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Developing an Integrated BOP Engagement Strategy

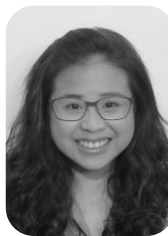
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Developing an Integrated BOP Engagement Strategy

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ABSTRACT

Poverty is present in both developed and developing countries. More than half of the world's population earns less than US\$5 a day. This segment has been called the bottom of the pyramid, or the BOP by (CK Prahalad). Individuals who are part of the BOP are in dire need of basic services such as education, health, employment, and shelter.

With increasing social demand and expectation, companies are taking an active role to address the basic concerns of the BOP through corporate social responsibility (CSR) programs. Firms around the world have implemented feeding, medical mission, tutoring and skills training programs. However, philanthropic giving can be unsustainable and may be questioned by investors and creditors. An integrated engagement strategy can serve to deliver profits to the firm while addressing key BOP concerns.

Companies must be able to develop a BOP engagement approach that fits their assets and competencies, business concerns, and stakeholder needs and interests. Before developing a BOP engagement strategy, companies need to conduct an internal (footprint) and external (stakeholder) assessment. Firms can then explore the applicability of BOP engagement approaches—BOP partnership and BOP marketing.

BOP engagement must be integrated and embedded into corporate strategy and business operations to best serve both the company and target beneficiaries.

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BOTTOM OF THE PYRAMID

According to the World Resources Institute (WRI) and International Finance Corporation, about 4 billion people worldwide live on less than US\$2 per day (2007).¹ Based on the national household surveys of countries worldwide, the World Resource Institute estimated that the bottom of the pyramid (BOP) is made up of 5,575 million people or 72% of the world's population.² The World Bank projected that the BOP market would increase to six billion in the next 40 years, as a large percentage of the world population growth occurs within this income bracket.³ According to Nohlen (1998), as quoted by Hahn (2009), "BOP characterizes a particular cross-national class of individuals." Hahn further explains that, "this implies that [there are] also people in non-developing countries [that] may belong to the BOP."⁴

The WRI estimates that the majority of the BOP population live in developing countries in Africa, Asia, Eastern Europe, and Latin America and the Caribbean where daily wage rates for labor-intensive occupations are relatively low—US\$ 3.35/ day in Brazil; US\$ 2.11/day in China; US\$ 1.89/day in Ghana and US\$ 1.56/day in India. Globally, the purchasing power of the population at the BOP is estimated to be at US\$ 5 billion. Food dominates BOP household spending, but as income increases, food allocation decreases and cash for other expenditures such as transportation and mobile phones increases.⁵

A BOP classification based on living standards is presented below. This is an excerpt from the article of Rangan et. al. (June 2011) entitled, "The Globe: Segmenting the Base of the Pyramid."⁶

¹ Breen, Bill. (March 2007). "Q&A: C.K. Prahalad - Pyramid Schemer." Available HTTP: <<http://www.fastcompany.com/58882/qa-ck-prahalad-pyramid-schemer>> (accessed 18 July 2012)

² Hammond, A., Kramer, W.J., Tran, J., Katz, R., and Walker, C. (March 2007). "The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid." Available HTTP: <<http://www.wri.org/publication/the-next-4-billion>> (accessed 18 July 2012)

³ Prahalad, C.K. and Hart, S.L. (2002). "The Fortune at the Bottom of the Pyramid." Available HTTP: <<http://www.cs.berkeley.edu/~brewer/ict4b/Fortune-BoP.pdf>> (accessed 18 July 2012)

⁴ Hahn, R. (2009). "The Ethical Rational of Business for the Poor – Integrating the Concepts Bottom of the Pyramid, Sustainable Development, and Corporate Citizenship." In *Journal of Business Ethics* (2009) 84:313–324. Available HTTP: <<http://web.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=70825b89-f66f-4e99-9eb7-ec25934becf5%40sessionmgr14&vid=2&hid=15>> (accessed 18 July 2012)

⁵ Hammond, A., Kramer, W.J., Tran, J., Katz, R., and Walker, C. (March 2007). "The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid." Available HTTP: <<http://www.wri.org/publication/the-next-4-billion>> (accessed 18 July 2012)

⁶ Kasturi, R.V., Chu, M. and Petkoski, D. (June 2011). "The Globe: Segmenting the Base of the Pyramid." Available HTTP: <<http://hbr.org/2011/06/the-globe-segmenting-the-base-of-the-pyramid/ar/1>> (accessed 27 September 2012)

