Profit for the Poor

Sustainable Market Development in BOP Markets

Master Thesis in Strategic Marketing
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Abstract

There are 4 billion poor living on 2 dollars or less per day that make up the bottom of the economic pyramid (BOP). If a company calculates their aggregated purchasing power they could be a huge and profitable market.

By studying the roles of the different actors and their pre-conditions in BOP markets the purpose with this thesis is to find out how the private sector can pursue a sustainable market development strategy at the bottom of the economic pyramid and if it really will help to reduce poverty.

By using a qualitative study, this thesis interviews each actor in the Mexican market except the government. Also a resume from a case study presents Unilever’s operations in Indonesia.

The theory suggests that the actors in the markets should create partnerships that lead to a social transformation and improvement in the lives of the poor. Therefore this thesis concentrates on sustainable development the entrepreneurs, government, customers and the private enterprises role in a BOP-strategy.

From the field study it is clear that it exists a huge informal system in Mexico which makes it hard for an efficient market to work. Our interviews with the NGOs shows that they have access to huge networks, work with market-based solutions but are dependant on financial contributions from government and private sector. Both private enterprises show that they are working with both process and product innovations for the BOP-market. For example they both sell small sachets of shampoo that are affordable for the poor and they are also cooperating with local distributors to access all the small supermarkets across the country they are present in.

Essential for pursuing a BOP-strategy is that a company innovates for satisfying a need at a lower cost. They should also work with partners to get the local knowledge that they do not have themselves. The study can not come to a conclusion if the strategy under study will reduce poverty although there is a clear link between sustainability and poverty reduction. The point with sustainability in the consumer markets is that the products and services offered increases the disposable income, the choices, and the self identity of the person living in poverty. Only then can a BOP-strategy develop together with its market, resulting in a sustainable market development strategy, which, when pursued responsibly can lead to a triple-win situation for the poor, private enterprises and the environment.
# Index

Figure 3

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Introduction</td>
<td>2</td>
</tr>
<tr>
<td>1.1 A different approach</td>
<td>2</td>
</tr>
<tr>
<td>1.1.1 Problem</td>
<td>4</td>
</tr>
<tr>
<td>1.1.2 Purpose</td>
<td>4</td>
</tr>
<tr>
<td>1.1.3 Definition of terms</td>
<td>4</td>
</tr>
<tr>
<td>1.1.4 Delimitations</td>
<td>5</td>
</tr>
<tr>
<td>2 Method</td>
<td>6</td>
</tr>
<tr>
<td>2.1 Choice of subject</td>
<td>6</td>
</tr>
<tr>
<td>2.2 Research approach</td>
<td>6</td>
</tr>
<tr>
<td>2.3 Literature study</td>
<td>7</td>
</tr>
<tr>
<td>2.4 Empirical study</td>
<td>7</td>
</tr>
<tr>
<td>2.5 Analysis of Data</td>
<td>8</td>
</tr>
<tr>
<td>2.6 Critique of sources</td>
<td>8</td>
</tr>
<tr>
<td>3 The market framework</td>
<td>11</td>
</tr>
<tr>
<td>3.1 Growth and development</td>
<td>11</td>
</tr>
<tr>
<td>3.1.1 Sustainable Development</td>
<td>13</td>
</tr>
<tr>
<td>3.2 The Entrepreneurs</td>
<td>14</td>
</tr>
<tr>
<td>3.3 The Customers</td>
<td>14</td>
</tr>
<tr>
<td>3.4 The Government</td>
<td>16</td>
</tr>
<tr>
<td>3.5 Private enterprises</td>
<td>17</td>
</tr>
<tr>
<td>3.6 NGOs</td>
<td>19</td>
</tr>
<tr>
<td>3.7 Market Innovations</td>
<td>19</td>
</tr>
<tr>
<td>3.8 Framework Analysis</td>
<td>21</td>
</tr>
<tr>
<td>4 Empirical findings</td>
<td>23</td>
</tr>
<tr>
<td>4.1 Current situation in Mexico</td>
<td>23</td>
</tr>
<tr>
<td>4.2 The Entrepreneurs</td>
<td>24</td>
</tr>
<tr>
<td>4.3 The Customer</td>
<td>25</td>
</tr>
<tr>
<td>4.4 The NGOs</td>
<td>27</td>
</tr>
<tr>
<td>4.4.1 Renamur (Red Nacional de Mujeres Rurales)</td>
<td>27</td>
</tr>
<tr>
<td>4.4.2 Mundo Unitatis</td>
<td>28</td>
</tr>
<tr>
<td>4.5 Procter and Gamble in Mexico</td>
<td>29</td>
</tr>
<tr>
<td>4.6 Case Study: Unilever in Indonesia</td>
<td>31</td>
</tr>
<tr>
<td>4.6.1 About Oxfam</td>
<td>31</td>
</tr>
<tr>
<td>4.6.2 About Unilever</td>
<td>31</td>
</tr>
<tr>
<td>4.6.3 Unilever’s impact throughout the value chain</td>
<td>31</td>
</tr>
<tr>
<td>4.6.4 Unilever’s interaction with the BOP-consumer</td>
<td>32</td>
</tr>
<tr>
<td>5 Analysis</td>
<td>34</td>
</tr>
<tr>
<td>6 Conclusion</td>
<td>37</td>
</tr>
<tr>
<td>7 Thoughts and reflections</td>
<td>38</td>
</tr>
</tbody>
</table>
Introduction

**Figure**

Figure 1 The Economic Pyramid (Prahalad, 2005) ........................................ 3
Figure 2 Framework model. (Prahalad, 2005, p. 2) ....................................... 11
Figure 3 Product/Market growth grid (Ansoff, 1979) ..................................... 12
Figure 4 Components of TGC. (Prahalad, 2005, p. 84) ................................. 17
Figure 5 The “$100 Laptop” (MIT Media Lab, 2005) ..................................... 20
Figure 6 Extended framework model ............................................................. 22

Table 1 Price Premium (Prahalad, 2005. p. 11) ........................................... 15

**Appendix**

1) Questionnaire Entrepreneurs
2) Questionnaire Private Enterprise (Procter & Gamble)
3) Questionnaire NGO
4) Questionnaire Customer
1 Introduction

In this chapter we give the reader an introduction to the subject and discuss the purpose of this thesis.

1.1 A different approach

"There are many positive ways for business to make a difference in the lives of the poor- not through philanthropy, though that is also very important, but through initiatives that, over time, will help to build new markets."

Kofi A. Annan, United Nations Secretary-General

Some argue that the third world debt is the number one cause for poverty since the interests paid on the loans takes away money from people at the bottom level keeping them in a poverty trap (Hertz, 2004). From a humanitarian view it is hard to argue against the positive effects from a debt reduction. However in the long run it is hardly an alternative since it does not generate a secured future income. An article in Svenska Dagbladet (2005-09-28) strongly criticizes this poverty alleviation since it is just a short term solution and has no suggestions for workable reforms.

Former senior adviser at the World Bank, William Easterly (2002) argues that there are as many solutions for development as there are reasons for why countries are poor. Many theories look at one issue at a time and reach to the conclusion that a mix of these issues is the best. In the end, growth is the main cure for development, but nobody has figured out how to establish a sustained growth (Easterly, 2002).

From this belief in growth as a cure, IMF and the World Bank has for many years given loans and aid to countries given that they follow certain guidelines such as The Washington Consensus, guidelines that western economies has successfully used for years (Stiglitz, 2002). These guidelines include among others privatization, decreased public spending and free trade agreements. However well these programs for development have been intended they have not worked. Instead they have fuelled the increased misbelieve in globalization.

Globalization in its essence is something good, countries doing what it does best working together. For several reasons this has not worked out and there is a constant skew towards the richer countries in terms of benefits (Stiglitz, 2002).

Easterly (2002) further argues that humans respond to incentives. Without creating the right incentives no forms of development will work. This thought mainly concerned the incentives towards the poor people to act in favour of their own development.

If we use the same line of reasoning but apply it on incentives for the ones that have the resources to actually make a difference we can find the root of the mediocre results in terms of development. Of all incentives one may have to engage in development issues e.g. self-fulfilment, responsibility, empathy etc. Profit is the only true incentive that can support itself over an infinite period of time. This is because as long as there is an economical gain for engaging in development issues, it will be self-sustained. No other of the incentives has that possibility. To solve this dilemma we need to engage companies in businesses at the
bottom level as well as for the poor to be treated as equals with the right to choose and rule over their lives.

C.K Prahalad, professor in corporate strategy at the University of Michigan Business School and founder of the term core competence, was the first to touch upon this business approach towards the poor in his article “Serving the world's poor profitably” (2002). In his book “The Fortune at the Bottom of the Pyramid” (2005) he presents his research that see the billions of poor at the Bottom of the Economic Pyramid (BOP) as many customers creating a large market. Here companies satisfy needs with better products at lower prices. In the long run this will free resources for the poor and give them the opportunity of choice. These customers can also take the form as distributors or individual entrepreneurs that are a part of the market. With this mindset Prahalad (2005) believes a profitable business strategy could work as a solution towards sustainable development.

In the Autumn of 2005 respected business magazine The Economist presented a large survey on microfinance that showed that many western banks were already giving loans to millions of poor at a the same interest rate as developed countries. The banks made a small profit and the people receiving the loans could start investing in their businesses.

In an article in The Times (2005-12-10), Patrick Cescau, Unilever's chief executive, say that the poor are the company's future, “In purchasing power terms, developing and emerging markets are already bigger. Every company sees it and everyone is going there.”

Financial Times also had two articles (2005-11-15, 2005-11-16) describing Procter & Gamble's move from serving 8% of Chinese population towards creating a diaper that attracted the majority of poor Chinese mothers that use rags to protect their children.

Figure 1 The Economic Pyramid (Prahalad, 2005)

“Like the tip of an iceberg, the opportunity remains invisible to the corporate world. We have to stop thinking of the poor as a problem and instead see them as an opportunity”. (Prahalad, 2005, p. 13)
1.1.1 Problem
From this introduction we see that the belief in business strategies towards the poor is on the agenda of both researchers and large companies. It can be argued that that task to help the poor is something for each country’s government or aid agencies. But what happens if they do not have the willingness or resources? Is it then possible for the private sector to engage in business that gives them a profit and at the same time helps the development in a sustainable fashion by reducing poverty? How can this be done and what are the core characteristics of such a strategy? These are the questions that drive our thesis forward and therefore make up our purpose.

1.1.2 Purpose
By studying the roles of the different actors and their pre-conditions in BOP markets the purpose with this thesis is to find out how the private enterprise can pursue a sustainable market development strategy at the bottom of the economic pyramid and if it really will help to reduce poverty.

1.1.3 Definition of terms
With development we mean economical and personal gain that includes a person’s freedom to choose and rule over their own lives.

