Bottom of the Pyramid distribution solutions

Thematic insights from delivering technical assistance to agribusinesses through the African Agriculture Fund’s (AAF) Technical Assistance Facility (TAF)

This project was primarily funded by the EU, managed by IFAD and implemented by TechnoServe. The project received additional donations from the Alliance for a Green Revolution in Africa (AGRA), Italian Development Cooperation and United Nations Industrial Development Organisation (UNIDO).
INTRODUCTION

The Technical Assistance Facility’s (TAF) inclusive business projects enable firms to participate in development impact by providing economic opportunities and employment to local communities. In many cases, TAF encourages companies to take risks and test new ways of doing business they would not otherwise consider.

One example of this is TAF’s bottom of the Pyramid (BoP) projects which have supported the African Agriculture Fund’s (AAF) portfolio companies to take advantage of the large, informal market opportunity that exists by reaching typically underserved communities with critical products and services. Through its BoP projects, TAF has witnessed that, at a consumer level, effective BoP distribution schemes can improve physical and economic access to food by increasing the supply of food in an affordable way – distributing to the last mile in underserved areas; creating micro-business opportunities along the distribution chain; and generating viable commercial returns for firms. However, case studies and/or lessons in BoP distribution in Africa are not widely or freely available. This is particularly the case for fresh food products, with most of the literature focusing on distribution systems for durable products, fast moving consumer goods (“FMCG”) (excluding fresh food) and services (telecommunication, banking, insurance and healthcare). Furthermore, the most prominent case studies typically relate to distribution in India and Latin America with few lessons available in the African context. Lastly, distributing profitably to the BoP segment is difficult and complex, especially within the context of Small & Medium Enterprises (“SMEs”). The process involves a thorough understanding of the market; ensuring product development matches consumer preferences and requires constant project steering and iterations.

The purpose of this document is to capture the experiences of BoP projects that TAF has implemented across the continent to showcase the challenges, lessons learnt and critical success factors. Importantly, these findings have been distilled into a usable framework that SMEs, donors and government institutions interested in the BoP marketplace in Sub-Saharan Africa (SSA) can utilise and adopt.

DEFINING THE BoP

The bottom of the economic pyramid consists of approximately 4 billion people who survive on less than US$1,500 per year. A common assumption is that poor people have no purchasing power and do not represent a viable market opportunity. Prahalad however argues that the real source of market promise in developing countries is not the emerging middle class but actually the billions of “aspiring poor” at the BoP.

We borrow from the Next 4 Billion [1] a description of the ‘typical’ BoP consumer and market, to capture the key characteristics and challenges of this segment:

| | • Low incomes and low potential to generate income  
| | • Food dominates household budget with up to 50% of income going to food  
| | • Often live in rural and peri-rural areas or informal settlements with poor distribution and communication networks  
| | • Many lack access to water and sanitation services, electricity and basic health care  

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Turning to Africa, the BoP market is estimated to be US$ 429 billion and is by far the continent’s dominant consumer market consisting of 486 million people. Africa’s measured BoP food market is $97.0 billion and its estimated total market is $215.1 billion [1].

This segment of the population presents an immense market opportunity for businesses in Africa but remains largely untapped by the formal private sector due to complexity, risk, a lack of knowledge and lack of perspective of the informal market as a business opportunity.

The following sections seek to document key case studies from TAF to highlight the opportunity for businesses to generate new market opportunities whilst meeting the basic needs of BoP consumers. Each case study provides some background on the company in question, followed by a discussion of their BoP investment rationale and approach as well as challenges experienced and lessons learnt. When considering the critical success factors of doing business with the BoP a number of cross-cutting issues emerge. These are documented below.

### The importance of Innovation

In the commercial sense, innovation is related to the discovery, experimentation, development and adoption of new products, processes or organisational configurations and may arise from a new idea or market opportunity [4]. Innovative thinkers are problem solvers and since the whole BoP landscape is fraught with difficulties, innovative thinking is crucial along the entire value chain, from product development to distribution, marketing and management. Mainstream companies may find this type of innovative thinking difficult and perhaps this is the reason that innovations that engage the poor often come not from industry players but from firms outside the mainstream [5].

