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Competing in low-income markets using dynamic and adaptive market sensing capabilities

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ABSTRACT

Firms targeting high-income consumers are finding their markets becoming increasingly saturated and this has caused a shift in focus to the extensive base of low-income consumers. The opportunity and wealth that is present in the low-income segment has been iterated in numerous instances, yet the challenges to compete in this market are plentiful. To better understand the low-income market and their needs, firms need to develop strong market sensing capabilities that allow them to interpret and develop insights into this market. This report seeks to better understand the adaptive and dynamic nature of these market sensing capabilities and how firms are using these to compete in low-income markets.

A qualitative design was followed where 12 senior managers from 11 firms competing in the South African low-income market were interviewed. This was facilitated by a semi-structured in-depth interview method. An inductive and deductive analysis approach was used to interpret the findings against existing models, as well as to discover new themes emerging from the data.

The findings included three key themes: the use of mixed method market sensing practices to adapt to the market; improving the capability through continuous sensing, responding and learning; and influencing success by creating an adaptive internal environment. Based on these findings, a framework for competing in low-income markets using market sensing capabilities was constructed.

KEYWORDS

Adaptive Capabilities, Dynamic Capabilities, Market Sensing, Low-Income Market, Market 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 of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Name

Date

Signature

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1. CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM

1.1 BACKGROUND TO THE RESEARCH PROBLEM

1.1.1 LOW-INCOME MARKETS AND THE POTENTIAL OPPORTUNITY

The term "Bottom of the Pyramid", later referred to as "Base of the Pyramid" (BoP), was coined by CK Prahalad and colleagues in a white paper in 1999, to describe the bottom layer of the economic pyramid, which sees four billion people earning less than US\$2 a day (Kolk, Rivera-Santos, & Rufín, 2012; Prahalad, 2012). Since then, business and academia have found it increasingly important to understand the potential of this market. From a business perspective, Prahalad & Hart (2002) highlighted the enormous opportunity and fortune which exists for firms that can successfully understand and target this market. The buying power of these consumers is estimated at more than US\$9 trillion (Hammond & Prahalad, 2004; London & Hart, 2004), though this is difficult to fully quantify based on the variables used in defining BoP in the existing BoP literature. Chapter two will go into more detail as to how this market is defined.

Hammond & Prahalad (2004, p. 4) argue that collectively, this market possesses most of the buying power in emerging economies and can be a lucrative key source of growth for firms. The Economist (2010) claims that multinationals are increasingly investing in these emerging economies and expect about 70% of the world's growth to come from these markets over the new few years. There are, however, opposing arguments. Karnani (2007) argues that the BoP may not be a source of significant profits but rather a source of significant losses. He argues the issue of affordability, that with the poor spending as much as 80% of their earnings on subsistence products such as food, clothing and fuel, little is left to spend on other products and services. Pitta, Guesalaga, & Marshall (2008) do not support or oppose Karnani's argument. Rather, they argue that collectively, communities, households and villages have a combined buying power and that firms influence this buying power by supporting community development and education to ensure that they make responsible choices as to how they spend their earnings. Viswanathan & Sridharan (2012) argue against Karnani, in support of Hammond & Prahalad. They believe that the poor are rarely offered products designed for their lifestyle and circumstances (Hammond & Prahalad, 2004, p. 4). The poor aspire to consume, and if organisations can meet their needs with affordable and valuable products, then there exists a viable business market

(Viswanathan & Sridharan, 2012). In conclusion, if firms are able to develop capabilities that allow them to adapt their current processes and routines to better understand this low-income market and design more acceptable value proposition, they will then be able to profitably serve this market.

1.1.2 TRADITIONAL MINDSETS OF FIRMS

Acting on these opportunities is not simple for organisations. The lack of information and understanding of this low-income market is the main factor commonly quoted for the failure of firms to compete in this market (Nakata & Weidner, 2012; Pitta et al., 2008; Prahalad & Hart, 2002; Viswanathan & Sridharan, 2012). Firms tend towards exploiting what they know, and rely heavily on traditional markets (the middle and upper-income markets), and their existing marketing practices (O'Reilly & Tushman, 2008; Olsen & Boxenbaum, 2009; Pitta et al., 2008). Over time, this behaviour, along with the firms' past experiences, has caused firms to be driven by mental models that dictate how they interpret and respond to information presented to them (Day, 2002). These would include traditional mindsets on how the market should operate. In order to effectively compete in low-income markets, firms need to ignore what they know as "accepted knowledge" (Pitta et al., 2008, p. 397) and should be prepared to adapt their current capabilities to explore new dynamic markets (O'Reilly & Tushman, 2008).

1.1.3 COMPETING WITH DYNAMIC CAPABILITIES

Firms have spent years understanding the strategies that target the profitable top-of-the-pyramid consumers (London & Hart, 2004). They have developed processes, routines and values around how to deploy and utilise resources to generate returns and compete in these markets. These resources, which are often referred to as static, operational or substantive capabilities (Barreto, 2009; Day, 2011; Helfat & Peteraf, 2003), include technologies, skills and knowledge-based resources (Christensen & Overdorf, 2000; Eng & Okten, 2011; Helfat & Peteraf, 2003; O'Reilly & Tushman, 2008).

In order for firms to compete in more dynamic markets, they need to change these operational capabilities to develop new processes and knowledge as the market changes (Day, 2011; O'Reilly & Tushman, 2008). Those capabilities which cause changes in operational routines, knowledge and how the firm reconfigures its resources base are referred to as dynamic capabilities (Teece, 2007). It can therefore be argued

that in dealing with a new and complex market such as the low-income market, firms need to explore, build and use dynamic capabilities (Tashman & Marano, 2010).

1.2 RESEARCH MOTIVATION

Within the marketing literature on low-income markets and the BoP, evidence exists to support the notion that this context presents a unique opportunity for research (Chipp, Corder, & Kapelianis, 2012; Prahalad, 2012; Viswanathan & Sridharan, 2012). The unique characteristics of this market range from cultural values that influence acquisition, consumption and disposal of products (Chipp et al., 2012), to illiteracy and limited access to distribution centres (Nakata & Weidner, 2012; Pitta et al., 2008). Due to the complexity of such a market, firms face challenges in effectively building capabilities to understand, target and design products in this market (London & Hart, 2004; Nakata & Weidner, 2012; Viswanathan & Sridharan, 2012).

Within South Africa, the base of the pyramid has been defined and sized as one third (35.8%) of the total market (Chipp et al., 2012, p. 27). Therefore, academia and business have placed significant focus on the BoP (Chipp et al., 2012). Other unique factors of the South African low-income market include large social income grants from the government, 11 official languages, 8 religions and a history of racial discrimination due to Apartheid, all of which make it a particularly interesting area of research (Booyesen, 2007; Chipp et al., 2012; South Africa, 1996).

Literature in the area of strategy has taken a resource-based view of the firm's ability to compete (Teece, Pisano, & Shuen, 1997). Over time, this has evolved to focus more on how these capabilities change and has resulted in an extension in the theory to include dynamic capabilities (Helfat & Peteraf, 2003, 2009; Hou, 2008; Teece, 2007). Researchers focused on multiple aspects of dynamic capabilities, including dynamic marketing capabilities, where the focus was on how the firm orientates itself around the market and how the static marketing mix has evolved (Day, 2011; Morgan, 2009; Vorhies, Orr, & Bush, 2010).

Often, a particularly interesting dynamic marketing capability is how the firm acquires information about the market and possible opportunities, translates this information into knowledge and executes this as part of a strategy (Day, 2002, 2011; Hou, 2008; O'Reilly & Tushman, 2008; Tashman & Marano, 2010; Teece, 2007). This dynamic capability is often referred to as market sensing (Day, 2002, 2011; Teece, 2007).

The main challenge facing firms competing in the low-income market is understanding the consumer and the environment (Nakata & Weidner, 2012; Pitta et al., 2008; Prahalad & Hart, 2002; Viswanathan & Sridharan, 2012). Based in this, there is the opportunity to carry out research that explores how firms gather information about the low-income market through conducting research into the dynamic market sensing capability.

This research report will explore how firms use dynamic market sensing capabilities as a means to compete in low-income markets. In addition to this, Day (2011) explores the concept of a capability gap that exists between dynamic capabilities, which have an “inside-out” market orientation, and adaptive capabilities, which have an “outside-in” perspective. This report further explores how firms use adaptive sensing capabilities and dynamic sensing capabilities when competing in low-income markets.

1.3 ACADEMIC MOTIVATION

Academia has explored the area of low-income markets extensively. Kolk et al. (2012), carried out a review of BoP articles from 2000 to 2009 and discovered 104 articles that they included in their study. The focus of the literature concerned the definition of BoP, characteristics and the critique thereof, business models and strategy, marketing, entrepreneurship, CSR and ethics (Kolk et al., 2012). However, few studies have researched low-income or BoP markets from a dynamic capabilities perspective (Tashman & Marano, 2010).

This research report aims to build on a specific gap in the literature between the marketing, dynamic capabilities, and adaptive capabilities within the context of a large and unique low-income market. The research takes an exploratory approach into how firms are acquiring information about the low-income market in which they compete, and builds a framework against which dynamic and adaptive market sensing capabilities can be used by any firm wanting to compete in this environment.

1.4 RESEARCH SCOPE

This report will focus on further understanding dynamic and adaptive market sensing capabilities through an exploratory analysis based on interviews with 12 senior managers from firms in a variety of industries. These firms have experience competing in the traditional top end of the market and currently offer products and services to the South African low-income market.

1.5 STRUCTURE OF THE REPORT

Chapter one of the report introduces the research problem being addressed and the rationale behind the research. Chapter two covers a detailed literature review of the subject areas, including dynamic capability theory, marketing theory and low-income markets. The contribution of this research to academic theory has furthermore been highlighted. Chapter three defines the research question surrounding low-income markets and a firm's market sensing capability. The researcher will specifically aim to provide further insights and clarity on this research question. Chapter four explores, in detail, the reasons why qualitative research was the selected method for this research and provides details of the research approach followed. Chapter five presents the analysis of the data in an informative manner, while Chapter six explains the findings and insights to the reader, with supporting evidence from the literature. Chapter seven is the concluding chapter, and highlights the main findings of the research, the limitations present and the recommendations for future research.

2. CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

The literature review chapter sheds light on the areas of low-income markets, dynamic marketing capabilities and market sensing in order to further define the area of research and develop an argument within current and relevant academic literature to show the need for the research.

2.2 THE LOW-INCOME MARKET

2.2.1 CHARACTERISTICS OF LOW-INCOME AND BOP MARKETS

Prahalad & Hart (2002) first formalised the term "Bottom of the Pyramid", or "Base of the Pyramid" (BoP), and highlighted the enormous opportunity and fortune that exists for firms which can successfully understand and target this market. Since its inception, the definition of this term has been a contentious issue in BoP and marketing literature, with many different income variations and size estimates being quoted (Chipp et al., 2012; Karnani, 2007; Pitta et al., 2008; Prahalad & Hart, 2002). The earning levels defined for this market range from US\$2 to \$6 per day (Pitta et al., 2008). Using clusters gathered from secondary data collected, including LSM¹ levels, Chipp et al. (2012) conducted a study to best define the BoP for South Africa. Their results found that the foundation cluster (the base) had an average daily income of R43.73 (approximately US\$4.28), which falls close to the upper limits of the income range quoted in supporting literature. Chipp et al. (2012) motivate that the reason for the higher income range is due to the unique context of South Africa, where 12 million people benefit from social income grants and aid from the government.

Pitta et al. (2008, p. 396), in their review of the various BoP market definitions, found that the size of the global BoP market quoted ranged from 600 million to four billion, which they noted was a cause for concern. Within South Africa, it is estimated that one third of the total market falls within the base (Chipp et al., 2012, p. 27), making this a significant market that firms should better understand if they wish to serve it profitably.

Low-Income markets tend to be defined more broadly, based on characteristics of the market rather than just income levels. This segment of the market tends to have a

¹ The SAARF LSM (Living Standard Measure) is a unique means of segmenting the South African market. It is a technique used in categorising people according to their living standards, using criteria such as degree of urbanisation and ownership of cars and major appliances (SAARF, 2001).

limited and often irregular cash flow (Pitta et al., 2008). Low-Income households tend to spend most of their income on housing, food, healthcare, education, finance charges, communication and consumer goods (Hammond & Prahalad, 2004). There is limited remaining disposable income after necessities, making this market extremely price sensitive – households tend not to be able to afford large quantities of goods, choosing instead to shop more frequently for smaller quantities, spending small amounts each time (Hammond & Prahalad, 2004; Pitta et al., 2008). Although individual buying power may be low, a culture of collectivism rather than individualism, in particular in the South African low-income market, makes the collective buying power of this market a favourable characteristic (Chipp, Corder, & Kapelianis, 2013). This market is heterogeneous and often widely geographically dispersed, making distribution challenging for companies (Hammond & Prahalad, 2004; Pitta et al., 2008). Although Hammond & Prahalad (2004) and Pitta et al. (2008) argue that this market is widely dispersed in rural areas, there is a significant population of urban low-income people in developing nations (Achrol & Kotler, 2011; Ireland, 2008). Often with low-income markets, literacy and health tend to be a problem (Hammond & Prahalad, 2004). Combined with poor or underdeveloped infrastructure, this often leads to consumers not travelling far from home and paying inflated prices for goods (Pitta et al., 2008). With such characteristics, this market tends to be challenging for firms, leaving the market under-served and under-serviced.

2.2.2 CHALLENGES FACING FIRMS COMPETING IN LOW-INCOME MARKETS

In adjacent literature on low-income markets and the BoP, firms are aware of the opportunities but face many challenges in effectively understanding, targeting and designing products in this market (London & Hart, 2004; Nakata, 2012; Viswanathan & Sridharan, 2012). The lack of information and understanding of this low-income market are a significant contributor to the failure of firms competing in this market (Nakata & Weidner, 2012; Pitta et al., 2008; Prahalad & Hart, 2002; Viswanathan & Sridharan, 2012). Low-Income markets therefore require a deep understanding (Nakata & Weidner, 2012) into the characteristics and challenges faced by these consumers, including psychosocial, physical and economical (Prahalad & Hart, 2002; Viswanathan & Sridharan, 2012).

The low-income market tends to be ignored because of the environmental challenges that firms face (Nakata & Weidner, 2012). These challenges are typical to emerging markets and include factors such as poor government functioning, inadequate

infrastructure and corruption (Hammond & Prahalad, 2004; Nakata & Weidner, 2012; Pitta et al., 2008). The essential skills required in emerging markets to deal with these challenges present an additional problem for firms (Viswanathan & Sridharan, 2012).

Even though the potential rewards are great, many firms have thus failed to tap into this market, (Hammond & Prahalad, 2004). Researchers link the cause of failure to the firm's use of traditional strategies to target this unique market (Hammond & Prahalad, 2004; London & Hart, 2004; Pitta et al., 2008). Firms have used marketing strategies to target Top of the Pyramid (ToP) consumers for years, historic marketing practices steering them toward this market based on the following principles: the segment must be identifiable, measurable, substantial and accessible (Pitta et al., 2008). The substantial and accessible principles have driven firms to target the easily accessible and highly profitable ToP. However, traditional product development, sales, pricing and distribution channels no longer apply to the low-income market and, in order for firms to compete in the low-income market, business models and marketing practises need to evolve (Hammond & Prahalad, 2004; Pitta et al., 2008; Viswanathan & Sridharan, 2012).

Increasing knowledge of, and insights into, the low-income market is only the first step to being able to compete in this market. Competing firms are finding it difficult to take these insights and determine how to adapt and implement a marketing mix to meet the needs of low-income consumers (Pitta et al., 2008) and overcome the environment limitations (Viswanathan & Sridharan, 2012). Successfully competing in these markets may require costly effort and innovative strategies, as well as for firms to re-invent themselves in order to overcome these challenges (Pitta et al., 2008).

Key to understanding how firms can better adapt to dealing with the challenges of dynamic markets and market complexity, is dynamic marketing capability theory.

2.3 MARKETING CAPABILITIES

2.3.1 STATIC OR SUBSTANTIVE MARKETING CAPABILITIES AND EXPLOITATION

For some time already, researchers and companies have focused on marketing capabilities as a means to improve competitiveness and obtain competitive advantage (Day, 1994; Hunt & Morgan, 1996; Liu, 2010). The initial foundations of the capabilities were built on the concept of the Resource-based view (RBV) of the firm, where academic researchers focused on understanding how firms acquire and deploy their

resources in order to create a competitive advantage (Barney, 1991; Day, 1994; Vorhies et al., 2010). Helfat & Peteraf (2003, p. 999) define resources as assets or inputs to production (tangible or intangible) that an organisation owns, controls or has access to on a semi-permanent basis. These resources could be seen as physical capital, relating to the firm's physical assets; human capital, namely its skills, knowledge and networks; and organisational capital, the organisational structure and decision-making authority (Barney, 1991).

Capabilities are defined as the firm's tasks, processes, routines, skills, and knowledge that best enable it to assemble, integrate and deploy valued resources for the purpose of achieving an end result, often profit (Eng & Okten, 2011; Helfat & Peteraf, 2003; Hou, 2008). A firm's resources can be bought, sold or easily imitated. However, a firm's capabilities cannot be easily imitated, leading to competitive advantages (Teece et al., 1997; Vorhies et al., 2010).

Over time, researchers have begun to classify these capabilities. Helfat & Peteraf (2003) group capabilities into two main categories: operational and dynamic. Winter (2003) defines operational capabilities as high-level routines which, with a set of inputs and managerial decisions, produce a significant output of a particular type. O'Reilly & Tushman (2008) add to this classification by indicating that operational capabilities are the discrete, business-level processes and associated activities specific to the basic running of the business but still linked to advancing the firm's competitive advantage. These operational capabilities have been further classified by researchers into "ordinary" capabilities and "substantive capabilities". Ordinary capabilities are focused on those routines and knowledge which allow the firm to operate and make a living (Winter, 2003), while "substantive capabilities" are those routines and knowledge which allow a firm to solve a problem (Zahra, Sapienza, & Davidsson, 2006). Marketing capabilities fall within the set of ordinary capabilities (Ali, Peters, & Lettice, 2012).

Vorhies et al. (2010) argue that the firm's marketing capabilities offer the highest degree of inimitability due to their tacit and embedded nature. This is further supported by Day (1994), who notes that marketing capabilities provide a solid base for firms to gain competitive advantage. Marketing capabilities include the firm's ability to develop and maintain relationships with its customers, as well as its ability to acquire and process market data (Park, Lee, & Morgan, 2011). These capabilities extend into traditional marketing mix activities tested by Vorhies & Morgan (2005) covering pricing,

product development, channel management, marketing communications, selling, market planning and the implementation of a marketing strategy (Eng & Okten, 2011).

March (1991) proposed two key process categories from which firms build their market knowledge and which support their marketing capabilities, namely “exploitation” and “exploration”. This is further supported by Day (1994), who states that these two processes are key to building and deploying market knowledge to further improve the firm’s marketing capabilities.

In their research, Vorhies et al. (2010) view exploitation through a marketing lens, which has a specific focus on improving and refining current skills, processes and marketing capabilities associated with existing markets, to deliver valuable outcomes for a firm. Exploitation only focuses on knowledge acquisition through focusing on existing markets, products and capabilities (March, 1991). Exploitation is concerned with efficiency, increasing productivity, control, certainty, and variance reduction (O’Reilly & Tushman, 2008). Firms focusing on exploitation are only concerned with incremental improvement supported by incremental knowledge acquisition (O’Reilly & Tushman, 2008; Vorhies et al., 2010). Inherent in exploitation is the quest for efficiency and predictability of processes and routines (March, 1991). Looking back at operational capabilities and their focus on routines that allow the firm to convert inputs into a desired outcome, one can agree that the acquisition of market knowledge through exploitation processes is an operationally focused capability. This is further acknowledged by Day (2011) in his categorisation of capabilities focused on the resource-based view of the firm as exploitative in nature.

Multiple researchers recognise the relatively static nature of operational capabilities and the process of exploitation (Day, 2011; O’Reilly & Tushman, 2008; Teece et al., 1997). These capabilities are essential to the running of the business but have a specific need for change to be incremental (Vorhies et al., 2010). Firms only focusing on exploitation and current operational capabilities will see their competitive advantage diminish over time and will not be effective in dynamic markets that have a high degree of change (O’Reilly & Tushman, 2008; Vorhies et al., 2010).

2.3.2 EXPLORATION AND DYNAMIC MARKETING CAPABILITIES

O’Reilly & Tushman (2011) argue that firms need to balance exploitative processes with exploratory processes. According to March (1991), explorative processes involve

the development of new knowledge that goes beyond what is currently known about the firm's existing markets, products, technologies and capabilities. O'Reilly & Tushman (2008) expand on this and recognise that exploration is about search, discovery, autonomy, innovation, and embracing variation. In their research, Vorhies et al. (2010), suggest a marketing perspective on exploration and view market exploration as the capabilities used in developing new skills, processes and marketing capabilities through the development and application of new market knowledge. Marketing exploration is required when the firm is no longer able to make assumptions about its customers, products and competitors based on existing capabilities, and it requires renewed capabilities in order to respond to market changes (Vorhies et al., 2010). It is therefore important that a firm develops capabilities to cater for resource renewal and follows both an exploitative and explorative approach to acquire and implement new market information (Day, 2011; O'Reilly & Tushman, 2008). This renewal of capabilities and ability to respond and align to market changes is consistent with dynamic capability theory, supported by Day (2011) in his proposition that dynamic capabilities are linked to the exploring function of the firm.

