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**The Financial implications of firms Business Model focus within the Bottom of the Pyramid
Market Segment in South Africa.**

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**A research project 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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DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Masters 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.

Lebogang Poonyane

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ABSTRACT

The participation of businesses and major corporate companies in poverty stricken lower income markets has been met with opposing, and at times controversial views. The Bottom of the Pyramid proposition is one such idea that encourages business people to get involved in the market. However, the commercial viability of the BOP proposition has yet to be proven.

The literature review from this study focuses on the ideas surrounding the appropriate business models that have been put forward through academic literature in order for companies to operate successfully in the lower income market segment. Consequently, the literature also focuses on the developments of the BOP proposition as it relates to the business proposed models. Specific attention is paid to the areas of innovation and replication as strategic focus areas within the BOP business models.

The research seeks to highlight the fact that the BOP market segment is a commercially viable market for companies to pursue, and that the business model focus for companies should be centred around the dual application of innovation and replication principles as part of the company's business model.

The research study made use of interviews with expert executives and supporting documentary evidence from two case study organisations from within the FMCG industry in South Africa. The results of the research were documented and used to address the primary and secondary research objectives. The research findings ultimately enabled the author to construct a model, which companies interested in pursuing the BOP market could implement in order to operate profitably within the BOP market segment.

KEYWORDS

Business Model

Bottom of the Pyramid

Innovation

Replication

Profit

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Chapter 1 - Research Problem

1.1 Introduction

This chapter will serve to introduce the research report. The research problem will be defined and presented, as well as detail the purpose and objectives of the study. The delimitations and limitations of the research will be elucidated. The study addresses a topic that is considered to be both important and relevant to companies and practitioners operating in the Bottom of the Pyramid (BOP) market space, globally and particularly in South Africa. The purpose and objectives of the study will also be explored.

1.2 Background to the study

Widespread poverty is an economic, social, political and moral problem. Eradicating, or at least alleviating, poverty is an urgent challenge, which has led many institutions to try to address this challenge (Karnani, 2007). More recently, the idea that multinational corporations could assist to alleviate poverty, while reaping profits, has proliferated academic and business literature. Most notable is the work by late Harvard Professor, C.K. Prahalad, and his ideas on conducting business at the Bottom of the Pyramid (BOP) (Prahalad, 2005; Prahalad & Hart, 2002; Karnani, 2007).

Prahalad's (2005) BOP proposition can be summarised, as done by Karnani (2007) as follows:

- There is much-untapped purchasing power at the bottom of the pyramid. Private companies can make significant profits by selling to the poor.

- By selling to the poor, private companies can bring prosperity to the poor, and can thus help eradicate poverty.
- Large multinational companies should play the leading role in this process of selling to the poor.

The major premise of the BOP proposition, as advocated by Prahalad (2005) implies that the strategies suggested through the BOP proposition would result in profits for multinational corporations, whilst simultaneously alleviating global poverty. This proposition of “doing good while being profitable” (Prahalad & Hart, 2002; Prahalad, 2005) has been criticised as being fallous and a mere mirage (Karnani, 2007; Landrum, 2007).

Additionally, despite the growth in popularity and theoretical developments’ for the BOP proposition, academic literature on corporations achieving actual profits in the BOP market segment has been rather limited and no conclusive evidence has been captured with respect to the viability of profitability within the BOP market segment.

This brings into question the propositions made by prominent authors (Prahalad, 2005; Simanis & Hart, 2009) regarding large and small corporations achieving profitability by doing business in the BOP market. Challenging the BOP proposition further, Karnani (2007), Landrum (2007) and Pitta, Guesalaga, & Marshall (2008) reiterate that poor people have low disposable income post paying for necessities, which makes it difficult to perceive how much these small sums might generate profits for companies. These criticisms cast doubt over the proposed results that could be achieved by corporations through serving the BOP market segment.

A major problem that arises is that Multinational corporations (MNC's) are encouraged to enter the market by the allure of great consumer markets, which may presumably lead to additional profits. The suggested size of the BOP market segment, which has been shown to range from two billion to five billion potential consumers, is enough to capture the attention of any profit seeking corporate company and make them consider doing business in the segment. However, Karnani (2007) accuses the BOP concept of resting on a fuzzy definition of the target market, with various authors using conflicting market size figures and consumer definitions (Karnani, 2007).

It serves to reason then that companies that intend to maximize shareholder value, through increased profitability, may be enticed to consider the BOP market segment as a source of additional revenue. However, the BOP proposition, and its underlying consumer segment has not been proven, at least academically, to actually produce profits for large MNC's. Pitta *et al.* (2008) recognise that profit is clearly an incentive to pursue the BOP market segment, but beyond the cases cited in Prahalad's (2005) work, as well as the developments that have been contributed to the BOP proposition since then; there is little proof that companies can make the shift to profitability from within the BOP market. As important, is the consideration of how the company should approach the market in order to reap the promised profits. Implicit in the BOP proposition are the peculiar characteristics of the consumer environment that relates particularly to the BOP market, and thus affects the manner in which the company would provide its products and services to the consumer.

It is from this background that the need for this research study has arisen. The paper intends to determine the feasibility of the BOP market, from a company business model perspective with

the objective of determining the profitability of companies that operate within the BOP market. Therefore, this paper seeks to investigate whether the choice of the company's business model orientation, in terms of business model innovation or business model replication, when doing business in the Bottom of the Pyramid (BOP) market segment leads to profitability for the company.

The research problem is more clearly defined below.

1.3 Research Problem

The research problem of this study addresses an exploratory phenomenon, which reads as follows:

“What are the financial performance implications for firms operating within the Bottom of the Pyramid market, with a strategic business model focus on business model innovation versus business model replication?”

1.4 Research Title

The financial performance implications of firm business model focus within the Bottom of the Pyramid Market Segment.

1.5 Research objectives and questions

The primary question that this research project intends to answer refers to “what kind of business model, namely innovation or replication, firms that operate in the BOP market

segment need to follow in order to improve financial performance? “, which translates into the primary research objective mentioned below:

1.5.1 Primary Research objective

- To determine which business model approach, innovation or replication, best leads to firms becoming profitable within the BOP market segment.

To this end, business model innovation refers to the firm’s ability to create new and novel business models tailored specifically for the BOP market segment, which may require the firm to conduct business in an “unusual” manner in order to best meet the needs of the market segment, as well as ensure profitability for the firm.

Alternatively, business model replication refers to the firms’ ability to replicate its existing, already successful, business model in an attempt to serve the needs of the BOP market segment. This replication approach implies that a firm uses business model methods with which it is already familiar to approach a new market, the BOP for instance, and simultaneously ensure profitability for the firm from the new market segment.

The researcher’s intent with the achievement of this objective is to develop a BOP business model framework that firms can follow in order to achieve profitability within the BOP market.

1.5.2 Secondary Research objective

In order to adequately address the primary research objective, a secondary objective has been identified, and reads as follows:

- To examine the financial performance of companies that target the BOP market, and have either business model innovation or business model replication as a strategic focus.

The achievement of the secondary objective will allow the researcher to determine the business model approach that firms in the BOP market space make use of, as well as which of the two approaches best leads to firm profitability.

1.6 Research methodology

In order to effectively achieve the stated research objectives, the research will be conducted by using a case study approach. Yin (2003) defines a case study as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between the phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 2003, p. 13). The study will focus on two case study organisations from within the washing powder category of the South African Fast Moving Consumer Goods (FMCG) industry, selected by means of a judgemental, purposive sampling technique.

When following a case study research approach, the research will rely primarily on qualitative research techniques. Leedy and Ormrod (2001, p. 147) describe qualitative research as involving the capturing of in-depth perspectives, interpretations and behaviours of people in their environments and organising it in such a manner that most truly depicts the situation.

In terms of data collection, the study will make use of semi-structured personal interviews, conducted with senior executives from within the identified organisations, as well as documentary evidence.

1.7 Anticipated Research outcomes

The following research outcomes are anticipated in light of the implementation of the research methods.

- An understanding of the business model focus, innovation or replication, of the two companies included in the study.
- To determine whether the companies that serve the BOP market do so profitably.
- Acquiring sufficient data which will result in the ability to make insightful and relevant recommendations in respect of the business model framework that companies serving the BOP market segment could make use of to achieve profitability in the BOP market.

1.8 Limitations and Delimitations of the study

The following delimitations and limitations of the study have been identified, for the purposes of clarity.

1.8.1 Delimitations

- The research will be limited to two companies in the South African washing powders` category of the FMCG sector, operating primarily from within the Gauteng province, due to time and resource constraints.
- The research will seek to determine whether companies in the BOP market segment operate profitably. However, the research will not evaluate the levels of profitability of the two case companies.

1.8.2 Limitations

- Access to detailed financial information and annual reports may not be granted through the companies, as the information may be considered sensitive. The researcher will thus use an average profitability and financial performance measurement tool as part of the interview schedule and questionnaire.
- The study is limited to one industry, and thus the results of the study may not be relevant to other industries, and minimal generalisations can be made.
- Purposive / Judgemental sampling will be used to arrive at which companies will be researched as case studies, as well as which employees are requested to participate in the research interviews.

1.9 Summary

In summary, the study is concerned with the realism surrounding the BOP proposition and the profits that companies that serve the market can supposedly achieve. The report seeks to clarify the business models used by companies that serve the BOP consumer market, as well as determine whether the companies are profitable.

Special attention is paid to the roles of innovation and replication as business model strategic emphases, and the results of these models from within two case sites studied as part of the report. A case study research method will be used to study two organisations within the washing powders category of the FMCG industry in South Africa. The study will use a qualitative approach to examine the extent to which companies that operate within the BOP market use business model innovation or business model replication as strategic emphases, as well as the profitability of such emphases.

The chapter also noted the delimitations and limitations of the study, which will ultimately guide the interpretation of the research findings.

2 Chapter 2 - Literature Review

2.1 Introduction

The literature review involves an analysis and understanding of business models as they relate to firms strategies for customer value creation and profitability. Additionally, the review examines theories on business model innovation and replication, as well as their relationship when it comes to firm performance and profitability at the Bottom of the Pyramid (BOP) market segment. For relevance and concreteness of argument, the review will include comparisons of the BOP markets of emerging economies, including South Africa.

This study is mostly concerned with identifying business model approaches used by companies that operate profitably in the BOP market segment. The main objective of the study is to determine whether the BOP market is actually a feasible market for profit maximizing companies to pursue. And if so, whether the business model innovation approach or the replication approach best leads to profitability.

2.2 Business Models

According to Margretta (2002), a good business model begins with an insight into human motivations and ends in a rich stream of profits. This statement best captures the essence of what good business models involve; “they are stories that explain how enterprises work” (Margretta, 2002). In addition, Margretta (2002) and Hamel (1998) contend that a good business model answers the questions: Who is the customer? And what does the customer value? and further, the business model needs to give detailed answers to the fundamental questions: How do we, the firm, make money in this business? What is the underlying

economic logic that explains how we can deliver value to customers at an appropriate cost? (Margretta, 2002).

The fundamental imperative for firms is to clearly put together a “story” of who their target customer is, what value the firm will create and offer this target customer and clearly determine how the firm will make money from the value proposition that it offers the consumer (Margretta, 2002). Chesbrough and Rosenbloom (2002) offer a basic definition and state that a business model is the method of doing business by which a company can sustain itself – that is generate revenue. Thus, the business model needs to spell out how a company makes money by specifying where it is positioned in the value chain (Chesbrough & Rosenbloom, 2002) and Hamel (1998) mentions that business models consist of four broad components, which consist of: core strategy, strategic resources, customer interface, and a value network, linked together by “three bridges”- configuration, customer benefits and company boundaries. In support of Hamel (1998), Chesbrough and Rosenbloom (2002) offer a more detailed definition of the functions of a business model as, to:

- Articulate a value proposition, i.e. the value created for users by the company’s offering (Chesbrough & Rosenbloom, 2002).
- Identify a market segment , i.e. the users to whom the offering is useful and for what purpose, and specify the revenue generation mechanism’s for the firm. (Chesbrough & Rosenbloom, 2002).
- Define the structure of the value chain within the firm required to create and distribute the offering, and determine the complementary assets needed to support the firm’s position in this chain (Chesbrough & Rosenbloom, 2002).

- Estimate the cost structure and profit potential of producing the offering, given the value proposition and value chain structure chosen (Chesbrough & Rosenbloom, 2002).
- Describe the position of the firm within the value network linking suppliers and customers, including identification of potential complementors and competitors (Chesbrough & Rosenbloom, 2002).
- Formulate the competitive strategy by which the innovating firm will gain and hold advantage over rivals (Chesbrough & Rosenbloom, 2002).

The statements raised by Margretta (2002), Chesbrough and Rosenbloom (2002) and Hamel (1998) contend that firms should have clear business models that will allow the firm to deliver value to its current and potential customers. A successful business model represents a better way than the existing alternatives (Margretta, 2002; Hamel & Prahalad, 1989), which supposes that firms' business models also need to allow the firm to offer their services to consumers in a manner that is superior to other firms in similar industries. Margretta (2002) reiterates that the business model may offer more value to a discrete group of customers, or it may completely replace the old way of doing things and become the standard for the next generation of entrepreneurs and businesses to beat (Margretta, 2002; Kim & Mauborgne, 2005). To this end, a new business model's plot may turn on designing a new product for an unmet need, or it may turn on a process innovation, a better way of making or selling or distributing an already proven product or service (Hamel, 1998; Margretta, 2002). The role of the business model is therefore an integral part of any businesses' quest for success.

The importance of business models is echoed in the notion that competition in the contemporary world is no longer between products and services, but between competing

innovation regimes, business concepts, or business models (Kim & Mauborgne, 1997a; Andersen & Strandskov, 2005).

Some of these innovative approaches to fulfilling customer needs have been widely covered on literature involving business model innovation.

2.2.1 Business Model Innovation

According to Andersen and Strandskov (2005), innovation refers to increasingly disrupting the existing patterns of competition. Another perspective states that innovation provides the opportunity for a company to put its mark on the evolution of business (Kim & Mauborgne, 1997a; Hart & Milstein, 1999; Davila, Epstein, & Shelton, 2006, p. 2), and many popular pieces of strategic management and innovation literature have argued for the superiority of strategies that create novelty into markets and networks through business model innovation (Aspara, Hietan, & Tikkanen, 2010).

Business model innovation, according to Markides (2006), refers to the discovery of a fundamentally different business model in an existing business. This concept implies that a firm's business model will require some change to the 'traditional way' that business is carried out, in order to meet customer needs. This view finds support from Hamel (1998), who mentions that strategy innovation, i.e. business model innovation, involves the capacity to reconceive the existing industry model in ways that create new value for customers, wrong-foot competitors and produce new wealth for all stakeholders (Hamel, 1998). It has been argued that to qualify as an innovation, the new business model must enlarge the existing economic pie, either by attracting new customers into the market or by encouraging existing

customers to consume more (Markides, 2006). Schlegelmich, Diamantopoulos and Kreuz (2003) describe business model innovation as the fundamental reconceptualisation of business models and the reshaping of existing markets by breaking the rules and changing the nature of competition. This implies that companies that are considering entering into new market spaces or intend offering market disrupting solutions need to be comfortable with the concept of reshaping the market landscape, and taking on some possible unfamiliar initiatives in order to meet customers needs (Schlegelmich, Diamantopoulos, & Kreuz, 2003; Markides , 2006). This suggests that this might be the most suitable approach and option for the BOP market segment.

The requirement to enlarge the market implies that a business model innovation is much more than the discovery of a radical new strategy on the part of the firm (Markides, 2006), suggesting therefore that organizations achieve superior performance when they are unique, when they do something no other business does in ways that no other business can duplicate (Kim & Mauborgne, 1997a; Margretta, 2002). Simply put, a competitive strategy explains ‘how’ the company will do better than its rivals (Hamel & Prahalad, 1989; Hamel ,1998; Margretta, 2002), whereas Business models describe, as a system, how the pieces of a business fit together (Margretta, 2002).

In terms of innovation approaches to business models, authors Kim and Mauborgne (2005) offer “Blue Ocean” strategies, which they claim are aimed at creating entirely new markets (blue oceans) or, at least significantly reconstructing or extending current markets (red oceans), through the development of value innovations (Kim & Mauborgne, 2005). In this sense, Blue oceans are defined by untapped market spaces, demand creation, and the opportunity for

highly profitable growth (Kim & Mauborgne, 2005). This approach advocates that firms should create new, uncontested markets that would allow the firm to increase its market share and profits, and thus giving support to the comments made by Hamel (1998). The nature of competition changes because in Blue Oceans; competition effectively becomes irrelevant because the rules of the game are waiting to be set (Kim & Mauborgne, 2005), as opposed to firms targeting existing, red ocean, markets which are proliferated with competitors (Kim & Mauborgne, 2005). Therefore, according to Kim and Mauborgne, (2005), such a Blue Ocean oriented strategy is superior as it allows the firm to create and tap into new, uncontested, economic end-demand and, hence, surpass some of the existing competition in existing markets (Aspara, Hietan, & Tikkanen, 2010).

Providing further clarity and definition to the idea of business model innovation, Markides (2006) notes that business model innovators do not necessarily discover new products or services, they redefine what an existing product or service is and how it is provided to the customer (Markides, 2006). This can be done by targeting customer niches that are either over or underserved by the existing industry competition through redefinition of customer segments, customer needs, or the ways of producing, delivering, or distributing existing or new products (Kim & Mauborgne, 2005; Aspara, Hietan, & Tikkanen, 2010). Schlegelmich *et al.* (2003) offer three important elements, as found in the authors' definition of strategic innovation; that business model innovation must incorporate in order to deliver value to customers, as:

- Reconceptualisation of the business model - which should address the most basic questions about the companies business model; what business are we in? Who are our

customers? How do we achieve value? Asking these questions forces managers to look at the tacit rules and assumptions that underlie the way business is traditionally conducted in the industry (Hamel, 1998; Markides & Geroski, 2005; Markides C. , 2006).

- Reshaping of Existing Markets - which implies that, strategic innovators are aware of the rules and assumptions that underlie a business, but they purposefully break these rules and reshape existing markets by changing the nature of competition. Strategic innovators look externally, across substitute markets and across substitute strategic groups (Kim & Mauborgne, 2005), and while conventional strategic logic focuses on fighting for market share in existing markets, strategic innovators invent new market space (Hamel, 1998). Therefore, strategic innovators actively participate in shaping markets and external trends over time (Hamel, 1998; Kim & Mauborgne, 2005), instead of accepting market dynamics as they are at the time.
- Business model innovation is about creating dramatic value improvements for customers (Hamel, 1998), which places customers, not the competition, at the center of strategic thinking (Schlegelmich, Diamantopoulos, & Kreuz, 2003). Traditional business model strategy places a significant emphasis on the competition and on competitive strategy, and may cause the company to lose sight of consumer market developments and the opportunity to create new solutions to consumer needs.

Thus, it may be argued from the authors` views raised above, that companies targeting the BOP as an additional consumer segment may be able to provide their current products and services, but innovatively tailored for the underserved BOP consumer segment through a business model that caters for the BOP market segment.

When it comes to the wider areas of innovation management and strategic marketing, research has recently focused more and more on innovation as a continuous strategic orientation of a firm, rather than on one-off innovation projects (Aspara, Hietan, & Tikkanen, 2010). Related streams of marketing research have brought up the possibility of a firm to have a continuous or systematic strategic orientation for business model innovation and the potential benefits of such an orientation (Aspara, Hietan, & Tikkanen, 2010). This view implies that one way to consider business model innovation is to view it as a potential aspect of a firm's innovative corporate culture or capacity (Andersen & Strandskov, 2000; Davila, Epstein, & Shelton, 2006; Aspara, Hietan, & Tikkanen, 2010), and thus part of the firm's strategy and business model. The literature indicates that marketing practitioners have speculated on the advantages of taking a proactive, 'market driving' stance toward business model innovation: reshaping existing market structures, addressing latent customer needs, producing discontinuous leaps in customer value, designing unique business systems, developing new channels, and fundamentally changing the rules of the competitive game (Aspara, Hietan, & Tikkanen, 2010). In terms of the performance implications of such a strategic emphasis or orientation, researchers have assumed that strategic emphasis on business model innovation will lead to superior profits and growth (Aspara, Hietan, & Tikkanen, 2010). However, this may not necessarily be the case, especially when venturing into markets that the firm is unfamiliar with. Authors Markides and Geroski (2005) and Aspara *et al.* (2010), argue that first mover advantages, as a result of business model innovation, are often difficult to realise, innovative projects often fail, and competitors may reap the profits of the first-mover firm's innovative efforts through second-mover advantages and follower advantages (Markides & Geroski, 2005; Aspara, Hietan, & Tikkanen, 2010). This argument implies that firms that have a high strategic

emphasis on business model innovation might in fact have lower average financial performance in terms of profitable growth than firms with no such emphasis (Aspara, Hietan, & Tikkanen, 2010). This raises a natural interest in the performance implications of business model replication, as compared to business model innovation.

2.2.2 Business Model Replication

While the research on business models has concentrated on the idea of novelty creation through business model innovation, rather little consideration has been given to the strategic dimension of replication (Aspara, Hietan, & Tikkanen, 2010). According to Szulanski and Jensen (2008), the replication, or exploitation, of innovative business models has become an increasingly salient driver of firm growth, thus there exists a growing need to focus academic and business literature on the replication of business models.

In relation to firms and their business models, the replication strategy refers to the innovator firms learning about and refining the business model, by choosing the necessary components to replicate that model in suitable geographical locations and new customer segments, by developing capabilities to routinise knowledge transfer, and by maintaining the model in operation once it has been replicated (Winter & Szulanski, 2000; Aspara, Hietan, & Tikkanen, 2010). This view on replication contends that the success of a firms business model may be largely linked to the firms ability to replicate the model in as many 'similar' markets as possible. It thus follows that, reproducing such a business model 'recipe' often means re-creating the knowlegde underpinning a system of complex, causally ambiguous, and imperferctly understood productive processes (Szulanski & Jensen, 2008; Aspara, Hietan, & Tikkanen, 2010) for each new venture, customer segment or geographical region. The

implication made is that the business model replication process is not an easy one to follow, and may require effortful investments in discovering and learning about the complex, interdependent, and partly tacit routines, productive processes, and customer valued aspects of the business model that are replicable and worth replicating (Szulanski & Jensen, 2008; Aspara, Hietan, & Tikkanen, 2010). Thus, this brings about a view that supposes that the nature of the knowledge that needs to be replicated is an important factor affecting the relationship between innovation and performance (Winter & Szulanski, 2000; Baden-Fuller & Winter, 2007), which should be considered to be as important as the knowledge of the competitive environment (Szulanski & Jensen, 2008; Aspara, Hietan, & Tikkanen, 2010).

Therefore, one of the fundamental questions for organisations pursuing growth through replication is whether or not and to what extent they need to innovate by replicating transferred knowledge to fit varied environments (Baden-Fuller & Winter, 2007; Szulanski & Jensen, 2008), such as the neglected lower income markets across the globe. The general economic argument is that profit maximisation in the presence of market heterogeneity necessitates innovation (Szulanski & Jensen, 2008), because geographic dispersion exposes replicating organisations to diverse market conditions (Winter & Szulanski, 2000; Szulanski & Jensen, 2008). This raises questions around the general viability of innovative business models in the absence of the firms ability to replicate the business model into new markets, and thus the resulting impact on the firms profitability. To this end, Aspara *et al.* (2010) note that an emphasis on business model replication besides innovation may lead, on average, to higher financial performance, implying therefore that improving firm financial performance may depend on applying both innovation and replication. This can be expected if replicator firms tend to be able to exploit the valuable aspects of their business model innovations, leading to

higher returns to their initial investments in the innovative activities (Szulanski & Jensen, 2008).

It thus follows that beyond the strategic choice of whether to pursue business model innovation, the firm has the strategic choice to pursue the replication of the novel business models created (Aspara, Hietan, & Tikkanen, 2010) in order to reap the full benefit of such a business model.

The premise for this report is based largely on the literature above, and the intention of the report is to study the financial performance implications of firms that choose to use business model innovation, versus business model replication, when targeting the Bottom of the Pyramid (BOP) consumer segment.

