Exposé

Shaping the shapeless: Africa. Targeting the bottom of the pyramid.

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Abstract

Background:

Introduction of the academic perspective of the Bottom of the Pyramid (BoP) lead to a number of studies and researches conducted in this area. Most of the scholars were focusing on the emerging Asian and South American markers such as India, Bangladesh, Brazil and other. Number of companies such as Unilever, Nestle have already established their corporate presence in those areas. Never the less the primary focus of the study is to figure out how the private sector can influence the poverty reduction in African region and what is the climate and possible development of privately owned companies on the continent.

Purpose:

The primary focus of the study is how the private sector can influence the poverty reduction in African region. Moreover, the region specific possible business models will be analyzed as a key tool as a market entry strategies.

Method:

Secondary research data is fundamental for this research. Therefore, number of publications in the area of business operations in BoP and up to date reports on the African business environment will be used.

Main findings:

Being “poor” means having no choice. The consumers in rural areas of Bangladesh and residents of Indian slums pay 30% more for the goods on a daily basis. The main reason for that is an absolute absence of the business infrastructure that might let companies to establish their distribution channels in these areas. The African perspective is far different but it is essential to pay attention to the growth rate since 1990 and serve the African consumers with an income less then 2$ a day.

Keywords: Bottom of the pyramid, poverty reduction, African emerging markets, Africa.
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Introduction

Background

Prahalad argues, that for well over a billion people—roughly one-six of humanity—per capita income is less than 1$ per day (p.3). Moreover, the author states that the most of the economic activities (up to 60%) are held in developing countries where the poor constitute the majority of the human population and at the same time are illuminated from the perspective of the global market economy.

“Selling to the poor and helping them improve their lives by producing and distributing products and services in culturally sensitive, environmentally sustainable, and economically profitable way” - is the key perspective of the pioneer scholar at the BoP Prahalad (p.3).

Nevertheless this perspective has got a lot of criticisms in the academic literature. For example, Karnani (2007) argued that the Bop market is relatively small and therefore unlikely to be profitable for most of the multinationals. Moreover, the companies should consider the cost of serving the consumers in these markets. Warnholz (2007) stated that the concept of selling to the poor is fundamentally utopian: “selling to the poor may do little to eradicate poverty hurts small businesses and threatens local jobs and income” (p1). On the contrary Prahalad (2006) states that the exact figures of market estimation and potential are far less important than the overall direction of the argument.

The key factor is to analyze the failure and success of the number of the companies that are already operating in BoP market and using the knowledge and expertise develop a business model to enter the African markets. I do support the argument of the scholars that selling to the poor reduces the poverty and stimulates the creation of choice from the side of the poor consumers. Moreover, I don't doubt myself that number of other scholars that promote the idea of multinationals entering the “poor” markets is a threat. Therefore, my key key argument is that the companies have to enter the BoP market in Africa but not in a traditional way using the penetration techniques and competitive analysis. The companies should enter those markets orienting toward the best they can do: creating
value for the consumers in an ethical way.

The reason why African markets have been chosen as a primary focus of the research is simply because the perception of the continent is threatful and enigmatic. The New Africa, Earns and Young(2013) report states that the key driver of the continental growth is a resource industry, supported by the Asian manufacturers booming the higher commodity prices (p.5). Moreover, the report clarifies that according to the research done by The Economist” “six African countries have been among the ten fastest growing economies in the world […], over the next five years, the average African economy will grow faster than its Asian counterpart” (pp.5-6).

Using the market data and theoretical framework is not enough to draw any assumptions of conclusions with respect to the strategic perspective of targeting consumers in Africa. Thus, this paper will be tightly interrelated with various market reports, previously conducted surveys and other data which might be useful in the intercourse of the research. For example, in order to better understand the business climate in Africa, I will use up to date risk and opportunity matrix for the countries in the continent, various indexes, strategic frameworks etc.

Clearly the topic is very peculiar and tightened with moral and ethical issues as well. Therefore, an important role of clarification what does “selling to the poor” means in terms of marketing and consumer manipulation will also be discussed. The role of the NGO's and governments will also be discussed as a primary example how those institutions failed in poverty reduction and why only hope is for the private sector with the help of the institutions that have a social expertise working with the African BoP.
**Problem Statement**

Analyzing the basic fact that four billion people have an annual per capita income less than 1,500$ is an obvious indicator that the government failure to:

“[...] fulfill the traditional, accepted functions of the government like public safety and security, universal literacy and primary education, public health education, provision of drinkable water, sanitation drains and severe facilities, public health (infectious and epidemic diseases), building road, and creating and disseminating agricultural technology” (Karnani 2007, p.106).