Dynamic capabilities are derived from the resource-based view of the firm, which suggests that resources are developed through specialised routines that create distinct competencies (Teece, Pisano, & Shuen, 1997). Teece et al. (1997) define dynamic capabilities as the processes and routines used to adapt, alter, deploy and protect the firm's resources so to maintain them as a source of competitive advantage. Helfat (2007) simplifies this definition as, "the capacity of an organisation to purposefully create, extend, or modify the resource base" (p. 5). Dynamic capabilities distinguish themselves from operational processes in that the dynamic capability of a firm influences the change and reconfiguring of existing operational processes (Ali et al., 2012; Helfat & Peteraf, 2003; Winter, 2003). They further encourage the renewal and development of operational capabilities to better match the demands of the market environment (Day, 2011; Hou, 2008).

A further comparison needs to be made against substantive capabilities. Substantive capabilities, as explained earlier, support the solving of a particular problem for a firm (Zahra et al., 2006). Day (2011) does well to clarify the misconception that these are dynamic capabilities by clarifying a second principle of dynamic capabilities; that dynamic capabilities are a repeatable and deeply embedded set of skills and knowledge, rather than an ad-hoc problem solving approach.

Helfat & Peteraf (2009) note, "What is unique about the dynamic capabilities concept is that it also addresses that Holy Grail of strategic questions: how to sustain a capabilities-based advantage in the context of environmental change." (p.99). This was further positioned by, Tashman & Marano (2010) who consider dynamic capabilities in the context of dynamic or emerging markets, highlighting that there is volatility and change in these markets that justifies the development of dynamic capabilities in order to be competitive. By their nature, dynamic capabilities are suited to dynamic markets, being able to cater for changes through adapting current resources and routines (Teece, 2007). The key principle behind them is continued competitiveness, as firms are not only competing in their ability to configure and exploit existing resources, but also in their ability to renew and develop these resources (Hou, 2008).

These dynamic capabilities extend to the firm's marketing function and marketing resources. Dynamic marketing capabilities are the firm's ability to perform marketing routines (such as marketing mix activities) through which the firm transforms available resources into valuable outputs (Vorhies & Morgan, 2005). Day (2011) points out that at present firms rely on a static set of capabilities to address the increasing complexity of markets. Vorhies & Morgan (2005) support this notion and confirm that the capabilities of the traditional marketing mix are almost entirely static. Following on from this, Morgan (2011) undertook research into dynamic marketing capabilities and found that the development of these capabilities leads to an increase in the performance and competitiveness of a firm.

When exploring the components of these dynamic capabilities, many researchers put forward suggestions towards its constructs (Day, 2011; Hou, 2008; Morgan, 2011; Teece et al., 1997; Teece, 2007; Wang & Ahmed, 2007). One of which has been defined by Teece (2007), who suggests that dynamic capabilities can be broadly broken down into (1) the capacity to sense and shape opportunities and threats from the external environment; (2) to seize opportunities by responding and implementing the appropriate changes; and (3) to provide the environment in which to maintain competitiveness through reconfiguring tangible and intangible resources. This work evolved from the previous concepts of adapting, integrating and reconfiguring (Teece et al., 1997). Wang & Ahmed (2007) consolidate many authors' views on dynamic capability components and propose a research framework that can be further explored. They reinforce the foundation work of Teece et al.(1997) and agree that the firm's underlying processes (third-order capabilities) emphasise the pursuit of integration,

reconfiguration, renewal and recreation of resources. Wang & Ahmed (2007) go further to propose that dynamic capabilities have three common components, as follows: (1) adaptive capability: the effective balancing of exploration and exploitation strategies to scan the market, monitor customers and competitors, and allocate marketing resource to identify emerging market opportunities; (2) absorptive capability: the ability to evaluate and utilise information based on a level of prior knowledge; and (3) innovative capability: the ability to link the firm's innovativeness to deliver innovations in their business model.

Marketing literature has also contributed to the dynamic capability theory and defines the construct of dynamic capabilities from a marketing strategy perspective (Day, 2011; Morgan, 2011). Morgan (2011) highlights the firm's need for market-based learning as a means to gather insights and then reconfigure its resource base. He thus proposes that dynamic marketing capabilities have three elements: (1) market learning, (2) resource reconfiguration and (3) capability enhancement. Day (2011) has taken the underlying principles from Teece (2007) of sensing, seizing and reconfiguring, and added the market orientation perspective to enable the firm to better match its market. He therefore emphasises the generation of, dissemination of and responsiveness to market intelligence.

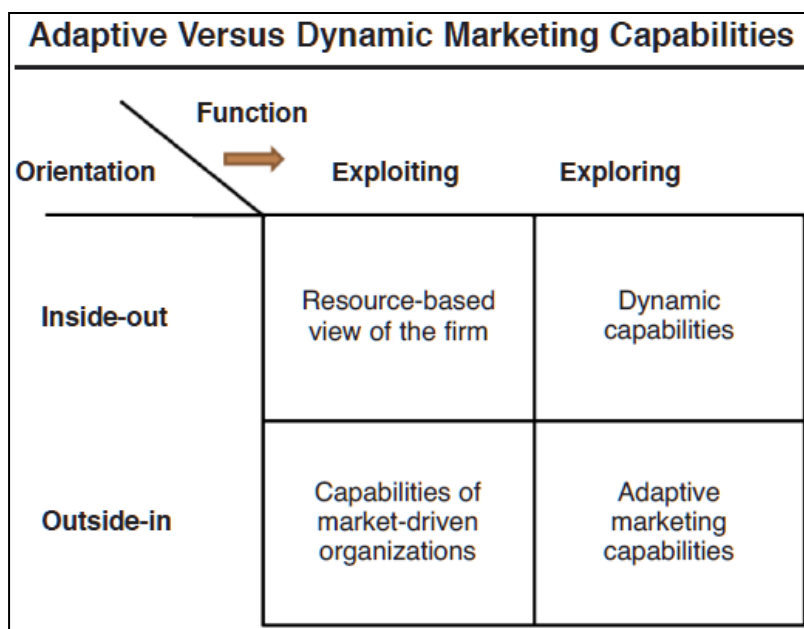
2.3.3 MARKET ORIENTATION AND ADAPTIVE MARKETING CAPABILITIES

Dynamic capability theory looks at how a firm changes its managerial traits, management systems and organisational design to keep the organisation continuously exploring the market (Teece, 2008). Marketing theory introduces market orientation as a unique perspective to view how firms are aligning themselves to an ever-changing market (Day, 2011; Hou, 2008; Morgan, 2009, 2011). Market orientation is a relatively old concept in academic literature and involves the study of the firm's ability to place high value on the customer and learn about its market environment, as well as the firm's ability to respond to these insights and guide its strategy and actions accordingly (Jaworski & Kohli, 1993; Slater & Narver, 1995). Market orientation consists of several key elements, including customer focus, information acquisition, shared information and knowledge, organisational learning, coordination and integration (Hou, 2008). Research has viewed market orientation as an important tool that supports a firm's market learning and enables it to deploy its resources and capabilities more effectively, so to address changes in the market (Slater & Narver, 1995). Day (1994) further supports this capability development, noting that market learning from a firm which is

focused around its market is a critical foundation to building marketing capabilities. Multiple facets of market orientation can be linked to the dynamic capability constructs mentioned previously, and researchers have started to explore the overlap in the two theory bases (Day, 2011; Eng & Okten, 2011; Hou, 2008; Morgan, 2009; Vorhies et al., 2010).

Day (2011) questions the era in which the focus of researchers and firms was placed on market orientation, suggesting that it was relatively slow-paced and simpler. He therefore raises the question of whether this critical aspect should be reviewed in the context of volatile markets and the high degree of change in resources. Day (2011) introduces market orientation into the capability theory to further understand how firms are dealing with market changes and offers a unique perspective on adaptive marketing capabilities. He positions this gap adequately in Figure 1 below.

Figure 1: Adaptive and Dynamic Capabilities



Source: Day 2011 (p. 187)

Day (1994) first divides marketing capabilities into “inside-out” and “outside-in” capabilities and in his later work, Day (2011) further defines inside-out as activities driven or initiated by the firm in a well-defined mandate, and outside-in as activities removed from the constraints of the firm and driven by the external environment. In this outside-in approach, Day (2011) argues that a firm’s management team should step out of the boundaries of the firm and look first at the market.

In reviewing the evolution of capability theory, we have seen the original RBV of the firm move to operational capabilities that manage these resources and provide the firm with an ability to compete and generate a profit. This evolution in capability research has attempted to answer the question of how firms sustain and continue to develop their competitive advantage in a market. The functions of exploitation and exploration have offered researchers a unique lens to understand the need for organisations to look beyond competing on internal efficiencies and capabilities, by balancing this with exploration and the generation of renewed capabilities. This allows researchers to define dynamic capabilities and their role in the explorative function of a firm. The concept of dynamic capabilities, which that allows a firm to sense changes in the market and drive the required changes through seizing these market insights and configuring resources to align to the market (Ali et al., 2012; O'Reilly & Tushman, 2008; Teece, 2007), is commonly referenced in capability literature. Finally, a relatively old concept of market orientation, used in conjunction with capability research, has provided a new perspective in which to view capabilities. The insides-out and outside-in perspectives provide additional views on how to further understand these capability components and the firm's orientation. By overlaying market orientation with exploitation and exploration, an area of research is uncovered in dynamic capability theory that requires further exploration, referred to by Day, (2011) as the marketing capability gap. Herein lie adaptive capabilities that allow firms to become more sensitive to small changes and become more resilient to the volatility and complexity of the market, so to increase their competitive advantages (Day, 2011). It is under this view of dynamic and adaptive capabilities that we approach this research.

2.4 MARKET SENSING

2.4.1 DYNAMIC AND ADAPTIVE MARKET SENSING CAPABILITIES

When reflecting on the multiple views of the components of dynamic capabilities, most proposals include a common component of gathering information from the market as the first step necessary in building dynamic capabilities. In early research, Day (2002) defined this continuous ability to learn about the market as market sensing. Day (2002) argues that this sensing ability of firms needs to involve open enquiry, rather than looking for information with a fixed mindset. He proceeds to define elements of sensing as the collection and distribution of information about customers, competitors and relationships in the market. O'Reilly & Tushman (2008) note that sensing is a critical component of the dynamic capability taxonomy and go on to specify that the sensing

capability involves scanning, searching and exploration in dynamic markets. Teece (2007) includes sensing as a critical component of dynamic capabilities in the context of identifying opportunities, and notes that sensing involves scanning, creation, learning and interpretative activity. Teece (2007) expands on this and specifies that because the firm is looking for opportunities, the sensing activity expands to include the individuals' existing knowledge as well as the firm's ability to interpret and synthesise the information in order to identify opportunities. This extension of sensing overlaps with Day's (2002) categorisation of sense-making, where information needs to be processed and interpreted before it can be used. An important aspect that Day (2002) adds to the sense-making process is the firm's pre-existing mental models and how these are considered simplified frameworks used to interpret the information the organisation receives.

Hou (2008) defines sensing capability as a firm's ability to sense the needs of its customers and the market dynamics better than that of its competitors. Hou (2008) disaggregates this into the ability to generate, disseminate and respond to market and customer insights. These factors correspond to the thoughts of Day (1994) and Teece (2007) surrounding the collection and distribution of information, though Hou (2008) forgoes interpretation in this capability construct. Hou (2008) bases this decision on Wang & Ahmed (2007) and their dynamic capability component model, which includes the interpretation capability within the absorptive capability component, more closely linked to the mental model framework explained by Day (2002). Wang & Ahmed (2007) do not specially define a component called sensing, but rather choose to include sensing within the adaptive capability. They define the adaptive capability as the firm's ability to identify and take advantage of opportunities. This significantly overlaps Teece's (2007) component of sensing and seizing. Wang & Ahmed (2007) go on to breakdown the adaptive capability into the firm's ability to scan the market, monitor customer and competitors, allocate resources to marketing activities, and respond quickly to market changes.

When investigating the aspects of market sensing, there is a clear link to organisational learning and market learning theory. Organisational learning can be divided into information acquisition, information dissemination, and shared interpretation, either within or outside the constraints of the organisation (March, 1991; Sinkula, Baker, & Noordewier, 1997; Slater & Narver, 1995).

These definitions of the market sensing capability are somewhat broad and lack clear scope. However, there is evidence that a firm's market sensing capability include activities such as scanning and gathering market information from customers, competitors and the broader ecosystem; the dissemination and interpretation of the market information to create market intelligence, insights or identify opportunities in the market; leveraging this information to form a quick response; and configuring resources to align to the market.

Linking the capability of market sensing back to the capability framework proposed by Day (2011), a firm's market sensing can be further divided into dynamic market sensing and adaptive market sensing. Dynamic market sensing inherits those characteristics of an inside-out market orientation but still performs an explorative function for the firm. Dynamic market sensing may include market exploration activities that are initiated by the firm and have a well-defined mandate (Day, 2011). Adaptive market sensing, in comparison, activates the explorative function of the firm but inherits outside-in market orientation. The key difference between the two capabilities is that adaptive market sensing begins with the market and allows the management team to "step-out" of the firm to pick up weak signals from the market (Day, 2011).

2.4.2 MARKET SENSING CAPABILITIES AND THE LOW-INCOME MARKET

Day (2011) argues that the execution of these dynamic and adaptive capabilities is critical in the pursuit of deep market insights that are essential to understanding and competing in complex, diverse and rapidly-changing markets. This view is consistent with the views of Hou (2008) and Teece (2007), in that firms in dynamic markets require the ability to renew and develop their organisational capabilities in order to compete. In their research, Eisenhardt & Martin (2000), further analyse the type of dynamic markets and the necessary roles of capabilities in these markets. They conclude that in moderately dynamic markets, dynamic capabilities are embedded in existing, cumulative knowledge and the associated routines are detailed and predictable, while high-velocity markets are often unstable and require dynamic capabilities that leverage extensively off new knowledge created.

Considering the literature on low-income markets, there have been multiple mentions of the unique challenges in this market, including structural voids, low education, lack of financial resources and cultural differences (Pitta et al., 2008). London & Hart (2004) strongly argue that firms entering this market with traditional capabilities are often met

with challenges. Firms seeking to compete in this market need to change their strategies and capabilities. Day (2011), in his research into the marketing capabilities gap, identifies that for organisations to successfully target new and unfamiliar markets, they need to become more responsive to the market by developing dynamic and adaptive marketing capabilities. This suggests a strong motivation for dynamic and adaptive capabilities in exploring these low-income markets and changing routines to match the market needs and environment. Tashman & Marano (2010) join the small pool of researchers who have linked dynamic capability theory to low-income markets.

Firms competing in low-income markets, or firms seeking to enter the low-income market, need to improve their market sensing capability to better adapt to the unique market and overcome the many challenges and obstacles related to the lack of information and understanding of this low-income market. Firms are entering an unfamiliar market for many reasons, but have not developed a sufficient knowledge stock about the consumers and the market (Nakata & Weidner, 2012; Pitta et al., 2008; Prahalad & Hart, 2002; Viswanathan & Sridharan, 2012).

2.4.3 DYNAMIC AND ADPATIVE MARKET SENSING ACTIVITIES IN THE LOW-INCOME MARKET

When looking at literature on low-income markets, one finds evidence that firms have taken their new market knowledge and learning and adapted their business models accordingly to become more competitive (London & Hart, 2004; Pitta et al., 2008; Tashman & Marano, 2010). In order to improve their performance, firms competing in this market should carry out activities to build their market sensing abilities. Day (2002) suggests that the first step is for a firm to challenge its existing beliefs and knowledge about the market. This recommendation is consistent in low-income literature, with the recommendation being that firms need to ignore what they know as “accepted knowledge” (Pitta et al., 2008, p. 397).

Certain techniques, practices or activities that form part of market sensing are prevalent in the low-income literature. Due to the disparities between low-income and other market segments, one of the suggested techniques in the low-income literature is that of immersion (Rosa, 2012; Simanis & Hart, 2008; Viswanathan & Sridharan, 2012). Firms and individuals should be willing to be immersed in the lives of their customers in order to sense and better understand their needs and gain first-hand insight (Day, 2011; Nakata & Weidner, 2012; Roberts & Palmer, 2012).

Day (2011) further promotes an additional technique for firms as the “probe and learn” market studies approach to build a firm's market sensing ability. He formally refers to this as adaptive market experimentation. He goes on to argue that due to the complex and micro-segmented nature of new markets, better insights are gained through investments into market experimentation. Low-Income markets are complex and heterogeneous. Experimenting with new ideas to gain insight into the low-income and emerging market trends is widely encouraged in the literature (London & Hart, 2004; Rosa, 2012; Zhou & Li, 2010).

The hiring of key personnel and the formation of strategic alliances supports the practise of knowledge acquisition (Tashman & Marano, 2010). Literature on low-income markets makes reference to these as important influencers of the firm's market sensing capability. In low-income theory, it is noted that essential skills in emerging markets are in short supply (Viswanathan & Sridharan, 2012). To combat this challenge and support a more adaptive firm, Viswanathan & Sridharan (2012) suggest using local resources to develop these skills. This suggestion of using local resources or resources with extensive market knowledge allows the firm to build its absorptive capability and to interpret information gained (Hou, 2008; Teece, 2007).

Strategic alliances are another common theme in low-income literature (Hammond & Prahalad, 2004; Pitta et al., 2008). Non-Government Organisations (NGOs) in particular are closer to people within the low-income market and are better suited to educate consumers about a firm's products, as well as to educate the firm on consumer needs (Pitta et al., 2008). Teece (2007) suggests that firms can hone their skills and learning activities through alliance relationships. The ability of a firm to form such alliances and extend beyond its boundaries to tap into a wider array of networks will bring it new resources, talent and knowledge (Day, 2011).

These market sensing activities and influencers are mentioned across the low-income literature have dynamic characteristics of an “inside-out” orientation that allow firms to change and reconfigure their resources to cater for this market, while at the same time providing a better means to receive information from the outside-in and therefore reflecting characteristics adaptive market sensing capabilities.

2.5 CONCLUSION

The low-income market, due to its size and combined purchasing power, is an attractive market for firms wanting to grow their market share and revenues. These markets, however, are heterogeneous and have unique needs. To compete herein, and to reach customers, thus requires new offerings and business models. Many firms have failed in their efforts due to an insufficient understanding of this market and because they approached the market with traditional practices. Changing established practices and routines lies in a firm's capability, more specifically in the theory domain of dynamic capabilities.

Dynamic capabilities have been covered from many perspectives. Analysing dynamic capabilities by the function of the firm and its market orientation, suggested by Day (2011), provides us with a unique perspective and clarifies what he calls the marketing capability gap. It has been argued that dynamic capabilities form part of the firm's exploration function and are used to acquire new market knowledge in order to change the firm's existing routines. The dynamic capability covered extensively in this review is the market sensing capability of the firm, the construct of which comprises the collection, dissemination and interpretation of market intelligence. In some research this has been extended to include how the firm responds to this market intelligence. Firms that are competing in the low-income market require a dynamic market sensing capability to explore the market and to better align their resources to the needs of the market. It can therefore be argued that dynamic market sensing capabilities support the firm's competitiveness in low-income markets.

Using a market orientation lens, the gap identified by Day (2011) as adaptive capabilities, allows us to extend the market sensing capability of the firm to include more specific activities, driven from an outside-in perspective. Evidence of dynamic and adaptive market sensing capabilities has been extensively seen in the activities carried out by firms throughout the low-income literature. This includes activities such as immersion and experimentation supported by acquiring alliances and partners, recruiting local talent and the firm's ability to challenge their pre-existing mindsets.

3. CHAPTER 3: RESEARCH QUESTION

The objective of the proposed research project is to look at the low-income and BoP phenomenon and use capability theory as a means to interpret how firms compete in this low-income market. The nature of the research is exploratory and aims to answer a particular research question in order to gain insight into and understanding of the research problem.

The research question is as follows:

R₁: How do firms use dynamic and adaptive market sensing capabilities as a means to compete in low-income markets?

4. CHAPTER 4: RESEARCH METHODOLOGY

4.1 INTRODUCTION

This chapter discusses the research methodology used in this study. Due to the nature of the research question proposed above, a descriptive research design has been used, along with qualitative data collection and analysis techniques, to help better understand the research problem concerning dynamic and adaptive capabilities in the low-income market.

4.2 RESEARCH METHOD

A qualitative research approach is the recommendation for this research as it aims to interpret a phenomenon, rather than test the relationship between variables (Leedy & Ormrod, 2002). The marketing capabilities gap has already been defined but the area that requires further understanding is how these dynamic and adaptive marketing sensing capabilities support a firm competing in the South African low-income market. The type of research method used is thus descriptive, which is appropriate as this type of research seeks to answer the question “how” (Zikmund, 2003).

