Customer Segmentation and Archetypes

Overview of processes
and findings in Uganda
July 31, 2012

Introduction

The incubator brings together partners with diverse strengths, all interested in improving the financial well being of the poor through innovation

CGAP's work in Applied Product Innovation

CGAP is supporting branchless banking providers across the globe to apply design thinking methodology to develop better products for the poor.

The first project was launched in Uganda, through a partnership with Grameen Foundation's Application Laboratories (AppLab) in October 2011. Additional product innovation work has taken place in Mexico with Bancomer and in Brazil with Bradesco.

Grameen Foundation's AppLab Money Incubator

Grameen Foundation's AppLab Money was launched in October 2012 in conjunction with CGAP and MTN Uganda (MTNU). The incubator was set up to spur innovation in the mobile financial services space. The program has two main aims: to scale 1-2 innovative products that are attractive to poor customers but also commercially viable for MTN.
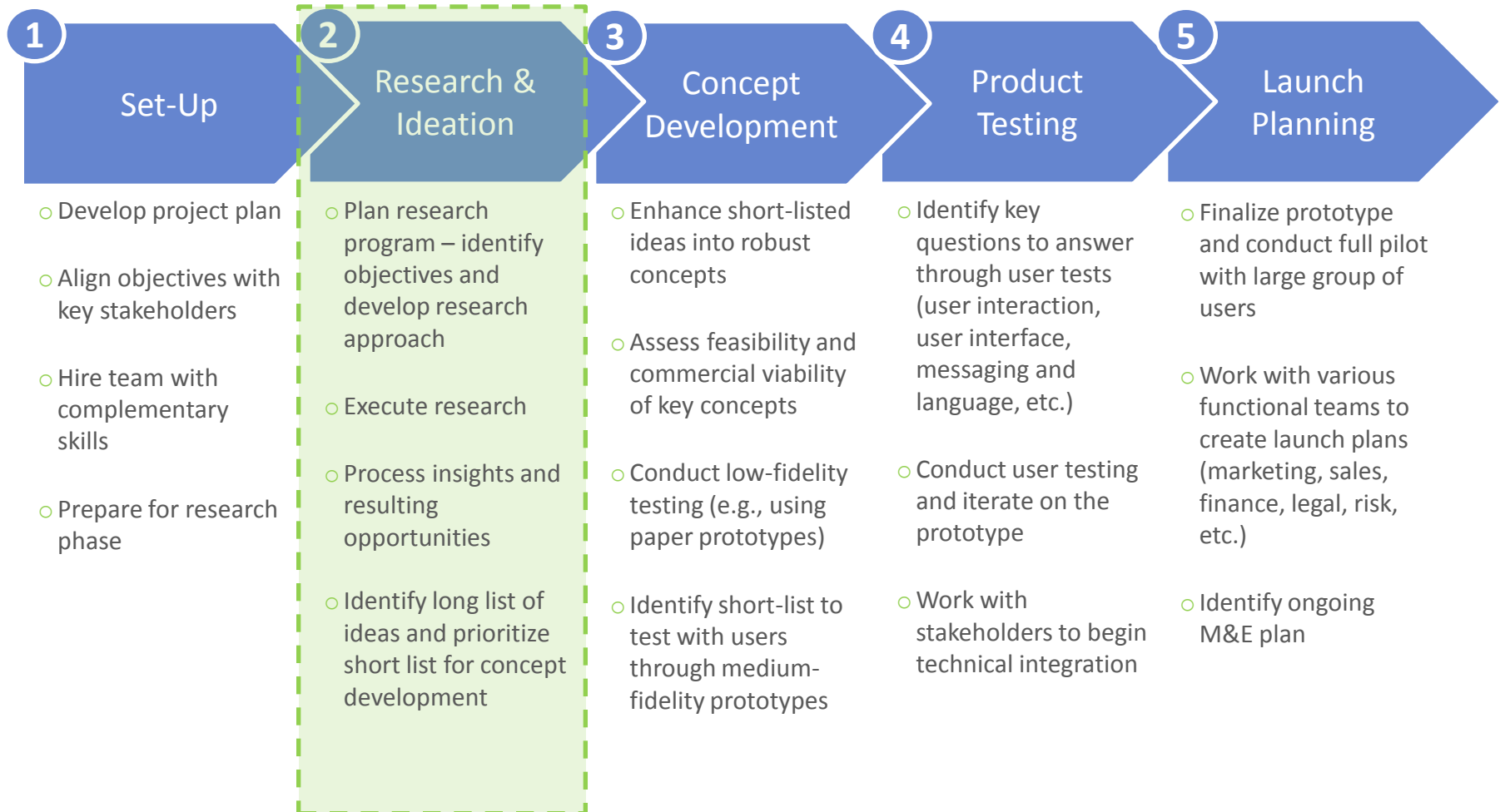
This case study codifies the work and the learnings from the first major phase of this work – setting up the incubator, executing the customer-insights phase and transforming insights into product ideas.

For more information on the project overall and the research and ideation phase specifically, please find our full Case Study on SlideShare: http://www.slideshare.net/CGAP/cgap-grameen-foundation-applab-case-study-part-1.

Introduction: Our Approach

We pursue a five-phase process to product development; the customer segmentation was an integral component of the Research & Ideation phase

AppLab Money Incubator: Product Development Approach

1 Set-Up
- Develop project plan
- Align objectives with key stakeholders
- Hire team with complementary skills
- Prepare for research phase

2 Research & Ideation
- Plan research program – identify objectives and develop research approach
- Execute research
- Process insights and resulting opportunities
- Identify long list of ideas and prioritize short list for concept development

3 Concept Development
- Enhance short-listed ideas into robust concepts
- Assess feasibility and commercial viability of key concepts
- Conduct low-fidelity testing (e.g., using paper prototypes)
- Identify short-list to test with users through medium-fidelity prototypes

4 Product Testing
- Identify key questions to answer through user tests (user interaction, user interface, messaging and language, etc.)
- Conduct user testing and iterate on the prototype
- Work with stakeholders to begin technical integration

5 Launch Planning
- Finalize prototype and conduct full pilot with large group of users
- Work with various functional teams to create launch plans (marketing, sales, finance, legal, risk, etc.)
- Identify ongoing M&E plan

Introduction: Key Learnings

We identified key considerations for developing a market segmentation:

|	
Design the tool for segmentation	Have a point of view around how you believe you will segment the market, and make sure to write research questions with that in mind; this will ensure the right data is collected from the start.
Allow time for the process	Plan enough time for data collection and analysis to ensure segments are identified, sized, prioritized and profiled before progressing too far into qualitative research – this will focus the work around products that serve target segments.
Make it unique, actionable, sizable	Good market segments must be unique (reflect different needs), actionable (reachable through targeted distribution and communication channels), and measurable (can be sized and prioritized). Finding a good segmentation may require testing several approaches before finding one that works for a particular market.
Find the right skill set for segmentation	Segmentation is part art and part science. The right skillset is required to create actionable, meaningful market segments. Engage individuals and organizations who know how to do this properly.

