MOSI OA TUNYA PITCH

INVESTOR READINESS TRAINING

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AFRILABS CAPACITY BUILDING PROGRAMME

AfriLabs

AFD
AGENCE FRANÇAISE DE DÉVELOPPEMENT

Digital Africa

1 Identifying and Understanding your Customer

At the end of this module participants would have answered the following questions:

- What are your customer profiles?
- What is the Cost of Acquiring Customers and their Lifetime Value?

What is a customer profile?

A customer profile is a detailed description of your target audience which includes their demographics, buying patterns, motivations to buy, location and more. Everything you need to know about a group of customers is captured within this one description. The customer profile identifies characteristics of people who are most likely to purchase your product or service. When you have this information, you can identify how best to serve your customers and how to get more of the same type of customer.

Customer Profile cont.

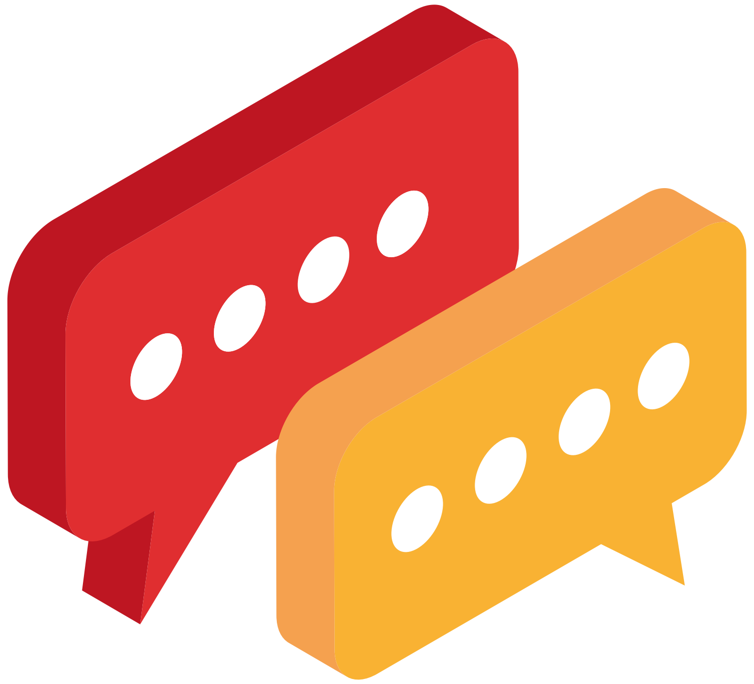
Customer profiles identify customer behaviours so you can serve them better with more relevant

- Products: you know who you are creating for and this influences how and what you produce.
- Channels: you know where your customers consume information and how to communicate with them.

Customer Profile contd

- Planning: you understand why, where and how frequently they buy which helps in projections.
- Price: you know how much your customers are willing to pay for your solution based on their need, options in the market and the value placed on your offering.
- Team: you can plan the structure of your team knowing who you are serving and how they expect to be supported.

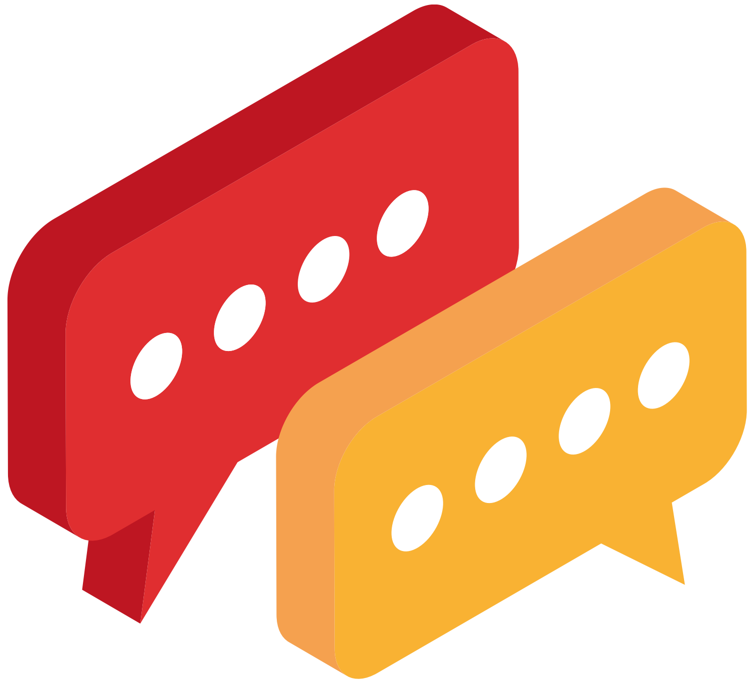
How to Develop your customer profile(s)



