



UNIVERSITEIT VAN PRETORIA  
UNIVERSITY OF PRETORIA  
YUNIBESITHI YA PRETORIA

**Gordon Institute  
of Business Science**  
University of Pretoria

**Sales management in the bottom of the pyramid (BoP) market using alternative  
distribution channels.**

**Nosipho Mtshemla**

**13420969**

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.

10 November 2014

# **ABSTRACT**

The 'bottom of the pyramid' (BoP) refers to the world's poorest socio-economic group. In South Africa, consumers in this segment are an increasingly attractive target market for multi-national corporations (MNCs), partly because they constitute more than one-third of the population. However, a key managerial challenge remains in distributing goods and services to these consumers. This research sought to identify the alternative channels of distribution that firms develop to reach the BoP.

Using a qualitative research methodology, eighteen depth interviews were conducted tracing the channels of seven firms from firm to end-user. The results suggest that many MNCs are indeed developing BoP channels, with varying degrees of success. Further, success seems to be driven by the level of managerial commitment. In addition, the BoP in South Africa is best understood as two distinct sub-segments, the urban BoP is characterised by more competition and crime, while the rural BoP has lower population density which heightens logistical challenges. Community involvement, where locals serve as distributors or salespeople, is a central feature of successful strategies to reach the BoP. Finally, the findings suggest that alternative distribution channels present benefits for MNCs in terms of cost to serve, local knowledge and increased penetration.

## **KEYWORDS**

Bottom of the Pyramid (BoP)

MNCs (Multinational corporations)

Sales management

Inclusive growth

Alternative distribution channel

# DECLARATION

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

Nosipho Mtshemla

---

10 November 2014

# ACKNOWLEDGEMENTS

I am deeply grateful to the following people for their support and contribution:

To my research supervisor, Dimitri: This research journey was filled with fun! I enjoyed every Skype session because I knew it was a step closer to the finish line. Your incredible insight, patience and encouragement are the reason I am able to deliver this document. I am finding myself singing “Happy” by Pharrell Williams \*dancing\*.

To my brother, Harry, and my nanny Auntie Marjory: You have been my source of strength throughout my MBA journey. Harry, thank you for chasing me to Gibs to complete this document, you are a blessing in my life.

To my mom, Thantaswa; my sister, Phumudzo and my family at large: Thank you for your understanding.

To Penelope Mkhwanazi: Thank you so much for assisting me with this study, you are my big sister from another mother. You took time to read this document; you guided me, and gave me good feedback throughout this research journey.

To Pride Alardt: Thank you so much for assisting me with finding the relevant articles for this study.

To Sanelisiwe Mdlalose: Your continuous encouragement throughout the MBA and our meetings added so much value in my life, you are my inspiration.

To all the research participants: Thank you for your precious time allocation and sharing your experiences with me.

# TABLE OF CONTENTS

<b>ABSTRACT .....</b>	<b>II</b>
<b>DECLARATION .....</b>	<b>III</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>IV</b>
<b>LIST OF FIGURES.....</b>	<b>VIII</b>
<b>LIST OF TABLES .....</b>	<b>VIII</b>
<b>CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM .....</b>	<b>1</b>
1.1 Introduction.....	1
1.2 Research motivation and relevance to South Africa.....	3
1.3 Significance of research.....	4
1.4 Research objectives .....	5
1.5 Research scope.....	5
1.6 Report layout .....	6
<b>CHAPTER 2: LITERATURE REVIEW .....</b>	<b>7</b>
2.1 Introduction.....	7
2.2 Bottom of the Pyramid (BoP) .....	7
2.3 Spaza shops.....	11
2.4 Traditional distribution channels.....	12
2.5 Alternative distribution channels .....	14
2.6 Sales management.....	18
2.6.1 Sales management in alternative distribution channels .....	18
2.6.2 Realities corporations face when servicing the BoP market. ....	20
2.6.3 Inclusive business models on companies' value chain .....	21
2.7 Practical examples.....	23
2.8 Overview of current frameworks .....	25
2.9 Literature review conclusion .....	28
<b>CHAPTER 3: RESEARCH QUESTIONS .....</b>	<b>30</b>
3.1 Introduction.....	30
3.2 Research questions .....	30
Research question 1 .....	30
Research question 2 .....	31
Research question 3 .....	31
Research question 4 .....	32
<b>CHAPTER 4: RESEARCH METHODOLOGY.....</b>	<b>33</b>
4.1 Introduction.....	33

4.2	Research design.....	34
4.3	Research method and rationale for selection.....	35
4.4	Population and unit of analysis .....	37
4.5	Sampling method.....	38
4.5.1	Companies interviewed.....	39
4.6	Data collection and analysis .....	40
4.7	Data analysis .....	41
4.8	Data validity, reliability and limitations.....	42
<b>CHAPTER 5: DATA ANALYSIS.....</b>		<b>44</b>
5.1	Introduction.....	44
5.2	Research Question 1: How do firms manage sales through alternative distribution channels?.....	45
5.2.1	FMCG- Snacks company distribution channels.....	46
5.2.2	Beverage- Soft drinks company distribution channel.....	48
5.2.3	Telecommunications company distribution channel.....	49
5.2.4	Beverage- Alcohol company distribution channel.....	51
5.2.5	Banking company distribution channel.....	53
5.2.6	Bakery company distribution channel.....	55
5.2.7	Construction company distribution channel.....	56
5.3	Research Question 2: What are the distribution channels that service the BoP customers? .....	57
5.3.1	Theme 1: Distribution channels used to service BoP market.....	58
5.3.2	Theme 2: Traditional distribution channel: Formal retailers .....	61
5.3.3	Theme 3: What are the benefits of using other distribution channels?....	65
5.4	Research Question 3: How do firms incorporate communities in their alternative distribution channels?.....	67
5.5	Research Question 4: What are the realities to be mindful of when servicing the BoP market? .....	70
5.5.1	Theme 1: Gender.....	73
5.6	Conclusion.....	73
<b>CHAPTER 6: DISCUSSION OF RESULTS .....</b>		<b>74</b>
6.1	Discussion of Research Question 2: What are the distribution channels that service the BoP customers?.....	74
6.1.1	Bargaining power of retailers.....	76
6.1.2	The BoP market as an opportunity for growth .....	78
6.2	Discussion of Research Question 3: How do firms incorporate communities in their alternative distribution channels?.....	80

6.3	Discussion of Research Question 4: What are the realities to be mindful of when servicing the BoP market? .....	84
6.4	Discussion of Research Question 1: How do firms manage sales through alternative distribution channels? .....	88
6.4.1	Explanation of the framework .....	90
<b>CHAPTER 7:</b>	<b>CONCLUSION .....</b>	<b>95</b>
7.1	Research background.....	95
7.2	Summary of Findings.....	96
7.3	Recommendations.....	98
7.4	Limitations to this research .....	99
7.5	Implications for future research.....	100
7.6	Conclusion.....	101
<b>REFERENCES.....</b>		<b>103</b>
<b>APPENDIX A: DISCUSSION GUIDES.....</b>		<b>110</b>
<b>APPENDIX B: CONSENT FORM .....</b>		<b>119</b>
<b>APPENDIX C: RESULT ANALYSIS .....</b>		<b>120</b>

## LIST OF FIGURES

Figure 1: Sheth's explanation of factors that influence emerging markets.....	8
Figure 2: Image of the low-cost housing initiative in Mexico .....	23
Figure 3: Barney and Hesterly's strategic management process .....	25
Figure 4: Framework of the Coca-Cola MDC Project.....	27
Figure 5: Prestructured versus unfolding: the timing of structure .....	34
Figure 6: FMCG company distribution channel.....	47
Figure 7: Beverage - Soft drinks company distribution channel .....	49
Figure 8: Telecommunications company distribution channels .....	51
Figure 9: Beverage - Alcohol company distribution channels.....	53
Figure 10: Banking company distribution channel. ....	54
Figure 11: Bakery company distribution channels .....	56
Figure 12: Construction Company's distribution channels .....	57
Figure 13: Sales management using alternative distribution channels in the BoP market....	89

## LIST OF TABLES

Table 1: Explanation of Barney and Hesterly's strategic management process .....	26
Table 2: Companies interviewed .....	40
Table 3: List of participants.....	45
Table 4: Distribution channels used to service the BoP customers.....	59
Table 5: Realities MNCs face when servicing the BoP market in South Africa.....	71
Table 6: Comparison of findings with the literature .....	76
Table 7: Reasons for targeting the BoP market .....	79
Table 8: Alternative distribution channels .....	81
Table 9: Realities when servicing the BoP market .....	85

# CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

## 1.1 Introduction

The business world is currently experiencing an unparalleled change in the functioning of global markets. Economic activity in emerging markets is growing at compounded rates of approximately 40 percent, compared with growth of between two percent and five percent in the developed countries. Consequently, many companies desire growth that can be found in less developed or emerging countries (Panagopoulos et al., 2011).

Over 100 firms in the Global Fortune 500 are now headquartered in emerging market countries; companies are increasingly interested in learning how to effectively market their products to emerging countries (Panagopoulos et al., 2011). Emerging markets have characteristics of both the developed market and developing markets. These markets are largely skewed toward what is referred to as the “bottom-of-the-pyramid” (BoP) consumers, effectively those people who are below the official poverty level of earning less than two US dollars per day.

The Bottom of the Pyramid (BoP) constitutes a market of the world’s poorest people who are living on less than US\$2/day (Prahalad, 2010, p. 7). These people reside mainly in Africa, Eastern Europe, Latin America, and Asia. Most companies have traditionally not considered people at the bottom of the economic pyramid as potential consumers due to the low level of their individual incomes (Confederation of Danish Industries, 2007). As a result, the levels of competition are low in these markets.

The opportunities at Bottom of the Pyramid (BoP) have prompted many multinational corporations (MNC) to invest in these markets. However, there are relatively few real-life cases of successful BoP entries by MNCs. This is because companies continue to struggle to understand the success factors that determine profitability and sustainability at the BoP, especially in respect of maintaining innovation and sustaining the value chain (Esko, Zeromskis, & Hsuan, 2013).

The supply chain generally, consists of primary distributors, small wholesale companies, and the fragmented retail industry that further includes small shops and street vendors (Leke et al., 2014). Some of the challenges faced by MNCs, as outlined

by Esko *et al.* (2013) have been the motivation for this research; and the focus of this research is on supply chain for BoP. Particularly pertinent to this research are the alternative distribution channels available, and how to manage sales in these channels whilst incorporating communities in the value chain.

This document has been motivated by Barki (2010) who had observed as an area of future research in the elements of a business model for BoP; which indicated that, more than just offering access to new products, the BoP proposition should allow an increase in the population income. Distribution is labour intensive; it is thus a great opportunity to include the population socially. Hence, one possibility is to study how the BoP structure could join forces with the sustainability structure inside a company, creating initiatives that simultaneously give access to products and income.

According to Ismail, Kleyn and Ansell (2012); Kapelianis (2014) and Panagopoulos *et al.* (2011) limited studies have been conducted in emerging countries (e.g., China, India, Malaysia, and Nigeria), while most research (67 percent) has been undertaken in highly developed countries, such as Australia, Canada, the EU-15, Japan, New Zealand, and the United States. As a consequence, knowledge on how selling is being conducted in less developed countries is sparse, at best. Speculating that the reasons for the relatively small number of samples from emerging countries is that, in these regions, academic research in the field of sales (and more generally) may be less developed and as such, few academics are available to form research partnerships.

Firms could consider the BoP market as an integrative part of the value creation, thereby generating income for the poor while simultaneously establishing sales potential. An example of how this can be done is Project *Shakti*. It is an initiative by Hindustan Lever (Unilever in India) on how companies can work with communities by encouraging entrepreneurship and community economic participation (Barki, 2010). Project *Shakti* made use of locals in developing distribution models that can best serve the BoP market. Hindustan Lever introduced project *Shakti* to women in India's rural communities, encouraging them to become direct-to-customer sales distributors. Hindustan Lever provided support to these women by training them in selling, commercial knowledge and ensuring they become developed micro-entrepreneurs.

The current research study was conducted in the following industries: Fast Moving Consumer Goods (FMCG), construction, telecommunications and the services sectors. It sought to explore how companies can work with communities to increase profits while incorporating communities in their value chain with pertinent focus on alternative

distribution channels to promote entrepreneurship. South Africa, as a developing country, was the geographic location in which this research study was conducted.

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

The United Nations' (2013) Millennium Development Goals had called for a distinct reduction of extreme poverty and hunger. Despite some improvement in poverty reduction at a global level, 1.2 billion people still live in abject poverty. In sub-Saharan Africa, almost half the population lives on less than US\$1.25 a day. Sub-Saharan Africa is the only region globally that has experienced an increase in the number of people living in extreme poverty over the past 20 years, from 290 million in 1990 to 414 million in 2010, accounting for more than one third of people worldwide who are impoverished. Poorer countries expand rapidly and, maybe most significant of all, Africa is poised to experience a population explosion of unprecedented proportions in human history (Fisher, 2013).

The poor face a variety of problems such as hunger, violation of dignity, powerlessness, insecurity, state corruption, unemployment, poor health, gender inequality, and others. Even more distressing is that South African society has a stratified history that was driven by the 50 year policies of the apartheid regime before 1990. Inasmuch, the BoP market in South Africa mostly comprises of black South Africans. Financial disparities between sectors of the South African society are further exaggerated by the socio-economic and political systems; many of which are perpetuated by these increasing disparities, and still currently exist (Ismail et al., 2012; Jagtap et al., 2014; Matsau, 2010).

The economically disadvantaged segment of the population lacks good distribution and communication networks. Granting access is a pre-requisite for economic development and the companies involved in business with the poor must address this issue. This is where the entrepreneurial spirit of the poverty-stricken business partners can be put to good use, especially when the small scale of an undertaking (e.g. street or village vendors) does not require substantial investment (Habib & Zurawicki, 2010). Ismail *et al.* (2012) expressed their concern about how BoP could easily become an exploitative undertaking where already wealthy companies benefit at the expense of poor people. South Africa as an emerging economy has a radicalised history and potentially reinforces this concern, signifying that many actions are needed to ensure that

business does well not only in terms of bottom-line, but also by having a positive contribution on the very BoP communities it seeks to exploit.

### **1.3 Significance of research**

The cost to serve the poor can be very high. Even though there is a trend for the poor to migrate to the urban areas for jobs, there still remains a significant portion in dispersed rural areas. These areas, as is so often the case, are less developed within the economy and lack adequate infrastructure (roads, bridges, communication, and others). Accessing the poor can be a difficult task requiring considerable resources, manpower and time. Targeting the poor as potential customers should be carefully examined because as much as 80% of their daily income is spent on basic items (food, clothing and shelter); which leaves very little disposable income for other items (Karnani, 2007).

Coca-Cola Company is an example of a company that has positively contributed to the BoP communities. The company introduced an innovative distribution network in Africa to help the local economies thrive. Ethiopia had a demand for Coca-Cola products; however the company had a challenge in delivering the products to the many tiny shops in the communities. Regular distribution methods relied on trucks to make deliveries, but often roads were not wide enough to accommodate delivery vehicles, while at other times the challenge would be the shops' limited storage capacities (Business Call to Action Organisation, 2010).

The solution was an alternative distribution model that relied on a network of independently-owned micro-distribution centres (MDCs), which are operated by local entrepreneurs. The model allowed Coca-Cola to better penetrate many of the low-volume, low-income retail outlets. These micro-distributors improved the availability of Coca-Cola's products by permitting greater access to outlying areas and they provided better customer service by supplying products on demand to meet the needs of small retailers (The Coca Cola Company : Marketing strategy, 2011).

According to Nelson, Ishikawa, and Geaneotes (2013), there is growing evidence that there are commercially viable business relationships between large corporations and micro, small, and medium enterprises in developing countries. These enterprises can play a vital role, not only in creating local jobs, improving livelihoods, supporting gender diversity and enhancing economic options, but also in transferring skills, technologies,

quality management and sound business standards along value chains. This is could be in the form of supply chain connections, distribution and possible franchising.

It has become apparent that there are potential prospects in serving the BoP market and that there is a need for companies to have a distinct channel design to service this market. Alternative distribution channels that service the BoP market was explored in this research; including the investigation of the sales management challenges and opportunities faced by companies servicing the BoP markets. The research study aimed to add further insight regarding the inclusion of communities into the BoP value chain to help the local economy to thrive.

## **1.4 Research objectives**

The purpose of this study was to explore and disseminate the alternative distribution channels that firms use to service the BoP markets and to determine how the sales management in these channels are conducted while incorporating local communities into the value chain. The main objectives for the research were as follows:

Objective 1: What are the alternative distribution channels or routes to market in emerging markets to service the BoP consumers and how do firms manage sales for these alternative distribution channels?

Objective 2: How do firms manage the relationship between communities and non-profit organisations that may be involved in communities to alleviate poverty in the respective populations?

## **1.5 Research scope**

This study was entrenched in three areas, namely alternative distribution channels, sales management and the Bottom of the Pyramid (BoP). Barki (2010) recognised that there are differences in the distribution strategies that companies use in Brazil to distribute their products to BoP markets, thus implying a distinct channel design. The relevance of small retailers and the scattered configuration of the market sometimes force companies to have a multi-channel approach, working with different channel levels according to the situation.

## 1.6 Report layout

This report has been organised into seven chapters:

1. Chapter 1: The introduction served to outline the background of the study, provided the relevance of the study and supplied an overview of the research objectives;
2. Chapter 2: The relevant literature encompassing the topic is reviewed;
3. Chapter 3: The research questions are presented;
4. Chapter 4: The research methodology is discussed;
5. Chapter 5: The research results report the findings of the study;
6. Chapter 6: The discussion of results is presented in relation to the research problem and literature reviewed;
7. Chapter 7: The conclusions of the study are made, and the implications of the study as well as recommendations for future research are discussed.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

The objective of this research was to feature and describe alternative distribution channels that firms can use to service the BoP market. This research further intended to explore how personal selling and sales management can be executed in the BoP market. In a holistic view this research sought to determine the manner in which companies can contribute to poverty alleviation in emerging countries by incorporating communities in their value chain, specifically through distribution channel alternatives.

This chapter requires the review of the BoP market structures. It provides literature that explains traditional distribution channels (formal retail channels) by depicting some of the realities faced by firms using this channel as their route to market. Personal selling and sales management functions in these alternative distribution channels are reviewed, as firms need to sustain profit whilst serving the BoP market. Examples are cited that portrayed how firms have collaborated with the impoverished for mutual gain.

### **2.2 Bottom of the Pyramid (BoP)**

According to Chakravarthy and Coughlan (2012), emerging markets hold great promise for corporate growth, as the majority of consumers are in this segment. However, these authors cautioned that this opportunity comes with two hurdles: firstly, the innovation and pricing of products must suit customers with low purchasing power; secondly, the lack of infrastructure makes it difficult to operate and grow.

According to Prahalad (2010) and Sheth (2011) emerging markets differ in their levels of literacy, rural-urban mix, geographic mix, income levels, cultural and religious differences, thereby indicating that these markets have an extreme variety of characteristics that effectually lead to multiple perspectives of the BoP market. The figure below is a graphic illustration of the characteristics of emerging markets as outlined by Sheth (2011):



**Figure 1: Sheth's explanation of factors that influence emerging markets**

Source: Adapted from *“Impact of Emerging Markets on Marketing: Rethinking Existing Perspective and Practices”* by J.N. Sheth, *Journal of Marketing*, Vol. 75, July 2011, p. 166-182.

The diversity of emerging markets is less driven by a variety of needs, wants, and aspirations of consumers and more determined by resource constraints, such as a wide continuum of haves and have-nots with respect to both income and net worth. Similarly, the diversity regarding the access to products and services tends to be enormous between urban and rural households (Radjou & Prabhu, 2012).

Statistics South Africa (2014) emphasised that access to basic services (for example, water and sanitation) differs significantly across settlement type. People in urban areas also earn two-and-a-half times more than those who reside in rural areas. The share of national consumption between the richest and the poorest remains stubbornly stagnant with a Gini coefficient of 0.69. South Africa as a developing country is ranked 1<sup>st</sup> out of 136 in terms of market heterogeneity (Kapelianis, 2014). This is an indicator of diversity in South Africa with regard to income levels, access to basic services as well as settlement type.

Emerging markets have duality regarding their characteristics, as there are inherent traits of both developed and developing markets present. Emerging markets are largely

slanted toward what is referred to as the “bottom-of-the-pyramid” consumers, who are below the official poverty level of earning less than two US dollars per day. These consumers have no access to electricity, running water, banking, and cannot easily access modern transportation (Sheth, 2011).

Large multi-national corporations already have experience with the BoP market. In some cases this involvement stems from the companies’ needs to access raw materials, while in other cases the companies’ involvement was based on philanthropic desires to assist people in need through government and non-profit organisations (Mohr et al., 2012). More recently, companies have pursued the BoP market because of its sheer size and revenue potential.

Prahalad (2010) stated that the definition of the Bottom of the Pyramid (BoP) originates from a concept originally introduced to draw attention to the four to five billion poor who are unserved or under-served by the large organised private sector. The indication is that serving the BoP consumers will demand innovations in technology, products and services, and business models.

Various authors supported Prahalad's (2010) perspective. Kapelianis (2014), Radjou and Prabhu (2012), Sheth (2011) purported that the fastest engines of global growth for several years to come will be emerging markets. It is argued that pursuing opportunities in the BoP market depends on consideration of the level of infrastructure availability, consumer resource availability and whether initiatives are undertaken to be self-sustainable over time (Mohr, Sengupta, & Slater, 2012a).

Adebayo (2013) differed from the above authors’ opinions, indicating that the dominant consumption items at Nigeria’ s BoP remains agricultural in nature, constituting the mainstay of poor farmers. It is assumed that MNCs that would like to serve this market will attract the meagre income these people generate for their basic survival, thereby further impoverishing them. As a counter assumption, the provision of employment by MNCs to the BoP could potentially improve the earnings of the poor at this stratum of the population, which will enhance poverty reduction.

Leke *et al.* (2014) supported Adebayo (2013), by indicating that in Nigeria’s cities, where the majority of the population now live, there are high rates of informal employment and underemployment contributes to a 34% poverty rate. Leke *et al.* (2014) estimated that 68% of urban Nigerians live below the Empowerment Line, which is defined as \$1,016 per year per person in urban areas. In both rural and urban

Nigeria, the high costs of living, particularly for food and housing, exacerbate poverty. In rural areas, 53% of the population lives below the poverty line due to low farm output, poor access to markets, and a rising population that perpetuates the cultivation of smaller plots. Leke *et al* (2014) further estimated that 81% of rural Nigerians live below the Empowerment Line, which is defined as \$758 per year per person in rural areas.

Karnani's (2007) perspective was supported by Adebayo (2013) and Leke *et al.* (2014), in their arguments that postulated that there is not a fortune to be found in BoP markets. Consumers in these markets are costly to serve because they often are geographically dispersed and culturally heterogeneous. Moreover, these consumers are, by necessity, very price-sensitive. This combination of low price and high cost to serve typically makes these markets unprofitable.

A study completed by Chipp, Corder, and Kapelianis (2012) suggested that the BoP market size in South Africa is approximately 35.8% of the total population. Their findings indicated consistency with the literature that, while personal and household income figures are admittedly low; the market is so large in terms of the sheer number of consumers that the BoP's spending power is substantial. This was supported by Ismail *et al.* (2012) where they indicated that approximately 60% of the population is unserved or underserved by current business. BoP is a significant new market, and by consciously doing business in this market can achieve a great deal more than simply finding new customers.

Karnani (2007) emphasised that there is a pronounced need to view people at the BoP holistically. Encouraging that the BoP market should not simply be analysed according to their roles as either consumers or producers, but as both; enrolled in complex systems of production and consumption. As a result Prahalad (2010) suggested that large firms need to work collaboratively with civil society organisations and local government to create new entrepreneurs.

Dolan (2012) illuminated that as a model of development, the BoP market is a compelling proposition, and it promises a new form of inclusive capitalism. Yet, while tempting in its simplicity, the actual practical application of inclusive capitalism is challenging because the BoP market simultaneously constitutes the poor as development beneficiaries, 'modern' consumers and capitalist entrepreneurs.

## 2.3 Spaza shops

The BoP market in the context of South Africa is largely dominated by the informal retailers. It is estimated that there are at least 100 000 spaza shops in South Africa, with a collective turnover of more than R7 billion per annum (“Spaza news,” n.d.). Each spaza shop employs between two and three people, who in turn support an average of four family members. This translates into almost one million people who benefit from the existence of spaza shops in their neighbourhood (“Spaza news,” n.d.)

According to Chebelyon-dalizu, Garbowitz, Hause, and Thomas (2010), the informal economy largely consists of small-scale entrepreneurs and street vendors who sell whatever they can to survive. Spaza shops are small, home-based retail stores that typically sell basic goods such as groceries, cigarettes, and fuel to nearby residents. They also offer a method of survival for the people running them, as a spaza shop will often be the shop owner’s primary source of income, and potentially will also allow the owner to support other family members (Chebelyon-dalizu et al., 2010).

Spaza shops are beneficial to informal settlements for several reasons, primarily because they offer convenient access to basic necessities and also keep the money inside of the community, rather than sending the money out of the community when people travel long distances to a supermarket. A spaza shop’s inventory is usually composed of basic goods like produce, drinks, cigarettes, and bread. Name brand goods tend to sell competitively, whereas many customers are unwilling to purchase generic or secondary brands of products (“Spaza news,” n.d.).

Usually, products are referred to by their brand name rather than product name. For example, toothpaste is associated with the name Colgate. The prices of products sold at spaza shops can be found marked up to between 30% and 50% from wholesale prices due to supply-chain weaknesses. Customers are typically aware of the high prices, and will have allocated a budget before the trade. Generally, the brands and prices of goods at spaza shops play a significant role in consumer buying tendencies (“Spaza news,” 2010).

## 2.4 Traditional distribution channels

In a study performed by Chow, Kaynak, and Yang (2011), they referred mainly to the retailer as the traditional distribution channel. Their study indicated the importance of manufacturers to retain their power over retailers by using many distribution channels. These authors suggested that manufacturers ensure that all retailers are substitutable, further emphasising to the importance of enabling consumers to make a conscious brand decision.

Large retailers' significance can be expressed as an influence in the food choices of consumers in two major ways: by the decisions of retailers regarding their purchase decisions from suppliers and the decisions of retailers regarding the management of their selling processes to consumers. These advantages have enabled the retailers to gain more control over relationships with suppliers and consumers (Dawson, 2013).

South Africa's rural areas and township retail sectors are more closely aligned with those in other poor economies, as there is a presence of a far higher proportion of informal retail outlets where spending is focused on subsistence food and goods (PwC Southern Africa, 2012). It is argued that South Africa is experiencing the disappearance of small informal retailers in townships and rural areas, and this could be attributed to the shift towards retail markets, as the smaller players of the informal retail sector have a price disadvantage when compared to formal retail players that enjoy larger discounts (Ravhugoni & Ngobese, 2010).

Contrasting Ravhugoni and Ngobese (2010), Leke *et al.*, (2014) illuminated that more than 70% of sales in Nigeria still go through informal and fragmented channels, such as small shops, market stalls, and street vendors. However, modern retailers such as Shoprite and Artee/Spar are making inroads, and sales through modern-format stores are growing by 28% each year (albeit from a very low base). The new stores appeal to more affluent Nigerian consumers who have come to enjoy the modern retail environment.

Chow, Kaynak, and Yang (2011) stated that a channel member with power over its counterparts would manage the distribution channel to its advantage. They explained the interdependence between a manufacturer and retailers, and stated that consumers' brand decisions precede their store decisions. The convenience and accessibility of a retailer presents a nationwide distribution network, making it easier for consumers to purchase manufacturers brands. This however is dependent on consumers' brand

loyalty as retailers stock multiple brands satisfying the same need. The inherent nature of retailers would also encourage manufacturers to ensure product availability in all forms of retail channels.

An analysis of a developing country performed by Aman and Hopkinson (2010) emphasised that in Pakistan, the relationships between FMCG manufacturers and other channel participants are under considerable strain. Distributors are less confident in the value of their relationships and there is a widespread perception that the new entrants (formal retailers) receive favourable treatment from brand owners. However, the traditional partners (distributors' also known as informal retail) still represent the bulk of trade and are likely to retain that status in more rural areas for considerable time.

A holistic view was suggested by Barki (2010), as the author outlined the existence of different distribution channels in Brazil. Barki mentioned that there are companies that reach small retailers that serve the BoP markets and sell through distributors and wholesalers; others sell directly to small retailers and still others sell directly to end consumers. Barki further explained that some companies use the hybrid distribution channel, where they would sell directly to small retailers and operate through distributors by utilising a door-to-door distribution channel.

Recommendations were presented by Karnani (2012) that companies should design creative business models that can profitably sell beneficial products to the poor at prices they can really afford. Foreign intermediaries in different countries rarely perform identical marketing functions or distribution tasks. Consequently, firms operating in global markets are required to customise their channel strategies by allocating distribution tasks in any given country based on the capabilities of their intermediary channel partners to perform the set of distribution tasks that are needed to make products and services available to final customers. Therefore, a change in distributive institutions might well require a change in the behavioural patterns of indigenous marketing intermediaries (Dimitrova & Rosenbloom, 2010).