Research and Segmentation Approach

Priority Segments Overview

Opportunities and Archetypes

The Data: Segmentation survey methodology

We conducted a quantitative survey covering 2,634 Ugandan households with the objective of a) identifying generalizable trends and behaviors and b) supporting segmentation
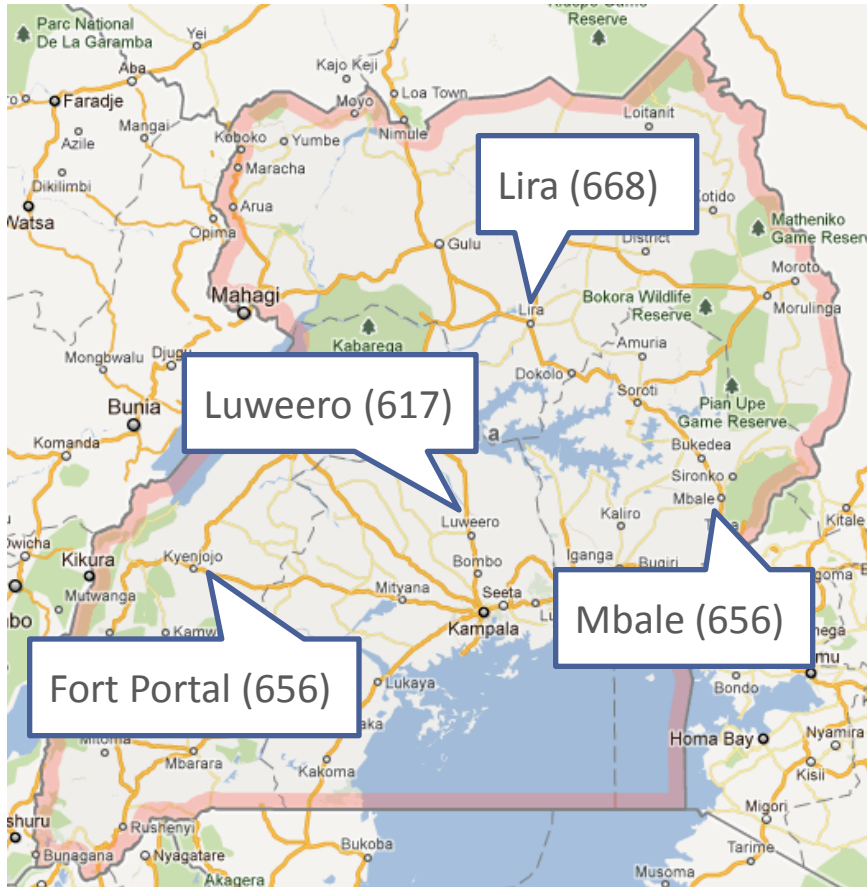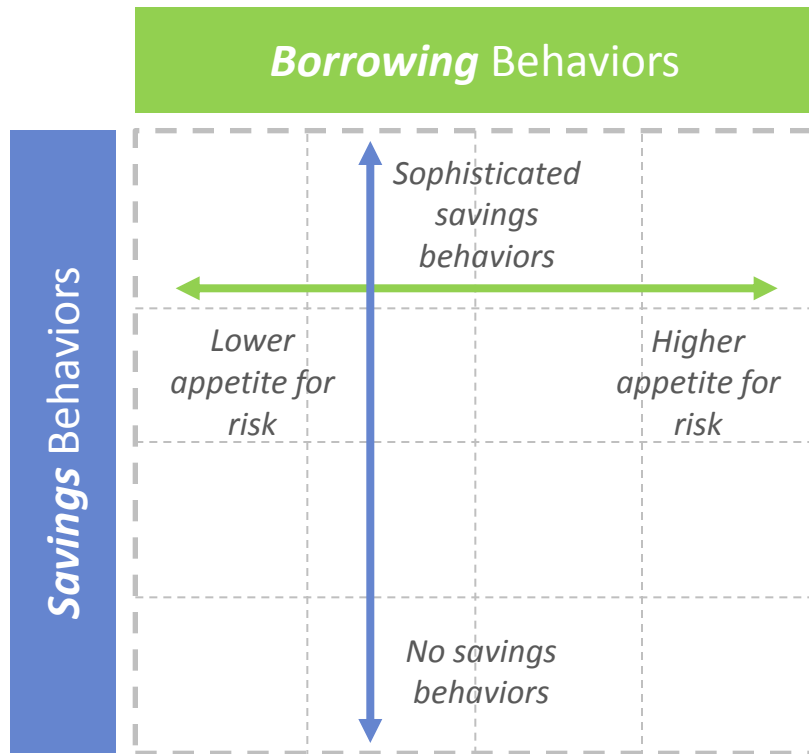

Household Selection:

- Mostly Rural: 90% rural, 6% peri-urban, 4% urban

- Low income: Avg. income per month of USD 109/month PPP adjusted

Question Topics:

- Demographics

- Financial service behaviors: types of services, types of providers, motivations, amounts

- Mobile usage: phone ownership, voice/sms/data use, mobile money registration and use

The Approach: Segmenting on behaviors

Segmenting based on financial behaviors and motivations yielded distinct, actionable market segments that could be addressed with new products