How to Develop your customer profile(s) Cont.

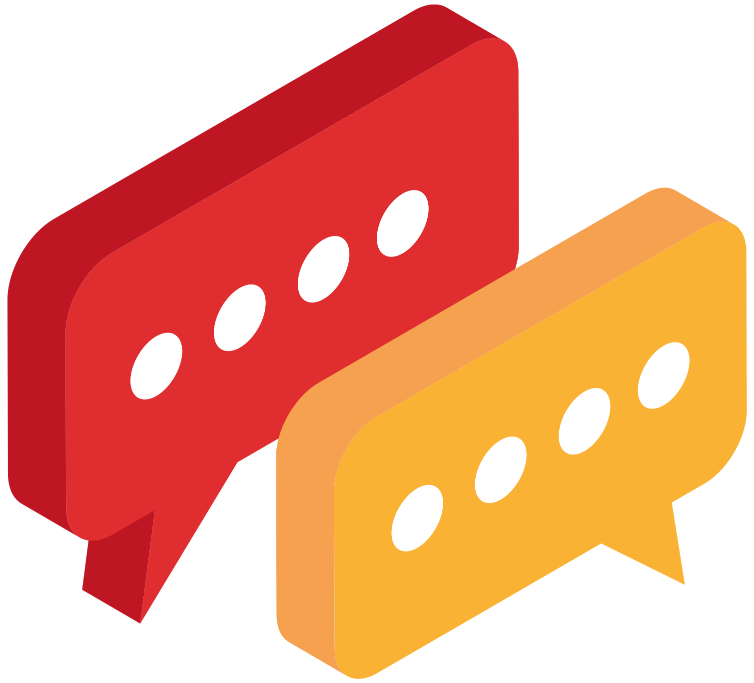
To develop your customer profile

- Focus on your own solution: Identify the customer's need(s), your comparative advantage – what you do better than your competitors (is your solution the most effective, most affordable or most available?) versus what your competitors offer. Be clear on which problems you solve for the customer and how.



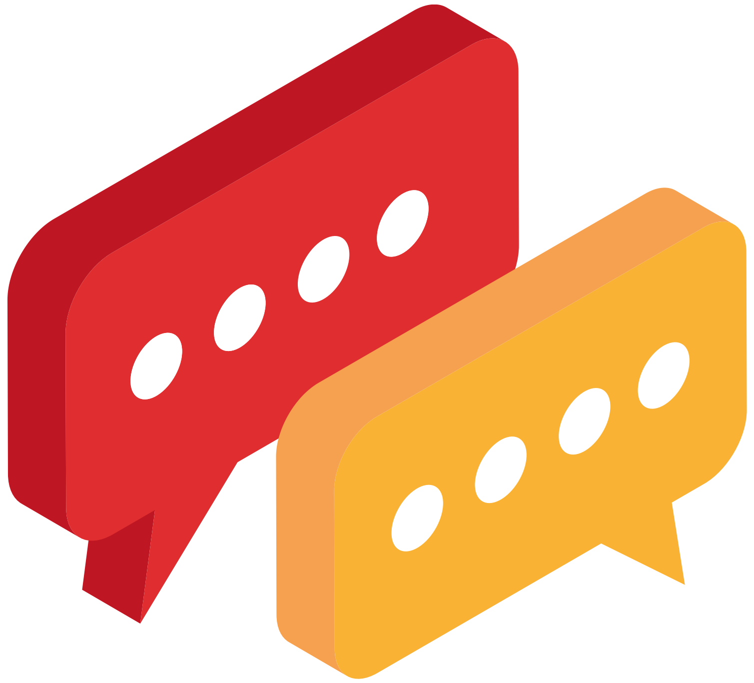
How to Develop your customer profile(s) Cont.

