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Alternative execution strategies to overcoming institutional voids and institutional distance in BoP markets

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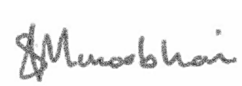
ABSTRACT

Emerging markets are a great point of interest to multinational companies seeking to exploit new opportunities as they realise that catering to the rich domestic markets limits their opportunities, their potential and competitive advantage. Serving the consumers that are at the bottom of the economic pyramid (BoP) presents enormous opportunity but it also comes with its unique set of challenges. These challenges require an alternative business strategy, as companies entering these markets must develop new offerings designed to meet the specific requirements of servicing the BoP consumer. This report seeks to explore why companies operating in South Africa are entering the lower income markets, and will describe the challenges encountered both internally and externally, when operating in these markets. Ten interviews at six multinational companies based in South Africa were conducted to test the research propositions derived from the literature. The results concluded that companies enter the BoP markets in pursuit of growth. A variety of secondary factors also emerged. The data revealed that these companies have created innovative alternative execution strategies to overcome the challenges encountered in this market. The report offered a descriptive model of why companies enter the BoP market, and highlights how the challenges presented by the institutional voids and institutional distance were overcome.

Keywords: Bottom of the pyramid; institutional voids; institutional distance; management cognition

DECLARATION

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



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This is dedicated to the one I love with every fibre of my heart… Kiran

TABLE OF CONTENTS

LIST OF TABLES & FIGURES

TABLES

FIGURES

CHAPTER ONE: THE RESEARCH PROBLEM

1.1 Introduction

Emerging markets are a great source of interest to multinational companies seeking to exploit new opportunities, executives wanting a new challenge and business school researchers wanting to contribute to the body of knowledge. As global trade and investment barriers are brought down, countries begin to open up their borders to integrate with the rest of the world. This results in a convergence of global supply chains across the developed industrial countries with those that are now offering fast economic growth.

The inflow of global capital, new technology and talented individuals has fundamentally changed the economic environment and business landscape in emerging markets. Gross domestic product (GDP) rates of some emerging markets have therefore accelerated past those of developed markets making it even more attractive. The creation of a new middle class population group presents a new market for consumer goods and services. The scale of this new opportunity in emerging markets is real, and much larger than previously thought and considers not just the wealthy few at the top of the pyramid, but the infinite number of aspirant poor who are joining the market economy for the first time (Prahalad, 2010).

Due to the shift in global consumption trends, there is likely to be a major swing in economic power. The developed world is losing its dominance in consumer spending and the developing markets are assuming a fast growing position within the global economy (Alexander, 2011). The *Business Monitor International* predicts that by 2021, the developed world will be overtaken in total expenditures by emerging markets, and market opportunities across various sectors such as retail, telecommunications, automotive and service industries will be immense (Alexander, 2011).

According to the *Business Monitor International,* Figure 1 below reflects how the emerging world has grown from just 23% of the total world economy in 1999 to 39.7% by 2011, and is expected to further escalate to 56.2% by the end of the forecasted period of 2021. The author concludes that in terms of nominal US dollar GDP, the emerging world will surprisingly eclipse the developed world in 2017.

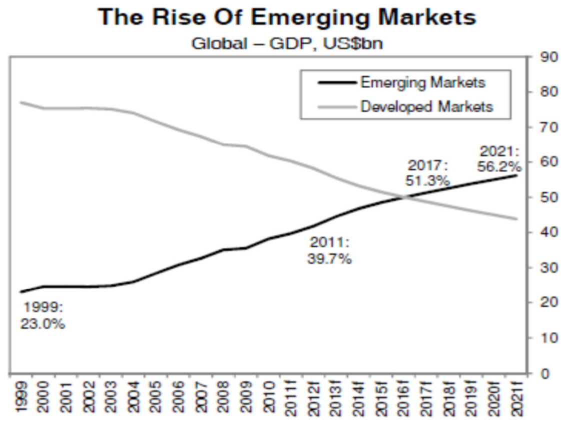


FIGURE 1: The rise of emerging markets (Alexander, 2011)

Emerging markets however continue to be plagued by those living at the bottom of the economic pyramid. It is estimated that around half of the world's population is living in poverty and an estimated three to four billion people are living at the bottom of the pyramid (BoP). This presents a potential economy of thirteen trillion US dollars purchasing power parity to companies wanting to participate in these markets (Prahalad, 2010). Hahn (2009) describes the BoP as the world's lowest income class and includes a large portion of the population living in moderate or extreme poverty. These markets are poorly served and dominated by the informal economy with many unmet consumer needs.

There is much untapped purchasing power at the BoP and by selling to the poor, companies can bring prosperity to this market and help alleviate poverty (Karnani, 2007). Nakata & Weidner (2011) stated that this market is representative of the most significant remaining or unaddressed global market with financial resources and willingness to spend on quality goods and services. The very poor consumers at the BoP are being converted to active consumers which are now posing a new opportunity to multinationals and one which will require a complete transformation in management practices. This provides an indication of why an increasing number of firms are attempting to target the BoP as opportunities in the developed markets become less attractive.

1.2 Background to the research problem

Companies around the world are starting to realise that catering to the rich domestic market limits their opportunities, their potential and competitive advantage. They are now refocusing their efforts on targeting BoP markets. A report on Africa by *McKinsey & Company* echoed this view, acknowledging that Africans are joining the ranks of the world's consumers. They conducted a study in 2008 that estimated roughly 85 million households on the continent earn $5,000 or more a year. According to *McKinsey & Company*, this number is significant because it is the level above which people start spending roughly half their income on items other than food. The report concluded that the rise of the African urban consumer is serving as a new engine for domestic growth.

Serving the BoP market successfully presents enormous opportunity but it also comes with its own set of unique challenges. Shah (2012) stated that some of the specific challenges facing these markets are differences in economic development and cultural factors, lack of reliable and recent information, shortage of skill, poor distribution systems and intermediaries and intense competition from local competitors who know the market better.

Prahalad (2010) stated that managers should treat the BoP as a new business model and argued that that best practices are based on the past and that companies should rather be focussing on "Next Practices" which can be found at the BoP. Few companies actually consider strategy development for emerging markets. Shah (2012) suggests that entry into these markets needs to focus on taking advantage of economic efficiencies through economies of scale or encouraging awareness in the local market by adapting to local conditions.

Selling to consumers at the BoP can be perceived as expensive. The costs of serving this market can be significant due to them being geographically dispersed. This results in an increase in distribution and marketing costs making it difficult to benefit from economies of scale (Karnani, 2007). Nakata and Weidner (2011) further argue that managers are not completely familiar with this market as they have not personally experienced poverty. In order for managers to guide their firm's strategy, they need to have a deep understanding of how the BoP consumers adopt and accept new products.

Shah (2012) further suggests that targeting these markets requires creating a good value proposition for consumers, i.e. relevant product and/or service offerings. Companies that are successful have a compelling value proposition that will suit the consumers taste, preference and spending ability. Shah (2012) stated that in creating a good value proposition, companies need to immerse themselves in this market to understand consumer behaviour and how to positively influence it. Therefore a deep understanding of this market is necessary in order to be successful and profitable in servicing these consumers.

Chakravarthy & Coughlan (2011) noted that two hurdles most encountered in this market are the low purchasing power and the institutional voids such as lack of physical infrastructure, stable electricity supply, information and communications.

Multinational companies who prefer to remain attentive to serving the 'Top of the Pyramid' (ToP) consumer will find it difficult to identify and understand the needs and behaviours of consumers at the BoP. Simanis & Hart (2009) and Prahalad (2010) observed that some multinationals are now becoming cognizant of the need to re-examine business models and innovations for entering and successfully servicing the BoP.

Difference in belief systems, social norms and values between a company's home country and the host country it is attempting to enter to participate in the BoP market creates an informal institutional distance that manages need to be aware of. Estrin, Baghdasaryan & Meyer (2009) noted that large distances decrease transferability of capabilities across countries and forces multinationals to put more effort into getting to know the new environment and developing new capabilities.

Therefore in order to fully leverage the opportunities afforded by the BoP markets, companies need to overcome institutional distance by immersing themselves into this market so that they understand the best way to execute their strategy to this consumer. To address the hurdle of institutional voids, business system innovations need to be adopted.

1.3 Research motivation

Companies are entering the BoP market as they are a new source of growth and because these markets are in the earliest stages of economic development, they can be extremely rapid growth enablers (Prahalad & Hammond, 2002). Companies have begun to experiment with product and service offerings to target the estimated four billion consumers at the BoP. The focus of companies targeting this four billion people lying at the BoP has gained so much of traction that the debate has now shifted from '*should'* a company engage with lower income markets, to '*how'* does a company achieve success in this new territory (Prahalad, 2010).

In South Africa, Chipp, Corder, & Kapelianis (2012) have sized the BoP market as one third (35.8%) of the total market, which makes the BoP a substantial target market with significant profit potential that cannot be ignored by marketers.

Nakata & Weidner (2012) and Shah (2012) argued that two important challenges facing companies competing in BoP markets is understanding the consumer and understanding their environment. This presents an opportunity to perform research that will explore how companies overcome the challenges both from the external organisational perspective as well as internal organisational perspective.

This report will therefore examine how multinational companies based in South Africa overcome institutional voids as well as institutional distance when seeking to serve the BoP market.

1.4 Academic motivation

Dawar & Chattopadhy (2002) claimed that little advice was available to the manager attempting to move away from the traditional view of emerging markets as ‘incremental’ markets rather than markets deserving a strategy of its own. This was further supported by Shah (2012) who stated that “the issues of emerging market challenges and business strategies are under researched, and there is lack of clear guidance for corporate executives responsible for a firm’s emerging market strategy”.

This report aims to contribute to the literature on why these companies have now altered their strategy to focus on this market in a South African context. Literature on alternative channel strategy has focused extensively on the developed markets with little insight on how companies could create a strategy for the BoP market. Due to the limited availability of studies in this area in South Africa, this study will add to the literature on the BoP market.

1.5 Research scope

This report seeks to explore why companies operating in South Africa are entering the lower income markets and will describe the challenges encountered when entering these markets both externally, through understanding the institutional voids that presents itself in these markets, and internally through looking at how management cognition can bridge the gap of institutional distance.

The study on institutional voids will explore how companies have recognised the challenges in accessing these markets using traditional channels, and how they have realised the need for an alternative business model to better service the BoP markets. The study on institutional distance will explore some of the management challenges in trying to develop and execute strategy to a market that is unfamiliar to their personal circumstances as many managers and senior leaders have not lived or worked in this segment before.

Many South African companies have effectively managed to overcome these challenges through implementing a new business model suited to address these challenges. It is these companies that have been interviewed to provide their insight to better understand how to overcome these challenges.

The report will be compiled through an exploratory analysis based on 10 interviews at 6 major multinational companies operating in South Africa. These companies have previously focussed on middle to high income markets, but have identified the opportunity and the need to enter low income markets in South Africa. Managers that were interviewed were those who were either directly involved in the development of the strategy to enter the BoP market, or were part of a team responsible for the execution of the strategy to the BoP consumer. The study will include companies operating across a range of sectors, including consumer goods, technology, telecommunications and financial services.

1.6 Structure of the report

The layout of the report is organised into the following seven chapters:

- Chapter one of the report introduces the research problem being addressed and the rationale for the research. The academic contribution of this study has further been highlighted in this chapter.

- Chapter two presents a detailed review of the literature focusing on the definition of the BoP consumer, the key drivers for companies when entering the BoP markets, institutional voids, institutional distance and management cognition.

- Chapter three presents the research propositions which are derived from the literature review.

- Chapter four describes the research methodology, and the motivations for using a qualitative research method. This chapter also provides details on the unit of analysis and limitations of the research.

- Chapter five presents the analysis of the data in an informative manner.

- Chapter six provides a detailed explanation of the findings and highlights the key insights with supporting evidence from the literature.

- Chapter seven is the concluding chapter, and highlights the key findings of the research, the limitations of the study and recommendations for future research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Emerging markets have captured the attention of the world. As the rapid growth rates of emerging markets continue companies will remain interested and will invest to capture the opportunities. In the previous chapter the attractiveness of emerging markets was described and an introduction was provided to a new consumer class living at the bottom of the economic pyramid (BoP). The potential for companies to serve the BoP consumer is tremendous but also presented some unique challenges.

The previous chapter introduced two key themes on institutional voids and institutional distance as being the most prominent hurdles that companies experienced when attempting to sell their products and services to the BoP market. It outlined the relevance of the subject for business in South Africa as well as the academic motivation for the study. It was noted that literature on alternative channel strategy has emerged from a largely developed world paradigm with little research focussed on how companies create an alternative strategy to focus on the BoP market. This chapter will focus on the theory base surrounding the common threads such as:

- Defining the BoP consumer;
- Understanding the drivers for entering the BoP market; and
- Describing the unique challenges that companies face when doing business in the BoP market.

Particular focus will be on how companies create alternative channels to distribution, how local resource is used to interpret information, and how companies form alliances with non-traditional partners when serving the BoP market. The literature will also focus on how management need to overcome cognitive barriers in order to better understand the consumer and the environment they are operating in, in order to successfully develop and execute their strategy for the BoP market.

The literature review presented below will guide the formulation of detailed research propositions as to what drives companies to enter these BoP markets and what triggers them to creating an alternative strategy to their traditional business in order to better service the BoP consumer.

2.2 Defining the bottom of the pyramid consumer

Prahalad & Hart (2002) had coined the phrase the 'Bottom of the Pyramid' and argued in a seminal article that the low income markets represented a major opportunity for multinationals to do-good while doing business. Prahalad (2010) proposed a different model and instead of companies giving charity to the poor at the bottom of the pyramid, they could have adapted their products, pricing and distribution strategies in order to better serve them. This was a more sustainable method of serving the poor and the process would have gradually improved the standard of living in the BoP market. This statement triggered intense debate and discussion among academic scholars, development institutions, media and companies doing business in low income markets.

Since its inception the definition of this term had received much debate in BoP marketing literature with many different size estimates being quoted (Prahalad & Hart, 2002; Karnani, 2007; Pitta, Guesalaga & Marshall, 2008; and Chipp et al., 2012). The BoP was the low-income segment spread across emerging countries with members characterised by their lack of status, purchasing power and resources (Nakata & Weidner, 2012). Prahalad & Hart (2002) defined the 'Bottom of the Pyramid' as the four billion people across the world that lived on less than $1,500 per year in purchasing power parity terms.

Karnani (2007) has been the most controversial of academic scholars who argued that the economic size of the BoP was much smaller than the estimates of Prahalad and others. He viewed the BoP segment as consumers spending 80% of their income on food, clothing and fuel, with limited income left over to spend on other goods and services.

Pitta, Guesalaga, & Marshall (2008) stated that the earning levels defined for this market ranged from between two to six US dollars per day. This estimate was supported in a study conducted by Chipp et al. (2012) who sought to best define the BoP for South Africa found that the base had an average income of ZAR43.47 South African Rand (approximately US$4.28) which fell on the upper limits quoted in supporting literature. However Chipp et al. (2012) argued that the South African consumer lay on the upper end of the income level as they were supported by social grants and aids from the government.

The BoP market tended to be defined more broadly based on characterstics of the market rather than just the levels of income. This segment of the market was characterised as having limited or irregular cash flow and shopped daily, spending small amounts of money at a time (Pitta et al., 2008). The authors found that the BoP consumers were surrounded by poor infrastructure which meant that they were not willing to travel far away from their homes. This resulted in them paying inflated prices for goods and services as there was no other option (Pitta et al., 2008).

With such characteristics, the BoP market was viewed as challenging for companies to operate in. Narkarta & Weidner (2012) stated that until recently the BoP markets have been ignored because of its unattractiveness and insurmountable challenges compared with the middle and high income markets. Therefore few companies chose to operate in this market. As a result the BoP market had been underserved and underserviced. However companies are now developing new products tailored to specific demands and conditions of the low income market.

2.3 The key drivers for entry into the BoP market

An increasing number of companies have been attracted to the BoP market. Prahalad & Hammond (2002) stated that companies have been entering the BoP market because this market provided a new source of opportunity. Due to these markets being in the early stages of economic development, they could become rapid growth enablers. Four key drivers for entry into the BoP market as agreed by Prahalad & Hammond (2002); London & Hart (2004); Khanna, Palepu & Sinha (2005); Hammond, Kramer, Katz, Tranand & Walker (2007); Prahalad (2010); and Nakata & Weidner (2012) are discussed further:

- The opportunity for new growth markets;
- The threat of existing markets maturing;
- Doing good and uplifting the lifestyle of rural communities; and
- Creating feeder markets and growing with the consumer.

2.3.1 The opportunity for new growth markets

Prahalad (2010) stated that there was money to be made at the bottom of the pyramid and considered a selected group of the developing countries such as China, India, Brazil, Mexico, South Africa, Russia, Indonesia and Turkey that made up 70% of the world's developing population with a purchasing power parity representing 90% of the developing world. Therefore this was a market that could not be ignored.

One of the most dominant drivers for companies entering low income markets was that the BoP represented a major opportunity to create and capture a huge new market. Hammond et al. (2007) estimated a market of $5 trillion US dollars measured in purchasing power parity for the BoP market. The assumption that the poor do not have purchasing power needed to be rethought as this market needed to be unlocked (Prahalad, 2010).

Nakata & Weidner (2012) summarised the following important reasons that companies considered when targeting the low-income market:

- The BoP was a global market consisting of roughly two-thirds of the world's population that had not been addressed. Therefore it was the biggest and quickest growing consumer segment;
- The BoP market collectively held $9 trillion US dollars in assets; and
- The BoP market was amenable and eager to spend money on quality products.

While individual consumers in low income markets were viewed as having limited buying power, their collective purchasing power was significant due to the volume of consumers that existed in these markets to provide enormous opportunity (Prahalad, 2010).

2.3.2 The threat of existing markets maturing

Multinationals are increasing their penetration into BoP markets, since developed markets are becoming more saturated and the large scale of untapped consumers is providing an opportunity to increase market share (London & Hart, 2004; and Prahalad, 2010). The BoP segment has attracted attention as multinationals' growth has slowed in mature developed markets. As competition increased the BoP has gained more attention as it represented the most significant remaining global market that could convert consumer purchasing power to profit (Pitta et al., 2008; Nakata & Weidner, 2012; and Prahalad, 2010).

Guesalaga and Marshall (2008) argued that their analysis showed that the BoP market compared to the total market, on average, constituted greater than 50% of the buying power in emerging countries, with Africa the most dominant BoP area.

A study on Indian companies by Prahalad & Mashelkar (2010), discussed how these companies have realised that their opportunity for growth was limited if they continued to cater purely to the rich domestic market. The authors stated that Indian companies started refocusing their efforts to address the demands of the low-income market.

2.3.2 Doing good and uplifting the lifestyle of rural communities

Initially multinationals had a one sided approach when selling goods and services to low income consumers. Prahalad & Hart (2002) noted that in earlier years, low income consumers were sold goods at reduced prices through downsized packaging and production line run-offs which were not suitable for trade in the formal economy. Multinationals were viewed as dumping products on the undeveloped market where they had almost no relationships with the low income consumer or local communities.

A paradigm shift had emerged which was sparked by Prahalad & Hart (2002) when they had coined the phrase "Bottom of the Pyramid'. With particular focus on the low income consumer, the authors suggested companies should follow a new approach of doing good while doing business. This approach was about committing to and engaging a market where there was a much deeper understanding of the real needs of the consumer. The deliberate goal was to develop sustainable markets that would help reduce poverty at the BoP by creating partnerships with local businesses and coaching local communities to become producers.

The core concept presented by Prahalad & Hart (2002) was that by engaging with the poor as consumers, companies would twice benefit by capturing a new market and contributing to poverty alleviation through their corporate social responsibility efforts. Karnani (2007) criticised the view of Prahalad & Hart (2002) and argued that poverty alleviation would only be made possible by raising the income levels of the poor. Aghnihotri (2013) further argued that there was a market for companies operating at the BoP through which they could earn profits and simultaneously help eradicate poverty. Aghnihotri (2013) explained that companies could have reduced poverty by providing cost-effective utilitarian goods and services to poor people. Therefore companies would have had more to gain through this method than those firms that provided more luxurious goods and services which contained a mere aesthetic appeal or emotional value.

Prahalad (2010) contended that BoP markets provided a viable business opportunity for the private sector to earn profits and alleviate poverty. The focus was on moving away from providing general financial aid which would not be sustainable in the long term. Therefore companies should have focused efforts on methods to exchange capital, create innovative products and services, gain knowledge and access resources in the low income market.

2.3.4 Creating feeder markets and growing with the consumer

Hahn (2009) stated that the BoP market presented an opportunity for companies to attempt to alleviate poverty using their business know-how by trying to integrate servicing the BoP consumer into their value chain. The BoP market should not have been seen as just a sales market at the end of a companies' value chain, but as an integrative part of its value chain. In this way companies could have created income for the poor and at the same time improve sales and distribution in their communities.

A better strategy for an emergent market player would have been to understand and cater for this mass market's needs and evolved with them as they became more affluent (Khanna, Palepu & Sinha, 2005). Prahalad & Hammond (2002) found that with the growth in job creation and increases to household income, there was a gradual increase in the local consumer's purchasing power. The authors stated that this would in turn be spent on the goods and services that a company was providing in the community as it became familiar to the consumer and was easily available for them to purchase.

2.4 Challenges encountered when entering BoP markets

A key challenge that was evident when doing business in emerging markets was that even though they offered phenomenal success and new growth opportunities, there was still an absence of the business safeguards associated with developed markets which most executives were familiar with. Although the strategic implications of doing business in these markets were clear, most executives stumbled when the realities of doing business in these markets confronted them as they realised the long term prospects but agonised over the ambiguity and lack of transparency evident in these markets (Dhanaraj & Khanna, 2011).