### Technology

According to Prahalad ‘Information poverty may be the single biggest roadblock to sustainable development’. In 2002, he already states that

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<thead>
<tr>
<th>OPPORTUNITIES</th>
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</thead>
<tbody>
<tr>
<td><strong>For Business</strong></td>
</tr>
<tr>
<td>Generating profits</td>
</tr>
<tr>
<td>Long-term growth</td>
</tr>
<tr>
<td>Developing new markets &amp; products</td>
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<tr>
<td>Driving innovation</td>
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<tr>
<td>Expanding the labour pool</td>
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<tr>
<td>Strengthening value chains</td>
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</table>
developments in the IT industry will lead to a whole new way of communicating and creating economic development in poor rural areas, and that the creative use of IT will emerge in these markets as a means to dramatically lower the costs associated with access to products and services, distribution and credit. More people have greater access to technology and that technology is becoming cheaper and more user friendly by the day. This has a significant and disruptive impact on distribution models, increasing the accessibility of businesses to the last mile and BoP consumer.

**Change Management**

Oodith and Parumasur [3] stress the need for businesses to alter their perceptions about the poor. The BoP is a vibrant, dynamic and, importantly, large market which is typically underserviced and often overlooked. Fundamentally, businesses need to recognise the highly transformative opportunity that resides within the BoP. It is likely that a company will have to make internal cultural and associated systems and operational changes to adapt to efficiently service the BoP.

**Doing Business with the BoP – case studies from Burkina Faso, Nigeria & Zambia**

The following section describes 4 BoP projects that received support from TAF. Case studies were compiled from project reports and interviews with key stakeholders.

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- Goldenlay, a table egg producer in the Copperbelt, Zambia
- Top Crust, a bread bakery business in Lagos, Nigeria
- Matonjeni, a producer of fruit-based cordials and ready to drink beverages located in Lusaka, Zambia
- Moablaou, a table egg producer in Ouagadougou, Burkina Faso

**GOLDENLAY POULTRY**

Goldenlay Limited (GLL) is a leading producer of table eggs in Zambia. The company supplies the Copperbelt and Zambia countrywide, as well as to the Democratic Republic of Congo. Following the investment from the AAF, GLL’s installed capacity increased to 500,000 eggs per day. The bulk of local Zambian egg sales take place through ntembas to BoP consumers with eggs being one of the cheapest sources of protein available.
BoP investment rationale and approach

In 2013, GLL’s local sales and distribution model involved a range of delivery trucks in an effort to reach BoP customers on a daily basis. These trucks would head off as early as possible every morning and had to return by 14:00 in order to bank their daily cash takings. Delivering with relatively large trucks into crowded informal settlements is difficult. Trucks would typically drive along a main road and stop at key points on this road (along with competitor trucks that were using the same sales and distribution model), and sell a number of trays to nearby ntembas or middle-men who bought in larger volumes to then service the ntembas. Whilst this model worked well to get the company to its intended scale, it was ineffective due to a number of reasons including: i) high competition among egg producers using the same Route to Market (RtM) approach; ii) the need to find alternative markets to sell surplus eggs; iii) little to no control over drivers and salesmen in terms of understanding their routes and pricing behaviour; and v) the operating cost of 22 trucks was substantial given the poor road conditions.

GLL therefore realised the need to change its sales and distribution approach, but deemed the downstream distribution of eggs to ntembas as difficult and costly. The challenge was to demonstrate to GLL that direct sales to ntembas (informal retail) would generate the most stable demand for eggs; be the most profitable RtM; improve the utilisation of trucks given drop-offs at a single point/depot and allow for greater control over pricing. TAF was mandated to conduct research to highlight approaches for GLL to extend its reach to ntembas in a more cost-effective manner and recommended a pilot to test the concept of using small distribution centres (DCs) coupled with delivery bikes to better service informal retailers directly. The approach included:

- Mapping areas that would be best suited for the pilot to identify optimal depot locations and designated bike peddler routes for maximum sales based on population density, foot traffic and proximity to existing markets;
- Registering, branding and mapping all ntembas within each of the peddler areas to allow for targeted sales, ordering and delivery;
- Designing and commissioning a bespoke, branded tricycle that could carry enough eggs per delivery (now at 60 trays per delivery);
- Sourcing and implementing a bespoke IT inventory tracking and point of sale (POS) system that could be used by both the company and at all points of sale (including the peddler) for efficient management and tracking of sales;
- Employing an in-house sales and marketing team with 10 staff; building their capacity to manage sales, marketing and other standard operating procedures;
- Setting up a BoP customer communications platform whereby promotions, price changes and other information can be effectively communicated to key stakeholders.