Of a divergent view were Chikweche and Fletcher (2011), who argued that traditionally, established distribution channels such as retail outlets had the balance of power in their relationship with the firms in determining terms of trade. The retailers had been the dominant channel of distribution for the firms but this has since changed as informal channels are now the dominant channels. Franchises provided an alternative route for

distributing products and this gave firms a better bargaining platform when negotiating trading terms with the retailers such as credit terms and returns policy.

Karnani (2012) indicated that the existing retail and wholesale institutions in any given country reflect channel members' accepted norms of behaviour and value systems. Companies who intend exploring the BoP market need to be aware of the distribution channels' landscapes. According to Adebayo (2013), most suppliers sell their products through large retailers, and retailers then sell their products in the BoP market. Leveraging and or introducing alternative distribution channels may reduce dependency on large retailers and may possibly present both complexities and opportunities in terms of relationships in the different channels.

There are benefits that encourage suppliers to have more than one distribution channel. The BoP market is an opportunity for companies to penetrate the market and make a positive contribution by integrating local communities in their value chain. By doing so, it may increase brand preference and brand loyalty for the companies' products. Kapelianis (2014) elucidated that this opportunity for growth in the BoP market necessitates greater need for research in personal selling and sales management in emerging markets.

## **2.5 Alternative distribution channels**

In the studies completed by Nelson, Ishikawa, and Geaneotes (2013); Sheth (2011); Viswanathan, Sridharan, Ritchie, Venugopal, and Jung (2012) the authors explained that the research completed by the World Bank and United Nations has demonstrated that the expansion of employment and entrepreneurial opportunities are the single most important pathways out of poverty. These authors have indicated that many developing countries require the creation of more inclusive business models that directly integrate low-income people as entrepreneurs, suppliers, distributors, retailers, employees and consumers.

Hahn (2009) emphasised the need for the private sector to be a crucial partner in poverty alleviation. The study implied that people in developed countries may belong to BoP, while congruently there are parts of the population in developing countries who do not live in poverty. Therefore the companies need to position themselves successfully to service the BoP market, thereby opening opportunities for poverty alleviation by

leveraging private business know-how and resources and including the BoP into their value chains.

According to Mohr, Sengupta, and Slater (2012b) the market-based approaches to poverty reduction differ from traditional approaches, in that, rather than discerning in terms of aid, charity, and public assistance, the focus is on using business models and tools to solve BoP problems. Rather than being viewed as impoverished victims, the world's poor should actually be seen as resilient entrepreneurs and value-conscious consumers. Moreover, aid programmes to date have not demonstrated the ability to effectively solve such large, seemingly intractable problems, and public assistance may not be viable over the long-term.

The high unemployment in South Africa presents potential business partnerships in underserved areas, because MNCs can utilise an available work force as local agents, vendors, product activists and others, thereby significantly increasing work opportunities. Some companies are already active in this space as the potential for commercial growth is beginning to be detected (Ismail et al., 2012)

Whilst criticised by many, Prahalad (2010) argued that squeezing profits from the poor cannot be regarded as exploitation. When companies penetrate new market segments, it creates new jobs and the income generated ripples through the economy, creating more new jobs. Strong criticism of selling to the poor has been advocated by Karnani (2009), who argued that the romanticised view of the poor does not help them; and actually harms the poor because it lowers the importance of legal and regulatory mechanisms to protect the poor who are vulnerable consumers.

Linna (2012) suggested that local enterprises in the BoP have the ability to generate ideas for innovative products and services because of their innate practical daily experiences. The author stated that social networks and hubs are sound methods where the private sector can assess local ideas and retrieve feedback for the actual concept of development and business modelling. An emergent issue in the BoP is that of inclusive business ecosystems, with a broad range of players representing both for-profit and non-profit sectors.

To influence brand choices of the BoP market, Viswanathan, Sridharan, Ritchie, Venugopal, and Jung, (2012) accentuated the social interdependence in the BOP, suggesting that the unusually high degree of interdependence in both economic and non-economic dealings result in buyers and sellers that engage family, friends,

neighbours, and other members in the social network in the marketplace. This suggests that the inclusive approach encourages brand loyalty and scalability in the BoP market.

Ismail *et al.* (2012) indicated that there is more than one kind of scaling. Scaling up (centralised production of large numbers of a standard unit through a standardised process) can be complemented by scaling out (localising some segments of the value chain in ways that can be replicated in multiple markets. An example is ABI: ABI took the informal traders (The people who sell on the street) and provided them with coolers, which meant they could sell ABI products; they were not selling it before because they could not keep the beverages cool. This was a new revenue growth opportunity that was not there before, and it doubled-up as a good branding opportunity.

The theory discussed in this section suggested that poverty is one of the challenges for the BoP market and that the market's size presents potential for companies willing to enter this market. It further appeared to indicate the need for MNCs to incorporate communities in their value chain, thus assisting local economies to thrive. Mohr *et al* (2012) advised that pursuing opportunities in the BOP markets depends on the level of infrastructure, the level of consumer resources and whether the initiative is self-sustainable over time. Mohr *et al* (2012) suggested that different conditions in BoP markets may require different approaches.

Sheth (2011) suggested that inclusive marketing would be an advantage for companies to serve the majority of consumers who are below the poverty level of earning two US dollars a day with innovative access to ensure that products or services are affordable to them. Sheth further indicated the concept of public-private partnership, in which both the government and the private sector agree to incorporate resources and expertise to focus on societal needs that the free market processes and marketing fail to address (2011).

In support of Sheth (2011), Mason, Chakrabarti, and Singh (2013) specified that social marketing is understood as the need for developing good markets. Good markets work in ways that support the types of social world in which the majority desire to live. Thus, social marketing is required to build an understanding and appreciation of the practices of everyday life.

Leke *et al.* (2014) suggested that optimising the route to market plays a critical role in the highly fragmented nature of Nigeria's market, as an example. Hence, the fragmented market indicated that simply choosing distributors is not sufficient for emerging markets. The supply chain in emerging markets—and for Nigeria in particular—generally consists of primary distributors, small wholesale companies, and the fragmented retail industry, which includes small shops and street vendors. Manufacturers often have a direct (but usually non-exclusive) contractual relationship with primary distributors and little control over the rest of the distribution chain.

According to Chikweche and Fletcher (2011), some companies developed dual franchise systems to distribute their products to BoP consumers as part of their strategy to effectively serve the BoP, which constitutes at least 65% of those companies' turnovers. These franchises collectively distributed more than 62% of their low value products thereby constituting a key distribution channel. They indicated that the contracts for these franchises were more structured and binding than those of the multinationals, the reasons being manifold. The local companies' investments in support structures were more capital intensive, as the products were perishable and required refrigerated trucks. Unlike the MNCs that are more long-term oriented and view the BoP market entry as part of their corporate social responsibility, the franchises' flexible arrangements with franchisees and resource constraints forced the local firms to be stricter in their alliances with the franchises. However, trust and historical relationships with the social networks and ex-employees formed a core basis of the local companies' relationship with the franchises.

In the BoP market, there has been the emergence of alternative informal distribution systems that are related to social networks such as women's community groups and buying clubs, both of which are attractive distribution agents for companies (Chikweche & Fletcher, 2011). Citing the distribution system developed by Hindustan Unilever as an example, it developed a distribution system called *Shakti* (i.e. strength) to distribute its products in rural India using village women to act as distributors of products in remote areas, thereby realising the potential of the network systems already in place in these areas. Not only do these distribution systems enable firms to minimise the negative impact of the distribution challenges explained earlier but they also enable consumers to gain access to products, provide employment and create business ownership opportunities for these marginalised consumers, especially women.

Companies that pursue to explore and exploit the BoP market must assess their willingness to contribute to poverty alleviation in emerging markets and consider their

preparedness to service this market. When a company contemplates making use of the alternative distribution channels it must be aware of the conditions in which their consumers reside. This would assist to ensure that companies present viable options and opportunities to service the BoP market. Making use of alternative distribution channels seems to have many benefits beyond just making profit; it is therefore vital that this study explores the effective management of sales in alternative distribution channels.

## **2.6 Sales management**

Sales generally entail acquiring customers, retaining and growing customers; most organisations, regardless of whether they are profit driven, they are involved in the sales process. As discussed in Section 2.3 of the literature review, emerging markets present opportunities for growth in the future; that being the argument supported by a number of authors, there has been limited research done in the field of personal selling and sales management in emerging markets. Approximately only 3.5% of empirical articles in the *Journal of Personal Selling and Sales Management* published between 1980 and 2013 draw their samples from emerging markets (Kapelianis, 2014).

Panagopoulos *et al.* (2011) provided a similar argument, stating that research has been conducted in the developed Western societies (i.e., the United States and Europe), and conducted primarily by U.S.-based academics (albeit sometimes with a significant minority of European scholars). This tendency has dominated the existing sales literature. This means that the current knowledge of how selling and sales management is conducted across cultures and countries is limited to certain contexts.

The question this research study sought to answer was: How is sales management practiced in emerging markets? As well as: What alternative channels of distribution are available? The study also seeks to determine effective sales management strategies within the channels of distribution for the BoP market.

### **2.6.1 Sales management in alternative distribution channels**

Sales management in alternative distribution channels summarises the efforts that companies need to undertake to attain their objective to make profit. When the BoP market structures are considered, firms appear to have an opportunity to service this market whilst contributing positively to the economic welfare of the communities they

serve. It then necessitates the need for firms to have a functional sales strategy to effectively service this market using alternative distribution channels that would contribute to both the company's profitability and community's economic participation.

More recently, companies have pursued BoP markets because of their large size and revenue potential. Even 1% of four billion people results in a market of 40 million customers. The goal should be to penetrate the market while simultaneously raising the capita income, albeit marginally. If one billion people make one dollar more per day, the benefits not only to their immediate families, but to the country's GDP will be enhanced tremendously (Mohr et al., 2012b). Essentially, the objective is to empower BoP individuals tangibly, by employing methods that extend beyond aid and philanthropy. The benefits should include the establishment of relationships with local producers and distributors, the development of new business models and new product innovations that may be transferable to currently served markets, and most importantly, to enhance the lives of people who live in BoP markets.

Zhang, Baxter and Glynn (2013) indicated in their study that in business-to-business relationships, value is co-created through the integration of both firms' resources. They suggested that the availability of the buyers' resources have a larger effect on relational performance. The intention behind selling value is not only to maintain the customer whose expectations exceed product delivery, but also to capture more value for the company through a value-based price (Andersson and Hohenschwert, 2012).

Gupta and Jaiswal (2013) raised attention about the ethical concerns that surround the BoP marketing proposition as expounded by Prahalad *et al* (2010). These authors suggested that aggressive marketing to the BoP segment might carry the risk of inducing negative consequences for the individual and society. Furthermore, they suggested that in order to serve the BoP segment, companies might need to segment the poor into two segments: extreme poor and poor segments.

In order to serve the extreme poor, it might be recommended to further subdivide the BoP market. This is because corporate involvement might be more justified in building CSR programmes with the intent to serve the poor and uplift their wellbeing instead of inducing uncontrollable levels of consumerism. Conversely, to serve the subdivisions of the BoP segment, companies will need to pay closer attention to inclusionary and exclusionary criteria in assessing the viability of the segment and to ensure that marketing programmes are developed that do not carry the burden of negative consequences or unethical dilemmas.

## **2.6.2 Realities corporations face when servicing the BoP market.**

Sheth (2014) recommended that companies must be conscious of the realities of sales management in emerging markets, which is largely skewed to the BoP market and includes traders' mentality of low margins, prevalence of agency systems, high cost of debt-financing, and unorganised and inefficient infrastructure. Sheth (2014) placed emphasis on the fact that the sales force should create monetary value for the customer.

Radjou and Prabhu (2012) suggested that companies selling products and services to emerging markets experience challenges in terms of product design and delivery. They recommended that MNCs move beyond the accustomed localisation of the value chain and rather embrace a network orchestration strategy that harmonises local and global innovation partners.

Helping the poor essentially means raising their real income. Companies can penetrate the BoP market by offering products at lower prices. To lower prices without significantly reducing the quality of the product means reducing costs of production. Technologies affecting production and distribution have made significant strides but further changes would be necessary to ultimately have an impact on prices (Habib & Zurawicki, 2010).

Of a different view to the above authors, Karnani (2007) argued that the claim of affordability in the BoP market is a fallacy. The author contended that companies might prefer to sell small packages at lower profit margins to encourage trial and brand sampling. The poor might prefer small packages because of the convenience and ability to manage cash flow. Hence small packages do not increase affordability, noting that the only way to increase real affordability is to reduce the price per use.

Ismail *et al.* (2012) neither agreed nor disagreed with Habib and Zurawicki (2010); Karnani (2007); Radjou and Prabhu (2012) but rather emphasised the importance of concentrating on market access rather than market ownership when servicing the BoP segment in South Africa. Inasmuch, enterprises may need to consider forms of business that deal with communities rather than individuals. They indicated that companies that measure a product's potential only by how many people will buy it may underestimate the potential of a poor market; suggesting that it should rather be determined how many people will use the product, and possibly create a shared use by working with local agents.

Agnihotri (2013) illuminated that there is indeed a fortune to be made at the base of the pyramid but that good fortune can be created for both corporations and poor people if the BoP population is treated as suppliers, producers, co-owners, and/or employees rather than as mere consumers. However, in terms of consumers, there remains a large market for firms at the BoP. This market can earn companies' profits and simultaneously help eradicate poverty, mainly by lowering the cost structure for poor people (Habib & Zurawicki, 2010).

### **2.6.3 Inclusive business models on companies' value chain**

In support of private companies having an inclusive approach with communities in developing entrepreneurs, Karnani (2007) emphasised that creating opportunities for steady employment at reasonable wages is the best way to eradicate poverty; and further affirmed that there is much empirical evidence that demonstrates that creating decent employment opportunities is the best way to decrease poverty. Karnani (2012) suggested that companies should design creative business models that can profitably sell beneficial products to the poor at prices they can really afford.

According to Rangan *et al.* (2011), many companies have simultaneously created private and public value in part through innovative business models that enlist community members or other organisations in distribution, access, payment and even security. Ensuring that such a model is both commercially feasible and sustainable over the long-term involves streamlining operations and designing appropriate incentives for the people who are brought into economic ecosystems that the companies have created.

Involving influential members of the community may benefit the firms intending to target the BoP market. Goldenberg, Han, Lehmann, and Hong (2009) examined the role of hubs (people with an exceptionally large number of social ties) in diffusion and adoption of products, and their findings indicated that the opinion leaders can have major impacts on opinion formation and change. Furthermore, they believed that a small group of influential opinion leaders are able to accelerate or hinder the adoption of a product.

Sheth (2011) mentioned that the cost of capital and labour employed in the by Coca-Cola MDC is relative, as it makes use of local communities to distribute the product. The MDC model mediates the challenges with infrastructure and for this model to work, community support is critical because the intrinsic knowledge of local markets is vital.

Radjou and Prabhu (2012) reflected that partnering with local communities with infrastructure to facilitate delivery in an affordable and effective manner allows MNCs an opportunity to adapt and bring expertise to tolerate specific local challenges.

Kapelianis (2014) also supported the MDC model employed by Coca-Cola and suggested that it has features that encourage collaboration between distributors, salespersons and consumers. It is unique because its structure is centred on the community, involving network selling, with both for profit and non-profit roles intertwined. Kapelianis (2014) argued that the MDC model addresses the characteristics of emerging markets as described by Sheth (2011).

Decent profits can be made at the BoP market if companies connect their own financial success with that of their constituencies. Rangan *et al.* (2011) suggested that, as companies make money, the communities in which they operate must benefit by, for example, acquiring basic services or growing more affluent. This leads to more income in the segment, and then relates to more consumption and triggers more demand within the communities, which in turn allows the companies' to keep growing. The authors further indicated that to yield success, scale is critical for companies' intending to penetrate the BoP (Rangan et al., 2011).

Agnihotri (2013) suggested that in terms of improving standards of living, companies can help poor people by treating them as suppliers, producers, and/or employees, not merely as customers. Also, it was indicated that it is easier to raise disposable income than to create disruptive models and technologies to reduce cost and hence the prices of products and services. It has also been demonstrated that companies gain by enhancing their efficiency and profit-ability (indirectly if not directly) in terms of increased revenues. Furthermore, it was explained that firms can make profits from customers at the bottom of the pyramid if they can reduce poverty premiums for such customers and provide affordable utilitarian goods and services (Agnihotri, 2013).

The discussion above in turn helps these firms to lower their cost structure, improve living standards, and eradicate poverty. Nevertheless, not all firms can play an equally important role and have equal opportunities to extract profits from poorer consumers. Industries that provide products and services with only aesthetic or emotional value, such as tourism, movie multiplexes and the like have little to offer customers at the bottom of pyramid. This is primarily because it is unethical on the part of such companies to divert some of these people's minimal disposable income from utilitarian goods and services to purely aesthetic goods and services (Agnihotri, 2013).

M-PESA, which started as a money transfer service, has transformed Kenyan rural lives for the better. The use of the service resulted in an increased income of between 5% and 30% in households that adopted it. Retail operators have been engaged in state-of-the-art thinking and technology, enabling them to earn, influence and develop themselves and their communities. Additionally, the brand M-PESA has spawned many start-ups. And as more people use it, more vendors come on board who accept payments from mobile phones, which mean more sales to more people who use the M-PESA system. It has further forced down prices of transferring money by competitors, compelling them to improve services (Van der Merwe, 2014).

## 2.7 Practical examples

According to the Business Call to Action Organisation (2013), Mexico suffers from a severe shortage of affordable housing. Community members who wanted to build homes were charged in excess of a 50% interest rate as well as other additional fees. For poor families lacking collateral needed to obtain home loans, living conditions affected all aspects of their human development. A housing social enterprise known as *¡Échale! a tu Casa* provided cost-effective credit and designed a customised self-build model to provide low income families in Mexico with the opportunity to own a safe, affordable and environmentally-friendly home. This was done by utilising innovative lending platforms and an assisted self-help building programme where communities were trained with technical capacities to build their own homes and were supervised by certified architects.



Figure 2: Image of the low-cost housing initiative in Mexico

Business models that call for creating private and public value while aiming for scale are gradually becoming more prevalent. Hindustan Unilever has succeeded by training tens of thousands of sales and distribution agents. The Afghan mobile network operator Roshan has succeeded by doing the same for small retailers. The local communities' growing economic health boosts profits and prosperity for everyone along the value chain (Rangan et al., 2011). In studying dozens of companies over many years, Rangan, Chu and Petkoski found that those skilled with the ability to simultaneously build private and public value tend to have a nuanced understanding of their constituencies. The four billion people at the base of the pyramid, whose output represents one-third of the world's economy, are not a monolith. To emulate the most effective pioneers, companies must commit to learning what constitutes value for the various components of the BoP population (Rangan et al., 2011).

The Philippines has an efficient healthcare system in place, however it is not accessible to many low-income communities or remote areas. Hapinoy—a health-care company—created an innovative and inclusive distribution network of independently operated convenience stores for over-the-counter medicines and healthcare related products. These convenience stores are referred to as *sari sari* and represent between 35% and 40% of total retail sales. The Hapinoy distribution network provides business training programmes that run for ten months, and are mainly focused to attract and recruit women. The programme develops skills, empowers micro-entrepreneurs, and generates impact at the community level whilst creating a platform for channelling goods to the community in the most rural areas (Business Call to Action (Organisation), 2013).

The Business Call to Action Organisation (2012) cited an example of how companies could use current emerging market realities to their advantage. Zambia is a country with low population density and high poverty rates. Due to low bank penetration outside of metropolitan areas and the cost of banking services, over 80% of adults in Zambia do not have bank accounts. Conversely, 76% of adults in Zambia own a mobile phone. Access to mobile phones is also relatively high in the poorer segments of the population, with over half of rural farmers as well as 46% of the very poor owning a mobile phone.

Recognising a business opportunity, Zoono started with a money transfer service using a network of micro and small enterprise agents to offer instant, over-the-counter money transfers within Zambia to primarily unbanked consumers. The company has since diversified to other payment types, like mobile wallet cash deposits and withdrawals,

business-to-business supplier payments, and business-to-consumer bulk payments. The Zoon agents receive training that focuses on building entrepreneurial skills and the company has partnered with a major cellular telecommunications company and other corporates serving the BoP market in Zambia.

Budree and Williams (2013) emphasised the need to understand developing countries' differences regarding socio-economic factors before they launch into these markets or prior to transferring products from one developing country to the other. The example of M-Pesa in Kenya had proven to be a resounding success with Safaricom acquiring over 77% market share in the mobile network environment and a 9.7 million M-Pesa user base (GSMA, 2012). However, South Africa has struggled to reach a tenth of this capacity in more than two years since M-Pesa's launch. The authors' findings identified key socio-economic differences that culminated in the initial demise of the M-Pesa brand in South Africa as compared to the successful implementation in Kenya.

## 2.8 Overview of current frameworks

After having reviewed literature related to this field of study, the framework that appears relevant to this study is that of Barney and Hesterly (2009, p. 74), which is an analytic criteria derived from the strategic management process (Schrader, Freimann, & Seuring, 2012). Below is the process that is suggested for companies that wish to penetrate the bottom of the pyramid. This study is only focused on the distribution channels and sales management in the BoP market. It thus assumes that the firms would have done the research and it focuses on supply chain, which is numbered "9" in the framework below.



**Figure 3: Barney and Hesterly's strategic management process**

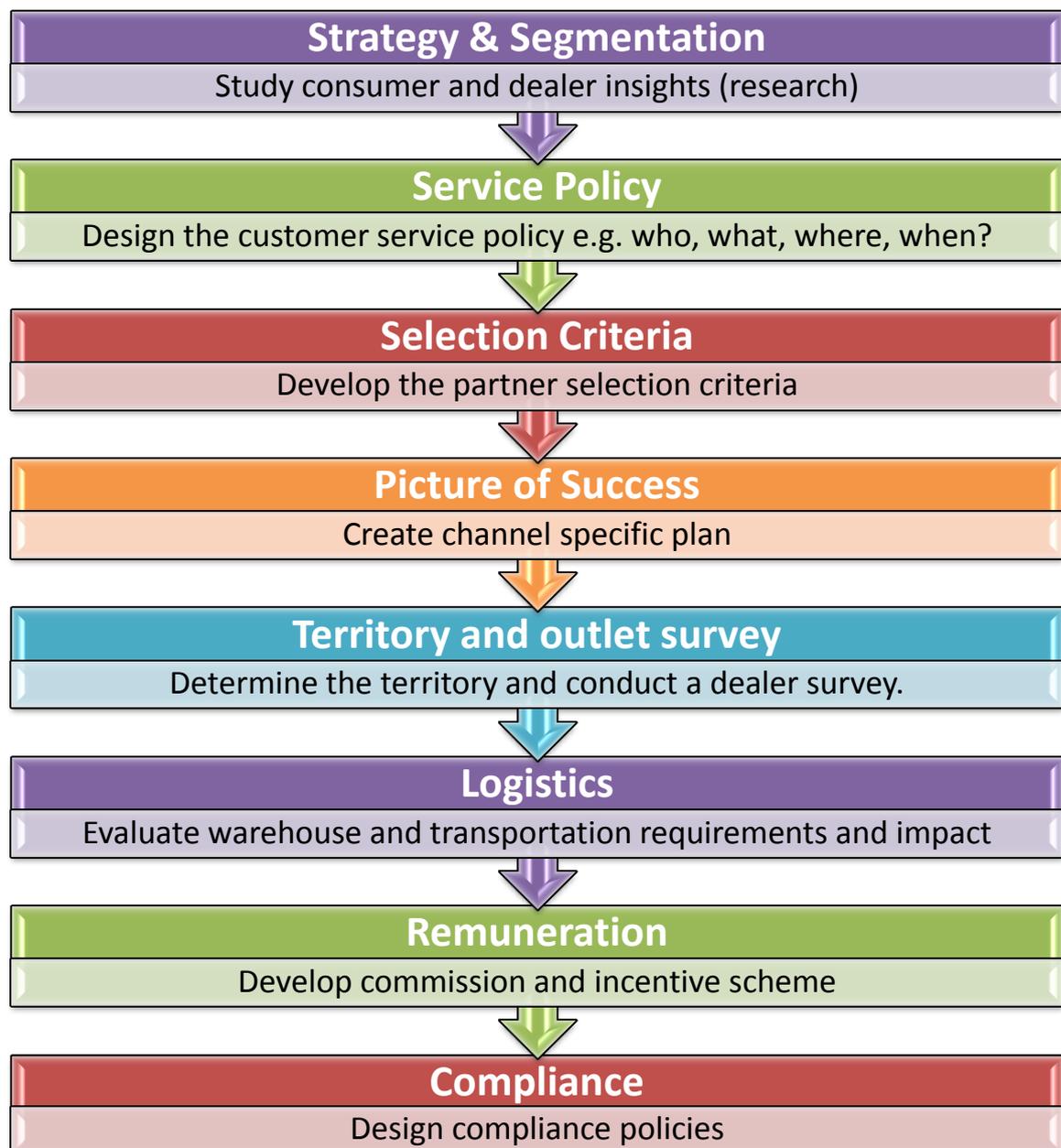
**Table 1: Explanation of Barney and Hesterly's strategic management process**

<b>Criteria</b>	<b>Exemplary issues covered</b>
<b>1. Company</b>	Line of business, number of employees and customers, sites
<b>2. Initial needs of BoP population</b>	Problems of BoP customers, consumer needs, terms of use, restrictions
<b>3. Motivation</b>	Economic aims, opening of a new market, corporate responsibility, image, employee motivation
<b>4. External analysis</b>	Living conditions of potential customers, earning capacities, competitors, political conditions, stakeholders
<b>5. Stakeholders involved</b>	Political stakeholders, civil society, suppliers, business partners, (non-government organisation) NGOs in home country
<b>6. Product/service</b>	Product features, fit to BoP needs, design of surrounding conditions
<b>7. Strategic choice</b>	Specific business line, fit to general strategy, competitive strategy
<b>8. Organisational implementation</b>	Relation to core business, organizational anchoring, relation to other business areas
<b>9. Supply chain</b>	Development of potential business partners, building of cooperative structures up- and downstream in the chain
<b>10. Economic outcome</b>	Sales, market share, profit, image and motivation improvements
<b>11. Sustainable development outcomes</b>	Social and environmental effects such as reducing poverty, improvement of living conditions, reducing climate effects, effects on natural resources

*Note: Extracted from: Schrader, C., Freimann, J., & Seuring, S. (2012). Business Strategy at the Base of the Pyramid. Business Strategy and the Environment, 21(5), 281–298. doi:10.1002/bse.727*

According to Sinkovics, Sinkovics, and Yamin, (2014) social value creation and business models may be interrelated in the context of the bottom of the pyramid business formation. These authors indicated that there was no explicit or deliberate sense of mission underpinning the business models in the BoP and yet social value creation was unambiguously an important or central outcome of the businesses. This suggests to MNCs that the process of incorporating the BoP into the companies' value chains in the distribution channel creates value within communities of operation.

Another model that supports secondarily the discussed framework above is that of The Coca-Cola Company (n.d.), the Micro Distribution Centre (MDC) Project. In East Africa, Coca-Cola Sabco works through small-scale distributors, many using manual delivery methods to serve small retail customers needing small drop sizes. Many of the distributors were first-time business owners. The model below indicates the design process in serving the BoP market using the MDC:



**Figure 4: Framework of the Coca-Cola MDC Project**

*Source: Extracted from the International Finance Corporation. (n.d.). Coca-Cola Sabco Micro Distribution Project. World Bank Group.*

The most critical success factors are supervision, account development, training, monitoring, and collaboration. Below are the enablers in which the MDC model attributes to:

- Implementation of a tracking system, creating a dashboard and making information easily accessible to all relevant parties.
- Technology use for order generation, mobile banking (e.g., Zap) and collaboration.
- Organisation to review the organisational support and supervision required, implying leadership commitment.
- Development and conducting basic business skills, on-the-job and class-room training in terms of processes.
- Developing well-defined processes for product, cash, information and reverse flow (e.g. returns, glass).

According to the International Finance Corporation (n.d.), the results are positive. Consequently, the MDCs are Sabco's core distribution model in many markets (e.g. 90% in Kenya and 99% in Uganda). Sabco has generated company revenues of \$420M and have experienced improved customer service. This inclusive distribution channel created entrepreneurial opportunities for 2,200 MDC owners and over 12,000 jobs; owners and staff support more than 41,000 dependents.

## **2.9 Literature review conclusion**

Through the review of literature conducted in this chapter, various themes emerged regarding each of the discussed theories, which include: Bottom of the pyramid, traditional distribution channel, alternative distribution channel and sales management. Below are the main points:

- The BoP market largely is consumers below the official poverty level, which means they earn less than two US dollars per day. There appears to be common themes that include limited resources, diversity and lack of infrastructure available to service this market. The gap that was identified in this theme was the need to distinguish between rural and urban BoP as they differ

in characteristics. This would assist MNCs in determining the potential challenges in each market and tailor business models accordingly. It is also vital to note the distribution channels that are currently used by MNCs to service the BoP market.