Borrowing Behaviors

Savings Behaviors

Sophisticated savings behaviors

Lower appetite for risk

Higher appetite for risk

No savings behaviors

- Segmenting based on **demographics**, while easy to understand, is not always predictive of consumer behavior

- Segmenting based on **needs**, and in some cases, **stated intent to behave in certain ways**, are highly predictive of consumer behavior

- For identifying the opportunity for financial products, segmenting based on financial behaviors (savings and borrowing) and motivations yielded actionable segments

# The Approach: Classifying the behaviors

We identified segments that were not only large but also accessible customer groups that would be interested in new products and channels

Savings Classification*

[Classified by their savings motivation]

- High-Capacity Savers: Sophisticated users who save for long-term objectives (retirement, inheritance) or income-generation (interest, business investment)

- Low-Capacity Savers: Users who save for near-term concerns: emergencies, flexibility or income smoothing, or special events

- Non-Savers: Respondents who indicated they do not save, formally or informally
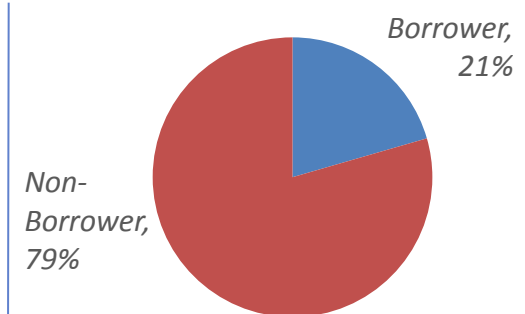
Savers

Non-Saver, 47%

High-Capacity Saver, 39%

Low-Capacity Saver, 14%
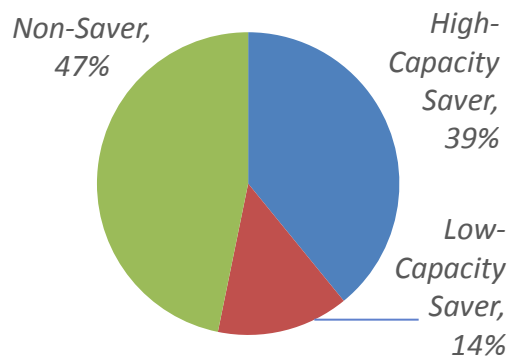
Borrowing Classification*

[Classified by historical borrowing behavior]

- Borrowers: Respondents who indicated they have taken credit at least once in the previous 12 months

- Non-Borrower: Respondents who indicated they have not taken credit even once in the previous 12 months

Borrowers

Borrower, 21%

Non-Borrower, 79%

CGAP

GRAMEEN FOUNDATION

*The survey questions that yielded the above savings data were biased toward cash mechanisms – such as savings groups, secret savings spots, or formal institutions. The credit question focused on more formal mechanisms that require repayment – as such, this question excluded "gifts" that do not carry the expectation of repayment.

The Result: Six market segments among the poor

When segmented by financial activities, a broad range of distinct segments appeared

High-Capacity Savers ← → **Low-Capacity Savers**

Borrowers ↑

Non-Borrowers ↓

Financial Manager — Educated and sophisticated consumers, often formally employed, and 1 out of 2 banked	**"I'm a Gamblin' Man"** — Older male banked farmers. Relatively wealthy with highest appetite for risk	**Village Entrepreneur** — Older traders in rural villages with large families to support and significant interest in credit, little in saving
Careful Investor — Savvy men and women who save to invest in their farms and businesses	**Newly Independent** — Teenagers or 20-somethings who save for risk management and are very interested in using mobile financial services	**Non-User** — Rural farmers who do not currently use financial services, nor have great interest in using new services

CGAP   GRAMEEN FOUNDATION

9

The Segmentation: Overview

The segments range from Financial Managers – the highest users and most wealthy – to Non-Users, the least savvy and least affluent

	Financial Mgr	Careful Invstr	Gamblin Man	Newly Indpnt	Village Entpr	Non-User	Survey Average
% Female	37%	40%	28%	42%	44%	48%	43%
% Rural	87%	87%	85%	81%	94%	95%	90%
Avg Income*	156K	127K	145K	105K	97K	66K	103K
% 1st Occupation: Ag	36%	42%	42%	44%	44%	60%	49%
% 1st Occupation: Formal Job	21%	8%	12%	7%	8%	3%	7%
% with Bank Accounts	51%	32%	42%	26%	15%	7%	23%
Education							
None or Incomplete	19%	27%	27%	28%	37%	46%	35%
Primary or Secondary	53%	61%	55%	58%	54%	52%	56%
>Secondary	28%	12%	18%	14%	9%	2%	10%
Mobile Phone							
% Phone Ownership	87%	81%	77%	73%	70%	48%	67%
% MM Use	69%	61%	71%	61%	60%	38%	53%
% Registered MM	57%	42%	46%	45%	22%	23%	35%
Store Value on E-Wallet	75%	56%	58%	54%	33%	20%	46%

*Includes average for any respondent who did not have an irregular income.

The Segmentation: The financial literacy journey

Our segmentation represents not just a break-up of the population, but a journey that users make as they grow increasingly financially sophisticated

The Financial Literacy Journey

Financially accelerating

Careful Investors
Financial Managers

- High financial sophistication and "savvyness"
- Stable environment where they respond to challenges and opportunities, and increasingly grow their capacity to earn

Financially resilient

Gamblers
Newly Independents
Village Entrepreneurs

- Moderate financial sophistication and "savvyness"
- Somewhat able to deal with emerging shocks/ opportunities
- Able to invest in their personal capacity to earn

Financially vulnerable

Non-Users

- Low financial sophistication and "savviness"
- Vulnerable to unexpected shocks
- Unable to take advantage of opportunities requiring funds
- Find it hard to save to invest in their personal capacity to earn

Increasing financial security

- As users become more sophisticated in how they save and raise capital, they progress across the segments

- This journey leads to increased financial security; for example, as people move through the stages, they are able to:

  - Invest in income-generating activities;

  - Decrease their vulnerability to unexpected expenses;

  - Increase their ability to respond to emerging opportunities

CGAP

GRAMEEN FOUNDATION

The Process: Identifying high-potential segments

We next identified priority segments – those that were not only large, but also accessible opportunities that would be interested in new products and channels
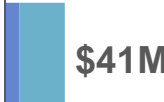
Market Size	1	*How **large** is the market opportunity?*	How many people does this segment represent? What revenue pool does this represent – both savings and credit, formal and informal?
Accessibility	2	*How **accessible** are these customers?*	How many customers have bank accounts already? How far are these customers from banks or Mobile Money agents? How likely are they to be registered for MM?
Willingness to Switch	3	*How **willing** are these customers to **use new products?***	How interested are these customers in trying new savings, credit or payments products? How much do they trust institutions – MNOs vs. banks or SACCOs?