Key outcomes:

Five pilot depot sites were chosen and implemented along with 22 bike peddlers equipped with tricycles and POS machines. A total of 50 jobs were created along the distribution chain of which 16 were females. The initial project target was to generate sales of 6000 trays per day through this RtM. 60,000 trays per day were being distributed by project completion in September 2016, with 80% of ntembas surveyed at the time reporting a 60% increase in average daily egg sales since registering with GLL. The model has since been rolled out by GLL (with no further TAF funding) to 21
depots across 17 towns, 45 bike peddlers with a target of expanding this to 50 depots with 100 bike peddlers across Zambia; distributing ~120k trays per day.

CHALLENGES AND LESSONS LEARNT

✓ Management Buy-in/Change Management

GLL has a strong history in production, with sales into a highly underserved market prior to 2013. The influx of modern retail chains coupled with an increase in competition fundamentally changed the local industry. The company had to adapt to this new reality, but it took time for the required change management to take place, with the BoP initiative not being fully supported and only showing success after the approach was spearheaded by management.

✓ Finding and retaining appropriate staff and rewarding them through incentives

GLL battled with high staff turnover in the initial stages of the project. The introduction of a dedicated BoP management team coupled with well-defined and simplified incentives injected much needed stability. Staff still required ongoing training and capacity building in order to drive results.

✓ Finding appropriate, robust equipment and vehicles

Finding the range of appropriate equipment and vehicles that needed to be used at various points in the distribution chain (e.g. peddler bikes) and matching management information system (e.g. stock inventory and POS system) in the context of a developing country is difficult and takes much more time and effort than anticipated.

✓ Using a dedicated, proven and real-time MIS

It is not possible to implement a multi-actor value chain RtM BoP sales platform and dependably monitor sales, income, pricing and stock levels without a proven real-time online MIS. Typically, the greater the distance that stock is kept and sales takes place from the company’s operational base, the more difficult it is to control inventory and cash. A real-time, online inventory control and POS platform application in the form of OnlineOnly was implemented successfully from head office right through to the peddlers. The next step is to empower the informal retailer (ntembas) with the IT application that allows them to order, pay and verify delivery independently of the peddler. This encourages customer buy-in and allows for greater integration of loyalty programmes and customer feedback.

TOP CRUST BAKERY

Founded in 2011, Top Crust Bakery (“TCB”) is primarily a bread bakery business, manufacturing packaged bread in Lagos, Nigeria. A confectionary division was launched in 2017 focusing on small-pack confectionary products. The business has built some brand awareness and is differentiating itself as a producer of consistent, high-quality and affordable baked goods products.

BoP investment rationale and approach

TCB’s bread and confectionary distribution relies heavily on wholesalers who buy in bulk from the factory and sell in smaller volumes to sub-distributors and informal retailers. Wholesalers drive TCB’s business performance through their willingness to offtake substantial bread volumes. The influence and control of these wholesalers on the market draws from key attributes that include long term experience in bread distribution; stable capital base (which enables them to offer lower prices and credit to sub-distributors) and established networks within a wide reach of sub-distributors.
National economic pressures coupled with a highly fragmentated baked-goods value chain has placed substantial pressure on the TCB’s net margins and cash flows. Bread markets are largely commoditised causing prices to be highly elastic (small changes in price have a large impact on sales volume). There is thus little scope for adding extra premium to the TCB brand. Moreover, distributors control the RtM, commanding the trade mark-ups, squeezing TCB out of margins. TCB identified its heavy reliance on wholesalers and limited access to end consumers as a key business risk, with on average 10-18% margin surrendered to middlemen along the distribution chain. TAF was approached to assist with creating a strategy and implementation plan that would respond directly to this RtM challenge.

TAF designed a project with the aim of creating a direct link between the end consumer and TCB. Ultimately, it was aimed at increasing sales to the BoP and capturing more margin along the value chain for the business, whilst expanding the territorial reach of its products and developing the capacity of the sales and marketing team. Informal retailers would benefit through direct servicing by the business and access to good quality products at competitive prices.

