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Business models of non-MNC firms

serving the BoP in South Africa

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Abstract

As firms intend on entering low-income markets as a result of stagnation in developed economies, they face numerous organisational barriers within their firms and external that hinder entry and ensure continued success in these markets. In order to successfully serve these BoP consumers in emerging markets, new innovative business models are required; however there **are** entities that are currently serving the BoP successfully – these are Small and Medium Enterprises.

The purpose of this study was to deepen our understanding of why small and medium sized businesses have been successful in low-income markets through an understanding of their business models and their competitive advantages over MNCs.

The objective of this report, hence, was to explore the business models for firms that are currently serving the BoP successfully and what their competitive advantages are as compared to their MNC counterparts within the South African context. Using the grounded theory approach of building theory from data that offers a new perspective on the BoP for MNCs a framework resulted and was theorized from the data from interviews with owners of SMEs in the FMCG manufacturing domain. The BoP Blueprint is a framework that describes elements of business models of SMEs in the context of SME Fundamentals – basic business fundamentals and the Customer Core – focus on the customer. Eleven in-depth interviews were conducted with owners from 11 different companies to test the research questions that were derived from the literature.

As a result of the grounded theory, no unique or innovative business models were discovered that made these SMEs successful contrary to the literature and the essence of the findings is that MNCs need to focus on **fundamental business practises** with the customer as the **centre of their decisions** when entering BoP markets.

Keywords

Base of Pyramid (BoP)

Business Models

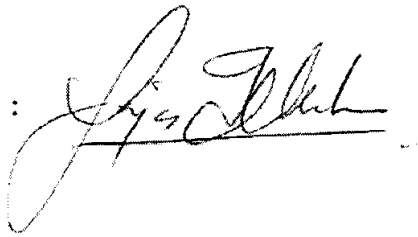
Small and Medium Enterprise

Market Entry

Customer Orientation

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master in Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination at any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.



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1 Chapter 1: Introduction to research problem

1.1 Introduction to the research problem

Because of the current shift in global consumption trends, the world is in the midst of a major swing in economic power. The developed world is losing its dominance in consumer spending and the developing markets are assuming a fast growing position within the global economy (Alexander, 2011). The *Business Monitor International* predicts that by 2021, the developed world will be overtaken in total expenditures by emerging markets, and market opportunities across various sectors such as retail, telecommunications, automotive and service industries will be immense (Alexander, 2011). The main

conclusion is that in terms of nominal US dollar GDP, the emerging world will surprisingly eclipse the developed world in 2017. Figure 1 reflects how the emerging world has grown from just 23% of the total world economy in 1999

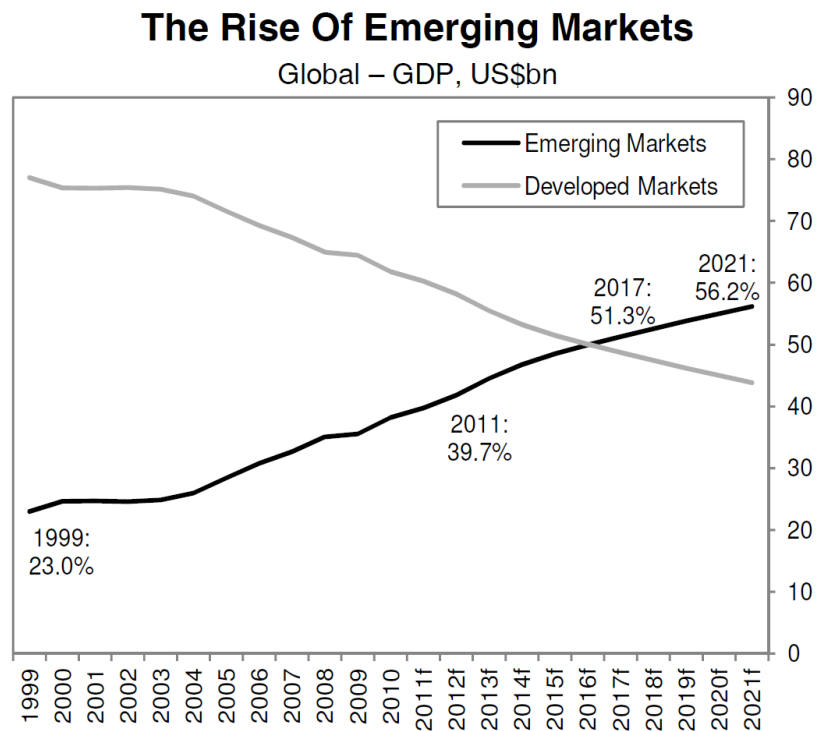


Figure 1: The Rise of Emerging Markets (Alexander, 2011)

to 39.7% by 2011, and is expected to further escalate to 56.2% by the end of the forecasted period of 2021, according to the *Business Monitor International*.

More than 50% of the purchasing power exists with those in the Bottom of the Pyramid (BoP) in emerging markets, and on average the greatest buying power index is in the lowest income level with consumption concentrated primarily on food, housing and household goods (Guesalaga & Marshall, 2008). It is certainly no surprise, then, that an increasing number of firms are attempting to target the BoP as growth in the developed world stagnates.

1.2 Background to the problem

1.2.1 Attractiveness to enter low-income markets

With their nascent middle class, emerging low-income markets are attracting the attention of firms, largely due to the high number of potential customers (Prahalad, 2002, 2007, 2012; Nakata & Weidner, 2012).

Ever since 2002, when Prahalad and Hammond (2002) argued in an influential piece of literature that firms could reach vast new untapped markets, profitably serving the world's four billion low-income consumers, there has been intense debate on the validity of not just the size of the market, but whether or not opportunities truly do exist at the BoP (Karnani, 2007).

Nakata and Weidner (2012) recently summarised important reasons for firms to consider targeting this low-income market: 1) the BoP is a global market consisting of roughly two-thirds of the world's population that has not been addressed; therefore it is the biggest and quickest growing consumer segment; 2) the BoP collectively holds \$9 trillion in assets; and c) the BoP is amenable and eager to spend money on quality products (Nakata & Weidner, 2012).

Guesalaga and Marshall (2008) argued that their analysis shows that the BoP sector compared to the total market, on average, constitutes greater than 50% of the buying

power in emerging countries, with Africa the most dominant BoP area (Guesalaga & Marshall, 2008).

Although Chapter 2 examines in extensive detail academics' debate on the definition and purchasing potential of the 'bottom of the pyramid' or also known as the 'base of the pyramid', many practitioners, academics and business professionals alike have been arguing that there is sufficient opportunity to serve the BoP and make profits (Hammond, Kramer, Tran, Katz, & Walker, 2007; Pitta, Guesalaga, & Marshall, 2008). Increasing numbers of companies have been experimenting with offerings for the Base of the Pyramid (BoP) (Jose, 2008).

While debates are circulating around whether or not companies can profit from the BoP, to various ways by which they can attract and capture this market, most multinational companies (MNCs) prefer to remain attentive to serving the Top of the Pyramid (ToP) consumer, finding it difficult to identify and understand the needs and behaviours on the BoP. Some of these MNCs are only now becoming cognizant of the need to re-examine business models and innovations for entering and successfully servicing the BoP (Chesbrough, Ahern, Finn, & Guerraz, 2006; Jose, 2008; London, 2008, 2009; Prahalad, 2012; Simanis & Hart, 2009).

This report intends to understand the business models of non-MNCs that serve BoP low-income markets and the characteristics of these non-MNC business models that provide these non-MNCs with competitive advantages.

1.2.2 Established business models under threat

Williamson (2010) describes how global competitors are taxing some of our most universal and profitable business models in a new age of global rivalry, such as 'differentiation' and 'focus', when challenging a low-cost competitor (Williamson, 2010). Demand by emerging markets is growing in share with an increase in value driven segments in developing countries and consolidation in retailing trends in the present

global economy are all favouring new business models (Williamson, 2010). He argues that typical business models are coming under threat from 'cost innovation', a strategy he explains as positioning the cost benefits enjoyed by emerging market firms based in China, which are finding revolutionary new ways to offer customers more utility for less expenditure (Williamson, 2010).

Pitta et al. (2008) argues that it is absolutely critical to recognise that doing business with the BoP necessitates a 'different business model', one that includes micro-credit access, institution collaboration and the adaptation of the marketing mix.

London (2010), however, takes a different view and attests to several components that influence business model development within multinationals with an emphasis on the following: structuring the BoP initiative as a separate function of the corporate; exempting short term financial performance metrics for long-term learning oriented performance metrics; using external diversity for problem-solving to generate new approaches and models; and access to patient capital that facilitates new business model development.

The literature reveals that there are numerous external barriers to the adoption of the BoP as the next frontier, factors such as lack of infrastructure, corruption of local governments, low educational levels, and problems with distribution networks and lack of buying power (Hammond et al., 2007; Karnani, 2007; Prahalad, 2002, 2007; Pitta et al., 2008; Sanchez & Ricart, 2010). Inter-organisational barriers as well, regardless of the external conditions, affect the serving of low-income markets. The following factors have further contributed to the challenges faced by MNCs:

- Conflicting mind-sets of key stakeholders; radical changes to existing processes; project evaluation criteria such as Net Present Value and business risk evaluation; and incentive structures and discrepant mandates, mainly

operations decision-makers and corporate sustainability (Olsen & Boxenbaum, 2009);

- Image issues such as exploitation, brand dilution, cannibalisation of existing products and the underestimating of competitors in the informal economy (Karamchandani, Kubzansky, & Lalwani, 2011);
- The use of existing marketing techniques that fail in their attempts to reap profits from the BoP (Pitta et al., 2008); and
- Structure, metrics, inclusive problem-solving and access to financial resources (London, 2010).

With such an inclusive list of obstacles facing large firms which intend to successfully serve low-income markets, it begs the question: What exactly can we learn from entities that *are already successfully* serving the low-income markets?

Hence, the purpose of this research is to investigate what is it that makes non-MNCs, or small to medium-sized firms, successful in serving low-income markets, through an analysis of their business models leading to an understanding of the characteristics within these firms that differentiate them from ToP-serving MNCs.

1.3 Research Problem

The research problem of concern for this study addressed, in an exploratory manner using grounded theory, the unique business models of successful non-MNCs firms serving the BoP in South Africa, seeking to determine what drives these particular businesses to serve these markets and investigating the unique characteristics of their business models.

1.4 Research Objectives and Questions

The primary question that this research intends to answer is “what are the critical factors within business models that allow non-MNC firms to successfully serve low-income markets”? Using the grounded theory approach, with the aim of discovering what differentiates these non-MNCs from multinationals, firms in the Fast Moving Consumer Goods (FMCG) manufacturing and wholesale industries were selected to be analysed, firms from such categories as African Traditional Medicine, Snacking, Beverages, and Disposable Diapers. This array of firms was researched to understand their business model and ascertain the unique factors that make them competitive with multinationals.

1.5 Research methodology

In order to effectively achieve the stated research objectives, the research will be conducted using

‘grounded theory’ methodology. Birks and Mills (2012, p. 13) grouped grounded theory methods into three iterations, also called ‘cogs’, as shown in Figure 2. The researcher, thus, generated grounded theory as follows:

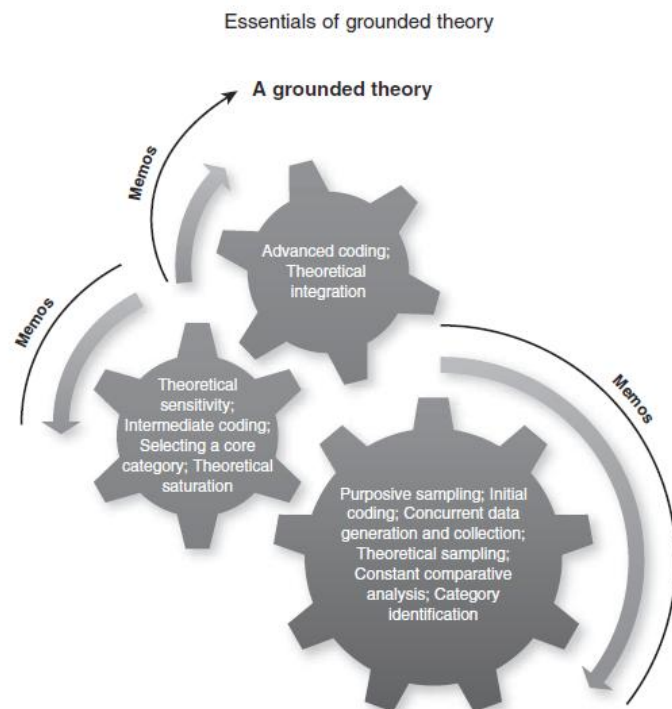


Figure 2: Grounded Theory Essentials

(Birks & Mills, 2011, p. 13)

- **Phase 1**, the Large Cog which enables the generation and refinement of data;
- **Phase 2**, the Middle Cog which enables further refinement of analysis while increasing the comprehensiveness of final product; and
- **Phase 3**, the Upper Cog which enables the distillation of a grounded theory.

The choice of using grounded theory for this research proved advantageous in that it allowed the researcher to enter the field and unearth the phenomena of utmost importance to the stakeholders.

The study will focus on FMCG manufacturers from multiple categories selected by means of a purposive sampling technique.

1.6 Conceptual Framework

Table 1 presents the conceptual framework developed to frame the research problem, to guide the literature review and to provide support for the analysis.

Table 1 - Conceptual Framework

<p>BUSINESS MODELS ARE THE FORMULAS FOR BUSINESS TO MAKE PROFITS</p>	<ol style="list-style-type: none"> 1. What are business models? 2. We know these traditional business models work in developed worlds 3. But what about business models in the low-income markets? And what problems firms have in this segment? 	<p>Section 2.2.1</p> <p>Section 2.2.2</p> <p>Section 2.2.3</p>
<p>but IN ORDER TO CONTINUE GROWING PROFITS, NEW MARKETS ARE NEEDED</p>	<ol style="list-style-type: none"> 1. Let's first define low-income markets 2. Why are firms looking to this segment? 3. What problems are firms having in doing business with this market? 	<p>Section 2.3.1</p> <p>Section 2.3.2</p> <p>Section 2.3.3</p>
<p><i>therefore we believe that WE CAN LEARN FROM EXISTING FIRMS</i></p>	<p>RESEARCH TOPIC <i>Business models of successful non-MNCs serving the low income market in South Africa</i></p>	<p>Section 2.4</p>
<p>and WE HAVE KEY QUESTIONS TO ANSWER:</p>	<p>In non-MNCs currently serving the BoP successfully, what are</p> <ol style="list-style-type: none"> 1. Characteristics of their business models? 2. Their competitive advantage to their MNC counterparts? 	<p>Section 3</p>
<p><i>using GROUNDED THEORY</i></p>	<p>For a fresh perspective on doing business with the BoP</p>	<p>Section 4</p>
<p><i>to TEST IF OUR THINKING HAS BEEN CORRECT?</i></p>	<p>Resulting in important findings that have not been covered in literature – the BoP Blueprint</p>	<p>Section 5</p>
<p><i>and WHAT THIS MEANS ?</i></p>	<p>Critical learning for MNCs looking to enter emerging markets and do business with the BoP <i>successfully</i></p>	<p>Section 6.4.1</p>

2 Chapter 2: Literature Review

2.1 Introduction: Grounded Theory

The previous chapter introduced the subject of business models of non-MNCs in the context of low-income markets. It outlined the attractiveness of entering low-income markets and how the so-called 'established' business models are under threat, as well as the research problem, objectives, questions and methodology to be used, concluding with the conceptual framework of this document, noting that the literature concerning business models is focussed based on multinationals. Very little research has been conducted into non-MNC business models.

This chapter provides a critical review of the literature on business models and the BoP. The grounded theory approach allowed the researcher to begin with only an idea of the area intended to research – business models of non-MNCs serving low-income markets. However, as the research gained direction, focus and momentum, the researcher commenced a gradual sensitisation of constructs with extant literature (Suddaby, 2006, p. 634) which is discussed in Chapter 5. This chapter will review the definition of a non-MNC business model; investigate business model innovation for low-income markets and present prohibitive organisational barriers within firms wanting to serve the BoP market.

The chapter will further outline the definition of low-income markets for the purpose of this research, the business drivers for entry into the BoP, and organisational challenges faced by firms. Finally, this chapter will conclude with a discussion of new business models for emerging economies and the rationale behind the research questions.

2.2 Business Models

2.2.1 Defining Business Models

While academics have not been able to reach a consensus in terms of an operating definition of a business model (Casadesus & Ricart, 2011), Magretta defined a business model using Peter Drucker's time-tested questions: Who is the customer? What does the customer value? How does the organisation make profit in the business it is in? And what is the underlying economic logic that explains how the organisation can deliver value to customers at an appropriate cost (Magretta, 2002)? First and foremost, firms need to determine who the target customer is, what value the firm will offer the target customer and how the firm will derive profits from this value proposition offered to the consumer (Magretta, 2002).

Williamson (2010) attested that traditional business models are at risk, quoting Porter's classic broad strategies of 'differentiation' and 'focus' for challenging low-cost competitors (Williamson, 2010).

While there are numerous definitions academics have proffered pertaining to business models, Baden-Fuller and Morgan (2010) explained that the role of business models is to deliver general terms to describe how a firm forms itself to generate and allocate value profitably. This definition can be expressed in many forms as presented below (Baden-Fuller & Morgan, 2010):

- Teece (2010) – How a firm converts payments into profits by delivering value to customers and relating business model innovation to technical innovation (Teece, 2010);
- Zott and Amit (2010) – A system of symbiotic activities that surpasses the focal firm and spans its boundaries (Zott & Amit, 2010) with an emphasis on

interdependencies beyond firm boundaries stating that good design requires subject (what), assembly (links) and control (who does what);

- Williamson (2010) – A cost innovation business model offers benefits in drastically new ways, proving how low-cost models from China and India work meaning extra for less;
- Gambardella and McGahan (2010) – A tool for turning ideas into revenue at reasonable cost, emphasising business model innovation that allows small firms to capitalise on their ideas (Gambardella & McGahan, 2010);
- Itami and Noshino (2010) – A business model is a profit model, where a both a business distribution system and a learning system put learning at the centre and classification by firm systems (Itami & Nishino, 2010);
- Yunus, Moingeo and Lehmann-Ortega (2010) – A value system together with a value collection explaining that a social business model lies between profit and social responsibility or charity (Yunus, Moingeon, & Lehmann-Ortega, 2010);
- Cassadesus-Masanell and Ricart (2010) – The rationality of the business, the method in which it functions and how it creates worth for its stakeholders affirming boundaries between business model, plan and strategies (Casadesus-Masanell & Ricart, 2010);
- Demil and Lecocq (2010) – The way actions and assets are used to ensure sustainability and development establishing that business model dynamics change over time (Demil & Lecocq, 2010).

Johnson, Christensen, and Kagermann (2008) described a business model as four interconnecting elements collectively, create and deliver value to customers. These four interlocking element—Customer Value Proposition, Profit Formula, Key Resources and Key Processes—form the building blocks of business (Johnson et al., 2008) and only when all four elements require significant changes should a new business model

design be considered. Johnson et al. (2008) also suggested that there are five strategic conditions that necessitate a change in a business model:

1. a big group of prospective clients who are not part of a market need to be addressed;
2. exploiting on new technology that warrants a novel business model;
3. bringing a sense of urgency and focus where lacking;
4. a need to fend off low-end disruptors; and
5. Reacting to a shift in competition.

2.2.2 Business Model Innovation for Low Income Markets

Sanchez and Ricart (2010) argued that the issues that determine the type of innovation required of business models when entering low-income markets have not yet been developed (Sanchez & Ricart, 2010). Academics have attested to the need for developing new strategies and capabilities for serving emerging consumers and a different business model is no doubt required (Hammond & Prahalad, 2004; London, 2008; Pitta et al, 2008). Firms wanting to operate in low-income markets have been under pressure to rethink their existing, often out-dated, business models that were developed to serve consumers from developed worlds, initially focusing on high-volume/low margin models rather than low-volume/high-margin models (Hammond & Prahalad, 2004).

Business model innovation can result in new growth; however, implementing such innovation into established business models is difficult (Johnson, Christensen, & Kagermann, 2008). Johnson et al. (2008) attributed this to three specific reasons:

1. a 'lack of definition, implying a lack of information in the subtleties and processes of developing business models;
2. an inability of firms to understand their business models well enough; and

3. companies realize that at the outset, new business models are unappealing to all stakeholders (Johnson et al., 2008).