The research approach has involved defining research questions from the dynamic marketing capability theory and low-income literature that exists (Saunders & Lewis, 2012, p. 108). This research follows a deductive reasoning approach as the literature has provided an initial construct, that of Day's (2011) classification of adaptive and dynamic marketing capabilities, which aids in finding the answer to the research question (Zikmund, 2003). In addition to this, an inductive approach has been used as the amount of information in the literature regarding adaptive market sensing capabilities, as defined by Day (2011), is minimal. Through coding and thorough analysis of the data, themes emerged from the areas of enquiry. These are based on the grounded theory building approach, where the research aims to answer the question of “what is happening here?” and “how is this different?” (Zikmund, 2003) through systematic interrogation of the data and the theory (Douglas, 2003).

The research process comprised of two phases. The first was primarily orientated around the exploration of the research area and further defining the research problem. This was conducted through the use of secondary data, including books, journals and other academic literature, and sought to further define and construct an argument for the use of adaptive and dynamic market sensing capability by firms competing in the

low-income market space. The second phase of the research consisted of primary data collection and analysis in order to seek a further understanding into the research questions posed, in particular, to identify how companies are using these adaptive and dynamic capabilities. This took the form of in-depth interviews conducted with managers from selected firms who are competing in the low-income market space.

4.3 UNIT OF ANALYSIS

The unit of analysis defines what or who should provide the data and at what level of aggregation (Zikmund, 2003). The unit of analysis for this research report are firms that target consumers in the South African low-income market, where the low-income market is defined broadly as the segment of the market that has previously been under-served or under-serviced due to limited income earned. The individual managers from the firms that have experience in operating in low-income markets, who share insights surrounding the routines, actions and the environment, constitute the unit of response.

4.4 POPULATION OF RELEVANCE

Zikmund (2003) identifies the need for selection of an appropriate target population to ensure that the data collected is from the correct source that best answers the research question. Based on this definition, the population in this research would be experts, such as marketing, product or portfolio managers, within South African for-profit organisations that have an active consumer base, are engaged in competition in the low-income market, and have experience and knowledge of the firm's engagements in marketing activities directed at its consumers.

4.5 SAMPLING METHOD AND SIZE

A sample is a sub-group of the entire population (Saunders & Lewis, 2012, p. 132). The sample used in this research consisted of 12 managers from firms in Gauteng that were competing in the low-income market. The sampling technique is the method used in selecting the sample from the population (Saunders & Lewis, 2012, p. 134). Due to the qualitative nature of the research, there is no specific need to infer results on the broader population accurately, but rather to develop theory as inputs into further testing (Saunders & Lewis, 2012). Qualitative samples tend to follow a purposive or snowball technique, rather than a random sampling technique, with preference often given to key informants who have more information or richer experience because of their position (Welman & Kruger, 2001). As the sample for this research was homogenous and

difficult to identify, based on the nature of this sample, the chosen sampling technique was purposive sampling. Purposive sampling is a non-probability sampling method that involves the selection of interview members based on some appropriate characteristics (Zikmund, 2003). The characteristics of the required interviewees were as follows: Managers within firms that are responsible for, or are closely involved with, the firm's marketing activities and therefore can be seen as well informed and knowledgeable individuals; the firms that they work for should be competing in the low-income consumer market; due to the limited time and travel distance, they should be located in Gauteng. Interviewees were identified through the GIBS research network and the researcher's own contacts. In order to have a truly diverse sample and to limit the amount of influence any one type of industry may have on the results, the sample included a range of industries detailed in Table 1 below. Due to time and cost limitations of the research project, the sample included 12 managers from 11 companies, which may not have been sufficient to reach saturation. Saturation being the theoretical point at which no new or relevant data seem to emerge regarding a category or theme and the relationships among categories are well established and validated (Strauss & Corbin, 1998).

Table 1: Interview Distribution across Industries

Number of Managers Interviewed	Industry Classification
4	Banking
1	Conglomerate
2	Food Services
2	Life Assurance
2	Pharmaceutical
1	Telecommunications

4.6 INSTRUMENT DESIGN AND PRE-TEST

A semi-structured interview method was selected for the data collection, due the qualitative nature of the study. This allows the interviewer to gain a better understanding of the subject at hand (Marshall & Rossman, 2006) by asking questions within the research themes, based on predetermined questions. It affords the flexibility to ask additional questions or omit some sections (Saunders & Lewis, 2012, p. 108). The chief instrument used during interviews of this nature is an interview guide. An interview guide allows the researcher to carry out the interview in a consistent,

systematic and comprehensive manner when interviewing multiple people (Patton, 2002). The interview guide consisted of interview questions that provided context and linked back to the research question and the literature review. Questions were open-ended and phrased using colloquial language to ensure there was no room for misinterpretation. An example is the use of the phrase "market learning", rather than "market sensing", as the latter is a more refined academic term. To keep to a true qualitative nature, questions were included to allow exploration of broader themes, such as "How different is this approach to the way you do it for other markets?". To seek the depth required for this research, the interview guide includes questions that would probe the interviewee to explore areas of the literature within the different contexts (Patton, 2002; Saunders & Lewis, 2012).

Before conducting the interviews, a pre-test is recommended to ensure that the questions are likely to be understood (Saunders & Lewis, 2012, p. 157). This pre-test was carried out with an experienced GIBS researcher and supervisor who has conducted multiple interviews with companies in the research area of low-income markets. Multiple recommendations were put forward, and the interview guide evolved to include more anchor points to keep the discussions more closely aligned to the research question. The interview guide has been provided in Appendix 1: Interview Guide.

4.7 DATA COLLECTION

After the design and pre-test of the interview guide and questions, the data collection involved a series of in-depth interviews with managers included in the sample. These in-depth interviews were discovery orientated, followed a flexible semi-structured format and encouraged conversation that focused on the firm's market sensing (Guion, Diehl, & McDonald, 2011; Mason, 2002). Each interview was approximately one hour in length and was held face-to-face with individual managers. Face-to-face was the preferred method of conducting the interview, as this allowed the researcher to make use of body language signals and to probe the interviewees (Saunders & Lewis, 2012, p. 158). Face-to-face has the additional benefit of providing immediate validation of the data (Denscombe, 2008). The interviewee was probed to obtain the necessary level of depth required and to ensure the richness of the information gathered (Patton 2002). A further technique of relaying the researcher's interpretation back to the interviewee was used, to seek confirmation of the interpretation and to remove ambiguity.

After finding that the interviewee would focus too much on the innovations they had put forward, rather than how they came to the insights that informed these innovations, the interview questions were updated and the interviewee was rather handed the questions at the beginning of the interview.

To ensure the accuracy of data collection, all interviews were recorded. Recording the interviews has the additional advantage of being complete in terms of speech and context, and can be checked by others (Denscombe, 2008). The recordings were transcribed and a secondary review of the transcripts against the recordings was carried out to ensure accuracy (Cohen, Manion, & Morrison, 2000).

Non-verbal cues and other contextual factors were included as researcher's notes, which added to the depth of the data collection. These notes included any details provided by the interviewee before the commencement of the interview and post interview, while the recorder was off and the interviewee felt more comfortable sharing information.

4.8 ETHICAL CONSIDERATIONS

A process of ethical clearance from the GIBS ethical committee was followed and approval was provided before conducting the interviews and collecting the data. To ensure ethical principles and regulations were followed, participants provided informed consent before each interview. During the analysis, all data and findings were checked to ensure that all companies and individuals remained anonymous.

4.9 ANALYSIS APPROACH

According to Denscombe (2008), data analysis is the process through which key components or principles are discovered that provide a clearer understanding to a particular phenomenon. The coding scheme was developed both inductively from existing theory and literature as well as deductively through in-vivo and open coding of phenomenon, events, activities, relationships, contexts, influences and outcomes (Strauss & Corbin, 1998). Major or core codes were then created as aggregates of closely related open codes. This refining of the coding scheme was continuously done as the researcher progressed through the interview transcripts.

Following the coding of the transcripts, content analysis has been carried out to systematically analyse the interviews by identifying the frequency of themes and understanding the way in which themes are portrayed (Welman & Kruger, 2001). In

addition to this, the frequency of words and phrases has been used to support the analysis and to quantify the extent of these associations across the interviews, providing richer and more realistic understanding (Blumberg, Cooper, & Schindler, 2008).

Atlas.ti has been used as the qualitative research tool, as it provides the necessary features to code the data and perform the analysis. This supported the researcher in producing the results of the analysis and determining themes in order to develop generalised conclusions.

The data analysis results have been provided in a manner that provides richness through describing elements of background and context as well as interpretative analysis that represent understanding of the phenomenon and emerging themes in the data (Patton, 2002).

4.10 LIMITATIONS

The following limitations of the research design and approach should be taken into consideration:

- The sampling technique used for the research was non-probability sampling, making it unreliable to generalise upon the population.
- The sample selection only consisted of companies in the Gauteng region, making their responses more oriented towards the low-income market in Gauteng, which may be different from those in the rest of South Africa.
- Although the aim of the sample was to establish diversity across all types of industries, this sample is limited to only a few. Further insight may have come from industries outside of those sampled. One in particular that has been referenced in the interviews is the market research industry.
- Due to the time limitations, the researcher was unable to interview more than one manager from each firm, which would otherwise have increased the credibility of the data.
- There is the risk of interviewer bias as a result of personal perceptions, assumptions and interpretation (Zikmund, 2003).

4.11 VALIDITY AND RELIABILITY

Qualitative research is approached differently to quantitative research as it is concerned with a particular phenomenon in a specific context (Saunders & Lewis, 2012). Due to this, the same method of reliability and validity cannot be used. Lincoln & Guba (1985) have recognised this and therefore proposed four criteria by which to evaluate the trustworthiness of qualitative research: credibility, transferability, dependability and conformability.

Credibility refers to the “adequate representation of the constructions of the social world under study” (Bradley, 1993, p. 436). Credibility for this research report has been improved through ensuring diversity in the sample of firms in order to establish themes independent of industry; recording and transcribing of interviews to ensure interpretations can be checked against the raw data; triangulation of the data against existing literature and across respondents; and review of the research approach, coding mechanism and interpretation with an experienced researcher. One aspect of the research that may impact the credibility is the prior experience of the researcher. The researcher has had limited experience in the field of qualitative research but has chosen to mitigate this through constant engagement with more experienced researchers.

Transferability refers to the extent to which the research findings can be applied in another context (Lincoln & Guba, 1985). This research report includes a detailed research design and approach and the raw interview transcripts. This will allow other researchers to make judgements about the findings transferability to different contexts.

Dependability and confirmability refers the extent to which the research has been reviewed or audited by others and the extent to which changing conditions of the phenomena have been accounted for (Bradley, 1993). The interviews were carried out within a short period of time reducing the impact of any significant changes in the external environment that may affect firms’ responses. The changes in the interview guide have been documented but do not contain any changes in the core subject areas. Reviews by an experienced researcher as well as an audit by an accredited academic institute, GIBS, further support the confirmability of the research.

4.12 CONCLUSION

The research has followed a qualitative research design due to the exploratory nature of the research question that has been positioned. The sample includes a diverse range of firms, in the hope of ensuring diversity and eliminating as many other influencing components from the sample as possible. The approach aimed to seek profundity through in-depth, semi-structured, face-to-face interviews, which were later transcribed. Coding and qualitative analysis techniques were used to uncover themes and categories that help further understand the research problem. These results form part of the next chapter.

5. CHAPTER 5: RESULTS

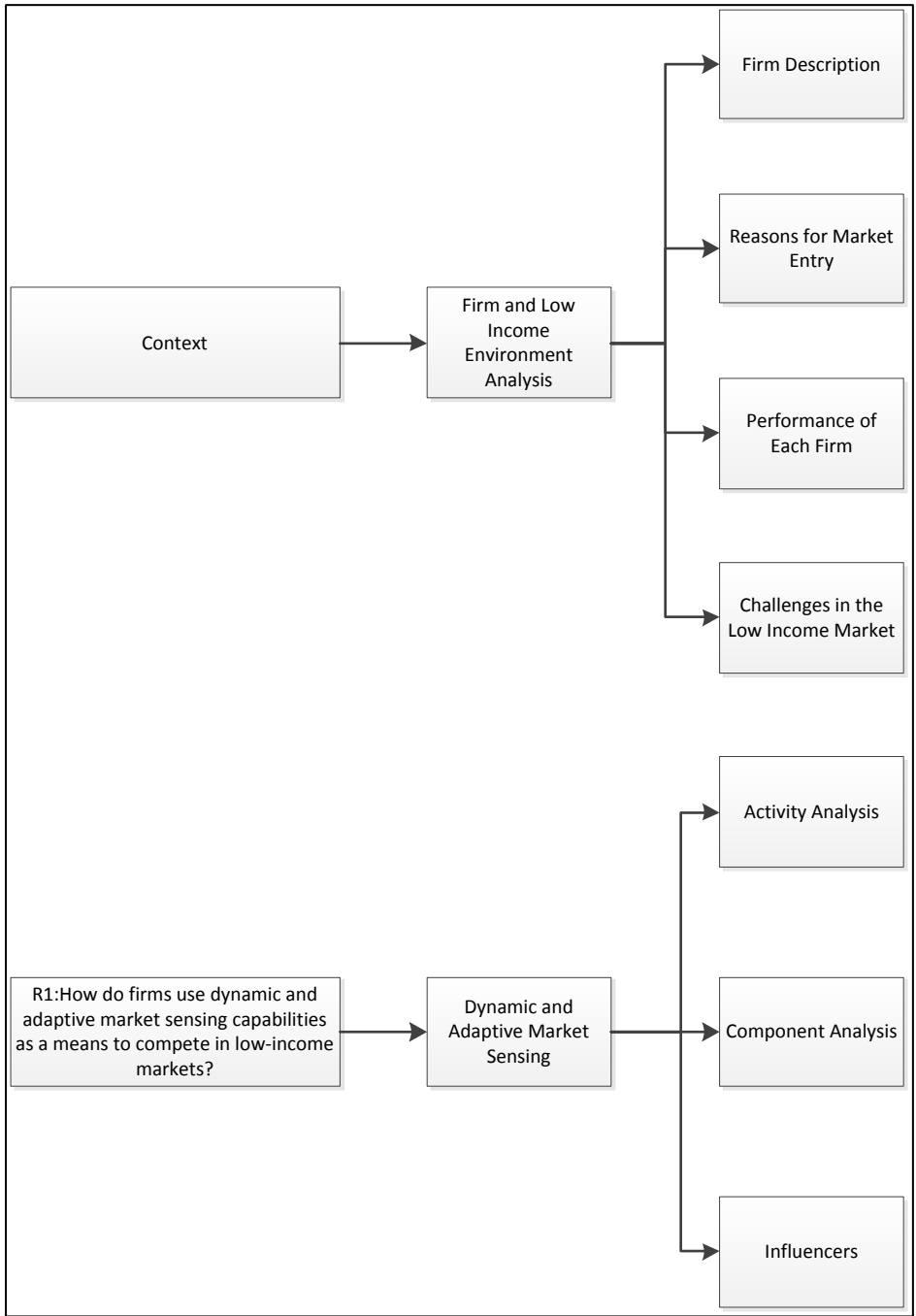
5.1 INTRODUCTION

The following chapter presents the data that has been uncovered through the in-depth interviews with managers from the various companies. The structure of this chapter, as illustrated in Figure 2 below, follows a logical process through which the reader can easily interpret the information and develop an understanding of the research question. The research question has been provided as follows:

R₁: How do firms use dynamic and adaptive market sensing capabilities as a means to compete in low-income markets?

The chapter begins by providing a summarised description of the firms included in the sample, the main reasons why these firms have chosen to compete in the low-income market, the performance of the firms and the challenges that they have faced. This provides supportive context and is followed by an examination of the market sensing activities undertaken by these firms through a more theoretical perspective of dynamic and adaptive capabilities. The chapter concludes with an examination of the firms' practical implementation of market sensing components, as well as specific influencers from a firm's perspective that may have an impact on the firm's effectiveness in implementing each of these components.

Figure 2: Results Chapter Structure



5.2 SAMPLE DESCRIPTION

Table 2 below provides a summary of each of the firms that were interviewed as part of the sample. The description provides a general perspective on the function of the firm, where they operate, how they are structured in order for them to compete in the low-income market, and how they define that market. Specific details such as products, brands and other information that may affect the anonymity of the firms have not been included.

Table 2: Sample Summary

Firm Ref	Manager Reference	Industry	Description	Low-Income Market Definition
Assurance A	Manager 7	Life Assurance	The firm was established in 2004 and operates in South Africa. It provides life insurance products to a greatly underserved market, specifically those people with diabetes or HIV, and the firm has a unique business model to support this. Their structure does not separate out the low-income market and it is only done within their segmentation and customer analysis.	<i>“So for us the low-income piece of our market would be families earning between R2,500 and R6,000 a month, would be around what we would think of, maybe a little less than 6 – but that kind of range. And the way we think about customers in general is along a cost of customer acquisition and an EV required basis, which is a kind of NPV or future cash flow of the client”</i>
Assurance B	Manager 9	Life Assurance	The firm operates in the healthcare cover and assurance markets in South African and internationally. The firm has established a specific team that focuses on offering specific products in the low-income segment.	<i>“for us it is first time entries into the healthcare system” “the level of the income” “lastly it is the type of industry that the person works in”</i>

Firm Ref	Manager Reference	Industry	Description	Low-Income Market Definition
Bank A	Manager 1 Manager 12	Banking	The firm is one of the large banks in South Africa and offers personal, commercial, corporate and merchant banking, as well as related financial services throughout South Africa. The firm has established a specific team that focuses on offering specific products and services for entry-level banking, which includes the low-income segment.	<p><i>“So low-income will be anybody who earns nothing, zero, because he is unemployed, all the way to about R100k a year, but in that there are different pieces ... there are so many people there that you can’t have a one-size-fits-all segmentation.”</i></p> <p><i>“So what we do is we go into some psychographics. So we look at other scenarios, people who are unbanked have a certain look and feel. Unbanked people could range from a 60-year-old grandmother looking after her grandkids, to somebody who has just left school and can’t get a job, or to somebody who hasn’t finished school.”</i></p>
Bank B	Manager 3	Banking	The firm is one of the large banks in South Africa and offers retail, business, corporate and investment banking throughout South Africa. They are a subsidiary of a large holding company that operates internationally. The firm has established specific teams split by income segments, each of which focuses on offering specific products and services for their segment.	<p><i>“In Inclusive Banking, all the customers earn less than R3,000 a month – that includes customers who are unemployed. Entry-level banking is up to R10,000 per month; Core Middle is up to R25,000 and Retail Affluent R25,000 and above.”</i></p>

Firm Ref	Manager Reference	Industry	Description	Low-Income Market Definition
Bank C	Manager 10	Banking	The firm is one of the large banks in South Africa and offers personal, corporate, merchant and commercial banking as well as other financial services. They operate internationally with a large focus on African markets. The firm has established a specific team that focuses on offering specific products and services to the low-income segment.	<i>"Inclusive Banking as a division has been running in [Bank C] for just over three years now, early 2010 it was formed. It is defined as a division that looks at customers who earn between 0 and R8,000 per month, gross monthly income."</i>
Conglomerate	Manager 6	Conglomerate	The firm is a diversified technology and science-based company offering an extensive range of products and technologies to customers. It is a large, multinational operating in more than 65 countries. It has multiple businesses, one of which is the consumer business that is more involved with consumers directly, including low-income consumers. Their structure does not separate out the low-income market and it is only done within their segmentation and customer analysis.	<i>"So when we look at defining the low-income market we look at both the metrics, whether we look at it by masses or income per household."</i>
Food A	Manager 5	Food Services	The firm is a large snack food producer in South Africa. They are a subsidiary of a large international holding company that operates in the food and beverage industry. The firm has established a specific team that focuses on doing business in the low-income segment.	<i>"...We have the LSM classification and although it serves as a guideline for us, it is not really what we follow. So recently we started following more broad classifications of consumers that earn less than R5,000 per month, or households that live on less than R5,000 per month." "So the way we have done it is more like a channel for sales, a commercial channel, rather than LSM."</i>

Firm Ref	Manager Reference	Industry	Description	Low-Income Market Definition
Food B	Manager 8	Food Services	The firm is a large, frozen food producer in South Africa. They operate 53 facilities worldwide. The firm has established a specific business within their food services business that has created a distribution model to sell their existing products in low-income areas.	They define low-income by distribution channel and location. <i>"We saw all these townships and we saw ABI going into the townships and SAB going into the townships and everybody and their cousin going into the townships, and somebody must have said what are we doing there ... the business then embarked on a project to open up a distribution centre."</i>
Pharma B	Manager 11	Pharmaceutical	The firm is a multinational and one of the large pharmaceutical firms operating within South Africa. The firm offers a range of generics and prescription medicines across various therapeutic classes. Their structure does not separate out the low-income market but they have established a small project that focuses on new distribution channels within the low-income market.	They define low-income by distribution channel and location. <i>"So we access the mass, low-end market via the public sector tender system. That is one avenue. It is not very efficient ... so we have also started doing it ourselves."</i>
Pharma A	Manager 4	Pharmaceutical	The firm is a multinational and one of the large pharmaceutical firms operating within South Africa. They are a global supplier of branded and generic pharmaceuticals and of consumer and nutritional products in selected territories. Their structure does not separate out the low-income market but they do look at their brands and LSM to segment their market.	<i>"...We essentially follow the LSM scales that are available out there. And we essentially look at our products."</i>