- Low income: These are adults who live on US\$3-5 per day. They usually have “a couple of years of secondary education and the skills needed to enter the job market.” They maintain “semi-regular incomes as construction workers, petty traders, drivers, or low-level staff in public and commercial establishments.” They can afford bicycles, televisions and mobile phones.
- Subsistence: These are individuals who live on US\$1-3 per day, most of whom are “poorly educated and low-skilled.” They do not usually enjoy regular income. Most of their concerns include “improved sanitation, health care, and education.” In urban areas, they live in slums or shanty towns and may work as “helpers or assistants in petty trade.” In rural areas, they act as “temporary, migratory farmhands during sowing and harvesting seasons.” They do not have access to regular means of financing, which makes them vulnerable to borrowing from loan sharks.
- Extreme poverty: These are individuals who live on less than US\$ 1 per day. Their basic needs are “sufficient food, clean water, and adequate shelter.” More often, they are affected by “wars, civil strife, and natural disasters.”

ASSESSMENT: FOOTPRINT AND STAKEHOLDERS

Developing a CSR program needs to be a systematic process that begins with an assessment of the company’s internal and external environment. Internal assessment refers to the footprint and value chain analysis, while external assessment refers to the macro-environment and stakeholder analysis.

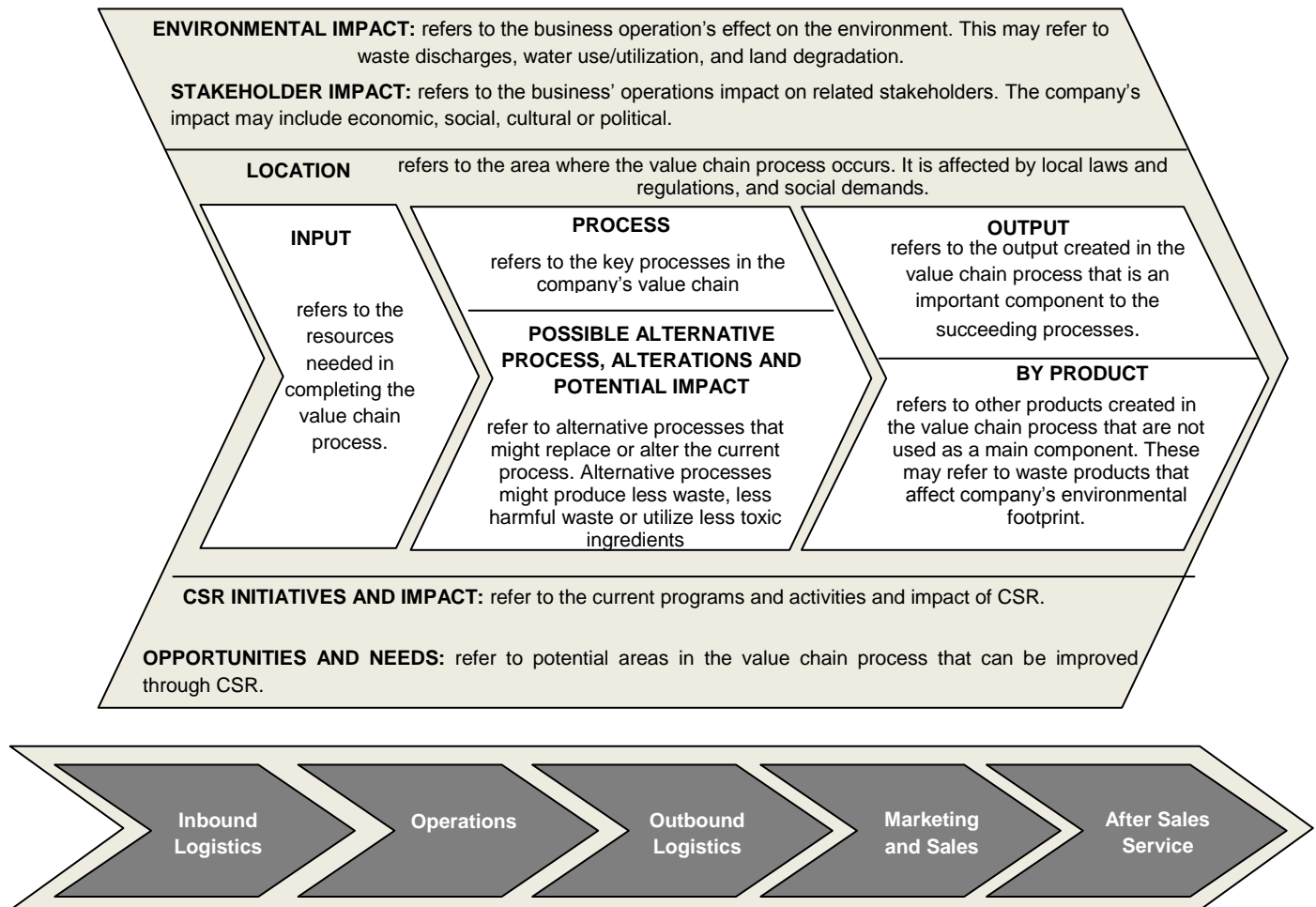
Footprint Analysis

Footprint analysis begins by evaluating the company’s value chain—which includes the key functional processes of the company. Companies need to analyze their footprint in order to determine the impact of operations on the economy, society and environment.

