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Illumexico Program Proposal: Designing a Referral Program to Boost Sales of Solar Home Systems

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Designing a Referral Program to Boost Sales of Solar Home Systems

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For: **ILUMÉXICO**[®]
PRENDE LA LUZ DE MÉXICO



Miller Center
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Executive Summary

Opportunity: ILUMÉXICO is growing its solar home business and has an opportunity to acquire more customers through the development of a referral program. A referral program would leverage social connections and ILUMÉXICO's reputation within the communities to attract non-customers to ILUMÉXICO. In the majority of communities where ILUMÉXICO works, there are numerous individuals who received donated solar home systems through the Secretaria de Desarrollo Social (SEDESOL). However, in order to maintain, repair, and/or buy new products, many of these individuals often go to expensive hardware stores. Unlike ILUMÉXICO, these stores do not offer after-sale services, suggesting that there is a market opportunity of individuals that ILUMÉXICO could include in its customer network. To realize this opportunity, ILUMÉXICO, can invite its existing customers to participate in a referral program.

Research Activities: The comparative study research conducted in rural Campeche, Mexico (see our report, *Lighting the Way Forward in Rural Mexico*), revealed fundamental differences between ILUMÉXICO's customer network and the government solar program recipients. One hundred percent of ILUMÉXICO customers who were interviewed in the Campeche communities during the comparative study would recommend ILUMÉXICO's products and services to others in their community. Furthermore, many said they have already recommended ILUMÉXICO to others. However, currently there isn't a system in place to track/monitor if ILUMÉXICO's customers are actually referring the product and service, or that others are buying from ILUMÉXICO based on those referrals.

Deliverable Description: This report offers case studies of how other social enterprises, in similar situations to ILUMÉXICO, were able to expand their customer. It then outlines next steps ILUMÉXICO could take to obtain the necessary information that will inform a design of a successful referral program. The report suggests two possible avenues for starting and implementing a referral program.

Existing Customer Referral Programs in the Base of the Pyramid Markets

Hystra's report Marketing Innovative Devices for the Base of the Pyramid, explains that the majority of the customers at the Base of the Pyramid make their decisions based on what their neighbors and friends say, i.e., referrals. Hystra is a global consulting company that specializes in inclusive business. It supports corporations, social enterprises and impact investors in the design of sustainable expansion strategies for the Base of the Pyramid markets. Hystra's studies found that 92% of solar home systems were brought based on recommendations. Additionally, they recommend two ways to increase commercialization: conduct demonstrations in public or in small groups so that the communities can see the benefits of the product and service: and, understand the politics within each community.



Photo Credit: Border Green Energy Team

Border Green Energy Team – Repairing and maintaining free government systems

Similarly to ILUMÉXICO's situation in Campeche, the Provisional Electricity Authority of Thailand installed more than 200,000 solar home systems in rural communities in Thailand in 2004. Within a year most of the systems had failed although they had been designed to last approximately 5 years. These failures left many individuals skeptical of solar solutions. Furthermore, more than 200,000 households once again needed a supply chain to ensure continuous lighting in their homes. BGET imagined an opportunity to maintain and repair these solar energy systems by using the relationships between its local networks of technicians and administrators and individuals in the communities. BGET became successful by explicitly offering to repair and maintain solar home systems installed by the Provisional Electricity Authority of Thailand. It is able to sell customers new products based on their needs because it has established trust through repair and maintenance of government-installed systems.

Toyola Energy Ltd- Forming Promotion Groups

Toyola Energy, like ILUMÉXICO, was trying to expand its customer network. It recruited informal sale agents or "evangelists" who worked on commission to promote its cook stoves. These evangelists inform the official sales agents of the demand for stoves in their local communities, allowing agents to visit the priority areas with more guaranteed sales and without losing existing demand. These evangelists receive a commission for their work. For example, an evangelist receives a 5% cash commission or a free stove by convincing 10 friends to buy. Toyola Energy was successful in expanding its customer base through its "evangelists" and the incentive program.



Photo Credit: Toyola Energy Ltd.