CGAP   GRAMEEN FOUNDATION

The Process: Selecting attractive segments

After looking at market size as well as accessibility and willingness to switch, Gamblin' Men and Non-Users were the least appealing segments

	Financial Mgr	Careful Invstr	Gamblin Man	Newly Indpnt	Village Entpr	Non-User
1 Market Size	High	High	Medium	Low	High	Low
2 Accessibility	Low	Medium	Low	High	High	Medium
3 Willingness to Switch	Low	High	Medium	High	Low	Low
	✓	✓		✓	✓	

The result: Four priority segments

Segment	Insights Summary	Possible Revenue Pool
Financial Managers	The wealthiest and most sophisticated of customers, Financial Managers are interested in new tools to manage their assets, but already have many choices	$224M
Careful Investors	The largest segment by population, Careful Investors rely on savings to build their assets but there is an opportunity to convert them to productive borrowers	$232M
Newly Independents	The youngest segment with the smallest average household size, Newly Independents have a strong demand for better liquid savings connected to greater payment options	$41M
Village Entrepreneurs	The poorest and least connected segment, they are still savvy investors in their own businesses with high demand for new credit sources and products	$69M

Savings   Credit   Payments

Research and Segmentation Approach

Priority Segments Overview

Opportunities and Archetypes

Priority Segments: Income & expenditures

Income level, regularity, and source all vary significantly across segments, but education and food are consistently the most stressful expenditures

	Financial Mgrs	Careful Investors	Newly Independents	Village Entprs
Monthly HH Income (PPP*)	$160	$131	$111	$103
Regular Income	71%	63%	51%	31%
Trading as primary income	33%	32%	22%	40%
Formal Employment as primary income	21%	8%	7%	8%
Most stressful expenditures	1. Education 2. Food	1. Education 2. Food	1. Food 2. Education	1. Education 2. Food

CGAP   GRAMEEN FOUNDATION

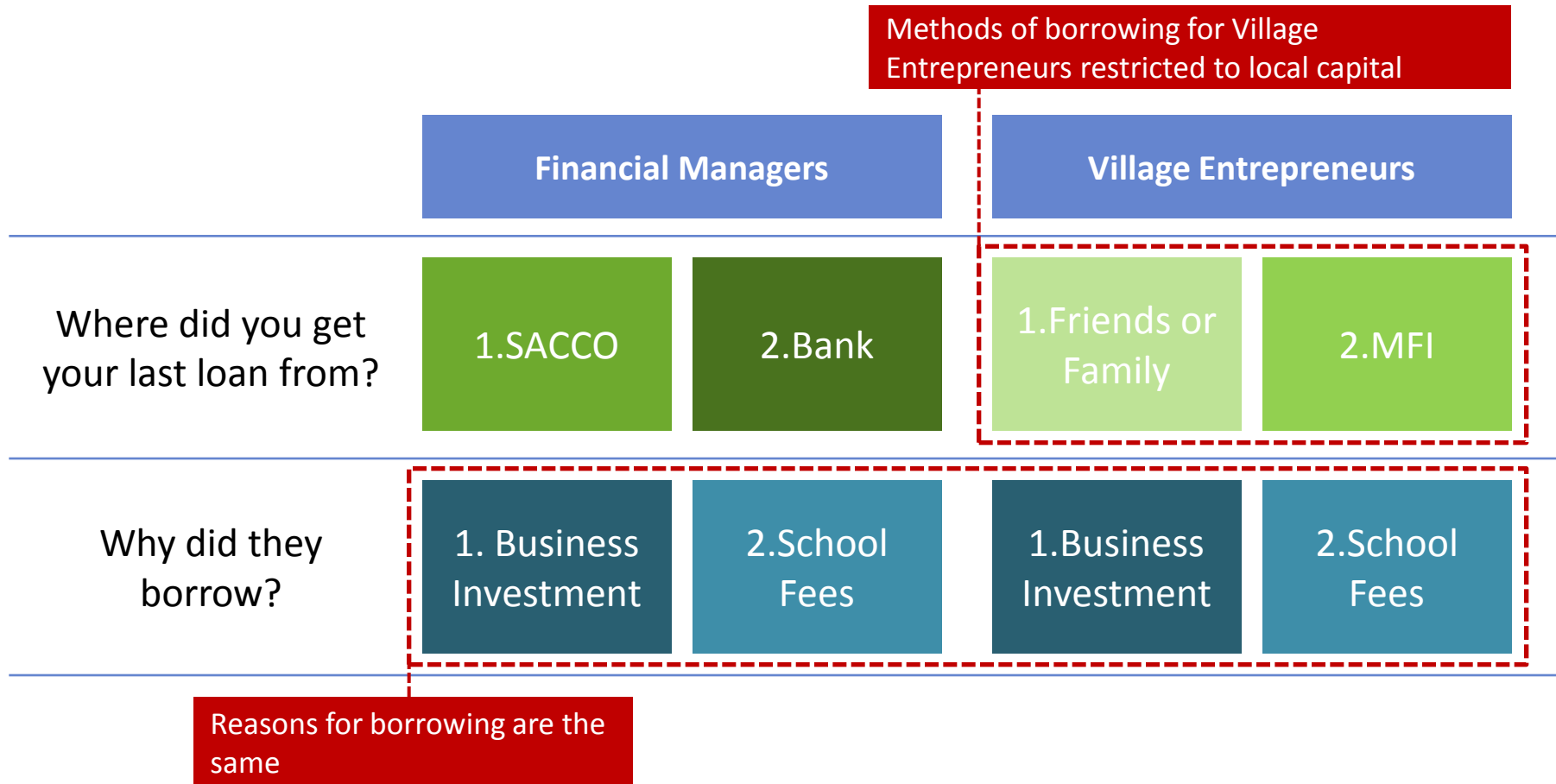# Financial Behavior & Motivations: Savings