The Value Chain Analysis presents 10 components that are examined for each step in the value chain. These components include the physical aspects, procedures and processes, as well as the social and environmental impact of the value chain process. This framework also includes a gap analysis to help companies assess how their CSR programs may be improved. In actual

usage, the supporting functions (e.g. Finance, IT, HRM) that are not clearly part of the supply chain must also be evaluated. (See Figure 1)

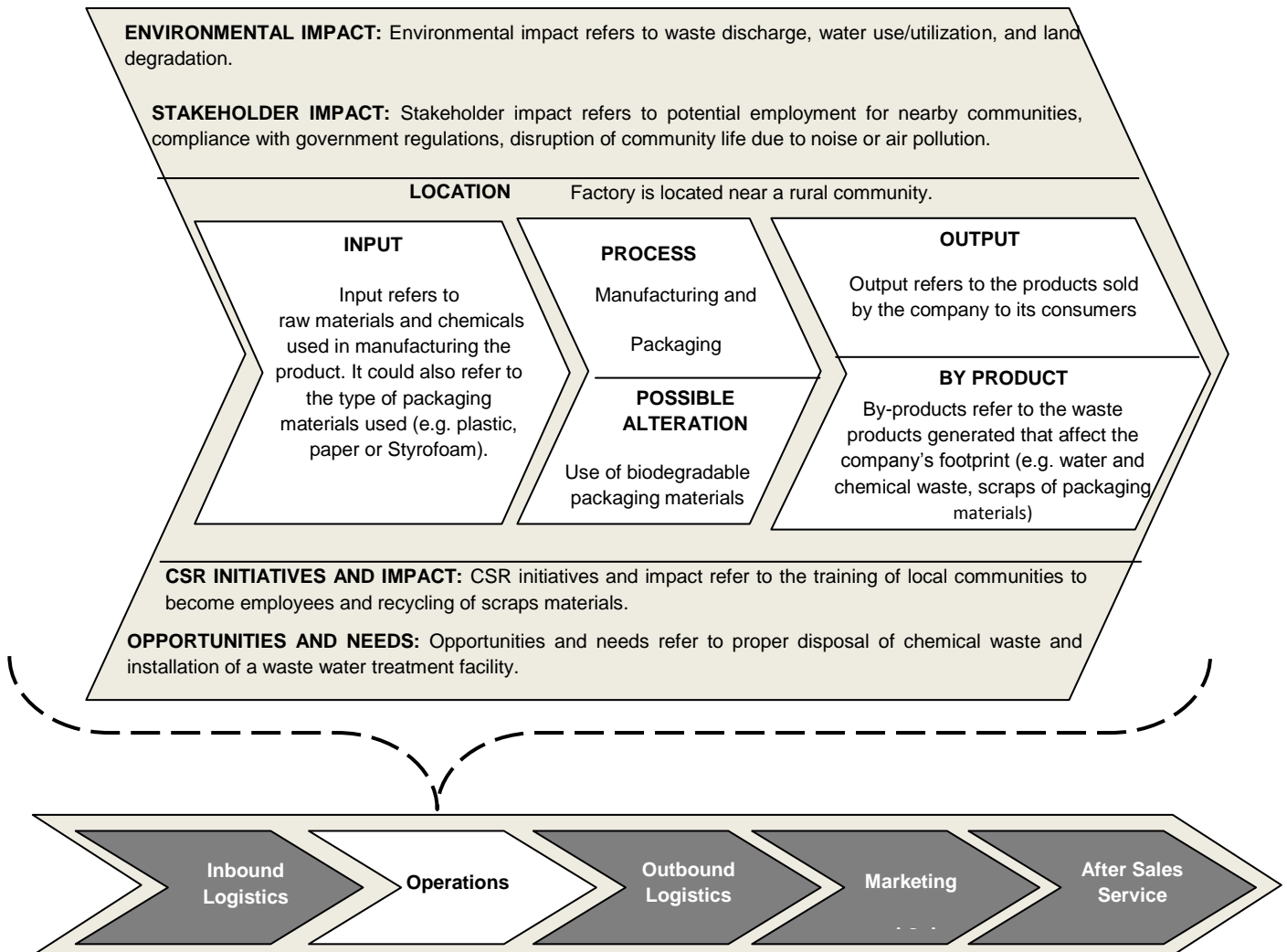
Figure 1: Value Chain Analysis



Companies may use this framework in order to aid in footprint analysis. The objective is to help firms identify opportunities to improve operations—that is, reduce or eliminate their negative impact and maximize positive impact. An example of the application of the framework is provided below. Here value chain analysis is used to examine the manufacturing and packaging processes of a company. (See Figure 2).