- The traditional distribution channel refers mainly the retail channel. It developed that the retailers have bargaining power and manufacturers are considering other distribution channels to service consumers. The traditional channel however is still a very important channel because of the geographic reach or footprint it offers for MNCs.
- The alternative distribution channels largely entail inclusive business models. This was through directly integrating low-income people as entrepreneurs, suppliers, distributors, retailers, employees and consumers. Practical examples were cited and benefits thereof included the contribution to poverty reduction. Not all the companies who target the BoP market appear to be successful, thus, encouraging the need to further assess how to propel better use and penetration of the BoP market using these channels.
- Sales drive value for companies. It appeared that limited research has been done in emerging markets in the field of sales management and personal selling. In particular to the BoP market, the gap is how to determine whether firms effectively manage sales and conduct personal selling using alternative distribution channels.

The literature discussed in this chapter has been the primary influence for the research questions that are discussed in Chapter 3.

## CHAPTER 3: RESEARCH QUESTIONS

### 3.1 Introduction

The literature reviewed has solidified the intention of the research study, and as such can be explained through the succinctly developed research questions. In the literature review it emerged that there are opportunities present for MNCs to penetrate the BoP market. Notwithstanding, it also appeared that there is a need for firms to incorporate the BoP communities into their value chain; which has the possibility to positively contribute to poverty reduction. Personal selling and sales management in the BoP market has not been sufficiently analysed with regard to emerging markets.

### 3.2 Research questions

**Research question 1:** How do firms manage sales through these alternative distribution channels?

Mohr, Sengupta, and Slater (2012) cautioned that pursuing opportunities in the BoP market are dependent on the level of infrastructure availability, the level of consumer resources available and whether the poverty alleviation initiatives executed by the private sector are intended to be self-sustainable in the future. These authors emphasised that different conditions in BoP require diverse approaches, thus understanding the conditions that would help in the selection of an approach that maximises community engagement.

It is imperative to be cognisant of the unusually high degree of interdependence in both economic and non-economic dealings in the BoP market, which has become a way of living for community members. Most people seem to have both the means and motivation to influence those around them. Vendors in the BoP market survive only if customers are able and willing to buy from them, while customers rely on the presence of local vendors who can respond and adapt to their needs. This is different from competitive situations in the conventional marketing context, in which retailers try to extract maximum profit from customers (Viswanathan, Sridharan, Ritchie, Venugopal, & Jung, 2012).

The sales function thus exerts a large influence in the success of the firm's short- and long-term performance. Most firms operating in the business-to-business sphere really heavily on the sales people to manage customers. Firms targeting the BoP market need to be aware of the social interdependence and must align their sales strategies accordingly. Avlonitis and Panagopoulos (2010) acknowledged that there has been declining academic research in the field of personal selling and sales management amongst other fields in the marketing discipline.

**Research question 2:** What are the distribution channels that service the BoP customers?

A large portion (greater than 50%) of the BoP consumers reside in rural areas, townships or in urban slums with little education, and they generally inaccessible *via* traditional channels of distribution (S. Gupta & Jaiswal, 2013; PwC Southern Africa, 2012; Ravhugoni & Ngobese, 2010). The rural BoP market is characterised by limited product access due to higher product distribution costs, vast geographical distances and lower population density. Together, these situational factors make it difficult for most MNCs to successfully penetrate the BoP market.

Rural BoP market retailers are, in most cases, sole independent small store-owners that have considerable local market power. A characteristic that contributes to the retailer's power is often the retail store design; due to its limited size, there is no opportunity present for the consumers to browse. The limited space captures the market, as consumers cannot readily compare different products and so their new product exposure is minimal (Alur & Schoormans, 2013). Another fundamental aspect that constitutes retailers' influences is that the store-owner acts as the (single) sales person, interacting directly (and in most cases exclusively) with the consumer. This happens because the consumers have minimal access to other village outlets or product information sources like magazine advertisements and the internet. A third important characteristic that enhances rural retailer power is the intense (and often lasting) personal relationships between the store-owner and local consumers. An advantage of this direct relationship is that the store-owner understands an entire village's needs and buying habits and monitors them closely. A combination of these factors provides the rural BoP retailer with power in the market and in new product recommendations in particular.

**Research question 3:** How do firms incorporate communities in their alternative distribution channel?

Rangan, Chu, and Petkoski (2011) acknowledged that doing business in the BoP market is a risky environment for companies. They suggested that a strategy of creating private and public value while aiming for scale provides companies with the best opportunity for success. Rangan *et al.* (2011) explained that commercial and social values are like the two blades of a pair of scissors, and scale is like the tailor's skilful hand. Subsequently, there has been the emergence of alternative informal distribution systems that are connected to social networks such as women's community groups and buying clubs, both of which have the potential to become distribution agents for companies (Chikweche & Fletcher, 2011).

Distribution challenges in the BoP market is one alternative in which the private sector can explore the viability of incorporating the local communities in their value chain. Literature has suggested that there may be benefits for the private sector to partner or work with local communities in the BoP market, one of which is the distribution of products. Effectually, the lack of infrastructure presents an opportunity for companies to work with local entrepreneurs to increase product availability in the BoP market (Mohr et al., 2012b).

**Research question 4:** What are the realities to be mindful of when servicing the BoP market?

Affordability and accessibility may be more important for differential advantage in emerging markets due to market conditions and characteristics of emerging markets (Matsau, 2010; Radjou & Prabhu, 2012; Sheth, 2011). In a South African context, a study done by Mthembu (2009) precipitated the view raised by Radjou and Prabhu (2012), that affordability and availability is vital to the poor consumers in the South African self-help housing predicament.

Karnani (2007) argued that the claim of affordability in the BoP market is a fallacy. The authors contended that companies might prefer to sell small packages at lower profit margins to encourage trial and brand sampling. The poor might prefer small packages because of the convenience and ability to manage cash flow. However, small packages do not increase affordability, as the only way to increase real affordability is to reduce the price per use.

# CHAPTER 4: RESEARCH METHODOLOGY

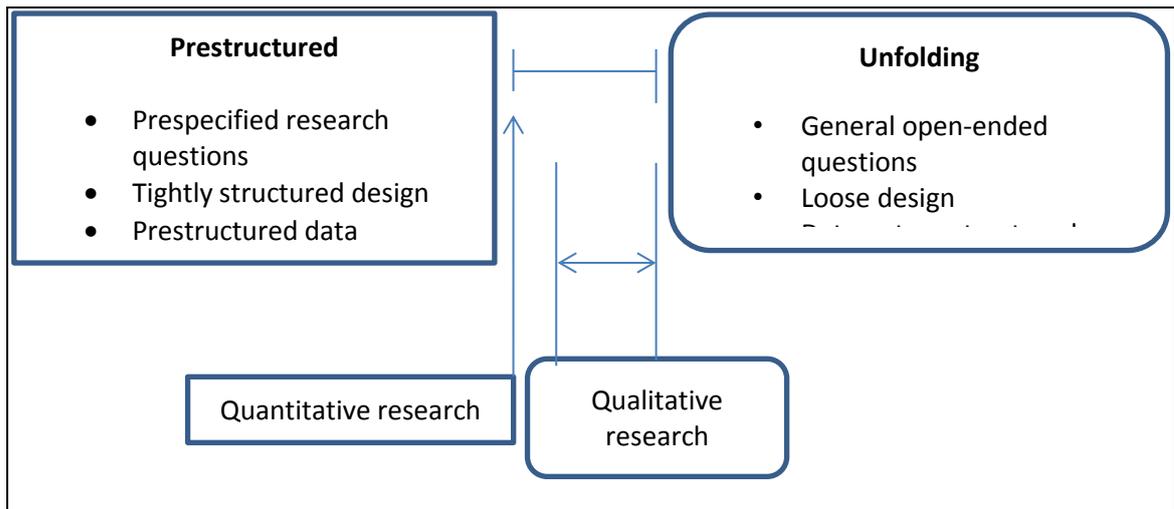
## 4.1 Introduction

The previous chapter explained the research questions that the researcher investigated in this research report. The research questions focused on the alternative distribution channels available to service the BoP market, also, how firms incorporate communities in their alternative distribution channels to service BoP market. The study further intended to assess the realities MNCs need to be mindful of when servicing the BoP market and how firms' management of sales for these alternative distribution channels can be conducted. This chapter explains the methodology that was used in the selection of the research design and method.

Punch (2000) mentioned two distinctions relating to research, which are the pre-structured *versus* unfolding research categories. The author stated that some research types are highly pre-structured, with clear and specific research questions, a clear conceptual framework, a pre-planned design and pre-coded data. Conversely, some types of research are not at all pre-structured, and specific research questions are not clear in advance, nor are tightly prefigured designs described. Instead, a general approach is defined and it is hoped that things emerge or unfold as the study progresses.

Upon performing this study, a discussion guide was prepared which is attached in Appendix A. Different discussion guides were prepared guided by the research question and the different participants. The discussion guide was to assist in having similar structured questions as the industries interviewed were different. It was also intended to ease the process of identifying emerging themes from the participants.

The rationale of this research was guided by the literature discussed in Chapter 2, which steered the research questions that were defined in Chapter 3. The research questions were best researched using a qualitative research design, as it allowed more profound insight to unfold when open-ended questions were asked. Consequently this approach aided structure when analysing the data through the identification of themes that emerged in the conducted interviews. Below is a graphic presentation of the research designed approach adopted in this study.



**Figure 5: Prestructured versus unfolding: the timing of structure**

*Source: Adapted from "Developing effective research proposals", by K.F. Punch, p 37, London: SAGE*

## 4.2 Research design

According to Punch (2006), quantitative research entails conceptualisation of the problem, and the author suggesting that the research questions are taken in the form of experimental comparisons; based on some intervention with clear outcome variables in mind. Qualitative research on the contrary focuses on interpretation, meaning, and the cultural significance of some behaviour. Therefore, the decision regarding the selection of the appropriate research on which method to use, qualitative or quantitative depends on what the researcher wishes to measure.

While BoP orientated research has received considerable attention, the topic is still fairly open and novel, justifying or even requiring a qualitative research process. A qualitative approach was used in this research study. The compromise of selecting a qualitative research design involved the breadth and depth of the research. Qualitative methods permitted enquiry into selected issues in great depth with careful attention to detail, context, and nuance, and as such it was appropriate for this research study (Patton, 2002). A qualitative design is required to remain sufficiently open with good flexibility; direction to the enquiry is maintained, which provides useful insights to the research questions (Patton, 2002; Saunders & Lewis, 2012).

Chipp (2014) explained that selecting the research design depends on (amongst others) whether the researcher seeks breadth or depth of information; insight or verification. She stated that there are two roads that can be taken when selecting a

research design, either qualitative which is exploratory or quantitative which is conclusive. The researcher's degree of control and amount of information known, guides this selection. There are many authors who support the use of qualitative research methodology in their studies when exploring a new phenomenon, including Javalgi, Granot and Alejandro, (2011), Mkhwanazi, (2011), and Mollenkopf, Frankel and Russo (2011), and Storbacka, as well as Polsa and Sääksjärvi (2011).

Qualitative (exploratory) research is also appropriate when not enough is known about a phenomenon; exploratory work permitted the development of new fields of enquiry development (Patton, 2002). . Thus this research followed a cross-sectional qualitative research approach that explored the elements of sales management, alternative distribution channels in the BoP market, and community inclusive distribution models. The selection of this approach offered the opportunity for the researcher to determine the relationships between the different outlined research elements. It created value of the phenomenon witnessed, provided flexibility and suitability (Skandrani, Triki, & Baratli, 2011).

The approach to this study diverges from the method applied by Chipp, Corder, and Kapelianis (2012), in their study concerning the role of collectivism in defining the South African BoP. These authors intended to determine the strength of relationships between variables within the BoP market in South Africa rather than to pursue new insights. Javalgi *et al.* (2011) supported the researcher's view in the position that they did not favour the quantitative method. These authors stated that the quantitative method does not adequately provide an in-depth understanding of the underlying end-user's actions under investigation, especially when the researchers are interested in developing a new theory within a field of enquiry.

### **4.3 Research method and rationale for selection**

The purpose of this study was to explore the management of sales in the BoP market and to determine the use of alternative distribution channels. The breath *versus* depth concession was also applied within qualitative design options. After assessing alternatives methods available for a qualitative study, individual, face-to-face, in-depth interviews were selected (Saunders & Lewis, 2012).

Patton (2002) indicated that participants are interviewed to discover those things that cannot be directly observed. The author argued that it is not because observational

data is more desirable, valid or meaningful than self-reported data, emphasising the difficulty to observe everything. The author further emphasised that the purpose of interviewing allows the researcher to enter into other person's perspective.

Conversely, Polkinghorne (2005) cautioned that evidence about human experience has inherent limitations, for the reasons that it is not directly observable, data about it depends on the participants' abilities to reflectively discern aspects of their own experience and effectively communicate those aspects.

Qualitative interviewing begins with the assumption that the perspective of others is meaningful, comprehensible, and can be made explicit (Patton, 2002). The purpose of the selected data gathering method was to provide evidence of experiences investigated through the face-to-face interviews with research participants. The evidence was presented in the form of written text through transcription; the evidence presented the ideas and thoughts that have been expressed by research participants. The incentive for selecting face-to-face, in-depth interviews *versus* observational research methods is that, it would have been challenging to observe situations that preclude the presence of an observer. The researcher would not have been able to observe behaviours that took place at a previous point in time.

A general interview guide formulated the approach used in collecting the qualitative data from face-to-face- depth interviews. The guide outlined a set of issues that were to be explored with each respondent before the interview commenced. The guide served as a basic checklist during the interview to ensure that all relevant topics were covered. The interview guides differ for each group of participants; there was a guide created for executive or senior managers, another was formulated for managers, and still another was designed for spaza shops and one created for consumers (Patton, 2002).

To strengthen this study, several kinds of methods or data were used to test for consistency; this is referred to as triangulation. Studies that only use one method are vulnerable to errors related to that particular method (e.g., loaded interview questions, biased or untrue responses), and it is recommended that a study uses multiple methods in which different types of data provide cross-data validity checks (Patton, 2002; Punch, 2000). Triangulation was applied in this study by using multiple data gathering methods, which included one-on-one in-depth interviews from different levels within each organisation (organisations interviewed were from different industries and were common in the market they service, BoP), spaza owners interviews and

customers interviews. Company documents were provided by participants to the researcher as reference and confirmation of certain cited examples during interviews.

The researcher assured the participants that their anonymity would be maintained. Photographs that were taken during the interview process that represent the companies that were interviewed can potentially compromise confidentiality. As such, the researcher has withheld these photographs from being published in the research study, or in any related work to this particular study. As a result, triangulation will be in the form of comparing and contrasting the experiences from different levels within and outside the organisation, the different industries and the expert's opinion on each industry.

#### **4.4 Population and unit of analysis**

One of the strengths of qualitative analysis is the ability to view a phenomenon holistically. This factor provided the researcher with the opportunity to select the appropriate unit of analysis that would be able to answer the research questions. The companies were selected purposely based on the fact that they have a distribution channel that services the BoP market in South Africa. The industries were deliberately selected to be different, namely: Fast Moving Consumer Goods (FMCG), services (banking), telecommunications, construction, baking and beverages. This provided variance in the data and it presented a good opportunity for triangulation; it also provided the opportunity for the BoP market in South Africa to be viewed holistically.

Five different levels of information gathering were employed to determine that the same concept was applied to further gain more profound insight through one-on-one interviews. The first level included the executive or senior level of sales to gain the strategic perspective regarding the BoP market. The second level of information gathering correlated the managers and or business partners servicing the BoP market with the organisation's strategic intent. The third level of information gathering yielded responses from the spaza shops that validated the insight garnered from level one and two, and further created a comprehension of what the BoP spaza shops consider to be value- additions from MNCs. The fourth level of information gathering targeted the consumers in an attempt to determine the consumers' purchasing decisions and preferences. The last level of information gathering sought the perspectives of the industry experts in order to correlate and triangulate the emerging themes and commonalities from the different respondents.

The first population of relevance for this study included the sales executives or senior managers of businesses that have a direct or alternative distribution channel in the BoP market in South Africa. The second population constituted the managers, distributors and/or partners of MNCs that support the business to service the BoP market. The third population comprised the spaza shop owners and/or hawkers that were interviewed. The fourth population included the consumers or customers who purchase from the spaza shops operating in the BoP market in South Africa. The last population constituted the industry expert interacted with the BoP market on a corporate and academic level. The unit of analysis was the perspective of the participants when answering the research questions, as guided by the research guides.

## **4.5 Sampling method**

Qualitative studies tend to yield detail; they investigate in-depth and interviews capture direct quotations about people's personal perspectives and experiences. Purposive sampling was used for this study as it is information rich and illuminative; it offered useful manifestations of the phenomenon of interest (Patton, 2002). The companies identified in this study are from different industries, but they are similar in two aspects in that they all have alternative or direct distribution channels and they service the BoP market in South Africa. According to Punch (2000), the sample size of a qualitative research tends to be small and for some studies there is no predetermined sample size.

Research was done prior to commencing the sample selection to identify MNCs operating in the BoP market. A sample size of twenty two was initially decided on in order to achieve depth in the interviews conducted; however a sample of eighteen was concluded as sufficient.

It was difficult to conclude that data saturation was reached. This is because upon conducting the research, companies were interviewed first because they were initially more difficult to access. After interviewing the different levels and the spaza owners, new information emerged. The major limitation was time to perform more spaza shop interviews and to approach more consumers to reach data saturation. However, the data collected seem adequate to enable conclusions that could be generalised to theory.

Convenience sampling was used when interviewing customers because the person was at the spaza shop to make a purchase. To enable data validity, it was necessary to understand the customers' perceptions about the spaza shops, their brand choice and preferences. This was done at the spaza shop owners' sites. It was challenging to maintain anonymity of the customer to the spaza shop, as there was no available room to conduct private interviews.

#### **4.5.1 Companies interviewed**

The sample unit included companies servicing the BoP market through an alternative distribution network that excluded the retailers (middlemen). Olsson, Gadde, and Hulthén (2013) used the term "Middlemen" which are a form of retailers, wholesalers, and many specialised types of merchants, brokers and sales agents. The companies that were interviewed operated in a variety of income group levels; that is, the traditional market, which encompasses both mid to high income, as well as low income markets in South Africa. All the companies interviewed are MNCs with South African operations.

Success is defined as the perception of which participants of the relevant companies indicated the penetrability and sustainability of the BoP market. Some companies viewed their performance as successful in the BoP market; some did not view their performance as successful. Some companies are currently experimenting with models derived from other successful companies. Companies servicing the BoP market in different industries were interviewed; the table below provides information regarding the firms' locations of the headquarters, whether in South Africa (SA) or overseas (outside SA), and whether the participant of that firm considered the company successful in penetrating the BoP market.

**Table 2: Companies interviewed**

Sector/ Company	SA	International Headquarters	Successful
<b>Fast Moving Consumer Goods (FMCG)</b>			
FMCG		Y	N
<b>Banking</b>			
Bank		Y	N
<b>Bakery</b>			
Bakery		Y	N
<b>Beverages</b>			
Beverage- Alcohol		Y	Y
Beverage- Soft drinks	Y		Y
<b>Tele-communications</b>			
Telecommunication	Y		Y
<b>Construction</b>			
Construction	Y		N

## 4.6 Data collection and analysis

An interview guide was prepared before face-to-face interviews were conducted; the interview guide was largely determined by the literature review discussed in Chapter 2, which resulted in the proposed research questions that were provided in Chapter 3. The consent letter, interview guide and letter from the University of Pretoria were sent to all executives and or senior managers prior the interview scheduled date (See Appendix B). This allowed the participants the opportunity to review the questions and advise of their willingness to participate in the study. This approach encouraged participants to illuminate information pertaining to the research guide that they did not easily comprehend. As a result, this approach provided more depth regarding each research question as some participants re-read the questions to verify that they had answered conclusively.

Prior the commencement of retailer/owner interviews, pre-test interviews were conducted and recorded to gauge the relevance of the questions and participants' understanding of research questions. As suggested by Chipp (2014) the interviews were unstructured as the researcher was conducting an exploratory study. To maintain consistency and to serve as another form of triangulation, an interview guide (see Appendix A) ensured that the same questions were asked from participants in different industries.

It must be stated that the interview guide did not dictate the path of the interview, but was rather utilised as a guide. The time scheduled for each interview was between forty-five minutes (45min) to an hour (60 min). However, some interviews took much longer to conduct, in particular where two people participated from the same company. Interviews were recorded electronically and notes were made during the progress of the interview in order to track the important aspects of the interview that were deemed important.

During the data collection for the spaza shops, five spaza shops were not willing to participate because they did not seem to trust the researcher's intention. Most owners, however, gave the feedback that the owner is not around, and explained that the owner was the person best suited to answer the research questions. The researcher approached two random gentlemen on the corners of streets of the respective spaza shops to accompany her for the visits; as a result the rate of rejection reduced and the research continued smoothly thereafter.

## **4.7 Data analysis**

The content of the interviews was initially analysed using the ATLAS.ti software. This was performed by generating codes and systematically coding the whole dataset. This then enabled collation of similar codes into potential themes (Silverman, 2011b). After coding a few documents, the software coding method presented challenges and the narrative analysis was conducted as it is commonly used in qualitative studies (Silverman, 2011b). This adjustment was a result of resource effectiveness and efficiency of the ATLAS.ti programme.

The ATLAS.ti programme took considerable time to learn, code and interpret the data. Because different industries were interviewed, it was challenging to gather the related themes. As indicated in this study, time was a constraint and the researcher selected for the narrative analysis. According to Patton (2002) narrative analysis extends the idea of text to include in-depth interview transcripts. The emphasis was on interpretation of context and on understanding the lived experience and the perceptions of experience.

Supporting the applied method was Harrison (2010), in reference to Welman and Kruger (2001), who explained content analysis as a method of systematically analysing

unstructured interviews, identifying the incidence of themes, and determining the way in which themes are portrayed, while narrative analysis retains the richness of the data, and allows patterns to develop.

Each interview was transcribed *verbatim*. To ensure structure in the narrative analysis, the researcher made use of content and narrative analysis of each interview using Microsoft Excel. This generated comparative analysis to compare results across units of analysis and across variables (see Appendix C). Cross-sectional indexing of data involved the devising of a consistent system for indexing the whole data set according to a set of common principles and measures was adopted in this study (Mason, 2002). This enabled the researcher to locate and retrieve issues, topics, information, examples and themes which do not ordinarily appear in the data; the logic of variable analysis had been applied (see appendix C).

#### **4.8 Data validity, reliability and limitations**

The method used by qualitative researchers exemplifies a common belief that it can yield a more profound understanding of social phenomenon than would be obtained from a purely quantitative methodology (Silverman, 2011a). According to Mason (2002), conventional measures of reliability are associated with quantitative research. Reliability is therefore being conceptualised in terms of how reliable, accurate and precise the research instruments are; this in turn being judged by the consistency with which known instruments produce certain measures.

Mason (2002) argued that an obsession with reliability inappropriately overshadows more important questions of validity, resulting in a nonsensical situation where a researcher may not be clear at all about what they are measuring (validity), but can nevertheless claim to be measuring it with a great deal of precision (reliability).

The researcher strived to ensure that validity procedures reflected in this study perpetuated present criteria with labels distinct from quantitative approaches, such as trustworthiness and authenticity (Creswell & Miller, 2010). Researcher bias and inexperience was mitigated by enlisting the advice of a qualified experienced researcher. The research guide was also assessed by a qualified academic researcher to ascertain whether the questions were open-ended. Further to ensure the questions are specific to the research questions and were consistent with the research objectives.

Triangulation is a validity procedure where researchers search for convergence among multiple and different sources of information to form themes or categories in a study (Creswell & Miller, 2010). In strengthening validity and reliability of the research findings, the triangulation process was used. Saunders and Lewis (2012) defined triangulation as the use of two or more independent sources of data or data collection methods within one study in order to ensure that the data reveals the assumed information. Triangulation provided comfort to the the researcher that the results analysis were correct and the knowledge that all had been done to provide credible results.

Triangulation was done through a systematic process of sorting through the data to find common themes across participants from different companies and industries. The researcher's pre-interviews in the field of this study contributed the choice of MNCs that were interviewed.

## **CHAPTER 5: DATA ANALYSIS**

### **5.1 Introduction**

The previous chapter described the methodology that was employed to answer the research questions proposed in Chapter 3. This chapter presents the findings extracted from 18 interviews that constituted seven company executives or senior managers, three field managers, three customers, three consumers, and an expert in the BoP market in South Africa. The purpose of this research was to explore the sales management in the BoP market and to determine the alternative distribution channels that MNCs use to penetrate this market. The presentation of data is qualitative in nature. To provide fundamental information regarding the research population, Table 3 outlines the participants of this research report.

**Table 3: List of participants**

<b>Sector/ Company</b>	<b>Position</b>
<b>Fast Moving Consumer Goods (FMCG)</b>	
FMCG	Executive
Middle Management- Execution (MM FMCG)	3 <sup>rd</sup> Party partner
<b>Banking</b>	
Bank	Executive
<b>Bakery</b>	
Bakery	Senior Manager
<b>Beverages</b>	
Beverage- Alcohol	Executive
Senior Managers (MM Bev)	Manager
Beverage- Soft drinks	Executive
Middle management- Execution (MM Bev)	Manager
Community entrepreneur (CE)	Distributor
<b>Tele-communications</b>	
Telecommunication	Senior Manager
<b>Construction</b>	
Construction	Executive
<b>Spaza Owners</b>	
Spaza Shop 1	Owner
Spaza Shop 2	Owner
Hawker	Owner
<b>Customers</b>	
Customer 1	Shopper
Customer 2	Shopper
Customer 3	Shopper
<b>Industry expert in South Africa</b>	
Expert	Expert

## **5.2 Research Question 1: How do firms manage sales through alternative distribution channels?**

From the findings it was apparent that the interviewed participants seem to have embraced or were in the process of embracing alternative distribution channels. It is imperative to determine the personal selling and sales management in these channels.

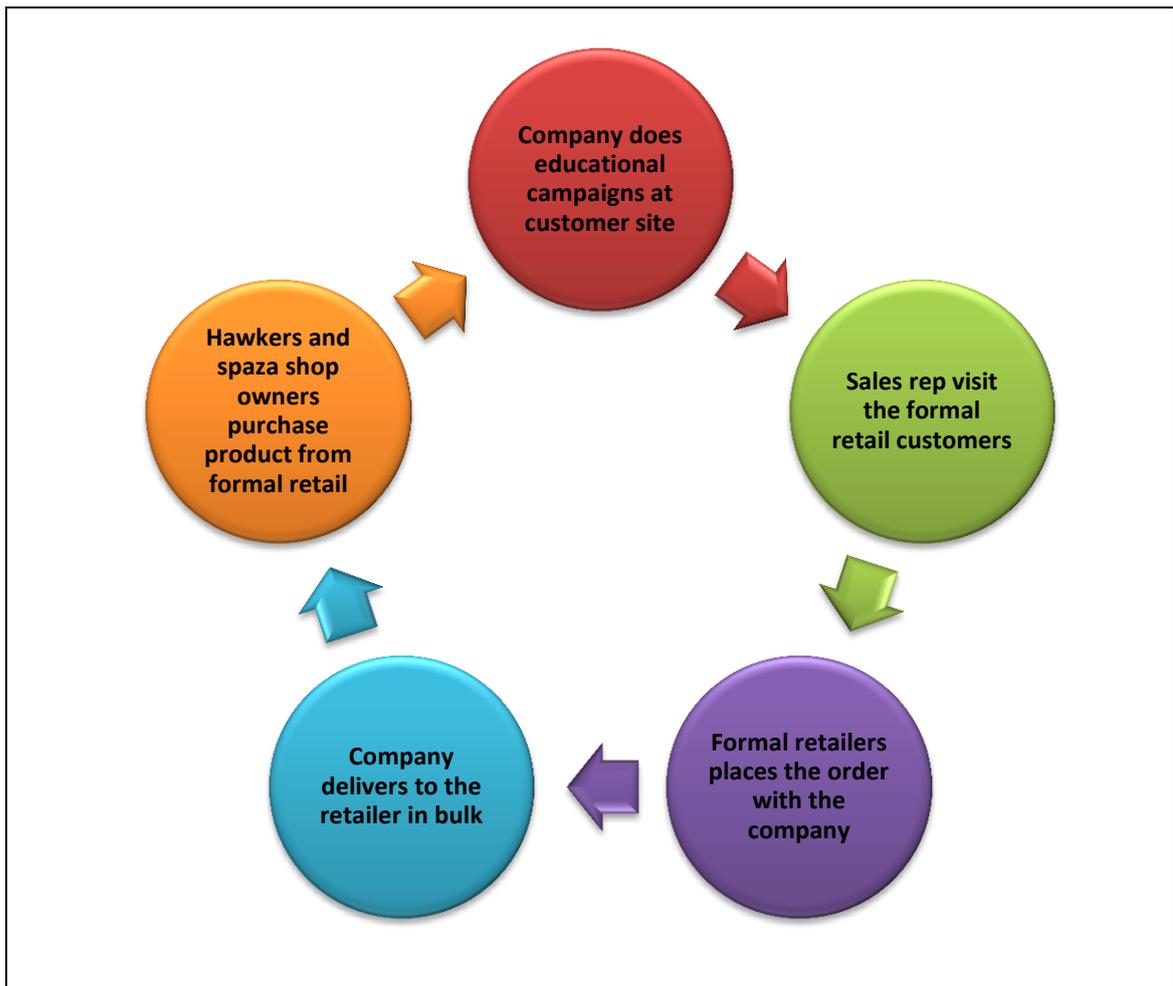
This section discussed how sales are managed by the different companies in these channels, and allowed the participants to vividly explain the personal selling and sales management process of each company that services the BoP market. The companies that have embraced the alternative distribution channels indicated that they acknowledge the benefit thereof, not only to the community but also to their business performance.