- Map out your customer journey: A customer journey identifies all the places and ways that your ideal customer interacts with your brand. This is not just where they buy your product but also where they see, enquire about and engage with it



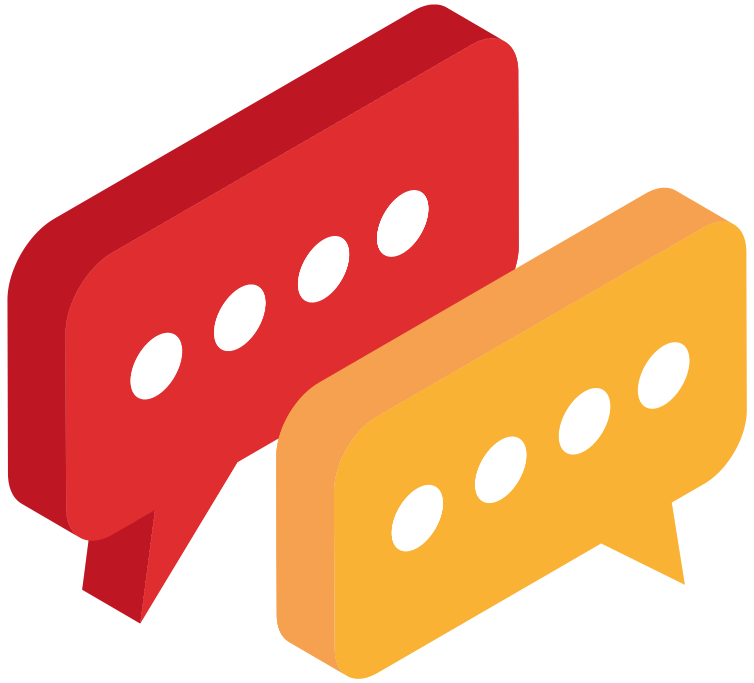
How to Develop your customer profile(s) Cont.

- Listen to your Customers: Where possible, have conversations with them in person or over the phone, carry out surveys and ask open-ended questions on social media to develop a robust system of collecting customer feedback at different touchpoints. This gives insights you may have missed and provides a better understanding of your customer, how they use your product and why they choose your product.



How to Develop your customer profile(s) Cont.

- Build your demographics: Demographics are statistical data that identify individuals based on gender, age, marital status, education and geographical location. Additional information could include household income or social status, occupation and hobbies