In this thesis we will use the term emerging economies as a substitute for developing economies, and emerging countries instead of developing countries. These terms that we will use refer to countries and economies in the periphery of traditional financial markets that attracts the majority of capital investments. These terms were created by the World Bank in order to attract foreign capital to these peripheral countries and thereby set the direction of investments as a cure for growth (Gwynne; Klak; Shaw, 2003). Although this did not work out, the terms will be used in this thesis since it focuses on the future capacity of a country or market.

The term BOP (Bottom of the Pyramid) was first used by Prahalad and Hammond (2002) and refers to the around 4 billion people at the bottom of the economic pyramid with a purchasing power of USD 1500 per year or less. BOP markets, BOP customers and BOP entrepreneurs thus refer to phenomenon’s at the BOP.

With private enterprises we refer to multinational companies, foreign or local, who engage in business across countries and have the access to the knowledge and capital needed for pursuing a global market development strategy.

With entrepreneurs we mean businesses that are of small or medium size and operate within a limited geographical area.

With government we refer to the public sector and legal institutions that operate the formal market system within a country or region.

The term NGO refers to Non-Governmental Organisations which task is to help development of societies without having a goal of profit. This term will be used collectively for civil society organisations and aid agencies.

The term development and aid agency are the same as the definition of NGO above.
The classic definition of sustainable development have been that of: Meeting the needs of the present without compromising the ability of future generations to meet their own needs. In this thesis the definition set by the government of the United Kingdom will be used: Sustainable development is about ensuring a better quality of life for everyone, now and for generations to come. This term has become widely accepted and sees sustainable development as more holistic concept that needs integration of economic growth, social equity and environment (WBCSD, 2001).

1.1.4 Delimitations
This thesis will not touch upon the concept of Corporate Social Responsibility (CSR) since it by definition deals with corporate philanthropy and charity and not profit. However the concept of CSR are moving towards more sustainable solutions of charity that goes in line with the corporations main goals and strategies and will hopefully one day merge completely with a corporations main purpose of doing business.

Further there will be no deeper presentation of the concept of microfinance and how it works. Microfinance has from being a tool to rebuild nations after natural disasters, moved to being the poors’ equivalent of a bank and therefore helped them to get access to capital for starting their own business.

Intellectual Property Rights is also a huge subject which will only be shortly presented in this thesis. The reason for this is that it lies in the hands of each country’s government to take measures in ensuring each citizen right to land and the legal right to convert that land into capital.
2 Method

In this chapter we will discuss theories of method and how we have used of them. The chapter begins with an introduction to why we choose this subject. A description on different method theories will also be discussed and finally the criticism of sources.

The term method aims to explain, according to Taylor & Bogdan (1984), how researchers are searching for answers for their specific problems.

2.1 Choice of subject

The interest towards emerging markets was born after we studied a course in special aspects of strategic marketing where the topic was brought up. Later we saw that also The Harvard Business School offers course for BOP market strategies. Corporations are always looking for new markets to sustain their future growth. This new market opportunity is not only huge; it also the ability to increase the development of the poor countries and also fight poverty while bringing a profit for the companies involved.

2.2 Research approach

In method theory the different methods of qualitative and quantitative studies are often discussed.

The primary purpose of using qualitative methods is to understand and draw conclusions when you have data that is hard to quantify. These forms of data can be things such as values, feelings and people’s perception of the reality (Hult, 2003). The data is collected through interactions with research subjects as well as through observations.

When using quantitative methods the researchers collects data that can be quantified and analyzed with statistical tools (Hult, 2003). It is important that the researchers posses the relevant expertise to use quantitative methods. They must know how to design research instrument, such as a regression model, to gather data. By using this research instrument the researcher’s objective is to either confirm or reject a hypothesis of any relationships between pre-decided variables. This will lead to a wider understanding of a phenomenon that can be generalized (Hult, 2003).

In short it is possible to say that the two methods differ in collection and analysing of the data. A quantitative method focus on statistical procedures to point out relations between variables (Morse & Richards, 2002) and a qualitative method is research that brings forth descriptive data (Taylor & Bogdan, 1984).

Rist (1977) argues that qualitative method is a way to get closer to the reality and not like the quantitative approach which only is a set of methods for collecting data. Rist (1977) further argues that qualitative research creates conceptions, insight and understanding, in other words, the research is inductive. The researchers create an overall picture because they are not bound to individual variables and might see things as a whole. This concept also means that all perspectives are seen and that all perspectives can be of value for the study. Finally, a qualitative study gives the researcher more flexibility in how the study is designed and implemented.
Method

Williamson (2000) interprets qualitative methods as data collection in interviews and observations. Quantitative methods are better suited to prove if a theory holds with the help of statistical tools on collected data and qualitative methods are better to study and create understanding for phenomenon on collected information.

Morse and Richard (2002) present two main reasons to choose qualitative methods, it fulfils the purpose of the study, and that the type of information gathered demands it.

We have chosen the qualitative method in line with Morse and Richards (2002) reasons above. We think that there are no right or wrong or an absolute truth in our study which is what a quantitative method researches. We further believe that the empirical research will deal with a lot of trains of thoughts which will be hard to define in numbers. We will use a qualitative method to create an overall picture on how the situation is and how it might be developed.

According to Bryman (2000), qualitative research involves the use of qualitative data. It can be collected by one of following three types of research methods:

- Participant observation – Primary data is collected by the researchers through observations of individuals in their normal environment. The researchers also listen to people’s interaction with each other.

- Interviews – Conversation with a purpose and a template.

- Documents – Secondary data that is relevant for the study is collected and re-searched.

2.3 Literature study

In choice of literature we have concentrated on accepted theories and literature to avoid a low credibility in the theoretical framework. The search for information started with a study of the literature that concluded the theories or gave us basic information to be able to create a fundamental knowledge about the topic and to be able to find literature that would help us get deeper knowledge about the topic. A lot of the literature we have been reading was only to deepen our knowledge and has not been used in the creation of the thesis; this literature has not been shown in the reference list.

The literature that has been used is mainly from the library on the University of Jönköping. Literature has also been taken from other libraries in Sweden and to some extent from the library on ITESM Mexico City Campus.

We have also used the internet to create a wider perspective on the matter. We have for example read a lot of reports from The World Business Council for Sustainable Development (WBCSD). WBCSD is a coalition with 175 international corporations that are exploring the possibilities for companies to be part of sustainable development in emerging markets.

2.4 Empirical study

The empirical study was done in Mexico due to their progress in seeing the BOP market as a market for development.
With our empirical study we have tried to create a picture of reality within the market framework presented in this thesis.

For the private enterprise we have chosen to interview the responsible person for the BOP market at Procter & Gamble in Mexico using a questionnaire.

In order to describe the role of the Government we taken part of a classified document intended for foreign embassy use, which describes the non-official situation of Mexico.

The entrepreneurs situation and role is described using a questionnaire and through a participation observation. The entrepreneur we are interviewing is a wholesaler in the plastic market in the Mexico City area and delivers plastic containers to small retail shops.

The role of the NGO is described through an interview with the coordinator of La red de Mujeres (Net of Women), which is a non-profit organization working to increase the welfare among rural Indian women in Mexico.

To widen our approach in the possibilities of the BOP market we decided to use a case study made by Oxfam GB and Unilever in Indonesia. The case study is exploring the links between international business and poverty reduction. A case study is according to Yin (2003) a study where you isolate a specific phenomenon to get a deeper understanding. Bell (1993) claims that the case study helps the author to find the specific factors which influences the phenomenon studied. Since we have not done the study our self we have to deal with secondary data where the researchers have had different intentions than the researcher. Primary data is by definition collected by the researcher him/her self with the purpose to illustrate a specific problem. The use of both primary and secondary data is often strength since they supplement each other. Different data will support each other and thereby strengthen the final result (Jacobsen, 2003).

2.5 Analysis of Data

After the collection of data was finished, both empirical and theoretical, we had to analyze and interpret the data. We wanted to compare data from the empirical study with suitable literature. Esaiasson, Gilljam, Oscarsson and Wängnerud (2002) picture this process as to do a jigsaw puzzle. This puzzle is very simple and is based on two steps which simplify the analysis. The first step is to summarize the material. Right after the interviews they are summarized so that no mistakes could occur and the material can be wrongly interpreted. The literature was summarized in the theoretical framework.

The second step in Esaiasson et al. (2002) method of analysis is to find patterns and similarities between the theoretical framework and the empirical study. It is also important to try to find facts that occur in one of the framework but not the other. We are looking for similarities and differences between the two frameworks.

2.6 Critique of sources

It is important that the information collected is correct and credible. Therefore, the criticism of sources is an important part of the thesis. According to Esaiasson et al. (2002) the criticism of sources is the foremost weapon in the fight against incorrectness. This criticism is a collection of method rules that are used to evaluate the value of degree of truth and credibility. Esaiasson et al. (2002) mention four rules that are useful for the criticism of the
Method

data. These rules are; authenticity, independence, simultaneity and tendency. These con-
cepts will be explained one by one and then applied on the thesis as such.

Some parts of this chapter were written before the study was conducted and other parts
were written after the study so we had the possibility to reflect upon the outcome of the
study also in the critique of sources.

1. Authenticity means whether the information is authentic or not. I.e. if the literature
is written by claimed writer, or if the subject of an interview is the person he or she
claim to be. Authenticity is a relatively easy rule to obey. We have used published
material and interviewed persons that are actively involved in the market frame-
work and therefore also a part of the development of BOP-markets, so we believe
our thesis has a high level of authenticity.

2. Independence determines if the information is independent and that it does not
have any adjustments of the truth. This means how far from the main source our
source is, or how much the information is influenced by the person giving the in-
formation. The further away from the main source the information is collected, or
how much the information is influenced by the teller, the bigger the risk that the
end result will lie further away from the truth. Simply put, the independence is a
tool for measuring the level of truth in the thesis. To maintain a solid level of truth
we have decided to use only well known sources on the internet, since internet is
the hardest medium to assign a truth-level to. It can be argued that the internet da-
tabase WBCSD is a weaker source since they represent a group of multinational
corporations and maybe do not focus on the drawbacks of sustainable develop-
ment. We are aware of this and will therefore have a somewhat critical view on
what they argue and will not use their findings as an absolute truth. The authors of
the literature we have been reading are all well known and respected authors in
their area. We have further tried to examine the reliability of the authors in those
cases he/she has not been known to us. The interviewee for our empirical study are
all currently active indirect or direct in different areas of the development of the
emerging market in Mexico. We will try to focus on the current situation to avoid
the fact that the interviewed can unintentionally make up a different truth if the
event happened a long time ago.

3. Simultaneity is the rule that deal with how contemporary the information is. I.e.
how long time after the event is the information written down? The credibility of
the information is generally better the sooner it is documented. We decided to put
the interviews on paper straight after the interviews to make sure that we did not
mix up the different interviews with each other. One interview was fully docu-
mented before the next one started to further avoid mix ups. We also recorded all
of our interviews to make sure that we did not forget any points of the interview.
We further tried to make our simultaneity valid also in the design of our theoretical
framework. We believe it is important to work with literature which is published
during the last years if it is possible, especially since we deal topic that has been
poorly studied historically. There are several more good examples of corporations
aiming towards the BOP markets in the later studies than the older studies. The
later studies are also more in harmony with our current values and knowledge.
When we deal with older theories we have made sure that they are still valid and
have not been proved the contrary in later studies. We are convinced that our study
has a high level of simultaneity since we have done the study during a relatively
Method

short period and that left no space for delays between the events and the documentation of them.