Prahalad (2002) also attested that new managerial demands are imposed at the BoP, as the following requirements must be met:

1. the price-performance relationship of existing products and services needs a dramatic alteration;
2. the business model must be scalable;
3. models must be environmentally sustainable; and
4. harmonising the most progressive technologies and local circumstances to create advanced solutions and opportunities for the low-income segment.

2.2.3 Organisational barriers inherent in business models of MNCs

Olsen and Boxenbaum (2009) argue that the most fundamental barrier to implementation of BoP related strategies in firms are conflicting mind-sets of key stakeholders such that their contribution to sustainability is seen as a cost to the company and not a potential revenue driver. Another barrier raised is one where firms lack continuity of new sustainability practices with their existing work procedures. Other factors such as age-old NPV used in evaluating the potential of projects also hinders progress in companies together with structural barriers and organisational mandates that reinforced certain behaviours (Olsen & Boxenbaum, 2009);

Karamchandani et al. (2011) further argue that the most common barriers for trading at the bottom of the pyramid is uncertain cash flow of their potential customers attributed to pack sizes of firms' existing products; confusing need with demand where firms waste time and resources trying to market products designed for the poor whom do not want the product; sales and distribution channels to get products to their consumers; disaggregated providers who do not have access to high-quality inputs; and

undeveloped business ecosystems needed to support a product (Karamchandani et al., 2011).

London (2010) discusses further challenges faced by firms in serving th BoP such as internal structures that do not protect the firms' need to incubate their BoP initiatives; metrics that evaluate an initiative's potential performance and influence of resource allocation geared mostly for short-term growth; replicating existing business models for problem solving rather than incorporating external diversity of members from the BoP and financial resources allocated to the BoP initiatives which are tied to expectations of short-term economic returns (London, 2010).

2.3 The Base of the Pyramid

2.3.1 Defining Low-Income Markets

The BoP is the low-income segment spread across emerging countries with members characterised by their lack of status, power and resources (Nakata & Weidner, 2012) who are frequently uneducated, not in perfect health, under-resourced, unreachable by media, geographically remote and not experienced with consumption (Prahalad, 2007). The BoP is the fastest growing consumer base with approximately half to two-thirds of the population in the world and contrary to prevalent assumptions, these consumers collectively hold \$9 trillion and generate \$1.7 trillion through the informal economy (Prahalad, 2007).

Even in defining the BoP in terms of market size, population and spending power, Chipp, Corder, and Kapelianis (2012) argued that there is lack of a single uniform definition for this market amongst academics (Chipp et al., 2012; Karamchandani et al., 2011; Karnani, 2007; Guesalaga & Marshall, 2008). Karamchandani et al. (2011) argued that the BoP is characterised by uncertain cash flows, difficulty in gauging demand, sales and distribution challenges, undeveloped business ecosystems and disaggregated providers (Karamchandani et al., 2011).

Louw (2008) supported this view, arguing that Prahalad created the concept for MNCs willing to divert their attention to the BoP, so they might contribute to poverty alleviation and create employment while generating profits in an untapped market (Louw, 2008). Although Prahalad (2007) was the first to divert attention to the BoP and successfully gained awareness and interest from MNCs seeking new markets and revenue streams, his work was heavily criticised.

Karnani (2007) argued that figures quantified by Prahalad (2004) were overstated and that when profits are repatriated at the financial market exchange rates, the global BoP

market is actually less than \$0.3 trillion, making the BoP a segment where in fact fortunes *cannot* be made by multinationals (Karnani, 2007). The poor have very small savings as a result of consuming most of what is earned and, contrasting to the pro-BoP argument, getting the poor to consume *more* will not alleviate poverty since they cannot afford to consume more. Both Karnani and Prahalad, however, agreed in their definition of the BoP as people surviving on less than \$2 per day (Karnani, 2007; Prahalad, 2007).

Karnani (2007) further argued that the poor need to be considered producers and not only consumers; raising revenue of the poor, then, is the most effective way to reduce poverty (Karnani, 2007).

In response, Prahalad and Hart argued that the informal economy accounted for 40% to 60% of all economic activity of a emerging country and that Karnani's perception does not account for the large contribution of the informal sector (Hammond & Prahalad, 2004).

According to Pitta, Guesalaga and Marshall (2008), the BoP might offer value for companies and reduce poverty for the poor. Pitta et al. (2008) argued, however, that for the BoP proposition to be successful, two critical elements must be identified:

1. The characterisation of BoP consumers and as producers, determined from deep insight into the BoP segment's perceptions, behaviours and needs; and
2. the unique BoP business model required to serve the market.

Guesalaga and Marshall (2008) argued that to date, the dimensions of buying power at the BoP has neglected to incorporate the level of expenditure and manner of which the worldwide buying power at the BoP divides into various countries, categories and tiered incomes (Guesalaga & Marshall, 2008).

While there is no conclusive data and academics adhered to opposing viewpoints on the extent of business prospects at the BoP, they did agree that doing business with the poor requires a distinctive business model (Pitta et al., 2008) and literature suggested the three most significant components for building a business model to serve the BoP are the following:

1. credit access;
2. the formation of associations; and
3. the adjustment of the marketing assortment.

London (2008) maintained that in targeting the BoP, MNCs cannot rely on existing structures or even incrementally adjust existing capabilities (London, 2008). If firms were to enter new markets comprised of familiar customers, the adaptation of existing products and business models will work; however, as they move down the pyramid, into new markets with unfamiliar customers, these firms must avoid importing pre-existing business models and mind-sets (London, 2008). Innovative models are required.

Clearly, literature pertaining to the character, extent and worth of the BoP proposition was varied. More research is needed to establish a more definitive and accurate perspective of the presence and extent of opportunities (Guesalaga & Marshall, 2008); however, the focus of this study was neither to establish whether or not wealth can be accumulated by doing business at the bottom of the pyramid, nor to determine the market size of the BoP. Instead, this study sought to determine a suitably defined BoP segment to which firms sold products profitably.

In an attempt to define the BoP market, Louw (2008) and Rangan, Chu and Petkoski (2011) provided the following categories to segment the BoP:

Louw (2008) divided the BoP into two parts—BoP1 and BoP2—with income as the dividing attribute:

- *BoP1* – the true base of the economic pyramid with a population earning less than \$2 per day in Purchasing Power Parity (PPP); and
- *BoP2* – the upper section of the BoP population with earnings of more than \$2 per day PPP.

Rangan et al. (2011) also argued that the BoP market is not a homogenous market and segmented the market by the living standard as follows:

- *Low-Income* - 1.4 billion people who live on USD 3 - USD 5 a day;
- *Subsistence* – 1.6 billion people who live on between USD 1 – USD 3 a day;
- *Extreme Poverty* – 1 billion people who live on less than USD 1 a day.

2.3.2 Business Drivers for Entry

The BoP segment draws attention as multinationals' growth slows in mature developed markets and as competition increases the BoP has gained more attention as it represents the most significant remaining global market that can convert consumer purchasing power to profit (Nakata & Weidner, 2012; Pitta et al., 2008; Prahalad, 2002, 2007).

Guesalaga and Marshall (2008) found in study comparing the buying power index (BPI) of consumers in different geographies to be more than half of the purchasing power at the BoP in developing countries (Guesalaga & Marshall, 2008). However, consumption is predominantly on food, housing and household goods (Guesalaga & Marshall, 2008).

Prahalad and Mashelkar (2010) discuss how Indian companies are realising that their opportunity for growth is limited if they cater purely to the rich domestic market and are refocusing their efforts on addressing the low-income market (Prahalad & Mashelkar, 2010). A similar view is reiterated by the McKinsey consulting group in a report on Africa stating that firms will not be able to build sizable businesses in Africa through premium goods alone and will need to reinvent their business models to deliver the

right products at the right price for millions of Africans currently making up the significant low-income market on the continent (Dorr, Leke, & Wamelen, 2010)

Immelt (2009), for example states that global companies must not simply consider entering low income markets but must view them as a source of innovation to contest with expanding market champions.

In South Africa, Mokoto (2009) attests that about 23 million people are believed to be at the BoP with almost 3 million living on less than R5 per day and 18 million living on less than R20 per day (Mokoto, 2009).

2.3.3 Organisational Challenges in entering the BoP

2.3.3.1 Organisational Barriers

As firms encompass numerous functions such as marketing, finance, operations and systems, together with processes and people within these respective departments, complex processes are required for the efficient functioning of the core business. When large firms decide to enter BoP markets, their standard business models are challenged; this impacts processes and systems within these departments that have previously formed the base of their core business. Teece (2010) described three factors within organisations that act as stumbling blocks to the adoption of new business models which address new markets such as the BoP market (Teece, 2010). These resistant factors are the implementation of systems, processes and assets that are difficult to replicate; the difficulty of understanding, in sufficient detail, precisely how a business model is implemented; and the resistance to change by industry incumbents who feel threatened by potentially cannibalising existing sales and profits or disrupting existing valuable business relationships (Teece, 2010).

Christensen and Overdorf (2000) provided additional insight into an organisational barrier that restricts so-called disruptive change anticipated from entering a new market: a firm's 'values' (Christensen & Overdorf, 2000). A business's principles are defined as the standards adhered to by employees for setting priorities that enable them to make business decisions consistent with the philosophy of the company (Christensen & Overdorf, 2000). The results of adhering to these company values can potentially lead to vastly different decision outcomes when applied to aspects of the BoP markets, and this uncertainty will likely lead to employee resistance. A second consideration before a firm can be enticed into a 'disruptive' change such as generating an entirely new business model of entering a vastly different and potentially risky market such as the BoP, concerns the 'size' that a business opportunity must be to be lucrative (Christensen and Overdorf, 2000).

2.3.3.2 Access to Information

The BoP have generally been ignored in international marketing literature due to the accessibility and ease of addressing the needs of wealthier customers; thus, as multinational firms attempt to reach into the BoP, they encounter limited information about this market, they have difficulty in understanding BoP customers and their boundaries, and they face environmental and economic uncertainties of these exceedingly destitute countries (Nakata & Weidner, 2012). Consequently, firms do not have access to quality information to assist them in product development, innovative marketing strategies and even business modelling necessary for successfully entering BoP markets.

2.3.3.3 Understanding Networks

Riveria-Santos and Rufin (2010) have identified key differences between the Top of the Pyramid (ToP) and BoP webs and delineated the implications of these variances to multinational enterprises (Rivera-Santos & Rufin, 2010):

- *Structural characteristics* - firms have less control over networks at the BoP and simultaneously have more complex networks to manage since these networks are decentralised because of the importance of non-market members such as NGOs and local communities. Due to a scarcity of specialised intermediaries, many gaps exist and hence there is a need to internalise activities into the network of the multinational, or engage native entrepreneurs to close the gaps.
- *Network boundaries* – since there are multifaceted networks with broader stakeholders and larger horizontal and vertical integration, there is a need to develop local legitimacy and emphasise non-market ties to NGOs, communities and the government. Such characteristics make it difficult for firms to generate internal capabilities for handling complexities around relationship building.
- *Tie characteristics* – firms will encounter high costs for developing and maintaining ties, complex logistics, and in order to reduce their risks, will need to develop alternate methods of governance to compensate for the informal nature of the BoP. These are factors which cause firms to resist the necessary financial investment and commitment for entering the BoP market.
- *Member diversity* – importance of interfacing with non-market stakeholders that result in more intricate networks to administer and a wider set of actions.
- *Dynamics* – higher risks when facing formal networks yet greater pliability of the system if the multinational is entrenched in the society.

2.3.3.4 Leadership and Mind-sets

A significant shift is required not only in the mind-sets of managers and entrepreneurs but also of politicians, non-governmental organisations and officeholders (Prahalad, 2002). Prahalad argued that our emphasis should be on experimentation rather than on additional modification of unsuccessful approaches; as such, he sees the need for two significant transitions:

- First, policy makers must buy into the notion that changing the unfortunate into a pulsating market is more likely to prosper than previous failed efforts of social welfare such as subsidies and government programs; and
- Secondly, creating new markets (with appropriate incentives) where the poor are included is a necessary rebuttal to the assumption that globalisation will further stress the difficulties of income and opportunity discrepancy.

Prahalad (2002) described necessary mind-set changes that need to take place in Table 2 below.

From	To
Poor as a problem	Poor as an opportunity to innovate, a global market of 4.5 billion
Poor as wards of the state	Poor as an active market/consumers
Old technologies	Creative bundling of the most advanced technology with a local flavour
Follow the west	Selectively 'leapfrog' and innovate
Focus on resources and constraints	Focus on creativity and entrepreneurship
Capital limitations	Limitations to information and access
Efficiency in a known model	Innovation of a new model

Table 2 - Mind-set Changes

2.3.3.5 Sustainability

Integrating economic, social and environmental sustainability in creating BoP models for the long-term will ensure long-term success (Jose, 2008). Jose (2008) explained that because of the excessively large customer base it attempts to serve, any BoP model must ensure that the demand be sustained and the revenue model be resilient to demand fluctuations, able to deal with increases of input costs (Jose, 2008). He argued that from a social sustainability perspective, the model must be acceptable in the social context and not subvert social norms, while from an environmental aspect, the model should involve judicious inclusion of scarce resources and most importantly, the model should be self-sustaining in the long term, not relying on charity or grants (Jose, 2008).

Another interesting insight into sustainability of business models at the BoP is Prahalad's view on innovation and its effect on sustainability when he argued that innovation is not about a final artefact but about building a suitable eco-system that facilitates the functioning of a new business (Prahalad, 2012).

2.4 Business Models and the Base of the Pyramid

2.4.1 Building New Business Models for Emerging Economies

Sanchez and Richart (2010) argue that the largest constraint of insulated business models is the reduced willingness of potential customers to pay influencing the firms' choice of reducing costs. In contrast, the interactive business model is focused on increasing the willingness to pay without forgetting cost restraints. The expected result is an innovative business model that is able to grow income choices in the low-income market while making profits (Sanchez & Ricart, 2010).

2.4.2 Rationale behind research questions

For the purpose of this study, the researcher used the definition proposed by Cassadesus-Masanell and Ricart (2010) of a business model as ‘the logic of the firm’, the method in which it operates and how it creates value for its stakeholders, affirming interfaces between business model, strategy and tactics (Casadesus-Masanell & Ricart, 2010). To further explore the notion of business model in the perspective of firms within the South African landscape, the researcher aimed to further unpack the concept of ‘logic’ and ‘method in which it operates’ in the constructs of the specific business models of these firms. To date, relevant literature examines MNCs that have attempted or are currently serving the BoP, both successfully and unsuccessfully, yet there are gaps in the literature exploring the success factors that contribute to non-MNCs successfully serving the BoP segment.

To this end, the rationale behind the research questions concerns the exploration of the business models of these successful non-MNC or SME firms.

Small business is defined in the Small Business Act as “a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy” (National Business Act, 1996). As per the National Business Act schedule the criteria defining micro to medium manufacturing firms are employees of 5 to 200, annual turnover of R150k to R40m and total gross asset value of R100k to R15m (National Business Act, 1996).

For the purposes of this study, the researcher interchangeably uses the term non-MNC and SME to define the non-corporate business that is typical a small and medium enterprise defined in the National Business Act (National Business Act, 1996).

3 Chapter 3: Research Questions

The review of literature in Chapter 2 suggests that there is decidedly limited research pertaining to business models of non-multinational firms currently serving the BoP. Applying the grounded theory approach, this report intended to understand the characteristics of the business models of non-MNCs that serve BoP markets and the factors within their business models that make them successful as compared to their MNC counterparts, or in other words, what gives them their competitive advantage.

With the grounded theory approach, as discussed in Chapter 4, the researcher's main objective was to determine the underlying reasons why these non-MNC firms were able to serve the low-income markets successfully, thereby answering the research questions set forth in this chapter.

3.1 Research Question 1

What are the characteristics of non-MNC firms' business models that allow for the successful servicing of the low-income market?

3.2 Research Question 2

What are the competitive advantages within these firms' business models as compared to their MNC counterparts?

4 Chapter 4: Research Methodology

4.1 Research Method

The purpose of this study was to understand business models of non-MNC firms serving the low-income market in South Africa, particularly from the vantage points of those stakeholders directly involved in these enterprises.

This study aimed to use a qualitative method, exploratory in nature, with an inductive method that explored answers to the research questions proposed through unstructured interviews.

The research was undertaken in the form of a grounded theory study where the data assembled and analysed was to result in a new theoretical model. Corbin & Strauss (2008, p.1) defined grounded theory as “a specific methodology developed by Glaser and Strauss (1967) for the purpose of building theory from data” where together data collection and data analysis are conducted as an inductive form of qualitative research. The researcher gravitated towards the ‘Straussian’ form of grounded theory as a natural result of having only a general idea of where to begin this research concerning business models (Jones & Alony, 2011), as discussed in Chapter 3.

This inductive approach allowed the researcher to examine emerging patterns or incidents of phenomena which were investigated with the intention of arriving at speculative hypotheses or theories (Saunders & Lewis, 2012).

As there were time constraints with regard to this research, a cross-sectional study (Saunders & Lewis, 2012, p. 123) was most suitable.

4.2 Research Approach

Saunders and Lewis (2012) define induction as “a research approach which involves the development of theory as a result of analysing data collected” (p. 109). With the induction approach there is a “flexible structure to permit changes of research emphasis as the research progresses” (p.109) which is conducive to the nature of investigation required of business models of non-MNC firms serving the BoP market. The research aimed to investigate the characteristics of these firms’ business models using data collected, thereby constructing a framework from the examination of specific attributes of these non-MNC enterprises currently serving the BoP market. From this process, concepts and categories were uncovered, granting the researcher insight into business models, insight which was further refined during the continuous interweaving of data collection and data analysis.

4.3 Type of Research

Exploratory research lends itself to the discovery of general information on a phenomenon that is not clearly understood by the researcher (Saunders & Lewis, 2012, p. 110) so by using this exploratory type of study, this research aimed to discover insights into business models utilised by non-MNC companies serving the South African BoP market. Exploratory research provides rich information about a new phenomenon, and such rich information was necessary to achieve an in-depth appreciation of the characteristics of non-MNC firms that are successful in serving the BoP market in South Africa.

4.4 Research Strategy

By using grounded theory to conduct this research, the researcher extrapolated emergent themes and concepts from the data collected; this was very useful when exploring a new area of research such as was the aim of this study. Theories

developed from the collected data can be tested with further research in future studies. Grounded theory is a suitable method for investigating complex multifaceted phenomena as it provides a thorough and systematic approach adept of widening views of those in the research community (Jones & Alony, 2011).

Although two disadvantages of the grounded theory approach are that the researcher can get 'off-course' and that 'interpretations are research dependent' (Zikmund & Babin, 2007, p. 140) Corbin and Strauss (2008, p302) suggested eight conditions to ensure quality research when using the grounded theory approach:

1. *Methodological consistency* - although there are various versions of 'grounded theory', procedures such as 'constant comparative' technique of examination, the use of concepts and their development, theoretical sampling and saturation remain consistent (Corbin & Strauss, 2008, p. 303).
2. *Clarity of purpose* – the researcher should be very clear whether the aim of the study is theory-building or description (Corbin & Strauss, 2008, p. 303).
3. *Self-awareness* – the researcher is an integral part of both the research process and the findings and hence it is important that the researcher take cognizance of their own biases and assumptions (Corbin & Strauss, 2008, p. 303).
4. *Training* - the researcher should be trained in doing qualitative research as what 'the researcher contributes in terms of qualifications, experience, perspective and underlying philosophical orientation will make a major difference in the quality of findings' (Corbin & Strauss, 2008, p. 302).
5. *Sensitivity* - an engaged researcher who has sensitivity for the topic, participants and for the research will be able to 'step into the shoes of the participants' and gain richness and depth of data (Corbin & Strauss, 2008, p. 303).
6. *Hard work* - the researcher must be willing to work hard whether doing description or theory building and be 'open to new ideas and use strategies

flexibly and creatively in order to get at the essence or meaning of what participants are telling' (Corbin & Strauss, 2008, p. 304).

7. *Methodological awareness* – the researcher should be aware of the implications of decisions made through the process and call for 'anticipation of potential criticisms and carrying out data collection and analysis in ways that contribute to credibility while attending to methodological problems as they arise'.
8. *Passion* – the researcher must be engaged and passionate about conducting the research and must be interested in the findings so as not to do research 'for the sake of doing research' (Corbin & Strauss, 2008, p. 304).

The theory generated can be tested on another sample to confirm or disconfirm the theory generated from this method. The point of the method is to generate theory that can offer a new perspective on a given situation.

