



Innovation in distribution models at the base of the pyramid

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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

9th November 2011

Abstract

This study investigates how innovation in distribution models at the base of the pyramid overcomes the impact of institutional and infrastructural voids in the base of the pyramid (BOP) markets. The research was based on the qualitative assessment of successful companies currently operating in the healthcare, pharmaceuticals, fast moving consumables, beverages and financial, consulting and telecoms services space in BOP market in Africa and India. The research establishes that successful distribution is not possible without consideration of the needs and values of the lower income consumer in terms of understanding where they live, what they purchase and how they behave. Offerings to this market require the application of frugal engineering principles to address product specification, production cost and cost to access.

Companies were then researched and the findings interpolated to create a distribution model that describes how companies' route to market can take the form of either an active or passive mode of distribution. A case for best practise was then developed to describe the most innovative, successful approaches applied to the unique distribution problems in the BOP.

Keywords

Distribution channels, route to market, innovation, cost of access

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before 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.

David Osborn

9th November 2011

Acknowledgements

I would like to acknowledge the following people for their valued input and support during this project:

My supervisor, Dr Tashmia Ismail, who throughout the research provided clear and focused guidance and feedback. Her passion for the subject provided great motivation to push the extra mile to dig a little deeper and uncover something new.

My wife, Charleen, who has been a constant pillar of support throughout these past two years. Without her, this would not have been possible.

My two children, Rachael and Andrew, who have missed their dad over many mornings, evenings and especially weekends.

My mom for the time spent in helping in transcribing the many interviews, some with very difficult accents to understand!

To my work mates at Gemcom Africa, who gave great support and more importantly the time out to conduct this research.

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Chapter 1: Problem Definition

1.1 Introduction

The success of multinational corporations (MNCs) in accessing low income markets has been erratic at best, and unlike the developed world, distribution channels are often fragmented or non-existent making it challenging for firms to deliver products and services to the consumer (Anderson & Billou, 2007).

As developed markets become saturated, multinational corporations (MNC's) have increasingly shifted their focus toward the developing world in order to expand their footprint and generate increased revenue growth (London & Hart, 2004). Multinationals are now competing to launch new initiatives and explore the untapped market potential at the base of the economic pyramid. The base is home to over 4 billion, largely underserved individuals, and is seen to be the largest and fastest growing portion of the global population (London & Hart, 2004, Hammond et al, 2007).

Despite its poverty, this group of consumers collectively have substantial purchasing power, constituting to a US\$5 trillion global consumer market (Hammond et al., 2007).

1.2 Research Problem and Purpose

Large multinational corporations (MNC's) intending to conduct business operations in developing economies are often faced with overcoming obstacles created by weaknesses or the complete absence of institutions which should ideally support these markets (Mair, Marti & Canly, 2007). Meeting the needs of the four billion people living at the base of the pyramid will require a quantum leap in the number of commercially viable inclusive business models operating at scale (Jenkins and Ishikawa, 2010).

Despite this vast potential market opportunity, which is increasingly seen as the future of MNC growth, there is little empirical research on strategies for pursuing these opportunities (London & Hart, 2004). The gap in research is becoming progressively more challenging and it may require reinvention of strategies for developing markets if companies are to successfully serve the market at the base of the economic pyramid (London & Hart, 2004).

One of the biggest challenges faced by companies attempting to engage and penetrate BOP markets is securing availability and access to their products (Anderson & Billou, 2007). The vast majority of companies have seen these challenges as insurmountable. Those which have been successful have done so through pursuing innovative business models in their product, service and or distribution models (Anderson & Billou, 2007).

1.3 Research Motivation

Business at the base of the pyramid (BOP) is characterised by low profit margins and high volumes. These high volumes require effective distribution networks capable of bringing goods and services to BOP customers at scale (Jenkins and Ishikawa, 2010). The setup and maintenance of these distribution networks can be challenging as typically these BOP customers can be located in harder to reach areas where infrastructure is poor or populations dispersed. Traditional methods of accessing and distributing goods are not well developed or are lacking (Jenkins and Ishikawa, 2010).

London & Hart (2004) describe that conventional thinking around how to gain entry to and operate in these markets is often inappropriate. The literature on global and developing market strategies has not effectively addressed how MNCs can successfully enter and operate in these developing markets which are characterised by institutional and infrastructural voids (London & Hart, 2004).

The aim of this research is to build on the limited research of how companies innovate around models of distribution to successfully gain access to low income, base of the pyramid markets.

1.4 Research Objectives

This study investigates how innovation in distribution models at the base of the pyramid overcomes the impact of institutional and infrastructural voids in developing markets. In order to understand the unique innovation factors affecting the success of distribution systems they were compared to those of developed markets. The research was based on the qualitative assessment of how successful companies operate at the base of the pyramid. Industries such as telecoms, fast moving consumer goods, beverages, financial services, insurance and healthcare in developing markets were be researched to understand the business model of each and to draw out best practice learning on distribution in the BOP space.

Chapter 2: Theory and Literature Review

Information around how firms make decisions when entering low income markets or markets is scarce (Lee and Parachuri, 2008). Innovation strategies in these markets have suffered from a reaction to a number of challenges including poor education of consumers, unstable business environments and weak information infrastructure (McCord, 2009). Consumers at the base of the pyramid cannot obtain or access key products at the level of quality or affordability that others rely on (Jenkins, Ishikawa and Paul, 2010). This could be due to a combination of unemployment, lack of business opportunity, erratic electrical power, good roads, modern communications, healthcare, education or financial services (Jenkins, Ishikawa and Paul, 2010). In the absence of efficient, formal markets, these consumers end up paying more for such services than those living at the top of the pyramid (Jenkins, Ishikawa and Paul, 2010).

2.1 Emerging Markets

Firms in developed markets are facing intense competition and dwindling market opportunities. European brand names for example, are increasingly turning to developing and emerging markets to drive growth and revenue (Hawser, 2006) as consumer spending here is growing two to three times faster than in developed markets (Hawser, 2006). Confidence in future prospects for growth among small and medium enterprises (SMEs) within developed markets has dropped, whilst those in developing markets continues to increase (CNW, 2011). The World Bank reports that the 7% growth in developing countries was

more than twice the growth experienced in developed countries and as a result, low and middle income countries contributed almost half the global growth (46%) in 2010 (World Bank, 2011). CEO's and top management teams, particularly in North America, Europe and Japan, acknowledge that globalisation is the most critical challenge faced by them (Khanna, Palepu & Sinha, 2006).

Khanna, Palepu and Sinha, (2006) go on to describe how foreign companies entering developing markets, find it difficult to understand customer preferences because of a lack of information. They cite distribution as a key challenge in conducting business due to the lack of end to end logistics providers, thus adding to the complexity and cost of gaining access and servicing the BOP.

2.2 Top of the Pyramid (Characteristics of Developed Markets)

The 'top of the pyramid' approach is at the heart of western (or developed market) business approach, requiring four conditions to be present to operate: the segment must be identifiable, measurable, substantial and accessible (Pitta, Guesalaga & Marshall, 2008). In these markets, business and communication infrastructure are developed sufficiently, with size of market and physical access to distribution alternatives being of greater importance (Pitta, Guesalaga & Marshall, 2008). Companies invariably focus on profit margin and this is driven by their organisation, corporate culture and internal processes (Pitta, Guesalaga & Marshall, 2008). This has required companies to operate at economies of scale, exploiting the richest target market (Pitta, Guesalaga &

Marshall, 2008). The problem is that these companies are unable to serve low income customers as they do not know what these consumers want, the price they'll pay nor the promotion or distribution that works best for this customer segment (Pitta, Guesalaga & Marshall, 2008).

2.3 Base of the Pyramid Market

The base of the pyramid is defined as consumers with incomes less than US\$3,000 per year in local purchasing power, that combined represents a US\$5 trillion global consumer market (Hammond et al, 2007). This presents a compelling argument for MNCs to take a closer look at the BOP space (Subrahmanyam and Gomez-Arias, 2008). Some authors believe this to be hype citing extremely low income limits products or services to more utilitarian in nature (Subrahmanyam and Gomez-Arias, 2008). Karnani (2007) argues that there is no fortune to be made at the bottom of the pyramid and the proposition riddled with fallacies Other authors like Prahalad and Hart argue that this perception *“fails to take into account the growing importance of the informal economy amongst the poorest of the poor, which...accounts for 40 to 60 percent of all economic activity of developing countries”* (Prahalad and Hart, 2002, pp2).

The BOP marketplace predominantly exists in rural areas in Africa, South Asia, Eastern Europe, Latin America and the Caribbean (Hammond et al, 2007). However, whilst most research focuses on rural BOP, approximately 40% of poor Africans and Asians and 75% of poor Latin Americans live in urban environments (Ireland, 2008). The traits of these consumers can be described in the table below.

Table 1 Key rural and urban BOP traits (Source: Ireland, J. (2008) pp. 432)

Trait	Urban (Latin)	Rural (Asian, African)
<i>Macro environment</i>		
Size	800 million	1,200 million
Legal system	Anarchy	Tribal
Population Growth	Exponential	Stable or shrinking
Population Density	Very high	Primitive
Children per women	2.0 – 2.7	1.7 – 6.7
Spending Power	\$2 to \$6 per day	\$1 to \$2 per day
<i>Micro environment</i>		
Channel structure	Primitive in informal areas Modern in formal areas	Primitive
Competition	Foreign	Local
Prevailing Prices	Higher prices for FMCG Lower prices for produce	Higher prices for FMCG Lower prices for produce
Available Media	Same as middle class	Vans, shows, public relations
Language	National language	Multiple
<i>Consumer behaviour</i>		
Segmentation	Demographics, lifestyle	One size fits all
Family structure	Weak / matriarchal	Strong / extended
Values	Modern	Traditional
Shopping occasions	Varied in dual markets	Continuous for daily needs
Spending on consumer products	50 -75 %	1-5 %
<i>Relative importance of</i>		
Low prices	Constrains purchase	Determines choice
Brands	High	Nil
Convenience / time	High for employees	Low

The consumers in this segment depend on an inefficient informal economy which through a poor distribution system, offerings low quality goods at higher prices (Subrahmanyam and Gomez-Arias, 2008).

2.4 Living Standards Measure as a Descriptor of the Base of the Pyramid Market

Besides describing the BOP market in terms of income earning ability, Chipp et al. (2011) proposed a combination of academic derived theory with more descriptive, practitioner derived data in the form of data derived from All Media and Products Survey (AMPS®) that is further classified by the Living Standards Measure (LSM®). Using data collected in South Africa, AMPS® gathers data to form a nationally representative sample identifying the consumption patterns (Chipp et al. 2011). By way of personal interview, respondents are asked about ownership of personal transport or use of public transport, durable goods and the purchase of consumer items (Chipp et al. 2011). Using a list of household variables (see Appendix 1) respondents are then classified by a summary variable (LSM) that measures living standards (Chipp et al. 2011). The results obtained for South Africa allowed Chipp et al (2011) to classify the South African pyramid into the four categories with their LSM groupings as depicted in the below table:

Table 2 The four pillars of the South African Pyramid and their associated LSM groups. Source: Corder and Chipp (2011); Chipp et al. (2011).

The South African Pyramid	'000	%	Average personal income (per day in US Dollars)
Adult Population ('000)	31,305	100	
The Apex of the Pyramid (Group A - LSM [®] s 9 & 10.)	4,463	14.3	\$53.14
The Buttress of the Pyramid (Group B - LSM [®] s 7 & 8)	5,105	16.3	\$28.91
The Core of the Pyramid (Group C - LSM [®] s 5 & 6)	10,534	33.6	\$12.58
The Foundation of the Pyramid (Group F - LSM [®] s 1-4)	11,194	35.8	\$6.25

Chipp et al. (2011) described the *Foundation* as the base of the pyramid in South Africa in which the average personal income was US\$6.25 per day and fell into LSM categories 1-4. It is noted that government intervention in the form of social grants raises this figure above that suggested by Rangan of US\$5.50 per day (Chipp et al, 2011).

2.5 BOP Categories

As a starting point to determine where the need to innovate in accessing this market is required, it is important to categorise the spending that takes place at the base of the pyramid. Hammond et al (2007) categorised the BOP market expenditure into food (US\$2,895 billion), energy (US\$433 billion), housing (US\$332 billion), transportation (US\$179 billion), health (US\$158 billion), ICT (51 billion) and other (US\$952 billion).

2.6 Needs and Innovations in the BOP Market

Subrahmanyam and Gomez-Arias (2008) broke down the above mentioned categories into 15 subsets based on their research around markets in developing countries and recurring themes in BOP literature. The 15 categories were grouped around Maslow's hierarchy of needs framework: survival, safety and security, social, self esteem and self actualisation. Table 3 provides a breakdown of the categories as well as defines how the current needs are met, providing examples of recent innovations aimed at accessing and serving the market better whilst at the same time linking it back to the formal economy (Subrahmanyam and Gomez-Arias, 2008).

Table 3 Category of needs and companies involved with innovation at the BOP (Adapted from Subrahmanyam and Gomez-Arias, 2008, pp404).