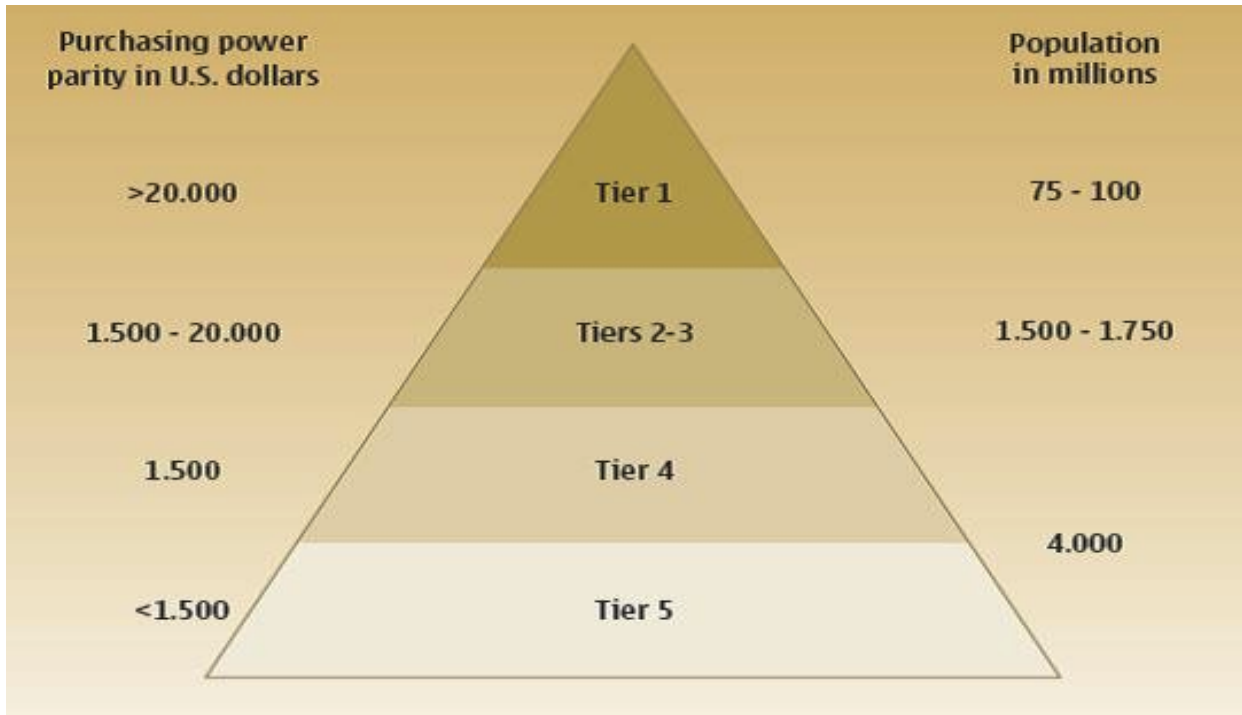
2.3 The Bottom of the Pyramid Proposition (BOP)

2.3.1 Background

The Bottom of the Pyramid (BOP) approach as disseminated by C.K.Prahalad and Stuart Hart in “The fortune at Bottom of the Pyramid” (Prahalad & Hart,2002) uses the analogy of a four tiered pyramid to represent the global distribution of wealth and the capacity to generate income (Prahalad & Hammond, 2002 ; Prahalad, 2005; Louw, 2008). In essence, the top of the pyramid, tier1, is characterised by the wealthy, tier 2 and tier 3 are characterised by the emerging economic middle class which are made up of poor customers in the developed nations and the rising middle class in developing countries (Louw, 2008). At the very bottom of the pyramid, tier 4, are the poorest of the poor that earn less than \$1500 per annum based on purchasing power parity (PPP) in united states dollars, which roughly translates to less than R10500 per annum in South Africa. These people are estimated to represent more than 4

billion people globally (Prahalad & Hammond, 2002 ; Prahalad, 2005; Nations, 2005; Louw, 2008).

Figure 2.1: World Economic Pyramid



Source: Prahalad and Hammond (2002)

Professor Prahalad's initial BOP proposition is outlined in his book, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through profits* published in 2005, through which he succeeded in planting the perception that consumers with low levels of income could be profitable customers for firms targeting the segment (Prahalad, 2005). In support of this view, Louw (2008) states that Prahalad and Hart created a new vision of wealth creation for MNC's that are prepared to focus their attention on the BOP market, and argues that MNC's can contribute to global poverty eradication, as well as create employment opportunities in local markets while generating profits for themselves in a multimillion dollar market segment (Louw,

2008). The proposition brought forward by Prahalad (2005) painted a picture of the controversial double bottom line: social goals combined with the business objective of profit (Prahalad & Hart, 2002; Prahalad, 2005; Harjula, 2005). Although heavily criticised, the views expressed by Prahalad (2005) were successful in raising the awareness and interest from MNC's in search of new markets and revenue streams, as well as an additional area of academic interest from academics and business schools worldwide.

However, Chipp and Corder (2009) argue that academics have seldom provided a unified voice in terms of BOP definitions, with many BOP authors and practitioners using conflicting market definitions for the BOP (Karnani, 2007; Landrum, 2007; Chipp & Corder, 2009). In an attempt to refine the BOP definition, in his study Louw (2008) presents two main sectors that aid with the definition: "BOP1 was defined as the bottom part of the BOP with a total population of 2,8 billion customers earning less than \$2 per day, while BOP2 would be the remainder of the BOP market segment. In addition, authors Chipp and Corder (2009) argue that the South African BOP equivalent translates into an estimated 11,2million adults, aged 16 years and over and representing 35.8% of the adult population of South Africa (Chipp & Corder, 2009).

Offering further criticism to Prahalad's (2005) BOP proposition, Chipp and Corder (2009) argue against the relevance of the international definition of BOP for South African markets. The authors' main premise relates to the point that the South African approach has been to regard an individual as part of a collective; a family unit; and hence the local definition prioritises the household measure rather than individual measures (Chipp & Corder, 2009). The authors, Chipp and Corder (2009), offer support to the argument by mentioning that a household standard would be a better reflection for consumers whose primary focus is the "group" rather

than the individual. It thus follows that this aspect would surely affect the nature of the business models that are developed by firms which target the BOP consumer segment in the South African market, and other similar, contexts.

In addition to the arguments already raised, it has been found that such people who are economically at the bottom of the pyramid (BOP) have been a challenging market for firms that seek to make a profit (Karnani, 2007; Landrum, 2007; Subrahmanyam & Gomez-Arias, 2008). The reasons for this include the notion that the market has been traditionally considered as the domain of governments, aid agencies, non-profits, NGO`s and other do-gooders (Subrahmanyam & Gomez-Arias, 2008), instead of being a commercially viable segment. Therefore, the consumers in this market have a narrow range of products and services to choose from, primarily because of their levels of income and the absence of offerings from multinational corporations (Subrahmanyam & Gomez-Arias, 2008). The people in this segment normally depend on an informal economy that is inefficient, offers poor quality goods, higher average prices and poor distribution (Karnani, 2007; Subrahmanyam & Gomez-Arias, 2008). This notion prompted Prahalad (2005) to argue that the role of aid and subsidies in promoting sustainable economic development be challenged (Prahalad, 2005b), through encouraging the participation of MNC`s in the BOP market segment in an effort to raise economic development within the BOP segment. To this end, Prahalad (2005) recognised that serving the low-income sector requires a commercial strategy in response to the specific needs of those people; and that to succeed, other players, such as local and central government, financial institutions, and NGO`s have to get involved (Prahalad, 2005b ;Pitta, Guesalaga, & Marshall, 2008).

In an effort to provide credence to the BOP proposition, Prahalad, through his publications on BOP (Prahalad, 2005b; Prahalad, 2005; Prahalad & Hammond, 2002; Prahalad & Hart, 2002), and cited by Pitta *et al.* (2008) provides four key elements for MNC`s to thrive in the low-income market, and these include:

- Creating buying power;
- Shaping aspirations through product innovation and consumer education;
- Improving access through better distribution and communication systems and;
- Tailoring local solutions

The elements above form the basis of the BOP proposition and the role of MNC`s in tailoring solutions for the BOP consumer, in the hope of becoming profitable within the BOP market segment. The BOP proposition has found some support from BOP practitioners, but there have also been some criticisms levelled against the propositions viability.

2.3.2 Arguments for the BOP proposition

Prahalad`s BOP proposition serves as an invitation to company executives, politicians, managers of non-profit organisations, and ordinary citizens, to view poverty as something that might be alleviated rather than inevitable (Prahalad, 2005; Pitta, Guesalaga, & Marshall, 2008). In essence, the BOP proposition states that in order to alleviate poverty, serving the BOP markets profitably would require a paradigm shift in thinking if corporations wish to be successful in the market. “What is needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win–win scenarios where the poor are actively engaged and, at the same time, the companies providing products

and services to them are profitable” (Prahalad, 2005, p. 3). In an effort to reap these promised profits, it is important for the corporates` to note that the nature of the BOP market has characteristics that are distinct, and these need to be incorporated into the thinking of corporates` as they approach the BOP (Prahalad, 2005; Cairncross, 2003; Harjula, 2005; Anderson,2006; London, 2007). Thus implying that MNC`s should not use their traditional, top tier consumer business models and marketing approach when dealing with the BOP. Anderson (2006), citing mostly Sheth and Sisodia, (2002) and Sheth (2005), outlines the 4A`s framework that needs to be considered by firms when dealing with the BOP market. The framework consists of the following factors affecting business models:

- Availability – addressing challenges in distribution.

One of the biggest challenges in serving the BOP markets is to ensure availability of products and services throughout the country, not just in the cities. Unlike the developed world, distribution channels in BOP markets can be fragmented or non-existent and the task of simply getting products to people can be a major hurdle to overcome (Prahalad, 2005; Sheth & Sisodia, 2002; Sheth, 2005; Anderson, 2006).

- Affordability – Addressing low incomes

The second hurdle to overcome in serving BOP consumers is to ensure that products or services on offer are affordable. BOP consumers have low disposable incomes, and products need to match the cash flows of customers who frequently receive their income on a daily rather than weekly or monthly basis (Anderson, 2006). Typically, more than two-thirds of BOP consumer`s income is spent on food (Prahalad, 2005; Anderson, 2006 Karnani,. , 2007;

Landrum, 2007), and thus other products must therefore be purchased with the meagre income that is left over (Karnani, 2007; Landrum, 2007).

➤ Awareness – Marketing fundamentals at the Base of the Economic Pyramid

With many BOP customers largely inaccessible to conventional advertising media, building awareness is another challenge for companies wishing to serve low-income consumers in the developing world (Prahalad, 2005; Anderson, 2006). It thus follows that corporations need to find ingenious methods of marketing their products in ways that are relevant for the BOP market. The fact that access to television sets in the BOP market is extremely low leads one to conclude that marketers should use other forms of media to create awareness of their products in the BOP market (Anderson, 2006).

➤ Acceptability – Responding to Socio – cultural Dimensions

Anderson (2006) states that the most important factor to be taken into account when attempting to penetrate the BOP market is the acceptability of the product or service in the market in question, thus agreeing with the sentiments by Prahalad and Hart (2002) and Prahalad (2005).

The general argument that is raised thus states that by leveraging the 4A's – acceptability, availability, affordability and awareness – corporations can achieve growth and success in the BOP market (Sheth & Sisodia, 2002 ; Sheth, 2005; Anderson, 2006). The framework provided asserts that a business model aimed at the BOP market and that incorporates the 4A's framework should result in success and profitability for the incumbent firm.

Additionally, in support of the framework and its argument, Subrahmanyam and Gomez-Arias (2008) mention that it is important for companies that wish to operate in this market to ensure that their products and services are relevant, adaptable and tailored to suit specific BOP needs. The implication is that success and achieving profitability in this market depend on companies innovatively providing products using business models that are tailored for this market.

In support of these views, Hart and Christensen (2002) contend that it is far better to compete against “non-consumption” at the base of the pyramid, thus creating a presence and a “cash war chest” for the MNC, and then to migrate from that profitable base toward successively more sophisticated customers and applications in global markets (Hart & Christensen, 2002).

A clear example of this can be seen in the strategy adopted by South Africa’s Capitec Bank, which launched its business by focusing on the lower income market segment, which no other large banking institution in South Africa wanted to service. Capitec Bank used an innovative business model, compared to its larger competitors, and was able to achieve profitability. The bank now has a successful lower income business model, and a “cash war chest” which allows Capitec to venture into other market segments. Recent media reports have mentioned that Capitec intends to pursue higher income consumers by offering Home Loan products and cheque account products, using its existing core segment infrastructure and parts of its current business model.

Therefore, when established private sector firms start to look at those at the BOP as potential consumers, the entire process of poverty alleviation may take on a new perspective. The companies realise that there is money to be made by serving the consumer needs in the poorest countries in the world. Innovative engagement in this new market will lead to large-

scale wealth creation, especially if the focus is on a creative combination of global standards, local needs and local capabilities (Prahalad, 2005).

It is thus possible to conclude from the literature covered that the majority of authors are in favour of the BOP proposition, albeit in varying degrees. There are, however, some criticisms that have been levelled against the BOP proposition in the form presented above. It is thus important to understand the nature of these criticisms before making any final conclusions on the viability of the BOP proposition. The following section will focus on the arguments raised against the BOP proposition.

2.3.3 Arguments against the BOP proposition

In spite of the attractiveness of the BOP proposition, there are those that believe that the BOP consumer proposition, in its current form, is a fallacy (Karnani, 2007; Landrum, 2007). Although very few authors and BOP practitioners actually dispute the reality of the opportunity presented by the BOP proposition, most are quick to point out discrepancies in some of the arguments, discussions, assumptions and conclusions made from the early BOP publications (Louw, 2008).

The main criticism levelled against the BOP proposition appears to be that BOP consumers are severely constrained by a lack of income and hence only certain products or services that are more utilitarian would be viable in the market (Karnani, 2007; Landrum, 2007; Aiyar, 2006; Jaiswal, 2007; Pitta, Guesalaga, & Marshall, 2008). Karnani (2007) is especially vocal about his view and criticisms on the BOP proposition, and states that there is little glory or fortune at the BOP, and that unfortunately it is almost all a mirage (Karnani, 2007).

Firstly, there are arguments posed against the suggested size of the BOP market. Prahalad (2005) claims that the BOP potential market is close \$13trillion at purchasing power parity (PPP). Karnani (2007) argues that these figures grossly over-estimate the BOP market size, and reasserts, further, that Prahalad (2005) consistently overestimates the potential purchasing power of poor people, often by extending the definition of the poor to include those who are relatively well off by developing country standards (Jenkins, 2005, p. 533; Karnani, 2007; Landrum, 2007). The potential BOP consumer segment size is believed to be much smaller than the BOP proposition contends, and that the market is unlikely to be very profitable, especially for a large company (Karnani,2007; Aiyar, 2006; Jaiswal, 2007; Pitta, Guesalaga, & Marshall, 2008). The argument raised is that the poor spend close to 80 percent of their income on food, clothing, and fuel, thus leaving very little disposable income that could supposedly translate into profits for MNC`s (Karnani, 2007;Pitta, Guesalaga, & Marshall, 2008), thus bringing the feasibility of the BOP proposition into question. To complicate matters even more, it is argued that poor people do not have much disposable income to spend on goods, other than necessities, which further makes the BOP segment seem unattractive to large companies (Karnani, 2007; Landrum, 2007). Poor people are price sensitive (Prahalad, 2005; Karnani, 2007; Landrum, 2007) and this raises questions about the element of “pricing” on the business model used by firms active in the BOP, as well as how this element affects the revenue and cost aspects of the firms business model.

Secondly, an argument is raised that questions the likelihood that companies will be able to attend to the BOP market profitably (Karnani,2007; Landrum, 2007; Aiyar, 2006; Jaiswal, 2007; Pitta, Guesalaga, & Marshall, 2008). Pitta *et al.* (2008) citing the work of Karnani (2007); Landrum, (2007); and Jaiswal (2007), mention that the cost of serving this market can be very

high, mainly because BOP customers are usually very dispersed geographically, are very heterogeneous, which reduces the opportunities for obtaining significant economies of scale; and the BOP consumers individual transactions usually represent a low amount of money. Achieving company profitability amongst these circumstances might prove to be an impossible task for most companies, and explains, somewhat, the reasons that companies have ignored the BOP market segment.

The factors outlined above bring into question the BOP propositions` ideal of “achieving profitability and social good from serving the BOP market” (Prahalad, 2005) as advocated by Prahalad (2005). The practicality of such an ideal is limited because each goal within the BOP proposition has different motivations, demands, and mechanisms to satisfy and they are mostly contradictory to each other (Pitta, Guesalaga, & Marshall, 2008). The authors, Pitta *et al.* (2008), mention that the differences between business realities and the development imperatives advocated through the BOP proposition are not easy to reconcile. To emphasise this point, McFalls (2007) mentions that recent case study work suggests that the early language around the inclusive capitalism idea that emphasizes unlimited business opportunities and poverty eradication through profits (Prahalad, 2005) may have set unrealistic expectations for business executives.

Consequently, some of the authors opposing the BOP proposition suggest that rather than viewing the poor primarily as consumers, the BOP segment should be viewed as producers, i.e.: potential entrepreneurs that can improve their economic situation by increasing their income level (Karnani,2007; Jaiswal, 2007). The argument thus concludes that companies must be willing to invest time, resources and training to ensure that the BOP producers create

products with some barriers to entry and reasonable levels of productivity (Karnani,2007; Jaiswal, 2007; Pitta, Guesalaga, & Marshall, 2008).

It has been shown through the literature that the BOP proposition, in the form presented in the previous section, is open to credible criticism. The criticisms that have been levelled are mostly centred on the definition and characteristics of the BOP market segment, and thus the viability of the approaches advocated by the BOP proposition are questioned. The conclusion reached, through the criticisms, lends an alternative view to the approach that companies should take when approaching the BOP market segment, i.e. instead of being defined as consumers; the market should be approached as producers and entrepreneurs. This view is elaborated and developed on in the following section.

2.3.4 Bottom of the Pyramid – Evolution of the BOP proposition

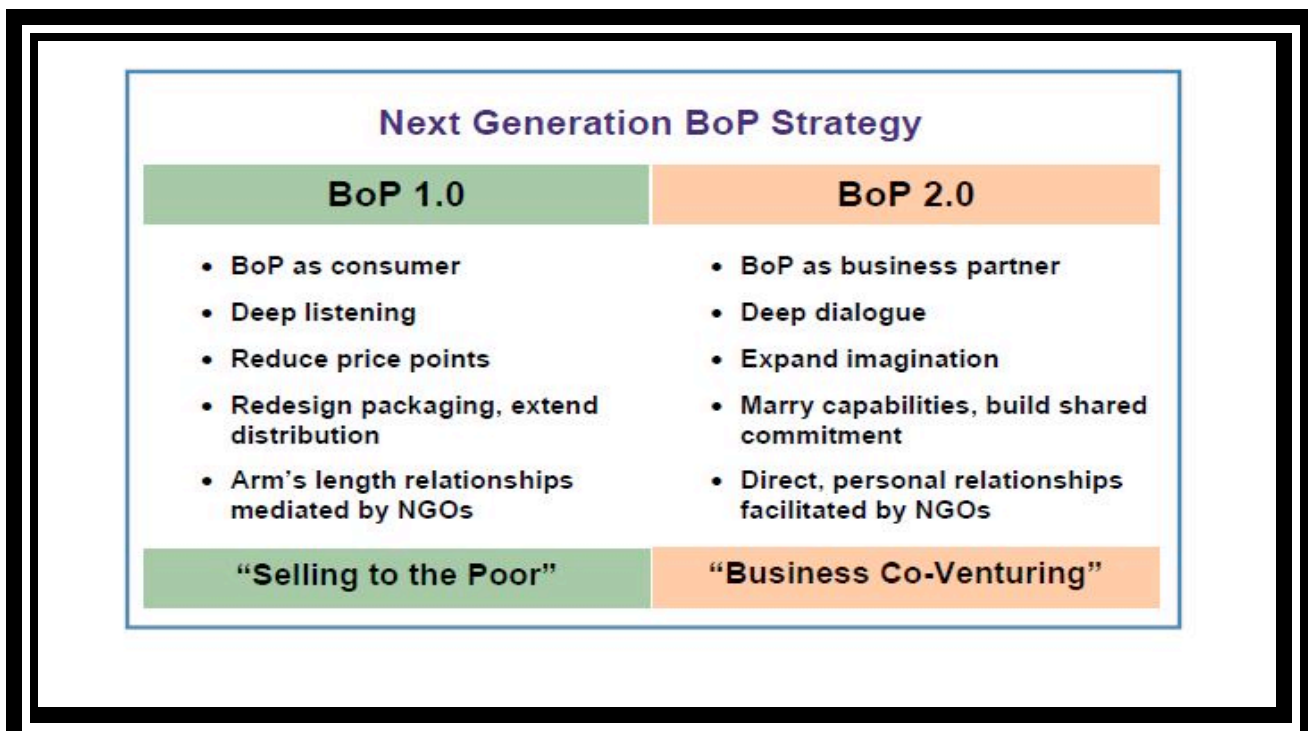
2.3.4.1 The BOP protocol and New Social Compact

The new BOP protocol approach, which differs in approach to the initial BOP proposition, is about committing and engaging a market where there is a much deeper understanding of the real needs (Louw, 2008). Simanis and Hart, (2008) describe the BOP protocol as the co-venturing process in which a company together with a BOP community conceives, launches, and evolves a new business that serves that same community (Simanis & Hart, 2008). The authors, Simanis and Hart, (2008), offer a framework for the BOP protocol which consists of three phases:

1. **“Opening UP”** - during which a company will “immerse” itself in the community to explore and understand the needs and capabilities of the local community while at the same time establishing trust.
2. **“Building the Ecosystem”** in phase two entails the company establishing a formalised project team to develop the initial brand position and product offering.
3. **“Enterprise Creation”** during phase three will evolve the business model and build the market base through small-scale tests and community action learning.

The diagram depicted below, figure 2.2, seeks to outline the major differences between the initial BOP proposition (BOP 1.0) and the BOP protocol (BOP 2.0).

Figure 2.2: BOP Protocol 1.0 versus BOP Protocol 2.0



Source: Simanis and Hart (2008) -The Base of the Pyramid Protocol

Louw (2008) mentions that there is a clear difference in the BOP protocol approach from the initial one-sided engagement by MNC`s to sell to the poor by reducing the price of their products through down-sized packaging and almost a dumping of products on an undeveloped market where almost no relationships were formed with local communities (Simanis & Hart, 2008; Brugmann & Prahalad, 2007; Louw, 2008).

Interestingly, as mentioned by Louw (2008) citing Simanis & Hart (2008) and Brugmann & Prahalad (2007), the BOP protocol includes a deliberate goal to develop sustainable markets to help reduce poverty by creating partnerships with local businesses and coaching communities to become producers. The argument developed by Brugmann and Prahalad (2007) leads the BOP proposition into a cocreation model in which corporates and Non-Governmental Organisations (NGO`s) develop sustainable business models that serve the needs of BOP communities, whilst creating profits for the corporates.

Therefore, not only do firms need to take into account the characteristics of the BOP segment, as argued by the BOP proposition (Prahalad, 2005), the new social compact (Brugmann & Prahalad, 2007; Simanis & Hart, 2008) further contends that the immersion and inclusion of the firm within the community for the creation of markets and extraction of profits will require firms to consider the elements of the BOP 2.0 carefully, and include them as part of their companies business models.

2.4 The Bottom of the Pyramid and Innovation

The importance of innovation to any company is unquestionable (Drucker, 1985; Hamel, 1998; Balu, 2001; Markides & Geroski, 2005; Kim & Mauborgne, 2005; Mariello, 2007 Aspara, Hietan, & Tikkanen, 2010). It therefore stands to reason that a core component for firm success at the BOP rests on the firms` ability to innovate (Hart & Christensen, 2002; Prahalad, 2005 ;Pitta, Guesalaga, & Marshall, 2008).

