



Trend Reports

DI Base of the Pyramid

Overview of trend reports

Why timing is essential in frontier markets

Small changes in income create massive increases in demand of fast moving consumer goods. High growth rates in frontier markets should make your company consider markets and countries that have been avoided in the past • [Read more at page 2](#)

Choose markets by your network

Avoid making life difficult when establishing your BOP business. Choose the markets where your company already has a network through sales partners, sales offices, own production sites, or subsidiaries.

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60 New case studies

Get access to 60 new case studies of inclusive business models including the poor as clients and customers, and as employees, producers, and business owners • [Read more at page 6](#)

ABOUT TREND REPORTS

Welcome to BOP Learning Labs quarterly newsletter. The newsletter provides companies a quick overview of recent trends in low-income markets.

Why timing is essential in frontier markets

Small changes in income create massive increases in demand of fast moving consumer goods. High growth rates in frontier markets should make your company consider markets and countries that have been avoided in the past

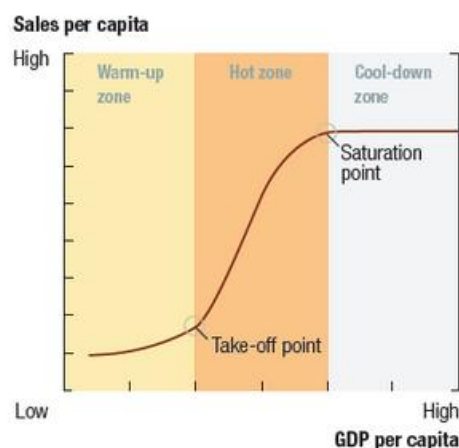
Research shows that incremental increase in income tends to create substantial increases in demand of fast moving consumer goods (FMCG) in low-income markets. Growth in consumption of FMCG is predominantly driven by GDP per capita growth. McKinsey has previously found that an average of 73 percent of the growth in consumption of FMCG is a result of GDP per capita growth.

This makes the high GDP growth rates in emerging and frontier markets as Ghana and Kenya interesting from an investment perspective.

By 2015, it is forecasted that continued urbanisation and economic growth will generate 221 million basic-needs consumers only on the African continent.. A 4.5 percent total growth in compound annual GDP per capita until 2015 is set to increase consumer spending by more than 35 percent.

S-curve growth

The idea behind the forecasted trend is that growth in consumption of FMCG moves along an s-curve. As GDP per capita increases, sales per capita is not following a linear path, but along an s-curve, indicating a phase of intensive growth, between the start phase and maturity phase. At the initial flat part of the curve the low level of GDP per capita



makes products too expensive for the majority of potential consumers. The point where market penetration grows more slowly than GDP per capita is often referred to as the warm-up zone.

The steep part of the curve indicates the phase where sales accelerate significantly, and exceeds GDP per capita growth. This is the zone where opportunities are present. The take-off point varies by product depending on the consumer needs. The steep part of the s-curve is referred to as the hot zone. As GDP per capita level keeps increasing, the demand for a product will saturate. The saturation point is reached when it is impossible to consume more of the product due to time or physical constraints, and there are no new consumers entering the market.

Timing

Timing is crucial. Successful entry is typically found just before the market enters the 'hot zone', which provides a favourable position for the companies to take advantage of rapidly increasing consumer spending. In several frontier markets, impressive GDP growth rates have been sustained for several years. This trend enables product categories to move into the 'hot zone' where the growth opportunities are present.

The challenge for companies is to understand where on the s-curve their product is placed in a given country. Once understood, it is possible to more precisely grasp the opportunity and select the appropriate investment strategy.

Choosing markets

In addition to understanding where your product is placed on the s-curve, it is essential to consider in which markets your organisation has capacities, resources and expertise to develop a new business.

“In most cases, Danish companies do not have full subsidiaries in frontier markets, but often have local partners as sales partners, sales offices, or sourcing offices.”

“When establishing a new BOP business, it is essential to

use the embeddedness of local partners to obtain information and a local network, and potentially develop the business. Therefore companies need to look inside in addition to understanding the external s-curve.” says Andreas Flensburg, Consultant at DIBD.

Implications: Understanding s-curves

Entering frontier markets is not easy or simple, and massive growth rarely happens instantly. However, high GDP growth rates in countries that were previously disregarded combined with new knowledge make the following points relevant:

1. Realise that massive growth opportunities for FMCGs exist in previously avoided markets
2. Understand at where on the s-curve your product is placed in a given country
3. Consider in which growth markets your organisation has the best capacities, resources, and expertise to enter the market
4. Utilize the embeddedness of your local partners

Choose markets based on your network

Avoid making life difficult when establishing your BOP business. Choose the markets where your company already has a network through sales partners, sales offices, own production sites, or subsidiaries - and use your local partners to develop business ideas and obtain embeddedness.

Choosing a market for developing your BOP project is a classic dilemma which there is no universal approach. But new interesting ideas are developing based on experience from existing BOP ventures.

One of the essential ideas is that your company should focus on countries and markets where you are already present, either through sales partners, sales offices, or even own production sites and subsidiaries. This would often be large markets with upper, middle and low-

income consumers, as the BRICs and Mexico, opposed to frontier markets as e.g. Mozambique.