When markets are differentiated like a BoP market is, companies would have chosen a different market position in order to tailor products and services to serve this market. Sheth (2011) stated that entry into these markets should have been treated as core to the business and not as a tangent to the company's mission and strategy. The author further stated that success would have been achieved when new research opportunities were embraced and a change in mind set about these markets was achieved.

Market positions were difficult to evaluate due to there being too much unreliable information as there was no lack of new ideas however the challenge arose in knowing how well those ideas worked in practice (Greve, 1998). This was further supported by Dhanaraj & Khanna

(2011) who claimed that even though information may be available in these markets, it may have been biased or noisy. The absence of this data was furthur classisfied as an institutional void by Khanna, Palepu & Sinha (2005).

Wood, Pita & Franzak (2008) stated that for successful marketing strategies in the BoP markets, companies needed to be aware of two important factors. The first factor was an accurate characterisation of individuals as both consumers and producers, and the second factor was the need to recognise that marketing to these consumers required a different business model. The authors found that BoP consumers had very few options and were subject to purchase from local traders due to them being unable to travel to areas with better infrastructure, lower prices or more variety of products. Therefore companies wanting to take up a position in this market needed to understand the characteristics of these markets and create their execution strategy on close consideration of these characteristics.

Sheth (2011) described five characteristics of emerging markets which formed the basis of guiding principles upon which to analyse an emerging market. Sheth (2011) stated that companies that were able to address the five characteristics appropriately were able to better understand how to operate in these markets. The following are the five characteristics mentioned above:

- Market heterogeneity;
- Socio-political governance;
- Unbranded competition;
- Chronic shortage of resources; and
- Inadequate infrastructure.

Sheth (2011) explained that market heterogeneity existed in the BoP markets due to constrained resources and a wide range of haves and have not's driven by a lack of income. This arose due to the income inequality gap that existed in these markets. There was also a greater diversity with regard to access to products suggesting that accessibility and affordability created an advantage for companies wanting to participate in these markets. Anderson & Billou (2007) further supported this statement as they described availability, affordability, acceptability and awareness as the four A's that were at the centre of strategy development for organisations that have entered these markets.

Socio-political governance as described by Sheth (2011) referred to the influence that socio-political institutions had on the market. It was not unusual to see government owned and operated enterprises in these markets which made it difficult for foreign locals to enter these markets. This was echoed by Khanna, Palepu & Sinha (2005) who stated that companies would do well if they are able to identify where a countries centre of power existed for example, its bureaucracy, media and civil society and ensured that there were checks and balances in place to ensure unbiased control.

Unbranded competition in these markets existed due to many brands not being able to reach outlying areas due to logistics, and also due to many of the consumers being producers of their own home-made brand of basic necessities. Sheth (2011) also believed that there was a lack of brands in these areas as there was poor infrastructure which led to limited access resulting in higher costs of doing business in the areas with branded products.

The BoP markets had an inconsistent supply of basic necessities like electricity and water and a severe shortage of skilled labour which made production inefficient and inconsistent. They also had a limited or no access to financial support from institutions which made operating and transacting in these markets very difficult for multinationals (Khanna, Palepu & Sinha, 2005; Webb, Kistruck, Ireland & Ketchen Jr., 2010; and Sheth, 2011).

The significant absence of transportation infrastructure made it difficult to reach the BoP markets. There was also a non-existence of the not so obvious infrastructure such as point of sale terminals, telephone lines, internet access, and access to financial institutions which were some of the key components to doing business in developed markets. Affordability and accessibility were more important to create a competitive advantage in this segment (Sheth 2011). However entry into the base of the market needed to focus on taking advantage of economic efficiencies through economies of scale or encouraging awareness in the local market by adapting to local conditions (Shah, 2012).

Sheth (2011) was of the opinion that companies that researched the BoP markets to better understand them were no longer a 'nice thing to do' but was fast becoming a necessity. The author stated that economies like China and India started to shift emerging economies from the periphery to the core of global competitiveness, and that the BoP market would provide a distinct contrast to developed markets.

Companies that have achieved success in this market had to overcome these challenges by creating an alternative channel to improve their reach to this market. However two significant hurdles remained which were institutional voids and institutional distance (Webb et al., 2010).

2.4.1 Institutional voids

The term institutional voids was coined by Khanna & Palepu (1997) who found in a study of emerging markets the absence of institutional mechanisms that permitted buyers and sellers to efficiently come together in order to conduct effective business. The institutional voids were described by Khanna, Palepu & Sinha (2005) as the absence of basic public use infrastructure for example transportation, communication, consumer and demographic information, capital markets, product markets and well established intermediaries. This absence of infrastructure created a challenge to work in these markets versus the developed markets.

An informed marketing and distribution strategy could have bridged the gaps and overcame these challenges. Khanna & Palepu (2010) stated that companies should have treated these institutional voids as business opportunities and should have attempted to fill them. The authors recommended that many companies should have owned and operated intermediaries in these markets and further stated that understanding these voids was critical as they could hinder the execution strategy in the BoP markets. The authors found that companies who facilitated transactions by using their own resources to invest in leveraging the knowledge of the locals who were familiar with the local culture and language and who could access and analyse local data and information were able to bridge the gap easily and overcome the institutional voids.

Webb et al. (2010) further argued that over and above the institutional voids, companies found it difficult to tap into the local society's informal networks. These societies tended to have a level of distrust with foreign companies dating back to colonialism. If this distrust existed, it was less likely that the local society would collaborate and develop relationships with the companies operating in the market. Webb et al. (2010) stated that this could have greatly hindered the company's execution strategy.

Khanna, Palepu & Sinha (2005) stated that companies entering developing markets had to invest in them in order to better understand their institutional context. By understanding the institutional context, companies would have been able to better understand a market's political and social systems, openness to do business, the quality of labour and capital markets and the availability of market information. The authors argued that understanding a market's political system would have also helped in understanding their capital and labour markets. Social systems and norms needed a robust understanding to bridge institutional distance when operating in these markets. The political system would have also allowed companies to gauge how open these markets were to do business with foreign multinationals.

Sheth (2011) argued that the absence of quality reliable information made it difficult for multinationals to establish themselves. Analysing the product markets would have provided an understanding of how much of information was available with regard to consumers and product preferences. Anderson & Billou (2007) supported this argument and stated that good quality information would have guided companies to adapt their products and services to better suit the consumers. Poor quality information could have been extremely challenging for companies as establishing business operations in a new market required knowledge and information in order to operate efficiently.

Khanna, Palepu & Sinha (2005) argued that even though emerging markets have opened up for trade and investment, there was still a lack of reliable information about consumers with lower income. Data sources such as credit histories did not exist in emerging markets. In the BoP markets there was a rapid pace of change and weak institutional environments which created a situation where data was unavailable (Dhanaraj & Khanna, 2011). If companies stayed out of the market and waited until reliable information was available, they would have been beaten by the competition and therefore companies needed to be entrepreneurial and have adopted the learning by doing attitude (Prahalad, 2010).

The capital and financial markets in developing countries lacked the sophistication that existed in developed markets (Khanna, Palepu & Sinha, 2005). The authors stated that apart from a few stock exchanges and government appointed regulators, there were not many reliable intermediaries like credit rating agencies, investment analysts, merchant bankers, recruitment agencies or venture capital firms. It was because of the absence of these specialised intermediaries that companies could not easily access talent or finance in emerging markets, thereby making it more expensive to do business.

This is further supported by Chakravarthy & Coughlan (2011) who stated that companies that sought to exploit the opportunity in BoP markets needed to overcome two significant challenges which were low purchasing power and coping with missing or inadequate government institutions and infrastructure.

Chakravarthy & Coughlan (2011) argued that without adequate infrastructure a company could not easily reach potential customers, communicate or transact with consumers effectively. This impacted a company’s ability to grow in these markets. The absence of the logistics providers meant that companies would have had to invest in activities that were not core to their business and would have had to create innovative ways to compensate for the missing infrastructure. Anderson & Billou (2007) also explored the challenge of poor infrastructure especially with regard to distribution and concluded that 'access' was one of the key elements of achieving the four A's model to doing business in the low income markets as mentioned above.

Understanding the institutional context would have guided the strategy that a company was attempting to deploy in order to capture this market. Khanna, Palepu & Sinha (2005) stated that multinationals needed to modify their business models and should have adapted to the voids that presented themselves in the product markets or input markets.

2.4.1.1 Overcoming institutional voids

Companies competing in these markets needed to change and adapt their strategies and capabilities in order to have overcome the challenges they were faced with (London & Hart, 2004; Pitta et al., 2008; Khanna & Palepu, 2010). The authors suggested that companies needed to adapt their capabilities in order to become more responsive to the changing routines and to match the needs of the environment that was presented to them in these low income markets. The following methods to overcoming institutional voids will be discussed further:

- Creating an alternative channel for distribution;
- Using local resources to service the BoP market and gain information; and
- Forming strategic alliances with non-traditional partners.

2.4.1.1.1 Creating an alternative channel for distribution

The four A's model developed by Anderson & Billou (2007) identified the market challenges as "availability, affordability, acceptability and awareness". The authors argued that availability of the product was one of the biggest challenges in serving the BoP market as distribution channels were almost non-existent, which made the task of getting product to the people a major hurdle to overcome. Due to distribution channels in these markets being quite fragmented or non-existent in many cases, getting product to the consumer was viewed as a major hurdle. Companies therefore had to explore alternative methods to delivering their product to even the most isolated BoP communities. Prahalad (2010) stated that due to their inaccessibility the rural poor were denied access to products and services and the knowledge about what was available and how to use it.

A distribution strategy was an important element of a marketing policy in which companies needed to rethink models for emerging markets and needed to redesign their supply chains for this market (Shah, 2012). For a company to rethink its models, Shah (2012) elaborated further stating that companies needed to create a sequence of activities and agents that moved goods and information from the source to delivery to make products and services more conveniently available to a large base of customers.

Despite the importance of serving BoP markets, multinationals continued experiencing challenges reaching the BoP and were identifying innovative ways to improve accessibility to these customers (Prahalad, 2010). Simultaneously companies were also trying to understand the values, the behaviours and the desires of this population group which had been deprived and underserved.

In emerging markets there were not enough dealers or distributors with access to rural markets and the scarcity of adequate retail outlets meant that companies would not necessarily achieve great success in these markets Sheth (2011). In this instance, the author suggested that companies needed to be able to make their products available at the right place, at the right time, and in the right quantities to a large base of customers. However, some companies were unfamiliar with the local markets and had insufficient capital or human resources to reorganise their distribution channel (Khanna & Palepu, 2010). Companies then had fewer alternatives and were forced to find local distribution partners.

Rivera-Santos & Rufin (2009) stated that BoP entrants tended to underestimate the value of existing relationships with suppliers and distributors in developed markets. Hence the competitive environment in the BoP market was characterised by gaps in the value chain. Companies entering these markets were therefore encouraged to innovate around its distribution process in order to overcome this hurdle and developed alternative routes to market given the lack of formal distribution channels in some markets (Prahalad, 2010).

In one example of creating an alternative route to market, Sheth (2011) described a micro-distribution model that was created by a major beverages company. In this model, micro-distribution centres were created which were owned and operated by independent entrepreneurs who coordinated the distribution efforts to the small retail outlets and sales agents in the communities. Traditional means of distribution though mega distribution centres and bulk vehicles made it difficult in serving the rural towns due to the roads being too narrow to accommodate a delivery vehicle, and shops being too small to keep large amounts of inventory. The innovative micro-distribution model relied on a local network of distributors to access hard to reach areas and provided better service by making products available on demand which met the needs of the small local retailers. Sheth (2011) argued that companies could successfully reach the end consumer in the BoP markets through innovative distribution systems which could deliver products deep into rural markets.

(Shah, 2012) supported this argument of Sheth (2011) above stating that access to these markets was critical to marketing success and would be the real differentiator for a company competing in an emerging market.

2.4.1.1.2 Using local resources to service the BoP market and gain information

Due to the different institutional contexts with regard to voids like reliable market research and efficient distribution channels, multinationals could not rely on their existing capabilities acquired through their experience in developed markets and needed to focus on developing local capabilities and adapting their structures to optimally share information in BoP activities (Hens, 2012).

Berger, Choi & Kim (2011) further supported the argument stating companies needed to relook at the value of their local manager's knowledge as not only having operational and market value but also institutional value. The authors claimed that these managers had access to local knowledge and local social capital which afforded a more holistic approach to creating and developing strategies in these markets.

In low income markets, Khanna & Palepu (2005) and Vishwanathan & Sridharan (2012) stated that essential skills were in short supply. To overcome this challenge Vishwanathan & Sridharan (2012) suggested using local resources to develop these skills. By using local resources with extensive market knowledge, allowed companies to build on its adaptive strategies and to better interpret and use the information gained. It was only by working in this market with the local people that allowed companies to generate meaningful data and ideas for action (Dhanaraj & Khanna, 2011).

2.4.1.1.3 Forming strategic alliances with non-traditional partners

BoP markets are characterized by poor information infrastructures, value chain gaps, an absence of market intermediaries and relative isolation. Companies could overcome these weak institutional environments if they developed enough local legitimacy to become part of the local networks and gained access to resources or knowledge (Rivera-Santos & Rufin, 2009).

In order to access BoP markets effectively it was imperative for companies to collaborate with non-traditional partners and builder closer ties with non-government organisations (NGOs) to share knowledge of the market (Prahalad & Hammond, 2002). The authors claimed that many companies were usually too rigid in their processes and too far away from the customer to be effective enough to understand their preferences. Pitta et al. (2008) supported the view of Prahalad & Hammond (2002) stating that forming strategic alliances was therefore another strategy that could be effective when working in the BoP markets. Pitta et al. (2008) claimed that NGOs were more familiar with the people in the lower income markets and were better suited to educate consumers about a company's products.

Further support of this view was also provided by Webb et al. (2010) who argued that the institutional voids and knowledge gaps could be overcome through partnerships with NGOs as they possessed embedded knowledge of the undeveloped markets which could be used to bridge the institutional distance.

Rivera-Santos & Rufin (2009) stated that companies needed to search for these non-traditional partners, NGOs and community organisations in order to bridge the gap between themselves and the BoP consumers. The authors found that the BoP market was driven by fragmentation along geographic distances, ethnic preferences, kinship and religious lines, which required companies to exercise a degree of sensitivity when trying to understand these differences and to have been flexible enough to adapt to them.

Webb et al. (2010) agreed with the finding of Rivera-Santos & Rufin (2009) above stating that non-traditional partners served a vital role in connecting companies with local individuals. Once the gap had been bridged between the local individuals and companies, opportunity creation therefore arose due to co-creation activities between the local individuals and companies. Webb et al. (2010) concluded that companies entering these markets did not discover opportunities but rather created them through exploiting the ideas gained from their alliances and incorporating their feedback. This iterative process thereby transformed ideas into opportunities.

2.4.2 Institutional distance

Institutional distance examines the significant knowledge gap between institutional settings of the developed and emerging markets Estrin et al. (2009). Managers needed to be aware of which institutional voids characterised a situation at a point in time. Once aware of the situation, managers would have been able to form a mental map of how the new context differed from the business environments they were familiar with. This would therefore allow the manager time to adapt their strategy and form a resultant action plan (Dhanaraj & Khanna, 2011).

Informal institutional distance as explained by Estrin et al. (2009) arose due to the differences in beliefs, social norms and values between a company's home country and the host country it was attempting to enter to participate in the BoP market. Large distances decreased transferability of capabilities across countries and forced multinationals to put more effort into getting to know the new environment and developing new capabilities.

Estrin et al. (2009) further pointed out that the knowledge of this informal institutional distance was often tacit in nature and deeply embedded in the BoP market social structures which required intensive cross cultural communication and understanding. When cultural differences were quite evident, a company's traditional practices became incompatible to the markets which led to implementation problems (Estrin et al., 2009). When this institutional distance was high it became very difficult for a multinational to integrate its workforce and organisational practices in this new market. The costs of communication increased and collaboration with the local workforce became a challenge thereby inhibiting successful and timely execution of a company's strategy in this market.

2.4.2.1 Overcoming institutional distance

Managers required the knowledge of opportunities and threats that existed in BoP markets in order to have made important decisions that would have affected the performance of the entire company. Berger, Choi & Kim (2011) argued that multinationals operating in BoP markets leveraged their local manager's knowledge not only to derive operational value, but to also leverage off their local social capital in order to more fully integrate into the local community and society. Leveraging on this local knowledge of management will be a key factor for a company's success in these markets. The following methods to overcoming institutional distance will be discussed further:

- Management cognition of the BoP market;

- Experiential learning;
- Mimetic adoption; and
- Alignment of interests within the organisation.

2.4.2.1.1 Management cognition of the BoP market

Increasing the knowledge of how to operate in a low income market was the first step to being able to compete effectively in this market. Competing firms were finding it difficult to take the knowledge and insights obtained to determine how best to adapt and implement the marketing mix to meet the needs of the low income consumer (Pitta et al., 2008).

Olsen & Boxenbaum (2009) found that challenges arose when companies tried to implement and execute their BoP strategies. The authors stated that managers experienced difficulties in changing their mind sets, criticising and re-evaluating their methods and breaking away from entrenched traditional channel practice. Managers were more likely to quickly recognise, understand and formulate responses to changes in the sectors to which they actively attended than to changes in sectors that were not central to their cognitive systems (Nadkarni & Barr, 2008). Companies therefore needed to equip their executives and managers to overcome distribution and service challenges to reach these new markets. A major transformation of their mental models was required when dealing with this low income market which was so different to the developed markets that they had become accustomed to servicing (Dhanaraj & Khanna, 2011).

Further argument was provided by Nadkarni & Barr (2008) who stated that top managers developed subjective views of the environment they were operating in, and this in turn drove their strategic decisions and actions. It was these top managers that brought together and interpreted information for the company as a whole, which in turn drove organisational action. The authors concluded that it was those top manager's subjective cognitive representations and not the objective environments that affected a company's priorities and steered decision making. Dhanaraj & Khanna (2011) pointed out that it was therefore critical for these top level managers to undergo a transformation of their mental models when operating in these BoP markets, in order to manage the execution the of BoP strategy effectively.

The cause-effect beliefs about the environment and how specific strategic issues were interpreted and which strategic actions were initiated by top level managers was conducted by Nadkarni & Barr (2008). The authors stated that top managers viewed cause-effect beliefs of the environment through either an environment driven frame of reference or an interpretation driven frame of reference. Nadkarni & Barr (2008) explained that environment driven beliefs were when top managers experienced the environments they are operating in as concrete, measurable, determinant and sought to determine environmental demands. They would thereafter develop strategies in response to the environment. Whereas interpretation driven beliefs were usually associated with unstable, coerce, hard to analyse environments or enact with reasonable interpretation. Top managers would then construct their environments through existing strategies rather than developing strategies in response to environments. Khanna, Palepu & Sinha (2007); Simanis & Hart (2009); Webb et al. (2010); and Shah (2012) supported the view of environment driven beliefs stating that this method required top management to immerse themselves into the market in order to develop strategies tailored to environmental demands.

Many companies have retreated from BoP markets as they were unable to integrate their business model with local norms, values and beliefs. They lacked critical information on the daily norms of social or local beliefs regarding the efficacy of technology which were key inputs to recognising the opportunity (Webb et al., 2010). This required a change in mind set and managers needed to systematically challenge the status quo and search for alternative models that was persuasive and clear (Dhanaraj & Khanna, 2011).

2.4.2.1.2 Experiential learning

Managers needed to shift their mental models and breakdown the stereotypes of emerging markets from being a problematic area to one of enormous opportunity. Institutional distances that were informal in nature were best overcome by experiential learning and close interaction of individuals working together in the context of the environment they were operating in (Estrin et al., (2009). Dhanaraj & Khanna (2011) stated that experiential learning could be significant in developing the "learning-by-doing" mind-set and addressing this first mind-set change could transform managers from being "problem orientated pessimists to opportunity orientated optimists".

When operating in the BoP markets, companies would have experienced uncertainty which according to Hilmersson & Jansson (2012) may have stemmed from a lack of quality information and experience of the market. To overcome this, the authors suggested that companies should have collected quality information and gained more experience. Relevant marketing activities could have been used to fill gaps where companies could efficiently collect information about their customers' needs. The authors stated that information derived from relevant marketing activities could have provided the foundation to effectively serving their customers. The authors held the view that building knowledge of the BoP market was gained through learning from experiences and that experiential knowledge could be used as another base for decision making just as information was used for decision making.

Estrin et al. (2009) stated that sometimes cultural differences existed between the companies and the markets they operated in. The differences could become so large that a company's practices may become incompatible which would lead to failures in the execution of its strategy. When informal institutional distance is very high, interaction with the local environment and people become critical in order to facilitate learning and acquiring knowledge on tacit norms and business practices that are embedded in local firms. Shah (2012) supported this view as he believed that strategic flexibility was a significantly important factor for the successful pursuit of BoP markets. This flexibility depended on the inherent flexibility of resources and together with the flexibility of the managers when applying these resources to alternative courses of action. Shah (2012) observed that for the manager to possess this kind of flexibility, he/she needed to be familiar with the surrounding environment so that his/her strategic view could be altered depending on the circumstances presented, in order to successfully execute the BoP strategy. Hilmersson & Jansson (2012) stated that companies entering BoP markets needed to compensate for uncertainty by building trusting relationships. The authors stated that a company should be flexible in its behaviour rather than being anticipatory and continuously focused on investment planning and forecasting frameworks.