Categories of needs	Sample of products and services consumed	Distribution channels	Examples cited in BOP literature
Basic Needs: primary motivation is survival Food and nutrition	Grains, meat, vegetables, spices, cooking oils, cooking implements	Large markets, neighbourhood retail stores, mobile vendors	Danone (South Africa), Nestle & Tetrapak (India, Africa)
Energy	Electricity, lighting, biogas, wood, coal, LPG	Nationally / locally produced Government, other retailers.	Barrios, AES-Electricidad de Caracas (Venezuela), SELF, E+Co, Technosol (Nicarague)
Housing	Building materials, expertise	Government, local producers of materials informal distribution	CEMEX and Holcim (Mexico)
Water / Sanitation	Water treatment, delivery, desalination	Government or municipal agencies, private, wells / rivers	WaterHealth International (India), Eureka Forbes, HLL, Sur'Eau (Casablanca), Honduras national water & sanitation
Essential services, primary motivation: safety & security Transportation	Public transport (bus, train, rickshaws, bicycles, cars)	Government, private enterprises	Metrobus (Mexico), Tata Nano (India)
Health Service	Pharmaceuticals, hospitals, clinics, traditional healers	Government / private clinics, local, national, generic drugs, pharmacies	Aravind Eye Care (India), Jaipur Foot (India) CFWshops (Kenya), Mi Farmacita Nacional (Mexico)
Financial, banking & insurance	Life insurance, bank accounts, cash transfers / withdrawals, micro lending	Post office, banks, retail outlets, mobile vendors, chit funds	Grameen (Bangladesh), SMART, ICICI self help groups
Basic education, skills transfer	Traditional schools, vocation & skill based	Private schools for low income people, in urban & rural BOP. Vocational training	Nigeria, Ghana, Kenya, India, China
Connection with developed markets: primary social interaction & survival in modern times Information technology	Cell phones, smart cards, internet access, shared wireless access, link to finance / banking, computer repair, retail centres	Primitive technology, landlines, face to face, postal mail	SMART (Phillipines), CorDECT (India), Celtel (Africa), Vodacom (South Africa)Reliance (India)
Marketplace for selling labor / skill / craft / produce	Any skills or produce for which a demand at BOP level exists	Informal, local houses / factories, intermediary merchants, barter	E Choupal & Dhrishtee phone and internet (India), Amul Milk (India), Novica (online arts agent worldwide), Fair trade
Finer things in life: self-esteem, self actualisation needs Personal care / hygiene, beauty products	Soap, shampoo, traditional toiletry products	Retail stores housing local or international brands. Mobile vendors	HLL Lifebouy soap, Surf (India, Africa), Avon (Latin America)

Clothing	Local / traditional, western clothing. Fabric. Ready made	Local retail, door to door salespeople. Local un / branded, hand loomed	Ruf 'n Tuff jeans: Aravind Mills (India)
Negative Goods	Tobacco, liquor	Bidis, cigarettes, snuff, tobacco leaves. Country liquor, arrack, rice beer. Retailers, informal vendors, street peddlers	
Other durables (white goods)	Durable items	Local stores, department stores, manufacturer showrooms	Casas Bahai (Brazil)
Cultural, entertainment & sports, spiritual	Cinema, plays, local / traditional forms of entertainment, sports	National, local, in house. Local cultural events	Bollywood and its clones (South Asia), TV

2.7 Institutional Voids

Traditionally, scholars have recognised that most emerging markets are characterised by greater institutional risk than developed economies (Hoskisson et al., 2000). Here, government structures are often both weak or corrupt, meaning the conditions under which firms organise, compete or cooperate favour some companies over others (Mair, Marti & Canly, 2007). Additionally, the regulatory environment can be both unreliable and inconsistent (Mair, Marti & Canly, 2007).

These institutions, whose presence is usually taken for granted in developing economies, range from intermediaries that facilitate transactions and broker information to bodies that govern regulation and adjudication, enforcing contracts, property rights and the rule of law. North describes institutions as '*humanly devised constraints that shape human interaction*' whereas Scott defined them as '*cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour*' (cited in Chan et al. 2008 p1181). As such, they constitute the 'rules of the game' for doing business, social interaction and for human behaviour in general (Chan et al. 2008; Mair, Marti & Canly, 2007). When these supporting institutions do not exist, this is

what is known as an institutional void (Mair, Marti & Canly, 2007). London and Hart (2004) describe the comparative weakness of these institutions within BOP markets as formal institutional voids.

These formal institutional voids can greatly reduce transactional efficiency due to poorly developed or nonexistent formal institutions and infrastructure (Webb et al, 2011). Voids within legal institutions are evidenced through the lack of property rights and the difficulty of enforcing contracts (which are seen as a means of setting expectation) other than by means of informal processes due to weak legal institutions that are plagued with corrupt, expensive and protracted processes (Webb et al. 2011). The lack of dependability on the little public-use infrastructure that does exist is further compounded by the poorly developed, community maintained infrastructure (Kistruck et al. 2011). Media and communication channels are nonexistent or unreliable and existing business is characterised by small scale, unskilled, labour intensive processes (Kistruck et al. 2011). This hinders the exchange of goods and information through the reduced ability to transact face to face. The absence of reliable roads, bridges and communications ultimately increases the cost of business transaction as companies are unable to easily scale and distribute across the market (Kistruck et al. 2011; Webb et al. 2011). Where there is opportunity to sell a product with general appeal across the BOP market (for example the need for clean water), the poorly developed and maintained infrastructure limits the ability of the MNC to *'scale its operation (ie: distribute) to capture an opportunity's economic value'* (Webb et al. 2011: pp548).

In contrast, developed markets are characterised by the efficient exchange of goods and information between companies and their customers through reliable and strong communication, transportation and media infrastructure (Webb et al. 2011). Webb et al. (2011) further explains that *‘relationships between firms and their customers, as well as firms and their internal employees, are governed by strong legal institutions and formalised property rights and contractual laws in developed markets; relationships in BOP markets are primarily governed by informal networks which can be difficult for firms to access and leverage.’*

The MNCs ability to understand the local market requirement has been undermined by the significant institutional distance between the developed markets where they traditionally operate and the BOP markets they are trying to enter (Webb et al. 2011). The ability to understand the BOP markets is essentially lacking; meaning that marketing orientation activities formulated in developed markets will not necessarily work in establishing the needs of customers in BOP markets (Webb et al. 2011).

Significant innovation and adaptation is required on behalf of these companies entering these markets in order to overcome these voids and profitably compete. The price sensitive nature of the BOP markets means these customers will forgo products if they reduce their own short term viability, hence MNCs need to utilise existing products and technologies in new and different ways for this market (Webb et al. 2011). Marketing mix decisions (product,

price, place or distribution and promotion) needs to be entirely different from those typically applied in a developed market (Webb et al. 2011).

Navigating these institutional voids is challenging, and is the reason for many multinational companies faring poorly in BOP markets typical in developing countries (Khanna, Palepu & Sinha, 2006).

2.8 Lack of Access to Credit

Prahalad (2005) has argued that false assumptions by many MNCs about the BOP have precluded these companies from realising that profits can be made in this market space. He argues that higher volumes could offset the lower profits but the ultimate challenge is by getting the MNCs to view the poor as consumers by modifying products for which they are willing and able to pay (McMullen, 2010, Prahalad, 2005). As there is a lack of formalised property rights within the BOP market, this makes it difficult for people earning less than US\$2 per day to use property as collateral and obtain credit (Kistruck, 2011). This lack of credit can limit the purchasing power of the consumers and enable them to escape poverty and join the formal economy (Yunus, 2007).

2.9 BOP 1 and BOP 2 Strategy

Simanis and Hart (2008) describe how the first generation of MNC strategy to access the BOP was nothing more than adjusting packaging sizes (single serve sachets) to achieve lower price points, lowering the cost of production, extending “mom and pop” distribution and partnering with NGOs. They

describe this as nothing more than *'veiled attempts to sell to the poor'* (Simanis and Hart, 2008 pp2) without actually understanding the product requirements, consumer needs and aspirations of the poor.

The second generation of MNC strategy is about creating a sustainable relationship that embeds the process of co-invention and business co-creation by bringing the MNC into a close business partnership with the BOP community (Simanis and Hart , 2008). *'BOP 2.0 strategies bring to life new business ideas and models...[that establish] a foundation for long term corporate growth and innovation...[requiring] an entirely new strategic process and corporate capability'* (Simanis and Hart, 2008 pp2).

Table 4 - Next generation BOP strategy (Source: Simanis and Hart, 2008 pp2).

BOP 1.0	BOP 2.0
<ul style="list-style-type: none"> • BOP as consumer • Deep listening • Reduce price points • Redesign packaging, extend distribution • Arm's length relationships mediated by NGO's 	<ul style="list-style-type: none"> • BOP as a business partner • Deep dialogue • Expand imagination • Marry capabilities, build shared commitment • Direct, personal relationships facilitated by NGOs
"Selling to the Poor"	"Business Co-Venturing"

2.10 Modes of Market Entry

In approaching BOP markets, MNCs have tried to protect their proprietary information through partnering with individuals or businesses in the developing world that understand the formal economy (London and Hart, 2004). The problem with this approach is that it limits companies to a very small pool of available resources and organisations that typically deal with the urban elite (London and Hart, 2004). Some MNCs have overcome these institutional voids

by partnering up with nongovernmental organisations (NGOs) that possess local market knowledge and access to legitimacy in informal institutions (Webb et al, 2009). More importantly, they are able to extend the reach of distribution through their vast rural networks that possess a sense of social embeddedness through the build up of community trust over many years, and at the same time relate this back to how the MNCs contextualise their business (Webb et al 2009). This partnership works both ways as the NGOs gain access to capital, improved efficiencies and economies of scale through accessing large distribution networks (Webb et al. 2009).

Kistruck et al. (2011) discuss the growing interest in micro franchising as a market based solution for the BOP. They conclude that whilst micro franchising placed emphasis on the public social benefits (including income generation) in BOP markets, it overcame agency concerns, reduced resource scarcity and maintained standardisation and branding across distributors (Kistruck et al. 2011). However, these franchises need often to be driven by an individual proactively networking and educating the community, only to be limited by a lack of transport infrastructure thereby hindering word of mouth marketing (Kistruck et al. 2011).

In assessing viable distribution models for the distribution of energy products in the rural BOP in India, Shukla and Bairignjan (2011) identified six methods of distribution:

1. **Proprietary distribution:** The manufacturer attempts to distribute direct to the end consumer.
2. **Non-Governmental Organisations:** MNCs use the network of the NGOs as a distribution partner.
3. **Cooperatives:** Autonomous associations of people that are joint owners of a distribution business.
4. **Self Help Groups:** Typically a small group of micro-entrepreneurs (often women) that pool financial resources to purchase and resell goods or services.
5. **Microfinance Institutions:** These enterprises have good distribution networks in rural areas, often providing a wide range of financial services to the poor. Having access to finance, these organisations make significant investments in technology
6. **Rural Retail:** A network of wholesales or distributors that act as intermediaries and retailers representing the last-mile touch points to the end consumers.

Institutional voids may be challenging, but they also provide opportunity spaces for companies that can envision long term potential of entering emerging markets. For companies to fill these voids on their own, it is probably not feasible. Options chosen by firms include partnering or collaborating with social entrepreneurs who are already acting as institutional entrepreneurs is a potential method of entry into these markets (Mair, Marti & Canly, 2007).

2.11 Defining BOP Distribution

A distribution channel typically comprises of a number of channel members (individuals or enterprises) that move a good along a chain until it reaches the final consumer (Shukla and Bairiganjan, 2011). These channel members add value by overcoming the challenges of time, place and possession gaps that separate goods and services from the end consumer (Kotler and Armstrong, 2006). Shukla and Bairiganjan (2011) go on to define the channel and the components required to complete a transaction as follows:

- **Information:** This includes market and research intelligence relating to the actors and forces within the market needed to enable the exchange of goods and services. This includes the mapping of known distribution and purchase points and routes of people movement (geospatial mapping).
- **Promotion:** Creating a compelling proposition for the purchase of goods or services
- **Contact:** Discovery of prospective customers and making them aware of the brand, its features and benefits
- **Matching:** The altering or fitting and shaping of a product such that it suites the requirements of the customers in the target market. It may include the altering or customisation of products to best serve the customers' latent needs
- **Negotiation:** Reaching a price that is attractive to the customer to ensure purchase of a product or service takes place

Further requirements as identified by Shukla and Bairiganjan (2011) needed in order to complete the transaction include:

- **Physical distribution:** This involves the physical transportation of goods (or delivery of services) to the target market and ultimately the end consumer. It includes the required transport infrastructure, logistics, and inventory control and storage facilities through the distribution chain.
- **Financing:** Here, credit can be used as the financial instrument to enable the consumer to purchase the product at the required product pricing. It can also be used by the end distributor to cover the costs of moving the good or service through the distribution channel to the end point. In the BOP market, the provision of credit needs to be in a manner that is accessible, flexible, convenient, continuous and affordable. Access to credit can be seen as a creator of buying power.
- **Risk taking:** This is most relevant for products or services whose demand is uncertain, have a limited shelf life or significant transport or inventory costs. Risk could mean the inability to sell product at full margin. The distribution channel needs to identify methods of enabling the product or service to be sold at a profit whilst taking into account exogenous factors such as natural or market shocks, changes in consumer preferences and price movements.

2.12 The BOP Distribution Challenge

Distribution is cited as being one of the biggest challenges in serving BOP markets, the simple task of getting goods and services into these markets can be a major obstacle to overcome for many firms (Anderson and Billou, 2007). In

contrast to the developed world, the developing world is often characterised by fragmented or nonexistent distribution channels (Anderson and Billou, 2007), which affects the flow of goods in and out of low income markets. This negatively impacts on the poor's ability to generate income and improve their quality of life (Vachani and Smith, 2008). Factors affecting distribution are referenced in the table below:

Table 5 Factors affecting distribution (Adapted from Vachani and Smith (2008), pp 55)

Factor	Impact on Distribution
Poor, inadequate or unreliable infrastructure, roads, telecom and electricity supply	Increased cost of procuring goods, lengthened supply chain and turnaround time
Lack of information	Difficulty in accessing supply, quality, value of goods. Disrupted supply chain. Ignorance about market conditions, prices, supply.
Inadequate knowledge and skills	Negatively affect deal and supply negotiation, misjudgement of product requirement with own needs. Negotiate adverse terms
Illiteracy	Unable to access products and services equitably. Inability to leverage knowledge therefore missing income opportunities.

As part of a bigger research project on inclusive business models at the base of the pyramid, Jenkins et al (2010) briefly described tactics employed by firms to overcome distribution challenges in expanding their reach into these markets. This study will build and expand on such research to clearly identify how firms innovate in their distribution models to overcome these challenges. Jenkins findings are briefly summarised in the table below.

Table 6 Distribution Models and tactics employed to overcome challenges (Adapted from Jenkins et al (2010) pp3).

Challenge	Enablers	Distribution Tactic	Tactic Description	Tactic Example
Expanding reach, distribution and access to the BOP market	Partnerships and Technology	Distribution, channel-sharing	Partnering with companies and organisations with existing channels to quickly expand reach and footprint	A healthcare company sells health products or services through rural agribusiness hubs
		Informal channels	Use of SMME's and micro enterprises operating in the informal economy as conduits to deliver goods	Telecom company selling prepaid airtime through mom and pop stores and roadside kiosks
		Business-in-a-box	A standardised 'franchise' opportunity for micro-entrepreneurs	Village phone operators purchasing 'kits' and selling airtime by the minute on commission
		Field agents	Decentralised network of individuals that provide goods or services to dispersed populations	Agents with mobile devices performing financial transactions for customers at convenient locations
		Hub and spoke	A centralised distribution model in which a hub operation supports and shares costs with satellite centres	The use of 'telemedicine' by rural hospitals linking to urban specialist centres

Prahalad and Hammond point out that, *“the critical barrier to doing business in the rural regions is distribution access, not a lack of buying power”* (Prahalad and Hammond (2002) pp. 50). They go on further to say that the use of technology, especially wireless technology, will provide inexpensive way to overcome these challenges and establish marketing and distribution channels in BOP markets.