The implementation approach was centred on:

- Conducting comprehensive market research in Lagos to establish entry points, consumer preferences and retail segmentation;
- Piloting different RtM approaches in different areas of Lagos. This included a combination of depots and sales reps operating on foot or with tricycles delivering to last mile outlets within pre-defined market territories;
- Implementation of a sales force automation tool that would track, in real-time, the movement and sales activities of sales representatives.

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Outcomes include:

- 8% week-on-week (WoW) growth in cupcake volumes (34% of overall average daily sales)
- 20% WoW growth in bread volumes representing 10% of overall average daily sales
- Sales force automation technology developed and used to manage sales reps and track performance
- The pilot has generated ~$75k in additional revenue for TCB at an improved margin of between 9%-12% across the product basket

CHALLENGES AND LESSONS LEARNT

✓ Understanding the local value chain

Although there are many common principles, BoP markets are incredibly diverse in their ‘local landscape’ and these local nuances need to be catered for during project design and implementation. TCB realised that the value chain was unique throughout Lagos given the highly fragmented nature of the baked-goods value chain and competitive market place. As a result, many different actors competed for the same market in a very localised manner. Furthermore, retailers open and close at different times resulting in ‘local norms’ that need to be respected and catered for during implementation.

✓ Companies need to be flexible, adaptable and persistent

Since the BoP market by definition operates at a low income and expenditure level it is highly sensitive to changing market dynamics – market actors adapt rapidly to cope with revised constraints. Companies that serve the BoP therefore need to be able to adapt rapidly and remain flexible in their operational approach, whilst maintaining as low an overhead as possible to remain competitive. Any change in a BoP RtM generally impacts many players involved in the value chain. Players tend to be ferociously competitive and will frustrate any new or alternative RtM that disrupts the status quo. TCB discovered that the depot model of distribution was not cost-effective in Agege and this was therefore only piloted in Lagos Island. The last mile distribution with tricycles (kekes) and foot soldiers (reps with backpacks) had to be tailored so that the product could be delivered as efficiently as possible.

✓ Management buy-in

The development and implementation of the direct RtM approach was largely outsourced to a TA provider, with limited operational involvement from TCB. The outsourced activities and responsibilities then needed to be handed over to appropriately trained TCB staff before true ownership could take place. The lack of full company ownership of the project from the outset results in a lack of understanding of the intricacies involved in serving the BoP market and therefore, the lack of true support to ensure success over what is often an extended (and often unpredictable and volatile) period of piloting different BoP approaches.

✓ Focus on increasing the purchasing power of retailers

Piloting innovative ways to increase the purchasing power of retailers, is key to unlocking the potential for informal retailers to make larger volume purchases, improve their level of service and enhance their ability to distribute more widely and efficiently. TCB found that some of the RtM sales representatives were using their daily transport allowance as a means of providing credit to their customers to secure sales and build customer loyalty. Businesses may have to look at ways of providing micro-credit or involve finance institutions to assist with increasing the access to finance. Moreover, creative strategies could include customer loyalty/rebate schemes (currently being tested at Goldenlay described above) or the provision of equipment to loyal distributors/retailers to enhance their serviceability (e.g. tricycles).
✓ Determine the right metrics to track performance

TCB had to consistently track sales representatives and determine breakeven points to assist with setting targets and reacting in real time to changing market dynamics. This was done through an integrated sales-force automation tool which allowed for real-time data collection and analytics, driving greater data-driven decision making.

CASE STUDY: MATONJENI

Matonjeni is a private company specialising in the production of fruit-based cordials and ready-to-drink (RTD) beverages as well as dry-goods for the fast-moving consumer goods (FMCG) industry, based in Lusaka, Zambia. Brands include Orchardlain, Citrade, First Harvest, Nektarade and Shambala.

BoP investment rationale and approach

Matonjeni supplies almost exclusively to the formal retail trade. For most manufacturers, formal retailers are volume drivers and can assist with scaling brands rapidly, provided businesses are able to survive the harsh trading conditions. From a financial perspective, suppliers and manufacturers into this channel have to extend credit terms as part of the formal retail listing requirements and this can be as long as 90 days. The formal trade seeks to maximise the returns per square inch of shelf-space passing on all costs to suppliers (merchandising, promotions, breakage etc.). As the formal trade becomes more important to a supplier (in terms of sales volume), they will demand greater pricing discounts, eroding margins for the respective supplier. Matonjeni faced this very issue and the business therefore needed to explore a variety of other options to manage growth, expand market share and improve liquidity.