According to renowned strategic thinker and author, Peter Drucker, Innovation is the effort to create purposeful focused change in an enterprises` economic or social potential (Davilla, Epstein & Shelton, 2006; Drucker, 1998). A popular view within innovation and BOP literature contends that disruptive innovation can pave the way in helping companies to facilitate the participation of billions of neglected BOP consumers and combine corporate growth with social responsibility (Hart & Christensen, 2002; Prahalad, 2005; Pitta, Guesalaga, & Marshall, 2008). In addition to this, there exists a view that in order to be successful, companies that develop new strategies to attack competitors and enter new markets often accomplish this by introducing architectural or business model breakthroughs (Hamel, 1998; Markides, 2006; Anderson & Markides, 2007). The argument raised in this respect is that companies need business models that are developed purely to serve the BOP market segment (Sheth & Sisodia, 2002; Hart, 2005; Prahalad, 2005; Jaiswal, 2007; Pitta, Guesalaga, & Marshall, 2008; Simanis & Hart, 2008), as traditional, developed economy business models would not be suitable at the BOP.

Therefore, as already found in the literature, in order for companies to prosper at the base of the pyramid, it is imperative that the company gains a deep understanding of the market` which they will be targeting (Prahalad, 2005; Brugmann & Prahalad, 2007; Simanis & Hart, 2008). A fundamental component to gaining the required understanding is the relationship that the company establishes with the market. Simanis and Hart (2008) argue that companies that intend to become successful in the BOP need to ensure that they're business model take into account the community in which the company will be operating (Brugmann & Prahalad, 2007; Simanis & Hart, 2008). This concept thus advocates a level business model intimacy between the company and the community in which it operates. At its foundation, business model intimacy entails a kind of relationship in which the identity of a community is fused with that of a company (Brugmann & Prahalad, 2007; Simanis & Hart, 2008), and the glue that binds this shared identity is a jointly constructed vision of a better life and community; a strategic community intent; anchored around a new business (Brugmann & Prahalad, 2007; Simanis & Hart, 2008). The business model implication inherent herein, in terms of innovation or replication, involves the company having to consider the creation of such business model intimacy in all the markets in which it operates.

It is imperative to understand that, first and foremost, business model intimacy is about co-creating a new community from the ground up, with the company embedded in its foundation (Brugmann & Prahalad, 2007; Simanis & Hart, 2008; Anderson & Markides, , 2007) thus changing the initial make-up of the community and the company to an extent. The strength of the argument in support of business model intimacy emanates from the notion that companies that understand the dynamics of growth at the base of the economic pyramid in emerging markets have significant opportunities to unlock value from approaching the market in this

way (Anderson & Markides, 2007). To add credence to this argument, Hart and Christensen (2002) have found that developing countries, and thus lower income markets, are ideal markets for disruptive technologies for at least two reasons:

- First, business models that are forged in low-income markets travel well; that is, they can be profitably applied in more places than models defined in high income markets.
- Secondly, disruptive innovators also compete against non-consumption; that is, they offer a product or service to people who would otherwise be left out entirely or poorly served by existing products, and who are therefore quite happy to have a simpler, more modest version of what is available in high-end markets.

The reasons given above suggest that the BOP market would be well served through innovative business models and disruptive technologies; however, evidence of this notion is limited and still needs to be proven beyond its theoretical base. In this sense, it becomes tempting to conclude that innovation plays a more vital role in the success of any company that targets the BOP, as opposed to replication. The literature shows that it is vital for companies to create business models that are specific to the markets, which they are targeting, by engaging the communities and fully appreciating the circumstances that face these markets. However, the implications and results of such a strategy are yet to be proven.

In addition, the theory leads to the view that, given the unprecedented levels of choice available to the consumer at the top of the economic pyramid, it would not make sense for new companies or even existing companies to spend fortunes in penetrating mature upper-income markets when there are unprecedented opportunities at the base of the pyramid

(Srinivasan, 2006). Following this logic, it would make sense that companies would flock to provide solutions to the BOP consumer and realise profitability.

2.5 The Bottom of the Pyramid and Profitability

The BOP perspective is based on the hypothesis of mutual value creation (Brugmann & Prahalad, 2007; Simanis & Hart, 2009). In other words, more company profits will come from better serving the social good. According to London (2007), this is an exciting hypothesis that requires more comprehensive testing to better understand the interactions and boundary conditions in the relationship between profits and poverty alleviation.

As mentioned earlier, a core component of this report is to attempt to bridge the gap between the BOP profit theory, and BOP profit reality, by attempting to determine whether companies that operate in the BOP market segment, using either Business model innovation or replication as a strategic focus, operate profitably.

Specifically for this report, Profits are defined as the positive gain from an investment or business operation after subtracting for all expenses (Drury, 2005). This profitability will be measured by examining the average profitability of firms over a certain time period.

Prahalad (2005), in his book, offers many examples of companies that operate successfully in the BOP market segment. These companies span different industries and include amongst them:

- FMCG: Hindustan Lever Limited (HLL)
- FMCG: Annapurna Salt
- Telecommunications: Grameen Telecom

- Banking and Microfinance: ICICI Bank
- Construction: CEMEX (Patrimonio Hoy)
- Health: Jaipur foot, Voxiva and the Aravind Eye clinics
- ITC: e- Choupal

Some criticisms have been raised against these examples, citing mainly, the nature of the organisations as being not-for-profit entities, and thus being more influenced by social objectives, instead of profits (Karnani, 2007; Landrum, 2007). This observation inherently violates the BOP proposition for MNC`s to make profits, while alleviating poverty by serving the BOP.

In order to attempt to validate the proposition of profitability for MNC`s within the BOP, this report will focus on one profit oriented industry that is influential and has gained prominence within the BOP, namely Fast Moving Consumer goods (FMCG) industry.

2.6 The BOP business model

In spite of the opposing viewpoints in the literature regarding the extent to which there exists a business opportunity at the BOP, there is a general agreement that serving the low-income sector profitably requires a different business model (Balu, 2001; Prahalad & Hart, 2002; Chesbrough & Rosenbloom, 2002; Prahalad, 2005; London, 2007a; Seelos & Mair, 2007; Brugmann & Prahalad, 2007; Subrahmanyam & Gomez-Arias, 2008). There is sufficient evidence in the literature on BOP that suggests that doing business with the world`s four billion poorest people – two thirds of the worlds population – will require radical innovations in technology and business models (Prahalad, 2005; London, 2007a; Seelos & Mair, 2007;

Brugmann & Prahalad, 2007; Subrahmanyam & Gomez-Arias, 2008). The general agreement amongst BOP practitioners is that the business models used when doing business in the BOP require a combination of low cost, good quality, sustainability, and profitability. Therefore, Pitta *et al.* (2008) mention that for-profit firms need to understand how the BOP segment differs from the upper tiers of the economic pyramid, and adapt a marketing approach to meet the characteristics of consumers at the bottom. They make mention that attempts to reap profits from the BOP using current, upper consumer segment, marketing techniques will fail. Failure will result because the products offered may be too expensive or complicated, or are simply not what the poor want (Pitta, Guesalaga, & Marshall, 2008).

Seelos and Mair (2007) describe the BOP as a market with potential, and achieving that potential will require costly effort and innovative strategies. The evidence from literature on the BOP suggests that companies in the BOP market segment need to be innovative and agile, with Pitta *et al.* (2008) suggesting that the three most critical aspects of a new business model to serve the BOP are 'access to credit, the establishment of alliances and the adaptation of the marketing mix'.

Although the aspects mentioned by Pitta *et al.* (2008) have been briefly covered in previous sections of this chapter, as illustrated mostly through the work of Hamel (1998); Sheth & Sisodia,(2002); Sheth (2005) and Anderson, (2006), the issues will be elucidated on in more detail below in order to shed light on the aspects as they relate to business models.

2.6.1 Access to credit and Microfinance

The creation of buying power is one of the key elements that allow low income segments to reach products and services (Prahalad, 2005; Anderson, 2006 ; Brugmann & Prahalad, 2007; Pitta, Guesalaga, & Marshall, 2008;). Some of the literature suggests that by making micro-loans available to poor consumers, then the capacity to consume is created, as well as the opportunity for BOP consumers to become producers, instead of consumers, through entrepreneurial ventures (Karnani, 2007; Brugmann & Prahalad, 2007). There is evidence, such as the creation and the role played by Grameen Bank, that microloans have succeeded in aiding the BOP (Pitta, Guesalaga, & Marshall, 2008). However, there are also arguments that purport that Microloans have not been successful in building the entrepreneurial ventures to sustain and pay off the loans. Karnani (2007) supports this view by citing that there is evidence that many of the targeted would-be BOP entrepreneurs failed to capitalise on such credit and only got deeper into debt.

2.6.2 The establishment of alliances

Prahalad and Hart (2002) recognise that serving the BOP requires the involvement of multiple players, including private companies, governments, non-governmental institutions (NGO`s), financial institutions and other organisations – e.g. communities. This view is further supported in the works of Simanis and Hart (2009) and Brugmann and Prahalad (2007) as cited Louw (2008). The argument is that MNC`s have built in weaknesses that limit their potential for success with the BOP consumers (Pitta, Guesalaga, & Marshall, 2008). They (MNC`s) are

simply too large, too rigid and too far from the customer to be effective, and require a change from the top down approach that they would traditionally represent (McFalls, 2007; Harjula, 2005), into a bottom up approach (Karnani, 2007). Evidently, in order to access the BOP market properly, MNC`s cannot rely on their own ability and top tier prestige. It is imperative for the MNC`s to collaborate with partners that have closer ties and knowledge with the BOP market segment. These partners may include NGO`s, which inherently have intimate knowledge of the needs of the people and are better prepared to educate them (Brugmann & Prahalad, 2007; Pitta, Guesalaga, & Marshall, 2008; Simanis & Hart, 2009). Also, the public sector has an important role in developing the BOP proposition (Pitta, Guesalaga, & Marshall, 2008), by helping to create a sustainable environment for aiding the BOP, through the provision of funding and training to entrepreneurs, and through engineering supportive tax structures that promote private sector investment in BOP initiatives (Pitta, Guesalaga, & Marshall, 2008).

2.6.3 The marketing mix

The general consensus amongst BOP practitioners contends that the marketing strategy used when doing business in the BOP cannot be similar to that of other segments in the top part of the economic pyramid (Balu, 2001; Prahalad & Hammond, 2002; Prahalad, 2005; Pitta, Guesalaga, & Marshall, 2008). For profit firms need to understand how the BOP segment differs from the upper tiers, and adapt their marketing approach to meet the characteristics of these consumers (Pitta, Guesalaga, & Marshall, 2008). For instance, marketers need to revisit

their distribution channels in order to attend the BOP market effectively (Hart & Christensen, 2002; Prahalad, 2005; Anderson, 2006; Jaiswal, 2007; Pitta, Guesalaga, & Marshall, 2008), because BOP consumers are mostly geographically dispersed and have poor logistics infrastructure, which may ultimately cause the price of goods to rise (Karnani, 2007; Pitta, Guesalaga, & Marshall, 2008). For instance, in Chile, consumer goods prices in the remote north and South of the country are 20-25 percent higher than the more highly populated central zone of Santiago and Valparaiso (Ferreira & Litchfield, 1999; Pitta, Guesalaga, & Marshall, 2008). Pricing for the bottom of the pyramid is, of course, also very critical (Pitta, Guesalaga, & Marshall, 2008). The main issues here are affordability and the flexibility of payment. In order to achieve affordability, MNC`s must reduce the cost of production and simplify their products (Pitta, Guesalaga, & Marshall, 2008; Karnani, 2007). Flexibility in payments refers to how and when low-income consumers can pay for their products and services and constitutes both a challenge and a source of competitive advantage to private companies (Pitta, Guesalaga, & Marshall, 2008). In order to do this, MNC`s may need the assistance of commercial banks and NGO`s as key partners (Brugmann & Prahalad, 2007; Simanis & Hart, 2009).

2.7 The South African BOP

Given that this research report will be conducted on the South African BOP, it is important to outline the BOP proposition as it relates to South Africa.

Comparatively, the South African Bottom of the Pyramid exhibits similar characteristics as that touted by international theorists, with almost three million South Africans living on less than

five rand a day, and close to 18 million South Africans living on less than twenty rand per day (AMPS 2008, RA-Household analysis). In South Africa, the BOP generates around 10% of household expenditure according to the Income and Expenditure survey (AMPS; 2008). Studies also show that whilst the middle and top of the South African economic pyramid is racially diverse, the bottom of the pyramid consists almost exclusively of Black people (AMPS 2008 RA Household, Eighty20 analysis).

The main focus on the BOP has been on the individual consumer rather than the household unit (Louw, 2008; Prahalad & Hart, 2002; Prahalad, 2005; Chipp & Corder, 2009). Chipp and Corder (2009) assert that this approach may not be applicable in the South African context and that some consideration of the community should be made, as potential consumers would be alienated by a business approach that does not account for their wider group (Chipp & Corder, 2009).

Therefore, the collectivist nature (Chipp & Corder, 2009) of the South African BOP consumer implies that the MNC's business model take this aspect into account, as well as take into account the impact and effect of the companies value propositions on the community, instead of just the individual consumer.

2.8 Summary

The literature review sought to highlight and interrogate the most prevalent thinking that applies to business models and the BOP proposition. As was set out to achieve, the review has provided a sound literature base which has described the area of business model innovation and replication. Additionally, the review has provided a description of the thinking surrounding the development of the BOP proposition.

The chapter interrogated the concepts of innovation and replication as they relate to Business models, and the effect on company performance of each element. This was done in order to gain a general understanding of how the elements of innovation and replication apply to business models, and the appropriateness thereof with regards to improving firm performance.

The chapter also examined literature on the global BOP market, as well as the development of theories and changes in thinking surrounding the BOP proposition. This was done to create context around the workings and characteristics of the BOP market, and display the arguments relating to the involvement of corporations within the BOP market.

Finally, the chapter paid special attention to the dimensions of the BOP business model and its related components, displaying the importance of tailoring the companies` business model to cater specifically to the BOP market.

The literature review provides the background against which the research questions are developed in chapter 3.

3 Chapter 3 - Research questions and Propositions

3.1 Introduction

A research question, according to Zimkund (2003), is a statement that considers the logical relationship between concepts, which may be observed in either the affirmative or the negative. The following research questions were derived from the literature study in Chapter 2, which failed to provide consensus from academics relating to the questions asked.

3.2 Primary Research Question

This study, primarily, attempts to answer the question: Does the strategic emphasis on business model innovation versus business model replication lead to improved financial performance for firms targeting the BOP market segment?

To answer this question, requires an understanding of:

- The implications of business model Innovation and business model replication as strategic emphases (focus).

The literature review examined literature that displays the findings of previous studies regarding business model innovation and business model replication as areas of strategic focus for firms.

Some studies show that business model innovation as a core strategic focus of firms can lead to increased profitability for the firms. Aspara *et al.* (2010) mention that one way to consider business model innovation is to view it as a potential aspect of a firms (innovative) corporate culture or capacity, and thus raises an interest in the financial performance of such a strategic emphasis. For instance, firms with a continuous strategic orientation to

business model innovation may have the ability to leverage the advantages of taking a proactive, 'market driving' stance towards business model innovation through reshaping of existing market structures, addressing latent customer needs, producing discontinuous leaps in customer value, designing unique business systems, developing new channels, and fundamentally changing the rules of the game (Aspara, Hietan, & Tikkanen, 2010).

Other studies outlined in the literature review mention that firms with a strategic emphasis on business model replication have a better chance of achieving profitability. The studies' cite the routinising of knowledge transfer, second mover advantages, and replication of aspects of already successful business models into new market segments, as being better positioned to lead to firm profitability. For instance, a firm's replication strategy could involve the replication of necessary components of already successful business models' for the purpose of using the business model in a different geographical location or consumer market. The replication strategy would require investments in discovering and learning about the complex, interdependent, and partly tacit routines, productive processes, and customer-valued aspects of the business model that are actually worth replicating. Some authors have identified effective business model replication strategy as being responsible for the growth of companies as diverse as Intel, McDonald's, Starbucks, Wal-Mart, and Sony from start-ups to global giants (Aspara, Hietan, & Tikkanen, 2010).

Therefore, profit seeking MNC's have the choice to pursue a strategy of business model Innovation or business model replication when targeting the BOP market segment. Currently, there is a lack of evidence which shows the financial implications of either business model approach when targeting the BOP, and therefore, this study intends to

examine the financial performance of MNC`s that target the BOP and have business model innovation or business model replication as a strategic emphasis (focus).

- Thorough backgrounds on the BOP market segment and its constructs, as well as how the market affects the business model structure of businesses.

The literature review in the previous section covered literature that showed the development of BOP theories by some of the most influential BOP practitioners. The BOP proposition has developed from being consumer centric (BOP1), into a view of the BOP as producers and entrepreneurs (BOP2), and finally into a proposition that considers the BOP as a collaborative effort between different participants with an interest in the BOP. The literature, additionally, makes mention of the universal agreement amongst practitioners with regards to the development of business models that cater specifically for the BOP market segment. The general view is that companies cannot operate in the BOP market segment using business models that have been used in other, more affluent markets. Pitta *et al.* (2008) mention, specifically, that business models aimed at the BOP need to include elements such as creating access to credit to the market, establishing alliances with local partners and creating a marketing mix that is tailored to the BOP. Additionally, the view raised by Chipp and Corder (2009) regarding approaching the BOP consumer as part of a household unit, rather than an individual consumer entity, raises important questions with regard to the business model structure used by MNC`s with operations in South Africa to target the BOP consumer market in South Africa.

The literature undoubtedly shows that the BOP market segment is peculiar in its own respect, with authors Prahalad (2005),Baumann (2001),Harjula (2005), Karnani (2007) and Landrum

(2007) giving their “differing” interpretation of the characteristics of the BOP market. Their views suggest that MNC`s need to use non-traditional methods to service the BOP market, in order to be successful and profitable in the market.

Therefore, the structure of the MNC`s business model will play a fundamental role in the firms quest for profitability (Andersen & Strandskov, 2005; Hamel, 1998; Kim & Mauborgne, 2005; Margretta, 2002; Pitta, Guesalaga, & Marshall, 2008), and will surely be affected by the peculiar characteristics that make up the BOP market segment. The literature indicated that firm`s that target the BOP should not make use of strategies and business models that are aimed at upper income consumers and markets (Jaiswal, 2007; Prahalad, 2005; Simanis & Hart, 2006; Seelos & Mair, 2007; Sheth, 2005), but rather come up with innovative and relevant business models that will assist the firm to navigate the BOP landscape (Anderson2006 ;Prahalad, 2005;Simanis & Hart, 2006; Anderson & Markides, 2007). The main arguments raised relate to the elements of distribution, awareness, affordability, alliances and marketing (Balu, 2001; Prahalad & Hart, 2002; Chesbrough & Rosenbloom, 2002; Prahalad, 2005; London, 2007a; Seelos & Mair, 2007; Brugmann & Prahalad, 2007; Subrahmanyam & Gomez-Arias, 2008) at the BOP, amongst others.

In light of the above, the resulting research questions, linked to the main research question and the research objectives are as follows:

3.2.1 Research Question 1

Do firms engaging with B.O.P markets use business model innovation or business model replication to serve the market?

The majority of the literature review regarding the BOP and MNC`s suggests that profit-seeking firms that enter into the BOP market segment cannot do so using their traditional business models. Instead, the literature implies that firms will need to create business models that are tailored specifically for the BOP market segment.

The research question aims to determine the business model practices of South African companies that have entered into the BOP segment.

3.2.2 Research Question 2

Do firms with a high strategic emphasis on business model innovation versus a low emphasis on Business Model replication exhibit profitability within the BOP market segment?

3.2.3 Research Question 3

Do firms with a high strategic emphasis on business model replication versus a low emphasis on business model innovation exhibit profitability within the BOP market segment?

The general consensus in BOP literature, as well as innovation literature, is that firms that enter into the BOP market segment need to use innovative business models in order to become profitable in the segment. The questions above intend to determine whether firms with a high strategic emphasis (focus) on business model innovation (replication) versus those with a low emphasis on business model replication (innovation) achieve higher profitability levels, if any.

This report is limited to answering only these questions in an effort to focus the effects of business model innovation and replication within the BOP market segment. The results from these questions should provide more detailed insight into the most appropriate Business model approach for profitability within the BOP market segment.

3.3 Summary

A number of research questions relating to the business model strategies used by companies that target the BOP market segment were identified in Chapter 3. An exploratory research approach was adopted in order to examine the research questions in detail in the next chapter.

4 Chapter 4 - Research Methodology

4.1 Introduction

This chapter explains the research methodology that was used during this study in detail. A case study approach, using a qualitative technique was used. The chapter will seek to investigate aspects of the research process, as well as provide the rationale for decisions made in terms of the chosen methodology.

4.1.1. Research Purpose

The research study is exploratory. According to Robson (2002, p. 59); Saunders, Lewis, & Thornhill (2009), an exploratory study is a valuable means of finding out “what is happening; to seek new insights; to ask questions and to assess phenomena in a new light”.

The aim of the study was to determine the financial performance of companies that have targeted the BOP market segment, as well as their strategic emphases, with respect to business model innovation versus business model replication. Therefore the purpose of the study and the limited nature of academic material on BOP companies’ financial performance and strategic business model orientation warranted exploratory methodologies for the study.

4.1.2. Research Method

The research was conducted through the use of semi-structured personal interviews with senior employees within the selected case study organisations that were chosen from the population of FMCG companies providing laundry care products in South Africa. The interviews were structured to interrogate the presence and business model approaches of the case sites

chosen for this report, specifically with regard to business model innovation and business model replication. The interviews also served the purpose of establishing the factors that contributed towards the use of the above mentioned business models, as well as the financial performance implications of the chosen models. Two case studies were documented and a semi-structured interview schedule, with supporting documented material, was used in the process of acquiring the necessary data.

The qualitative research aspect that was used in the research will be discussed in the section that follows.

4.1.3. Qualitative Research Paradigm

Zimkund (2003, p. 114) indicated that for research which is exploratory in nature, the preferred approach would be to use a qualitative methodology. The extent of research which focuses on business model orientation and the financial performance of firms operating within the BOP is quite sparse, which therefore made an exploratory and qualitative approach to the study necessary. Zimkund (2003, p. 103) states that most exploratory research provides qualitative data, and further, the focus of qualitative research is on words and observations, stories, visual portraits, meaningful characterisations, and other expressive descriptions.

Mackenzie and Knipe (2006, p. 194) define a research paradigm as “a loose collection of logically related assumptions, concepts, or propositions that orient thinking and research” or “the philosophical intent or motivation for undertaking a study”.

The authors, Mackenzie and Knipe (2006), provided a table whose aim was to facilitate a greater understanding of the appropriateness of different research methods and data collection tools applicable to the different research paradigms.

The table is reproduced below.

Table: 4.1: Research paradigms, research methods and examples of data collection tools

Paradigm	Research Methods (primarily)	Data collection tools (examples)
Positivist/ Postpositivist	<ul style="list-style-type: none"> ▪ Quantitative methods predominate 	<ul style="list-style-type: none"> ▪ Experiments ▪ Quasi-experiments ▪ Tests ▪ Scales
Interpretivist/ Constructivist	<ul style="list-style-type: none"> ▪ Qualitative methods predominate 	<ul style="list-style-type: none"> ▪ Interviews ▪ Observations ▪ Document reviews ▪ Visual data analysis
Transformative	<ul style="list-style-type: none"> ▪ Qualitative methods with quantitative and mixed methods. 	<ul style="list-style-type: none"> ▪ Diverse range of tools - particular need to avoid discrimination. E.g.: sexism, racism, and homophobia.
Pragmatic	<ul style="list-style-type: none"> ▪ Qualitative and/or quantitative methods may be employed. ▪ Methods are matched to the specific questions and purpose of the research. 	<ul style="list-style-type: none"> ▪ May include tools from both positivist and interpretivist paradigms. E.g. Interviews, observations and testing and experiments.

Source: Mackenzie and Knipe, 2006. p. 197.

Using the above table as a guide , the research process for this research paper was conducted within the constructivist paradigm , primarily for the following reasons:

- The research was designed to follow the case study approach, which lends itself to the production of qualitative data, and the subsequent application of qualitative data finds greater alignment with the constructivist paradigm;
- production of qualitative data, and the subsequent application of qualitative data finds greater alignment with the constructivist paradigm;
- The research design required extensive involvement by the researcher and thus the research becomes subjective in nature.
- The research setting was undertaken within a business environment;
- The trustworthiness of the data is low in nature, and
- The data may be considered as highly legitimate as it was collected on an empirical basis.