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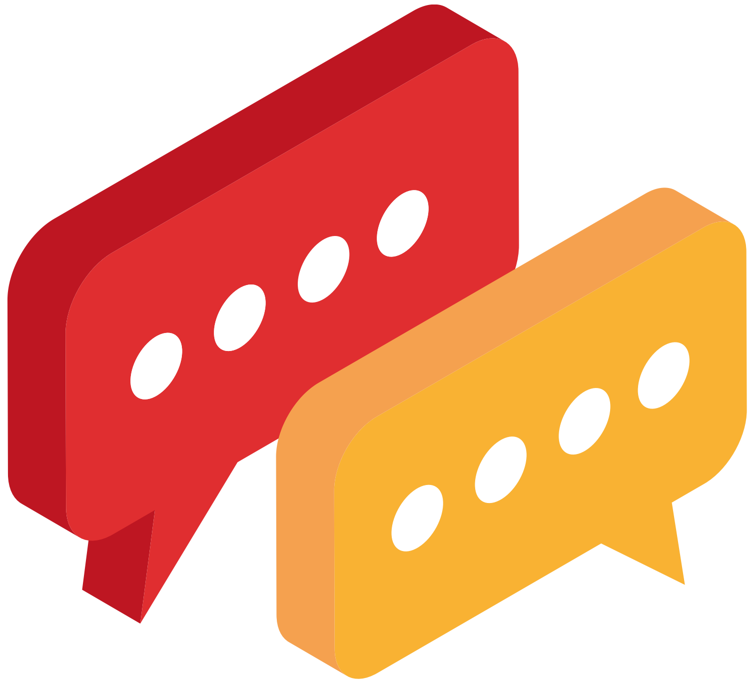
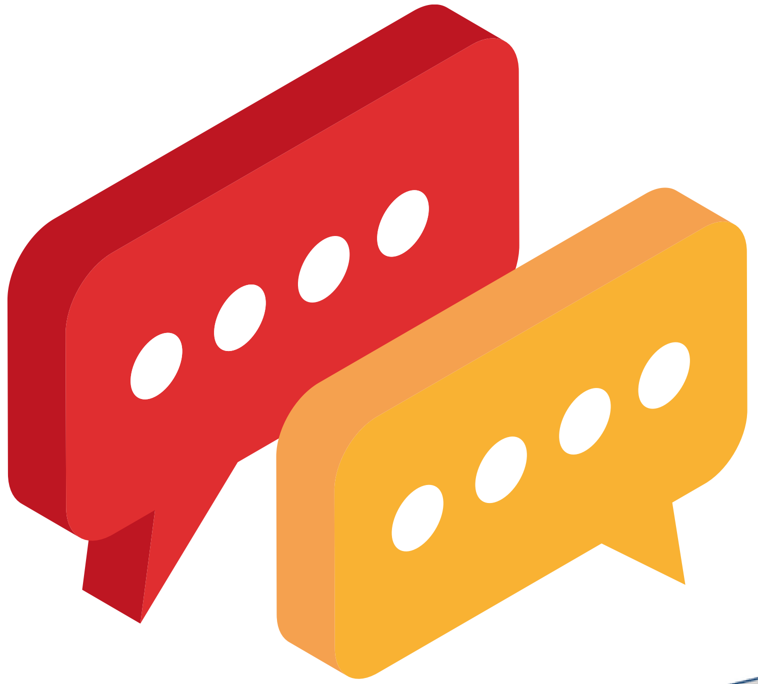
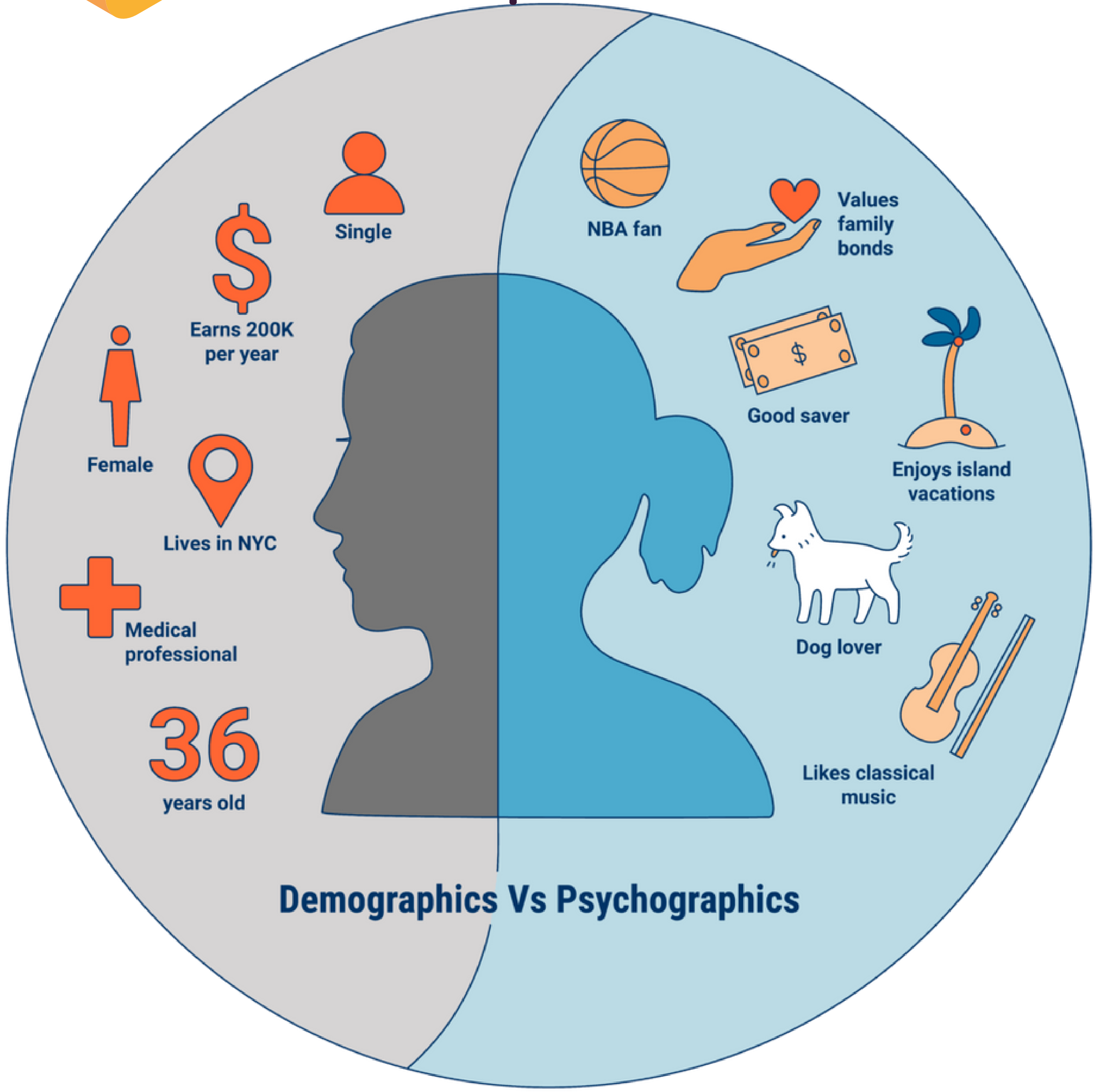