Nadkarni & Barr (2008) defined high velocity environments as those that reflected rapid, frequent environmental changes where forecasts were almost impossible to create and well defined competitors, established channels of distribution and customer groups did not exist. The authors stated that in high velocity industries, top managers actively sought to make sense of their environments by continuously adapting their actions through experimentation and learning strategies. Khanna, Palepu & Sinha (2005); Prahalad (2010); Webb et al. (2010); and Shah (2012) also held the view that proactive and pre-emptive adaptation through experiential learning would increase the speed of strategic responses initiated by the companies operating in high velocity industries.

Experiential knowledge had to be the centre of a company's strategy when entering the low income markets (Hilmersson & Jansson, 2012). The authors elaborated that the knowledge gaps between developed and emerging markets placed a strain on the company reaching its full potential. The authors concluded that experience gained through learning in the field was positively associated with the company's ability and flexibility to recognise opportunities for further expansion.

2.4.2.1.3 Mimetic adoption

When entering a BoP market, managers needed to predict how customers and competitors would respond to their products and services. They needed to make use of the market data that would have been available, however not very reliable and complex to understand (Greve, 1998). One of the key challenges was the cognitive limitations when taking on a new market position, which was the root of inertia when companies took on a new market position. The author described mimetic adoption as an important type of strategic change in an environment surrounded by high uncertainty as it allowed companies to explore new niches in the market with less risk rather than developing their own market position.

Companies which were skilled in mimetic adoption would become the first entrant in the new market position as information and knowledge was often difficult to obtain when evaluating a new market position. Greve (1998) further argued that little to no information would be known on how well new ideas would work in practice.

To overcome this challenge, Greve (1998) suggested that organisations should use other organisations as reference points when entering a new market and adopt their market position rather than create their own position in the market.

2.4.2.1.4 Aligning interests within the organisation

When establishing a new route to market, business units within an organisation such as Marketing, Supply Chain and Distribution, Procurement, IT, Finance and Sales needed to work coherently for the organisation to achieve successful execution of its BoP strategy. There would have been varying levels of interaction between these business units. Successful execution of an organisation's strategy required sharing of information, the joint execution of tasks, and coordination of processes that spun across functional boundaries (Smith, 2011). Olsen & Boxenbaum (2009) also argued that the execution of BoP projects should be integrated into key areas of the business and it should not just be a few people working on these projects.

When attempting to establish an alternative channel to reach the BoP markets, companies would have been faced with inertia in that management may have not wanted to embrace structural change (Houston, Walker, & Hutt, 2001). Smith (2011) found that when organisational changes occurred to create a separate business unit, conflicting goals across the organisation would have heightened.

Another major challenge though in many multinationals was to create a separate business unit equipped with the correct resources, to capture the emerging market opportunities and compete in this newly defined market (Houston et al., 2001). Smith (2011) elaborated that the alignment of interests was an imperative when attempting to manage conflict, especially when the internal business units were interdependent on each other and resources were limited. This created further complications for the companies that would have liked to realign the organisation to capture a new market.

There is a greater chance of encountering resistance among managers and employees who were poorly equipped to embrace an alternative channel. Other business units would have overcome the cognitive barriers which found them unlikely to implement new practices they would have perceived as counterproductive or unjustified (Olsen & Boxenbaum, 2009). The authors found that procedural barriers also needed to be addressed as a lack of familiarity with the processes and procedures in attempting to reach the BoP market would have discouraged key role players in adopting them.

To overcome the inertia Houston et al. (2001) suggested that firms should have created a culture of extensive cross unit communication that could be integrated with the rest of the business in order to communicate and establish the value proposition of the new BoP unit. By doing this, the authors found that companies would have been able to build a shared understanding of the new market thereby establishing credibility within the organisation. Olsen & Boxenbaum (2009) found that managers and employees who understood the short and long term vision and tactics of the company were in a stronger position to make collaborative decisions for the new business unit that supported the alternative strategy to accessing the BoP consumer.

2.5 Conclusion to the literature review

The literature review presented above described the extensive opportunity at the BoP. The characteristics of the BoP consumer was described by Pitta et al. (2008) who concluded that BoP markets were defined based on the characteristics of the market rather than the income levels of the consumer. As a result, Narkarta & Weidner (2012) found that these consumers where ignored in the past because of the unattractiveness and insurmountable challenges to reach the consumer.

With the increasing number of companies now attracted to the BoP market, Prahalad & Hammond (2002) stated that companies have entered the BoP market because this market provided a new source of opportunity. Four key drivers for entry into the market were reviewed. Hammond et al. (2007) indicated that one of the most dominant drivers for companies entering low income markets was that the BoP represented a major opportunity to create and capture a huge new market. Due to its size, the combined purchasing power of consumers, the threat of existing markets maturing, a win-win proposition for companies to do good while uplifting the rural communities and the opportunity to create feeder markets and grow with the consumer made the BoP market an attractive market for companies to enter and exploit the opportunities to grow their profits and market share.

Even though the BoP market offered phenomenal success and new opportunities, there was still an absence of the business safeguards associated with developed markets. By participating in these markets however companies experienced challenges from both and internal and external perspectives. Khanna, Palepu & Sinha (2005) stated that multinationals needed to modify their business models and should have adapted to the institutional voids that presented themselves in the product markets. By adopting business system innovations such as creating alternative channels for distribution, using local resources to service the BoP markets and gain information, and by forming strategic alliances with non-traditional partners, companies would have had an increased chance of success in serving the BoP market.

Institutional distance examined the significant knowledge gap between institutional settings of the developed market and the BoP market. Olsen & Boxenbaum (2009) observed that managers experienced difficulties in changing their mind sets, criticising and re-evaluating their methods and breaking away from entrenched traditional channel practice. Rather than viewing them as problems, managers seeking a new challenge should have explored these voids as opportunities. This would have further assisted in bridging the institutional distance and cognitive gap between developed and lower income markets.

Companies cannot do business in the BoP market using traditional approaches. New practices need to be adopted to serve this market efficiently. The following three themes: the drivers for market entry, overcoming institutional voids, and overcoming institutional distance, will form the basis of the research propositions explained in chapter three.

CHAPTER THREE: RESEARCH PROPOSITIONS

3.1 Introduction

In line with the literature review presented in the previous chapter, three important themes surfaced: 1) what drives companies to enter the BoP market? 2) how do companies overcome institutional voids in BoP markets? and 3) how do companies overcome institutional distance and bridge the cognitive gap in BoP markets? This chapter will lay out the three research propositions that will be tested in this report.

3.2 Research Proposition One

Companies are driven to enter the BoP markets by:

- The opportunity for new growth
- The threat of existing markets maturing
- Doing good and uplifting the lifestyle of rural communities
- Creating feeder markets and growing with the consumer

3.3 Research Proposition Two

In BoP markets, companies overcome institutional voids by:

- Creating an alternative channel for distribution
- Using local resources to service the BoP market and gain information
- Forming strategic alliances with non-traditional partners

3.4 Research Proposition Three

In BoP markets, managers overcome cognitive barriers to close the institutional distance gap through:

- Experiential learning
- Mimetic adoption
- Alignment of interests within the organisation

3.5 Conclusion

The three research propositions stated above are underpinned by the literature presented in chapter two and are formulated to meet the aims of this study. The attractiveness of the BoP markets has driven companies to enter this market and exploit the opportunities to grow their profits and market share. Proposition one will examine what the drivers for entry are likely to be.

Companies needed to have a better understanding of how to service the BoP market and overcome the institutional voids in order to gain the significant opportunities that the market presented. Proposition two will examine how companies overcame institutional voids.

Companies encounter not only external challenges when attempting to participate in the BoP market, but also internal challenges when they attempt to take on a new market position. Proposition three will examine how managers overcame cognitive barriers to close the institutional distance gap.

The next chapter will present the research methodology that has been adopted to examine the research propositions stated above.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 Introduction

The previous chapter explained the three research propositions that will be tested in this study. The propositions focus on the drivers for companies entering BoP markets, overcoming the challenges of institutional voids, and overcoming cognitive barriers to close the institutional distance gap.

This chapter will explain the research methodology that will be used to test the propositions outlined in chapter three. The unit of analysis and the population are also described. This is followed by a discussion on the data collection process and the data analysis methods. The chapter concludes with an indication of the limitations of this study.

4.2 Research method

4.2.1 Rationale for the method

A qualitative research approach was adopted for this study by formulating research propositions from the literature review, then testing the propositions through semi-structured interviews. Qualitative research is recommended when the researcher aims to interpret a phenomenon in a precise context rather than simply finding a link between two variables (Leedy & Ormrod, 2002).

The research was exploratory, with confirmatory and descriptive elements, and aimed to understand a phenomenon which in this case was, were the drivers for companies entering the BoP markets? The challenges on overcoming institutional voids and managers overcoming cognitive barriers to close the institutional distance gap had already been defined in the literature but the area that required understanding is how companies operating in the South African BoP markets overcame these challenges. This type of research method used is thus descriptive, which was appropriate as the research sought to answer the question "how" (Zikmund, 2003; Zikmund, Babin, Carr and Griffin, 2008).

Exploratory and qualitative research is also appropriate when not enough is known about a phenomenon for standardised instruments to have been developed (Patton, 2002). Zikmund (2003) also noted that exploratory and qualitative research is appropriate when an ambiguous problem needs to be clarified. As indicated in chapter two that literature on alternative channel strategy has emerged from a largely developed world paradigm with little research focussed on how companies create an alternative strategy to focus on the BoP market. Therefore an exploratory and qualitative research approach was consider most appropriate for this study, given that it aimed to contribute to the theory base from an emerging market context.

Qualitative research is based on the interviewer's immersion into the phenomenon being studied in order to gather data which leads to a detailed description of events and situations providing more depth and detail (Cooper and Schindler, 2014). Qualitative researchers therefore aim to uncover knowledge about how people think about certain situations versus making judgements about whether those thoughts and feeling are valid.

The inductive process differs from deductive process in that the inductive approach is the logical process of establishing a general proposition on the basis of observation of particular facts. Deductive reasoning is the logical process of deriving a conclusion about a specific instance on a known general premise or something known to be true (Zikmund et al. 2008). The study used was a blended inductive-deductive approach as it formulated propositions derived from theory base which were then tested through semi structured interviews.

4.2.2 Research process

Exploratory work can be conducted in three main ways namely search existing literature and case studies, conduct interviews with experts or practitioners in the field of study or alternatively to conduct focus groups (Saunders, Lewis & Thornhill ,2009).

The research process comprised of two phases, where an in-depth review of the literature surfaced three research propositions which were tested and thereafter interviews with senior managers working in the BoP segment were conducted.

Phase one was primarily orientated around the exploration of the research area and further defining the research problem. This was conducted through the use of secondary data, including books, articles, journals and academic literature. A detailed review of the literature was performed to surface the different drivers for BoP market entry, the methods used to overcoming institutional voids and overcoming cognitive barriers to close the institutional distance gap. This process was presented in detail in chapter two, and the results were used to formulate the research propositions listed in chapter three. These initial propositions were then tested through semi-structured interviews as discussed in phase two below. The propositions informed the interview guide (found in appendix 1), which was used for data collection and the analysis of the data.

Phase two of the research consisted of primary data collection and analysis through a series of face-to-face semi structured interviews with eight respondents from six different companies. Two additional respondents were interviewed telephonically due their location being difficult to access. These companies have traditionally served the middle to high income markets, but have recently started engaging with BoP consumers and competing in the low-income market. Respondents who were deemed to have particular knowledge of the relevant business unit within the organisation were approached (Welman & Kruger, 2001).

The semi-structured interview is useful when several respondents are being interviewed, because it offers some standardisation, allowing for comparative analysis, whilst leaving room for some spontaneity, and probing by the interviewer for clarification or elaboration purposes (Welman & Kruger, 2001).

4.3 Unit of analysis

The unit of analysis defines what or who should provide the data and at what level of aggregation (Zikmund, 2003). The unit of analysis for this study were the views and opinions of the individual managers on the three propositions presented in Chapter 3. The respondents from the companies have experience in operating in BoP markets, who shared insights surrounding the routines, actions and the environment when operating in this market.

4.4. Population of relevance

Zikmund (2003) identified the need for selection of an appropriate target population to ensure that the data collected is from the correct source that best answers the research questions. Based on this definition, the population in this study were the experts such as the senior managers in the business units in a for-profit company that engages with the active BoP consumer base, and have experience and knowledge of the companies engagements in marketing activities directed to the BoP consumer. These managers were either directly involved in the development of the strategy to enter these BoP markets, or were part of a team responsible for the execution of the strategy to the BoP consumer.

4.4 Size and nature of the sample

4.4.1 Sampling procedure

Qualitative samples tend to be purposive, or snowball, rather that random, with preference often given to key informants who have more information or richer experience on account of their position (Welman & Kruger, 2001). As the sample for this study was homogenous and difficult to identify, based on the nature of the sample, the chosen sampling technique was purposive sampling. Senior, well informed managers were selected. They were purposively sampled based on their accessibility and with preference given according to the extent of the company's engagement with the BoP market. Zikmund et al (2008) described purposive sampling as a non-probability sampling method that involved the selection of the interview members based on some appropriate characteristics. The characteristics of the required interviewees were as follows:

- Senior level managers that were responsible for, or were directly involved in the development of the strategy to enter these BoP markets, or were part of a team responsible for the execution of the strategy to the BoP consumer and therefore seen as well informed and knowledgeable individuals.
- The companies that they worked for should be selling their products and services to the BoP consumers.
- Due to the limited time and travel distance, they should be located in Gauteng

Interviewees were identified through the GIBS research network and the researcher's own contacts. Given that the study examined the drivers for entry into the BoP market and the methods used to overcoming institutional voids and overcoming cognitive barriers to close the institutional distance gap, a sample of ten from six multinational companies was deemed sufficient to draw conclusions that could be generalised to the theory.

4.4.2 Companies interviewed

All companies that were interviewed for this study operated in both the middle to high income markets. This is referred to as the developed market. These companies have now entered the BoP market in South Africa. All of the companies interviewed are multinationals and were based in South Africa. All of the company's had previous experience in low income markets globally. Some of the companies interviewed have been extremely successful in the BoP market and were seen as global market leaders in this space, some having the BoP strategy as core to their central strategy and some still experimenting with their BoP models. Companies across various different industries were interviewed. Companies were engaging with a range of different segments within the BoP – some serving the ‘working poor’ and others addressing the needs of the ‘rural poor’. In all cases, the companies had made a deliberate decision to engage with this market segment viewed as distinct from the developed markets, and which the company itself viewed as BoP.

The table below provides some information about the companies that were interviewed. The table indicates the industry, the type of company within the industry, whether the company is headquartered in South Africa or abroad and whether respondents considered the BoP strategy as core to their central organisational strategy or still in experimental phase.

TABLE 1: Summary of companies interviewed

Industry	Company	South Africa	International	Core	Experimental
Consumer Goods	FMCG		Yes		Yes
Beverages	Beverage A		Yes	Yes	
	Beverage B		Yes		Yes
Technology	Technology		Yes	Yes	
Telecommunications	Telecoms	Yes		Yes	
Financial Services	Bank	Yes		Yes	

4.5 Data collection and analysis

4.5.1 Overview of the process

Qualitative research is an iterative process, with data collection, analysis and refinement of propositions as interrelated and interactive set of processes (Kvale, 2007). A combination of content, narrative and comparative analysis was used to test and refine the theory-based propositions (Yin, 2003; Patton, 2002). While comparative analysis as advocated by Yin (2003) is usually applied to cases, semi structured interviews were used for this study, given the time and resource constraints, and the wide range of companies the researcher wished to interview.

The following broad data collection and analysis process was followed (Welman & Kruger, 2001, Patton, 2002; Kvale, 2007, Saunders, Lewis & Thornhill, 2009 and Cooper & Schindler, 2014):

- Conduct the first interview.
- Transcribe interview from the tape recording or notes.
- Capture reflective and analytical researcher notes for use in future interviews or analysis.

- Synthesis and organise the researcher notes according to codes and categories determined by the propositions. Note any new themes emerging, and adjust interview guide accordingly to allow for further exploration of the new themes.
- Repeat the above steps for subsequent interviews.
- Once interviews are completed, conduct content and narrative analysis on individual cases, identifying which themes and patterns are most prominent and noting particularly interesting individual findings.
- Organise individual findings within a meta-matrix to compare findings across the sample and identify the most relevant variables.
- Use the meta-matrix to conduct final content analysis, synthesising final propositions.

4.5.2 Data collection

Semi-structured interviews were used for the primary data collection phase of the study. The flexible semi-structured format encouraged conversation. Each interview was approximately 45 minutes in length and eight out of ten was conducted on a face-to-face basis with individual managers, while two were conducted telephonically due to the inconvenient location of the managers at the time of the interview. Face-to-face was the preferred method of conducting the interview, as this allowed the researcher to make use of body language signals, and to probe the interviewee (Saunders Lewis & Thornhill, 2009)

The interviewee was probed to obtain the necessary level of depth required and to ensure the richness of the information gathered (Patton, 2002). A minimal response technique was used to allow the interviewee sufficient time to elaborate on the discussion without interruption. A further technique of relaying the researcher’s interpretation back to the interviewee was used, summarising and clarifying techniques to seek confirmation of the interpretation and to remove any ambiguity.

To ensure accuracy of the data collection, nine out of ten interviews where recorded and one had refused to be recorded due to their company’s ethical conduct. Recording the interviews has the additional advantage of being complete in terms of speech and context, and can be checked by others (Denscombe, 2008).

4.5.3 Data analysis

Data analysis is the process through which key components or principles are discovered that provide a clearer understanding to a particular phenomenon (Denscombe 2008).

The study used a combination of content, comparative and narrative analysis. Each interview was analysed using content and narrative analysis. To summarise, a comparative analysis was conducted to compare results across units of analysis and variables using the meta-matrix (Miles & Huberman, 1994)

Welman & Kruger (2001) describe content analysis as a way of systematically analysing unstructured interviews and identifying and portraying the incidence of themes, while narrative analysis retains the richness of the data, and allows patterns to develop.

Frequency analysis was not seen as relevant for this study as the interviews were semi structured and propositions were relatively broad. However, it was useful to quantify which themes emerged by the most number of respondents. The constructs that arose from the theory base in phase one of the study were used to develop a coding system. Each interview was analysed to test if the construct or code was mentioned by a respondent as a relevant factor when they engaged with the BoP market. For example, when the researcher tested to see how companies are overcoming institutional voids (proposition two), the construct of creating an alternative channel to distribution emerged and would be considered relevant if the respondent spoke of acquiring mini distribution centres, and deploying smaller vehicles to reach this market more efficiently. In order to provide depth and context, the researcher also drew upon patterns and meanings that arose from the data in order to rank the concepts in order of importance, which is captured in chapter five.

New constructs also arose from the interviews and as they arose were tested with the interviews that followed, and then ranked and presented in the tables for each proposition.

4.6 Data validity and reliability

Qualitative research has a different approach to quantitative research as it is concerned with a particular phenomenon in a specific context (Saunders, Lewis & Thornhill, 2009).It is therefore not approached with the same understanding of reliability and validity as quantitative research, however must be approached with the same rigour.

Yin (2003) defines construct validity as establishing the correct operational measures for the concepts being studied. In order to improve construct validity, a consistency matrix was compiled, showing how constructs were measured.

Reliability refers to demonstrating that the data collection procedures of a study can be repeated with similar results (Yin, 2003) and the goal of reliability is to minimise the errors and biases in a study. However qualitative research is not necessarily intended to be repeatable (Saunders, Lewis & Thornhill, 2009). The process should be as transparent as possible, meaning that the procedures should be documented. The researcher has compiled and documented all methodology notes during the research process.

Credibility of the research report has been improved through ensuring diversity in the sample of firms in order to establish themes, recording and transcribing of interviews to ensure interpretations can be checked against raw data, and triangulation of the data against existing literature and across respondents.

4.7 Ethical considerations

A process of ethical clearance from the GIBS ethical committee was followed and approval was provided before conducting the interviews and collecting the data. To ensure ethical principles and regulations were followed, participants provided informed consent before each interview by signing a consent form which can be viewed in Appendix 2. During the analysis, all data and findings were checked to ensure that all companies and individuals remained anonymous.

4.8 Limitations

The following limitations of the research design should be taken into account:

- Non probability sampling technique was used making it unreliable to generalise upon the population
- There is a risk of interviewer bias as a result of personal perceptions, interpretation and assumptions
- The sample selection only consisted of Multinationals who had prior experience in BoP markets and a base off which to create a strategy for South Africa which could present some bias. It would be insightful to have had interviewed local companies who develop and execute their strategy from scratch in a South African context to test if the challenges experienced were the same.
- Due to time limitations the researcher was only able to interview senior managers in these companies. It would have been insightful to also get the views of managers who are closer to the ground. This would have also increased the reliability of the data.

- Although the aim of the sample was to establish diversity across all types of industries, this sample is limited to only a few. Further insight could have been gained had additional industries been interviewed

CHAPTER FIVE: RESEARCH RESULTS

5.1 Introduction

The previous chapter explained the methodology used to test the three research propositions outlined in chapter three. This chapter will present the findings that were derived from ten in depth interviews with senior managers, working at six different multinational companies operating in South Africa.

The table below contains a summary of the companies that were interviewed as part of the sample. The description provides a perspective on the function of the firm, where they operate, and how they are structured. Specific details such as the products, brands, and other information that may affect the anonymity of the company have not been included.