Thus, this section presents an explicit illustration of the personal selling and sales management process used by the interviewed companies. It describes the different alternative distribution channels used by the companies servicing the BoP market. Worth noting is that technology appeared to be an enabler and encouraged transparency and accountability. The participants' quotes provide a perception of their respective alternative distribution channels, and their quotes further allude to the methods they employ to recruit the sales representatives on the alternative distribution channels servicing the BoP market.

### **5.2.1 FMCG- Snacks company distribution channels**

The FMCG respondent sells snacks; the distribution channel is designed to serve the large independent wholesalers. The company's distribution strategy is to gain as much direct loads from the manufacturing sites, and distribute these directly to the largest wholesalers. The main decision factor is the cost involved with the distribution; crisps are very light, and that transportation of air becomes very expensive when more complex routes are travelled. From a cost perspective, to make the product available to the end consumer, the best thing is to ensure massive truck loads that are concentrated on the right mix of products and are delivered to a focal point.

There company used to have a direct distribution channel, but it was closed because of the high cost to serve. Another reason that was indicated is the higher frequencies of robberies, which is discussed in detail later in this chapter. As the company appears to be dependent on the formal retail sector, it now associates with the hawkers and creates education campaigns that allow the hawkers to understand quality and the importance of having a good product that is able to generate profit. The goals of the education campaigns are to increase demand for the products to be purchased at the formal retailer and encourage the spaza shops and hawkers to make the brand choice at store level. The distribution channel is depicted below:



**Figure 6: FMCG company distribution channel.**

FMCG: *“The product that we have for the bottom of the pyramid, has no... a very low profitability, it does not justify a distribution that’s so intensive”*

Middle Management: *“We had a distribution problem within the wholesalers – there was. That’s something we can’t control because we don’t control the distribution.”*

Middle Management: *“We went into the wholesaler and we checked on stock because that’s another issue that the hawker will have. But a lot of companies tend to do one or the other. One of the key learning’s in a project like this, is you have your push and pull. It flows: Wholesaler – Spaza – hawker – consumer.”*

It appears that when a firm does direct empowerment through education campaigns to encourage brand choice at store level, the company must ensure consistent product availability.

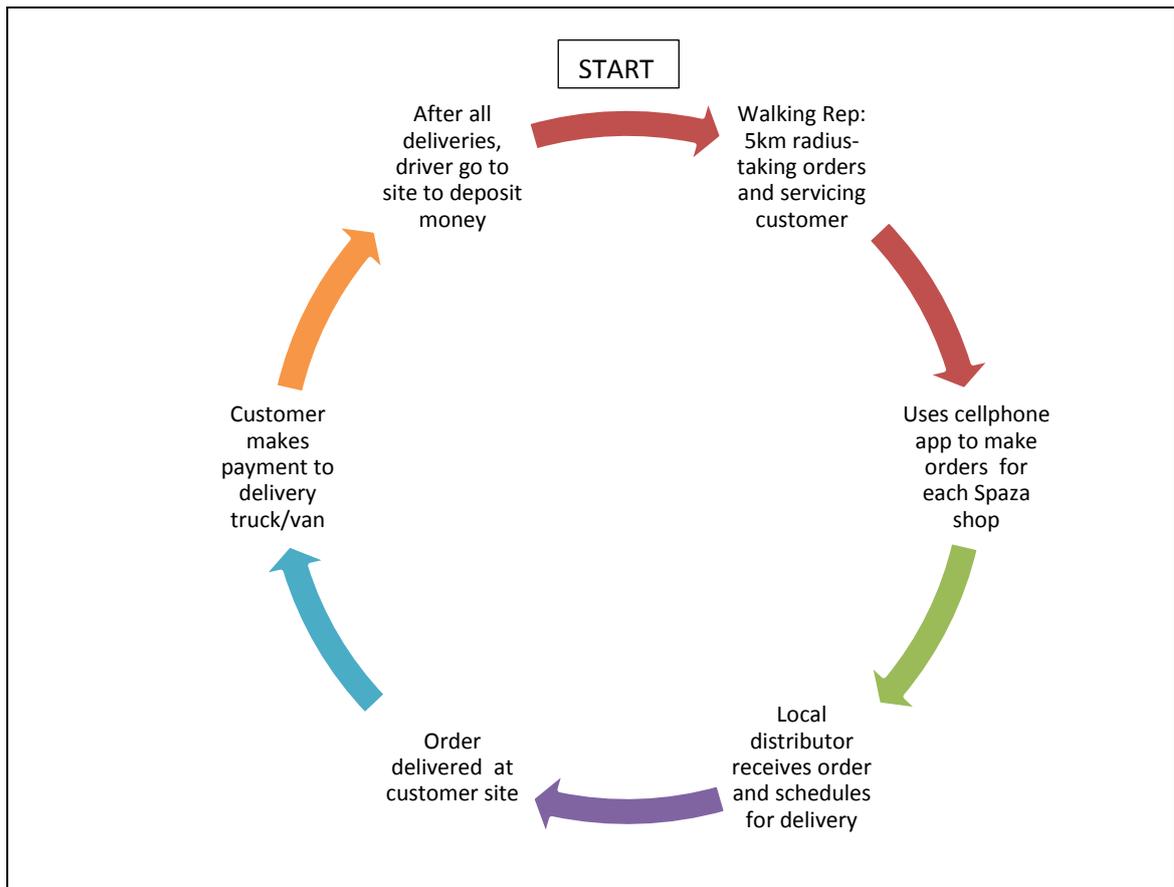
### **5.2.2 Beverage- Soft drinks company distribution channel.**

This company sells soft drinks in both the formal and informal retail channels. Different distribution methods are used to reach the different customer segments. Their products are packed in cans, bottles and plastic, the sizes of the products differ and are bulky. They are packed in cases when they are distributed; as a result, they usually require transportation using a truck, vans and other forms of transportation.

The company identified community members in the different communities that distribute the product on behalf of the company in both urban and rural BoP. The distributors use their own land and buildings as storage facilities, as well as the distribution centres. The company brands the distributors' premises as an extension of their business for ease of identification. The distributors, with the support of the company, use trucks, vans and other methods to reach the customers in the allocated areas of responsibility. The distributors use all the IT systems that are used by the company and at any given time, the company knows where each product is delivered and the pricing thereof.

This beverage firm also uses an alternative distribution channel to service the BoP market. It commences with the local representative going to visit the scheduled calls and potential customers within his or her area. Empowered with a phone, she then makes an order for each customer on site and services the customer according to the company's process. The order is immediately received by the local distributor who schedules it for delivery. The truck or van is loaded with the customers' precise orders and these are delivered to customers. The customer pays upon receiving the stock, after the day's work is complete, the drivers return to the local site to do banking and to reconcile the day's work.

Beverage- Soft drinks: *"You'll do all these things on the phone; it will come to our systems."*



**Figure 7: Beverage - Soft drinks company distribution channel**

Beverage- Soft drinks: *“No, no, no, they will walk. They live there, they stay there around, they surrounded by 30 Spaza shops around, and they walk everyday anyway when they go buy dagga, and they walk. They don’t take a taxi, he is in the township, people in the township don’t take a taxi to go to another section, they walk. Then they are used to it and there’s nothing wrong to it, it’s not a big deal! Then we start recruiting those guys, in the township.”*

### 5.2.3 Telecommunications company distribution channel

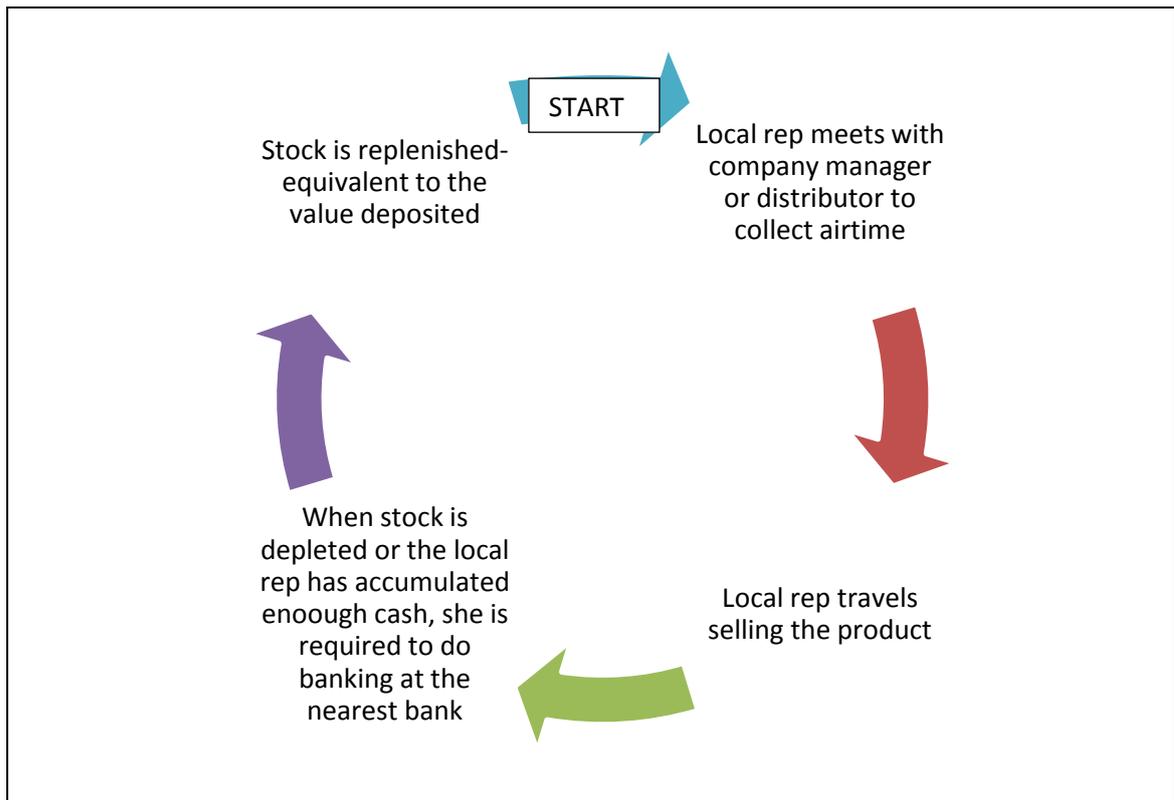
The telecommunications company sells airtime and internet bundles in both the formal retail channel and the informal markets. The packaging of these products is easy to handle and it is of high value. The products can be sold electronically, which is how the formal retail channel sells it; or it is sold as a short piece of paper that includes the recharge voucher number. The telecommunications company also have a direct channel, which are retail stores that sell branded selling airtime, cell phones and other accessories.

The informal channel consists of people selling the airtime in the streets, these people wear branded clothing, with the company's logo, and are easy to identify. The airtime and internet bundle is also sold in the spaza shops. Because the product is easy to handle and distribute, transportation of the product is easy and requires minimum infrastructure investment. The telecommunications company also uses the local communities from which they employ local sales representatives; they walk in their respective areas selling the products.

In terms of the alternative distribution channel, local sales representative are appointed to service their area of residence selling airtime. They walk the streets selling airtime in exchange for cash and the representatives bank the money once the value has accumulated to minimise the risks associated with cash handling.

Telecommunication: *"Basically at any one time you can go to the system, so every time there is a monitoring tool that we've got."*

Telecommunication: *"We have a whole management structure that looks after the local representatives; they go out and recruit in the communities that they're going to service. So if you are in Seshigo, they probably will get somebody who is from there. One, that person doesn't have to catch a taxi to go to service anybody else and two that person is familiar with the community and the community is familiar with that person. So chances are if you see somebody you know that is selling something, you are most likely to support them."*



**Figure 8: Telecommunications company distribution channels**

Telecommunication: *“They do have an amount of cash that they carry with them, but we give them a certain limit of product value. So as they sell that product value, stock depletes and they get the cash. The idea is rather get one of the managers to bank on their behalf or they find a bank to make deposits of that amount. As soon as the money reflects in the system we then replenish their stock with the product value of such deposit.”*

#### **5.2.4 Beverage- Alcohol company distribution channel**

This company uses distributors from local communities to service the BoP market. The sales representatives appointed by the company are not necessarily from that community and are of a slightly higher calibre than the telecommunications and soft drink beverage companies. The distributors are only responsible for deliveries and the delivery staff. The sales component is managed by the company.

The Alcohol industry in South Africa is highly regulated. Alcohol companies are not permitted to sell to retailers or any business that does not have a liquor licence. This company sells to the formal retailers and informal retailers that have liquor licenses. Businesses that do not have the license usually buy products from the formal retail

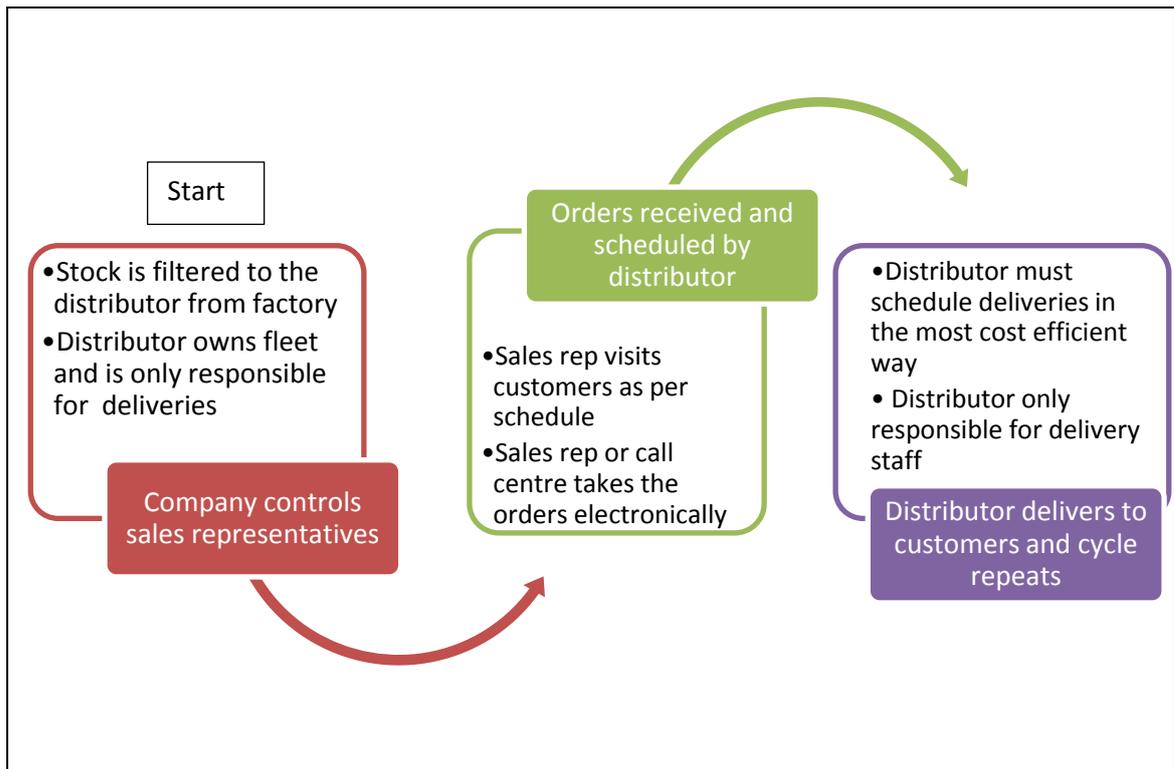
channel as the retail channel need not to request any license from their customers. The retail channel is thus important to this company because of this reason.

The informal retail channel is serviced using different channels. In some areas, the company uses a direct channel and in some areas an alternative distribution channel is utilised. When an alternative distribution channel is used, a community member is used as a distributor. The company brands the operation as if it is an activity associated directly with the company. The community member is paid for the infrastructure that the company uses; and the distributor is paid per case delivered to a specified destination. The sales team is maintained and employed by the company; the distributor may only appoint the people who perform the actual deliveries.

The distributor is treated exactly the same as any other employee; they are viewed as an extension of the company. IT systems and branding is exactly like the other channels of the company, the only differentiator is that the distributor is a community member and is known in the area. Employees may be from the local community but sometimes this is not the case, they are paid and measured by the company. The infrastructure investment is combined between the company and the distributor, and is dependent on the specific situation; however the payment to each distributor is exactly the same.

Beverage- Alcohol: *"We use our IT system, is literally used by these guys as well. We know who delivers to whom."*

Beverage- Alcohol: *"If you want to say, how they can increase their sales, it is by the way they are delivering, so if they are efficient and they can secure that delivery and that sale; being there on time and they have got the right product and all of that, that's how they can influence how much volumes they can push."*



**Figure 9: Beverage - Alcohol company distribution channels**

Beverage- Alcohol: *“When we pay you the fee, we pay for five people and for five trucks. If you are using two trucks or three trucks, as long as you don’t compromise on customer service, which we measure you on, on a daily basis. So there is a service level agreement, we literally measure you and we are very serious.”*

### **5.2.5 Banking company distribution channel**

The banking respondent represented a bank that is attempting to “bank the unbanked” in the BoP market. They view their distribution channel as collaboration with the spaza shops to make these banking sites. The customers are able to open accounts and transact in their nearest spaza shop. The demand is created by advertising and marketing the service to the unbanked market and BoP customers.

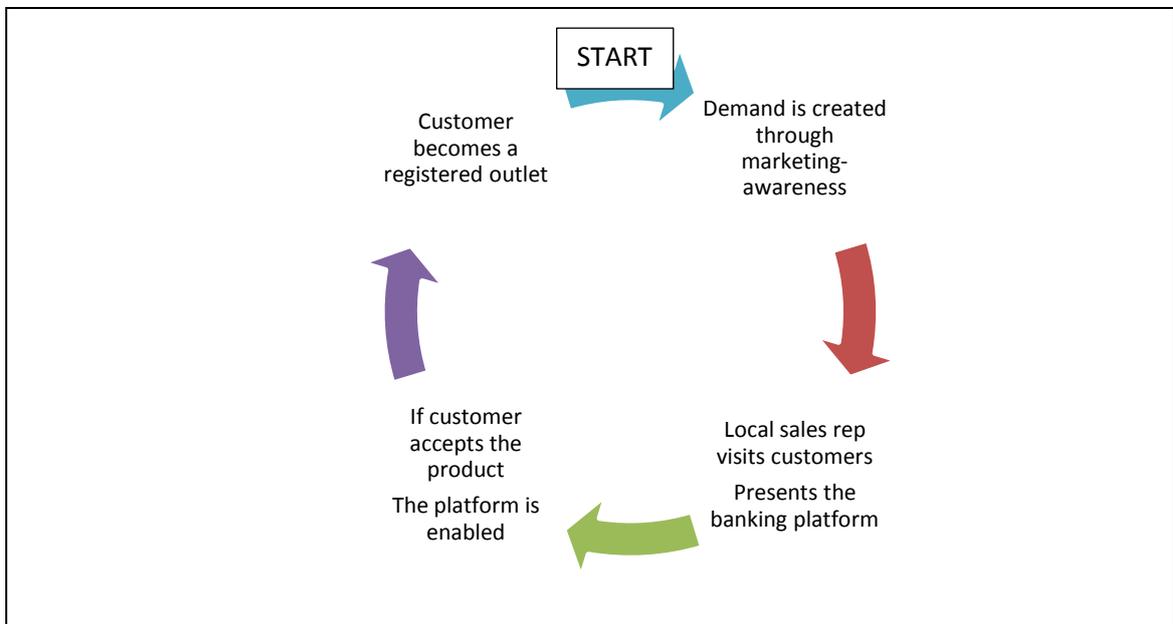
The company makes use of sales representative from the area to service the customers in this market. They strive to employ local sales representatives but this can be challenging at times. The sales representatives walk to customers and service them or find new business. The sales representatives only need to get confirmation from customer on the service needed by making use of cell phone application. The IT

system used by sales representatives communicates with the execution team to implement the technology with the specified customer.

The pack size of the banking system is portable and requires minimum investment on infrastructure. The representatives walk to customers or make use of public transport as they are placed closer to their place of residence. IT systems are used to track the sales representatives' activities and location points. The bank's management model of alternative distribution channels entails having a local community representative that services local customers. The representatives have the products with them on each customer visit as the process is technological.

Bank: *"You give them the technology or the platform to enable them to be able access the solution in order to serve the customer."*

Bank: *"We looked at the criteria for a few sales representatives. The qualities are job profile, we going to look for that particular person, is a member of the community. So we really don't want this guy to wake up at 4am and get to work at 9am and has to leave at 3pm. So he is a member of the community, he has got certain qualities that we want from a field service person."*



**Figure 10: Banking company distribution channel.**

Bank: *"We now believe that if you go to any retailer and you say, 'please can you accept my product?' If they accept the product in all the stores, you give them the*

*technology or the platform to enable them to be able access the solution in order to serve the customer.”*

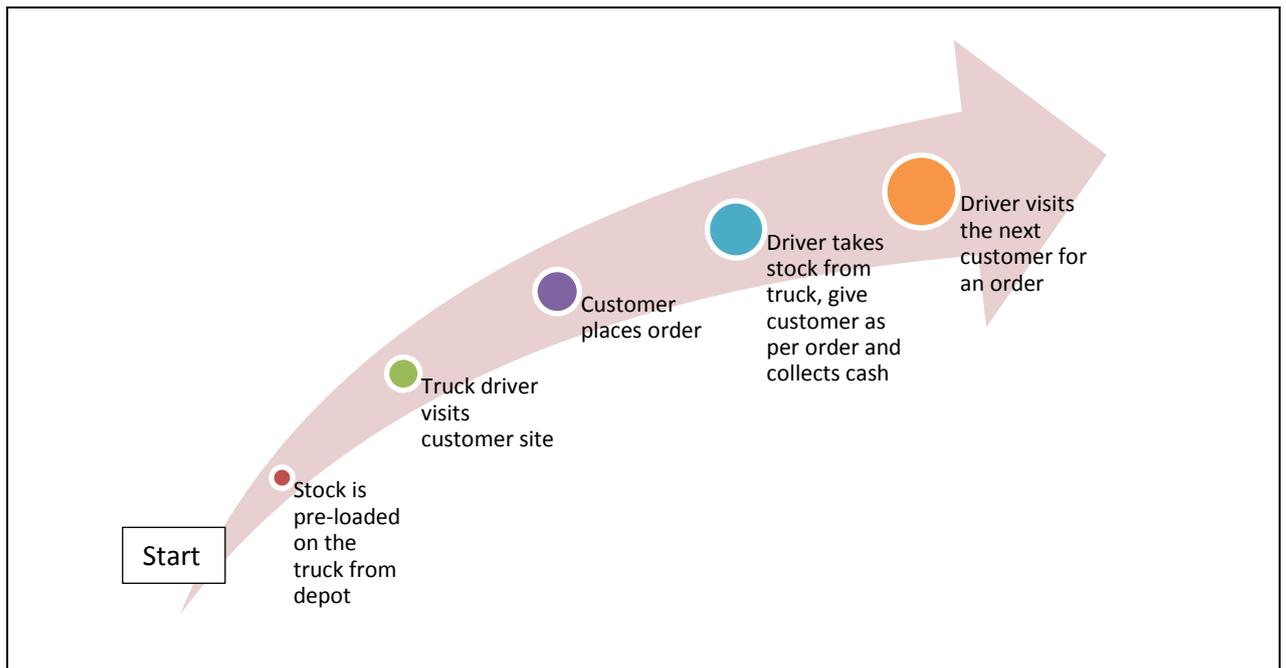
### **5.2.6 Bakery company distribution channel.**

The bakery company sells bread; most customers prefer receiving daily deliveries to ensure freshness. The bread is distributed to small customers, medium, and large customers. Small business includes spaza shops, and then the bread is distributed to the formal retail. The company makes use of trucks that complete deliveries, and the trucks are driven by sales representatives. The sales representatives take orders, deliver the order on the customers' premises and either collect the cash later or they collect cash immediately. The formal retail either phones in or sends an electronic order and the delivery truck delivers the next day. The pack and size of the bread is portable but requires infrastructure like trucks or vans to distribute to customers.

The Bakery has a model in which the company has a direct distribution channel; the company controls the whole channel.

*Bakery: “Identifying new customers, you fill up a form in the company where you will use IT systems.”*

*Bakery: “You will go and see the customer obviously the next week, sell whatever you want to sell – collect cash – drop it in the safe when you come back from the trade in the afternoon – you are expected to bank your money – and then whatever that is left in your truck take it back to the business.”*

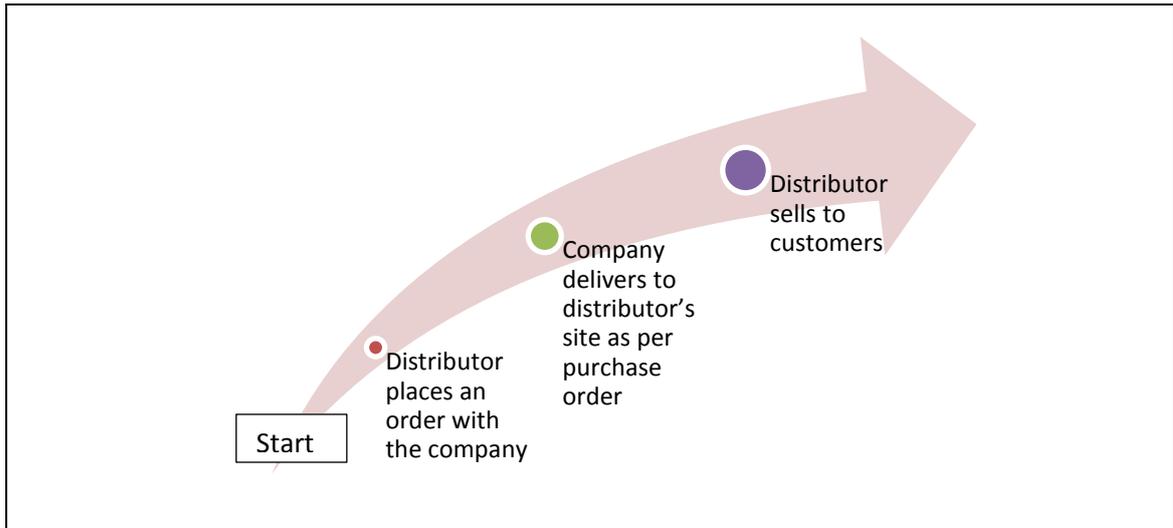


**Figure 11: Bakery company distribution channels**

### **5.2.7 Construction company distribution channel**

The construction company's product is bulky and difficult to move around, thus requiring storage facilities. The infrastructure investment has historically been made by the retailer as they buy the product in bulk, store it in their stores and sell it to the market in units. The transport costs associated with distribution are high; hence the formal retail channel has been the preferred channel. The formal retailers used include retail chains like Cashbuild, Buildit, Builders' Warehouse and others. The formal retail channel is still a very important channel to this industry that services the BoP market.

The other market to which the construction company sells has been the construction firms. The company sells directly to the construction firms and delivers directly on site where the product will be used. This channel is direct and project based. The industry currently displays a trend where manufactures have started exploring alternative distribution channels. In this case the construction company uses the distributor as an informal retail channel, which is placed closer to customers. Customers can walk in and purchase the product and use their vans to take it to their sites. The company only delivers to distributors' sites and the distributor is responsible for selling in the designated community.



**Figure 12: Construction Company's distribution channels**

Construction: *“You don't want control, all you want to make sure is, they're unconstrained, they are able to make quick decisions, 'cause they are entrepreneurial; you don't want to bombard them with corporate stuff, policies and stuff. Just give them good pricing guidelines, and make sure they don't erode brand value for you, they don't cannibalize your brand, then you fine.”*

### **5.3 Research Question 2: What are the distribution channels that service the BoP customers?**

Companies that service the BoP market use different distribution channels to achieve a presence of their goods or services in this segment. This research question sought to determine the different strategies employed by MNCs and to compare the reasons behind the channel selections. When companies were asked about their distribution channels that service the BoP market, they all described a process that has themes that are similar to the nature of their distribution channels. They did not only focus on servicing the BoP consumers but rather described their value chain in serving the different customers. The responses from all the participants were aligned, though these answers were from various sectors, as outlined in Table 2. This research question focussed on the companies' perceptions of their distribution channels.

Most participants' described their distribution channel as the way in which their companies service their customers. They were not specific about the BoP market but rather delineated their different methods of servicing both the traditional market (which is referred to as the formal market) and the BoP market (referred to as informal

market). Chapter 2 of this study mentioned that in research completed by Nelson, Ishikawa, and Geaneotes (2013); Sheth (2011); Viswanathan, Sridharan, Ritchie, Venugopal, and Jung (2012), the authors contemplated that the research performed by the World Bank and United Nations had indicated that many developing countries require the creation of more inclusive business models that directly integrate low-income people as entrepreneurs, suppliers, distributors, retailers, employees and consumers.