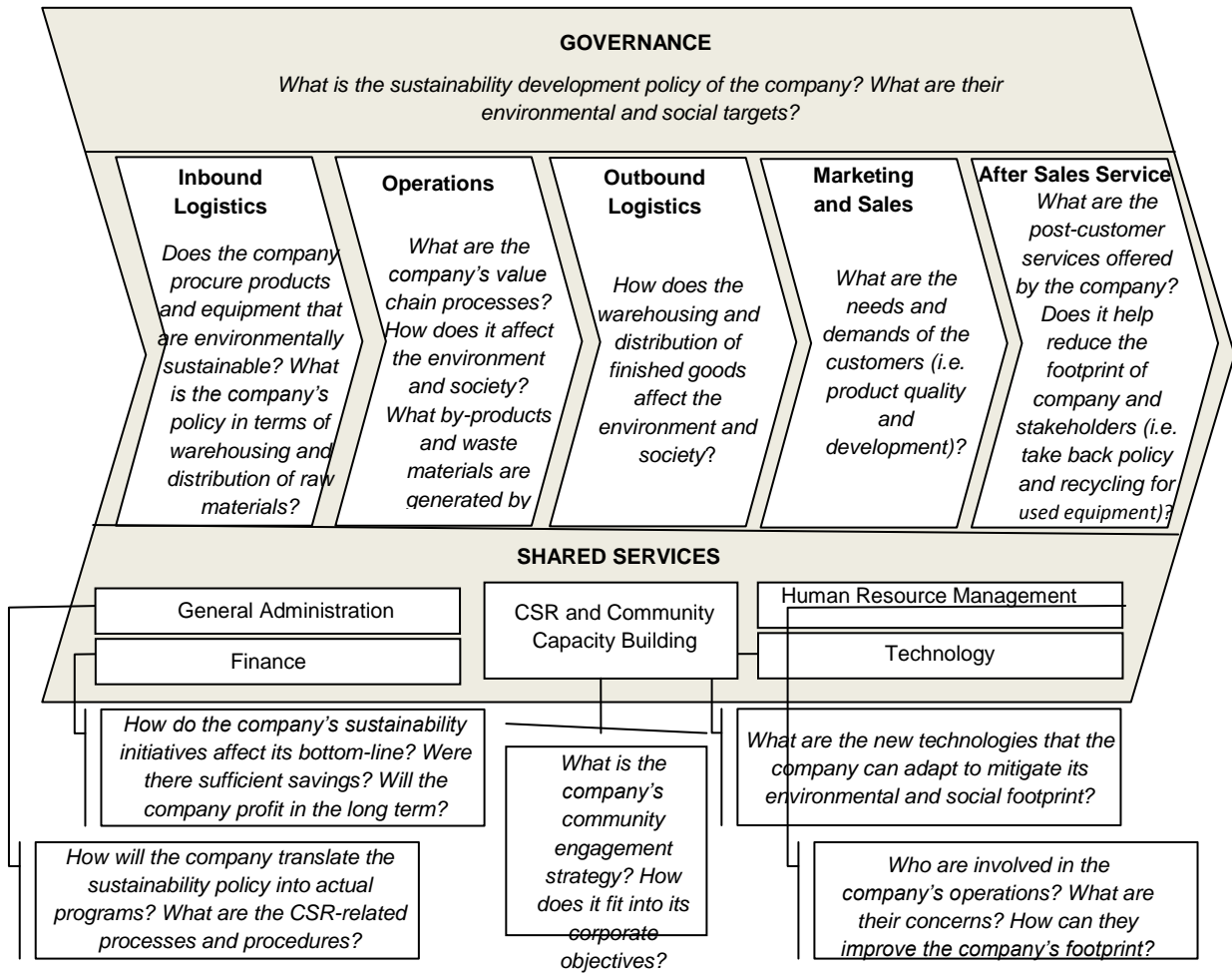
Figure 2: Value Chain Analysis Operations (Example)

Every step in the value chain must be analyzed



The Footprint Analysis Framework, on the other hand, shows how each business function can have a sustainability or CSR component. The questions for each business function act as a guide for companies to examine gaps and opportunities in each function, and identify future sustainability initiatives. Companies can also use this framework to analyze their footprint based on the existing policies and procedures and systems currently in place. (See Figure 3.)

