STARTING SMALL: PATHWAYS TO CUSTOMER CENTRICITY
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Summary

The following learning paper on customer centricity is the first in a suite of documents from the INNOVATE learning series. This paper provides techniques and insights on improving customercentricity for financial institutions, agricultural companies, and implementers focused on:

- Smallholder farmer behavior,
- Financial services delivery for smallholder farmers,
- Customer segmentation,
- Testing and promoting innovation processes and mindsets,
- Applying a customer-centric lens, and
- Stimulating the adoption of agricultural innovations.
Introduction

Finance is often considered the key missing ingredient to the adoption of innovations by smallholder farmers. The INNOVATE\(^1\) project is funded by International Development Research Centre (IDRC) and implemented by MEDA with the objective of **exploring the potential of non-traditional finance to enable large scale adoption of agricultural innovation** by women and men smallholder farmers. The project’s innovation portfolio consists of 10 projects across South Asia, South America and East and Southern Africa, implemented by private companies, NGOs and advocacy organizations. These projects include testing new products like digital savings for agricultural innovation and warehouse receipts, developing new models such as agricultural and financial services bundling, designing alternative collateral regimes, and leveraging savings groups. The research and learnings generated from the portfolio projects will contribute to a knowledge management and learning agenda focused on recommendations for implementers, policymakers, and donors.

The Innovate Experience

MEDA held a call for proposals in 2017 for pilot projects and case studies in three regions (East and Southern Africa, South America, and South Asia). Out of 100+ applications, MEDA short-listed 10 projects. Applicants were asked to answer questions about their “Target Customer,” “Impact on Target Customer,” and “Prototype Hypothesis” to show understanding of the target customer segment(s) and to ensure that hypotheses were simple, testable and did not rely on other assumptions.

Beginning in March 2018, INNOVATE partners were given 12-18 months to experiment with and learn about factors that can promote greater adoption of agricultural innovations using non-traditional finance. This work included: (1) testing and validating assumptions about customers, making sure that firms and organizations have aligned their products and services with “real” customer needs; and (2) identifying and using appropriate customer segments according to their value perception to optimize adoption of products and services, especially when a product or service is new. Once customer segments are understood, each segment can be approached from a “customer centric” perspective, by understanding the customer value and aligning products and services to benefit the customers’ value.

Initial learnings and observations are already emerging from these experiments such as farmer behavioral insights versus stated demand and the importance of feedback loops. This paper focuses on the former: the initial observations in the arena of customer centricity and its role in smallholder finance product and service innovation and adoption.

\(^1\) Adoption of Agricultural Innovations through Non-Traditional Financial Services
"Because the purpose of business is to create a customer, the business enterprise has two—and only two—basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs. Marketing is the distinguishing, unique function of the business."

- Peter Drucker, The Practice of Management, 1954

Customer Centricity

Financial institutions, companies and non-governmental organizations (NGOs) understand that they need to service and satisfy their customers’ needs to earn revenue and compete against others in the market. Frequently, these firms perceive customer satisfaction as the main objective to customer interaction and consider marketing to be a function of advertising and sales activities. As Peter Drucker has written, marketing should be understood as knowing and understanding one’s customer, a critical component of a firm’s existence. Therefore, with improved customer knowledge and empathy, businesses and NGOs are better prepared to target customers’ perceived value, segment customers, align products/services with customer segments and streamline operations to support customer service and identify new service offerings.

Today, this perspective is being further developed through concepts such as customer centricity, customer experience and customer journey mapping, offering new techniques for any customer-facing company to deliver value to their customers.

What is Customer Centricity?

Customer centricity defines a perspective and mindset that puts the customer at the center of all business decisions, business processes and actions.

A customer-centric firm aligns its products and services towards customers’ perception of value. On the marketing strategy/outreach side, customer centricity emphasizes segmenting customers into groups based on viable characteristics and profiles, and each group’s perceived value of the firm’s products and/or services. It relies on firms having the knowledge/awareness of specific customer needs, their preferred delivery mechanisms and each segment’s Willingness to Pay (WTP) for products and services.
Armed with this information, a firm can optimize margins for each customer segment and even choose to target specific customer groups where they can maximize their net revenue.

