

# **Gordon Institute of Business Science**

University of Pretoria

**A comparative analysis of the business models applied for the development  
of products and services for the Bottom of the Pyramid**

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A research proposal is submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

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## **ABSTRACT**

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The growth in developing markets has created a need for businesses to re-look their strategies and become players in the emerging economies. With the advancement of growth in the developing countries, new opportunities are created with innovative solutions coming from developing countries and being sold to developed countries. Besides the projected growth and opportunities in the developing countries, the majority of people living in poverty are found in these countries. They are also faced with challenges such as lack of infrastructure and lack of property rights. Firms that want to successfully serve these markets will need to develop innovative business models that will create value for the shareholders, communities and other stakeholders.

The purpose of this study is to explore business models developed for the Bottom of the Pyramid (BOP) in different industries and to understand what makes them successful despite facing the institutional voids experienced in developing countries with the intention to provide a high-level generic business model template that can be used for firms that are targeting the BOP markets.

The objective of this report, hence, was to explore the differences in business models developed by firms serving the BOP market; identify the challenges of doing business in developing countries and explore how those challenges are met; and identify the critical success factors in serving the BOP markets.

The key finding from the study was that there are no major differences between BOP business models across various industries. The findings also indicate that to fill the institutional gaps experienced by developing countries, firms will need to partner with key stakeholders and ensure that there is shared value created for all the stakeholders, in

order to serve the BOP market successfully. Ten critical success factors are indicated in the study to ensure long term sustainable achievement of the twin goals of profit and improvement in social welfare at the BOP.

## **KEY WORDS**

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Bottom of the pyramid

Emerging markets

Institutional voids

Business model

## DECLARATION

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I declare that this research proposal 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.



Nomahlubi Angela Ndhlovu

10 November 2014

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# CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM

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## 1.1 Introduction

According to The International Monetary Fund (2014), growth in emerging markets is expected to increase to 5.1% due to stronger external demand from developed economies. The production output from emerging market accounts for one third of the world's output, thus posing the emerging countries as key players in the world market (International Monetary Fund, 2014).

Half of global GDP growth is estimated to be delivered from emerging market cities. In addition, there is \$25 trillion of global economic injection through consumption and investment in physical capital (Dobbs, Remes, & Schaer, 2012). The United Nations Development Programme (UNDP) (2013) indicated that developing countries are showing impressive economic growth which is resulting in poverty reduction and increasing wealth. Trade in developing countries accounts for 60% of the global output with 89 countries improving their output. A third of the production of manufactured goods is from developing countries. These countries have an opportunity to develop innovative structures for partnerships that will be able to provide development policies for the regions. They will also be given the opportunity to play a critical role globally (United Nations Development Programme, 2013). The significant growth in the emerging markets highlights the potential growth in innovative business models that will provide low cost quality products from the developing countries. These innovative products will meet the needs of the Bottom of the pyramid (BOP) and subsequently be used to serve the high income developed countries. Besides the projected growth and opportunities in the developing countries Waeyenberg and Hens (2012) suggested that the benefits of developing products and services at the BOP market will result in transfer of capabilities across different markets at the BOP and

also from the BOP market to the developed country market and thus creating more innovative market opportunities (Waeyenberg & Hens, 2012).

Chavan and Prabhu (2010) indicated that there are innovative business models in emerging markets for the low income markets. The rising emerging markets' innovative business models tend to be developed in lower costs and are relevant to the local markets they serve.

These innovative products thus become relevant to other developing countries within the low income markets. Not only are these products innovated from developing countries serving the developing markets but at times they are sold to developed countries. Therefore the "innovation is adopted first in a poor country before being adopted in rich countries" (Govindarajan & Ramamurti, 2011, p.191 ). A relevant example is when General Electric (GE) developed compact mobile ultrasound units that met the needs of rural Chinese clinics. These ultra sounds units were then also used in developed countries with its portability features (Immelt, Govindarajan, & Trimble, 2009). Thus products innovated for the BOP can be used also for higher-income earners (Ramani, SadreGhazi, & Duysters, 2012; Govindarajan & Ramamurti, 2011). Linna (2012) also indicated that local companies in developing countries will build profitable capabilities that may be sold also in developed countries thus competing with MNCs at their home ground (Linna, 2012). New innovative solutions are required to service the needs of the approximately two thirds of the world population that resides at the BOP (Ramani *et al.*, 2012). Firms need to make a contribution in the developing countries where there is high expected economic growth to remain relevant in the global market. Reverse innovation poses a challenge to firms in the developed countries.

Santos and Laczniak (2009) indicated that the entry of MNCs into the developing market at the BOP will provide an opportunity for inclusive capitalism in those markets. According to



George, McGahan and Prabhu (2012), inclusive capitalism is when firms “simultaneously pursue private profit and social welfare by creating markets for the poor” (George, McGahan, & Prabhu, 2012, p. 672). Bruton (2010) suggested that through commercial engagements, firms will be able to alleviate poverty at the BOP market (Bruton, 2010).

Business models that firms use to develop products and services in emerging markets should take into consideration the institutional voids experienced in these highly impoverished communities. Khanna & Palepu (2010) suggested that firms need to leverage off the institutional voids by filling the voids themselves. This implies that firms need to develop business models that are unique for the specific BOP target market (Prahalad, 2009).

Although there are vast opportunities in the BOP market, it is faced with economic infrastructure challenges, lack of education, lack of financial resources and diverse cultural differences. Therefore it is imperative that firms targeting the BOP market should develop feasible business models that will enable the firms to be profitable whilst also improving the social welfare of the communities.

## **1.2 Research relevance to South Africa**

South African (SA) is aiming to halve poverty and unemployment by 2014 by creating sustainable economic growth through the Accelerated and Shared Growth Initiative (Asgisa) (Statistics South Africa, 2013). The challenges faced by South Africa is the high Gini coefficient which indicates the income inequalities within the SA society. 56.8% of the SA population are living in poverty and 45.5% living below the poverty line (Statistics South Africa, 2014). The Gini coefficient measures the disproportion of incomes with a Gini

that is close to one indicating a high disproportion of income within a country (Bosch, Rossouw, Claassens, & du Plessis, 2010).

In order to achieve the millennium goals, it has been recommended that partnerships are formed between firms, non-government organisations (NGOs) and government. With a further recommendation that a partnership between government and pharmaceutical companies is formed in order to offer essential drugs affordably (Statistics South Africa, 2013).

Prahalad (2009) stated that there are fortunes to be made at the BOP whilst improving the social welfare of these communities (Prahalad, 2009). In order to achieve the goal to eradicate poverty, collaboration between government, firms and NGOs operating at the BOP is critical. This collaboration must result in the creation of business models that will meet the twin goals of profit and improvement of social welfare of these communities (Calton, Werhane, Hartman, & Bevan, 2013).

SA already has firms that are operating in developing countries. Examples of these include SABMiller which has the goal to “accelerate growth and social development in our value chains” through “building a thriving world where incomes and quality of life are growing” (SABMiller plc, 2014, p.06); Standard Bank Group’s strategy outlines “leading emerging markets financial services organisation” (Standard Bank Group, 2009); and MTN Group which operates in “21 countries in Africa and the Middle East” (MTN Press Office, 2014). Dobbs, Remes and Smit (2013) suggested that by 2025, 46 % of large companies will be from emerging regions with a large share of global revenue coming from the emerging markets from 24 to 46% of the global total (Dobbs *et al.*, 2013).

This research is relevant to the SA market as it provides insight on business models that are being developed at the BOP taking into consideration the institutional voids in developing countries and recommending the critical success factors required to do business at the BOP.

### **1.3 Research Scope**

The scope of this research is to identify how organisations from different industries develop business models for consumers at the BOP.

### **1.4 Contribution to the literature**

This study aims to develop a comparative approach between different industries that develop business models for BOP markets using Osterwalder and Pigneur's (2010) business model generation approach. The researcher will explore and identify what elements allowed for success as firms developed BOP business models whilst still facing the 'institutional void' of the emerging markets.

The following research gaps were identified and hence form the motivation for this research:

- Geldenhuys' (2008) process model only focused on financial institutions doing business at the BOP (Geldenhuys, 2008).
- Thakoor (2012) required more explanatory research "to test and validate the BOP Blueprint model presented with a larger sample" (Thakoor, 2012, p. 100).
- Zott, Amit, and Massa (2011, p. 1038) Zott, Amit and Massa (2011, page 1038) identified that there are different approaches used in defining business models

and suggests that more research is required. Therefore the study will also try to unpack the definition of business models in the BOP markets (Zott *et al.*, 2011).

The study has followed an exploratory approach with the intention to gain a deeper understanding of what makes a successful business model for BOP markets. It has also explored whether there is a possibility of a uniform business model approach for the BOP market.

The research has:

- Investigated the business models applied in BOP markets.
- Provided an understanding of whether institutional voids can be ignored when developing business models in emerging markets.
- Identified similarities in business models.
- Recommended the critical success factors to be deployed at the BOP.

## **1.5 Statement of the research problem**

There are a number of ways in which business models are developed, thus posing a question of whether there is a uniform good practice business model that can be applied to BOP markets as a whole or if organisations are required to develop different business models dependent on the target segment within the BOP market.

## **1.6 Research Objectives**

The primary research objectives of this paper are to understand how the business models are developed; identify the challenges of doing business in developing countries; and look at how those challenges are met; as well as answer “what are the critical success factors of doing business at the BOP”.

## **1.7 Structure of the report**

Chapter 1: Introduces the research problem, research objectives and the rationale for the study.

Chapter 2: Provides the literature review describing and defining the BOP, criticism of the BOP construct, business models developed at the BOP and institutional voids in developing markets.

Chapter 3: Provides the research questions to identify the business models developed at the BOP taking into consideration the challenges faced in developing countries.

Chapter 4: Provides the research methodology used to gather data and insights from the study.

Chapter 6: Discusses the findings of the research, synthesis with the literature and provides conclusions on the findings.

Chapter 7: Discusses the implications for business, gives recommendations for future studies and concludes the study.

## **CHAPTER 2: LITERATURE REVIEW**

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This chapter reviews the literature with regard to Business Models developed for the BOP markets in developing countries. The literature review defines the BOP proposition, followed by the criticism for the proposition and then provides insight into the definition of business models. A brief review of different business models applied at BOP markets are provided and then insights into institutional gaps that are faced at developing countries which could impact how a business develops business models at the BOP are provided. This project aims to understand the business models developed at the BOP markets in developing countries whilst facing the voids such as lack of infrastructure that can impact the economic environment of the market.

### **2.1 Introduction to Bottom of the Pyramid**

The BOP proposition was introduced by C.K. Prahalad and S. L. Hart for multinational corporations (MNCs) to serve the poor who are considered to be inaccessible and unable to contribute to the firms' bottom line (Prahalad & Hart, 2002). The term "Bottom of the Pyramid" is alternatively being referred by other authors as "base of the pyramid" (Kolk, Rivera-Santos, & Rufin, 2013) to describe the world's poor who earn less than \$1500 a year (Prahalad & Hart, 2002). In the revised book Prahalad indicates that private sector firms should serve the unserved and the underserved (Prahalad, 2009). Prahalad (2009) states that BOP consists of four billion consumers and producers that can be subdivided into multiple segments, whereby the consumers and producers are faced with challenges such as poverty and innovative approaches are required for serving this market (C. K. Prahalad, 2009 ; C. K. Prahalad, 2012). Prahalad and Hammond (2002) have encouraged profit driven commercial activities by MNCs stating that as the MNCs

pursue their profit self-interest, social welfare of billions of poor people will also be radically improved (Prahalad & Hammond, 2002).

The World Bank has identified that 1.2 billion people are living on less than \$ 1.25 per day and are classified as living in extreme poverty (The World Bank, 2013). One fifth of the world population is living below the poverty line with an average income of the extreme poor being 87 cents per capita per day (in 2005 Purchasing Power Parity in dollars)(The World Bank, 2013). Prahalad and Hart (2002) suggested that the poverty problem can be solved through MNCs providing goods and services to the BOP market (Prahalad & Hart, 2002). The authors indicated that firms can generate profits by selling goods and services to the poor and in so doing, their standard of living will be improve. The BOP market is also described as a market with people of different cultures, ethnicity, literacy and capabilities who live on less than \$2 per day at purchasing power parity (PPP) (Prahalad, 2012).

A pyramid was used to describe the global market where the top represents a fraction of rich consumers and the bottom represents the majority of consumers (an estimated 3-4 billion people) (Boşcor & Brătucu, 2010).

The challenge posed by Prahalad (2009) is: the development of economic activities for the BOP market that will transform poverty into business opportunities resulting in the eradication of poverty (Prahalad, 2009). Majumder (2012) supported the notion by Prahalad that the BOP has market potential with mostly untapped fortunes (Majumder, 2012; C. K. Prahalad & Hammond, 2002). This is also supported by Rangan, Chu, and Petkoski (2011) who indicated that firms that improve the social welfare of their constituents may realise greater profits. The social improvement of the constituents will lead to an increase in income for the constituents resulting in greater consumption of the firm's goods and services

(Rangan *et al.*, 2011). This will be achieved through providing relevant affordable products, partnering with small businesses for distribution of the products, co-production with BOP market and partnering with the state and non-government organisations (NGOs) (Rangan *et al.*, 2011; Prahalad, 2012).

One of the benefits of firms operating in developing countries is identified by Woodward, Rolfe, and Ligthelm (2014) indicating that the operations of MNCs in developing countries have a positive impact in eliminating poverty and creating employment through the downstream distribution channels that support millions of entrepreneurs in retail. The Coca-Cola Company has been able to create business opportunities for small businesses (Woodward *et al.*, 2014).

For the purpose of this research, the study will utilize Olsen and Boxenbaum (2009) definition of BOP: “ the creation of new profit-seeking market opportunities to low-income segments in the developing world while simultaneously contributing to the sustainable development of these regions”(Olsen & Boxenbaum, 2009, p. 101).

## **2.2 Criticism of the BOP**

Critical questions raised by Majumder (2012) with regard to BOP market are covered in this section.

1. “Poor people have always been purchasing products and how BOP concepts have changed the corporation’s outlook in eradicating poverty through profits? In spite of such simple proposition where is the social transformation taking place? ” (Majumder, 2012, p. 20)



Mitchelson (2011) argues that profit seeking and welfare improvement are conflicting goals. Research performed by Mitchelson (2011) argues that there are no clear indicators for welfare improvement in companies that are involved in the BOP initiatives. Thus organisations are not actively indicating that the BOP twin goals of profit and welfare improvement have been achieved (Mitchelson, 2011). Limited research exists which supports or opposes the BOP proposition of firms profiting through provision of goods and services to the low income level while simultaneously eradicating poverty (Landrum, 2007).

Garrette and Karnani (2010) argues that there are very few businesses that were able to achieve the “doing well by doing good” BOP proposition through marketing socially useful goods for the low-income markets. Agnihotri (2012) supports Garrette and Karnani (2010) as he had only identified the microfinance case study out of the eight Prahalad (2005) case studies as a BOP success (Agnihotri, 2012). Garrette and Karnani (2010) states that there are more examples of businesses exploiting the poor by marketing socially ill goods such as tobacco and alcohol which degenerates the welfare of the poor (Garrette & Karnani, 2010). Instead the authors argue that BOP initiatives should take into consideration the economic and strategic challenges faced at the BOP market. Thus a clear distinction is made between social businesses like the Grameen Bank which are not concerned about the cost of capital and profit seeking businesses with objectives to achieve economic profits defined as accounting profits minus the opportunity cost of capital (Garrette & Karnani, 2010).

2. “Further reaching to poor people who are at the base of the pyramid can expose them to exploitation?” (Majumder, 2012, p. 20)

Davidson (2009) argues that not all products offered to the BOP have equal ethical terms and thus argues that strict criticism should be in place for products that are problematic to the poor. The argument demands criticism of products that do not increase the welfare of the poor; such as those that lead to high debts and also such as skin lightening creams. Davidson (2009) argues that the companies have the right to sell their products but finds it problematic to claim that transaction will result in poverty eradication. Karnani (2012) also raised concerns that there are only few socially ethical goods in the low-income markets that are profitable and operating at a large scale. Instead Karnani (2012) finds that there are more examples of goods that are exploiting the poor being marketed at the low-income segment. Thus suggesting that firms should design business models that will offer profitable ethical products and services to improve the social welfare of the poor instead of exploiting the poor (Karnani, 2012).

3. "BOP may have provided a gateway to corporations to enlarge their profits and leaving the poor people as mere consumers?" (Majumder, 2012, p. 20).

Karnani (2005) also indicated that the BOP market is unlikely to be profitable due to high costs experienced in economies that have institutional voids such as poor infrastructure. This results in high costs for logistics and culturally heterogeneous markets (Karnani, 2005). Karnani (2009) thus suggest that firms instead need not only view the poor as consumers but rather also as producers (Karnani, 2009). Through producing efficiently firms will reduce the costs of production of goods and services for the poor (Karnani, 2005). Agnihotri (2013) indicated that a win-win situation can be achieved through firms treating poor people not only as consumers but also as suppliers, producers and employees to the firms that serve in the BOP market (Agnihotri, 2013).

### **2.2.1 Distribution concerns at the BOP**

MNCs will have to develop new distribution networks to get access to the BOP market in developing countries. The innovative distribution networks may lower the cost of goods but may also take the business away from the existing small retail outlets, street vendors and other intermediaries (Davidson, 2009). Garrette and Karnani (2010) argues that new distribution networks might be required to reach the inaccessible market. These new distribution networks instead make the product offerings expensive resulting in the failure of the BOP initiative.

### **2.2.2 Basic needs versus vain products**

Low-income market require basic needs such as clean water, education, health care and shelter that are not fulfilled by the free markets due to the inability of the firms to make a profit through these products and services. The argument made by Karnani (2012) is that firms should first focus on the needs of the poor such as water and electricity rather than vain products such as shampoo (Karnani, 2012).

### **2.2.3 Microcredit to the poor does not alleviate poverty**

Prahalad and Hammond (2002) had indicated that microcredit through efficiency and low default rates is a good example of products innovations at the BOP. According to Karnani (2011), firms have thus started providing loans to the low-income markets in the developing countries. Firms providing microcredit to the poor are making profits through charging high interest rates and implementing loan recovery practices that are not aligned to developed countries' best practices. The microcredit industry in the developing countries is exploiting the poor and needs to

be regulated through transparent policies by the government. Karnani argues that microcredit does not alleviate poverty as the microcredit clients are unable to operate their small businesses efficiently to be able to improve their welfare (Karnani, 2011).

#### **2.2.4 Public policy and state as co-driver for BOP initiatives**

Karnani (2009) argues that the BOP proposition undermines the role of the state and expects the free market to reduce poverty. Karnani (2009) and Varman, Skalen and Belk (2012) argues that the neoliberal movement of decreasing the role of state and privatisation of the public sector function to alleviate poverty will not succeed (Karnani, 2009; Varman, Skalen, & Belk, 2012. Varman, Skalen and Belk (2012) identified key areas to public policy in marketing as “eradictaion of poverty, social justice and economic development” Varman, Skalen, & Belk, 2012, p. 32). However Varman et al (2012) also alluded to profit seeking and poverty alleviation as potential conflicting goals for corporations to achieve within the BOP construct. The e-Choupal case study conducted by Varman *et al.* still indicates the difficulties in simultaneously achieving both profitability and poverty alleviations in BOP initiatives are due to a lack of clear understanding of the markets, role of the state and other actors involved in the process. Due to corruption experienced in the e-Choupal case study, the emphasis is more on selfish profit seeking activities than achieving the social imperative of poverty eradication within the community. The findings by Varman et al indicates that although the e-Choupal was designed to benefit the poor farmers, it is the rich farmers that are benefitting from the programme. The government policy requires to be rationalized instead of leaving the welfare measures to corporations (Varman *et al.*, 2012).

