

THE BOTTOM OF THE PYRAMID

GOOD BUSINESS MAKES POOR CUSTOMERS GOOD CUSTOMERS

Would your company like to add thousands, if not millions, of new customers? Jamie Anderson, Martin Kupp and Sandra Vandermerwe believe that serving the world's poorest people in developing markets can be both profitable and socially rewarding — if it's done right. As it turns out, what's good for business in developed countries also applies to emerging markets.

To date, few firms have used a customer-focused approach to serve the world's poorest people — a full two-thirds of the world's total population at the so-called 'bottom of the economic pyramid' (BOP). Much more prevalent has been a mass-produced approach that assumes that the poor in developing economies can only afford basic, cheap products emphasising functionality. In this classic product approach, often little more is done than push existing or barely adapted products onto shantytown dwellers and rural villagers. Consequently, real value that opens up new market spaces for

companies and produces longer-term value for the customer has been lost.

Our research reveals that contemporary enterprises that have taken the leap to the customer-focused way of doing business in the developing world grow markets and their stake in them, outperforming traditional enterprise and industry product approaches. The crucial steps in this approach are becoming better known but deserve much more attention.

Articulate and define the new market space

Defining the market space is the first step towards achieving customer focus in developing markets. The market space articulates the desired outcome for customers, which directs strategy from discrete products and services, easy to copy or marginalise, to outcomes. It unifies the parts of an offering across the company/division/industry, which produces a result in which a company's core products and services may be one small part.

When Zain, Nigeria's second largest mobile network operator, began to explore the needs of



the poor, the first action of the company's COO was to admit that he and his management staff knew almost nothing about the behaviour and activities of low-income rural customers, a segment that represented more than half of its local market. To overcome this lack of knowledge, the firm sent project teams into some of the country's poorest communities, and this experience led to revelations about the needs of low-income consumers. Zain's ethnographic research identified a range of activities undertaken by low-income Nigerians — before, during and after accessing telecommunications:

- **Before** Zain's research revealed that many rural Nigerians were travelling up to 50 to 80 kilometres to access telecommunication services — not because there was not a network coverage in their area but because handset ownership was at less than two per cent of rural consumers. Consumers had very low levels of understanding about the correct costs of mobile telephony or even how to use a mobile phone.
- **During** Pay phones were not available in the smallest villages.



Even when pay phones were available, villagers did not trust unofficial pay phone operators who frequently charged well-above-market rates. For families who had mobile handsets, it was frequently impossible to buy low-denomination top-up vouchers, as most mobile network operators did not have effective rural distribution. Where vouchers were available, they were often sold at 20–30 per cent above face value. High levels of network downtime also presented a problem for customers, with Zain suffering high levels of vandalism and theft of its networking equipment in many rural communities.

- **After** Consumers were confused about how to upgrade to different tariff offers and how to access customer service, due to poor literacy and fear of automated customer care systems. Due to the large number of regional dialects in Nigeria, it was not always possible for rural consumers to access a Zain call centre agent who spoke the local language. Finally, some consumers were afraid of

accessing new services such as text and picture messaging because of superstition — for example, rumours spread that ‘evil spells’ could be sent via text message.

Through the recruitment, training and support of village-level franchisees, Zain added value at each critical point in the customer cycle — for example, helping customers manage the transition from shared-phone use (by providing affordable Zain-branded village pay phones) to a shared family phone (distributing low-cost handsets in partnership with micro-finance institutions) and eventually to individual ownership and usage of a mobile telephone (expanding the local financing of handset purchases, developing and distributing micro top-up vouchers and providing access to handset power recharging services in areas lacking electricity). The company’s rural franchisees also managed local marketing, communication and customer care activities, not only educating consumers on Zain’s products and services, but also providing a local touch-point for customer service

— thereby eliminating the need for consumers to call a centralised call-centre. Village franchisees even took responsibility for security and basic maintenance of networking equipment, significantly reducing levels of vandalism and theft, and thereby increasing the reliability of network coverage for consumers.

Such a connection to local communities dramatically reduced the average time and cost of accessing telecommunications for consumers in rural Nigeria, but it also resulted in significant growth in Zain’s subscriber numbers and network utilisation. However, Zain was no longer thinking of itself as simply a supplier of telecommunications. It had started thinking of itself as a firm that supported the poor in the ‘quality of life through communication’ market space: it had become a company with customer focus.