2.12 Innovation in the distribution at the base of the pyramid

“Authors in the bottom of the pyramid field argue that success requires companies to rethink their products and business models, including...distribution” (Van den Waeyenburg et al (2008) pp 440)

Companies have tried to improve profits and overcome the challenges in the distribution of goods by bridging the infrastructure gap through selecting appropriate technologies, and aggressively controlling costs through differential or layered distribution networks (Vanchani and Smith, 2008). Innovation in the form of outsourcing the ‘last mile’ of distribution to BOP entrepreneurs are just some of the strategies undertaken by companies to reduce cost. Others have taken advantage of shared distribution networks by adding additional products (scalability) at low incremental cost once the distribution channel is in place (Vanchani and Smith, 2008).

Another approach has been to engage and empower the BOP with inclusive business models focusing on education, information and collaboration in an attempt to drive cost effective distribution (United Nations Development Programme, 2008). On the demand side, the poor are seen as consumers and on the supply side they are regarded as business owners, employees or producers at various points in the firm’s value chain (United Nations Development Programme, 2008).

Companies that have been successful and profitable in serving the poor have pursued strategies of experimentation in developing a unique combination of product and service offering (Anderson and Billou, 2007). Anderson and Billou’s 4As model of availability, affordability, acceptability and awareness provide a framework to assess the application and success of innovation in the distribution chain. Anderson and Billou’s 4As model has been adapted and defined as:

Availability - how readily can a customer acquire and use a product or service?

Does the company seek to explore alternative methods of delivering their goods or services to the most isolated BOP consumers?

Affordability - has the company been able to deliver its offering at a price point that is acceptable to the poorest consumer?

Acceptability - what is the level of uptake by consumers and others in the value chain to sell or distribute a good or service?

Awareness – to what extent have the stakeholders in the distribution chain been educated to effectively raise the level to which consumers have been made aware of a good or service, and how to access it?

2.13 Conclusion to Literature Review

Trading in BOP markets requires imagination, flexibility and innovation to create sustainable business practices. Jenkins (2010) and his co authors see appropriate innovative technology and partnerships as enablers in expanding reach and distribution in low income markets. The base of the pyramid can be viewed as a growth frontier within a potential market spanning the whole pyramid (Jenkins, 2010). This study will attempt to clarify successful strategies in one of the most complex inclusive business challenge areas; that being of extending reach through distribution networks (Jenkins, Ishikawa and Paul, 2010). It will further study the link between innovation and successful distribution.

Chapter 3: Research Questions

This study investigated how firms innovate in their distribution models to overcome the challenges posed by infrastructural and institutional voids whilst attempting to gain access to the market at the base of the pyramid. As a framework to determine the successful attributes of a distribution model, the author used and developed on the criteria of Anderson and Billou's 4As model of availability, affordability, acceptability and awareness in addressing the below research questions.

Research Question 1: What are the voids that firms innovate around at the base of the pyramid?

Research Question 2: How do companies innovate to overcome the challenges of delivering their goods or services to the base of the pyramid consumers?

Research Question 3: What are the factors for success in distributing goods and services at the base of the pyramid?

Chapter 4: Research Methodologies

Research and studies on the BOP are still considered to be in its infancy, with the majority based on qualitative data mainly using case studies (Barki and Parente, 2006). As the researcher was interested in interpreting subjective information in a new topic, a qualitative research method was conducted. A qualitative study is far more likely to unearth the constraints of the everyday world, capturing the individual's point of view by getting closer to the actor's perspective through detailed interviewing and observation (Denzin and Lincoln, 2005). Qualitative research "*stresses the socially constructed nature of reality, the intimate relationship between the researcher and what is studied, and the situation constraints that shape [the] inquiry*" (Denzin and Lincoln, 2005: 10).

The research took the form of a grounded theory study in which the data was analysed and constructed to develop a new theoretical model. This qualitative study was divided into two phases of research in order to satisfy the research objectives:

Phase 1: Semi structured interviews were conducted of senior executives responsible for distribution at selected companies operating in the BOP space. The design of the interview was exploratory in order to identify the use and type of innovation in overcoming challenges imposed by distribution at the base of the pyramid. The companies interviewed were identified through the literature review or through discussion with the author's research supervisor and fellow colleagues.

The following companies operating in the BOP space were interviewed:

Table 7 Companies identified as candidates for Phase 1 interviews

Company	Area of Interest or BOP Project	Category
Blue Label	Prepaid services	Telecommunications
Smollan	Diversified marketing, field marketing, technology, branding, channel management	Consulting
Nestle	Distribution in Africa	Fast moving consumables
Danone	Danimal	Fast moving consumables
Unilever	Shakti Project	Fast moving consumables
SABCO (Coca Cola)	Distribution in Africa – MDC's	Beverages
Pepsicola	Distribution in informal markets in South Africa	Beverages
SAB Miller	Distribution in informal markets in South Africa	Beverages
ABSA	Banking the unbanked	Banking / Financial Services
Microensure	M-Insurance	Financial Services
Dr Reddys	Drug distribution in BOP	Pharmaceuticals
RTT / PHD	Distribution of drugs and healthcare services through mobile pharmacies (Unjani)	Healthcare
Supply Chain Lab	Supply chain improvement specialists	Consulting Services

Phase 2: A further interview process was conducted where a selected few individuals were targeted to support the findings of the Phase 1 interviews. These businesses or individuals were identified in discussions held with the companies studied in phase 1 of the research.

4.1. Population and Unit of Analysis

The population of relevant to this study consisted of stakeholders involved in the distribution of goods from source to end point in the market defined at the base of the pyramid. This market is said to comprise of 4 billion individuals earning less than US\$3,000 per year. No reference to the number of companies participating in this market could be found, other than it represents a total market of approximately US\$5 trillion of consumer goods and services (Hammond et al, 2007).

The unit of analysis used in the study was business unit's participation in BOP goods and services distribution. Each interviewee in Phase 1 was a representative of a business unit (from Table 7) responsible for distribution. Details pertaining to the individuals interviewed at each company are located in Appendix 2. Phase 2 unit of analysis was again a business unit's participation, however at the end of the distribution chain operating deep within the BOP market.

4.2 Size and Nature of the Sample

Detailed in the table below is the information pertaining to the data collection method, the sampling technique and the sample size. Note that in both phases, a single stratum was relevant and that was the individuals involved in the distribution of goods to the base of the pyramid.

Table 8 Research phases, objectives, methods of data collection, sampling technique and sample sizes.

Research Phase	Objective	Method of Data Collection	Sampling Technique	Sample Size
Phase 1	Expert knowledge from key industry participants on how companies innovate to overcome challenges in their distributions models at the BOP	Unstructured, open-ended interviews (Blumberg et al, 2008; Leedy & Ormrod, 2009)	Purposeful, judgement sampling	15
Phase 2	Assess the success and impact of the innovation in distribution at the end of the chain.	Semi structured, focused enquiry, narrative (Blumberg et al, 2008; Kvale, 1996, Denzin & Lincoln, 2005)	Snowball	3

4.3 Data Collection and Analysis

Kvale (1996) refers to the qualitative research interview as ‘a *construction site of knowledge*’. The data collection method was field based, flexible and allowed to adapt over the course of the study (Leedy and Ormrod, 2009). It was important that the data collection and data analysis took place iteratively to build a deep knowledge base. In order to achieve the required quality of results, the data collection, analysis and management process was undertaken as follows (Kvale, 1996; Gillham, 2005; Leedy and Ormrod, 2009):

- *Thematising and Design*. The purpose of the investigation was carefully detailed describing the concept of the topic under investigation. The design of the study was planned so that the intended knowledge was obtained, having taken into account any ethical implications.
- *Conducting the Interview*. Using an interview guide, the interviews were conducted using a reflective approach to the knowledge sought and the interpersonal relation of the interview situation.
- *Transcribe*. The notes of the interviews along with a transcription of the interview were converted to written text.
- *Analyse*. An analysis of the interview data was undertaken, gaining an overall sense of the data by identifying themes and trends.
- *Verifying*. The process was repeated to check for any new themes or trends until such time as the author had confidence in the reliability and validity of the interview findings that either supported or did not support the research questions.

- *Reporting.* The findings of the study were then described and the methods applied were in a format to reach a conclusion that withstands academic rigour.

Phase 1 interviews followed an unstructured interview format which allowed for exploration around the topic having allowed the expert the ability to provide depth to add substance as required (Gillham, 2005). Phase 2 interviews were again following a semi structured format and allowed for the capture of the required BOP distribution specific details. Thereafter, the interviewer allowed for an unstructured format in the form of a narrative enquiry which allowed the interviewee to make sense of their world and 'tell their story' (Gillham, 2005; Denzin & Lincoln, 2005).

The data analysis was done using a combination of narrative enquiry, constant comparative analysis and content analysis (adapted from (Leedy and Ormrod, 2009).

Narrative enquiry: Respondents told their story and in doing so, the interviewee identified common themes, grouped statements and sought divergent perspectives to construct a composite. This method was applied during and after the interviews.

Constant comparative: Data gained from each interview was then analysed to drive subsequent data collection. This method was applied after the narrative enquiry findings.

Content analysis: This method was used in combination with the above two methods, It allowed for a systematic and detailed examination of the data content to identify themes or patterns. Findings were then tabulated and statistically analysed.

4.4 Research Limitations

The individuals at the companies interviewed were limited to companies conducting business in the BOP market space in Africa and India. Inferences drawn from this study may only be applicable to these regions and may not be appropriate to BOP distribution models elsewhere in the world. The companies interviewed were limited to telecommunication services, BOP consulting services, financial services, fast moving consumables, healthcare and pharmaceuticals and may not be representative to companies attempting to sell durable goods (appliances), certain perishables, clothing and other specialist services.

Chapter 5: Results

The previous chapter described the methodology and data gathering process undertaken to compile evidence from multiple firms around the research area of distribution in low income markets. The interviews conducted provided a unique insight into the challenges that companies face in distributing their goods or services to the base of the pyramid.

The research findings were extensive and detailed where a comprehensive examination of the data gathered would extend beyond the scope and scale of this project. In order to bring across the salient findings to the reader in an ordered and easy to digest fashion, the data has been captured and arranged in tables, organised around the themes raised in the literature review and around the research questions defined in chapter 3.

One of the findings which became clear early in the analysis was that for many of the companies the most important consideration was shareholder return and thus business at the BOP was undertaken for a profit objective. If a secondary objective existed, it was around a development imperative or to satisfy a corporate social responsibility objective. For firms under pressure to grow their top lines, BOP business presented a vast market which needed to be tapped and preferably before competitor brand loyalty became established. A quote from the Danone interview regarding the creation of a BOP specific yoghurt called Danimal, illustrates this point.

“In the beginning it really was not their policy, not at all, it was more like a profit motive and actually to increase sales”. Danone

Contrasting to this profit objective was a very clear message about the high costs associated with a BOP venture.

“So that, against the costs being relatively high; distributing is one key challenge”. Microensure P1

And that distribution was not an easy problem to resolve. It was clear from the interviews that distribution is a key challenge for MNCs in accessing and selling their offerings in this market.

“Distribution was a problem, it was never there. 50% of prescriptions bounced as there was no one to supply. There was a requirement to connect to the last mile”. Dr Reddys 1c

Information about how companies go about distributing their goods and services in this market was challenging to find.

“A lot of interesting companies doing interesting things, but the decision is not documented, like I have clients, they never want to document anything ...they do not work like that. They are very secretive about their businesses and how they operate”. SCL

The responses from the interviews were classified around the three research questions proposed in Chapter 3. This was then broken down into 33 subcategories based on themes raised in the literature review and new themes that developed from the interview process. The findings were then classified by frequency (the number of times a theme was raised by a respondent in an interview and then summed across all respondents) as well as by total number of respondents that raised the individual theme. The findings are summarised in Table 9. A full description of the subcategories can be found in Appendix 5 together with a full breakdown of the individual responses in Appendix 6.

Table 9 Categorisation of responses as based on the findings of the interview process.

Category	Theme	Frequency	Respondents
Voids / Challenges in BOP marketplace	Transport	13	6
	Fragmented market place	10	5
	Access to finance / banking / cashflow	13	6
	Market access, knowledge & skills	37	15
	Warehouse facilities / Infrastructure	17	9
	Awareness of product / service	17	7
	Access to supply chain / manufacturer	7	5
	Cost	48	17
	Profit (low or high)	17	8
	Volumes (low or high)	18	8
	Infrequent order cycles (lack of clarity)	4	2
	Legal Procedures restrictive	11	6
Innovation to overcome challenges in distribution at BOP	Use of Technology	29	9
	Adjustment of packaging	20	9
	Re engineering of product offering	19	10
	Fit for market distribution	3	3
	Technology to update stock availability	7	4
	Movement of goods closer to retailer	5	3
	Geospatial referencing	8	3
	Micro distribution	21	6
	Control of last mile of distribution	13	5
	Extension of product offering / JV	9	5
Factors for success in distribution at BOP	Provision of flexible credit at the BOP	15	10
	Education	37	16
	Awareness	21	9
	Alignment	8	4
	Collaboration / JV	35	12
	Inclusive business models	11	6
	Two tier distribution	20	7
	Incentivise	4	3
	Branding	21	10
	Aspiration / status conscious	6	5
	Pull strategies	26	11

The themes highlighted in bold and written in italics represent the highest number of respondents except in the case of Two Tier Distribution, where some unique insights provide valuable awareness into new ways of distributing goods or services in the BOP. The themes highlighted are discussed below.

Market Knowledge, Access and Skills

Fifteen of the respondents cited that they faced difficulty in obtaining information about how the BOP market operated. They spoke of the challenges of gaining access to it and then finding the right skills required within the BOP to operate their distribution channel. There was difficulty in determining the shopping habits of the BOP consumer. Respondents reported a lack of information about the BOP consumer and the market in which they purchased their goods. Issues were raised about price compliancy, meaning that the price point at which a company was required to sell its offering, was often ignored and consumers were overcharged. In some cases, community trust and acceptance of a product or service was poor due to a lack of trust in suitable vendors. It can lead to lost sales and market share due to poor community acceptance.