Firm Ref	Manager Reference	Industry	Description	Low-Income Market Definition
Telecom	Manager 2	Telecommunication	The firm is one of the largest telecommunication services providers that operate within South Africa and the rest of Africa. They have structured their business to create a channel that focuses specifically on the low-income market, which they call the Informal Channel.	<i>“Informal markets, I always summarise it as effectively everything outside the four walls of the shopping mall ... in some of the cases you even get as far as under-served or even not-served environments.”</i>

5.3 REASONS FOR LOW-INCOME MARKET ENTRY

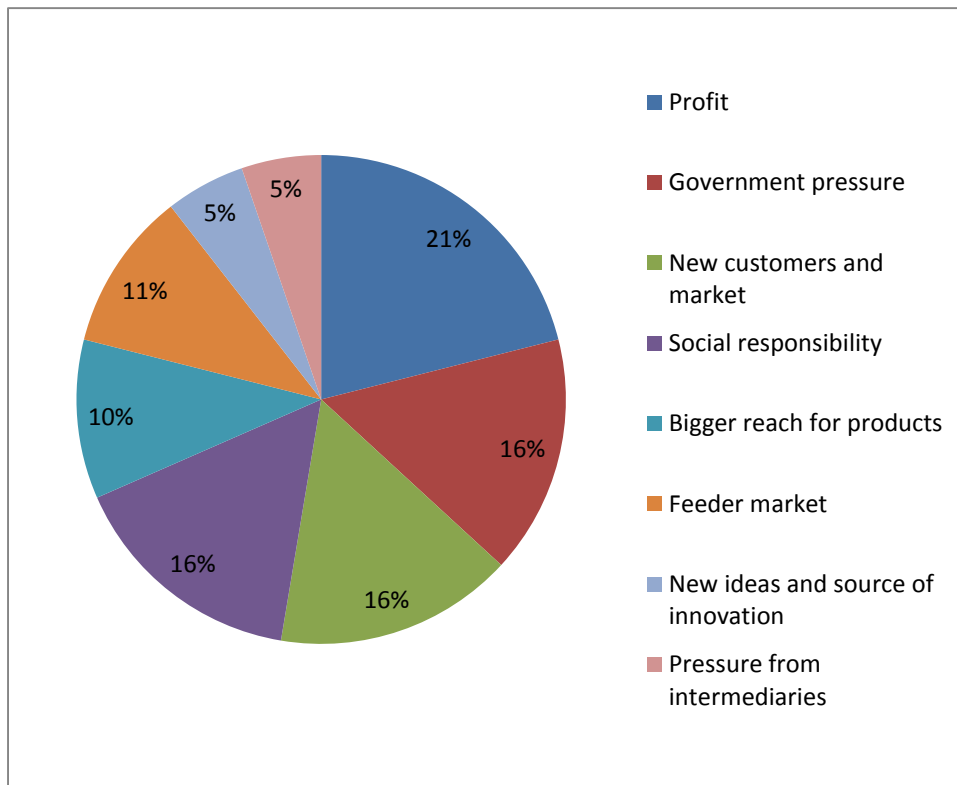
To further understand why and how firms operate in low-income markets, the context in which they choose to enter and compete in this market may provide us with a deeper understanding of the intentions behind their actions. Table 3 below provides the reasons for entry and the occurrence of each across the sample

Table 3: Rank and Occurrence of Reasons for Entry

Rank	Reasons for Entry	Count of Firms (Sample = 11)
1	Profit	4
2	Government pressure	3
3	New customers and market	3
4	Social responsibility	3
5	Bigger reach for products	2
6	Feeder market	2
7	New ideas and source of innovation	1
8	Pressure from intermediaries	1

Figure 3 below represents this information graphically to illustrate the degree to which each reason for entry is considered in the sample.

Figure 3: Reasons for Entry



Looking at Figure 3 above, an important observation is that the majority (21%) of the firms chose to enter this market because of the profit potential. The following quotes capture this:

“...There is plenty of money to be made in these markets, there is huge potential, these guys are spending money.” (Manager 10, Bank C)

“Now there are reasons why we moved there, there are obviously triple bottom-line reasons, but the most important reason is we never made a profit in [Bank A] retail until 2007 since 1992.” (Manager 12, Bank A)

It is interesting to see government pressure ranking as the second most common reason the firms quoted across the sample. This is particularly true of the Banking and Assurance industries, which would indicate a focus by the South African government on banking services and health services. The following quotes act as evidence of this government pressure:

“I think also the government has put down a requirement which they haven’t enforced, that employers do look after the health of their employees. So that is another reason.” (Manager 9, Assurance B)

“... Eight years ago when government said look we need to be in this market, we need to be providing a service, and everyone came out with Mzansi...” (Manager 3, Bank B)

Considering this, together with the pressure from intermediaries, there is an indication that entering this low-income market is not necessarily as a result of the firm’s market or profit growth strategy but rather as a result of pressure from external stakeholders. However, external stakeholder pressure was often only one of the reasons quoted by the firm and cannot be viewed as exclusive.

The motivating reason of new customers and market reason is commonly quoted, as firms have recognised that the low-income market is a large portion of the total market and that it is a viable growth strategy if the other income segments have been saturated. The following quotes capture this:

“Well if you look at South Africa specifically, there’s only a certain market size in as far as scouring pads are concerned. If we forget the low-income market, for example, and target the upper and middle-income groups, there is a limitation to the amount that we can actually sell.” (Manager 6, Conglomerate)

“And when we had a look at potatoes and South Africa’s market share, probably about 40% of potatoes, raw potatoes, were consumed in the informal market.” (Manager 8, Food B)

New customers and market, as well as a larger reach for their product, have been separated in the results. “A larger reach” differs as it indicates that the firm wants to find a new market in which to sell its existing products or technology. A pharmaceutical firm and the conglomerate quoted this reason for entry, as they invest heavily in developing intellectual property and are tasked with finding a market for it. This can be evidenced in the following quotes:

“[Conglomerate] has access to 55,000 different products globally. Now we don’t commercialise all in South Africa, but to support these 55,000 products we have 46 different technology platforms that are important for us. When communicating with

customers it is not so much the 55,000 products, which as you can imagine is a pretty difficult sell, but we prefer to rather talk to our customers about technology.”
(Manager 6, Conglomerate)

“So the low-income market gives us effectively far bigger reach in terms of product.”
(Manager 6, Conglomerate)

Social responsibility is ranked as number four only, which indicates that profit and market share are much more significant drivers than social responsibility. There are firms that see profit as a primary focus in order to be sustainable and provide a social dividend. This is visible in the quote below

“[Doing business in the low-income market] is very socio-economically important in the South African context, especially from a historical perspective. It involves a lot of the disenfranchised members of the population, it is key for us to bank those people, but it is not a CSI initiative. We believe we can do it profitably and still meet the customers’ needs, all in one.” (Manager 10, Bank C)

Sustainability is a key focus for firms entering the low-income market. Profit in the short term is important, but evidence from the interviews suggests that there is a long-term profit focus as an additional motivation to compete in this market. This reason for entry is the feeder market concept, where, in South Africa, evidence exists of low-income earners moving into the middle-income earner band. The following quote captures this:

“...The middle market is made up of six million adults, and out of that six million, 4.2 million are what they call a rising black middle class, and that is what they are now; in 10 years’ time they will be about 10 million, and five years ago they were 1.8 million. ... if we lost 100,000 now and one of the 10 in five years became a high-net-worth customer, they would give us back that revenue in three months.” (Manager 12, Bank A)

Entering this market as a means to come up with new ideas and innovating is seen as a secondary motivation and has only been mentioned by one of the companies:

“So the low-income market gives us effectively a far bigger reach in terms of product, and we also find the low-income of the market also gives us a lot of product development ideas.” (Manager 6, Conglomerate)

In conclusion, there are multiple reasons for entering the low-income market and these continue to drive the decisions and actions of the firms who compete in this segment. With this in mind, the performance of the firms will provide additional context as to whether these initial visions of greater profit, market share, social good and innovation are being realised through their actions.

5.4 PERFORMANCE OF EACH FIRM IN THE LOW-INCOME MARKET

The following section provides the data applicable to how well each interviewed firm is doing in the low-income market, in relation to their peers and to other middle and upper-income market offerings within the firm.

5.4.1 ASSURANCE A

Through the interview with Manager 7 at Assurance A it is clear that, having started their business with the low-income market in mind, Assurance A has built efficiencies in their firm that makes them very competitive. That being said, there is no other firm that provides such an offer and hence they have no direct competition in this space. Looking at the broader life insurance space, there are still some firms that are doing better than them, more specifically in the higher income markets. This can be seen through the following quotes:

“So there are better players in this space... So I would say in financial services the best player in this space is like Clientele.”

“...Across the spectrum we're very competitive, as a result of operational efficiencies we built into our business because of the low-income space, it makes us much more efficient in the other spaces. Sometimes we are less competitive in the very high-income space because we have different margin expectations...”

5.4.2 ASSURANCE B

Assurance B manages medical schemes and has produced a product specifically for the low-income market. From the interviews with Manager 9 it was clear that as a firm they were an extremely dominant player in all markets because of their size and ability to coordinate all other firms in their network. This gave them good positioning when they launched their low-income product. Since then, this product has done extremely well in this market, particularly from a sales perspective. However, they have a very high disease burden in this market, which is impacting their costs. Assurance B

continually revises their offering to deal with this, though the firm still has some way to go. Evidence of this has been captured in the following quotes:

“The reason they wanted us to get into it and just not go with other medical aids is that we bring a whole lot of things that other medical aids can’t. We bring stability, because our reserve levels are so high, we bring better negotiation power, so the price at which you purchase this product is at a different level. We have got the ability to organise the market...”

“Ah, [Assurance B] is doing brilliantly. ...[Product A], we are the best plan in the market, we are very well priced competitively. This plan has grown faster than most open schemes...”

“...Disease burden in that plan is so important and it’s driving a lot of other initiatives that we need to do in it – just to try and contain costs. So it is a little bit of a problem at the moment.”

5.4.3 BANK A

From a competitiveness perspective, Bank A is still coming to grips with the low-income market. However, as a percentage of their base, the low-income customers are significantly out-pacing the middle and upper-market customers. In relation to other competitors in the industry, they have an average performance, with some indicators even suggesting that competitors may still be doing better in this space. The following quotes capture positive performance aspects:

“I do feel that we are way better than we used to be. We are probably not far away from the best in the market in terms of other people in the financial industry.”
(Manager 1)

“So we couldn’t stay the way we were. But the organisation still is coming to terms with it. It is coming to terms with it quite fast because, in 2010 when I started the representation of youth and entry level banking, it was 20% of our base. Today, as we stand, it is 65% of our base. By the end of this year it will be closer to 80%.”
(Manager 12)

The following quotes lead us to believe that there is still room for improvement:

“We are still seeing it track up. Obviously maybe in the next year or two we will start tapering off and we will go flat, which will then be cause for us to go and start thinking innovation, how do we take this thing to the next level and then that [product] cycle will kick in.” (Manager 1)

“I do think that in [Bank A] because we are the smallest, we are fast being caught up by Capitec, we have got a wake-up call and we are really embedded in this journey.” (Manager 12)

5.4.4 BANK B

From a competitiveness perspective, Bank B is not as competitive as other players in the low-income market. They have a substantial market share as a result of a large access network, but they are struggling to create something of superior value for the low-end consumer. The following quote captures their progress:

“...If market share is anything to go by, the guys who are big in the ELB [Entry Level Banking] is [Bank B], no. 1 – I think they are sitting on 20% and largely because [Bank B] had the footprint. Because they were available wherever and, guys naturally gravitated to them... However the industry is turning in the sense that now there is need for innovation. We need to do things differently.” (Manager 1, Bank A)

The following quotes, directly from Manager 3 at Bank B, indicate that they are underperforming from an offering perspective:

“Okay, so [Bank B] has a horrible customer value proposition in this market.”

“What we find at the moment is that we have millions of Mzansi accounts, the majority of them are dormant, they are not being used. When we go and look at subsequent customer value propositions we have gone into the market with, for this market, we find that the products that they use of ours are what we call our core, middle-market customer, would have rather been taken up...”

5.4.5 BANK C

From a competitiveness perspective, the interview with Manager 10 at Bank C gives us a sense that they are still on par with other firms in the market and taking their fair share of the market. The quotes below capture this:

“There are a number of factors but in essence everyone is getting their fair share.”

“I think the [Product A] is a solid proposition and I think it is getting its fair share of the market. It is a competitive environment; I don’t think we are getting more than the market.”

There are, however, indications that Bank C has built a substantial network that allows them to see most changes in the market and respond. This is evidenced by the following quotes:

“Not quite as big as the others yet but certainly aiming to get there and growing at an amazing rate.”

“I think it is our distribution network, our alternative distribution network is the biggest in the country. And that is definitely our competitive edge.”

“We have got better reach than everyone else.”

“So I think we have got our finger on the pulse, we are seeing 99% of what we should be seeing, and we deal with the Marikanas and strikes and the uprise of AMCU and those types of things as they arise when nobody could have seen a lot of those coming.”

5.4.6 CONGLOMERATE

From a competitiveness perspective, the interview with Manager 6 at Conglomerate gives us a sense that they continue to do well in this space. Competitors, however, are creating cheaper products that are starting to erode their profits. The firm is certain that, despite this, their level of understanding the customer, their value proposition and brand will allow them to be sustainable in the long term. The following quote illustrates the competitor pressure:

“...What we are finding is that more of the retailers are developing house brands. So the likes of, say, Pick ‘n Pay or Shoprite Checkers, it is common knowledge, so not only are we competing against them as competitors but we are also competing against the channel that we are actually selling to... People are starting to question why should I pay R10 for a product when I can pay R6 for a no-name brand supported by the retailer. So there is erosion”.

Nevertheless, the following quotes give an indication that their model is working and is sustainable:

“So, from a consumer business point of view, it’s the business model, and the answer is yes, it has worked very well, because if they didn’t do it, there would be no future or sustainability of the business whatsoever.”

5.4.7 FOOD A

From a competitiveness perspective, the interview with Manager 5 at Food A gives us a sense that they have a lot of competition in the low-income space. Smaller players can produce cheap, unmarked products without worrying about quality and safety. However, Manager 5 is confident that they have a strong value proposition and that their brand will allow them to continue to compete. This is captured by the following quotes:

“And it is quite shocking to see how big it [the informal market] is and how many producers are there producing. Products do not get sold in the top-end retail because there are listing fees, there is distribution, there is a national capability that they don’t have; but those regional producers are playing on your regional independent wholesalers.”

“Most of our competitors, as I say, are your small producers, because it is a product which has low barriers to entry, so the differentiation comes from a brand name, a company reputation and that food safety that we bring.”

Food A is still doing extremely well in the low-income space, with their business growing at a rapid rate. This is captured by the following quote:

“I started in February 2011, so obviously in order to see results you need like 12 months, so we saw 15% growth. Last year we saw almost 20% growth and now it is paying back, because it needs to get critical mass ... So now we are 30% above last year, which is year-on-year, so if we look at it from the beginning it is almost like doubling our business, and we aim to treble the business by 2015.”

5.4.8 FOOD B

From a competitiveness perspective, the interview with Manager 8 at Food B mentions that they have only really just started to understand how to operate in this low-income

market and that, to date, they are doing well, but that as they expand, they are facing additional challenges. Their short-term predictions indicate that their rate of growth is extremely fast. The following quotes support this:

“So we have tested four units, very successfully. It’s more profitable than our normal food service business. So globally our business is very interested in this model because we operate in markets like India, South America, Mexico.”

“Every time we do something, we learn something. So when we have 12 up and running we will start bragging about it.”

“This business will deliver 20,000 tons, which will be 16% to 20% of our business by 2016 in food service. It will be bigger, sell more volume than McDonald’s in this country, more volume than KFC and more profitably for us.”

5.4.9 PHARMAA

From the interview with Manager 4 at Pharma A, there is evidence that they are doing very well in the low-income market space, though this is only in Over the Counter (OTC) pharmaceuticals. They are also doing better than their competitors in trading through government channels such as hospitals. When it comes to trading in the low-income market, they are not yet a large player and significant changes are needed in order for them to comfortably say that they are doing well in this space. This is captured by the following quotes:

“I do 1.4 billion worth of turnover, 15 million is in BOP. It is inconsequential, we can dabble, I can mess around, and that is what I do, I mess around. I see the opportunity but I am not big in it, my competitors are big in it.”

“So we are dabbling around now, saying look, for the last 15 to 18 months we have tried that dispensing doctor model where we are fixing up their practices and managing their stock and so we have had a 20% increase to 15 million, from 13 million. I am looking for stepwise change in that sector or channel...”

“So internally, my OTC counterpart, Chivonne, she spends a lot of time doing it, but then she makes big money – [Product A] cards, [Product A] 2s, [Product E] 2s, [Product C] sachets, and these 50 ml syrups. They are big. We are big in the bottom end. If you see how much money we make out of Jumbo Cash ‘n Carry in selling

these low-end, high-volume products, we make some big money, I am talking a couple of hundred million.”

“...The [Pharma A] supply chain is more readily adaptable to the bottom end and not because they have insight but because historically they are better tender players than [Pharma B] so they are better suited into those markets, we were more private sector.”

5.4.10 PHARMA B

Because of the nature of pharmaceutical companies, Pharma B needs to be able to see what is going to be working well in the market, five years in advance, to ensure that the necessary approvals and regulations are in place. From the interview with Manager 11 at Pharma B, it is clear that, from a low-income market perspective, they saw the opportunity but decided not to invest in it, and today they are seeing their competitors doing very well in this space. The following quotes capture this:

“[Pharma B] as a company has focused on generic medicine, which means we spend a lot of money in terms of improving our facilities and providing generic medicines at a low cost but good quality, so that we can supply the state as well as big hospital groups and pharmacies. So that is where our forte is as a business.”

“Companies go for these two tablet sachets, and we are not into that market yet. So what we as a business have identified that need, we know we do not have a format, a packaging format for that customer, so what we are trying to do is, we are trying to force the customer to buy the packaging that we have available. And it may not always be within their budget from a purchasing perspective. Where companies that have dosage-ready forms available, this is what will sell.”

5.4.11 TELECOM

From the interview with Manager 2 at Telecom, there is evidence that they are doing very well in the low-income market space in comparison to their competitors. This is through building networks that allow them to get closer to the customer, even if the overheads are larger. The quotes below support this:

“I think we are the market leaders in the informal market, in our space, in our industry.”

“...We are the first of the networks to take the pain of developing direct channels.”

“...The direct channels allows us to get further and deeper into the market, and build the relationships and build a competitive edge over our competitors, and that is something I think has even allowed us to tweak our offering, because then we have that information coming back.”

“I think we have really set the benchmark in terms of how to address the informal market from a cellular point of view or from a telecommunications point of view and ja, our competitors are catching up, so it is up to us to continuously create that competitive advantage and make sure that we take the lead and maintain our lead in the market.”

5.4.12 SUMMARY OF PERFORMANCE

When analysing the sample of firms interviewed, there are a few that are doing extremely well, in particular Food A, Food B, Telecom, Assurance A, Assurance B and Bank C. Their product offerings provide value to low-income consumers, they have built good networks to support them, and their sales results reflect significant growth. Firms such as Bank B and Pharma B have indicated that they still have some progress to make before their offerings are as competitive as their peers. Table 4 below provides the performance of each firm in the sample relative to one another.

Table 4: Company Performance Summary

Firm Ref	Performance
Assurance A	Above Average
Assurance B	Above Average
Bank C	Above Average
Food A	Above Average
Food B	Above Average
Telecom	Above Average
Pharma A	Average
Bank A	Average
Conglomerate	Average
Bank B	Below Average
Pharma B	Below Average

5.5 CHALLENGES IN THE LOW-INCOME MARKET

To further understand the context in which firms compete in low-income markets and how they are using dynamic and adaptive market sensing capabilities, it is important to first understand the challenges that the firms may face when competing in this market. How these companies use these capabilities in consideration of these challenges will add further depth to the research. The researcher uses the occurrence across the sample to determine the ranking of each challenge that the firms face. This has been provided in Table 5 below.