### **2.2.5 Conclusion on the critiques for BOP**

The conclusion made by Garrette and Karnani (2010) is that there are no fortunes at the BOP for “socially useful products” such as Essilor’s vision correction initiatives that was implemented to provide simple low cost eyeglasses (Garrette & Karnani, 2010).

However there have been cases where serving the BOP market has resulted in the social improvement of people living at the BOP. An example is India’s largest fast-moving consumer goods company Hindustan Unilever Limited. The company has been able to achieve commercial value and social good through educational campaigns of advocating the use of Lifebuoy soap to reduce diseases such as diarrhoea in the low income markets. Selling of soap achieves the social objective of reducing the water-borne diseases and also providing the firm with profits (Cross & Street, 2009). Allianz entered the Indian market through a joint venture with Baja Motors Limited by selling insurance to the top market. It was through forced legislation by the Indian Insurance Regulatory and Development Authority (IRDA) that insurance products should also be developed for the BOP markets that Allianz began to target this market. Through collaboration with microfinance institutions, NGOs, UNDP and German development agency, Allianz was able to understand the customer needs at the BOP such as to be able to develop appropriate products for the market (Schuster & Holtbrügge, 2012).

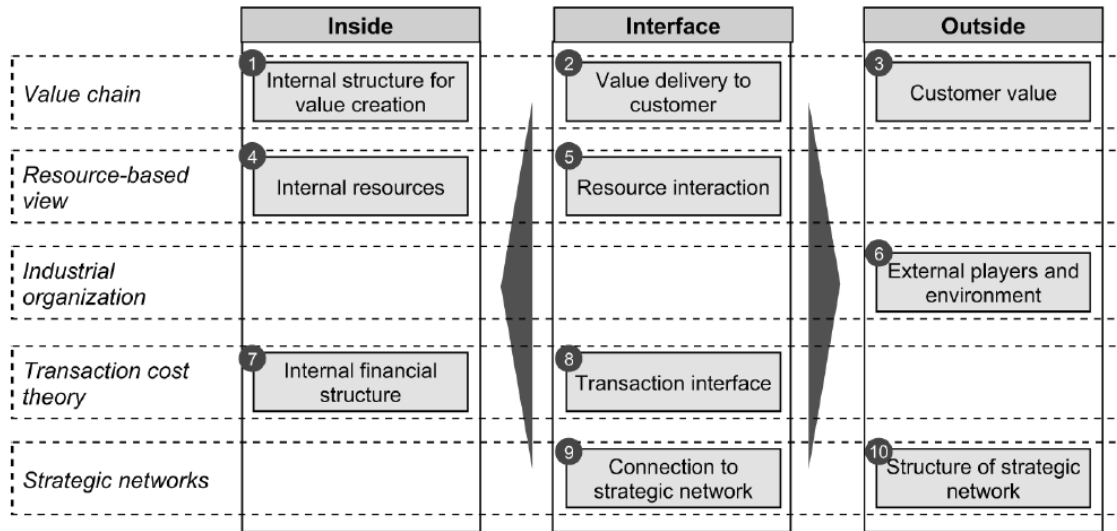
### **2.3 Business model relevance to BOP**

The expected future growth of the BOP market is about 3.5 billion people, thus requiring radically innovative business models (Schillebeeckx, Parikh, Bansal, & George, 2012). Lenssen and Van Wassenhove (2012) identified that there are

market opportunities in developing countries and that business have the potential to play an important role in sustainable development through the development of innovative business models (Lenssen & Van Wassenhove, 2012). This section will define the business model construct, its relevancy to the BOP and developing countries.

A business model is defined as the thinking process behind how businesses provide, create and capture value (Osterwalder & Pigneur, 2010; Achtenhagen, Melin, & Naldi, 2013; Brettel, Strese, & Flatten, 2012). A business model involves not only products and services that a firm supplies, but also extends to the relationships that the firm must have with other stakeholders in order to be successful (Lambert & Davidson, 2013; Brettel, Strese, & Flatten, 2012). Hacklin and Wallnöfer (2012) stated that a business model is linked to value creation and value capturing while entrepreneurship scholars recognise the business model as a framework to be used to integrate and organise strategic elements for exploitation of business opportunities (Hacklin & Wallnöfer, 2012). Figure 1 (below) depicts the original business model taxonomy used for capturing key elements of the organisation to be able to brain storm on new business models (Hacklin & Wallnöfer, 2012). Thus the business model can be used to capture the *As-Is* environment and to create new variations or completely new business models through the creation of the *To-Be* business model.

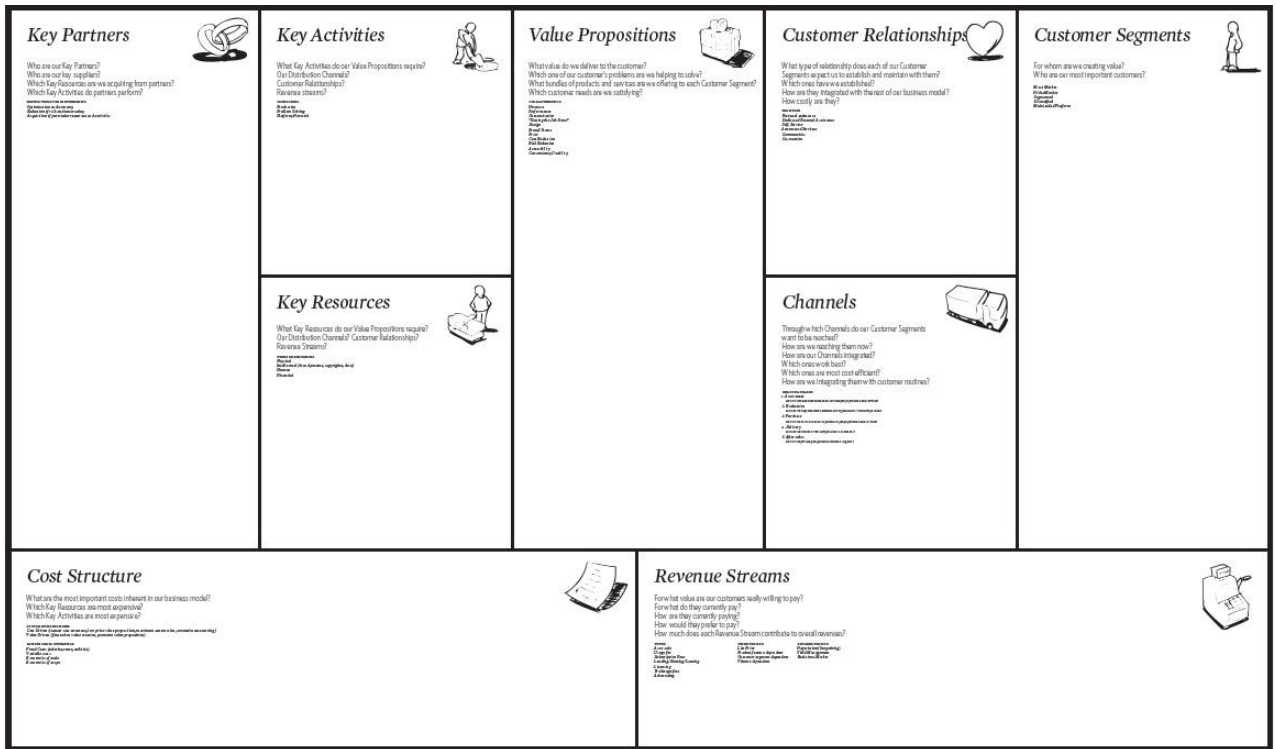
**Figure 1 Snapshot and parameterization of original business model**



Source: Hacklin & Wallnöfer (2012). The business model in the practice of strategic decision making: insights from a case study

Osterwalder and Pigneur (2010) developed a business model template without any specific target segment, as depicted in Figure 2 (below). The business model canvas was developed with the aim of organisations to have a single agreed and visual description of a business model. The Osterwalder and Pigneur (2010) business model canvass depicted nine building blocks as shown in figure 2 (below) and explained in the next paragraph.

**Figure 2 Business Model Canvas**



Source: Osterwalder & Pigneur (2010) Business Model Generation: A Handbook For Visionaries, Game Changers, And Challengers

The nine building blocks are described as follows by Osterwalder and Pigneur (2010):

1. Customer Segment – organisations that have one or more customer segments
2. Value Propositions – the process of trying to solve the problems of the customer and ability to satisfy the needs of the customer.
3. Channels – it is through communication, distribution and sales channels that the value proposition is delivered to the customer.
4. Customer Relationships – the organisation has a defined type of relationship with each customer segment.
5. Revenue streams –the value that each segment is willing to pay for a product and a service; represents the cash generated from each customer segment.



6. Key resources – are the physical, financial intellectual and human resources for an organisation to achieve its business objectives.
7. Key activities – the most critical activities an organisation must perform to enable its business model to work.
8. Key partnerships – the partnerships that the organisation might have with its suppliers, the state and others to be able to achieve its business objectives.
9. Cost structure – the costs incurred while operating under specific business model.

The nine building blocks are also identified by Chesbrough (2010) as functions that a business model fulfills (Chesbrough, 2010). Pienaar (2013) also identified customer segments, value proposition, relationships, activities, resources, revenue model and cost model as elements of a business model which is aligned to the Osterwalder and Pigneur (2010) business model canvass. Although channels and customer relationship are not indicated as elements of a business model Pienaar (2013) also uses the business model canvass to articulate other business' models (Pienaar, 2013).

Brink and Holmén (2009) and Teece (2010) defines a business model as a construct that shows how a firm creates or meets the perceived wants of a customer through underwriting detailed specifications on how to exploit the business opportunities that will bring revenue to the organisation (Brink & Holmén, 2009; Teece, 2010). Casadesus-Masanell and Ricart (2010) defines business models as an architecture or design of how a firm creates and delivers value to customers which results in profits for the organisation (Casadesus-Masanell & Ricart, 2010).

Research performed by Lambert and Davidson (2013) indicates the following dominant themes with regard to business models:

1. Business model as a tool for enterprise classification – the enterprise classification can either be industry or user specific in order to unpack the *As-Is* or baseline of the business.
2. Business models and enterprise performance – management research is performed in order to understand the success of certain firms based on the business models they are applying. Business model elements are studied to understand the reasons for the firm's success in order to transfer the model to other new markets.
3. Business model innovation – keys to the success of innovative business models are being researched. Business Model innovation is linked to the firm's performance.

There is no agreed definition of a business model even though the literature on the construct is abounding with definitions and components of a business model (Lambert & Davidson, 2013; Zott, Amit, & Massa, 2011; Yunus, Moingeon, & Lehmann-Ortega, 2010). However scholars such as Zott et al (2011) argue that the literature on business models is scattered, suggesting that concepts should be clearly defined with three key distinctions: (1) e-business model prototypes, (2) business model as a business activity design system that creates value, and (3) business model as cost/revenue structure (Zott, Amit, & Massa, 2011). This suggests that there is no single perspective and definition for business models. This research will try to understand if there are similarities or differences in business models for the BOP market.

In conclusion a business model is “blueprint of how a company does business” (Osterwalder, Pigneur, & Tucci, 2005) and is developed by organisations seeking growth, or by a start-up company, or through a need to develop a new product and or service, or it could be a result of a crisis in an organisation that requires to reinvent itself (Eppler & Hoffmann, 2012, Osterwalder & Pigneur, 2010). The four objectives of business model innovation are:

1. To meet customer needs;
2. Develop new products and services;
3. Bring about disruptive innovation that will transform the current market; and  
or
4. Creation of new market for the organisation (Osterwalder & Pigneur, 2010).

These objectives are in line with the reasons Brink and Holmén (2009); and Casadesus-Masanell and Ricart (2010) explaining why firms develop business models, namely: identification and exploitation of opportunities; experimentation of a business idea; and meeting the perceived or unanswered wants of a customer (Brink & Holmén, 2009; Casadesus-Masanell & Ricart, 2010).

The business model is thus defined as “a conceptual representation of boundary spanning organizational architecture, which explains how an organisation creates, delivers and captures value at a specific point in time. The business model is based on the organisation’s hypothesis about the value sought by customers, and conveys shared meaning about the specific combination of resources, competencies, activities, transaction, networks and relationships used to deliver a corresponding value proposition, profitably” (Pienaar, 2013, p. 18).

## **2.4 Business model development at the BOP**

Prahalad (2009) argues that there are fortunes to be made in the BOP and thus MNCs needs to provide goods and services for low income markets through the use of an inclusive approach of development of products and services. The MNCs needs to serve the BOP market while also improving the welfare of its consumers through eradicating poverty. Arora and Kazmi (2012) states that firms have now been receiving attention and pressure to become sustainable community developer

through building inclusive business models that combines the corporate goals with sustainable improvement of the communities they operate in.

Prahalad (2009) indicated that organisations should start serving the low income markets with the expected results of financial growth for the poor through co-creation processes whereby the poor are also problem solvers to the issues faced by them (Prahalad, 2009). Organisations that are intending on serving in the emerging and developing markets which comprises of people at the BOP markets (The World Bank, 2013) are faced with institutional voids such as poor logistics and lack of market data which requires MNCs to have local market understanding and also localise the way they do business (Jullens, 2014). Firms will need to create innovative business models to be able to improve the welfare of the communities they operate in and manage the challenges of an environment that is faced with poor logistics, lack of skills, corrupt public service and other inadequate institutional deficiencies faced by developing countries (Calton, Werhane, Hartman, & Bevan, 2013; Dahan, Doh, Oetzel, & Yaziji, 2010; Linna, 2012).

The Essilor's provision of eye glasses to the poor and Procter and Gamble (P&G)'s purifier of water case studies shows how not all good intended business models that provide beneficial products to the BOP market can be profitable (Garrette & Karnani, 2010). The return on investments has been lower than expected with old business models from industries such as pharmaceuticals not working for the bottom of the pyramid markets (The Economist, 2014). Casadesus-Masanell and Ricart (2010) identified that for organisations to be sustainable in the current challenging economic atmosphere with threatening low-cost rivals, it will be required that they revisit and develop competitive business models. Firms need to adapt their business models by taking into consideration the "cultural, economic, institutional, geographic and other features of the markets" (Dahan, Doh, Oetzel, & Yaziji, 2010, p.326). Thus Dahan *et al* (2010) identified that organisations requiring

growth or investment in developing markets might not have the knowledge and resources to assist in the development of value creation business models within the emerging markets (Dahan *et al.*).

Suggested business model development requires firms to co-create these models with other stakeholders. Osterwalder and Pigneur (2010) have included key partners as one of the nine key components for business model development. Consortium business models through partnering with corporates, NGOs and the state are seen by some to provide required capabilities for the BOP market (Schillebeeckx *et al.*, 2012).

Prahalad (2012) developed a business specification for BOP consumer products in India as indicated in Figure 3 (below). The process started with an in-depth understanding of the customer before the final product was developed, thus suggesting that corporations are required to clearly understand the actors in the markets before introducing any products (Prahalad, 2012; Varman *et al.*, 2012). Majumder (2012) and Jullens (2014) also indicated that firms targeting BOP market must develop products and services through the consumer's lens to ensure that the needs of the customers are met.

**Figure 3 The Process for Developing Business Specifications**



Source: Prahalad (2012). Bottom of the Pyramid as a Source of Breakthrough Innovations.

Vandermerwe (2012) describes how the CEO of the UT Bank had to provide loans to encourage entrepreneurship in an industry where banks required collateral from clients that could not provide any collateral resulting in them not being able to receive the loans. The UT Bank CEO got to know and understand the customer's business and redefined the repayments based on the timeliness that the customer will be able to repay the bank. The CEO even went to the extent of sketching maps for the banks to identify the residence of the customers who did not have a legal address (Vandermerwe, 2012).

M-Farm local business founders in Kenya developed mobile ICT solutions for local farmers through interacting with family members of the farmers. They further researched on agricultural business by interacting with other stakeholders. A considerable amount of time was spent with the farmers to understand their

business context. This enabled them to develop a solution that would provide adequate information to address the issues of the farmers (Linna, 2012). Both the UT Bank and M-Farm indicated the importance of understanding the customer through immersing themselves in the customer's lives.

Customer immersion can be achieved through collaborative business models development as discussed in the next section.

#### **2.4.1 Segmentation of the BOP customers**

The BOP market should not be treated as a blanket customer segment where products and services are similar for the identified 4 billion BOP market as the market. The market consist of heterogeneous consumers (Rangan *et al.*, 2011; Calton *et al.*, 2013). As indicated by Karnani (2006), Dahan *et al.* (2010) and Prahalad (2012) the BOP market consist of diverse cultures thus requiring business model development to be a process “of context oriented individualized rather than generalized practices” (Calton *et al.*, 2013, p. 729). The uniqueness of each individual community should be taken into consideration when developing business models for BOP markets.

A Phillips case study shows the importance of cultural heterogeneity in allowing MNCs to develop products according to specific low income markets. This can be seen as a product used as a solar lantern developed in India was then required and used as also a phone charger in Ghana. Thus showing the need for localisation of products by firms at the BOP. “The desire to charge mobile phones via the Uday solar lantern became apparent in Ghana, not in India” (Waeyenberg & Hens, 2012, p. 1696).

Researchers such as Calton *et al.* (2013) and Dahan *et al.* (2010) argues that co-creation is key in achieving profitable and socially imperative results in the BOP market. Chesbrough and Schwartz (2007) use the notion of “co-development relationships” whereby partnerships are formed between a number of parties to develop business model for the development of products and services (Chesbrough & Schwartz, 2007).

Elaydi and Harrison (2010) stated that “Firms should ask “why are we entering this market, what do we hope to accomplish, and what will be the long-term impact of our presence?” (Elaydi & Harrison, 2010, p. 655)

#### **2.4.2 Collaborative Business Models development**

The business model canvass by Osterwalder and Pigneur (2010) and Chesbrough (2010) identified key partnerships as one of the fundamental components for the development of business models. Key partners identified in this sections are BOP consumers, BOP producers, NGOs, government and other corporates as key to successful BOP initiatives. London and Hart (2010)’s criticism of BOP proposition by Prahalad was finding of fortune at the BOP with BOP market only being perceived as consumers. Instead London and Hart (2010) proposed that collaborative strategies where fortunes are created with the poor people (London & Hart, 2010).

Due to lack of market information, isolation of the BOP consumers and gaps identified in the value chain, MNCs require to develop partnership with actors from



different sectors that will enable them to develop profitable products and services at the BOP (Rivera-Santos & Rufín, 2010).

#### **2.4.3 Business models development collaboration between firms and consumers**

Majumder (2012) suggested that product development can be affordable through collaboration between consumers and firms. Majumder argues that social transformation is feasible when corporates and BOP consumers are actively involved in improving the welfare of the community. This engagement will result in products and services that meet the needs of the BOP consumers and also allow the corporations to be profitable. Co-creation of business models with the poor will enable the eradicating of poverty in the BOP market (London & Anupindi, 2012; Majumder, 2012). Porter and Kramer (2011) discusses the notion of creating a shared value as different from corporate social investment in a sense that joint value creation between a firm and a community can ensure successful meeting of the firm's profit and still be beneficial to the community the firm operates in. The benefit to all stakeholders will include insights gained from the collaboration, skills transfer and access to resources (Porter & Kramer, 2011).