TABLE 2: Sample summary

Company	Manager Reference	Role	Industry	Description
FMCG	Manager 1	Head of Strategy	Fast Moving Consumer Goods (FMCG)	This is one of the global consumer goods manufacturers with operations in South Africa. They have had great success in establishing alternative channels to low income consumers in overseas markets. Their learnings are very often quoted in literature. They have a wide range of commodity offerings and have recently established an alternative channel to reach the BoP consumer.
	Manager 2	Head of Sales & Distribution		
Beverage A	Manager 3	Head of Channel Strategy	Beverages	This is one of the largest beverage companies globally, who have been operating with great success in low income markets. This company is often used as a point
	Manager 4	Head of Distribution & Logistics		

Company	Manager Reference	Role	Industry	Description
				of reference in literature when finding key learnings about this market. They have a separate channel focussing on the BoP consumer in South Africa which is central to their business.
Beverage B	Manager 5	Innovations Manager	Beverages	This company is a beer and soft drinks company producing many local beers as well as global flagship brands. They have had great success in creating and distributing products to the lower end consumer in the rest of Africa and have recently started to place focus on this market in South Africa. They recently launched a beer specifically targeted to the BoP consumer.
	Manager 6	Head of Strategy		
Technology	Manager 7	Head of Strategy	Technology	This is a diversified technology company, focused on improving people's lives through meaningful innovation in the areas of Healthcare, Consumer Lifestyle and Lighting. They have had global success in low income markets and have now started to focus on Africa, where they are leading a specific project targeted to the BoP consumer.
Telecommunications (Telecoms)	Manager 8	Head of Strategy Execution	Telecoms	This firm is one of the biggest telecommunications service providers that

Company	Manager Reference	Role	Industry	Description
				operate within South Africa. This company has a huge influence on the rest of Africa. They have had great success in launching products to the low income segment to other parts of Africa which have resulted in key insights currently used in literature. Their business in South Africa is structured such that they have a channel focussing specifically on low income markets.
Bank	Manager 9	Head of Strategy	Financial Services	This is one of the biggest banks in South Africa and offers personal, corporate, merchant and corporate banking as well as other financial services. They operate globally with a large focus on Africa. The firm has established a specific team that focuses on entry level banking in South Africa offering specific products and services to the low income consumer.
	Manager 10	Head of Sales		

5.2 Results: Research Proposition One

5.2.1 Introduction

Companies are driven to enter the BoP markets by:

- The opportunity for new growth
- The threat of existing markets maturing
- Doing good and uplifting the lifestyle of rural communities
- Creating feeder markets and growing with the consumer

The results from the ten in depth interviews indicated that companies entering low income markets do so in response to several drivers including the four cited in the literature and listed above. The two most frequently mentioned drivers for entering the BoP market, was the opportunity for new growth and the threat of existing markets maturing.

Three additional drivers for entering the BoP market were noted from the interviews. These drivers are:

- Developed markets are becoming expensive and complex to service
- Influencing product reach to the end consumer
- Regulation requirements

The table below describes the seven drivers noted for entry into the BoP as listed above with reference to the number of interviewees who have cited each of them. The commentary that follows provides more detail on each driver with a conclusion provided at the end.

TABLE 3: Drivers for entering the BoP market

Driver	No. of interviewees	No. of companies
The opportunity for new growth	10	6
The threat that existing markets are maturing	8	5
Doing good and uplifting the lifestyle of rural communities	4	4
Creating feeder markets and growing with this consumer	5	3
Developed markets are becoming expensive and complex to service	4	3

Driver	No. of interviewees	No. of companies
Influencing product reach to the end consumer	4	3
Regulation requirements	1	1

5.2.2 The opportunity for new growth

The most common reason cited among the interviewees for entering the BoP markets was that this market represented a new business opportunity with the potential for additional revenue and market share. All ten interviewees cited market growth opportunity as their main driver for entering the BoP market.

Several respondents stated that there had been significant incremental growth in the BoP market. The respondents also stated that the growth at growth at the top end of the market was reaching saturation while growth in the BoP markets continued.

FMCG (Manager 2) "*There is real incremental opportunity for growth, so just with our company, if we add what we have done in terms of turnover since we started going to lower income route to market, it is probably an additional five percent incremental turnover growth that we would not have achieved if this had not been done. So five percent over the last three years, may seem small, but bear in mind we would have had to find that five percent somewhere else.*"

Beverage A (Manager 4) *"…this segment for us is really important because this segment is growing in our business unlike the top end. The middle segment is not growing as fast as the bottom end. We also find that there seems to be more money in the bottom for some reason. Now we are finding that the growth we are getting is from that bottom end, so they are growing in double digits while the rest is not growing so fast. People might say it's of a low base, but it's where the growth is now."*

Interviewees also commented on the volume opportunity and scalability that resided in the BoP markets which was beyond comparison of those achieved in traditional retail markets.

Telecoms (Manager 8) "…*it's just the scale, in terms of volume per store. Retailer A might have a thousand stores, Retailer B might have a thousand and eight hundred stores but if I start adding them all up, I won't even get to the forty thousand. There are a hundred and fifty thousand spazas* so those kind of differences need to be weighed up…. our prepaid*

revenues are so high and it is in those segments, therefore that makes complete sense for us to do it"
(* spazas are small informal retail outlets)

FMCG (Manager 2) "…*this is significantly different because the scale at which we are able to influence the final consumer, for example, in the next five years our goal is to be able to influence about forty thousand individual stores and when you look at that in terms of consumers, that opens up a massive customer base for you."*

Interviewees also cited that in order to successfully capture this new market opportunity, they had to ensure that they had a focused strategy with a long term view to stay committed to this market.

Beverage A (Manager 2) *"They must have a long term intention to invest and they must also understand that investment is not going to pay off tomorrow, it's going to take time and they must resource it accordingly to do that."*

Telecoms (Manager 8) "…*you need to be committed to it, it's not dipping your toes in the water, you have got to jump in and carry on swimming. This is not for the feint hearted, you got to have a five year view and you have got to be brave. To be honest it is commitment and stamina, it is very easy to get disheartened."*

5.2.3 The threat of existing markets maturing

Companies are seeking new opportunities for growth realised that their opportunity for growth is limited if they continued to cater purely to their traditional middle to high income markets. Companies have acknowledged that the traditional markets are becoming saturated, which requires them to start identifying opportunities in the lower income markets to grow the business. Interviewees have cited that in order to capture the opportunity at the BoP, they needed to be first to market in order to execute and start building relationships with consumers and informal traders.

Bank (Manager 9) *"Why the focus into those areas is because if you look at middle market, it's a doggy-dog world. Everybody and their dog is scrabbling for that market.*"

Bank (Manager 10) "*If you look at it, the middle to higher income market is basically people that have settled in their lives, that don't want to change their bank account, that just want to* *get rid of debt at this stage and don't want to incur any more expenses and that are actually planning for their retirement and their future. There is very little scope if you have to go out into that segment…..If you look at the new and emerging market there's business opportunities every single day. There's people that want to have that first home, that first vehicle or banking account, that have that good credit record, that come into the market. There's always that opportunity to try and build their financial background and to try and improve on their opportunities so there is significant improvement and that is the market we need to target right now."*

Beverage B (Manager 5) "…*we have become very saturated in our current brands and we can't actually grow more so we need to bring in new markets and that is where innovation started to become a massive priority at 'Beverage A'."*

Interviewees have highlighted that because existing markets were nearing maturity, other market players would also be looking to the low income markets for opportunity. Therefore it was imperative to get to the BoP first and capture the market before the competitors got in. Interviewees have also cited their efforts in developing an alternative strategy to reach this market first.

Bank (Manager 10) *"What we are trying to do for us to move from the fourth largest bank to the first largest bank, we need to increase our client base. To increase our client base means that we have to tap into this segment of market which is bringing in totally new to franchise clients, people that never banked with 'Bank'. A bank is determined by the number of account holders and that is what we did, we went out there and increased our client base to get market share.* Over the years you've seen that 'Bank A' and 'Bank B' has come out with something similar but we were out there first in the market to offer this kind of service."

Beverage A (Manager 4) "*The secret behind it is that you want to get to the bottom end, as any manufacturer or supplier, because you don't want the bottom end to go to these wholesalers."*

Interviewees stated that if their companies did not pursue entry into the BoP market they would risk becoming irrelevant as the traditional markets stagnated.

Bank A (Manager 9) *"…where the bank, who given certain leadership decisions that were made in the past, closed two million accounts and we said to those people that they are not part of the profile of what 'Bank' client needs to be so we closed it. The bank in 2010 went* *through a strategy process where it was very clear that that decision has hurt us. There's people and markets that you are not serving, you are quickly going down the road of irrelevance."*

5.2.4 Doing good and uplifting the lifestyle of rural communities

Respondents explained that by doing good and uplifting the lifestyles of rural communities they operated in was also a business objective linked to the values of their organisation. The interviewees explained that if consumers acknowledged that the company had their best interests at heart, by offering them quality products tailored to their needs, then they would become more accepting of their brands.

Four managers from four different companies have mentioned that their strategy for the BoP contained specific elements on offering the consumer a lifestyle change. The lifestyle change would be achieved through their product offering, marketing activities or recruiting people from the local communities to sell their products and services.

Bank (Manager 10) "*'Bank' is very big in terms of our stakeholders and giving back to the community, we have partnered with community leaders and we try to recruit people from the community that understand the community and in that way empowering them to have some kind of loyalty within the bank.*"

FMCG (Manager 2) "…*In terms of our sustainable living plan we want to make an impact in the community around, it is actually the core of our reason for being, the core of strategy is that we want to improve the communities that we live in but at the same time we want to make money out of those opportunities. We are definitely not the type of company who give a lot of stuff away because it makes us feel good. We want initiatives that have both the community impact and the business impact."*

Beverage B stressed that their reason for entering the low income markets was to improve the lifestyle of the community. They consciously try to educate the consumer and offer them a product that is safer to consume, thereby improving lifestyle. They highlighted that if you are not adding any value with your offering, then you are actually exploiting these consumers.

Beverage B (Manager 6) " *So you have low income consumers in the country and those low income consumers are drinking alcohol so the question is that any business going in to that segment with alcohol must answer the question that is that what we are offering making the* *consumers life better. So this is what I refer to as illicit alcohol, so if people are mixing paint thinners and drugs and if you were to offer them a safe hygienic affordable product as an alternative, then actually by driving them to switch from the dangerous illicit stuff to something that is SABS approved, you have actually improved the community. So that should be the principle with tapping the low income consumer market regardless of category because it makes business sense in the long term. With low income consumer you do well by doing good. That is something I personally believe in strongly. If you don't see how you are doing good for those communities then it feels like you are just exploiting them."*

Some interviewees mentioned that consumers needed to sense that their brands were improving their lifestyle. Therefore the product and its value proposition needed to be positioned in way that appealed to the consumer in order for them to trust it. It was noted that through developing trust with the consumer, companies would be able to influence their choice and change their buying habits.

FMCG (Manager 1) "*Some of the biggest challenges were overestimating the size we thought a hundred people would buy from us, ten thousand rand each, which didn't happen. There are a hundred people, but they don't change quickly and it takes some of them up to six months for them to start changing their habits and start trusting you. A lot of people come in and try to sell to these people and it's not an easy thing to crack, you need to build a relationship, trust and respect and that took longer than what we anticipated.*"

5.2.5 Creating feeder markets and growing with the consumer

Three respondents from three different companies stated that their companies had entered low income markets in order to develop the market for the future. The respondents stated that the reason for this was that they wanted to create a pipeline of customers for the long term. The respondents were of the view that by entering the BoP market, they could establish their brands and products into the mind-set of the consumer so that when the consumer moves up the economic pyramid, they will continue to be affiliated with their brands and products.

Bank (Manager 9) *"The way we at 'Bank' look at the bottom of the pyramid, we look at it as a pipeline. Entry level banking together with youth serves as a pipeline into our more profitable segments being in the middle market. You have, for example, a security guard who starts out earning one thousand two hundred rand and eventually he becomes a foreman. With all those progressions of his life he moves up."*

Beverage B (Manager 3) *"The problem is that people migrate up, the child that is experiencing your brand like that might be staying in a squatter camp and tomorrow he is going to be the president of the organisation and as they migrate up, their experience with your brand is bad. As they move up, you actually lose them. It's so important that you are consistent as people can move from lower class to middle class, which is what is happening in South Africa and Africa. If they move up, they have such a beautiful experience at the bottom end that they remember those memories. That's how we think about it because people migrate up the ladder."*

One respondent was of the view that by growing with the informal trader who sells to the low income consumer, is also good business. The respondent explained that if the trader does good business and is able to grow his/her outlet, that he/she will then continue stock the company's product or even stock a bigger inventory quantity.

Telecoms (Manager 8) "*If someone is doing well for you, helping you get better, then why not? If he's showing that he is committed to you too then help them. If it means he needs a brick store or he wants to buy another store somewhere and he doesn't have the capital right now then look at collaboration, look at potentially putting a 'Telecoms' container down. Instead of just giving that container to someone that tells you he's going to be needing that, give it to someone that's already committed.*"

5.2.6 Developed markets are becoming expensive and complex to service

Some respondents stated that consumers in the higher income markets were becoming expensive to service as their needs were changing and becoming complex. The cost of sales and marketing to the high end of the market required more investment as these consumers were exposed to a wider variety of choice. More investment to serve the developed market resulted in smaller profit margins. These respondents stated that the low income consumer, who was entering the market for the first time, required less complex solutions and was cheaper to serve versus the developed market.

Bank (Manager 9) *"I'm sure you can also appreciate that the costs to acquire are significantly that much higher because with this person you can't just put up an ad to say are you are keen on joining us, because they won't join as this guy needs more engagement. You need to entice him, there needs to be more rewards and all of that builds up cost. Whereas if you build a pipeline then you have someone to grow with you, you've already* *taken the knock of bringing him on ten years ago when they were a student or security guard. By the time they are in the middle, you just upgrade their promise, for example offering a home loan or a car."*

Beverage A (Manager 4) "*The problem with the top end is that your more formalised are getting clever and have no place to cut cost anymore so they are putting pressure on suppliers to reduce price. They tie you up with specific promotions and advertising and when you start putting all those numbers down you will start seeing that you are making money on the bottom end rather than on the top end. You might have volume coming out of here but you don't have profitable margins that you are making compared to the other end and what we are seeing is our profitable margins are coming from that bottom end so you want to grow that."*

Bank (Manager 9) "*The market is that much more complex because internally we did a study, we tried out a couple of campaigns where we sent everybody birthday messages. Customers in this market, the entry level banking jumped for joy, people replied with thank you messages to 'Bank'. Middle market guys freaked out and it gets that much more complicated. In this market, the needs are still very basic, it still makes the interactions very human and involves the clients."*

5.2.7 Influencing product reach to the end consumer

Wholesale outlets are a key component in the distribution model of many companies. Traditionally the wholesaler would purchase goods directly from the manufacturer and supply all levels of the market through retail outlets or direct selling. As companies started to enter the BoP market to offer their products, particularly products developed for the low income markets, they realised that the wholesaler distribution model did not offer them sufficient control over the wholesaler who sold to the informal traders. Respondents explained that companies could not influence the price of goods sold to informal traders who sold the product to the end consumer. The respondents further explained that companies could not influence inventory levels at the wholesaler, and movement of products to the end consumer that they were targeting.

Beverage A (Manager 4) *"The biggest issue for us is not knowing where the volumes go. We know that there is a mass of people out there. We know they are buying but we don't service them directly. We service through the distributor and the wholesaler so having line of sight where the stuff is actually going was non-existent. If it went to the port, somewhere* *in Africa or across the border, we had no idea. What we are doing now is we are getting more control of wholesales and where they sell, we have better line of sight into distributors and where they service."*

Respondents stated that companies would rather service these markets themselves rather than choosing to use the traditional wholesaler model. By servicing these markets directly, the company would have greater influence on the product reaching the end consumer. Companies would also benefit by having line of sight of exactly who was purchasing the product and where the volumes were going to. Respondents also stated that another benefit would be that companies could then be in a position to start understanding the end consumer better by having access to them and accumulating information on their purchasing patterns and habits.

FMCG (Manager 1) *"…because the Cash n Carry* can only do so much for you and they obviously focus on price, they don't care about your range, they don't care about point of purchase in their trade or shop so when it gets to the consumer, you don't know. You just talk to the Cash n Carry and after that you don't know. The key distributor really gives us that second tier touch point where the consumer interacts with the product."*

(* Cash n Carry is a South African term used to describe a wholesaler)

5.2.8 Regulation requirements

One respondent stated that regulation requirements influenced their decision to enter the BoP market. The Financial Services Board that regulates the financial services industry in South Africa, introduced regulation that required banks in South Africa to offer services for the unbanked population. The unbanked population in South Africa is typically characterised as the low income market or the population group at the BoP that does not have access to financial services. The manager from the bank stated that the introduction of regulation reinforced the importance of the low income market. From the bank's perspective, the strategy had to be adapted to cater for this market which it previously ignored.

Bank (Manager 10) *"In term of FAIS* laws from 2004 that were introduced, all banks have an obligation to take banking to the people, the strategy set out then where we had to cater for lower income markets otherwise they were totally ignored. If you look at the market trends right now, mark up of the business, whether it is in the cellphone or banking industry, that bulk business sits in the lower end of the market."*

(* FAIS – Financial Advisory and Intermediary Services)

5.2.9 Conclusion to research proposition one

The most prominent driver for companies entering the BoP market, as cited by all ten interviewees, was the opportunity for new growth. The respondents stated that BoP represented a major opportunity to create and capture a huge new market. It was noted from the respondents that the second most prominent driver for companies entering the BoP market was the threat of existing markets maturing. Eight of the ten interviewees made particular reference to this driver as a reason to enter the BoP market. Respondents also cited more than one reason for entry into the BoP market.

Several respondents stated that when entering the BoP market, their execution strategies was based on a long term view of the market. Respondents suggested that when companies enter the BoP market and create an alternative execution strategy, they should have limited expectations of it being profitable in its first few years of execution. Their strategy for the BoP market should evolve from a broader organisational level strategy aimed at developing future markets. By creating feeder markets, companies would be able to build a pipeline of customers for future business. Respondents stated that companies should capture the BoP consumers with simplified product and service offerings and should grow with the consumer as they move up the economic pyramid.

Therefore it can be concluded that the data supports research proposition one, that companies operating in the middle to upper income markets are driven to enter the BoP markets by the four drivers cited.

The perceived opportunity for new growth in the BoP market and the chance to create new income streams was the strongest driver as indicated above, although most companies are also driven by other complementary factors. By entering the BoP markets companies can adapt their traditional practices and create an alternative strategy for execution in this market.

5.3 Results: Research Proposition Two

5.3.1 Introduction

In BoP markets, companies overcome institutional voids by:

- Creating an alternative channel for distribution
- Using local resource to service the BoP market and gain information
- Forming strategic alliances with non-traditional partners

As discussed in chapter two, when companies enter the BoP markets they are confronted by many institutional voids which requires them to identify alternative and innovative ways to overcoming these voids to access the market and the consumer. The most prevalent of the voids encountered was accessibility to the consumer which was attributed to poor or limited infrastructure. The second most prevalent void was the absence of quality information which was often limited or non-existent in this market.

Three factors which were most prevalent were identified in the literature and are listed above. In addition to these, one more factor emerged from the interviews. The table below lists the different factors, as well as the number of interviewees and companies who have cited it.

TABLE 4: Overcoming institutional voids

Factors	No. of interviewees	No. of companies
Creating an alternative channel for distribution	10	6
Using local resource to service the BoP market and gain information	8	6
Forming strategic alliances with non-traditional partners	8	5
Investing in technology to gather information	4	3

All ten interviewees from the six companies had agreed that creating an alternative channel for distribution was one of the major cornerstones of successful execution in the BoP markets. The respondents cited several examples of how they had to establish alternative methods to their traditional channels to better understand and reach the BoP consumers. It is quite apparent that creating an alternative channel for distribution was the one factor they all had considered.

It was also noted that that several companies overcame the constraints or voids faced in the BoP markets by turning them into a competitive advantage, through consciously adapting to them, investing in and researching alternative methods. One respondent quoted that an alternative route to market strategy is a competitive advantage.

5.3.2 Creating an alternative channel for distribution

The most prevalent factor when attempting to reach the BoP markets, according to the interviewees, was creating an alternative channel for distribution. The key challenge cited was that reaching this consumer could not be achieved through the traditional distribution models, as the physical environment surrounding these consumers lacked adequate infrastructure that the traditional channels were equipped with. Therefore availability of product to the BoP market was very limited for these consumers. Companies had to find innovative ways to reach them. Another key finding was the use local intermediaries or informal distributors to assist companies in reaching this consumer more effectively.

Therefore in many examples cited, goods had to be delivered using alternative methods of transportation, for example using smaller vehicles. This was noted as a cost effective method given the size of deliveries to the informal traders were much smaller than the average traditional retailer.

FMCG (Manager 1) "*Your avenue of servicing them is a little bit different, you need to have a cost effective way of servicing them because their turnovers are so low. We have tried a cash van operation which is not productive at the moment because turnovers are too low and costs are too high. We need to look at different servicing models, maybe tuk-tuks*, maybe motorcycles or people just literally walking the streets who pick up orders and have a small bakkie** deliver it. We are looking at those avenues but we are not there yet in South Africa. Other countries like the Philippines and Asian countries are very well developed. There they have got tools and structures for literally those small shops where they even service with bicycles.*"

(* commonly referred to as an auto rickshaw)

(** South African term to describe a van)

Beverage A (Manager 4) "*Where we can't go in, we give it to the distributor and he will go in with a bakkie or a smaller vehicle. We don't want to be where its huge logistical issues for* *us to get in but that doesn't mean we don't want our products there. We find another way which is through a distributor to get our products there.*"

Telecoms (Manager 8) "*a tuk tuk costs very little money and you have branded tuk-tuks and they go and they allocate ten spaza's, get a copy of the order from the clients and they got to 'Retailer' on their little tuk-tuks, they get and do active distributions to the spaza's*"

Beverage B (Manager 5) "…*because 'informal traders' are sitting in very rural areas, we don't really know where they sit, we heavily rely of the sorghum distributors because they have smaller trucks than us and they deliver more frequently as well. The best way to get to these 'informal traders' is through the sorghum distributors or the informal distributors. Our route to market is that we are relying on them because our top never go in there and it will also cost us too much to deliver three cases at one point and two cases at another.*"

Apart from using other modes of transport to deliver product to the informal retail outlets and traders, interviewees also commented on creating mini distribution centres in the rural areas which could act as pick up points for the informal trader. This was noted as a new distribution model, which would contribute to reducing costs of servicing the BoP market, as it was one big delivery into the mini distribution centre and thereafter have local distributors deliver to the customers, instead of having many deliveries from the main distribution centre.