The process of choosing markets

Endeva, a German Institute creating knowledge to develop and implement inclusive business models, has recently released the publication Inclusive Business Guide which gives interesting thoughts on market selection.

Christina Gradl, Director at Endeva and contributor to the Inclusive Business Guide, explains Endeva's approach to market selection: "First, the company needs to look inside, where it has the best capacities, resources, and expertise to develop a project on the ground. In most cases, it would make no sense to venture into a new country just in order to get to the BOP market. Typically, companies go abroad with their standard business model and then take it from there."

A strong local partner is essential in building a sustainable business, but it is only rarely sufficient: "Partner selection then happens locally or based on established networks. But only in rare cases, or when looking at the purchasing side, would a good local partner suffice to build a solid BOP business." says Christina Gradl.

Using your network to develop ideas and obtain embeddedness

There are two key benefits of using your local network sales partners, sales offices, own production sites, or subsidiaries: Using your local connections to develop ideas and opportunities; and secondly using the embeddedness of your local partner to find the right people and information.

Christina Gradl points out the advantage of using your local network: "Companies are able to use their local partners to get a sense of the opportunity, possibly also concrete project ideas, definitely local information and embeddedness, i.e. local contacts and networks, knowing how things are done etc."

Siemens is an example of how a company has utilized its local network to generate business opportunities by creating an ideas competition among all its subsidiaries on BOP innovation. As a result, Siemens has developed a solar kiosk on the Victoria Lake in Kenya. In addition to sourcing ideas and opportunities, you should use your local network to obtain embeddedness. Embeddedness is a concept introduced by sociologist Mark Granovetter describing “the degree to which individuals or firms are enmeshed in a social network”.

David Barnekow, Consultant at DIBD, notes: “When Danish companies are developing their BOP ventures, one of the main issues is bridging the gap between the Danish headquarter and the potential customers in emerging and frontier markets. If the company has local representatives, it is often possible to use their embeddedness and thereby gain inside knowledge on the specific industry and market.”

Implications: Understanding the value of your network

There are many approaches to market selection and there is no universal approach for selecting countries for BOP ventures. There are however advantages of bearing in mind the following points when considering which markets to enter:

1. Consider where your organisation has the best capacities, resources, and expertise to develop a project on the ground
2. Use your local partners to source business ideas and local information
3. Utilize the embeddedness of your local partner to develop your network and get to know how things are done locally

60 New case studies of Inclusive Business Models

Get access to 60 new case studies of inclusive business models including the poor as clients and customers, and as employees, producers, and business owners

The GIM has recently released 60 new case studies of business models, which include the poor on the demand side as clients and customers, and on the supply side as employees, producers, and business owners along the value chain. The case studies from Africa, Americas, Asia and Europe are thoroughly researched and provide evidence of various ways to develop proven business models that are inclusive in emerging and frontier markets. . The case studies are organised by several well-defined variables and are available in a searchable database.

Categorising business models

The case studies from GIM are mapped in a strategy matrix. The strategy matrix list is made up of five constraints in low-income markets and five strategies which companies apply to overcome constraints and operate within the desired low-income markets. Within the case reviews, the matrix provides a useful outline of the solutions, which the companies applied to solve their problems and develop their value propositions. The colour highlights within the matrix, shows how the strategies are most often applied by companies. Strategies highlighted in dark blue are used most often, those in light blue only rarely. Successful inclusive business models typically combine several strategies to address several constraints.

Example of the matrix in use

Toyola Energy is a Ghanaian venture producing and distributing energy efficient charcoal stoves and solar lanterns for domestic users in the urban and rural parts of Ghana. The company has developed an innovative business model that includes the poor along the whole value chain as suppliers, manufacturers, retailers, and customers. However, the business model also meets several

constraints, which have been dealt with in ingenious ways as displayed in the matrix:

	Adapt products and processes	Invest in removing constraints	Leverage the strengths of the poor	Combine resources and capabilities	Engage in policy dialogue with government
Market information					
Regulatory environment					
Physical infrastructure	Quality and standardization compromised when outsourcing	Lack of access to electricity and poor roads			
	Set up ceramic subsidiary	Invested in generator and bicycles/boat			
Knowledge & skills	Low levels of productivity	Lack of knowledge and low level of skills	Low awareness level of the stove in rural areas		
	Increase level of specialization in the production process	Established apprenticeship model	Engaged local sales people in the various regions		
Access to financial services	Customers cannot afford product	Financial constraints to pay production			
	Sell product on credit to the poor	Making finances available to artisans			

Working with cases and generating ideas for business models

The strategy matrix is also valuable as a tool in your company to map possible solutions to constraints within your targeted market. To get from broad strategies to focused solutions one must not only identify each local constraint, but also understand its dynamics in the market. The strategy matrix can be combined with Osterwalder, Pigneur, & al. business model canvas, which is a visual template pre-formatted with the nine core blocks of a business model. The canvas allows you to develop and sketch out new business models.

Further reading and resources

In addition to the extensive case database from GIM, NextBillion holds an impressive case collection. Below we have summarised key resources:

- Cases from GIM
- Cases from NextBillion
- GIM strategy matrix
- Business Model Canvas