Figure 3: Sustainable Approach in Footprint Analysis



Stakeholder Analysis

Stakeholders are individuals or group of individuals that are affected by or may influence a company's operations, image, and reputation.

Stakeholder analysis includes identifying stakeholders as well as their key concerns and interests. Companies also need to determine the skills, assets and competencies of these stakeholders in order to identify opportunities in developing partnerships. The objective of stakeholder analysis is not merely to map stakeholders, but to develop stakeholder engagement strategies that will transform them from beneficiaries to business partners.

Table 1 presents an overview of different stakeholder types as well as their roles and wants. Note that stakeholders' role and needs vary depending on the unique circumstances of company's industry or operations.

Table 1: Stakeholder Type: Role and Wants

Stakeholder Type	Role/Impact on the Company	Wants
Employees	Workers	High wages; comfortable workplace environment
Shareholders and Investors	Financiers	High profits
Suppliers	Supplies raw materials	Fast payment terms; low supplier expectations
Consumers	Purchases the finished goods and services	Affordable and quality goods and services
Society	May affect the operation of the company	Employment and social development programs
Moderating/mediating Stakeholders (such as NGOs)	May affect the image/reputation and operation of the company	Socially responsible company

The challenge for companies is to develop engagement strategies and CSR programs that effectively address their own interests as well as the different stakeholders' interests.

Macro-environment Analysis

A firm must understand the landscape that it operates in. This means assessing the formal and informal institutions in the business, government and social environments. A clear understanding of these factors is critical in developing a sustainable CSR and community engagement strategy aligns the company's and stakeholders' interests and concerns.

The Influences Frame of the AIM-RVR Center maps out the different factors that affect the development and practice of CSR. The framework takes into consideration both formal and informal structures that may influence company operations. The framework covers three layers or clusters of influence: Fundamental Influences, Institutional Dynamics and the Business Landscape.

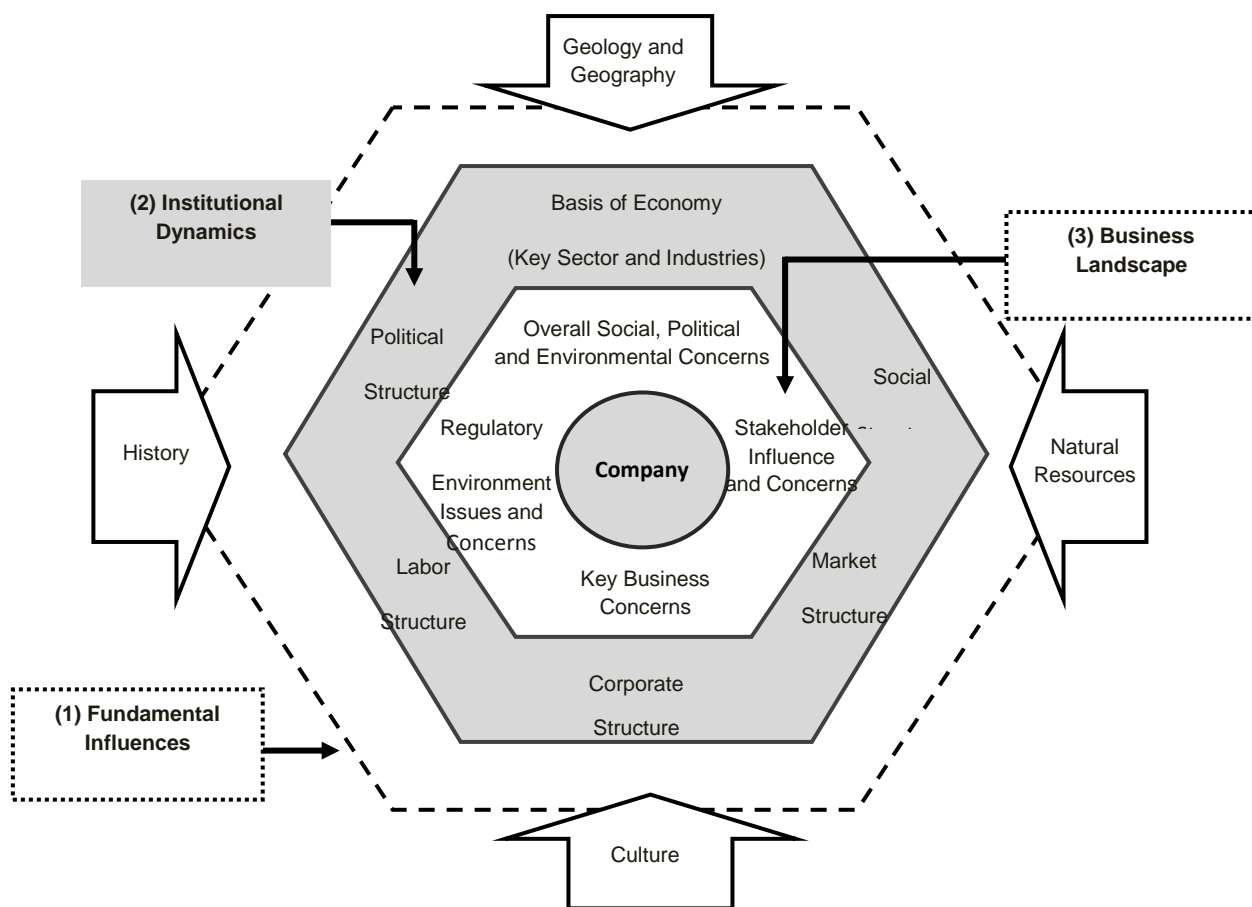
The outermost layer of the framework is Fundamental Influences, which affect all stakeholders. These four factors directly influence the dynamics of the country and its various institutions. Natural resources, for example, may determine the dominant industries in an economy. History and culture may influence the type of government as well as legislation.