Possible Next Steps for ILUMÉXICO

Before designing and implementing its referral program, ILUMÉXICO should conduct additional research to further understand the most effective ways to access this potential market. A deep understanding of the reasons why individuals in these communities go to hardware stores, such as “La Stihl,” for their needs will allow ILUMÉXICO to create an appealing and targeted referral program. Based on the comparative study, case studies, and Hystra’s analysis, to realize the opportunity of a referral program ILUMÉXICO could do the following:

1. Conduct a competitor analysis

Carry out additional research to understand why individuals who received free solar home systems from government programs go to different hardware stores to buy replacement parts. Ask them if they know of ILUMÉXICO. These questions will clarify how consumers behave in the market and serve as an analysis of ILUMÉXICO’s competitors. The competitor analysis should be conducted in communities where ILUMÉXICO works with selected government program recipients. Possible questions that can be incorporated into this competitor analysis are included in the appendix. Information from this research will help ILUMÉXICO design strategies to access these new customers.

2. Execute a randomized control study

A randomized control experiment within the different service regions of ILUMÉXICO, could be run to collect statistically meaningful data on what motivates customer behaviors. The randomized controlled study, led by an economist, is essentially a marketing experiment to collect data about what motivates customers to recommend ILUMÉXICO and to buy from ILUMÉXICO. Such a study would help clarify whether the referral program has the potential to succeed or not. Different regions would be given different rewards to drive the referrals, and their effectiveness would be measured against each other. These methods could reveal a range of success across different regions of México and eventually indicate the most adequate compensation for the most effective referral program and could possibly allow for an estimation of the quantity of new customers that could be acquired. However, a disadvantage of a randomized controlled study is the time and expense incurred; these should be balanced against the total market potential.

After completing these two additional research steps, ILUMÉXICO should have adequate information to design a referral program that best suits the needs and desires of the communities it serves. Moreover, since the communities will have already been informed about the new program, ILUMÉXICO should generate results more quickly when it officially launches the referral program.

Design a Referral Program

Enterprises can grow by either acquiring more customers or acquiring more business from their existing customers. A referral program would help ILUMÉXICO acquire new customers. Referral programs attract new customers through the recommendations of existing customers and incentives and are most effective when levels of customer satisfaction are high. As mentioned previously, in our study, 100% of ILUMÉXICO customers indicated they would recommend products and services to friends. While there are multiple ways to develop referral programs, the following are a proposal of two models for ILUMÉXICO's consideration.

Version 1: Discounts



Offer a discount on either the next payment or the next purchase for the existing customer who recommended ILUMÉXICO and for the new customer. This way, not only would the existing customers have an incentive to recommend ILUMÉXICO, but also the recipients of the recommendations would have an incentive to become an ILUMÉXICO customer.

Version 2: Gift



Give a solar flashlight to the existing customer who recommended ILUMÉXICO and to the new customer. This option could be beneficial because it would allow existing customers to have a form of light when leaving their homes at night, while also promoting the different products ILUMÉXICO sells.

Both of these referral program options could be successful because each provides incentives to existing customers and new customers within the community. Additionally, the referral program would help foster ILUMÉXICO's reputation as a good and generous enterprise. However, more research is recommended to determine if a discount or a product is more motivating for both individuals providing recommendations and becoming new ILUMÉXICO customers.

Steps for Implementation of a Referral Program

- 1.** Promote the referral program in the ILUCentros through community engineers and ambassadors. They will explain the program during their routine activities with existing customers of ILUMÉXICO.
- 2.** In a customer base, assign a simple code to each existing customer. For example, a name and two numbers, e.g., Miranda16.
- 3.** To begin, when existing customers recommend ILUMÉXICO to other community members they will give those community members their code.
- 4.** If these community members then decide to buy from ILUMÉXICO, the community engineers or ambassadors will ask if someone recommended ILUMÉXICO and, if yes, ask for the code or name of the referring customer.
- 5.** With the code, the community engineers or ambassadors can then give out the discount or the solar flashlight to the referring and new customer.
- 6.** Showing appreciation to customers who recommend ILUMÉXICO is likely to catalyze further recommendations; these incentives demonstrate to existing customers that their effort and help is appreciated.

The referral program's success will depend on the community engineers and ambassadors. They will need to promote and maintain the referral program, explaining how it works thoroughly to individuals in the communities.

Conclusion

The comparative study research conducted in rural areas of Campeche, Mexico (see other Lighting the Way Forward in Rural Mexico report), revealed a fundamental difference between the customer network of ILUMÉXICO and the government solar program recipients. Interviews revealed that ILUMÉXICO customers are overall more satisfied with their products and services and those government program recipients are left to fend for themselves when anything happens to their solar systems. To expand its customer base, ILUMÉXICO could incorporate government program recipients into its network through the development of a referral program.