Table 5: Rank and Occurrence of Challenges in the Low-Income Market

Rank	Challenge	Excerpts from Interviews	Count of Firms (Sample = 11)
1	Pricing and margins	<p><i>"...There are few multinational companies that are willing to spend great amounts of money in terms of research, because when you do business with the low-end consumer your margins are already strangulated." (Manager 5, Food A)</i></p> <p><i>"You have to make sure your supply chain is pretty efficient, meaning from a cost perspective, you have got to produce these things at the lowest cost on the globe..."(Manager 4, Pharma A)</i></p>	6
2	Market size	<p><i>"The point is there are so many people there that you can't have a one-size-fits-all segmentation, that is the point." (Manager 12, Bank A)</i></p> <p><i>"So you could ask why don't we go direct, the answer is yes we could but it would just become a logistical nightmare for us because now we are having to effectively address millions of consumers." (Manager 6, Conglomerate)</i></p>	5

Rank	Challenge	Excerpts from Interviews	Count of Firms (Sample = 11)
3	Designing a product that meets their needs	<p><i>"In this market they don't lend, not formally, they don't lend from banks, because they are below the kind of lending criteria that we want to lend at, and then there are affordability issues, etc, etc." (Manager 3, Bank B)</i></p> <p><i>"So therein lies the challenge for us to make sure that not only does the [Product A] name remain top of thoughts, but also that we have product that meets the price point, is durable enough for 30 to 60 days for example, and is also sold for a very specific need." (Manager 6, Conglomerate)</i></p>	4
4	Number of languages	<p><i>"...We are a country with very complex languages. There are 11 official languages, and we take certain things for granted until you get out on the ground and realise your excellently printed English communication is completely out of place, because hardly anybody speaks English in the area, etc." (Manager 2, Telecom)</i></p> <p><i>"...Then you get the township slang, you get dialects within each of the languages, you get age differences in the language. I mean it happens to everyone. And it can be very amusing sometimes. So all of those intricacies make it a challenge." (Manager 10, Bank C)</i></p>	4
5	Intermittent income	<p><i>"There are a number of factors that are very challenging... I think the main differentiators in the province is the mix of rural to urban; the mix of consistent to inconsistent income earners." (Manager 10, Bank C)</i></p>	3
6	Level of education and literacy	<p><i>"Because we know that people in the lower income groups are not necessarily as literate as we are..."(Manager 11, Pharma B)</i></p>	3

Rank	Challenge	Excerpts from Interviews	Count of Firms (Sample = 11)
7	Limited disposable income	<i>"I think a key thing is the amount of resources people have at their disposal in the low-income market and the way they think about those resources." (Manager 6, Conglomerate)</i>	3
8	Psychosocial characteristics	<i>"...It is a difficult market to get into, there is a lot of trust issues, there are language barriers, there are huge international drives into those spaces which creates the xenophobia that we see coming up every now and again." (Manager 10, Bank C)</i>	3
9	Geographic spread	<i>"I suppose that section of the market is difficult because it is decentralised so you have to do serious distance... obviously that adds to your cost." (Manager 11, Pharma B)</i>	2
10	Market space is full of cheap, poor quality substitutes	<i>"So what happens is this market is plagued by very bad products, dangerous for the health even because there are unregulated flavourings and seasonings and a lot of salt, bad quality old oil and stuff like that." (Manager 5, Food A)</i>	2
11	Poor government functioning	<i>"What we see in healthcare is when we look at our Product A market there is a big group of pensioners that sits in there. So that is as a result of means and the lack of state support from a healthcare point of view." (Manager 9, Assurance B)</i>	2
12	Access to information	<i>"What I think you do find sometimes in the low-income space is that people are not always exposed to the same amount of information or awareness of the products." (Manager 6, Conglomerate)</i>	1

Rank	Challenge	Excerpts from Interviews	Count of Firms (Sample = 11)
13	Physical environment	<i>"...There is a lady I would like to have in my team but she refuses, because she was robbed before, so she is afraid of going near a township. And obviously in the township environment, it is hard to drive, it's crazy, it's noisy, it's dirty, it's so different, so obviously when you are out there you create a perception, you are different, and you are driving in a fancier car alongside the taxis and they look at you, 'who is driving that car?'. So it is a different exercise altogether."</i> (Manager 5, Food A)	1

Pricing and margins ranks as the main challenge these firms encountered, followed closely by market size and designing a product to meet the needs of the low-income market. Together, these comprise a significant portion of the challenges that firms face in the low-income market. This can be viewed from another perspective. Firms are challenged to understand what it is that the low-income market needs and to design a product or service to meet the needs, while continuously fighting off inferior product substitutes entering the market. At the same time, firms need to take into account the market size and the amount and type of income of the consumers, making it a large volume, small margin environment. This is the reason why firms have such a significant focus on price and margin; any effect on margin can make the whole business unsustainable. The challenge for these firms is thus to create the right product and get it to the market at the right price.

This section has provided an analysis of the data relevant to understanding the context in which the firms compete in the low-income market. This includes details as to why they are competing in this market, how they are performing and what are the typical challenges they face while doing business in this market. The following section provides further insight as to what dynamic and adaptive market sensing activities and components have been implemented and carried out by these firms in order to compete in the low-income market, and how these allow the firms to closer align to this dynamic market.

5.6 HOW FIRMS USE DYNAMIC AND ADAPTIVE MARKET SENSING CAPABILITIES AS A MEANS TO COMPETE IN LOW-INCOME MARKETS

To further understand the research problem and the data collected from the interviews with the various firms, the data has been coded in such a way as to identify the dynamic and adaptive market sensing activities and components being used by the firms to compete in this market.

Dynamic capabilities are defined as those capabilities that allow the firm to gain advantages in the context of environmental market changes (Helfat & Peteraf, 2009), through reconfiguring its routines and resources (Teece, 2007). The firm's market sensing capability is often referred to as one of the most important capabilities required to configure the necessary routines and resources for the collection and distribution of information about customers, competitors and relationships in the market (Day, 2002). In their research on the market sensing capability, multiple academic researchers have included components such as scanning and gathering market information from customers, competitors and the broader ecosystem; the dissemination and interpretation of the market information to create market intelligence, insights or to identifying opportunities in the market; leveraging this information to form a quick response; and configuring resources to align to the market.

Day (2011) distinguishes between dynamic and adaptive capabilities. He uses both the function and the market orientation of the capabilities to distinguish between the two. The function can either be exploiting or exploring. Exploiting focuses on knowledge acquisition through focusing on existing markets, products and capabilities (March, 1991) in order to increase productivity, control and certainty. Firms focusing on exploitation are only concerned with incremental improvement, supported by incremental knowledge acquisition (O'Reilly & Tushman, 2008; Vorhies et al., 2010). Exploring, however, focuses on the development of new knowledge that goes beyond what is currently known about the firm's existing markets, products, technologies and capabilities (March, 1991). Exploration is about new discoveries, innovation and embracing variation (O'Reilly & Tushman, 2008).

The market orientation of capabilities, as suggested by Day (2011), can further be split into inside-out or outside-in market orientation. Capabilities that are focused on internal efficiencies, processes, information storage and assurance are seen as inside-out capabilities. These include activities driven or initiated by the firm in a well-defined

mandate. Those capabilities that focus on customer and competitor research, external relationships and market sensing are seen as outside-in capabilities. These activities are not constrained by the firm and are driven by the environment external to the firm.

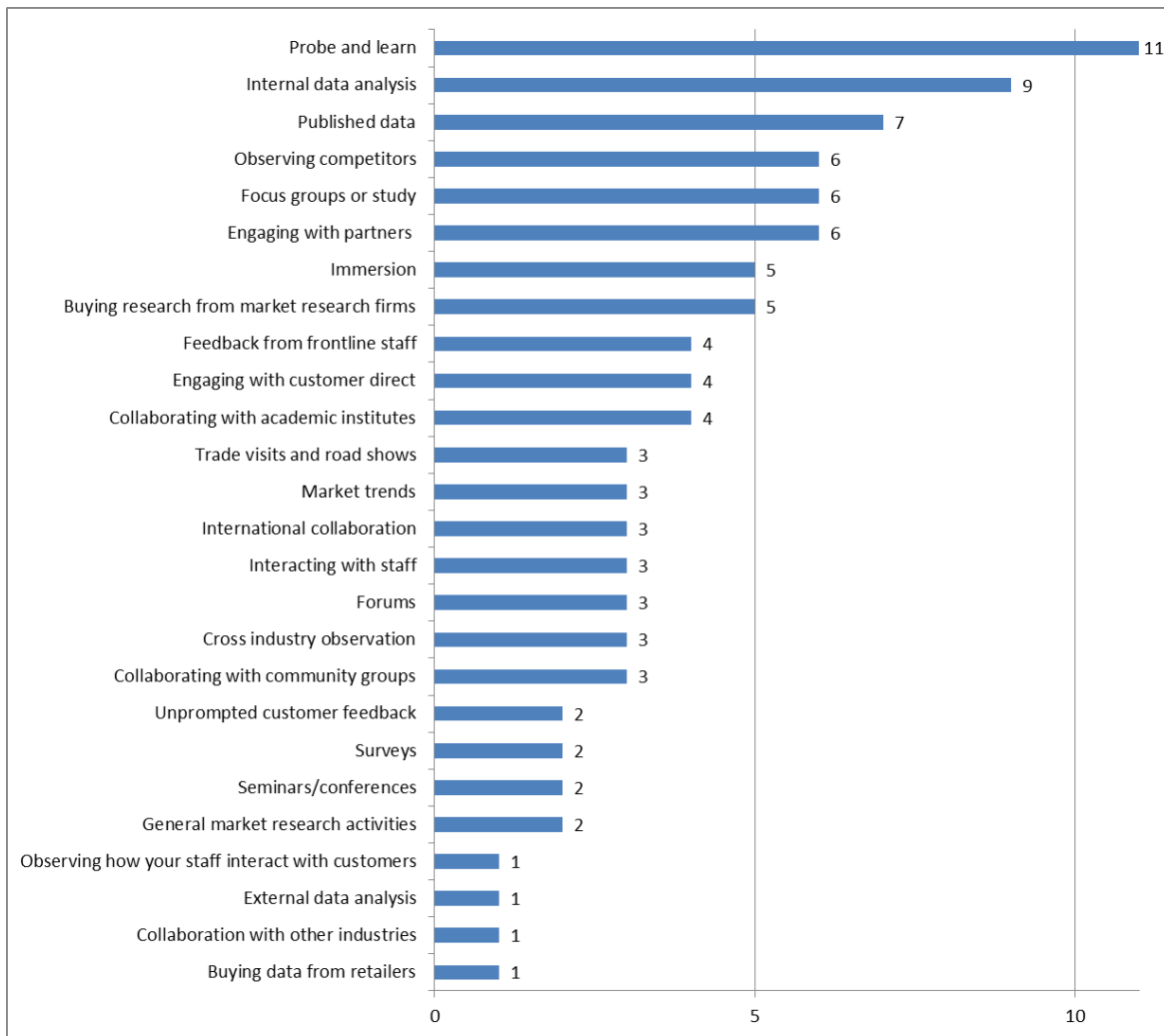
The core categories of capabilities analysed in the research are dynamic and adaptive capabilities. Dynamic capabilities are considered explorative in nature and are driven by the firm in an inside-out orientation. Adaptive capabilities focus on exploring, but with an outside-in focus that is free from the constraints of the firm. This is illustrated in the literature review in Figure 1.

This section consists, first, of an interpretation of the market sensing activities followed by the analysis of these activities from an adaptive and dynamic perspective.

5.6.1 MARKET SENSING ACTIVITIES

Based on the definition above, the various market sensing activities carried out by each of the firms were identified in the transcripts and coded then grouped into activity themes or practices. A frequency count of the usage across each firm, as illustrated in Figure 4 below, gives us an indication of which market sensing activities are used more extensively by the firms competing in the low-income market.

Figure 4: Market Sensing Activity Frequency



5.6.1.1 Experimentation

The probe and learn activity is used by all firms in the sample, and indicates that firms will often launch a product or project to deliver a particular service with the expectation that they will be able to gather additional information from the low-income market, once that segment starts using the product or service. Based on this anticipated feedback, the firms will revise their offering in increments or, in the worst case, pull that particular offering and take the learning from it. This is seen as experimentation and the following quotes capture this:

“There are certain products that we launch as pilots and there are some that we go on a big bang launch but still be interested in the first reaction. And the first reaction,

the best way to get it, is through our on the ground people; it comes back a lot quicker than it does through indirect channels.” (Manager 2, Telecom)

“So everybody thinks it’s a great success story now but the one thing we needed was to make mistakes to get it right, to understand the true market potential.” (Manager 8, Food B)

5.6.1.2 Operational Data Analysis

The other theme seen extensively by firms in the sample is analysing their own data. This is often associated with their daily operations and this was generally performed with their other activities. For example, if something was identified in the data, the firm may seek validating information using another activity. The following quotes capture this:

“What his area does is they analyse a lot of our data and they look for trends and things where they can see there is quite a spike or looking down the line if this trend continues there is going to be a problem. So typically what they do is, out of the data, they then say we need to relook at this benefit, this is what is worrying us.” (Manager 9, Assurance B)

“...Our secondary source would be our internal behaviour given that we understand there are limitations to that...” (Manager 3, Bank B)

5.6.1.3 Secondary Data Analysis

Looking at secondary data was another theme seen extensively. This data was often published data sourced from industry surveys, periodicals, case studies, new papers, or government data. As this is available in the public domain, it costs the firm very little, and this cost is mainly the time it takes to search and scan this secondary data. It was often the case that this alone did not trigger a change in their resources, and this data was either supplemented with additional validating information or was used to build the absorptive capacity of the team, thus improving their interpretative capability. This can be evidenced in the following quotes:

“...I think you can then go into what I call secondary desktop research: published articles – you just read up and then start to do your hypotheses...” (Manager 12, Bank A)

“We have to be really creative and rely on internet, newspaper, observations, visits, your own reps, your own people and immersions. That is why the forums are so interesting because in a cheaper way we could share that information quicker.”
(Manager 5, Food A)

5.6.1.4 Observation

Competitor observation ranked highly, as it was often a large consideration when competing in the low-income market. The theme of observation extended to customers, partners and staff. The customer or market observation was often performed in the form of an immersion, where the firm would take the team into the field to get the tangible observations, and more importantly, the intangibles that later inform decision making. If the firm used distribution channels that were positioned in low-income markets, they would often undertake trade visits to observe the behaviour of low-income consumers, retailers and promoters. This observation theme can be seen in the following quotes:

“We do watch the competitors very closely. Banking is a lot of ‘me too’ and there is a lot of that going on in the industry, I think in a lot of industries in the world. Your lead time on a new initiative or new way of doing things once it’s successful is very small.” (Manager 10, Bank C)

“It is very much an observation market. I am very involved, I go to the townships three or four times a month, and I just observe. I enter the Cambridge Thembisa wholesaler, on a weekend, and it is amazing what you see -people with wheelbarrows, shopping for snacks.” (Manager 5, Food A)

“I mean there are other things that we also like to do called immersions, so we typically go and spend time -a day or two days or however many hours you want to spend, to try and understand the market. Having a chat to the people... The nice thing about immersions is that no-one is being paid, no-one is getting a nice white envelope to say nice things about your company. It is all raw.” (Manager 1, Bank A)

“For instance, when we do trade visits, now trade visits is when we go into the trade and we look at what our service and merchandising company do on shelf for us, so we look at... if a customer walks into a store what does he see at the point of purchase, or he has to make a purchase decision, what does he see?” (Manager 11, Pharma B)

5.6.1.5 Traditional Market Research: Studies, Interviews and Surveys

Firms are still conducting a lot of traditional market research. Often, this is outsourced to a market research firm that will go out and do the typical qualitative and quantitative market research, which includes focus group or studies, interviews and surveys. Some firms in the sample have mentioned that this is often inaccurate when done in the low-income market because it sometimes involves payment, which, in this market, may be substantial relative to their income. There was, however, a suggestion on using market research firms that are more niche and have more experience in dealing with the low-income group. The following quotes capture this:

“Externally we rely a lot on existing market research being done. We don’t always go and do our own research, so the likes of Finscope do quite a bit of research and we support the research that Finscope do and we buy where necessary. And then there are several other market research sources...” (Manager 3, Bank B)

“People will tell you whatever you ask them, so surveys are useless. It is about being on the ground.” (Manager 8, Food B)

“...This market is fundamentally different, which means that the agencies we deal with seem to be smaller and more niche, especially to this market, and then you can at least get people who are familiar with the market, who have done similar things to help you along this journey.” (Manager 1, Bank A)

5.6.1.6 Collaboration

Collaboration is the final theme that the firms in the sample used extensively. This collaboration activity was either internal to the firm or external, and allowed the firms to acquire and interpret information concerning themselves and the low-income environment in which they compete. Collaboration from an internal perspective was within the team, with staff (often from the low-income market) or with other subsidiaries internationally. From an external perspective, this included community groups, academic institutes, partners in their supply chain, and forums with other industries competing in the low-income market. This collaboration activity can be seen in the following quotes:

“...Prior to this role I was actually part of [Bank C] Africa, I have done a lot of work in Kenya, Nigeria, Uganda specifically; we are an African bank so we interact with our

colleagues in those countries. We are part of an organisation of five international banks that are collaborating on working in this market, getting ideas back and forth.”
(Manager 10, Bank C)

“Well [Conglomerate] shares from a global point of view, I mean there are many platforms there... so guys tend to be talking to one another, as and when they are developing something.”(Manager 6, Conglomerate)

“Our employees that live and are part of this kind of vibrant market, we talk to them a lot and we have a lot of sales individuals and factory workers that actually belong to this bracket of consumers.” (Manager 5, Food A)

“...I go to Heilbron twice this year, three times – I have gone and spent the day with Stokvels in the Drakensberg, with one of our NGOs that we sponsor there.”
(Manager 3, Bank B)

“So when we go into an area we are also going to go and meet third parties that have got a vested interest in our product and talk to them, again in their environment, where they are comfortable, sit on a crate and be offered a warm Coke, and have the discussion with the shop trader and understand why he is selling more of our competitor products than our products and why it doesn’t make sense what we do in a particular way and not the other way.” (Manager 2, Telecom)

“...From a distribution perspective we are part of forums that we do discuss that type of thing with a number of companies.” (Manager 10, Bank C)

5.6.2 DYNAMIC AND ADAPTIVE ANALYSIS

Using Day's (2011) capability classification, the market sensing activities identified in the interviews were coded according to whether their market orientation was focused on outside-in or inside-out, and the extent to which these were used in an explorative or an exploitative function. Using these associations, the following capability categories were created from the activity groupings, as seen in Table 6 below:

Table 6: Capability Classification

Category	Intersecting function and orientation
RBV – Capabilities based on the resource-based view of the firm	Exploiting, Inside-out
Dynamic capabilities	Exploring, Inside-out
Adaptive capabilities	Exploration, Outside-in
Capabilities of a market-driven firm	Exploiting, Outside-in
Market Driven and Adaptive	Exploiting & Exploring, Outside-in
Dynamic and Adaptive	Exploration, Inside-out & Outside-in
Dynamic and RBV	Exploiting & Exploring, Inside-out

Table 7 below depicts each market sensing activity identified in the data and classified these activities by the appropriate capability classification above.

Table 7: Activity Classification by Capability

Classification Category	Market Sensing Activity
RBV	Observing how your staff interact with customers
Dynamic	External data analysis
	General market research activities
	Surveys
	Market trends
	Buying research from market research firms
	Focus groups or study
Adaptive	Collaboration with other industries
	Seminars/conferences
	Collaborating with community groups
	Cross industry observation
	Forums
	Trade visits and road shows
	Collaborating with academic institutes
	Immersion
	Observing competitors
	Published data
	Probe and learn

Classification Category	Market Sensing Activity
Market Driven	Unprompted customer feedback
Market Driven and Adaptive	Buying data from retailers
	Interacting with staff
	Feedback from frontline staff
	Engaging with partners
	Internal data analysis
Dynamic and Adaptive	Engaging with customer direct
Dynamic and RBV	International collaboration

Following this classification, the frequency of each activity was summed to provide a view of the extent to which each capability was evidenced in the sample relative to one another and their function. Figure 6 and Figure 6 below illustrates this.