The Institutional dynamics cluster includes six main components that describe the character, relative influence, and capabilities of different institutions (formal and informal) in a

country. These factors in turn shape the immediate business landscape of the company. The concerns and degree of influence of each stakeholder will vary depending on a country's Institutional dynamics.

The Hexagon Frame may also be used in analyzing the development of CSR in a country. It can be used to analyze key drivers of CSR and how specific stakeholders can assist or hinder the implementation of a firm's CSR program. Companies can use this to identify the major factors that shape the practice of CSR in the countries they operate in. This is especially important for multi-national corporations that need to implement a global policy across different locations.

Figure 4: The Environment of CSR: The Influences (Hexagon) Framework



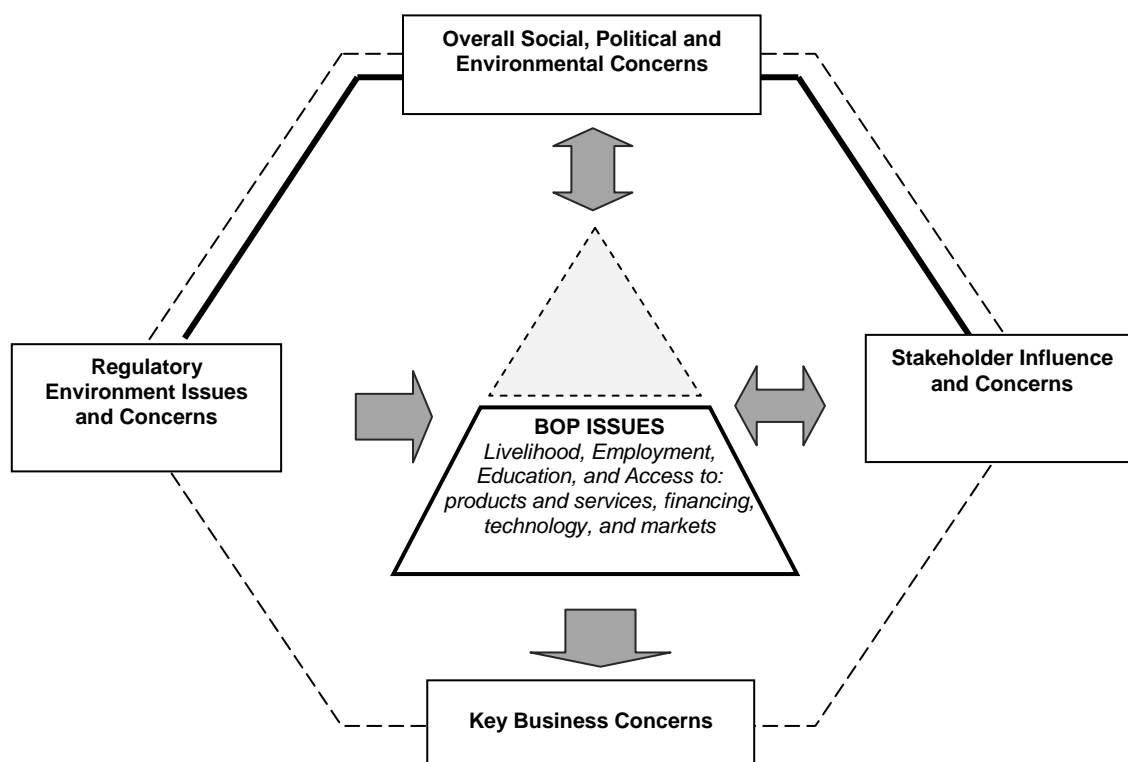
Source: Herrera, M.B., Alarilla, M.I. and Uy, R.L. (2011). *Towards Strategic CSR: Aligning CSR with the Business and Embedding CSR in the Organization: A Manual for Practitioners*. Makati City: Asian Institute of Management.