Birks and Mills (2012, p 13) grouped grounded theory methods, as shown in Figure 3, into three cogs for driving the researcher:

- *Largest Cog* - enabled the generation and refinement of data, including purposive sampling, initial coding, concurrent data generation and collection and analysis, theoretical sampling, constant comparative analysis and category identification.
- *Middle Cog* - enabled further refinement of analysis while increasing the comprehensiveness of the final product, including theoretical sensitivity, intermediate coding, identifying a core category and theoretical saturation.
- *Upper Cog* - enabled the distillation of a grounded theory, consisting of complex methods of advanced coding and theoretical integration.

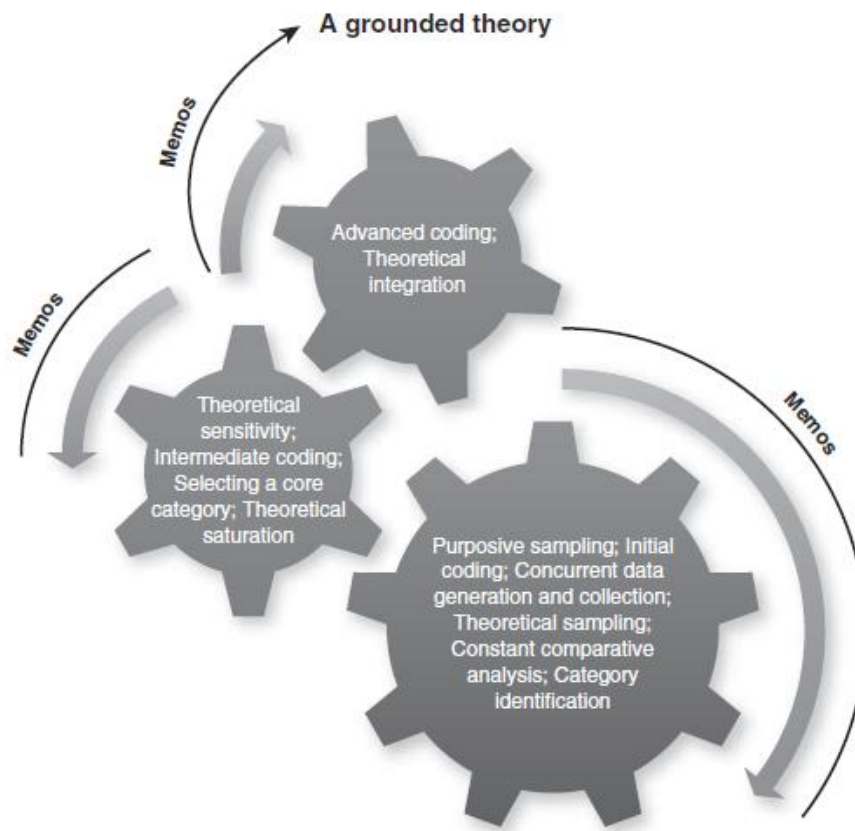


Figure 1.2 Essential grounded theory methods

Figure 3 - Grounded Theory Essentials (Birks & Mills, 2011, p. 13)

4.5 Research Process

4.5.1 Unstructured interviews

Because of the selection of the grounded theory approach for this study, structured interviews would have hindered discovery as they would limit the amount and type of data that could be gathered (Corbin & Strauss, 2008, p. 152). To this end, unstructured interviews were conducted, where an unstructured interview was defined by Saunders and Lewis (2012, p152) as 'a method of data collection in which the participant talks

openly and widely about the topic with as little direction from the interviewer as possible'. Although no predetermined list of questions had been generated, the interviewer certainly had a clear idea of the topics to explore. A set of topics explored is summarised in Appendix A – Interview Guide (with possible open-ended questions). If a participant initiated discussion on another topic that proved to be important to the investigation but was not covered in the interview guide, the researcher followed through on that topic (Corbin & Strauss, 2008, p. 152). Due to the analysis of data occurring after the first day of data collection, subsequent interviews contained topics or categories that required further investigation derived from the earlier analysis.

4.6 Population

The population relating to this study were non-MNC firms involved in the manufacture and wholesale of both FMCG and non-FMCG goods to the low-end consumer at the BoP in South Africa. The low-income consumer at the BoP in South Africa is part of a larger market said to comprise of 4 billion individuals earning less than \$3,000 per year (Prahalad, 2007). There is no data referencing the number of firms servicing this market; however, the market represents an estimated value of USD\$5 trillion of consumer goods and services (Hammond & Prahalad, 2004).

4.7 Unit of Analysis

The unit of analysis for this study was a non-multinational firm qualified as such by the firm's involvement in the manufacturing or wholesale activities of FMCG and non-FMCG products targeted for the BoP. This included industries detailed in Table 1. Businesses consisted of non-multinational firms operating in South Africa that serve South Africa and bordering countries.

4.8 Sampling

4.8.1 Sampling technique

Saunders and Lewis (2012, p.134) described non-probability sampling technique as a “variety of sampling techniques for selecting a sample when you do not have a complete list of the population”. Due to the lack of a comprehensive list of non-MNC companies serving the South African BoP market, a non-probability sampling technique was used. Purposive sampling, a form of a non-probability sampling technique, was utilised to select a sample whereby a researcher “is using their judgement to actively choose those who will best be able to help answer the research question and meet the objectives” (Saunders & Lewis, 2012, p. 138). The purposive sample that the researcher chose ensured that the non-MNC FMCG firms serving the BoP were interviewed as they were in a position to provide valuable input to the research. The FMCG industry was chosen as this category shows the highest expenditure of all BoP income tiers in Africa (Guesalaga & Marshall, 2008) as shown in Figure 4 - Distribution of BoP Expenditure in Africa by Product Category (or industry)

& Income Tier.

Table VI Distribution of BOP expenditure in Africa by product category (or industry) and income tier

Industry	1,000	2,000	3,000	Total BoP
Food	53.0	44.2	35.4	47.1
Housing	9.2	9.1	9.8	9.4
Water	1.6	1.5	1.4	1.6
Energy	6.1	5.8	5.4	5.9
Household goods	10.0	10.5	11.3	10.4
Health	4.3	4.8	5.2	4.5
Transportation	4.4	8.0	11.5	6.5
ICT	0.5	1.4	2.8	1.2
Education	2.2	3.1	3.1	2.8
Other	8.6	11.5	14.1	10.6
Total	100.0	100.0	100.0	100.0

Figure 4 - Distribution of BoP Expenditure in Africa by Product Category (or industry) & Income Tier

The researcher accessed a trade directory available for cash 'n carries, manufacturers, wholesalers, distributors and importers of products targeted for the BoP (Trade Times African Trade Directory, 2012). The trade directory listed manufacturers supplying products to non-chain wholesalers that in turn sell to small and medium-sized retailers situated in townships and outskirts of major cities.

Three major non-MNC wholesalers were concentrated in a specific part of Gauteng where the majority of SME retailers frequently purchase stock. These wholesalers are located in the Crown Reef area in Gauteng, South Africa, and hold a significant portion of FMCG products sold to retailers. A visit to these wholesalers provided the researcher a view of names of products sold and manufacturing company names written on these products.

In addition to referencing a trade journal, the annual 'Southern African International Trade Exhibition for Retail Products' listed a directory of companies that manufacture retail products and the researcher was able to access company information through the exhibition directory listing.

To support the systematic discovery of theory from the data collected, the researcher used constant comparison and theoretical sampling to ensure theories were founded in the data and were not merely conceptual. Theoretical sampling as Corbin and Strauss (2008, p143) described was “a method of data collection based on concepts/themes derived from data”, with the purpose of collecting “data from places, people and events that will maximize opportunities to develop concepts in terms of their properties and dimensions, uncover variations, and identify relationships between concepts”. Using theoretical sampling allowed for responsiveness to the data and made this approach open and flexible as opposed to conventional methods of sampling before the research began (Corbin & Strauss, 2008, p. 144). Theoretical sampling best suited the nature of this study so that the researcher pursued phenomenon uncovered during the data collection period.

Due to the theoretical sampling technique used, the sample size was undetermined since the researcher continued to gather data until reaching the level of data saturation when no new categories or themes appeared to be developing (Corbin & Strauss, 2008, p. 148). The researcher ultimately landed with a sample size of nine firms.

A researcher knew when sufficient sampling had occurred, as it was at this point that major categories uncovered showed depth and variation in terms of development of understanding a phenomenon, and relationships and categories had been made clear for the purposes of the study (Corbin & Strauss, 2008, p. 149).

At the onset of the research, a set of non-MNC firms were identified that fell under FMCG manufacturing, non FMCG manufacturing and FMCG wholesale sectors as shown below in Table 3 - Non MNC Firms (FMCG & non FMCG).

FMCG - Manufacturing	Non FMCG – Manufacturing	FMCG – Wholesale
African Herbal	Building & Hardware	Cash ‘n Carry (Sweets)

		specialist)
Biscuits	Detergents	Cash 'n Carry (Cosmetics specialist)
Canned Foods	Electrical	Cash 'n Carry (Perishables)
Detergents	Furniture	
Cigarettes & Tobacco	Home-ware	
Creamer	Hardware & Tools	
Crisps & Snacks	Plastic-ware	
Oils & Margarines	Television & Audio	
Pastas & Noodles		
Rice		
Sweets		
Poultry		

Table 3 - Non MNC Firms (FMCG & non FMCG)

4.9 Data Analysis

The approach of analysis began after the first day of data gathering unlike conventional methods of sampling where an entire set of data is collected and then analysed (Corbin & Strauss, 2008, p. 144). In theoretical sampling, Corbin & Strauss (2008, p144) describe “analysis begins after the first day of data gathering. Data collection leads to analysis. Analysis leads to concepts. Concepts generate questions. Questions lead to more data collection so that the researcher might learn more about those concepts”. While this circular processes continues until the point of ‘saturation’ in the research where all concepts are distinct and clarified (Corbin & Strauss, 2008, p. 144).

Strauss and Corbin describe the analysis of grounded theory in the context of: open coding, axial coding and selective coding.

Data analysis software, Atlas Ti, was used to code and analyse data acquired from the interviews conducted. Major themes and concepts were extracted from the interviews conducted. Semi-structured interviews were used and due to this type of interview approach, various themes were grouped into research questions where appropriate through open and closed ended questions. The content of the interviews were analysed using Atlas Ti to identify themes and richness of the data.

Open coding, defined by Strauss and Corbin (2008, p195) as “breaking data apart and delineating concepts to stand for blocks of raw data. At the same time, one is qualifying those concepts in terms of their properties and dimensions”. Axial coding is a process of relating concepts to each other or cross cutting (Corbin & Strauss, 2008, p. 195). Open coding and axial coding go hand in hand - where breaking up data and demarcating concepts to stand for blocks of raw data and relating concepts/categories to each other (Corbin & Strauss, 2008, p. 198).

Data collected for this study will be systematically coded, using open and axial coding, into categories to identify interrelationships. The continuous interweaving of data collection and data analysis to construct a theory from the categories and interrelationships will take place while using narrative inquiry, constant comparative and content analysis to analyse content (Leedy & Ormrod, 2013) .

5 Chapter 5: Results

5.1 Introduction

This chapter presents the results of the qualitative study from the interviews conducted in a manner consistent with the Grounded Theory methodology. Chapter 2 reviewed literature primarily on business models as a construct within the context of the BoP; however, this chapter reveals further constructs uncovered ‘on the ground’ so to speak during the interview process, consistent with the Grounded Theory approach where the theory base is discussed at the end of this chapter.

Interpretations of results were verified by an MBA student and a working professional in the field of retail.

The Grounded Theory method will be explained in the next section; sample demographics and their characteristics will then be presented. Then the data analysis techniques for each phase will be discussed, followed by the results of the unstructured in-depth interviews. The results from these interviews will be discussed in Chapter 6.

5.1.1 Grounded theory approach

The results in this chapter have been presented as 3 distinct sections: -

The results in this chapter have been presented as three distinct sections:

- Phase 1* (Section 5.2) describes open coding where data from unstructured interviews resulted in themes, subcategories and core categories using constant comparison and memo-taking techniques (see example memo from interview in Appendix C). These results guided the succeeding sampling of respondents through theoretical sampling.
- Phase 2* (Section 5.3) explains selective coding, also using constant comparison and memo-taking which results in dense saturated core categories.
- Phase 3* (Section 5.4) discusses the results of the grounded theory which are a set of concepts that are related to one another in a cohesive whole. The results are expressed as a substantive theory. The theory is never considered final and is dependent on the context.

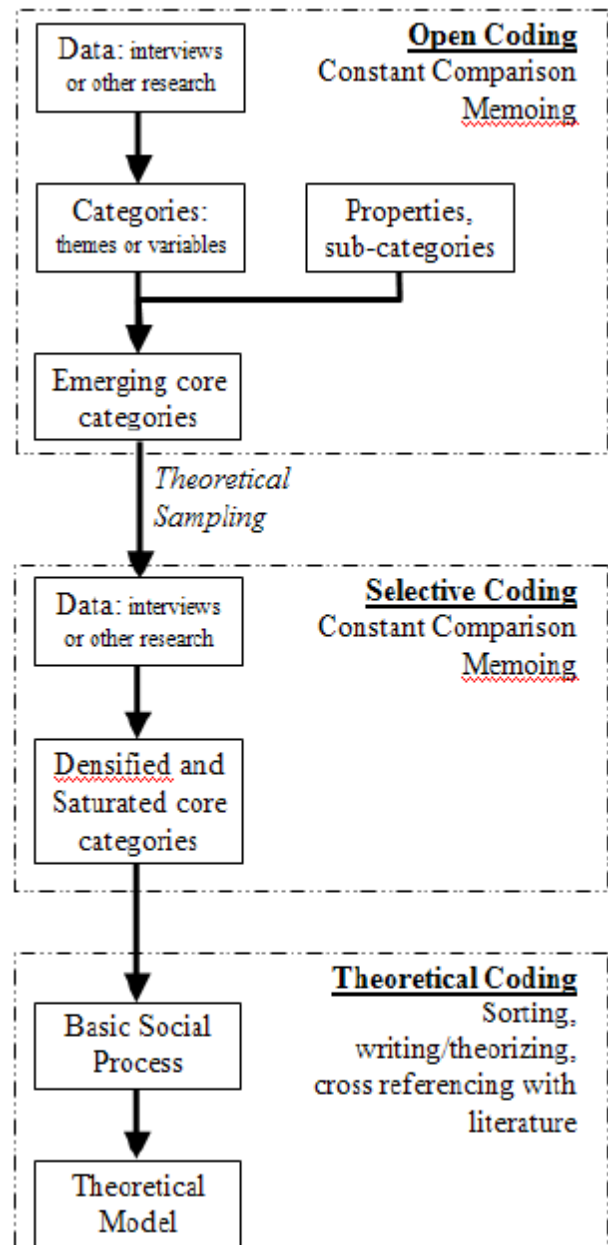


Figure 5 - The Grounded Theory Process

(Jones & Alony, 2011)

The results of this last stage of coding are a basic social process and a theoretical model, discussed in Chapter 6, which is the final product of Grounded Theory research. The process is summarised in Figure 5 – The Grounded Theory Process.

5.1.2 Sample Demographics and Characteristics

The purpose of this research was to investigate characteristics of non-multinational business models of South African firms successfully serving low-income markets. The aim is to increase our understanding of why these firms serving the BoP have performed well relative to multinationals’ performances in similar low-income markets. Key stakeholders for this research are local non-multinational manufacturers of FMCG products across various industries for the low-income consumer. The researcher interviewed, where possible, owners of FMCG manufacturing firms and in other cases, senior managers of these firms. All respondents’ details have been kept confidential.

The demographics of the sample are detailed in below

Table 4 - Demographics of Sample

Interviewee	Number of Interviews Conducted	Number of Respondents
Manufactures	9	9
Wholesalers	2	2
Total	11	11

Characteristics of the sample are detailed in Table 6.

Table 5 - Characteristics of Sample

Company	FMCG Sector	Number of interviews	Description of companies
1	African Traditional Medicine	1	A leading African traditional medicine manufacturer
2	Cigarettes/ Tobacco	1	A large cigarette manufacturer of value brand cigarettes. Three companies make up the group which are the manufacturing company, the marketing company and the cut rag processing company
3	Disposable Diapers	1	A disposable diaper manufacturer supplying to a large MNC retailer
4	Snacking	1	A long established snacking manufacturer of peanuts, puffed corn, spices, naks and atchars
5	Uniforms	1	SME manufacturer and retailer of company uniforms
6	Oil	1	SME reseller of oil and FMCG products
7	Vinegar	1	Vinegar manufacturer supplying to multiple MNCs
8	Beverages	1	Large beverage manufacturer
9	Brooms	1	Medium sized broom manufacturer and retailer.
10	FMCG Wholesale	1	Large wholesaler of FMCG products to small retailers and hawkers
11	FMCG Wholesale	1	Large wholesaler of FMCG products to small retailers and hawkers

5.1.3 Data Analysis

Data analysis software, Atlas Ti, was used to code and analyse data acquired from the interviews. Major themes and concepts were subsequently extracted from these interviews.

This chapter presents views stated by respondents in their actual words and phrases. While in many cases, similar views and ideas have been expressed by multiple respondents, certain other themes may have been implied. Some respondents were further probed to delve more deeply into their thoughts and opinions.

As a result of the analysis, certain themes were clearly prominent that were expressed by various respondents and provided ratification for the concepts and views expressed amongst all respondents.

5.2 Phase 1 - Open coding

5.2.1 Methods Used

Raw data from transcripts and recorded interviews were inspected and coded through unravelling the interview into distinct threads of datum (Jones & Alony, 2011). Data was then organized to identify categories of comparable phenomena.

Data was examined without limitations in scope and without application of filters; hence all data was accepted, allowing the researcher to seek out patterns that could potentially lead to a social processes. As categories began to populate, core categories began to emerge from the densest categories. Through the progression of densification, central categories built to become the core attention of theoretical diction through the building of a basic social process as discussed at the end of Chapter 5 (Jones & Alony, 2011).

Constant comparison continued until core categories emerged from the data, and no noteworthy different phenomena was any longer being were encountered.

As categories emerged through the data, reflection on the data emerging occurred, a process enhanced through the use of memo-taking. As categories filled through constant comparison, memos became rich and reflective in the early part of the research to aid in fine tuning data collection. In the case of the participants, the first two interviews guided the discussions in subsequent interviews and tailored the researcher's questions around concepts that were emerging. Inconsistencies and discrepancies were noted, as were moments when respondents were more passionate in their narratives.

5.2.2 Results

Shortly after, completion of the first two interviews, these interviews were transcribed and coding began to ensure an organised discovery of data which more easily uncovered emerging themes and opportunities for additional enquiry (Backman & Kyngas, 1999). Through the application of open coding, each comment made by each respondent was systematically assessed in an effort to identify similarities between concepts. As this was the first set of interviews, the researcher explored the pieces of data for the ideas that were contained within them through interpretation resulting in conceptual names that represent the ideas residing in the data (Corbin & Strauss, 2008).

Codes were assigned during the initial analysis of interview transcripts and are listed in alphabetical order in Table 6.

Table 6 - Initial Codes

Agile	High income market	Personal relationships
Brand loyalty	Image	Price
Branding	Immersion	Product development
Business model	Imported raw materials	Product range
Capital intensive	Internationalisation	Quality
Cashflow	legal	Retail
Community development	Localize	Small manufacturers/traders
Competitors	Low cost producer	Supplier loyalty
Customer loyalty	Market entry	Trust
Customer service	Market intelligence	Turnover
Cyclical or seasonal	Market segment	Wholesale
Demand	Market share	Workforce
Distribution channels	Marketing	Youth

Extend credit	MNC	
Family business	Networks	
FMCG	Number of employees	
Geographical reach	Operations	
Growth	Packaging	
Hawkers	Passion	

Concept development resulted from the review of the initial list of 53 codes—the researcher grouped core categories into concepts stemming from words that represent the main ideas in the data (Corbin & Strauss, 2008, p. 160). The essence of what was being expressed was captured through further memo-taking and constant on-going comparison, as discussed in the next section.

5.3 Phase 2 – Selective coding

Selective coding occurred when core categories became apparent in Phase 1. Each core category was developed through densification and contributed to the basic social process.

Working iteratively between the data and theoretical ideas and relating and contrasting statements from the data, the grounded theory method resulted in 14 major categories as the final iteration presented in the Table 7 - Major Categories below.