4. Tendency is a tool to make a critical examination of the known influence of the information made by the researcher, or whether it is in the researcher’s interest to give a distorted view of the information. I.e. when a politician, criminal or a business leader gives their opinion about something it has to be kept in mind that their declaration is coloured by their own values or interests which will interfere with the real truth. If we apply this rule on the interviewed subjects we can not find any good incentive for them to give us false information in their own interest. The interviewees have probably given us the information as truthful as they know. They could possibly change their story just so that we would think better of their company or organisation. We always tried to get more than one source of the information given to us to make sure the tendency was kept on a high level.

Another thing that is important to scrutinize is the choice of method. We are of the opinion that this study was not suitable for a quantitative method because of, as stated before, the difficulty of explaining our study in plain numbers. We also wanted to be able to listen to the individual thoughts people we interviewed had about our topic and if there where big differences in their way of seeing things.
3 The market framework

In this framework we will present how the market looks like and its actors. This framework will work as the basis for our field study and analysis.

In order to investigate how a company can engage in the BOP market it is important to look at all the actors within the market. Together these actors make up the market framework that will be used as the structure for the frame of reference.

![Figure 2 Framework model](image)

Figure 2 Framework model. (Prahalad, 2005, p. 2)

Figure 2 shows this framework in which a market development strategy could be present. With the model, Prahalad (2005) want to make it obvious that a company not single handily can execute a business strategy within the BOP market without help from other parties. By working together in partnerships they take advantage of each others strengths in order to reach their own goals and at the same time increase economic development and social transformation. Prahalad (2005) suggests that each country and market will have different power balance and conditions for cooperation between the actors in the framework, but none the less they all exist in various forms. The people at the BOP market are in this model called BOP consumers and BOP entrepreneurs since they can take both forms, simultaneously. Improving these framework conditions and building inclusive markets, represent a broad societal challenge that requires cooperation among business, governments, NGOs, consumers, and citizens (Prahalad, 2005). Below we will see each actor’s role and their interrelatedness to each other. In the end of this chapter we will analyse the importance of the different actors and see if this framework can be described differently. We will first have a look on fundamental theories of growth and development.

3.1 Growth and development

As the purpose of this thesis states, we are investigating how a sustainable market development strategy can be pursued. In order to fulfil this purpose we have look at what makes up such a strategy. Starting with the term market development we can from figure 1 see that this happen when a company enters new market with existing products (Ansoff, 1979). It is important for the reader to understand the different ways of growth to be able to understand the opportunities the BOP-markets can give. The figure shows market penetra-
Market penetration, market development, product development and diversification. The concepts will be further explained in the following text.

- **Market Penetration.** It is based on the idea of selling more of the same products or services in current markets. These strategies normally try to change incidental clients to regular clients, and regular client into heavy clients. Typical systems are volume discounts, bonus cards and CRM (Customer Relationship Management). This strategy is normally focused on achieving economies of scale through more efficient manufacturing, more efficient distribution, more purchasing power or overhead sharing through merging. It is most common in mature markets where the prices have settled so it is unattractive for competitors (Ansoff, 1979). Example: The bonus cards that ICA and COOP give to their customers, where large purchases are rewarded with discounts on some products.

- **Market Development** is the name given to the growth strategy where the business seeks to sell more of the same products or services in new markets. These strategies often try to attract customers away from competitors, introduce existing products in foreign markets or introduce new brand names in a market. New markets can be geographic or functional, such as when the same product is sold for other purposes. This is the strategy of the BOP-theory that will be explored. It is normally not exactly the same products in the BOP market as in the developed markets but only smaller modifications of the products are made so they suit the BOP market better in pricing and characteristics. When pursuing this strategy a company has to ready to teach the customers how and why they should use the product but also create the capacity to consume by improving market conditions (Ansoff, 1979). Example: Lucozade was first marketed for sick children and then rebranded to target athletes.

- **Product Development** is similar to market penetration apart from the fact that the idea is to sell new products to the current market. These products or services are

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Figure 3 Product/Market growth grid (Ansoff, 1979)
The market framework

frequently accessories, add-ons, or completely new products. The same communication channels are often used as for the known products (Ansoff, 1979). Example: McDonalds is always within the fast-food industry, but frequently markets new burgers.

- **Diversification** has the purpose of selling new products or services in new markets. These strategies are the most risky type of strategies because the business is moving onto markets in which it has little or no experience. For a business to adopt a diversification strategy it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks. On the other hand diversification strategies also can decrease risk, because a large corporation can spread certain risks if it operates on more than one market (Ansoff, 1979). Example: Virgin Cola, Virgin Megastores, Virgin Airlines, Virgin Telecommunications are examples of new products created by the Virgin Group of UK, to leverage the Virgin brand. This resulted in the company entering new markets where it had no presence before.

### 3.1.1 Sustainable Development

When people hear the term sustainable development they think of purely environmental issues and pollution. But the term has also to do with engaging people in fair market arrangements. In a report, The World Business Council for Sustainable Development (WBCSD) brings up seven keys that explain how a market-based approach can encourage sustainability.

The first key is to innovate, both technological as well as social in order to use resources more efficiently and improve quality of life. An innovation process should be done openly so that it captures the public interest and thereby can lead to feedback from the society. By practice eco-efficiency a company pursues a management strategy that combines environmental and economic performance. Basically its is about creating more value for the customer and company with less impact on the environment by using more efficient production processes. The main goal with such as strategy is to grow the business qualitatively instead of purely quantitatively.

Key number three is to move from a stakeholder dialogue to partnerships for progress. This means a company should move from only having a dialogue with stakeholders in the society to actually start acting together with the purpose of sustainable development. If done correctly these partnerships can offer companies, government and civil society new solutions to problems that they all have in common.

The fourth key to sustainability within the market is to provide and inform consumer choice. Consumer choices allow people to decide how they best want to spend their money to increase their quality of life. If a company helps to create a consumer culture that promotes sustainable behaviour it can lead to a triple-win situation where consumers get an improved quality of life, impacts on the nature and society are decreased and finally the “good”, sustainability minded companies will increase their market share.

The three last keys deals with improving the market system, firstly by a supportive framework of public law that promote competition, have effective intellectual property rights,
have reliable contract terms and transparent accounting standards. By further applying full cost pricing of goods and services on a market it can show the real cost for the impact on the environment and thereby take away perverse subsidies set by the government. One example of this is trade permits for polluting the air, which directly shows how much it costs to pollute the nature. The largest barrier for achieving sustainability through a market approach is the 2.8 billion people living on less than two dollars per day. These people have little or no access to markets in order to improve their living standards. By including those in the market a company can find many opportunities, mainly within healthcare, water, housing, nutrition, electricity, education, appliances and sanitation. The core message of a sustainable market approach is that a company can not succeed in a market that fails (WBCSD, 2001).

3.2 The Entrepreneurs

As said above the entrepreneur can also be a customer, this part will raise focus on the situation of an entrepreneur in an emerging country as found in academic literature.

In western economies the entrepreneur has commonly been viewed as an important ingredient for economic growth. In emerging countries the focus has been on privatizing public sector companies, instead of creating new privately owned companies. This task has solely rested on shoulders of the private entrepreneur (McMillan & Woodruff, 2003). McMillan et al (2003) argues that this neglect of the entrepreneurs’ potentially productive role in emerging countries lies in the assumption that that setting up a business is too risky, especially in an economy with undergoing reforms and lack of legal structure. Their research shows that entrepreneurs do exist despite volatile prices, harassing state firms and corrupt officials. In the absence of appropriate institutions these entrepreneurs succeed through a sort of self-help. This means that they create substitutions, instead of formal contracts they rely on reputation, instead of bank credit they enforce trade credit between firms in the supply chain and they reinvest profits as a substitute for outside equity capital (McMillan et al, 2003).

De Soto (2000) has also identified the difficulty people in general and entrepreneurs in particular have to gain access to capital in emerging economies that lack a functioning market system. He argues that emerging countries are not poor, instead they are very rich in capital, but they cannot gain access to it. The reason they cannot access the capital is because it does not exist any intellectual property rights. Without such a property right people can not put in a security for a loan and get their capital working for them. This is why De Soto (2000) calls this the “hidden” or “locked” capital of emerging countries. Because of this entrepreneurs cannot receive loans or credit in the financial market and they instead have to take refuge in the informal market system that in some countries are bigger then the formal one. The cost of being inside the formal system is usually higher then being outside. Even if these informal market systems are better and more efficient then the formal one they do not provide a legal security. Further it is hard for an entrepreneur in the informal system to spread his business across the country or borders since the social contracts that they rely on are hard to maintain without physical contact (De Soto, 2000).

3.3 The Customers

Seeing the poor as customers is fundamental for a market development strategy in emerging countries. Companies that are used to find attractive markets by looking at the individual purchasing power has to rethink, and instead look at the aggregated purchasing power
The market framework

made up by the billions of poor people. This fact combined with the fact that the poor pay a premium on everything from water to interest rates would alone be proof enough that there is room for more competitive products and services (Prahalad, 2005). The example illustrated in Table 1 show that residents in the shanty town of Dharavi outside Mumbai, India pay more for everyday consumer goods then residents in the more affluent neighbourhood of Warden Road in Mumbai. This is the so called poverty penalty that can be found in any emerging country and is due to local monopolies, poor distribution and strong traditional intermediaries (Prahalad, 2005).

<table>
<thead>
<tr>
<th>Item</th>
<th>Dharavi</th>
<th>Warden road</th>
<th>Poverty Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit (annual Interest)</td>
<td>600-1000 %</td>
<td>12-18 %</td>
<td>53</td>
</tr>
<tr>
<td>Municipal Water (m3)</td>
<td>USD 1.12</td>
<td>USD 0.03</td>
<td>37</td>
</tr>
<tr>
<td>Phone call (per minute)</td>
<td>USD 0.05</td>
<td>USD 0.03</td>
<td>1.8</td>
</tr>
<tr>
<td>Diarrhoea medication</td>
<td>USD 20.00</td>
<td>USD 2.00</td>
<td>10</td>
</tr>
<tr>
<td>Rice (per kg)</td>
<td>USD 0.28</td>
<td>USD 0.24</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Table 1 Price Premium (Prahalad, 2005, p. 11)

The fact that the poor aspire to participate in local market development, rather than recipients of charity is something that many argue about (WBCSD, 2004). Prahalad (2005) argues that there exist what he calls a dominant logic which refers to assumptions or myths the general public have about the poor and their ability to be customers.