How to Develop your customer profile(s) Cont.

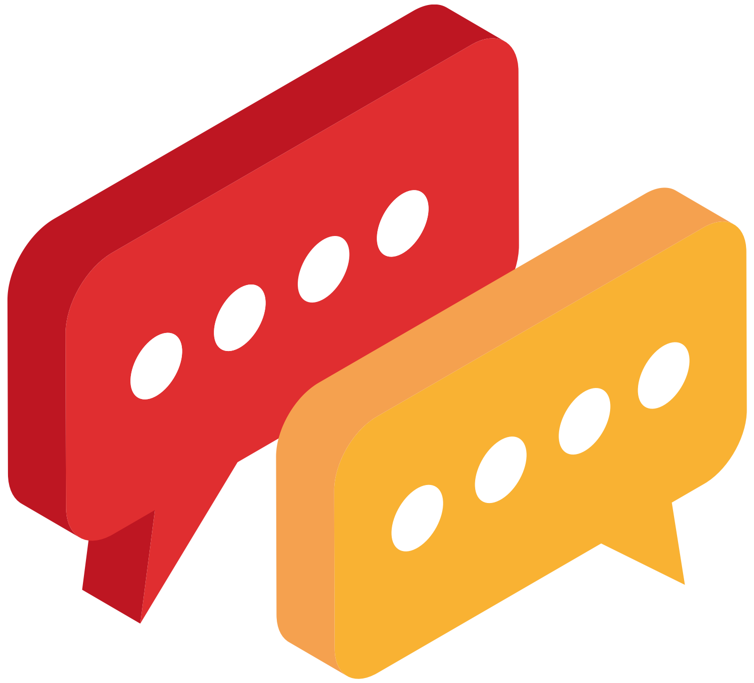
- Identify the respective roles of your customers: Different customer profiles or persona may play different roles in the purchase decision process. Your customer may be either the buyer, user or payer - and in some instances, may have multiple roles. For instance, a sponsored school program would have the Sponsor as the Payer, the Parent as the Buyer and the Student as the User.