Stretch activities to fill gaps in the customer experience

The customer-focused company opens a new market space and then fills it with value-added products and services. The market space





Customer focus means finding partners with the expertise the enterprise doesn't have, or chooses not to acquire, in the customer activity cycle.

gives concrete shape and form to the otherwise conceptual idea of a seamless customer outcome, which is at the heart of customer focus. Once the market space has been framed, the next step is to add value through the customer experience in order to get increased value. By identifying gaps in the customer activity cycle, activities not being done or being done badly, and filling these gaps, the company has opportunities to give and get new value. This value add takes place at each critical point: pre (when the customers are deciding what to do), during (when the customer is doing it/using it), and post (when the customer is reviewing the interaction). The customer-focused objective is to get into the activity cycle as early as possible and to stay in as long as possible. This allows the reinforcing 'lock-on' loop to begin, whereby the customer wants the company as the sole or dominant provider.

In Kenya, for-profit HealthStore's CFW franchise clinics are located in underserved villages and poor urban areas and are owned and managed by a licensed nurse or a qualified

community health care worker with medically qualified staff. The HealthStore model incorporates many of the key elements of successful franchising in the developed world: strict quality control and consistent branding, centralised selection of locations, collective purchasing and standardised systems and training. Clinics are located within short walking distance of the communities they serve and offer between 150 and 200 government-approved, tested products that can be offered at competitive prices of approximately USD \$0.50 per treatment.

HealthStore's franchisees aim to build relationships with the poor before they require health care. Energies and efforts are directed to minimise a specific person's risk of getting a disease, spot it early, manage it, get rid of it and minimise the chances of re-occurrence; so HealthStore provides screening services for children in school. The unique knowledge franchise owners glean about the health of young low-income individuals within the local community is used for future preventative action and ongoing

consultative health care throughout a patient's life.

HealthStore directly addresses many of the value gaps in the customer experience of health care in Kenya. The guarantee of high-quality advice and medicines at reasonable prices from qualified local medical personnel fills a critical need in a country in which ill patients either have to turn to a public health-care system that is notoriously under resourced (there are only 13 physicians per 1,000 people in Kenya) or to private pharmacies or grocery stalls that offer drugs that can be unlabelled, of poor quality or provided without a proper diagnosis. Since 2000, the CFW network has more than quadrupled to 80 locations, with over two-thirds being basic medical clinics and the rest drug outlets. This network treats an average of 45,000 customers and patients per month and, since inception, has served over 2 million people. Over the next three years, the organisation aims to expand to 200 CFW outlets in Kenya, serving up to 1.5 million patients and customers per year. It also recently launched its first outlets in Rwanda.

Personalise offerings for individuals

It is individual customers who lock on, not markets, thus the need for personalisation if the company is to both give and get maximum value. Providing personalised integrated offerings is very different from providing mass-customised products or services because it involves everything that goes into the customer experience. It requires personalising the 3Cs:

- **Content (what customers get)**
Zain franchisees provide advice to low-income customers on the best handset and tariff options based on their usage patterns. They can also extend credit to poor consumers for handset purchases based on their deep knowledge of the creditworthiness of local villagers.
- **Context (the way customers receive it)** Zain works with franchisees from local communities, has branded retail offices in small rural towns, and the sales and customer service staff of its franchisees visit villagers in more isolated communities.
- **Contact (how customers are treated)** Zain provides respect, trust and long-term relationships for the poor through professional business processes, specialised training for employees and associates, and by demanding stringent service quality requirements from distributors and retail franchisees.

Build a network of providers to deliver value

Having defined a portfolio of value add-ons that produce the fully integrated personalised offering, customer focus means finding partners with the expertise the enterprise doesn't have, or chooses not to acquire, in the customer activity cycle. Recognising that few of its poorer mobile phone consumers had bank accounts, and that this lack of secure current facilities resulted in fears and insecurities causing gaps in the financial management market space, Smart Communications in the Philippines partnered with MasterCard and Banco de Oro to introduce a proposition called Smart Money. Utilising a co-branded cash card linked to and controlled by the user's mobile phone, Smart Money enabled customers to store money on their mobile phone accounts and then

to withdraw this money via ATMs and associated businesses or make over-the-air payments for goods and services. By the end of 2009, Smart Money had more than 8.5 million users (about 10 per cent of the total population), many of them previously 'un-banked' customers.