Beverage A (Manager 4) "*What we are finding now is that the problem is getting to all these spots, by doing a hundred stops with the truck, a hundred calls with the rep, a hundred pieces of point of sale and it is now becoming expensive to service ten cases per outlet when I can just drop a thousand cases in one spot. The operational part of it is becoming extremely expensive and the company is moving more and more away of finding better route to market of how you get to these people but at the cheapest costs which is where we are at the moment.*"

FMCG (Manager 1) "*We are starting them up with a low cost model, nothing fancy, small warehouse and no additional costs, lean to the bone people structure and the owners are in there themselves working hard."*

Beverage A (Manager 4) : "*That is where our strategy is, it doesn't have to be a 'Beverage A' truck that delivers, and it could be a distributor or wholesaler that delivers there, just as long as we are there. Our strategy is not putting a thousand of trucks to deliver or let's put* *people in delivering, we are moving away from that by creating more smaller distribution centres when previously we would call that a mini warehouse."*

Interviewees from the beverages industry stated that in certain instances, there were challenges in delivering products to the informal traders due to them not having the required licences. To overcome this challenge, they had to use local informal distributors to get their products to these traders. This has therefore forced them to create an alternative channel to reach this consumer.

Beverage B (Manager 5) "*Now what we have figured out is the sorghum* industry, the biggest volume go to the informal trader, which is an unlicensed trader and we are not allowed to deliver. We need to get sorghum distributors which we don't partner up with normally and they must deliver the stock for us to informal trader*."

(* Sorghum is an African beer consumed mainly in the low income market)

Making the product accessible and available to the consumer was one of the biggest challenges encountered by companies and overcoming this meant accessing a new customer base. The core reason for creating alternative channels for distribution is to take the product to the consumer as they usually do not have the means of accessing it. This was emphasised by the respondent from the technology company. The respondent stated that their technology company had created a focused business unit to reach this consumer not only in South Africa but also in the rest of Africa.

Technology (Manager 7) "*One of the key challenges faced is the last mile distribution which is the availability of the product to the consumer and you had to find business models to make these products affordable and available."*

This view was also echoed by other respondents who stated that their objective was to get the products to the consumer, who previously only had access to it through a traditional retailer.

Beverage A (Manager 4) "*The biggest thing for us is availability, if it is there it will sell and we need to get it in there."*

FMCG (Manager 2) *"…for example, in the next five years our goal is to be able to influence about forty thousand individual stores and when you look at that in terms of consumers, that opens up a massive customer base for you. It tells us what we have done here to date we* *have about twenty thousand stores half way in our journey. The kind of propositions we provide for these shoppers and consumers weren't able to provide for them five years ago, some of it is really silly things like launching new products that weren't accessible in the market before and were accessible to a modern, traditional retailer. Now the same consumer has the same opportunity to buy that specific product."*

Bank (Manager 10) *"…it is challenging especially if you are looking at people in the rural areas. You are looking at people who do not have the facility to go in to or catch a taxi and go into a traditional formal branch, if you look at what 'Bank' has done, 'Bank' has made banking more portable and also made banking accessible by taking banking to the people.*"

Beverage A also elaborated on the point that their key focus was getting to every outlet possible. It didn't matter who delivered the product for them but as long as the goods were getting to the consumer, they were happy to provide the tools. The key objective was to reach a lot more customers and open up a new customer base by making products available using alternative models for distribution.

Beverage A (Manager 4) *"…the key for us in 'Beverage A' is to deliver as much to the universe as we can. We've done surveys and have a universe number of how many businesses are in the country. We want to make sure we get to that a hundred percent and we want to deliver to every outlet."*

This was also further supported by other respondents who stated that the key objective of creating an alternative distribution model was to deliver as much product and gain access to as many outlets as possible.

FMCG (Manager 1) "*The key distributor really gives us that second tier touch point where the consumer interacts with the product. End state, we would like to touch about thirty thousand stores so that would give FMCG an overall touch of forty thousand stores in South Africa. As a build-up phase, we are currently calling on about eighteen thousand stores and we want to get into thirty thousand at the end of the day."*

Respondents stated that by stocking goods closer to the consumer using distribution centres is more effective, as it gets to the consumers on time and is available when required. This method would also favour the stock holding circumstances of small traders as they are constrained by warehousing space to keep large amounts of inventory. A perceived benefit is that the trader would therefore make smaller more frequent purchases.

Technology (Manager 7) *"Stocking closer to the customer is another way of overcoming this challenge and will have your product reach your customer on time and as required."*

Another interesting point cited by two managers was that if you created a distribution model where products are delivered to the small informal stores, the traders would be willing to pay a little extra for the delivery as they would not have to leave their outlets or close them for a period of time while they go to replenish inventory. Through this method, the trader would value the time saved and would be willing to pay for those services as he/she benefits as well.

Telecoms (Manager 8) "*The spazas will be happy to pay them fifty rand more for delivery for time and he does not have to close his store."*

FMCG (Manager 1) "*The small locals and the counter service is a bit more loyal so they appreciate the delivery that the key distributor provides. Key distributor price is about five percent more, but the customer will still buy from the key distributor because the key distributor delivers."*

Another key insight into alternative models for distribution of product in this market has been through personal selling, where companies are employing mobile sales teams or agents to walk the streets and talk to the consumers and traders about their product offerings.

Telecoms (Manager 8) *"…what we do is we have a team called emerging markets and the emerging markets team has a whole bunch of team leaders, who call on agents, and then we go and we sign contracts. We say like you're on mpesa and airtime and every time we sign someone on mpesa, everytime we sign someone on airtime you get your commission. So it's a wealth creation thing too. That goes viral and you'll have a thousand agents in Soweto* and a thousand in Khayilitcha* and they are all out there branding 'Telecoms', driving the 'Telecoms' message.*"

(* Soweto and Khayilitcha are informal settlements in South Africa, inhibited predominantly by low income consumers)

Beverage A (Manager 4) "*The sales guy works for us, he gets orders and brings it to the distributor and the distributor then delivers. That is where the big changes have come from."*

Bank (Manager 10) *"You will find there is a mobile sales team that operates in very remote areas that has the capability of transacting and opening account for the person at their premises, at their home without them coming into the branch giving them their card and pin immediately. In order for them to transact they also have the pocket POS funding process where instead of having to go and pay for a funeral plan which they need, they can use the external POS and pay that funeral plan on that device."*

5.3.3 Using local resources to service the BoP market and gather information

The companies that were interviewed had entered the markets previously. These companies therefore had global learnings and best practices to use as a background when developing the strategy for this market. Eight respondents from all six companies agreed that it was best to use local people who were familiar with the environment to ensure excellent service delivery and gather information.

The respondents stated that their companies hired sales people from the community as they were able to engage with the informal traders and consumers in a manner that they were familiar with. This created a more comfortable feeling with the consumer and was a key element in building trust between the sales agents and consumers or traders. The use of technology was noted as playing an integral part in localising global best practices. The respondents explained the importance of localising a global strategy and that the first step to doing it was hiring people locally.

Technology (Manager 7) "*Find local people to do the job, don't take people from within the organisation, rather take from the outside. Take a global portfolio and localise it. Pull in resource with local relevance. You cannot copy and paste from other country strategy. Only local people – if you are not local you can't make it. Managing selling and projects out of Europe only works with International Accounts based in Europe/ US etc. but you always need the local counterpart to make it happen. Otherwise it's a recipe for failure."*

The sentiment of using local people to connect with customers was also echoed with the respondents from Bank, who stated that there needed to be someone at the same level as the consumer to make them understand the product better in order to close out the sale.

Bank (Manager 10) "*If you are looking at people that have absolutely no understanding of banking, if you are looking at people that have never done a transaction in their life, you can't take somebody that has extensive banking experience and try and convince a* *customer to open a bank account if you don't have them at that level. When you are from a community and when you understand what's going on in your community you tend to get more buy-in than getting somebody that is not there and doesn't understand the people, culture and what is going on. It has an impact in terms of the influence you have on the people who will actually come over to 'Bank'."*

FMCG Manager 2 provided an interesting insight stating that as much as it was important to have local people servicing this market, it was also important for them to know basic sales principles and some business acumen. The FMCG company had to find local people and invested heavily on capability development to ensure these local resources were fully equipped to understand the business basics and how the company operated.

FMCG (Manager 2) "*I would say it's actually a mix of both, so local talent who understand the market and the other bit is some basic sales processes. So you can have an average sales man, who may not necessarily have the local knowledge, just goes through the process and is really successful. You can have someone with all the local knowledge, all the local relationships, all the local flair and is not successful because they don't do the basics well…. it's a real combination just because someone comes out of a community doesn't give them the edge in terms of being effective in sales. There are big thrusts for 2014 that has been on capability building and literally is probably what we spent eighty percent of our time actually doing*."

FMCG Manager 1 offered a different viewpoint stating that even though a person may not be from the local community, they can still service this market efficiently and can be taught about the trade and the way of doing business.

FMCG (Manager 1) "*if you look at where the key distributors are based, and the territory they cover, even if they employ someone that might not be from there, they will work there so within a month, he is a part of that world. Whether he is there or not, it is a bonus if he does understand it, but it is not a specific requirement."*

FMCG Manager 1 also provided insight on how foreigners trading in South Africa were different from the local traders. Understanding the buying patterns and culture of the Chinese, Pakistani and Somalian informal traders was also a challenge as the local resources were not familiar with these foreigners. In areas where foreigners were trading, companies had to source specialist resources that were of the same background in order for them to conduct effective business. Respondents from Beverage A also supported this view stating that the buying patterns of the foreign traders were different to local traders and required specialist knowledge in order to understand them.

FMCG (Manager 1) "*In the South African market, once you have walked the streets you can learn and pick it up but the Chinese, Pakistani and Somalia's is a different type of person, mind-set and culture so it's a bigger package than just understanding these environments.*"

Beverage A (Manager 4) *"You have Somalis, Bangladeshis, Indians, Pakistanis, Zimbabweans and Nigerians who have taken over the market. Their business model is very different to the South African spaza owner, their business model is that they will eat and live in the same thing and they will save their money and they are not loyal to any brand. While the South African is very brand conscious, they still spend money, they don't sleep in the same shop and it is very different. We've seen in some markets as high as 70-30, especially Cape Town markets where foreigners are running it and locals are just dying because foreign traders are getting into groups and buying."*

Manager 4 from Beverage A also explained that by employing local resources, the cost of wages was reduced as these sales people did not have to travel far to get to their jobs. The interviewee stated that this also posed lesser risk to employ someone from the community as they would be known to other community members and the trust would be easier to develop.

Beverage A (Manager 4) *"…we are recruiting and going ahead we find people from that community because some of these guys are walking or taking taxis and they don't have fancy cars. Some of these guys have motorbikes that they are working on and that keeps the cost for us low as well as the people have some community knowledge and relationships with the communities. Finding someone in that community is less of a risk than getting someone from outside the community."*

Employing local people also meant that the information they gathered belonged to the company. This is viewed as valuable intellectual property. If companies hire and train local people, especially the sales teams who are interacting with the consumers and traders, they become a great source of information to overcome the void of lack of/non-existence of information in this market.

Telecoms (Manager 8) *"Whereas the information that we are gathering is our information and it helps us a lot. You have to throw money out at your people at the ground and you've got to incentivise…*"

Beverage A (Manager 4) "*We want to make sure we have a representative calling on that outlet, whether it is once a week, once every two weeks or once every six weeks, as long as we have a rep calling the outlet, we can influence the sale, promotional stuff and understand what is happening with competitor activity."*

5.3.4 Forming strategic alliances with non-traditional partners

The absence of formal intermediaries in the BoP markets presents a challenge for companies. These markets are not characterised by established employment agencies from where companies can recruit sales people from, or even adequate distribution centres where suppliers can distribute their products from. Therefore there is a need to form alliances with non-traditional partners from the community who can assist in driving the business agenda and establish alternative ways conduct business.

Interviewees stated that companies should go to the communities and seek out those non-traditional partnerships as these partnerships would lead to building brand affinity in the market.

Technology (Manager 7) *"Go to the customer rather than wait that he goes to a shop. Hence be close to the customer wherever he lives. By forming strategic alliances and using local agents who may form part of the local woman empowerment groups, community groups, churches or informal settlements one gain access to these markets quite effectively."*

Beverage A (Manager 4) *"When these competitors came in, their only route to market was to drop at wholesalers. They started off very small and before you knew it they started building equity in that brand and now their equity is sitting very high. This is where the problem is, that we don't go directly to these customers and build relationships with these spaza owners."*

Interviewees stated that in the South African market, there is a strong influence from community leaders or tribal chiefs and companies needed to be familiar with certain rituals and traditions of the communities in order to start doing business with them. Therefore hiring people who are locally connected was beneficial in building relationships with non-traditional leaders.

Bank (Manager 9) "*Another thing that we do is we've got these strategic relationships to fall back on because knowing the rural area there's certain politics at any given time. There are chiefs to contend with, so for us it is a corporate means slaughtering a couple of bulls and the chiefs must see you do these things before they can support you."*

Respondents stated that by forming alliances with non-traditional partners, mutual benefits were derived. These benefits included establishing infrastructure and creating a retail outlet in the name of the company. The bank had created alliances with traditional supermarket retailers that had already established themselves in these low income markets. They leveraged off the retailers infrastructure and found that when consumers visited the retailer, they also had access to the banking services.

Telecoms (Manager 8) *"We also have a big enterprise play and from a Telecoms perspective we are limited in business as usual, the secret is fitment we put our own containers for instance in those areas or we partner very closely with the spaza owners."*

Bank (Manager 10) "...*it is all about leveraging other business infrastructure at the same time where both succeed in business opportunities. With 'Retailer A' and 'Retailer B', they are gaining customers that come in because surely if you are coming in to transact with your 'Bank' bank account you're going to purchase from a retailer especially if they are picking up their grants or salaries so they are benefiting in terms of the footage that is coming into the store and we are benefiting out of infrastructure as opposed to investing in a formal branch.*"

FMCG has established relationships with local entrepreneurs in order to create employment within the community by providing the necessary artefacts to start up a small business, and have the local agents run these businesses for them.

FMCG (Manager 1) *"…with our 'Ice Cream Brand', we have vending businesses where we partnered with local entrepreneurs in a township and we give him a fridge, stock and he will become an 'Ice Cream Brand' shop. He literally sells 'Ice Cream Brand' and he has got five or ten bicycles, we will supply the bicycles and he will employ the people, manage the stock and the cash that creates a small business. It is not a 'FMCG' shop, but it is a dedicated 'FMCG' shop that only sells 'Ice Cream Brand' and all the village people can buy from him."*

Interviewees stated that working collaboratively with other companies also created mutual benefits. Companies that have followed this method indicated that it provided a cost effective means as goods were traded in bundled options increasing scale and volume. Some interviewees stated that by forming alliances, they were able to create product offering for the BoP market and the share the costs for execution.

Beverage A (Manager 4) "…*then you have these wholesalers which are very similar to the distributor but they don't deliver and people come and fetch. Generally those are cheapest in that whole chain because they would get about a five to seven percent discount and they don't mind making a two and a half percent discount and they are bundled. So 'FMCG A' is giving them about ten percent, 'Beverage A' is giving them about five percent and then 'FMCG B' is giving them about twelve percent and what they do is bundle it by giving customers discounts on bundled goods.*"

Bank (Manager 9) "…*for us the journey has been very interesting, that was the stance initially to say we cannot just go after this market and do all of these things. The first stance was to collaborate with a couple of people so we partnered with a 'Financial Services Company A' and we came up with something called the imbizo concept, where each of these companies come in with these very unique products for this market, typically in the rural areas and we go in there and share costs.*"

5.3.5. Investing in technology to gather information

Another void encountered by some companies entering the BoP markets was the lack of information available in the market. The managers who were interviewed stated that they were required to install their own infrastructure in these markets so that they collect information about the consumer trends. By placing technology devices, companies were able to gather information. This type of intellectual property also served as a competitive advantage for their companies.

Telecoms (Manager 8) "…*you say you want to put up a cellphone tower because you need to enable the technology for us to be able to generate income because no tower means no money for us. Once that tower is there we can actually start getting a lot of information from that tower, for instance if we want to know about what the person is doing, what we want to know is what is an area doing, have we built the right tower at the right spot, can it handle the loads coming through from that particular region, do we need to put up a second tower and that kind of information is very valuable if we want a quality core."*

Bank (Manager 10) "*With technology these days, the way that communities are built and society is going all these things are highly possible. I have the tool that actually tells me every micro market that I can go in, it will give me exactly how many people in that micro market, it tells me how many 'Bank' points are present, it tells me how many other banks are present, it tells me the household income of that market and everything about that market."*

By installing technology to gather information, FMCG discovered that the best range of products could be offered to a particular consumer segment or distributor. Although FMCG used a traditional method of gaining insights from the field workers, they were now in a position to validate it with the data collected. Using technology also enabled Beverage A to understand their limitations and which areas required improvement.

FMCG (Manager 2) *"One of the key success factors which we do aggressively is we measure everything so we had to put an infrastructure that can literally track which products are being sold to which type of area in to which type of stores and literally set targets against that to make sure that we are achieving what we expect to achieve. Even from a distributor point of view, aligning their incentives and the route to market with the overall objective that we want to achieve. It's not hit and miss, it's a deliberate strategy."*

FMCG (Manager 2) *"I would probably say ninety percent of our insights are from grass roots and driven bottom up. The amount of time people spend out in the market feeding back better ways of doing things is where we get most of our consumer insights and we are lucky we do have data from the systems that we use in terms of our sales which can be used to back up a certain trend that we are seeing in the market."*

Beverage A (Manager 4) *"By knowing this we are placing more equipment in the trade so we can understand what our limitations are and we are investing more in trade"*

5.3.6 Conclusion to research proposition two

There was strong evidence in support of the alternative strategy that companies are implementing to overcome institutional voids presented by the BoP market. Creating alternative methods for distribution was noted as the most important void to overcome. The challenges faced in accessing the BoP markets where attributed to the lack of/non-existence of physical infrastructure.

Respondents also stated that by using local people to service the BoP also allowed them to gather information to bridge the gap on the absence of quality information. The shortage of established intermediaries in this market was also a factor to creating an alternative strategy.

Forming alliances or partnerships with other companies or non-traditional leaders also emerged as an important theme, which assisted these companies in gaining access to the market and creating their own intermediaries which were otherwise non-existent.

5.4 Results: Research Proposition Three

5.4.1 Introduction

In BoP markets, managers overcome cognitive barriers to close the institutional distance gap through:

- Experiential learning
- Mimetic adoption
- Aligning interests within the organisation

The following table illustrates the number of interviewees and the number of companies who responded:

TABLE 5: Overcoming institutional distance

Factors	No. of interviewees	No. of companies
Experiential learning	10	6
Mimetic adoption	0	0
Aligning interests within the organisation	6	5
Leverage insights from field workers	4	3
Build a diverse team	1	1

Among the interviewing managers, there are two prevalent themes that emerged from the data on bridging the cognitive gap. These are experiential learning, and aligning interests within the organisation among the stakeholders involved in the BoP strategy. The managers were in agreement that a change in their mind-sets was required when working in the BoP market as the challenges were beyond those encountered when serving the developed markets.

FMCG (Manager 1) "*The new KD's* that we have partnered with also is not a Cash and Carry mind set, this is store by store. That is a big mind-set change, KD is about getting to a thousand shops giving each one about three hundred rand's worth of products. If we can get that mind-set right, you can literally see the change, and once the mind-set changes these KD's become sustainable and consistent.*"
(* Key distributors)

5.4.2 Experiential learning

Experiential learning was cited the most number of times when managers were asked to elaborate on bridging the distance between the developed and emerging market strategy. This entailed extensive ground work where senior level executives walked the streets and interviewed consumers, retailers, and business partners in order to better understand the needs of the BoP market. Some interviewees noted that they were mandated to spend a fixed number of hours in the trade visiting outlets and interacting with the market. Interviewees explained that this requirement was incorporated in their annual performance appraisals.

All ten interviewees from the six companies agreed that managers had to experience the market for themselves in order to create strategy and make the execution of it most relevant to this consumer.

FMCG (Manager 2) *"from the core management team who work on KD, we spend most of our time out in the market. We see a lot of stores, I will see in a year a minimum of a hundred stores per KD so I will see a thousand stores personally in a year minimum. When you go out with a sale representative you see twenty stores in a day so on average five days a distributor and a hundred in a year. We get insight from our side of the table trying to sell product in but there is a real gap in terms of people who have to consume the product because none of us live in that market, a lot of the sales team will live in a rural area or township but from a management point of view we are certainly detached and a lot of our decisions are kind of model driven or data driven rather than soft intuition."*

Beverage A (Manager 3) *"Market visits are so important, in talking about entrepreneurship, one of the reasons why small companies are successful is they go out to their customers and ask for their opinions. Going to the market, talking to people, also observing the way people behave and the way people shop leads to success because when the research house tells you something different, you say that can't be right after being to market a hundred times you find that is not how the people behave."*

Beverage B (Manager 5) *"…where in the trade we physically go to these outlets and talk to consumers and we try to figure out why do they like what we do, why do they drink what they drink, what kind of opportunities are there for us. We will then come back and develop the product, what we want it to look like, the budget and then we do another research test and show them our offering. We get their point of view and then we tweak it again and then we* *get to the final launch. I have been in 'Beverage B' for nine years, and five of them were in trade so I know the consumer and I understand the route to market side of it and where everything fits in."*

Beverage A (Manager 4) *"…also as managers of the business you have to spend a lot of time on the ground with these people to understand what is going on. You are challenged every day, you have challenges that will help you make a difference in terms of what you need to do in terms of reaching out to your customers. Yes, we do spend a lot of time on the ground, most necessary not top management but middle management and the teams itself*."