Figure 5: Frequency by Capability Classification

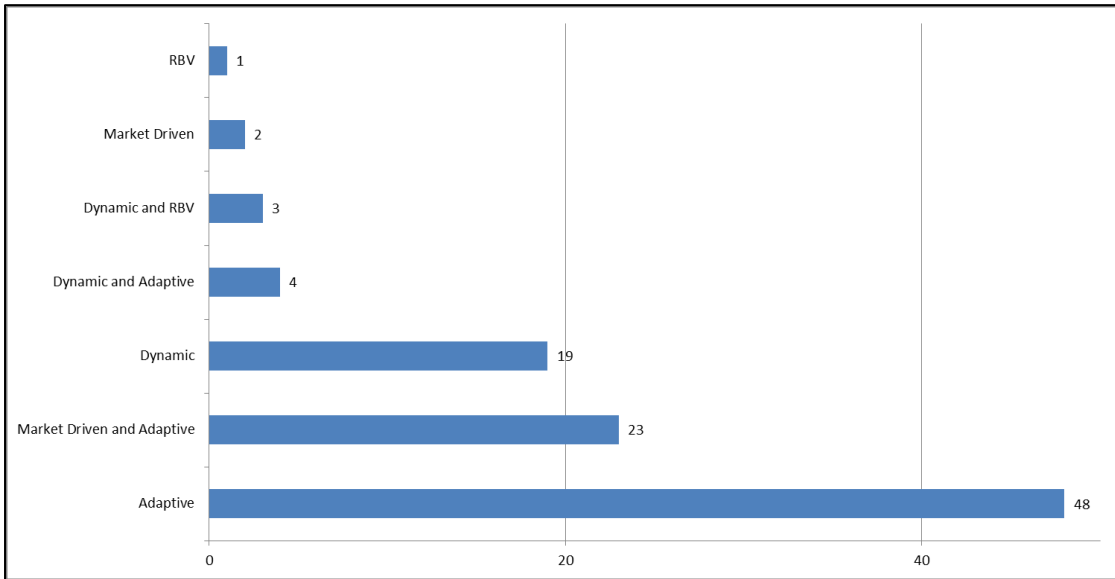
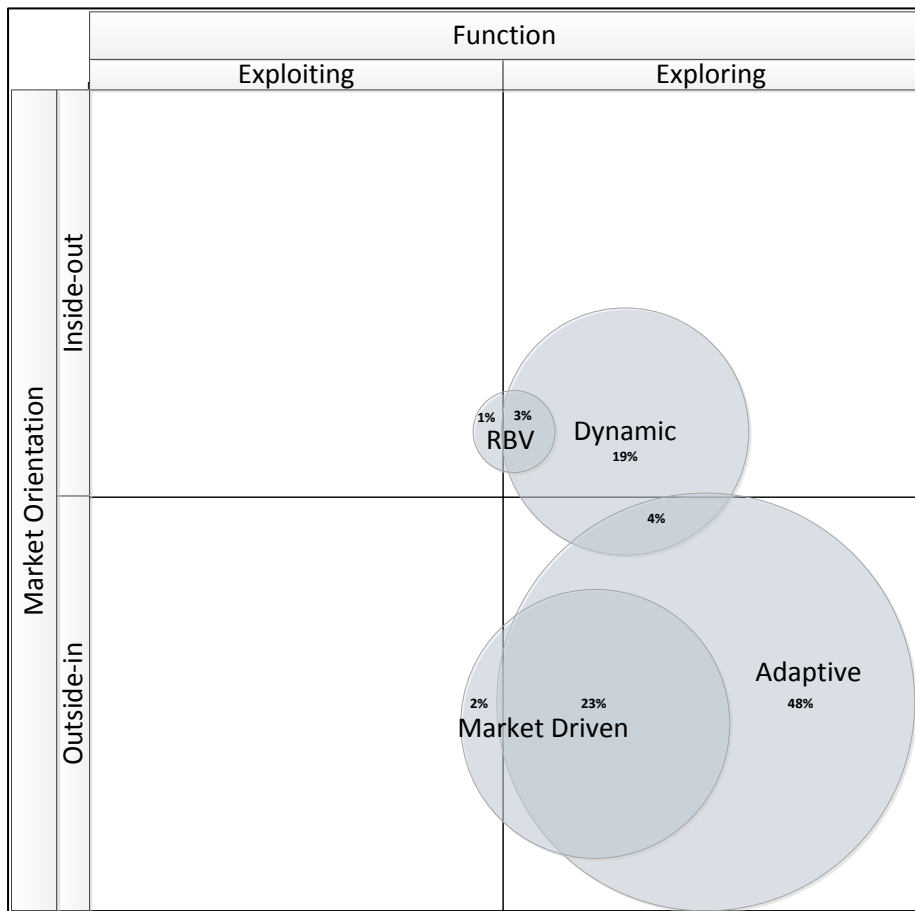


Figure 6: Market orientation and Function View of Activities



The data illustrates that market sensing capabilities used by the firms competing in the low-income market consist mainly of dynamic and adaptive capabilities, focused primarily on exploration, rather than on exploitation. Where firms used market sensing capabilities that had a focus on exploitation, they were often in conjunction with exploration and still had a significant outside-in focus. This can also be interpreted as firms stepping outside the organisation to look for both incremental improvements in their current offerings, as well new opportunities.

The data also indicates that firms competing in the low-income market have dominance in adaptive market sensing capabilities over dynamic market sensing capabilities, but both are present to a large extent.

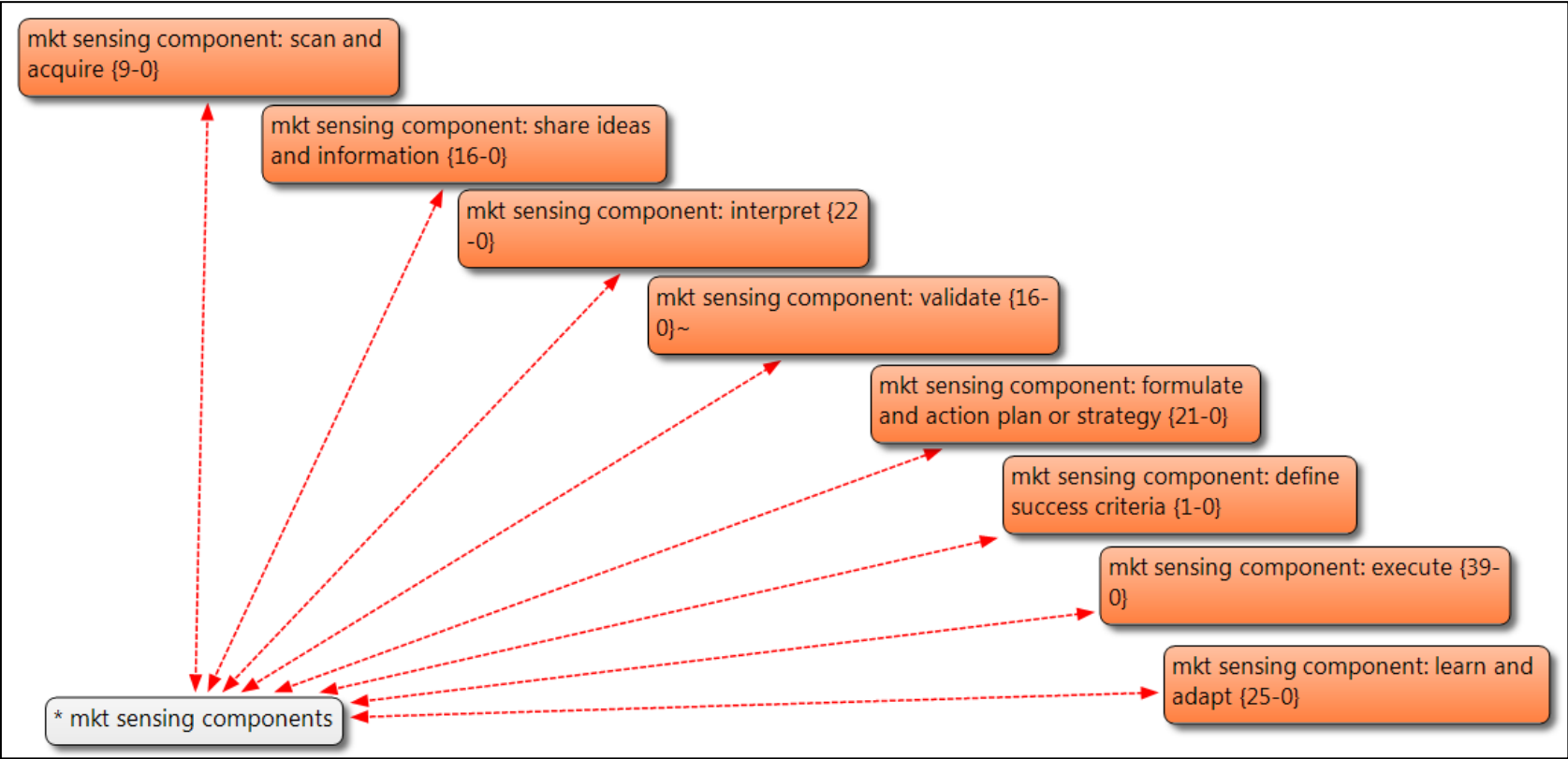
This section has taken a detailed view on the market sensing activities that the firms use and the emergent themes that were present, as well as the nature of these activities in the context of capability classifications. The next section abstracts this and analyses the routine dimension of capabilities, focusing on the components of market sensing.

5.6.3 COMPONENTS OF MARKET SENSING

Many researchers have put forward suggestions as to the components or elements of the market sensing capability. These include Teece (2007): sensing and seizing; Hou (2008): generate, disseminate and respond; O'Reilly & Tushman (2008): scanning, searching and exploring; Wang & Ahmed (2007): scan the market, monitor customer and competitors, allocate resources to marketing activities and respond quickly to market changes.

These components provided the initial themes with which to code the data from the interviews; however, certain other components are evident in the data. Figure 7 below illustrates these themes:

Figure 7: Market Sensing Components



5.6.3.1 Scan and Acquire

The first component of market sensing that was identified is the scanning and acquiring of market information. The firms need to be attuned to changes in the market from both a consumer perspective as well as competitor. This is captured in the quotes below:

“The point is we are aware, as a consumer division we are aware of those signals, and we are aware of what we need to do.” (Manager 11, Pharma B)

“So you have got to keep one step ahead, it is a nice competitive market; it keeps us all on our toes.” (Manager 10, Bank C)

“Yes, obviously when we go do the immersion there are the immersion highlights that we are trying to extract.” (Manager 5, Food A)

5.6.3.2 Share Ideas and Information

The second component is sharing ideas and information, which generally follows the acquisition component. Once information about the market has been acquired, the firm needs to ensure that the information reaches the decision makers. This information may come from the front-line staff or regional managers and closely resembles dissemination; however it is broader than that, in that it also involves two-way sharing, discussions and collaborating. This is captured in the following quotes:

“Based on our observations, we do come back and have these discussions.” (Manager 11, Pharma B)

“So how we get insight and information back from the regions is that we have got people here in head office that are responsible for regional operations.” (Manager 2, Telecom)

“I think there is that sharing of knowledge throughout the team – not that every member knows exactly what every other member knows – differing levels in standing and knowledge and experience – but there is a common understanding, a common sharing of any personal insights... Collectively, the team checks it from their own individual angles, that is a good sense check, to ensure that... collaboratively we are quite happy with our plan going forward.” (Manager 3, Bank B)

5.6.3.3 Interpret

This starts to overlap with the interpretation component as the information is interpreted by many people during the acquisition and sharing stages. Personal ideas and perceptions are formed, most of which are intuitive. Within this interpretation component is a heavy reliance on a person's or the firm's existing knowledge and experience in order to interpret this information. This is evidenced in the following quotes:

"...If you have somebody who, like your manager, is knowledgeable of the market, passionate about the market – that intuition, by going to the market, by doing the immersions, by sharing understanding with the team, a broader team – that intuition comes much easier, much more accurately." (Manager 5, Food A)

"...You get some information and you don't get others and you piece all of that together but you always got to be careful that it is not exactly the same. I think Vodacom learnt the hard way, Mpesa worked in Kenya, it is not going to plug and play and work in South Africa." (Manager 10, Bank C)

"...You require someone who is first of all very analytically minded, it is very important to be able to digest and decode the information into something that would make business sense..." (Manager 6, Conglomerate)

5.6.3.4 Validate

The validate component involves taking a hunch or insight, reviewing it, scrutinising it and supplementing it with additional information from the market to validate that it is something worth pursuing and allocating resources towards. The following quotes capture this:

"Once we have an idea we tend to do a lot of research, we don't just throw it out into the market." (Manager 6, Conglomerate)

"...When you get the analytics right, and you have a sense, I think you can then go into what I call secondary desktop research: published articles – you just read up and then start to do your hypotheses..." (Manager 12, Bank A)

“...So if this is the theory that we have, go out there and speak to consumers about the theory and see how they feel about it... To verify or affirm what we believe... then start making investments into going that route.” (Manager 11, Pharma B)

5.6.3.5 Formulate Plan and Strategy

Once the validation has been completed, the next component involves making decisions and formulating a strategy that considers all dimensions of the offering, including pricing and distribution. From the data there is a strong focus on the customer and the value proposition when making these decisions. The following quotes capture this:

“The next piece which is setting high level strategy involves, asking, what are the markets we are going to choose, where are the economics going to be, can they pay, how do we this, if they can't is this something we can ignore.” (Manager 12, Bank A)

“So, based on our observations, there are a number of decisions we need to take in the business, but we need to make sure that we don't alienate and inconvenience the other customers.” (Manager 11, Pharma B)

“...It is more about ensuring that from a strategic point of view we have mapped out and delivered the new business needs.” (Manager 9, Assurance B)

5.6.3.6 Define Success Criteria

A component that was evident only in one of the interviews was defining success criteria. The inclusion of this component as it is an essential precursor to the: adapt and learn component discussed later in this section. Before any new offering is launched into the low-income market it is critical that some thought is given to what the success measures will be, as this can vary due to the different characteristics of the low-income market in comparison to the other income bands. The following quote supports this:

“We do a lot of learning from launches, like quite recently we launched the [Product C] brand in South Africa. So in the beginning it was like ‘oh but it is not going well’... But in fact you realise, wait a minute, it is actually going well. So this type of thing you have to analyse very carefully, actually prior to launch: defining what well means, what success means. Defining the KPI [Key Performance Indicator] for success is crucial.” (Manager 5, Food A)

5.6.3.7 Execute

Once a plan has been formulated, the next component found was executing the plan. The execute component involves a decision of whether to launch a new product nationally or pilot it. This decision would often depend on the amount of resources that it would require and the anticipated loss if it failed. Most companies choose to pilot an offering to get immediate feedback and adapt before rolling out nationally. A second consideration for the firms is the speed at which they can execute. In a competitive environment, the ability to execute quickly is critical. These two factors are evidenced in the quotes below:

“Once all those questions have been answered we go to prototype stage, we do a mock-up of the model... By the time we show it to the customer it could be very different to what the consumer had envisaged. So we have got to negate that in the market place. Once all the boxes have been ticked ... then we would start effectively commercialising this.” (Manager 6, Conglomerate)

“...A pilot would cost almost the same as a launch that has failed –in our case. This is because we don’t put in above-the-line investment and because we don’t have listing fees. So when we do a product launch, it is easier to actually launch and see if we are failing, and see why we have failed. So we don’t actually do pilots, no, we launch.” (Manager 5, Food A)

“...It means we are slower, people can put things on the market more quickly ... how well they can manage the result of what they have put in the market is always a challenge.” (Manager 10, Bank C)

“Whether it is good or bad is arguable because there is always a balance between strategic thinking and implementation. Because you could argue that we are weak at implementation. So we are guys with great ideas but we have never performed as well as [Pharma B]. [Pharma B] is an implementer, they don’t think about the next thing, they just keep on doing things. And he has grown his company quite significantly.” (Manager 4, Pharma A)

5.6.3.8 Learn and Adapt

This leads very well into the last component that was evident in the data: learn and adapt. The firms in the sample use a probe and learn market sensing activity

extensively as depicted in Figure 4 and as such it is not unexpected that they launch or pilot a new offering and ensure they are constantly sensing the market for additional insights to improve their offering. Within this component there was data indicating that firms should be willing to fail if that results in further learning about this low-income market. This learning and adapting is captured in the following quotes:

“...Based on those issues that come up we then come back and fix all that stuff, and as the pilot gets more mature and things start running more smoothly, we hit above-the-line.” (Manager 1, Bank A)

“So once we have launched the product and we have a significant client base then we could do market research on the clients we have, which is a different thing altogether; but pre-launch we just took a view and said ‘we think this makes good sense’ and then we tweaked from there basically.” (Manager 7, Assurance A)

“Many, many companies go down the road with the customer who says ‘I want a white mug’ and then they all go and buy one that has a red circle around it! It pisses them off. It’s just an example, so you have got to go through the pain.” (Manager 12, Bank A)

“So everybody thinks it’s a great success story now but the one thing is we needed to make mistakes to get it right, to understand the true market potential.” (Manager 8, Food B)

“And after we had done this for about 2.5 years we sat down and had a review and we called it quits.” (Manager 11, Pharma B)

This section has described each of the components of market sensing that were evident in the data. To be able to perform each of these market sensing activities and implement each component of market sensing successfully, there are other considerations and actions that firms should be aware of and which emerged from the data collected. These influencers will be covered in the next section.

5.6.4 INFLUENCERS OF DYNAMIC AND ADAPTIVE MARKET SENSING

The following influencers have been identified in the interviews and recognised by the managers as being critical to using market sensing capabilities to compete in the low-income market.

5.6.4.1 People and Skills

The aspects of people and skills were mentioned multiple times throughout the interviews. This included having strong and passionate leadership, not only directly on the team but in the senior management. The following quote captures this:

“Leadership! –the ability to inspire people and get them to follow you without the stick and that kind of stuff; when you get to a wall the creativity to find solutions around that.” (Manager 8, Food B)

“So the other thing we did is we made this somebody’s full-time job in our business.” (Manager 8, Food B)

The second element is having the right mix of people in the team. This may include people from a low-income background but also passionate individuals that are diverse in skillsets and knowledge. The following quote captures this:

“It is a good situation to have someone in your team who has that basis [low-income background], I have basically one person, but it is not crucial; the crucial thing is to have somebody that is interested ... you can have a white person from a high income, that will thrive in that environment because it is the passion of that person ... So it is irrelevant where you are coming from, but more the passion that you have in your heart, in terms of making a difference...” (Manager 5, Food B)

“...We are [a] very diverse head office team and we have a combination of people from a variety of backgrounds, which gives us that insight.” (Manager 10, Bank C)

The third element is the level of skills and knowledge which the people within that team may have. This supports their ability to interpret and understand information the firm receives. The following quote supports this:

“But now some of us, because we have been here for long, we know what we have tried in the past, and others are new so they know what have been tried at other companies, and we have a good mixture now.” (Manager 11, Pharma B)

5.6.4.2 Existing Beliefs

Some of the biggest challenges that stand in the way of progress and making the right decisions are personal perceptions of this low-income market. Managers from these

firms have specifically mentioned that in order to do business in this segment, you have to constantly be able to challenge what it is that you initially believe. Secondly, when carrying out these market sensing activities it is important to be open-minded to gather the insights you would not normally anticipate. The following quotes support this notion:

“It’s people’s mind-set, it is natural for people to go with what we are comfortable with, what is easy for us to do.” (Manager 2, Telecom)

“One of the bigger challenges to this market is what I call preconception, ‘because my domestic worker is, therefore all domestic workers are’, ‘because I pay my gardener X and therefore all...’, and what you can read in the book is not necessarily what transpires down on the ground.” (Manager 12, Bank A)

“...Their challenge is preconceived notions around what an inclusive banking customer is worth long term and what potential there is in the industry for businesses and how businesses that might look small are businesses turning over what a good Pick ‘n Pay store turns over in a day.” (Manager 10, Bank C)

“...To take guys into the township and look, but if your eyes are not open to the possibility, you won’t see anything.” (Manager 8, Food B)

5.6.4.3 Culture

Company culture was mentioned several times across the interviews, in the context of market sensing. Culture includes empowering people to challenge themselves and learn, being willing to break the rules or challenge existing norms and embedding vigilant behaviour. The following quotes capture this:

“...The guys are always thinking about the next step, at all levels, they always ask are you thinking about the next step. So it is very entrenched in the company.” (Manager 4, Pharma A)

“You need an open mind, you need to empower people to make decisions and learn.” (Manager 8, Food B)

“Look, let’s not necessarily hire the normal Bank A cut.” (Manager 1, Bank A)

“It wasn’t in the normal structure, we broke every single rule in this business to do it. (Manager 4, Pharma A)

5.6.4.4 Buy-in and Priority

Critical to the success of developing the market sensing capability to compete in the low-income space is to ensure there is buy-in from management as well as the rest of the organisation. This will influence the amount of resources and attention the low-income business receives. A second element is that this buy-in needs to be long term, as returns in the low-income market generally take longer than in higher-income markets. The following quotes support this:

“...The MD of the company needs to be engaged; the engagement must be 100% from top end, your MD, your FD, all the directors – there has to be an understanding. So if the top management is involved and engaged and understanding, 50% of the time you win your battles.” (Manager 5, Food A)

“...So that requires long-term sponsorship, it requires people being around – not the person driving it but the person sponsoring it because you need that senior leadership sponsorship to actually try things out in an environment where those economic resources could be going somewhere else...” (Manager 3, Bank B)

“But obviously, organisationally, you want things that work in the short term – and that isn’t necessarily possible in this space.” (Manager 3, Bank B)

5.6.4.5 Execution Method

The way in which these market sensing activities are carried out plays an important role in how much value these activities derive. This includes not relying on one method but rather using multiple methods to cross-reference the insights. No firms used just one market sensing activity. Instead, they aimed for diversity in their activities. In addition to this, when it came to formulating a plan, they considered multiple options rather than just investing in one option. The following quotes capture this:

“...It was pretty much that process of doing a variation of immersions, quantitative research, combination of qualitative, going back in there and testing the stuff, tweaking it, coming back into the business...” (Manager 1, Bank A)

“It’s threefold. It will be the research company, the information from the retailers themselves and then from our staff so we have three data information points we can correlate and you will very quickly see whether it is rubbish or it exists...” (Manager 6, Conglomerate)

“We had five or six options on that thing, and then we did a cost constraint on the thing.” (Manager 8, Food B)

“...You have to be continually trying options that you feel are not as good as the stuff you actually have, but you have got to be willing to keep doing that because they will grow – or not – into better alternatives.” (Manager 7, Assurance A)

5.6.4.6 Partners and Networks

One of the market sensing activities apparent in the data is collaborating with partners. In order to achieve this, the firm needs to select the right partner – one which has a detailed understanding of the low-income market. The quotes below capture this:

“...This market is fundamentally different, which means that the agencies we deal with seem to be smaller and more niche, especially to this market, and then you can at least get people who are familiar with the market, who have done similar things to help you along this journey.” (Manager 1, Bank A)

“...We use a number of service providers that do in field activation, we have service providers that assist us with our CSI initiatives and activating those within the market, they obviously have intricate knowledge of this market...” (Manager 10, Bank C)

5.7 CONCLUSION

The chapter presents the results that have been uncovered through the in-depth interviews with managers from the various companies. These results have been presented from several different perspectives in the context of the research question proposed. These include the market sensing activities perspective, followed by a review of the characteristics of each in the framework of adaptive and dynamic capabilities. A review of each component of the market sensing capability, evident in the data, was then analysed and presented in a narrative form. The last section of the chapter presented information that was surfaced in the interviews surrounding the factors that influence a firm’s market sensing capability. A detailed discussion of the results follows in the next chapter.