The first dominant myth is that the poor do not have any purchasing power and therefore cannot make up a viable market. But only the population of nine emerging countries like China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa and Thailand make up some 3 billion people, 70 % of the total emerging country population (Prahalad, 2005). Within each emerging country Banga and Mahajan (2005) have identified different segments such as the rich, middle class, poor and rural, where the rich and middle class resembles to any emerging countries equivalent. But the majority of the population in the emerging countries still lives on around USD 2 per day and together makes up a larger aggregated purchasing power than the rich population in the country (Prahalad, 2005).

Prahalad (2005) further argues against the myth that the poor are not brand conscious. He argues that the poor are very brand conscious and also very value conscious and that this fact is universal. As any developed country customer, the poor also has an aspiration of a new and different quality of life, which brands can deliver to them. Since most poor does not have legal land title they tend to spend their money on “luxury” goods such as television sets and electrical appliances (Prahalad, 2005). These findings are what the humanistic psychologist Abraham Maslow (1987) calls the human strive for self actualisation. Once the basic needs are satisfied, people want social belonging, self respect and finally self actualisation. Maslow (1987) further supports the logic of sustainable growth in the consumer markets.

Another myth according to Prahalad (2005) is that the poor does not have IT access or accept advanced technology. Prahalad’s (2005) research shows that the poor are increasingly getting connected and exploiting the benefits of new technology. In India, groups of farmers have shared the cost of a computer that is connected to the internet where they can see
The market framework

the latest prices on their produce and then choose when and to which price they want to sell. This rapid advance in technology is due to the willingness of adopting new technologies among the poor since they have no switching costs and no old technology to forget. For the farmers in this case and for the poor population in general the new technology introduces a dignity and the ability to choose which before was not an option (Prahalad, 2005).

Banga et al. (2005) shows evidence that many BOP customers can actually reside in developed countries as immigrants from emerging countries, and since they often have a higher income they send money back home and even buy products online that are shipped directly to their relatives in BOP markets, thus making it difficult to separate between the actual customer and the end consumer. If a company realizes these connections across borders, they can be closer to the BOP market then they think (Banga et al., 2005).

3.4 The Government

In the market framework the government in each emerging country can take both a primary and a secondary role. In a market development strategy the government would be an external factor that might have an influence over the efficiency of transactions in forms of laws and regulations. For a company in the consumer goods industry this would not constitute a major problem and therefore it takes on a secondary role. But for a company looking at changing the infrastructure the government’s role is primary.

Like mentioned above there exists a huge informal sector in emerging countries. For the government this means that they do not receive taxes. Prahalad (2005) suggests that the government’s role is to increase what he calls the countries Transaction Governance Capacity (TGC), by setting the right prerequisites that ease transactions. The main goal with TGC is to fight corruption within the public sector as well as increase the transparency of transactions within the market. This is done by setting laws that gives incentives towards market development and continuously enforce them. Some countries like e.g. India have the right laws but cannot enforce them, thus making the laws useless. Some countries e.g. China does not have a consistency in the legal framework but can on the other hand enforce the laws that do exist, thus making the market work. In the end it is the government’s role to convince the citizens that the cost of being inside the system is less then that of being outside the system (Prahalad, 2005). The components of a country’s TGC are illustrated in Figure 4.
Each country and economy needs different emphasis on each component of this TGC model, but the main goal still is to create a governance capacity that helps the private sector and the market to develop. Many times the problem lies in how bureaucracies deals with their citizens, a semiliterate person without an understanding of the system in not likely to take an active part in it (Prahalad, 2005). Further corruption can hinder the mere existence of poor within the system. Prahalad (2005) defines corruption as the market mechanism for privileged access to resources. By pure definition a highly corrupted country therefore shuts the door for the poor to be a part of a market economy. A TGC must therefore give access to information and transparency for transactions, have clear processes to reduce selective interpretation by bureaucrats, a known speed of the process done by the citizens, and finally a there must exist a trust for the system (Prahalad, 2005). A good example of a functioning TGC exists in Andra Pradesh, India where the state government has set up an e-governance system. By connecting village computers into the system, citizens can now pay school tuitions, taxes, get driver’s licence and register property in way that is clear and transparent (Prahalad, 2005).

### 3.5 Private enterprises

Since it is the companies that undertake a market development strategy their role is primary in the market framework. The World Business Council for Sustainable Development (WBCSD) is an organisation that consists of member companies that have the common vision of sustainable development and that of the poor being an important part of this development. The WBCSD provides reports on how companies can engage in business with poor and at the same time help the long term sustainable development. These reports are based on the lessons learned by member companies and their practices in emerging countries. When engaging in business in the emerging countries they will face the same problems as usual, but now with different solutions (WBCSD, 2004). In this part we will take a look at the challenges that faces a company and the possible solutions.
To begin with companies need to change the mindset of the organization, a vision of that doing business with the poor is possible and that both the company and the poor will profit from this partnership. Using traditional market surveys and segmentation techniques might not be very helpful since many of the potential customer’s live outside the traditional markets and are therefore hard to find in the official statistics. A way to understand the real needs of the market is to partner with a non-profit organisation that has the knowledge of the poor population (WBCSD, 2004).

Once a company has acquired an understanding of markets real needs it have to decide if it wants to adapt an existing product or develop a completely new one in order tailor make it for the target market. By taking a needs-based approach a company might have to offer an integrated solution rather than an isolated product (WBCSD, 2004).

Since a market development strategy should be profitable and therefore self sufficient, the financing usually comes from the company’s internal resources. However, if the strategy is based on many partnerships and is expected to give initial below market returns but requires a large upfront investment, there are alternative ways of financing. A first option is to talk with financial institutions and see if they are willing to give a loan meets the specifications of the venture. Usually the public sector is willing finance business led-projects that reduces poverty and increases social welfare. Non profit organisations can provide non-financial resources such as expertise, human resources and the access to existing networks (WBCSD, 2004).

Once in the market the company has to ensure that customers actually can afford the products and pay for it. Basically it is about creating the capacity to consume which means that a product or service should be affordable, accessible and available. By selling products in smaller quantities the poor gets access to products that before was out of reach. The smaller units makes sense since the poor usually gets daily wages and therefore only has access to short term capital (Prahalad, 2005).

Other solutions may be to share ownership within a community and in that way spread costs to a larger group. A company might want to offer a product for free and instead charge money for the service connected to it. By having a micro-credit institution as partner, a company can offer short term credit schemes, especially if the product will increase the productivity within a household (WBCSD, 2004).

With poor infrastructure in emerging economies there will be a difficulty to set up a traditional distribution network and therefore many customers will stay out of reach for the company. A way around this problem is to look for more informal distribution methods that already exist within the market. Banga et al. (2005) argue that these natural occurring distributors consist of small kiosks, wholesalers or local entrepreneurs that reach the majority of the population.

Prahalad (2005) stresses the fact that a company pursuing a market development in an emerging market has to reduce the cost of managing, inevitably leading to a restructure of the organization. Like mentioned above this can be done by relying more on partnerships, but also by integrating local entrepreneurs and customers as coordinators, promoters or spokes persons, leading to a downward push in the company’s value chain to the grass root level.

When a successful strategy has been implemented in one emerging market or country a company must be able to replicate it across borders in order to reap the benefits from scalability. By establishing a bottom-up process a company can learn from their mistakes done
in the market and set up guidelines for successful approaches. Sometimes it is even possible to create a franchise model that can be used in countries where the company is not present (WBCSD, 2004). Banga et al. (2005) suggests that companies should focus on building global brands with local connection in order to easier transfer products and concepts across borders. Thus, Prahalad (2005) stressed trust as a prerequisite when engaging in business with the poor since it exist a latent mistrust between the large companies and the poor.

By examining what local resources that are available a company can also improve its supply chain management by tying with local businesses as suppliers with raw materials, work force and production. In this way the company also gets a local presence which is valuable for the long term success of the society (WBCSD, 2004).

3.6 NGOs

Once the NGOs have come to the understanding that market-based solutions can lead to poverty reduction and economic development, as opposed to charity-based work and government subsidies, they can play an important role within the market framework. Collaboration and partnerships among NGOs, public sector and private enterprises can have many benefits since they each contribute with their resources making the collaboration valuable for everyone. Nevertheless, research has shown that these partnerships encounter problems due to their different objectives. The public sector usually has a different and slower decision process then private enterprises and NGOs that hinders the development process. NGOs core competencies often consists of local presence with market knowledge, experience in field work and financial networks and is often their role to inform the BOP consumers of the benefits that certain solutions will bring (Prahalad, 2005).

3.7 Market Innovations

We have so far seen that there are many aspects of this market framework. One of the fundamental issues in making profit while serving the poor is to satisfy a need at a lower price and better quality. In order to do this, a company has to challenge their core beliefs in the basics of economics. In the emerging markets the basic economics are based on small unit packages, low margins per unit, high volume and a high return on employed capital (Prahalad, 2005).

According the Prahalad (2005) this is the philosophy for serving the poor. With this philosophy in mind Prahalad (2005) has identified twelve principles that are the building blocks of innovation at the emerging markets. Firstly there must be a focus on the price performance of products and services, meaning that it is not enough with just low prices, a product also have to perform in terms quality and usage performance. Innovations for serving the poor requires a hybrid-solutions where the latest technology mixed with existing infrastructure is the only viable way to create scalable price-performance ratios. Since scale is key term for achieving profitability, an innovation must be applicable across countries, cultures and languages. Innovation must further reduce resource wastage. If emerging markets were to use the same amount of resources as a developed counterpart, the world would not sustain the increase waste and emission. By eliminating, reducing and recycling resources, innovations will contribute to the long term sustainability. These innovations can then be transferred to the developed world for a global decrease in resource use.
All product developments have to start from and understanding of functionality. It is not possible to just take developed world products and sell them at a lower price in emerging countries. By understanding the everyday life of a customer, products can be specified accordingly.

Just as product innovations are important, so are process innovations. In a market were no formal infrastructure exists an organisation have to find new logistic solutions to reach the market, sometimes it is even needed to build a new infrastructure.

It is important to deskill work since skill is a lack in most emerging markets. A product must therefore be easy to repair and assemble. Since most people in these markets are new to acting as a customer it is important to educate them in usage and safety. In media dark areas this education might be difficult and therefore demands new and creative approaches for advertising and education (Prahalad, 2005).

Banga et al. (2005) suggest the opportunity to import solutions from developed countries. Developed countries have many innovations that serve a little need in their home market, but can make a huge difference in at the BOP market. As an example Banga et al. (2005) uses the Oral B Brush Up which is a disposable textured teeth wiper that you pull onto your finger to clean your teeth. The intended niche market for this product is metropolitan peoples that want a quick way to freshen up, but in a BOP market without access to clean water this product could help many people to take care of their teeth.

Innovations and imports to the BOP market have to rethink the platform of the systems the products or services rely on so the products can be easily incorporated in the existing infrastructure, work in harsh conditions, and run without electricity (Banga et al., 2005).