How to Develop your customer profile(s) Cont.

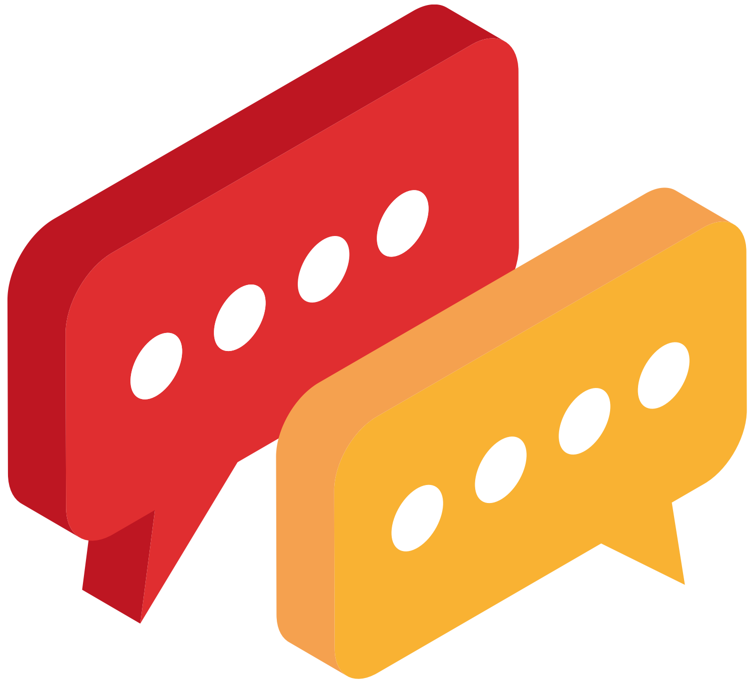


- List their psychographics: While demographics tell you WHO is buying, psychographics tells you WHY they buy. These reasons could include lifestyle, values & beliefs, interests and associations.



How to Develop your customer profile(s) Cont.

With all the information above, you can now build your customer persona. A good guide would be
Gender & Marital Status/ Age range/ Education level/ Income level/ How they use your solution/ Their preferred marketing channels/ their role in the purchase decision making process/ Why they choose your solution



How to Develop your customer profile(s) Cont.

- Review regularly: As your business grows, your customer profile(s) may also change. Repeat the process to stay abreast of your customer preferences so you can continue to serve them effectively.

What is Customer Acquisition Cost and Customer Lifetime Value

Customer Acquisition Cost (CAC) is the average expense of gaining a single customer. The amount is calculated by dividing the total amount spent on marketing and sales over a particular period (month or year) by the number of customers acquired over the same period.

CAC = Total sales and marketing expenses (Amount in currency)/ (number of) new customers acquired

Customer Lifetime Value (LTV) is the average revenue generated by a single customer over the duration of their relationship with you. The longer the duration of the customer's relationship with your organization or product; the higher the LTV. This metric shows the stability of revenue and the level of customer engagement. LTV is calculated in different ways based on the type of business:

Customer Acquisition Cost and Customer Lifetime Value contd

- For companies with physical products: LTV = Average monthly revenue per customer (amount in currency) x customer lifetime (in # of months)
- For SaaS companies: LTV = Average monthly revenue per customer / monthly churn
- For e-commerce companies: LTV = (amount in currency) Average Order Value x (#) Repeat Sales x (# months) Average Retention Time
- For Mobile Apps: LTV = (amount in currency) Average revenue per user X (1/monthly churn) + (amount in currency) Referral value (including referral value is optional)

Customer Acquisition Cost and Customer Lifetime Value contd

Alternatively. these formulas which factor in gross margin also give a more precise calculation of LTV

- LTV = (amount in currency) Average Monthly Recurring Revenue per account X (1/ monthly churn) X gross margin (%) = (amount in currency) OR
- LTV = (amount in currency) Average Annual Recurring Revenue per account X (1/ annual churn) X gross margin (%)

Calculating LTV to CAC Ratio

After calculating both LTV and CAC, the next step is to find the ratio between them by dividing LTV by CAC. This gives you an indication of the relationship between how much it takes you to get a new customer and how much value the same customer brings to your business over the period of their relationship with you.