For this reason, alternative distribution channels were indicated as distribution channels that incorporate the people of various local communities as distributor's and/or entrepreneurs. Table 3 represents the responses from the representatives of the different companies and an assessment is provided regarding their respective responses towards a community inclusive distribution model.

### **5.3.1 Theme 1: Distribution channels used to service BoP market**

It appeared that most companies that were interviewed are using some form of alternative distribution channel. The participants described the distribution channel that they use to service the BoP market and some delineated the reasons for doing so.

**Table 4: Distribution channels used to service the BoP customers**

Sector/ Company	Position	Quotes	Traditional or Alternative Distribution Channels
<b>Fast Moving Consumer Goods (FMCG)</b>			
<b>FMCG</b>	<b>Executive</b>	“Our distribution channel is designed around serving the big independent wholesalers. In that, what we are trying to do is get as much direct loads from the manufacturing sites, which currently we have, three manufacturing sites, and straight to the biggest largest wholesalers.”	Traditional distribution channel
<b>Banking</b>			
<b>Bank</b>	<b>Executive</b>	“We think xxxx is about distribution, if you get your distribution, you get xxxx right. We believe when our product is matured in the South African market wherever you can buy xxxx, you’ll be able to do transactions, for your deposits and withdrawals.”	Traditional distribution channel
<b>Bakery</b>			
<b>Bakery</b>	<b>Senior Manager</b>	“We’ve got a truck that basically does deliveries and trucks driven by sales reps more of like xxxx, taking an order, delivering the order on the spot and maybe collect the cash later or they take cash on the spot.”	Alternative distribution channel
<b>Beverages</b>			
<b>Beverage-Alcohol</b>	<b>Executive</b>	“Your route to market will always evolve; and your route to market evolves based on market share and profitability. If you don’t have good market share and don’t have much money, you not going to be able to diversify to the levels that we have been able to.”	Alternative distribution channel
<b>Middle Management Beverage-Alcohol</b>	<b>Senior Manager</b>	“The reasons why we have some of the distribution centres or depots independent is that, these guys are literally in your rural areas. Before they were there we didn’t have a footprint there.”	
<b>Beverage-Soft drinks</b>	<b>Executive</b>	“This third party has got to do with route to market, and route to market is how we service the small business owners in the townships. We needed someone who will not wait for a customer just to come in; I need someone who will go to the customer.”	Alternative distribution channel
<b>Tele-communications</b>			
<b>Telecommunication</b>	<b>Senior Manager</b>	“The second route to market is what we’ve termed the direct channel, this is what we’ve clustered as the company owned channel, so we own the channel, we just employ people to go and service the community on our behalf, they are foot soldiers on the ground, nationally that are supposedly servicing where you wouldn’t reach using a formal footprint.”	Alternative distribution channel
<b>Construction</b>			
<b>Construction</b>	<b>Executive</b>	“The current distribution model for the nature of xxxx it is difficult to service small consumers of our product directly as the producer.” “We partnered with the local business man, the community want to buy from him, so there is that emotional connection, that we are not buying from some big corporate who doesn’t even know who we are, we’re buying from one of our own.”	Alternative distribution channel

The seven interviewed participants described their distribution channels, and four of the seven interviewed, explained that they serviced the BoP consumers by incorporating the communities into their distribution channels. This indicates that the alternative distribution channels are embraced by some of the MNCs operating in the BoP market in South Africa. Below are some interesting quotes that compare and contrast firms' views and Spaza shop owners' perspectives:

Middle Management Beverage- Alcohol: *"The reason why maybe for the distribution people, there were some people who used to order maybe one xxxx, even the truck can't go there to deliver to the person but the bakkie can go through and around the location to deliver even a single xxxx. That's why the distributors said that everyone must get our product in an easy way."*

Expert: *"Infrastructure... you know there is rural BoP, there is urban – you have to make a distinction. With urban BoP – Competition, that the competitive space is changing, then all of the infrastructural issues."*

It gives the idea that the third party distributors aspire to satisfy customers on behalf of the company they represent. They appear to understand the importance of the firm as a partner, carrying and maintaining the firm's brand image. The quote below represents a distributor's view:

Community Entrepreneur: *"The two main things for the business to continue, you must satisfy maybe the needs of the customer then you must make sure that you deliver in the correct time. Then also you must check your stock if it's in a good condition."*

The perspectives of the spaza owners are mixed as some are pleased with the service whilst some are not. One indicated the higher price charged by distributors when they deliver versus when the spaza owner go to purchase at a formal retail store.

Spaza shop owner 1: *"Just with beverages, sometimes you tell yourself that they will come and deliver tomorrow but then they don't come and deliver. So when you don't have a car sometimes it means your business will decrease."*

Spaza shop owner 1: *"I see it as better when you go and buy stock yourself."*

Spaza shop owner 2: *"When I buy from Cash n Carry (wholesaler). Cash n Carry charge R90 per trip but the company takes R93 for delivery."*

Spaza shop owner 2: *“If they take the order today tomorrow they deliver, sometimes I give the order when I go to stock and the next day I get the order.”*

Perspectives from the customers are portrayed in the quotes below:

The customers were asked how they feel when they get to the store and the product they are looking for is not available. The subsequent question was whether they would be able to purchase an alternative product instead. It looks like the customer’s in this market are brand conscious and do not appreciate out of stock.

Customer 2: *“Not so good. Because I would have travelled here with so much hope that I will find what I am looking for.”*

Customer 1: *“No, it’s not original that one. I don’t like it.”*

It is interesting to note the various participants’ perceptions; and emphasises the importance of informal retailers in the current distribution structures and stresses the necessity of on-time deliveries to the Spaza owners.

### **5.3.2 Theme 2: Traditional distribution channel: Formal retailers**

All the participants noted the retailers’ influence on price as being reasonably uncomfortable. It appeared that retailers have so much bargaining power because six out of the seven interviewed companies stated that retailers prescribe to them the terms of engagement.

Middle Management Beverage- Alcohol: *“The problem is the retailer will cherry pick the brands that he wants to promote; easiest to handle, pricing and all the good stuff. And as a result a natural substitution effect occurs, where they will be out of stock on what the consumers ask for because they don’t want to carry it because it is easier to move mainstream products.”*

Beverage- Soft drinks: *“They can get to places which we can’t, so they are very important to your operations but the moment you hand it all over to them, they own you.”*

Construction: *“Retailers are starting to become an expensive way of distributing our product to the end-users because they want rebates, they want marketing allowances and a whole host of things. Some of the big retailers, if you bundle them together; they*

*account for about 25 percent of total product sales sold in the country. So you need to be very careful, otherwise you going to be kept out of the supply.”*

*FMCG: “It’s not much that can be done, not in this environment, not with the current products that we have. No, it is what it is; and one has to live with it right now, the category that we playing in is not a necessity, we are not dealing with powder milk for babies. Because then you have a strong bargaining power.”*

*Middle Management FMCG: “We had a distribution problem within the wholesalers – there was. That’s something we can’t control because we don’t control the distribution.”*

*Beverage- Soft drinks: “Spar Group, Pick ‘n Pay, Checkers and all of those, absolute dictators. And if you see elsewhere with other merchandisers out there, Wal-Mart is busy doing their Wal-Mart model in South Africa. They are mopping it up to eventually get to a scale where you can’t live without them. And then they come along and say, now let’s have the chat. That 11 percent I am making isn’t good enough I need 20 percent so far. And you say you can’t have it, they say, okay I won’t stock you bye-bye! And they walk.”*

*Bank: “So if you look at existing branch footprint for customers, they have to travel many distances to be able to go and do their banking, with our product that’s the difference. Either you transact on your phone or you go to your nearest informal outlet which will be within a 500 metres radius; and our cost is affordable banking in giving you what you need.”*

*Telecommunication: “Traditionally what would happen if you are trying to get into selling our product, you would get a distributor coming to us, they get a contract from us, and then they go distribute to the various shops, the company would give them various incentives. But not all the distributors will be able to get to the smaller guys to service them. So what would then happen, if you are the only person servicing that area, and the only store, I set the price.”*

*Beverage- Soft drinks: “The challenges that we have with the wholesalers is that, they determine their price, they decide what they want to sell, they dictate to you. You cannot influence all those things, and they decide what promotion they want to run, how, where, all those things, so you don’t have a say. So...as much as you do have the relationship with the owner, but now it will cost you, because for you to do all those things that I said.”*

One participant in middle management emphasised the challenges that they face as the company because they cannot control the distribution channel. The Spaza shop owners and the hawker preferred going to wholesalers to purchase stock themselves and only one spaza shop owner preferred being receiving deliveries at his premises. Consumers preferred buying from spaza shops because the spaza shops are clean and because the formal retailers were far from their dwellings. To comprehend the customers' perspectives about retailers, their quotes are presented below:

Spaza shop owner 1: *"So when you run a business, you become smart – you look-out for products on sale. When they do a sale, maybe for Fanta Orange, you go to Save More (wholesaler) and buy in bulk so you can save and make profit. But when Coke does a sale you will find that they only have it for only Coke (cold drink)."*

Hawker: *"I buy it from Tswaranang (Wholesaler). I am the one who go and buys, because they are cheap. They sell the Dragon for R120 and in other retailers it is R140. They sell Coke for R7 and other places they sell at R8 and R9."*

Consumer 1: *Its far there. By the time I come here I am already too hungry so I want to eat by that time.*

Consumer 2: *"I buy from this shop because the bread tastes good. The shop is clean and because you find chips here."*

The expert's perspective regarding the distribution channels is quoted below:

Expert: *"There is a reason there is dependence on the independent wholesaler. For a long time these guys moved big enough volumes and they got very entrenched relationships with them. I think partly there is almost a fear that this is an important channel for us and we don't want to upset these guys by almost cutting them out and going direct to market."*

The quotes defined above describe themes that have emerged concerning the distribution channels used by MNCs to access the BoP market. Another variable that is embedded in Research Question 1 is the BoP market. It was vital to realise the determiners for MNCs to want to service this market. The size of the BoP market was mentioned by three of the seven participants as one of the reasons they have targeted this market. Two participants stressed the importance of building distribution in the rural areas, or in areas where they currently do not have distribution. The other two

participants had a desire to reduce reliance on retailers. Below are some of the quotes from the respondents who described reasons for servicing the BoP market:

Bakery: *"It's just based on the size of the business and whatever targets that you have in terms of new business and stuff that you want to achieve."*

Beverage- Alcohol: *"Soweto has got plus-minus three million people. We looked at Sandton, there are very few people there, they've got a lot of money, but they are exposed to all other products, they are not loyal. You cannot tell them what to do; they decide what they want today, for what price and all those things, so it's a challenge."*

Beverage- Alcohol: *"So then you look at it, where is the potential? Which market is growing anyway? Is it the township, is it the suburbs? I think the township is the one, hence you see Pick 'n Pay going in there in the township, Shoprite and all, and everyone goes to the township now. Is that because they see there's numbers there, that's where the growth is."*

FMCG: *"It's very much the size of the population and relevance of our product to this population. A lot of people talk about the fortune at the end of the pyramid and there is a fortune at the end of the pyramid. But the cost to get the end of the pyramid erodes that fortune significantly. I think few businesses; I find regional businesses are able to capture the bottom of the pyramid much more efficient than MNCs."*

Expert: *"In the FMCG space, there's still quite a dependence on the whole independent wholesaler. Just getting stuff there and these guys must make a plan on getting it to their stores. They understand that there are quite big volumes of product that they can grow in the township market. "*

Construction: *"The mobile cellular companies have been setting up containers, they've been selling airtime and we've seen the growth of the cellular companies has not been in the formal sector but more in the informal sector. We've also seen big players like the beverage companies, starting to service Spaza shops in the townships. So I think there's an acceptance amongst bigger players, that you can't continue your reliance on the traditional retail channel because if you do, all they will do is they will continue to squeeze you for more."*

Beverage- Soft drinks: *"My competition is using an informal or an indirect route to market, where they are able to get to parts of the market that we can't. So we have this*

*kind of bi-modal effect, where we will push through the redistributors, we will go direct to store; because we can afford to.”*

Telecommunication: *“So the idea is that we would plug those community people, we are not going to invest infrastructure. We’ll put a person there - that person is mobile, they can then service everybody around that area essentially, without us incurring the huge infrastructure costs or effort, so to make sure that your grandmother gets our product without catching a taxi incurring all the expenses to go to a large retailer to go the store and come back. That was the general idea behind it, just to service the pockets where there was no distribution.”*

Middle Management FMCG: *“The Company came to us and they said that they wanted to target the hawkers because there is a lot of foot traffic and there are a lot of hawkers in the market.”*

### **5.3.3 Theme 3: What are the benefits of using other distribution channels?**

The respondents explained that they use the traditional distribution channel, that is, formal retailers, and also use other distribution channels to service the BoP market. It was important to determine the benefits of using other distribution channels. Four of the seven interviewees emphasised the cost benefit. They indicated that it is cost efficient to go directly to spaza shops by using other methods of distribution because it reduces infrastructure cost.

Two companies indicated the importance of customer interaction and that there is focus on the company’s product/service when using a direct distribution channel to service BoP market. One respondent indicated the joint risk (both the company and the local entrepreneur) as a benefit when using other distribution channels. Another respondent appeared to be product orientated, stating that the focus must be on the company’s product as a benefit to the community.

The spaza shop owners and the industry expert experiences suggested that the MNCs were inefficient in using other/alternative distribution channels. Below are the quotes from the participants that were interviewed:

Bakery: *“Maybe you will find that other roads are not viable for a big truck to... because we are basically saying most of our customers are situated in the rural areas so it’s also sometimes a challenge for a big truck to make it via those areas.”*

Construction: *“Managing smaller, business people like our distributor, there is joint risk. The distributor relies on us for his business model to succeed, he only stocks our product. So the negotiating and the bargaining power is a little bit reduced.”*

Middle Management Beverage- Soft drinks: *“The reason why the company did this - Firstly, it was cost efficient for the company. Secondly, we use these big bakkie trucks that cannot get to everyone around here. Thirdly also, I mean the order sizes here are small.”*

Spaza shop owner 1: *“The other frustration is that with a lot of things you have to wait a long time. Sometimes when you have ordered, they don’t deliver the next day or that week. That can actually kill the business, so you find when you have ordered your things don’t come right.”*

Beverage- Alcohol: *“Obviously the systematic difference between a distributor and a retailer is that a distributor only sells our product, right? So, his focus is only on our product. Whereas a retailer can sell anything; your retailer can sell anything.”*

Telecommunication: *“So the idea is that we would plug those local representatives and say, we are not going to invest infrastructure. We’ll put a person there; that person is mobile, they can then service everybody around that area essentially, without us incurring the huge infrastructure costs or effort. Direct is far cheaper, based on how we’ve worked out the costs.”*

Beverage- Soft drinks: *“So, for the Spaza shop owner he doesn’t have to go to the wholesaler anymore, its free deliveries. He doesn’t have to go there, place an order, call and all those things, our representative walks, and get there.”*

Beverage- Soft drinks: *“And I could see now, on my side that the volume is starting to grow as well, and this thing is cheap for me.”*

Bank: *“So, we believe xxxx is the answer, because all we doing are sort of like, branchless banking. I mean for banks, the biggest cost is the branch infrastructure, so we are avoiding that. We are rolling out xxxx, and we believe xxxx is not really just about technology, it is about distribution.”*

FMCG: *“So by not doing direct we lose that, we lose that interaction, we lose that presence with the client, however, there is a lot of a lot of problems in doing direct.”*

Expert: *“I am not seeing the kind of innovation that needs to be seen in terms of distribution. The FMCG are quite spoiled. In retrospect, their sales are high, they are making money and there is not enough push to move distribution out of their convention.”*

Spaza shop owner 1: *“For the FMCG product we go ourselves and buy from the shop because sometimes you find that when you place orders they don’t deliver and that becomes a problem.”*

#### **5.4 Research Question 3: How do firms incorporate communities in their alternative distribution channels?**

The previous section explained the distribution channel; it comprehensively discussed the participants’ views of their respective distribution channels. It further communicated facts about the traditional distribution channels, and perceptions regarding other distribution channels as well as delineating the benefits and challenges of the different distribution channels used to service the BoP market.

The conclusion from the findings of Research Question 1 provided insight regarding the management of potential challenges by firms using alternative distribution channels. The findings of Research Question 2 provided a discussion for how firms incorporate communities in their alternative distribution channels.

Four companies have already entrenched their alternative distribution channel in the local communities and have made some financial investments to enable the communities’ entrepreneurs. The full complement of the interviewed companies have incorporated and/or are involved the community in their alternative distribution channels, with the exception of one company. One spaza shop owner explained her discontent with some of the initiatives implemented by the telecommunications companies.

Bakery: *“Yes we do, especially distributors that will actually go to areas that we don’t go and drive there; areas that are not accessible, areas that are not viable to service using a truck, mainly because of cost on trucks. NGOs - we do donate whatever, when they have events they come and ask us and that’s what we do.”*

Construction: *“We service our big clients, our traditional clients and then, your (distributor) start to service the smaller clients, so there are opportunities for involving*

*local communities by finding ways where you can bring local entrepreneurs and business people. Up skill them; pump a little bit of money into some of these rural areas.”*

*Beverage- Alcohol: “The way it is set up: The guy comes with no equity, we help him to get the truck, in fact we do the work together to get him a truck. And we pay him accordingly through his fees that he will pay that truck off over a period of time.”*

*Beverage- Alcohol: “We will then get his truck and then he gets a ten year contract and essentially in rough terms, he’s going to earn... probably it’s more than double industry standard for a driver.”*

*FMCG: “We are associating with the hawkers and we are creating education campaigns and making the hawker understand quality, and also profitability for him or her. We teach them financial, we teach them merchandising techniques, we provide them clothes, we provide merchandising kits for them, in order to improve his or her stall. And we provide competition, so that they can win and become bigger, it’s a start, it’s a pilot phase now.”*

*Middle Management FMCG: “I think that’s the one thing we found about the lower, let’s say market – the main market is if you give back and you show them that you there they will be with you till the end. They are incredibly brand loyal and for somebody else to come in now and try and sway them – they won’t.”*

*Beverage- Soft drinks: “That’s what we intending to do and now we very sophisticated. ...remember before we used to give the start-up guys, and we would say, there’s a truck, go; and now, I think we’ve got a chip on our shoulder. If you want this business, this is what you have to do, because we know that the model works.”*

*Bank: “So they are just adding an additional product and getting paid for it.”*

*Telecommunication: “Our foundation does a lot through the different communities, so if I am a regional manager in that region I should be able to identify them. Some of the key responsibilities of the regional managers are to identify the stakeholders and make sure that they build those relationships from that level.”*

*Spaza shop owner 1: “For me, I am angry with telecommunication companies with the way they do things. We use to sell airtime after buying the containers, but the challenges they gave us – it just ruined the business. There is no-one who will come to*

*the container phones and phone. As you can see, all the phone containers have closed down now because of them. ”*

*Beverage- Soft drinks: “Before we had distributors, it was expensive to go to the main market”*

*Beverage- Soft drinks: “I will give you trucks, I’ll give you the system, I’ll give you sales, and I’ll pay you for the delivery that you make. The things that I don’t want from you: you are not going to determine the price.”*

*Beverage- Soft drinks: “They’ve embraced it- if you look at Soweto and Thembisa - because we’ve managed to create jobs. Distributor’s alone; we have five distributors creating about 754 jobs; people that were not there, were not working, people that we couldn’t absorb as well. So it tells you, this programme is a good programme.”*

*Middle Management Beverage- Soft drinks: “To give back to the community and empower people from the area, so it works both sides. It’s almost like an extension of our business so it’s not a distributor for distributor’s sake to distribute whatever. It’s an extension of what we do, that’s why we want it to be solely our products distributed by them.”*

*FMCG: “For greater value added products, it’s easier to get direct distribution or even if you have a basket of products, be it soft drinks, medicine, something that’s heavier, occupies less space in the truck, so you make more sense of your distribution costs Rands per kilometre.”*

*Beverage- Alcohol: “The benefit is that there is more focus, on our products.”*

*Beverage- Alcohol: “The systematic difference between a distributor and a formal retailer is that a distributor only sells our product, right? So, his focus is only on our product, whereas a formal retailer can sell anything.”*

*Construction: “You have opportunities to do branding, because the large retail chains don’t offer you that opportunity. Because they are stuck between which supplier do they chose, so they tend just not to do any branding.”*

*Telecommunication: “Currently it’s only our product that they are selling.”*

From the findings it became apparent that the companies that partnered with community members viewed their partnerships as an extension of their business and

appreciate the control and exclusive distribution that it offers. It was revealed that only two companies designed a product that is exclusive for the BoP market, while the remainder of the companies sold products and brands to the BoP market, which are the same as those sold to the formal market.

## **5.5 Research Question 4: What are the realities to be mindful of when servicing the BoP market?**

Research Question 1 described the participants' perceptions about the different distribution channels, and delineated the benefits and challenges of using the different distribution channels when serving the BoP market. Research Question 2 revealed how the various companies incorporate communities into their distribution channels. Research Question 3 described the realities and experiences as defined by the interviewed participants in terms of factors that need to be considered when servicing the BoP market using alternative distribution channels. It also emphasised the need to segment the BoP market as it differs in terms of opportunities and challenges, giving MNCs an opportunity to tailor alternative distribution channels by BoP market segment.

In this research question the main theme that emerged was the potential robberies that are faced by all the participants' operating in the BoP market. MNCs who deliver directly are robbed because the people servicing the areas are not known and the cash is regarded as company money. The spaza shop owners are also vulnerable to being robbed because almost all of their transactions are cash transactions; distributors also face a similar challenge. Firms that have a direct distribution however had a much higher probability to being the victims because the employees were not local, thus unknown by the community.

**Table 5: Realities MNCs face when servicing the BoP market in South Africa**

Sector/ Company	Position	Quote	Attribute
<b>Fast Moving Consumer Goods (FMCG)</b>			
<b>FMCG</b>	<b>Executive</b>	“In South Africa you face robberies. A lot of cash is transported in vans and soon somebody knows that, that van has cash. And those vans were very attractive, so we had serious cases of hijacking, for the cash. So you have to go around and installing safes and there is so much that you have to do to safeguard that cash.”	Cash handling Robberies
<b>Banking</b>			
<b>Bank</b>	<b>Executive</b>	“We don't handle cash but the outlet handles cash. I think we are going to have instances where couple of these guys will get hit. It's a fact.”	Cash handling Robberies
<b>Bakery</b>			
<b>Bakery</b>	<b>Senior Manager</b>	“There are areas you can't go where the crime is very high in terms of break-ins, where other companies (not only our company) are not actually servicing those customers due to robberies first, hijacking and that stuff so you wouldn't risk your people's life”	Robberies
<b>Expert</b>			
<b>Expert</b>	<b>Executive</b>	“So initially they tried to get depots themselves where they would create a company building as warehouse..... and it just failed, they lost a huge amount of money, they were selling but they weren't getting the money back – they were robbed.	Robberies
<b>Customer</b>	<b>Spaza 1</b>	“With robbery I have experience because they came here before. So you are constantly anxious that anytime they can come with a gun. That you really expect anytime, you could be sitting and robbers come in. That actually happens any time in a business.”	Robberies
<b>Beverage-Soft drinks</b>	<b>Executive</b>	“They deal with cash, they are not that sophisticated. It's just a challenge for the business. Because guess what, you deal with cash there, people will come and rob you.”	Cash handling Robberies
<b>Tele-communications</b>			
<b>Telecommunication</b>	<b>Senior Manager</b>	“That's another challenge, the cash. The cash component. The guys that probably get robbed are the guys that are in your city centres, more than the guys that are in the communities.”	Cash handling Robberies
<b>Construction</b>			
<b>Construction</b>	<b>Executive</b>	“I think there is an element of risk in terms of dealing with the bottom end of the market. Their access to credit, their ability to provide collateral for credit in order to open accounts.”	Access to credit

The participants explained that as a result of the cash trading in the BoP market in South Africa, it increases the risk of robberies. Only one company stressed access to credit as an element of risk when servicing the BoP market using alternative distribution channels. It also appeared that the BoP market needs to be segmented into rural BoP and Urban BoP, as these sub-segments have different attributes. Rural BoP

is challenged with infrastructure and urban BoP is challenged with share of wallet, thus high levels of competition.

Construction: *“Your typical rural market, those guys don’t buy on account, they don’t have plastics, and they don’t have credit cards.”*

Beverage- Soft drinks: *“Coming up with the independent distributors was a way or scheme of having footprint in the rural areas.”*

Bakery: *“Saying most of our customers are situated in the rural areas so it’s also sometimes a challenge for a big truck to make it via those areas.”*

Expert: *“The issue is if you are supplying rural and supplying urban are very different. With urban BoPs, Competition, that the competitive space is changing, and then all of the infrastructural issues.”*

The share of wallet seems important in this market, drawing some insight from the expert, that the urban BoP market has a higher competitive space than the rural BoP. The participants indicated that they consistently compete for the share of wallet as the BoP market is competitive.

FMCG: *“Here in the bottom end, what we are looking for is what I say a share of stomach and share of pocket. The share of pocket is so difficult to get, and there is so many temptations. There is airtime, there is the lotto, there is gambling, there is the alcohol, there is the need for the children, there is stamp, there is sugar, the oil, there is yogurt, there’s wood in the winter, it’s the sad reality that the BoP consumer is faced day to day.”*

Telecommunication: *“You share of wallet. That’s a big thing there because, now you are trying make it as convenient as possible for the end-user. I want to make it easier for you to spend your money on my company products versus you spending money on Coke, but there is competition there, especially with Coke and cigarettes.”*

Middle Management Beverage- Soft drinks: *“Its fundamental, if you look at share of wallet of the distributor, that five million gets divided into different basket of goods.”*

Middle Management Beverage- Alcohol: *“I mean these days we are competing with everyone, from R5 airtime.”*

### 5.5.1 Theme 1: Gender

It was motivating to recognise certain companies' perceptions concerning gender in the BoP market. They indicated that females are preferred for servicing this market and they appear to be loyal and have better results than their male counterparts. The quotes below refer to some of the comments that were made:

FMCG: *"Sales representative is not necessary female but we do give priority to females. Its more for the involvement and historically females can be more involved and reliable, but it's not a bias, it's not a bias against male or anything, well it's just historically it's always been the case from our experience, so we not discriminating."*

Telecommunication: *"A lot of our sales representatives that are woman, one, stay longer. Because you find that they are probably the bread winner at home, they probably have children that they need to look after and versus a guy who's going to get his first pay cheque and go to Mam Rubie's Shebeen to spend it on alcohol. It's just a pattern that we've started seeing."*

Telecommunication: *"When we have our award ceremonies, it's generally the women that you see that are performing and it's the women that stay longer than the guys. So, I don't know whether they just have more tolerance level or guys just keep on finding something better, but it's the women that are better performers on average."*

Middle Management FMCG: *"Where the sales representative was more motherly, if I can define it as those two, motherly got more out of it than status."*

## 5.6 Conclusion

This chapter depicted the different sales management processes used by the interviewed companies. It became apparent that there are applicable and relevant findings from all the different models, thus encouraging the researcher to integrate these into one that is discussed at length in the following chapter. By explicitly outlining the models in this chapter, it gave the opportunity to identify the strengths and gaps of each model, thus providing the opportunity to perform a thorough analysis in Chapter 6. Each participant rigorously explained the rational for the model used and such themes and depth of insight are examined in the ensuing chapter.

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

The preceding chapter presented the results from the qualitative interviews with seven executives/senior managers, three middle management or execution team members, a distributor, two spaza shop owners, a hawkker, three consumers and an expert in South Africa. Four research questions were asked concerning sales management in alternative distribution channels in the BoP market. This chapter presents the findings in relation to previous research on alternative distribution channels and how firms conduct personal selling and sales management in the BoP market.

The findings in Chapter 5 were broadly discussed in answering the research questions posed in Chapter 3. Most the findings were consistent with the literature that was presented in Chapter 2 of this document, some findings were contradictory and still some themes appeared to be new findings. The research questions are discussed separately with the literature relevant to each theme. Then the alternative distribution model that incorporates the BoP market is presented, additionally concentrating on how companies can manage personal selling and sales management in the BoP market.

Research Question 2, 3 and 4 will all be discussed before Research Question 1. This is because Research Question 1 has the elements that are discussed in all the other research questions, enabling a broad conclusion of the study to be determined.

### **6.1 Discussion of Research Question 2: What are the distribution channels that service the BoP customers?**

This question intended to ascertain the different distribution channels that service the BoP market. From the insights garnered and represented in Table 3, Chapter 5, the majority of participants that were interviewed explained that they make use of alternative distribution channels to service the BoP market. This suggests that these companies incorporate communities into their BoP distribution channel as entrepreneurs who perform the actual distribution, as well as local employees, retailers and consumers. The data concurred with the literature provided by Cheung and Belden (2013); Sarangi, Patro, and Kumar (2014); Payaud (2014); Dolan (2012); and Heeks (2012), who indicated the importance of incorporating communities in the distribution value chain as active economic participants.