This approach also requires a cultural shift within firms and their capabilities. Customer-centric firms view all actions through the lens of the customer, including back-end and internal, non-customer facing business processes since they impact customer facing ones. This cultural orientation requires firms to prioritize time, energy, resources and funds toward customers as key stakeholders. It empowers divisions of the firm to orient their activities based on “value creation” in the eyes of the customer. **Bottom line: a firm with a customer-centric culture acknowledges its customers as the lifeblood of the firm. If customers do not receive value, they will go elsewhere; if they do receive value, they are likely to be more loyal.**

### Why does Customer Centricity matter?

Businesses and NGOs alike have always been challenged to find the right product and market mix – matching and aligning the right product or service with a targeted set of customers. In doing so, firms make assumptions about their customers’ preferences and needs that they then should test and verify. A firm’s inability to empathize with customer needs and align to what customers value can ultimately lead to business failure. Another reality is that customer needs and preferences shift. It is therefore critical that firms continuously test and validate their assumptions about customers’ perceived value to make sure their products and services meet real customer needs and are valued by customers.

Despite research promoting new methods of identifying customer value, many firms are stuck. They continue to do what has been successful in the past or fail to continuously challenge their understanding of their customers’ perception of value. This places firms in a weaker competitive position against other firms vying for the same customer segments. Meanwhile, others can lose their customer orientation over time, losing sight of verifying customers’ needs or limiting resources to conducting customer/user research. Customers are no longer treated as the key foundation for success. On the other hand, when business and operational procedures become oriented inward to satisfy internal company needs (e.g. accounting procedures) or are reactive to constraints (e.g. financial, staffing), these may end up impeding the customer relationship.

Customer centricity enables firms to maintain their customer orientation. It allows firms to test products and services before rolling out to market and reaching scale. Firms can identify new market segments (the people you don’t know) and improve product and service delivery to existing markets (the people you think you know). Benefits such as market share and profitability accrue when the firm identifies which core capabilities align with their customers’ value proposition. They can then invest in those core capabilities and seek to cut costs or outsource actions that do not add value.
How can firms incorporate Customer Centricity?

Improvements in technology and data analytics have provided new opportunities to better understand customer behaviour and customers' perceived value of products and services. Firms can now capture more customer data, more frequently, and for specific business contexts. By doing so, they gain better appreciation of customer needs and actual behavioral preferences, even when they don’t match what customers have said. With this knowledge, firms can orient their capabilities and processes to deliver value to their customers.

More and more firms utilize Minimum Viable Product (MVP) methods to validate customers’ perceived value of initial products, integrating user feedback into progressive prototypes. This enables firms to save money on product development by promoting products that reflect validated customer value. Businesses and NGOs alike need to analyze and present this data in easy-to-absorb customer profiles or personas, experiences and journeys to ensure all employees have the tools to evaluate whether products and services are creating value for customers and meeting their needs.

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A Minimum Viable Product (MVP) is a product with just enough features to rapidly assess customers’ perceived value (e.g.: generate validated learning about customers) using the least amount of effort. MVPs have been utilized by business throughout history, but the concept has gained renewed popularity through the Lean Startup movement.

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Leveraging a Customer Journey Map

A customer journey map communicates the story of the customer’s experience with a firm, starting from initial contact, to ongoing engagement, and ending with a long-term, value-added relationship. It is a visual diagram that identifies key interactions and touchpoints a specific customer profile has with the firm. This visual communication tool also addresses key stages throughout the lifecycle of the customer relationship, looking at the customer’s feelings, motivations, needs and value derived during those touchpoints. The journey map must include all aspects of a firm’s interactions with a customer, addressing customer-facing and back-end processes, so that all activities are aligned to the customer’s stage in the journey and maximum value can be created for the customer. (See Figures 2 and 3 for examples of journey maps).
A journey map provides the firm with a visual communication tool to stimulate discussions among employees concerning their customers and the firm’s value proposition. The mapping exercise also offers an opportunity to intentionally identify assumptions or even unknowns about customer segments to then test and validate, so the firm can deliver associated value.