The offering of repairs, maintenance and incentives has worked for other social enterprises. Word of mouth referrals are the most efficient when new products are promoted on the Base of the Pyramid. However, in order to create a successful referral program, ILUMÉXICO needs to thoroughly understand the market and customer motivations.

With a competitor analysis, ILUMÉXICO can understand why the recipients of government programs go to other hardware stores instead of the ILUCentros when they need repairs for their solar energy systems. Additionally, if ILUMÉXICO conducts a randomized control study, it can discover what incentives would motivate a greater number of recommendations, and track sales from those recommendations. After conducting this additional research, ILUMÉXICO can design and commence a referral program to expand its customer base and increase its impact on rural communities in Mexico.

Works Cited

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Appendix

Appendix 1 Introduction to the Project

As Global Social Benefit Fellows of the Miller Center for Social Entrepreneurship at Santa Clara University, Isabel Miranda (author of this report), and Madeline Nguyen conducted a comparative study evaluating the level of customer satisfaction among ILUMÉXICO customers and government program recipients. Through this study, we realized that there was an opportunity for ILUMÉXICO to acquire new customers through the development of a referral program.

Over a three-week period we visited nine communities near the Candelaria and Escárcega areas of Campeche. There, we were able to interview 32 individuals, of whom 20 were customers of ILUMÉXICO and 12 were recipients of government systems.

Appendix 2

Interview Questions

For ILUMÉXICO Customers in Campeche

1. How long ago did you buy your solar home system?
2. As of now how many solar panels do you own?
3. Did you know of other options besides ILUMÉXICO to purchase a solar home system?
4. Why did you decide to buy from ILUMÉXICO?
 - a. Was it the best option?
5. How have the employees of ILUMÉXICO treated you?
6. Since the purchase has anything been damaged?
 - a. How long ago?
 - b. What was damaged?
 - c. What did you do when it was damaged?
 - d. How much time from when it was damaged to when it was fixed?
7. What do you like most about the product/service?
8. Do you dislike something about the product/service?
9. Would you like to change or improve something about the product/service?
10. What is your satisfaction level with the product/service?



- a. Why would you pick that face?
11. Would you recommend the product/service?
 - a. Why?
 - b. What would you say to someone who doesn't have a solar home system?
12. Any other comments?

For SEDESOL Recipients in Campeche

1. How long has it been since the government gave you your solar home system?
2. How many panels do you currently have?
3. Are all the panels from the government or did you buy some?
 - a. Where did you buy them from? Why?
4. How have the employees of the government treated you?
5. Have they come to check and maintain your system since they installed it?
6. Has anything in the system been damaged since you received it?
 - a. After how long was it damaged?
 - b. What was damaged?
 - c. What did you do or where did you go to fix it?
 - i. Why did you go to La Stihl?
 - ii. How much did it cost?
 - iii. Do you know of other places where you can get replacement parts and repairs?
 - d. How much time passed from when the system was damaged to when it was fixed?
7. If your system hasn't been damaged and it breaks in the future would you buy a replacement?
 - a. Where would you go to buy it?
 - b. Why there?
8. What do you like most about the product/service?
9. Do you dislike something about the product/service?
10. Would you like to change or improve something about the product/service?
11. What is your satisfaction level with the product/service?



- a. Why would you pick that face?
12. Any other comment?

Customer Perceptions

1. What store is your inverter from?
2. What are the two main reasons you bought it there?
 - a. Brand
 - b. Price
 - c. Maintenance Service
 - d. Quality
 - e. Variety

Questions for La Stihl

1. Store Size: (Understanding pros and cons of location)
2. Store equipment (air conditioning, furniture)
3. Price of the products.
4. Product lines/ types (specialists Vs. General solution vs. Multiproducts) (Types and variety of brands or alliances)
5. Employees (quantity / roles / personality) (Evaluate customer treatment)
6. Layout (how they are arranged the elements / areas within the space)
7. Differentiators (at the space, ambience, service or product catalog, community activities, etc.) (Mission / Vision)
8. Promotions (type, in which products, frequency).
9. Hook for people (ATL / BTL strategies to attract people)
10. Images of facade and interior to assess the level information communication / promotion appears outside and inside.
11. Promotional material (glued or delivered or counter)
12. Overall Summary of problems and opportunities of each competitor