Beverage B (Manager 6) "*Our business is very much a consumer goods industry so no matter what part or what level of the organisation you are in you need to be able to go out and connect with the customer, visit the outlet, see where people are consuming our product, so that for some is part of their day job. Even for someone who has just come into the business, as part of their induction for example you have a new sales person, they will shadow someone else to see where the outlets are and get a manager to coach them as to where their customer, consumers, outlets are in the business. In the same way you also have someone in the central office environment being able to go out"*

5.4.3 Mimetic adoption

The managers interviewed were asked about mimicking other companies who have had success in the BoP markets and taking their learning's and practices to develop their own strategy. Beverage A, who is a multinational renowned globally for excelling in BoP markets stated that by being experts in the field in international markets, it was more around sharpening their strategy for the South African market rather than mimicking other companies. Doing business in the BoP was part of the company's DNA. Their execution strategy for the South African BoP market was a localised version that had worked in similar BoP markets around the world.

Beverage A (Manager 3) *"…since I joined 'Beverage A' that has been the focus and it has never changed. The company was built from selling one bottle, it is cultural and it is built globally everywhere. A lot of companies actually want to know how 'Beverage A' does it but the difference is that it is embedded in what we do. For us it is the way we do business and that's how we built this business.*"

The Telecoms manager also stated that they had used their learnings from Kenya when executing their strategy in South Africa. The manager stated that while they did not mimic other local companies working in this market, they had learnt of their challenges and developed their own approach to overcoming them. The manager from the Bank echoed this approach as well, stating that they derived learnings from other banks that operated in BoP markets and customised it according to their view of the market. The bank wanted to be first to market with its products hence there was no other bank to mimic.

Telecoms (Manager 8) *"…one of the key things is we've got people here is that we've got relationships with a number of different companies. Learning what their challenges are, understanding what our own challenges and visions are.*"

Bank (Manager 10) "*We used best practices as well, there is a bank in India that did the very same thing in going out, so we did a bit on that but more so, it was our own strategy. Over the years you've seen that 'Bank B' and 'Bank C' has come out with something similar but we were out there first in the market to offer this kind of service.*"

5.4.4 Aligning interests within the organisation

Managers agreed that aligning interests among business units was key to successfully executing their BoP strategies. Interviewees had mentioned that the aligning interests within the organisation had to be driven from the top with executive buy-in. Many managers cited that without top management driving the strategy across the organisation, there would be no successful implementation of it. A long term strategy that will not pay off immediately therefore executives needs to drive it with long term intentions to invest.

Bank (Manager 9) *"As segment, part of our responsibility is to ensure that everybody is on par, what that means is that we need to at any given time give people updates on market insights, how things are shifting and what's happening there so that when they sitting at branch, whether they are sitting at risk, whether they are sitting at GT, they have that general knowledge of the market so they do not themselves in their jobs make rash decisions that will hurt this market. We do that on a monthly basis and we've got what we call a steering committee where we've got representatives from all these areas sitting on a Monday where we discuss other things, for example, we going to launch the 'Bank' campaign, what's going on, if we are building a new product and all of those stuff has to be brought into those forums.*"

FMCG (Manager 2) "*The big thing on internal alignment is there has to be executive buy in but cross function at least that everyone is aligned in terms of what you are trying to do. The other things is you have to constantly, especially in the short term, be very clear to the business in terms of what your risks are by going ahead. You will have people in established business who do very significant volume will be nervous about you disrupting their market. It is not easy to influence mainly because from an information point of view a lot of the people who work on the distributor program are kind of isolated so you are talking to people from other teams who don't really understand what it is that you do."*

Bank (Manager 9) "…*the buy-in is very important because without that buy-in nothing is going to happen until some big executive stands up and says you will do this, I'm convinced this is the right way, it's not going to happen. In 2010 the mandate was very clear about what needed to be done and nothing had been done. Part of our success in 2011 was that decree that came from upon high…"*

Beverage A (Manager 3) *"I think that one thing they should be driven from the top, that this is actually what we want to do. They must have a long term intention to invest and they must also understand that investment is not going to pay of tomorrow, it's going to take time and they must resource it accordingly."*

FMCG (Manager 2) "…*With us the real step change came when we got a CEO and a VP for customer who had been in markets who had actually seen distributors be successful. I think the people have to be informed so that they can have the right discussion with their customers but the real energy is driven from the top and a lot of it you can actually see in investment… the number one key success factor executive buy in will obviously bring in resource and focus*."

Some interviewees stated that their BoP market strategy was often confused within the organisation as being part of the company's corporate social responsibility drive. To overcome this cognitive barrier, the manage from Bank explained that they had to ensure that internal stakeholders were aligned on viewing the market for its opportunity and clearing the confusion with its corporate social responsibility strategy.

Bank (Manager 9) *"That's where most people who dabble in this market battle because most people fail to make the business objective link together with the client needs and how those two talk to each other. The higher up the executives and everybody who has been baked into these organisations for a while, whenever you talk mass market or ELB* they* *immediately think CSI. It is your job as the custodian of that market that you paint a very compelling story. You cannot get anyone working in this market that does not have that passion for this market.*"

(* Entry level banking)

5.4.5 Leverage insights from field workers

Interviewees stated that by listening to suggestions and ideas brought forward by field workers who were on the ground servicing the market, they were able to derive great insight into how to tweak their strategy based on actual consumer needs and beliefs.

Beverage B (Manager 4) "*I think also the other form of research or input is actually your sales team. Whatever sales structure you have, you should listen to the sales team because they know a lot as they spend a lot of time, than you as a manager, with the sales and products and you have to listen to the feedback of the sales people. It is also about the ability to take action, fix the things and see how it moves doing a little at a time.*"

FMCG (Manager 2) "*I would probably say ninety percent of our insights are from grass roots and driven bottom up. The amount of time people spend out in the market feeding back better ways of doing things is where we get most of our consumer insights and we are lucky we do have data from the systems that we use in terms of our sales which can be used to back up a certain trend that we are seeing in the market.*"

Bottom-up strategy development was cautioned by some interviewees who stated that the direction of the strategy should be set by top management, who needs to be out in the field talking to the consumers and traders in order to set the direction of the strategy.

Beverage A (Manager 4) "*if you take the input to get that, you have to provide the leadership from a strategic perspective because if you are in a situation every day there is stuff that you don't see because your head is down all the time. There is still a leadership required from a strategic perspective in saying this is how we going to go and sometimes they don't understand, sometimes they don't see it. It's about selling that vision to them and then as you implement it they will give you feedback and then you tweak.*"

5.4.6 Build a diverse team

A very interesting observation was noted among one respondent who stated by having a diverse team, there would be a greater chance of having practical knowledge and sights about the consumer. A team of diverse people would allow for robust debate as team members share their perspectives when working in the BoP market.

Beverage A (Manager 3) "...*one thing that 'Beverage A' believes in is that we need to have a diverse team because the more diverse you are, the more you can bring different perspectives in the team. Internally you have to make sure you have a team that is diverse, that can challenge each other because you can send a company to go and do research and they will send a wave in research houses and they will come back. The trick between successful organisations and those that are not is their ability for the team to understand what this means.*"

The respondent elaborated further stating that when you have a diverse team they can understand and relate to the out of the ordinary behaviours exhibited by the consumer, which would give managers more insight into developing solutions for them.

Beverage A (Manager 3) "*When you have diverse people somebody will understand from a technical perspective. People drink from nine to ten and then from seven to eleven they don't drink anything, as an example. If you don't have the diversity in the team, someone can say that it means the opportunity is that we must sell between seven and ten. If you have the diversity in the team, someone can say the actual reason they don't do this is because culturally people don't do this and in fact the opportunity is here. One thing that I am sure of is in my team, we have the diversity that we need to be able to understand when the agency is talking stuff that doesn't make sense and that would mean that they will not get business from us again.*"

5.4.7 Conclusion to research proposition three

Based on the data obtained, it is noted that managers have acknowledged that cognitive barriers exist when attempting to create a strategy for the lower income consumer. The most common form of relating to this market and bridging the institutional distance gap was through experiential learning. All the managers interviewed agreed that management had to be on the ground, interacting with consumers and informal traders in order to create an optimal solution to providing them access to their products.

There was limited evidence to suggest that the companies mimicked each other when attempting to overcome challenges in the BoP market. It was noted that global best practices were adopted, and learnings were understood which contributed to the unique of strategies among the companies interviewed.

It was observed that companies had a focus on creating alignment across the business when executing their alternative strategy as they had to overcome the cognitive barriers within the organisation and avoid conflict among business units whose strategy may have been altered due to the introduction of a low income market strategy. It is noted that by aligning interests within the organisation and working collaboratively, there is an increased chance of success executing the BoP market strategy.

Another finding that emerged from the interviews was the value of getting insights from field workers and the contribution of their bottom-up insights when creating the strategy. The powerfulness of having diverse team was also cited as a factor that should be considered.

5.5 Conclusion to research results

Broadly speaking, all three research propositions were supported by the data. Companies were driven to enter low income markets predominantly by the opportunity for new growth and to develop new income streams due to current traditional markets maturing. It was also noted that companies were driven to enter BoP markets because developed markets were becoming expensive to service, requiring more investment while the market was reaching maturity. Companies were also driven to the BoP market with the hope of influencing their product reach to the end consumer and due to regulation requirements.

There was evidence noted to support the alternative strategy that companies were implementing to overcome institutional voids encountered in BoP markets. Creating alternative methods for distribution to access the market was noted as the most important factor to overcome, followed by using local resources to service the market and gain quality information to bridge the gap of understanding the consumer. This was noted as an imperative to creating an alternative strategy. Forming alliances or partnerships with other companies or non-traditional leaders also emerged as a theme which assisted these companies in gaining access to the market.

It was also supported from the results that senior managers in these companies acknowledged the cognitive gap in relating to these markets as many of them had not experienced it personally. These senior managers had to find alternative methods to understand the consumer and the market, the most common and effective as cited in the interviews was experiential learning. There was also evidence supporting the need to break the cognitive barriers that resided within the organisation and create alignment among business units. Leveraging insights from field workers and building a diverse team were also noted as methods to overcoming institutional distance.

CHAPTER SIX: DISCUSSIONS OF RESULTS

6.1 Introduction

The previous chapter presented the results from the research process, where three propositions were derived from the literature on entering BoP markets and the challenges encountered when doing so. These propositions were tested through ten interviews with senior management at six multinational companies who are operating in South Africa, majority of whom have had global success in BoP markets around the world. This chapter will discuss the findings in relation to previous research carried out on entering the BoP markets and overcoming the challenges of institutional voids and institutional distance, and how companies have found alternative methods to overcome them.

Each of the three propositions tested was broadly supported by the data, with a few sub themes emerging more strongly than others. The results were matched with the literature cited, and also surfaced new findings providing some contradiction to the literature in selected areas.

The rating scale in the table below was used to determine the strength of the results based on the number respondents who shared the same view. Each of the propositions will be discussed separately below.

TABLE 6: Rating scale

No. of respondents	1	2	3	4	5	6	7	8	9	10
Strength		**WEAK**			**MODERATE**				**STRONG**	

6.2 Discussion of Research Proposition One

Research proposition one focused on the drivers for companies entering the BoP market. The table below lists the drivers that were cited in the literature and supported by the data and also lists the additional drivers that emerged as new findings from the interviews. The themes which emerged strongly are presented in bold and the additional findings are in presented in italics. The number of respondents that cited the drivers is also indicated.

TABLE 7: Drivers for entering the BoP market – literature vs. data

Driver	Literature	Data	No. of Respondents
The opportunity for new growth	Yes	Yes (Strong)	10
The threat of existing markets maturing	Yes	Yes (Strong)	8
Doing good and uplifting the lifestyle of rural communities	Yes	Yes (Moderate)	4
Creating feeder markets and growing with the consumer	Yes	Yes (Moderate)	5
Developed markets are becoming expensive and complex to service	No	Yes (Moderate)	4
Influencing product reach to the end consumer	*No*	*Yes (Moderate)*	*4*
Regulation requirements	*No*	*Yes (Weak)*	*1*

The data was aligned to the literature, as companies pursued this market due to the opportunity for new growth that it presented and the threat of existing markets maturing which required companies to find new income streams. The data also uncovered more complex findings and resulted in secondary drivers which played a role in companies pursuing this market.

The literature on low income markets argues that the BoP represents a major opportunity to create and capture enormous new markets (Prahalad & Hart, 2002; Pitta, Guesalaga, & Marshall, 2008; and Prahalad, 2010). The data concurred with this theory and proved that most companies were entering these markets to capture those consumers who had previously been ignored and did not have access to their products. This concurs with Prahalad & Hart's (2002) contribution that companies have historically failed to capture the fortune at the BoP and now have the potential to service these markets.

The data also concurred with the literature which stated that developed markets are now slowing in growth and reaching a state of maturity. Companies therefore need to identify new markets. This is further supported by Hammond et al. (2007), who argued that the most dominant drivers for entering low income markets was that the BoP represents a major opportunity to create and capture a huge new market. The managers interviewed stated that the growth of their current markets was slowing while growth in their BoP markets was still continuing even though it was of a low base. FMCG Manager 2 explained that in prior years, they had achieved success across most of their categories but in some categories they had reached a ceiling in market share growth. However with their focus on the BoP market using the key distributor route to market model, which was targeted at the BoP consumer, they continued to achieve market share growth and achieve new record levels. The manager stated *"in terms of share in most of our categories we've got records."*

There was also evidence that supported that the purchasing habits of the middle to high income consumers were beginning to flatten out as this segment of the market were focusing on sustaining their current lifestyles. This was echoed by the bank who identified the slowing down in the traditional markets versus the lower end consumer who was now earning an income for the first time and was willing and able to spend money on goods and services for the first time. The bank highlighted the following point *"If you look at it, the middle to higher income market is basically people that have settled in their lives, that don't want to change their bank account, that just want to get rid of debt at this stage. If you look at the new and emerging market there's business opportunities every single day. There's people that want to have that first home, that first vehicle or banking account, that have that good credit record that come into the market."* This view was also supported in the literature by Nakata & Weidner (2011) who stated that the BoP market was representative of the most significant remaining or unaddressed global market with financial resources and willingness to spend on quality goods and services.

While these two drivers mentioned above emerged as the most dominant from the research, many interviewees also cited secondary drivers some of which are also noted in the literature. Some interviewees cited that even though the entry to the BoP market was profit related, their objective to reach this market also incorporated elements of doing good for the communities. Interviewees cited that through sustaining these communities, building trust with them and creating opportunities for employment meant lifting them out of poverty and including them into the economic mainstream where they now had improved purchasing power. This was supported by the literature where Prahalad & Hart (2002) stated that the low income markets represented a major opportunity for multinationals to do good while doing business.

This was clearly highlighted by Beverage B who strongly believes that in low income markets you do well by doing good and was of the view that if you can't see how you are doing good for these communities, you are only exploiting them.

This is also echoed in the response from the bank "'*Bank' is very big in terms of our stakeholders and giving back to the community, we have partnered with community leaders* *and we try to recruit people from the community that understand the community and in that way empowering them to have some kind of loyalty within the bank.*" This is aligned with Prahalad & Hammond's (2002) view that with the growth in job creation there is an increase in the income levels of the consumer which increases the local consumer's purchasing power.

Prahalad & Hammond (2002) proposed a different model and instead of companies giving charity to the poor at the bottom of the pyramid, they could adapt their products, pricing and distribution strategies in order to better serve them. This was the view that FMCG had taken who had a corporate mission of doing good and doing well but at the same time creating opportunities for doing business. It was stated by Manager 2*"…the core of strategy is that we want to improve the communities that we live in but at the same time we want to make money out of those opportunities. We are definitely not the type of company who give a lot of stuff away because it makes us feel good, we want initiatives that have both the community impact and the business impact."*

Another driver that emerged moderately was to create feeder markets and grow with the consumer as their income levels increased. The interviewees provided examples of building relationships with the consumer from the first time they were able to make a purchase. This was supported by Khanna, Palepu & Sinha (2005), who stated that an alternative approach would be to grow and evolve with the consumer as they became more affluent. This was noted based on the response from interviewees at the bank who mentioned that in targeting the BoP market, they had created a new business unit dedicated to entry level banking. This unit was focused on youth and low income market capture the consumer from the first time they had a need for banking. The respondent stated *"entry level banking together with youth serve as a pipeline into our more profitable segments being in the middle market."*

Interviewees stated that it was cheaper and less complex to capture the loyalty of the BoP consumer when this consumer first joins the economic stream through spending on goods and services, rather than when this consumer becomes more established and their needs become sophisticated. Bank Manager 9 stated *"Whereas if you build a pipeline then you have someone to grow with you, you've already taken the knock of bringing him on ten years ago when they were a student or security guard. By the time they are in middle, you just upgrade their promise, for example offering a home loan or a car."*

The other driver which was moderately supported by the data but unsupported by the literature was the increasing costs involved in serving the developed markets and the necessity for having control and influence to reach the end consumer.

Interviewees stated that as the middle to upper market consumer's needs have become complex, it has become expensive to service them. These consumers are now much more settled in their lives, and with improved incomes are now exposed to a wider variety of choice. Traditional sales and marketing solutions are no longer appealing to this market therefore companies need to increase spending to keep these customers loyal. Respondents from the bank cited examples of how it used a text message to convey birthday wishes to connect with customers. The BoP consumers were excited by this initiative while the middle to higher income customers thought this was another sales campaign from the bank. The low income consumer was noted as being less complex and cheaper to service, hence why companies accounted for this factor being a driver to enter the BoP markets.

Interviewees also stated influencing product reach to the end consumer was also a driver for BoP market entry. This was particularly evident among the FMCG and Beverages companies who traditionally sold their products via a wholesaler distribution model. These companies found that they did not have control and influence over the wholesaler in terms of price and movement of their products. As a result, the wholesalers would often engage in bulk buying or buying in bundles to receive trade discounts offered by the manufactures. The wholesaler would then reduce the selling price to the informal trader thereby creating price distortion in the market. This resulted in a challenge for the manufacturers as major retailers and chain stores had retaliated the price distortion. Interviewees stated that if there was additional influence over the wholesaler and informal trader, there would be a degree of control as they would have oversight over the products.

The final driver that emerged for entry into the BoP market was regulation requirements, which was only cited by the bank. The respondent explained that an amendment to the Financial Advisory and Intermediary Services (FAIS) law was passed which required South African banks to focus on the unbanked population which was typically characterised as the BoP consumer. The bank had previously decided not to focus on the BoP market but with the introduction of regulation, there was reinforced importance of the low income consumer within the financial services sector. However, the bank has noted that since entering the BoP, they have been able to create feeder markets as the low income consumer serves as a pipeline to the middle income markets.

6.3 Conclusion to Research Proposition One

In conclusion the data from the study supported the literature most dominantly in identifying the key drivers for market entry as being the opportunity for new growth and the need to find new income streams as the existing developed markets started to mature. However the data also presented a more complex story, as interviewees cited other secondary factors that drove companies to enter the low income market.

The concept of doing good and uplifting the lifestyle of rural communities was also evident as a driver for entry to the BoP market, as cited by Prahalad & Hart's (2002) seminal article which sparked the initial debate and discussion among academics, development institutions, media and companies about entering and doing business in low income markets. Some respondents cited profit related reasons, mission related reasons and a long term strategic view as reasons to enter the market which indicates that the drivers for entry into this market and their need to create an alternative execution strategy is a lot more multi-faceted than previously assumed.

It was noted from the interviews that companies were also driven to enter the BoP markets to influence the product reach to the end consumer and have a degree of control over price and placement of their products. This was a driver that was not discovered in any literature to the researcher's knowledge.

6.4 Discussion of Research Proposition Two

Research proposition two was based on how companies overcome institutional voids in BoP markets. The term institutional void was coined by Khanna & Palepu (1997). They argued that an institutional void was the absence of basic public use infrastructure for example transportation, communication, consumer and demographic information, capital markets, product markets and well established intermediaries (Khanna, Palepu & Sinha, 2005). The broad proposition was narrowed down to overcoming three of the voids cited by Khanna & Palepu (1997). The most common voids uncovered in the literature was the lack of infrastructure, lack of intermediaries and lack of information in these markets. The solution to overcoming these voids are listed in the table below and is concurrent to what many authors are describing as solutions to overcoming the challenges presented in these markets.

The three factors were strongly supported by the data and collected from ten interviewees across the six multinational companies operating in South Africa. Creating an alternative channel for distribution of the product was cited the most and had received the most amount of focus at these companies when creating an alternative execution strategy to reaching this market.

The literature on BoP markets urges firms to see these voids or challenges presented to them as business opportunities (Khanna & Palepu, 2010). The data goes further to state that companies that have invested resources have turned these challenges into opportunity to gain a competitive advantage. The multinational companies interviewed were operating in these low income markets for a short period of time. They were starting to gain traction and based on the key factors listed below, contributed to overcoming the voids and gaining a foot in the door to the BoP market.

The table below lists the three factors that were most important to these companies overcoming institutional voids both in the literature and the data collected. The table also indicates which voids were overcome using these alternative strategies. It highlights which factors were identified in the literature, with the strongest highlighted in bold. Those which emerged from the interviews are highlighted in italics and was not necessarily supported by the literature. The number of respondents that cited the factor is also indicated.