Perry (2001, p. 305) supports the above view, by mentioning that the constructivist paradigm to case study research was most appropriate for research problems within the “realism or constructivist paradigms, rather than the positivist paradigm,” meaning when the research is attempting to answer research questions that relate to “how” and “why”.

Thus, the application of the constructivist paradigm was selected for the reasons mentioned above.

4.1.4. Case Study Method

Zimkund (2003, p. 107) defines the case study method as an exploratory research technique that intensively investigates one or a few situations similar to the researchers' problem situation. In support of this definition, Saunders *et al.* (2009, p. 145) citing Robson (2002, p. 178) define case study as a "strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence." In general, case studies are the preferred strategy when "how" or "why" questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context (Yin, 2003).

The following additional factors, identified by Yin (2003), justify the use of this research methodology:

- The case study contributes uniquely to our knowledge of individual, organisational, social and political phenomena.
- The case study allows an investigation to retain the holistic and meaningful characteristics of real-life events, such as individual life cycles as well as organisational and managerial processes.
- The case study is preferred in examining contemporary events, when the relevant behaviours cannot be manipulated.

- The case study's strength is its ability to deal with a full variety of evidence, documents, artefacts, interviews and observations, beyond what might be available in the conventional historical study.

Therefore, the researcher used a variety of sources of evidence in order to address the research problem thoroughly. The primary advantage of the case study is that an entire organisation or entity can be investigated in depth and with meticulous attention to detail (Zimkund, 2003), and this method would allow the researcher to carefully study the order of events as they occur or to concentrate on identifying the relationships among functions individuals, or entities (Zimkund, 2003). To this end, the case study method was deemed to be the most suited for this study, as it would allow the researcher to interrogate the concepts and relationships that may exist between the choice and use of a certain business model, and the resulting financial performance from the business model being used.

Additionally, Zimkund (2003, p. 107) expressed the view that conducting a case study often requires the cooperation of the person or company whose history is being studied. Intensive interviews or long discussions with the person and his or her employees may provide an understanding of a complex situation (Zimkund, 2003), therefore, similar to the use of semi-structured interviews, the researcher believed that the case study method would allow for in-depth qualitative analysis of the research problem, for reasons mentioned by Gillham (2001) which include:

- The ability to carry out an investigation where other methods – such as experiments – are either not practical or ethically justifiable;

- The ability to investigate situations where little is known about what is there or what is going on;
- The ability to “get under the skin” of a group or organisation to find out what really happens – the informal reality which can only be perceived from the inside;
- The ability to view the case from the inside out: to see it from the perspective of those involved; and
- The ability to carry out research into the process leading to results, rather than the ‘significance’ of the results themselves.

Zimkund (2003) reiterates that with the case study, researchers have no standard procedures to follow, and must therefore be flexible and attempt to glean information and insights wherever they find them. The freedom to search for whatever data an investigator deems important makes the success of any case study highly dependant on the alertness, creativity, intelligence, and motivation of the individual performing the case analysis. Therefore, for this study, the use of the case study method will include the conducting of semi-structured interviews with significant role players (experts) from companies identified that are involved in the BOP market segment, in order to gain an understanding of the actual problems at hand from the personal experience of the experts. In support of this ‘combined approach’, Saunders *et al.* (2009) mention that for case study, the data collection techniques employed may be various and are likely to be used in combination. They may include, for example, interviews, observation, documentary analysis, and questionnaires. For the use of interviews, Zimkund, (2003,p. 106) mentions that knowledgeable people should be selected for these interviews because they are articulate individuals, rather than a representative probability sample. The

purpose is to help formulate the problem and clarify the concepts rather than develop conclusive evidence.

The interviews would explore the role and nature business models employed by the companies when dealing with the BOP market segment, as well as the link of these practices to the performance of the company in the segment.

The use of case study and semi-structured interviews allowed the interviewer to outline the key themes that needed to be focused on during the interviews with the experts, as well as allowed the interviewer to be flexible and adaptable during the interviews. The interview guide that was used for the semi-structured interviews incorporated the main elements proposed by Gillham, (2001), which include:

- The identification of key topics and themes – The key themes that were used were derived from the literature review that was carried out in Chapter 2, and included elements of the BOP, business model innovation and replication, as well as financial performance and profitability. .
- Framing of questions – Each theme (proposition) was tested with relevant questions and probes, all of which contributed to the main questions that formed the basis of the study.
- Nature of questions - The questions that were asked were mostly open-ended. The purpose for this was to allow the interviewee to determine the answer to the question without the researcher having to indicate a preferred answer.

- Length – The questionnaire and interview guide were formulated so that they did not exceed 60 minutes to complete.

This flexibility within the interview guide was deemed as necessary, as new data and insights could occur during the interviews, which may not have been covered in the case study material used, and may thus have necessitated a change in direction to the research.

In addition to the points already mentioned, the use of multiple sources of data required some level of triangulation, as mentioned by Saunders *et al.* (2009, p. 146). Triangulation refers to the use of different data collection techniques within one study in order to ensure that the data are telling you what you think they are telling you (Saunders, Lewis, & Thornhill, 2009). The researcher used triangulation in order to rationalise and make sense of the data gathered regarding the research topic.

4.1.5 Research Population of relevance

Zimkund (2003) defines a population as a complete group of entities sharing some common set of characteristics. For the purposes of this study, the population of relevance is limited to South African firms that offer products and services for the South African BOP market. The above population and criteria have been set because of their relevance to the study, as well as the ubiquity of these industries in BOP academic literature.

4.1.6 Sample (Case) design and Sample size

Sampling refers to the process of using a small number of items or parts of a larger population, as defined above, to make conclusions about the whole population (Zimkund, 2003, p. 338).

Given the large population size of companies that are involved in providing services, and thus using business models peculiar to their respective business, this report will be focused on a chosen subset (sample) of the population. Saunders *et al.* (2009, p. 212) mention that sampling provides a valid alternative to a population census, and thus non-probability sampling was used for the study. Zimkund (2003, p. 350) defines non-probability sampling as a technique in which units of the sample are selected on the basis of personal judgement or convenience. For non-probability samples, the probability of each case being selected from the total population is not known and it is impossible to answer research questions or to address objectives that require you to make statistical inferences about the characteristics of the population (Saunders, Lewis, & Thornhill, 2009).

Moreover, Saunders *et al.* (2009) mention that purposive or judgemental sampling enables the researcher to use their judgement to select cases that will best enable him to answer the research questions and to meet their objectives. This view is supported by Cooper and Schindler (1998) who define purposive sampling as non-probability sampling that conforms to certain criteria. Additionally, Zimkund (2003, p. 351) mentions that with judgement sampling the researcher selects the sample based upon some appropriate characteristic of the sample members. This form of sample is often used when working with very small samples and when you wish to select cases that are particularly informative (Neuman, 2005).

Using the reasons mentioned above, this research report focused on two large South African companies, in the same industry that provide products to the BOP segment. The chosen industry was limited to companies providing a similar product in the fast moving consumer goods (FMCG) industry. The choice of two companies to use as part of the case study was motivated by Yin (2003), who mentioned that multiple-case designs are likely to be stronger than single-case designs, and thus using a “two case” design is preferred to doing a single-case study. It is also suggested that multiple case studies enrich theory building as they promote analysis across a number of cases (Yin, 2003; Perry, 1998).

Echoing the sentiments of Yin (2003) and Perry (1998), Zimkund (2003) also mentions that a researcher may use personal judgement in selecting the sample size of the study, by taking into account the appropriate item, question, or characteristic for the sample size. Also, in most studies several characteristics are of concern, and the desired degree of precision may vary for these items (Zimkund, 2003).

Additionally, the researchers choice of industries and companies to consider as part of the sample was motivated by the companies studied in Prahalad’s (2005) book. As mentioned in Chapter 2, these companies span different industries and included amongst them:

- FMCG: Hindustan Lever Limited (HLL)
- FMCG: Annapurna Salt
- Telecommunications: Grameen Telecom
- Banking and Microfinance: ICICI Bank
- Construction: CEMEX (Patrimonio Hoy)
- Health: Jaipur foot, Voxiva and the Aravind Eye clinics

- ITC: e- Choupal

Against the background of these above companies, the selected sample that was drawn for this study included the following companies in the chosen industry:

Industry :

- Fast Moving Consumer Goods (FMCG)

Companies:

- Company A - Large multinational company with global operations in multiple sectors within the FMCG industry.
- Company B - Small South African company, present in one sector of the FMCG industry.

The companies chosen within the FMCG industry to make up the sample supply a laundry product, washing powder that is synonymous and considered as important within all BOP markets globally. Additionally, the researcher has used personal judgement in selecting the companies that make up the sample.

The main reason behind the choice of companies was:

- The FMCG sector and the chosen companies provide essential products and services for the BOP market. The chosen companies were considered as market leaders in the FMCG field, and provide products for the BOP segment (and other segments in the case of Company A) using differentiated business models.

- The selected cases were perceived to be able to provide the researcher with sufficient and rich enough data to arrive at the objectives of the research.

The above reasons were motivated by Perry (1998) who remarked that the “validity, meaningfulness and insights” that are generated by “qualitative inquiry” depended more on the information-richness of the cases selected” than the number of cases that were selected.

In summary, the chosen companies allowed the researcher to study the consumer segment business model differences within each company, as well as the impact on profitability of the chosen business models.

4.2 Data collection

4.2.1 Data Collection Method

In terms of the actual research procedure used for data collection, the study made use multiple data sources, which included semi-structured expert interviews, newspaper reports, company statements and annual reports, as well as other relevant additional information. As mentioned in the section above, when conducting the semi-structured interviews the researcher had a list of themes and questions to be covered, although these were somewhat varied from interview to interview (Saunders, Lewis, & Thornhill, 2009). As mentioned by Yin (2003), the nature of the interviews could be much more open-ended than other methods, and the interviewee may not necessarily cooperate fully in answering the questions.

Semi structured interviewing allows for different levels of structure and the interviewer may adapt the formulation, including the terminology to fit the background and educational level of the respondents.

With regards to conducting personal interviews, Cooper and Schindler (1998, p. 291) describe a personal interview as a two-way conversation initiated by an interviewer to obtain information from a respondent. The authors identify the following advantages associated with personal interviewing:

- The depth and detail of information that can be secured.
- The quality of information received, given the ability to probe and gather additional information.

Similarly, there are several limitations with personal interviewing:

- The possibility of the personal interviewers own bias on the respondents information and the interviewers ability to “lead” the respondent.
- The method is time consuming.
- The respondents lack of interest to participate in the interview.

All interviews were conducted on a one-on-one basis, within an enclosed environment in order to ensure the privacy of the interviewee. All interviewees were furnished with a letter that described the casework as well as the reasons for the selection of the interviewee and the case organisation. A copy of the letter may be found in the annexure to this report.

The studies' focus on two companies within a single industry required flexibility in the interview process, as the themes and variables included in the interview questions were peculiar to the company being interviewed. The interview guide allowed the dialogue between the researcher and interviewee to flow within the framework of the research.

Hand-written notes as well as a digital voice recorder were used during the interview stage. All interviewees were asked for permission prior to the use of a digital voice recorder. Only one respondent did not agree to the use of a voice recorder, due to company policy relating to the companies premises. Both the hand-written notes and the digital voice recordings were used during the analysis stage.

Documentary evidence was also used to complement the data that was gathered during the interview process. Johnston, Leach and Liu (1999) cited a number of weaknesses of documentary evidence, which included the fact that these documents may be difficult to source and that these documents would need to be scrutinised for objectivity. The authors, Johnston *et al.* (1999), also cite some strengths, which included the fact that these documents were drafted independently from any research which could have resulted in greater objectivity, the fact that these documents could be obtained inconspicuously, that these documents could be precise and that the documents could be obtained over an extended period of time.

A number of documents were collected from the respective case study organisations, including:

- Corporate Publications
- Publicly available information

- Newspaper reports
- Internal research documents and communications.

The following section will address the methods that were used to analyse the data that was collected.

4.3 Data analysis approach

The general analytic strategy that was used for data analysis was reliant on the theoretical propositions that were used to build the study, as well as the questions asked during the semi-structured interview. The purpose of this strategy was to assist the researcher to focus his attention only on relevant data and ignore others (Yin, 2003).

Additionally, the approach to data analysis was both inductive and deductive in nature, from an exploratory standpoint. Inductive reasoning involves the discussion of specific facts that lead to general conclusions. With induction, data are collected and a theory developed as a result of the data analysis (Saunders, Lewis, & Thornhill,2009).

The implicit intention of the study is to develop a framework for profitability, by studying the business model approaches of the selected case sites, for companies that operate within the BOP market segment, thus making the inductive approach a necessary element of the study.

However, the study uses academic theoretical frameworks as a departure point and a lead framework within which to conduct the study, and thus a deductive approach becomes inherent as part of the study. Yin (2003), suggests that, where the researcher has made use of existing theory to formulate their research question and objectives, they may also use the

theoretical propositions that helped to do this as a means to devise a framework to help organise and direct the analysis of data.

Prahalad (2005), Anderson and Markides, (2007), as covered in the literature review in chapter 2, offer theoretical frameworks for strategic innovation (business model innovation) at the BOP. These frameworks were used throughout the interview process and offered a guide and parameters for the interviews. The intention of the researcher was to attempt to draw possible relationships between the existence of the theoretical frameworks within the BOP market approach used by the companies studied as part of this report, the business model approach employed and the strategic emphases (focus) of the companies, as well as the profitability achieved by these companies. Saunders *et al.* (2009) mention that, a hybrid approach to data analysis may be used; this could involve using an established theoretical construct to help make sense of the research findings.

The analysis focused primarily on the following areas and their related propositions:

- Strategic emphasis on business model innovation when entering the BOP market segment.
- Strategic emphasis on replication when entering the BOP market segment.
- Financial performance of firms, depending on their strategic focus, within the BOP market segment.

The anticipated result of the analysis was for the researcher to be able to develop a business model framework for profitability, which companies that serve the BOP market could use.

The frameworks chosen are considered to be valid and reliable, as these have been used in previous studies focused on the BOP market segment, as well as innovation and replication studies. The issues of validity and reliability will be elaborated on in the next section.

In order to analyse the data collected in the study, the content analysis procedure was used. Leedy and Ormrod (2001) define the procedure as a detailed and systematic examination of the contents of a particular body of material for the purpose of identifying patterns, themes, or biases. Content analysis measures the semantic content or the “what” of a message (Leedy & Ormrod, 2001).

The following procedure recommended by Leedy and Ormrod (2001) for data analysis was adopted.

- Arrangement of facts in a logical order
- Categorisation of data into meaningful groups.
- Examination of other information for meanings in relation to the case.
- Scutination of data for underlying themes and other patterns that characterise the case more broadly than a single piece of information can.
- Synthesis of an overall portrait for the case and generalisation.

In support of the last point made above, in order to strengthen the data analysis procedure used, the researcher also made use of the cross-case synthesis technique. Yin (2003) mentions that the use of cross-case synthesis is especially relevant if a study consists of at least two cases. The researcher made use of word tables that displayed the data from the individual

cases according to a uniform framework. These word tables were be linked to the data collected and analysed as mentioned above.

4.3.1 Construct Validity

Yin (2003) defines construct validity as establishing the correct operational measures for the concepts being studied. In order to minimise the use of subjective judgement and increase the validity of the constructs during the data collection process, the researcher used the tactics below, as advocated by (Yin, 2003):

- Collection of multiple sources of evidence

The total data set that was collected was from multiple sources, including company documentation, archival records and semi-structured interviews. According to Yin (2003), no single data collection source has a complete advantage over the other, and the sources are actually highly complimentary, and thus the researcher should use as many sources as possible.

- Establish a chain of evidence

The principle of establishing a chain of evidence refers to allowing the reader of the case study to follow the derivation of any evidence, ranging from initial research questions to ultimate case study conclusions (Yin, 2003). To achieve this, the researcher will demonstrate the movement from one part of the case study to another, with clear cross-referencing to methodological procedures and the resulting evidence.

4.3.2 Reliability

Reliability, in the sense of research studies, refers to demonstrating that the data collection procedures of a study can be repeated, with the same results (Yin, 2003) and the goal of reliability is to minimise the errors and biases in a study (Yin, 2003). The development of a case study protocol and a case study database are some of the ways that Yin (2003) advocates in order to ensure the reliability of a case study.

A case study protocol serves as more than just a questionnaire or instrument, and is intended to guide the research investigator in carrying out the data collection from a case-study (Yin, 2003). The contents of a case study protocol may include the following:

- Intro to the case study and purpose of the protocol
- Data collection procedures
- Outline of the case study report
- Case study questions
- Evaluation

A case study protocol was used in order to improve the reliability of the report, as it forced the researcher to remain focused on the subject of the case study and to anticipate some of the problems that may have occurred during the research process (Yin, 2003).

The development of a case study database, that clearly demonstrates all the data collected to arrive at the conclusions made in the case report is deemed to further improve the reliability

of the entire case study. In keeping with the ethical background and agreements on which this study was conducted, the names of the respondents from each case site will not be disclosed.

4.4 Research limitations

- Access to detailed financial information and annual reports may not be granted through the companies as the information may be considered sensitive. The researcher will thus use an average profitability and financial performance measurement tool as part of the interview schedule and questionnaire.
- The research data will primarily be collected by means of unstructured interviews, this could result in the interviewees focusing on their preferred areas of discussion, and the interviewer would therefore have to be alert to this risk and redirect the discussion of the research topic.
- The study is limited to one industry, and thus the results of the study may not be relevant to other industries, and minimal generalisations can be made.
- Purposive / Judgemental sampling will be used to arrive at which companies will be researched as case studies, as well as which employees are requested to participate in the research interviews.

4.5 Summary

Chapter 4 has provided a detailed description of the research methodology applied in this research study. The data that was collected will be interpreted in the following chapter by applying the analysis methods that were discussed in this chapter.

5 Chapter 5 – Interpretation Research Results

5.1 Introduction

The results emanating from the case study analysis, which set out to conduct an exploratory investigation into the business model orientation and financial performance of companies in the FMCG industry that serve the BOP market in South Africa, are presented in this chapter. As was described in the previous chapter, a case study research method was followed, using semi-structured interviews as well as supporting documentary material.

5.2 Content Analysis

Zikmund(2003,p. 735) describes content analysis as the “objective, systematic and quantitative description of the manifest content of communication”.

Two companies that operate in the FMCG sector, focusing on washing powders in particular, were selected as case sites. The two companies provide products for the BOP market, but differ in size, length of operation and value proposition used to serve the market. Two interviews with senior individuals were conducted at each company.

The qualitative findings from the interviews was used to conduct content analysis and prepare a section on each one of the case study organisations individually, so as to identify the major themes that emanated from the interviews. The themes were then clustered around the different research propositions. Once the individual case themes have were presented,a cross

case analysis of the themes was conducted, so as to effectively address the research objectives that were focused on the industry, rather than on individual cases. Additionally, the combined themes were then interpreted in terms of the research questions for the study.

5.3 Case study description and content findings

The two organisations that were selected were identified as Company A and Company B. Company A was the larger of the two case sites, with diverse operations around the world and a track record exceeding 100 years. Company B was much smaller, with a track record of less than 10 years and operations, in one sector of the FMCG industry, in only a few African countries. More detailed descriptions of the companies will be given throughout this chapter.

The following findings were extracted from the qualitative findings of the semi-structured interviews, as well as additional documentary evidence that was made available to the researcher.

5.3.1 Unit of Case Analysis – Company B.

5.3.1.1 Introduction and Profile

The first case study included in this report investigates Company B. Additional information regarding Company B. can be found in the paragraphs that follow.

5.3.1.1.1 Company Overview

Company B was officially opened in 2003 Industria, Johannesburg, South Africa.. Company B has been trading since 2003, and is involved in the manufacturing, selling, marketing and distributing of its brand of Washing Powder nationally across South Africa.

5.3.1.1.2 Business Description

Company B is primarily involved in the 'laundry detergents' business with its brand of washing powder. More recently, Company B launched an additional washing powder brand to its portfolio. Company B manufactures its products at its production plant in, Industria, Johannesburg.

The company operates an extensive sales network across South Africa, with a presence in most independent small grocers as well as in leading chained grocery retailers such as Pick n Pay, Jumbo, Spar and Shoprite. The company's regional sales agents are also involved in promotions for the brand at all major retail outlets and wholesale stores (Euromonitor International , 2010).

In addition to the company's South African distribution, the company's primary brand of hand wash detergent is also exported to Angola, Botswana, Swaziland, Lesotho and Namibia. The Company B brand is positioned in the economy segment and is focused mainly on lower-income consumers, although the company claims that its quality matches that of the leading brands.

The company had approximately 300 employees in 2009 (Euromonitor International , 2010).

5.3.1.1.3 Major Products and Services

The company focuses on laundry detergents with its primary washing powder brand, which is available in ‘hand wash’ and ‘ Auto wash’ variations. Recently Company B launched an alternative washing powder to extend its washing powders` brands.

5.3.1.1.4 Financial Performance and Market Share

Company B is a privately owned entity, and thus its financial performance data is not available publicly. However, a market share analysis of the brand indicates that the company has increased the market share of its products.

Table 5.1. Company B Market share analysis

Laundry Care Company	2005	2006	2007	2008	2009
Shares 2005-2009					
Company B	2.2	4.2	4.5	4.7	5.4

Source: Euromonitor International (2010)

5.3.1.2 Content Analysis

The content of each of the semi-structured interviews, in conjunction with additional documentary evidence, was analysed in order to identify certain major themes. The following section will therefore be subdivided into two sections, (a) the responses from the semi-structured interviews and (b) the additional documentary evidence that was analysed.

5.3.1.2.1 Responses from semi-structured Interviews

SECTION A: BOP PROPOSITION AND DEFINITION

1. What consumer markets does your company serve? And what is your lower income market like? Probe: what do you term the low -income market?

- “ We cater for Upper end and Lower end consumers, LSM 2-6. For washing powder we distinguish customers by hand wash versus machine wash.”
- “At Company B, we provide two different kinds of washing powder, Hand Wash and Auto Wash. Customers either wash by hand or by machine, or by twin tub.”
- “Our customer types are rural customers; semi formal, with limited disposable income; who live in an informal environment. So as a company we need to offer a more ‘affordable quality’ product. “
- “Company B caters for “Black diamonds”, that have a monthly Income range of R1500 – R6000. We have to use this term (Black diamonds), as it has become common in the market. “

- “Company B has one major competitor, which is Company A, with their big brand washing powders. “

SUMMARY

The two interviewees answered the question relating to the consumer markets that Company B serves, and also provided their views on what their company’s lower income market is like. The views of the respondents indicate that Company B targets upper and lower income consumers, but are more biased towards lower income consumers. The company uses the traditional LSM measure to segment its consumers, but interestingly, further segments consumers by their method of washing their laundry.

2. How long has your company been operating in the *lower income market*?

- “The company has been around for 6 years, since 2003.
- “The company was established in 2003, but sales only started in 2004, therefore 6 years in the market (2004-2010). “

SUMMARY

The interviewees both answered the question about the length of time that the company has been serving the lower income market. Both respondents confirmed that Company B has been in the market for a total of 6 years. The company can thus still be described as a new entrant in the lower income consumer market.

3. What is your experience of the *lower income market*?

- “This is an Interesting market”
- “The market has definite needs and definite ideas about its needs. They are non-negotiable.”
- “ There is this thing about loyalty versus quality in the BOP market, but what we’ve found is that the market welcomes new brands, as long as their getting quality. However, the market is not very easy to convert clients from other brands. Company B found it difficult to convert clients from competitor brands to ours.”
- “There is a notion that the market is loyal to brands, however we noticed that the market is willing to change to ‘cheaper’, good quality brands.”
- “Product trials are very important in this market. What we’ve seen is that once the customer tried the product and accepted it, then the customer would make a purchase. But it’s important to establish trial of the product first. So, there had to be trial first, especially because of the limited disposable income of the customer, because the customer would think , ‘Why spend my money on a product I haven’t tried yet?’
- “Company B needed lots of people (staff) to get the brand to lots of places. We employed our own teams to promote the product instead of hiring “sampling companies”, which are cost prohibitive, to do product sampling and promotions, So at Company B we used our own model at the time, instead of using an industry model.”