Companies must also sometimes look beyond the private sector and build close partnerships with the public sector and non-government (not-for-profit) organisations (NGOs). This is a very different requirement than in most developed markets, as in the developing world supporting institutions are frequently lacking. To be able to offer competitive prices, HealthStore partners with the Mission for Essential Drugs and Supplies (MEDS) that has traditionally supported church health facilities and other non-profit health care providers. HealthStore franchise owners engage with community outreach efforts in partnership with local authorities, offering health screenings in schools as well as education about products and services beyond those that HealthStore sells. Through this hybrid public-private networking system, HealthStore acts to reduce childhood mortality and the spread of infectious diseases, not just to push its products.

The basis for partnering is to create new ways of doing things for customers and sharing in the financial or non-financial benefits by insuring a win-win for all contributing players. This new approach for the developing world has been termed a market-oriented ecosystem, and the instance of such symbiotic relationships continues to grow.

Create win-win opportunities

Rather than use the old industrial model, in which the battle for margins means someone down the linear chain has to lose for someone else to gain, companies adopting a customer-focused approach to the poor make sure everyone gains in collaborative partner networks. Appreciating the importance of local and international remittances by Filipinos working in cities or abroad, Smart Communications partnered with mobile network operators in Asia, Europe and North America, international remittance service provider Travelex, local banks and a network of Philippines-based retail

outlets to introduce a service called Smart Padala ('Padala', or Remittance, is a Filipino household word that represents a means of financial support). For a small commission fee and linked to the company's Smart Money m-banking proposition, the service allows customers to make international and domestic electronic transfers of money from one mobile phone subscriber to another. To claim the cash, the recipient can go to any one of the company's 10,000-plus encashment partners in the Philippines, including McDonald's restaurants, 7-11 convenience stores, Shoemart Department Stores, Seoail gasoline stations and Tambunting Pawnshop branches — all of whom gain from this new traffic.

Feed the economic model

With customer lock-on, the economics of customer focus come into play. Revenues per customer potentially go up over the lifetime of a relationship while risks, customer replacement and transactional and marketing costs decrease. As in the developed world, getting share of customers through time value rather than share of product category is the reward for a company that truly implements customer focus to the poor. This can come from existing or new services developed, bought or brought in by partners. Revenues go up through longevity of spend, depth of spend, breadth of spend and diversity of spend — as demonstrated through the long-term relationships that companies such as Zain, Smart and HealthStore are now building with their customers.

Intangible assets such as customer information and knowledge grow as they are reutilised. This pulls down the marginal cost of delivery and transactions if information and know-how are used in order to add value in the customer experience. Brazilian consumer goods retailers Casas Bahia and Magazine Luiza, which are active in some of the country's poorest slums or 'favelas', capture data on customers at the checkout daily. They do this expressly so that customers can be offered options or better alternatives that suit them or their finances. In addition, this facilitates seamless and instant decisions as to who can get credit for more goods.

Because initial investments in outcomes are largely in intangibles,





they are expandable, a baseline cost requiring refreshment and update, rather than expensive replacements as with traditional 'hard' assets. ProCredit Bulgaria specialises in extending loans to micro-enterprises in one of Europe's poorest countries, and its deep understanding of micro-enterprises not only allows it to achieve very low default rates but also provides it with a low-cost platform to expand into other financial services solutions such as trade financing and mortgages for commercial property. In less than five years, the company has built relationships with 25 per cent of all private enterprises accessing financial services in Bulgaria.

Many of these models also appreciate customers as potential producers, often giving them new income opportunities. As a result, they are not only fostering inclusive growth, but enhancing the wealth creation capability of their own customers. In the case of Zain Nigeria, they found out that each of their local franchisee employed in average five people, giving them a regular income and of course enabling them to use Zain's services.

Brands can be stretched into new adjacent market spaces at low or no cost once customer lock-on, know-how and information dominate the relationship. A deep knowledge of customers' individual circumstances has enabled Magazine Luiza to partner with Cardif, the BNP Paribas Assurance life insurer, and move into the provision of life insurance, disability and unemployment protection, and extended guarantee products for the poor, a first for a consumer goods retailer in Brazil.

Work for personal and social good

There are special challenges in emerging markets if customer focus is to make poor customers good customers. Improving the quality of life is probably the most obvious. From HealthStore's countering of poor health care in a country notoriously under resourced, to Grameen Bank reversing the poverty cycle in Bangladesh by lending to impoverished families and protecting small businesses from corruption, working for social as well as personal customer good is an integral part of applying the customer focus model to

deliver outcomes for BOP customers. Involving locals to deliver sustainable business approaches can increase skill levels within poor communities — Zain Nigeria, HeathStore and Smart Communications have all developed the small-business management skills of their micro-franchisees, and ProCredit actively develops local employees for management positions.