Financial Managers and Careful Investors primarily save their money to invest in their businesses, but Newly Independents prioritize liquidity and risk management

Newly Independents do not have assets to invest in so save in very liquid forms, and save purely for risk management

	Financial Mgrs		Careful Investors		Newly Independents	
Where do they save their money? (top 2)	1.Own Business	2.Bank/ SACCO	1.Own Business	2.Buy Animals	1. At Home (cash)	2.On Mobile Money
Why do they save? (top 2)	1.Emer- gencies	2.Invest in Business	1.Invest in business	2.Emer- gencies	1.Emer- gencies	2.Inde- pend- ence

Financial Behavior & Motivations: Credit

Financial Managers and Village Entrepreneurs access loans from different sources, but borrowing motivations are the same: invest in businesses and pay for school fees
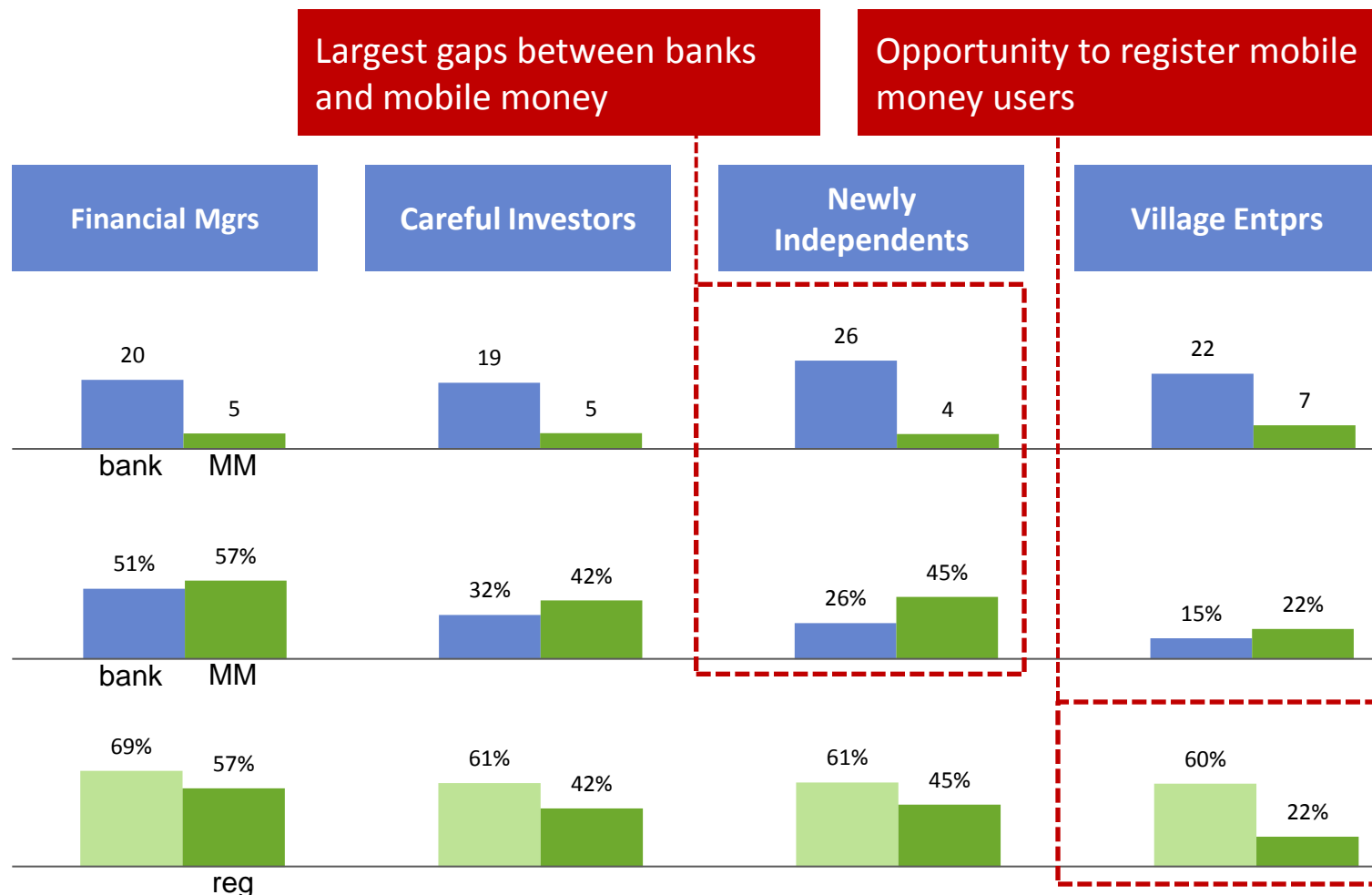
Methods of borrowing for Village Entrepreneurs restricted to local capital

	Financial Managers		Village Entrepreneurs	
Where did you get your last loan from?	1.SACCO	2.Bank	1.Friends or Family	2.MFI
Why did they borrow?	1. Business Investment	2.School Fees	1.Business Investment	2.School Fees