The data indicated that most firms are still dependent on the traditional distribution channel, also known as the formal retail channel. The formal retail channel is regarded as an important channel in the BoP market because the retailers have national store footprint and are able to trade with most of the customers. This finding was in agreement with Barki (2010); Aman and Hopkinson (2010), and Alur and Schoormans (2013) who suggested a distinct channel design that services the formal retailers differently to that which services informal retailers, as the retailers continue to be a crucial partner for companies that wish to penetrate the BoP market.

Companies are also encouraged to differentiate between rural and urban retailers. Urban BoP markets could be accessible, while rural markets pose a definite challenge in terms of physical access. In serving the BoP population, urban informal retailers face competition from different discount chains; in contrast, competition is hardly a challenge in rural areas. New product introduction in the presence of challenges in the rural retail outlets is far tougher than in urban retail outlets (Alur & Schoormans, 2013). This view was perpetuated by the expert participant, who emphasised the importance of differentiating urban and rural BoP markets.

There were three themes that emerged regarding this research question, namely the perceptions of the traditional distribution channel, also known as formal retailers, as well as the factors that determine the benefit of the MNCs targeting the BoP market via alternative distribution channels. The last theme sought to determine how companies that make use of more than one distribution channel manage channel conflict.

The table below illustrates the themes that emerged from this research question that are supported by literature, as well as new themes that emerged from the interviews.

**Table 6: Comparison of findings with the literature**

Theme	Literature: Agree	Literature: Disagree	Data
Bargaining power of retailers	(Ravhugoni & Ngobese, 2010) (Dawson, 2013)		Agree (Strong)
The BoP market as an opportunity for growth	(Radjou & Prabhu, 2012) (Ilie, 2014) (Chipp et al., 2012) (Gebauer & Reynoso, 2013) (Varman, Skálén, & Belk, 2012) (Chipp & Kapelianis, 2013) (Mohr et al., 2012a)	(Karnani, 2007, 2012)(Adebayo, 2013)	Agree (Strong)
Other distribution channel benefits	(Esko et al., 2013) (Dolan, 2012) (Chow et al., 2011) (Chikweche & Fletcher, 2011) (International Finance Corporation, n.d.)		Agree (Strong)

### 6.1.1 Bargaining power of retailers

The data presented in Chapter 5 regarding the retailer's bargaining power concurred with the literature as presented in Table 5. It appeared that retailers in South Africa have a great amount of bargaining power and this is one of the reasons that some MNCs have extended their distribution channels to directly service the BoP market.

Most of the executive participants expressed their experienced dreariness with the formal retail channel. They agreed that the retailers have a great deal of bargaining power. Some of the participants were emotional, stating that the formal retailers command the terms of engagement between the suppliers or manufacturers. All the participants acknowledged that the retailers influence was a current reality, and that while they need to accept it, they are also able to continuously seek alternative distribution channels to reduce the firm's dependency on retailers. The expert indicated that some MNCs have been dependent on the formal retail or wholesaler for a long time, resulting in the retailers being large volume buyers. Mutual relationships have been built and the MNCs are increasingly conscious of not displeasing the retailers by going to service the BoP market directly.

Chow *et al.* (2011) noted that in any channel configuration, a channel member with power over its counterpart would manage the distribution channel to its advantage. When a retailer has power over suppliers, it can influence the supplier to support activities like slotting allowance, in-store promotions, management fees, and others.

Therefore suppliers and retailers compete to possess higher levels of power over the other. These authors further stated that the convenience and accessibility of a retailer presents a nationwide distribution network, making it easier for consumers to purchase manufacturers brands.

Management needs to be conscious of the market landscape when deciding to have an alternative distribution channel. The formal retail channel is still an important part of the businesses that were interviewed, with the exception one company that had more than 50% of their business serviced through alternative distribution channels. One of the contributing factors to the dependency on retailers is the product type that the companies sell, and whether these products/services are difficult or easy to carry or transport.

The spaza shop owners noted that they shop at the formal retailers or wholesalers because they receive better deals in terms of pricing and product range. They indicated that when companies deliver directly to their stores, they pay a premium. They also indicated that the service levels from the companies that deliver are not good. This concurs with some of the literature that the BoP market is not adequately served by the mainstream market, (Dolan, 2012; Mohr et al., 2012b).

What emerged from the spaza shop feedback is the owners' willingness to purchase the products at a higher price when it is delivered by the supplier or the representative thereof. The data analysis of all the spaza owners varied; their experiences were not the same regarding the companies that deliver directly to their stores. Some of the owners were discontent because they understand the need to have sufficient stock for their customers, so when they do not receive delivery as scheduled, it affects their business. Dawson (2013) explained this predicament in his argument that food retailers are consumer orientated and in many respects retailers are responsive to consumers.

The data indicated that the customers also do not like it when the spaza shop did not have the desired products. This then increases the reasons for spaza owners to go to formal retailers or wholesalers to make their purchases, rather than relying on the company that promises (but fails) to deliver. It also appeared that the companies with direct distribution had customers that were brand loyal and all the competing brands were perceived as unoriginal even though they were cheaper and in the same category.

The findings demonstrated that the South African formal retail channel is significant, concurring with PwC Southern Africa (2012). The formal retail channel is an important distribution channel partner for MNCs operating in the BoP market. Segmenting the urban BoP and rural BoP was suggested when companies craft their distribution channel that service the BoP, as propounded by Gupta and Jaiswal (2013). It is important to note the willingness of spaza owners to purchase products at a premium provided that these products are delivered to their door-step on time. This new insight may encourage MNCs to analyse alternative distribution channels to service the BoP market. Additionally, regarding the companies that currently have alternative distributing channels for the BoP market, the data served as an indicator that there is a need to provide good customer experience to this market as it is not sufficiently served.

The analysis of the data from all the different participants' perspectives revealed that MNCs need to start investing in increasing their distribution network. This would increase their bargaining power and potentially encourage retailers to be cooperative and negotiate mutual benefiting trading terms. MNCs with products that could complement each other whilst being transported (pack-size type) could also collaborate and build alternative distribution channels that increases the basket of goods sold to each store. Doing so would reduce distribution costs for each company and would serve as an encouragement to spaza owners not to frequent the formal retail channel.

### **6.1.2 The BoP market as an opportunity for growth**

The size of the BoP market was mentioned by three of the seven participants as one of the reasons they targeted this market. Three participants emphasised the importance of gaining distribution in the rural areas or where they currently do not have distribution. Only one participant had a desire to reduce reliance on retailers. The table below illustrates the themes that emerged from this research question that are supported by literature and new themes that emerged from the interviews.

**Table 7: Reasons for targeting the BoP market**

Theme	Literature: Agree	Literature: Disagree	Data
Market Size	(Prahalad, 2010)(Mohr et al., 2012b) (Chipp et al., 2012) (Jagtap et al., 2014) (Dolan, 2012) (Harrison, 2010) (Mason et al., 2013)	(Karnani, 2007)(Karnani, 2012)	Agree (Strong)
Increasing distribution	(Heeks, 2012) (Rangan et al., 2011) (Chikweche & Fletcher, 2011) (Nelson et al., 2013) (Alur & Schoormans, 2013)	(Adebayo, 2013)	Agree (Moderate)

Most of the participants servicing the BoP market focused on urban BoP that was targeted because of the size of the population; increasing distribution was relevant to rural BoP. According to Prahalad (2010) there is an estimate of four billion poor people, whom are classified as BoP. This group has the propensity to be the engine of the global trade and prosperity. The participants' insights suggested that the market size of the South African bottom of the pyramid was the main motivator, and only one participant mentioned affordability as a significant driver when targeting this market. Most participants agreed that there is a potential fortune at the BoP market, which is why they have found different ways to target this market. Despite their poverty, Chipp *et al.* (2012) suggested that consumers in the BoP segment are an increasingly attractive target market.

The insight from this study therefore disagrees with Karnani (2007) who argued that the BOP market is relatively small, and it is unlikely to be very profitable, especially for a large company. All the companies interviewed for this study were MNCs and are large companies. It appeared that the companies that have cost-effective alternative distribution channels were the ones who portrayed management commitment. As a result their opinions concurred with Ismail *et al.* (2012) who noted that the market is so large in terms of the number of consumers that its spending power is considerable.

Karnani (2007) and Adebayo (2013) opinionated that the costs of serving the markets at the bottom of the pyramid can be very high. The poor are often geographically dispersed, especially the rural poor, thereby increasing distribution and marketing costs and this makes it difficult to exploit economies of scale. Only one participant concurred with these authors, therefore indicating that most of the MNCs have found alternative

distribution channels that they use to service this market. These alternative channels are perceived to be cost-effective as community members are involved as part of the alternative distribution channel.

Leadership and management commitment appeared to be a positive indicator for success in the BoP market. When comparing and contrasting the companies that appears to have made good progress in penetrating the BoP market, they all performed differently. It was apparent that the companies that have a dedicated department and a strategic leader driving this channel were more successful than the companies that have the alternative distribution channels as an add-on to the manager's role. The findings are supportive of Barki (2010) who indicated that MNCs receive some criticism because they do not have long-term commitment to adjust their business models and create breakthrough models. Further, these authors stated that firms are still concerned with short-term, quarterly results and it is difficult to implement new approaches in emerging markets.

The spaza shop owners concurred with this insight, as the companies that appeared to lack leadership commitment, were the suppliers of products that the spaza owner had to go to the formal retailers to purchase. It is interesting that all the data presented by the research participants from different industries concurred with the expert's opinion concerning the South African MNCs and innovation on distribution channels. The next section discusses the alternative distribution channels and how firms service these channels in detail.

## **6.2 Discussion of Research Question 3: How do firms incorporate communities in their alternative distribution channels?**

Developing the information that was garnered from Research Question 1 which has been discussed in Chapter 5; it appeared that the traditional distribution channel is still a very important distribution channel for most MNCs. However, simultaneously the alternative distribution channels have been embraced by most of the interviewed MNCs. It emerged that leadership commitment to the BoP market is an indicator for successful business models that are implemented to service the BoP market. Segmenting the market into either rural or urban BoP serves to aid managers when crafting the distribution models to better service the BoP market.

Beverage- Soft drinks: “Until my MD said, listen now I just want to go to this market and see. He said I love the strategy, it saves us money, without a doubt.”

The spaza shop owners in the BoP market also gave the impression that they value service delivery and are willing to pay a premium for it. The spaza shop owners seem to value their customers and want to service them well and avoid out-of-stock situations. The sheer size of the BoP market serves as an opportunity for growth. It also offers MNCs an opportunity to collaborate when exploring and/or exploiting the alternative distribution channels available to better the BoP market.

This section emphasises how firms incorporate communities in their different alternative distribution channels that service the BoP. It is captivating that most of the literature reviewed appears to agree with the themes that have emerged in this study. The table below outlines the themes that emerged:

**Table 8: Alternative distribution channels**

Theme	Literature: Agree	Literature: Disagree	Data
Distributors: New	(Payaud, 2014) (Leke et al., 2014) (Cheung & Belden, 2013) (Pervez, Maritz, & Waal, 2013) (Pervez et al., 2013) (International Finance Corporation, n.d.)		Agree (Strong)
Distributors: Existing	(Wentzel, Yadavalli, & Sundar, 2013) (S. Gupta & Jaiswal, 2013) (Nelson et al., 2013)		Agree (Weak)
Employees	(Adebayo, 2013) (Agnihotri, 2013)		Agree (Moderate)
Cost-effective	(Nelson et al., 2013) (Business Call to Action (Organisation), 2010)	(Alur & Schoormans, 2013) (S. Gupta & Jaiswal, 2013) (Agnihotri, 2013)	Agree (Strong)

*Distributors: New* refers to a distributor that is yet to be developed by the company; meaning, a direct financial investment and training of the new or existing entrepreneur. *Distributors: Existing* refers to a distributor that is already in operation, which is then used by the company to add the product as an extension to the product range. Employees are the result of formal employment of the local community people, thus reducing unemployment and poverty within those communities.

Payaud (2014) stated that the satisfaction of BoP consumers' needs, product design, development, manufacturing and distribution of goods should contribute to developing an ecosystem that ensures sustainable development through job creation, entrepreneurship, training and local distribution of revenues. Most of the themes that have emerged from this research question concurred with the study by Leke *et al.* (2014). This suggests, therefore, that most of the insights from this study were relevant to other African countries as some of the landscapes mirror the South African BoP market.

The themes that developed included the local community involvement through collaboration with local entrepreneurs, skills transfer, financial/asset investment, and job creation. Local entrepreneurs or newly created entrepreneurs were identified as distributors, thus supporting the literature as indicated in Table 8. These distributors, whether new or existing, were viewed by the MNCs as an extension to their business, which resulted in good collaboration, skills transfer, sharing of technology systems and there was also limited distinction made between the MNCs-owned operations and that of the distributor. As an alternative distribution channel, this form of inclusiveness and embedded-ness to the community resulted in job creation and positive growth for the MNCs. The costs to serve were also lower than the traditional distribution channels and previous methods that were used to service the BoP market.

It is vital to note that regarding the new distributors, the MNCs did not only provide skills and financial support; they further ensured the new distributor has a written long-term contract as an agreement between the distributor and MNC. Thus this new insight delineates the rules of engagement as being integral to ensuring sustained growth and success of the alternative distribution channels. It also emerged that in these relationships, the MNCs have kept the control on systems, pricing, and customers, thus allowing the distributors to only focus on service delivery and sourcing new customers or sales opportunities in the respective communities.

Incorporating the local community as employees was another theme that emerged and concurred with the literature as stipulated in Table 8. Most MNCs employ local youth as sales representatives in their respective communities to minimise travelling expenses. These employees walk to service the spaza shops and local small informal retailers. This contributes to better service levels as the employees are always aware of what is happening in the community, thereby ensuring enough stock is catered for such activities.

One participant explained the advantage of using existing distributors that would carry more than one item, implying a basket of goods. The advantage is that the distributor can offer a number of products to spaza owners, thus reducing the distribution costs and increasing product reach. This benefits the existing distributor as they have more than one item to sell at each store, which increases their profits per store.

The findings give the impression that MNCs that make use of alternative distribution channels still desire to maintain a large degree of control, through systems, branding and customer management. Most of the distributors are exclusive to the MNCs which they have partnered with; the MNCs have control over the sales management process. This theme is further discussed in Research Question 4.

As a form of continued positive brand image, MNCs who make use of alternative distribution channels in the BoP must ensure consistency and continuity. This is because of the negative perception some of the initiatives have had in the local communities, which was expressed by the spaza shop owner. Travelling in the township and seeing the amount of empty telecommunications containers that were not being used supported the spaza owner's feedback; this was the researcher's observation.

Middle Management FMCG: *"That we had a distribution problem within the wholesalers – there was. That's something we can't control because we don't control the distribution."*

*Executive Beverage- Alcohol: "The moment you bang that into somebody's DC (Retailer distribution centre) you asking them to manage your quality, your brand equity, you name it. Now you've got in most of these DC labour brokers staff who are responsible for your stock rotation, product quality, your packaging etcetera, you just decline equity like you cannot believe, so you premium pricing goes down, and as a result issue is availability issues... you name it."*

Kubzansky and Lalwani (2011) indicated that success at the bottom of the pyramid requires companies to adapt their business models for environments that are very different from their core markets. As Prahalad explained, much engagement with BoP consumers requires selling low-margin products in high volume. What emerged from this study is that most of the interviewed companies did not alter the product type or size sold to this market; they only explored an alternative distribution channel which resulted in being cost-effective. It was disappointing to note that the companies that

altered the product type and size to cater for the BoP market did not appear to be successful in penetration and continued to rely heavily on the traditional distribution channel.

### **6.3 Discussion of Research Question 4: What are the realities to be mindful of when servicing the BoP market?**

The alternative distribution channels as indicated in the previous chapter have been embraced for different reasons by MNCs. What emerged is that they appeared to be successful; therefore there are some traits that need to be embedded in the model. This section discusses some of the themes that emerged from the interviewed participants. Because this research was focused on distribution channels, some of the themes that emerged are intertwined. To answer this research question some of the themes have already been discussed in Section 6.2 of this document.

MNCs that have the intent to service the BoP market need to be conscious of the realities that are experienced by other MNCs serving this market. It was surprising that affordability was not a theme that materialised from the interviewed participants. Partly, it could be that this research focussed on distribution channels; therefore most participants did not mention affordability as a reality or requirement in servicing the BoP market.

As far as the researcher has reviewed the literature related to this study, there was no literature confirming the theme of cash management as a serious challenge in the BoP market. All the participants—with the exception of one participant—agreed that robberies are a reality that alternative distribution channels encounter because the business trading in the BoP market is mainly cash. This new theme may add to the current literature related to alternative distribution in the BoP. Below is the table of the themes that emerged and examples of literature where these findings have previously been iterated:

**Table 9: Realities when servicing the BoP market**

Theme	Literature: Agree	Literature: Disagree	Data
Cash Management-Robberies			Agree (Strong)
Segmenting the BoP market	(Gupta & Jaiswal, 2013) (Leke et al., 2014) (Chipp et al., 2012) (Chikweche & Fletcher, 2013)		Agree (Strong)
Gender	(Business Call to Action (Organisation), 2010) (Hunt, Lane, & Farris, n.d.) (Majumder, 2012)(Dolan, 2012)		Agree (Moderate)
Affordability	(Esko et al., 2013; V. Gupta & Khilji, 2013; Mthembu, 2009; Nelson et al., 2013; Pauwels, Erguncu, & Yildirim, 2013; Pervez et al., 2013; Sarangi et al., 2014)	(Karnani, 2007)	Neutral (Weak)
Community ambassadors	(Calton, Werhane, Hartman, & Bevan, 2013; Gebauer & Reynoso, 2013; V. Gupta & Khilji, 2013; Jun, Lee, & Park, 2013; Mitchelson, 2011; Nelson et al., 2013; Pervez et al., 2013; Rangan et al., 2011; Sarangi et al., 2014; Sinkovics et al., 2014; Varman et al., 2012)		Agree (Strong)

Segmenting the BoP assists companies in the allocation of resources as the challenges faced by the different segments differ. Rural BoP appears to have an infrastructure challenge whilst urban BoP has competition as the main challenge. It appeared that the use of local distributors in the communities is the preferred route to market as MNCs seem to increase distribution using that form of distribution channel. Similar though different in the urban BoP, cash management is a challenge and the use of distributors appears to minimise the risks. Urban BoP further has higher levels of competition; hence having a local distributor to distribute at a lower cost than MNCs direct methods of distribution enhances penetration.

*Bakery: "You wouldn't risk your people's life, you would rather identify a person within those areas that is well known within that community, you would rather give business to such people, support them in terms of training and marketing and stuff."*

*FMCG: "First of all the roads are very bad, the trucks break down, the tires burst. A lifespan of a truck in Africa for distribution is about two years. It's a nightmare! The*

*distances are far. It's not easy, depending on which product you distributing; you can really face very heavy challenges because of cost of distribution."*

Telecommunications: *"the guys that probably get robbed are the guys that are in your city centres, more than the guys that are in the communities."*

Accessing the impoverished can be a difficult task requiring considerable resources, manpower and time (Habib & Zurawicki, 2010). Pursuing opportunities in BoP markets depends on the levels of infrastructure availability in the BoP market. It also depends in the levels of consumer resources available, and whether the initiative is undertaken with a goal towards achieving self-sustainability over time. Different conditions in BoP markets may require different approaches. By understanding the conditions therefore, it aids the selection of an approach that maximises the possibility of a successful engagement (Mohr et al., 2012b).

It appeared that simply because the person is known in that area, it is less likely for the person to be hijacked, because he knows the people in that community. A stranger with company vehicle and company money becomes a softer target, as there is a perception that if something belongs to a company it is more acceptable to rob the messenger. However, if it belongs to a well-known person in the area, the undesirable individuals might find it more challenging to rob such people.

Gender appeared to be a theme that supported most of the literature and inclusive distribution models done across the world. Dolan (2012) depicted gender-specific initiatives in detail, emphasising the Grameen Phone Ladies and Solar Sisters, to Women First and Living Goods. These initiatives have gained increasing attention, not only in corporate boardrooms where the desire for untapped revenue streams looms large. Danone's distribution of yogurt through the *aparajitas* of Bangladesh, to Coca-Cola's female micro-entrepreneurs who bring the beverage to hard-to-reach villages in East Africa, and the Avon ladies selling cosmetics on the streets of Soweto all indicate that women are being included in the economic participation, thus contributing to reducing gender inequality.

Many authors have purported that gender inequality is one of the challenges that need to be addressed in the BoP market (Nelson et al., 2013) (Ayub, 2013)(Jagtap et al., 2014). These authors encouraged companies to address gender inequality by ensuring gender diversity in their value chain. This discovery gives reason to (Sinkovics et al., 2014) to encourage MNCs to invest in the efforts to address some of the remaining

social ills in South Africa. There appear to be benefits for both MNCs and the respective communities when they embark on gender-specific practices in their alternative distribution models.

As far as the concept of the BoP market, it became apparent that deeper layers of poverty and class conflicts have not been analysed. The social and gender inequalities have also been ignored, which shapes consumer behaviour to a large extent. Inasmuch, Prahalad has spoken about women being crucial drivers in the process of development.

It also emerged that women are the preferred brand ambassadors as sales representatives. The reasons stated were that women stay longer, provide better performance than males and portray more commitment to their jobs. It was indicated that there was not bias regarding the preference for women; however the trends indicated that this insight should be used for future recruitments by the MNCs.

Most of the challenging realities in the BoP market appeared to have solutions. Community involvement seems to be the main guiding principle in succeeding in the BoP market. There are different distribution models for different companies; this research gathered themes that appeared to predict success in this market. Such principles were guided by the literature and confirmed by the data collected from the different participants. This study did not only focus on one sector, thus encouraging MNCs to explore alternative distribution channels.

The insight in this research question also supported Karnani (2012), who stated that companies should design creative business models that can profitably sell beneficial products to the poor at prices they can really afford. Distribution is one of the main challenges in penetrating the BoP market, thus MNCs need to have a mind-shift and analyse the BoP market as an opportunity to build partnerships. As the data suggested, the alternative distribution channels are more cost-effective than when the company embarks on a direct distribution without including the local community in their distribution channel. Below are some of the quotes encouraging MNCs to examine the BoP market:

Expert: *“Internal structural, I think companies have to get better round of an idea. They got to make that commitment and it’s hard and how do they get around that internal barrier.”*

Technology was exposed as an enabler in servicing the BoP market. Nearly all the participants who operate in this market use technology for the sales process and to ensure accountability and transparency. This finding raised an opportunity for MNCs to have knowledge and control of their product's pricing, where it is sold and the frequency of sales, and is thus in agreement with Avlonitis and Panagopoulos (2010); Mahmood Hosseini, Azizi, and Sheikhi (2012); Storbacka, Polsa, and Sääksjärvi (2011b).

#### **6.4 Discussion of Research Question 1: How do firms manage sales through alternative distribution channels?**

Operating in the BoP market has inherent risks that are unique to this market, some of which have been discussed in the previous section. The size of this market and the opportunities it presents seem to outweigh the challenges for most of the MNCs that service the BoP market in South Africa. Companies that use alternative distribution channels appeared to reduce some of these risks because the company is represented by local people. The impression was given that women, as employees or distributors generally outperform their male counterparts and the participation of women in economic activities reduces some of the existing gender inequalities in emerging markets.

This section incorporates all the discussed research questions and proposes a model that MNCs may use to penetrate the BoP market. The model is concerned with the manner in which companies can implement alternative distribution channels, thereby incorporating communities in the distribution channel as distributors and/or as employees. It is divergent to the traditional distribution channel, thus requiring MNCs to consistently review their distribution channel as it will always evolve.

There were themes that were discussed in the previous sections that gave the idea that they predict successful penetration and sustained growth in the BoP market. It appears that making use of local people as distributors promotes entrepreneurship and ensures an inclusive distribution business model. If a company decides to make use of alternative distribution channels, the company must consider leadership from an internal person or employee who has a good understanding of the BoP market;

preferably someone who has had dealings/experience or lived in the BoP market and has passion for it.

When considering the challenges that MNCs face regarding the management of sales in the BoP market, it becomes evident that innovation on processes and adaption to the different environments is required. The model that is proposed is a framework that the MNC can apply when penetrating the BoP market using alternative distribution channels. MNCs that use alternative distribution channels indicated the importance of maintaining control of distribution. It also appeared that there are opportunities in which companies may collaborate and sell a basket of goods (non-competing brands); this is beneficial in areas where there is low population or low customer density. It is a low fixed-cost model because it is commission-based, meaning that companies pay in the form of discount. The disadvantage however is that the companies have less control over representation.

Herewith is the proposed sales management framework for the BoP market:

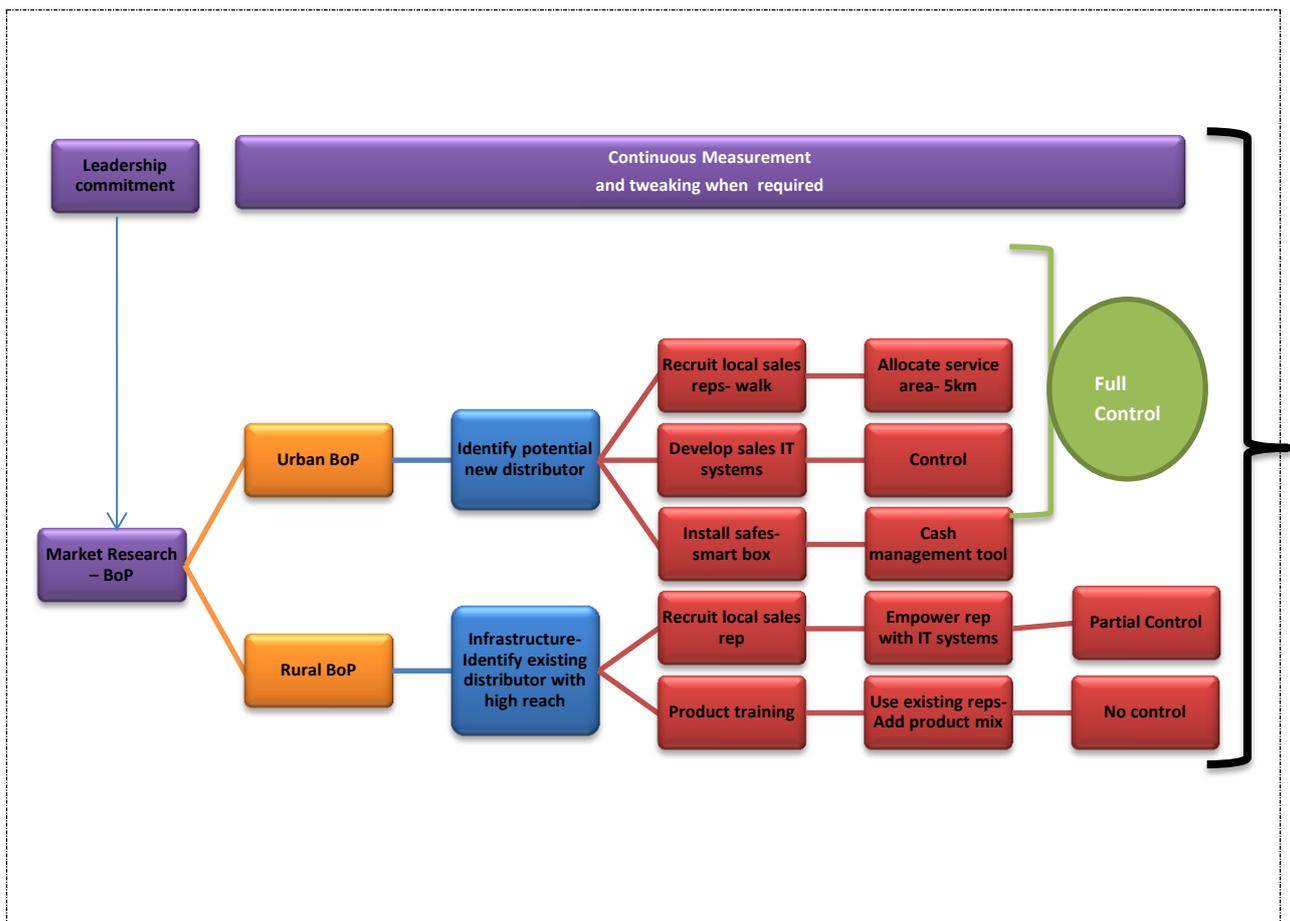


Figure 13: Sales management using alternative distribution channels in the BoP market

### **6.4.1 Explanation of the framework**

Leadership drives strategy. Leadership commitment is essential in developing and growing business in the BoP market. MNCs should recognise the need to invest in communities through skills development, financial commitment, technology and various other forms that encourage entrepreneurship in the BoP market. The alternative distribution channel requires a mind-shift from some of the MNCs and for the opportunities in the BoP market to be realised, strategic leadership is essential (Leke et al., 2014).

This research focused on the distribution channels, thus, it assumed the MNC has already ensured that there is a need for their product and that it is affordable and relevant to the BoP market. The market research that needs to be done by firms is to understand the various opportunities that the company can exploit and explore to make the product accessible. The research also ascertained the levels of competition, infrastructure, community stakeholders, and others.