#### **2.4.4 Business models development collaboration between firms and other local partners**

Partnership between corporates, communities, NGOs and state should be in place to address common problems especially in severe poverty stricken areas in order to create both social and economic value (Calton *et al.*, 2013; London, Anupindi, & Sheth, 2010). The collaboration between the different partners allows for the contribution of "assets such as knowledge, reputation, and brand, and tangible resources, such as human capital, production capabilities and market access along

each stage of the value chain and affecting many aspects of the business model” (Dahan *et al.*, 2010, p. 327). Dahan *et al.* suggests that business models can also be developed through cross-sector partnerships with the end results being social and economic value creation. Rivera-Santos and Rufín (2010) also suggests that partnerships at BOP markets will be beneficial to all parties as the parties will leverage off the resources and other capabilities they require from each partner (Rivera-Santos & Rufín, 2010; Ansari, Munir, & Gregg, 2012; Waeyenberg & Hens, 2012; Linna, 2012; B. George & Khoja, 2012).

Vandermerwe (2012) describes how a supplier of cement, Cemex, in Mexico was able to partner with customers and thus to provide low income consumers who had no shelter with homes. Both parties were involved in the building process of the homes and a profitable business outcome was still achieved (Vandermerwe, 2012).

#### **2.4.5 Business models development collaboration between firms and BOP producers**

London and Hart (2010) characterized the local BOP suppliers as not having the recognizable impact in the formal economy as most of their operations are run in the informal economy (London & Hart, 2010; London, Anupindi, & Sheth, 2010). Gold, Hahn, and Seuring (2013) indicated that poor producers should be involved in the value chain even though they will require supplier development programs. MNCs require involving BOP markets in their production processes to achieve sustainable supply chains. Thus the BOP markets are not only viewed as consumers but also as creators of value through their engagements as service providers and producers to the firm’s value chain (Gold *et al.*, 2013; Hahn, 2009; Simanis, Hart, & Duke, 2008; McKague & Oliver, 2012; Cross & Street, 2009).

#### **2.4.6 Social business models at BOP**

Yunus *et al.* (2010) and Mitchelson (2011) have argued that simultaneously meeting the objectives of profit making, the drive to please shareholders and improving the social welfare of communities in the BOP market is challenging due to the capitalist key driver of maximizing profits. To improve the social welfare of the BOP market as a business, the firms should attract social profit oriented shareholders who will support the social imperative mandate. Thus a social business is ideal for the profit making business with the objective of also improving the social welfare of its community.

A social business is a business with the objective of meeting the social imperatives of its constituents while also remaining self-sustainable through the ability to cover the organisation's full costs with investors being able to recover their investments (Yunus *et al.*, 2010). Table 1 (below) is adapted from Yunus *et al.* (2010) and shows the difference between a social business model and a conventional business model.

The similarities are identified with the quest to revisit the conventional business models operating at the BOP market, partnering with other stakeholders in the development and delivery of the business models and continually revising the models to ensure relevancy in the market. The differences identified show that the focus of social business is a social profit objective and favours shareholders who support a self-sustainable social business (Yunus *et al.*, 2010).

**Table 1 Social Business Model vs. Conventional business model**

Grameen Partner & sector	Conventional business model (predominantly in developed countries)		Social business model	
	Value proposition	Value constellation	Value proposition	Value constellation
Telenor, telecom	<ul style="list-style-type: none"> <li>• Sale of a monthly package (phone + air time) to individual consumers</li> </ul>	<ul style="list-style-type: none"> <li>• Construction of a wireless network</li> <li>• Sale of package through retail</li> </ul>	<ul style="list-style-type: none"> <li>• Caller borrows a phone when needed and pays per minute</li> </ul>	<ul style="list-style-type: none"> <li>• Construction of a wireless network</li> <li>• Grameen ladies own the phones, buy discounted air time in bulk and sell minutes to users as needed</li> </ul>
Veolia, water services	<ul style="list-style-type: none"> <li>• Maximum water quality</li> <li>• Distributing water through taps located inside people's homes</li> </ul>	<ul style="list-style-type: none"> <li>• Water treatment factories with a high level of technology, recycling and purifying water</li> </ul>	<ul style="list-style-type: none"> <li>• Water quality that meets World Health Organization standards (rather than US or European standards)</li> <li>• Village water fountains</li> <li>• Prepaid card payment system</li> </ul>	<ul style="list-style-type: none"> <li>• Construction of a simplified water plant to recycle surface water</li> <li>• Construction of the water supply network towards the fountains</li> <li>• New distribution channel for isolated locations: rickshaws driven by 'Grameen Boys'</li> </ul>
Danone, dairy products	<ul style="list-style-type: none"> <li>• High-end products</li> <li>• Emphasis on lifestyle</li> <li>• Strong brand name through advertisement</li> </ul>	<ul style="list-style-type: none"> <li>• Centralized purchasing and production (economies of scale)</li> <li>• Logistics towards distribution platforms</li> <li>• Sales through food retailers</li> <li>• Storage by end consumers</li> </ul>	<ul style="list-style-type: none"> <li>• Low price</li> <li>• Fulfillment of basic nutritional needs</li> <li>• Grameen brand image</li> </ul>	<ul style="list-style-type: none"> <li>• Local supply of raw products</li> <li>• Local production</li> <li>• Direct door-to-door sales by 'Grameen ladies'</li> <li>• Limited storage by end-consumers</li> </ul>

Source: Yunus, Moingeon & Lehmann-Ortega (2010). Social Business Models: Lessons from the Grameen Experience.

Yunus *et al.* (2010) challenges the MNCs targeting BOP market to rethink those business models that favour shareholder maximization instead of stakeholder maximization. In the stakeholder maximization a win-win situation for all the involved is achieved thus allowing profit to be made while also improving the social welfare of the BOP market (Yunus *et al.*, 2010).

#### **2.4.7 Social business model that cultivated social capital**

Muhammad Yunus started the Grameen Bank as a research project to test the feasibility of supplying credit to the poor without any collateral agreement with the banks. The research was to check the creditworthiness of the poor. This resulted in Yunus becoming an intermediary between banks and the poor rural people of Bangladesh thus allowing for the formation of the specialized Grameen Bank for the poor. The provision of credit especially to women caused a lot of huddles for the bank with Yunus having to justify the reason why women should take credit. Yunus had to build trust with the Central Banks, Finance Ministry, commercial banks, religious clerics and the poor for the Grameen Bank to be a success. The banks created a vertical and horizontal network platform to enable their customers' access to information that could help them in their business. The bank has been able to give prominence to the family social capital and is currently developing products that will meet the family enterprises. Through cultivating social capital, Grameen Bank has been able to alleviate poverty to some of its members (Dowla, 2006).

The ICT industry has been able to develop innovative business models for BOP markets through an ecosystem that included different stakeholders (Linna, 2012).

This section has indicated that it is challenging to serve at the BOP market and firms will need to provide innovative business models to be able to create the shared value between firms, consumers and other stakeholders, such as the public for the firms to achieve long term sustainable economic profits.

## **2.5 Institutional voids in developing markets**

Rivera-Santos and Rufin, (2010) argue that there has been lack of research that indicates the link between the structural problems at the BOP and the BOP models despite research suggesting that BOP business models should be different to the Top of the Pyramid (TOP) business models. Rivera-Santos and Rufin (2010) defines the institutional environment of the BOP market as consisting of weak legal enforcement and strong traditional ties within the communities (Rivera-Santos & Rufin, 2010). Dahan *et al.* (2010) suggests that due to unique institutions in the developing market, firms should develop innovative business models to be succesful in the BOP market (Dahan *et al.*, 2010).

To define the institutional voids and understand their relation to developing markets, we first have to define the orgins of the construct 'institutions'.

North (1990) introduced the term institutions as formal and informal restrictions, which shape the political, economic and social interaction caused by individuals. The formal restrictions are the legislation in the country such as property laws. The informal restrictions are "the sanctions, taboos, customs, traditions, codes of conduct" (North, 1990, p. 97) . Formal institution also implies the state is protects and enforce property rights. Institutions have been put in place to create certainty and order within the environment. Effective institutions reduces the transaction

costs between parties thus allowing gains from trade to be realised. Klein (2000) indicated that the evolution of institutions creates an enabling environment for social improvement and trading partnership resulting in economic development with lack of regulation and inability to enforce law (Klein, 2000).

### **2.5.1 Defining institutional voids**

An institutional void is an environment that lacks efficient institutions. Such is defined as lacking the formal regulative environment that will enable efficient economic activities such as access to the market information and lack of legal protection of property rights. Mair, Marti, and Ventresca (2011) defines institutional voids as the “absence of these institutional arrangements” (Mair *et al.*, 2011, p. 822) and indicated that it is difficult to develop efficient and transparent economic activities in such an environment (Mair *et al.*, 2011). A closer definition to Mair, Marti, and Ventresca (2011) is that of Lagace (2010) who defines institutional voids as the absent of or the lack of proper functioning of institutions and intermediaries in emerging markets. Thus the gaps such as lack of infrastructure in the developing markets are classified as the voids in the institutions of those markets.

Informal institutions such as rules that guide the social conduct of people guide the socio economic activities in environments that are characterised as having formal institutional voids (London, 2009; London & Hart, 2004). Institutional void environments have high transaction costs, lack market information. Exertion in creating partnerships to access the market is required and intense negotiation is required for economic exchanges (North, 1990). The reality of developing markets is that they operate in an environment that is characterised by institutional voids thus requiring firms to adapt their strategy when engaging with such markets (Dhanaraj & Khanna, 2011; Waeyenberg & Hens, 2012).

Calton *et al.* (2013) and Rivera-Santos and Rufín (2010) indicated that developing markets in the BOP environment are faced with lack of proper nutrition, lack of acces to clean water, lack of sanitation facilitites, lack of health facilities, lack of proper housing, lack of energy sources, illiteracy, unemployment, dependance on cash, poor infrastructure and corruption in public and private sectors (Calton *et al.*, 2013; Rivera-Santos & Rufín, 2010). Rangan *et al.* (2011) also indicated that the BOP lacked basic needs such as clean water and food as well as a lack of participation by BOP market in formal markets either as consumers or as producers. Stal and Cuervo-Cazurra (2011) also indicated that developing countries lack property rights protection, stability of the political environment, efficient infrastructure, transactions transparency and the ability to reduce corruption; thus making it difficult to attract foreign capital to developing countries.(Calton *et al.*, 2013)

The institutional voids in developing countries result in inefficient economic environments thus making it difficult for firms to realize the gains from trade and as a result impacting negatively on the lives of the people who do not have access to products they might need (Chakrabarty & Bass, 2014).

To be able to develop business models in these environments Khanna and Palepu (2013) suggested that organisations use the six classes of Institutional voids namely:

1. Traders and their buyers should know about each other before involving themselves in any transaction.
2. Trust between the traders and buyers must first be established.
3. Firms must be able to get access to their buyers.
4. Buyers must be able to trust in the integrity of the products and services that their firms provide.



5. Commitment to transact must be honoured between the sellers and the buyers.
6. In case of any conflict, there should be an ability to rectify and compensate the affected parties.

These classes enable managers to adapt their strategies in creating solutions that will meet the needs of the market they are facing (Khanna & Palepu, 2013).

Rivera-Santos, Rufín and Kolk, (2012) suggest that partnering with partners from multiple sectors can assist in compensating and filling the institutional gaps in BOP market (Rivera-Santos *et al.*, 2012).

The notion that developing markets are characterised with institutional voids suggests that the development of products and services in such markets needs to take into consideration the institutional voids. Unlike in developed markets where there is good infrastructure, developing markets would require that firms fill the voids to be able to access the market.

Table 2 below is adopted from Webb, Kistruck, Ireland and Ketchen (2010, p. 560) indicating the differences in institutions between developed, developing economies and the BOP market. The developed economies have strong institutions with the BOP market consisting of undeveloped institutions that are guided by informal institutions. To fill the institutional gaps Webb, Kistruck, Ireland and Ketchen (2010) also suggest that MNCs should partner with NGOs to be able to reduce transactional costs of doing business in BOP market (Webb *et al.*, 2010).

**Table 2 Comparison of formal institutions of BOP markets with markets in more developed regions**

	Developed economies	Developed regions of developing and emerging economies	Base of the pyramid markets
Capital markets	Various formally established sources of funding, including equity markets, banks, venture capitalists, business angels, etc.	Some formally established sources of funding, such as banks and perhaps fledgling equity markets, but significant amounts of funding not readily available	No formal capital market except for extremely large businesses. Small and medium enterprises and individuals forced to rely upon familial ties, limited personal savings, and “loan sharks”
Labor markets	Well-educated, skilled labor markets with efficient means of tapping this market, including media outlets, the Internet, and employee search firms	Labor markets include sources of well-educated and skilled labor, but not as consistently as in developed economies. Tapping labor markets may not be as efficient	Vast majority of workforce uneducated, unskilled, and unorganized. Extremely high information asymmetry in labor matching
Infrastructure	Highly developed transportation (i.e., paved and comprehensive interstate and intrastate highways and roads), communication systems (i.e., TV, Internet, and wireless/wired outlets), and utilities (gas, electrical, water, etc.)	Infrastructural elements, such as transportation, communication, and utilities, are often developed but not as comprehensive throughout the regions	Public infrastructure in highly populated urban areas is undependable and inadequate. What infrastructure that does exist in rural areas is largely supported by private communities rather than public funds
Contracts and enforcement	Formal contract law and established regulatory and court systems for enforcing contracts	Contract laws are often defined, but corruption and weak enforcement create potential business inefficiencies	Dominated by informal governance mechanisms related to group norms, reputation, and power
Property rights	Established property rights defining one’s property, the means through which one can increase one’s property, and the means through which to enforce one’s rights	Property rights are defined, but corruption, weak enforcement, and economy-level changes weaken one’s rights	“Barking dogs” effect—notions of ownership do exist but are only informally recognized. Little to no property rights protection available in the event of violations

Source: (Webb *et al.*, 2010). The Entrepreneurship Process in Base of the Pyramid Markets: The Case of Multinational Enterprise/Nongovernment Organization Alliances

An empirical study by Ahmad and Marwan (2012) indicates that 'institutions matter' for growth of the economy in developing countries especially the security of property rights and strong government institutions. Unfortunately as indicated in this section, developing countries are still faced with a lack of institutions and business model development should take cognisance of the environment it operates in.

Singh and Chaudhuri (2009) indicate that Indian companies have incorporated the institutional voids in their business models to be able to challenge MNCs entering into their markets. The Indian companies used the constraints to develop new business opportunities through building innovative processes, collaborative development of products, creating of new service models, and attracting talent by collaborating with educational institutions (Singh & Chaudhuri, 2009).

"When consumers face constraints in accessing goods and services, these are opportunities for companies to develop unique service delivery models." (Singh & Chaudhuri, 2009, p. 10).

## **2.6 Doing business in developing countries**

The World Bank classifies economies into low income, middle income and high income through using the gross national income (GNI) per capita (The World Bank, 2013). The low income and middle income are referred to as developing economies with GNI of low income being \$1035 or less, lower middle income of \$1036 - \$ 4 085 and upper middle income of of \$4 086 - \$12 615. The World Bank has classified 145 countries as developing countries (The World Bank, 2013).

Goetzmann and Jorion (1999) defined emerging markets as a stock market in the developing countries that provide high returns and “low co-variances with global market factors” (Goetzmann & Jorion, 1999.p. 1). Africa, Asia, South America, Middle East and Eastren Europe had been identified as emerging markets. Goetzmann and Jorion (1999) suggested that emerging markets emerge, submerge and then re-emerge based on the performance measures of such countries. Chavan and Prabhu (2010) defined emerging markets as developing countries that are participating in the global markets and experiencing rapid economic growth (Chavan & Prabhu, 2010). Guo (2013) used the term “emerging countries” interchangeably with the term “developing countries”.

The term “emerging countries” will be used interchangeably with the term “developing countries”. For the purpose of this research, emerging and developing countries/markets will mean the same(Guo, 2013).

The emerging markets are contributing significantly to the world economy with an output of about 38 % of the world gross domestic product at market exchange rates (Dhanaraj & Khanna, 2011). Although firms identify the potential economic benefits in emerging markets, the firms have to deal with the countries’ institutional voids (Dhanaraj & Khanna, 2011; McKague & Oliver, 2012).

Although there is growth in the economic activities in the developing countries, there are still also major issues relating to food security, poverty, lack of education and corruption in these markets (Lenssen & Van Wassenhove, 2012).

## 2.7 Summary

The BOP construct states that there are profits to be made in a market where people live on less than \$ 2 per day. The challenge posed is for firms to develop business models that will serve the poor profitably whilst also improving the social welfare of the poor (Prahalad & Hart, 2002).

One of the identified benefits of firms operating in developing countries is identified by Woodward, Rolfe and Ligthelm (2014) indicating that the operations of MNCs in developing countries have a positive impact in eliminating poverty and creating employment (Woodward et al., 2014).

The literature review indicates the following criticism: poor people have been purchasing products and thus the BOP market is not necessarily untapped and whether the twin, conflicting goals of profit and social improvement are really achieved.

However research also indicates that there have been firms operating successfully at the BOP markets whilst also improving the social welfare of the communities. Innovative business models need to be in place for firms to be profitable and improve the welfare of communities while also having to do business in developing countries that are faced with challenges, such as lack of infrastructure and different languages.

This study has investigated the business models deployed at the BOP and has researched a number of different industries.

## **CHAPTER 3: RESEARCH QUESTIONS**

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The aim of this research is to identify the business models developed at the BOP taking into consideration the institutional voids that impact the business environment in developing countries. The researcher will explore the practical approach firms use to develop BOP business models whilst still facing the 'institutional voids' of the developing markets. Institutional voids in developing markets create inefficiencies in the economic environment making it difficult for firms to realize the gains from trade (Chakrabarty & Bass, 2014).

### **3.1 Research question 1:**

How do firms develop business models at the BOP?

### **3.2 Research question 2:**

What are the practical approaches for firms to use in the development of products and services for the BOP market whilst facing the institutional voids?

### **3.3 Research question 3:**

What are the critical success factors to be considered when developing business models at the BOP market?

## **CHAPTER 4: RESEARCH METHODOLOGY**

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### **4.1 Introduction**

The previous chapter described the research questions which form the basis of the research. This chapter discusses the methodology used to gather data to answer the research questions.

### **4.2 Research design**

Lewis and Saunders (2012) stipulated three research methods namely:

- Descriptive studies – aim of the design is to provide an accurate representation of a phenomenon answering the questions “what?”.
- Explanation studies – aim of the design is to explain relationships between variables with the intention to answer “why?”.
- Exploratory studies – aim of the design is to investigate new insights where the research problem is uncertain.

The study has followed an exploratory approach through attempting to gather sufficient data and by engaging with and interviewing stakeholders who develop products and services for BOP markets in developing countries. The format of the interviews were semi-structured and covered components depicted in Osterwalder and Pigneur (2010) business model generation approach. The qualitative research method used was to provide insight to be able to answer the research questions and understand how firms develop business models for low income markets. Furthermore, it helped to identifying the most applicable model. The quantitative

research method was not used, as this methodology requires a concept to be mature in order to be used (J. Morse, Barret, Mayan, Olson, & Spiers, 2002).