The cost-value trade-off is not as clear-cut in developing countries. Low-income customers simply cannot afford high prices, but the alternative of giving them the most inexpensive alternative will not bring about a desired outcome. Companies with customer focus need, therefore, to find a way to lower the cost without compromising the result at each critical point on the customer activity cycle. For example, Smart Communications recognised the minimum \$2 price of prepaid cards as a significant barrier to mobile telephony usage by the poor and also identified the lack of access to top-up outlets in more remote regions as another blockage. Smart developed a unique over-the-air recharge system so that Smart resellers could



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electronically transfer credits from one handset to another without the need for prepaid cards, reducing the minimum top-up value to just a few cents. Smart's innovation drove household mobile penetration in the Philippines to almost 75 per cent by the end of 2009.

Finally, it is important to eliminate the inequalities characteristic of BOP markets. This involves balancing buyer-seller power in environments that have sometimes been notoriously unscrupulous and unfair. At the start of the new millennium, Bulgaria's GDP per capita remained among the lowest in Europe (€1,900 in 2001) and a quarter of the population lived in poverty. Micro-enterprises accounted for more than 50 per cent of total employment in Bulgaria's private sector, with 81 per cent of these micro firms employing fewer than 10 people. But in the late 1990s and early 2000s, these crucial businesses were starved for cash because banks were reluctant to lend to risky clients. At the end of 2001, for example, banks had collectively extended only 16,336 loans under €100,000 to private enterprises in Bulgaria. ProCredit developed a business model to bring these micro-enterprises into the formal economy and within five years had extended €139 million in loans to 26,852 clients, with loans of less than €1,000 comprising close to 50 per cent of total outstanding credit. Through its unique business approach, ProCredit helped micro businesses that had been shut out of the formal banking sector to overcome the asymmetries that had retarded their growth.

Implement a customer-focused approach in developing markets

The experiences of companies such as Zain, Smart Communications and ProCredit demonstrate that it is possible to adopt a customer-focused approach at the base of the economic

pyramid. But how can a company move towards implementing such a model? The most important step is for managers to acknowledge how little they know about the poor and to determine possible market spaces in which to engage with low-income consumers and communities. This can only be achieved by market research that involves ethnographic approaches — including a willingness to observe the day-to-day experiences of the poor, to enter into dialogue with poor communities and to even go so far as having employees spend time living in shantytowns and rural areas. This phase should also involve engagement with informal community institutions, government agencies and non-government organisations as these groups are more likely to understand poor communities than the private sector does.

Once a company has engaged with the poor at this deep level, it becomes possible to identify and articulate desired outcomes and to define these outcomes in terms of market spaces. The firm can also start mapping the activities that customers are undertaking in their own efforts to achieve their desired outcomes and to identify value gaps across the customer activity cycle.

The next step is to identify partners with whom to deliver solutions to the poor. Not surprisingly, these partners are frequently the NGOs and other non-traditional players who have already implemented social infrastructures to serve poor communities. The key in this phase is to develop win-win approaches that deliver value not just for the company and end consumer but also for communities and developing countries.

There are some differences in dealing with poor customers in emerging markets. However, the underlying thinking and some of the customer-focused activities are consistent with those in even the most sophisticated marketplaces. Companies that understand this have managed to show that, compared to conventional approaches, they can get and stay ahead in a way that makes it difficult for rivals to catch up. Moreover, they have provided hope to customers (and to the communities and countries in which they live) that they can have an improved quality of life. ■

AUTHORS

JAMIE ANDERSON
JANDERSO@TIASNIMBAS.EDU
 Anderson is Adjunct Professor in Strategic Management at TiasNimbas Business School and Fellow of the Centre for Management Development at London Business School.

MARTIN KUPP
MARTIN.KUPP@ESMT.ORG
 Kupp is a member of the Professional Faculty and Programme Director at the European School of Management and Technology (ESMT), Berlin.

SANDRA VANDERMERWE
SANDRA.VANDERMERWE@BTINTERNET.COM
 Vandermerwe is a Visiting Professor at the Gordon Institute for Business Studies South Africa, at ESMT Germany and at Imperial College Business School, London.

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