The next step after the market research is to segment the BoP market into urban and rural BoP; doing so enables the company to be better prepared in terms of resource requirements and allocation. BoP market is not homogeneous, urban BoP and rural BoP varies; in rural areas, transportation infrastructure is hardly developed and access to public transportation is minimal. The rural BoP market is characterised by limited product access due to higher product distribution costs, vast geographical distances and lower population density. Urban BoP however is characterised by a high population density and better public transport infrastructure. Urban BoP has relatively high levels of competition and spending power when compared to rural BoP (Agnihotri, 2013; Alur & Schoormans, 2013; Gebauer & Reynoso, 2013; Gupta & Jaiswal, 2013; Jun et al., 2013; Sarangi et al., 2014; Sinkovics et al., 2014) .

Distribution arises repeatedly as an obstacle to business viability and scale; one of the main difficulties of any business model is to manage the access to the BoP population not only in rural areas, but also in the slums of urban areas. There is some difficulty in that firms need to operate in a constrained environment, thus (non-government organisation) NGOs, private and local companies can join strengths and knowledge of each organisation to create a more effective business model. In order to build a strong relationship and gain access to scattered, distant and different communities, one important element that appeared from the data is social embedded-ness, which allows the development of a trusting relationship between companies and consumers. Social

embedded-ness is the integration into diverse local networks that leads to the development of long-term and co-operative relationships and which may result in the achievement of common benefits for all the players involved in the network (Barki, 2010; Leke et al., 2014; Payaud, 2014; Pervez et al., 2013; The World Bank, 2012; Varman et al., 2012).

#### **6.4.1.1 Urban BoP**

After ascertaining the market in which the company chose to serve, whether it is rural BoP or urban BoP or both; the firm needs to have or appoint a distributor. Recognising the differences between urban and rural BoP, for urban BoP it is suggested that the firm may appoint an exclusive distributor that only focuses on distributing the company's brands. The data indicated that there are benefits in having a distributor who is exclusive to the company, which include increased focus, making the company more competitive and having better access to consumers.

As discussed, alternative distribution channels propel the BoP market economic participation through entrepreneurship; and this seem to result in relatively high levels of social embedded-ness. This insight should be an encouragement to firms to identify influential people in the communities in which the company may use a distributor. There may be entrepreneurs already operating in the BoP market that firms may use who might already have the infrastructure needed, such as warehousing. It emerged that the distributor that the firm identifies should not be a public figure (politician or church leader) but rather a respected community member who has credibility and is influential.

It also emerged that the firms who made use of "foot soldiers", the sales representatives that would walk the area taking orders of the spaza shops, were the firms that experienced material growth in the BoP market. The "foot soldiers" were allocated a reasonable distance area to cover, and it would be their responsibility to service all the customers in every street.

This contributed towards reducing unemployment in these areas because the companies that made use of "foot soldiers" increased the sales in these areas substantially, so much that this channel has a fully recognised department. When analysing the findings from Research Question 1, this insight supported Karnani (2007) and Adebayo (2013) in that creating opportunities for steady employment at reasonable wages is the best way to eradicate poverty. There is much empirical evidence showing

that creating decent employment opportunities is the best way to take people out of poverty.

The availability of technology systems seems to improve the productivity of the “foot soldiers” in the BoP market. The participants’ feedback suggested that through technology, the firm can track where the “foot soldiers” are and the firm has the ability to track the daily activities at any given point in time. This enables transparency and a good monitoring method, and supports Storbacka *et al.* (2011b) in their view that there is a need for a stronger information and communications infrastructure. This is because in order for the multilevel and cross-functional solution sales process to be properly executed, it is suggested that the different roles use the same sales-support system. Thus, the top management may utilise reports from sales support systems in strategy creation and day-to-day management decision-making. Panagopoulos *et al.* (2011) suggested that this has been an area with minimum academic research, which needs to be explored further.

Urban BoP market in South Africa suggests that most of the business dealings are done in cash; this was discussed in detail in Research Question 3. Robberies are a reality experienced by most businesses operating in the urban BoP as expressed by most of the participants. To mitigate this, some firms make use of SmartBox. The Smart-Box allows for better managing of cash on site, it minimise the risks associated with holding and transporting cash. Further it provides the distributor with the opportunity to earn interest immediately on deposits. Once the money has been successfully deposited into the SmartBox, the bank assumes all risk for the firm’s money and follows effective security protocols in securing that money and moving it safely to the bank (First National Bank, n.d.).

Having a local community member as the distributor appears to minimise robberies. It emerged that if the local distributor is a known member who grew up in that community, the frequency of robberies were reduced. Many reasons may be attributed to this phenomenon, however the theme that emerged suggested that, because the person is from the area, is known, the people who rob businesses find it difficult to target one of their own.

#### **6.4.1.2 Rural BoP**

Rural BoP presents infrastructure challenges, thus requiring high fixed costs if the firm intends to service this market. Consequently it appeared that using the current

distributors in the rural BoP gives the impression that it is a more viable distribution channel than setting up a new distributor. This is because the rural distributor would have better knowledge and understanding of the area, operating infrastructure (warehouse and trucks/vans) and may also have a network of customers that are currently being serviced. This advantage propels the increase in scale and reduces distribution costs per unit as the firm has simply added to the distributor's product mix. Few companies indicated that they invested in new infrastructure for the rural BoP.

It is also suggested that firms should employ local sales representatives; however the rural BoP market customers are geographically dispersed. For the reason that customers are dispersed, which however varies in various types of rural areas, "foot soldiers" may be viable depending on each area spread and product type. Some firms use local people that are mobile sales representatives to visit customers in the rural BoP market. Technology systems that are used in the rural BoP market are similar to those in urban BoP market and represent the same benefits. Companies that have and/or own the alternative distribution enjoy the benefits of having full control of the brand equity and customer experience.

When a company chooses to use the distributor's sales representatives, it is suggested that product training is conducted by the firm adding their product in the distributor's product mix. This encourages and gives confidence to the distributor's sales representatives as they then have a good understanding of the value proposition. By the very nature of using an independent distributor, the firm loses control over the brand equity and hands it over to the distributor. Firms need to assess the cost benefit of using an independent distributor compared to that of developing an alternative distribution channel that is exclusive to the firm's brand.

#### **6.4.1.3    *Own channel***

Companies that create a company-owned distribution channel by having warehouses and trucks to distribute their product, appear to encounter higher frequencies of robberies than those who use community-based alternative distribution channels. The participants indicated that this challenge at times results in the company exploring the alternative distribution channel, which surprisingly increases the distributors' area sales and reduces the risk experienced by the firm. One of the participants indicated that their particular business made a decision not to service certain markets in the BoP segment because of the high risk of robberies subjected to employees (because their employees are not local).

The participants further suggested that at times it is difficult to ascertain whether or not the employees are involved in these robberies. One participant indicated that they had to stop this channel as it became too challenging and the business had trouble in minimising the risk. It is important to note that the company may invest in their distribution channel; they may make a great deal of money through high volume sales but they may not receive the monetary benefit because of continuously being targeted for robberies.

#### **6.4.1.4 Conclusion**

The company's appetite for risk and reward drives the channel it chooses to use in servicing the BoP market. The degree of control also determines whether a company chooses to have exclusive distributors or just add products to current distributors' product-mix. When a company decides to have their own channel, they still need to consider and mitigate the risks and benefits of servicing the BoP market by a company-owned channel. A few participants indicated the high cost and the risk of exposure when using the firm's own channel to service the BoP market. One participant indicated that they made a decision to close their own direct channel.

Irrespective of the distribution channel the MNCs can employ in the BoP market, similar or more advanced performance measurement systems need to be applied. Technology appears to be the best tool given the dynamics of this market. Most of the BoP market distributors are not well educated, thus, MNCs need to be conscious of this fact and ensure continuous training on relevant business skills and product handling.

Simplicity in the entire process would yield better results. Continuous measurement and alteration when required is essential as every community differs in the BoP market. Leadership must ensure continual performance review, as well as cost and benefit analysis. Simple guidelines must be maintained and discussed with the employees and entrepreneurs that are incorporated in the alternative distribution channels. These actions serve as a commitment by the company, and the community members are aware of the company expectations.

## **CHAPTER 7: CONCLUSION**

The intent of this research study was comprehensively discussed in Chapter 1. The objectives thereof were outlined in Chapter 3; these are now consolidated together with the findings presented in Chapter 5 as well as considering the analysis of results which was discussed in Chapter 6. This chapter suggests future research, delineates the limitations of this research and provides a conclusion of this research study.

### **7.1 Research background**

According to Neu-Ner and Oved (2014) Africa is the location of the next surge of expansion and firms that fail to access this market will be hindered in both profit generation and expansion of business. The informal economy is Africa's new frontier for growth. Previously forgotten and disregarded, the informal economy on the continent is alive and growing into a significant contributor to the bottom line for many businesses.

Budree and Williams (2013) emphasised the need to understand developing countries' differences regarding socio-economic factors before firms launch into these markets or prior to transferring products from one developing country to the other. Understanding the African consumer is vital to the success of brands doing business on the continent. Multinational brands should avoid adopting a cut-and-paste approach to marketing locally.

Africa gives the impression that there are growth opportunities for MNCs that can be realised in the BoP market. Although Africa is a huge continent it consists of small cluster-like communities whose buying trends and behaviour are unique. There has been a complete shift in the expansion strategies of companies (Neu-Ner & Oved, 2014). The objective of this research was to investigate how MNCs use alternative distribution channels to service the BoP market. The alternative distribution channels as discussed earlier in this research include the inclusive distribution model that promotes economic growth in poor communities. The research study further intended to determine how firms manage sales in these channels in South Africa.

## 7.2 Summary of Findings

The objectives of this research were met and all the research questions answered. The findings revealed that most companies are attempting to penetrate the BoP market. However, few have been successful. The formal retail channel remains the dominant channel distribution utilised by MNCs. There is reason still to suggest that most MNCs are trialling alternative distribution channels to reduce the bargaining power of retailers. The MNCs appear to be searching for alternatives to make their products more readily available to customers by using different distribution channels.

This research has increased the awareness that far too many people fail to benefit from economic growth. In South Africa, by far the region's richest country, an estimated 23% of the population still earn less than US \$ 2 per day (Reciprocity, 2014). The research questions derived from the literature reviewed were supported by the data, in that, the alternative distribution channels appear to increase economic participation of the communities to which it sells.

The private sector can play a significant role in addressing the challenges of poverty and inequality. Businesses drive economic growth by creating employment, and by selling and purchasing goods and services. In low income communities, business and entrepreneurship are often vehicles of social transformation. The ability of business to engage at the BoP is crucial to development and prosperity of the masses (Reciprocity, 2014).

The considerable demand for goods and services within poor communities, especially where formal businesses are largely absent, provides an opportunity for the emergence of micro-enterprises that are modelled on formal businesses, but operate informally. The findings suggested that the MNCs that use alternative distribution channels maintain some form of control and transparency. These channels provide the opportunity to transfer skills and the increased use of technology act as enablers, consequently positively contributing to local communities' welfare.

The market size of the BoP market is substantial and as guided by the literature, the outcomes of this research support the claim. Most companies agreed that the market size is the main motivator to find alternatives to service this market, as it is currently underserved. As a result, this underserved market propels the need to increase penetration in the BoP market by making use of different distribution channels. To better penetrate this market, the findings suggested that companies should consider

segmenting the BoP market as the conditions and market structures differ. The rural BoP poses infrastructural challenges, whilst urban BoP experience competition challenges. When the BoP market is segmented, it enables the MNCs to craft relevant strategies that will have higher probabilities or indicators of success.

Communities can be involved in the MNCs distribution channels as distributors and/or as employees. Local knowledge may also prove to be valuable to the MNCs that incorporate communities in their alternative distribution channels. The findings suggested that local community involvement through collaboration with local entrepreneurs, skills transfer, financial/asset investment, and job creation promotes an ecosystem that ensures sustainable development.

Particularly in informal settlements, where the rate of crime is very high, robbery is a legitimate concern for companies, distributors and shop owners. Customers typically pay in cash, and would-be robbers are fairly confident that companies, distributors, spaza shops have cash. As a result, businesses operating in the BoP markets are often appealing targets to criminals because they are largely cash-based businesses.

By ensuring that local community people are incorporated in the alternative distribution channels used by firms, the data indicated that there are fewer incidences of robberies. This is because the employee or entrepreneur is a known member of the community. In contrast, when an outsider is employed by a private company; the person is not known in that community and is likely to be susceptible to robberies.

The number of female business owners in the informal sector is over fifty percent, and includes women running spaza shops (Department: Trade and Industry, 2007). Females seem to be drivers of economic participation in the BoP market. This serves as encouragement to MNCs to include females in their alternative distribution channels as they appear to deliver better business results than their male colleagues. It is however important that the MNCs immerse themselves in the communities they wish to serve and understand the social dynamics thereof before implementing strategies, simultaneously addressing gender inequalities.

The opportunities and challenges that are presented in this research which are realities from firms that seek to penetrate the BoP market, it becomes apparent that leadership commitment is critical for success in this market. The BoP market requires firms to be flexible and to have the willingness to impart knowledge and skills to poor communities. The cost benefits appear to be a valid motivator according to the companies that are

successful in this market, thereby working as a motivator for business leaders to explore alternative distribution channels.

Technology is an enabler to ensure transparency and control of community members that have been incorporated into the firms' alternative distribution channels. IT systems that are used by the company and those used by the distributor must be interactive for ease of business. Cellular phone applications are used by the employees as mobile computers that are GPS enabled and can capture route calls. The use of technology in the BoP market can be extended as a cash management tool for businesses, thus reducing the cash handling, which results in robberies. A model has been suggested in the previous chapter that has appreciated the previous literature in this field.

This research investigated different sectors and their alternative distribution channel strategies for the BoP market. The differentiations in product value in comparison with product size and weight is suggested as an indicator of the improvements or alterations of infrastructure that may be required. There should be consideration regarding how these changes would affect the attributes of the alternative distribution channel that the company may choose to implement.

### **7.3 Recommendations**

The results from all four research questions provided useful insights for firms operating in, or considering operations in the BoP market. The descriptive overview model presented in Figure 8 in Chapter 6 provides a useful overview framework to help companies consider their alternative distribution channels in the BoP market. It illustrates the realities cited by companies operating in the BoP markets, the challenges and solutions that predict success in this market. This overview model may aid firms to better structure, direct and articulate their approach in the BoP market.

Leadership commitment and continuous monitoring ensures sustainability to this business model as it requires businesses to include communities in their alternative distribution channels. This research finding reinforced the literature in that there is a fortune to be made by accessing the BoP market. The market size is large and it appears that the cost to serve, given the use of alternative distribution channels is justified by the benefits in increased profitability for the firms. The cost to serve the poor is not high as the literature suggests; firms may reduce the cost to serve by leveraging some of the communities' infrastructures and know-how.

Literature has termed the poor as those who live below US\$ 2/day, also referred to as the bottom of the pyramid (BoP). The literature reviewed in this study and the data indicated this market to have good growth potential for businesses. It also indicated that the market size is significant and MNCs are encouraged to integrate poor communities in their business models. It is for this reason that the term BoP be reviewed and this market is rather referred to as the “Main Market”. Literature has indicated that the growth in the future will be in emerging economies, therefore the “Main Market” is what business needs to embrace to safeguard future sustainability and growth.

Women appear to ensure better performance results in the alternative distribution channels; therefore, firms are encouraged to improve their economic participation to reduce gender inequalities. Such economic inclusion partly reduces extreme poverty and hunger in sub-Saharan Africa.

Cash handling challenges in the BoP market is not unique to South Africa; however the higher rate of robberies is pertinent to the case in South Africa. It is suggested that MNCs must take into consideration the indexes of the country’s or state’s crime indices, which are published on websites like NUMBEO (2014). Crime Index is an estimation of overall level of crime in a given city or a country. Crime Levels up to 50 are reasonable, and crime index levels more than 100 are too high. For example NUMBEO (2014) indicate that the crime index of Abuja, Nigeria is 90.10 and that of Rustenburg, South Africa is 89.38, which is ranked amongst the highest in the world. These serve as indicators of risk in the company’s cash management as discussed in this study. However, when communities are integrated in the alternative distribution channels the crime-related incidences reduce significantly. There is a distinct difference between urban BoP and rural BoP in terms of robbery-related incidences. The rural BoP tends to have much lower incidences of robberies than urban BoP, a valuable consideration for management when perusing the relevant indices.

## **7.4 Limitations to this research**

The main limitation to this study was the fact that the population was defined as companies that have a distribution channel that service the BoP market in South Africa. The reason for choosing South Africa was purely because of the researcher’s location. While findings in South Africa may be useful to other BoP markets, a broader sample from different emerging countries would have been preferable. The location of the

sample may have created a bias for certain findings; as an example, the fact that robberies are prevalent in the BoP market may be applicable to South Africa only. Cash management in other emerging countries may not be a major challenge and there may be much lower incidences of robberies when compared to South Africa.

For these reasons, it is recommended that companies analyse crime indices as a guide to better prepare for or mitigate the risk of robberies. By using inclusive distribution channels, i.e. alternative distribution channels, as indicated by the data, the companies' exposures to robberies are minimised.

It was envisioned that more spaza shop owners would be interviewed to gain insight on their preferred distribution channel and how it should work. This prove to be a challenge as the ideal number of spaza shop owners was unavailable at their stores during the time of the researcher's visit, as they had gone to buy their stock from formal retailers. The researcher initially embarked on trips to spaza shops alone and none of the owners were willing to participate. After visiting five stores that declined to participate, the researcher approached a stranger at the corner of the shops to accompany her during the visits. After the researcher explained the purpose of the visit to the areas to both the local community members, and the shop owners were able to identify the local community member accompanying the researcher, they were willing to participate.

The theories and frameworks generated by this study are only expressive. They are simply a representation of what is currently happening based on the perceptions and information provided by interviewed participants. The participants were executives, senior managers, middle managers, third party partners, distributors, spaza shop owners and customers. This research did not seek to test hypotheses against outcomes. It was a qualitative study that sought to gain more profound insight from participants in the area of sales management when making use of alternative distribution channels in the BoP market.

## **7.5 Implications for future research**

Emerging countries give the impression that they are complex, and local knowledge appears to be difficult to substitute. As the literature reviewed has indicated, Africa presents opportunities for future growth. It is vital for MNCs to better understand emerging countries in order to craft successful execution strategies for the future BoP

market. For this reason, it is suggested that a quantitative study be conducted to examine the theories and the framework presented in this research. As discussed in the literature review, there are only few academic studies performed in emerging countries in the field of personal selling and sales management.

Spaza shop owners have tacit knowledge about the area they operate in and they are a great source of information in terms of determining the most efficient distribution channels that would serve them better. Research is encouraged in this field to garner insight from the BoP customers, that is, spaza shop owners, as this research inherently followed a top-down approach (Executive to Customer), and more attention was given to the provisions and information gained from the MNC participants.

## **7.6 Conclusion**

This research has indicated that there are opportunities for growth in emerging countries; inclusive alternative distribution channels were explored and appeared to benefit firms and communities. One of the companies interviewed indicated that they incorporate communities in all aspects of their business. As a result, this has benefited the company's profitability and also increased economic participation in communities that it operates in, thus generating sustainable demand for their products.

The BoP market in emerging countries such as South Africa provides an entry point for individuals otherwise excluded from the formal labour market, primarily due to a lack of education and skills to pursue business opportunities or gain employment. Youth unemployment in South Africa currently exceeds more than 50 percent and may present future structural challenges for the country; the private sector is vital in improving the current state.

One of the challenges facing the spaza shops is distribution. Some major companies deliver their products to spaza shops directly, but the majority currently do not (Worcester Polytechnic Institute, n.d.). There are also independent distributors that some shops hire to deliver goods to their shops. However, many shop owners have no alternative but to go and buy their goods themselves. Since many do not own their own cars, they often have to take a bus or a taxi to get to their supplier, pick up goods, and carry all those goods on public transportation back to their shops. This hinders the spaza shop owners in scaling the profitability and sustainability of their shops, and it hinders a regular, dependable supply of stock to the communities the spaza operates.

The research suggests that there are opportunities in the BoP market for MNCs who wish to penetrate this segment. Literature reviewed in this research indicates that the alternative distribution channels in the BoP give the impression that these channels promote inclusive growth. However, the literature and the research findings affirm that there seems to be some benefits when MNCs make use of these channels when targeting the BoP market. It is vital to note the importance of the formal retail channels operating in these markets as these are still an important distribution partner.

## REFERENCES

- Adebayo, N. A. (2013). Assessing market for Multi-National Corporations at Nigeria's bottom of the pyramid. *International Journal of Management, Economics and Social Science*, 2(3), 157–186.
- Agnihotri, A. (2013). Doing good and doing business at the bottom of the pyramid. *Business Horizons*, 56(5), 591–599. doi:10.1016/j.bushor.2013.05.009
- Alur, S., & Schoormans, J. P. L. (2013). Retailers and new product acceptance in India's base of pyramid (BoP) markets: Propositions for research. *International Journal of Retail & Distribution Management*, 41(3), 189–200. doi:10.1108/09590551311306246
- Aman, A., & Hopkinson, G. (2010). The changing structure of distribution channels in Pakistan. *International Journal of Retail & Distribution Management*, 38(5), 341–359. doi:10.1108/09590551011037572
- Andersson, L., & Hohenschwert, L. (2012). Closer to a win-win situation? Changes in the salesperson-customer relationship when implementing value selling. Retrieved from <http://www.globalsalescienceinstitute.org/wp-content/uploads/2013/01/2012-GSSI-Conference-Proceedings-FINAL-June-5.pdf>
- Avlonitis, G. J., & Panagopoulos, N. G. (2010). Industrial marketing management selling and sales management: An introduction to the special section and recommendations on advancing the sales research agenda. *Industrial Marketing Management*, 39(7), 1045–1048. doi:10.1016/j.indmarman.2009.12.006
- Ayub, M. (2013). Poverty and inequality. *Global Journal of Emerging Market Economies*, 5(3), 329–346. doi:10.1177/0974910113505796
- Barki, E. (2010). *Distribution strategies for the base of the pyramid: an exploratory study in Brazil*. São Paulo of Fundação Getulio Vargas,.
- Budree, A., & Williams, K. H. (2013). Factors influencing the uptake of mobile banking in developing countries: A case study of M - Pesa in South Africa. In *Proceedings of 22nd International Business Research Conference* (pp. 9–10). Madrid: University of Western Cape.
- Business Call to Action (Organisation). The Coca-Cola Company: Enabling jobs and opportunity (2010). Retrieved from [http://www.businesscalltoaction.org/wp-content/files\\_mf/cocacolacasesstudyforweb40.pdf](http://www.businesscalltoaction.org/wp-content/files_mf/cocacolacasesstudyforweb40.pdf)
- Business Call to Action (Organisation). Zoono: Building a mobile money ecosystem in Zambia (2012). Retrieved from [http://www.businesscalltoaction.org/wp-content/files\\_mf/1384367826\\_magicfields\\_English\\_PDF\\_1\\_1.pdf](http://www.businesscalltoaction.org/wp-content/files_mf/1384367826_magicfields_English_PDF_1_1.pdf)
- Business Call to Action (Organisation). Hapinoy: Building local business networks innovations that improve lives (2013). Retrieved from [http://www.businesscalltoaction.org/wp-content/files\\_mf/bctacasestudies\\_hapinoy\\_web.pdf](http://www.businesscalltoaction.org/wp-content/files_mf/bctacasestudies_hapinoy_web.pdf)

- Calton, J. M., Werhane, P. H., Hartman, L. P., & Bevan, D. (2013). Building partnerships to create social and economic value at the base of the global development pyramid. *Journal of Business Ethics*, 117(4), 721–733. doi:10.1007/s10551-013-1716-0
- Chakravarthy, B., & Coughlan, S. (2012). Emerging market strategy: Innovating both products and delivery systems. *Strategy & Leadership*, 40(1), 27–32. doi:10.1108/10878571211191675
- Chebelyon-dalizu, L., Garbowitz, Z., Hause, A., & Thomas, D. (2010). *Strengthening Spaza Shops in Monwabisi Park, Cape Town*. Worcester Polytechnic Institute.
- Cheung, M., & Belden, M. (2013). Beyond business basics at the base-of-the-pyramid: The perspectives of Multinational Corporations. *Business and Management Dynamics*, 3(6), 27–32.
- Chikweche, T., & Fletcher, R. (2011). Franchising at the bottom of the pyramid (BOP): An alternative distribution approach. *The International Review of Retail, Distribution and Consumer Research*, 21(4), 343–360. doi:10.1080/09593969.2011.588717
- Chikweche, T., & Fletcher, R. (2013). Customer relationship management at the base of the pyramid: Myth or reality? *Journal of Consumer Marketing*, 30(3), 295–309. doi:10.1108/07363761311328964
- Chipp, K. (2014). Research methodology. Retrieved from [https://clickup.up.ac.za/bbcswebdav/pid-343643-dt-content-rid-2663427\\_1/courses/gibs\\_gnm880\\_mba2013.14/GIBS MBA 2013\\_4 Session 4\\_class.pdf](https://clickup.up.ac.za/bbcswebdav/pid-343643-dt-content-rid-2663427_1/courses/gibs_gnm880_mba2013.14/GIBS MBA 2013_4 Session 4_class.pdf)
- Chipp, K., Corder, C., & Kapelianis, D. (2012). Where practice meets theory: Defining and reviewing the bottom of the pyramid for South African marketers. *Management Dynamics*, 21(1), 18–30. Retrieved from [http://0-reference.sabinet.co.za/innopac.up.ac.za/webx/access/electronic\\_journals/mandyn/mandyn\\_v21\\_n1\\_a2.pdf](http://0-reference.sabinet.co.za/innopac.up.ac.za/webx/access/electronic_journals/mandyn/mandyn_v21_n1_a2.pdf)
- Chipp, K., & Kapelianis, D. (2013). The role of collectivism in defining the South African bottom of the pyramid. *Management Dynamics*, 22(1), 2–14.
- Chow, C. S. F., Kaynak, E., & Yang, C. J. (2011). Channel power struggle between a manufacturer giant and a retailer giant in China: Who is the winner? *Competitiveness Review: An International Business Journal Incorporating Journal of Global Competitiveness*, 21(3), 306–321. doi:10.1108/10595421111134877
- Creswell, J. W., & Miller, D. L. (2010). Determining validity in qualitative inquiry. *Theory Into Practice*, (September 2014), 37–41. doi:10.1207/s15430421tip3903
- Dawson, J. (2013). Retailer activity in shaping food choice. *Food Quality and Preference*, 28(1), 339–347. doi:10.1016/j.foodqual.2012.09.012
- Department: Trade and Industry. (2007). *Annual review of small business in south africa 2005-2007*. Retrieved from [http://www.dti.gov.za/sme\\_development/docs/smme\\_report.pdf](http://www.dti.gov.za/sme_development/docs/smme_report.pdf)

- Dimitrova, B., & Rosenbloom, B. (2010). Standardization versus adaptation in global markets: Is channel strategy different? *Journal of Marketing Channels*, 17(2), 157–176. doi:10.1080/10466691003635127
- Dolan, C. (2012). The new face of development. *Anthropology Today*, 28(4), 3–8.
- Esko, S., Zeromskis, M., & Hsuan, J. (2013). Value chain and innovation at the base of the pyramid. *South Asian Journal of Global Business Research*, 2(2), 230–250. doi:10.1108/SAJGBR-03-2012-0020
- First National Bank. (n.d.). SmartBox. Retrieved October 08, 2014, from <https://www.fnb.co.za/commercial-banking/transact/cash-solutions/smartbox.html>
- Gebauer, H., & Reynoso, J. (2013). An agenda for service research at the base of the pyramid. *Journal of Service Management*, 24(5), 482–502. doi:10.1108/JOSM-04-2013-0090
- Goldenberg, J., Han, S., Lehmann, D. R., & Hong, J. W. (2009). The role of hubs in the adoption process, 2429. Retrieved from <http://0-web.b.ebscohost.com/innopac.up.ac.za/ehost/pdfviewer/pdfviewer?sid=2ae63cea-ff24-4f83-b545-91c207a9c33e%40sessionmgr112&vid=1&hid=121>
- Gupta, S., & Jaiswal, A. K. (2013). Making the case for harming the poor – a review of marketing tactics at the bottom of the pyramid. *Indian Institute of Management*, 14(5), 30–40.
- Gupta, V., & Khilji, S. E. (2013). Revisiting fortune at base of the pyramid (BoP). *South Asian Journal of Global Business Research*, 2(1), 8–26. doi:10.1108/20454451311303257
- Habib, M., & Zurawicki, L. (2010). The bottom of the pyramid: Key roles for business. *Journal of Business & Economic Research*, 8(5), 23–32.
- Harrison, R. (2010). *Understanding innovation in low-income markets*. University of Pretoria.
- Heeks, R. (2012). IT innovation for the bottom of the pyramid. *Communications of the ACM*, 55(12), 24. doi:10.1145/2380656.2380665
- Hunt, J., Lane, P., & Farris, J. (n.d.). The lesson of Miss Arlene's oven: Entrepreneurship at the base of the economic pyramid, 14, 85–111.
- Ilie, G. (2014). Innovative actions within the business models of European companies. *Knowledge Horizons- Economics*, 6(2), 44–48.
- International Finance Corporation. (n.d.). Coca-Cola Sabco Micro Distribution Project. *World Bank Group*.
- Ismail, T., Kleyn, N., & Ansell, G. (2012). *New Markets, New Mindsets*. Jacana Media. Retrieved from <http://0-books.google.co.za/innopac.up.ac.za/books?hl=en&lr=&id=iqLRnIFnD->

sC&oi=fnd&pg=PR2&dq=new+markets,+new+mindset-  
+tashmia+ismail+and+nicola+klyen&ots=7H1DrFqO9e&sig=tns18C2197RdMBrL-  
QRMCazYsxQ#v=onepage&q=new+markets%2C+new+mindset-+tashmia+ismail  
and+nicola+klyen&f=true

- Jagtap, S., Larsson, A., Hiort, V., Olander, E., Warell, A., & Khadilkar, P. (2014). How design process for the base of the pyramid differs from that for the top of the pyramid. *Design Studies*, 1–32. doi:10.1016/j.destud.2014.02.007
- Javalgi, R. (Raj) G., Granot, E., & Alejandro, T. G. B. (2011). Qualitative methods in international sales research: Cross-cultural considerations. *Journal of Personal Selling and Sales Management*, 31(2), 157–170. doi:10.2753/PSS0885-3134310204
- Jun, S., Lee, D., & Park, J. (2013). Determining business models in bottom-of-the-pyramid markets. *Industrial Management & Data Systems*, 113(7), 1064–1082. doi:10.1108/IMDS-02-2013-0060
- Kapelianis, D. (2014). Personal selling & sales management in emerging markets: A research agenda (pp. 1–36). Unpublished manuscript.
- Karnani, A. (2007). The mirage of marketing to the bottom of the pyramid: How the private sector can help alleviate poverty. *California Management Review*, 49(4), 90–112.
- Karnani, A. (2012). Markets of the poor: Opportunities and limits. *International Journal of Rural Management*, 8(1-2), 7–17. doi:10.1177/0973005212461980
- Khumalo, F. N. (2010). *How to best serve the rural and samm town middle class market in South Africa*. University of Pretoria.
- Kubzansky, M., & Lalwani, N. (2011). Is the bottom of the pyramid really for you? *Havard Business Review*, (March). Retrieved from [http://www.aquaforall.nl/documents/aqua4all/downloads/harvard\\_business\\_review\\_-\\_segmenting\\_at\\_the\\_bop\\_and\\_gain.pdf](http://www.aquaforall.nl/documents/aqua4all/downloads/harvard_business_review_-_segmenting_at_the_bop_and_gain.pdf)
- Leke, A., Fiorini, R., Dobbs, R., Thompson, F., Suleiman, A., & Wright, D. (2014). Nigeria's renewal: Delivering inclusive growth in Africa ' s largest economy. *McKinsey Global Institute*, (July).
- Linna, P. (2012). Base of the pyramid ( BOP ) as a source of innovation: Experiences of companies in the Kenyan mobile sector. *International Journal of Technology Management & Sustainable Development*, 11(2), 113–137. doi:10.1386/tmsd.11.2.113
- Mahmood Hosseini, S., Azizi, S., & Sheikhi, N. (2012). An Investigation on the effect of supply Chain integration on competitive capability: An empirical analysis of Iranian food industry. *International Journal of Business and Management*, 7(5), 73–91. doi:10.5539/ijbm.v7n5p73
- Majumder, M. (2012). A critical approach in understanding bottom of the pyramid propositions. *Journal of Management & Public Policy*, 3(2), 18–25.