Table 7 - Major Categories

Categories		
Family Business	Localization	Passion
Low margin, high volume	Quality	Immersion
Agility	Less overhead	Prices
Value	Distribution	Customer service
Loyalty	Market Intelligence	

Multiple iterations took place of constant comparison and memo-writing to serve in developing theory. In the analysis process, questions are raised, relationships are suggested, gaps highlighted and the researcher clarifies uncertainties, tests interpretations to aid the researcher in building the emerging theory. The following sections discuss findings of the emerged categories as a result of the selective coding process.

5.3.1 Research Question 1

5.3.1.1 Introduction

What are the characteristics of non-MNC firms' business models that allow for the successful servicing of the low-income market? Themes emerged are presented in the following section with the data from interviews and have been arranged under the premise of **SME Fundamentals**.

5.3.1.2 Family business

The most common thread amongst all the firms interviewed was the structure of the firm as a 'family business'. This actually emerged as the main reason the firms entered into the BoP market. Nine out of 11 firms' respondents confirmed that family members were the original founders or were currently a significant part of the business. Respondents either had a history of generations involved in the business providing their justification for understanding the market or they noted that family members had the requisite skills needed for the business and could therefore be held accountable.

- **Company 1**- *"Well basically this small business goes back five generations ... But basically a lot what we know has been passed down through ages for the past 100 years ago... The elder and younger brother does the purchasing and I do the mixing...During apartheid we weren't allowed to own stores and we had what we called a nominee and we paid them a rental to use the name and we owned the stores"*.
- **Company 3**- *"we don't pass accountably to other people, we take accountably for ourselves, I have got my children running this whole operation...one is on the production side, one is on the refining side, one is on the designing side so we are a very hands on business and we take accountably for everything that happens here..."*
- **Company 8** - *"I am an entrepreneur basically so I am involved in a number of different businesses with my family and the soft drink business is just one of the businesses that form part of our group so my interest in the FMCG is the fast moving, high turnovers and it seemed like a very interested business, that is*

what got me into it, high turnover and volumes and I like challenging the big corporates”.

- **Company 9** – *“Being an engineer, and passionate about manufacturing any product, I decided to combine my technical expertise with my wife’s financial acumen, and start on a small scale...”*
- **Company 5** – *“I just run it.... for a close friends business. It has been running for about 20 years”*
- **Company 4** – *“This is a family owned business – we have 3 generations... there are currently 11 cousins working in various roles and our fathers are still directors of the company... they had set ground rules and job profiles for each of us...we targeted the low-income groups because we didn’t have the infrastructure to cover the middle/upper income groups”*
- **Company 6** --*“... My dad was working for an oil company so his idea was to supply me with twenty liters then distribute to the Restaurants so I started delivering oil in a Cressida by myself”.*
- **Wholesaler 2** – *“Coming from a ‘family-run’ business and going to a corporatized trading environment was challenging as the mind-set had to change. Old habits that were not in line with corporate business practises had to be rehabilitated. Entrepreneurial spirit or freedom in ‘on-the-spot’ or ‘instinctive’ decision making is not allowed through ‘red-tape’ policies that have to be complied with.”*

5.3.1.3 Passion

Respondents from Companies 1, 3 and 9 exhibited intense passion when commenting on the market reach and when discussing how they got into the business or the culture of their business. Companies 1 and 3 asserted that they do *not* conduct business in the corporate manner for the business they are in.

- **Company 1**– *We get people from Cape Town and PE coming to us because they heard about us to get medicines from us to heal... We do not have these crazy overheads that these big companies have as well....At this point we probably for Africa, Jumbo and all the major wholesalers we are probably number one in terms of they preferred stockiest, they prefer to buy from us...we only supply Africa with about 60-70 lines...”*

- **Company 9** - *passionate about manufacturing any product... I decided to combine my technical expertise with my wife's financial acumen, and start on a small scale. My strategy was simple. Buy raw materials for cash and in bulk and supply at good cash prices directly to the end user or retailer*
- **Company 3** - *we never did business corporate style because that does not work in this type of business.*

5.3.1.4 Differentiators

There were multiple dominant themes identified through interviews with responses pertaining to the firms' differentiators to multi-national firms. Quality and price were dominant differentiators amongst respondents, as were immersion, agility, distribution and typical small business strategy or tactics as claimed by firms as reasons for their success. Table 8 summarises key differentiators from respondents.

An interesting observation in Company 1 and 4 is that respondents from these firms aspire to produce products for the middle and upper income markets and sell through retail chains.

Table 8 - Key Differentiators

Key differentiator:	Company (C) / Wholesaler (W) and responses:
Low profit margin, high volume	C1) we work on a very low profit margin, we're pushing out the larger volumes at cheaper prices W2) Buy in bulk, low pricing structure and volume sales
Quality	C1) our products are better quality than a lot of the other products; C8) we tried to make a better quality product than [large beverage manufacturer] and give added value; C9) never ever compromise on quality C3) the quality of the diaper is good, make sure that we test our diapers C4) quality is managed by the family to ensure high quality C9) same quality
Immersion	C1) we need to be on the store, We so low down, we closer to the market than the CEO of Colgate and Palmolive; C4) our fathers did the deliveries themselves and spoke to people and understood the market closely
Agility	C1) We don't have any of that, we very quick; C3) we never did business corporate style; C9) immediate decisions, more flexible

Less overheads	C1) no marketing costs, low overhead costs and you very in-tune with the market.
Prices	<p>C2) our price of our products trade for approximately 50% less the multi-nationals trade prices, therefore lowered our costs which was needed to get into the markets at the lowest possible prices, Our prices have remained relatively stable for the past year as we managed to sell excess stock at the same prices;</p> <p>C8) we give about 35% added value at the same price as [large beverage manufacturer];</p> <p>C9) I attracted hawkers to my business by offering good quality at great prices</p> <p>C3) we are not expensive at the moment</p> <p>C2) we have a significant growth for a small company and we believe we can continuously grow if we maintain the right price</p>
Value	<p>C2) value brand products;</p> <p>C8) by adding value and a high quality product</p>
Distribution	<p>C2) We tackled the retailer directly from day one. We went to every corner shop, we went every café, These are the things that we have been doing already [van sales in rural areas];</p> <p>C9) I attracted hawkers to my business by offering good quality at great prices</p>
Strategy	<p>C2) keep the structure lean, lowest prices as possible and negotiate wherever you can;</p> <p>C9) Hands on service, immediate decisions, more flexible, better price, same quality</p> <p>C6) Sometimes it is all about catching the rand/dollar, it is all about catching the commodity at the right price, the right time, it is all these little small things that make you competitive</p> <p>W1) Value for money, prompt service and delivery of goods, accuracy of completed orders, professionalism, personal attention, deals for bulk purchases, sufficient levels of stock on hand during peak seasons</p>
Customer service	<p>C5) We know how they want it and how they want it</p> <p>C3) we believe in service, that was the key factor, now because we started servicing them so well so they came back to us</p>

- Company 1-** *This is where we have been able to capitalise because we work on a very low profit margin and that's because in order to meet the cost competitions out there our products are better quality than a lot of the other products...For us we need to be on the store even though we have people managing it for us because it is a cash business we got to be there all the time...In the corporate world from the CEO all the way down to the guy on the bottom floor in producing. We don't have any of that, we very quick. We so low down, we closer to the market than the CEO of Colgate and Palmolive, etc. there is no marketing costs, low overhead costs and you very in-tune with the*

market... we're pushing out the larger volumes at cheaper prices and this had a toll on their sales."

- **Company 2-** "value brand products...Currently our price of our products trade for approximately 50% less the multi-nationals trade prices. Example their prices are R30.00 a packet of twenty and ours is R15.00. This is how we want to target and attract the market...In terms of legal product on the market, ours comes in at half the price... Our target was initially to set up the local market throughout South Africa regardless of the demographics of people. We didn't target any particular groups.. One of the other aspects we tackled in the markets in SA, the multi-nationals worked through agencies. They sold cigarettes to the agents for distribution. We tackled the retailer directly from day one. We went to every corner shop, we went every café. Those corporates that were prepared to list our products, like Spar, Massmart, Makro, were approached directly by us and we excluded the agency agreement and therefore lowered our costs which was needed to get into the markets at the lowest possible prices...Those models we stuck to and interestingly enough, about three / four years ago the British American Tobacco Company has done the same thing and excluded the agencies agreements and went directly to the retailers. We could get into trouble but we feel proud that they followed in our footsteps...They started a new concept where they send out vending vehicles especially to the rural areas where people are not comfortable to pay now and then wait for stock. These are the things that we have been doing already. Basically our concept e has always been the same, keep the structure lean, lowest prices as possible and negotiate wherever you can...To get an understanding of the value brand in cigarettes, and taking care of a market that cannot afford premium smoking, we don't see the [large tobacco MNC]as a competitor we see them as just another supplier, because they never had a brand in the value market sector however, about two years ago, they saw us as a threat ...Our prices have remained relatively stable for the past year as we managed to sell excess stock at the same prices and not pass on the excise duty increase onto the top-end retailers...how long will [large tobacco MNC] be able to sustain their losses as we are eating into their profits because people are going for the cheaper brands like us. When is it when the shareholders are going to say enough is enough, we want investments on our shares
- **Company 5** "... we dealing with most of them [customers] for a number of years. We know how they want it and how they want it. In addition, if they have

a problem with it they can return it, we do not take a percentage off on returns. If it is not our fault, we take it for them and return it for them”

- **Company 8** *“-by adding value and a high quality product mixed with good packaging so it could prove to be attractive in fact we tried to make a better quality product than [large MNC beverage producer] and give added value...We believe our products are very attractive to the low income markets particularly because we give added value; we give about thirty five percent added value at the same price as [large MNC beverage producer]”.*
- **Company 9-** *“We have tried to be unique in the way we present, never ever compromise on quality and the variety of colours we offer... I attracted hawkers to my business by offering good quality at great prices. From there it was word of mouth and we now have thousands of repeat informal hawkers/small retailers. We offered a delivery service within Gauteng... Hands on service, immediate decisions, more flexible, better price, same quality”*
- **Wholesaler 1** – *“we helped a lot of small traders and even small manufacturers...there is **too much reporting** and that is what actually happened, if you take the Mass Mart, we had about six branches and today they only have two, it is their corporate style of doing business, their buying style or pattern has also changed, today they only buy mostly branded products...now if you take [NAME REMOVED] as a model it is more retailer than wholesaler...I don't know but I think they were doing much better than how they are doing at the moment, I mean we used to do wholesaling, not retailing because if we start doing retailing how do we build relationships with traders? then there is no loyalty to the traders as well, it would not give the traders an opportunity to grow if you did something like that and today you can see that everybody is open to everybody, actually it is not a good environment...”*
- **Company 3-***“... because of the way we were servicing [chain MNC retailer for discount brands] etc they were quite happy with the service because we believe in service, that was the key factor, now because we started servicing them so well so they came back to us...we are big competition for others up to the biggest manufacturing company in South Africa because our packaging is good, the quality of the diaper is good and we are not expensive at the moment because we are not doing high market we just want to penetrate the market and we already can't cope with the demand...trying to make this product under the best conditions, we make sure that we test our diapers, the diapers are tested every twenty to thirty minutes to see the water content, the structure of the diaper so all the quality checks are maintained all the time”.*

- **Company 6** - *“...Sometimes it is all about catching the rand/dollar, it is all about catching the commodity at the right price, the right time, it is all these little small things that make you competitive ...discount products do better than you premium products*
- **Company 4** – *“...we pioneered the atchar prepackaging re-selling business as no-one was doing that... this is a family owned business and therefore the quality is managed by the family to ensure high quality as in snacking that is the most critical part of the business...we always comply to health inspections as compared to our competition...”*

5.3.1.5 Competitors

When discussing competition, respondents attested to multinationals as well as imports, illegal products, wholesalers and other small start-ups as competitors. In cases where barriers to entry are low, such as in the snacking business, these firms compete with start-ups based in the area of distribution making their prices much more affordable. In the case of beverages, distribution is a key element and Company 8 admits that their MNC counterpart's strength is their distribution model, albeit the company has replicated a similar model for the South African BoP market.

- **Company 2** *“... they saw us as a threat and launched a product to compete with us, called [value product by large MNC].... We saw that when [value product by large MNC].... was launched in the market, we immediately felt the effects of having a competitor in that price range... We have a lot of competition with a lot of new products coming on the market in the same price range, but with all of that we still believe our market is still growing and we have a significant growth for a small company and we believe we can continuously grow if we maintain the right price”.*
- **Company 3** *...these diapers are competing with [large MNC diaper manufacturer]*
- **Company 7**– *“ in Gauteng itself there is only one other producer of Vinegar*
- **Company 8**- *I think that is there strength, their distribution methods because with this product you cannot just get a courier to deliver it, it is not viable because of low margins and high volume;*

- **Company 9-** *The market has become cut-throat with other smaller start-up companies copying our business model and strategy. ...We always keep abreast of new technologies, attend international trade fairs, keep an eye on our competitors and listen to our customers... Because of other contenders following our lead, we decide to diversify our customer base a few years ago. This has paid off handsomely and we now have some large wholesalers, SADC customers, cleaning companies, schools and government departments as our customers*
- **Company 6-** *t here are times whereby we are actually competing with Cash 'n Carry*
- **Company 4 –** *this snacking business is prostituted, overheads are low and anyone and everyone gets into snacking from their garage... they base themselves in areas of distribution and come in at a lower price or bring imports”*

5.3.1.6 Price

A common thread amongst respondents was the acknowledgement of price sensitivity of their market. Company 2, being exposed to excise duty, manages their finances and cash flow to limit the amount of increased tax that gets passed on to their customers. Company 8 offered more value for the same price and Company 3 admits to keeping prices low to forge their way into a new market.

- **Company 2-** *Currently our price of our products trade for approximately 50% less the multi-nationals trade prices. Example their prices are R30.00 a packet of twenty and ours is R15.00. This is how we want to target and attract the market.... we excluded the agency agreement and therefore lowered our costs which was needed to get into the markets at the lowest possible prices...We try to keep it as smooth and consistent as possible by holding these prices for as long as possible...that people would swop over for a price difference of twenty cents.. We immediately felt the effects of having a competitor in that price range...People don't realise the costs involved in going to the Makro stores, standing in queues to pay and using more petrol to get there but that just shows how price sensitive the market is. ..we still believe our market is still growing and we have a significant growth for a small company and we believe we can*

continuously grow if we maintain the right price...Our prices have remained relatively stable for the past year as we managed to sell excess stock at the same prices and not pass on the excise duty increase onto the top-end retailers... Then in the black market there are those who have no qualms about the brand that they are smoking as long as the price is right and secondly there are no controls over the illegal market and they can get a stronger cigarette”.

- **Company 5** “... factory owners that don’t want to spend too much uniform so I have to give them a better solution at a cheaper price”.
- **Company 8-** “...volume, yes and our pricing as I said is similar to the smaller can, our product is basically a high quality product...had to identify the appeal of our product and if we took our biggest competitor in the lower end is a big two litre product which comes at a very competitive price so what happens is we certainly can compete on value with that because generally a low income, get the most economical packaging and value for money
- **Company 9** - I benchmarked against the largest multinationals and tried to provide a similar product at a price less than a third of what was being offered at the large chain stores. I attracted hawkers to my business by offering good quality at great prices.
- **Company 3** – “price is low at the moment because we need to penetrate the market and we are getting a lot of feedback, people like the quality of the diaper, there are a lot of orders
- **Company 6** – “There are price wars in the whole industry whether it is with me or whoever else

5.3.1.7 Quality

A very strong theme that emerged amongst all respondents is the focus on quality and their undeniable enthusiasm around the quality of their products. From sourcing the best quality inputs, packing, variants, testing and the quality of the final products, respondents felt that their ability to compete and the quality they maintained were definitive reasons for their differentiation.

- **Company 1** – “We always ensure that we pushing out a quality product it’s a premium product because the ingredients that we putting in we try to source the absolute best products at the best prices ...We get people from Cape Town and

PE coming to us because they heard about us to get medicines from us to heal”.

- *Company 4 – “quality is most critical to this business”*
- **Company 8** - *“by adding value and a high quality product mixed with good packaging so it could prove to be attractive in fact we tried to make a better quality product than [large MNC beverage producer] and give added value...Excellent packaging, excellent taste so we didn’t want to skimp on quality because even in the lower segment quality is important”*
- **Company 9** – *“We have tried to be unique in the way we present, never ever compromise on quality and the variety of colours we offer.. I attracted hawkers to my business by offering good quality at great prices. From there it was word of mouth and we now have thousands of repeat informal hawkers...”*
- **Company 3** – *“... our packaging is good, the quality of the diaper is good and we are not expensive ... people like the quality of the diaper, there are a lot of orders...it’s all about quality...trying to make this product under the best conditions, we make sure that we test our diapers, the diapers are tested every twenty to thirty minutes to see the water content, the structure of the diaper so all the quality checks are maintained all the time... this was about the second neatest place in the country [supplier comments]”*

5.3.1.8 Distribution

Responses revealed that distribution channels were non-traditional mainly as a cost-cutting measure to cut costs for the price sensitive market for Company 2. This firm does not follow the traditional model of using agencies to sell to retailers but rather has created their own direct-to-retailer relationship and using their own fleet of trucks has managed deliver directly to the retailer. This also allowed them to create relationships directly with their customers’ first-hand.

Another interesting concept that emerged is that a firm would use multiple channels of distribution and not adhere to one a particular channel. Wholesale combined with a retail channel featured prominently with Company 1, 5, 8 and 6. Company 9 used the informal sector and hawkers to distribute and resell their products. Company 8 uses chain retailers as a distribution channel but also sells directly in the end to the

consumer through 'van sales' which are their company vehicles that hold stock and accomplish sales and delivery together.

- **Company 1**– “ We distribute through Africa through [NAME REMOVED] , we got a whole lot of other wholesalers across southern Africa...The same products are sold to smaller retailers ... We have our set clients so that we have constant production off and the rest is, as we need... We have approached all of these people [retail chains] but they are not interested in our side because although they have a large black population that buys from them a good 60-70% of the buying power is very much non-black. So I don't think it would create a solid taste in the mind and mouths to be selling these products associated with African muti the white people would question as to why we selling African muti in the store... If we go to they are few Spars and Cambridge stores that sell our products but they in Thembisa they out in the location where they is no dominantly.
- **Company 2** - “One of the other aspects we tackled in the markets in SA, the multi-nationals worked through agencies. They sold cigarettes to the agents for distribution. We tackled the retailer directly from day one. We went to every corner shop, we went every café. Those corporates that were prepared to list our products, like Spar, Massmart, Makro, were approached directly by us and we excluded the agency agreement and therefore lowered our costs which was needed to get into the markets at the lowest possible prices... ...In terms of distribution, we have a fleet of about eight to ten vehicles, up to 350km from the factory we rely on our own staff to distribute and we have an agreement with courier companies to deliver our products to the outlying areas that we cannot manage to get to with our transport.
- **Company 5**- So Parktown customers that have shops in that locations come, buy bulk from us, and resell it. It is wholesaling but not on a big scale
- **Company 8**“... we sell to Pick 'n Pay and Spar... van sales which go directly to the smaller, where they carry the stock on the vehicle particularly just to cut down your delivery costs, you do your sales and delivery in one call...In the low income market the cash and carry seem to be a good distribution network and then I like I said we do direct sales and then through the chain stores
- **Company 9**“... Informal sector, hawkers” ...If we decide to put sales reps and more delivery vehicles on the road to cover a greater area of South and Southern Africa, we will definitely do very well.