TABLE 8: Overcoming institutional voids – literature vs. data

Factor	Institutional Void	Literature	Data	No. of Respondents
Creating an alternative channel to distribution	Lack of infrastructure	Yes	Yes (Strong)	10
Using local resources to service the BoP market and gain information	Lack of intermediaries & Lack of information	Yes	Yes (Strong)	8
Forming strategic alliances with non-traditional partners	Lack of intermediaries	Yes	Yes (Strong)	8
Investing in technology to gather information	*Lack of information*	*No*	*Yes (Moderate)*	*4*

Respondents commonly cited the lack of infrastructure, particularly transport and distribution infrastructure as the key challenge. This required greater efforts from the respondents in creating an alternative channel for distribution as the traditional channels were not effective in the BoP markets.

Prahalad (2005) stated that companies entering these markets are therefore encouraged to innovate around its distribution process in order to overcome this hurdle and develop alternative routes to market given the lack of formal distribution channels in some markets. Poor distribution infrastructure meant that companies had to build a parallel system from start which required a rethink about distribution models. In the case of Beverage A, creating an alternative channel for distribution gained the company a competitive edge. Sheth (2011) supports the view that access to these markets may very well be critical to marketing success and would be the real differentiator for a company competing in an emerging market.

Chakravarthy & Coughlan (2011) made reference to how Hindustan Unilever Limited (HUL) responded with Project Shakti to the challenges encountered in rural India. Project Shakti was a distribution system developed for the rural villages of India due to there being no distribution outlets in some of the remote parts of India. HUL provided the basic sales and accounting training to woman living in these rural communities who were organised into self-help groups, who then became HUL ambassadors. Project Shakti's role created income for rural woman and empowered them economically to create new markets and generate rural micro-economies.

This is a profound example of how companies are finding innovative ways of overcoming challenges encountered in these markets. HUL had created their own alternative distribution channel, employed local people to work for them as distributors and formed alliances with woman self-help groups to gain access into this market, and at the same time uplift the community by empowering them economically.

Beverage A which had great global success in accessing the low income markets had created a micro distribution model which was owned and operated by local entrepreneurs in rural communities. The micro distributors coordinated the distribution efforts to the small retail outlets and sales agents in the communities. The respondents stated that the challenge of delivering small quantities of product was overcome through establishing mini warehouses. Local distributors where then used for delivery to the informal outlets using smaller vehicles. Beverage A also provided existing distributors with key infrastructure.

Small retailers were also provided with branded refrigerators and were only allowed to have them replenished with Beverage A's product. This kept away competitor products as the retailer preferred the proposition that Beverage A was offering. The success of this model resulted in Beverage A realising reduced transportation costs, efficiency improvements in its supply chain and increased sales.

Interviewees also stated that a focused strategy to access the BoP market is required. Respondents stated that an alternative channel for distribution requires alternative methods of transportation such as using tuk-tuks (auto rickshaws), motorcycles or people literally walking the streets to collect orders and have local distributors with small vehicles deliver it. This strategy would reduce the costs of doing business in these markets. This is aligned to Shah's (2012) view that a distribution strategy is an important element of a marketing policy in which companies need to rethink models for emerging markets and need to redesign their supply chain for this market.

Hens (2012) recognised the success of a major multinational in this market who integrated their BoP activities into its core business by rearranging its organisational structure. The multinational treated this market as any other market it operated in with the aim of creating efficient marketing and distribution channels, providing products that consumers are willing to pay for while maintaining its profit margins. Managers from this multinational were interviewed as part of this study and explained the need to improve distribution and focus on creating alternative channels for distribution to make their products available to this consumer. The managers further explained that stocking product closer to the customer is another way of overcoming the challenge of product availability. This view is also aligned to Anderson & Billou's (2007) view that availability of the product is one of the biggest challenges in serving the BoP market as distribution channels are almost non-existent, which makes the task of delivering product to the consumer a major hurdle to overcome.

Khanna & Palepu (2010) also suggested that some companies are unfamiliar with the local markets and may have insufficient capital or human resources to reorganise their distribution channels. These companies may then have fewer alternatives and be forced to find local distribution partners. This view can be related to Beverage B, who stated that because informal traders were located in rural areas, they were greatly dependent on informal distributors who had smaller trucks and were deliver more frequently as well. Respondents also agreed that the best way to gain access to an 'informal traders' is through the informal distributors.

A finding that emerged, which could not be directly linked to literature was that the small informal trader would be willing to pay extra to have products delivered to their outlets as this ensured that the trader did not have to leave his store to replenish inventory. Two companies, Beverage A and FMCG had concluded that the small informal traders viewed this initiative as a value adding service as it saved the trader time and did not require him/her to close their outlet to replenish inventory. From a company perspective, the added benefit was that the trader would choose to stock the company's product instead of the competitor, as the competitor was not offering the same level of service.

Using local people to service the BoP market and gain information was evident amongst the managers interviewed. Hens (2012) stated that multinationals cannot rely on their existing capabilities acquired through their experience in developed markets and need to focus on developing local capabilities and adapt their structures to optimally share information in BoP activities. This was echoed by the technology company who suggested that companies entering the market had to recruit local people and not take people from within the organisation, but rather from the outside. The manager explained that companies needed to use only local people and stated that if they did not, their chances of success would not be guaranteed. The manager reflected on his personal experience of being an expatriate leading the African BoP strategy and cited the importance of using local resources who lived in these markets and was familiar with the trends in the market. This method was successful for the technology company in executing its BoP strategy.

Berger, Choi & Kim (2011) further supported the argument of using local knowledge and stated that companies need to relook at the value of their local manager's knowledge as not only having operational and market value but also institutional value. The authors claim that these managers have access to local knowledge and local social capital which will afford a more holistic approach to creating and developing strategies in these markets. This was evident in the response from managers at FMCG who stated that about ninety percent of their insights were from grass roots and driven bottom-up. There was a number of locally recruited resources that spent time out in the market feeding back better ways of doing things. The managers stated that that is where they obtained most of their consumer insights from.

Interviewees from Beverage A also attested to this statement and stated that they also recruited local people to service the informal traders so that they could influence the sales through relationships that could easily be developed with the local traders, and at the same time understand what is happening in the store and gather information with regards to purchasing habits and competitor activity.

Vishwanathan & Sridharan (2012) argued that to overcome the short supply of essential skills in the BoP markets, a company should use local resources with extensive market knowledge to build on its adaptive strategies. However respondents from FMCG contradicted this statement by arguing that to succeed in BoP markets, resources do not necessarily have to be local because once a person has walked the streets, they would be able to learn and identify trends and habits quickly. The managers explained that that in many outlying territories, their business partners may not recruit a local resource and may place someone from outside the community. The manager elaborated that after a period of time the new resource would become familiar with the surrounding and be part of the world. Some interviewees also mentioned that with the introduction of foreigners like the Chinese, Somali's and Pakistani's operating as traders in the BoP markets, using local resources may not necessarily be relevant to understand the business model used by these foreigners. In those instances, the mangers cited examples of requiring specialist resources that were familiar with the operating practices of the foreigners.

Interviewees also argued that as much it was important to have local knowledge, it was also important that local resources understood the business processes and acquired a level of business acumen. The managers argued that companies could deploy resources with the required local knowledge but if they did not have basic understanding of the business and sales processes, they would not necessarily do well in the environment.

Some respondents explained the value of forming strong partnerships with the local informal traders, local distributors, other retailers and even other companies in a similar or complementary industry. The respondents stated that for companies operating in these low income markets it was about building an ecosystem and creating synergies amongst their key stakeholders. Through partnering with other companies, the strategy execution costs could be reduced by leveraging infrastructure and working collaboratively. An example was quoted where the bank partnered with existing retailers and supermarkets operating in these markets. This was an advantage for the bank as they did not have to erect formal infrastructure but rather operated from within the store of the retailer. This was also beneficial for the retailer as these consumers had to come into their stores to have access to the bank. Forming strategic alliances and building mutualistic relationships was therefore a key factor.

The literature strongly suggested that in order to access BoP markets effectively it is imperative for companies to collaborate with non-traditional partners and build closer ties with non-government organisations (NGOs) to share knowledge of the market (Prahalad & Hammond (2002). This view was strongly supported by the technology company where the manager stated that, *"By forming strategic alliances and using local agents who may form part of the local woman empowerment groups, community groups, churches or informal settlements one can gain access to these markets quite effectively."*

It was noted in the response from managers at Beverage A, who explained an example when the company did not form alliances with local partners. The manager stated that competitors moved quickly, and got to them first. The competitors started building brand affinity through their new partnerships. As stated by the interviewee, it is therefore important to be first in the market and build strong relationships with local partners. The evidence presented by Webb et al. (2010) indicated that once the gap has been bridged between the local individuals and companies, opportunity creation arises due to co-creation activities between the local individuals and companies. Webb et al. (2010) concludes that companies entering these markets do not discover opportunities but rather creates them through exploiting the ideas gained from their alliances and incorporating their feedback. This iterative process thereby transforms ideas into opportunities.

Rivera-Santos & Rufin (2009) stated that the BoP market was fragmented along geographic distances, ethnic preferences, kinship and religious lines, which required companies to exercise a degree of sensitivity when trying to understand these differences and companies, should be flexible enough to adapt to them. This was reiterated by the managers from the bank who stated that in order to conduct business in certain townships, alliances needed to be formed with traditional leaders before any business could be conducted. In forming these alliances, companies were required to exercise sensitivity, understand and partake in the ritualistic traditions of the communities before being accepted. The manager at the bank conveyed the following episode to illustrate the point of being sensitive to ritualistic traditions and the importance of forming strategic alliances with traditional leaders, *"There are chiefs to contend with, so for us it is a corporate means to slaughtering a couple of bulls and the chiefs must see you do these things before they can support you. In the past we have had issues where we've had people who were not necessarily connected, to put it bluntly, the white people who did not understand what is going on and we almost lost a very key relationship where when slaughtering the cow, one of the executives threw up because it was just so gory for him to accept."* This example illustrates the realities and challenges that are encountered when doing business in the BoP markets.

Using technology to gather information about consumers, distributors and competitors emerged as a moderate theme which was unsupported by literature. It was noted that companies installed their own devices in the informal stores and outlets in order to understand the buying habits of this consumer which enabled them service this customer better.

The manager at the telecommunications company stated that by deploying technology, they were able to gain a competitive advantage over any other industry in this market as they had mobile telephone towers placed in many of the outlying areas which were still not identified by other companies. The towers provided information to improve their business in a specific area. The use of technology to measure compliance and track product movements were also noted in the responses of the managers at the FMCG company.

6.5 Conclusion to Research Proposition Two

In conclusion the evidence presented supports the three factors that companies consider to overcome the challenges presented by institutional voids in the BoP markets. As the literature suggested, these companies identified the opportunity to overcome these challenges and found alternative methods using efficient ways to service the consumers, which for some companies, resulted in reduced operational costs.

The most commonly cited challenge was the lack of infrastructure, in particular the lack of transport and distribution infrastructure which prevented companies from making their products available to the consumers. Therefore these companies attempted to overcome this challenge first when entering the BoP markets. However creating an alternative channel for distribution also meant overcoming the other voids which were lack of intermediaries and absence of quality information. Companies simultaneously created strategic alliances, and used local resources to serve as intermediaries. This provided a source of essential information for them.

A new finding that the researcher had not identified in the literature was that companies were actively installing technology in the low income markets to gather information. The intended benefit of this practice to is to provide the companies with information such as purchasing habits, and product movement that would enable them to better service the BoP consumer.

6.6 Discussion of Research Proposition Three

Research proposition three was based on management cognition and how mangers overcome the institutional distance gap. According to Estrin et al (2009), institutional distance examines the significant knowledge gap between institutional settings of the developed and emerging markets. The author also stated that institutional distance arises due to the difference in beliefs, social norms and values between a company's home country and the host country it is attempting to enter, to participate in the BoP market.

In order to bridge the gap of institutional distance, managers were advised by Dhanaraj & Khanna (2011) to be aware of which institutional voids characterised a situation at a point in time which would allow them to form a mental map of how the new context differs from the business environments they were familiar with, to allow them to adapt their strategy, and form a resultant action plan. Managers were required to change their mental models and break down the stereotypes of BoP markets, from being a problematic area to one of enormous opportunity.

The managers interviewed acknowledged the cognitive barriers that were presented to them when entering this market, in an attempt to execute an alternative strategy. The literature highlighted three solutions to overcoming institutional distance, two of which is also supported by the data. The strongest of the solutions presented was experiential learning which all interviewees agreed to.

The table below summarises which of the elements were cited in the literature and supported by the data. The most dominant ones are highlighted in bold. It also lists the additional elements that emerged as new findings from the interviews, highlighted in italics. The number of respondents that cited the factor is also indicated.

TABLE 9: Overcoming institutional distance – literature vs. data

Factors	Literature	Data	No. of respondents
Experiential learning	Yes	Yes (Strong)	10
Mimetic Adoption	Yes	No (Weak)	0
Aligning interests within the organisation	Yes	Yes (Moderate)	6
Leveraging insights from field workers	*No*	*Yes (Moderate)*	*4*
Build a diverse team	*No*	*Yes (Weak)*	*1*

Simanis & Hart (2009) reflected on the success of Yunus Khan at Grameen Bank, and stated that one of the cornerstones to his success in embedding his project was due to him immersing himself and forming a personal bond with the Bangladeshi rice farmers, who afforded him unique knowledge, insights and perspectives, which led to the co-creation of a profitable, scalable village banking model. This was echoed by interviewees, who agreed that management immersion in this market was a way to succeed. Beverage A (Manager 3) stated *"going to the market, talking to people, also observing the way people behave and the way people shop leads to success because when the research house tells you something different, you say that can't be right after being to market a hundred times you find that is not how the people behave."*

It was noted from the data that managers from Beverage B was proactive in their approach to the BoP markets and continually tweaked their strategy through research, until it suited the consumer. Beverage B (Manager 5) stated *"they will go out to talk to the consumer and try to figure out why exactly they like what they offer, why do they drink what they drink and what kind of opportunities are there for them. They then come back and develop the product and do another research test and show them the offering. They get the consumer point of view and then tweak it again and then they get to the final launch.*"

The two examples quoted above provide support the literature that management immersion in this market is a contributing factor to learn the market and tailor the products to the needs of the consumer. Interviewees stated that the value of senior level buy-in and management endorsement was required in order to successfully implement the strategy. This was aligned to the views of Khanna, Palepu & Sinha (2005); Prahalad (2010); Webb et al. (2010) and Shah (2012) who stated that proactive and pre-emptive adaptation through experiential learning will increase the speed of strategic responses initiated by the companies operating in high velocity industries. Nadkarni & Barr (2008) further suggested that in high velocity industries, top managers actively sought to make sense of their environments by continuously adapting their actions through experimentation and learning strategies.

Estrin et al. (2009) believed that when informal institutional distance is very high, interaction with the local environment and people become critical in order to facilitate learning and acquiring knowledge on tacit norms, and business practices that are embedded in local firms. This was also supported by the response from the manager at the bank who emphasised the importance of talking to the consumer to bridge the cognitive gap. The manager stated that consumers in this market required the human touch and interaction.

This is also supported by Prahalad (2010) who stated the BoP consumer is deeply connected amongst themselves and eager to connect with the global market.

Shah (2012) believed that strategic flexibility is a significantly important factor for the successful pursuit of BoP markets. This flexibility depends on the inherent flexibility of resources and together with the flexibility of the managers when applying these resources to alternative courses of action. The FMCG fully supported flexibility as a key success factor to winning this market and companies needed to be able to react quickly to changes in the market. Many companies retreated from BoP markets as they were unable to integrate their existing business model with local norms, beliefs and values. Establishing an alternative executional strategy for this market requires a mental shift and change in mind set. Dhanaraj & Khanna (2011) stated that managers needed to systematically challenge the status quo and search for alternative models that were persuasive and clear.

The literature highlighted the concept of mimetic adoption when entering these markets in order to overcome cognitive barriers. Greve (1998) described mimetic adoption an important type of strategic change in an environment surrounded by high uncertainty as it allows companies to explore new niches in the market with less risk rather than developing their own market position. The author argued that organisations should use other organisations as points of reference when entering these markets and adopt their market position rather than create their own position in the market. This theory was tested in the interviews.

Based on the responses from the interviewees, these multinationals did not use other companies as points of reference but rather used their own global best practices and localised it in order to effectively build a new strategy. None of the interviewees used other companies as points of references when creating their strategy. Beverage A (Manager 3) stated *"…it is cultural and it is built globally everywhere. A lot of companies actually want to know how 'Beverage A' does it but the difference is that it is embedded in what we do. For us it is the way we do business and that's how we built this business."*

Greve's (1998) theory of companies which are skilled in mimetic adoption may become the first entrant in the new market position as information and knowledge is often difficult to obtain when evaluating a new market position, also did not find support in the data. Interviewees stated that their strategy was to be first to market and their advantage was that they were coming off a global base that had already achieved success in other markets.

The data uncovered that the mind-set change did not have to happen with only the managers working in the business unit supporting the BoP strategy, but rather throughout the organisation. A hurdle for many companies was that the entire business was not aligned to the BoP strategy and therefore when the effects of the executional strategy were felt in the trade, these business units received much retaliation. This therefore halted the executional strategy for some companies as they were required to first achieve full alignment within the organisation before pursuing the execution of the strategy again. This is aligned to literature as Olsen & Boxenbaum (2009) who stated that the execution of BoP projects must be integrated into key areas of the business and should not just be a few people working on these projects.

Interviewees stated that alignment of interests needed to start with a top-down approach and that the strategy had to be driven in the same way. One respondent from FMCG stated that alignment was needed to alleviate nervousness in other business units, *"The big thing on internal alignment is there has to be executive buy in but cross function at least that everyone is aligned in terms of what you are trying to do. The other things is you have to constantly, especially in the short term, be very clear to the business in terms of what your risks are by going ahead. You will have people in established business who do very significant volume will be nervous about you disrupting their market….. It is not easy to influence mainly because from an information point of view a lot of the people who work on the distributor program are kind of isolated so you are talking to people from other teams who don't really understand what it is that you do."*

Houston et al. (2001) stated that managers needed to overcome company inertia. Managers experienced difficulties in changing their mind-sets, criticising and re-evaluating their methods and breaking away from entrenched traditional channel practice. They are now set in their ways and find it difficult to change their mental models when presented with a BoP strategy. The bank also made reference to those managers who are higher up in the organisation and view the BoP market as corporate social responsibility initiative. This is due to a poor communication of information and awareness around the BoP segment.

Olsen & Boxenbaum (2009) argued that other units may find it difficult to overcome the cognitive barrier as they viewed the strategy as unjustified or counterproductive. This then needed to be addressed as it was due to a lack of familiarity with the processes and procedures in attempting to reach the BoP market that may have discouraged key role players in adopting them. The bank had also recognised that this could be a hurdle and therefore implemented processes to ensure that everyone within the organisation was aligned and informed as to how the BoP strategy fits into the business.

Another element to overcoming institutional distance that emerged from the interviews was the value of leveraging insights from field workers. Interviewees stated that you had to listen to the views from your sales team and other team members who are on the ground executing the strategy. Interviewees who claimed that their companies used the insights gained from field workers were able to tweak the strategy so that it became relevant to the consumer. Managers agreed that there was limited information regarding the cultures, norms, beliefs and values of the BoP consumers when initially developing a strategy. However it was through the insights of the field workers that contributed to having robust information.

Another new finding which was only cited by managers from Beverage A was the value of having a diverse team of individuals to bridge the cognitive gap. The managers stated that the team had to include people who lived and are familiar with this market in order to bridge the institutional distance gap. This method proved to be successful for Beverage A, as it meant that insights could be questioned and new ideas generated.

6.7 Conclusion to Research Proposition Three

In conclusion, the data supports two of three of the three solutions to overcoming the cognitive barriers and bridging the institutional distance gap. Experiential learning was predominantly used by all companies to better understand the BoP consumer. There was alignment across all interviewees that companies had to be close to this consumer in order to fully understand them.

Another finding was that there had to be alignment of interests across the business in order to overcome the cognitive barriers that may place other more established business units at risk. The cognitive barriers had to therefore be overcome by all managers across business units and not just those operating in BoP markets. Interviewees agreed that aligning interests started with top management with executive buy-in at all levels.

Mimetic adoption to overcome cognitive barriers was identified in the literature however when it was tested through the interviews, it was found that these companies had not used other companies as reference points to create their strategy. They may take a few learning's from them but otherwise the strategy was developed from within. This was also due to these multinationals having experience in BoP markets around the world, therefore the learning was merely copied from efforts in other countries and tailored to the local market.

Two findings that emerged from the interviews were noted, 1) leveraging insights from field workers, 2) building a diverse team. These findings were not supported by the literature.