This severe facts are commonly accepted by the supporters and non supporters of the BoP theory. The key focus of my paper is argue that private sector with the help of the governments and NGO's can fight against the poverty together and gain profits as a result.

**Research question**

Addressing the research gap in the academic literature, specifically on the corporate operations in the African BoP, my goal is to create a framework which would let companies interested in this specific markets to integrate their operations and penetrate African markets. Therefore the following research questions will be examined:

- What is the potential of African emerging markets?
- What kind of framework needed to enter and successfully operate in African emerging markets?
- Who is the consumer in Africa?
**Theoretical background**

The primary focus of the study is a deep understanding of the Bottom of the pyramid concept. Meaning, analysis of a certain target group of the consumers, which are considered to be a vast majority of the human population. The question is not simply how to target this group, but rather how to increase their economic well being by creating a socially sustainable business in the chosen geographical area.

There is more critique to the concept, especially concerning the reliability of the potential of those markets and leak of credibility in the concept by itself. Therefore, an important part of my work is to compare those arguments; but the key issue is now whether it is possible to fight against poverty primarily within the private sector but rather how to do so.

Warnholz (2007) argues, that consumers in rural areas have to pay more for the same goods dew to the leak of infrastructure and proper distribution models. Consumers can't dream of purchasing a house therefore most of them spend on minor things that are completely irrational: alcohol, tobacco, some pieces of electronics which represent a status but never used in a daily life.

Prahalad (2010) proposed on the fundamental assumption that MNE might consider: “The poor are not our consumers because with our current cost structure, we can not profitably compete for the market” (p.4). It's a clear indicator that most of the companies are used to traditional market entry models, where they gain a high margin per unit sold – since the target group is changed, the strategy should be adopted to those groups considering their specific characteristics.

Moreover, the critical literature review concerning African continent is essential as well. Taking into consideration the size and the potential of the continent as such, we can't create a universal model which will suitable for every market, moreover the risk-benefit analysis clearly indicted the different potentials of the markets. Thus, before designing a market entry model I will answer the question what are risks and returns to operate in one or another market.

The theoretical framework will be guided by the formulation of the hypotheses:

**H1:** There is a clear interrelationship between activities in private sector and poverty reduction; therefore the focus should be on the concentration of the development of the business models in
H2: The concept of the Bottom of the Pyramid presents a rather diffused definition of the “poor”. There are certain subgroups within the group which express absolutely different consumer behavior patterns and the factors that clarify the behavior are beyond the income level.

H3: Understanding the consumer specific patterns will stimulate value creation to the products and increase demand. The brand is important to all consumer group as a matter of trust and met expectations.

Definitions

[BoP] The Bottom of the Pyramid – is the largest but the poorest social group which is spread around the world.

Limitations

The research is limited to the deep evaluation of the BoP concept and it's application to the emerging African markets; thus it is highly dependent on the secondary research which is based on number of publications and up to date market analysis and various reports. Moreover, the ethical background of selling to the poor is constrained only within the theoretical framework. There are number of examples of Western companies operating in Africa considerably in an unethical way, but the legal framework lets them to do so. Number of companies that have targeted the same group of people in India, Bangladesh and Philippines will be examined.
## Literature review