## **4.3 Population and sampling**

### **4.3.1 Population**

The population of this study include both firms and informal markets entrepreneurs from different industries that provide products and services to the BOP market, as well as experts from the service consulting industry that advice firms that serve BOP markets.

### **4.3.2 Sample unit**

The sample unit are the firms and informal market entrepreneurs that target the BOP markets. No sampling frame was used.

### **4.3.3 Sampling method**

Snowball non-probability sampling was used to interview and get access to strategist, marketing and product development managers in the business model development areas such as customer product, services departments and strategy development departments. This sampling method was favoured due to difficulties in accessing experts in low-income markets and consultancy industry. Through their affiliated links, the respondents referred to other experts in the industry. Therefore the respondent - driven sampling enabled the researcher to connect to the unknown population (Lewis & Saunders, 2012).



Sandelowski (2000) describes qualitative research as being descriptive in nature with the intention to define the characteristics of the constructs (Sandelowski, 2000). The business model constructs and the comparisons of business models applied to the BOP markets have minimal theory and this research sought to provide descriptions of the business models applied at the BOP markets.

#### 4.3.4 Sample size

This qualitative study sought to use a sample size of a minimum of 15 interviewees to ensure heterogeneous population (Lewis & Saunders, 2012). Eighteen interviews were conducted. Out of the eighteen interviews that were held, thirteen were corporates, three were entrepreneurs and two were companies that provide consultancy services to firms that serve the BOP. Table 3 (below) summarizes the eighteen interviewees' details.

**Table 3 Summary description of firms operating at the BOP**

Industry	Number of Interviews	Description of companies
Financial Industry	4	<p>Company 1: a state owned bank mandated to bank the unbanked and under-banked.</p> <p>Company 2: a building society organisation focusing on mortgage loans but also providing savings and investment banking.</p> <p>Company 3: a short term insurance company that provides to the BOP market.</p> <p>Company 4: a telecommunication services provider that also provides mobile payment solutions to enable</p>

Industry	Number of Interviews	Description of companies
		financial transactions such as sending money and paying for goods and services.
Fast Moving Consumer Goods	2	<p>Company 5: a multinational non-alcoholic beverage manufacturing company.</p> <p>Company 6: a multinational alcoholic beverage manufacturing company.</p>
Packaging	1	Company 7: a bottling organisation with manufacturing and distribution centres in South Africa.
Telecommunication	2	<p>Company 8: a South African multinational mobile telecommunication company.</p> <p>Company 9: a South African multinational mobile telecommunication company.</p>
Advisory Service (Consulting)	2	<p>Company 10: a multinational management consulting company.</p> <p>Company 11: a multinational management consulting company</p>
Pharmaceuticals	3	<p>Company 12: a South African based multinational pharmaceutical manufacturer providing healthcare products to private and public sectors.</p> <p>Company 13: a multinational pharmaceutical manufacturer providing pharmaceutical products, medical devices and consumer products to private and public sectors.</p> <p>Company 14: a multinational technology company focussing in healthcare, consumer lifestyle and technology</p>
Agriculture	1	Company 15: a state and privately owned entity specializing in grain commodities.

Industry	Number of Interviews	Description of companies
Entrepreneurs	3	<p>Entrepreneur 1: owns a grocery supermarket in Diepsloot servicing the community including some of the spaza shops.</p> <p>Entrepreneur 2: owns two butcheries in Atteridgeville: one based in Sausville and another in Mshongoville (squatter camp in Atteridgeville).</p> <p>Entrepreneur 3: owns an upholstery shop based in Saulsville.</p>
<b>Total number of interviews</b>	<b>18</b>	

**Table 3 Summary description of firms operating at the BOP**

Two of the companies interviewed are government owned. The government has 100% shareholding in Company 1, a bank, which has a mandate to ensure that low income markets have access to financial products and services. The other, Company 15, is 50% government-owned. Its' mandate is to ensure food security. Company 2, although privately owned, was established to ensure that the low income markets also have access to housing. The Entrepreneurs 1 to 3 are servicing the townships. The balance of the other companies are commercial corporates.

To ensure the integrity of the research, no incentive was used to access the population.

#### **4.4 Data collection**

The Critical Incident Technique was used as method to collect data as the respondents used their own words to provide content. The critical incident technique is defined as a method of gathering facts from experts or less experienced users to improve performance and/ or solve problems (Flanagan, 1954). This allowed for flexibility in the interview sessions which provided this report with rich meaningful data. The researcher used open ended questions to be able to obtain rich and holistic content from the experts. The expert' responses on development of BOP business models were observed, recorded and then transcribed.

Face-to-face data collection was performed using the Osterwalder and Pigneur (2010) business model canvass as the interview guideline. Refer to appendix 1 for the discussion guide.

The interviews were semi-structured and began with the general introduction of the research which were then followed by the open ended questions to allow respondents to provide as much data as possible. The researcher probed the interviewee to elaborate on statements that would provide depth or insight to the research.

The interviews were recorded on two different sets of audio recording equipment to ensure that data was not lost. This enabled the researcher to transcribe and analyse the data provided. The interviewees were informed of the recordings at the beginning of the interview. The researcher informed the interviewees that the participation was voluntary and that they were able to withdraw at any time. The interviewees chose to remain anonymous.

## 4.5 Data analysis

Transcriptions of the recordings were used to write out the interviews. The risk faced in the transcription phase in this research is that which has been identified by Flick (2014), there is no indication of guaranteed accurate and comprehensive narrative, resulting in the risk of selective and systematic bias (Flick, 2014). The researcher has however, used reasoned choices to counter for the risks associated with transcription.

Qualitative data analysis was performed using ATLAS.ti. This is a computer aided qualitative data analysis software which classifies the statements being made through using a categorizing strategy. Coding is done involving segmentation of data, labelling of the segments, grouping by category and finally comparisons of the categories. The meta-themes in the data were identified and categorized together (Flick, 2014).

Table 4 (below) indicates the results from ATLAS.ti which indicate the number of times the themes have been raised by the companies and entrepreneurs interviewed. The data was analysed by first identifying the themes that are in the transcripts. The themes were then grouped into families using the discussion guide categories. Companies number 1 to 13 indicate the firms as described in Table 3 above that is the firms serving the BOP market, with firm 14 and firm 15 being the advisory services firms that advice on BOP. Entre 1 to Entre 3 are the informal sector entrepreneurs that serve the BOP markets.

**Table 4 Categories per company feedback**

Families categorises as per the discussion guide	Firms that target the BOP market including the advisory services firms																		Total number of themes from each family category
	# 1	# 2	# 3	# 4	# 5	# 6	# 7	# 8	# 9	# 10	# 11	# 12	# 13	# 14	# 15	Entre 1	Entre 2	Entre 3	
Base of the pyramid twin goals of profit and improved welfare	3	2	3	3	3	6	1	1	1	9	3	2	1	7	6	2	1	1	55
Business model definition	2	2	1	1	1	1	1	1	0	4	1	1	1	2	1	0	0	0	20
Channels	11	18	5	11	10	9	0	7	8	5	3	7	6	2	6	4	2	0	114
Cost structures	4	4	3	14	11	14	3	4	5	10	6	6	2	7	6	7	9	3	118
Critical success factors	26	21	15	36	37	28	14	20	14	36	21	17	22	27	29	9	22	12	406
Customer relationships	12	23	11	23	20	15	5	14	10	23	7	11	4	10	3	6	16	2	215
Customer segmentation	21	20	8	26	24	15	7	18	10	23	5	15	8	17	8	3	15	3	246
Entrepreneur business model	0	0	1	0	4	0	0	0	0	1	4	0	0	0	1	7	4	4	26
Institutional	15	12	13	12	27	24	5	8	8	36	16	9	14	20	21	7	12	4	263

Families categorises as per the discussion guide	Firms that target the BOP market including the advisory services firms																		Total number of themes from each family category
	# 1	# 2	# 3	# 4	# 5	# 6	# 7	# 8	# 9	# 10	# 11	# 12	# 13	# 14	# 15	Entre 1	Entre 2	Entre 3	
voids																			
Key activities	5	5	6	8	21	7	4	3	1	15	4	4	3	9	6	8	10	3	122
Key partnership	16	12	11	6	13	7	3	6	2	23	9	6	14	9	10	2	6	2	157
Key resources	1	1	3	0	1	0	0	0	1	0	0	0	0	0	1	1	0	1	10
Revenue streams	10	14	12	17	18	17	8	11	7	15	13	10	14	15	20	3	9	12	225
Value proposition	33	27	15	31	39	19	12	24	19	28	16	19	18	26	20	9	20	11	386
TOTALS:	159	161	107	188	229	162	63	117	86	228	108	107	107	151	138	68	126	58	2363

## **4.6 Data Validity and reliability**

Lewis and Saunders (2012) describe validity and reliability. Validity is the extent to which the data collection method accurately measures the intend to measure and the findings as they profess to be with reliability being the extent to which data collection methods and analysis procedures produce consistent findings (Lewis & Saunders, 2012). J. Morse *et al.* (2002) indicated that verification refers to the methodological consistency, sampling adequacy and development of dynamic relationships between the sampling, data collection and analysis (J. Morse *et al.*, 2002).

The researcher ensured that the sampling selected consisted of participants that are serving the BOP markets in their firms. The researcher also ensured consistency by constantly checking the alignment between research topic, literature review, questions and findings.

## **4.7 Research limitations**

The research followed is qualitative and thus exploratory. It can explore the use of the business model development approach within firms and can compare the practicality of using the models developed. However Morse, Hupcey and Cerdas (1996) indicated that research should ideally be probabilistic, but due to the inability to find the population for this specific research; a non-probabilistic method was used (J. M. Morse *et al.*, 1996). Non-probability sampling was used to identify firms and experts in the BOP market. This implies that there is a risk of the sample being homogeneous (Lewis & Saunders, 2012). The following research limitations were identified:

- The use of semi-structured interviews resulted in lack of data triangulation.



- The length of the interview time has resulted in the possibility of the non-response bias as some interviews had to be cut short due to the busy schedules of some of the respondents.

There is lack of consistent definitions of business models which may result in the researcher's subjective view of the construct. Bowen (2008) indicated that identifying a saturation point in qualitative research is difficult as less guidelines are provided.

## **CHAPTER 5: RESULTS**

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Chapter five presents the results from the interviews conducted using the methodology discussed in chapter four. The research questions are rewritten below for ease of reference are as follows:

### **Research question 1:**

How do firms develop business models for BOP?

### **Research question 2:**

What are the practical approaches for firms to use in the development of products and services for the BOP market whilst facing the institutional voids?

### **Research question 3:**

What are the critical success factors to be considered when developing business models at the BOP market?

As indicated in Chapter four eighteen interviews were conducted with people whose firms target the BOP market. Out of the eighteen interviews, thirteen are corporates that have products and services at the BOP market, three are entrepreneurs who are also conducting their business at the BOP and two are companies that provide consultancy services also at the BOP. For ease of reference Table 5 (below) summarizes the eighteen interviewees' details.

**Table 5 Summary description of firms operating at the BOP**

Industry	Number of Interviews	Description of companies
Financial Industry	4	<p>Company 1 is a State Owned bank mandated to bank the unbanked and under-banked.</p> <p>Company 2 is a building society organisation focusing on mortgage loans but also providing savings and investment banking.</p> <p>Company 3 is a short term insurance company providing insurance also to the BOP market.</p> <p>Company 4 is a telecommunication services provider that also provides mobile payment solution to enable financial transactions such as sending money and paying for goods and services.</p>
Fast Moving Consumer Goods	2	<p>Company 5 is a non-alcoholic beverage manufacturer multinational company.</p> <p>Company 6 is an alcoholic beverage manufacturer multinational company.</p>
Packaging	1	<p>Company 7 is a bottling organisation with manufacturing and distribution centres in South Africa.</p>
Telecommunication	2	<p>Company 8 is a mobile telecommunication South African multinational company.</p> <p>Company 9 is a mobile telecommunication South African multinational company.</p>
Advisory Service (Consulting)	2	<p>Company 10 is a management consulting multinational company.</p> <p>Company 11 is a management consulting multinational company.</p>

Industry	Number of Interviews	Description of companies
Pharmaceuticals	3	<p>Company 12 is a South African based multinational pharmaceutical manufacturer providing healthcare products to private and public sectors.</p> <p>Company 13 is a multinational pharmaceutical manufacturer providing pharmaceutical products, medical devices and consumer products to private and public sectors.</p> <p>Company 14 is a multinational technology company with focus in healthcare, consumer lifestyle and technology.</p>
Agriculture	1	<p>Company 15 is a partial state owned and private owned entity specializing in grain commodities.</p>
Entrepreneurs	3	<p>Entrepreneur 1 owns a grocery supermarket at Diepsloot servicing the community including some of the spaza shops.</p> <p>Entrepreneur 2 owns two butcheries in Atteridgeville with one based at Sausville and another one at Mshongoville (squatter camp in Atteridgeville).</p> <p>Entrepreneur 3 has an upholstery shop based in Saulsville.</p>
<b>Total number of interviews</b>	<b>18</b>	

The research investigated followed the structure depicted on the Figure 4 below, based on the guidelines indicated in Chapter four. The structure is informed by components of the business models indicated by Osterwalder and Pigneur (2010). Sections 5.1 to 5.10 address the research question 1 which tries to determine how firms develop business models for BOP looking at the following industries namely,

financial industry, FMCG, packaging, telecommunication, pharmaceuticals, agriculture and informal sector entrepreneurs.

Section 5.11 takes attempts to find out from the respondents how do they practically develop the business model whilst still facing the institutional voids. Section 5.12 addresses the critical success factors in doing business at the BOP. Figure 4 (below) provides the structure of findings for ease of reference.

**Figure 4 Findings structure**



## 5.1 Business model definition for low income markets

The study first required interviewees to provide the definition of a business model in the BOP markets in order to gather insight on what the organisations targeting the BOP market define as business models. The results indicated a lack of coherent agreement on the definition. Detailed analysis is indicated in Table 5 below showing the responses from the different firms and indicating the specific respondents that were in agreement on the definitions.

Out of the 15 organisations interviewed only 14 responded to their understanding of what a business model is. Table 6 (below) indicates the companies' understanding of the business model.

**Table 6 Business model definitions analysis**

<b>Definition &amp; components of the business model</b>	<b>Companies that have agreed to the same construct</b>
Business model as a strategy	Company 15, Company 8 and Company 2
Identifies the need of a customer	Company 1, Company 12 and Company 8
Approach to a specific market	Company 2, Company 3, Company 10, Company 14 and Company 13
What the value proposition is?	Company 12
Business model as the engine of the business	Company 7
Articulates how you will service the market including distribution to that market	Company 5
Identify the partners?	Company 3 and Company 14
Alignment of the organisation's vision ( could be	Company 6 , Company 7 and Company 13

strategy) to the business model	
Product and service pricing is determined in the business model.	Company 4, Company 6 and Company 14
Procedure & how a business operates	Company 6 and Company 11
Defines how the products will be distributed	Company 5, Company 11
Identification of key resources includes – skills & organisation structure	Company 3, Company 4, Company 6, Company 11 and Company 13
Business model as an action plan	Company 2
Business activities	Company 2
Framework for businesses	Company 13
Measurement to the service delivery	Company 11
Consider the financial implication ( Cost structures) of the business case	Company 4 and Company 13
<b>What the business model should achieve?</b>	
Business model ensures that the model is profitable and sustainable	Company 15
<b>Alignment from strategy &amp; business model</b>	
Strategy informs your business model	Company 5, Company 6 and Company 7

The research findings confirm that the definition of the business model varies from different respondents. The results also indicate that the agreement on the components of a business model, namely customer segments, value proposition, channels, key resources, key activities, cost structures, revenue streams and key partnerships. The customer relationship component did not feature in the responses to the definition of a business model; however some of the respondents did consider the channels of how the products would be distributed to the customers.

## 5.2 Customer segmentation at the BOP

The findings indicate that there is no agreed common approach that firms segment their customers. Out of the four financial services firms, one company segments its customers. Other companies such as Company 1 in the Financial Services industry segment their customers through using the Lifestyle Standard Measure (LSM) which categorises people with one end of the scale representing the lowest/ poorest and the other end of the scale representing the wealthiest sector of society. Thus the LSM is used as an indicator of whether a customer is a BOP customer or a MOP or a TOP customer. The results from the financial industry indicate that Company 2, 3 and 4 do not segment their segments according to either being low income or middle of the pyramid (MOP) or top of the pyramid (TOP). The evidence is shown below.

### **Company 2**

***"We don't necessarily segment our customers. I suppose somehow we kind of do based on income and based on location. You abide in rural areas and you're already a low income individual. We also look at your age and how much you earn. So it is through income, area where you reside and age. I really don't know why we don't segment but when I started working here two years ago there was something that I found and I thought it was quite interesting."***

### **Company 3**

***"But the way we have actually structured our products they are meant to accommodate every person that we have out there. We have for example our motor insurance. Motor insurance is actually structured in a sense that we look at private motor, commercial motor from the fleet point of view. We probably have individuals who own maybe an old Isuzu that you think it is not worthy to be insured. And you are in the public road where you may even hit a 2 million car. What are you going to do? We offer such products like third party motor insurance so in that way we are trying to accommodate everyone who is out there."***



Telecommunications organisations are in agreement as the respondents indicated that they segment their customers based on consumer spend. Company 8 and consulting house Company 15, have similar segmentation for the very lowest BOP markets namely basic survivors, with Company 15 also classifying other segments as working families and rising strivers who tend to, occasional at times, fall within the BOP and other times fall within the MOP.

#### **Company 8**

***“... you look at their spent, obviously, and which is, we will we band them as a very low value customer base.***

***... but what we've also found out with the value banding, is sometimes we, we will have the perception where your high value customer is your white person staying in Sandton for instance, but you find, if you looking at the location, that you find the person in the rural area with the spent of a high value customer. So we need to also consider that, because the family is staying far from where they reside so they have to use, let's say this person is earning for instance R800, 00. But they spend R400, 00 just on telecom, you know, so we define that person because of the spend, we define that person as a high value customer but we also need to keep into consideration their needs in terms of their situated in a rural area.”***

The FMCG use Occasion based Segmentation to segments their customers through understanding the occasions for consumers that informs consumptions of certain products.

Company 4 did not segment the customers and has indicated that the classifying BOP market as people that live under \$2 a day is flawed as that measure does not take into consideration the livestock and subsistence farming that the people might be using to

survive. The respondent who has worked for organisation such as the World Bank indicates that measures should be in place to also take into consideration subsistence farming.

#### **Company 4**

*“I think anybody whose income is under maybe let’s talk 30 dollars a day, if you are going to get this income a day in terms of income then I would say you will probably definitely qualify for income for bottom of the pyramid, but it does not mean that people survive on that. **People must learn to value the stuff that they are taking. I hope you understand what I am saying, because if you grow your own chicken for instance in the village.**”*

The findings indicate that there is no common thread across the industries with regard to customer segmentation. The organisations are not specifically only targeting the BOP market and even though some of the organisations such as Company 4 refer to the \$2 a day classification, they do not use this guideline as a way to segment their customers.

### **5.3 Value proposition**

The findings indicates that the value proposition at the BOP should ensure accessibility, convenience, shared value for the firms and the consumers, availability of products, quality of products and services and affordable prices. All the respondents have indicated that the products served to BOP market should be affordable and of good quality.