The majority of Zambia still transacts through the informal trade. Consumers will venture to ntembas for daily and sometimes weekly shopping. Nationally, over 60% of the urban population dwells in informal settlements and with an annual urbanisation rate of 6% coupled with inadequate formal housing, the size of the informal urban dwelling population is likely to increase. Thus, the proliferation of informal retailers is likely to grow which represents an opportunity for manufacturers and suppliers of FMCG products.

TAF assisted Matonjeni with developing an informal market activation strategy and implementation plan to be piloted in Lusaka. The overall objective was similar to that of TCB in that the business wanted to drive increased sales to the BoP, with the key difference being the bolting-on of robust activations and promotions to drive consumer interest. Additionally, Matonjeni drove the implementation of the project with support from a service provider. They thus took ownership of the project from the onset.

The following outcomes and approaches were recorded:

- Direct stock collection from Matonjeni by 3 sales reps who would service ntembas, wholesalers and general dealers in allocated areas. These reps serviced approximately 750 ntembas averaging $4,5k in monthly sales with an average monthly growth rate of 19%.

- An IT application was developed and used as a sales force management tool

- 8 wholesalers were actively targeted generating ~$6,5k per month in additional revenue for the business with an average monthly growth rate of 14%

- 10 brand ambassadors were hired, trained and deployed to activate the Matonjeni brands across Lusaka
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CHALLENGES AND LESSONS LEARNT

✓ Dedicated BoP management

Whilst the project was implemented in a manner that was fully inclusive of Matonjeni management, they had to manage the new BoP initiatives over and above their normal daily tasks. Despite having the sales force automation tool which allowed for real time sales and market data, management was often stretched in terms of not having enough time to provide adequate oversight. Given the distribution complexities of servicing the BoP, the model requires a dedicated business unit within the business with its own management and support team to ensure pivots are recognised and actioned quickly and efficiently.

✓ Product should match consumer demand

Matonjeni has 5 beverage brands in different pack sizes and a range of flavours within each brand, resulting in a large number of SKUs. They have a history of supplying the formal market with their entire catalogue of products and are very much production focused. The business initially tended to push the sales of products based on what was produced rather than what the market necessarily wanted. Demand management through systematic market intelligence gathering is crucial in determining which products are preferred by the BoP consumer and therefore which ones should be prioritised from a production standpoint. Matonjeni has begun exploring altering/reducing their pack sizes to compete with other beverage brands and appeal to the budget-conscious consumer.

✓ Asset right sizing

Right sizing assets for the BoP is crucial to containing costs especially given the inaccessible and poor road networks that constitute most informal markets. For example, Matonjeni used pre-existing mid-sized vans for their direct sales model rather than smaller vehicles such as tricycles that have lower running costs and can effectively access and navigate the last mile. For the next iteration the business is actively looking to purchase smaller delivery vehicles to match daily demand and reduce running costs.

CASE STUDY: MOABLAOU POULTRY

Moablaou is primarily a producer of table eggs and is located Ouagadougou, Burkina Faso. It also sells poultry feed, chicken manure and depleted hens to the local market.

BoP investment rationale

Moablaou has 200,000 laying hens from which it produces 150,000 - 180,000 eggs per day, making it the largest egg producer in Burkina Faso. The distribution system is well organised and relies on a network of small independent distributors (58%) and four large wholesalers (42%). Most small independent distributors are women that trade eggs as their main, and oftentimes, only product. Small distributors buy as many trays as they can afford per purchase and distribute these trays using bicycles, mopeds or motorised tricycles. Both large wholesalers and small distributors sell in bulk to fresh egg retailers, shops, market stalls or street vendors.

Egg collection by small-scale distributors takes place three days a week at Moablaou’s depot which is lengthy and tedious. The collection process is completely manual and involves a lot of cash, which women carry with them. By simplifying the collection process and leveraging technology to digitise payments and enhance credit worthiness, distributors could increase their selling time, safeguard their cash and increase their purchasing power through greater access to finance.

