Serving Low-income Markets: Re-thinking Multinational Corporations' Strategies

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Corporate approach to Development

- Role of private sector in development
  - Multinational Corporations (MNCs)
    - Philanthropic / Charity
    - Corporate Social Responsibility (CSR)
  - Market-based approach
    - Serving low-income communities
    - Win-Win (?)
Corporate approach to development (cont.)

Base of the Pyramid (BOP) debate

<table>
<thead>
<tr>
<th>BOP market—$5 trillion</th>
<th>TOTAL BY INCOME SEGMENT</th>
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<tbody>
<tr>
<td>BOP3000</td>
<td></td>
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<tr>
<td>BOP2500</td>
<td></td>
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<tr>
<td>BOP2000</td>
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<td>BOP1500</td>
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<td>BOP1000</td>
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<td>BOP500</td>
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(Hart and Milstein, 1999; Prahalad and Hammond, 2002; Hart and Christensen, 2002; Prahalad and Hart, 2002)
Challenges of low-income markets

- **Purchasing Power**
  - Fluctuating income
  - Access to credit

- **Infrastructure**
  - Physical
  - Logistics
  - Education/Skill

- **Diversity**
  - Locations
  - Culture

- **Institutions**
  - Different institutional structure
  - Weak legal enforcement
  - Intellectual property issues
Potential role of Multinational Corporations

- **Resources.**

- **Leveraging.**
  - Knowledge transfer from one market to another and scale-up the solutions.

- **Bridging.**
  - Potential to act as catalysts for cooperation
    - NGOs, communities, local governments, entrepreneurs, and multilateral organizations
    - Bringing development to underserved communities.

(Prahalad, 2005; Hart, 2005; UNDP, 2007)
Received literature

- Business & Management Literature
  - Focused on developed markets
  - Limited Generalizability *(Busenitz et al., 2000)*.

- Emerging Markets’ literature
  - Pre-occupied with strategies to overcome the lack of a Western-style business environment *(Peng, 2001)*.
  - Targeting higher income customers
    - the vast majority of the people are on the outside looking in *(de Soto, 2000)*

- Appropriate Technology
  - Technology-centric
  - Scalability – diffusion?
Research approach

- Qualitative
  - Secondary data
    - Case studies, reports, etc
  - semi-structured interviews
    - MNCs’ managers, NGOs, Multilateral Organizations

- Quantitative
  - Survey
    - Managers involved with projects for low-income markets
Theoretical framework

Business Model

“The value a company offers to customers, and the network of partners for creating, marketing, and delivering this value” (Govindarajan and Gupta, 2001)

<table>
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<tr>
<th>Effect of low-income markets’ characteristic on MNC's strategies</th>
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<tbody>
<tr>
<td><strong>R&amp;D</strong></td>
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</table>
| **Purchasing power** | • Focus on functionality  
| | • price/performance | • Small packages/sachets  
| | | • Increased use of labor | • combining financial services with the product  
| | | | • collective payment option |
| **Infrastructure** | • Acknowledge endogenous solutions  
| | | • proper user interface | • Robust production to work in hostile environments |
| **Diversity** | • Developing scalable solutions  
| | | • User-innovation | • Using local production capacity  
| | | | • Modular design |
| **Institutional** | • local research lab  
| | | • local entrepreneurs | • Partner with local producers |
| | | | | • Partnership with civil communities, NGOs  
| | | | | • Local immersion |
Initial remarks

- Specific characteristics of low-income markets increasingly challenge the existing practices of multinational corporations
- A long road ahead to eventually reach the goal of mutual benefit.
  - Adapting to new business models
  - Learn to create new partnerships and networks
  - Social embeddedness
  - Co-creation of value
    - Benefiting from and empowering local innovation systems
Q & A

Thank You!
- Base of the Pyramid (BoP) debate
- Challenges of low-income markets
- Potential role of Multinational Corporations
- Theoretical background
- Research method
- Theoretical framework
- Concluding remarks