For example

If your customer lifetime value is $4,000 and your expenses for acquiring a customer are $1,000, then your LTV: CAC ratio is 4:1. The benchmark for most industries is 3:1. A higher ratio shows that you may be spending too little and a lower ratio shows that you are spending too much to acquire and retain your customers.

Example contd

This metric indicates whether or not your company is positioned for sustainable growth and can influences your relationship with the customer – if for instance, the LTV of your customer is potentially $10,000 and the price of your product is $20, you would not treat the customer as someone worth a $20 sale but as a relationship worth $10,000 which is more valuable.

The LTV:CAC ratio should be monitored closely as it can change quickly based on market forces such as a new competitor offer or competition.

Product Value Proposition

A product is an item that is available for purchase to satisfy a customer need. The four main customer needs are price, quality, choice and convenience. A physical or virtual item may be referred to as a product while a set of actions with no physical goods involved may be referred to as a service. The products and services we create address these needs and this is why they are often referred to as solutions.

Product Value Proposition contd

The value of all the components put together to create a single product or service is called the cost and the value which is exchanged to have access to the product or service is called the price. Price can be charged based on the brand or quality of the item, the target audience or the market realities. Knowing your customer profile – who, how and what they buy, will affect your cost (how you build your product) and price (how you sell your product). . A price of a product or service may not reflect the cost but would always reflect the value.

How is the Product Built?

The product development life cycle refers to all the required activities that must occur to develop, manufacture and sell a product. New product development is the process of bringing an original product idea to market.

How each product is created and will determine how scaleable the product is. If each product needs to be individually built and customized based on request, the level of resources involved in each item may make the product not particularly scalable although these products could be priced as premium as they require a lot of manual input and skillful customization e.g. bespoke cakes, clothing and cars.

How a Product is Built (contd)

A scalable business depends on effective processes and structures that support an efficient operation. Scalability allows products to be churned out with the optimal use of resources and can be scaled to meet demand. How many customers can you support each month and do you have the capacity to grow this exponentially each month by up to 5% month on month?

Establishing your Value Proposition

A value proposition is the perceived ratio of quality to cost and can be measured by

- Willingness to pay - how much a customer is willing to invest in experiencing a product
- Competition – what is the perceived quality and value proposition of the direct competition of a product
- Customer Return On Investment – how much bang for buck would a consumer get from investing in a particular product over another; even if they are in different price bands?
- Exclusivity – when there is relative or absolute exclusivity on a product, this substantially improves its value proposition and this can further be ring-fenced by acquiring Intellectual Property Protection.

Intellectual Property & Ownership

If your business idea is unique, then securing ownership through Intellectual Property (IP) protection can become one of your most valuable intangible assets. IP hedges a product from competition and can secure exclusivity thereby increasing willingness to pay for a product or service. Having IP protection also increases investor confidence. In the absence of an agreement, IP rights belong to the individual who created the final or critical elements of the product. Registering the IP ensures that the rights are now owned by the business and not just an individual