A good recent example of innovations for the BOP markets is the “$100 laptop” developed by the MIT Media Lab. It is a laptop computer for schoolchildren in poorer countries to help them in their education and development. The laptop is highly innovative to fit into the conditions of the poorer countries. I.e. wireless broadband that, among other things, allows them to work as a mesh network; each laptop will be able to talk to its nearest neighbours, creating an ad hoc, local area network. The laptops will use an innovative power supply such as wind-up crank, and will be able to do most things expected from a computer with the exception of storing huge amounts of data (MIT Media Labs, 2005).
The market framework

The price-performance ratio is very good due to cheap components and clever software. The biggest difference compared to a normal laptop among the components is the novel, dual-mode display. It represents improvements to the LCD displays commonly found in inexpensive DVD players. These displays can be used in high-resolution black and white in bright sunlight and with colour mode during more suitable conditions. The use of these displays considerably lowers the costs to approximately USD 35 for the display. The software is designed to be simple and efficient. Today’s laptops have become very inefficient, two thirds of the software is used to manage the other third, which mostly does the same functions nine different ways. The most efficient way to lower the cost is, despite the clever design of hardware and software, the very large numbers in which the laptops are predicted to be sold. MIT will only sell them directly to ministries of education in big numbers to be able to reach the goal of 10 million units sold and distributed within two years (MIT Media Labs, 2005).

3.8 Framework Analysis

From the theory collected above we will make some adjustments to our framework model so that it can be used to structure the collection of empirical findings. Under each actor we will list the strengths of them as a reminder for the reader as we move along.

To begin with we have the actual people living at the bottom of the economic pyramid. In the previous model these people were put in the same box under the labels of BOP consumers and BOP entrepreneurs, since a poor person could take on both roles simultaneously. We believe that this is too big of a simplification and therefore propose to put them in separate boxes. Because even if a person can take on two roles, each role will meet different challenges and ways of thinking. According to us a person will think differently in the role as a customer compared to the role as an entrepreneur, thus we will investigate them separately in our field study as seen figure 5. The strengths of the BOP customers are the aggregated purchasing power and thus the market opportunity they make up. The entrepreneurs strengths is the knowledge of, and access to, the marketplace and therefore their ability to work as freelance distributors.

The government’s part in the framework is somewhat questionable. In the literature we only have found one example where they have worked proactively to fight corruption and thereby make it easier for the informal system to be apart of formal market system. This analysis will make us exclude the government’s role in the framework model since they not are likely to be the leader of any reforms in the marketplace. They are however still a powerful partner to have on your side if you want to pursue a business strategy in the BOP market. Their strength will therefore be the power, meaning the ability to change laws and regulations.

As mentioned above, the private enterprises have an important role in this market framework. After our findings in literature this importance has increased. Mostly because they have the resources and technology available to make innovations that really can make a difference in the life’s of more than a billion BOP customers. The strengths of the private enterprise will therefore be the ability to innovate and the resources, financial and human, to take these innovations to the market. We will also add a link directly between the private enterprises and the customer because we can not find a reason why a company could not contact them directly, although it could be easier using a partner.
To make things clearer, we have chosen to make a clear separation between the government and NGOs. In the original framework model by Prahalad (2005) civil-society, organisations and the government where in the same box with development and aid agencies in the other. According to us the government needs to be clearly separated from the civil-society and their organisations. That is why the government now has an own box and it also includes all the government type of development agencies that exists. The box with non governmental organisations also includes civil-society organisations. The main strength of the NGOs is their knowledge about the country and their network of members.

Three words that we think summarize the market framework are innovation, partnership and profit.

![Extended framework model](image-url)

Figure 6 Extended framework model
4 Empirical findings

In this chapter we present the field studies and interviews made in Mexico in the fall of 2005 and a case study of Unilever in Indonesia.

4.1 Current situation in Mexico

The headline discusses the current fiscal situation of Mexico that has been retrieved from a report intended for foreign embassy. The views and opinions stated below are only those of the author of the report, but with discussions with Mexican citizens we have identified a shared view that these facts are correct, although they might not be found in official reports or documents.

The federal government of Mexico has never been capable of collecting taxes of more than 14% of the GDP, a low number compared to the NAFTA partners, who collect between 25% and 35%. Even other Latin American countries collect higher rates. Mexicans simply do not want to pay taxes.

The problem with this historic unwillingness to pay their taxes has to do with the complexity of the fiscal system of collection. To present a tax declaration in a correct way and on time is a difficult process that requires the support of a legion of public accountants.

In addition, the Mexican fiscal system is designed to collect, but not to stimulate saving or investment, and completely lacks transparency. Citizens continue to suspect that the tax money lines the pockets of politicians or pays superfluous expenses. There is no link between the act of paying taxes and that of receiving public services.

A further factor of the fiscal system is its extreme concentration. Only the federal government collects taxes, as the state governments lack true tributary powers, and the municipalities only have access to land tax payments or property tax collection. With the exception of the Federal District (Mexico City), which has a budget that its 51% financed through its own income, the states depend on participation, transfers and allocations from the federal government to finance their costs.

This structural incapacity to collect taxes also obeys political reasons and the structure of economic power in Mexico. To a simple question such as, who pay and who doesn’t pay taxes in Mexico, and how must do larger contributors pay? Asked repeatedly by legislators and citizens, the finance ministry simply does not answer, appealing to thousands of excuses. There is a broad suspicion that the big businesses, and especially large multinationals, simply do not pay tax on income or capital gains, because at the end of the financial year they send their utilities, royalties, payments for transferring technology and other operations abroad, so that they do not have any money to pay the Mexican tax office.

As Mexico has privileged foreign investment, especially from the United States who works as a motor of the economy since 1982, the country’s productive core has increasingly become de-nationalized, and thus the fiscal collection associated with big businesses has fallen significantly. To what country companies belong is therefore important, because at least Mexican companies face more complications of escaping taxes, while foreign companies do it almost as a rule.

This fiscal insufficiency also has repercussions on the conversations about NAFTA Plus, the next phase of the North American Free Trade Agreement. President Vicente Fox has
Empirical findings

proposed to President George W. Bush that they should advance towards a Community of North America, which is a step that neither the US executive nor legislature are ready to undertake. Simply because US and Canada do not want to inject money into Mexico to close the development gap until Mexico has a successful program to tackle poverty and inequality.

“Why should we send money to the poor in Mexico, if this money ends up subsidizing young 'yuppies' in residential areas of Mexico City, and will not benefit those who really need the support?, a high-level Canadian official said, referring to the corruption in Mexican authorities.

In the framework of the United Nations Conference on Financing for Development, it is clear that before aspiring to bring funds from abroad for local development, Mexico needs to reformulate its political economy so that it does not continue to exclusively favour exporters but rather safeguard local and regional producers, both in agriculture, manufacturing and services. Only when Mexicans can guarantee the existence and solidity of a stable internal market, the federal government will overcome its incapacity to increase tax collection. Only in an economy where businesses create jobs and workers receive proper wages, can the vicious circle of poor wages, poor tax collection, lack of support for peasants, agriculture and micro and small businesses be broken.

In sum, the chronically insufficient Mexican fiscal system is not only a problem of government, but of society as a whole, and its solution can only come from the contribution of the different social sectors.

4.2 The Entrepreneurs

The following material has been collected both through a questionnaire, but foremost by participation. Thereby we got a glimpse of how a normal day of an entrepreneur in Mexico City looks like. Due to legal reasons we will not use the real name of the entrepreneur; instead we will call him James.

James business is to sell plastic bottles and jars. He is both a retailer and a wholesaler and has currently two employees. From his store in Ciudad Nezahualcoyotl he sells the majority of products but he also delivers products to his customers that live far away from the store. The customers are mainly family businesses that produce candy in their home. These candy manufacturers then sell their candy to local stores or at the market. A lot of home deliveries are due to that the candy makers have an unpredictable income stream and therefore do not know when they will have money or how much candy they will sell next month, which means they make a call to James cell phone the same day or the day before they need the plastic jars. James also calls customers he thinks might need products when he knows he will be in that area delivering to other customers. Since Mexico City is a huge city both measured in land area and population, one delivery can take up to two hours. On the day of the interview we had time for only four deliveries.

One of James biggest problems is the informal economy; even though he tries to be as legal as possible it is hard when people are selling the same products as him but to a lower price since they do not pay the value added tax of 15%. If you also pay social benefits for your employees you have a severe cost disadvantage compared to the informal street vendors. The strength of James is that he has strong social relationships with his customers that trust him and therefore are willing to pay a somewhat higher price, which helps James to still have one foot in the formal economy. But these tight relationships are also some-
thing that hinders business since it makes it harder to expand business across larger geographical areas with different delivery system. The customers have gotten used to that James will deliver the goods to them with his truck and might feel disappointed if some independent deliverer showed up instead.

On a discussion about the future of Mexico James is not very optimistic. There are many problems that are interlinked with each other. He mentions education as the single most important aspect for a better prosperity in Mexico. In his view a basic education enlightens people about common sense and gives them at least a choice on what to do with their lives, it gives some sort of equality in an otherwise in equal society. With this common sense gathered from education people can make more rational choices and they start understanding how things are interlinked with their own life. Now people act irrational against their own good in a short term perspective which will lead to vicious circles that are hard to break.

Even though James spends quite some time in the poorer neighbourhoods of Mexico City he has never seen any form of initiative from private enterprises to reach and improve the lives of the people living there.

However, it should be mentioned that there are areas were situations are much worse then the areas visited on the field study. According to James some people even live in caves in the mountains surrounding Mexico City not to mention the communities that lives from the garbage dumps in the city. He has a hard time imaging that Mexico is considered to be an almost developed country according to the World Bank and other institutions. The vast welfare that exists in Mexico in terms of companies and oil belongs to a few privileged people at the top of the value chain.

Another thing that decreases the efficiency of James business is that Mexico is still cash driven society which means that business persons as James receives all payments in cash, and mostly coins since his customers sells small pieces of candy. He then have to store the money until its enough to make a trip to the bank to deposit them, sometimes he can have two suitcases full of coins. This is a risky process since Mexico City has a high crime rate and entering in a bank with voluminous packages full of cash may get the attention of criminals and turns a normal procedure into a complicated and unsafe one.

Sometimes James gives credit to his customers, who pay back when they have money. This usually happens on one out of the salary days per month in Mexico. Furthermore, if they pay by a check, James must go to the bank and cash the check at the same time as most of Mexico City’s workers who receives their salary in an invoice. If James has bills to pay he must go to the bank this very same day as everybody else which could make a bank visit a three hour process. This is just one example of the inefficiency in the financial market.