- “The recession (2008) caused consumers to switch brands. Customers were buying down, and looking for cheaper alternatives. Customers moved to buying smaller, cheaper packets for affordability and pricing.”
- “Company B launched another washing powder brand to cater for the more lower income market and to compete against Company A’s cheaper washing powder. The new brand is slightly lower quality than the primary brand, in terms of ingredients used, and stuff. The product is very price driven. Customers know that there is a relationship between washing powder quality and price. The higher the quality of a product, the higher the price. “
- “All the regions where Company B operates have similar consumer perception in terms of price versus quality.”
- “Company B is very consumer driven, and we are continuously speaking to the consumer, in order to match our products and offers to consumer needs. “

SUMMARY

The two interviewees both answered the question and gave their company’s experience of the lower income market. The themes that emerge from the responses include:

- The lower income market is an “interesting” market that has definite and non-negotiable needs.
- Product trials are an important aspect of reaching and penetrating the lower income consumer market. The free products allow the consumer to

experience the product, and may lead to the consumer switching brands if the products` quality is satisfactory to consumer.

- The lower income market is very driven by quality and price of the product. However, consumers are aware of the trade-off between price and quality.

SECTION B: BUSINESS MODEL

SECTION B1: BOP BUSINESS MODEL

4. What challenges have you faced?

- “Not many. Company B has a good distribution network and infrastructure. Always goes to grass roots distributors like ‘small retailers’ and wholesalers.”
- “ We use a rural distribution model, where we deal with the Wholesaler, and they deal with the retailer, who then sells to the customer. Part of the brands success is because Company B goes directly to the consumer in these rural areas. Company B approaches and works with smaller retailers, like spaza`s, to get the products to the consumer.”
- “In some areas, for distribution we use own staff instead of outsourcing. We do 1-on-1 marketing with our customers. We spoke directly to the customer and promoted the product directly to the consumer, instead of just the wholesaler. We waited for customer demand of the product first, which was created through direct consumer marketing. Larger companies don’t do this, they usually promote and launch in store in order to create consumer demand.”

- “I remember when dealing with the Chiefs in the villages in order to get their buy in on the villagers using our product. I spent some nights in the village and noticed how people actually did their laundry on a daily basis, outside of their huts inside small buckets, item by item.”
- “So our product had to cater to the real needs and circumstances of the consumer. “

SUMMARY

The interview respondents both answered the question on the challenges that the company has faced in dealing with the lower income consumer. The strongest theme that emerges from the responses relates to the challenges that the company faced when establishing an appropriate distribution model for the rural areas in which their target customers are based. In order to navigate the markets effectively and get the new product to its customers, the company chose to deal directly with the consumer, then with the wholesalers and small retailers. This model was instrumental in creating consumer demand for the Company B washing powder product. Additionally, the company needed to partner with influential individuals, such the Chiefs is some of the villages, in order to encourage trial and usage of the product.

5. Have you had to change the way you do business?

- “No. We have always used the wholesaler distributor model instead of the industry norm of big retailers such Pick `n Pay and Shoprite, etc.”

- “In order to penetrate the market, we had to deal with ‘unbranded superettes.’ Our Model has always been to supply the wholesaler and they work with informal retailers and superettes. We did not use the traditional retail model of filling retail shelves with products and doing product launches at big retailers.”
- “This was motivated in part by the consumers’ affinity to support the community stores and ‘spaza’s,’ so they were more prone to buy from the community ‘spaza’ than from a formal retailer.”
- “Also, owners of Superettes would not stock a product unless the customer already demanded it. “

SUMMARY

The interviewees expressed their views regarding having to change the way that their company did business to cater to the lower income market. It is evident from the responses that Company B has always used the direct consumer and wholesaler distribution model, instead of the more formal ‘modern’ retailer model. This has been the company’s model since inception, and thus can be considered as being ‘business-as-usual’ for the company.

6. What would you say have been the main reasons for your business model being successful in the lower income market?

- “Company A has been sleeping, I don’t know what those guys are doing”
- “Free sampling of the product has worked well for Company B. We gave out more samples to customers than the amount of washing powder that we gave to the stores for sales.”
- “ We used to drive around in private car, piling a big trailer with a lot of samples, and we just gave it away to people, we told them -Try it before you buy it.”
- “Its important for customers to try the brand, because it’s new and they need to get to trust it.”
- “ The only forms of advertising and marketing we did were brand roadshows, where we did roadshows at all the wholesalers and retailers, clinics, Taxi ranks, ALL over. We go where the customers are. We go anywhere.”
- “We also did a lot of in– store promotions.”
- “Our products are high quality and affordable, not cheap.”
- “Chatting directly and learning about the consumer. The company was mostly concerned with consumer marketing and awareness of the product, as well as consumer intelligence in order to improve the product and the company strategy. Promoting directly at the wholesaler would not work as the wholesaler would not ‘stock’ the product unless there was customer demand for the product. We decided to create consumer demand first, and the wholesaler will then ‘stock’ the product. “
- “Also, this model helped our company to stay under the radar of the big corporations (competitors) and helped us to develop the brand at grass roots level.”
- “Positioning of the brand was important. The brand was promoted in the community, at local clinics and taxi ranks, by giving out product samples. This helped us to create brand loyalty and a purchase afterwards. “

- “Company B met with the ‘Chiefs’ in the villages in order to get product and brand buy-in from the villagers. In Venda we spent time in the villages, saw people washing their clothes in small buckets outside their huts.”
- “Traditional marketers don’t understand their markets.”
- “FOCUS! Our one product strategy made the difference and contributed to the success of Company B’s washing powder. A company with many products loses focus, and attention is split amongst the products, which leads to inferior performance. We only had to concentrate on one product, and so the focus contributed to our understanding of the market, as well as the performance of the company within the market.”
- “The model took two years before it was successful.”

SUMMARY

The respondents gave their views on the main reasons which they believed were responsible for Company B’s success in the lower income market. The themes based on the responses from respondents indicate that the main reasons are:

- Free product sampling and trials played a big role in ensuring that potential customers became acquainted with the brand.
- Road shows in ‘non-traditional’ places like taxi ranks and clinics.
- Providing the market with high quality and affordable products.
- Speaking directly to the consumer, and creating consumer demand for the product first before making the product available in the wholesaler and retailers.

This, together with product trials, helped the company to develop brand loyalty at grass roots level.

- Creating partnerships and alliances with influential individuals, like the ‘Chiefs’ in the villages.
- The initial ‘one product’ strategy of the company ensured that the company was focused. (focus).

SECTION B2: BUSINESS MODEL INNOVATION

7. Can you take me through the process you undertook when deciding which “Business Model”, to use for the lower income /B.O.P market?

- “There was no real business model, because no business model was available. The ‘process’ was rather trial and error. Try something and If it doesn’t work, try something else.
- “I don’t believe there is a business model ‘template’ for this market. You cannot ‘work’ by the book.
- “Our company set goals for each region and tried to find the best way to get to the customers in order to get them to try the product. The company gave an ‘unlimited’ supply of product samples.”

- “But, we did approach the market ‘Area by Area’ and ‘region by region.’ First, we started in Limpopo; built up the brand and a customer base there, using the Wholesalers and informal retailers, and using a team that concentrated on the Limpopo region. Then, we moved on to Gauteng using the same process (model) with a team dedicated to Gauteng. Then we moved on to Mpumalanga and other regions. The model is still being used today in all the regions. “
- “We entered the market region by region, approached each region differently.”
- “We concentrated on marketing to the market. For radio, we used regional and national radio depending on the region. We also used a TV ad, which was voted worst TV ad in South Africa. The exposure from the TV ad worked well for the company, and increased awareness of the product to the market. Our TV ad strategy, which worked around the advertising authority’s rules on what can be said in a laundry ad, was based on having our brand, Company B, being said repetitively on the ad. This worked for the company and created brand awareness and recognition from consumers. What used to happen is that whenever customers saw a Company B branded vehicle, they would just scream out our brand, just like on the ad.”
- “We also use the banner groups. Each wholesaler has a group of stores and retailers groups that subscribe to them, and these make up the banner groups. The banner group takes care of all the ‘promotion leaflets’ and marketing for the wholesaler, like Jumbo Cash & Carry; Limpopo Cash & Carry; and those guys. The banner group decides which products are advertised on the marketing leaflets. We have created good relationships with the banner groups, and they have given us good marketing for the brand. All we do is

sometimes we support the banner groups when needed, through some types of incentives, such as soccer balls for their soccer teams, etc.”

- “The banner leaflets influence the consumers perception of products, and also help to create wholesaler demand and orders of products.”
- “The wholesaler – Informal retailer split is about 60% / 40%.”
- “We made the brand available in a variety of sizes, 500mg – 5kg. Because of the recession, the 5KG packaging worked well, after much debate inside the company. We mostly argued about Price versus Quality versus Value for money. What we saw happen was that some customers share the purchase of a 5KG box of Company B washing powder because price equates to buying two boxes of 2kg Company B washing powder. Therefore, essentially the customer is getting an extra 1kg of washing powder for free. So, more value for less price, which is why the bigger packaging actually works better, and is more successful.”
- “Smaller sachet packets are not that popular. They actually work out more expensive overall, and the market knows this. Also, the frequency of customer purchase is once or twice a month for washing powder, usually matching the customers` frequency of wages, which makes the bigger packaging more favourable for consumers.”
- “We launched a new brand washing powder’ as a response to the pricing war by Company A on the Company B brand. The new brand is a ‘lower’ quality product, but also has a lower price.”
- “We had a few problems with the new product in the market, because the washing powder did not dissolve completely. We actually had to simulate the washing powder in a real life environment; situation in order to test against the complaints about the product. We used

the soap at 5degree temperature, like what the customer would do, instead of testing at 10-15 degrees in a lab.”

SUMMARY

The respondents both gave their views on the process that the company follows when entering into the lower income market. The responses show that the company follows a somewhat consumer driven process before launching any products into the lower income market. The themes that become evident from the responses, thus giving a Business Model process outline, include:

- The company uses a trial and error process in each region in which they launch their product. The company will set goals for each region, and attempts to find the best way to get the product to the consumer. The company will give away tons of product samples in the new regions.
- The company employs a regional (region-by-region) strategy. Each market is studied, and the appropriate model is used to suit the region.
- Creation of good relationships with groups that influence customer perceptions and purchase decisions, such as the banner groups. These alliances assist the company and the brand to influence the wholesalers. The company works very closely with the wholesalers and the small retailers (spaza`s).
- Responding appropriately to market conditions and the competitive landscape. The company introduced different washing powder pack sizes to cater to their consumers purchasing behaviour, and circumstances resulting from the financial recession.

Additionally, in order to remain competitive, Company B launched an additional washing powder brand to compete against a strong rival product.

- The company made it a point to always understand the functional needs of its consumers, which is evident in the approach that the company used to resolve the “dissolve” issue with the new washing powder.

SECTION B3: BUSINESS MODEL REPLICATION

8. Would you say that the process is similar to that used in other consumer markets?

- “No. The process is not the same.”
- “not at all”
- “We used other marketing mediums in the Upper income market. For advertising, we concentrated on national Radio, TV, and recently social media. For social media, we use Facebook and Twitter. The strategy for social media platforms is to send our customers and followers tips related to clothing and lifestyle, which will have some kind of a link to Company B.”
- “Free Sampling will always be part of the strategy.”
- “ We tried using the product sampling strategy with the Upper income market, but this was not as successful with the market. Who actually uses product samples in the upper income market? Like shampoo and soap samplers placed in magazines, etc.”
- “The ‘business model’ is not similar with other markets. The upper income group uses ‘Front loading’ washing machines, and not as price sensitive as the lower income group.”

- “The Upper income consumer mindset is different. Usually, the buying decision of which washing powder to use is made in a different way. For example, the domestic worker has a big influence on which washing powder brand should be purchased, mostly because they do the laundry for the household. The domestic workers personal experience with the Company B brand plays a big role in getting the brand used in the employers` house. “
- “The domestic workers actually make the decision of which washing powder to purchase.”
- “Getting agents to accept Company B as a credible alternative to the established brands was a hard sell for Company B. People did not believe that Company B could take-on the competitors.”

SUMMARY

The two interviewees responded to the question about the similarity of the business model process for other, modern upper income, consumer markets to that of the lower income markets. The general theme of the responses indicates that the process used in other upper income consumer markets is not similar to that used in the lower income market. The differences cited relate to the mindset of the consumer in the upper income market segment and the marketing medium’s which need to be used to reach the upper income segment.

9. Have you had to use your business model in other consumer segments?

- “We use exactly the same model in other lower income consumer markets in other regions where we operate.”
- “The model works perfectly in Botswana, Namibia, Zambia, Mozambique and Zimbabwe. In these regions we are able to maintain competitive pricing and provide the product at a pricing level that consumers in the market can afford.”
- “But, moving further up north in Africa will make us uncompetitive, from a pricing perspective. We cant go further into Africa because the cost of the product would increase substantially, and customers would not buy it if the cost rose above a certain level, like if it were R20 above the normal price for instance.”
- “Our model works especially well in Botswana. We saw Company B sales outperform the demand and sales of the Eastern Cape. Compared to the Eastern Cape, with a population close to 11million people and Botswana, with a Population of 1,4million people, Company B achieved the same levels of sales.”
- “We were overwhelmed by the performance of the brand in Botswana for instance. The company exceeded its targets and was very surprised by the performance of the product.”
- “We have used the same model in other in other lower income regions, countries and consumer markets. The model works very well in other regions.”

SUMMARY

All the respondents answered the question regarding the use of the lower income business model in other consumer markets. The responses indicate that:

- The company uses exactly the same lower income business model in other lower income consumer markets and geographies. However, the company is reluctant to go into other lower income markets if the 'customer value proposition' for the market is affected, by price for instance. The levers of the value proposition, and the business model, need to still make sense for the market before the company enter the market.

SECTION C: FINANCIAL PERFORMANCE

10. Have your company`s (Lower income/ B.O.P Business Unit) revenues improved from the previous year?

- "In 2008-2009 our revenues decreased. Mostly because of the credit crunch and the recession.
- "Revenues have also been affected by the retaliation from competitors, like Company A, with their washing powder. At the moment, Company A`s washing powder is cheaper than Company B`s. Also customers seem to prefer Company A`s because of its '2-in-1' feature.
- "The introduction of Company B 2004 caused a shift in market share of washing powders in South Africa. Before us (Company B), Company A was the market leader. After the

introduction of Company B (2004-2006), we became the market leader. But today Company A is the market leader.”

- “In 2009- 2010, our revenues increased and are stable again. Obviously not at the same levels as before the recession, but at least they have improved.”
- “The credit crunch affected our revenues.”
- “In general, revenues over the last five years have improved, but I am not at liberty to give indication of levels, because it’s a private company.”
- “We were noticed by competitors, Company A, in particular, who retaliated and started a price war by launching a cheaper product.”
- “Our ‘one-product’ strategy became a problem for us in the price war with Company A, so we had to launch a new rival Washing powder.”

SUMMARY

The respondents both answered the question regarding the revenue performance of the lower income business unit. Their views indicate that although the companies revenues were affected by the financial recession of 2008-2009, the companies revenues have since increased and are currently stable.

11. Is the lower income / B.O.P unit profitable? (i.e.: Is there a positive financial gain in the business unit after all expenses have been subtracted?)

- “Yes. It has to be profitable. Not sure of the profitability levels because I am not privy to such information, since its a private company. “

- “But if you consider that the cost to do business in a ‘group,’ like Pick `n Pay , Massmart, is more expensive than at the bottom end, wholesaler level. The formal market is more expensive; it’s more of a marketing exercise than a profit driven market. More about distribution than about profitability. “
- “working through a wholesaler model, makes the model for the lower income market cheaper.”
- “ The market is very Profitable. The market is huge and can’t not be profitable. When you look at the cost of operations versus the revenues, the company still makes a healthy profit.”

SUMMARY

Although there was reluctance with answering this question because of the ‘private’ nature of the company, as well as the sensitivity of the information, both interviewees answered the question regarding profitability of the lower income market for Company B. The overall response regarding profitability indicates that the company is profitable in the lower income market.

12. How many years has the lower income/B.O.P. unit been profitable?

- “Since late 2005 – 2010 (4 years).”
- “Not privy to that information because it’s a private company.”

SUMMARY

The respondents both answered the question regarding the length of lower income market Profitability. The timeframe indicated is 4 years, although one of the respondents could not confirm the timeframe of profitability due to the sensitive nature of the information.

5.3.1.2.2 Other Evidence

- **Euromonitor International – Company B company summary**

Strategic Direction

According to reports by Euromonitor international, Company B is predicted to perform strongly in the coming years. The economic downturn resulting from the 2008 recession is expected to result in more consumers opting for its affordably priced products, thus improving the revenue performance of the company. Euromonitor reports that Company B plans to expand its export activities into Eastern Europe, South America and the Middle East in the near future. Company B also plans to invest in the doubling of its current production capacity in 2010.

Competitive Positioning

The Euromonitor report shows that Company B was ranked eighth in overall home care sector in 2009, with a value share of 3%. Additionally, the report shows that the company saw strong growth in value share in 2009 compared to the previous year, gaining over one percentage

point in share within the hand wash detergents category and half a percentage point in share within home care as a whole. This was due to the brand's low prices and the company's strong promotional efforts.

Company B offers a wide range of pack sizes for their washing powder, in order to ensure that it is affordable to all its consumers. These packs range from 35 g sachets to 5 kg flexible plastic packs. The Euromonitor reports mentions that the small sachets are popular among lower-income groups and in rural areas, due to their lower pack price. However, bulk packs are more popular among larger households, as they effectively offer a lower unit price, which further emphasizes the lower income markets view towards product price and affordability.

The company invested heavily in marketing towards the end of 2009, with television advertisements on the SABC and e channels, along with advertising on radio, newspapers and billboards. These advertisements focused on the slogan 'More than a washing powder. It feels like a friend.'

Further analysis by Euromonitor found that Company B also supports its brand with roadshows, in-store promotions, demonstrations and community programmes such as school competitions and the supply of school equipment., through a partnership with the 'Lapdesk' initiative.

The Company B brand benefited from a free product sample campaign throughout 2008 and 2009. Additionally, the company extended its range to include an Auto washing powder detergent variant in 2008 and 2009. This was supported by strong advertising and is expected to prove popular with low middle-income and more affluent lower-income consumers.

The Euromonitor report is a trusted and influential source of information on the performance of varying sectors in global economies. A summary of Euromonitor's Company B analysis and company profile can be found in Appendix of the report.

5.3.1.2.3 Participant observations and Reflections

The interviewees at Company B were, for the most part, slightly reluctant to participate in the research. However, the interviewees were quite enthusiastic to share their experiences once the interviews commenced. Company B seems to have a good understanding of the lower income consumers that they serve, and know how to get their products to their consumers. Even though the interviewees claim that the company does not have a 'business model' that they use for the lower income market, it became clear during the interviews that there was a clear 'model' that the company employed each time it ventured into new markets. Additionally, it became clear during the interviews that Company B is firmly aware of its impact on the performance of its competitors in the market, especially that of Company A. The participants seem to believe that the practises of Company A were unfair and monopolistic, and they were determined to continue competing with Company A and continue to grab their market share within the washing powders and detergents business. The participants were reluctant, justifiably so, to share information on the financial performance of the company due the company being a private company.

5.3.2 Unit of Case Analysis – Company A

5.3.2.1 Introduction and Profile

The paragraphs that follow below seek to provide some additional information in respect of the Company A Group, with a specific focus on Company A's operations in South Africa and its Home care division.

5.3.2.1.1 Company Overview

Company A is one of the world's leading fast moving consumer goods companies. It offers products across a broad range of categories, like foods, home and personal care. The group primarily operates in Europe, the Americas, Asia and Africa, and has strong local roots in more than 100 countries across the globe. Company A is headquartered in London, in the United Kingdom, and employs about 163,000 people in total (Datamonitor, 2010).

5.3.2.1.2 Business Description

The global Company A group is one of the world's premier fast moving consumer goods (FMCG) companies with a host of well known brands in the foods, home and personal care categories.

The group markets its products under 400 brands spanning 14 categories of home, personal care and foods products in over 170 countries worldwide. In addition, the group operates over

264 manufacturing sites across six continents (Datamonitor, 2010).

The group's primary operating segment comprises of three geographic regions; Asia Africa; Central and Eastern Europe, The Americas and Western Europe. Although Company A's operations are managed on a geographical basis, the group categories its products under four categories: savory, dressings and spreads; ice cream and beverages; personal care; and home care and others. These categories act as its principal product areas, as well as the secondary reporting segments of the group (Datamonitor, 2010).

The group's home care and other operations include sales of home care products, such as laundry tablets, powders and liquids, soap bars and a wide range of cleaning products.

Company A first entered the South African market in 1890. The South African subsidiary was registered in 1904. The first factory was built in 1912 in Cape Town, followed with the opening of a factory in Durban in 1914. In 1954, a margarine factory was built in Boksburg, Gauteng. Company A's business interests in South Africa centre around two categories: Home and Personal Care (HPC) and Foods. The company is a market leader in a number of product categories (Datamonitor, 2010).

Company A South Africa has a Portfolio of over 30 brands across 9 product categories, and are market Leaders in 7 out of 9 categories.

Company A has been recorded as the largest FMCG advertiser in SA. The company employs over 3000 full time employees and has its head office in Durban. Additionally, Company A has 8 Sales Sites, 2 corporate offices and 7 factory sites dedicated to its business in South Africa (Datamonitor, 2010).

5.3.2.1.3 Major Products and Services

Company A is a supplier of fast moving consumer goods, across foods, home and personal care categories. The group's key products and services span across many categories, including Savory, dressings and spreads, Ice cream and beverages, Personal care, Home care and other operations.

5.3.2.1.4 Financial Performance and Market Share

The Global Company A group recorded revenues of 39,823 million Euro (\$55,538.4 million) during the financial year ended December 2009 (FY2009), a decrease of 1.7% compared to FY2008. The home care division contributed revenues of 6,968 million Euro (\$9,717.8 million) to the total Group revenue pool in FY2009, a decrease of 3.4% compared to FY2008.

Company A Turnover in 2009 amounted to 920.8 million Euro (Company A, 2010).

Table 5.2: Market Share analysis in the Home and Personal Care category- Company A South

Africa:

Laundry Care Company Shares 2005-2009	2005	2006	2007	2008	2009
Company A (Home and Personal Care)	16.5	15.6	16.0	16.0	16.1

5.3.2.2 Content Analysis

5.3.2.2.1 Responses from semi-structured Interviews

SECTION A: BOP PROPOSITION AND DEFINITION

1. What consumer markets does your company serve? And what is your lower income market like? Probe: what do you term the low -income market?

- “Were into popular markets, were not into niche markets and we typically target the lower LSM consumers.”
- “The mass markets makes up 80% of our market “
- “In our company, the mass market is defined using the LSM 2.0 measure, with LSM A being LSM 7-10, LSM B being LSM 5-6 and LSM C being 1-4. Company A is strong in LSM B & C. “
- “We make products to suit these LSM markets, from a functional and pricing perspective, and also how we land the product.”
- “In South Africa, we focus on the Lower income LSM’s, because the majority of the population is in that market, and the need is there.”
- “All our product ranges are never targeted at the very niche markets.”
 - As opposed to companies like Woolworths, that are very niche focused.
 - Our products are in Woolworths, but we have very limited presence.
 - Whereas in Shoprite, we are there in BIG way, and have a HUGE presence.
- “Same is true Globally, in first world economies like Europe. Some of our products in these markets are more sophisticated than South African products. The products are more

sophisticated for the South African market, but not sophisticated for the markets in which they're in. “

- “In the washing powder category, different brands cater for consumers across all LSM's, and different pack sizes are positioned per LSM group.”
- “Our lower income market is made up of LSM 3-4 – majority.”
- “Company A has 80% of the washing powder market in South Africa, and we've found that customers have different pack preferences per region in SA, which is part of the complexity of the market. For example a 2KG pack is most popular in Gauteng, whereas Limpopo, Mpumalanga, and the old Northern Transvaal region, and Western cape, the most popular pack is 1KG. In the Eastern cape, the most popular pack sizes are 250g-500g. We find that this is all very influenced by customer's income levels. “
- “Its very important to remember is that within Company A, a brand and a brands positioning target at a certain price point targets an LSM Group, whereas a pack size targets a shopping occasion. For instance a 2kg pack targets month-end shopping and purchases, and 500gm purchase is a top-up.”