Reasons for borrowing are the same

Gaps and Opportunities: Access & use

Across all segments agents are much closer than banks, but the gap between bank accounts and MM accounts is smaller, signaling room for more MM registrations
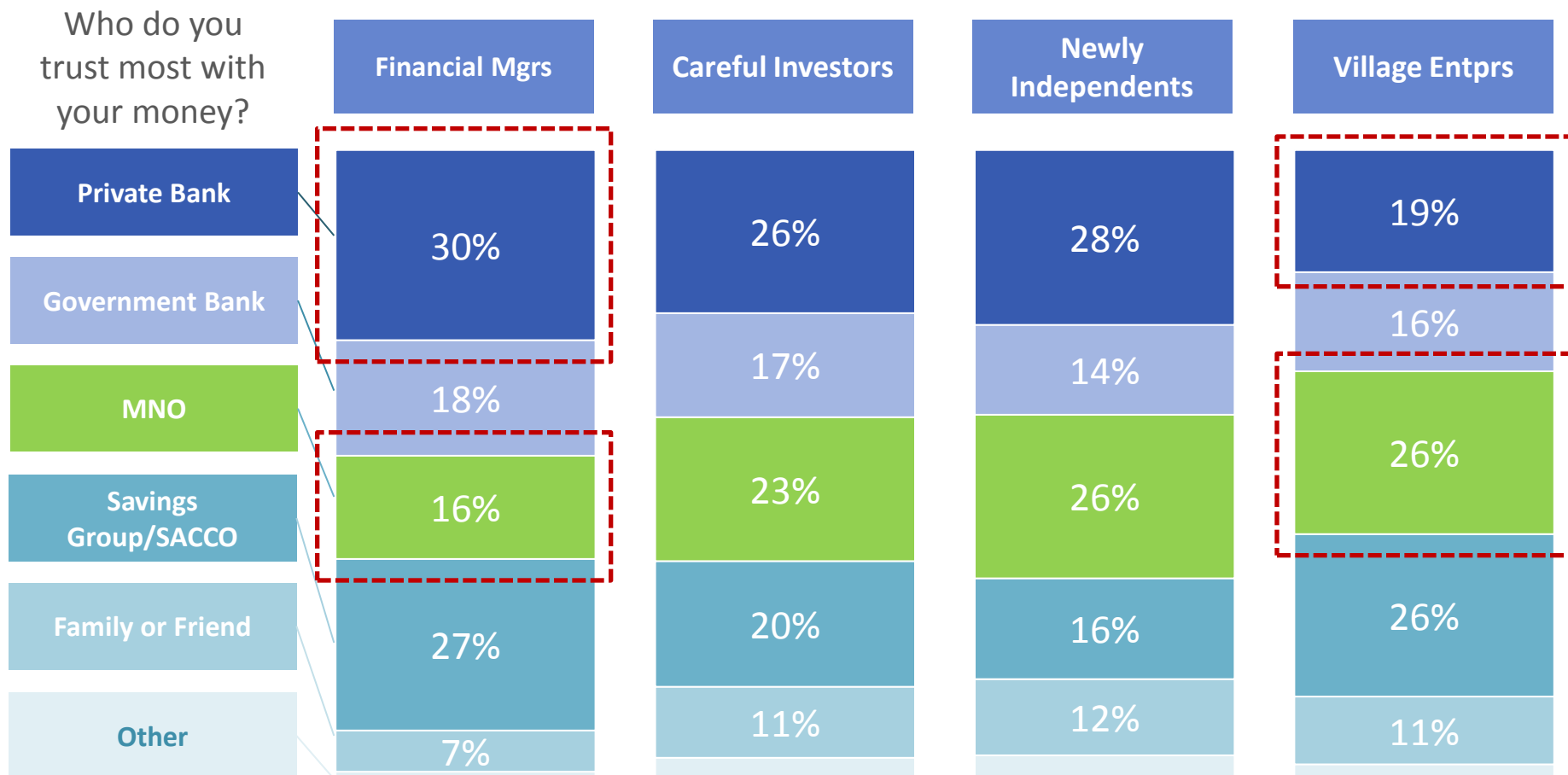

Largest gaps between banks and mobile money

Opportunity to register mobile money users

	Financial Mgrs	Careful Investors	Newly Independents	Village Entprs
Distance to bank vs distance to MM Agent (km)	bank 20, MM 5	19, 5	26, 4	22, 7
Bank accounts vs MM accounts	bank 51%, MM 57%	32%, 42%	26%, 45%	15%, 22%
MM users vs MM registered	69%, reg 57%	61%, 42%	61%, 45%	60%, 22%

Gaps and Opportunities: Trust

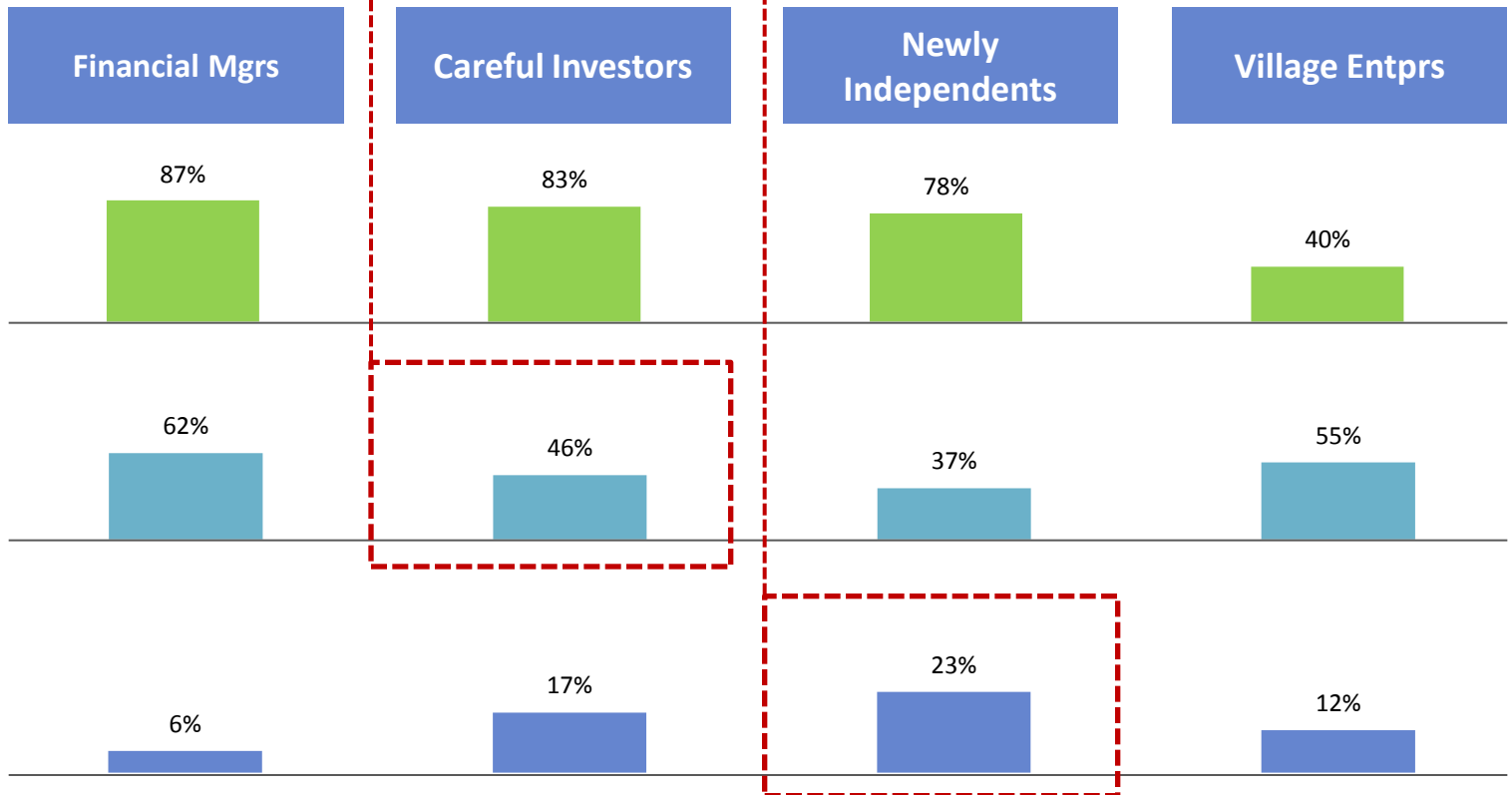*When asked who they trust most with their money, preferences across segments matched who they already know and use*