### 4.3 The Customer

Amalia is a 25 year old woman who was born in a small village in the south of Mexico, in which there is a remarkable lack of opportunities to find a job, especially for a woman with no formal educational background. Another problem that most of the inhabitants of this community face, including her, is that they don’t speak Spanish as a first language, instead they communicate by speaking Tzetzal which is a dialect used by 212.000 persons in Chiapas.
Empirical findings

Today, after overcoming the language barrier Amalia works as a cleaning lady for different houses. She does not have any kind of contract which guarantees her permanent job or a minimum wage. The salary she receives varies depending on the size of the house, and the zone in which it is located, but her average salary is usually around 160 pesos per day. This ends up giving her approximately 3840 pesos every month with six days of work per week. Amalia does not pay any taxes and have therefore 100% of her earnings to cover her expenses. With this salary, she affords the expenditures of living, food and communication.

Amalia rents a room for $700 pesos monthly, plus the services of water and electricity; $60 and $20 pesos respectively. Meanwhile, the majority of the budget is disposed for food and it amounts to about $1,000 pesos per month. $400 pesos is used for the bus pass each month.

Amalia have never owned a television or radio. Instead she shares these expenses with the other persons living in the rooms next to hers. She does not have a fix phone, but she has bought a mobile phone with prepaid cards, and she spends 400 pesos per month on recharging her credit. Most of the time she uses the cell phone to call her relatives in Chiapas. In particular Amalia mentioned that prepaid cards are an extra expensive product, which she would like to find cheaper.

The purchase habits of Amalia varies depending on the weekly salary received, nevertheless; she usually buys the food at the street market because of the freshness of the products and the price. Other items such as shampoo, detergent, toilet paper and softener she usually buys at Bodegas Aurrera which is a supermarket owned by the chain Cifra-Walmart, differentiated by being discount stores that offer a limited assortment of basic goods, primarily food and domestic articles. The sensitiveness toward the marketing efforts related to determinate brands, such as sales promotions is not highly perceived by Amalia because for her the decisions drivers are based on the price of the product and she does not perceive it as saving promotions when there are sweepstakes, contests, near packs or refunds. The only tool that could influence her decision is related to a price cut on the items.

Among the brands that Amalia perceives there is a remarkable preference toward two brands of different products chosen basically for their quality and price. First there is Shampoo Caprice produced by Colgate Palmolive with a regular price in the market of $20.44 pesos for a 900 ml bottle. In comparison with other brands of shampoo targeted to a middle class such as Pantene the price has a remarkable difference. Shampoo Pantene in Bodega Aurrera costs $27.00 in a 400 ml package and Herbal Essences by Clairol in a 355 ml presentation costs $29.03 pesos.

Second there is the Detergent Ace produced by P&G with a regular price in the market of $45.92 in a package of 3 kg. The next cheapest one is Ariel 3kg with a price of $47.35 pesos. The difference in price among the two brands Ace and Ariel in the same package is minimal. However Amalia considers this difference in price enough for making a selection.

Amalia has never asked for a loan, nevertheless she keeps her savings in a Mexican bank, Banco Azteca which is a company of Group Elektra, that describes itself as an institution with the core objective to create opportunities of growth for all the sectors of the population, across the integration of bank services, promoting a culture of saving and offering.

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2 www.bancoazteca.com.mx
credits that satisfy the clients needs. The target market of this bank is persons with low resources who are not able to have high quantities of money in the bank. This company offers the possibility of requesting for a loan, but the interest rate is extremely high and the periods set for payment are longer compared with other banks. They are also known to make questionable offers such as a cell phone for $20 pesos per week over a five year period.

4.4 The NGOs

The following two interviews describes the work of two NGOs that work with networks and market based solutions to create a social transformation for their members and at the same time ensure a sustainable development.

4.4.1 Renamur (Red Nacional de Mujeres Rurales)

Berenice Arteaga is Coordinator of the Network of Women called RENAMUR, she has worked in this organization for three years and she describes the network of women in Mexico as a Non Profit Organization which represents a collaborative effort formed by 25 regional organizations with over 70 000 indigenous and rural women participating. The organization is sponsored by the government and from other organizations which makes important contributions in order to support the development of women. This money is allocated with the purpose of helping the members to grow in their business with the creation of saving plans, helping to run the micro-enterprises, and providing micro-financing. The main goal of the organization is to encourage and provide development to marginalized women in all of Mexico, contributing to the improvement of their economical status, overcoming isolation and competition. The provided services are basically focused in aspects of making access to information easier, and communicate all the networks of women in Latin America with each other with the purpose of maintain a constant flow of information. Furthermore, RENAMUR works for reaching a sustainable development and maximization of the resources that are available to them.

Berenice is in charge of organizing the workshops with the women with the focus of teaching them a better way to run their business. She has to travel to the communities and get in direct touch with the production process and involve herself as much as possible in all the aspects of the micro-enterprise. She says that sometimes the women have great products but they don’t know how to sell them or how to organize themselves in order to get the maximal benefit and commercialise the product as it should be. One of the principal themes of all the workshops is the creation of a business plan and all the specific aspects involved with it. That is, try to built as formal as possible the business with the main goal of promote a sustainable and equal rural development strategy, based on the participation of the local, regional, and even international level of rural women.

Women work in a great diversity if micro-enterprises that, due to their small size, are not competitive with large private enterprises. Due to this fact it is fundamental that they have a strategy that capitalizes on their strengths and allows these small units to thrive. In that strategy RENAMUR and in specific Bernice when she imparts the workshops to the women, includes the development of productive activities that are placed in advantageous commercial niches, for instance: natural products, or non traditional products, with the vision of: “Creating one’s own label in a close future”
Some of the products which are commercialised by RENAMUR are Maracuya and Passion fruit, Chile (peppers), jams, marmalades, sauces, sweets, textiles, salt, handmade paper. For example, the handmade paper is being produced in small scale and its marketing is directed to manufacturers of envelopes, stationary cards, diplomas etc. The added value is the uniqueness, since a handmade paper is like a fingerprint, impossible to find two that looks exactly the same. The women uses “lily” for making this paper, a plant that in many places has become in a real plague, thus transforming an unwanted weed into the raw material of a profitable product.

Overall, the networks are growing satisfactorily, but one of biggest problems is related with the lack of support received from the government, due to that RENAMUR receives a determined amount of money for each project presented and approved by the concerned authorities. Instead they have to seek funds at private investors. That is why, in order to promote the products of RENAMUR, Berenice is in charge of making the network of women participate in fairs related with development of Mexico, both at a national and international level. The reasons for participating in fairs are twofold, first to sell the products, and second to involve affluent people in the network.

### 4.4.2 Mundo Unitatis

Valeri Kramis is a marketing student who works for Mundo Unitatis. She is the only one in the marketing and public relations department and is responsible for all the activities concerned to this field. Mundo Unitatis is an organization which is in charge of fighting poverty through assistance and productive projects such as nutrition, provisioning stores, women promotion (including education and a handicraft cooperative) and agriculture. Mundo Unitatis is located in Los Atlos, Chiapas a region in the south of Mexico with main focus on providing the resources needed to develop the communities in the long term. First the people receive assistance in nutrition, deontology and general medicine. Second the people receive education and formation focused on a productive activity and then the institution helps them with the commercialization of their product.

At this moment there are three cooperatives formed, Arte Najel (handicraft), Wink Shamiel (poultry) and Home and Poultry (commercialization). These cooperatives will in the long term sustain the other projects.

According to Valerie the core competencies of the organization are based on the cooperatives as a more integrated way to fight poverty, and the opportunity to use experience of each cooperative to improve the other ones.

Mundo Unitatis is engaged in different type of partnerships (for example “Red Voluntad” to rebuild Chiapas after the hurricane Stan) with the purpose to strengthen efforts. The way Mundo Unitatis gets access to capital is based on a fund raising department which is usually supported by big donators, enterprises, and governmental projects such as Idesol. At present, the marketing department is working on a fund raising campaign for individuals which involve selling social responsible products.

Furthermore, there is an issue which lately has become alarming to the organization. It is the fact that indigenous women of Chiapas have started buying Chinese products with the purpose of getting more profits. Since the products made by them selves have better quality but are more expensive and have longer manufacturing time, the women have taken an easier way of making business by importing the same products from China and selling them as it was handmade by themselves. Mundo Unitatis is fighting against this phenome-
Sustainable development from the organizations point of view was described as one of the main goals of Mundo Unitatis, but according to Valerie Kramis it is a hard thing to achieve because terms as fair trade or sustainable development are new in Mexico. She said it was like working against water due to that it lies really hard work behind the formation of the labour and production quality, as well as with the organizing of the coops and social business. Further the consumer’s culture has to change so that they appreciate Mexican handmade work and fair trade terms.

Another problem important to mention is the challenge of working as an effective organization to show results and survive in the long term, considering all the external factors in which the organization has to fight against. Besides, the lack of support from the government does not allow Mundo Unitatis to meet their expected performance targets.

4.5 Procter and Gamble in Mexico
The following interview was conducted with Susana Salazar who is a marketing assistant at Procter & Gamble (P&G) in Mexico. She currently works with in store promotions for the BOP-segment. In total there are 25 persons working only with this segment.

P&G sells various consumer goods under different brands and was founded in 1837 in Cincinnati, USA. The company’s global turnover is $5 billion; it has operations in 80 countries and sales 300 brands in more than 140 countries. P&G has been active in Mexico since 1948.

P&G uses the term BOP segment when referring to the poorer segment of the population. A specific strategy for this segment was created three years ago with the future growth of the segment as the main reason. There are things that differ from a “normal” marketing strategy in the developed world. Especially in the United States, P&G are working with large packages such as two litre shampoo bottles, a strategy that has shown not suitable for Mexico. Instead they have developed smaller bars of soap, sachets of shampoo etc. all as a response to the limited liquidity of the poorer customers. However, these smaller packages are more expensive per unit and can only be found in the small Tienda’s or mini supermarkets which goes under the name of “High Frequency Stores” (HFS) in business terms since people buy few things at a time but many times during a week. These stores with the small packages represent 40% of P&G’s sales in Mexico.

Another example of product innovations came from a recognized problem that BOP customers in Mexico did not by softener for their clothes since it was too expensive to buy both washing detergent and softener. As a response P&G created a formula using their washing powder brand Ariel and their softener brand Downy. The result became a product called “Ariel with a touch of Downy”, which became a great success since the poor customers now could afford both products for the price one. P&G also creates bundles of their own products which make the overall price cheaper then buying each product. For example a bundle could be a bag or box of soap, shampoo and softener. P&G also cooperates with other large brands such as Kellogg’s and Danone to create bundles of packages that will satisfy a whole need, e.g. a nutritional breakfast, where Kellogg’s provide the cereal, Danone the yoghurt and P&G the fiber drink Metamucil. In this way the customers get used to a healthy habit, instead of drinking Coca-Cola for breakfast which is common in poorer areas where they believe that this is healthy and nutritious.
Empirical findings

One of the biggest obstacles P&G encounter in the market is the purchase barrier some customer has towards products, the task for P&G is to convince the customer that their product offers more value for the money spent. Sometimes customers do not even look at the price for the Pantene brand since it looks too expensive. To help the customers overcome these barriers P&G sometimes have persons in the store that can inform of the benefits of a certain brand, especially health products. This strategy only works in somewhat bigger stores, due to the personnel cost, so for the smaller HFS’s, P&G works a lot with in store promotions that tries to make the brand alive in the store and thereby catch the attention of the customer in the moment of truth. Although there is a lot of focus on the brands P&G says that there is also a strong focus on the price/performance ratio, and therefore the customers do not pay a premium just for a brand.