BOP ENGAGEMENT STRATEGY

The development of a community engagement strategy first involves understanding the company's local business landscape. This local business landscape is the innermost cluster in the RVR Center's Influences (Hexagon) framework for understanding the market and non-market environment of the business.

The Business Landscape (Figure 5) includes: (1) the overall Social, Political and Environmental concerns in the area, (2) the Regulatory environment, and (3) Stakeholder influences and concerns. These three primarily non-market factors affect the company's key business concerns, which are traditionally market-related. In particular, these three factors are interconnected with the concerns of the communities at the bottom of the pyramid.

Figure 5: Business Landscape Framework



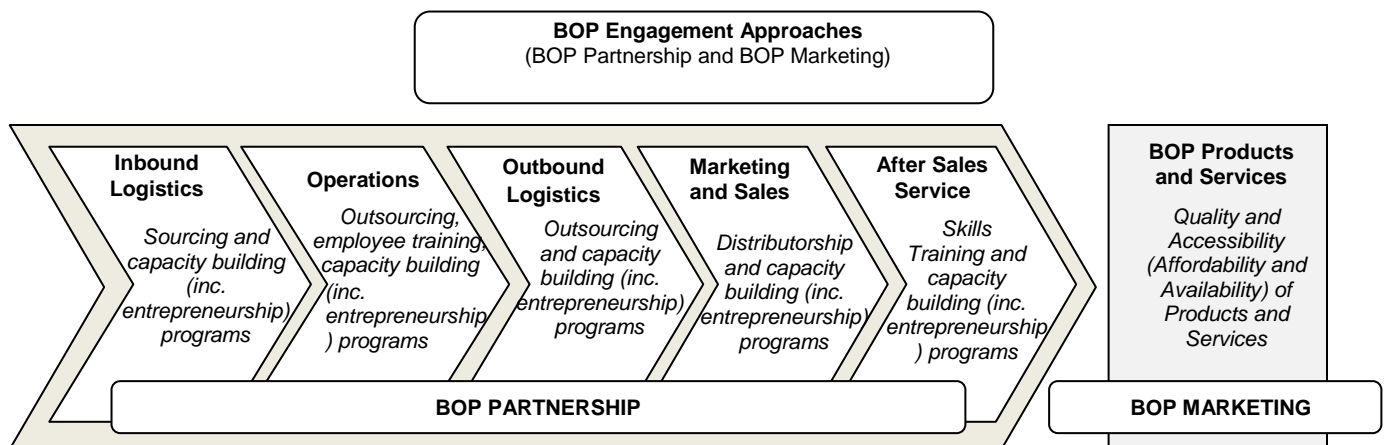
There are two primary concerns at the bottom of the pyramid: access to quality and affordable products and services, and access to livelihood and employment opportunities. Secondary concerns are related to these two primary concerns. These include: inadequate access to education, poor access to finance, poor access to technology and poor access to markets.

As Prahalad points out, much of the opportunity for directly addressing bottom of the pyramid concerns actually stem from addressing the first primary concern: providing access to quality and affordable products in a manner that still creates profits for the corporation. In the Philippines, this includes the dramatically cheaper mobile phones first pioneered by Smart as well as the generic drugs manufactured by Unilab and Pascual Laboratories.

Once companies begin to market to the bottom of the pyramid, it becomes clear that new approaches to distribution are necessary. In the Philippines, the marketing of generic drugs is pushed by micro-franchises that provide livelihood opportunities for micro-entrepreneurs, and the affordable pre-paid mobile phone services are provided by micro-entrepreneurs with direct access to the BOP market.

One way to fully evaluate the opportunities for engaging the bottom of the pyramid is through mapping the corporate value chain against engagement opportunities, as shown in Figure 6.

Figure 6: BOP Engagement Approaches



In general, BOP engagement strategies would address the two primary concerns of the BOP: access to affordable, quality products and services (BOP Marketing) and access to employment or livelihood opportunities (BOP Partnership).