Who do you trust most with your money?

	Financial Mgrs	Careful Investors	Newly Independents	Village Entprs
Private Bank	30%	26%	28%	19%
Government Bank	18%	17%	14%	16%
MNO	16%	23%	26%	26%
Savings Group/SACCO	27%	20%	16%	26%
Family or Friend	7%	11%	12%	11%
Other				

CGAP · GRAMEEN FOUNDATION

Gaps and Opportunities: Interest in new products

Careful Investors indicate relatively high interest in new credit products, while Newly Independents are most interested in more payments options

High interest in new credit products indicates potential to convert to borrowers

Highest interest in new payments products

	Financial Mgrs	Careful Investors	Newly Independents	Village Entprs
% interested in new savings products	87%	83%	78%	40%
% interested in new credit products	62%	46%	37%	55%
% interested in new payment products	6%	17%	23%	12%

CGAP   GRAMEEN FOUNDATION

Research and Segmentation Approach

Priority Segments Overview

Opportunities and Archetypes

Segment Opportunity: Financial Managers

Focus on supporting bank-led initiatives to deliver trusted and convenient financial services to Financial Managers' doorsteps

Income & Expenditures	Financial Behavior & Motivations	Gaps & Opportunities
Highest and most regular income	***Uses credit to invest in building existing assets***	***May be hard to access as already served by a multitude of products & providers***
▪ 71% report regular income ▪ 34% have monthly HH income above USD 206 (PPP adjusted) ▪ Avg monthly income: USD 160 (PPP adjusted) ▪ 21% report formal employment as primary income source	▪ Credit used for business investment ▪ Savings primarily for risk management ▪ SACCO/Savings Group most common source of credit	▪ Highly interested in new savings and credit products… ▪ …but also already use a wide array of financial tools and providers (SACCOs, Banks, Mobile Money) ▪ Far greater trust of banks and SACCOs with money than MNOs

FINANCIAL MANAGER
Super saver, consistent borrower

Name: Maricerina

Place: Luwube, Uganda

Primary occupation: Farming, livestock, brick making

Marital status: Husband deceased; 3 children

Monthly income: 500,000UGX

Maricerina is a widowed farmer and brick maker in Luwube, Uganda. Brickmaking is profitable – in December she sold 30,000 bricks she'd made over six months for 3,000,000UGX. With the proceeds, she purchased a boda boda that she rents to a driver in Kampala for additional income.

Maricerina maintains her house as well as her son's house. She saves in three savings groups because each group's saving limit alone is too low (10K each). She also saves as in several different locations in her own home for different purposes. She takes loans as needed for business or personal reasons; most recently she'd borrowed from BRAC to pay for her son's wedding.

"Of course I save my money in many different places. Do your trousers have only one pocket for you to put money in? Different places help me save for different reasons."

Insights & Observations

Motivated by creating a better life for her children.

Dislikes when people borrow from the group and fail to repay.

Using different savings accounts for different purposes.

Ideas

Idea #1: Saving product that enables separate savings sub-wallets

Idea #2: Virtual lending platform that enables P2P lending

CGAP

GRAMEEN FOUNDATION

24

Segment Opportunity: Careful Investors

Focus on converting Careful Investors from pure savers to saver-borrowers through accessible, reliable, and flexible credit products targeted towards business and farm asset investment

Income & Expenditures	Financial Behavior & Motivations	Gaps & Opportunities
Relatively high income, but informal	**Relies on savings as a means to invest in building existing assets**	**While they do not borrow today, many express interest in future borrowing**

Income & Expenditures
- 24% have monthly HH income above USD 206 (PPP adjusted)
- Avg monthly income: USD 131 (PPP adjusted)
- 42% report agriculture as primary source of income

Financial Behavior & Motivations
- Savings primarily used for investing in own business
- Often save money in livestock
- Only 32% hold bank accounts

Gaps & Opportunities
- Despite being non-borrowers, 46% are interested in new credit products, indicating that given access to appropriate credit many could be converted to borrowers
- Trust banks and MNOs equally

Ugandan Millionaire

Careful Investor
Super saver, business investor

In Western Uganda a shopkeeper dubbed the "Ugandan Millionaire" found a way to save 2 million shillings over six months.

He made a little money each day in his shop from many small purchases. At the end of the day, he put the coins in a small plastic bag, wrote down the amount and date saved, and then recorded the running balance in a book.

Then he put the packet in a big sugar sack. For him, it was very safe – he said it would be hard for someone to up and run with a heavy bag of coins.

Any shilling notes earned that day were re-invested into the business.