- **Company 6**– “ *we deliver...there are times whereby we are actually competing with Cash ‘n Carries.*

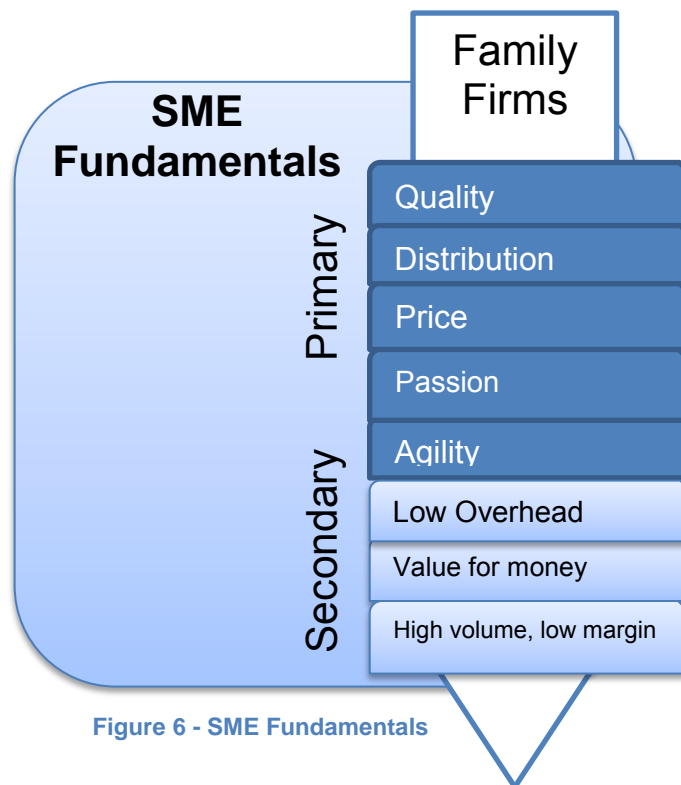
5.3.1.9 General Observations

Additional observations are that firms had unadorned offices and the owners were very hands on. During interviews, they intermittently were called on to resolve an issue or asked questions by their subordinates. 6 out of 9 firms had turnovers greater than R1 million rand per month, both wholesalers had turnovers greater than 5 million per month and 1 out of 9 manufacturers had a turnover of under R1 million per month. 2 out of 9 manufacturers did not want to disclose their turnover range. A respondent from the cigarette and tobacco industry admitted that they aim to keep the structure lean, so that they can have the lowest prices possible and negotiate wherever they can. Another respondent was excited that his business was very hands on about service to their customer and they could make immediate decisions and were more flexible in serving their customer with the same quality as their MNC counterpart. Low overheads and even ‘no marketing costs’ were elements that helped keep their costs to a minimal. The prompt service and delivery of goods, personal attention and sufficient levels of stock during peak seasons helped a wholesaler grow his business over the 30 years they traded.

Another observation by the researcher is that none of the respondents from firms interviewed realized that their knowledge on serving low-income markets was not easily accessible.

5.3.1.10 Conclusion

As a result of the iterative process involved in Grounded Theory, the themes that emerged and are presented in this section have been theorised as **SME Fundamentals**. These characteristics describe findings from interviews of the sample firms and are graphically presented in Figure 6.



5.3.2 Research Question 2

What are the competitive advantages within these firms' business models as compared to their MNC counterparts? Themes emerged are presented in the following section with the data from interviews and have been arranged under the premise of **Customer Core**.

5.3.2.1 Localized

Three respondents admitted to creating products specifically for the low-income market, carefully taking into account the unique BoP culture and price sensitivity.

- **Company 1** – *“It is a western product that has been Africanized. Because bath salts didn't exist prior too few years back and even oils. So what we basically have done is to allow a larger public to have access to these products but more for the African side. So we provide large volume good quality products at a low price. So equivalent to redox bath salts and stuff that we provide to a lower market at a much cheaper price. ... “90% of our labels are very different from your typical western labels and there is not much wording. You are not going to have a whole big read up at the back. Because 90% of our clientele read with their eyes and not with the knowledge of the product, they not going to read the label and say it's good product. They look at the product and if it catches their eye that's what they want.”*
- **Company 2** – *“We saw a market where if we wanted to get into the market we had to tap into it and the first thing we created was value brands and our marketing strategy was based on price.*
- **Wholesaler 2** – *“founder members saw the opportunity of setting up a store that catered specifically for the low-income African ethnic group with products that serviced that specialised segment of people...store that was strategically located near a taxi-rank, and a free customer pick-up service from Park Railway station, a niche-market was created”*
- **Company 4** – *“created products and packaging localized for the nature of the distribution channel. They also not only used a localized product (Atchaar¹) but created a reselling system where they sold separate products to low income*

¹Indian pickles consist of a large variety of pickled fruits and vegetables which are acidified with lime or lemon juice, or through lactic acid fermentation enabled by addition of common salt.

individuals that repackaged and rebranded the products for sale to the end-consumer. ... we were pioneers in introducing cheese puffs and worms to the low-income market and we bulk packaged so that hawkers could re-package and resell... we sold pre-mixed atchar ingredients to the black market and they rebranded and sold to their customers”

5.3.2.2 Market intelligence

- **Company 1** - *They don't want to be seen using traditional natural roots and herbs, therefore they are using what you call Iswashu which are called powders but Iswashu translated directly means powder. But Ishwashu Sabelu means white man powder; abelu is for white a person. So you wouldn't only use your traditional African powders you want to use white man powder.... it's just general feedback from the customers so we put products out there and from the buyer power of the product so what's hot at the time will grab our attention and it will create a need for us to produce the product....In the African culture they would go to a Songoma or an Inyana and he would give them something to use for attraction. So we have created a product called Bagamena which means look at me it is one of our fastest selling products, mostly for women for them to create an attraction to lock down the man because it's they have such a hard time finding a partner that will stay.*
- **Company 2** – *“We intend to rely on feedback from the markets, our reps and SARS, etc. We estimate from the figures that are given to us in terms of the consumption of cigarettes and we estimate that we have about 5% of the market share...Legal consumption of cigarettes are estimated at about 220,000 cases per month. ...We believe that smoking consumption has gone up and not down...There's always something on going, we always look at the foreign and local markets to see what's going on, for example, yes, we'll stick with our brand, like about six years ago, we found that there was three voyager products, there was a demand for a fourth line, which was an ultra-light cigarette and now they're looking for a super slim cigarette. So basically we just look at the demand globally of the consumers and then we produce the product... Then in the black market there are those who have no qualms about the brand that they are smoking as long as the price is right and secondly there are no controls over the illegal market and they can get a stronger cigarette”.*
- **Company 8** – *“basically had to identify the appeal of our product and if we took our biggest competitor in the lower end is a big two litre product which comes at*

a very competitive price so what happens is we certainly can compete on value with that because generally a low income, get the most economical packaging and value for money...A lot of information we get through reports from our sales representatives and then just basically from internets, surveys and those kind of things and from magazines, a lot of statistics from magazines... We do and also we get a lot of people contacting us through social media, emails or letters, we actually find it surprising that people take the time to give feedback”

- **Company 9** – *“We always keep abreast of new technologies, attend international trade fairs, keep an eye on our competitors and listen to our customers”.*
- **Company 6** – *“Obviously I need feedback from my sales representative, it is like other companies representatives are telling customers prices are coming down, my representative must come and tell me prices are coming down.”*

5.3.2.3 Immersion

Comments from Companies 1 and 4 shows a deep sense of customer immersion where these respondents, not being of African descent, were able to understand their consumers’ culture and create products accordingly. Company 1 also understood the challenges faced by their consumers and how their product fits into their customers’ lifestyles. Direct interaction with their customers through the retail footprint affords them the opportunity to speak directly with to their customers and maintain a valuable sense of closeness with their customers.

- **Company 1**– *“we continued to learn from the Zulu, Tswana and Xhosa and that’s how we progressed for five generations...Because of what is happening in society women will come with the need to have something for attraction as an example. In the African culture they wouldn’t do that they would go to a Songoma or an Inyana and he would give them something to use for attraction. So we have created a product called Bagamena which means ‘look at me’ - it is one of our fastest selling products, mostly for women for them to create an attraction to lock down the man because it’s they have such a hard time finding a partner that will stay....No matter what medical people say they are a very large percentage of black people that can’t afford to go to clinics and hospitals. African medicines some of them come out to the stores etc but a lot of the people in the rural area people go out and dig medicines from the bush cook it*

and drink it and it works.although we in business here we also do time in stores.... it's just general feedback from the customers so we put products out there and from the buyer power of the product so what's hot at the time will grab our attention and it will create a need for us to produce the product."

- **Company 4** – *"we do our market research by going into the market ourselves... we're very hands-on and will hand products to clients and get to speak to them directly about what they like and don't like...our fathers did the deliveries themselves and spoke to people and understood the market closely"*
- **Wholesaler 2** – *"founder members saw the opportunity of setting up a store that catered specifically for the low-income African ethnic group with products that serviced that specialised segment of people. These products were cosmetics, ethnic hair-care, and muti medicines"*.

5.3.2.4 Loyalty

While Company 1 does not invest capital into marketing efforts, they have built a large and loyal customer base through word-of-mouth and have a solid reputation of their product in their market; yet they are still susceptible to market share loss with subtleties like package changes. Reliability, consistency and the availability of the product on the market, for Company 2, entice their customers into continuing to purchase their product; they believe that there is no actual loyalty to their brand since their customers are extremely price sensitive in the value brand segment and would swop brands for even a marginal price difference. Their product is a luxury product and tax increases make the product more expensive than non-luxury goods. Company 6 has similar comments pertaining to their product, oil, in a price sensitive market.

Wholesaler 1 indicated they experienced respectable loyalty both from customers as well as suppliers. They were instrumental in helping their suppliers grow the size of their businesses through their wholesaling and were able to help their suppliers learn and understand the market.

Company 1- *This leads us to another point with our labels, when we do make any kind of change if it's a drastic change or even changing the colour to much we lose share for a long period of time... 90% of our business is through word*

of mouth It is something that been built over a long period of time ...So when we make label for a particular product because people recognize it by the colours and name, so we can't change it much...That reputation of healing people over a long period of time is what's carried us to where we are now.

- **Company 2** *"I think it's basically a combination of reliability and consistency and availability of the product in the market place, coupled with the fact that the customer base that we started off with trusted and had faith in us and helped us to grow and to maintain an affordable price...The whole idea of creating brands is not to lose the customers, I can come up with a product, say for instance we take [value brand of Company 2] smoking is very psychological, that's what we found. We could put down four products on a table in unmarked packs and a smoker would be able to identify the difference but each product is exactly the same. So if we put out four products and a guy doesn't like the one, he would choose another in the same price range and we'd still retain that customer...I don't think in the tobacco industry, or in the cigarette business, that people are loyal to the brand...Tomorrow if there's a consistent supply of alternative product in the market, and if it's cheaper, they would buy that product... There isn't brand loyalty as people will smoke what they can afford irrespective of the consequences. Market is not dictated by trade it is dictated by customers.*
- **Company 5** *"...lots of them are old customers and the new customers we get through from advertising*
- **Company 8** *"...we have a number of people telling us that they prefer our product and we find that we are getting a lot of loyalty in the younger generations because that is where they have not formed habits*
- **Company 6** *"no loyalty to the brand"*
- **Wholesaler 1** *"... had good loyal support ...retailers and suppliers that were loyal to [NAME REMOVED] because of the nature of it we operated with both parties...we have been interactive all the time, even suppliers use to come and say listen this is what we want to do, please try this out for us, do you think that this is going to work, we use to advise them as well on the needs of all the retailers as well"*
- **Wholesaler 2** *"...Through consumer products that target this market [low income markets] specifically..."*
- **Company 6** *"..Yes and obviously the loyalty that I get from the Shop owner... loyalty from the Supermarket owners"*

5.3.2.5 Conclusion

As a result of the iterative process involved in Grounded Theory, the themes that emerged and presented in this section have been theorised as the **Customer Core**. These characteristics describe findings from interviews of the sample firms and are graphically presented in Figure 7.

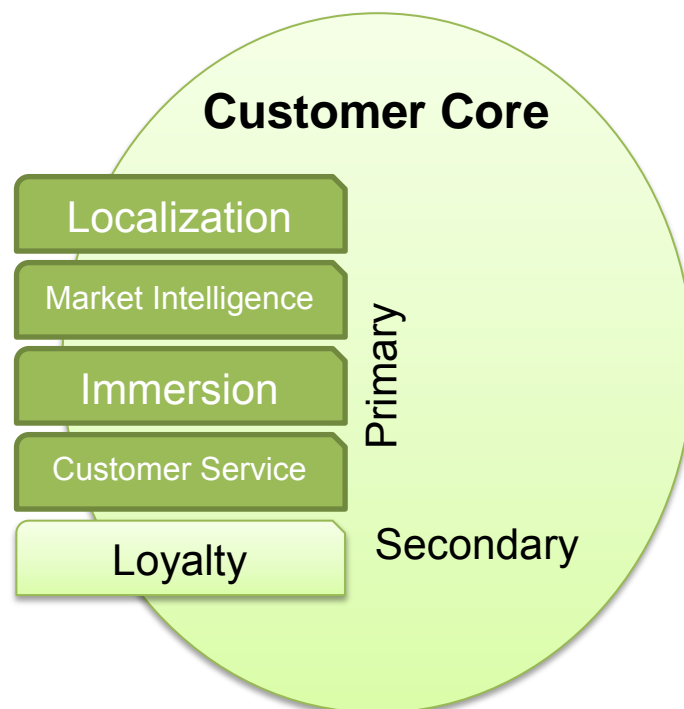


Figure 7 - The Customer Core

5.4 Phase 3 – Theoretical coding

Theoretical coding is the final stage of coding and occurs when core categories have become saturated. Unlike other qualitative analysis methods which Jones, Kriflik, & Zanko (2005) quote Mertens 1998 that to attain thoroughness several stages of confirmation or triangulation are required, Grounded Theory builds an analytical case by continuously looking for new categories of evidence until no new data result from additional data collection (saturation) (Jones, Kriflik, & Zanko, 2005).

Jones et al., (2005) quote Glaser, 1992, 2005 and Glaser and Kaplan 1996) stating that theoretical coding inspects these saturated categories and provides analytical measures for the building of abstract relations between categories and their significance to the literature (Jones et al., 2005).

As open and selective coding fractured the data and clustered them according to conceptual likeness, *theoretical coding*, along with cataloguing, weaves the fractured fragments together to theorize underlying relationships between the hypotheses derived through open and selective coding (Jones et al., 2005). Jones et al., 2005 quote Glaser and Holton, 2004 pg 9 stating that “Theoretical codes give integrative scope, broad pictures and a new perspective. They help the analyst maintain the conceptual level in writing about concepts and their interrelations”.

5.4.1 Theoretical model

Once the categories were collapsed into categories that were supported strongly by the data, the contrasts between categories became evident. Two strong areas found in the data are ‘small business basics’ and ‘a focus on the customer’ as a means to serve the low income market successfully. Following the principles of grounded theory, the following model is the result of the iterative process and is the last and final step of the analysis. The literature on the themes that have emerged are discussed in Section 5.5.

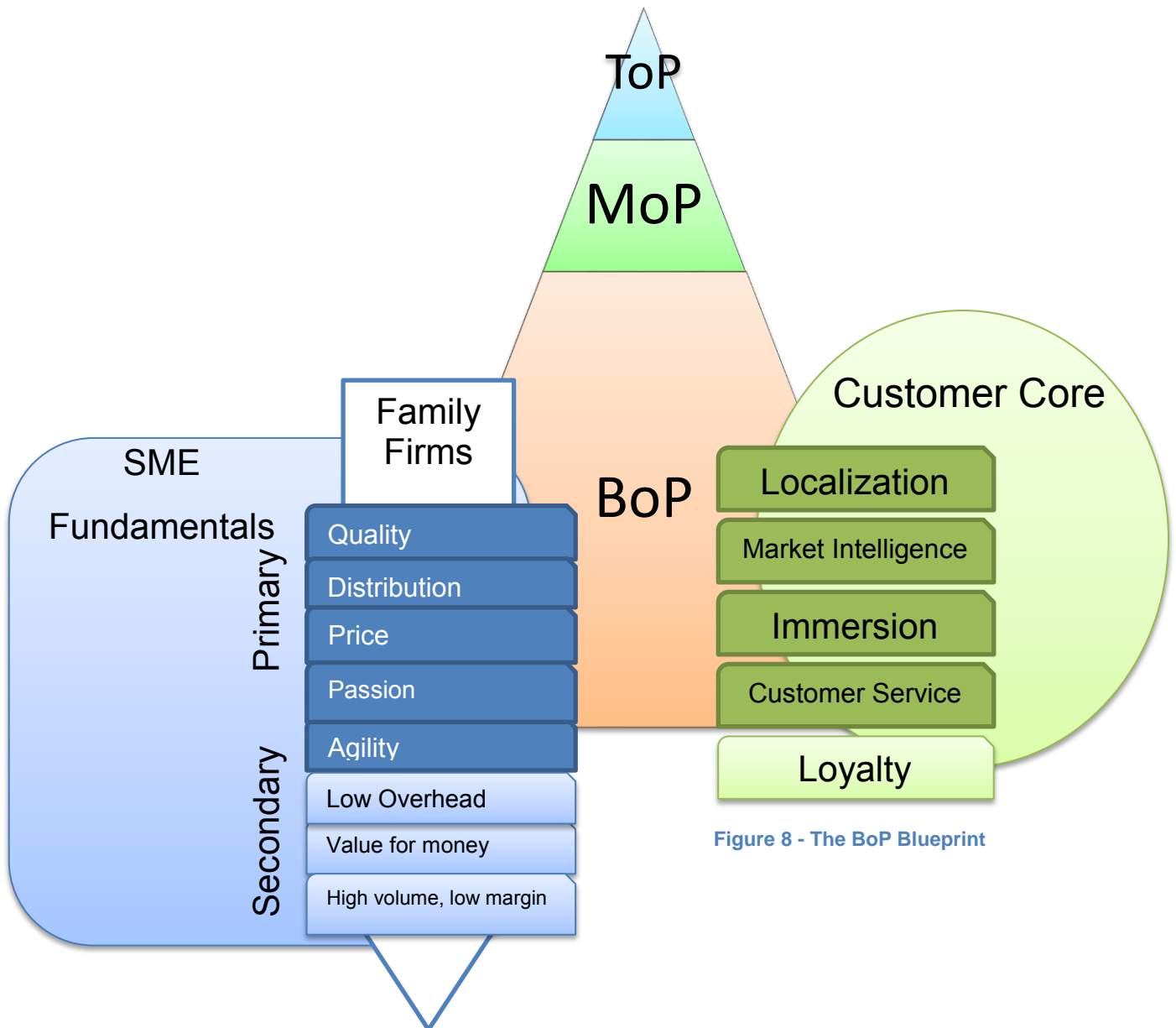


Figure 8 - The BoP Blueprint

As a result of this study, the BoP Blueprint shown in Figure 8 was identified to answer the research questions of what characteristics of non-MNC firms' business models allowed them to successfully serve the low-income market and what were their competitive advantages. The BoP Blueprint was theorised to underlie the success of non-MNCs and encompasses two distinct areas namely the characteristics of 'Small and Medium Enterprises' and 'Customer Centricity'. Under the SME theme, the data supported qualities of small business such as agility of the businesses and its ability to easily develop products or respond to customer needs and passion as a trait of the

entrepreneurs behind these SMEs amongst other themes such as a focus on Quality, multiple Distribution channels, high volume low margin and low prices as a key differentiator. These elements of small business in the BoP Blueprint describe the characteristics that Research Question 1 aimed to investigate.

Within the 'Customer Centricity' theme, characteristics of 'immersion' and 'localisation' where sample firms paid particular attention to elements of customer centricity was highlighted amongst further data discussed earlier in the chapter to support the focus on the customer as the competitive advantages that research question 2 aimed to study.

The BOP Blueprint is the last step of the iterative process of the grounded theory method and the theory generated can be tested for validity on another sample. The BoP Blueprint offers a new perspective on serving the BoP consumer.

5.5 Literature Review

The themes discovered through the theoretical coding of the grounded theory method from the previous section will be discussed with the current literature. Three major areas in literature will be discussed in the next section which are ***Small and Medium Enterprises*** and ***Family Business*** in relation to the *SME Fundamentals* component of the BoP Blueprint and ***Customer and Market Orientation*** in the context of the *Customer Core*.

5.5.1 Small and Medium Enterprises (SME)

Small businesses are social entities that revolve around personal relationships (Burns, 2001; Hari, Egbu, & Kumar, 2005). In SMEs, personal relationships have traditionally been a main contributor to success. Utilising these already existing bonds, together with a clear understanding of what the company wants to accomplish strategically, can become a sustainable competitive advantage that can lead to growth and increased profitability. This results in customer satisfaction and retention (Hari et al., 2005).

Burns (2001) further describes characteristics that are typical of small firms such as the limited access to cash and hence do not adopt expensive advertising and promotion campaigns resulting in the owner/manager developing close relationships with customers and prospective customers, investing their time rather than money. He also argues that decision making is short-term in order to attain quick pay-offs. Small firms typically operate in a single market or limited range of markets making their scope of operations limited. Business strategy is usually a small firms' marketing strategy and unlike large firms, they find it challenging to diversify their business risk (Burns, 2001).

Kim, Knotts and Jones (2008) described how SMEs that create and market products appealing to the customer are those that are also more likely to survive over a longer period of time; have increased sales and profitability; and produce quality products with

a longer product life-cycle at a competitive price (Kim, Knotts, & Jones, 2008). The ability to introduce new products is a key factor of success for SMEs (Avlonitis & Salavou, 2007).