SUMMARY

Both of the interviewees gave their views on the markets that the company serves, as well as gave their interpretation of what the company's market was like. The general consensus from the views expressed by the interviewees is that Company A serves the mass, lower income consumer which makes up close to 80 percent of its total consumer base. The company uses the LSM 2.0 measure (depicted in the Appendix) to segment its customers.

2. How long has your company been operating in the *lower income market*?

- “Company A has been present in South Africa for over 100 years. The company started with lower income markets and products for the lower income market.”
- So the company has been operating in the lower income market since inception in South Africa. All the key brands within Company A are entrenched in 2 or 3 generations.”
- “Company A entrenches itself in the bottom end of the market and carries consumers upwards.”
- “We have always been operating in the lower income markets. For example our bar soap was originally made for miners and miners wives in the London mines.”

SUMMARY

All of the respondents to the interviews shared their views regarding the length of time that the company has been serving the lower income market, and all agreed that the company had a long, entrenched history, over 100 years, serving the lower income consumer.

3. What is your experience of the *lower income market*?

- “In markets where we face extremely stiff competition, pricing becomes very important, it’s a big deal for consumers and is key. “
- “Where we do have extremely stiff competition, pricing is important to a degree, but we do still have a bit of leeway with regards to pricing. “

- “Even in markets with competition, our products and brands play a big role. We find that consumers in LSM B&C call margarine by our brand name. Even when referring to our competitors` margarine products, they use our brand to identify the margarine as good or bad.”
- “The brands in our portfolio do stand for something. With our strong brands, we are able to command a premium, as long as it’s a justifiable premium. With products like washing powder, the minute the premium goes too far out, then we start to lose sales. “
- “100 year old brands, with strong consumer confidence allows for a premium on price. People would rather pay the premium on a strong brand because of the familiarity with the brand’s promise regarding quality and performance. “
- “The premium is slightly smaller in very fought over markets and categories, but the premium can be quite big in markets with low competition.”

SUMMARY

Both interviewees shared their individual experiences of the lower income market. The main themes that their views portray are that:

- Established brands are important to the lower income market.
- Product pricing is very important to the market. The company is able to command a pricing premium on their established brands and products. However the pricing premium is dependant on the level of competition in the market, and the company responds appropriately to competition by pricing its products to suit the market.

SECTION B: BUSINESS MODEL

SECTION B1: BOP BUSINESS MODEL

4. What challenges have you faced?

- “Washing powder has 98% penetration in South Africa, so there aren’t many challenges for us since we have huge market share. Everyone is using washing powder. “
- “But ‘route-to-market’ is important. How do we get the product to our customers? Understanding how and where the shopper shops. Do they use the formal retailer (Pick `n Pay, Shoprite, clicks) or the more informal wholesaler model (Cash and Carry, Makro, Jumbo, etc.)?”
- “In the past, the model has been for Company A to supply the wholesaler, that will then sell to independent Supermarkets (Independent Supermarkets → 200sqm-800sqm) and Spaza`s, and they sell to the consumer.”
- “Recently there has been a penetration of modern retailers (Pick `n Pay, etc) into the Independent supermarket areas. Stores from the modern trade have started moving into the traditional informal areas. Therefore affecting our ‘Route to market strategy’. So, no longer the only way to get to the lower income consumer, wholesalers and spaza`s that is. Now there are many different routes to market to reach the lower income consumer. “
- When Maponya Mall Pick `n Pay in Soweto opened up, within 5-10km radius, 20-30 Independent supermarkets were shut down. Because the mall offered the consumer a better shopping experience in the Pick `n Pay, as well as better pricing on goods, because

the model avoids all mark-up on products that would occur from the wholesaler to the spaza, and from the spaza to the consumer. “

- “Everyone in the value chain makes a profit. For us, profit is dependant on the KVI status of the product, that’s like the profit margin percentage made from on each product. For product KVI’s, we look at
 - Product penetration, which means everyone buys the product
 - Market share of the brand – e.g.: our washing powder has the highest market share in the market. “
- “Some products are “loss leaders”. Others have single digit profit margins and others have high margins. “
- “We do face some challenges getting to the consumer. The more rural areas are difficult to get to. Areas like the Western cape, northern Kwazulu Natal and Limpopo. Our reach is difficult, so we are very reliant on our customers and partners (Retailers). A big part of Company A is whom we partner with. e.g.: Shoprite, Pick `n Pay, Massmart, etc. Our ability to reach customers is heavily dependant on our relationship with our partner’s and customers. “
- “In South Africa, we are not served to deal with trying to reach lots of small distributors and customers across vast geographies. “
- “Whereas in markets like India, we have a direct consumer model. We seem to be able to manage getting to the consumer. India is an anomaly thou, because the market has never had a modern trade model. The Indian sales model is so fundamentally different from any other. People shop with smaller stores and shops (Spaza equivalents) that they trust. People are not willing to travel because the traffic congestion is so bad. Plus all the stores

are very near to the houses of the consumer. People usually order their goods by phoning in to the stores, and have their goods hand delivered to their door. Most customers even have running “credit” accounts with the stores. The baskets ordered can contain anything from washing powder, Toothpaste, Soap, Lotion, a toothbrush etc. There are millions of these little shops around India, and somehow Company A has managed to find a way to get to them. In India the business was forced to adapt the “small” store model, in order to grow in the market. Its rumoured that Company A in India, through a Company A subsidiary, has a distribution system that is as good as the Indian postal system. “

- “In other markets, Company A is big in the modern trade model, guys like Wal-Mart, Carrefour, Tesco, Pick `n Pay, Shoprite, etc. “
- “Locally, in SA, our ability to reach ‘far out’ customers is very dependant on what the ‘partners / modern retailers’ do in those far out markets. If they invest in rural, far out markets, then Company A will benefit. If they choose not to do big things in those markets, then we find it difficult to penetrate the market. But we still find our products in the markets, but it goes through informal traders who buy our products in bulk and mark the price up, because the product changes a number of hands, which affects the price at which the product reaches the customer. Company A `s ability to manage that in South Africa is almost zero, were very dependant on our ‘partners’.”
- “In the South African context this is a liveable risk because of the trends in the market and the economy. We’re experiencing mass urbanisation of people moving into the cities. Living standards in general are on the up. But, I think if SA became like Zimbabwe, where living standards are declining, then the model were using would be a big risk, as people

head back into the rural areas, and investment stops flowing. At the moment, the model works fine as we are reaching our customers.”

- “About 70% of our business is from the modern, formal trade. (E.g. Pick `n Pay). And about 30 % from the wholesaler market and general trade (Massmart, wholesalers). The general trend that we are seeing as a result of the SA Economies movements is that the modern trade is growing much faster than the general trade, mostly because of the phenomenon of urbanisation.”

SUMMARY

Both interviewees shared their view regarding the challenges that the company has faced within the lower income market. The most prevalent themes from their responses refer to:

- The “route-to-market” strategy for each region where the consumer is located is very important. The changes in the informal and formal retail markets, with regards to distribution of products to the lower income market, have an impact on the company’s “route-to-market” strategy.
- The company is heavily reliant on its alliances with its product distributors, in order to get to the consumer. The distributors strategies with regards to growth and investment into geographical areas where the customer may be, will affect the performance of Company A.

5. Have you had to change the way you do business?

- “No, not really. Working in the lower income market is still Business as Usual for us.”

- “Sales wise, we use fair and equitable practices with all our retailers. But because of future growth and where the shopper is actually shopping, we may invest more funds with that retailer.”
- “Strategic decisions may change depending on the movement of shoppers and markets. The strategy changes depending on where the customer is.”
- “Our biggest retail partner is Shoprite.”
- “Because of the increasing shift from non-majors (small stores) to majors (large retailers like Shoprite and Pick `n Pay), more shoppers are shopping at the formal retailers now, instead of informal retailers. So what may change for us is the level of investment that we make with each retailer, on the collaborative projects that we do with the retailers, such as unique promotional events. “
- “Shoprite has the correct understanding of the lower income consumer. They have the right distribution and have structured the Shoprite brand to speak to that market. Shoprite really helps Company A with the distribution of its product. “

SUMMARY

The interviewees both answered the question regarding the changes in the way the company had to do business to cater to the lower income group. The theme that emerges from the responses is that Company A makes strategic operational changes depending on the shopping behaviour of the consumer. The company will increase its level of investment spend with the retailer that attracts the most consumers, and maintain a good working relationship with the retailer because of Company A`s reliance on the retailer.

6. What would you say have been the main reasons for your business model being successful in the lower income market?

- “For Washing Powder, its Brand Heritage. Most of our brands have been around for a long time and consumers trust them.”
- “Delivery of the Brand promise.”
- “The levers that we can pull are Price, Product and Communication of the proposition.”
- “Quality of the product. Producing very good quality products is key. Our history has been built on our reputation for producing very good quality products. This is a huge strength for us. The lower end of the market wants good quality products. They do not make the trade off between cost and quality and not prepared to go for a circumspect, bad quality product. Quality is quite important. “
- “We always do ‘Blind Sessions’ of our products, blind tasting and product testing. We will always try to outperform the competitors` products. This is very important. “
- “Providing products that genuinely add value to the customers life. Example, for laundry, does the product provide a good cleaning experience? Does the product perform like it should? Does it have a good fragrance? Does it make the wife or mothers life easier?”
- “ The Communication Strategy we use is important. Communication of each brand within the Washing Powders category tells the customer what each brand stands for.
- “Each brand has a clear ‘brand proposition’ that the retailer and consumer knows and understands. Whether its communicated on radio or in a store, they know the brand proposition, and that’s part of why they pay the ‘price’ that they do for our goods, and why they want the brand in their house. The consumer may not buy a 2KG pack, but will buy a

250gm pack once a week. Also, remember that our premium washing powder brand has no lower income market share because of the need for the customer to have for an Auto wash machine.”

- “Pricing of the products is very important as part of the proposition.”

SUMMARY

The respondents gave their views on the main reasons which they believed were responsible for Company A`s success in the lower income market. The themes based on the responses from respondents indicate that the main reasons are:

- Brand Heritage
- Quality of the Product
- The products value proposition, and the communication strategy used to get the proposition across to the consumer.
- Pricing of the product.
- Outperforming the competition.

SECTION B2: BUSINESS MODEL INNOVATION

7. Can you take me through the process you undertook when deciding which “Business Model”, to use for the lower income market?

- “There’s a big process that is followed. We first try to understand if there’s a need for a product. The guys then go and brainstorm, and understand what can be done to meet the

need. They come up with a workable solution, which includes the sourcing of raw materials to check whether we can manufacture the product?”

- “ We do some tests and sampling of the product. We will do about 4-6 weeks of sampling around the country, with a representative sample of consumers. We get the consumers to try the samples, and ask for feedback on the products.
 - What did the consumer like about the product?
 - If it’s a brand new product, then is it something that you would like?
 - Check whether the product would be affordable to the market.”
- “We perform a full CMI (Consumer Market Insight study) and based on the feedback from the study, we never go to market with a product that has a test score that has a 50/50 result. We would usually rerun and retest the product with such a score. We always aim for results that 60% and upwards. Once we get good scores like that, we will go full scale production; do the whole marketing campaigns and get the product into the market in a big way.”
- “Sampling of the product is important for the CMI study. We need to understand the consumer, and we pass very few products or projects without having gone through a CMI study first. We do lots of CMI studies on new products to understand consumer reactions.”
- “But, even with such high test scores, of 60% and above, in the past we have had projects that failed in the market. There’s never a guarantee, but we try to increase our chances of success.”

- “A lot goes into research and development of a product, lots of resources are dedicated to this process. We have an internal department that is dedicated to performing CMI’s and market testing, because Company A is always looking to launch new products.”
- “Company A is a very Innovation based company. All the big FMCG players are innovation focused, because consumers are quite fussy. Needs and habits change daily, and if companies stayed static they would become a dinosaur. It would be over, would be all over.”
- “Company A is either a first mover into a market, or were fast followers. We try to understand clearly what the shopper wants. Once we understand the shopper, then we bring the product to life at a price point that the consumer is willing to pay. We examine the minimum price point and the price that the consumer is willing to pay. Then well find out where the customer is shopping, stores, channels, areas and locations. Where do we need to be to get to the consumer?”
- “You must remember that our leading lower LSM washing powder did not exist 10 years ago. The washing powder evolved from the laundry bar- consumers would sometimes shave off the soap to create a powder and wash their laundry that way. So, in this instance Company A was a first mover within this market. Across most of our brands, Company A has been first to market.”
- “Sometimes the innovation goes too far, and some products fail. Sometimes the innovation does really well. Our core product was too expensive for the market at a certain price point. Therefore we introduced a lower priced washing powder, which did very well in the market, and also served as a barrier to entry for competitors.”

- “Also understanding our Brand Architecture and the role that each brand plays in our portfolio, What the brand does for the shopper and What it does for the business – in terms of competitor moves.”
- “The pricing strategy behind each brand is important. We have two strategies, ‘High Low’, where we promote and advertise frequently at different prices, and “Everyday Low price” where the product is made available at one common price at each store, and we wont put any money into promoting the price at which the brand is trading.”

SUMMARY

The respondents both gave their views on the process that the company follows when entering into the lower income market. The responses show that the company follows a clear process before launching any products into the lower income market. The themes which become evident from the responses, thus giving a Business Model process outline, include:

- The company first attempts to determine if there is a widespread need for a product in the market, and then brainstorm possible solutions to fulfil the need. This process is supported by internal resources and R&D that are dedicated to innovating, and finding innovative solutions to the markets` needs.
- The company will perform a full market study and testing of the product. This process will include sampling of the product with a significant sample of the target population.

- When a solution is deemed feasible to satisfy the need of the market, the company will determine where the touch points for the target consumer are. This information is used to decide on an appropriate distribution strategy and network for the product.
- The company will ensure that the new product fits into the overall “Brand Architecture” for Company A, and ensure that speed to market for the product is achieved.
- The company will study the competitive landscape for the product, and attempt to manage the competition appropriately, attempting to ensure that its product becomes a market leader in the category.
- The company will determine an appropriate pricing strategy for the product, and ensure that the product is priced correctly, and is affordable for the market.

SECTION B3: BUSINESS MODEL REPLICATION

8. Would you say that the process is similar to that used in other consumer markets?

- “No, the business model is not the same. For instance, the washing solution needs to take into account hard water and soft water characteristics of different regions. Johannesburg has hard water and Durban has soft Water. The washing powder needs to have certain elements that compliment the water, as well as use the right fragrance, across all the regions. “

- “These things are all taken into account when entering a market. The global Company A team will prepare a mix, product, communication, packaging, etc., then well have a local team make the mix come alive for the local market.”
- “No, not really. “
- “Company A always plays across the range of consumers.”
- “There are two things that consumers generally look for in a washing powder, and that’s cleaning brilliance and perfume.”
- “You’ll find that our premium washing powder brand liquid is really big in Europe, but not that big in South Africa. The liquid is targeted at the lower end of the market in Europe, but targeted at the higher end in South Africa. South Africa has more hand wash consumers than machine wash because of the dynamics at play in the country. Machine wash is mostly for LSM A consumers.”
- “Our washing powder range locally includes the lower LSM washing powders and the premium liquid. The liquid is ridiculously higher priced than everything else, because it is genuinely made up of the latest technology. Not because our margins are higher on that product. The product is designed for washing machines. The research and development spend on the liquid is very, very high. The product uses the latest technology, with regards to perfume technology. The liquid has completely different technology to everything else in the laundry market.”
- In South Africa, it represents the smallest part of our sales, whereas sales of the liquid are massive in Europe. But the product starts where our lower LSM powders are in South Africa. Company A also has other ranges in Europe and other more developed markets,

that are more technologically advanced. We don't have these products in South Africa, as not enough of the market; probably less than 5 percent would actually buy the product.

SUMMARY

The two interviewees responded to the question about the similarity of the business model process for other, modern upper income, consumer markets to that of the lower income markets. The general theme of the responses indicates that the process used in other upper income consumer markets is not similar to that used in the lower income market. The main reason for this seems to be that the needs and expectations of consumers in the upper income segments are different from those of lower income consumers.

9. Have you had to use your business model in other consumer segments?

- “In places like Europe, we use niche stores (e.g.: Marks and Spencer). We'll have certain products in Tesco and certain products at Marks & Spencer. “
- “In South Africa, because of the way the trade is organised, people tend to shop at Pick `n Pay regardless of where they live, be it Sandton or Crown Mines. Pick `n Pay seems to stock different products in the stores depending on the region and the ‘feel of the stores’.”
- “In South Africa we deal with the same type of customer because in SA Woolworths is probably the only ‘Niche’ group that we have. But in markets where there is an established niche and an established mass market, we differentiate accordingly. “

- “In places like the SADC region our business model is almost the same, except for the fact that we deal with the consumer relationship slightly differently. For example, in Zambia, West Africa, Ivory Coast, Nigeria, we deal more with the ‘general trade’. In these regions, the model is ‘get your stuff’ to the wholesaler, then the small shops (spaza shop equivalents) will buy from the wholesaler and get the goods to the people.”
- “So, in places like Zambia, 70% of our business is general trade (wholesalers, small shops / spaza`s) and 30% is modern trade (Retailers), because there isn’t a well established modern trade. In fact the modern trade found in these markets is made up of South African retailers (Shoprite, Pick `n Pay, etc.) and we deal with them. But they (the modern trade) don’t dominate the market. They cater for the upper end of the market. The lower end of the market is all through wholesalers, and we then deal with the wholesalers.”
- “Company A washing powder products are available in all areas, SADC, Botswana, Zimbabwe, Mozambique, Ghana, etc. The washing powder brands are known differently in the different countries. The brand was launched with that proposition in the markets, but with a different brand name, in order to retain the heritage that the brand may have in the market. “
- “The markets have different shoppers and different dynamics. For instance – the range and mix of product range in different markets will be different because of the market and the consumer. The shoppers in the markets are different. So the business model used in different areas is different because of the ‘route to market’ that is specific to each market. For example, Ghana only has informal distributors. Shoprite is only entering that market now. How you service the consumer is what becomes different. Therefore, the route to

market strategy and business model is what changes because of the dynamics of that region.”

- “Company A had to move out of the American market for laundry products, as we were not the market leader and the business case didn’t make any more sense. Company A brands in that market are now sold by other companies. “
- “In the washing powder category, most markets are now ‘Business as Usual’ for Company A. But for other categories, we use what we’ve learned from the market, through our presence in the washing powder category, and use these strategies to launch other products and grow the market that way. But we won’t do exactly what we were doing in washing powders, we’ll go and do something more.”
- “South Africa is considered a hybrid market for Company A because it has strong retailers and strong Wholesale and Cash and Carry business. Whereas regions like Europe only have retailers and no wholesale market. India only has informal retailers, small shops like spaza’s.”
- “But when competition arrives in a market, then there’s a different strategy. Brands will play different roles as part of the overall strategy. Our biggest global competitor launched in South Africa, but ceased to operate after only 6 months because they had a different understanding of the market. Company A strategy is 80% because shoppers are different in each region, in terms of what they want and level at which they want it, and 20% because of competitors and competitor strategy. “
- “Also, consumers want different things from a washing powder, which affects our approach.”

SUMMARY

All the respondents answered the question regarding the use of the lower income business model in other consumer markets. The responses indicate that:

- The lower income model is not used in other upper income markets. The structure of the market and the needs of the consumers necessitate the use of a different business model.
- However, the company uses a 'similar' lower income business model in other lower income consumer markets and geographies. The company will tweak the business model to take into account the differences in new lower income markets, and make the business model fit the new markets characteristics. The route-to-market strategy plays a significant role in each new markets business model, and the company will find suitable distribution partners and alliances in each region to ensure that its products reach the consumer.

SECTION C: FINANCIAL PERFORMANCE

10. Have your company`s (Lower income/ B.O.P Business Unit) revenues improved from the previous year?

- “ The Rand value of revenues has not increased. Turnover has been declining over the last few years because Company A has not been increasing prices into the market. But for Hand wash washing powder (lower income market) volumes are still there and have been

increasing over the last few years. Essentially, we have been selling more products for less price, therefore making less turnover overall.”

- “Its Important to remember that for Company A, our short term focus is to concentrate on turnover and profitability, but our long-term focus is more on volumes which is volume share of market and Market share (Value share) which is product mix within the market share. “
- “Turnover and profitability are important across all our products, but each product category contributes a different ‘margin’ within each product, other products contribute single digit margins, while others are double digit contributors. Value then becomes important at this level. “
- “Luckily, were in a good spot. We haven’t seen the dip of the recession in terms of decreased revenues in the mass market, mostly because we are into ‘everyday products’, not into luxury products.”
- “In times of recession, what we’ve seen is that people, upper and lower end, are cutting out on what they term as luxury goods. For instance, people are eating out less. As a result our food solutions business has seen sales decline, and has really felt the effects of the recession. The food solutions business caters to the retail foods and restaurant industry, such as Mugg&Bean, Nandos, etc. “
- “Whereas our retail business has not felt the recession. We’ve actually seen growth, because as people reduce eating out, and eat more at home, the demand for our products has actually increased. Also, consumers haven’t reduced the amount of ‘washing’ they do, so our laundry product sales have also been increasing.”

- “Volumes have been increasing which translates into an increase in revenues. Were actually investing in all our factories, increasing capacity and buying more machinery at all 6 of our local factories.”
- “However, prices on our goods have come down, mostly because of the decreased costs of raw materials, such as oil, which affects the costs of transportation, as well as the price packaging. We have just passed on the savings in costs to our consumers.”

SUMMARY

The respondents both answered the question regarding the revenue performance of the Lower income business unit. Although there was some conflicting views regarding the revenue performance of the lower income segments of the business, there was consensus that the volumes of products sold into the market have increased, and the prices of goods have decreased. Overall, this situation may translate into declining revenues for the lower income segments.

11. Is the lower income / B.O.P unit profitable?

- “We’re very profitable in that market. There are no issues with our profit. “
- “The notion that selling to the lower end market, not making money is an absolute fallacy. But you have to sell the right volumes; you can’t sell small quantities. With the right volumes, and economies of scale you can still make good money. “
- “The lower income market is profitable. This is the core market and foundation of Company A. Our market is profitable, but profitability is going down. Reasons being that

the shopper is not willing to take increases in price and Company A cant move beyond a certain price point.

- “In the short term, Company A will take a cost strain, but in the Long term well recoup the losses made. “
- “The lower income market has always been a source of volume for Company A and the market is profitable at a level of margin expectation. Were achieving low margins with the Volumes that we want to get.”

SUMMARY

The interviewees both answered the question regarding profitability of the lower Income market for Company A. The overall response regarding profitability indicates that the company is comfortably profitable in the lower income market.

12. How many years has the lower income/B.O.P. unit been profitable?

- “For a long time.”
- “We’ve been in the country for a while and have been profitable for a while.”

SUMMARY

The respondents both answered the question regarding the length of lower income market profitability, and both agreed that the market has been profitable for a long time, with no indication of actual timeframe.

5.3.2.2.2 Other Evidence

- **Summary of the documentary analysis on BOP from Company A.**

The information below is a summary of multiple documents that relate to the BOP and Company A `s approach to the market, that were given to this research studies researcher. The summary is a high level overview of the information provided, with the intent of limiting the inclusion of confidential and sensitive company information.

The summary will be presented as a series of key points, with a brief discussion for each point.

- **Barriers to dealing with the Low end consumer**

One of the barriers in South Africa, when dealing with the consumers at the Bottom of the Pyramid (BOP), is making the products available for purchase. While most SKUs and product ranges are available in urban areas, achieved through major retailers (Corporate and Independent), the rural stores carry a much more limited set of products; Disposable income is also a barrier that has had to be overcome. Different pack sizes, at appropriate rand values, had to be created to allow for different segments of the economy to be able to afford it (Company A , 2010).

Educating retailers, serving shoppers at the BOP, on recommended selling prices (RSPs) and why keeping close to these RSPs will benefit their shoppers pockets and still allow them to operate a profitable business (Company A , 2010).

- **Internal Consumer Insight on the low income segment**

Formal methods of data gathering of the needs of our consumers are primarily done through our CMI department. This unit within the business is primarily focussed on understanding consumer behaviour, including consumption patterns, consumer trends etc (Company A , 2010). They will rely on many data sources including consumer test panels to ACNielsen and other such groups. Informally, much can be learnt (if properly conducted) through consumer/shopper immersions, gathering observations from shoppers in-store and engaging retailers about their shoppers (Company A , 2010).