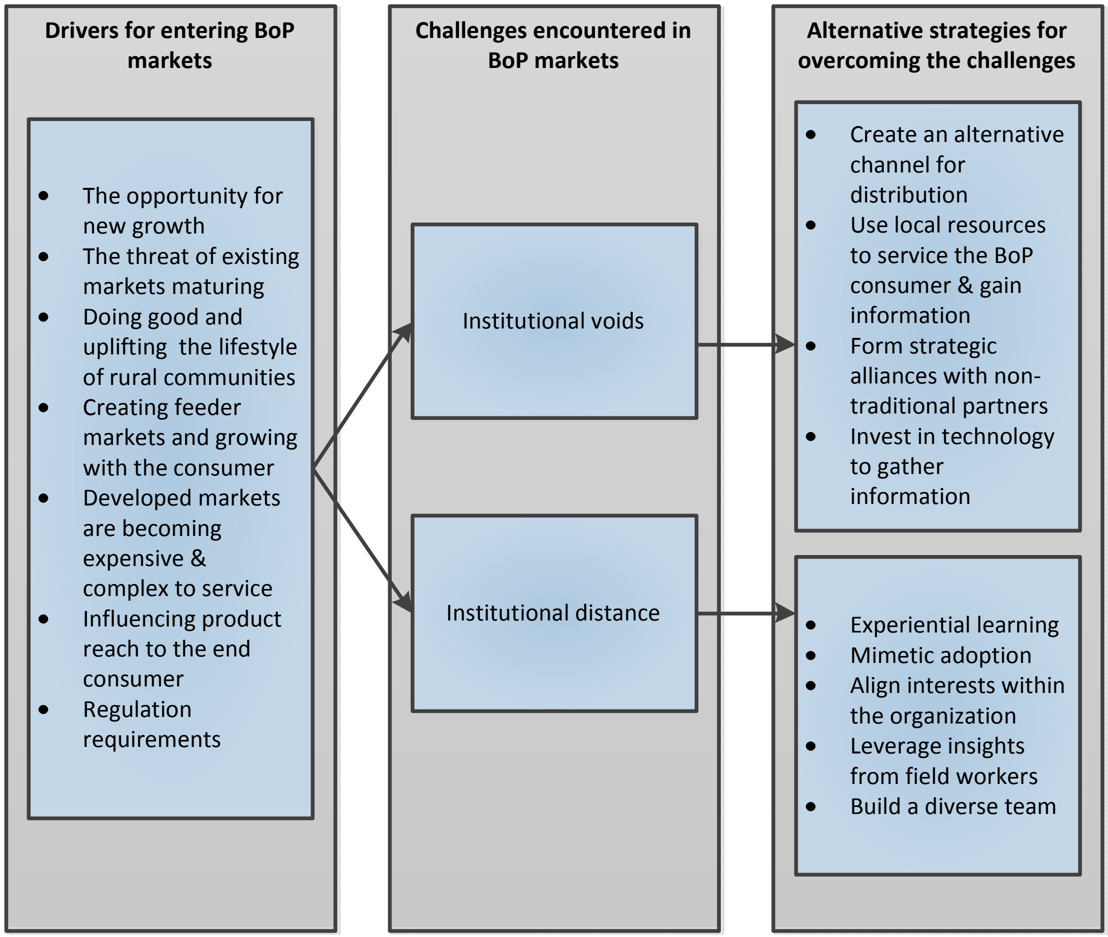
6.8 A descriptive model on alternative execution strategies

A descriptive model was developed in order to synthesise the findings from this exploratory research on how companies approach overcoming the institutional voids and institutional distance when entering BoP markets.

It provides an overview of the process, indicating the drivers for entering the market, and then describes the possible solutions to overcoming the institutional voids and institutional distance gaps, which are commonly encountered by companies when entering these markets for the first time. Managers eager to enter this market can have an overview of the drivers for entry and the challenges encountered in the BoP markets, and how to overcome the challenges.

The model was created by using the best practices and insights of six multinationals who have achieved success in BoP markets, even though many are in the initial stages of the execution strategy. It may prove useful for companies seeking a framework for entering these markets and will provide foresight on how to overcome the challenges presented by these markets. The model includes the elements as described by literature and is supported by the data, as well the new findings that emerged from the research.

FIGURE 2: A descriptive model to overcoming challenges in BoP markets



6.9 Conclusion to discussion on results

In conclusion, each of the three propositions tested was broadly supported by the data, and included a few notable contradictions. The data supported the literature in identifying the opportunity for growth and the need to find new income streams to offset the slower growth in maturing markets, as key drivers for entering these markets. The data also supported the secondary drivers for entry which presented a more complex picture as to why companies enter the BoP markets. Companies concerned with doing good and uplifting the lifestyles of the rural communities was cited in the literature and supported by the data. Another driver which was supported was that of creating feeder markets and which served as a pipeline to new markets. The data also uncovered three new findings: 1) developing markets are becoming expensive and complex to service, 2) influencing product reach to the end consumer, and 3) regulation requirements.

The findings regarding proposition two indicated that companies used innovative ways to overcome institutional voids presented by this market and viewed the challenges as opportunities to gain a competitive advantage in these markets. The institutional voids as presented by Khanna and Palepu (1997) were tested and it emerged that three voids surfaced most dominantly in the South African market which were lack of infrastructure, lack of information and lack of intermediaries. Therefore solutions to overcoming these voids were explored further in the data collection.

Lack of infrastructure was seen as the most prominent void and therefore creating an alternative channel for distribution was noted as a priority for most companies wanting to enter this market. Another finding was that emerged was customers were willing to pay a slightly inflated price or even a delivery fee to have the goods delivered to their door, so that they did not have to leave their store to replenish inventory. This was noted as a value adding activity from these companies that made direct deliveries.

Forming strategic alliances with non-traditional partners was noted as the next solution to overcoming the lack of intermediaries in these markets. This meant that companies had to form strategic partnerships and alliances when creating an alternative strategy for this market. Using local resources to service this market and gain information was used to overcome the lack of information and intermediaries in these markets. A new finding to overcome the lack of information that was not supported by literature was that of using technology to gather information which proved useful in gaining companies a competitive advantage.

Finally the data largely supported the need to overcome management cognitive barriers through bridging the institutional distance gap. All interviewees agreed that management had to be on the ground interacting with these consumers and retailers in order to better understand them. Therefore experiential learning emerged as the most effective solution to overcoming institutional distance. It was also noted that cognitive barriers have to be overcome throughout the organisation and not just within the business unit leading the BoP strategy.

Mimetic adoption was unsupported by the data. Interviewees stated that they did not mimic other companies. This was because the sample included multinationals who already had experienced in international BoP markets, and used their own best practices to create a strategy for the South African market. However the researcher believes that should any smaller companies have been interviewed, they would have used one of these six companies as a reference to creating their own strategy.

A new finding emerged from the data which was, leveraging insights from field workers. This method was used to understand and gain input from field workers in order to tweak the execution strategy and make it relevant for the consumer. Some interviewees also stated that were was value in building a diverse team of individuals when working in the BoP markets. These findings were not supported by the literature.

To conclude and summarise the findings, a descriptive model was presented so managers wanting to enter this market can have an overview of the drivers for entry and the challenges encountered in the BoP markets, and how to overcome them

CHAPTER SEVEN: CONCLUSION

7.1 Introduction

The previous chapter discussed the research findings in the context of the literature on why companies are driven to enter BoP markets, and how to overcome the challenges of institutional voids and institutional distance. This chapter will briefly review the background to the research problem and objectives that were set out at the beginning of the study and will thereafter summarise the key findings, the managerial implications and the limitations of the research. The chapter concludes with recommendations for future research.

7.2 Key findings

Ten in-depth interviews were conducted with senior level managers from six multinational companies to test the propositions which were derived from the literature review.

The results indicated that companies enter the low income markets mainly due to them seeking new growth opportunities since their current developed markets are maturing and reaching a point of stagnation. Other moral, social, and strategic drivers also emerged from the literature. Creating feeder markets and growing with this consumer was a strategic way for companies to build a pipeline of future customers. A new finding that emerged from the data was that companies were driven to enter BoP markets because the developed markets were becoming less expensive and complex to service. Companies were beginning to increase spending on the middle to high income consumers as their needs were changing and becoming complex, while the low income consumer's needs remained less complex, cheaper to service, and more profitable. A second finding that emerged from the data was that companies were driven to enter BoP markets because they wanted increased control of where and to whom their products were being sold to. Companies wanted to influence product reach to the end consumer. A third finding that also emerged from the data was that companies were driven to enter low income markets due to regulatory requirements. This finding was only noted among respondents from the financial services industry.

It was noted from the data and literature that when companies pursue the opportunity in BoP markets, there are unique challenges that need to be overcome such as institutional voids, which is prevalent in this market. These institutional voids were narrowed down to lack of infrastructure, lack of intermediaries and lack of information which was most prevalent in the literature. The study sought to understand how companies overcome these voids. The themes that emerged from the data and supported by the literature were that companies viewed these challenges as opportunities to gain a competitive advantage in this market.

The lack of infrastructure was the most dominant void that companies had to overcome which led them to creating an alternative channel for distribution to make their products easily available to this consumer. Companies also had created strategic alliances with non-traditional partners in order to gain access to the market, and to compensate for the lack of intermediaries and information in this market. Non-traditional partners were closely connected to these markets and therefore offered great insight and assistance on reaching this consumer effectively. The use of local resources to service this market and gain information also emerged as a strong factor to overcome the challenge of lack of quality information and non-existence of intermediaries. The use of local resources was valuable, as companies found that they could relate with this consumer easily and started forming trusted relationships. An additional factor was identified, to overcoming the lack of information in the BoP market. Companies indicated that the use of technology and the installation of devices allowed them the opportunity to gather meaningful information and insights on the BoP consumer’s shopping habits, as well as competitor information which enabled them to tweak their execution strategy accordingly.

The third key theme that the study focused on was that managers were faced with cognitive barriers when operating in BoP markets and found it difficult to make the mental shift and mind-set change from the developed world strategy, to now creating a BoP strategy. All respondents had acknowledged that they had to identify ways to make a major transformation of their mental models when dealing with this low income market. The dominant solution that emerged from the data and supported by the literature was experiential learning. Managers interviewed agreed that immersing themselves in the market, and being on the ground to connect with the consumer, was an effective form of experiential learning. This method allowed the managers to better understand the consumer and the market when developing the alternative strategy for the BoP market.

It was noted in the literature that mimetic adoption was also a method to bridge the cognitive gap. This was tested in the study but was unsupported by the data. Companies did not make reference to mimicking other companies when creating their strategy to enter the BoP markets. The sample consisted of global multinationals who were leaders in this market space and therefore used their own learning’s and best practices to create a strategy for the South African BoP market.

Aligning interests across the organisation was also uncovered in the data and supported by the literature. It was noted that overcoming cognitive barriers had to be driven from an organisational level with executive buy-in from the top. Other managers working in more established business units and markets may become nervous about the BoP strategy disrupting their markets. Their mental models also need to change and they need to view the BoP markets as a new opportunity for growth in the business. Managers also cited the value of leveraging insights from field workers when creating the BoP market execution strategy and the value of building a diverse team, these methods was unsupported by the literature.

A descriptive model to entering BoP markets presented a framework on the drivers identified in this study, of why companies enter the BoP markets, the challenges they may encounter and provides solutions on how to overcome them. This is useful for managers who require insight on the market and provides an overview of how to enter this market successfully using alternative execution strategies to overcome these challenges.

7.3 Managerial implications

The results from all three research propositions provide useful insights for companies wanting to enter the BoP markets or who are currently doing business in this market. The descriptive model illustrated in figure 2 above, provides a useful framework to aid companies to rethink about their approach when entering BoP markets. It describes the key drivers cited by companies, that attracts them to enter these markets, and of the challenges that they encountered. It also provides a means of overcoming the challenges using alternative strategies. The model may assist managers in providing them an overview to frame, direct and articulate their approach to BoP markets.

The initial findings indicate why companies enter the BoP markets, and apart from the most obvious reason of the growth opportunity, there are a number of secondary reasons. This may help companies understand their own motivation for entering these markets and provide insight on the additional benefits BoP markets may have to offer them. Illustrating the key drivers for market entry will ensure that executives and other managers are aligned in their objectives, as it is important that all key decision makers recognise dual or multi-purpose drivers for entry and are able to design their strategy accordingly.

The drivers for market entry may also provide companies with some foresight on why competitors may be entering the BoP markets, and may assist them in understanding their competitor strategy better so that they can react earlier. For example, if their competitors are looking to build relationships in the communities they are operating in through brand activations, which indicate how their products can improve the lives of these consumers, the consumer will automatically become affiliated with that brand. It will thereafter be very difficult to switch them and change their purchasing habits. Companies therefore have foresight into why their competitors are entering the market and can pre-empt disruption to the market and adapt their strategy accordingly.

The second proposition offers companies insight into the institutional voids that are present in these markets and how they can overcome them. These solutions provide a company a strategic advantage in being successful in these markets. These companies need to view these challenges as opportunities for giving them a competitive edge and being first to market with their products. For example the lack of infrastructure which had prompted companies to create their own alternative distribution model is great insight for companies wanting to make their products available to the consumers, but are finding it difficult using traditional methods.

The study also provides managers with understanding the importance of building strategic alliances in order to overcome the lack of intermediaries, as a company can then partner with the local entrepreneurs, distribution centres and even consumers, to gain access to these markets. The use of local people to service and gain insight into these markets also emerged strongly and stressed the importance of local knowledge and retaining such knowledge especially when multinationals are looking at international expansion, into the BoP segment of emerging markets. Placing expatriates from developed worlds into roles in emerging markets that require local knowledge and market intelligence is not advisable and it was highly recommended that multinationals employ from the outside and use local people to service this market.

Overcoming institutional distance and bridging the cognitive gap was an important element highlighted in the study. The research proved that managers experienced difficulties in changing their mind sets, criticising and re-evaluating their methods and breaking away from entrenched traditional channel practice when operating in these markets. The implication of this was that managers had to stay close to the customer, which must be a priority when entering the market. This was emphasised by the need for experiential learning when entering these markets and connecting with these consumers in the environment that they operate in.

And lastly, the need for alignment across the business and among business unit leaders had to be endorsed by top management and executives. The study indicated that managers who failed to create this alignment experienced additional challenges in executing their BoP market strategy.

7.4 Limitations of the research

The findings are limited by the fact that this is a qualitative study and provides a descriptive view of overcoming institutional voids and institutional distance. It provided a view of what was experienced, based on the opinions and information provided by managers working in the BoP segment.

With the nature of the research being qualitative, there are limitations on the ability to infer these findings onto a greater population. The findings describe the particular constructs that were evident in the research however further quantitative analysis may be required to test these constructs. These constructs were not tested against outcomes, nor did it provide a blueprint as to how companies overcome the challenges faced in BoP markets, but rather a description of how it happens.

Another key limitation was that the population was defined as multinational companies having global experience in the BoP markets. This meant that they were using previously developed strategies as a reference to create a localised South African BoP strategy. These companies were not creating one from scratch, as other smaller companies may be doing. Therefore the findings may be described at a high level and may be irrelevant to smaller companies that may be facing less complex issues in the initial stages of entering these markets.

The research is based on a sample of companies that operate globally, however it was the managers driving the local South African BoP strategy that were interviewed. While findings from South Africa may have been useful to other low income markets, a broader sample from different developing countries would have been preferable. Some of these companies were also operating in other global BoP markets over a longer period of time versus South Africa, and therefore interviewing those managers could have gained greater insights into long term sustainable strategy in these markets.

The reliability of the data could have been improved with a greater number of managers interviewed from a broader spectrum of industries to allow cross validation of the findings. A greater diversity in the sample may have aided in being able to generalise the findings across all industries.

A final limitation will be the researcher's bias. Due to exploratory and interview based design of the research, there is risk of personal bias as a result of personal perceptions, assumptions and interpretation. In order to minimise the bias, the interviews followed a guideline to not defer from the key themes and were then transcribed so the researcher could minimise assumptions and refer back to verbatim quotes to support the literature.

7.5 Recommendations for future research

Leading on from the limitations mentioned above are the recommendations for future research. A recommendation would be to extend the scope of the study to include other low income markets, such as India, Philippines and Kenya. Guesalaga & Marshall (2008) highlighted the need for to perform research in the low income domain at a global level. By extending this research to a larger more global sample will allow additional research findings to emerge. For example uncovering, in areas such as India which is more densely populated than South Africa, if door-to-door selling is a more viable option than selling products through informal traders and how would companies create distribution channels to reach those consumers that are further away where any kind of infrastructure is non-existent.

As suggested above, this study was qualitative in nature and focused on building theory, rather than on testing theory. Further research may include a qualitative study to test the models presented in this study. For example, is there any evidence to prove that implementing the solutions to overcome institutional voids and distance leads to a successful BoP execution strategy? Do companies that implement all the solutions experience significant growth over a shorter period of time versus companies that don't?

Future research may also build on the findings to determine the reasons for market entry and if the different drivers for market entry differ in the levels of profitability achieved. For example, does pursuing this market exclusively for the growth opportunity lead to different financial results versus pursuing this market for doing good in communities? It will also be interesting to note which of these drivers offer short term financial benefits and which are offering long term sustainable benefits.

There is also scope for further research on companies that are entering and servicing this market themselves to gain control over pricing and movement of products. This was cited by interviewees as an important aspect in the South African context, as these companies faced a serious threat from wholesalers and foreigners operating in the informal market. It would be interesting to test the impact of these foreign traders on local traders and to determine if they are actually driving out local traders from the BoP markets. Another interesting avenue to explore is the role of government and regulation, and how government can prevent these foreign traders from consuming the local markets.

More opportunities for research are presented with the emergence of how important it is to build an alternative channel for distribution. Researchers can further explore how companies actually build a model to reach this consumer effectively. Future research can also illustrate in more detail, the challenges faced due to the lack of infrastructure, and if companies actually use local intermediaries or collaborate with other companies operating in the same markets to establish an alternative route to market model. The impact of this model can also be tested to see how effective it is, in reaching this consumer and, what the return on investment would be when companies create an alternative channel for distribution.

The other new finding that was not explored in detail which could be a possible topic for further research is how companies use technology to gather information from this market. It would be interesting to note what type of technology is used and how the technology is implemented in areas that do not have basic infrastructure. One could also investigate the data that this technology is accumulating and understand how it gives these companies a competitive advantage.

It would be interesting to note how local companies overcome institutional voids and distances versus the multinationals that were interviewed and to also determine if local companies experience the challenges that multinationals do especially in terms of institutional distance, as local companies will be more familiar with the BoP consumer given that the managers may have lived and worked in these communities before. It will also be useful to uncover how quickly execution of a BoP strategy occurs in a local company that is familiar with the surroundings and in most instances more agile than a huge multinational.

A final area for research will be that of overcoming institutional distance in emerging markets and to test if formal training in virtual settings can have a similar impact to experiential learning. Dhanaraj & Khanna (2011) stated that multimedia is becoming a powerful means of constructing unfamiliar contexts and the use of video clips, audio files augmenting case studies in these markets, and video conferencing can be a platform to challenge ones assumptions of this market. One of the challenges that senior management faces is that as much as they recognise the need for experiential learning, the reality is that they do not have the time to travel and visit every market. Therefore if the environmental setting can be made real for them by other means, what would this medium be and how effective will it be in bridging the institutional distance gap.

7.6 Conclusion

As traditional top of the pyramid markets reach maturity and stagnation, firms are starting to realise the true potential of low income markets. Companies around the world are beginning to realise that catering to the rich domestic market limits their opportunities, their potential and competitive advantage, and are therefore refocusing their efforts on targeting BoP markets. Companies are investigating in this new avenue of growth in an attempt to unlock the collective buying power of the poor, and at the same time sustain these communities, while creating inclusive markets for the future. As much as this market presents enormous opportunity, serving the BoP market successfully comes with its own set of unique challenges.

Due to these markets still developing, there are institutional voids present, such as the lack of infrastructure, lack of information and absence of intermediaries. Companies have started to focus on solutions to overcome these voids. Companies need to therefore relook at their business models, cost structures, resources deployed, distribution strategies, and must develop new offerings designed to meet the specific requirements of servicing the BoP consumer. A change in traditional approaches and preconceived perceptions are required as managers seek to reinvent their mental models and bridge the cognitive gap. Companies that view these challenges as opportunities will be able to leap ahead of competitors and obtain a competitive advantage.

The BoP market is lot more multi-faceted than previously suggested by literature, and continues to be great source of interest to multinational companies seeking to exploit new opportunities, executives wanting a new challenge and business school researchers wanting to contribute to the body of knowledge.

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Appendix 1: Interview Questionnaire

The following questions were proposed to lead and guide the conversation:

Section One: Reasons for entering enter BoP markets

- How is selling to this channel significantly different to selling to the traditional channel?
- Is this segment core to your business strategy or is it secondary?
- Why is the BoP market important for your business?
- Have you achieved growth in this segment?

Section Two: External challenges faced and how do you overcome them?

- What significant changes have you made to your sales strategy when servicing this market?
- What are some of the external challenges in accessing these markets? How do you overcome them?
- Are your products and services able to reach your customer on time? What are some of the challenges faced?
- What have been the success factors in servicing this market effectively?
- Do your sales people need to have specific characteristics to adequately and effectively service this market? What are some of them?
- Do you use local people from this market to assist in selling your products? What are the benefits?
- What are some the partnerships you had to make in order to enter this market?

Section three: Internal challenges faced and how do you overcome them?

- What are some of internal challenges faced
- How is it that familiarise yourself with the habits and purchasing patterns of this consumer in order to execute your strategy better?
- How important is connecting with this consumer face to face?
- Do you adopt any best practices from companies that are also attempting to break into this market or have achieved success in this market?
- Do you receive support from the rest of the business? How do you align your teams?
- Have the rest of the functions that you work closely with, like marketing and supply chain, accepted the importance of servicing this market? Do they have a good understanding of the potential that lies here?

Appendix 2: Consent Form

Consent Form

I am conducting research on the alternative distribution channels used by companies to serve the Bottom of the Pyramid (BoP) market. I am also trying to expand insight into the possible internal challenges faced within organisations when attempting to create an alternative channel to reach this market effectively. Your participation is voluntary and you can withdraw at any time without penalty.

All data that you provide will be kept confidential. The interview should take about 60 minutes of your time and will be structured on a standard set of questions. If you have any concerns, please contact me or my supervisor. Our details are provided below.

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Date: ________________________________

Signature of Researcher: ________________________________

Date: ________________________________