Company	Sector	Quote
Unilever	FMCG	<i>“Key there is understanding what the people really need. What are the needs of the community and being able to meet the consumer’s needs.”</i>
Nestle	FMCG	<i>“So let’s just say a guy who washes cars, he is the bottom of the pyramid so he works here [Sandton] but he lives in Tembisa, so does he buy stock in Tembisa or does he buy it here on the way home?...”</i>
Blue Label Telecoms	Telecoms	<i>‘You can just go to that spaza shop, and a little printout will come out and you’re insured for a month or year...Didn’t work. There is a huge trust issue....Where do they make their claim? The spaza shop has [gone]...they don’t know whether he will be there in six months time.’</i>
Nestle	FMCG	<i>“...we can put up meals stands... and they can tell us what</i>

		<i>is happening in a Pick 'n Pay and in Shoprite but it cannot tell us what is happening in a Spaza or any informal trade...it is always a representative sample... we do not think the bottom end will buy cereals. But today if you go to those outlets you will find a big box of Kellogg's. It means someone is buying them, whereas if you think bottom end we will say no, they cannot".</i>
ABSA	Financial Services	<i>"So there are four themes, access, physical access, what do you use or do not use, what is your perspective about financial literacy and what is your perspective about your own position in life".</i>
RTT / PHD	Healthcare	<i>"There is no data in these areas, let's just go in there and see if it works... you would almost need to do a six month pilot of the site perhaps...and maybe just do observations...that again takes time, time is never on our side, time and money". RTT / PHD</i>
Smollan	Consulting company	<i>"Nobody knows how many informal traders there are... so that is your biggest challenge, nobody knows how many there are or where they are...it is hard to get a handle on it and they recognize the size and the power of that market, because potentially as your economy grows, those guys are moving to a higher LSM and you've got loyal customers. What are the challenges, there are a lot, the first... is really where they are".</i>
SCL	Distribution consulting company	<i>"The key thing is to find individuals that live in the streets that understand consumers... that have relationships with them; that can manage credit...One way you could do it is to go and physically find people that already trade to somebody".</i> <i>"The challenges [are] around how do you create a look, a picture of success in an outlet where you have millions and millions of different outlets, where by the nature of being informal and being a one man band show...it is quite difficult to influence...The other thing is obviously around price compliance which is on the one hand an element of where there is [a lack of] proper education to the traders...there lack of understanding around how they should be pricing their products."</i>
SAB Miller	Beverages	<i>"Taverns and shabeens...don't have a Point of Sale system or anything, the best they may have is a cellphone which they change numbers so often as well..."</i>

Warehouse Facilities and Infrastructure

The common theme amongst nine of the respondents was that the lack of well maintained and developed infrastructure hindered regular, cost effective distribution of their goods or services. There were challenges transporting goods from the manufacturer to the BOP marketplace due to poor road infrastructure. Storage and refrigeration were inadequate or nonexistent, complicating the distribution of goods with limited shelf life. This placed challenges on companies trying to determine optimal distribution patterns and volumes.

Company	Sector	Quote
Danone	Perishables	<i>"Anybody there who could lodge 30 crates and lodge that amount of product without refrigeration was a major challenge...The roads are very bad and it is very hard for them to haul. We had steel trolleys made, almost like a wheelbarrow...but in the heat, the product started deteriorating very quickly because the ladies would leave the trolleys in the sun. The product was resistant but not for sun, it was out of refrigeration. Then we had to make cool boxes".</i>
Unilever	FMCG	<i>"... large areas do not have the kind of infrastructure in terms of distribution channels which are not in place. So, firstly there's the difficulty in getting the product there in the first place, and secondly you do not have shops, you do not have an ample supply chain and thirdly there is limited capital outlay for the shopkeepers and consumers. It is often simply just not economically viable". Unilever</i>
Smollan	Consulting	<i>"The store is a little garage... there is no space for it [the product] so they need to know these things as well. And also they want to gauge the potential market size... so they need to know how often he gets [deliveries], what is his footfall?"</i>
ABSA	Financial Services	<i>"Current banking distribution infrastructure is too heavy in terms of the carrying capacity, you need it to carry the cost of that....if you consider the reality of servicing just a simple thing like an ATM in a very remote area with cash handling services etc, then suddenly a normal ATM does not become a viable option". ABSA</i>

Cost

Cost was a clear and common underlying issue across 94% of the companies interviewed. Three major categories of cost issues were apparent in the interviews:

1. Pricing the offering to cover the distribution costs
2. The cost of the distribution,
3. The cost to access the product or service.

Company	Sector	Quotes
Pricing the offering to cover the distribution costs		
Smollan	Consulting Company	<i>"At the bottom of the pyramid there is not really much power, everybody wants to get in there but they do not know how to price properly". Smollan</i>
Danone	Perishables	<i>"So we increased to R1.30 and that was a major complication because...it was no longer a unit of currency. It had to have change. The profit margins were so low. But the problem was that we have to guarantee that every market distributor would really have a region to develop. So we could not really make it too competitive because of distribution, because then the margins would just not be enough for them to make a living or maintain their interest."</i>
The cost of distribution		
Microensure P1	Financial Services	<i>"One is just the cost of distribution in proportion to the income that we get from the services that we provide... against the costs being relatively high, distributing is one key challenge."</i>
ABSA	Financial Services	<i>"Whatever you do in the minutist form must already be profitable... each transaction must be profitable, it is very difficult to do a vertical integration in your distribution chains in this market from point A right down to the end of the value chain. You are working with partners as you come along you cannot go to a partner and say well about five years from now we will breakeven".</i>
The cost to access a product or service		
Blue Label Telecoms	Telecoms	<i>"If it [insurance] costs R15 a month and every single month you have got to go and renew it and it costs you R7 to get there by taxi, it is R7 back, your insurance has now cost you R29... Commuting is a huge element in their world."</i>
ABSA	Financial Services	<i>"I have not changed the product price points; I have changed another cost item that you need to incur to interact with the bank... because now I am solving a distribution problem"</i>



ABSA	Financial Services	<ol style="list-style-type: none">1. Direct cost to client: <i>“I have to transport myself to get to a bank branch, when I am there I have to pay fees and stuff, interest, so there is a direct financial cost”</i>2. Opportunity cost to the client: <i>“the opportunity cost of your time... because for most poor people what they do is what they make their living out.”</i>3. Cost of compliance regulation: <i>“but if you as a poor person has to have an identity book...you have to have a westernized address for FICA, then those are costs that you have to incur to interact with a financial institution”</i>4. Social and cultural cost: <i>“it may be that you are Islamic and you do not want that loan with the interest, there is a stress and you need the money. Or it may be that you are a woman you and are empowered by getting that loan and your husband feels slightly second rate. Now so there is a lot of social and cultural costs that you have to think about when you actually providing services [to the BOP]”.</i>5. Psychological costs: <i>“If you consider following stress factors, I owe money and I cannot repay it, I am a very poor person and I lose my dignity...”</i>
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Volumes

In a market where low margins and high distribution costs are a reality, building scale and volume becomes critical to a venture becoming profitable. Therefore a common theme found through eight of the respondents was the challenge to have high volumes to offset the costs of distribution into the BOP market. Respondents mentioned the requirement to be able to scale the distribution of their goods in order to make it profitable.



Company	Sector	Quote
SCL	Distribution Consulting Company	<i>"If you go with a truck which is high cost and you want to go and visit these areas, it immediately increases your cost so then you need to find a system... a lower cost distribution system".</i>
Danone	Perishables	<i>"The rationale was like if distribution was frequent and lots and the consumption was so high and quick, people would not have to store the product for more than say a week and then the product was fresh enough... He will need to have volume to make it work".</i>
Microensure P2	Financial Services	<i>"Most people who are working at the bottom of the pyramid well are doing it at scale. You have got to get the scale right away You can't work with five hundred people or a thousand people. You have got to work with a lot of people right away".</i> <i>"The marginal revenue per customer is much lower than with the typical middle and higher income customer but if you can get the volume in, business is quite nice. In the short term there is opportunity. But really, the long term is what we are most excited in because you create a new market and you can develop that market in all sorts of ways".</i>
Dr Reddy's 1b	Pharmaceuticals	<i>"You need a lot of patience...in the beginning they may not turn out to be profitable to you...the more you sustain into these markets, the more you will understand them better...you will not see the same burst (of volume) that you may see in a developed market....needs to be a long term view".</i>

Innovation to Overcome Challenges in Distribution at the BOP

In this section, companies describe how they have used innovation to overcome some of the challenges in distributing their goods or services in the BOP market.

Use of Technology

Three distinct themes emerged from the interviews with regards the use of technology to solve distribution problems.

Company	Sector	Quote
<i>The use of mobile phones and mobile networks</i>		
Blue Label Telecoms	Telecoms	<i>‘We decided to go GPRS because it was easier to put into the different markets, rather than on a fixed line.’</i>
SCL	Distribution Consulting Company	<i>“SMS for life ... people are SMS’ing in to say where they have run out of ...so then creates a map in terms of like where areas who are out of stock”.</i>
<i>The use of technology to drive volumes</i>		
Microensure P2	Financial Services	<i>Yes, [mobile phones are] not just only the future but way of the present. We have got two products live with MTN and TIGO, the second largest operator here. The products reel in 5000 people a day”.</i>
ABSA	Financial Services	<i>‘The Galaxy Tab we use in remote opening of accounts because it has got a good camera, a reasonable size screen etc, so we have written an app on this that a sales person can open a range of accounts for people remotely.... we have doubled the productivity of remote opening”.</i>
<i>Using technology as a business process enabler</i>		
Blue Label Telecoms	Telecoms	<i>‘The main reason why we needed to go with a technology offering was because of theft. A card is like money. A technology offering didn’t open you to the same risks. By putting devices out there, it would help service the retailers needs as well.’</i>
RTT / PHD P1	Healthcare	<i>“He can go to the nearest Unjani clinic, he just gives his reference to the nurse the nurse just types it in and his whole patient history will come up on the cell phone and she then can treat him accordingly”.</i>
ABSA	Financial Services	<i>“ABSA worked out a method that any ABSA client with an account can send money to anybody in</i>

		<i>South Africa with a cell phone number... you go to any ABSA ATM without an account, you press a button that says cash send, it asks you what is your pin, you put in your pin and it gives you the money”</i>
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Adjustment of Packaging

Fifty percent of the respondents felt that changes to the way in which they packaged their goods contributed to improved distribution within the BOP. Changes to packaging sizes allowed companies to accommodate the specific requirements of the BOP markets. For the telecoms company, price determined the quantity of airtime units received (the electronic package size). So technology was used to determine on-demand packaging size (quantity of airtime units). Where technology was not available, packaging of airtime recharge vouchers incorporated security features so as not to compromise trust.

Company	Sector	Quote
SCL	Distribution Consulting Company	<i>“... drive affordability through different types of packaging, now returnable glass bottles”</i>
SABCO	Beverages	<i>“...those markets work well with returnable glass because once the person has purchased their first COKE, they are then just really buying the liquid inside after they return the bottle”.</i>
SABMiller	Beverages	<i>“The best thing to move in that market is a 750ml returnable glass bottle...it is a returnable pack, it is a bulk pack.....it is a price / volume relationship that they are looking for. You will find it difficult to move your 440ml cans for example. About 80% of our volume is in 750ml bottles”.</i>
Dr Reddys 1a	Pharmaceuticals	<i>“They came in bottles... a thousand packs...no blistering, no additional packaging, nothing.... individual tablets in a jar of five hundred to a thousand... which is going to be convenient to carry and dispense in the small setups”</i> <i>“It is very critical from a distribution point of view, if you have the right pack size of a product which</i>

		<i>is going to allow you to penetrate with the interiors... so price and pack both worked out”.</i>
Blue Label Telecoms	Telecoms	<i>‘If a guy only has R5...if the shop doesn’t have a R5 voucher, he’ll never make that call. But if there is an electronic device and he knows he can get a R5 voucher, he’ll make that call. So it is incremental to the retailer, incremental to the network operator...and for us it is about delivering and taking products and services to the people however they may choose it.’</i>
Nestle	FMCG	<i>“We have created a pack within that case. So when the distributor or the retailer buys in large quantities he will buy this case of two, four, six, eight. But in here you will be able to sell out of this to a smaller outlet. .. at the same time we have bought singling machines for most of our distributors so they are able to then tailor make the product into these packages ... this means that the smaller outlets will be able to deliver smaller quantities”.</i> <i>“...shelf ready packaging so this is packaging that when you put it on the shelf you do not need to unpack it...but it also communicates price as well”.</i>
ABSA	Financial Services	<i>”if you consider the reality of servicing just a simple thing like an ATM in a very remote area with cash handling services etc, then suddenly a normal ATM does not become a viable option. But if you take that same ATM and you saw it in half, and you take the cash part away, the ATM functions. So suddenly with cash handling and cash part is on somebody else’s cost”. ABSA</i>
Blue Label Telecoms	Telecoms	<i>“They take the perforated vouchers to their store, which is like a payslip, it never compromises the pin, so there is a trust factor by the consumer. To give you an idea, we do about sixty million of those a month. That is servicing the very bottom end of the market.”</i>

Re Engineering of Product Offering

Ten respondents indicated that their product offering had to be adapted to suit the requirements of the BOP market. The common thread was about keeping the product offering simple and realistic, with the offering relevant to the BOP consumer.

Company	Sector	Quote
Microensure P2	Financial Services	<i>"We try to make exclusions and the terms and conditions very simple so that we can avoid confusing clients but it is still inevitable"</i>
SCL	Distribution Consulting Company	<i>"You need to first of all look at your SKU's [stock keeping units], your categories, and see which categories could successfully be distributed... Does that match up with the individual that you have? So how much complexities does that sell [involve]?"</i>
ABSA	Financial Services Company	<i>"They cannot just take their middle income and high income products and panel beat it for poor and low income people"</i>
Microensure P1	Financial Services	<i>"We do look at the actual premiums themselves and you look at how you can reduce those down, and you can do that through changing benefits, changing eligibility, there are all sorts of factors that come in as well as the distribution and the product itself".</i>
Dr Reddys P1	Pharmaceutical	<i>"When infection comes with a high fever, you give a tablet it takes two days. You give an injection it works immediately - so they prefer injections, they say that it works quick so you can look at the perception... they prefer syrups than tablets".</i>
Danone	Perishables	<i>"We needed a localised product... our main difficulty [was] the population was not used to the product. So we had to really create a market and the distribution costs then increased and became really high".</i>

Micro Distribution

Six of the respondents overcame some of their distribution challenges by appointing micro distributors deep within the BOP. These micro distributors were typically described as small, independent enterprises responsible for distribution deep within the BOP.



Company	Sector	Quote
SCL	Distribution Consulting Company	<i>“Another advantage with smaller types of distributors; because they can tap into a much lower constructive in terms of finding transporters. In the last few years Micro distributors have really taken off mostly because of the success of CocaCola in what they have achieved in southern Africa”.</i>
SABCO	Beverages	<i>“[It is] typically a manual means of distributing the products from their small warehouse to their customers. They were given a defined customer base which was anything up to two hundred customers.... So now you reduced your number of drop points to a manageable amount that your trucks could get to them on a daily basis and which then they can carry enough stock that it could become a just on time out delivery system”.</i> <i>“So the more rural it becomes the more they start selling other products as well to drive a profitable business. You tend to find this model, the MDC model [micro distribution centre], more focused on urban and peri urban”</i>
Smollan	Consulting Company	<i>If there is a big complexities in the sales then you need to support them or you just need to let them do the distribution part...we know our portfolio better so we will send out the sales people and just provide the feedback to the micro distributor....finding new accounts - all micro distributors are not good at doing this, they are not good at finding new business so a lot times you need to send out marketing representatives to go and find new business”</i>
Nestle	FMCG	<i>“What we do is go into rural areas and we have a van servicing this area calling nearly twice a month, but focusing on [specific] areas and looking at both at what they are selling to the outlets, merchandizing and visibility from the sale point of view”</i>

Factors for Success in Distribution at the BOP

This section describes what companies did to enable successful distribution into the base of the pyramid.