### 5.3.1 Accessibility and convenience

The research found that accessibility and convenience for BOP market has been identified as key in the development of the value proposition, as indicated by the respondents; namely Company 5, Entrepreneur 1 and Company 4 (below).

#### **Company 5**

*“Which funny enough has the biggest geography but the most sparsely populated, so they travel kilometers. And that on its own has got implications for the bottom of pyramid how they get there.... If you ask me what is the single competitive advantage we have... **we are literally everywhere** and because of those operations to be geographically. This is the same strategy. We actually joke but which has been proven to be true by Google. ....has **more member countries than the United Nations because we are in countries that UN are not.***

*Everywhere you go the principle is whether in Johannesburg CBD or you are in Thumbuku there must be a truck...”*

#### **Entrepreneur 1**

*“...I don’t take holiday, I work each and every day including when I’ll not feeling well.*

*...It’s for both of us, the customer gets the goods and I get money. Most of the time I spend time in my shop.”*

The Company 4 respondent emphasized that the development of products and services for the BOP market should be convenient for the consumer. This will ensure that the overall customer experience is affordable and good quality.

#### **Company 4**

*“... so we know that from the bottom of the pyramid some they don't have money for transport to go to the clinic, some die because they don't have money to go to the clinic. Worst if they have to go there they have to pay; they have to go and buy medicines and they have to eat while they are out there. **If you bring these services to them, it will be much easier and much cheaper and we are already with them, because our network is in the house.**”*

#### **5.3.2 Distribution**

The findings also indicate that where feasible organisations should have local manufacturing plants in the areas where their customers reside instead of importing the goods. This also results in employment of locals and partnering with local entrepreneurs to be able to better serve the markets. Company 5, Company 6, Company 7 and Company 10 indicated that local manufacturing plants ensure products availability and accessibility to the market.

#### **Company 10**

*“...at least the biggest question on physical assets for these companies is whether their manufacturing plants are in the different countries where they operate or whether they can simply import it into the country and that really defines whether how much they would invest in the country. At least from what we've seen works well, if you look at Unilever across Africa, they are investing heavily in local manufacturing plants, and I guess it's also reliant on the type of product that you're using, right? If you had a product that is high in demand and you needed to do continuous replenishment, then you do need kind of local plant to make sure you can fulfil that supply chain.”*

The organisation should have a distribution model that is flexible enough to adapt to the challenges faced as indicated by Company 5 (below).

#### **Company 5**

*“The trick, I have just remembered something. During the floods in Mozambique, there were some terrible, terrible floods. We had some famous child born on a tree. Do you remember that? So we were getting product from Mpumalanga through the border to Maputo. But the road has been taken out. **I kid you not this is not us - some young boys came with this idea - they have little boat and they will take five cases across and will go on the other side to deliver. Women carry them on their heads and one with a baby on her back. The short answer to it is being pervasive. That’s why we open distribution points right at that point.** Secondly, that’s why we have plants in all the provinces of the world.”*

*“**It is about organizing your route to market in such a way that you never run out of stock.** We asked them what made them run out isn’t on the planning side it is the delivery system. Is delivery system not reliable enough? We said ok let’s give you an expertise on how we manage to run our market even in Tumbuku and Qunu because while you are out of medicine, the shop next door was selling a Company 5’s product but the clinic had no medicine. We give them our expertise. We have our route market mapped to someone sitting there and to someone who is sitting in Sandton everyday 365 days. So it’s a system behind it and this is how we do it.”*

#### **5.3.4 Product design, pricing packaging and quality**

The respondents have indicated that affordability is key and when developing products and services for the low income markets taking into consideration the need for value for money, quality of products, simplicity and getting the right price points. FMCG have an opportunity to package smaller quantities, at lower cost and affordable prices as indicated by Company 6 and 7.

## **Simplicity**

### **Company 4**

*“They developed a savings club wallet with signatories. So those people must sign press one to agree or two to disagree. The loan will only be released to you only if all three have pressed. There treasury keeps the wallet, on the day they used to throw 200 dollars cash now they transfer to the treasury, when you transfer it sends the message to all the 10 members e.g. Hlubi has done September contribution, everybody will know that she has paid....*

***Keep the cost low - number one. Keep the cost low, the cost have to be low. You know we are dealing with people who don't have much. Number two: Simplicity.”***

## **Affordability**

All the respondents stressed affordability as key in doing business at the BOP markets. The respondents emphasized the need for getting the right price point when serving the market.

## **Affordability**

### **Company 7**

*“And this is something most company didn't understand, most companies wanted to introduce a different brand that will be cheap and affordable. They address an affordable part and then they introduce a different brand. **This people wanted the same trusted brand but make it affordable and the best way to make it affordable they have to adjust the size of container. And most people miss that by a mark.”***

### **Get the right price points**

### **Company 12**

***“...It is getting the right product to the right place at the right time at the right price.”***

### **Company 5**

*“On the other side it matters, **price matters, how I get it matters, smaller volumes at affordable pricing otherwise they just go to the big one and they are smart...**”*

### **Entrepreneur 1**

*“No, you looking for big profits and sell expensive goods customers will not come. **I only take small commission. We working only on 2, 3, 4%.**”*

### **Company 14**

*“If you’ve seen an ultrasound machine, usually it was a big machine like that, we are innovating to actually get a machine that is the size of your laptop so that it’s cheaper, can you still have the same image quality what components – **it’s through innovation that we are saying we need to have something at a price point that these markets can actually afford.**”*

### **Quality**

The findings indicate that consumers at the BOP market are price sensitive but also quality conscious. The firms serving this market should ensure that they meet both the quality and the price requirements of the consumers.

### **Quality**

#### **Entrepreneur 2**

*“...**Quality is important because when people eat your meat it must be soft, tender and eatable all the time that’s why quality is important.**”*

#### **Entrepreneur 3**

***“Our motto we do quality, we like quality and we are not charging a lot of money.”***

### **New products opportunities based on the market need**

The findings indicate that firms should address the consumer need to be successful at the BOP market. The consumer needs have also resulted in new opportunities for firms to expand on their product lines.

### **New products opportunities based on the market need**

#### **Company 5**

*“It’s opportunities for example if you take a country like Mozambique there is a very big market for spirits and more affordable priced spirits. Spirits serve a particular need in the market of which you can replace that need with beer. **The opportunity might be to launch a spirit beer or a whole range of spirits, so that could be a completely new capability or completely new offering for us as a business...**”*

## **5.4 Channels**

The findings have indicated that to service the low income markets the organisations need to be pervasive and accessible through use of convenient customer touch points. The telecommunications companies’ respondents indicated that they use call centres, multimedia messaging service (MMS) and unstructured supplementary service data (USSD) to be able to communicate with the low income markets. The channels for the BOP market are thus both direct and indirect as indicated by FMCG organisations. Wholesalers and companies, such as Company 5 are using their own internal staff through face to face interaction to nurture the customer relationships. Although technology is being implemented as a channel, the financial services sector still engages their consumers through retail branches. Company 4 respondents stated that they need to make sure that they visit the communities to educate them about their products.



## **Company 2**

*“It’s through the branches and the ATMs. We do encourage them to rather transact using the ATMs because obviously the charges are much lower but some customers don’t get that. They still want to come to the branch and then they will still complain and you can tell them that but you know you can do this using the ATM and you know you can actually check your mini statement using your mobile phone at home. It’s still gradual progress.”*

## **5.5 Customer relationships**

The findings indicate the use of multiple channels that are feasible to access the market and build relationships with their customers. The findings also indicate that it is preferable for firms not to outsource the gathering of insights from consumers but instead perform that function themselves.

### **5.5.1 Gathering of insights from the market**

The respondents have indicated that it is best for organisations targeting the BOP to engage face to face with the customers to understand their needs. However the respondents also indicated that they at times use agencies due to lack of resources and especially lack of time to engage with the customers. The telecommunications companies and one of the FMCG companies (Company 5) uses both indirect and direct gathering of insights. Company 12 has indicated that although they will prefer to engage directly with their BOP market customers, it will be difficult due to the number of touch points they will need to cover, hence they use agencies. The potential problem inherent in using agencies is highlighted by Company 5 below and emphasizes those organisations that need to be

successful at the low income market need to “walk” in those communities to really understand the market.

**Company 5**

***“This is not the traditional research where you sent a big agency and they go there and interview 10000 people for that and that. Remember just because I cannot afford a product X or drinking product X - don’t think when you ask what I drink I’m going to tell you I drink that cheap stuff. If I am carrying a cheap tablet and you asked me what your favorite brand is, I will say it’s a Samsung or an iPad.”***

The table below shows the respondents feedback with regard to gathering through direct engagement versus feedback from a respondent using the agencies.

Direct insights gathering	Indirect gathering of insights from an agency example
<p><b>Company 8</b></p> <p><i>“So we will speak to a family member, we actually go out, we go to Alex, we go to Thembisa and Soweto just to understand what the guys want or what they feel. Why for instance they would have two sim cards, sometime you find people have two or three simcards...You ask why, because you know? And then you find even some of our value props like for instance we used to allow for one migration, meaning I can change my price plan”</i></p>	<p><b>Company 12</b></p> <p><i>“... we tend to use agencies for a given time period to drive a certain campaign, so if there is a campaign on product X and we want to make sure that even the lowest, lowest consumer understands that we are running a campaign, then we say okay for three months we want an agency calling on the lowest store and then it is finished. So we do it as best and stuff like that but then in terms of really having the resources, the human resource to optimally effect the bottom end it is a challenge in South Africa because it is expensive. You need a sales force, because in formal retail is easy....Then we don’t have the same</i></p>

	<p><i>thing at a spaza, nobody walks into a spaza and make sure your product is selling nice unless you've got a campaign then you, for a given time. That is the biggest challenge, it is too vast."</i></p>
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**5.5.2 Distribution of product or services**

The FMCG respondents indicated that the distribution of products is done through third parties and using wholesalers in the FMCG. Company 5 has merchandisers who are employed by the organisation to take orders on behalf of the spaza shops, while Company 8, although outsourced the service to an agency, have representatives who are only there to sell their products and inform the customers in areas such as taxi ranks about the company's new product offerings.

The pharmaceutical industry respondents have indicated that they do not have a face to face relationship with the public and their products are either sold through retailers, wholesalers, government tenders and also to doctors. They have account managers and internal public affairs department to manage the stakeholder's relationships.

**5.6 Revenue Streams**

Company 12 respondent, whose focus is over the counter products, has indicated that they will drive volumes at small quantities for the BOP market. Company 13 and Company 14 indicate that driving the high-volumes low margins pricing model will not be profitable as will still result in a loss. Both Company 13 and company 14 in the pharmaceutical industry have indicated that they have not yet realized the profits in doing business at the

BOP market. Company 13 indicating that they are not a generic company and hence to get the return on investment from selling the product at low price will be difficult. Company 14 has stated that not all companies are made to develop products and service at the low income market.

The telecommunication respondents indicate that they derive revenue through usage fee thus the more the customer uses the airtime or data the more the service providers make money. Both company 8 and company 9 uses dynamic pricing whereby they do not use a fixed price in their models. This is achieved successfully through incentives and discounts provided for low income markets to retain their customers. They use different price plans based on the promotions or services that are in place at that particular time.

#### **Pharmaceutical industry respondents**

##### **Company 14**

*“Yes that’s the market but have we realised – **have we actually gotten those high volumes, no because again can you imagine, it’s very hard, you know, you can’t push volumes forever, you can’t push – volumes actually far much lower.** At the high income market each particular patient has got their own patient monitor, here you find the whole ward is sharing one because government can’t afford. We want to make sure that that the monitor in Sweden should be different from the one in Zimbabwe.”*

##### **Company 13**

*“**But if you’re making massive volumes, all you’re doing is selling volumes, you’re just selling more of a loss, and that just makes our company less profitable, which is obviously an issue.**”*

#### **Telecommunications industry respondents**

##### **Company 8**

*“So you get, you recharge for R10,00 and then you are on price plan X, and then you get 100% discount, the depletion rate for here, when calling that person, you are calling them for free, **even though you have this free, so you ended up having to spend a little out of their own recharge because they have all this free time**, you are getting like 80%, you deplete your free value at, what is 80% at 50c, you know, or now 38c, you deplete your free value at 38c, whilst the other guys depending on their prices they would deplete it at R1,20 or whatever.”*

**Company 9**

*“... we do generate revenue because if customers are on price plan X promotion, before our promotion customers they will pay, for example five rand and then they will get sixty minutes... **So they wouldn't mind to buy R5 airtime twice. So we generate more revenue especially with the prepaid customers.**”*

## **5.7 Key resources**

15 of the 18 respondents have identified people as a key resource to run business at the BOP market. Entrepreneur 3 and Company 6 have identified production inputs as key resources for the BOP market.

**Entrepreneur 3**

*“If you can **get cheaper materials, good quality material at a cheaper price that will help** and also getting to buy in bulk some of the material that you will be having them by the shop already. Going as far as Mpumalanga to go and fetch wood that will help, especially if you go straight to the suppliers. Because here like for now sometimes I go to Johannesburg to go and buy material for better price than in Pretoria. And to also get good quality materials but at a cheaper price.”*

**Company 6**

*“You will have to have a well-mannered supply chain that is it sourced from the local*

**producers.** *If I have to go back to the local beer all the ingredients can be sourced locally. Your cost of goods and supply chain must be very lean. So you're capital requirements, your equipment's, your machinery and all that must be fairly simple."*

## 5.8 Key activities

The findings indicate that the key activities differ from the different respondents. Entrepreneur 1 and Entrepreneur 2 have indicated that working hard and being at their stores all the time is a key activity. Entrepreneur 2 also added that educating his employees on how to treat customers should be considered as a key activity. Entrepreneur 3 regards marketing as a key activity.

Company 4 and Company 5 identified customer engagements as a key activity in getting to know about the customer needs. Company 5 and Company 1 states that organisations should follow the money and understand the customer spend of the market. Company 5 has identified that the biggest competitor at BOP for FMCG companies is the telecommunications as people want to make sure that they always have airtime while Company 1 identified food as the biggest spend.

The findings indicate other identified key activities in the BOP market such as brand visibility, provision of value for money, efficient distribution model, solving the need of the market, ensure that you leverage off the available networks, feasibility studies, provision of convenience and consumer education on pharmaceutical products. Company 2's response indicates some of the challenges faced by low income markets and state that organisations should ensure that they bring the service to the consumers.

### **Company 2**

*"The key activities require that we take our services to people. I live in Tshanemi it*

*means I have to get on a bus just to go to withdraw money from an ATM. You know that's a bus trip is money for bus, money for food - it's like a whole day event just to go to an ATM which is why we actually conduct road shows now."*

## **5.9 Key partnerships**

The findings also indicate key partnerships exist between government, NGOs communities and very limited coopetions.

### **5.9.1 Partnering with the government**

All the respondents indicated the need to partner with government to be able to be successful at the low income market. Company 4 and Company 14 stated that some of the partnership between private and public is to fill the institutional voids of building infrastructure for the country to benefit the community and also the companies that want to operate in those markets. Stakeholder engagement and stakeholder plan is required to understand the political and market dynamics of that environment. Company 13 stated that the partnership with government is a work in progress as it has been difficult except with the local government entities.

Company 14 describes the relationship with government to be defined as courting through which both partnership will benefit as indicated below.

Company 14

***"So they see you as an engaged partner, they're seeing you as somebody who's interested in their welfare, they're seeing you as somebody who would be interested in solving their pain point. There are many in those specific areas..."***

### 5.9.2 Partnering with NGOs

Company 5, Company 11, Company 13, Company 14 have had and still have successful partnership with NGOs. Company 5 assisted a health organisation to distribute medicine, Company 11 is still leveraging off the knowledge of the NGO to understand the market dynamics, Company 13 partnered with NGO in providing assistance to provide TB medication to the low income markets and Company 14 have had NGO fund for the medical equipment required by the countries that could not afford their equipment.

#### **Company 14**

*“Then I come up with a package then I say to the Government of Mozambique, this is the package that I think is suitable for your environment and they say, okay we love it or they say we don’t love it or whatever but they say, but we can’t pay. So now I’ve got to go back to the drawing board. **My market cannot afford these machines that I’m selling so I go to the private donor, I go to NGO’s like World Health Organisation, I go to your Gates foundation, I go to your Global foundation – it’s a completely different kind of business approach when you’re now getting your non-traditional partners to actually come to the core so that we now bring in an offering that is a pain point for that particular market.**”*

### 5.9.3 Partnering with the community/ customers

FMCG companies respondents and the packaging respondents had indicated that they partner with the local suppliers within the environment they operate in order to provide them with inputs or distribution. Company 4 respondent indicates that the organisation engages with the local leadership such as chiefs and chief administrators to get the buy in for the community in the rural areas.



**Company 6**

*"You will have to have a well-mannered supply chain that is it sourced from the local producers. **If I have to go back to the local beer all the ingredients can be sourced locally.**"*

**5.9.4 Partnering with the competition**

Although cooptation is indicated by Company 1 and Company 7 as a relationship that can work, the respondents have indicated that they have not been in cooptation. Company 13 has indicated that they have had cooptation with a generic medicine company. Entrepreneur 3 has indicated that he sometimes discusses business ideas with his helpful competitors but that is just as far as the relationship goes.

**Company 7**

*"**So we've had some successful partnerships with a pharmaceutical company, a generic pharmaceutical company who sells our clones. Their model's completely different. It's a price volume gain, very little innovation, also a limited marketing drive, where we're more a classical marketing high value, high innovation product.**"*

**Company 1**

*"**Like most if it's done well, it's an awesome model. Everyone wins. But more importantly it cuts the time to market, because everybody brings their strength on the table. If you take a question like lending, if we have to build a landing capability it's going to be costly and it's going to take time. But if you have got somebody already in the lending space, they probably need to reach and then you could be there much sooner. The trick is more around how you structure the deal rather than the cost of structuring the whole capability. I am a supporter for that I think Postbank should have the capability to actually map out the journey that way.**"*

### **5.9.5 Partnering with other companies**

The findings from Company 3 indicates that the firms had for years leveraged off from the competencies of another financial institution from a different country until the time when both parties agreed that the company is properly capacitated to run on their own using local talent. The most visible partnership from respondents is partnering with suppliers/ producers of the inputs.

### **5.10 Cost structures**

Company 4, Company 6, Company 8, Company 9 and Company 11 use a cost driven model whereby they ensure that costs are minimized as low as possible when they conduct business model for BOP market. Pharmaceutical Company 12 and consulting Company 16 identify economies of scale through pushing volumes whilst the variable cost declines. The financial services industry respondent (excluding for Company 4) indicates that they have high fixed cost structure.

Entrepreneur 1 and Entrepreneur 2 indicated the highest costs being their employees; there are fixed costs. Entrepreneur 3's highest cost is the material costs which are variable costs.

### **5.11 Institutional voids**

The findings with regard to institutional voids are indicated in Table 7 (below) with all the indications of the respondents input with regard to the challenges they face when they do business in the low income market. The prevalent institutions identified in the interviews are infrastructure, geographical distance, legislation,

strikes, multiple languages, lack of required skills and property rights. The lack of property rights has been indicated by the agriculture industry respondent as a problem resulting in farm products being sourced from neighbouring countries due to an inability of local farmers to produce sufficient products that will ensure food security as their property rights are not legally protected.