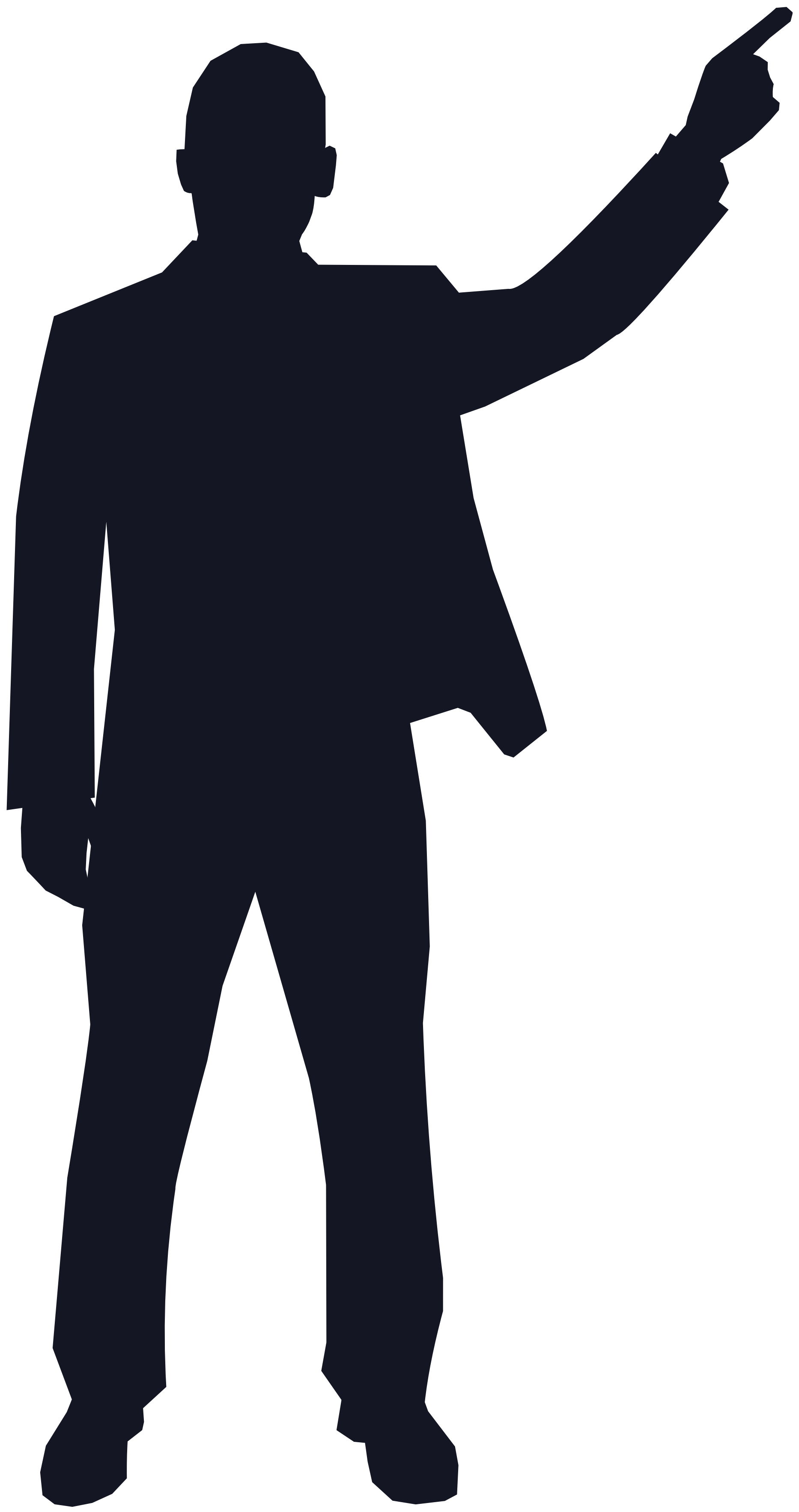
Types of IP registrations

Types of IP registrations contd

- Patents: for new and concrete embodiments of an idea, formula, or product
- Copyrights: which allow owners of original works of authorship including art, books, articles, music, movies, software and so forth to make copies and offshoots of their work

Types of IP registrations contd

- Trademarks: which protect a word, name, symbol, or device used to identify or distinguish a product
- Service Marks: which protect a word, name, symbol, or device used to identify or distinguish a service
- Trade Secrets: Protect the confidentiality of information that is pertinent to the success of a product or business such as programming codes and the Coca-Cola formula.



Does your business have IP-protected or -protectable asset

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