Independent distributors are characterised as having low purchasing power, low literacy rates, deficient business skills and little access
to finance. The BoP support provided by TAF aimed to support the efficiency and sustainability of the BoP distribution channel by enhancing business skills and incomes of these small distributors. This was achieved through 3 primary interventions:

1. **Business skills development to distributors** – business training to optimise sales and reduce costs;

2. **Introduction of mobile technology** – piloting cashless payments and rewards;

3. **Access to finance** – identifying and engaging with suitable microfinance and banking institutions towards creating an alternative system of assessing credit and providing access to finance by leveraging the digitised payment solution.

**CHALLENGES AND LESSONS LEARNT**

1. **Consistent, adequate and timeous supply of product**

   This incentivises distributors to continue doing business with the supplier, allowing them to optimise sales and expand their business. Despite the company having fully recovered from an avian flu outbreak in 2016, egg production remained below expectations, unable to meet higher egg volumes demanded by distributors. Furthermore, distributors did not dependably receive correct quantities of specific egg types/sizes according to their orders, thereby disappointing customers and reducing their trust in the business. To manage this more effectively, production needs to be in sync with the sales team to ensure expectations are properly managed including clear communications to distributors and agents.

2. **Appropriate technology platforms are critical to reducing risk and unlocking opportunities**

   Technology platforms must provide efficiencies for both the business and distributor e.g. reduced cost for the business and increased efficiencies for the distributor. In the case of Moablaou this involved a long negotiation period with a mobile money provider to ensure that an appropriate pricing structure was recommended. The piloted mobile money platform proved to be successful in reducing distributor risks of carrying cash and also saved time. It is envisaged that it will significantly streamline the ordering process and reduce/eliminate cash transactions once fully implemented.

   - **BoP interventions should be done in a transparent, locally sensitive and inclusive manner**

   There was some animosity from distributors not included in the pilot project since they felt excluded. It is important that companies manage the expectations of BoP customers by raising awareness of the need to implement pilot projects that will be scaled up if successful. This can be actioned by formalising the registration process for distributors by score-carding their potential using pre-defined proxies for performance. This would allow the business to categorise its distributors and test incentives accordingly.

3. **Access to micro-credit is key to unlocking the BoP potential**

   BoP traders are able to make larger purchases, improve their level of service, distribute more widely and efficiently, and expand their business activities outside of one specific product offering if they have access to finance. The provision of micro-credit loans to the distributors that qualified allowed for investment in diversification of their business activities, including the purchase or renting of improved delivery vehicles which increased their load capacity and purchasing power. This needs to be coupled with targeted business skills development to ensure business acumen is improved.
KEY TAKEAWAYS

Based on TAF’s experience designing, implementing and steering projects focused on expanding distribution to the BoP, a number of key takeaways have been developed. These relate to the overarching themes that emerged from doing business with the BoP including the practical elements of implementing of rolling-out a BoP strategy at the portfolio company level. These have been condensed into frameworks that businesses, NGOs and government agencies can leverage when thinking about their respective BoP initiatives.

DOING BUSINESS WITH THE BOP: GOLDEN RULES

- Approach project scoping and implementation with innovation and technology in mind
- Systematise the entire distribution value chain to eliminate inefficiency and drive greater coordination - this takes time and effort
- Encourage a “start-up” mentality to allow for quick decision-making and continual right-sizing to ensure projects align with company goals and respond to consumer needs
- Make data-driven decision making the cornerstone of the project – setting the right key performance indicators and tracking them unapologetically
- View people development holistically vs transactionally – look to build a team of winners that believe and buy into the brand and approach
- Companies must manage their “time to success” expectations – oftentimes this includes building brands from a low base or in different markets which takes time

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CONCLUSION

The essence of RtM to the BoP is a profound curiosity. The high degree of failure is typically due to a pre-conceived idea by entrepreneurs of how the BoP works; the inability to properly understand the market dynamics and a lack of empathy for BoP consumer needs. The reality is that this is highly evolving, dynamic market place with the biggest room for consumer demand growth. Businesses that recognise the opportunity need to be patient when ideating and implementing a BoP approach, which will include constant pivots and iterations adapting to continuous feedback received from the market. Ultimately, businesses must work towards a more inclusive business model that epitomises the intrinsically linked social and commercial aspects of servicing the BoP.
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