**Table 7 Respondent challenges faced at the BOP market**

<b>Institutional void</b>	<b>Companies and entrepreneurs that experience the institutional void challenge</b>	<b>Number of respondents</b>
Lack of infrastructure	Company 1, Company 4, Company 5, Company 6, Company 8, Company 9, Company 13 and Company 14  Entrepreneur 1, Entrepreneur 2 and Entrepreneur 3	11
Dispersed geographical distance	Company 1, Company 2, Company 3, Company 5, Company 7, Company 8, Company 9, Company 12 and Company 13	9
Legislation	Company 6, Company 9 and Company 13	
Strikes	Company 1 Entrepreneur 1 and	

<b>Institutional void</b>	<b>Companies and entrepreneurs that experience the institutional void challenge</b>	<b>Number of respondents</b>
	Entrepreneur 2	
Multiple languages	Company 1, Company 8 and Company 9	
Lack of required skills	Company 1 and Company 14 Entrepreneur 2	3
Property rights	Company 15	1

The findings from the respondents also indicates that firms serving the BOP market should be able to fill the gap themselves. One way to do this is by where possible, investing in solar panels for their customers in areas where electricity is a problem. FMCG companies have stated that they do provide means of ensuring that their products are served in good quality. This is done by providing to the outlets with trolleys and installations of solar panels to their outlets.

## **5.12 Critical success factors**

The respondents identified solving a customer's problem or addressing a customer's need as key in doing business at BOP. This ensures that your product is at the correct level of engagement. Table 8 (below) provides the similarities between the respondents relating to the identified critical success factors of doing business at the BOP. The highly regarded common themes from the findings are that the firms must know the customer need, must be a high volumes low margins business, provide quality products and services, getting the right price points and patience.

**Table 8 Respondents critical success factors**

<b>Critical success factors</b>	<b>Respondents</b>	<b>Number of respondents</b>
1. Walk the markets	Company 4, Company 5, Company 7 Company 10 and Company 14	5
2. Follow the money	Company 1, Company 5, Company 7, Company 8, Company 9 and Company 12	6
3. Address a customer need	Company 1, Company 2, Company 3, Company 4, Company 6, Company 7, Company 8, Company 9, Company 10, , Company 11, Company 12 and Company 14	12
4. Quality product/ service	Company 5, Company 6, Company 7, Company 11, Company 12 and Company 14	6
5. Understand the whole value chain/ route to market??	Company 5, Company 7 and Company 12	3
6. Be part of the community – be visible	Company 5, Company 6, Company 7, Company 11 and Company 12	5
7. Engage in their own language	Entrepreneur 1 and Entrepreneur 2	
8. It must transform the people's lives	Company 4, Company 5, and Company 7	3
9. Localisation (think local)	Company 3, Company 5, Company 6, Company 7 and	5

	Company 14	
10. Get the right price point	Company 1, Company 5, Company 7 and Company 13  Entrepreneur 1 and Entrepreneur 2	6
11. Must be inclusive	Company 1, Company 2 and Company 4	3
12. Cost efficient	Company 3, Company 4, Company 6 and Company 15  Entrepreneur 3	5
13. Ensure appropriate levels of engagement	Company 4	1
14. Must have clear objectives	Company 4, Company 8 and Company 9	3
15. Ensure that there is always stock available	Company 6  Entrepreneur 1 and Entrepreneur 2	3
16. Respect the customers	Company 4 , Company 5, Company 6 and Company 7 Entrepreneur 2	3
17. Patience	Company 4, Company 6, Company 7, Company 10 and Company 14 Entrepreneur 3	6
18. Work hard	Entrepreneur 1, Entrepreneur 2 and Entrepreneur 3	3
19. Train staff	Entrepreneur 1 and Entrepreneur 2	2
20. Be innovative	Company 4, Company 5 and Company 11	3
21. Ensure good government	Company 13 and Company 14	2

relationship		
22. Keep your products simple	Company 1 and Company 4	2
23. Access to products	Company 1, Company 4, Company 5 and Company 7	4
24. Meet the consumer's aspirations	Company 1, Company 5 Company 7 and Company 14	4
25. Must be volumes business	Company 4, Company 5, Company 6, Company 7 and Company 12  Entrepreneur 1 and Entrepreneur 2	7

### 5.13 Summary

The study shows the results from seven different industries with an eighth set of insights given from the advice that consulting companies provide for firms that are targeting the BOP market. The business models for FMCG, packaging and over the counter' supply of medical products are similar with the use of outlets and wholesalers as key channels to serve the BOP.

The findings indicate inconsistencies in the segmentation of customers. The FMCG use occasion based marketing while the telecommunications segment mainly based on spending.

There are common themes coming out of the BOP market value proposition which should ensure that the products and services at BOP market are accessible, convenient, and affordable. These products and services must be of good quality.

Multiple channels are used by firms serving the BOP market as indicated in the findings. To ensure that the products are available and accessible, FMCG companies have local manufacturing plants and have employed of locals who understands the market.

The findings show that partnership and relationships exists with government, NGOs and the locals. This was done with the intention of including the locals in the value chains that are in place to ensure shared value in serving the BOP market.

The findings indicate that the high-volume low margins revenue model is used to serve the BOP market to ensure affordability of products. The affordability is done through smaller quantities of products and the low cost packaging for firms to be profitable. The pharmaceutical firms interviewed are not in support of the high-volume low margins model; they had stated that it is not profitable for their business model.

Staff expenses in the BOP market are indicated in the findings as the highest cost but also as the key resource for firms to serve the BOP market. The cost driven model is required for the firms to successfully serve this market, as indicted in the findings, with some of the respondents indicating the need for the BOP market to leapfrog in technologies to ensure that low cost channels are used to serve the market.

The identified critical success factors from the findings are summarised and categorised as customer immersion, aspirational, localization, addressing of the twin goals, affordability, quality, accessibility and convenience, simplicity, patience and respect. These findings indicate that for firms to successfully serve the BOP markets, the identified success factors needs to be in place.



The overall results indicate that there are no major differences in the business models of the respondents serving the BOP market. The firms face the lack of infrastructure; this is a major inhibitor in doing business at the BOP.

## **CHAPTER 6: DISCUSSION OF RESULTS**

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Chapter 5 indicates the results using exploratory research methodology, whereby respondents provided insights on business models applied for the development of products and services for the BOP. This was done by interviewing respondents from firms and entrepreneurs from different industries that are serving the low income markets. Consulting services personnel were also interviewed to gather insights on the advisory they provide to firms that are serving the BOP market. This chapter discusses the results based on the research questions stated in Chapter Three.

Prior to discussing the research questions, it is required that the definition of a business model is explored to provide context to the results provided. As indicated in Chapter 4, there is no coherent agreement on the definition of business models (Lambert & Davidson, 2013; Zott, Amit, & Massa, 2011; Yunus, Moingeon, and Lehmann-Ortega, 2010) with scholars such as Zott *et al* (2011) arguing that the literature on business models is scattered.

### **6.1 Definition of a business model**

The data revealed that the business model is defined as a description of the current environment; the architecture of the organisation which addresses what the organisation wants to achieve. It looks at products and services, how it is going to achieve its objectives, where is it intending to provide the product and services and who the customers are. It also discussed when and why which are used to tackle the financial and non-financial benefits as depicted in Table 9 (below).

**Table 9 Defining the business model**

What	Products and services	The what answers the products and services that are required by the BOP market.
How	Key resources	<p>The organisation needs to define the required resources and channels to be able to provide the products and services for the BOP market. This also includes the key partnerships that may be formed to ensure that the needs of the market are met.</p> <p>The how also addresses the value chain.</p>
Where	Geographic location of the intended BOP segment taking into consideration the distribution model to be applied.	Identified institutional voids requires organisation to clearly define channels that are suitable and cost efficient to engage with their customers.
Who	Customer segment	Research indicates that there is no one umbrella definition of BOP customer. The organisation needs to clearly define their customer segments to ensuer that they are addressing the needs of the customers.
When	Delivery frequency of the products and services	This component discusses the accessibility and convenience for the

		customers that the firms needs to put in place.
Why	Financial and non-financial benefits	Monitoring and evaluation of whether the organisation is meeting it's clear objectives should be in place to ensure sustainable business model.

### 6.1.1 Conclusion to defining the business model

The research results in Section 5.1 indicates that there is no coherent definition of a business model given by the respondents. This is supported by literature review stating that there is no agreement on the definition of business models (Lambert & Davidson, 2013; Zott, Amit, & Massa, 2011; Yunus, Moingeon, & Lehmann-Ortega, 2010) . Zott *et al* (2011) and Pienaar (2013) agreed that there is a misuse of the construct (Zott, Amit, & Massa, 2011; Pienaar, 2013, p. 12).

The results however do indicate in Section 5.1 Table 5 the recognition of the eight out of nine components of a business model namely customer segments, value proposition, channels, key resources, key activities, cost structures, revenue streams and key partnerships as specified in the business model canvass by Osterwalder and Pigneur (2010) and also as identified by Pienaar (2013). Customer relationship was not mentioned in the definition of the business model. Although channels and customer relationship are not indicated as elements of a business model by Pienaar (2013), Pienaar (2013) uses the business model canvass to articulate other business models (Pienaar; 2013).

The next section will provide industry comparisons of business models currently being applied at the BOP using the business model canvass to answer the Research Question 1.

## **6.2 Discussion of Research Question1**

The Research Question 1 aimed to explore business models of firms that are from different industries currently servicing the BOP market.

### **6.2.1 Pharmacautical industry**

Shadlen and Guennif (2011) indicated that 10 firms from high income countries account for 41.1% global pharmaceutical sales and it is thus a highly concentrated industry. Global health innovation indicates that health innovation is focused in high income areas with low income areas so called tropical diseases receiving minimal attention. Health care expenditure in high income markets is 68% more than in poor income markets whilst developing countries experience more global burden of diseases. Thus more health resources are needed for developing countries.

The research results indicated in Section 5.6 that pharmaceutical companies whose business model is based on development of medical devices and developing brand/reference listed drug products find it difficult to make money at the BOP due to the high costs associated with the innovation process. The respondent from Company 13 indicated that they source medical products from international production company and resell them to the developing markets. Thus they are adopting glocalization model wherein the production is based in the rich home countries and then the products are distributed globally. Company 14 has indicated that the organisation's strategy going forward is to innovate and develop products intended for low income markets in developing countries

thus enabling them to optimally serve the BOP market. Therefore the results show the need for pharmaceuticals companies to increase access of their products to the BOP markets. This is challenging, however due to affordability, high institutional voids costs and lack of organisational culture fit to serve the market. The research results in Section 5.6 by the pharmaceutical respondents emphasises that selling products at high volume and low margin will be selling more products at a loss. The respondents stated that the high volume low margins model is not working which is contradictory to the notion set forth by Prahalad (2012), of selling the right volumes at a lower price to ensure affordability for the consumers and generate profitability for the firms (Prahalad, 2012).

The business model indicated in Table 10 (below) illustrates at a high level the model that innovative pharmaceuticals have determined to use. The business model only depicts pharmaceutical products and medical devices but excludes including over the counter medicines. The over the counter medicines operates more or less like the FMCG business model.

**Table 10 Business model for pharmaceuticals**

<p><b>Customer segments</b></p> <p>Higher LSM Doctors Clinicians Governments ( access to lower income markets through government tenders)</p>	<p><b>Value proposition</b></p> <p>Addressing the need of the country Addressing the need of the doctors Providing access to effective medication Innovative solutions to benefit the patients Providers of high quality medical products Quality patient care</p>		<p><b>Channels</b></p> <p>Sales force Third party distributors</p>
<p><b>Customer relationships</b></p> <p>Direct customer engagements Stakeholder management</p>	<p><b>Revenue streams</b></p> <p>Medical product sales Government tenders Reference pricing Low volume high margin revenue generation Donor funding model for countries that cannot afford to purchase the medical equipment</p>	<p><b>Key resources</b></p> <p>Sales force/ Account Managers</p>	<p><b>Key activities</b></p> <p>Customer immersion Product innovation Marketing of products Product pricing strategy Customer education Stakeholder planning Relationship management</p>
<p><b>Key partnerships</b></p> <p>Government Doctors/ Customers Non-profit organisations Third party distributors ( locals) Coopetition with pharmaceutical companies that develop generics or low cost medical equipment ( in this instance high volume – low margins pricing model will work)</p>			<p><b>Cost structure</b></p> <p>Product development cost Salesforce</p>

## 6.2.2 Financial Industry

The study results in section 5.3.4 indicate the use of technology as a channel and a low cost means to access the market. Company 4's approach to the BOP market indicates that traditional banks will have to innovate products and services that are easily accessible and convenient to the BOP market otherwise the market share will move to the ICT sector (Linna, 2012). The result is supported by Jack and Suri (2011) who stated that the financial industry's architecture is rapidly changing in the developing countries whereby technology is utilized extensively due to the cost of mobile platforms dropping and thus enabling the use of mobile platform as a preferred channel for financial institutions. Mobile money has enabled money savings and transfer transaction for the banked and unbanked (thus includes people who are in the rural areas as shown in Section 5.3.4).

Table 11 (below) indicates the findings from the study of the components of the business model for the financial industry. The customer segments in Table 11 (below) indicate the results from the findings that consumers in the BOP market are also located in the rural areas, are the mass markets who are underserved and unserved as discussed in Section 5.8 where Company 2 indicated that the services are taken to the people in Tshanemi. This is supported by the literature as stated by Prahalad (2012): the BOP market is underserved and mostly situated in rural areas and firms needs to access those markets through innovative partnerships (Prahalad, 2012).



**Table 11 Business model for the financial industry**

<p><b>Customer segments</b></p> <p>Unbanked Under- banked Unemployed Semi-employed Rural dwellers Mass market</p>	<p><b>Value proposition</b></p> <p>Accessible banking Convenient banking Bringing banking to the people Connecting communities through banking Lower priced convenient banking Products and services that fit the lifestyle of the consumer</p>		<p><b>Channels</b></p> <p>Mobile banking Cellphone banking Internet banking Mobile ‘truck’ banking Retail branches ( face to face) Call centres Community leaders Radio Television</p>
<p><b>Customer relationships</b></p> <p>Self service Customer contact centre Face to face through a local sales force Third party agents</p>	<p><b>Revenue streams</b></p> <p>High volume low margins Number of transactions Low fees to customers Commissions</p>	<p><b>Key resources</b></p> <p>Network infrastructure Customer facing agents Sales force Customer facing staff members</p>	<p><b>Key activities</b></p> <p>Customer immersion Brand visibility Feasibility studies Marketing</p>
<p><b>Key partnerships</b></p> <p>Coopetition (sharing of infrastructure)  Local community leaders  Government  Independent agents ( Third party service distributors)</p>		<p><b>Cost structure</b></p> <p>Overheads Staff expenses</p>	

### **6.2.3 Fast Moving Consumer Goods & Packaging industry**

The research results identify that the FMCG business model is different from other business models in this research as it uses Occasion Based Segmentation. Consumers are thus segmented based on their consumption occasions. The FMCG respondents have indicated the use of understanding the consumer's occasions as the cultural context that indicates when a consumer eats or drink a certain product. An example that Company 6 provided is the occasion of youth going to a Chisa nyama, in such occasions the people will eat the barbecued meat with a drink. The firms using occasion based marketing will use such occasions to market the barbecued meat to be sold as combo with their own product. This is supported by Goldman (1979) in an article that he stated that consumers are not segmented by demographics but rather by occasions ("Occasion segmentation' can help in profiling market, Goldman says. (cover story).",1979) as discussed in Section 5.2.

The firms leverage off, where possible, all different channels to access their markets are aligned to Thakoor (2012) where it is indicated that Small Medium Enterprises (SMEs) servicing the BOP markets also uses all the channels they can get to access and service their customers. It is further suggested that firms that would like to do business at BOP should learn from SMEs that have been serving this market for an extended period of time. The FMCG also co-creates with the customers to create shared value and enables the communities to be producers in their value chains. Table 12 (below) indicates the study results of the business model developed by the FMCG, packaging and over the counter medicine respondents for the BOP market.

**Table 12 Business model for the FMCG including Over the counter medicine and packaging industry**

<b>Customer segments</b> Mass market Outlets Occasion based segmentation	<b>Value proposition</b> Affordable quality products Value for money	<b>Channels</b> Wholesalers Retailers Hawkers Merchandisers Spaza shops Sales force Radio Television	
<b>Customer relationships</b> Government Third party distributors Customers Road shows	<b>Revenue streams</b> High volume low margin model Product push to the market Smaller quantities	<b>Key resources</b> Customer facing staff Plant & machinery	<b>Key activities</b> Customer immersion Product quality management Stakeholder management Distribution management Product/ service pricing Brand visibility and Marketing
<b>Key partnerships</b> Spaza shops owners Third party distributors Community Local government		<b>Cost structure</b> Sales force Cheaper packaging	

#### **6.2.4 Telecommunications industry**

The telecommunications industry is highly competitive. Customers are driven to spend more through incentives such as free airtime as indicated in Section 5.6. Linna (2012) indicated that innovative business models in the mobile industry have greatly benefitted

the BOP market with the telecommunication successes in Kenya having trickled down to the BOP markets. The number of subscribers in the ICT industry is increasing whilst the cost of using the technology is decreasing for consumers due to tight competition (Linna, 2012).

The segmentation is different from other business models; as it allows spending either on airtime and/or on data. The telecommunications industry's use of as many channels as possible is supported by Thakoor (2012) who indicates that to service the BOP market firms need to ensure that their products are as accessible as possible (Thakoor, 2012). This also provides convenience for the BOP markets.

To ensure affordability of the products, the airtime denominations are broken down to allow for the purchasing of R5 airtime, thus the products are affordable (as shown in Section 5.6). This is supported by Anderson and Billou (2007) who indicates that products in the BOP markets are broken down into smaller quantities thus increasing affordability (Anderson & Billou, 2007).

Table 13 (below) indicates the business model for the telecommunications industry from the research results.

**Table 13 Business model for the Telecommunications industry**

<p><b>Customer segments</b></p> <p>Consumer spend Mass market</p>	<p><b>Value proposition</b></p> <p>Accessible and convenient services Affordable pricing at denominations ranging from very low to high denominations Flexible product packaging Spend more - get more incentives Smaller quantities</p>		<p><b>Channels</b></p> <p>Sales force Customer contact centre Third party retail branches Own retail branches Wholesalers Hawkers Spaza shops Agents Mobile Internet Radio Television</p>
<p><b>Customer relationships</b></p> <p>Self service Customer contact centre Mobile Face to face Mass market service</p>	<p><b>Revenue streams</b></p> <p>Dynamic pricing Consumer incentivised products High volumes – low margins</p>	<p><b>Key resources</b></p> <p>Sales force Network infrastructure</p>	<p><b>Key activities</b></p> <p>Customer immersion Brand visibility &amp; Marketing Infrastructure management Promotions</p>
<p><b>Key partnerships</b></p> <p>NGOs Financial institutions Third party distributors</p>		<p><b>Cost structure</b></p> <p>Staff expenses Infrastructure</p>	

### **6.2.5 Agricultural industry**

The study results in Section 5.11 indicate the lack of property rights as an inhibitor for the firms to locally source grains. As a result most of the grains are imported from neighboring countries. Company 15 from one of the Southern African Development Community (SADC) countries indicated there is no ownership of land which inhibits the local farmers from being able to produce sufficient products that will ensure food security as their property rights are not legally protected. Section 2.5 of the literature review indicate that property rights as one of the institutional voids in developing countries. Ahmad and Marwan (2012) also supports that the the agricultural business is faced with the lack of legal protection of property rights. Ahmad and Marwan (2012)'s emipiral study also states that 'institutions matter' for growth of the economy in developing countries especially the security of property rights and strong government institutions (Ahmad & Marwan, 2012). The respondent indicated that the country is in the process of legally protecting property rights which could result in growth in local economic farming activities.