Coviello, Brodie, and Munro (2000) provides insight into marketing practices of small firms and asserts that a more relational emphasis exists with smaller firms (Coviello, Brodie, & Munro, 2000). Smaller firms tended to also have greater propensity for action (Chen & Hambrick, 1995) and greater flexibility in output compared to larger firms (Fiegenbaum & Karnani, 1991).

Corbett and Cambell-Hunt (2002) identified a common pattern that manufacturing SMEs had an over-riding focus on customer responsiveness, flexibility, being cost-efficient at short run production to ensure reduction manufacturing lead time to get products to the market faster (Corbett & Campbell-Hunt, 2002). They further argue that the importance of flexibility in environmental uncertainty needs to be considered a strategic necessity (Corbett & Campbell-Hunt, 2002).

Kumar, Anthony and Tiwari (2011) argue that the literature is void of a quality related framework tailored to the needs of SMEs in the context of quality (Kumar, Anthony, & Tiwari, 2011). Their critique of existing continuous improvement models such as Total Quality Management (TQM) or Lean proposed for SMEs resulted is that there are limited resources for SMEs to operationalize the frameworks or models. Another key finding was the lack of focus on how to implement a framework for SMEs to formalize their quality methods. The authors propose a Six Sigma implementation framework taking into cognizance the needs and characteristics of SMEs to ensure quality is managed in a more structured fashion (Kumar et al., 2011).

Agility is a major contributor of competitive advantage within SMEs where core competencies as considered to be strategy and behavioural characteristics (Bessant, Francis, Meredith, & Kaplinsky, 2001).

5.5.2 Family Business

Family businesses are recognized to be the oldest form of business that permeates the world (Zachary, Pieper, Mazzola, Phan, & Goel, 2012). Chrisman, Chua and Steier (2003) state that family firms have received little awareness in mainstream management literature, especially in regards to the development of theories of the firm (Chrisman, Chua, & Steier, 2003). This neglect is unfortunate because in terms of contributions, family businesses represent 30% of organizations throughout the world Chrisman et al. (2003) quoting the Boston Consulting Group. Academics have failed to recognize, embrace, and deliberately incorporate family businesses into the mainstream theories of entrepreneurship and management which may make those theories more robust and valuable (Chrisman et al., 2003). Family business research gathered little attention in the academic world due to a lack of theoretical grounding and empirical rigor (Zachary & Mishra, 2010). When studies have been conducted, family business have often been studied through the perspectives derived from other disciplines within and related to business research, such as psychology, economics, sociology and many others (Astrachan, Pieper, Sciascia, & Mazzola, 2012; Zachary & Mishra, 2010).

Currently, family business research is gaining impetus and is the fastest growing discipline in business research (Astrachan et al., 2012) as little is known about what exactly makes family business different. A very recent study by Kachaner, Stalk and Bloch (2012) show that family run companies do not earn as much revenue as companies with a more dispersed ownership structure but when the economy downturns, family firms far outshine their peers and average long-term performance was higher in multiple countries examined (Kachaner, Stalk, & Bloch, 2012).

Kachaner, et al. (2012) uncovered seven differences in family business approach: a) family firms are frugal in both good and bad times; b) they are judicious when it comes

to capital expenditure; c) they carry little debt; d) acquire fewer and smaller companies e) many show a surprising level of diversification; f) they are more international; and g) retain talent better than their competitors.

5.5.3 Customer and Market Orientation

Academics have argued that there is a positive influence of customer orientation on company performance (Appiah-Adu & Singh, 1998) and indicate that the influence is stronger as risk-taking, innovativeness and opportunity focus increase in their study of 180 small firms and their customer-orientation and performance relationship (Brockman, Jones, & Becherer, 2012).

Customer Orientation (CO) pointed the focus of marketing actions toward satisfaction of the customer and has been considered the foundation for the marketing concept and market orientation for decades (Narver & Slater, 1990) placing CO as the powering force for marketing activities. Firms that are market oriented are in a better position to respond to emerging market needs as their organizational processes are focused on the external market environment (Narver & Slater, 1990). Since small firms are uniquely positioned to excel in CO due to the closeness between management and the customer (Appiah-Adu & Singh, 1998) small firms use CO to distinguish themselves from large firms (Brockman et al., 2012).

CO is described as a firm's ability to continuously create superior value for its customers due to thorough comprehension of its target markets' needs and wants (Narver & Slater, 1990) or a belief system that puts the customer as first priority. A firm with a strong sense of CO has the drive and the ability to identify and respond to user needs and the technical and market issues can be more thoroughly evaluated and reacted to than is possible for firms that are not focused on the customer (Gatignon & Xuereb, 1997).

Kumar, Jones, Venkatesan and Leone (2011) argue that although adopting market orientation was a source of a unique competitive advantage for a firm it has now become a cost of doing business (a failure preventer) (Kumar, Jones, Venkatesan, & Leone, 2011).

Because of the more natural interfacing between managers and customers than that experienced in large firms, CO is arguably more important for success in small firms because it provides a source of differentiation from large firms and (Brockman et al., 2012). While CO has its place in marketing, there has been relatively little empirical consideration of CO as a competitive advantage for small firms in the field of international business on in serving the BoP.

In a seminal article, Pelham (2000) was one of the first academics to find that market orientation had a positive relationship with measures of performance and that the relationship between performance and market orientation and emphasis on growth/differentiation was stronger amongst smaller firms (Pelham, 2000). Compared to strategy selection, firm size or industry characteristics, market orientation had the strongest positive relationship with company performance (Pelham, 2000).

Raju et al. (2011) argue that SMEs have a higher degree of market orientation than larger firms (Raju, Lonial, & Crum, 2011). Appiah-Adu and Singh (1998) describes the notion that when market instability or competitive intensity is great, being market oriented would be an essential success factor and would strengthen the market orientation –performance relationship due to the output flexibility especially in industries with fluctuating demand (Fiegenbaum & Karnani, 1991).

6 Chapter 6: Discussion of Results

6.1 Introduction

The previous chapter exhibited results from the grounded theory research process where research questions posed in Chapter 3 derived from the literature on business models and low-income markets were tested through interviews with owners of small and medium sized manufacturing firms that are serving the low-income market in South Africa. This chapter will discuss the results in relation to the literature reviewed in Chapter 2 and introducing literature based on new constructs found in Chapter 5. For clarity of analysis, the topic was broken down into research questions; using grounded theory to investigate findings, certain core themes emerged, and the BoP Blueprint introduced at the end of Chapter 5 will be discussed further in this chapter.

6.2 Discussion of Research Question 1

6.2.1 Introduction

Research question 1 aimed to investigate characteristics of non-MNC firms' business models that successfully serve the low-income consumer at the BoP. The BoP Blueprint presented in Section 5.4 articulates the characteristics of their business model and is further discussed in the sections that follow. These characteristics under the banner of 'SME Fundamentals' explores concepts of the SME, family firms, passion, quality, agility, price, distribution, and customer service.

The results from the interviews are analysed through the lens of consumer products that are of value and form the basket of goods consumed by low-income consumers. Firms interviewed were from the FMCG industries specifically as the consumption of low-income consumers are primarily on food, housing and household goods (Guesalaga & Marshall, 2008).

6.2.2 SME Fundamentals

While there is quite recent literature pertaining to the internationalisation pathways of SMEs (Olejnik & Swoboda, 2012) and even family-owned SMEs (Kontinen & Ojala, 2012), to the best of the researcher’s knowledge, SMEs have received little attention in the mainstream management literature, and in particular, very little exploration as to the reasons for SMEs to enter into the business of serving **low income** markets. With a lack of literature surrounding small and medium firms currently serving low-income markets, this research aims to discuss elements from findings in this section shown in Figure 9 - SME Fundamentals.

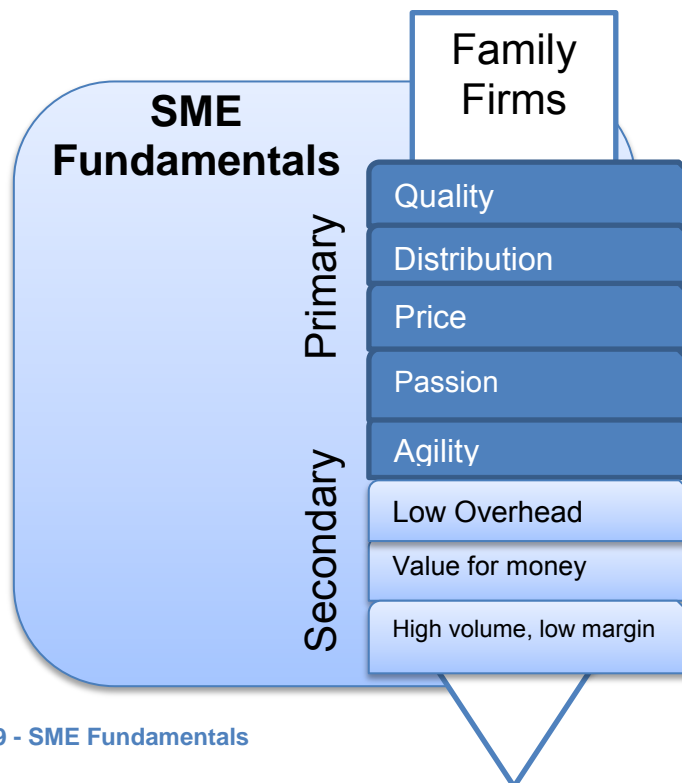


Figure 9 - SME Fundamentals

Pitta et al. (2008) argued that for the BoP proposition to be successful, a unique BoP business model for serving the market was required (Pitta et al., 2008). The discussions of the findings are in the context of the SME Fundamentals of the BoP Blueprint that describe characteristics of these firms’ business models. Primary characteristics found, based on strong evidence in the data, were quality, distribution,

price, passion and agility. Secondary characteristics found, from moderate evidence, were value for money, low overhead and high volume/low margin. Each of the primary characteristics is explored in the context of literature in the sections to follow.

6.2.2.1 Family business

The data revealed that a common feature exists amongst firms interviewed in regards to their drivers for entry into the business and the low-income markets they serve. Manufacturing firms that were interviewed exhibited characteristics of well-run small to medium sized businesses but more importantly nine out of 11 turned out to be family-owned SMEs. In one case, family members accumulated knowledge over generations and handed down complex herbal medication mixing knowledge to their younger members who are currently managing the firm. Another respondent highlighted that their business is managed by his sons and everyone takes accountability for what takes place in the business. That particular respondent had prior knowledge of the low-income market by way of his wholesaling business that was a pioneer in African medicine and hair products. Knowledge of the low-income market was attained over 30 years of wholesaling products to retailers that served low-income markets.

A respondent from a snacking business claimed to have 11 family members working in the organization and that family members are intimately involved with all aspects of the business especially around quality. This particular firm was started by the respondent's parents and their siblings during the apartheid era and he claimed that they saw an opportunity to provide snacking products to the low-income segment as a business opportunity that evolved as a consequence of the political and socio-economic factors that were present at the time.

The market intelligence gained from these families over time is handed down to the next generation as respondents spoke with authority around their market and their market knowledge.

There are other examples from the respondents showing family ties that do not have a long legacy prior but rather as a structure of the present organization.

A Wholesaler that was newly acquired by an MNC was frustrated that their entrepreneurial spirit was suppressed and on-the-spot or 'instinctive decision making was not allowed'.

Although there is a gap in academic literature on the source of market intelligence especially for the BoP (Nakata & Weidner, 2012), a case in point is the knowledge and market intelligence residing in SME firms especially family firms that have survived for many years.

Due to the lack of theoretical grounding and empirical rigour, family firms have received little awareness in mainstream management literature (Chrisman et al., 2003) and are usually seen through the lens of other discipline constructs forth (Astrachan et al., 2012; Zachary & Mishra, 2010)

The fact that some of the respondents of firms interviewed stated that their firms have been in business for generations serving the low-income market; it begs the question that is the low-income market truly 'untapped' as claimed by Prahalad (2002, 2007, 2012) and Louw (2008) as SMEs have met the needs of these low-income consumers for a significant amount of time. The family firm is an entity that has **not** been discussed in academia as a reservoir of market knowledge of the BoP consumer or as a point of entry into the BoP for MNCs. This characteristic of the BoP Blueprint describes the type of SME that is currently serving the BoP consumer successfully. As Astrachan et al., (2011) assert that very little is known about what exactly makes a family business different, there is an opportunity for further research to investigate this phenomenon.

6.2.2.2 Quality

From the data gathered, quality was another theme that emerged from the data with a consistent focus by respondents of firms on quality of the end product. Although there exists bias of the owner which are the respondents interviewed for each firm in evaluating the quality of his or her product, the topic of quality consistently was discussed by each respondent. In fact, they were convincing and encourage that the researcher visit their operations to show the attention on producing quality products. Comments such as ‘our products are better quality than a lot of the other products’ or ‘we tried to make a better quality product than [large beverage provider] and give added value’ and ‘we never ever compromise on quality’ were noted.

The data is also consistent with factors that Pitta et al. (2008) states are important for BoP market in that a mixture of low-cost and, good quality. While BoP literature mentions the need for ‘quality products’ at affordable prices, there is no understanding of what constitutes quality for the BoP. These SME manufacturing firms have been producing products and do not have stringent quality control disciplines seen in large firms, yet their products are thriving in the market in which they operate. The gap in the literature on BoP and business models is on what is good enough for the BoP consumer?

The focus on quality again is consistent with the nature and characteristics of small business; however a deeper analysis is suggested for future research on the adherence to quality standards of SMEs serving the BoP to Six Sigma (Kumar et al., 2011) or a more specific quality framework extracted from best practices of SMEs rather than retrofitting quality models of large business to SMEs.

6.2.2.3 Price

Another strong theme that emerged and was consistent among respondents was the point on the price sensitivity of their customers and that the prices of their products

were consistently affordable to their market. Respondents used their respective MNC counterpart as a benchmark and continuously tried to beat MNC prices while attempting to maintain the same quality. In a case with the African Herbal manufacturer, they competed against traditional medical processes and large pharmaceutical companies and mostly against the long frustrating process of state clinics and medical therapies. Additionally, price is the draw card used in attracting hawkers to distribute products as they could earn a substantial profit. Price was also seen as the reason for growth and competitive advantage. The data found on the price sensitivity of the BoP segment (Guesalaga & Marshall, 2008; Prahalad, 2002, 2007, 2012) is consistent with and supports the literature.

6.2.2.4 Distribution

The literature on business models attributes sales and distribution channels to get products to consumers as a common barrier to entry (Hammond & Prahalad, 2004 Karamchandani et al., 2011; Prahalad, 2007;). A very important fact worth noting from respondents of firms interviewed is that these non-MNCs firms employ various distribution channels and some even all channels at a time. Table 9 summarizes methods of distribution for each firm analysed and 2 out of 9 manufacturers had only a B2B channel for distribution while the rest had multiple channels. Respondents admitted to challenging the traditional model of their product distribution and where a MNC competitor followed suit (such as van sales in rural areas) and removing agencies and building relationships directly with the retailers. Another respondent used purely hawkers as a distribution model and only in recent years diversified his business and sold to government and small businesses directly.

	Company										
	1	2	3	4	5	6	7	8	9	10	11
Manufacturing	X	X	X	X	X	X	X	X	X		
B2B	X	X	X	X	X	X	X	X	X	X	X
B2C	X	X		X	X	X		X	X		
Mobile B2C Sales								X			
B2B (Hawkers)				X					X		

Table 9- Distribution Channels of SMEs

Based on the literature reviewed in Chapter 2, academics have raised distribution methods as a critical constraint in serving the BoP (Karamchandani et al., 2011; Prahalad, 2007; Hammond & Prahalad, 2004) however the data asserts that SMEs are currently using multiple channels that **do exist** in the informal sector as a means for distribution. Respondents did not raise distribution as an issue. Non-MNC wholesalers operating and selling to hawkers and low-income retailers have managed to specialize in low-income product wholesaling and are the most used forms of distribution amongst FMCG SME manufacturers. The nature of distribution is graphically represented in Figure 10 showing the many-to-many relationship where even SME manufacturers sell directly to the BoP in a case with Company 1, 2, 4 and 8. The traditional process of Manufacturers selling to wholesalers and then retailers or manufacturers selling directly to large chain retailers is morphed significantly. In the informal sector Manufacturers, Wholesalers, Retailers and Hawkiers all sell directly to the BoP while Manufacturers sell to Wholesalers, Retailers and Hawkiers.

The element of Distribution in the BoP Blueprint describes multiple channels of distribution currently being used and existing in the low-income space. Therefore, the distribution element of the BoP Blueprint adds to the body of theory that distribution

channels do exist and as SMEs have taken the initiative to bypass traditional distribution models, so should MNCs looking to enter the BoP.

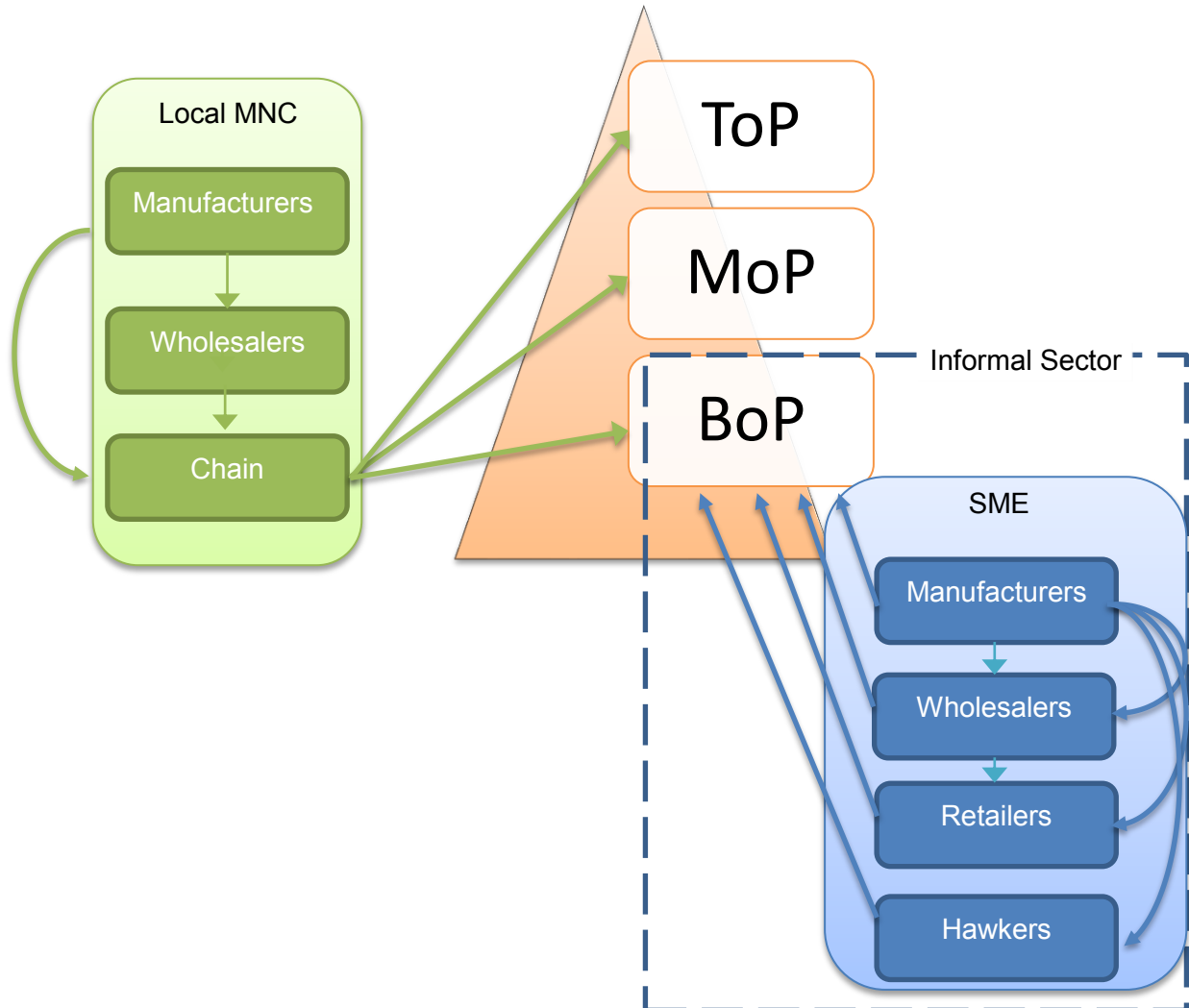


Table 10 - Distribution Channel Relationships

6.2.2.5 Passion

All respondents exhibited a sense of passion when speaking about their businesses, mostly around their beginnings however 3 out of 11 firms were greatly enthused when they spoke about their market and how rewarding it was to get positive feedback from their customers and also the benefits of not doing business as a corporate. This evidence builds on the notion of these firms' stronger sense of customer orientation, discussed in the Section 6.3. The theorised model of the BoP Blueprint includes the

elements of Passion as an SME Fundamental based on the strong evidence of the passion that is displayed by the owners of these SMEs that contribute to their focus on the customer and their businesses. The current BoP or business model literature, to the best of the researcher's knowledge, does not mention the passion of the entrepreneur or champion when entering the BoP and hence contributes to the body of knowledge.

