as well as their relative perceived value of Lynk service features.

The results from this study revealed that there is in fact a higher perceived value for online-procured services in the market demonstrated by participants' willingness to pay responses. For instance, participants were willing to pay 28% more for heater repair services on Lynk compared to their current costs. Depending on the product, people attributed higher value for particular features e.g. timeliness, quality of materials used and convenience. The survey established that characteristics such as gender, income level and marital status also determined a customer's perception of value. For instance, while married and unmarried women had similar perceived value for braiding services, married women placed significantly higher value on convenience at 33 % of actual cost compared to unmarried women who valued it at 27% of their cost.

By leveraging this kind of information, companies can better develop a pricing strategy with valuable consumer feedback and beyond that develop a communication strategy to market their product value. This type of information is crucial for informing an effective marketing strategy (including how to improve or iterate existing products) in a way that would increase the overall perceived value of a product or service.

The next sections outlines key steps involved when developing a customer value model for a target consumer segment: The next sections outlines key steps involved when developing a customer value model for a target consumer segment:

# How to build a customer value model

## STEP 1 UNDERSTAND



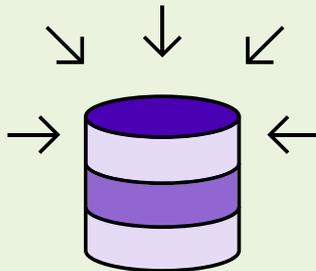
The first step is to get a comprehensive understanding of your value add in the market. This refers to your value proposition over similar business in the market that make your product stand out and which would affect the costs of the product. In order to effectively communicate what makes your product different, this list should be as inclusive as possible with heavy input from your internal team to capture as many of these elements as possible.

Begin by narrowing down the value elements of interest to those whose insights will be most reliable and will best inform a market strategy. In addition, different consumers have varying concepts of value which could vary based on geography, gender, age etc. Identifying the most valuable market segment is key as they will be the target participants in the data collection phase of this process.

## STEP 2 SURVEY DESIGN



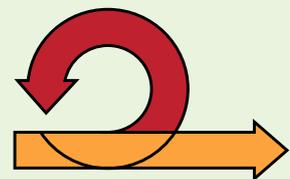
## STEP 3 DATA COLLECTION



There are different ways to collect reliable data depending on cost and time availability. Qualitative research in the form of focus group discussions is one such quick and affordable way to gather useful insights if the participants selected fit the right target market. At the very basic level, seek to understand what value elements people value most as well as their willingness to pay for your product.

The insights gathered from the data collection phase are crucial in defining the next steps for a marketing strategy. Aside from understanding what consumers may be willing to pay for a particular product, one can leverage on marketing what product elements their consumers value the most. This information can be used to inform what product elements should be improved or iterated in a way that would overall increase the value of the product as well as justify its price.

## STEP 4 ITERATE AND IMPROVE



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## Context

Catalyzed by funding from Google.org, Mercy Corps' Youth Impact Labs (YIL) identifies and tests creative, technology-enabled solutions to tackle global youth unemployment, accelerating job creation, so every young person has the opportunity for dignified, purposeful work. In Kenya, YIL focuses on digital marketplaces and platforms that offer services to micro and small businesses; agricultural supply chain management; and digital work. The program supports these enterprises through financial and technical support, issued in the form of milestone-based grants. Through our post-investment support, on-boarded partners also get access to advisory services to support the development of technology solutions and tailored business support service to actualize scale. Through the Google.org-funded Youth Impact Labs programme, Mercy Corps has in part supported Lynk to design and launch two platforms, Byld and Shopsales that link blue-collar workers to jobs in Kenya.



“ If you need scale in order to create value, it’s hard to get scale, because there’s little incentive for the first people to use the product.

- **Joshua Schachter**

**Nairobi, Kenya Office**  
ABC Place, Off Waiyaki Way  
3rd Building, 1st Floor

P.O.Box 11860-00100  
Tel. +254 20 444 1126  
Fax +254 20 444 1068