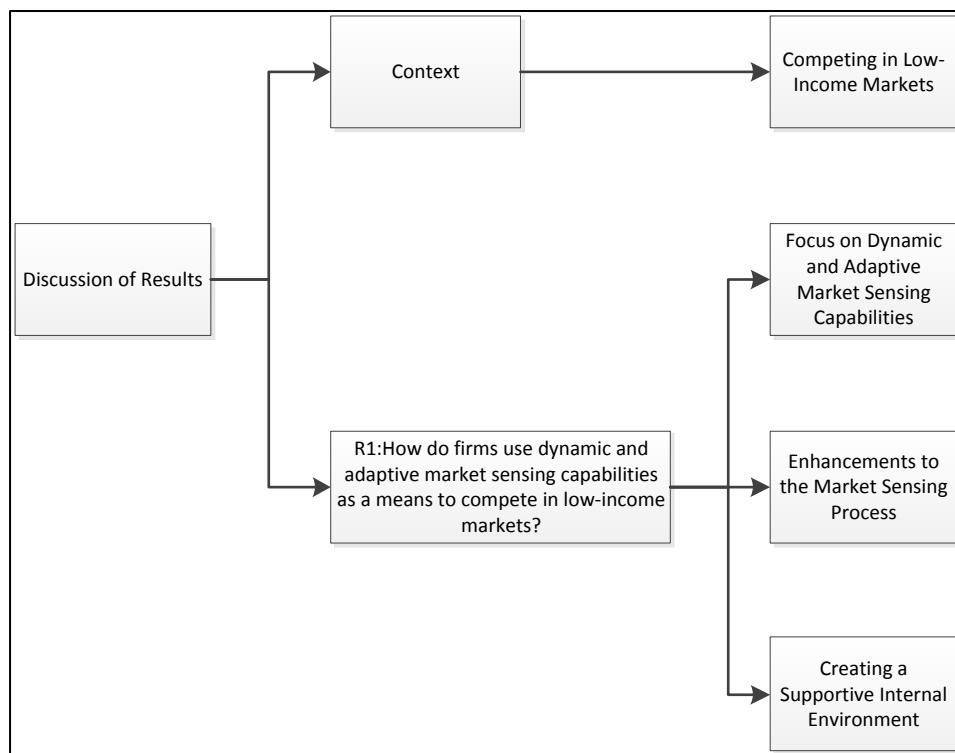
6. CHAPTER 6: DISCUSSION OF RESULTS

6.1 INTRODUCTION

The following chapter discusses the results shown in Chapter 5 in light of the research question proposed. The results will be examined against existing literature in order to highlight the key insights obtained through the research that supports the research question.

The structure of the chapter has been provided in Figure 8 below. The discussion begins with understanding the context in which firms have chosen to compete in the low-income market. The discussion then aims explore the research question further form three perspectives. This first provides a discussion of the practices and activities through which the firm can leverage dynamic and adaptive capabilities. The second perspective aims to provide insights as to how the firms have created a process that best supports the market sensing capability. The final third perspective discusses how a supportive environment can influence the firm's success in developing this capability and improving their success in the low-income market.

Figure 8: Discussion of Results Chapter Layout



6.2 RESEARCH QUESTION 1

The research question proposed earlier in chapter three was as follows:

R₁: How do firms use dynamic and adaptive market sensing capabilities as a means to compete in low-income markets?

The following sections explore how the firms in the sample are competing in the low-income market and specifically how adaptive and dynamic market sensing capabilities have been used.

6.2.1 COMPETING IN LOW-INCOME MARKETS

Hammond & Prahalad (2004) stated that the low-income market provides an attractive opportunity and a key source of growth for firms choosing to compete in this space. This was referred to by CK Prahalad as the fortune at the base of the pyramid. The size of this market and the combined purchasing power is estimated at more than US\$9 trillion (Hammond & Prahalad, 2004; London & Hart, 2004). On a country measure, South Africa is positioned as a dynamic market with more than a third of the total market being made up of the base of the pyramid (Chipp et al., 2012, p. 27). The opportunity to make profit in this space is thus significant.

It is therefore not surprising that the main reason for entering the low-income market for the firms in the sample is profit. This is achieved through new customers and expanding the reach of products. These factors are not only common to South Africa, but are common to other developing countries that have a substantial low-income market.

Firms in the sample chose to compete in this market with the potential of additional profit in the longer term as some customers may move into the middle-income markets. This may be unique to South Africa as employment equity policies and significant social grants, previously mentioned by Booysen, (2007) and Chipp et al. (2012), aim to uplift people out of poverty. Although South Africa may be unique in her strategy, other countries have poverty as a focus, with the aim to reduce the number of people living in below the poverty line.

In some industries, such as banking, the results found that government has put pressure on the banking institutions to provide affordable banking to the low-income market. In addition, intermediaries place pressure on firms, such as the example of

companies driving the health insurance providers to bring out a product that suits the needs of their low-income earning employees (Manager 9, Assurance B). This external stakeholder pressure has not been mentioned extensively in the low-income literature, and one may assume that this may be a unique context in which firms compete in the South African low-income market.

The principles under which firms choose to compete in this market are consistent with supporting literature and, in most cases, can be comparable to other countries.

6.2.2 FOCUS ON DYNAMIC AND ADAPTIVE MARKET SENSING CAPABILITIES

6.2.2.1 *Complex and Dynamic Nature of the Low-Income Market*

The low-income market is often argued as being complex and dynamic. The complexities are derived from the consumer characteristics, such as limited and often periodic income (Pitta et al., 2008); the environment, including geographic disbursement of the market and the cost to reach these consumers (Hammond & Prahalad, 2004; Pitta et al., 2008); and the difficulty in creating innovative business models to overcome these challenges (Pitta et al., 2008). These complexities were evident in the data shown in Table 5 and have been summarised below:

- Consumer characteristics: number of languages, intermittent income, level of education and literacy, and limited disposable income.
- Environment: size of the market.
- Business model: challenges in pricing, margins and designing a product that meets low-income consumer needs.

Given these complexities, the literature and data support the argument that the low-income market is dynamic and complex.

6.2.2.2 *Exploration and Dynamic Capabilities*

Keeping in mind the outcome above, the literature proposed that dynamic capabilities provide an effective means with which firms can compete in complex and dynamic markets, encouraging the renewal and development of operational capabilities to better match the demands of the market environment (Day, 2011; Hou, 2008). Both Vorhies et al. (2010) and O'Reilly & Tushman (2008) suggest that the development of these

dynamic capabilities and the alignment of the firm to a dynamic market require the firm to focus on explorative activities.

When reviewing the data analysis in Table 7 and Figure 6, there is a significant focus by these firms on exploration rather than exploitation; 97% of all market sensing activities are explorative. This supports the argument put forward in the literature that exploration, used to generate new knowledge and market insights, is a primary focus in dynamic markets. With only 3% of market sensing activities having an exploitation function, there is confidence in the statement that the market sensing capability is primarily an explorative function.

The argument in the literature that dynamic capabilities are essential to competing in dynamic environments (Day, 2011; Hou, 2008) is supported by the data. Figure 6 indicates that 26% of the activities had characteristics of dynamic capabilities.

6.2.2.3 Adaptive Capabilities

The intriguing finding from the research is the extent of activities used by firms competing in the low-income market that have adaptive capability characteristics, those which are exploratory in nature and not constrained by the firm, but rather create openness to new information from the external environment. Day (2011) positions this as “[when the team] steps outside the boundaries and constraints of the company as it is and looks first to the market.” (p. 187).

Day (2011), in his research on marketing capabilities, argues that there is an ever-growing gap in the change in market demands and the ability of the firm to adapt to these changes. His argument is based on the notion that firms are not focusing on these adaptive capabilities and this is the cause for this growing gap. Based on this argument, researchers would expect to find little evidence of adaptive capabilities, in comparison to static or dynamic capabilities. The research carried out on these firms and captured in Figure 6, however, presents an interesting finding. Firms that are competing in the low-income market not only have developed significant adaptive capabilities in comparison to their other capabilities, but the majority, 75%, of all market sensing activities are found to be adaptive in nature. This evidence supports the argument that to compete in a dynamic environment, such as the low-income market, firms need to develop and use their adaptive market sensing capability.

A further finding, evidenced in Figure 6, contradicts Day's (2011) proposition that capabilities are either static, dynamic or adaptive and that they can be segmented by function (exploration versus exploitation) and market orientation (inside-out versus outside-in). The overlaps that exist in Figure 6 suggest that a classification as simple as this is not possible, and it is feasible for activities to have both an inside-out and an outside-in market orientation, or both an explorative and an exploitation element.

One such example is the immersion activity. Immersion involves staff stepping outside of the firm and immersing themselves in the lives of their customers and their environment (Nakata & Weidner, 2012; Roberts & Palmer, 2012). The following quote is evidence of this:

“Immersion is the best way to go; it has helped a lot and especially when you go with five or six people – not at the same time in one household but at the same time in different households because when we reconvene and talk about our experience, we can eliminate the bias.” (Manager 5, Food A)

This would be seen as adopting an outside-in market orientation, but the staff do not go into the field and remove themselves from the boundaries of the firm. They often go into the field with pre-formulated questions and directives but are still vigilant and open to new information and insights. This mandate from the firm adds an inside-out dimension to this activity. The following quote confirms this:

“When we go to the immersion there are the immersion highlights that we are trying to extract – so there is a set of questions that everybody that goes on to the immersion needs to answer.” (Manager 5, Food A)

6.2.2.4 Traditional and Non-traditional Market Sensing Activities

Researchers link the main cause of failure to compete in the low-income market to the firm's extensive use of traditional marketing strategies (Hammond & Prahalad, 2004; London & Hart, 2004; Mahajan & Banga, 2005; Pitta et al., 2008). Researchers highlight the need for firms to adapt their marketing strategies to compete in this segment (Hammond & Prahalad, 2004; Pitta et al., 2008; Viswanathan & Sridharan, 2012).

The data from the research, depicted in Figure 4, shows the use of traditional market sensing activities by the firms, such as market surveys, focus groups and the analysis

of market trends. These are used by the firms in both their middle and upper-income markets, as well as the low-income markets. The data, however, supports the argument for the evolution of market sensing strategies from their traditional approaches. Managers have indicated that their traditional strategies are still extensively used in their upper and middle-income segments, but, when used for the low-income segment, the data collected can often be unreliable or the marketing method too costly for the margins in their low-income segment. The firms will often use other market sensing practices in combination with their traditional market sensing practices. The following quote show evidence of this:

“[Ethnographic research] is something we use a lot more in our space because we find quantitative and qualitative not working in the South African context for this market in the lower end, especially because they will say anything you ask them. Or they will group think.” (Manager 12, Bank A)

“We make use of your traditional research which is made by consumer research, consumer living aspirations and things like that. But that does not really give us insight in terms of which product to bring. It is different; for example, in the high end you can do a conceptual product and get more accurate results because there is a more constant mind frame. On the lower LSM you find the role of cultures is more marked, and people think in a different way. So it is quite difficult to say what is good for me, is good for them.” (Manager 5, Food A)

“If you add that research cost, marketing above-the-line and even below-the-line, then you just basically kill the [low-income] business.” (Manager 5, Food A)

The non-traditional activities used by firms indicated in the low-income and dynamic capability literature include experimentation (Day, 2011; London & Hart, 2004; Rosa, 2012; Zhou & Li, 2010), collaboration (Hammond & Prahalad, 2004; Pitta et al., 2008) and observation (Rosa, 2012; Simanis & Hart, 2008; Viswanathan & Sridharan, 2012). Details of these have been included in section 5.6.2 and summarised below:

- Experimentation: Conducting pilots or market experiments.
- Collaboration: Internal collaboration and collaboration with external partners such as NGOs, companies in the supply chain or academic institutions.
- Observation: Observing competitors, immersions and trade visits.

The following section discusses the results relating to the market sensing capability and how this has been developed and implemented by firms in conjunction with the market sensing activities to compete in the low-income market.

6.2.3 ENHANCEMENTS TO THE MARKET SENSING PROCESS

The literature on market sensing has explored a variety of elements that constitute a dynamic capability and, more specifically, the market sensing dynamic capability. A review of the literature in this capability domain (Day, 1994; Hou, 2008; Morgan, 2009; Teece, 2007; Wang & Ahmed, 2007) as well as in the organisational learning domain, (March, 1991; Sinkula et al., 1997; Slater & Narver, 1995) has shown consistency in the following elements:

- Scanning and gathering market information from customers, competitors and the broader ecosystem.
- The dissemination and interpretation of the market information to create market intelligence or insights, or to identify opportunities in the market.
- Leveraging this information to form a quick response.
- Configuring resources to align to the market.

Evidence of these elements has been revealed in the data analysed, in addition to several elements that were critical to market sensing in the context of low-income markets. These elements were analysed in the component analysis section in Chapter 5 and depicted in Figure 7. A linear view of these components has been provided in Figure 9 below.

Figure 9: Elements of Market Sensing

Scan and Acquire	Share Ideas and Information	Interpret	Validate	Formulate Plan & Strategy	Define Success Criteria	Execute	Learn and Adapt
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6.2.3.1 *Keeping an Open Mind*

The ability to keep an open mind when acquiring information is critical. This concept of open minded inquiry was highlighted by Day (2002). Firms often go out with a narrow scope of inquiry and do not capture the latent needs of the customer. This close-mindedness is often difficult to detect (Day, 2002). The ability to keep an open mind

when looking for opportunities is critical in the adaptive component of market sensing, as often there are weak signals coming from the market that the firm needs to capture and interpret (Day, 2011).

When reviewing the data, the concept of open minded scanning and inquiry is present and seeks to support Day's (2002) argument. The following quotes capture this:

“So it is really about looking at things differently. So you need an open mind, you need to empower people to make decisions and learn.” (Manager 8, Food B)

“So there are those intangibles that come from observation and when you do research, even if you are behind the mirror and taking a look at the conversation; being in the house of the consumer or really having a close interaction with that consumer on a one-to-one basis. It gives you a lot of intangibles, a feeling that is almost unquantifiable, that gives a manager that insight.” (Manager 5, Food A)

6.2.3.2 Triangulate and Validate

The concept of validating market information and insights with additional research and information, internal reviews or conducting experiments has not been considered a critical component of the market sensing capability in the literature. This may be implied by Teece (2007) in the identification of opportunities and be seen as a type of response by Hou (2008). Day (2011) includes “Triangulating with multiple inquiry methods to clarify ambiguous signals and then probing deeply to learn more about promising patterns and signals” (p. 189) as part of market learning, but evidence from the data suggests that this be considered a separate component that goes further than the use of additional inquiry methods. Firms have noted the challenge in evaluating the accuracy of the information they have acquired on the low-income market and have created a validation process in order to overcome this challenge. Section 5.6.3.4 provides a review of the validation component evident in the data. Section 5.6.4.5 supports these arguments, noting that more than one activity was often used by firms in their market sensing process. The following quotes seek to further emphasise this:

“It’s threefold. It will be the research company, the information from the retailers themselves and then from our staff so we have three data information points we can correlate and you will very quickly see whether it is rubbish or it exists, or say hang on, there are actually some things we have picked up here which we never saw before.” (Manager 6, Conglomerate)

“[Employees with industry experience] generally have a good pool of experience and networks in the industry. So very often when we look for a new avenue or a new idea or venture, we normally bring those people together to certify... And we try to a large extent to have experience-based discussions and future objective-based discussions, so they can bring the two together, because it is not always easy to go into a venture where there are too many unknowns.” (Manager 11, Pharma B)

6.2.3.3 Ability to Respond Swiftly

The ability of firms to respond to market information about changes to customer needs is mentioned throughout the literature. In dynamic capability literature, this is often referred to as reconfiguring resources (Morgan, 2011; Teece, 2007). Responding to customer needs in the low-income literature is focused on designing an appropriate product at an appropriate price and delivering this through an effective business model (London & Hart, 2004). The data analysis covered in section 5.6.3.5, 5.6.3.6, and 5.6.3.7 expanded on the response component of market sensing to include the formulation of a strategy, the definition of success criteria and the execution of the strategy. It was found that the formulation of a strategy often involved multiple stakeholders, including customers, to establish the best value proposition. The length of time spent formulating the strategy was related to the amount of risk, regulation and resources required. A pharmaceutical firm often takes significant investment and up to five years to formulate a new product and obtain regulatory approval, whereas this is much faster for a food and beverage company when they decide to launch a new product. The following quotes support this:

“So we know the formats we have to present our products in to participate in that market, we have not been in a position as a company to register those things timeously, because unfortunately for a pharmaceutical company there is a process to get a product on the market, and in pharmaceuticals it can take anything from two years to five years, whereas if you are going to put a new soup on the market you can put it on the market in the next three months.” (Manager 11, Pharma B)

“A pilot would cost almost the same as a launch that has failed -in our case. Because we don’t put above-the-line investment, because we don’t have listing fees, so when we do a product launch, it is easier to actually launch and see if we are failing, and see why we have failed.” (Manager 5, Food A)

Following the formulation of a strategy is the defining of success criteria and metrics. In the academic fields of dynamic capabilities, organisational learning and low-income markets there is little mentioned regarding this aspect. Low-Income literature makes specific reference to following a non-traditional approach in this market (Pitta et al., 2008). This non-traditional approach can be extended to include the measures of success.

6.2.3.4 *Learning and Adapting*

Day (1994) is one of the few researchers to include an evaluation of the outcome as part of the market sensing capability. This involves the interpretation of information post the response to a market insight and the delivery of a value proposition. Morgan (2011) includes capability enhancement as an important component of dynamic capabilities. He goes on to state that capability enhancement is typically through the enhancement of existing capabilities through learning-by-doing. An important finding in the data analysis relates to this capability enhancement. Firms have indicated that market sensing is a continuous process that requires them to continually access their outcomes and adapt accordingly, thereby improving their market sensing capability.

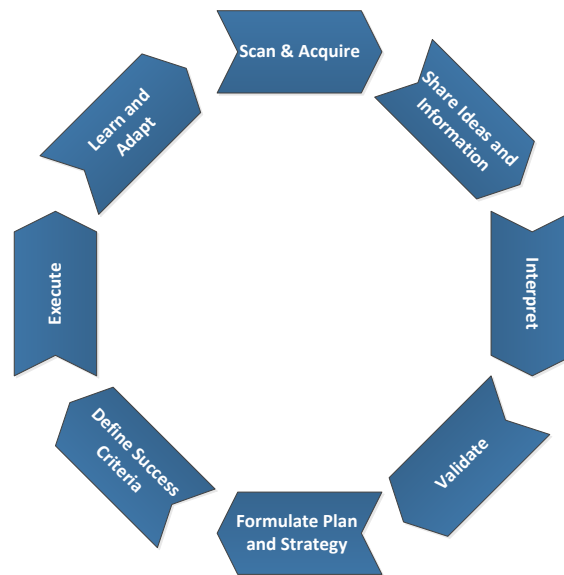
“We continuously are developing and re-developing ourselves, there are about 10 to 15 new developments and innovations that are thought of everyday – 90% of those will never reach the market but you can imagine that you have such a lot new information on a daily basis.” (Manager 6, Conglomerate)

“Every time we do something we learn something... Everything we do is iterative on this model. The cost of learning has come down dramatically as we get into the thin end of the wedge and perfect this thing.” (Manager 8, Food B)

6.2.3.5 *The Market Sensing Process*

The literature that describes market sensing as a capability has taking a component view in their analysis domain (Day, 1994; Hou, 2008; Morgan, 2009; Teece, 2007; Wang & Ahmed, 2007). Rather than viewing these components as depicted in Figure 9, the data strongly support the perspective of an iterative, process orientated approach to implementing, utilising and enhancing the firm's market sensing capability to compete in low-income markets. This process view is illustrated in Figure 10 below.

Figure 10: The Market Sensing Process



6.2.4 CREATING A SUPPORTIVE INTERNAL ENVIRONMENT

The discussion up to this point has linked both the adaptive and dynamic market sensing capabilities and the activities to the firm's ability to compete in the low-income market. How well firms compete in this low-income environment does depend on these dimensions of market sensing, but further analysis of the respondent feedback indicates that there may be other influencing features in the supporting environment. Based on the analysis in section 5.6.4, these include people and skills, existing beliefs, culture, and buy-in and priority.