- **Low income consumer rural distribution strategy**

Distribution to independent, rural retailers servicing the BOP consumers is done via Wholesalers. Company A has limited control on the movement of products through these independently owned Wholesalers to the shelves of the final resellers. The decision to purchase a specific SKU or range, by the retailers from the wholesaler, is usually driven by their shoppers demand or ability to turn around the stock back into cash as quick as possible (Company A , 2010).

Company A will sell directly to only a limited number of rural retailers and rely on our Wholesale Customers to be our route-to-market (RTM) (Company A , 2010). We have tried to encourage the formation of groups of stores that purchase a large percentage of their products from a single Wholesaler (referred to as Banner Groups) but this difficult for Wholesale customers or ourselves to control or manage due to the low levels of loyalty from the rural retailers, who often will “cherry-pick” between many Wholesalers for the best price (Company A , 2010).

Another method of getting distribution of products in these rural retailers is through a distribution/sales service provider (SP). SPs will usually purchase products from a near-by Wholesaler to resell directly to rural retailers (Company A , 2010). (Most instances will normally see Retailers having to pick-up stock at the Wholesaler through their own means. Thus the SP provides a “service” to these retailers, and sometimes will justify a slightly higher cost than the Wholesaler). Company A uses SPs to actively sell-in selected SKUs into retailer stores – even if no demand is present at the store (Company A , 2010).

Corporate retailers have much more sophisticated distribution networks and these are more easily influenced by getting distribution to these stores much quicker and easier. Corporate retailers are growing their footprint, at a rate, into the rural landscape once controlled by independent retailers but may not necessarily be the mainstream shopping destination for many at the BOP (Company A , 2010).

In the future Company A look to improve our RTM through the strategic introduction/adoption of exclusive distribution agents (aka Key Distributors (KD)) – operating in a similar manner to Independent Wholesalers. The difference would be the KDs would have much more influence on the distribution of SKUs or product ranges to their customer set (Company A , 2010).

Even-though this may be the longer term objective Company A would still be operating in a space that has many big Wholesalers. We will continue to foster and further develop the relationships with these customers to improve our ability to get the required distribution of our products (Company A , 2010).

- **Low income market pricing strategy**

Our Pricing strategy is based on a particular category (and its role within our Company or our Customers) rather than consumer segments (Company A , 2010). The main types of strategies used are – Every-Day-Low-Price (EDLP) or High/Low. Basically, EDLP is a strategy used on KVI SKUs, where any shopper, from any outlet we sell into directly, can get the “best” price (Company A , 2010). High/Low is the use of price promotions to provide the product at a discount (over a limited time period) than what they would normally pay (Company A , 2010). Company A also use a price-tier strategy to enable the company sell different brands within a category at different price-ranges to provide a clear differentiation of product benefit at a price (Company A , 2010).

The major difficulty is price conformity in rural stores. These storeowners purchase their goods from Wholesalers (RTM), and based on their own profit aspirations, will then sell it on at different prices. These price ranges between different stores can at times be very wide – and not always be competitive versus similar retailers or larger retail operations (Company A , 2010).

- **Product quality for products aimed at the lower income consumer**

Because Company A has multiple product ranges (usually associated by a specific Brand name), we are able to provide products across a spectrum of “quality” (Company A , 2010). Company A strives to ensure that no matter where in the spectrum the brand is in terms of quality it is best product available at that price point versus competitors (Company A , 2010). Thus we seldom have to adjust the quality of our product to match acceptance levels of our

consumers(Company A , 2010). The competitive environment though sometimes forces Company A to “improve” on the quality of products – either in the form of better packaging or formulation etc – while maintaining the pricing relativities between Company A`s ranges and that of competitors (Company A , 2010).

When costs do move up beyond our control – raw material increase or associated costs in supplying the products (like fuel) increase – we try to balance the profitability of the products and what the shopper can afford (Company A , 2010). Not all costs are simply past onto the consumer. As market leaders in most of categories Company A usually are first to move product prices, even-though any cost movement affects all other manufacturers of similar products, and then wait on the rest of the market to follow (Company A , 2010).

5.3.2.2.3 Participant observations and reflections

The interviewees at Company A were quite willing to participate in the research. The participants shared their views proudly and confidently. Both respondents expressed an interest in the final research document. Company A has an in depth understanding of the lower income consumers that they serve. The interviewees have a surprisingly clear understanding of their companies lower income ‘business model’. Unlike the respondents from Company B, the Company A respondents did not mention the impact of Company B in the washing powder market, although the company does have a clear competitor strategy. Company A seems to have a more ‘forward looking’ view of the market, and are anticipating

future strategic moves based on where the local economy is headed. Surprisingly, both respondents were confident about the low income markets profitability, as well as the profitability that Company A had achieved in the low-income market.

5.4 Cross case synthesis

The following section will seek to draw comparisons between the themes identified from the interview responses for each section of the interview for both case sites. The purpose of this section is to identify relationships and patterns between the themes that arise from the data from the respective companies.

5.4.1 BOP PROPOSITION AND DEFINITION

Company A Themes	Company B Themes
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<ul style="list-style-type: none"> ▪ Company A serves the mass, lower income consumer which makes up close to 80 percent of its total consumer base. The company uses the LSM 2.0 measure (depicted in Appendix) to segment its customers. ▪ Company A has a long, entrenched history, over 100 years, serving the lower income consumer. ▪ Established brands are important to the lower income market. ▪ Product pricing is very important to the market. The company is able to command a pricing premium on their established brands and products. The pricing premium is dependant on the level of competition in the market, and the company responds appropriately to competition by pricing its products to suit the market. 	<ul style="list-style-type: none"> ▪ Company B targets upper and lower income consumer markets, but are more biased towards lower income consumers. The company uses the traditional LSM measure to segment its consumers, but also further segments consumers by their method of washing their laundry. ▪ Company B has been in the market for a total of 6 years, which makes the company a new entrant in the lower income consumer market. ▪ The lower income market is an “interesting” market, that has definite and non-negotiable needs. ▪ Product trials are an important aspect of reaching and penetrating the lower income consumer market. The free products allow the consumer to experience the product, and may lead to the consumer switching brands if the products` quality is satisfactory to consumer. ▪ The lower income market is very driven by quality and price of the product. However, consumers are aware of the trade-off
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SUMMARY

In general, the companies use similar metrics to define the BOP / lower income consumer market. The LSM measure is the prominent standard that both companies use to segment their consumer markets, although the actual LSM scales that the companies use are slightly different. The two companies have been operating in the lower income market for some time, although Company A has been in the market for a much longer time than Company B. It could be inferred from this that Company A has superior capabilities and understanding of the lower income market. Both companies have a similar understanding of the perceptions of consumers regarding the affordability of products due to the minimal income that the market has, and thus the pricing strategy of products becomes important. In order to gain consumer patronage and affinity with the companies` brands, the two companies rely on somewhat different strategies, with Company A relying primarily on the brand heritage of its products, and Company B relying on ‘free samples’ and consumer trial.

5.4.2 BUSINESS MODEL

5.4.2.1 BOP BUSINESS MODEL

Company A Themes	Company B Themes
<ul style="list-style-type: none"> ■ The “route-to-market” strategy for each region where the consumer is located is 	<ul style="list-style-type: none"> ■ The company chose to deal directly with the consumer, then with the Wholesalers

<p>very important. The changes in the informal and formal retail markets, with regards to distribution of products to the lower income market, have an impact on the company's "route-to-market" strategy.</p> <ul style="list-style-type: none"> ▪ The company is heavily reliant on its alliances with its product distributors, in order to get to the consumer. The distributors strategies with regards to growth and investment into geographical areas where the customer may be, will affect the performance of Company A . ▪ Company A makes strategic operational changes depending on the shopping behaviour of the consumer. The company will increase its level of investment spend with the retailer that attracts the most consumers, and maintain a good working relationship with the retailer because of Company A `s reliance on the retailer. ▪ The main reasons for Company A`s success in the lower income market: 	<p>and small retailers. This model was instrumental in creating consumer demand for the Company B washing powder product. Additionally, the company needed to partner with influential individuals, such the Chiefs is some of the villages, in order to encourage trial and usage of the product.</p> <ul style="list-style-type: none"> ▪ Company B has always used the direct consumer and Wholesaler distribution model, instead of the more formal 'modern' retailer model. This can be considered as 'business-as-usual' for the company. ▪ The main reasons for success in the lower income market are: <ul style="list-style-type: none"> ○ Free product sampling and trials. ○ Road shows in 'non-traditional' places like taxi ranks and clinics. ○ Providing the market with high quality and affordable products. ○ Speaking directly to the consumer,
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<ul style="list-style-type: none"> ○ Brand Heritage ○ Quality of the Product ○ The products value proposition, and the communication strategy used. ○ Pricing of the product. ○ Outperforming the competition. 	<p>and creating consumer demand for the product first before making the product available in the wholesaler and retailers, which helped to develop brand loyalty at grass roots level.</p> <ul style="list-style-type: none"> ○ Creating partnerships and alliances with influential individuals. ○ The focused one product strategy.
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SUMMARY

There seems to be a considerable amount of overlapping principles regarding the BOP business models used by the two companies, as can be seen from the “reasons for success in the lower income market” themes above. The more entrenched Company A uses a dual ‘route-to-market’ strategy, depending mostly on which markets it targets. In contrast to this, Company B relies more heavily on its relationships with its customers and the more informal retailers. Both companies are very reliant on alliances and relationships for success in the lower income market. However, in comparison, Company A seems more reliant on its alliances with the formal retailers, as well as with the wholesalers albeit to a lesser extent. Company B, on the other hand, relies on its alliances with influential individuals and the small retailers, as well as

with the consumer. Where both companies seem to be in agreement is with regards to some of the reasons for success in lower income market. Price, Product quality, alliances, and marketing strategies are a case in point. The most notable differences relate to Company A `s dependability on its brands` heritage in the lower income market, and Company B `one product` strategy.

5.4.2.2 BUSINESS MODEL INNOVATION

Company A Themes	Company B Themes
<ul style="list-style-type: none"> ■ The Business Model process outline for Company A includes the following steps: <ul style="list-style-type: none"> ○ The company attempts to determine if there is a widespread need for a product, and then brainstorm possible solutions to fulfil the need. The process is supported by internal resources and R&D that are dedicated to innovating, and finding innovative solutions to the markets` needs. 	<ul style="list-style-type: none"> ■ The Business Model process outline for Company B includes the following steps: <ul style="list-style-type: none"> ○ The company uses a trial and error process in each region in which they launch their product. Company B sets goals for each region, and attempts to find the best way to get the product to the consumer. The company will give away tons of product samples in the new regions.

<ul style="list-style-type: none"> ○ The company performs a full market study, which includes sampling of the product with a significant sample of the target population. ○ Once a feasible solution is found for the market need, the company will determine where the touch points for the target consumer are. This information is used to decide on an appropriate distribution strategy and network for the product. ○ The company will ensure that the new product fits into the overall “Brand Architecture” for Company A, and ensure that speed to market for the product is achieved. ○ The company will study the competitive landscape for the product, and attempt to manage 	<ul style="list-style-type: none"> ○ The company employs a regional (region-by-region) strategy, and uses an appropriate model for each region. ○ Creating good relationships with groups that influence customer perceptions and purchase decisions, such as the banner groups. The alliances assist the company and the brand to influence the wholesalers. The company works very closely with the wholesalers and the small retailers (spaza`s). ○ Responding appropriately to market conditions and the competitive environment. ○ A clear understanding of the functional needs of consumers.
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<p>the competition appropriately, attempting to ensure that its product becomes a market leader in the category.</p> <ul style="list-style-type: none"> ○ The company will determine an appropriate pricing strategy for the product, and ensure that the product is priced correctly, and is affordable for the market. 	
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SUMMARY

An analysis of the themes regarding the business model process followed by each of the companies indicates that the companies have differing processes. Overall, the themes indicate that Company A seems to be the more innovative of the two companies, and also portray that Company A has a department dedicated to identifying new consumer needs to fulfil. The Company A business model process is more ‘concrete’ and requires more resources, in terms of the steps that are followed to bring the business model and its accompanying elements to life. On the other hand, the Company B process is more ‘intuitive’ and based on trial and error. This could be interpreted as dependant on the degree of company’s experience with dealing with the BOP market. Company B employs a ‘regional’ strategy and business model, whereas Company A uses a more national strategy and business model. The Company B model includes

creating relationships with influential groups, such as the banner groups within the wholesaler market in order to stimulate the demand for their product. The processes of both companies take into account the state of competition within the market, and include a strategy to deal with competition.

5.4.2.3 BUSINESS MODEL REPLICATION

Company A Themes	Company B Themes
<ul style="list-style-type: none"> ▪ The process used in other upper income consumer markets is not similar to that used in the lower income market, mainly because the needs and expectations of consumers in the upper income segments are different from those of lower income consumers. ▪ The lower income business model is not used in other upper income markets because: <ul style="list-style-type: none"> ○ The structure of the market and the needs of the consumers necessitate the use of a different business model. 	<ul style="list-style-type: none"> ▪ The process used in other upper income consumer markets is not similar to that used in the lower income market. The differences cited relate to the mindset of the consumer in the upper income market segment and the marketing medium's which need to be used to reach the upper income segment. ▪ The company uses exactly the same lower income business model in other lower income consumer markets. However, the company is reluctant to go into other lower income markets if the 'customer value proposition' for the market is

<p>○ However, the company uses a ‘similar’ lower income business model in other lower income consumer markets and geographies. The route-to-market strategy plays a significant role in each new markets’ business model, and the company will find suitable distribution partners and alliances in each region to ensure that its products reach the consumer.</p>	<p>affected, by price for instance. The levers of the value proposition, and the business model, need to still make sense for the market before the company enter the market.</p>
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SUMMARY

There is a general consensus among the companies regarding their use of the lower income business model in other consumer markets. The lower income business model is not used in the upper income segments, but is used extensively in other lower income markets. For Company A, the ‘route-to-market’ strategy in each new BOP market may differ depending on the circumstances in the market. For Company B, entry into a new lower income market will

depend on the viability of the companies` value proposition in the market, especially with regards to the price that the companies product would command in the new market.

5.4.3 FINANCIAL PERFORMANCE

Company A Themes	Company B Themes
<ul style="list-style-type: none"> ▪ The volumes of products sold into the market have increased, and the prices of good have decreased. Overall, this may translate into declining revenues from the lower income segment for Company A . ▪ The overall response regarding profitability indicates that the company is comfortably profitable in the lower income market. ▪ Company A has been profitable in the lower income market for a long time. 	<ul style="list-style-type: none"> ▪ Although the companies revenues were affected by the financial recession of 2008 2009, the companies revenues have since increased and are currently stable. ▪ The company is profitable in the lower income market. ▪ The timeframe indicated is 4 years, although one of the respondents could not confirm the timeframe of profitability due to the sensitive nature of the information.

SUMMARY

The financial performance analysis of the two companies shows similar results. Both companies indicate that their revenues have experienced some challenges recently, mostly because of market conditions. The revenues for both companies are positive. Both case sites indicate that the companies are profitable within the lower income market, and have achieved profitability for over one year.

5.4.4 INTERPRETATION OF DATA THEMES RELATED TO THE RESEARCH QUESTIONS

5.4.4.1.1 Research Question: Does the Strategic emphasis on Business model innovation versus Business model replication lead to improved financial performance?

The themes provide a somewhat inconclusive result on the differences in financial performance between firms focused on business model innovation versus those focused on business model replication. The general consensus amongst the respondents was that company revenues had been adversely affected by market conditions, but that the companies had remained profitable. The respondents were unable to indicate the actual levels of decreases` for revenues and profitability, and thus a comparison on total financial performance between the companies could not be made. Therefore, the data does not provide sufficient evidence in terms of the financial performance superiority of business model innovation versus business model replication, and vice versa.

5.4.4.1.2 Sub Research Question1: Do firms use Business Model replication or Business model innovation in the BOP market?

The data collected indicates that both business models are used by the companies` operating in the BOP market. Specifically, Company B seems to have a more innovatively inclined business model due to their unorthodox communication strategies and the companies close relationships with influential individuals, such as the chiefs in the villages.

However, it is important to note that the themes indicate that both firms are not squarely focused on innovation or replication in isolation, but rather employ the strategies interchangeably depending on the consumers and regional circumstances of the market. For instance, when entering new lower income markets and locations, Company A will develop a 'route-to-market' strategy in each new BOP market that may differ from other lower income markets. Whereas for Company B the business model used is the same as in other lower income markets, however entry into a new lower income market will depend on the viability of the companies` value proposition in the market, especially with regards to the price that the companies` product would command in the new market.

5.4.4.1.3 Sub Research Question 2: Do firms that exhibit a high emphasis on Business model innovation versus a low emphasis on Business model replication exhibit profitability?

The findings from the research indicate that between the two cases studied, Company B displays a higher emphasis on Business model innovation than Company A , albeit a small difference. This is primarily because the data indicates that, unlike its rival, Company B has established close relations and communication with the chiefs in the villages which has led to the company gaining patronage for its brand from the villagers.

Further analysis of the data collected indicates that Company B is profitable in the BOP market, although the level of profitability was not given.

5.4.4.1.4 Sub Research Question 3: Do firms that exhibit a high emphasis on Business model replication versus a low emphasis on Business model innovation exhibit profitability?

The findings from the research indicate that between the two cases studied Company A displays a higher emphasis on business model replication than Company B. Company A can thus be regarded as a replicator firm.

Further analysis of the data collected indicates that Company A is profitable within the BOP market.

SUMMARY

It is evident from the data that both companies business models have considerable levels of overlap between innovation and replication principles. Also, the data has proven that firms can achieve profitability in the BOP market.

It must be noted that it is the researchers conclusion that in order for firms to be profitable in the BOP market, their Business model needs to include aspects of both innovation and replication, as shown by the two cases studied in this report.

5.5 Conclusion

The preceding paragraphs have sought to reflect, categorise and interpret the research results that were obtained during the case study investigation. The following chapter will be used to evaluate these findings against the literature review that was presented in Chapter 2, as well as against the stated research objectives identified in Chapter 1.

6 Chapter 6 – Discussion of Results

6.1 Introduction

In this chapter, the results from Chapter 5 of this report will be discussed against the literature review carried out in Chapter 2. The results will be discussed in terms of the main research objectives that were defined in Chapter 1. In order to adequately address the objectives, the chapter will also include reference to the research questions that were developed in Chapter 3 of this report.

6.2 Evaluation of findings

The paragraphs that follow will discuss the research findings in detail.

6.2.1 Research Objective - Determining the Business model approach that best leads to firms achieving profitability in the BOP market segment.

The main objective for this research was to determine and develop an appropriate BOP business model framework that would best lead companies to achieve profitability in the BOP market. In order to achieve this, a secondary objective and some research questions emanating from the literature review were asked. In order to fully address the objective, the section below will seek to discuss the research findings in detail.

6.2.1.1 Secondary research objective – Examine the financial performance of companies that target the BOP market, and have either Business model innovation or Business model replication as a strategic focus

6.2.1.1.1 Research Question: Does the Strategic emphasis on Business model innovation versus Business model replication lead to improved financial performance?

Authors (Prahalad, 2005, Prahalad & Hart, 2002) argue that firms, using the appropriate business models, can serve the BOP market segment without sacrificing profitability. However, Karnani, (2007) and Landrum (2007) have raised some criticisms against the BOP proposition and its promise of profitability for companies serving the market.

Additionally, the literature made mention of London's (2007) sentiments that the BOP propositions profit perspective requires more comprehensive testing to better understand the interactions and boundary conditions in the relationship between profits and poverty alleviation.

The above research question was asked with this background in mind, in an attempt to bridge the gap between the "BOP profit theory and BOP profit reality." To determine profitability, the literature review in Chapter 2, section 2.5 made mention of Drury's (2005) definition of Profit as "the positive gain from an investment or business operation after subtracting for all expenses", and section C of the research questionnaire focused on financial performance.

The aspect of financial performance of the companies was dealt with in Question 10 to Question 12 of the interview, with Question 10 focused on revenue performance and Question

11 focused on profitability. The resulting themes for the aspect of financial performance were captured in section 5.4.3. and interpreted in section 5.4.4..1.1.

As mentioned in section 5.4.4.1.1, the themes captured provide a somewhat inconclusive result on the differences in financial performance between firms focused on business model innovation versus those focused on business model replication. There was a general consensus amongst the respondents that their companies revenues were negatively affected, recently, primarily because of the impact that the financial crisis had on their consumers. However, both companies indicated that they had remained profitable in the BOP market, although not at similar levels as before. This resulted in the researcher not being able to draw a discrete comparison between the total financial performance of both companies in terms of their strategic emphases on innovation versus replication.

However, the fact that the companies confirmed that they were profitable in the BOP market segment serves to affirm the views of Prahalad (2005) and Prahalad & Hart (2002) with regards to firms achieving profitability by serving the BOP market segment. Thus, the data refutes Karnani's (2007) and Landrum's (2007) criticisms of the commercial viability of the BOP market space.

In addition to the above, the data further disputes London's (2007) views regarding the need for further comprehensive testing and understanding of the BOP propositions profit perspective. The mere fact that Company A has been operating profitably in the BOP market for over 100 years bears testament to the viability of the BOP market, and thus the BOP proposition to an extent. Company B, in comparison to Company A, has been operating in the market for under seven years and has been able to achieve profitability in the BOP market as

well. These results confirm that these two companies have sufficient understanding in terms of 'how' to achieve profitability within the BOP market segment, and therefore illustrate that the interactions and boundary conditions in the relationship between profits and poverty alleviation are well understood.

It can thus be argued, as a result of the data collected, that the BOP market can be considered as a lucrative and profitable market for companies that serve the market.

6.2.1.1.2 Sub Research Question1: Do firms use Business Model replication or Business model innovation in the BOP market?

The literature review in Chapter 2 made mention of the sentiments of author Markides (2006) who stated that Business model innovation refers to the discovery of a fundamentally different business model in an existing business , implying that a firms business model will require some change to the traditional way that business is carried out in order to meet customer needs.

Additionally, Hamel (1998) made mention that Business model innovation involves the capacity to reconceive the existing industry model in ways that create new value for customers, wrong-foot competitors and produce new wealth for all stakeholders.

The area of business model innovation was dealt with in Question 4 to Question 9 of the interview, with a specific focus on innovation placed in Question 7. The resulting themes on business models were captured in section 5.4.2.

The responses from the respondents offer their insight with regards to their views on business model innovation. The responses indicate that both businesses generally do not use the same

business model in different, upper income consumer markets. In a sense, it may then be argued that these views are in agreement with Markides` (2006) sentiments regarding the discovery of a new business model within the business, aimed at meeting different consumer needs. For instance, when Company B launched an Auto washing powder for the upper income market, the distribution model that they used was different to their traditional lower income consumer model.

However, the themes captured in section 5.4.2 indicate that both firms use very similar business models to cater for their respective consumer markets, which would imply that the firms do not innovate existing industry models. They simply 'copy' the model used by firms already operating in the market. These responses are thus in contrast with the views of Hamel (1998), in terms of the new customer value and additional wealth that business model innovation is supposed to create. It can be argued that the companies merely copy business models in order enter new markets and compete for market share with the existing incumbents.

On the other hand, authors Szulanski and Jensen,(2008) ;Winter and Szulanski (2000) include the economic argument that profit maximisation in the presence of market heterogeneity necessitates innovation because geographic dispersion exposes replicating organisations to diverse market conditions. Thus, implying that beyond the strategic choice of whether to pursue business model innovation, firms have the strategic choice to pursue replication of their novel business models in order to be successful.

The area of business model replication was dealt with in Question 4 to Question 9 of the interview, with a specific focus on replication placed in Question 8 and Question 9. The resulting themes on business models were captured in section 5.4.2.

The responses from the respondents show a high level of consensus regarding the replication of their companies' business models. As captured in section 5.4.2, the data indicates that both companies do not use their lower income consumer business model in other upper income markets. But, both companies replicate their lower income consumer business models in other lower income consumer markets and geographies. Specifically, Company B follows the same business model process in other lower income geographies, for example in Botswana, as long as the company's consumer value proposition is not compromised when entering into a new lower income market. The differences in the business models may arise because of the regional peculiarities of each region, and thus require the company to make changes to the parts of its business model that relate to the market. The interviewees views are in agreement with the sentiments of Szulanski and Jensen,(2008) ; and Winter and Szulanski (2000) regarding the need for companies to take into account the geographical diversity of market conditions and the need for the firms to innovate parts of its business model in order to cater for these markets.