After satisfying the basic needs such as cleanliness, one of the biggest opportunities is to work with system usage which means that you promote the logical next step in use of a product. After realizing the benefits of a shampoo the logical step would be to use a conditioner, after washing powder a softener etc.

A key to success for P&G is to reach all customers in all segments. This can only be done through a well functioning distribution system. Firstly P&G has their own trucks that deliver to public distribution centers around Mexico and to the big super-centers like Walmart, CostCo and Commercial Mexicana that all demands large volumes to a few places. To reach the BOP segment P&G cooperates with local distributors that reach all the small HFS’s around Mexico. This has worked extremely well except that the new HFS’s are started everyday and therefore demands a continuously update of the distribution system.

When P&G started their BOP strategy 3 years ago they were the market leaders overall, except for some extremely local brands that exists in certain towns in Mexico. Today large actors like Unilever, Henkel, Grupo Corona (Mexican company), Kimberly Clark (paper towels), Colgate Palmolive and L’Oreal are making the competition fierce in this segment. As a way to increase their competitiveness globally P&G acquired the Gillette brand awhile ago, which in six months will lead to an organisational restructuring, since Gillette have many of the same functions as in P&G in terms of marketing production and distribution.

When it comes to financing a BOP strategy P&G has the same rule for all markets across the world, that all new product launches or strategies should reach break-even within one year. Susana says that each dollar (or peso) should be spent like it was your own. Despite this financial pressure Susana says that the success of a project is measured both financially and socially. To know the impact of each product, P&G has their own customer market knowledge system. Some example of the P&G’s social impact in Mexico is their six production plants all over Mexico, and employs 5000 persons in total. Here they produce all the products for the Mexican market except Pringles chips and the Pantene brand that are imported from the United States. Another impact is the outsourcing non-core activities such as the logistic, which can give jobs to independent logistic entrepreneurs.

The final question had to with if it was a difference between meeting a need through advertising and creating one. Our example was the promotion of a soap that will prevent diseases and the promotion of Pringles chips that has no obvious purpose and is unhealthy. But according to Susana, P&G did not see a dilemma here since they believe that it is the customer’s choice what they want to spend their money on. However, all advertising campaigns have to be approved of by the legal department at P&G and the external relations department is continuously looking how P&G products can improve the lives of people.
4.6 Case Study: Unilever in Indonesia

The following text is a resume from the report, Exploring the Links between International Business and Poverty Reduction: A case study of Unilever Indonesia (Clay, 2005). The report is unique in the way that it is constructed jointly by the NGO Oxfam of Great Britain (GB) and the multinational company Unilever. This is the first time this kind of research has been conducted, and it reflects upon Unilever’s economic and social impact in Indonesia through their business practices.

4.6.1 About Oxfam

According to their homepage Oxfam GB is a: “Development, relief and campaigning organisation that works with others to find lasting solutions to poverty and suffering around the world” (Oxfam GB, 2005). Oxfam GB is a part of Oxfam International with a total of 12 member organisations in different countries. In the report, Barbara Stocking, the director of Oxfam GB said that the reason for this joint project was to deepen the understanding about a multinational company’s impact in an emerging country. A key for this collaboration to work was that Oxfam GB got unlimited access to all documents concerning Unilever’s operations in Indonesia.

4.6.2 About Unilever

Unilever is a major multinational company (MNC) within the fast moving consumer goods industry (FMCG) and is currently operating in over 150 countries. Some of their global brands are AXE (deodorant), Dove (soap), Knorr (soup etc.), and Heart (ice-cream with local variations in brand name but under the same logotype, in Sweden GB-Glace). Together with these global brands there are an infinite number of local brands varying between countries.

4.6.3 Unilever’s impact throughout the value chain

Indonesia, as most other emerging countries, has a high level of unemployment. MNC’s can make a potential contribution to resolve this issue, not just in numbers employed but also through making sure that people gain skills and confidence that help them lead a better life. In Indonesia Unilever has a workforce of around 5000 people where 60% is employees and 40% are contract workers. Although Unilever is well above the minimum regulations for salary and benefits for their employees, Oxfam is concerned about the role of the contract workers that might work in plants not owned by Unilever. Even though the company policy is good, it is extremely hard to make sure that these contract workers have the same rights as the rest of the workforce. As a solution Oxfam would like to see a higher percentage of direct employees with a written contract, even though this goes against Unilever’s strategy that are looking to outsource a certain percentage of its workforce.

The supply chain of Unilever consists of 300 companies forming a network that is focused on high-volumes, high-technology and a high value added in their operations. Many of the supplier companies have been created by Unilever but are now operating as stand alone entities. Unilever usually have contracts with their suppliers lasting between 6-12 months. The investments made by Unilever in this supplying network have many impacts. Firstly, it brings high quality products to Unilever, secondly it raises the total level of quality in manufacturing and technology in the country, thirdly it works as an economic multiplier in terms of jobs created, assets, profits and tax revenues. The benefit for a supplying company
that is a part of this network is the predictability of a high-volume demand and payments from Unilever. However, Unilever's low-cost demands and high quality standards can be hard to comply with for a supplying company. The report shows that the wages of the supplier's employees are lower than Unilever's employees, although they all receive benefits above the average in Indonesia.

Another type of supplier to Unilever is the producers of raw materials. In the report the relationship between Unilever and producers of black soybeans is described. With help from some researchers and a local university Unilever found a group of farmers who were willing to produce black soybeans in exchange for a secure market for the product, access to credit and technical assistance. In a good harvest year these farmers got a better return on their investment and labour then they would have gotten from any other crop. However the farmer still has a large financial risk with this arrangement and Unilever had the largest negotiating power between the two. Nonetheless an arrangement like this takes away unnecessary middlemen, which in the end makes both parties benefit from a shared profit.

If we continue and look at Unilever's distribution chain we can see that it is a mixture of wholesalers, self-service stores, supermarkets, vendors, small outlets inside family houses, kiosks and street hawkers (people selling random objects in the street, informally). In total, more people are indirectly on the distribution side then the supply side of the value chain. The report shows that the closer a retailer is to Unilever in the chain, the greater will their benefits be. Closest in the chain are the modern supermarkets and self-service stores that get lower prices and gain skills and knowledge which make them able to improve their lives significantly. On the border between the formal and informal economy are the family outlets and street hawkers that have a lower income and lower standards of product handling.

However the report suggests that the economic multiplier in the distribution chain is not at all fully understood. In an attempt to show the magnitude of Unilever's operations the report estimates that 300 000 people is making a living from Unilever's value chain, about one third of them in the supply chain and the rest in the distribution chain. Another estimate used in the report to show the value created is the gross margin along the value chain, which in total is USD 633 million. From this money Unilever makes USD 212 million, while the rest is spread out between all the other actors along the value chain. The closer one is to Unilever in the value chain the more value one will capture, thus making the small producers and street sellers the least beneficiary in the value chain.

4.6.4 Unilever's interaction with the BOP-consumer

The last part of the report highlights the fact that MNC's increasingly sees the low-income parts of the world as way to expand their market base, which leads to an increased use of branded products in these countries. The first area looked at was the access to Unilever's products, including what types of customers, prices and market share. According to Unilever's data, 95 % of the Indonesian's across all socio-economic groups use at least one product from Unilever. Most of these products are basic goods such as soap and laundry products. Many of Unilever's products have become more affordable for poor people, mainly because they are sold in small packets. This makes the price per unit higher due to cost and packaging, but nonetheless has proven to be a successful strategy since people with low incomes rarely has cash to spend. In Indonesia Unilever is market leader in certain categories while local companies are market leaders in others. Oxfam is concerned that Unilever's increase in market share would erase small scale producers, thus damaging the competition in the market place, rather then stimulating it. The report shows that while
Empirical findings

Unilever’s market share increased the total number of companies in the market also increased, thus making it difficult to compare market share between firms, product categories and sizes of companies. Equally difficult did the research team have to measure the impact on the BOP customers once they purchased a Unilever product. Customers in all socio-economic groups are influenced by the image of a brand. This makes it hard to find out if the decision is based on the marketing and distribution efforts from a company or if it is the actual value for money that is the determining factor. Oxfam questions if companies like Unilever is creating rather than meeting the needs of BOP consumers, by, through advertising turning luxury products such as ice-cream into a necessity over time.
5 Analysis

In this section we provide an analysis of our empirical findings based upon the theories presented in chapter three.

By following the structure from our second market framework we will here look at the similarities and differences found. We can see that we have got a lot of information from completely different actors in the market. At first it can seem incoherent, but since we want to see how a company can pursue a sustainable market development strategy, we see it as crucial to understand each actor’s situation in the market. Only then can we give solid suggestions on how to create partnerships and approach the BOP customer, and if this strategy can reduce poverty.

Firstly we have the BOP entrepreneur. Our field study strengthens the suggestion found in theory that the BOP entrepreneur rely on social networks and operates on the border of the informal and formal system. For James these social contracts are the base of his business that creates the trust in the transactions. At the same time it also limits him from expanding his business and adapts new forms of delivering and payment solutions. It has clear benefits to be in the informal system since in Mexico, it is still more efficient and cheaper than the formal system. However, from a sustainability perspective it is devastating since the market is not predictable and the society does not receive any tax payments. The reason why the informal economy is so big in Mexico is according to us the fault of the Government since they seem to lack the willingness of merging the informal system with the formal. It could also be said that the people that uses the informal system are at the same time making it exist. But for them the informal system is the reality and since they are the majority of the population it makes even more sense to be in the informal system. We have seen that James suffers from the inefficient bank system. This is in line with what De Soto (2000) stated was a problem for the entrepreneurs in the emerging countries that lack a well functioning financial system. There is a functional market system but it is very inefficient so it will hinder James to focus on his business in the best way.

Concerning our BOP customer, Amalia, we do not see that she pays any poverty penalty as suggested by Prahalad’s (2005) research in India. On the contrary, all products are cheaper in the markets where Amalia purchases her goods. The only exception are the offers from Grupo Elektra, who, in our opinion, abuses the situation of the poor by offering credit payments with interest which are hard for a none educated person to calculate the real cost of. We reserve ourselves for the possibility that the poverty penalty could exist in rural areas where the choices of products and infrastructure are more scarce. Another reason why we have not found as much poverty penalty as we expected could be that we have not chosen the same goods or services as Prahalad (2005) and that he may have been selective in his choice of items to prove his point. We can also assume that it exist differences between the Indian market where he did his research and the Mexican market that we looked at.