- Mason, J. (2002). *Qualitative researching* (2nd Ed.). London: SAGE Publications Inc.
- Mason, K., Chakrabarti, R., & Singh, R. (2013). What are bottom of the pyramid markets and why do they matter? *Marketing Theory*, 13(3), 401–404. doi:10.1177/1470593113489193
- Matsau, M. (2010). *The impact of hubs on the adoption of products among a South African bottom of the pyramid ( BOP ) network*. University of Pretoria.
- Mitchelson, M. (2011). *Can the base of the pyramid twin goals of profit and improved welfare be achieved ?* University of Pretoria.
- Mkhwanazi, P. (2011). *Conspicuous consumption and Black youth in emerging markets*. University of Pretoria.
- Mohr, J. J., Sengupta, S., & Slater, S. F. (2012a). Serving base-of-the-pyramid markets: Meeting real needs through a customized approach. *Journal of Business Strategy*, 33(6), 4–14. doi:10.1108/02756661211281453
- Mohr, J. J., Sengupta, S., & Slater, S. F. (2012b). Serving base-of-the-pyramid markets: Meeting real needs through a customized approach. *Journal of Business Strategy*, 33(6), 4–14. doi:10.1108/02756661211281453
- Mollenkopf, D. a., Frankel, R., & Russo, I. (2011). Creating value through returns management: Exploring the marketing–operations interface. *Journal of Operations Management*, 29(5), 391–403. doi:10.1016/j.jom.2010.11.004
- Mthembu, B. (2009). *Evaluating the 4As framework in serving the low-income consumer: Self-help housing needs*. University of Pretoria.
- Nelson, J., Ishikawa, E., & Geaneotes, A. (2013). Developing inclusive models: A review of Coca-Cola’s manual distribution centers in Ethiopia and Tanzania. *Havard Kennedy School and International Finance Corporation*, 3(6), 511. doi:10.2217/pmt.13.66
- Neu-Ner, R., & Oved, G. (2014). Marketing to the bottom of the pyramid. Retrieved October 25, 2014, from <http://www.smesouthafrica.co.za/marketing-bottom-pyramid/>
- NUMBEO. (2014). Crime Index Rate. Retrieved from [http://www.numbeo.com/crime/rankings\\_current.jsp](http://www.numbeo.com/crime/rankings_current.jsp)
- Panagopoulos, N. G., Lee, N., Pullins, E. B., Avlonitis, G. J., Brassier, P., Guenzi, P., Weilbaker, D. C. (2011). Internationalizing sales research: Current status, opportunities, and challenges. *Journal of Personal Selling and Sales Management*, 31(3), 219–242. doi:10.2753/PSS0885-3134310302
- Patton, M. Q. (2002). *Qualitative research & evaluation methods* (3rd Ed.). London: SAGE Publications Inc.
- Pauwels, K., Erguncu, S., & Yildirim, G. (2013). Winning hearts, minds and sales: How marketing communication enters the purchase process in emerging and mature

- markets. *International Journal of Research in Marketing*, 30(1), 57–68.  
doi:10.1016/j.ijresmar.2012.09.006
- Payaud, M. A. (2014). Marketing strategies at the bottom of the pyramid: Examples from Nestlé, Danone, and Procter & Gamble. *Global Business and Organizational Excellence*, (February), 51–63. doi:10.1002/joe.21533
- Pervez, T., Maritz, A., & Waal, A. De. (2013). Innovation and social entrepreneurship at the Bottom of the Pyramid- A conceptual framework, 16(16), 54–66.
- Polkinghorne, D. E. (2005). Language and meaning: Data collection in qualitative research. *Journal of Counseling Psychology*, 52(2), 137–145. doi:10.1037/0022-0167.52.2.137
- Prahalad, C. K. (2010). *The fortune at the bottom of the pyramid: Eradicating poverty through profits* (5th ed.). United State of America: Pearson Education, Inc.
- Punch, K. F. (2000). *Developing effective research proposals* (2nd Ed.). London: SAGE Publications Inc.
- PwC Southern Africa. (2012). South African retail and consumer products outlook 2012-2016. Magno Satin Matt. Retrieved from [http://www.pwc.co.za/en\\_ZA/za/assets/pdf/retail-and-consumer-products-outlook-2012-2016.pdf](http://www.pwc.co.za/en_ZA/za/assets/pdf/retail-and-consumer-products-outlook-2012-2016.pdf)
- Radjou, N., & Prabhu, J. (2012). Mobilizing for growth in emerging markets mobilizing for growth in emerging markets. *MIT Sloan Management Review*, 53(53315). Retrieved from <http://0-search.proquest.com.innopac.up.ac.za/docview/963962184>
- Rangan, V. K., Chu, M., & Petkoski, D. (2011). Segmenting the base of the pyramid. *Harvard Business Review*, (June).
- Ravhugoni, T., & Ngobese, M. Disappearance of small independent retailers in South Africa: The waterbed and spiral effects of bargaining power (2010).
- Reciprocity. (2014). The BoP Lab (Southern Africa). Retrieved October 25, 2014, from [http://www.bop.org.za/BoP\\_Lab/Home.html](http://www.bop.org.za/BoP_Lab/Home.html)
- Sarangi, S., Patro, S., & Kumar, R. S. (2014). Sustainable distribution in emerging markets – African perspective. *Transnational Marketing Journal*, 2(July), 39–59.
- Saunders, M., & Lewis, P. (2012). *Doing research in business & management: An essential guide to planning your project*. London: Pearson Education Limited.
- Schrader, C., Freimann, J., & Seuring, S. (2012). Business Strategy at the Base of the Pyramid. *Business Strategy and the Environment*, 21(5), 281–298. doi:10.1002/bse.727
- Sheth, J. N. (2011). Impact of emerging markets on marketing: Rethinking existing perspectives and practices. *American Marketing Association*, 75(July), 166–182. Retrieved from <http://0->

web.b.ebscohost.com.innopac.up.ac.za/ehost/pdfviewer/pdfviewer?sid=13af8a4e-657d-467d-85b6-a1a0e9064db1%40sessionmgr114&vid=1&hid=121

- Sheth, J. N. (2014). Personal selling in emerging markets: Context matters. In *AMA-Winter Educator's Conference Orlando, FL* (pp. 1–8).
- Silverman, D. (2011a). *Interpreting qualitative data* (4th Ed.). London: SAGE Publications Inc.
- Silverman, D. (2011b). *Qualitative research* (3rd Ed.). London: SAGE Publications Inc.
- Sinkovics, N., Sinkovics, R. R., & Yamin, M. (2014). The role of social value creation in business model formulation at the bottom of the pyramid – Implications for MNEs? *International Business Review*. doi:10.1016/j.ibusrev.2013.12.004
- Spaza news. (2010). Retrieved from <http://www.spazanews.co.za/>
- Statistics South Africa. (2014). South Africa unemployment rate falls in Q4 2013. Statistics South Africa. Retrieved from <http://www.tradingeconomics.com/south-africa/unemployment-rate>
- Storbacka, K., Polsa, P., & Sääksjärvi, M. (2011). Management practices in solution sales—A multilevel and cross-functional framework. *Journal of Personal Selling and Sales Management*, 31(1), 35–54. doi:10.2753/PSS0885-3134310103
- The World Bank. (2012). Mobile usage at the base of the pyramid in South Africa. Retrieved from [www.worldbank.org](http://www.worldbank.org)
- Vandermerwe, S. (2014). accumen. *Gordon Institute of Business Science: University of Pretoria*, 58.
- Varman, R., Skålén, P., & Belk, R. W. (2012). Conflicts at the bottom of the pyramid: Profitability, poverty alleviation, and Neoliberal Governmentality. *Journal of Public Policy & Marketing*, 31(1), 19–35. doi:10.1509/jppm.10.026
- Wentzel, J. P., Yadavalli, V. S. S., & Sundar, D. K. (2013). A comparison of financial service adoption propensity across three channels at the Bottom of the Pyramid in South Africa. *Management Dynamics*, 22(1), 26–38.
- Worcester Polytechnic Institute. (n.d.). Spaza Shops. Retrieved from <http://wp.wpi.edu/capetown/projects/p2010/spaza/spaza-shops/>

# APPENDIX A: DISCUSSION GUIDES

## Discussion Guide Executives and or Senior Managers

1. Would you describe to me your distribution channel design?
2. Tell me more about the Bottom of the Pyramid (BoP) distribution channel?
  - a. What realities do you deal with when serving this market?
  - b. How would you describe the customers and consumers in these markets?
3. Why did you choose to service the BoP market?
  - a. What are the advantages?
  - b. What are the disadvantages?
4. How did you go about designing this channel?
  - a. How did you identify the networks?
5. What specific examples that your firm is doing or have done to build community relations in the BoP market, mainly through the channels of distribution in South Africa
  - a. Would you share with me the non-profit organisations that you work with to ensure an inclusive business ecosystem?
  - b. What would be your reason for doing such?
  - c. Explain to me how you include communities and/ or non-profit organisations in your value chain, in particular distribution?
  - d. How do you go about managing these relationships?
  - e. What commercially viable reasons compelled you to do what you have done?
6. I am interested to hear how do you manage sales given what you have outlined?

- a. Do you have a dedicated sales force for the BoP market?
  - b. Tell me more about how you employ, train, compensate and incentivise your sales representatives servicing the BoP market?
  - c. What characteristics in the sales person do you look for when employing for BoP market?
  - d. What value- add do the sales representative offer to the BoP market customers?
  - e. How do you measure your sales representatives in these markets?
  - f. Explain to me how is that different to your traditional channel?
7. How does the BoP channel of distribution compare to your traditional distribution channel?
- a. How are they similar and how are they different
8. Can you please compare the BoP consumer and the Traditional channel consumer?
- a. How are they similar and how are they different (Compare and contrast)
9. Tell me more about the cost to serve of your traditional channel versus the alternative distribution channel?
10. How dependent is your company to large retailers in your industry?
- a. What are the advantages of using retailers to penetrate the BoP market?
  - b. What are the disadvantages?
  - c. How would the retailers influence consumers' choice to your brands and against your brands?
  - d. What was the retailers' perception when you introduced the alternative distribution channel to service the BoP market?

**e. How did you manage those perceptions?**

**11. What distribution channel do you prefer?**

**a. Why do you prefer it?**

**12. Who would you refer me to in your business that you think may add to what we have discussed?**

**a. Would you please assist with linking me to that person**

## **Discussion Guide – Owner of a Small Retailer**

- 1. Tell me, why did you start your business?**
  - a. How did you start it?**
  - b. What has been your challenge?**
  - c. Outline to me some of the benefits?**
  
- 2. What are the two most important things to ensure your business continues?**
  - a. Why are they important?**
  - b. How do you measure them?**
  
- 3. Where do you buy your stock?**
  - a. Why do you buy it there?**
  - b. Tell me the advantages and disadvantages of buying your stock with the suppliers you have outlined?**
  
- 4. What other businesses do you have other than this one?**
  - a. How far apart are the other businesses?**
  - b. Why did you open them?**
  
- 5. Describe to me your best suppliers?**
  - a. How do they service you?**
  - b. Do you keep your best suppliers' competitors' products?**
  - c. Why?**
  
- 6. Which companies has a sales representative visiting you?**
  - a. How often do they visit you?**
  - b. How frequent are your deliveries?**

- c. Tell me some of the things they do for you that you think add value to your business?
  - d. How frequent are they done?
  - e. What information do the sales representatives share with you?
    - i. How is that of value to you?
  - f. Are there any other things you would like to mention that your sales representative do or fail to do; which you would like to highlight?
7. Describe to me the sales management process of your best suppliers?
- a. How are they different to your traditional channel?
  - b. What distribution channel best suits your business?
8. What is your ideal distribution channel that you would suggest to your suppliers?
- a. What would suggest are the advantages and disadvantages?
9. Please explain the characteristics of your customers?
- a. What do you think is important for them?
  - b. What would you say are their reasons to buy from you?
  - c. What do you think your customers value in your business?
  - d. How do you keep them? What are the things that you do to make them come back to your store?
  - e. How do you measure your efforts?
10. Are you affiliated to a non-profit organisation (NGO)?
- a. What is the organisations purpose?
  - b. How does it benefit you?
  - c. How does it benefit your store?

- d. What are your underlying reasons to participate?**
  
- e. What benefits and challenges do you derive as a result of your association with the NGO?**

## **Discussion Guide: Consumers in the BoP market**

- 1. What are you here to buy?**
  - a. Why do you buy from this store?**
  - b. Tell me more about the pack size you have just purchase?**
  - c. How did you go about estimating the cost of what you purchased?**
  - d. With your change, how has the store influenced you to purchase another product?**
  
- 2. Please explain to me why you prefer the brand you are here to purchase?**
  - a. When did you make your choice of brand to purchase?**
  - b. If the brand you are looking for is not at the store, what is it that would make you buy the alternative?**
  - c. Why?**
  - d. Do you change the brand when the store offered an alternative?**
  - e. If your preferred brand is available at the store; do you change it when the store influences you to change?**
  
- 3. Are you aware of any local NGO?**
  - a. Tell me more about its purpose?**
  - b. How do you participate in its operation?**
  - c. Explain to me your knowledge of people who are involved with the local NGO?**
  
- 4. Which companies contribute in your local community through job creation?**
  - a. Explain to me how do they do it?**



**g. Explain to me the sales management process for this model?**

## APPENDIX B: CONSENT FORM

### CONSENT FORM

I am conducting research on alternative distribution channels used by companies to serve the Bottom of the Pyramid (BoP) market. I am also trying to find out more about how companies include communities and/or non-profit organisations in their value chain to contribute to the alleviation of poverty. Our interview is expected to last about an hour.

**Your participation is voluntary and you can withdraw at any time without penalty.**

Of course, all data will be kept confidential. If you have any concerns, please contact me or my supervisor. Our details are provided below.

Researcher name: Nosipho Mtshemla

Email: Nosipho.mtshemla@ppc.co.za

Phone: +27 82 650 6245

Research Supervisor Name: Dimitri Kapelianis

Email: dkapeli@unm.edu

Phone: +1 505-750-7885

Signature of participant: \_\_\_\_\_

Date: \_\_\_\_\_

Signature of researcher: \_\_\_\_\_

Date: \_\_\_\_\_

## APPENDIX C: RESULT ANALYSIS

Note: Areas in which the company name is identified have been hidden to maintain confidentiality.

: Industry Expert

IMPORTANT NOTICE: In this transcription conversational words and phrases such as “OK”, “a bit”, “Maybe”, “I mean”, “you know”, “basically”, “I understand” have been left out.

WELCOMING COMMENTS AND EXPLANATION OF PROJECT

**Nosipho:** Thank you once again for agreeing to see me. Being an expert in the... on the main markets. How would you describe the most used distribution channel if you look at different sectors, let's take three. If we can take banking, FMCG and maybe beverages.

: Okay, so let's start with the financial services. Main distribution is still largely branch business, then there is mobile phone and then there is the whole style of... you know – the access model. When you open an account of someone who is on the street corner so they have these canvas tents all over. And then you go to the spaza store and after the spaza store you can go to a loan centre. So there is that tiered model at has for the lower income segment but I will stay say it's largely dominated by ATM (?) and branch model. Mobile money hasn't taken off here as well as it's taken off in other countries in Africa but I think its picking up slowly. What's very interesting in financial services (inaudible). So you will see that has a partnership with . They do these internal transfers. is working with . So stores, and and even stores all of them internally in their stores have got sort of devices that allow customers to transfer money from inside stores. So that's becoming a very popular mode of distribution. I think there is an understanding that the branch model is very expensive and you want to try to be able to put these units in places where there is high foot traffic and that have dipper penetration into these markets which is why that retails(?) model makes sense. I don't see having a huge presence but is doing quite a bit to get into that market as is and of course . Their model is about smaller branches so they have got a lot of branches. Then we want to move into...

**Nosipho:** Just before we move there...do you know about , what's your...

: South Africa or ...

**Nosipho:** South Africa

: I think we adopted a model from without fully understanding local infrastructure. So in there was very little financial services infrastructures in rural areas, people had nothing. So took off there because it was replacing nothing.

	Beverages 1	FMCG	CONSTRUCTION	BANKING	TELECOMMUNICATIONS	BEVERAGES 2	BAKERY
<p><b>Research question 1:</b> What are the distribution channels of goods to market that service the SAC consumer?</p>	<p><b>Distribution Channel</b></p> <p>Within the distribution framework you have, your deposits and then, obviously these are your distribution centres and then you need to get the product to the retailers, your retailers are your terminals and counter service centres and your independent retailer distribution, but think of it as the biggest is terms, right, terminals and counter centres and your retailers, so that will be the end retail part. And it's obviously staff loading the trucks for owner drivers. Then the owner drivers in the depot that we own, would then distribute to the retail outlets... it might be the 100's, the distributors, the warehouse type of stuff, then the smallest guy who takes 3 or 4 cases. So we have got a wide range of guys who take multiple trucks in a day and then the guys that take one or two cases in a week. So that is where we get the footprint from the reasons why we have some of the distribution centres or depots independent of that... these guys are literally in your rural areas... 77 before they were there we didn't have a footprint there... 77 coming up with the independent distributor was a way of scheme of having footprint in the rural areas, so, because we came up with them, so that's why you find that all these independent distributors distribute to the rural South Africa.</p>	<p>Our distribution channel is designed around serving the big independent wholesalers, in that, what we are trying to do is get as much direct trade from the manufacturing sites, which currently we have, three manufacturing sites, and straight to the biggest largest wholesalers. The main decision factor was the cost involved with the distribution, as you see chips are very light, and that transportation of air becomes very expensive where you start going to more complex routes. So from a cost perspective, to make the product available to the end consumer, the best thing is to make really big truck loads where you have to compromise your mix of products and you deliver to a focal point. And by historical... 77 factor, most of the large independent wholesalers are concentrated near to the large population groups as well, so I think, historically they have been serving them, grew with them and became stronger... in actuality by doing that we are actually serving a dual purpose... of like serving the population nearby to a more affordable cost.</p>	<p>The current distribution model for cement specifically works as follows: we have, those go on flatbed trucks and they get delivered to retailers predominantly. And, they are used in various minimum load size, so it is difficult therefore to service small consumers of cement directly as a cement producer. Hence the need to have the intermediaries like the retailers, where small local consumers of cement can go and purchase small loads. Because of our factories are located, they are very far from the market, from where most of the consumer... 77. That's why instead of developing the infrastructure and having... jobs of distribution points, the Hub and Spoke system where you can have... 77 sourced from a number of factories, put them into a warehouse and then distribute from there. And we found that model to be expensive, but the market has changed, so retailers are starting to become an expensive way of distributing cement to the end users because they want rebates, the worst rebate structure and a whole host.</p>	<p>We think it's about distribution, if you get distribution, you get right. So that's our interest in getting... 77. And we believe that if you go to any retailer and you say, please can you assist my product? If they accept the product in all the stores, you give them the technology or the platform to enable them to be able access the solution in order to serve the customer.</p>	<p>Our main route to market, we have what we've termed the indirect route to market, which will be your wholesalers, somebody we would not get up and they have the ability to call to other people or other shops downstream, that what we've termed an indirect channel. So that would include you, I am sure you've heard of Blue Labs, since calls and all of those would fall into that bucket... 77. The second route to market is what we've termed the direct channel, this is what we've termed the direct channel, so we own the channel, we just employ people to go and service the community cost... 77. So we don't sign up a shop, we sign up an individual to go and distribute to the end customer. So, what we've noticed with... they are called... We have about 2000, say 2000 any one time... 77. So we don't address on the ground, nationally that are supposedly servicing where you wouldn't reach using a formal footprint. So where there is no formal... servicing, that's where you should find them.</p>	<p>This third party has got to do with routes to market, and route to market is how we service the end business centres in the townships, need someone who will not need for a customer just to come in, I need someone who will go to the customer.</p>	<p>We've got a truck that basically does deliveries and trucks driven by sales men more of like... taking orders, delivering the order on the spot and maybe collect the cash from or they take cash on the spot. I think there is not much difference except that the other one is carrying stock with him and the other one is just taking orders phoning it through for delivery later in the day or the next day.</p>
	<p><b>Retailers</b></p> <p>The problem is the DC will check the brands that he wants to promote, waxes to handle, pricing and all the good stuff. And as a result a natural substitution effect occurs, where they will be out of stock what the consumer asks for because they don't want to carry the cost it is easier to increase the margin costs around for example 77. So and they can get to places which we can't, we don't service anybody that's not formal, whereas an DC or an independent distributor of some kind will get to the Shebeens, the corporate jobs, those sorts of things. So they are very important to your operations but the moment you hand it all over to them, they own you.</p>	<p>Or we also go to the larger stores directly, but then we would send it, or a truck with a mix of products. Which there are as the profitability when you talking about wholesalers where you have large quantities in bulk, then really we have to consider servicing them directly in big formal trucks. You make a truck deal, and make sure the product is there and that's how the service is.</p>	<p>The retail market is a lot less fragmented than it used to be, so if you look at existing branch footprint for customers, they have to travel many distances to be able to go and do their banking, with 77 that's the difference... 77 either you branch on your phone or you go to your nearest informal outlet which will be within a 100 metres radius. And our cost is affordable banking is giving you what you need.</p>	<p>Then the other channel which is not so big, is our depot channel, this is aimed at your space shop, this is the guy who would probably not get any deal, or any discount from your distributor and he comes directly to us. We don't give him a deal that is similar to the big guy but, he's still better off coming through to us.</p>	<p>This person (DC) at you what needs to happen. The challenge that we have with the wholesalers is that, they determine that price, they decide what they want to sell... 77. You cannot influence all those things, and they decide what proposition they want to put, how, where, all those things. So you don't have a say. So... 77. So, do much as you do to all those things that I said, now if, what is it for? If you want, like to just a good display here, this is what you need to do for me for all those things, you find that now at the end of the day you not running your own business.</p>	<p>Identifying new customers, you fill up a form to the... From there the brand gets distributed to small customers, medium, large and so forth. Small being your space shops then it gets distributed to your townships, then into your formal retail - your Spars, Pick n Pay, Shoprite and some wholesale retailers as well but wholesale is not that huge. We have got two types of brands, we've got everyday brand which is more like your entry market or maybe like your volume driver. And then we also have your premium which is focusing on a certain market that can actually spend more on brand.</p>	
	<p>The moment you bang that into somebody's DC you asking them to manage your equity, your brand equity, you name it, you are asking them to do that. Now you've got most of these DC can brokers staff who are responsible for your stock rotation, product quality, your packaging matters. And 77 that's kinda where Brand House has been a lot of problems, you just decline equity like you cannot believe, as you premium pricing goes down, and as a result issue is availability issues... you name it. So you need your own people managing your brand.</p>	<p>It's not much that can be done, not in this environment, not with the current products that we have. No... it is what it is. And one has to be with it right now... the category that we playing in is not in necessity, we are not dealing with powder milk for babies. Because than House has been a lot of problems, you just decline equity like you cannot believe, as you premium pricing goes down, and as a result issue is availability issues... you name it. So you need your own people managing your brand.</p>	<p>Some of the big retailers, if you bundle them together, like Cashbuild, Massmart, Builders, they account for about 25 percent of total cement sales sold in the country. So you need to be very careful how you decide to break up and not offer them rebates anymore and not give them attractive terms, and it's... 77. Build your infrastructure, get it ready, and then when you are ready to break up, know that you've got... 77. You've got an alternative, otherwise you gonna be kept out of the supply.</p>	<p>Traditionally what would happen if you are trying to get into a new area, you would get a distributor coming to you, then get a contract from us, and then they go sign up the various shops, giving them various incentives. But not all the distributors will be able to get to the smaller guys, to service, let's say your granddaddy but in being in some corner. So what would then happen, if you are the only person servicing that area, if you are the only store, I've the price, I can sell you 75 cent for 75, because I am the only one there.</p>	<p>So even if somebody buys their starter pack at PEP (retail store) chances are they are going to go to a corner or they are gonna go to the local spaza to go and get topped up.</p>	<p>So the idea is that we would plug those zone's in MTN... Soweto has got plus minus three million people... 77. We look at Sandton... 77. There's a lot of all about trying to get to more customers as much as we can. What people are given is option targets to achieve in terms of unit rate and that, and we know many customers have you want, how many new customers we are actually loaded.</p>	
	<p><b>BSP market</b></p> <p>77 competition is using an informal or indirect route to market, where they are able to get to parts of the market that we can't.</p>	<p>It's very much the size of the population and relevance of our products to this population... 77 a lot of people talk about the future at the end of the pyramid and there is a future at the end of the pyramid, but the cost to get the end of the pyramid is that future significantly... 77. I think regional businesses are able to capture the bottom of the pyramid much more efficient than a business as big as PepsiCo.</p>	<p>actually the price of buying cement from Cashbuild is a lot higher, than buying around the corner at the local spaza shop at the little container because I don't need to give a tea driver or a bakkie driver a horned bucket</p>	<p>So the idea is that we would plug those zone's in MTN... Soweto has got plus minus three million people... 77. We look at Sandton... 77. There's a lot of all about trying to get to more customers as much as we can. What people are given is option targets to achieve in terms of unit rate and that, and we know many customers have you want, how many new customers we are actually loaded.</p>	<p>So the idea is that we would plug those zone's in MTN... Soweto has got plus minus three million people... 77. We look at Sandton... 77. There's a lot of all about trying to get to more customers as much as we can. What people are given is option targets to achieve in terms of unit rate and that, and we know many customers have you want, how many new customers we are actually loaded.</p>	<p>The bottom end - I think its general the bottom end... 77. There's a lot of all about trying to get to more customers as much as we can. What people are given is option targets to achieve in terms of unit rate and that, and we know many customers have you want, how many new customers we are actually loaded.</p>	