Provision of Flexible Credit at the BOP

Fifty six percent of the respondents mentioned that the provision of credit and flexible credit assisted in developing a successful distribution business at the BOP. In some instances, respondents reported that it was a simple case of creating cash to enable them to distribute and sell. This could be enabled through the use of technology. Or, it could be as simple as providing the option to annualise payments in order to reduce the cost of access to the service.

Company	Sector	Quote
Unilever	FMCG	<i>"With that money she goes to the nearest town or village that is slightly bigger and she buys her product and she will then go from door to door to sell the product".</i>
SABMiller	Beverages	<i>...for them it is about price deals...and credit deals...they know where their market is and they target and push that. There is a huge amount of default at the base [of the pyramid], we have to be very careful who we give credit to. A lot of the customers are cash on delivery...others we would give them 'Flex', we would give them a two week period and the closer to day 1 of payment the better their discount is...going into peak we want to build stock ...we would take on a certain amount of risk".</i>
Blue Label Telecoms	Telecoms	<i>'With the type of technology we've used, the retailer only owes us the money once he has sold it [prepaid airtime card]. Inadvertently he is cash flow positive.'</i>
SCL	Distribution Consulting Company	<i>"You might think that they trade on cash but a lot of times they provide credit, they provide day credit and all of that and the only reason why they do that is in order to be competitive, to be comparative to get the business... "What you sometimes see is like COKE now is got a big drive in East Africa to provide financing</i>

		<i>to the distributors so they can go out and buy the Bajaja Four Wheelers to go and distribute to create collateral for them to make it easier". they increase their sales and they support relationships with customers"</i>
Microensure P2	Financial Services	<i>"So, it's not just about the amount, it's how we structure the payments to make it affordable as well. It's a monthly premium, so that means from a cash flow point of view, it is a much more manageable for a poor person than having to pay, for example, a yearly premium up front".</i>
Blue Label Telecoms	Telecoms	<i>"The cost of commuting for some of these lower end products and services requires that sometimes you have to package it on an annualised basis."</i>

Education

A significant number of the respondents (89 %) cited education as key in driving the success of their distribution channels into the BOP. Education presented itself in a number of different forms, including the education of the distributor, the customer and product education.

Company	Sector	Quote
Unilever	FMCG	<i>"We also train them how to buy, how to sell, how to go, how to think. We have trained them on managing their finances because these people did not have money before this. So they don't know what to do with it. So we train them... how much you invest the next month to buy more products, those kind of things. It goes beyond".</i>
SABCO	Beverages	<i>"Resident Account Developer who lives in the area and is responsible for that MDC, play the role of coach and mentor ...they will work quite closely with the MDC owner on what type of pack sizes and brands they should be buying and selling... around managing their stock and managing their costs"</i>
SCL	Distribution Consulting Company	<i>"In terms of capability training that you provide, building capability...SAB Miller training their distributors in specific distribution points, creating processes and systems for them, helping them with technology a lot of times so setting up MPayments like MPESA"</i>
Microensure P1	Financial Services	<i>"Every time we launch a new product through any of our organisations, we would train that</i>

		<p><i>organisation on the specifics of the product and how it works and what the benefits are as well as on the distribution and the sales approach”.</i></p> <p><i>“Client education is a big deal.. We serve half a million people. Nine out of ten people that work with us has not had insurance before...If we cannot communicate to clients exactly how insurance works and its benefits, they will not understand the product in the long run and it will be a problem. So education is our biggest problem”.</i></p>
Pepsico	Beverages	<p><i>“Also we are educating the people because in this last category, for example, there are a variety of snacks that are not compliant [in the BOP]. They are almost toxic. The colour that they use is toxic. The fat that they fry these things in is completely toxic. The level of salt is very bad. In addition to that they sell in big kilos which then gets decanted by hand and then resold. Every snack when it gets in contact with moisture can create a fungus that can be really very toxic to you. So we are really trying to bring that knowledge and communication to the masses”</i></p>

Collaboration or Joint Venturing

Sixty seven percent of the respondents spoke about the need to partner and collaborate on a distribution strategy. All eleven respondents mentioned that a company entering the BOP market for the first time couldn't do it on their own. A common theme was for the requirement to find the right partner with non competing products and work with them in either piggy backing on their existing distribution infrastructure or modifying it to suit their own particular product.

Company	Sector	Quote
Dr Reddys P1b	Pharmaceuticals	<i>“You need multiple companies to operate....you cannot do this one your own”.</i>
SABMiller	Beverages	<i>“If you don't have that [distribution] infrastructure, I think it would be partnering with the right channels first”</i>
ABSA	Financial Services	<i>“... [Partnering] is the way for fast growth in this market and it is also the way for a consistent</i>

		<i>approach. Because if you stand alone with a lot of standalone agents; everybody has got their own little system. Their own approach it is difficult to build standardization and consistency and a consistent client experience”</i>
SCL	Distribution Consulting Company	<i>“There is even a concept now looking at creating like a vendor management inventory, which is to move products through that system ...bringing all these partners together like MPESA with Vodaphone, and then to create micro distributors. Initially people were working very much in silos. Now you starting to see companies say hang on, who is good at Microfinancing, let’s get these guys on. Who is good at mobile payment; let’s get him, who is good at MLearning... so it is really bringing all these partners to the table”</i>
Microensure P1	Financial Services	<i>“So our typical approach is to find what we call social aggregators / groups / organisations that bring together large groups of people...but the common linkage between them is that they bring together large numbers of people who would have a profile that they would be interested in our products”.</i>
Microensure P2	Financial Services	<i>“For TIGO you don’t pay anything. Based on the amount of air time you use in a given month, you qualify for Life Insurance the following month. So, customers are spending more money on air time than they did without the insurance so you [TIGO] can afford to pay for the policies on behalf of the customers. It is a sort of a win/win for the client and for the partners”.</i>

Two Tier Distribution

Whilst only seven respondents mentioned two-tier distribution, it was clear from the respondents that this method of distribution addressed a lot of the short comings of a micro distribution model, particularly around the management of these micro distributors. From the responses gained, there is a growing trend towards using this model of distribution in BOP markets as an easy form of BOP access.

Respondents spoke of it as a partnership that works well for both the manufacturer and distributor. Manufacturers got to move higher volumes easier, distributors got more stock easier and quicker and more importantly it provided the consumer the product in the location they wanted it.

Company	Sector	Quote
SAB Miller	Beverages	<i>“It would be your informal re-distributors...the first thing I would do is get closer to them, work with them and understand what markets they cover...”</i>
Pepsico	Beverages	<p><i>“We no longer try to do small development [micro distributors] because it is complicated. To deal with these people require an organisation in itself, the management, the cash management, the debt management, it is complicated. Most nationals are not geared to this type of business.... So what we do in most townships you have independent wholesalers which have big business.</i></p> <p><i>“You are actually cutting a lot of costs because you send a huge Pantec to this guy... They stay next to the townships where their distribution is huge and those guys they just move the stock like nobody in the world.</i></p> <p><i>“Now all you do is you do the marketing in the townships to do the pull. So he then sells from his stock and you do some kind of promotion to assist him to sell that stock, but that’s where your involvement stops”.</i></p>
SCL	Distribution Consulting Company	<i>“Two-tier distributors can expand the retail footprint in emerging markets. They normally sell a diverse range of brands... [they] understand local conditions and can negotiate much better lease terms with proprietors. In some cases they might even own their own buildings”.</i>
SABMiller	Beverages	<i>“The way we get to the shebeens now is through our IRDs [informal re-distributors]...they specifically deliver to shebeens or shebeens buy from them... They [IRDs] take the risk. We don’t get involved in the delivery”.</i>
Nestle	FMCG	<i>“We usually go through a wholesaler, so we do not have a direct link partially because of the different order sizes that can be possible, because of delivery. Wholesale...is not active, it is very passive. So the idea then is how to look at finding ways to generate the demand in the trade”.</i>

Branding

Ten of the respondents mentioned the power of branding and the effect that it can have at the base of the pyramid. Often companies would find their products in places where they had conducted no formal marketing or awareness campaigns. The distributing problem was solved by creating a pull strategy through branding awareness.

Company	Sector	Quote
Nestle	FMCG	<i>"We found some of our products in outlets where we did not have an active influence, meaning that consumers ask for our brands even though we do not place the brands there. So being good brands, helps in dragging our product into the trade... the market will come up with a logistical solution to make sure it is there, they will find a way to get there".</i>
SCL	Distribution Consulting Company	<i>"The one with the heavier brand equity is even going to win in a BOP area, I mean Voltaic in Ghana trades at a higher price per [water] sachets. There is a perception that [water] sachets is a commodity market".</i>
Dr Reddys P1a	Pharmaceuticals	<i>"A very big brand loyalty in that space, obviously because of the efficacy, not because of the look and feel...they will be going on a word of mouth marketing that they will do across the village and in the village. Because the literacy rates are not going to be too high, the verbal plays a major role. They believe each other, so it is verbal marketing, word of mouth marketing that works very well in that setup".</i>
Blue Label Telecoms	Telecoms	<i>"Blue Approved branding which is basically an accreditation. It basically says to the consumer – At this store you will be able to get access to a number of different prepaid products and services."</i>
Unilever	FMCG	<i>"Even though they live at the bottom of the pyramid, the efficacy is an important thing...they always tend to buy a brand that they know is good".</i>

A unique insight from a pharmaceuticals company linked the lack of formal education (like the ability to read and write) to the power of word of mouth marketing. This is a typical void in the BOP space that is quite powerfully addressed through the power of branding and word of mouth advertising to create a product demand and ultimately assisting in ‘pulling’ a product through.

Pull Strategies

Eleven of the respondents found that by creating a pull strategy, it assisted in increasing the distribution of their products in the BOP, thereby increasing the market growth and attractiveness for them. Companies were innovative in the way they went about their pull strategies. Certain companies used seeding operations as a way to create interest, which then lead to demand for a product to drive distribution of goods through the system.

Company	Sector	Quote
Dr Reddys 1B		<i>“So distribution is never an issue I believe in any of the markets, if there is a demand. Generate a demand in the system and it [the distribution] takes care of itself”</i>
Smollan	Consulting Company	<i>“They will go out and buy stock and put it at the back of the van. Then they will go around and sell stock. Now the idea is not to sell stock, because you cannot sell sufficient quantities and make an impact, they are seeding operations. So the whole purpose is to increase distribution to the bottom end, hoping that when your bottom end moves up the LSM chain they will support your brand in future”.</i>
Unilever	FMCG	<i>“People start with a small pack. You buy that and maybe you use it on a Sunday. And the next time you might want to buy a little bit more and a little bit more. You might go into a 10ml bottle. So the consumption also increases. It’s first introducing people and getting people to try it that becomes the challenge. Once people get it and it’s available to them, consumption increases”.</i>



Blue Label Telecoms	Telecoms	<p><i>We have got 'gig rigs' which are trucks with music, starter packs and people who get out and rig the people, whatever the case is. And, again, we get into the rural communities and we give things away...we give flour away with a starter pack and then people get the starter pack. You are always looking at a 2.5-3% churn per month which means 36%, so one third of the base churns annually. They have no loyalty, they are looking for a special, something that's good, they are looking for a free give-away. We need to churn because we need to counter that negative churn off our base."</i></p> <p><i>"Once a person has a starter pack, then they are happy. When they walk into a store, they don't then decide what airtime they want to buy. The decision is already made."</i></p>
SABMiller	Beverages	<p><i>"They [account reps] would do promotionsto create a pull strategy by influencing the drinking environment [in taverns], price deals, credit deals... they would call on them but not physically take an order.....they would educate them on the brands, would do a certain form of merchandising, maybe help them on infrastructure..."</i></p>
Dr Reddys 1A	Pharmaceuticals	<p><i>"because the literacy rates are not going to be to high the verbal plays a major role, they believe each other so it is verbal marketing, word of mouth marketing that works very well in that setup".</i></p>
Nestle	FMCG	<p><i>"In a basket you have your KVI's which is the customer puller. In our case it is Cremora. So if Cremora is at a bad price, you will not even get a sale, so we try structure promotions in such a way that KVI's are always priced competitively so you can attract customers into the distributor outlet".</i></p>

In the case where there were two tier distribution models in place, companies commented on the requirement to drive volumes through the distributor by going into the marketplace directly and performing promotional activities.

Chapter 6: Discussion

The purpose of the study was to investigate how firms innovate in their distribution models to overcome the challenges posed by infrastructural and institutional voids in an attempt to gain access to the market at the base of the pyramid. The study confirmed Anderson and Billou's (2007) views that, unlike the developed world, distribution channels in BOP markets are often fragmented or non-existent making it challenging for firms to deliver products and services to the consumer. However, in conducting the research, companies have used innovative cost, technology and collaborative methods to overcome these challenges in order to gain access and service this market.

The three research questions asked attempted to clarify the challenges of distribution in the BOP and then assess how companies have successfully overcome their distribution obstacles. The research questions will be discussed through analysis of the key findings of the research in accordance to the literature review conducted in Chapter 2.

Research Question 1: What are the voids that firms innovate around at the base of the pyramid?

Market Access, Knowledge and Skills

Before being able to determine how to distribute a company's offering in the BOP market, it was clear that companies faced challenges in understanding the consumer requirements of people at the base of the pyramid.

“Key there is understanding what the people really need. What are the needs of the community and being able to meet the consumer's needs”. Unilever:

This confirms the observation by Pitta & Marshall (2008) who explain that companies struggle to serve low income customers as they face information voids around BOP consumers needs and wants and importantly, how much the consumer is prepared to pay and finally in understanding how to distribute the good.

Given the lack of understanding of where the consumer in the BOP shops, there is merit in determining consumer behavioural patterns first, in order to determine where to place the right product or service in the market. Respondents mentioned that LSMs get offered confusing information when people travel into more developed or upmarket areas to work. This made it difficult to isolate exactly where the BOP consumer makes purchases. In some cases therefore, the market was not where the company expected it to be.

The difficulty for some companies was that their products were already present in the BOP market, but they were not in control of the distribution or the pricing. The lack of control of this last mile of distribution meant they could not control the price to drive the volumes, or control the product quality especially in the case of perishable goods. Creating consistency in the look and feel of the product at the point of purchase was a further challenge cited.