6.2.4.1 *People and Skills*

Three aspects of people and skills were found to assist firms in developing a strong market sensing capability. The first was strong and passionate leadership. O'Reilly & Tushman (2008) found a similar finding in their research into ambidexterity as a dynamic capability. They found that having a strong senior management team, that was willing to drive the development of the dynamic capabilities in the firm over the long term, was essential. Day (2011) supports this and believes that vigilant leadership is required to provide a supportive environment for gathering, sharing and responding to information.

The second dimension of people and skill concerns the team. Findings from the data have indicated that having people in the team who were brought up in a low-income

background is important. This is supported in the low-income literature by Viswanathan & Sridharan (2012), who suggest using local resources to develop these low-income market skills.

An alternative view of the data suggests that having local resources in the team is not as essential as having people in the team who are committed and passionate about the value they are bringing to the low-income market.

The third dimension is the type of skills required. Team members should have the ability to interpret and understand the information the firm receives. This is supported by Day (2011), who believes that a deep sense of curiosity to see beyond the immediate should be encouraged.

6.2.4.2 Existing Beliefs

An ability to put aside all assumptions about the low-income market was found to be an influencing factor in the firm's ability to effectively acquire market insights regarding this segment. This is supported by Day's (2002) suggestion for a firm to challenge its existing beliefs and knowledge about the market. In the low-income literature, the recommendation is consistent, with it being that firms need to ignore what they know as "accepted knowledge" (Pitta et al., 2008, p. 397).

6.2.4.3 Culture

Several themes were seen in the data that were specific to how culture supports the firms' market sensing and ability to compete in the low-income market. These themes included empowering people to challenge themselves and learn, being willing to break the rules or challenge existing norms, and embedding vigilant behaviour.

The literature supports this. O'Reilly & Tushman (2008) mention the ability to spur creativity, encourage debate, facilitate learning and challenge the status quo as key attributes of the senior management team. Day (2011) includes the dimension of culture in his research, suggesting that the firm creates a culture of exploration, enabling people to venture outside of what is known to them.

6.2.4.4 Buy-in and Priority

The data indicates that it was often the case that firms would create separate teams or business units with a specific focus on the low-income market. Critical to the success of

the units in developing their market sensing capability and improving their competitiveness, is having sufficient resources, buy-in from management and the rest of the firm, as well as priority from a long term strategy perspective.

Although O'Reilly & Tushman's (2008) work had a specific focus on ambidexterity, the commitment of the senior management team and the allocation of resources with a long-term mindset was a common success factor to building dynamic capabilities . This supports the case for buy-in and priority evidenced in the data.

6.3 CONCLUSION

This chapter provides a discussion of the results relating to the research question of how firms use dynamic and adaptive capabilities to compete in low-income markets. Understanding that low-income markets are dynamic market in nature provides the base from which the research question has been answered. A focus by firms on a mixed use of adaptive and dynamic activities, following an interactive process and creating a supportive environment all provide insight into how firms use market sensing capabilities to compete in low-income markets.

The findings support the proposition that firms have used dynamic capabilities to gather new market information and insights, in an exploratory function, to compete in this complex and constantly changing low-income market. In his research, Day (2011) positions the lack of adaptive capabilities required by firms to evolve with changing needs in a market. These adaptive capabilities are evident in the research and support the argument for their use in dynamic markets. A more in-depth examination of the data revealed that competing in the low-income market requires a combination of traditional market sensing activities, such as market surveys and focus groups, as well as non-traditional activities such as experimentation, collaboration and observation.

The discussion of the results relating to the market sensing capability is consistent with the literature and, in some cases, seeks to expand and supplement this existing knowledge. The results have shown that firms competing in the low-income market space seek to obtain more insights from the market through keeping an open-mind when scanning and acquiring market information. Firms highlight the difficulty in determining the accuracy of the information and have developed a key element, validation, to improve their market sensing capability. The response to the new market information has been expanded to include a critical planning step and understanding

the measures of success. These measures of success are fundamental to forming the continuous learning and adapting process that firms follow. Adding to the theory, the research results indicate that there is a process that firms can follow to implement, utilise and improve their market sensing ability to compete in the low-income market.

In addition to the market sensing process and activities, the research reveals other determinants that influence the ability of a firm to create a dynamic market sensing capability and increase their competitiveness in the low-income market. Having strong leadership and a skilled and diverse team with a firm culture that encourages exploration and challenges existing beliefs is supported by the dynamic capability and low-income theory base. To ensure the long-term sustainability and development of the market sensing capability, as well as the firm's business in low-income markets, the appropriate long-term commitment and priority is necessary to enable the effective flow of resources and change.

7. CHAPTER 7: CONCLUSION

7.1 INTRODUCTION

The previous chapter discussed the results from the data against existing literature and the research question. The following chapter revisits research objectives from the outset of the report and compares these against the findings. The chapter aims to consolidate all the discussion and results into a cohesive set of key findings.

The chapter seeks to take the key findings and results and provide a view on the implications to business. The chapter concludes the limitations of the research, and then moves onto the implication for future research in the current and corresponding domains.

7.2 RESEARCH BACKGROUND AND OBJECTIVES

The opportunity and wealth that is present in emerging market and, more specifically, the low-income segment that dominates these emerging markets, has been iterated in numerous instances in both the academic and business fields (Prahalad & Hart, 2002; The Economist, 2010). The ability for firms to effectively compete in the market, however, is the challenge that is being faced. Firms have taken their traditional models, both mental models and business models, and used these to approach the low-income market. This has ultimately lead to challenges and, in some cases, failure for these firms in this market (Nakata & Weidner, 2012; Pitta et al., 2008; Prahalad & Hart, 2002; Viswanathan & Sridharan, 2012).

Academic literature has focused on multiple fields in order to guide business and future researchers towards a solution. These, however, have not included the field of dynamic capabilities, an area of theory specifically focused on the change in the firm's capabilities to align and compete in a dynamic market.

Venturing deeper into the main causes for firms' failure to compete in low-income markets, a significant factor was highlighted: the lack of information and understanding of the low-income market. Looking to dynamic marketing capability theory, the capability of market sensing is a potential area that has not been explored in the context of competing in the dynamic markets and, more specifically, in the low-income markets.

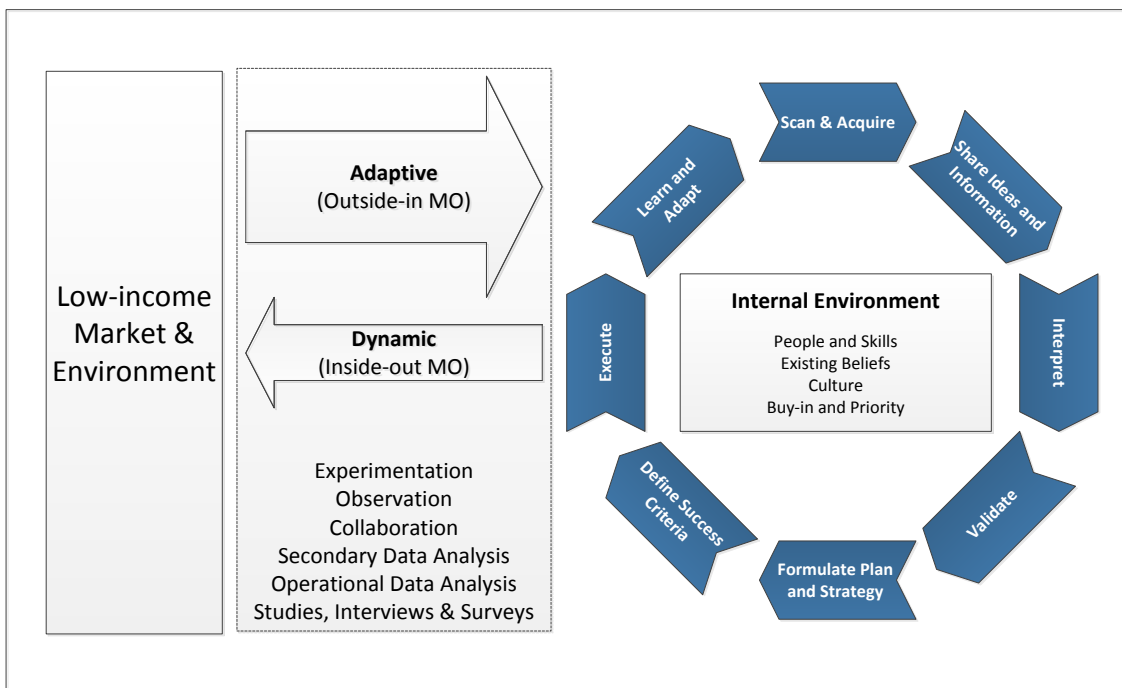
In keeping abreast with current marketing capability research, Day (2011) identifies the gap between the firm’s current capability and that required to keep up new market demands as “adaptive capabilities”.

The adaptive and dynamic market capabilities, relating to the firm’s market sensing, form the basis of the research. The research problem was then formulated: how do firms use their dynamic and adaptive market sensing capabilities as a means to effectively compete in low-income markets?

7.3 KEY FINDINGS AND RECOMMENDATIONS

In analysing the research question, it was found that in order to effectively understand how firms are using dynamic and adaptive market sensing capabilities, it must first be understood that multiple dimensions of these capabilities were present. These included (1) the activities and practices that are used by the firm and the nature of these, both function and orientation; (2) the process of developing, utilising and improving the firm’s market sensing capability; and (3) influencing factors in the internal environment that support the firm’s ability to implement and use its market sensing capability to compete effectively in the market. These dimensions and findings have resulted in the development of the framework illustrated in Figure 11 below.

Figure 11: Framework for Competing with Adaptive and Dynamic Market Sensing Capabilities



7.3.1 ADAPT BY USING A MIXED METHOD APPROACH

The first key finding from the research is that market orientation has a significant role in the firm's ability to compete and carry out market sensing effectively in a market that is difficult to understand and interpret, such as the low-income market. An outside-in market orientation allows the firm to improve the capability to sense market changes. This, combined with the ability to put aside prior assumptions and preconceptions about the low-income market, allows the firm to discover valuable market insights. Practices such as experimentation and observation allow it to gain first-hand information about its consumers and how they are behaving in their own environment. The research has shown, however, that the firm should make use of all the market sensing practices illustrated in Figure 11. Having strong adaptive capabilities (with an outside-in market orientation) in conjunction with dynamic capabilities (with an inside-out market orientation) allows the firm to achieve focus through activities initiated by the it, while still ensuring the organisation and team are open to the weak signals that may form new insights.

For a dynamic market, the firm's capabilities and its related activities are characterised with a higher adaptive versus dynamic focus. This has been represented in Figure 11 by a larger arrow for adaptive market sensing in comparison to dynamic market sensing. A mixed method approach has shown to be effective in various stages of market sensing, including stages of acquiring, validating and learning.

7.3.2 IMPROVE THROUGH CONTINUOUS SENSING, RESPONDING AND LEARNING

The second key finding is relating the process through which firms develop and use their dynamic and adaptive marketing sensing capabilities. The process is represented by the blue cycle surrounding the internal environment in Figure 11.

The market sensing process does not only include the acquisition of market information, as many researchers have indicated, but extends to include multiple dimensions of a dynamic capability. The sensing, sharing and interpretation components see a significant change in the context of low-income markets, as often those who are acquiring and interpreting the information have an existing consumer reference that is different to a low-income consumer. An open mind and a diverse team that constantly collaborates are critical to effectively identify the market opportunities.

Responding to market information, insights or opportunities is often seen by researchers as one component of a dynamic market sensing capability, but the research has shown this to be complex and often difficult to master component. Market information acquired by firm is often, at first, insufficient to act upon when dealing with the low-income market, as opposed to middle and upper-income markets. A process of triangulation and validation is required to establish whether their insights are reliable before allocating further resources. Even when an opportunity is identified, there is a significant planning step to develop an effective value proposition. This area of business model formulation is extensive in the low-income literature. Execution is the final step and this too follows a different approach in the low-income market space. Firms tend to launch pilots or low cost products and services to obtain immediate feedback and further validate their assumptions.

This learning and adapting is a common theme throughout the research. In a market where little is known about their consumer behaviour and environment, and the information acquired is at times unreliable, an iterative experimental approach is required and is a fundamental component of adaptive and dynamic market sensing that is often not referenced in the literature.

This cycle of sensing, responding and learning is continuous and constructed to meet the constantly changing market demands in a dynamic market.

7.3.3 COMPETE BY CREATING AN ADAPTIVE ENVIRONMENT

The final key insight taken from the research is the concept of an adaptive environment. An adaptive internal environment is required in order to effectively establish a more adaptive market sensing capability that provides greater competitive advantage in the low-income market. It therefore is placed in the centre of the market sensing capability in Figure 11.

The elements of people and skills, existing beliefs, culture and buy-in are supported across the low-income and marketing capability literature. This adaptive internal environment has proven to be the third critical dimension of adaptive and dynamic market sensing that should be taken into consideration when competing in the low-income market.

In order to establish an effective market sensing capability within the firm, the research has indicated that all the elements of an adaptive environment need to be present. This

entails having the best team in place, with dedicated and strong leadership that encourages diversity, creativity and are passionate about the value they are delivering to the low-income market. The organisation, as a whole, should challenge existing beliefs about the low-income market that are inherited from a history in the middle and upper-income markets. A culture of continuous learning, challenging the status quo and being vigilant about signals from the market create an internal environment that is more adaptive and capable of establishing a strong market sensing capability.

7.4 RECOMMENDATIONS TO BUSINESS

The low-income market is an exciting, challenging place to do business. There is a significant opportunity to grow market share, acquire new customers, generate greater profits and innovate while providing a social service. In order to take advantage of this opportunity, the recommendation to business is to get close to the consumer and understand their current and future needs to deliver a suitable value proposition. To do this, firms need to focus on their market sensing capability.

The framework proposed in Figure 11 can be used as an effective guide to developing and using adaptive and dynamic market sensing capabilities. Firms that have been operating for several years are likely to have developed their market sensing capability to keep up with the changing consumer needs; however, when shifting to take advantage of the low-income market, these may not be satisfactory, as evidenced by the challenges listed by the firms in the research.

In addition to the framework, the recommendations specific to business include (1) stepping outside of the firm, (2) challenging the status quo, (3) obtaining buy-in for the long term.

The first recommendation is stepping outside of the firm. This has two meanings; physically removing yourself from the boundaries of the firms and mentally keeping an open mind. The first aspect can be achieved through immersions, trade visits, talking to community leaders and establishing a network of partners that have a better understanding of the low-income market. Unlike other research methods such as hiring a marketing firm to conduct surveys and studies, this process does not require significant investment. Business in the low-income market has thin margins and reducing spend in the market sensing process further supports a low cost business

model. The second aspect is keeping an open mind. This too can be supported by immersions, but also requires the right team and leadership that encourage this.

The second recommendation is challenging the status quo. Whether this is in the hiring process, the way in which market research is conducted or the existing business model, challenging the status quo is essential in moving away from a traditional mindset and practices into the adaptive space that can adjust with changes in a dynamic market. The research has shown that firms that are doing well in the low-income market have adopted market sensing practices that differ from their typical middle and upper-income markets. In addition, managers have found that changes in their low-income market business often filter through to the rest of the business.

The final recommendation is to seek long term commitments for the low-income business and develop a strong market sensing capability. Acquiring market insights and delivering an effective value proposition in the low-income market is often incremental and experimental; this may be frustrating to business sponsors. To assist in obtaining long term buy-in, managers in the study highlight a fundamental component: the low-income venture needs to be self-sustaining and generating profits.

7.5 LIMITATIONS

The findings provided in the research form a descriptive view of the phenomena surrounding low-income markets and dynamic capabilities. With the nature of the research being qualitative, there are limitations on the ability to infer these findings onto the greater population. The findings describe the particular constructs that were evident in the research, but further quantitative analysis is required to test these constructs.

A further limitation of the research is based on the sample. The sample was restricted to firms based in Gauteng and limited to competing in the South African low-income market. This limits the extent to which the research can be generalised and used in other low-income or dynamic markets.

The reliability of the data could have been further improved with additional managers from each of the firms, thus allowing effective cross validation of the findings. This limitation extends to diversity across the types of industries; this sample was limited to only a few. A greater diversity in the sample may have assisted in being able to generalise the findings across all industries.

The final limitation is regarding the researcher's bias. Due to the exploratory and interview-based design of the research, there is the risk of personal bias as a result of personal perceptions, assumptions and interpretation. In order to minimise this bias, the interviews were transcribed and triangulation of findings across the sample and with the literature was used extensively to support the findings.

7.6 IMPLICATIONS FOR FUTURE RESEARCH

Leading on from the limitations mentioned above are the recommendations for future research. One of the future research recommendations is to extend the scope of the study to include other low-income markets, such as Brazil, India, China or the Philippines, as well as to firms that only operate in the middle and upper-income segments of the markets. Guesalaga & Marshall (2008) are some of the few researchers in the low-income research domain that have performed low-income research at a global level. Their findings showed significant differences at a regional level regarding purchasing power. Extending this research to a larger more global sample will allow additional research findings to present themselves. For example, are the adaptive market sensing practices identified here used in other low-income markets? What characteristics of a low-income market lead to a high use of adaptive capabilities? Are there any differences in the use of adaptive market sensing practices when comparing the firms only operating in the middle and upper-income markets or operating in more developed nations?

Kolk et al. (2012) in their review of BoP literature, highlight the need for deeper analysis on BoP business strategy in different contexts, both countries and industries. A further extension of this study could include an industry analysis. The results from this study provided an indication that FMCG companies compete better than other industries in the low-income market. The following questions provide an opportunity for further exploration: Are certain industries found to use adaptive market sensing capabilities more extensively? What characteristics drive this? Are there industry and regulatory factors that need to be taken into consideration?

The prior recommendations focus on contextual and environment factors. Further recommendations for future research include a deeper analysis into related areas of theory; one such area focuses on the role of intra-organisation networks in low-income markets (Rivera-Santos & Rufín, 2010). Whether intra-organisation networks

significantly influence market sensing and drive market insight is an area that requires further investigation.

The current research has identified multiple dimensions to how firms use dynamic and adaptive market sensing to compete in low-income markets. A further avenue for research would include explanatory research that follows a quantitative design to test the framework proposed. For example, what is the relationship between each of the adaptive market sensing practices and the firm's competitiveness? Do firms that exhibit each of these components in the framework show a great level of competitiveness? Are these elements relevant when tested within a large sample?

7.7 CONCLUSION

As the traditional "Top of the Pyramid" markets are fast becoming saturated, firms are beginning to realise the true potential of the low-income market. For those who do venture into this market, there are insurmountable challenges and a high risk of failure. This has resulted in a focus on how firms compete in this low-income market. One such area that has been relatively unexplored in the context of low-income market is dynamic marketing capabilities.

The scope of the research has specifically been focused on market sensing, due to the common challenge faced by firms competing in this market: understanding the low-income market. A sample of 11 firms were used in the research and an in-depth interview based qualitative design followed, to best understand the research problem of how firms use dynamic and adaptive market sensing capabilities to compete in the low-income market.

Through analysis of the data and literature, specific themes were discovered that support and build on the theory surrounding dynamic capabilities, market sensing and low-income markets. These findings were further distilled into three key recommendations as to how firms can best use their market sensing capabilities to compete: (1) Adaptive by using a mixed method approach; (2) improve through a continuous process of sensing, responding and learning; and (3) increase competitiveness through creating an adaptive environment.

Looking to the future, there are many opportunities to explore this area of research further. However, firms looking to compete in low-income markets should take into consideration building and improving their adaptive market sensing capabilities if they wish to deeply understand the low-income market and the wealth of opportunities that exist.

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9. APPENDICES

9.1 APPENDIX 1: INTERVIEW GUIDE

9.1.1 PRELIMINARIES:

- Thank person for attending
- Explain the purpose of the research
- Ask for permission to interview and record the session

9.1.2 QUESTIONS:

- 1) How does your firm define the low-income market?
 - a. Probe: Is it based on income bracket?
 - b. Probe: Is it based on LSM?
 - c. What other criteria do you use?
- 2) How have you gone about learning about this low-income market?
 - a. Probe: How do you source your information?
 - b. Probe: Are these initiative initiated by the market or by the organisation?
 - c. Probe: What existing methods have you leveraged off
 - d. Probe: How else does this information enter the team/organisation?
 - e. Probe: How does your team interpret this information?
 - f. Probe: How is this knowledge shared with the rest of the team/organisation?
- 3) How different is this approach to the way you do it for other markets?
 - a. What caused you to change from the current way of doing things?

- 4) What insights have proved to be most useful and how so?
 - a. Probe: How did you gain this insight?
- 5) How does your business in this market compare against competitors and business in other markets?

9.2 APPENDIX 2: INFORMED CONSENT LETTER:

I am conducting research on marketing to consumers in low-income. Our interview is expected to last about an hour, and will help us understand how firms are developing their market learning capability to compete in this market. Your participation is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential. No company or individual names will be revealed. If you have any concerns, please contact me or my supervisor. Our details are provided below.

Researcher: Cameron Bailey

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Research Supervisor: Nicola Kleyn

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0833263227

Signature of participant: _____

Date: _____

Signature of researcher: _____

Date: _____