Customer journey maps can take a variety of forms, as they are dependent on the firm’s interaction with customers. One firm may map how a customer perceives making payments or how a prospective client becomes a loyal client. Another firm may map how a customer might transform over the life of their relationship, enabling a firm to cross-sell additional products as the client ‘grows.’ A map that diagrams a customer’s experience while purchasing products and services from a firm might address the following questions:

- What is the specific customer segment trying to achieve?
- Why are they engaging with the firm?
- What are their expectations (needs, aspirations; what problems are they trying to resolve)?
- What is the firm’s value proposition to the specific customer profile?
The example below is from a kick-off workshop MEDA facilitated with grant recipients in Nairobi in June 2018. MEDA held these workshops in each region to share the key objectives and vision of INNOVATE and enable the grantees to learn about the other projects in the portfolio. This customer journey map was originally drawn in the Nairobi workshop by Bidhaa Sasa, and adapted for this paper.

Figure 3: Bidhaa Sasa’s original whiteboard map from INNOVATE’s Nairobi kick off workshop (top) and Adapted Customer Journey Map (bottom).
Discovering Customer Segments: Three Scenarios

Firms can pursue customer centricity through a variety of segmenting methods. MEDA uses several methods to identify customer segments by developing profiles and pursuing customer-centric action(s) designed to improve the customer experience. Scenario one and two below are examples from other MEDA projects, while the third scenario is from a partner in the INNOVATE portfolio.

**Scenario 1: Segment by demographics**

When approaching customer segmentation, firms can start identifying segments by using available demographic data, building different customer profiles based on geography, gender, income, education, etc. This approach creates initial profiling and enables further exploration with more specific surveys. For example, MEDA’s project team in Ukraine started segmenting women smallholder farmers by conducting surveys and focus group discussions to understand their decision making and how they access information and to identify market sales channels. (Figure 4)

With the additional data, the team created a customer journey map characterizing the “current state” of the segment (“I grow, someone comes and buys”) and envisioning a “future state” (“I grow for a specific market channel and I understand the market specifications”). The team then created a series of action steps that could lead women smallholder farmers from the current state to the future state. These action steps became “testable hypotheses” in a causal results chain – from current to future – enabling the team to determine what actions were most important in moving women smallholder farmers to the desired future state.

INNOVATE grant recipients are starting with this method as well: developing more insight on how they (1) segment their clients, (2) understand and profile their client segments, (3) learn what each client segment desires and values and (4) orient products and services along the specific client value proposition.

**Scenario 2: Clustering algorithms**

When demographic data is not helpful in identifying customer segments, MEDA has turned to machine learning clustering algorithms\(^2\) to determine groups. Clustering techniques like “k-clustering” or “agglomerative clustering” can be helpful in identifying underlying data relationships.

In Figure 5, MEDA used agglomerative clustering on production costs of peanut farmers to differentiate clients experiencing low-yield (red box) and clients with high-yield (green box). Further statistical analysis of these clusters revealed that the low-yield client segment was spending less effort on weeding (purple dashed box), resulting in the comparatively lower yields. Cluster identification enables treating each client segment differently.
Low-yield clients: a firm could explore why low-yield segments invest little effort on weeding and land preparation. By further identifying factors that drive labor decisions (e.g.: gender roles, distance, etc.), a firm would be better prepared to support this supplier segment and would benefit from its increased yield.

High-yield clients: might be better prepared to explore issues around soil health and other factors that could further improve productivity and yield.

Machine learning techniques like clustering can reveal additional associations and insights about how to segment and engage clients. This method may show promise for some INNOVATE grant recipients who are collecting client behavioral data (e.g.: production costs, conversion rates) at the product or service level.

Another compelling segmentation method is based on the concept of “designing products around the price.” In this scenario, a firm surveys its potential customers concerning product features, identifying customers’ overall Willingness to Pay (WTP) as well as how much value customers place on specific features. This method enables prioritizing product features around customers’ value as well as identifying customer segments that may be willing to pay more for some features than other customers. A firm should employ the WTP methods early in the product design process so that product and service features can be targeted to specific customer segments and priced according to their perceived value.