> **"Small money can become big money over time."**

Name: Ugandan Millionaire

Place: Western Uganda

Primary occupation: Trader

Marital status: Married with some children

Monthly income: 300,000UGX

Insights & Observations

Some users do save up.

Behavior was related to something he did every day – money coming in.

Something comforting about the documentation, the process of bagging and labeling each set coins, vs. just putting them all in a big bag.

Ideas

Idea #1: Auto-deduction (deducted from airtime, transfers, etc.)

Idea #2: A service that monitors progress, shows aggregate balance, deposit history, etc.

CGAP

GRAMEEN FOUNDATION

Musinguzi Nikodemus

Careful Investor
Super saver, money lender

Musinguzi is a cell phone repairman and farmer in Fort Portal. He started using MM to save – each week he deposits 50-100k and stores it until he finds use for it (investing in business, or money lending).

Has one SIM he keeps just for MM, and another he uses for voice/SMS. He keeps the MM SIM at home to decrease the risk of loss or theft.

When he makes loans, the terms are fixed – 10%, 1 month. He saves on MM because banks are very far (12KM to Kyenjojo town) and MM agents are very near.

"Money in the pocket is not yours, because you can easily eat it. It is better to save where you cannot easily touch your money."

Name: Musinguzi Nikodemus

Place: Fort Portal, Uganda

Primary occupation: Cell phone repairman

Marital status: Married with some children

Monthly income: 500,000UGX

Insights & Observations

Decoupling of communication and voice behaviors – separate SIMs.

Decoupling of saving and investing activities.

"Saving up" using MM to save for an investment.

Ideas

Idea #1: Create a P2P lending product to do lending over the phone

Idea #2: Products that provide him more capital to lend out to others

27

Segment Opportunity: Newly Independents

Focus on providing novel MNO-led payment and liquid savings products directly through the phone

Income & Expenditures	Financial Behavior & Motivations	Gaps & Opportunities
Low Income, but smallest average HH size means demands on income are lower	***Prioritizes liquidity, ease, and security in savings options***	***High trust in mobile money and highest interest in new payment products***
▪ 49% report irregular or no income ▪ Avg monthly income: USD 111 (PPP adjusted) ▪ 44% agriculture as primary occupation ▪ 37% of HH larger than 6	▪ Saves to manage risk and to have financial independence, not for investment ▪ Primary saving option is cash at home (29%). Second most common is mobile money(18%) ▪ Primary reason for saving on the phone is for "security"	▪ Most interest of all segments in new payment products ▪ High trust in MNOs, low trust in SACCOs/Savings Groups

Jovia Kalani

NEWLY INDEPENDANTS
Struggling saver, non-borrower

Jovia and her husband are migrants from Rwanda. She earns her living selling cow ghee, earning 20K UGX/week.

Last June, she began saving in a secret pot at home (5K UGX/week) to send to her mother. Her husband found ought and stole the money for booze and his other wife. Jovia's friend, Mina, told her to use MM.

Jovia bought her first phone and signed up for MM. However, her husband found it, thought she'd received it from an affair, stole it and gave it to the second wife. Jovia signed up for second SIM and MM account, keeps the SIM hidden, and now only sends Mina to deposit for her.

"Saving at home is hard because there is no privacy and it is not secure – I need ways to quietly save my money and then be able to send it to my mother abroad."

Name: Jovia Kalani

Place: Roma village in Kinyogoga sub-county, Nakaseke district

Primary occupation: Farming, selling cow ghee

Marital status: Married with children

Monthly income: 20,000UGX

Insights & Observations

Women need ways to protect savings from others.

SIM is safe, secure way to store money.

Women trust friends.

Ideas

Idea #1: Mobile-based savings products

Idea #2: International remittances

CGAP

GRAMEEN FOUNDATION

29

Segment Opportunity: Village Entrepreneurs

Focus on providing credit to expand access beyond limited local sources. Lead with the MNO brand and target micro-enterprise working capital needs

Income & Expenditures	Financial Behavior & Motivations	Gaps & Opportunities
Low income traders with largest avg. household size	***Loans limited to local sources only, but motivations are same as Financial Managers***	***High demand for new credit products but little access to or comfort with banks***

Income & Expenditures
- 69% report irregular or no income
- Lowest avg monthly income: USD 108 (PPP adjusted)
- 40% report trading as primary occupation
- 64% of HH larger than 6

Financial Behavior & Motivations
- Almost completely "unbanked" (7% with bank accounts)
- Loans taken locally mainly from friends & family
- Average loan size ½ that of financial managers
- Credit used for business investment

Gaps & Opportunities
- Very low mobile money registration though high mobile money usage (likely due to KYC)
- Far greater familiarity and trust of MNOs than banks
- Little interest in new savings products, but high interest in new credit offerings

Matovu Simon

VILLAGE ENTREPRENEUR
Credit hungry, non-saver

Simon is a bike repairman in Fort Portal, Uganda. He needs small amounts of capital to invest in new parts that he can use in his bike repair business.

Currently he goes to friends, families, and sometimes SACCOs for small loans to invest in his business. The returns are good – over six months he makes a 100% ROI on any funds he puts into his business.

Simon doesn't feel a need to save; he covers his family's daily living costs with earnings from his business , and if he needs money for an emergency, he borrows more. He wishes he had access to more credit, however – he thinks he could grow his business with larger loans.

"I prefer getting money in one lump sum upfront and then paying down over time. If I can earn when I put money in my business, why save and not make anything?"

Name: Matovu Simon

Place: Fort Portal, Uganda

Primary occupation: Bike repair, farming

Marital status: Married with children

Monthly income: 80,000UGX
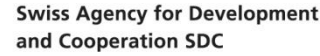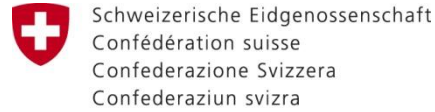
Insights & Observations

Money makes money when moving, makes nothing when stationary.

Some people have much higher appetites for risk.

Ideas

Idea #1: Additional lines of credit via mobile phone

Idea #2: Credit scoring for atypical borrowers

Advancing financial access for the world's poor

www.cgap.org

www.microfinancegateway.org