Most importantly, the data shows that the ability for both firms to replicate their existing, successful lower income business models into other lower income consumer markets is important, as witnessed through the expansion of both companies into other lower income markets. It can be argued that the success of both firms in the geographically dispersed lower income markets has been a result of the firm's ability to successfully replicate their model into

these markets. The data thus confirms the notion raised by authors Winter and Szulanski (2000) and Aspara *et al.* (2010) regarding the replication strategy referring to the firms learning about and refining its business model, by choosing the necessary components to replicate in the model in suitable geographical locations and new customer segments, through developing capabilities to routinise knowledge transfer, and by maintaining the model in operation once it has been replicated.

Lastly, the business model approach and structure followed by both companies, as deduced from the responses of the respondents and the resulting themes captured in chapter 5, makes no mention of the companies including the communities in which they operate in the process of setting up or launching a 'new' business that serves the community. The BOP protocol, captured in Chapter 2, section 2.3.4.1, advocated that companies that serve the BOP market make use of a co-venturing process in which a company together with a BOP community conceives, launches, and evolves a new business that serves that new community (Simanis & Hart, 2009). The views of the interviewees are thus contrary to the BOP protocol approach advocated by Simanis and Hart (2009); Bruggmann and Prahalad (2007), and refute the approach for the BOP market advocated by the authors. The companies do not partner directly with individuals and NGO's in order to reach their intended customers. Rather, the companies depend on the relationships` created with their retail and general trade partners and distributors. The companies approach the BOP market as BOP consumers, rather than as BOP business partners. Therefore, it can be concluded that, contrary to the suggestions of the BOP protocol and new social paradigm approach, beyond providing BOP consumers with suitable and acceptable BOP value propositions, the companies do not have any significant

efforts that include the communities in which they operate or have substantial efforts to uplift the poor.

In Summary, the data shows that both business models, innovation and replication are used by firms that cater to the BOP market segment. However, it is important to note that both firms are not squarely focused on innovation or replication in isolation, but rather employ the strategies interchangeably depending on the consumers and regional circumstances of the market. For instance, when entering new lower income markets and locations, Company A will develop a 'route-to-market' strategy in each new BOP market that may differ from other lower income markets. Whereas for Company B, the business model used is the same as in other lower income markets, however entry into a new lower income market will depend on the viability of the companies' value proposition in the market, especially with regards to the price that the companies' product would command in the new market. These findings confirm the statements of authors Aspara *et al.* (2010) , who state that an emphasis on business model replication besides innovation may lead to higher financial performance. Particularly, this can be expected if replicator firms tend to be able to exploit the valuable aspects of their business model innovations, thus leading to higher returns to their initial investments in the innovative activities (Szulanski & Jensen, 2008), as shown by the profitable performance of both case sites in the study.

6.2.1.1.3 Sub Research Question 2: Do firms that exhibit a high emphasis on Business model innovation versus a low emphasis on Business model replication exhibit profitability?

The aspect of business model innovation was dealt with in Question 4 to Question 9 of the interview, with a specific focus placed in Question 7. The resulting themes for the aspect of innovation were captured in section 5.4.2.2.

The findings from the research indicate, as captured in chapter 5 section 5.4.4.1.3, that between the two cases studied, Company B is considered as the more innovative company, primarily because of the company's close alliances with the Chiefs in the villages and the wholesaler banner groups. It can be argued that this element of Company B's business model can be considered a novel approach that provides the company with some competitive advantage over its rivals, as can be deduced by the companies market share performance over the past 7 years (section 5.3.1.1.4). This approach finds support in the literature though Aspara *et al.* (2010) who argue for the superiority of strategies that create novelty into markets and networks through business model innovation.

In addition, Aspara *et al.* (2010) mention that one way to consider business model innovation is to view it as a potential aspect of a firm's innovative corporate culture or capacity. The responses from the respondents indicate that both firms are continuously looking to find better ways to serve their consumers. As mentioned above, Company B is considered to be the more innovative firm between the two firms within the BOP consumer segment. However, both firms have made successful strides to design and implement suitable propositions for higher income consumer markets, as well as enter BOP consumer markets in different regions. It can thus be deduced from this that both firms are continuously seeking new ways to improve the performance of their business, and have invested considerable time and resources towards finding new ways to do this given the circumstances of the markets which they target.

The data (section 5.4.3) also eludes to the fact that both companies have remained profitable in the BOP market. In this sense, the data confirms the views of authors Aspara *et al.* (2010) that firms with a high emphasis on business model innovation and an innovative corporate culture may lead to profitability.

6.2.1.1.4 Sub Research Question 3: Do firms that exhibit a high emphasis on Business model replication versus a low emphasis on Business model innovation exhibit profitability?

The aspect of business model replication was dealt with in Question 4 to Question 9 of the interview, with a specific focus placed in Question 8 and Question 9 of the interview. The resulting themes for the aspect of replication were captured in section 5.4.2.3.

Following from the previous question, and from the comparative themes captured in the previous chapter, it can be concluded that Company A displays a higher emphasis on business model replication than Company B. The themes from the data indicate that the company uses a similar model in all the BOP regions that it operates in, except for India. The distribution model, in particular, follows a uniform dual approach, which targets formal retailers or wholesalers depending on the specific market. It can thus be argued that a significant contributor to Company A's success emanates from the company's ability to replicate its model well into new geographies and consumer markets. This notion is supported by the view raised by Szulanski and Jensen,(2008), that if replicator firms tend to be able to exploit the valuable aspects of their business model innovations, it can be expected that the company will achieve higher returns to their initial investments in the innovative activities (Szulanski & Jensen, 2008).

The responses from the interviewees further indicate that Company A is profitable within the BOP market, thus confirming the views of authors Szulanski and Jensen (2008), that the successful replication of business models may lead to firm growth and profitability.

SUMMARY

It is evident from the data collected and the research questions raised above that for the two case sites focused on in this report, the firms have elements of business model innovation and business model replication as strategic emphases. Also, the data has proven that firms can achieve profitability in the BOP market.

However, it must be noted that it is the researchers conclusion that in order for firms to be profitable in the BOP market, their business model needs to include aspects of both innovation and replication, as shown by the two cases studied in this report.

6.3 Conclusion

Chapter 6 sought out to discuss the research results that were published and interpreted in Chapter 5. The author chose to evaluate the research findings according to the research objectives that were defined in Chapter 1 of this study. The main research objective was to develop a business model framework for firms to achieve profitability within the BOP market. The full BOP business model framework will be developed and discussed in Chapter 7 of the study. However, in order to define the elements of the framework adequately, a secondary objective and accompanying research questions were asked.

The secondary objective aimed to examine the financial performance of companies that target the BOP market, and have either business model innovation or business model replication as a strategic focus. In order to do this, the researcher developed some questions, which were related to the secondary objective. The data collected provided the answers to the questions, which are detailed and summarised above, through which the researcher concluded that the firms studied achieved profitability by using a hybrid business model, which included aspects of innovation and replication.

7 Chapter 7 – Summary and Conclusions

7.1 Introduction

The research conducted in the previous chapters of this study has addressed all of the research objectives that were listed in the first chapter, except for the main objective. This chapter will address the outstanding research objective of presenting a suitable business model framework for companies that wish to achieve profitability in the lower income market. The chapter will also highlight areas for future research that were uncovered during the course of this study, and end off with a final conclusion.

7.2 Suggestions and Recommendations to Organisations

The stated intention of this research study was to produce a suitable business model framework for companies that wish to achieve profitability within the BOP market segment. In order to produce the model, and derive value from the research that was conducted, it is important to consolidate the findings through making pertinent recommendations to organisations within the BOP consumer market.

In light of this, a model for improving the business model structure and strategy for companies in the BOP market segment was developed, and is illustrated under section 7.3 below. The model was derived primarily from two sources. Firstly, the findings from the data collected during the interviews and the documentary evidence, as well as the subsequent themes captured in Chapter 5 of this report. Secondly, the findings of the literature review in Chapter 2

were considered, with a specific focus on the 4A's framework in section 2.3.2 and the BOP business model in section 2.6. The discussion of the results and themes from the data collected, as captured in Chapter 6, make a considerable contribution to the structure and detail of the BOP business model framework. The main findings of the study indicate that the BOP market is, indeed, a commercially viable and profitable market for firms to engage and shows that firms have been profitable within the BOP market segment for a long time. Firms that operate within the market make use of a hybrid innovation and replication business model, meaning that the firms apply their business models in different low income / BOP markets and regions using aspects of their business models that are relevant for each market. The ability for the firms to do this is shown to be dependant on the firm's ability to innovate continuously, as well as capture and transfer the knowledge necessary to ensure that the firms can replicate its business model well into new markets. Neither of the firms make use of considerable partnerships with consumers, governments and NGO's, but rather with the general trade partners and wholesalers in each region.

In addition to the findings discussed above, it should also be noted that inherent in the model is the researchers personal judgement and interpretation of the information from which the model is constructed.

The model contains four key steps and will be described in detail in the section below.

7.3 Business Model Framework

<p>STEP 1: BOP MARKET DEFINITION</p> <ul style="list-style-type: none"> ▪ Define the lower income market appropriately for each region. ▪ Use LSM and consumer behavioural measures. ▪ Household versus Individual 	<p>STEP 3: Innovate and Replicate</p>	
<p>STEP 2: SETUP BOP BUSINESS MODEL STRUCTURE</p> <ul style="list-style-type: none"> ▪ Availability ▪ Alliances ▪ BOP Marketing Mix ▪ Affordability ▪ Acceptability ▪ Competitor strategy 	<p>Innovation</p> <ul style="list-style-type: none"> ▪ <i>On all Elements of the business model</i> ▪ Consumer profile ▪ Region ▪ Trial and error ▪ Internal resources 	<p>Replication</p> <ul style="list-style-type: none"> ▪ New lower income markets and regions ▪ Relevant elements of the Business model
<p>STEP 4: FINANCIAL PERFORMANCE</p> <ul style="list-style-type: none"> ▪ Volumes (Economies of scale) ▪ Price and Revenues ▪ Costs ▪ Profits 		

7.3.1 Description of the model

As already mentioned, the model was based predominantly from the finding's, which were captured in Chapter 5 and discussed in Chapter 6, as well as the literature review conducted in Chapter 2. The model contains 4 key sections, which will be elaborated upon hereunder:

7.3.1.1 Step 1- BOP Market Definition

The first step of the Business model framework involves defining the BOP market in which the company wishes to participate in.

The literature review captured in Chapter 2, section 2.3, show cased details on the evolution of the BOP proposition, as well as arguments for and against the BOP proposition. The main area of disagreement amongst BOP authors and practitioners, as shown in Chapter 2, relates to the actual definition of the BOP market segment.

The general themes and respondents` sentiments regarding the BOP consumer definitions used by the case sites are captured in Chapter 5, section 5.4.1.

The model suggests that companies should clearly define their BOP / lower income consumers appropriately for each lower income region that the company wishes to enter. The common metrics used to define the market in practice is the LSM measure, supported by an understanding of the purchasing behaviour and patterns of the BOP consumer. An example of an LSM scale used by one of the case sites can be found in Appendix D of this report.

Additionally, it is especially important to consider the aspect of household consumption versus individual consumption, when defining the consumer market. The BOP proposition themes captured in section 5.4.1 of Chapter 5 echo, somewhat, the sentiments of authors Chipp and Corder (2009) regarding the South African BOP being “better” defined as a household, than an individual, especially in terms of the purchasing decisions that the BOP consumer would make.

7.3.1.2 Step 2 - BOP Business Model Structure

The second step of the model involves putting together a suitable “business model structure” for the BOP consumer market the company will be targeting.

The literature review in Chapter 2 discussed the sentiments of various authors regarding the business model elements and approach that companies should adopt in order to serve the BOP market successfully.

The themes regarding the BOP business model emanating from the data collected were captured in section 5.4.2. These themes indicate that the most pertinent elements to be considered for a successful business model in the BOP market space are a combination of the 4A’s framework cited by Anderson (2006) from Sheth and Sisodia, (2002) and Sheth (2005), as well as the BOP business model suggested by Pitta *et al.* (2008). These elements will be discussed in more detail below:

Availability refers to addressing the distribution challenges that are inherent as part of the BOP market (Prahalad, 2005; Sheth & Sisodia, 2002; Sheth, 2005; Anderson, 2006). The company needs to ensure that the consumer can access its products conveniently and with

ease. Given the geographical dispersion of the consumers in the BOP market, it becomes imperative for the company to establish a suitable distribution network that will suit each geographical region in which the company intends to launch its products. In order to do this, the company will need to consider the stage of development, in terms of distribution infrastructure, for each region in order to decide whether to partner with formal retailers and distributors, or to partner with the more informal retailers and general trade merchants in order to reach its consumers.

Alliances refer to establishing relationships and partnerships with multiple players in the BOP market (Brugmann & Prahalad, 2007; Prahalad, 2005; Simanis & Hart, 2006). The data shows that alliances with influential individuals are especially important in the market. Therefore, it is vital for the company to ensure that it establishes the most relevant partnerships and alliances for its targeted markets and regions, for example, with the chiefs in the villages. The alliances can assist the company to ensure that its products are made available to the consumer at the correct touchpoints, as well as ensure that the company's brand awareness amongst the BOP market improved. However, it is important to note that the data collected refutes the setting up of alliances with governments and NGO's.

BOP Marketing Mix - The marketing mix for the BOP market needs to be tailored for each market and region that the company intends to have a presence in (Balu, 2001; Prahalad & Hammond, 2002; Prahalad, 2005; Pitta, Guesalaga, & Marshall, 2008). Each region needs to be studied and considered as a separate BOP market, and an appropriate regional marketing mix needs to be employed in each region. Especially critical in the mix is the distribution ("route-to-market") strategy that the company uses in each location.

Affordability refers to addressing the low incomes of the consumers within the BOP market segment. Pricing of products, or more appropriately of the value proposition, that is offered to the market is imperative for company success in the BOP market. The value proposition that is offered to consumers needs to address issues of quality versus the price that consumers pay for the products. The market expects good quality products in return for the “low” price that they pay for the product. It therefore becomes important for the company to ensure that its product quality is the “best” in the market at the price at which the product retails for, especially in comparison to the company’s competitors.

Acceptability refers to the company’s products being acceptable and relevant to the BOP market (Pralhad, 2005; Sheth & Sisodia, 2002; Sheth, 2005; Anderson, 2006). In order for the company to be successful, it needs to ensure that the market is pleased with the manner in which its products function and fulfil their need. It is thus imperative for the company to embark on product trials and sampling of its products by the BOP market. These trials will assist the company to gain consumer patronage from consumers that have tried the company’s product and are happy with its performance. Additionally, the product trials will assist the company with consumer insights on the product aspects that consumers may not be happy with, which the company can attempt to rectify before performing a full scale product launch.

Competitor Strategy refers to the company’s tactics and plans aimed at navigating the competitive landscape in which the company would find itself (Hamel, 1998; Hamel & Prahalad, 1989). The company would need to ensure that it fully understands the state of

competition within each of its consumer territories, and devise plans and tactics to deal with the competition in each region.

7.3.1.3 Step 3 - Innovation and Replication

The third step of the model involves the roles played by business model innovation and replication as part of the business model framework.

The areas of innovation and replication were covered in the literature review, Chapter 2, in sections 2.2.1 and 2.2.2, and the resulting themes from the data collected were covered in sections 5.4.2.2 and 5.4.2.3 of Chapter 5.

Innovation, in the sense of the business model framework, refers to the company striving to continually find new, improved solutions to cater to its customers needs. This relates to all the elements of the business model as shown above. In order to achieve this, it is important for the company to infuse a culture of innovation within its structures. This can be achieved through the company dedicating internal resources to the ‘innovation’ function. Additionally, having come up with novel solutions to its consumers needs, the company needs to be comfortable with using a “trial and error” approach to test the response of the market to its new solutions.

Replication, on the other hand, refers to the company identifying elements of its already successful BOP business model, and applying them to new lower income consumer markets and regions. In order for the companies’ innovative business model to be successful, it needs to be replicated in as many relevant markets as possible, whilst maintaining the company’s customer value proposition.

Additionally, the business model aspects of innovation and replication need to be considered as iterative and intertwined in the sense that these elements of the model will always need to be applied together, in order for the business model to be successful and for the company to achieve its profitability objectives.

7.3.1.4 Step 4 - Financial Performance

The final step of the framework refers to the financial performance aspects of the business model.

The area of financial performance was covered in the literature review in Chapter 2, section 2.5, and the financial performance themes from the data collected were covered in section 5.4.3.

An important element for financial success in the BOP consumer market is the ability to provide large volumes of the company's product. The sheer size of the BOP consumer market requires companies in the segment to provide vast amounts of its products. Additionally, the issue of customer incomes and affordability of products, will lead to the company having to charge a low price for its product, relative to the price that could be charged in other, higher income, consumer markets. Therefore, the higher the product volumes that the company can get to the market, the higher the expected company revenues will be.

Another critical element of the model is 'cost control'. The low price that the company will have to charge on its products will translate into very low profit margins being earned from each sale. In order to ensure that the company becomes and remains profitable, it will have to

keep a close eye on its costs and keep them as low as possible. The successful implementation of the above 'financial model' will ensure that the company operates profitably within the BOP market segment.

The research study has confirmed the business model elements mentioned above as being instrumental for the company to operate profitably within the BOP market segment.

7.4 Recommendations for future Research

The following recommendations for future research have been identified from the results.

- Research into the financial implications of business model emphases within the BOP market segment using alternative research methods that draw from larger samples.
- Similar research into the financial implications of business model emphases for companies within the BOP market segment, focused on other industries that cater to the BOP market segment.
- Research focused on the quantitative analysis of the BOP business model framework developed in this study.

7.5 Conclusion

The BOP market is by far the largest consumer market in the world. A market that is plagued by deep levels of poverty and a consumer base that, for the most part, has been ignored by large companies across the globe. The late Professor C.K. Prahalad dedicated vast amounts of

his time to 'raising' the attention of corporations on the attractiveness and opportunities within the BOP market. Although the early BOP proposition received vast amounts of criticism, it played a fundamental role in increasing the awareness of corporations with regards to targeting the BOP market, and providing much needed products and services that the market would otherwise have had to do without.

The literature on business models and BOP in this study has sought to justify the attractiveness of the BOP market, and find ways in which the market can be approached successfully.

To date, the developments and 'improvements' that have been made to the BOP proposition have failed to prove the financial viability of the BOP market for corporations. This study has shown that some of the 'new' BOP theories and paradigms exist only in theory, and the business models applied in practice are somewhat different to those suggested through the BOP protocol and 'new' social paradigms.

It is hoped that the research conducted in this study has managed to not only raise, further, the awareness of the attractiveness and viability of the BOP market segment, but also show that in practice, companies have been serving BOP consumers profitably for a long time, even before the introduction of the BOP proposition.

Additionally, the researcher hopes that the study has been able to adequately capture the information and knowledge regarding the successful business models that are used in practice by companies that are profitable in the BOP market, albeit limited to a single industry. The BOP business model framework presented in this chapter is intended to give companies a business model roadmap that they can follow when dealing with the BOP consumer, and the researcher

hopes that managers of companies and entrepreneurs will take note of the model and consider its application when venturing into the BOP market.

A key highlight of the research has been the discovery of a hybrid, innovation and replication, business model that is used by companies in the BOP market, and it is hoped that companies will take note of this aspect, as it may be the 'leap' that companies are in need of in order to grow through the BOP segment.

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9 Appendix A - Key Definitions

Strategic Innovation: Refers to business model innovation

BOP: Bottom of the Pyramid

MNC: Multinational Corporation

RTM: Route to market

FMCG: Fast moving consumer goods

10 Appendix B – Research Interview Guide

SECTION A: BOP PROPOSITION AND DEFINITION

1. What consumer markets does your company serve? And what is your lower income market like? Probe: what do you term the low -income market?

2. How long has your company been operating in the *lower income market*?

3. What is your experience of the *lower income market*?

SECTION B: BUSINESS MODEL

SECTION B1: BOP BUSINESS MODEL

4. What challenges have you faced?

Probe:

Geography; Consumer profitability; Company /segment profitability; etc.

5. Have you had to change the way you do business?

Probe: Why? Why not? How?

6. What would you say have been the main reasons for your business model being successful in the lower income market?

Probe: Please explain.

SECTION B2: BUSINESS MODEL INNOVATION

7. Can you take me through the process you undertook when deciding which “Business Model”, to use for the lower income /B.O.P market?

(Note: Researcher will explain the term Business model, as he understands It, then probe.)

Probe: What do you understand by the term “Business Model?”

SECTION B3: BUSINESS MODEL REPLICATION

8. Would you say that the process is similar to that used in other consumer markets?
Probe: Please explain why you say so and provide examples if possible.

9. Have you had to use your business model in other consumer segments

Probe: Other countries (regions), Other industries;

How successful have these new (replicated) business models been?

SECTION C: FINANCIAL PERFORMANCE

10. Have your company's (Lower income/ B.O.P Business Unit) revenues improved from the previous year?

Probe: Can you give an indication of the improvement (decrease) in revenues?

11. Is the lower income / B.O.P unit profitable? (I.e.: Is there a positive financial gain in the business unit after all expenses have been subtracted?)

12. How many years has the lower income/B.O.P. unit been profitable?

12 Appendix D

Euromonitor International: Company B local Company Profile.

Strategic Direction

Company B is predicted to perform strongly during the forecast period. The economic downturn is expected to result in more consumers opting for its affordably priced products, while an economic recovery could well result in many trading up from the Company B brand of hand wash detergents to automatic standard powder detergents. The company also plans to expand its export activities during the forecast period, gaining a presence in Eastern Europe, South America and the Middle East over the next decade. It also plans to invest in the doubling of its current production capacity in 2010.

Company Background

Company B is a family-owned business founded in 2003.

The company focuses on laundry detergents with its Company B brand.

Company B operates an extensive sales network across South Africa, with a presence in most independent small grocers as well as in leading chained grocery retailers such as Pick n Pay, Jumbo, Spar and Shoprite. The company's regional sales agents are also involved in promotions for the brand at all major retail outlets and wholesale stores.

The company had approximately 300 employees in 2009.

Production

Company B manufactures its products at its production plant in Johannesburg.

In addition to the company's South African distribution, the company's brand of hand wash detergent is also exported to Angola, Botswana, Swaziland, Lesotho and Namibia.

Summary 2 Company B: Production Statistics 2009

Location	Brand	Annual production
Johannesburg	Company B	60,000 tonnes

Source: Trade press

Competitive Positioning

Company B ranked eighth in overall home care in 2009 with a value share of 3%. This was mainly derived from hand wash detergents, where the company ranked second in 2009, recording a value share of 10%.

The company saw strong growth in value share in 2009 compared to the previous year, gaining over one percentage point in share within the hand wash detergents category and half a percentage point in share within home care as a whole. This was due to the brand's low prices and the company's strong promotional efforts.

Company B's brand is positioned in the economy segment and is focused mainly on lower-income consumers, although the company claims that its quality matches that of the leading brands.

The company offers a wide range of pack sizes for Company B, in order to ensure that it is affordable to all. These range from 35 g sachets to 5 kg flexible plastic packs. Small sachets are popular among lower-income groups and in rural areas, due to their lower pack price. However, bulk packs are popular among larger households, as they effectively offer a lower unit price.

The company invested heavily in marketing towards the end of the review period, with television advertisements on the SABC and e channels, along with advertising via radio, newspapers and billboards. These focused on the slogan ‘More than a washing powder. It feels like a friend.’

Company B also supports Company B with roadshows, in-store promotions, demonstrations and community programmes such as school competitions and the supply of school equipment. The brand benefited from a free sample campaign throughout 2008 and 2009.

The company extended its Company B range to include a standard powder detergent variant in 2008 and 2009. This was supported by strong advertising and is expected to prove popular with low middle-income and more affluent lower-income consumers.

Summary 3 Company B: Competitive Position 2009

Product type	Value share	Rank
Laundry care	5%	4