“The challenges [are] around how do you create a look, a picture of success in an outlet where you have millions and millions of different outlets, where by the nature of being informal and being a one man band show...it is quite difficult to influence...The other thing is obviously around price compliance which is on the one hand an element of where there is [a lack of] proper education to the traders...there lack of understanding around how they should be pricing their products.” Nestle

The nomadic and informal nature of vendors within the BOP raised issues of trust within the consumer base. Purchasing intangible products, like insurance, posed a challenge to these consumers when making insurance purchases from a street vendor, as they were unlikely to be there months later should they eventually claim on the policy.

The way companies overcame these voids of knowledge in the marketplace was to discover individuals or small businesses that were already present in this market. Chan et al. (2008) referred to these voids as the ‘rules of the game’ for conducting business. This great greatly assisted companies in developing a

suitable distribution strategy, particularly where little knowledge about the market existed.

“The key thing is to find individuals that live in the streets that understand consumers...One way you could do it is to go and physically find people that already trade to somebody. Spend time selecting graduates is critical. If you get that wrong you are going to end up crying about it.” SCL

Respondents spoke of a lack of procedures, systems and a means of communication that could assist them in supplying their distributors or end consumers. Understanding this market, overcoming its voids and working with the people in it is a challenge for any company trying to gain access and distribute their offerings in this fragmented marketplace. Findings from the research support McCord’s (2009) comments that innovation in BOP distribution strategies have suffered from a reaction to a number of challenges including a lack of skills, unstable business environments and weak information infrastructure.

Cost

Cost was the highest rated challenge by all respondents across all sectors and companies. Cost was recognised as the key challenge in distribution into these markets. As the respondent from Microensure P1 commented *“just the cost of distribution in proportion to the income that we get from the services that we*

provide... against the costs being relatively high, distributing is one key challenge.”

The BOP market presents serious cost challenges to companies that wish to distribute their offerings in this market. The findings from the research presented cost as an issue in three forms:

1. ***Pricing the offering to cover the distribution costs.*** Here companies found it difficult to establish the correct price point for their offering, and then still make a profit for themselves or their distributors.
2. ***The cost of the distribution.*** Given the relatively poor infrastructure, the ways in which companies typically reach higher income markets are not available upon trying to enter these markets. Respondents spoke of the market consisting of dispersed consumers, adding to the cost of their offering reaching the end customer or consumer. Others spoke of the requirement to take the whole value chain into account, including partner costs, and optimising it for profit from the start, right down to each and every transaction. This concurs with the findings of Kistruck et al. (2011) and Webb et al. (2011) which describes how voids ultimately increase the cost of business transactions as companies are unable to easily scale and distribute across the market. In turn, this alludes to the volume of goods or services through the distribution network, where volume is a key to driving the profitability of the BOP venture. For some fast moving consumable companies (e.g. Unilever, Nestle), the challenge lay in carefully determining the right combination of delivery volume and

frequency. Building this volume pipeline is difficult and it requires a long term view which is different from the traditional developed markets in which these MNCs are accustomed to operating in.

3. ***The cost to access the product or service.*** It was apparent in the interviews that cost was not a one dimensional problem based around a simple price point and working backwards from there. It needed to involve the cost of access – how much would it cost the consumer to access the product offering? It is a revenue play which involves solving both the cost to serve as well as the cost to access. The success achieved in solving this problem is key to determining the volumes and hence the profitability and sustainability of the BOP operation. This finding was not evident in the literature and represents a key finding of this research which is a new thinking around tackling the problems of cost associated with BOP distribution. The most innovative model in determining cost to access was provided by ABSA. In solving a cost to access a service, they were actually solving a distribution problem.

Figure 1 Cost to Access Model (Source: ABSA interview, 2011).



A recurring theme amongst the respondents was the challenge in trying to understand how to make the product offering available and at a price acceptable to the consumer, simultaneously delivering profit for all those in the distribution value chain.

Research Question 2: How do companies innovate to overcome the challenges of delivering their goods or services to the base of the pyramid consumers?

Use of technology

Prahalad and Hammond point out that, *“the critical barrier to doing business in the rural regions is distribution access, not a lack of buying power”* (Prahalad and Hammond (2002) pp. 50). They go on further to say that the use of technology, especially wireless technology, will provide inexpensive way to overcome these challenges and establish marketing and distribution channels in BOP markets. The research findings indicate that innovation has come from the adaptation of the technology in combination with the right product, to serve the consumers in these low income markets.

Three distinct themes emerged from the interviews with regards the use of technology to solve distribution problems. These themes included the use of mobile phones and mobile networks, the use of technology to drive volumes and the use of technology as a business enabler. All alluded to access to a mobile network.

The use of mobile phones and mobile networks

By far the most significant contributor to solving BOP distribution challenges involved the use of mobile phones and associated mobile network infrastructure. Given a mobile network’s ability to easily span across vast distances in fragmented market places that typifies the base of the pyramid, and

given mobile phone penetration in this space, the mobile offering was considered a compelling choice of technology.

In some cases, basic mobile phone functionality like text messaging (SMSs) has been innovatively used by remote distributors to inform a central distribution point of low stock levels and product requirements. *SMS for Life* in Tanzania took this simple technology a step further to plot bubble charts. Using the information gained from text messages (SMSs), it could conduct route planning and to determine volumes for distribution. Simple, accessible technology can be taken a step further in assisting companies overcome distribution problems.

Another innovation in this space involved the complementing of a technology partner's offering, and in turn, solving a distribution problem. For example, Microensure in Ghana are successful in using MTN's Mobile Money offering and TIGO's prepaid airtime as a platform to distribute their insurance. Using prepaid airtime cards that can be easily purchased in very remote places, these units can be converted into 'cash' on the mobile network to purchase other goods and services. This mobile offering solves their problem of regular payment for their financial services and reduces the cost of collection as it is all automated. It improves the affordability and access for the customer at the base of the pyramid. It is innovative in that one company's distribution problem is solved by accessing and partnering with another company that offers a technology and distribution platform which is already in place in the BOP.

The use of technology to drive volumes

Companies interviewed see the use of mobile phones and their associated network services as a platform to allow for rapid deployment and volume growth.

“Yes, [mobile phones are] not just only the future but way of the present. We have got two products live with MTN and TIGO, the second largest operator here. The products reel in 5000 people a day”. Microensure P2

Technology can take a company’s products and services into the heart of the BOP and allow them to sell their offerings right on the doorstep of the consumer. This is useful for a company offering a ‘non -sticky’ virtual product, such as financial services (although creative companies are not limited to financial services). Through deploying salesmen in the BOP with Samsung Galaxy tabs, ABSA have access to a mobile network and are able to register clients online. This not only reduced client cost to access their offering, but had the positive impact of doubling the productivity of remote account openings.

Using technology as a business process enabler

Through the use of SMS technology, a company’s business offering can be run from anywhere that has mobile network coverage. ABSA developed a product called *Cashsend* which uses mobile technology in combination with a nationally distributed ATM network to give people access to money. Their *Community Banking* initiative is similar, here in partnering with local merchandisers point of sale devices are evolved through technological upgrading into mini banks. RTT

/ PHD developed a cell phone based mobile data management system called *Lifecube*. It allowed for not only for tracking and ordering of stock (to prevent stockouts), it stores patient history. This allows for consumer mobility and drives loyalty (and hence volume) as it encourages patients to return to their centres located in other BOP areas.

For Blue Label Telecoms, what technology enabled them to do was adjust the product's packaging (in this case the quantity of airtime) dynamically and instantaneously to suit the customer's requirement. It provided the flexibility required to service a price sensitive market. The use of technology went further to overcome security and trust issues around recharge PIN numbers as they were generated instantaneously by linking through mobile network infrastructure to a secure server. Most importantly, this was done live in front of the customer from anywhere in the BOP market, whether it be from an informal street vendor or establish retailer.

Much effort in the technology development has been placed on creating simple user interfaces and services which requires little training to both the operator and consumer. At the same time, it provides a significant value add to the consumer by reducing their cost to access a service, thereby resolving a distribution challenge. In some cases, it can overcome significant payment challenges back to the supplier, as payment becomes 'cashless' as payment is done instantaneously and electronically.

The mobile solution is mentioned only briefly in the literature review, but it does offer a significant opportunity for companies to rapidly deploy their technology and services into the BOP space on existing infrastructure. It is an area that requires further research.

Reengineering of product offering

Responses from the interviews indicated that there is a clear need to adapt product offering to suit the requirements of the BOP market. The common thread was about keeping the product offering simple and realistic. Overly complex products will not be able to be distributed as the voids within this market do not support complex products. The response from SCL sums up the product requirements:

“You need to first of all look at your SKU’s [stock keeping units], your categories, and see which categories could successfully be distributed...Does that match up with the individual that you have? So how much complexities does that sell [involve]?” SCL

In the literature review, the first generation of MNC strategy to access the BOP was nothing more than adjusting packaging sizes (to single serve sachets) to achieve lower price points. They describe this as *‘veiled attempts to sell to the poor’* (Simanis and Hart, 2008 pp2) without actually understanding the product requirements, consumer needs and aspirations of the poor.

The reengineering of the product offering allows companies to develop a value proposition specific to the BOP. In order to do this, respondents indicated that an understanding of the market and its needs had to take place before attempting to modify product and distribute it. The company itself requires internal adaptation to develop and service a product in a low income market.

The success of a company lies in the internal innovation, as well as the flexibility to be innovative in the packaging of its product offering. Companies need to be innovative in adapting their products to be simple to understand and to use, fitting in with the profile of the BOP consumer. As Microensure (P2) said, *“We try to make exclusions and the terms and conditions very simple so that we can avoid confusing clients, but it is still inevitable”*. Products need to be affordable, and they need to work.

In some cases, it was about understanding the nuances and preferences of the customers in this market. For financial services customers, they would rather forego interest earned on money saved to have access to another insurance product. That in itself presents an opportunity to adapt a product around a local nuance.

For a pharmaceutical company, the form in which the product was delivered was instrumental in encouraging product acceptance. For them, the product innovation was taking into account the local perceptions that injections worked better than tablets, and delivering their product according to that perception.

The BOP market is simplistic; the perception of efficacy of a product based on word of mouth recommendation, resulted in the product being accepted.

The innovation around reengineering product for a FMCG company, was taking into account commonly found food in the BOP and adding the taste to the formulation of the food products they distributed into this market. For example, the addition of maize, a staple diet in the BOP, to one of their lines increased sales as they were able to cater for a local preference. In other products they used locally preferred flavours. The localisation of product according to the BOP preferences assisted companies in gaining acceptance, driving volumes and ultimately pulling their products through to the market.

In some cases, the challenge of distribution and the lack of suitable refrigeration and warehousing needed to be accounted for in the product formulation. This is especially relevant in the case of perishable products. It can be risky and expensive to adapt products to tolerate such conditions given that such products may have unique tastes, or have never been available in the BOP. This means companies need to create new markets, increasing risk as product acceptance can be uncertain.

“We needed a localised product... our main difficulty [was] the population was not used to the product. So we had to really create a market and the distribution costs then increased and became really high”. Danone.

The findings from the interviews concur with the literature review in that MNCs need to utilise existing products and technologies in new and different ways for this BOP market (Webb et al. 2011). Marketing mix decisions (product, price, place or distribution and promotion) needs to be entirely different from those typically applied in a developed market (Webb et al. 2011).

“They cannot just take their middle income and high income products and panel beat it for poor and low income people” ABSA

The more successful companies innovated and developed their products from the ground up taking into account from the start, the requirements of the BOP consumer. Shegal et al (2010, pp1) described this *‘true clean sheet approach’* as *‘frugal engineering’* where it is not about developing more basic versions of existing offerings from mature-market products and trying to sell them, but rather taking into account the specific needs of the BOP consumer and engineering a product at a price that they can afford.

Research Question 3: What are the factors for the success in distributing goods and services at the base of the pyramid?

Education

Education was the second most cited theme by respondents in determining success in distribution. Education presented itself in a number of different forms, including the education of the distributor, the customer and product education. The research findings take this a step further by demonstrating how this is done.

Education through training the distributors

It was quite apparent that the lack of formal education in the base of the pyramid posed as a challenge to companies trying to successfully operate in the BOP. Companies spoke about the need to develop systems around their distribution channel in the BOP in order to build sustainable capacity. Operators needed to be trained on entire business processes to understand the value chain. Skills transfer in the form of active participation in the running of the business itself, especially in the case of micro distributors, was mentioned as a requirement for success.

“In terms of capability training that you provide, building capability...SAB Miller training their distributors in specific distribution points, creating processes and systems for them, helping them with technology a lot of times” SCL

SAB Miller commented that if they were introducing a new product to the market, market building was more important than brand building. They found it more important to educate the distributor about a product's positioning relative to its' competitor.

To make the initiative successful and sustainable, companies spoke about the requirement to have their own people on the ground providing continued hand held support of the distributors. This supports the literature review finds that distributors often need to be driven by an individual proactively networking and educating the community, (Kistruck et al. 2011).

Respondents spoke of a different kind of training, a different kind of education, which was necessary for a market which is unsophisticated in business management, often having little prior exposure to formal business and often starting from a base of no formal education. These same people were then expected and required to run a successful, profitable micro distribution business. The research found that there was an important need for indepth training of micro entrepreneurs than merely systems training for successful partnerships to be sustainable.

"We also train them how to buy, how to sell, how to go, how to think. We have trained them on managing their finances because these people did not have money before this. So they don't know what to do with it. So we train them... how much you invest the next month to buy more products, those kinds of things. It goes beyond". Unilever

The provision of simplified training materials and quick reference guides that were left with the distributors was a common point. Given the high churn of people in this market, some respondents spoke of the cost of training and the requirement to provide standardised, mass training by pushing vast quantities of people through the system as possible, at the lowest individual cost.

Education through regular peer meetings amongst those in the distribution business at the BOP was mentioned as being useful. Companies spoke of shoulder to shoulder meetings in which distributors could discuss challenges and share successes around new product launches, how to buy and how to merchandise in their outlets; all contributing to a successful distribution channel. This concurs with the United Nations Development Programme's (2008) findings that in order to build inclusive business models, companies needed to focus on education, information and collaboration in an attempt to drive cost effective distribution.

Product Education

In ensuring the success of their product in the BOP market, companies spoke of the requirement for product education, especially around new product launches and new methods of distribution. This product education not only focused on their product, but on educating the distributor on other competitor products present in the BOP space. In the case of food products, health standards and hygiene were discussed so that distributors could understand the implications of incorrect product handling. This education provided was vital in allowing

distributors and consumers the ability to develop a value proposition for the more expensive, but higher quality outside goods.

Respondents in the healthcare and pharmaceuticals industry mentioned that the training provided an opportunity for cross learning. This provided companies with a forum to obtain feedback about what the key drivers were in the marketplace. Product education is an area in BOP distribution literature that is not widely mentioned and it requires further investigation.