Thus the insitutional void (the lack of legal protection on property rights) will be filled. In preparation for the filling of this institutional void, the firm has partnered with local farmers and is providing formal networks to train and provide an enabling business environment for commercial farming. This will enable poor consumers who focused on subsistence farming to become commercial producers. This is supported by McKague and Oliver (2012) who indicated that enriching small holding farmers will alleviate poverty in developing countries and this should form part of the business models for firms at BOP markets (McKague & Oliver, 2012).

The business model indicated in Table 14 (below) is aligned to to ensuring food security from local and neighboring countries farmers. The business model is similar to the FMCG business model, it differs in the usage of limited channels and high costs in storage expenses to cusion against drought and possible commodity price hikes.

**Table 14 Business model for the agriculture industry**

<b>Customer segments</b> Mass market Millers Retailers	<b>Value proposition</b> Affordable quality grain Ensuring food security for the nation		<b>Channels</b> Field officers/ Sales force Wholesaler	
<b>Customer relationships</b> Mass market service	<b>Revenue streams</b> Bulk products sales High volume - low margins Fixed menu price	<b>Key resources</b> Sales force	<b>Key activities</b> Demand and supply management	
<b>Key partnerships</b> Farmers Companies that produces agricultural crop fertilizers Government Private corporates		<b>Cost structure</b> Staff expenses Storage costs		

**6.2.6 Entrepreneurs (informal business) business model**

The entrepreneurs interviewed have been serving the BOP market for over five years. One of these interviewees started his business more than fifteen years ago. It is thus implied that the BOP market is not necessarily untapped. Thakoor (2012)'s findings also supports that SMEs have been serving the BOP market and thus the market cannot be treated as untapped. Thakoor (2012) has identified the informal sector's fundamentals for serving the BOP market to be valuable insights for MNCs that want to serve the BOP market. Mee-Shew and Belden (2013) supports the perseperspective that entrepreneurs at the BOP market are resourceful with valuable capabilities that other firms that want to serve the BOP can leverage from (Mee-Shew & Belden, 2013).The primary fundamentals

(quality, distribution, price) and secondary (value for money and high-volume low margin) (Thakoor, 2012) are aligned to the critical success factors finding in Section 5.12 of this study. The Entrepreneurs business model table 15 (below) indicates that summarized results.

**Table 15 Entrepreneurs' (informal sector) business model**

<b>Customer segments</b>  General public	<b>Value proposition</b> Affordable quality products High volume – low margins		<b>Channels</b> Spaza shops Small shopping/industrial outlets Informal outlets	
<b>Customer relationships</b> Mass market service	<b>Revenue streams</b> Products sales High volume - low margins Fixed menu price	<b>Key resources</b> Staff members Stock and or material inputs	<b>Key activities</b> Marketing Inventory management Customer immersion	
<b>Key partnerships</b> Wholesalers Banks		<b>Cost structure</b> Staff expenses Rental cost Materials input costs		



### **6.2.7 Advisory consulting services on business models at BOP**

The advisory consultants indicated that there is no one umbrella segmentation for BOP markets. Prahalad (2009) also supports the notion that segmentation at BOP markets should be subdivided into multiple subsegments and that the BOP segments are not similar from region to regions (Prahalad, 2009). Firms requires economies of scale to be able to service the BOP market taking into consideration that the customer segments will differ from one country to the other and also within the same countries. This gives way for the consumer research to be conducted at a more granular level to ensure that the correct products and services are provided to the specific segments (Mee-Shew & Belden, 2013).

The business model advises that the consultancy industry provides is similar to the FMCG business model. This is depicted in Table 16 (below) with emphasis of partnership with key stakeholders for firms to co-create at the BOP markets. The advisory services consultants indicated that firms should ensure that costs are kept minimal through cost efficient distribution model for firms to achieve high volume low margins model at the BOP.

**Table 16 Business model for the BOP market as per the advisory services**

<b>Customer segments</b>  Different layers of BOP markets	<b>Value proposition</b>  Affordable quality products High volume – low margins Focus on the product need than the fluffy features	<b>Channels</b>  Informal outlets Wholesalers Retailers ICT Radio Television	
<b>Customer relationships</b>  Mass market service Co-creation	<b>Revenue streams</b>  Products sales High volume - low margins Fixed menu price	<b>Key resources</b>  Sales force	<b>Key activities</b>  Market research Customer immersion
<b>Key partnerships</b>  Wholesalers Third party distributors Government NGOs Customers		<b>Cost structure</b>  Staff expenses Distribution costs	

### 6.2.8 Conclusion to research question 1

The business models deployed at the BOP market are similar with the high-volume low margins as a continuous theme for doing business at the BOP. Although most respondents agree that there are profits to be made at the BOP, pharmaceutical industry respondents believe that not all firms are made to serve the BOP market and that firms should focus on their key competitive advantages.

The research results do however indicate the lack of consistencies when it comes to customer segmentation. The organisations are not specifically only targeting the BOP market and even though some of the organisations such as Company 4 refer to the \$2 a day, they do not use this guideline as a way to segment their customers. The study by Mitchelson (2011) also indicated that there are inconsistencies on how the BOP market segment is defined and segmented.

The findings also indicate that outsourcing of gathering of customer intelligence will not sufficiently provide them with customer insights but instead firms will need to immerse themselves in the customer's lives to be able to provide the product that meet the customer needs. Various partnerships have to be incorporated for the business models serving the BOP markets. This is supported by the notion that business models extends to the relationships that the firm has with other stakeholders to be succesful (Lambert & Davidson, 2013 ; Brettel, Strese, & Flatten, 2012).

Table 17 (below) indicates the common research results from the different industries of the components of the business models serving the BOP markets. This business model is the generic business model that can be used as a guideline for firms that are targeting the BOP markets as it is aligned to the research results from the different respondents.

**Table 17 Business model for the BOP market**

<b>Customer segments</b>  Different layers of BOP customer segments	<b>Value proposition</b>  Affordable quality products High volume – low margins Focus on the product need than the fluffy features Value for money	<b>Channels</b>  Informal outlets Wholesalers Retailers ICT Radio Television	
<b>Customer relationships</b>  Mass market service Co-creation	<b>Revenue streams</b>  Products sales High volume - low margins Fixed menu price	<b>Key resources</b>  Sales force	<b>Key activities</b>  Market research Customer immersion Consumer education
<b>Key partnerships</b>  Wholesalers Third party distributors Government NGOs Customers		<b>Cost structure</b>  Staff expenses Distribution costs	

### 6.3 Discussion of Research question 2

This research question sought to understand the ability of firms to service the BOP market whilst still facing the institutional voids, thus asking how can firms practically serve those markets under the difficult conditions. Section 5.11 has indicates that lack of infrastructure, geographically dispersed distances, legislation, labour unrest, multiple languages, lack of required skills and property rights are the identified institutional voids. These impede on the development of business models at BOP markets. This section will indicate the study

results shows how firms can leverage off partnerships with locals, government, NGOs and other companies to bridge the identified institutional gaps.

### **6.3.1 Bridging the institutional gaps through partnership with the locals: Multiple languages and lack of skills**

Webb, Kistruck, Ireland and Ketchen (2010) indicated that value creation through meeting the social needs of the communities should be met by firms that are targeting to serve the BOP market. The challenge stated by Webb, Kistruck, Ireland and Ketchen (2010) shows that the firms serving BOP markets might lack an understanding of the norms and culture of the communities. This may result in firms pulling out of the BOP markets. Respondents regarded partnering with locals through co-creation and hiring locals as a factor which has enabled firms to understand and operate effectively in the BOP market as shown in Section 5.9.3. Company 5 stated an event whereby the locals assisted the firm to distribute their products across the river by using the little boats that the locals uses to cross the river. Company 6 stated that they source the ingredients from local producers instead of importing them. These two events indicate the close relationships that the firms have with the communities they operate in. This not only enables firms to operate in the BOP market but also adds positively to the economic activities of those communities through empowering the locals and allowing them to be included in the value chain. London and Anupindi (2012) argues also that poverty will be alleviated through locals being afforded the opportunities to be producers for firms that are targeting the BOP markets.

The study results indicate that the collaboration between locals and firms result in the twin goals of making a profit whilst also ensuring the social imperatives of the community are met. The study indicates that Company 5, Company 6 and Company 7 have employed locals in their manufacturing plants and also used the locals as third party distributors. Thus the evidence from the research indicates that employment of locals has benefitted

the firms operating at BOP and also the locals. Shivarajan and Srinivasan (2013) also alluded to the fact that poor people are resourceful as they possess intellectual property that can be integrated to the formal economic markets through the poor acting as suppliers to firms operating at BOP.

The partnership with locals also fills the institutional gap of service strikes experienced by entrepreneurs as the locals inform and warn the shop owners to close their stores due to when such strikes will take place in those areas. Although it is costly to not operate business during those strikes, the businesses will be avoiding potential vandalism that could cost them even more had they opened the stores during the strikes. The hiring of local skills and creating a trusted brand enables firms to be entrenched in the norms of the communities they operate in such a way that they become part of the community.

### **6.3.2 Bridging the institutional gap through partnership with the government**

The BOP market should not be perceived as a dumping site for firms that are serving those markets. The government and communities at BOP require firms to be concerned about the welfare of the country and of the local communities. The study results in Section 5.9.1 indicate that firms perform stakeholder management and ensure that the identified stakeholders are part of the consortium in ensuring that there is shared value between the firms, communities and the state. Company 14 has alluded to the need of firms to be playing a critical role with their stakeholder and be seen as partners that are interested in solving the 'pain points' of the country.

Varman *et al.* (2012) supports those firms, serving the BOP market that engage government, acknowledging that such can create a conducive business environment resulting in shared value (Varman *et al.*, 2012).

### **6.3.3 Bridging the institutional gap through partnership with the NGOs**

Evidence from the research has indicated (in Section 5.9.2) has indicated that where partnerships with NGOs were developed, successful initiatives that have benefitted all parties involved have resulted. Dahan Doh, Oetzel, and Yaziji (2010) have indicated that collaboration between different stakeholders enables the contribution of expertise in skills and local knowledge; the sharing of resources and manufacturing capabilities; and provides the ability for firms to access the BOP markets. Webb *et al.* (2010) indicated that institutional voids increase the costs of doing business at BOP markets. It is thus suggested that firms should partner with NGOs to reduce the cost associated with doing business at the BOP. Shivarajan and Srinivasan (2013) indicated NGOs can be the link between the poor who are suppliers of knowledge capital to the firms that are operating at the BOP markets. The poor may lack trust in the formal systems but instead may have developed the trust with the NGOs.

### **6.3.4 Bridging the institutional gaps through partnership with other companies: Infrastructure and dispersed geographical distance**

Section 5.11 indicates that the lack of infrastructure is a challenge in doing business at BOP, with geographically dispersed consumers making it difficult to provide access to products and services for the BOP market. FMCG companies have indicated the use of third party distributors who are locals to access and distribute products and services to some of the most remote areas. Dahan *et al.* (2010) supports the results: stating that cross-sector partnership can result in social and economic value creation for all parties involved (Dahan *et al.*, 2010). FMCG respondents have emphasized brand visibility through active advertising and creating a tangible presence for the firms. This is done by leveraging off the capabilities of local entrepreneurs which creates loyalty amongst locals to support a brand that is concerned about social and economic activities within their communities. The research results by Thakoor (2012) also indicated that multiple channels are used to gain access into the markets (Thakoor, 2012).

### **6.3.5 Bridging the institutional gaps through partnership with other companies: Legislation and property rights**

The respondents have indicated that legislation is a mechanism that is intended to protect the environment and it is not necessarily an inhibitor for doing business at the BOP market. Literature indicates that lack of property rights is still a problem in developing countries and inhibits economic growth at BOP markets. Stal and Cuervo-Cazurra (2011) states that the lack of legal protection of property rights and unpredictable regulatory changes inhibits the investment into the developing markets thus impacting negatively on the economic growth of the country.

### **6.3.6 Bridging the institutional gap through a Do It Yourself (DIY) model**

Firms that have a long term perspective in the BOP market with the intention to achieve the twin goals of making profit whilst also improving the social welfare of the communities have an opportunity to fill the gaps themselves. This will enable efficient distribution and access to the BOP markets. Joint ventures or collaboration between the firms and the government may create a conducive environment where the infrastructure of a region can be developed by the firms enabling access to the BOP markets.

One of pharmaceutical respondent raised the potential partnership with the government in filling the infrastructure institutional gap through DIY. The respondent is currently piloting a project, at their own expense, with long term potential profitable benefits to one of the African countries. Nupen (2013) describes how Vale, a Brazilian mining company, invested in the infrastructure of Mozambique to be able to move coking coal from the mine to the port. The company not only invested in the capital infrastructure of the country, it also employed more than seven thousand locals thus contributing to other economic activities in the country (Nupen, 2013). The DIY model might not be feasible for all engagements but is worth considering for long term sustainable achievement of the twin goals.



### **6.3.7 Conclusion to research question 2**

The results in section 5.9 clearly indicates that institutional gaps can be filled through partnership with the stakeholders such as government, locals, NGO and other firms to enable all the stakeholders involved to leverage off each other's skills, capabilities and resources. This can result in shared value creation for all parties involved (Porter & Kramer, 2011). Dahan *et al.*, (2010; Rivera-Santos and Rufin (2010) also indicated that partnership at BOP markets will create value for the parties and result in achieving the twin goals of profit and social upliftment to the communities. However Kistruck, Sutter, Lount JR. and Smith (2013) identified that agency costs could result in higher transaction costs counteracting against the low cost affordable products for the low income markets (Kistruck *et al.*, 2013).

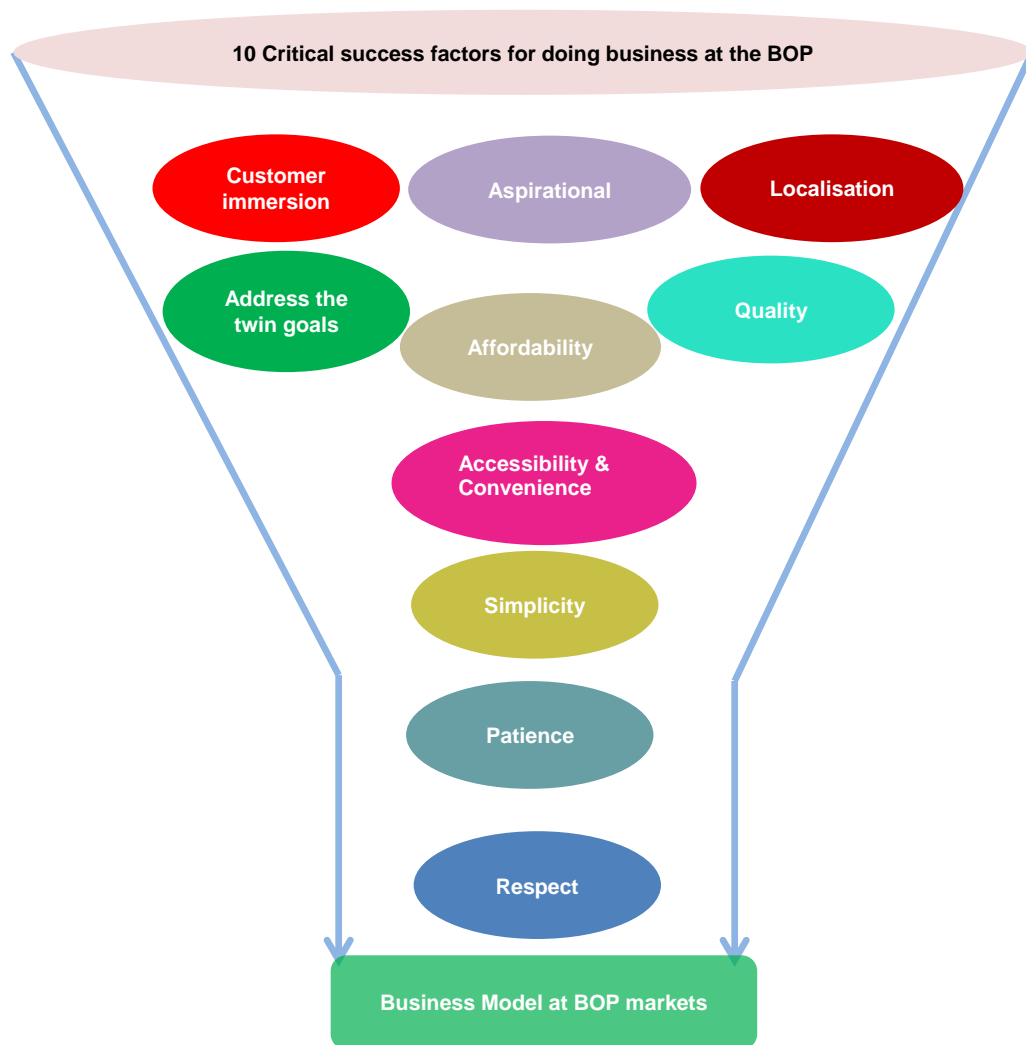
The respondents have indicated that the customer relationship should not be outsourced as firms can only gather insights through direct engagement with their customers. This is however, not consistent with all the findings as some relationships are managed by third parties. Firms operating at the BOP also have the opportunity to catapult the technological capabilities, which may result in filling the institutional voids (Mee-Shew & Belden, 2013). In conclusion to research question 3, firms needs to leverage off the institutional voids by filling the voids themselves (Khanna & Palepu, 2013).

### **6.4 Discussion of Research question 3**

Research question 3 sought to understand the critical success factors that should be applied when developing business models at the BOP market.

The key themes from the study results (Section 5.12) indicates customer immersion, aspirational, localization, addressing of the twin goals, affordability, quality, accessibility, convenience, simplicity, patience and respect as key success factors in conducting business at the BOP as indicated in Figure 5 below. This section will discuss each identified success factor as identified in the research results.

**Figure 5 Success factors of business models at the Bottom of the pyramid**



#### **6.4.1 Customer immersion**

The study results indicate that firms operating at the BOP market should ideally not outsource the collecting of consumer insights. Instead they must 'walk the markets' and follow the lifestyle of the consumers. Company 8 indicated that surveys and questionnaires will not always provide you with the right answer. The respondent indicated that firms need to be observing the markets and engage the customers instead of outsourcing such an important task to the agencies. The entrepreneurs also indicated that they have close relationships with their customers. They receive constant, direct feedback and involvement in the communities provides them with the opportunities to provide the basic products and services for the consumers.

The literature by Prahalad (2012) supports this result by stating that innovation for products and services at the BOP market should start with an immersing into the life of the customer. Thakoor (2012) also identified direct interactions with customers to gain customer knowledge and understanding of their needs. One of the largest FMCG companies indicated that organisations should not outsource the customer relationships and use their sales force to engage and understand the markets. Linna (2012) indicated also how M - Farm local business founders interacted with family members of the farmers and researched on agricultural business to understand their customers. In so doing they were able to develop a solution that was needed by the farmers (Linna, 2012).

