


Exploring customer willingness to pay to build value proposition

Kenya



Sector
Financial Inclusion

Project Type
Lab experiment

Sample Size
300

Behavioral Themes
Mental Accounting

Dedicated Team
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Summary

This project explores how understanding a customer's willingness to pay can help a service provider create value within their products. Since most consumers are price-sensitive, they make decisions based on cost. Therefore, to persuade customers to focus on what they will gain rather than simply on price, a supplier must have a clear understanding of what customers value.

We worked with Lynk, a digital service platform that provides users with convenient access to blue-collar services from vetted professionals such as electricians and painters through their phones. Busara collected data on customer willingness to pay to inform pricing and marketing strategies.

Busara developed a willingness-to-pay questionnaire to capture the highest amount participants would pay for Lynk's products. A diverse group of 300 participants were recruited from different locations within Nairobi based on the simple criteria that they earned above KES 50,000. They responded to a 30 minute survey that explored their willingness to pay for 2 services of interest to Lynk: 1) Hair braiding (asked only to women) and 2) Water heater repair. They were also asked to state their monetary value for Lynk's value features, the unique benefits of the platform which include: referrals, ratings, timeliness as well as quality of materials. The results revealed that the most valued feature of both Lynk products is the quality of materials and the lowest valued feature across both products was the redo guarantee. In addition, participants highly valued the convenience of being braided from home and highlighted the importance of timeliness for water heater repair.



A Behavioral Science Approach

Defining product value can seem difficult because it requires effort to measure. However, doing this can inform how to shift the mindset of the consumer to focus on the value of the benefits acquired from using the product instead of just its cost. Benefits in this case could include: quality of product, company brand, timely delivery, convenience - basically, the overall experience of using the product or service. By establishing customer value, and communicating it effectively, a business can highlight what sets them apart, which further increases how much their customers value their products.



For the purpose of this study, we define customer value as the perceived worth of a product or service over other alternatives in the market. One such way to do this is by understanding a customer's Willingness To Pay, or WTP, which is defined as the most a consumer will spend on one unit of a good or service. While it is impossible to gather data from everyone who might be in the target segment, there are simple ways to gather WTP data that can provide generalizable insights for the rest of the consumer segment.

Design

In order to understand customers' willingness to pay, we designed a question module that asked how much more consumers would be willing to pay above their current cost for each of Lynk's value features, as well as their total cost they would pay for Lynk's package.

First, we captured demographic data including participant's age, income, gender, level of education and marital status.

Second, we asked participants what they currently pay for the 2 services that we cared about. All the women in our sample informed us of their current total cost for hair braiding services (specifically for medium length and sized twists), and we asked the total sample their current cost for water heater repair. For those who had never paid to have their heater repaired in the past, we asked for the estimated maximum cost they would pay.

While making reference to their current costs, we then sought to know how much more money they would add for each of Lynk's value features which are: referrals, ratings, redo guarantees, convenience, timeliness as well as quality of materials.

Finally, we described the total Lynk package - inclusive of all the value features - and requested participants for the maximum amount they would be willing to pay for each of the two services on the platform.



Results

Overall Results

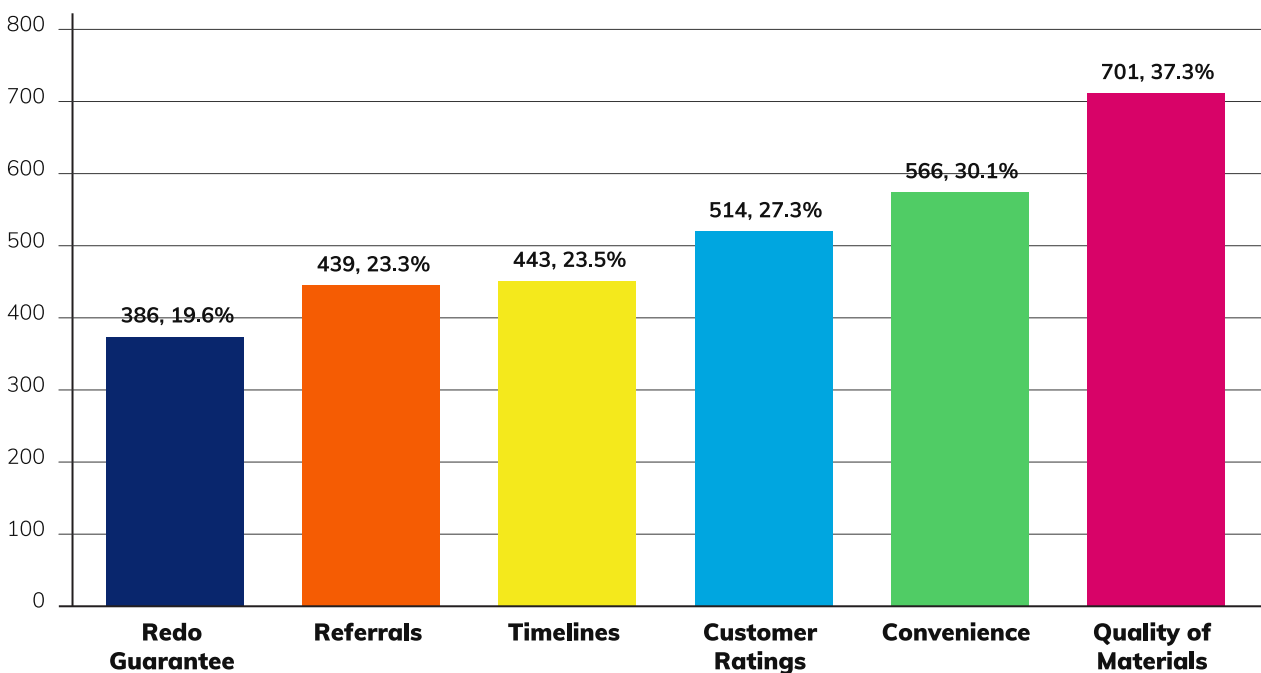
Results from this study suggest that across both services, the quality of materials used is the most important feature, while having a redo guarantee is the least important. Upon exploring the demographic segments within our sample, we also found that married women were a unique market segment that had maintained similar consumer characteristics:

- Value timeliness over convenience for hair braiding
- Have the highest average willingness to pay for heater repair

Hair Braiding Services

Based on our results, participants were willing to pay ~60% more for hair braiding services on the Link platform. There was huge variation in the costs for braiding services due to the diversity of pricing across salons in Kenya. Additionally, after the quality of materials, women valued convenience as the second most important feature. This is likely because it saves women a trip to the hair salon since you can have your hair done in the comfort of your home.

Average cost of Link product features: Hair Braiding (% of current cost)

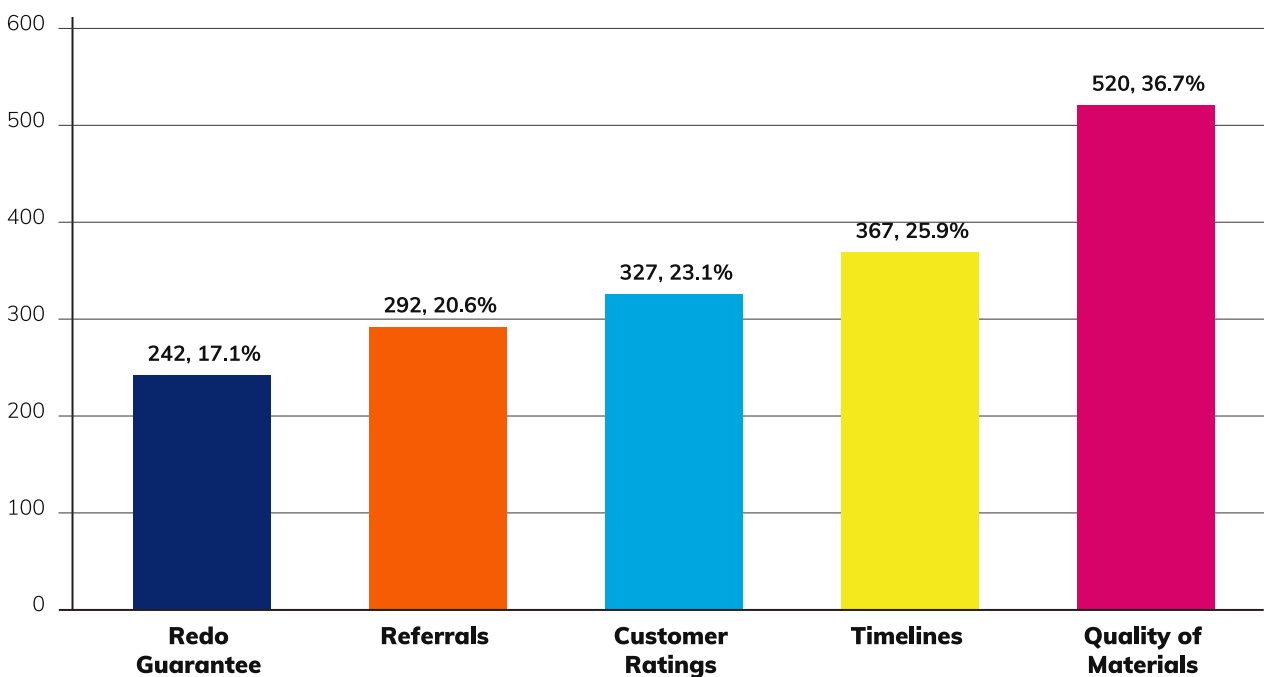




Water Heater Repair Services

Participants were willing to pay 28% more for this service on the Lync platform. For this service, timeliness was the second most valued feature, with participants willing to pay an additional KSH 367 (25% of current cost) for a guaranteed timely arrival. Due to electricians' flexible work schedules and the demand for repair work supervision, consumers placed a high value on a fixed time of arrival to avoid inconveniences.

Average cost of Lync product features: Water Heater Repair (% of current cost)





Discussion and Exploration

Market different product features for particular services

Even though the quality of materials was the most valued feature across both services, there was variation in the following value features i.e convenience for hair braiding and timeliness for water heater repair. Knowing the most valuable feature for a particular product can inform and justify the pricing strategy. It can also inform how to best market the product.

Develop and target customer profiles

Every customer behaves differently, but certain groups or profiles with similar characteristic may make similar decisions. Understanding market segments, if present, can help better tailor products and services for that demographic. From the results, we picked up one distinct profile - Married women - who had similar consumer behavior within the data set.