Consumer Education

Finally respondents mentioned the requirement to educate the end consumer in creating an awareness of the product. This was particularly the case for financial services companies that saw the lack of formal education and financial awareness in the BOP market a potential growth inhibitor.

“Client education is a big deal. We serve half a million people. Nine out of ten people that work with us has not had insurance before...If we cannot communicate to clients exactly how insurance works and its benefits, they will not understand the product in the long run and it will be a problem. So education is our biggest problem”. Microensure P1

Collaboration

Sixty percent of respondents spoke about the need to partner and collaborate on a distribution strategy. All eleven respondents mentioned that a company entering the BOP market for the first time couldn't do it on their own. A common

theme was for the requirement to find the right partner with non competing products and work with them in either utilising their existing distribution infrastructure or modifying it to suit their own particular product.

“In many companies you cannot do it [alone] because the volume and the value is just not there. So what you need to do is you need to partner... The biggest opportunity for the companies in this space is to not to do it alone but to find partners that can assist you with your distribution”. SCL

Respondents spoke of the challenges in identifying the right partner. The partner needed to present a viable distribution network that had access to a large population in a very fragmented marketplace. Partner fit was identified as being important, as complex products needed the correctly aligned distribution partners having access to the right market. Companies found these partners by looking for social aggregators or entities that brought together large groups of people with a profile that would fit their own product.

Respondents spoke of the requirement for consistency across the distribution network. This allowed for easy rollout and a standardised approach within the distribution network.

“... [Partnering] is the way for fast growth in this market and it is also the way for a consistent approach. Because if you stand alone with a lot of standalone agents; everybody has got their own little system. Their own approach it is

difficult to build standardization and consistency and a consistent client experience” ABSA

The most successful partnerships were between companies that stood to gain equally from each other. The customer benefitted from the partnership through gaining access to the partnership’s value added services. This is the case with Microensure, a financial services company, which partnered up with a mobile phone operator as a platform to distribute their insurance. The partnership has worked extremely well in that as customers talked on the mobile phones, so they would begin to qualify for insurance. This provided a win-win scenario for both partners. For TIGO it had the benefit of improving customer retention and also revenue, as customers would spend more time talking on their phones. So they were willing to pay the premiums. For the financial services company, it enabled them to rapidly rollout to a large existing customer base. They developed products that helped grow the core business of their distribution partners.

This type of partnership strategy in overcoming distribution strategies is alluded to in Simanis and Hart’s (2008) next generation BOP strategy (BOP 2). However Simanis and Hart advocate NGO’s. This research points to partners in business; in this particular case the business partner is a technology company with an existing BOP footprint, and not an NGO. Simanis and Hart (2008) describe this as “*Business Co-Venturing*”. Vanchani and Smith (2008) describe this form of innovation as outsourcing the ‘last mile’ of distribution where companies take advantage of shared distribution networks by adding additional

products (scalability) at low incremental cost once the distribution channel is in place. Careful selection of partners is required so as to not add cost. There is a trade off between using the existing infrastructure partners that are there and not adding too many people to the chain thereby adding more costs.

One company spoke about the innovation that could come from bringing together the right mix of products and partnerships to form a vendor management inventory system. This system could take a host of companies and products and distribute it through a micro distribution channel.

“Initially people were working very much in silos. Now you starting to see companies say hang on, who is good at Microfinancing, let’s get these guys on. Who is good at mobile payment; let’s get him, who is good at MLearning... so it is really bringing all these partners to the table” SCL

For example, Blue Label Telecoms developed the technology platform that allowed service companies like mobile telephone operators, electricity providers and municipalities the ability for consumers to pay for their service at a convenient location and time, right within the BOP. In the case of mobile operators, Blue Label Telecoms collaborated with them by actively seeding the market with free SIM cards and giveaways, compelling people to use their networks and at the same time channelling people to use a Blue Label accredited vendor in purchasing their airtime. Blue Label Telecoms took this a step further to ensuring long term sustainability by developing an inclusive business model with the community leaders. This allowed for communities to

earn annuity income from sales within the community, encouraging loyalty and support for their business.

Companies mentioned that by partnering, they were able to tap into a more inclusive type of distribution system. However, the model does have its drawbacks in terms of co operation and the sharing of knowledge and systems. Initially the response from companies is good; however collaboration is limited when large companies feel threatened by smaller companies offering similar competitive products. Nonetheless this research advocates the creation of a BOP ecosystem of like- minded companies sharing risk, cost and their expertise in order to increase the likelihood of success. The vendor management system is not raised as a method of overcoming distribution challenges in literature and is a topic requiring further research.

Chapter 7: Conclusion

From the research findings, it is clear that MNCs trying to enter the BOP for the first time will find that information about what products and services work and more importantly how to distribute them is lacking. This confirms Webb et al's (2011) comments that the MNCs ability to understand the local market requirement has been undermined by the significant institutional distance between the developed markets where they traditionally operate and the BOP markets that they are trying to enter. It is not a simple case of taking developed market practise in trying to establish consumer needs and then applying it unmodified to the BOP market.

The key learning from the research into distribution that works within the BOP market is the ability for a MNC to identify the consumer and ensure that the product or service is readily available, packaged according to the consumer's needs and priced right by aligning the company's strategy and distribution framework to fulfil those requirements. Successful distribution is not possible without consideration of the needs and values of the lower income consumer in terms of understanding where they live, what they purchase, how they behave and then to build a business model based upon that.

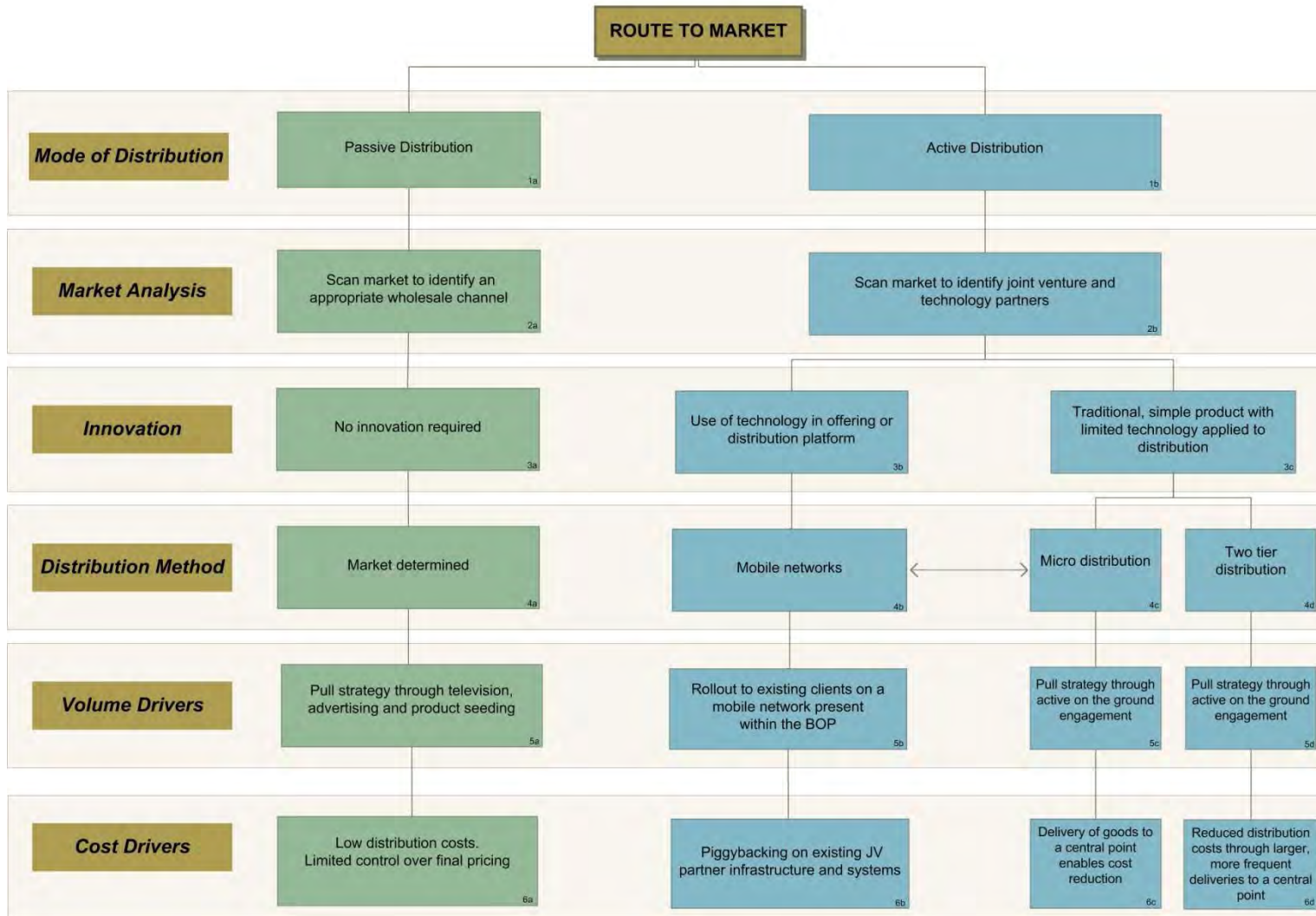
In terms of understanding consumer needs and values, a significant key learning from the research is that products cannot be stripped down versions of developed market offerings. Products need to be designed from the ground up around the specific BOP requirements that incorporate simplicity and ease of

use, taking into account the limited awareness in the BOP market. The whole product design piece is vital in terms of developing something that is actually beneficial and works for the consumer, but also works in terms of the distribution.

In developing and distributing the offering, MNCs need to apply “*frugal engineering*” (Shegal et al, 2010, pp1) principles, meaning that firms must think beyond creating cost efficiency in production, but also innovate around cost efficiency with regard to access. Here it is important to identify and team up with the right technology and distribution partner that already have proven successes within the BOP market. The key to being certain about sustainability in this partnership lies in ensuring that the business case for the partner is such that they are incentivised to distribute the MNC’s offering.

Findings from the research conducted indicate that MNCs have two routes to market. Companies can chose to be active or passive in their mode of distribution. The model in Figure 2 below depicts the two options available to companies in choosing their preferred mode of distribution.

Figure 2 Mode of distribution model



Key	Description
1a	Passive distribution is typical of companies having limited knowledge and internal drive (restrictive organisational structure, mindset and legacy systems) to manage their own distribution channel.
1b	Active distribution is typical of companies with an active internal organisational participation, support and mindset in seeking a solution for their distribution channel management.
2a	Conduct a market scan to identify the appropriate wholesale channel.
2b	Conduct a market scan to identify joint venture and technology partners. The key principle is not to 'do it on your own' but to tread on the shoulders of those that have been into the BOP and have achieved success.
3a	No attempt at innovating around product, price or packaging.
3b	Innovative technology has been applied to the product or service. This could be through using innovative technology to deliver BOP specific products or services. This may be in the form of value adding to existing BOP mobile operator offerings. Further innovation can be done in terms of the adaptation of packaging and pricing or through the provision of flexible credit terms.
3c	Little modification is done to the original base product or service. This is typical of bulk goods such as beverages, FMCGs and pharmaceuticals.
4a	Allow the market to determine the best method of distributing an offering.
4b	Mobile networks covering the BOP are considered the best method of distributing a new offering, where the offering can be distributed electronically using a mobile device and mobile network.
4c	Use of small, independent distributors within the BOP market. Note that these distributors may in turn use mobile networks as their distribution channel, or vice versa.
4d	Distributors that are located close or in the BOP market that buy directly from manufactures and sell to resellers.
5a	An unsophisticated pull strategy that is delivered through television or radio advertising. Some product seeding may take place to create product awareness and test product acceptance.
5b	Rollout occurs to a partner mobile network existing client base, hence the rollout is rapid and the expected client uptake is large. Pull strategy is more targeted around active awareness campaigns, consumer and partner education and product promotion.
5c	Volume is driven through a complex pull strategy that involves active company participation in awareness campaigns, consumer and distributor education, product promotion, change of habit or influence on the consumption environment.
5d	Volume is driven through a complex pull strategy that involves active company participation in awareness campaigns, consumer and distributor education, product promotion, change of habit or influence on the consumption environment.
6a	As there is no active participation in the last mile of distribution, there is limited control over pricing. Distribution costs are thus reduced.
6b	This model allows for a reduction in the cost of access for the consumer as the service provider is piggybacking on existing JV partner infrastructure and systems that already provide a service to the BOP consumer. It allows for rapid deployment, access and service to an existing consumer base.
6c	Reduced distribution costs are achieved through the delivery of goods to a central distribution point. As companies actively engage with the last mile of distribution, there is some control over product pricing. Companies can leverage off existing distribution networks by providing complimentary products or services.

6d	Cost efficiency is achieved through large, more frequent deliveries to a central point. This avoids stock outs situations (loss of revenue). Active participation in the last mile of distribution ensures some control over pricing. Companies can leverage off existing distribution networks by providing complimentary products or services thereby reducing management overheads.
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Practical Implications – A Case for Best Practise in BOP Distribution?

“One of the biggest challenges is that unfortunately the bottom end pay for the premium on top. Where it is meant to be sold at face value only and no more than face value, we can’t control it, at the bottom end we are finding that the guys are buying it at a premium because of the convenience.” Blue Label Telecoms

The above passage, extracted from the Blue Label transcript, describes how the BOP consumer pays a premium for the sake of convenience, but does save monetarily, on the cost of transport. This cost is a major factor in the consideration of a product or service by the BOP consumer. If companies are able to get their offerings closer to them, they are prepared to pay a slight premium for that particular product or service. This tells us that it is imperative for the sustainable success of any BOP venture; companies must be innovative in their business model both from an offering and distribution perspective . As technology uptake within the BOP rises, so the use of innovative technology in overcoming these distribution challenges plays an increasingly important role. This includes using technology to address the challenges of business transaction, including cashless payment systems, to overcome more complex issues such as crime, payment terms and a physical lack of currency

“They are not as digitally homeless as we may think they are because they are living in rural Africa.” Blue Label Telecoms

In the table below are examples of the best practise identified through the research of how companies overcame challenges associated with distribution in the BOP.

Table 10 Best practise examples in distribution at the BOP.