<table>
<thead>
<tr>
<th>Title</th>
<th>Author</th>
<th>Journal/Book</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Back to Business Fundamentals: Making “Bottom of the Pyramid” Relevant to Core Business</td>
<td>Eric Simanis and Mark Milstein</td>
<td>Field Action Science Reports, Special Issue 4, (2012)</td>
<td>How relevant is the BoP to the core business activities?</td>
</tr>
<tr>
<td>The Mirage of Marketing to the Bottom of the Pyramid: How the Private Sector Can Help Alleviate Poverty</td>
<td>Aneel Karnani</td>
<td>California Management Review Vol 49, NO4 Summer 2007</td>
<td>Criticism to Prahalad</td>
</tr>
<tr>
<td>Challenges in Marketing Socially Useful Goods to the Poor</td>
<td>Bernard Garrette and Aneel Karnani</td>
<td>California Management Review Vol 52 NO.4 Summer 2010</td>
<td>Case studies, examples of success</td>
</tr>
<tr>
<td>Doing Business in Africa</td>
<td>Ernst and Young</td>
<td>Ernst and Young</td>
<td>Risk management. Strategic perspective.</td>
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<td>The New Africa</td>
<td>Ernst and Young</td>
<td>Ernst and Young</td>
<td>Strategic perspective. Industry related Interviews.</td>
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<td>Africa 2013 Getting down to business</td>
<td>Ernst and Young</td>
<td>Ernst and Young</td>
<td>Data. Business development perspective</td>
</tr>
<tr>
<td>Microfinance: emerging trends and challenges</td>
<td>Sundaresan Suresh M.</td>
<td>Cheltenham [u.a.]: Elgar, 2008</td>
<td>The role of Microfinance in Bop. Techniques of micro credit.</td>
</tr>
<tr>
<td>Putting the poor first: how base of the pyramid ventures can learn from development approaches</td>
<td>Waibel Piera</td>
<td>PhD dissertation; Sheffield: Greenleaf Publ., 2012</td>
<td>Practical examples of operating in the BoP Latin America.</td>
</tr>
<tr>
<td>Mobile Banking: Innovation for the Poor</td>
<td>Ismail, Tashmia Masinge, Khumbula</td>
<td>Development, 2011</td>
<td>Mobile banking (microfinance) in South Africa</td>
</tr>
<tr>
<td>Integrated approach to</td>
<td>Subrahmanyan, Saroja</td>
<td>The Journal of</td>
<td>Psychology, motivation</td>
</tr>
</tbody>
</table>

*Exposé: Shaping the shapeless: Africa. Targeting the bottom of the pyramid*
<table>
<thead>
<tr>
<th>Topic</th>
<th>Author(s)</th>
<th>Journal/Publication</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global village vs. small town: Understanding networks at the Base of the Pyramid</td>
<td>Rivera-Santos, Miguel Rufin, Carlos</td>
<td>International Business Review, 2010 Vol.19</td>
<td>MNE at the BoP. Operation models (partnership, networking)</td>
</tr>
</tbody>
</table>
Methodology

In order to answer the research question and the hypotheses that are mentioned above, it is crucial to analyze the secondary research data. Moreover, it is critical to use number reports in order to gain up to date data and strategic concepts that are critically related to the business practices in the specific market. In order to develop a market entry models and business concepts it is essential to analyze the business cases of the companies that have been successfully operated on the market and those that have failed as well.

Due to the research limitations the primary research data will be minimized to the usage of already published academic and business models. Taking into consideration the complexity and the poor infrastructure development in the region it is impossible to run a survey or perform interviews or focus groups on a distance. Therefore, the secondary research data will play a crucial role in answering the research question and checking the validity of hypotheses.
Preliminary Structure

1. Introduction
1.1 Importance of the Topic
1.2 Research Objectives
1.3 Structure of the Thesis

2. Theoretical foundation
2.1 The Bottom of the Pyramid
2.2 Critique of the concept and its implication

3. Africa
3.1 The Emerging Market Analysis
3.2 Doing Business in Africa

4. Targeting the African BoP
4.1 Social entrepreneurship
4.2 The role of micro-financing
4.3 Culturally specific patterns

5. Research methodology
5.1 Theoretical fundamentals
5.2 Secondary research data overview

6. Practical implications

7. Conclusion
**Exposé: Shaping the shapeless: Africa. Targeting the bottom of the pyramid**

### Work Plan

<table>
<thead>
<tr>
<th>Week</th>
<th>Phase</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.10-31.10.2013</td>
<td>Research Phase</td>
<td>Evaluation of Expose</td>
</tr>
<tr>
<td>01.11-31.01.2013</td>
<td>Theoretical framework</td>
<td>Working on the theoretical part of the Thesis</td>
</tr>
<tr>
<td>01.02-31.03.2013</td>
<td>Secondary research data implication</td>
<td>Application of the results to the theoretical framework</td>
</tr>
<tr>
<td>01.04-31.04.2014</td>
<td>Final phase</td>
<td>Finalizing the master Thesis</td>
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</tbody>
</table>
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