6.2.2.6 Agility

Firms responding stated their ability to be agile and the flexibility their small business afforded them the opportunity to respond to customer needs and get products to the market faster. From new product development to changing production lines to dealing with angry customers, respondents from firms interviewed were able to make decisions quickly without the red tape and bureaucracy of large firms. Consistent with the literature on SMEs that agility will ensure SMEs are able to introduce new products (Avlonitis & Salavou, 2007) and is a major contributor of competitive advantage for SMEs (Bessant et al., 2001). BoP literature, however, to the best of the researcher's knowledge does not allude to agility directly as a requirement to serve the BoP. The element of agility key for SMEs or any entity to remain favoured by customers especially BoP consumers and therefore backed up by evidence from the finding, is part of the BoP Blueprint.

6.2.3 Conclusion to Research Question 1

It is clear from the results that those firms interviewed exhibited elements of small business fundamentals focusing on price and quality; reaching out to their customers in multiple distribution channels; responding to customer needs with agility; and exuding great passion and pride in the running of their small business and serving customers, with the owner directly involved with and responsible for the product quality; the culture of the organisation and the distribution of the product to the customer. These elements were supported by strong data and are considered the primary elements of SME Fundamentals, while other factors such as low overheads, value for money and high volume/low margin surfaced as secondary elements based on the moderate data in support of these factors. The SME Fundamentals is a theorised set of elements based on both strong and moderate evidence uncovered in the data.

6.3 Discussion of Research Question 2

6.3.1 Introduction

Research question sought to understand the competitive advantages within non-MNC's business models as compared to their MNC counterparts. The BoP Blueprint presented in section 5.4 examines the competitive advantages of SMEs in the context of the Customer Core Figure 10 - Customer Core. Concepts such as localization, market intelligence, immersion, customer service and loyalty are unpacked in this section with the extant literature on customer orientation and market orientation.

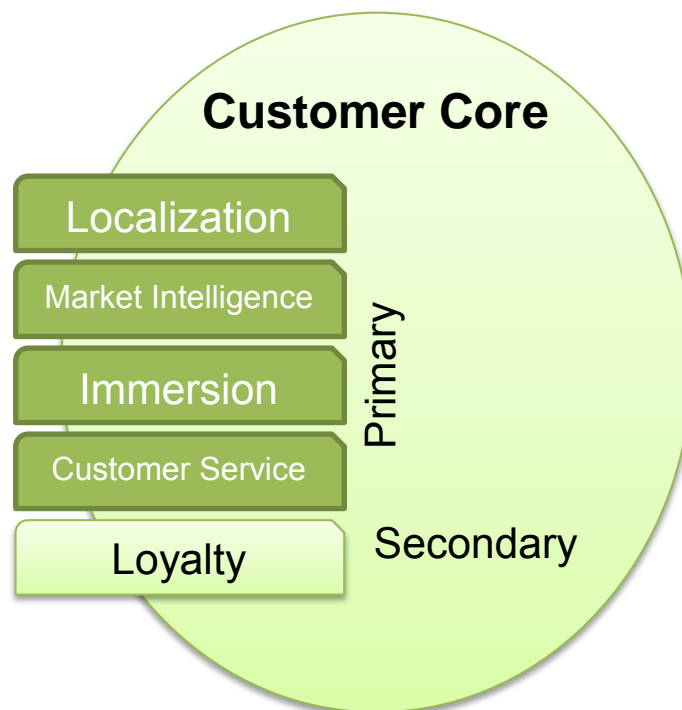


Figure 10 - Customer Core

6.3.2 Customer Core

6.3.2.1 *Localization*

Products manufactured by firms interviewed had been customised to the local market. Evidence from the interviews depict terms such as ‘Africanized’, and taking ‘western products’ and customising to local tastes whilst keeping products affordable. The market intelligence gathered through their family over generations placed one particular firm in a position to produce value-based products that are affordable to the low-income consumer. Their customisation filtered down even to the packaging details of labels where they admit that their labels, also smartly geared towards their low-market customers, are different from ‘western’ labels. Pictures are used instead of text and not much information is displayed on these labels in terms of the ingredients or other typical information for herbal products. The low-income consumer, in their view, is attracted to catchy, colourful attractive looking products and is not interested in heavy text-based information.

A fairly large wholesaler stated that founding members perceived an opportunity for setting up a store that catered specifically for the low-income African ethnic group, strategically located next to a taxi rank. This firm realised an opportunity lay in facilitating the interaction between the manufacturers of these products and the end-consumers of this segment; their wholesaling business was the reason that small local manufacturers were able to grow their businesses. The localization factor in this case stems from the fact that this wholesale business was started on the premise of selling locally produced African cosmetics and hair products to the low-income customer.

While Pitta et al. (2008) assert that companies need to understand the customer; the element of localization, however, has not been directly mentioned in the literature. In fact, to the best of the researcher’s knowledge, extant literature on the BoP does not cover in any detail the localization factor in serving the BoP with empirical evidence,

Pitta et al. (2008) states that some studies show the strategies of reducing price through packaging and developing lower cost sizes, however retrofitting existing products to serve the BoP through sizes might not be a winning formula. Localization and understanding the wants and needs of the customer to aid in customized products for the BoP should be the approach for MNCs. To this end, the researcher's theorised elements of the Customer Core use localization as the top element for firms wanting to serve the BoP. There is strong evidence in the data that SMEs with localized products are successfully serving the BoP.

6.3.2.2 Market Intelligence

Customer knowledge attained by firms interviewed had culminated through direct contact with customers via retail outlets and even sales reps and over generations of experience in family firms. A respondent also asserted that they used traditional marketing methods to gain feedback and market to their customer. As SMEs do not have large financial resources to purchase research and reports of the customer base, they rely on personal on-the-ground information to aid in knowledge of product development, quality, competitor knowledge and customer preferences. Respondents projected a sense of customer orientation (Appiah-Adu & Singh, 1998) through their immersion into the market they served. A respondent from Company 1 was precise in his description of product packaging for the low-income consumer and provided details of what should and should not be displayed on their products which affect sales.

The data supports the literature that states that due to the very nature of firm size, SMEs have closer proximity to the customer (Narver & Slater, 1990) and therefore has more market intelligence and can use this as a competitive advantage against large firms (Brockman et al., 2012). However, in the BoP literature, while academics have argued that market knowledge is lacking and inaccessible (Karnani, 2007; London, 2009; Hammond et al., 2007; Hammond & Prahalad, 2004), there appears no shortage of information for SMEs interviewed that are currently doing business in the BoP. The

reservoir of information that exists in SMEs, especially family firms supported by the data prove that there is a gap in literature on where and how to attain market knowledge.

The Customer Core in the BoP Blueprint includes market intelligence supported by data and evidence in the literature that SMEs have a competitive advantage over MNCs due to their market intelligence.

6.3.2.3 Immersion

Consistent with an emerging theme from the interviews, there is a clear sense of customer knowledge either gained through family knowledge that was passed down to family members or through being closely interacting with the market. The SMEs interviewed showed consistently their knowledge and sense of closeness to the market they are serving. Respondents admitted that they are ‘so low down, we closer to the market than the CEO of Colgate and Palmolive’ indicating their advantage to understanding their customers better than an MNC. This characteristic is also consistent with the advantages of small business and their personal relationship with customers (Burns, 2001).

Pitta et al. (2008) argued, however, that for the BoP proposition to be successful the characterisation of BoP consumers and as producers, determined from deep insight into the BoP segment’s perceptions, behaviours and needs. The research results indicate a small portion of respondents that utilized a consumer producer model, namely, Company 4 that produced atchaar ingredients that allowed their buyers to rebrand and repackage. This example is the only example in the data that nearly associates to the consumer producer model that Pitta, et al (2008) describes.

The element of immersion has assisted SMEs to create and market products appealing to the customer due to the direct interfacing with customers (Kim et al., 2008), however in BoP literature, Pitta, et al. (2008) does not mention immersion as a factor in how firms can ‘understand needs, perceptions and behaviours’.

6.3.2.4 Customer Service

Respondents were strong in their views and spoke with pride when talking about their customers. A respondent commented on their relationship with a large retailer - 'we believe in service, and that was the key factor, now because we started servicing them so well they came back to us'. Another respondent announced with a strong sense of pride that their 'reputation of healing people over a long period of time' is what carried them to where they are now and that 'we respond to their needs and complaints directly'. The BoP literature mentions customer service as an element of serving the BoP (Pralhad, 2007) and is evident from the data collected that this plays an important role for SMEs in serving the BoP. Therefore the BoP Blueprint's Customer Core section includes the element of Customer Service.

6.3.3 Conclusion to Research Question 2

It is clear from the results that elements from the Customer Core contribute to SMEs competitive advantage as these firms orient themselves closely to the customer through localization and immersion while keeping customers satisfied through customer service thereby gaining deep market intelligence on the BoP consumer. Strong data supports these elements and are therefore primary elements of the Customer Core. Although Loyalty came up as a secondary element with moderate to low support in the data, it is an area worth exploring further as there were mixed responses to brand loyalty and customer loyalty, however supplier loyalty was an unexpected result from the Wholesaler respondent. The Customer Core is part of the BoP Blueprint and is supported by strong data that constitutes primary elements and moderate evidence in the data that make up the secondary elements.

6.4 The MNC & Market Entry into BoP

Small and Medium Enterprises have a wealth of knowledge and experience in serving the BoP as discussed in the previous section. The aim of discussing modes and determinants of entry into emerging markets by MNCs is to take the learning from the theorised BoP Blueprint and apply it to firms that are currently looking to enter BoP markets through International Business as a mechanism. In discussing organizational fit of acquired firms and the MNCs that acquire them, the notion of unlocking synergies, especially that of customer knowledge that resides in the acquired firm is lost through corporate restructuring post acquisition. MNCs that are unsuccessful in the BoP segment are losing customer intimacy and this is possibly the real reason why success is limited. Or, are firms not succeeding in serving BoP markets not because the BoP is an unknown market, but because they can't emulate characteristics of small business and staying close to the customer? This section aims to unpack the concept of international business further.

6.4.1 International Business

With increased global commercial activity and more firms operating in international markets, a MNC's mode of entry (Demirbag, Tatoglu, & Glaister, 2008; Dikova & Witteloostuijn, 2007) and realizing synergies (Barkema & Schijven, 2008) has received a great deal of attention from researchers.

6.4.1.1 *Modes of entry*

A firm's mode of entry can be based on the highest risk-adjusted return on investment (Agarwal & Ramaswami, 1992) or financial and managerial capacity (resource availability) of a firm for serving a particular foreign market (Rodriguez, Uhlenbruck, & Eden, 2005) For firms looking to enter emerging markets, host specific factors are just as important as industry and firm specific factors (Demirbag, Tatoglu, & Glaister, 2008).

A firm looking to enter a foreign market, pending their appetite for risk and control, can choose between non-equity modes such as exporting and licensing or equity-based modes with full ownership such as a wholly owned subsidiary or shared ownership such as a joint venture (Demirbag et al., 2008). The latter provides the most control for a firm and full ownership can take one of two forms, namely creating a new venture or 'a greenfield investment' (Demirbag et al., 2008) or acquiring an existing firm – 'acquisition'. Demirbag, et al. (2008) state that recent evidence on the trend of FDI entries to emerging market economies indicates a shift towards acquisitions while in the past entries was mainly Greenfield ventures . If the organizational restructuring of the acquired firm is so extensive that the firm is hardly recognizable after the restructuring, is called 'brownfield' (Estrin & Meyer, 2011). Other modes of entry are exports, licensing, management contracts, turnkey contracts, subcontracting or associations and franchising (Malhotra, 2003).

Bhaumik and Gelb (2005) state that one entry into a host country in the form of a JV or an acquisition reduces the transaction costs of MNCs doing business since MNCs will have access to the acquiring firms information about the local business environment, contacts with other local firms and the host country's government and regulatory authorities (Bhaumik & Gelb, 2005).

Demirbag et al. (2008) argue that preceding entry mode choice literature focused on firm specific factors and few studies examined host country specific factors in developed countries as these were of secondary importance for these economies. He further argues that for emerging market economies, host country specific factors have a direct impact on the choice of entry mode as appears to be just as important as firm and industry specific factors.

Firms looking to compete with host country firms within their industry must possess superior assets and skills that can attain high enough profits to counter the higher cost

of servicing these markets (Agarwal & Ramaswami, 1992). The authors' further state that these assets and skills can appear in the form of the ability to develop differentiated products, firm size facilitating economies of scale and multinational experience. Adaptability is a key advantage that firms hoping to succeed in foreign markets should have as competencies have to be relevant in the host country for them to be of any use.

6.4.1.2 Determinants of entry

The strategic decision on which entry mode to use for a market is very important. All entry modes involve varying levels of resource commitments, and firms' initial choices of a particular mode are difficult to change without considerable loss of time and money: Entry mode selection is thus, a very important, if not a critical, strategic decision" (Agarwal & Ramaswami, 1992).

Determinants of entry and level of investment which are critical to survival and profitability include economic and political conditions and government policies (Agarwal & Ramaswami, 1992) the nature of corruption in a prospective emerging market (Rodriguez et al., 2005). The authors also state that although corruption significantly diminishes direct investment into any economy, many firms continue to enter the market in spite of the challenges it presents.

Another critical determinant is a host country's institutional environment which has a direct effect on the MNC's choice between Greenfield and acquisition mode. The local institutional framework influences transaction costs, business risk, and executives' views on the institutional stability of the prospective host country (Demirbag *et al.*, 2008).

Baumik and Gelb (2005) state that the determinants of entry mode choice contrast significantly across developing countries, with **local knowledge** playing a more

significant role in relatively less-developed countries (e.g., Egypt) than in relatively more developed ones (e.g., South Africa).

Bhaumik Gelb agree with conventional wisdom and proved in their study that factors such as the technology intensiveness of an MNC's product, the extent of income risk it is exposed to through competition, and the size of the developing-country affiliate relative to the MNC's global operations are not significant determinants of entry mode choice. They attest that empirical evidence suggests that developing- country operations usually represent a very small fraction of MNCs' global operations (Bhaumik & Gelb, 2005) and that they usually do not produce technology-intensive products in developing countries.

If local institutions, business regulations and governance are not conducive to conduct business efficiently (Agarwal & Ramaswami, 1992) an MNC has a considerable need for local resources and will opt for a local partner, either by way of a JV or by acquiring a local firm that can give the MNC quick access to the required resources (Asiedu & Esfahani, 2001). However, on the other hand, if the MNC enters the host country through an acquisition, the problem of restructuring the acquired organization (such that its business culture is similar to that of the parent MNC) and the cost associated with such restructuring has to be dealt with (Bhaumik & Gelb, 2005).

Acquiring more knowledge in an emerging market is crucial in selecting an appropriate strategy for market entry and according to (Flores & Ruth, 2007) a firm can establish a foothold in order to acquire more knowledge. Schweizer, Vahlne, and Johanson (2010) however consider knowledge gaining as simply a welcome side effect rather than a strategic move on the firm's part but firms intentionally seek out information on prospective markets and certainly consider this knowledge more important than a 'welcome side effect as a poor understanding of the market is a costly oversight (Schweizer, Vahlne, & Johanson, 2010) .

6.4.1.3 Impact on organizational fit

There is a lack of recent academic literature on the impact of organizational fit in international business outside of Barkema and Schijven (2008), especially on acquisitions in emerging markets to target the BoP. Barkema and Schijven (2008) quote previous work done by Haspeslagh, Jemison and Sitkin arguing that although strategic fit is necessary for synergy realization, it only creates the synergistic potential that can only be realized by effective integration of an acquired firm. In fact, Barkema and Schijven (2008) reference Larsson and Finkelstein stating that this is the single most important predictor of synergy realization. Therefore the authors argue that after acquisition of a firm with synergistic potential, it is the duty of the acquirer to unlock as much of this potential synergy as possible by building sufficient organizational fit quoting Pablo (Barkema & Schijven, 2008). This is not easy feat and requires management to spend considerable time and attention on “combining similar processes, coordinating business units that share common resources, centralizing support activities that apply to multiple units, and resolving conflicts among business units” citing Hitt, Harrison and Ireland (Barkema & Schijven, 2008). More importantly, it requires managing and gradually closing gaps with organizational culture as the authors cite Chatterjee, Lubatkin, Schweiger and Weber (Barkema & Schijven, 2008). They further argue based on work by Nahavandi & Malekzadeh; Walter; Weber & Camerer, that management style in an effort that is often hindered by considerable unwillingness on the part of the acquired firm (Barkema & Schijven, 2008).

Brownfield investments take place when the acquiring firm uses only a small proportion of the acquired firms’ resources and where organizational restructuring at the corporate level is so extensive that the acquired firm is not recognizable after the restructuring (Estrin & Meyer, 2011).

The complex task of integrating acquired firms to the acquiring firm and thus, forming the organizational fit required to unravel their synergistic potential Barkema and

Schijven (2008) citing Hitt et al. Yu, Engelman and Van de Ven, and usually prevents a firm from deliberating the full set of alternative courses of action reflecting that anticipated synergies are typically not fully realized quoting Datta et al. and King et al. (Barkema & Schijven, 2008).

An acquirer will mainly deem integration tactics that do not require major changes in its organization outside those within the acquired firm itself. Hence, it will seek to incorporate the acquisition without altering its own existing organizational structure (Barkema & Schijven, 2008).

A major shortcoming of the literature on entry mode choice is that it has largely explored the strategic decisions of developed-country MNCs entering other developed countries and a few studies on developing countries. Further, the literature has focused itself almost entirely on testing hypotheses generated from transactions-cost and resource-based theories of international business and the modes of entry by MNCs into foreign markets. The implications and learning for the MNC from the acquiring firm as an SME in terms of organizational fit have been ignored.

Are MNCs using the correct post acquisition strategy to ensure success in the BoP market if organizational fit is a key factor to unlock synergies especially around understanding the new market for the MNC? Are large firms not trapping themselves using a centralized structure and forcing organizational change in acquired firms making their acquisition fruitless?

The BoP Blueprint's SME Fundamentals and Customer Core are applicable to MNCs struggling with success in BoP markets through acquisitions.

6.5 Conclusion

Prahalad argues that the BoP is an untapped market of \$ 4billion; however, this market is being served by the informal sector where products are manufactured, distributed and consumed with little or no interaction with a MNC. Pitta, Guesalage and Marshall (2008) attest to a unique BoP business model required to serve the market, however from the results of the interviews with respondents, there appears no element of uniqueness that distinguishes these non-MNCs from MNCs other than these firms are well-run small and medium businesses.

Literature attests different business models (Hammond et al., 2007; Hammond & Prahalad, 2004; Prahalad, 2007; Pitta, Guesalaga & Marshall, 2008), innovation and a multitude of reasons that firms need to consider when doing business with the low-income market, however SMEs have been doing business with this segment for a considerable amount of time that begs the question what can MNCs learn from SMEs that **are serving** this market segment successfully?

To this end, there is a recurring theme of business basics uncovered through research question 1; price, quality and distribution and customer related concepts unpacked in through research question 2 such as localization and market intelligence that leads the researcher to argue that the Customer Core is a competitive advantage within a well-run SME serving the BoP. Table 11 describes highlights of problems argued by academics in Chapter 2 compared to the results of data analysis.