Amalia has brand preference towards two brands that are owned by MNC’s. However the biggest determinant for Amalia is the price which strengthens the suggestion of value consciousness. These findings go in line with what theory stated about brand preferences. However our research does not support the arguments that BOP-customers should buy a brand just to increase their self-esteem and move up Maslow’s hierarchy of needs. It should also be mentioned that the Mexican company Bimbo has a monopoly position in the bread market and also in the BOP-segment. Together with Coca-Cola, Bimbo has been the pioneer in distributing to remote areas in Mexico.
The acceptance of technology is in our findings limited to a widespread use of cell phones. However, in Amalia’s case this was not the best option since she used it to call her relatives in Chiapas which could be done cheaper using an ordinary landline. But for her work as a cleaning lady it helps her to be more flexible and respond to work offers with short notice that can increase her income. We know that Amalia has a TV, but it is shared among the people living with her which neither strengthens nor weakens any theories suggesting that the poor would spend their money on “luxury” products.

As for the private enterprises one of their main objectives according to Prahalad (2005) should be to create the capacity to consume by offering small packages at a lower cost per unit then a normal sized product. India he also found that this was done. Our study of P&G in Mexico and the case study of Unilever in Indonesia show that they are selling small sachets of shampoo, and that these products makes up a significant part of the sales. However, the fact that they are sold to a higher unit price then normal sized packages and the fact that they use more package material makes it questionable if it is the best alternative from a sustainable perspective. It also speaks against the findings of Prahalad (2005) in India. We can only assume by economic logic, that the volumes are many times larger in India then in Mexico and Indonesia due their huge population size. However, we can not find any perfect explanation to why small sachets of shampoo are preferred despite the higher cost per unit. One answer could be the same as in the Unilever report, which claims it is because the shortage of cash. If they do not use these products as frequently as people at the top of the economic pyramid it is hard to find a reason why they would lock their cash in stocking big packages.

The theoretical description of alternative distribution systems fits well with the operations of P&G and Unilever. By having the products in the small kiosk and street sellers, the likeness of purchase increases and at the same time it brings the products closer to the potential customer which saves them time. The outsourcing of the distribution system creates is beneficial both for the company that decreases their cost-structure and for the local distributor that becomes a part of the value chain. This also holds true for a local supply chain where a company easily connects the society to its operations and at the same time insures and constant flow of high quality production materials. According to us, being local in their operations, a company can build the trust that theory stated as important, but we have not find any proof of this in our research. It is also important to mention that the outsourcing strategy’s that both companies in our study has can be negative since the contract workers does not have the same security as an employee and are therefore likely to be least protected if a downsizing would come, as in the case of P&G.

The role of the NGO is as we see it a middle man between the poor and companies. As seen in our field study both NGOs have a network of thousands of poor, but productive small entrepreneurs. RENAMUR has already taken the benefit of integrating a foreign bank that will give micro loans to the women in the network, a solution that everybody benefits from. For a company wanting to pursue a strategy in Mexico these networks can be of great use when entering the BOP market. Either they can become the distribution chain of a company’s product making these women earn a little extra on the side of their core business, or they can be suppliers with their wide variety of products. The company can here bring knowledge to these women so that they can improve their own businesses. Both NGOs in our field study are still dependent of contributions from the government or private donators which make them crippled in their effort to grow as they want. If these contributions would stop, the whole network would be in danger. Therefore it is vital that they reach profitability that will sustain the growth of the network. Mundo Unitatis has re-
alized this fact and built up their organisation as a large cooperative where each small cooperative member contributes to the success of the other members, all as a way to make the organization less dependant on charity and instead be self sustained.

Innovation and sustainability are important and closely related issues. Our research has not found any great applicable example of a sustainable innovation for the BOP market. The innovations found are just remakes of existing products. The small sachet of shampoo is an innovation that seems to generate market share, but not a sustainable development. The mix of Ariel with Downy is the best innovation in our study since it really takes away the unnecessary cost of buying a softener, although we do not have any numbers how effective this particular product is. The process innovations we have seen is what Unilever and P&G has done by contracting with local suppliers and distributors in Indonesia that give a return to society in wages and taxes.

Some voices could be raised about the value of some of the innovative products offered to the poor. What is the value of a $100 laptop if you do not have enough money to fight your hunger? This is a complex question and the laptop is an example of long term solutions to get the poor out of their situation. The example with the laptop is to provide better education for school kids so that they will be competitive later on in life. Even though this may not provide food on their table today it will most likely help them out of their situation in the long run perspective.

Closely related the innovation topic is the complicated discussion if companies are meeting or creating needs when pursuing a strategy at the BOP market. In our research we have Unilever that are advertising ice-cream and P&G with their Pringles chips. Oxfam questioned if ice-cream really satisfies a basic need or if it is a created need by Unilever that customers now sees as a part of their basic needs. If the poor should be treated as equals with the right to choose and rule over their lives it is hard to see who would be the one deciding what they should spend their money on. Of course advertising can be manipulating in any part of the world, but this can not be a reason for stopping the marketing of “none-optimal” goods. If the poor are striving for self-actualisation it is inevitable that they are buying brands or products that gives them that feeling just as in the developing world.
6 Conclusion

Here we will answer our purpose

The first part of our purpose stated that this thesis will try to find out how a private enterprise can pursue a sustainable market development strategy. To help us answer this purpose we took a look at all the actors from a theoretical perspective and then from an empirical perspective. However, in the framework analysis we took the decision of not further investigate the role of the government since they, according to us do not have a proactive role. From our study we have strengthen that view of the government as the keeper of a constructed system that is not implemented among the majority of the population, who in a democracy, creates the system. A company entering the BOP-market is surely going to encounter the government, either as a partner or as recipient of bribes. However, by creating sustainable incentives also for the government as company can make a change at the top of a country’s economic pyramid too.

Before any type of BOP-strategy can be pursued a company has to come to the understanding that the poor together make up a profitable and huge growth segment. From our field studies we can conclude that this is the case, since P&G has a one year break-even barrier. From Unilever’s operations in Indonesia we have no numbers when they started to make profit.

Further we can conclude that a company must innovate, either with their products or their processes, in order to satisfy a real need in the market. This has been the case in both our company studies, even though these innovations can be discussed from usage and value creating perspective; they have at least proven to work in the market. In our research we have only looked at two FMCG companies that only can respond to a limited number of a poor person’s need. This shows in the fierce competition and marketing of products that not directly serve any real purpose. However we can conclude that it exist an endless number of innovations for the BOP segment that will help improve their standards of living, most of them already existing in various forms in the developed world. We can not neglect the fact that many innovations for the BOP-market also could work in the top of the economic pyramid, such as the mix of washing powder and softener, or the 100 dollar lap top.

Both the entrepreneur and the NGOs in our study can work as excellent partners in a BOP-strategy since they have the knowledge about, and access to, the poor which is the a very crucial resource that both foreign and national companies lack. The risk is the underlying scepticism which the parties can have against each other. But as seen in case of Oxfam GB/Unilever and RENAMUR/foreign bank it clearly exist win-win situations.

The second part of our purpose was to see if this BOP-strategy could reduce the poverty at the bottom of the economic pyramid. To answer this, we must make clear the link between poverty and sustainability. Because the point with sustainability in the consumer markets is that the products and services offered increases the disposable income, the choices, and the self identity of the person living in poverty. Only then can a BOP-strategy develop together with its market, resulting in a sustainable market development strategy, which, when pursued responsibly can lead to a triple-win situation.
7 Thoughts and reflections

Here we will present our thoughts about the subject

Are there not any downsides of the BOP strategy? We have found that especially Prahalad (2005) uses a lot of the same successful success stories in his book. This does not necessarily mean that they are not correct, but raises the question if these are one of kind examples that can not be repeated elsewhere. There are also some weaknesses in the examples which never are discussed. First, as long as the poor spend what little money they have, they will remain poor, even if they now benefit from higher quality goods. Then the theories do not further discuss the fact that even the poor can be victims of aggressive advertising which persuade them to buy goods they did not formerly need. It is not only us in the developed world that sometimes is trying to live beyond our means when it has been created new “needs” by marketing campaigns.

Another shortcoming is that the theory ignores the poorest part of the world, sub-Saharan Africa. The BOP-strategy will most likely not work in areas that are “too” poor. China and India is often discussed as good areas for the BOP strategy, and they have seen a dramatic reduction in poverty over the past 20 years. The interesting thing about those examples is that they have found their way out of poverty in completely different ways despite the fact that multinational companies have spent billions trying to get Indians and Chinese to buy their products. China has instead exported its way out of poverty, becoming the workshop of the world. India has grown differently with high educated population and more focus on the domestic market. These areas of the world are on their way out of poverty without the BOP-strategy but Africa is poorer today than it was 10 years ago. Still the theory does not handle with Africa, the continent that really needs a successful BOP strategy.

As a result from this we suggest that further studies on this subject should emphasise on the BOP-strategies impact on the poor. The preferred way to do this is to measure certain parameters that are crucial to a poor person’s living standards and follow these parameters over a long period of time. In this way one will know if increased living standards are due to the BOP-strategy or other external factors and trends in the market.
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1) Questionnaire Entrepreneurs

Can you describe your situation as an entrepreneur?

What are you biggest problems as an entrepreneur?

Legal, financial etc.

What are the advantages you have?

In what ways are you in contact with the informal economy / formal economy?

Do you have problems to gain access to capital?

-loans, credit etc.

Are you part of any networks?

-distribution, intermediaries, community.
2) Questionnaire Private Enterprise (Procter & Gamble)

Your name:

Your Position:

Could you describe P&G’s market strategy towards “the poor”? (Please also define “the poor” or the term you use)

What were the main reasons for a market development strategy?

What are the main differences and innovations from a “normal” marketing strategy?

- Product
- Promotion
- Distribution
- Competition
- Processes
- Organisational structure
- Finance

How are the poor integrated in the value chain?

Which are the biggest obstacles that you encounter?

What opportunities do you see?

What time span does your strategy have?

How do you measure success?

Is P&G part of a larger partnership, network or council (e.g. World Business Council of Sustainable Development)?

How does P&G define sustainable development and what are you doing to promote it?
3) Questionnaire NGO

Name of organisation:

Your position:

What is the goal and purpose of your organisation?

In what geographical areas is the organisation active?

Could you describe what type of services you provide?

What is your organisation’s core competence? (Strengths)

Could you describe what type of partnerships you are engaged in?

How are you financed and how do you get access to capital?

How would you describe sustainable development from your organisation’s point of view?

What are the biggest problems you encounter? (Legal, financial etc.)

In what way is your organisation working with technology to fulfil your goal?

How do you measure success?
4) Questionnaire Customer

Do you have access to technology, Health, Water, electricity, transportation, TV, Radio?

Does your community make any efforts to special organisation to provide help, service?

What type of commercials, promotion do you see?

What do you spend most of your money on?

Are there any products in particular that are extra expensive?

Do you care about brands when you purchase products?

Where do you make your purchases?

Do you buy large packages or small packages?

Are you able to take a loan, buy on credit?