#### **6.4.2 Aspirational**

Products developed at the BOP should be designed to be good quality, with the understanding of the customer's aspiration so that the customers would want to own the products (Prahalad, 2012). Respondents Company 1, Company 5, Company 7 and Company 14 indicated that organisation should meet the consumer's aspirations through

providing them with products they can be proud to be associated with. Company 5 has stated that the problem that the firms targeting the BOP markets have done was to perceive that they can dump inferior products to the BOP markets. The respondent stated that the firms were addressing the affordability but they were not addressing the quality and the aspirations of the consumers. Company 5 stated that the aspirations of the consumers must be met. Company 14 stated that even though the product provides basic needs, it should be packaged and marketed in a way that will address the BOP's aspirations.

### **6.4.3 Localisation**

Study results have indicated that products are modified to suit the local market and in other cases new business opportunities emerge for completely new products to serve the market as indicated in Section 5.3. The firms gather consumer insights and understand the market needs which enables them to meet the locals' needs and provide opportunities for new products. These new products can then be sold to other global markets including the high income countries. FMCG respondent have decentralized manufacturing for efficient distribution and are also to be able to develop products that are suitable for that market. This is supported by the literature review by Immelt *et al.* (2009) who indicated that growth of developing countries such as China and India requires MNCs to also adopt a decentralized innovation and development approach whereby products are developed at the local-market driven countries.

The result of developing locally manufactured products ensures that the needs of the customers are met at low cost whilst also employing the local skills or partnering with the local companies. These products may be sold to other countries thus reverse innovation is taking place benefiting the low income countries and the high income countries, as they will be purchasing quality products at a lower price.

Reverse innovation is a model that can be adopted, herein products are developed at low costs to address the BOP market and then distributed globally to even high income countries. Govindarajan and Ramamurti (2011) defined reverse innovation as “the case where an innovation is adopted first in poor (emerging) economies before ‘trickling up’ to rich countries” (Govindarajan & Ramamurti, 2011. p. 1). Developing countries are now also a source of great innovation at low cost such as medical devices, solar power energy and low cost cars (Immelt *et al.*, 2009; Immelt *et al.*, 2009).

#### **6.4.4 Address the twin goals**

The respondents except Company 14 agreed that there are profits to be made at the BOP markets. Mitchelson (2011) argued that although companies claim that there are profits to be made whilst improving the welfare of the communities, there are no measures in place to check whether or not there has been the improvement (Mitchelson, 2011). George and Khoja (2012) ; Sánchez and Ricart (2010); Prahalad and Hart (2002) argues that there are profits to be made at the BOP whilst improving the social lives of the communities. The improvement occurs through employment of the locals, co-creation and also by ensuring that products are accessible to the BOP markets (George & Khoja, 2012) ; (Sánchez & Ricart 2010); (Prahalad & Hart 2002).

#### **6.4.5 Affordability**

Prahalad (2012) and Davidson (2009) stated that products developed for BOP markets must be affordable. Getting the right price point is key to serving the BOP market without compromising on quality. The findings indicated a common theme that products should be affordable as the consumers at BOP market are price sensitive.

#### **6.4.6 Quality**

The BOP market is not a dumping site for inferior products. Firms must develop quality products and services that will meet their aspirations (Prahalad, 2012; Davidson, 2009).

The research results stressed the importance of quality products and services for low income markets as critical for the success of the firms operating in those markets.

#### **6.4.7 Accessibility and Convenience**

Respondents stated that firms should ensure that products and services developed for the BOP market are accessible through deploying different channels to access even the remote consumers. Industries such as telecommunications, financial services and FMCG are deploying various channels to the market as indicated in Section 5.4. This is also aligned to Prahalad's 4A's namely, awareness, accessibility, affordability and availability of the products (Prahalad, 2012). This creates convenience for the consumers by firms going to the consumers instead of the consumers having to catch public transport in order to access the products and services. The business has to be in proximity to the consumers.

#### **6.4.8 Simplicity**

Davidson (2009) stated that firms developing products for the BOP markets should not have unnecessary frills on their products but instead should ensure that the products are kept simple to ensure that the price is affordable (Davidson, 2009). Company 4 had stressed the need for product simplicity and believes even the marketing messages should be in the consumer's cultural context as also indicated by Mee-Shew and Belden (2013). Simplicity is also visible through the common agreement by the respondents for consumer education on products and services especially in the financial services sector.

#### **6.4.9 Patience**

Packaging, FMCG, pharmaceutical, an entrepreneur, a consulting and one of the financial services industry respondents indicated that patience is key in doing business at the BOP as benefits may not be realised in the short-term but will be realised in the long term. The respondents indicated that a nurturing attitude and long term perspective is required for firms to be successful at the BOP markets. Shivarajan and Srinivasan (2013) also highlighted that firms operating at BOP markets that want to achieve the twin goals of profit and improved social welfare should consider partnerships with the NGOs and locals. However the partnership should be conceived as a long term engagement to allow the benefits to be reaped. The economic benefits may be realized in the long term with the potential of being sustainable and not easily copied by potential competitors (Shivarajan & Srinivasan, 2013) .

#### **6.4.10 Respect**

Respondent Company 4 who implemented mobile money in the rural areas indicated, how he initially had to gain the trust of the community through his salesforce having to respect and engage the locals prior to the organisation benefitting economically from the implementation of their initiative. The FMCG, packaging and financial industry respondents indicated that access to the BOP market will be beneficial when firms respect the communities they operate in and when this relationship also enables shared value amongst the stakeholders. Entrepreneur 2 also stressed the importance of training his staff to ensure that they treat their customers with respect otherwise they run the risk of losing their customers to competitors. This is supported by Prahalad (2009), who states that firms needs to operate at the BOP must respect the consumers at the BOP market. Partnership with consumers to co-create with the firms will only be feasible if firms treat the consumers as equals and trust in the capabilities of the consumers to provide valuable input into the

value chain of firms (Prahalad, 2009). Shivarajan and Srinivasan (2013), as discussed earlier, also indicated the distrust that might exist amongst the consumers towards the firms that desire to operate in the BOP market hence the suggestion that NGOs should play to connect the two parties (Shivarajan & Srinivasan, 2013).

#### **6.4.11 Conclusion to research question 3**

Thakoor (2012) has indicated that there are basic business principles that can be applied to the BOP market. Ten such have been identified by this research as critical success factors. They are as follows: customer immersion, aspirational, localization, addressing of the twin goals, affordability, quality, accessibility and convenience, simplicity, patience and respect. The BOP market is aspirational and want to be treated with respect whilst also receiving quality products that are at affordable prices (Mee-Shew & Belden, 2013; Prahalad, 2009). Although there are profits to be made at the BOP markets, short term quick profits may not be attained and thus firms are required to have a long term view of the engagement in the BOP market.

### **6.5 Summary**

Chapter six reviewed the key findings of the study indicating the different business models applied by four different industries at the BOP. The findings indicate that there are not many differences in the business models applied these markets except within the pharmaceutical industry who stressed that infrastructure and getting the right price points inhibits the potential of making profits at the BOP markets.

Firms should not outsource the gathering of the customer insights as they might miss the most critical inputs, rather they need to 'walk the markets' and immerse themselves in the



lives of the customers. This will enable the firms to understand the norms, cultures, distribution requirements and institutional voids. It will enable them to know how to fill them and provide a product or service that will be suitable to the specific customer segment.

Partnerships although not extensively utilised, enables firms to bridge the institutional voids at the BOP markets. Only a few firms have partnered with NGOs to serve the market. Many firms instead utilise third parties for distribution and employment of locals to do business at the BOP markets. Brand visibility and actively seeking to meet the social imperatives of the communities enables the firms to be considered as a trusted brand with potential increase of support from the locals.

The identified critical success factors namely product affordability, product quality, meeting the aspirations of the customers, simplicity, localisation, meeting of the twin goals of profit and social welfare, patience, respect of the communities, accessibility and convenience are basic business principles that needs to be in place for the success of the firms operating at The BOP markets.

Long term perspective needs to be in place for firms operating at the BOP markets. In order for them to make profits whilst also improving the welfare of the communities they operate in.

## CHAPTER 7: CONCLUSION

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### 7.1 Introduction

The BOP construct was introduced by Prahalad and Hart (2002) who indicated that there are huge untapped markets that are underserved where profits can be made whilst also meeting the social imperatives of the poor. The World Bank (2014) also stated that in 2011, 2.2 billion people were living on US \$ 2 per day with 17% of people in the developing world living on less than \$1.25 a day. This study was conducted to identify the different business models conducted by different industries serving the BOP market and to provide insights on how firms can successfully serve the BOP market whilst also facing the institutional voids in developing countries. The literature review in Chapter 2 has indicated that innovative business models needs to be implemented for firms to be successful at the BOP. The innovation could also result in reverse innovation with the poor countries now exporting their low cost products to the rich countries. The purpose of this chapter is to provide the research objectives, indicate the key findings, and provide recommendations, research limitations and implications for future research.

### 7.2 Research objectives

The objective of this study was to explore whether there is a ***uniform business model that is applied at the BOP markets*** or ***whether industries are using different business models*** taking into consideration the institutional voids and identifying the critical success factors to conduct business at BOP. The researcher aimed to develop a generic business model using Osterwalder and Pigneur (2010)'s business model canvass that can be applied as a guideline for developing business models at the BOP. The business model depicted in Section 6.2.8 is the result of the research methodology

process followed by gathering data from respondent serving the BOP market across different industries.

## **7.3 Key findings**

The research compared business models from financial services industry, FMCG industry, packaging industry, telecommunication industry, advisory services (with regard to the advice given for firms operating at BOP), pharmaceutical industry, agricultural industry and entrepreneurs serving the BOP markets.

### **7.3.1 No clear customer segmentation for the BOP market**

The study shows that there is no agreed common approach that firms segments their customers. Out of the four financial services firms, only one firm segments its customers using the LSM which categorises people with one being the lowest/ poorest and the other being the wealthiest. FMCG uses occasion based segmentation whilst telecommunication industry uses customer spend as a way to differentiate between customers.

### **7.3.2 Value proposition**

The products developed at the BOP are not necessarily targeted only toward the BOP market but can be consumed by the middle of the pyramid and the top of the pyramid as indicated in all the results from the different industries namely FMCG, mobile money utilized by one of the financial services organisation, agriculture industry, products and services offered by the entrepreneurs and the telecommunications industry. There have been a few indications where ***products are specifically developed for the local market***

***but not necessarily only for the poor.*** Meeting the aspirations of the poor is very important for product buy-in by the consumers.

The product packaging, marketing messages and context should also be localized to speak to the specific customers ***at the levels they aspire to be at.***

#### **7.3.4 Channels**

To ensure ***accessibility and convenience*** for low income markets, the results indicated that where feasible the firms should use as many channels as possible. The key difference between the business models of the different industries is whether or not products are developed locally or imported from rich income countries. The study results indicate that the FMCG organisations have decentralized manufacturing plants to ensure accessibility, convenience and availability of products for the BOP markets. The pharmaceutical companies interviewed still develop most of their products in rich income countries with very limited number of products developed in developing countries. Localisation although still very limited, is considered as critical for successful business models at the BOP markets.

#### **7.3.5 Customer relationships**

The ***mass market customer relationship model*** is used because there is no database of the details of customers that the industries are interacting with. The main interactions firms have with the customers are the wholesalers and formal outlets that service the BOP markets. Only one FMCG company indicated that they have merchandisers who are interacting with the spaza shops and making orders on the customer's behalf. A 'do not

outsource your customer relationship' message has emanated from the results even though this relationship is limited to outlets and wholesalers.

### **7.3.6 Revenue streams**

**High volume, low margin** is the consistent theme coming through from all industries except the pharmaceutical industry. The conflicting view presented by the pharmaceutical industry is that more and more volumes at greater loss will be sold. The collaboration between donors, the pharmaceutical industry and government has been identified as a successful model in that the pharmaceutical companies were able to make profits while serving the BOP market.

### **7.3.7 Key resources**

Personnel have been recognized as the key resource and more specifically the sales force or direct customer engaging personnel. This is due to the need for firms to engage the customers with the findings from this study indicating that firms engaged with the community heads and use merchandisers to make orders for the informal spaza shops. Being part of the community has also been regarded as a need for firms to engage the markets hence the high costs associated with serving the BOP market.

### **7.3.8 Key activities**

**Customer immersion and marketing** cut across in all the industries as key activities in the BOP markets. **Low cost efficient distribution models** are also a key activity to serve the market affordably.

### **7.3.9 Key partnerships**

Coopetition does not seem to feature much in the business models for BOP markets due to the highly competitive environment. The key partnership identified in the models is through the use of ***locals as third party distributors, government to ensure compliance*** with the micro-policies and very limitedly the ***NGOs***.

### **7.3.10 Cost structure**

Due to the high dependencies on people, the highest identified cost in the study is the staff expenses. Personnel not only are they considered being a key resource; they also are the highest expense to serve the BOP market.

### **7.3.11 Filling of the institutional voids in the BOP markets**

The ***DIY route to fill the institutional voids*** has worked for the FMCG companies through decentralized products production and hiring of the locals who understand the cultures, languages and the political dynamics of the environment.

### **7.3.12 No fundamental differences in business models between different industries**

The findings indicate that the business models deployed across the different industries at the BOP market are similar with minor differences. The high-volume low margins is a continuous theme for doing business at the BOP. The study results also indicate that there are profits to be made at the BOP, however pharmaceutical industry respondents believe that not all firms are made to serve the BOP market and that firms should focus on their key competitive advantages. What is evident from the research is the implementation of

the critical success factors when doing business at the BOP. These factors include ***customer immersion, meeting the aspiration of the customers, localization, addressing the twin goals of profit and improvement of social welfare, affordability, quality, accessibility, simplicity, patience and respect.***

## **7.4 Future research**

The research indicated that culture of the organisation plays a major role in serving the BOP. The respondents indicated that centralized management of initiatives impacting the low income market from a distance office will not enable the internal stakeholders of firms to clearly grasp the dynamics at the BOP. The challenge raised in this study is the short term expectations of returns instead of long term view of the model. The organizational culture fit for firms to successfully serve the BOP market requires both exploratory and quantitative future research.

Further comparative qualitative research is required on a larger sample looking into the pharmaceutical industry's business models for generic pharmaceuticals as well as pharmaceutical companies that focus on developing brand/ reference listed drug products. Is there evidence that low volume - high margin for pharmaceuticals that develop brand/ reference listed drug products and high-volumes low margins model works for the generic pharmaceuticals?

Service strikes in the BOP markets in South Africa have impacted the SMEs serving that market. The close relationship with the SMEs, results indicated the communities warning the business owners so that they may not be greatly impacted by the strikes. Although this partnership with locals has been indicated as important in serving the low income markets, further research is required to unpack those relationships and understand through

qualitative research what makes them different from the formal markets serving the BOP markets.

Further research is also required to provide insights on the measures to be used to indicate whether a customer is a BOP customer or not as the findings also indicate that the measure of BOP customers living under US \$ 2 a day could be flawed as it does not take into consideration the subsistence farming and remittances that BOP consumers receive from family members and the communities.

## **7.5 Limitations of the research**

The limitations of this research are the potential sample bias toward a small set of number of interviewees for each industry. It would have been preferable to interview a greater number of interviewees from each industry in order to provide greater comparisons.

## **7.6 Recommendations for other stakeholders**

This study can potentially benefit firms that want to do business at the BOP markets; NGOs that would like to assist firms that are encountering institutional voids at the BOP markets; and government officials that would like to create an enabling environment attracting investment in poverty stricken environments thus improving the social welfare of the communities.

The stakeholders are detailed below for further description on how they may benefit from this study.



### **7.6.1 Recommendations to firms that want to do business at the BOP market**

The firms that want to do business at the BOP market need to know that there are no short term gains and patience is key in doing business at the BOP market. It is recommended that clear objectives with clear measures be put into place to ensure that the twin goals of profit and welfare are met. The researcher also recommends that the customer immersion should not be outsourced to other service providers to perform on behalf of the firms. In so doing key insights can be missed where generic assumptions are made about the market. Walking the paths and direct engagement with the customers will provide much insight to the market. As one respondent has indicated: 'you need to see it for yourselves' otherwise, due to the aspirations of the consumers, data may be given based on what the consumers are aspiring to consume rather than what they are actually consuming at that point in time.

### **7.6.2 Recommendations to NGOs that want to form partnerships with firms operating at the BOP markets**

The research recommends that NGOs learn the capabilities from profit seeking firms on how to be self-sustainable through their collaboration with firms operating at the BOP markets. The NGOs can also share their capabilities of knowing the local markets and its institutions to enable firms to meet the twin goals at the BOP markets.

### **7.6.3 Recommendations to government**

The political and economic dynamics of developing countries are perceived as having institutional voids that do not enable conducive business operations that will benefit locals and the firms operating at the BOP markets. Government is recommended to create

policies that will enable economic growth whilst protecting the BOP markets from exploitation.

## **7.7 Conclusion**

Organizations are looking into growing their markets by investing in developing countries. The literature discussed in Chapter 2 stated that business models at the BOP should be different from those applied in high income countries and that each BOP segment should be treated differently from other BOP segments in developing countries.

The study achieved its objectives of identifying business models applied at the BOP. The study identified that the business models deployed across the different industries at the BOP market are similar with minor differences. The key decision required by firms serving the BOP is on whether to manufacture products locally or at a central location. Localization of business models is key to ensure that the products meet the local needs. In the case where glocalization is deployed, the marketing messages, packaging and language should be that of the locals thus allowing product adoption by the market.

The identified institutional voids namely lack of infrastructure, dispersed geographical distance, legislation, service delivery strikes, multiple languages, lack of required skills and property rights can be filled through partnership with key stakeholders in the BOP markets and also through DIY filling of the voids. These practical implications also requires that firms ensures that the ten critical success factors are in place to successfully do business at the BOP.

## APPENDIX 1: DISCUSSION GUIDE

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1. Introduction
  - Introduce self, job,
  - Review purpose of study, explain method of data capture and analysis
  - Confidentiality and anonymity, contract
  - Estimated completion time
  - Benefits to respondent
2. Demographic information
  - Name:
  - Age:
  - Career History:
  - Current Company Name:
3. Business Model definition
4. Business Model Approach - Customer Segments
5. Business Model Approach - Value Proposition
6. Business Model Approach – Channels
7. Business Model Approach – Customer Relationships
8. Business Model Approach – Revenue streams
9. Business Model Approach – Key resources
10. Business Model Approach – Key activities
11. Business Model Approach – Key Partnership
12. Business Model Approach – Cost Structure
13. Institutions
14. Critical success factors of the business model developed at the BOP
15. Closing comments

## APPENDIX 2: LETTER OF CONSENT

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I am an MBA student at GIBS. I am conducting research on a comparative analysis of the business models applied for the development of products and services at the Bottom of the Pyramid and would like to request your participation in my study.

Your participation is voluntary and you can withdraw at any time. Your participation will be two hours interview at either through video/ telephone conferencing or at your offices. You will have the choice to remain anonymous to ensure that you are neither personally nor the company you represent will be identified in the final report.

I undertake to provide you with the copy of the final report that will be submitted to examination to GIBS. Contact details are provided below:

Researchers Information		Supervisor's information	
Name	Nomahlubi Ndhlovu	Name:	Marcus Carter
Student number	96249073		
Email	ntombi99@gmail.com	Email	marcus_carter@hotmail.com

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