One example of using WTP to segment customers comes from INNOVATE’s partner, Bidhaa Sasa, a rural retailer in Western Kenya. As a lean start-up, they first and foremost listen to their customers when selecting possible products to offer and promote. Through surveys, client conversations and focus groups, they take product prototypes to their customers to understand how their customers might use the product and identify how much the customer segment is willing to pay (or not pay) for certain products. The prototype is then adapted and refined (pricing and loan conditions) prior to scaling promoting in a wider market. This process has enabled Bidhaa Sasa to discard non-valued products early in the design process, saving the firm money by only promoting products with market potential. Another example is non-valued products, such as water filters/purifiers where Bidhaa Sasa clients’ closest pricing comparison were buckets which they could get in the market. Feedback included “Why would this item be so expensive if it’s just two buckets on top of each other?”

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2 Python libraries such as Scikit-Learn and Scipy
3 Described by Madhavan Ramanujam and Georg Tacke in Monetizing Innovation (Wiley, 2016)
Pathways to implementing Customer Centricity techniques

So, how does a firm get started on the journey of adopting customer centric techniques? Figure 6, below, shows a few starting points:

Segment Customers

**Investigate:** What is the customer profile? Is it accurate? How do you know?

**Implement** experiments and surveys to validate the firm’s assumptions about its customer profiles and segments.

**Update** profiles and assumptions that no longer match reality. Consider additional data that could be collected to provide insight into client behavior and willingness to pay.

Create Journey Maps

**Map** the firm’s interactions with different segments and identify “touchpoints.” How do customers feel about their interactions with the firm and/or perceive the firm during those touchpoints? Identify potential or known customer pain points.

**Survey** customers and learn their real perceptions.

**Go back** and craft the journey in your business operations that your customers desire. Measure and monitor the customer journey.

Experiment

**Explore** data analysis techniques such as machine learning algorithms and agglomerative clustering. Move beyond segmenting based solely on demographics and cluster based on client behaviour and perceived value.

**Test** customers’ willingness to pay for specific features and experiment with both pricing and feature segmentation.

**REMEMBER:** Implementing a customer-centric culture and strategy does not always necessitate investing in data science, machine learning or “big data.” It starts with curiosity, humility and a willingness to learn what customers desire.
Conclusion

As the INNOVATE project collects learnings and monitors its portfolio progress, several observations about how partners are applying customer centricity models have emerged. Based on interactions, reports and initial monitoring visits, MEDA recognizes that firms will have varied levels of awareness about their customers and different capabilities to apply customer centricity in their businesses. The Consultative Group on the Poor (CGAP) Customer Centricity Maturity Self Assessment Tool, found at: http://customersguide.cgap.org/assessment, allows firms to assess their current level of customer centricity. MEDA observed four different levels of applying customer centric approach within the INNOVATE portfolio based on variations in awareness and capabilities.

To this end, MEDA observed four different levels of applying customer centric approach within the INNOVATE portfolio, based on variations in awareness and capabilities.

The above demonstrates the diverse approaches by each INNOVATE grantee to finding and testing solutions for their respective target customers. It also provides an opportunity to reflect on varied pathways to customer centricity. As MEDA promotes and encourages each project to return to its original hypothesis, test assumptions and learn about the customer, there will be more learnings about specific inflection points in business models, and recommendations for improving and adopting more customer centric processes and perspectives in innovative smallholder finance.

Over 2019, MEDA will publish a series of case studies and other learning papers from INNOVATE grantees to bring forward new learnings and approaches that keep the customer at the center. Stay tuned for more insights from projects ranging from non-conventional collateral in Bolivia, to savings groups and farmer field schools in Rwanda, to community managed loan portfolios for innovative technologies to improve production in Nepal on our website at https://www.meda.org/innovate-resources.
**About MEDA**

Since 1953, Mennonite Economic Development Associates (MEDA) has been implementing effective market-driven programs which have enabled millions of people around the world to realize their economic and social aspirations. MEDA combines innovative private sector solutions with a commitment to the advancement of excluded, low-income and disadvantaged communities. As a dynamic technical innovator, MEDA has expertise in market systems and value chains, climate-smart agriculture, inclusive and green finance, impact investing, women’s empowerment, and youth workforce development. MEDA partners with local private, public and civil society actors, strengthening individuals, institutions, communities and ecosystems, and thereby contributing to sustainable and inclusive systemic change.

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