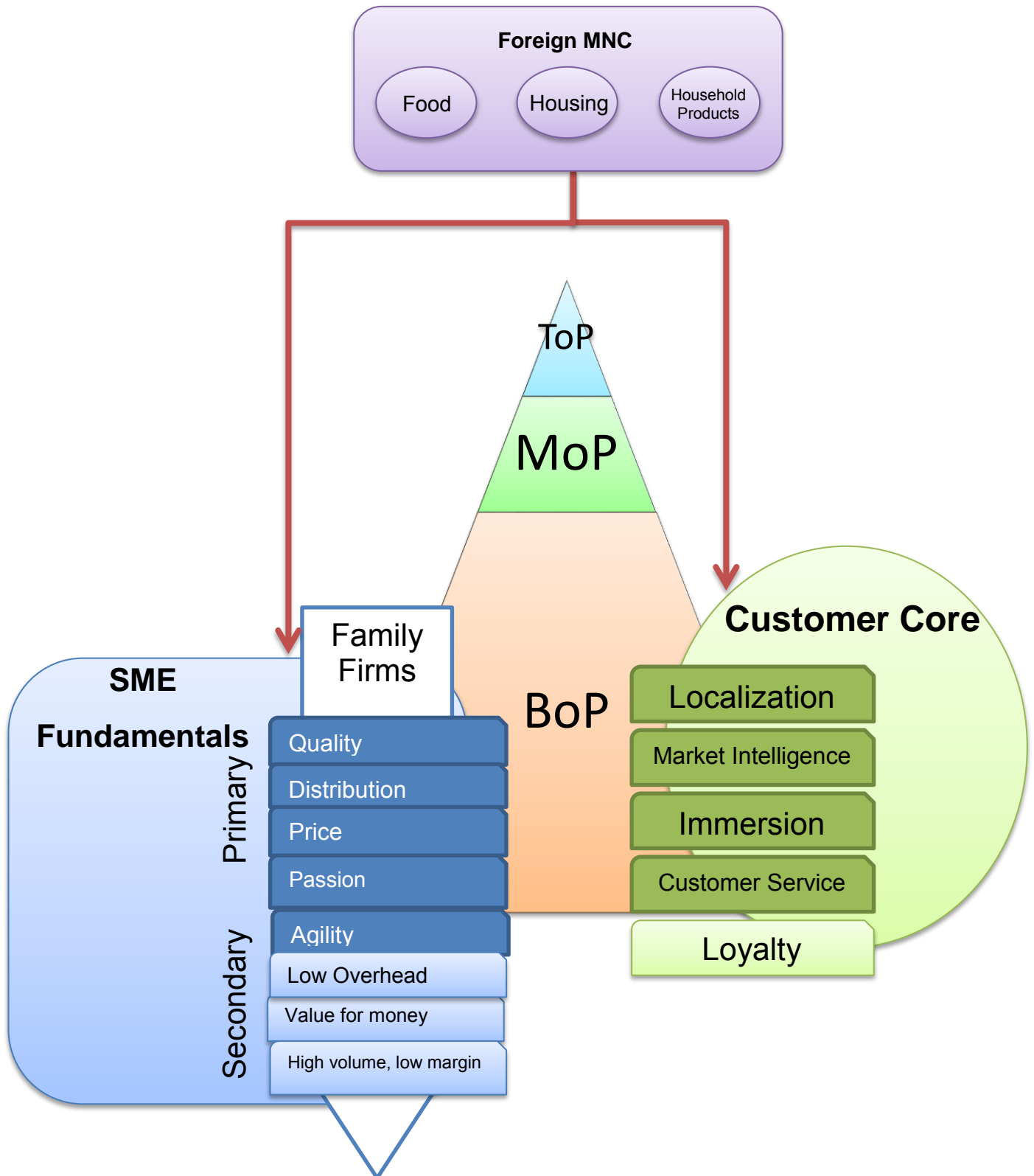
Results do not indicate unique elements within the respondents' account of their firms' business models. While these firms have been and continue to serve low-income markets successfully, their deep insight is a most valuable factor, not unique by any means, but definitely a reason for their success within the context of their small businesses. London (2008) discourages importing pre-existing business models and mind-sets and encourages innovative models as a means to enter doing business in

the low-income market, however are innovative models really the answer rather than emulating the traits of small business that is one of the oldest forms of trade? The BoP Blueprint for MNCs presented in the next section is for MNCs looking to expand into the BoP in emerging markets. These MNCs must consider the categories that are dominant in consumption such as Food, Housing and Household Products (Guesalaga & Marshall, 2008). Consumer spending of BoP expenditure for other emerging markets is similar as and dominates the Food, Housing and Household Goods categories.

Problems serving BoP	Literature	Are SMEs experiencing same	Data
Consumer producers	Yes	Yes	Yes (weak)
Unique business model	Yes	No	Yes (strong)
Uncertain cash flows	Yes	No	No
Difficulty in gauging demand	Yes	No	Yes(weak)
Sales and distribution challenges	Yes	No	Yes (Strong)
Undeveloped business eco-systems	Yes	No	No
Disaggregated providers	Yes	No	No
Market intelligence	Yes	No	Yes (Strong)
High volume low margin	Yes	Yes	Yes

Table 11 - Problems Serving BoP & Data Comparison

6.5.1 BoP Blueprint for MNCs into the BoP in emerging markets



7 Chapter 7: Conclusion

7.1 Introduction

The previous chapter discussed the concepts uncovered through the grounded theory method in the context of the literature on small and medium business and customer and market orientation as well as the concept of the business model and the base of the pyramid consumer reviewed in Chapter 2. This chapter will briefly review the background to the research problem and objectives that were set out; summarize key findings, provide recommendations to business taking into account the limitations of the research and the implications for future research and finally concluding the research report.

7.2 Research background and objectives

The BoP segment has gained much attention in the academic world as a means for firms to earn corporate profits and alleviate poverty (Hammond & Prahalad, 2004; Prahalad, 2007). As firms intend on entering low-income markets as a result of stagnation in developed economies, they face numerous organisational barriers within their firms (London, 2008; Teece, 2010) and external barriers (Karamchandani et al., 2011) that hinder entry and ensure continued success in these markets. In order to successfully serve these BoP consumers in emerging markets, the literature asserts that new innovative business models are required (Hammond & Prahalad, 2004; Pitta et al., 2008; Prahalad 2007).

The objective of this report, hence, was to explore the business models for ***firms that are currently serving the BoP successfully*** and what ***their competitive advantages*** are as compared to their MNC counterparts within the South African context. Using the grounded theory approach of building theory from data that offers a new perspective on a given situation, the researcher aimed to develop a framework to understand the

elements of firms' business models that have been and continue to successfully serve the BoP and factors that made them competitive. The framework is result of the grounded theory process and was theorized from the data from interviews with owners of SMEs in the FMCG manufacturing domain. The BoP Blueprint is a framework that describes elements of business models of SMEs in the context of SME Fundamentals and the Customer Core.

7.3 Key Findings

Eleven in-depth interviews were conducted with owners from 11 different companies to test the research questions that were derived from the literature.

The results showed that firms that were currently serving the low income consumer were successfully run small businesses, primarily family-owned businesses, with a strong focus on the customer. The BoP Blueprint in Figure Figure 11- BoP Blueprint for MNCs entering emerging markets graphically represents the concepts uncovered in two specific components of the BoP Blueprint – SME Fundamentals and the Customer Core. The SME Fundamental component describes elements of SME business models that made them succeed in low-income markets. These are producing **Quality** products at an affordable **Price** using multiple **Distribution** methods while having the **Agility** to respond to customer needs. **Passion** is a characteristic exhibited by the owner entrepreneurs that drove the business to succeed and permeated strongly through their focus on the customer. Another critical success factor and reason for competitive advantage was the Customer Core and their focus on customer. These elements included concepts such as **Localization** where products were customized for the market they server through deep **Immersion** and **Market Intelligence**. **Customer Service** also played a critical role in their focus on the customer as a core.

As a result of the grounded theory, no unique or innovative business models were discovered that made these SMEs successful contrary to the literature by Hammond & Prahalad (2004); Pitta et al. (2008) and Prahalad (2007).

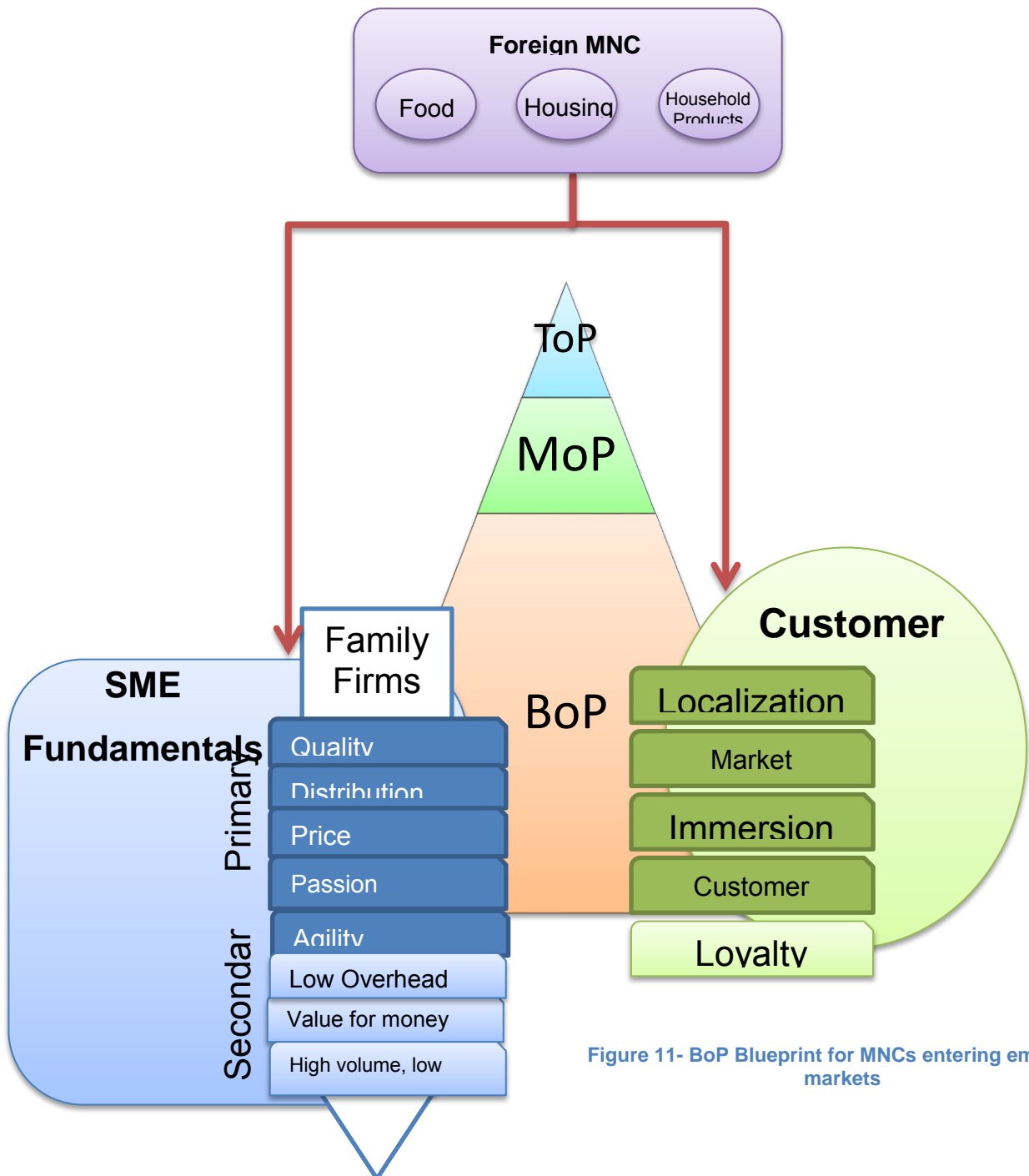


Figure 11- BoP Blueprint for MNCs entering emerging markets

When analysing the BoP Blueprint in the context of MNCs entering emerging markets through acquisitions, the BoP Blueprint can be applied to unlock synergies between

acquired and acquiring firms to avoid the brownfield acquisition where customer knowledge in local talent is lost through major restructuring.

7.4 Future Research

As described earlier, grounded theory was used to offer a new perspective on the challenges faced by MNCs currently attempting to enter this market segment. As this was an exploratory study, it focused on building theory based on evidence from the 'ground'. Future options for research might include an explanatory study either qualitative or quantitative to test and validate the BoP Blueprint model presented with a larger sample. Is there evidence to suggest for MNCs that are exhibiting characteristics of SMEs are more or less successful in serving the BoP? Do these companies exhibit elements of the customer as their core? Do certain elements of SMEs appear to be more important when tested in a larger sample?

Further options for future research are to determine the elements of SME fundamentals applicable for success in non-manufacturing firms that serve the BoP but are still part of the categories of goods purchased by the BoP? Investigating SMEs in the non-FMCG industry where products are still within this basket of goods (food, housing and household products)?

It would be interesting to determine if family firms have better customer emphasis than non-family firms? And the differences of SMEs that are family firms and non-family firms. The researcher did not explore in any detail the influence of the entrepreneur of these SME firms and their characteristics in making them successful and this could be a potential area of research.

There is scope for future research around low-income consumers and distribution channels for the categories of consumer products. To expand on this phenomenon of distribution through multiple distribution channels, an investigation on the products

purchased through MNC channels and non-MNC channels and the reasons for using those respective channels. This leads to another interesting area of research of what products manufactured by MNCs and non-MNCs do low-income consumers purchase and what are the reasons? Staying in the marketing space, an area that would be of high interest are the factors in packaging and merchandising that attract low-income consumers in purchasing products. To what extent does trust and loyalty in the brand play a role in purchasing decisions for FMCG products for the low income consumer?

Another interesting theme that emerged but was not explored in detail is the localization of products to the low-income consumer. An African Herbal producer introduced a low-income version of 'bath salts' which can be considered a luxury item but is purchased extensively in the low-income market. This example is a reason why a probe into the factors that influence purchasing decisions of non-basic items would be of interest.

Future research might also build on the findings about market entry by studying MNCs that have acquired SMEs to enter the BoP space and if a centralized versus decentralized approach post acquisition was used? What is the level of customer orientation when MNCs enter emerging markets? What elements of the SME customer core remains post acquisition? Are ex-pats as successful when placed in emerging markets with little local knowledge as compared to local talent?

More opportunities for future research would be a study of SMEs perspectives on credit as a factor that will increase consumption of FMCG products as theorised by Pitta et al., (2008) and what would credit entail in terms of the business processes? Are MNCs that are serving low-income customers with innovative business models emulating characteristics of small business? Localization and the BoP is another area where there is a lack of literature and would be a strong area of research. Quality control in

terms of manufacturing processes and final product of large firms versus small firms and what is sufficient quality controls for the BoP segment

7.5 Limitations of the Research

The researcher recognizes her personal views regarding low-income consumers and their vulnerabilities and a limitation is that these biases could have impacted the research.

Another potential limitation is the sample bias toward a small set of FMCG categories. It would have been preferable to interview a greater number of FMCG manufacturers, particularly in the food category.

This study focuses an industry that is inherently fast moving – FMCG and therefore results may not be applicable to products found in other industries.

The BoP Blueprint presented is a result of the grounded theory process and culminates from the information provided by owners of SMEs currently serving the BoP and the limitation is that the sample is limited to FMCG firms that are mostly family owned. The BoP Blueprint therefore is a theory that offers a new perspective but must be tested to confirm or disprove the theory.

7.6 Managerial Implications

The results from both research questions provide useful insights for MNCs that are looking to enter the BoP or are currently doing business in this segment. The descriptive model – the BoP Blueprint provides a useful framework to aid multinationals to think about their market entry approach in low-income markets. It describes critical success factors that are currently exhibited by SMEs that make them successful in serving low-income consumers and hence should help MNCs better understand what it

does take to serve the BoP. Unique or innovative business models were not found from the data gathered and MNCs can rest assured that it does not require unheard of models to serve the BoP. Rather, emulating characteristics of SMEs can provide access to the low-income consumer.

While the Bop Blueprint is only descriptive, and therefore does not imply a fail-proof approach for serving the BoP, it does provide a guideline. <Quote Naspers china>

It is recommended that MNCs should consider the elements of small and medium enterprises when looking at enhancing their business models and processes. MNCs should consider the importance of market intelligence that resides in local talent that is invaluable in understanding the low income customer. Distribution channels that do exist within the informal sector must be explored by MNCs as these do exist, contrary to mainstream literature, and are currently providing goods and services to the BoP.

MNCs should consider how access to local knowledge and market intelligence is maintained in international business when entering new markets. Firms that are acquired and then restructured (brown-field) lose a valuable asset - which is access to the customer psyche. Customer core elements such as immersion, market intelligence and localization are essential in securing a future in the BoP segment and for MNCs. The implications of this research are that staying close to the customer must be a priority in market entry and not diluted by other firm strategies or lost through organizational structures being forced on acquired firms.

Harber (2012) describes the thoughts on international investments of the CEO of one of the largest media companies – Naspers in a recent article in the Mail and Guardian (2012). Koos Bekker regularly makes Forbes’s list of the 20 most powerful people in Africa, and admits that “the biggest lesson he learnt from the first wave of international investments was not to try to run operations in these companies directly, but to hire smart local entrepreneurs to do it” (Going for a Global Empire, 2012). His right-hand

man, Cobus Stofberg adds “In every country we operate in, we leave content questions to our local partners and managers. We find that they are on the ground and the best judges of how to handle issues”. These comments demonstrate the importance of local knowledge and retaining such knowledge when MNCs are looking at international expansion, especially to emerging markets and within the BoP. Placing expatriates from developed worlds into roles in emerging markets that require local knowledge and market intelligence is not advisable and it is recommended that MNCs maintain the customer core as describe in the BoP Blueprint.

The structures of these firms are conducive to serving the BoP and MNCs should consider organizational design, such as decentralized model that cascade the success factors of small business to large firms.

7.7 Conclusions

Organisations are increasingly looking at new markets and the BoP is gaining increased interest for MNCs as discussed in Chapter 1. Although the intensified interest and focus, MNCs have not been successful in this market segment in part due to business models used that are best suited for the Middle of the Pyramid and Top of the Pyramid. Chapter 2 provided literature on factors described in Chapter 2

In this study, firms that are currently serving the BoP successfully were examined in terms of the business models and their competitive advantages. Research in this area is relatively new and the researcher adds to the growing literature by providing elements of small and medium business and their focus on the customer presented as the BoP Blueprint. The essence of the findings is that MNCs need to focus on ***fundamental business practises*** with the customer as the ***centre of their decisions*** when entering BoP markets.

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9 Appendix A – Interview Guide

1. Introduction

- a) My name is Priya Thakoor and I am conducting research for my MBA at GIBS
- b) The purpose of study – to gain an in-depth understanding of what makes South African firms successful in serving low-income customers.
- c) Explain how data from the interview will be used.
- d) Reiterate that confidentiality of all interview data will be maintained
- e) Explain the process of data collection and analysis
- f) Explain how many other respondents have been interviewed
- g) Request consent to proceed with the interview and data usage.

2. Demographic Information

- a) Name
- b) Age
- c) Race
- d) Career history

3. Topics to be covered

- a) Entry into BoP market
- b) Intelligence about market
- c) Product differentiation
- d) Brand loyalty
- e) Marketing spend
- f) Product development
- g) Distribution methods
- h) Sales forecasting
- i) Market segmentation
- j) Input and raw materials

- k) Market volatility (cyclical/seasonal)
- l) Expanding into new products/geographies
- m) Trust
- n) Community involvement

4. Open-ended questions

- a) Can you discuss how you got involved in this business/job?
- b) What do you like about the business/job?
- c) What do you dislike about your business/job?
- d) Who is your largest market?
- e) How did you learn about this market?
- f) How do you ensure your customers know your product?
- g) What do you do to make sure that customers keep buying your product?
- h) What do you do before you develop a new product for the market?
- i) How do you get your product to your customers?
- j) Is your business seasonal?
- k) What is your manufacturing/wholesale process like?
- l) What makes your business different?
- m) What new markets are you thinking about entering?
- n) Is your business cyclical/seasonal?
- o) If so, how do you plan around quiet/busy times?
- p) What do you think builds trust in your brand by your customer?
- q) How do you think you can get a bigger share of the market?
- r) Do you want your products to be sold through chain stores? If yes/no, why?
- s) Are you or the business involved in community activities? If yes, what types?
- t) What importance do you think that trust plays in the market your business serves?

5. Closing Comments

- a) Thank the respondent for time to participate in research
- b) Follow up with email

10 Appendix B – Consent Statement

I am conducting research on what makes South African firms successful in serving the low-income market. Our interview is expected to last approximately an hour and will help us understand what elements of a business model contribute to success in serving the low-income market. **Your participation is voluntary and you can withdraw at any time without penalty.** All data is kept **confidential** and if you have any concerns, please contact my supervisor or me at the details below.

Researcher Name: Priya Thakoor

Email: priya.thakoor@gmail.com

Phone: 082 495 0969

Researcher signature: _____

Supervisor: Kerry Chipp

Email: chippk@gibs.co.za

Phone:

Supervisor signature: _____

11 Appendix C – Example Memo-taking