Attribute	Description	Example
Product	<ul style="list-style-type: none"> Quality of life or social enhancer 	Healthcare, education, personal goods, beer, airtime
Technology	<ul style="list-style-type: none"> Use a mobile device as a business enabler 	Mobile device to process ordering, payment or information transactions
Pricing	<ul style="list-style-type: none"> Use technology to allow variable price points, based on consumer demand. Price to convenience. Profitable to the smallest component. 	Blue Label Telecoms GPRS device used to issue airtime recharge vouchers.
Packaging	<ul style="list-style-type: none"> Relevant to needs of BOP. Addresses cost / volume relationship. Electronic, reusable or recyclable 	Beer in quarts, variable unit (cost) recharge card
Payment	<ul style="list-style-type: none"> Flexible payment terms. Payment done electronically through mobile device. 	Annual vs monthly subscription fee, payable at any vendor with accredited device
Access to cash / flexible credit	<ul style="list-style-type: none"> Only bill for stock once sold via cashless system. 	Blue Label Telecoms airtime recharge device
Cost Reduction	<ul style="list-style-type: none"> Reduce cost of access for consumer 	ABSA mobile registration devices
Method of awareness	<ul style="list-style-type: none"> Direct, community based campaigns of awareness. Regular distributor forums. 	Nestle Shoulder to Shoulder distributor meetings. Blue Label Telecoms <i>Gigrig</i>
Collaboration	<ul style="list-style-type: none"> Collaborate with a company innovative in solving the distribution problem through technology 	Microensure and Tigo or MTN

Future Research

Further research is required to understand the consumer buying behaviour at the BOP and their differentiated needs. Research in this area needs to take into consideration the impact of the aspirations of this type of consumer and the impact that branding can have on shopper behaviour. Further analysis needs to be undertaken around the where the BOP consumer works and the how this is influencing or changing shopping habits.

There is an opportunity for further research into how companies can take technologies developed for BOP distribution and apply them to the distribution of goods and services to higher LSM levels in other markets. This equally applies to products developed in the BOP.

A significant area for further research is in how companies can collaborate to form and utilise common platforms of distribution. SCL termed this as Vendor Management Systems and is particularly relevant to applying technology to solve a distribution challenge.

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Appendix 1: Incidence of household variable by LSM Group

HOUSEHOLD VARIABLE	LSM GROUP									
	LSM1	LSM2	LSM3	LSM4	LSM5	LSM6	LSM7	LSM8	LSM9	LSM10
No domestic worker	100%	100%	100%	100%	99%	98%	91%	78%	56%	20%
0 or 1 radio set in household	100%	100%	93%	93%	86%	81%	69%	56%	41%	17%
Rural (Not Gauteng or W.Cape)	100%	91%	81%	63%	38%	15%	7%	6%	3%	5%
Hi-Fi/music centre	0%	31%	41%	47%	58%	63%	69%	75%	81%	90%
House / town house/cluster	0%	25%	35%	51%	65%	73%	79%	84%	92%	97%
TV set	0%	24%	55%	79%	94%	98%	99%	100%	100%	100%
2 cellphones in household	0%	15%	19%	26%	27%	34%	37%	35%	39%	36%
Water in house/plot	0%	12%	38%	63%	86%	98%	100%	100%	100%	100%
Fridge/freezer (not deep freezer)	0%	7%	36%	65%	89%	96%	97%	98%	99%	100%
Flush toilet in/out	0%	1%	7%	34%	58%	89%	99%	100%	100%	100%
DVD	0%	5%	11%	27%	46%	63%	70%	76%	80%	88%
Electric stove	0%	1%	4%	22%	60%	89%	98%	98%	99%	99%
3 or more cellphones	0%	3%	6%	16%	23%	29%	37%	46%	47%	59%
Metro dweller	0%	2%	7%	14%	27%	50%	59%	58%	60%	65%
Microwave	0%	0%	3%	11%	32%	75%	94%	97%	98%	99%
Home theatre system	0%	1%	6%	8%	19%	32%	45%	53%	57%	71%
Built in kitchen sink	0%	0%	0%	7%	20%	68%	95%	99%	99%	99%
Hot running water	0%	0%	0%	2%	8%	42%	84%	96%	99%	100%
Washing machine	0%	0%	0%	1%	6%	36%	76%	87%	95%	99%
Motor vehicle in household	0%	1%	3%	7%	11%	25%	59%	83%	94%	99%
Deep freezer	0%	5%	6%	8%	8%	14%	30%	45%	59%	78%
Home telephone	0%	1%	2%	4%	6%	15%	28%	37%	46%	64%
VCR	0%	0%	1%	3%	7%	14%	25%	36%	47%	60%
Vacuum cleaner/polisher	0%	0%	0%	0%	0%	5%	24%	45%	70%	90%
Mnet/DStv subscription	0%	0%	0%	0%	2%	6%	20%	37%	53%	80%
Home security service	0%	0%	0%	1%	1%	6%	16%	24%	41%	69%
PC Desktop / Laptop	0%	0%	0%	0%	1%	5%	15%	35%	67%	95%
Tumble drier	0%	0%	0%	0%	0%	1%	7%	14%	31%	63%
Dishwasher	0%	0%	0%	0%	0%	1%	2%	3%	9%	35%

Data source: Chipp et al. (2011) pp19

Appendix 2: Detailed list of Company Interviewees

Company	Person interviewed	Position
Blue Label Telecoms	Bradley Turkington	Chief Sales Officer
Smollan	William Du Plessis	Business Value Solutions Manager
Nestle	Tebogo Ramantswana	Customer Business Manager - Sales Division
Danone	Maria Pretorius*	Social and Marketing Manager
Unilever	Tilottama Pitta	Communications Manager, Unilever SA
SABCO	Adrian Bristow	Adrian Bristow & Associates (Distribution Consultant)
ABSA	Gerhard Coetzee	Director, Centre for Inclusive Banking in Africa
Microensure Phase 1	Martin Fuller	CEO
Microensure Phase 2	Peter Gross	Country Manager Ghana
Dr Reddys Phase 1a (SA)	Nihar Patnaik	Country Manager South Africa - Sales and Operations
Dr Reddys Phase 1b (Hyderabad)	Rajaram Bagayatkar & Prithwiraj Chatterjee	Director (India) & Business Development (SA) respectively
Dr Reddys Phase 1c (Mumbai)	Yatish Singh	Head Marketing, India
RTT / PHD Phase 1	Deon Vos & Trexie-Belle Nicole	Special Projects Co-Ordinators
RTT / PHD Phase 2a	Kathleen Dingani	Nurse / Unjani Centre Head
RTT / PHD Phase 2b	Mirriam Dibakoane	Nurse Assistent
Supply Chain Lab	Tielman Nieuwoudt	Principle
SAB Miller	Edwin Govender	Depot Manager - Denver
Pepsico	Maria Pretorius	Development Manager

*Maria Pretorius has recently left Danone and joined Pepsico

Appendix 3: Draft Questionnaire Phase 1 Interviews

Informed consent letter:

I am conducting research on how companies innovate to overcome the challenges around distributing their goods and services to low income or bottom of the pyramid markets. The interview is scheduled to last one hour and will help us understand the unique attributes required to distribute in these markets. The interview will take on the form of a series of open ended questions. Your participation is voluntary and you can withdraw at any time without penalty. All data pertaining from this interview will be kept confidential. If you have any concerns, please feel free to contact me or my supervisor on the below listed details.

Researcher name: David Osborn

Supervisor: Dr Tashmia Ismail

Email: david.osborn@tiscali.co.za

Email: ismailt@gibs.co.za

Phone: +27 82 560 2842

Phone: +27 11 771 4385

Questionnaire:

Thinking about the company and its participation in the bottom of the pyramid:

1. Why is the base of the pyramid an important market to your organisation?
2. What are the challenges faced by your company in distributing goods or services to these low income markets, as opposed to a middle class or higher income market?

3. Does the company employ any alternative, innovative ways of delivering its goods or services to the BOP marketplace?
4. Has the company been able to deliver its offering at a price point acceptable to the poorest consumer, and still make a profit?
5. What is the level of uptake by consumers and others in the value chain to sell or distribute a good or service?
6. How have you engaged with your distribution chain to educate them to effectively raise awareness of your goods or services and how to access them?
7. What advice would you give to somebody attempting to distribute goods or services to the base of the pyramid?

Appendix 4: Draft Questionnaire Phase 2 Interviews

Informed consent letter:

I am conducting research on how innovation in distribution models in this low income market has allowed consumers to gain access to goods and services. The interview is scheduled to be about 30 minutes and will help us understand the unique attributes required to distribute in these markets. The interview will take on the form of a series of open ended questions aimed at getting you to 'tell your story'. Your participation is voluntary and you can withdraw at any time without penalty. All data pertaining from this interview will be kept confidential. If you have any concerns, please feel free to contact me or my supervisor on the below listed details.

Researcher name: David Osborn

Supervisor: Dr Tashmia Ismail

Email: david.osborn@tiscali.co.za

Email: ismailt@gibs.co.za

Phone: +27 82 560 2842

Phone: +27 11 771 4385

Questionnaire:

Thinking about the product or service you provide:

1. What challenges have you found in distributing your goods or services in your market?
2. How have you overcome these challenges?
3. How easy is it for people to access your product or service?
4. Would you do anything different to improve the access of your goods or services to your market?

5. Do you feel the price of your offering is right? Do you make a reasonable profit at this price?
6. Describe the level of uptake by consumers of your goods or services.
7. Have you been educated sufficiently to raise the level of awareness of your offering to the consumers, and how to access it?
8. What advice would you give to somebody attempting to distribute goods or services in this low income market?

Appendix 5: Description of subcategories of themes used in the categorisation of responses from the interview process

Category	Theme	Description of Theme
Voids / Challenges in BOP marketplace	Transport	The lack of suitable transport or transport infrastructure
	Fragmented market place	A market with unstructured, dispersed sales or distribution points
	Access to finance / banking / cash flow	Ability to bank, get credit, manage money
	Market access, knowledge & skills	The ability gain entry into a market. Ability to extract information about how the market works. The availability of suitable skills in the marketplace
	Warehouse facilities / Infrastructure	The existence of storage facilities to warehouse goods and infrastructure to distribute goods / services
	<i>Awareness of product / service</i>	Knowledge of where to gain access ofr how to use a product or service
	Access to supply chain / manufacturer	
	Cost	Distribution costs
	Profit (low or high)	Profits margins
	Volumes (low or high)	Volumes of goods / services provided
Infrequent order cycles (lack of clarity)	Lack of ability to determine order cycles or volume requirements	
Legal Procedures restrictive	Legal barriers to operate or distribute	
Innovation to overcome challenges in distribution at BOP	Use of Technology	Use of technology to overcome distribution challenges
	Adjustment of packaging	Changing the original packaging to suit a BOP distribution issue
	Re engineering of product offering	Changing the original product specification to suit a BOP requirements
	Fit for market distribution	Modification of distribution means eg: modified carts etc
	Technology to update stock availability	Tracking of stock levels through automated methods
	Movement of goods closer to retailer	Bringing the manufactured good closer to the BOP market distribution point
	Geospatial referencing	Use of mapping to locate distribution and retail points, identification of consumer shopping patterns
	Micro distribution	Use of small, independent distributors within the BOP market
	Control of last mile of distribution	Companies trying to enforce standards, practises or control of the distribution to the end point of reaching the consumer.
	Extension of product offering / JV	Companies offering other value add products / services to the core offering
Factors for success in distribution at BOP	Provision of flexible credit at the BOP	Requirement for flexible credit or payment terms
	Education	Product and or distributor training
	Awareness	Creating knowledge and awareness of a product or service
	Alignment	Standardisation to a company norm, a way of doing things, company relevancy
	Collaboration / JV	Working with partner organisations
	Inclusive business models	Working with communities
	Two tier distribution	Distributers buy from manufacturers and



	Incentivise	sell to resellers
	Branding	Provide commission, shareholding or ownership compensation to drive distribution objectives
	Aspiration / status conscious	Use of brands in distribution
	Pull strategies	Use of aspirational or status conscious factors to drive a distribution strategy (pull / push)
		Use of a drive or pull strategy to force product through a distribution channel



Appendix 6: Detailed breakdown of responses

Category	Theme	Frequency	Respondents	Companies							Microsure Phase 1	Microsure Phase 2	Dr Reddys Phase 1a (SA)	Dr Reddys Phase 1b (Hyderabad)	Dr Reddys Phase 1c (Mumbai)	RTT / PHD Phase 1	RTT / PHD Phase 2a	RTT / PHD Phase 2b	Supply Chain Lab	SAB Miller	Pepsico
				Blue Label Telecoms	Smollan	Nestle	Danone	Unilever	SABCO	ABSA											
Voids / Challenges in BOP marketplace	Transport	13	6	3	2		1					1						1	5		
	Fragmented market place	10	5		3	1					1			1					4		
	Access to finance / banking / cashflow	13	6				1	1	1	4									5	1	
	Market access, knowledge & skills	37	15	4	6	2	1	1	1	3	2	1		3	1	4			6	1	1
	Warehouse facilities / Infrastructure	17	9		1		2	1	5	2		1			1		1		3		
	Awareness of product / service	17	7			2	2	1		1	5	3				3					
	Access to supply chain / manufacturer	7	5	1	1								1						3	1	
	Cost	48	17	3	2	1	2	1	3	7	6	4	2	1	1	2	2	1	9	1	
	Profit (low or high)	17	8	1			2	2	1	2	3	2							4		
	Volumes (low or high)	18	8		1		2		1	1	1	7		1					4		
	Infrequent order cycles (lack of clarity)	4	2			2			2												
	Legal Procedures restrictive	11	6							3					1	1	1		2	3	
Innovation to overcome challenges in distribution at BOP	Use of Technology	29	9	2	3				4	5	5	1	1		1				7		
	Adjustment of packaging	20	9	3	5	3		1	2			2			1			2	1		
	Re engineering of product offering	19	10	1		1	1	2		3	3	3	2		1				2		
	Fit for market distribution	3	3						1			1							1		
	Technology to update stock availability	7	4									1	1	1					4		
	Movement of goods closer to retailer	5	3				1			2									1		1
	Geospatial referencing	8	3		4				2										2		
	Micro distribution	21	6		1	2	1		6		1								10		
	Control of last mile of distribution	13	5			2			4		1			1					5		
	Extension of product offering / JV	9	5		2	1						1				2			3		
Factors for success in distribution at BOP	Provision of flexible credit at the BOP	15	10	2		1	1	2		1	1	1						1	3	2	
	Education	37	16	1		2		1	3	2	7	4	2	2	1	1	1	1	4	3	2
	Awareness	21	9	1		1		1		4	6	4				1	1	1	2		
	Alignment	8	4		1	5													1	1	
	Collaboration / JV	35	12	1	1		1		1	4	9	7		1		1			7	1	1
	Inclusive business models	11	6	2			1		2		1				1				4		
	Two tier distribution	20	7	1		4						3	2	1						4	5
	Incentivise	4	3	1		1													2		
	Branding	21	10	1	3	5		1	2			1	1						3	3	1
	Aspiration / status conscious	6	5			1		1	1			1							2		
Pull strategies	26	11		4	5		1			2	1	3	1		1			1	4	3	