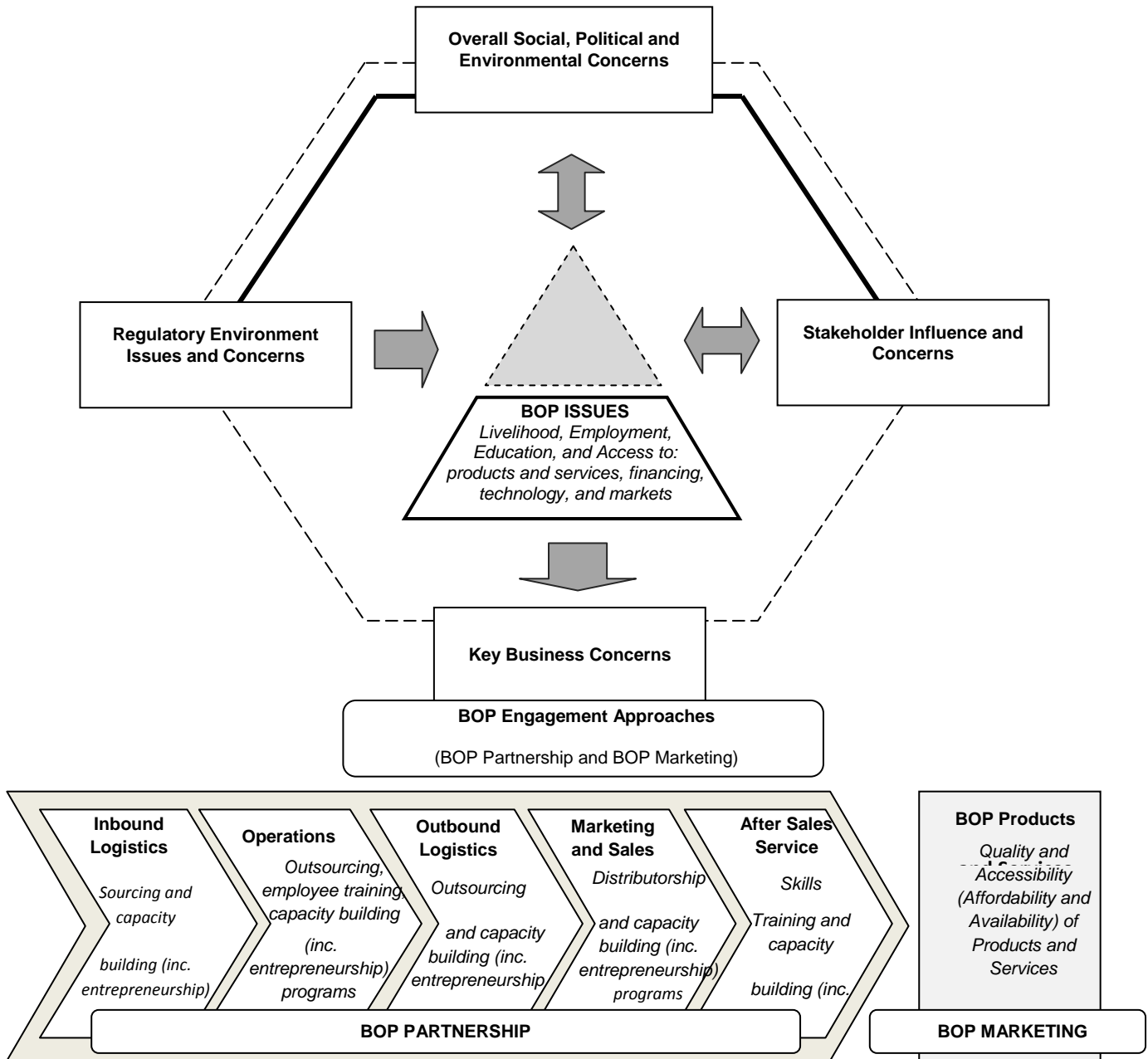
The BOP Marketing approach focuses on providing quality and accessible (includes affordability and availability) products and services. Companies develop BOP products and services based on their business platform and competencies. More often, BOP marketing

initiatives address the gap between the available products and services in the market and the BOP needs. Corporations that may use the BOP marketing approach are those in the health, education, agriculture, food, finance and banking, and telecommunications industries, as they are in a unique position to address many of the most common BOP issues.

The BOP Partnership approach focuses on providing employment and livelihood opportunities for the BOP. To be sustainable, partnership initiatives must be integrated into the company's value chain. Opportunities for the BOP may be created in the sourcing, production, retail distribution and sales processes, through employment, capacity-building and entrepreneurship programs.

Companies may use this framework in assessing the macro-environment and stakeholder concerns in developing BOP engagement programs that are integrated into its value chain. A firm's assets, competencies, operations and type of business/industry will also affect the type of BOP engagement program that will be implemented. The objective is to develop a BOP program that is profitable for the company while delivering tangible benefits to the BOP.

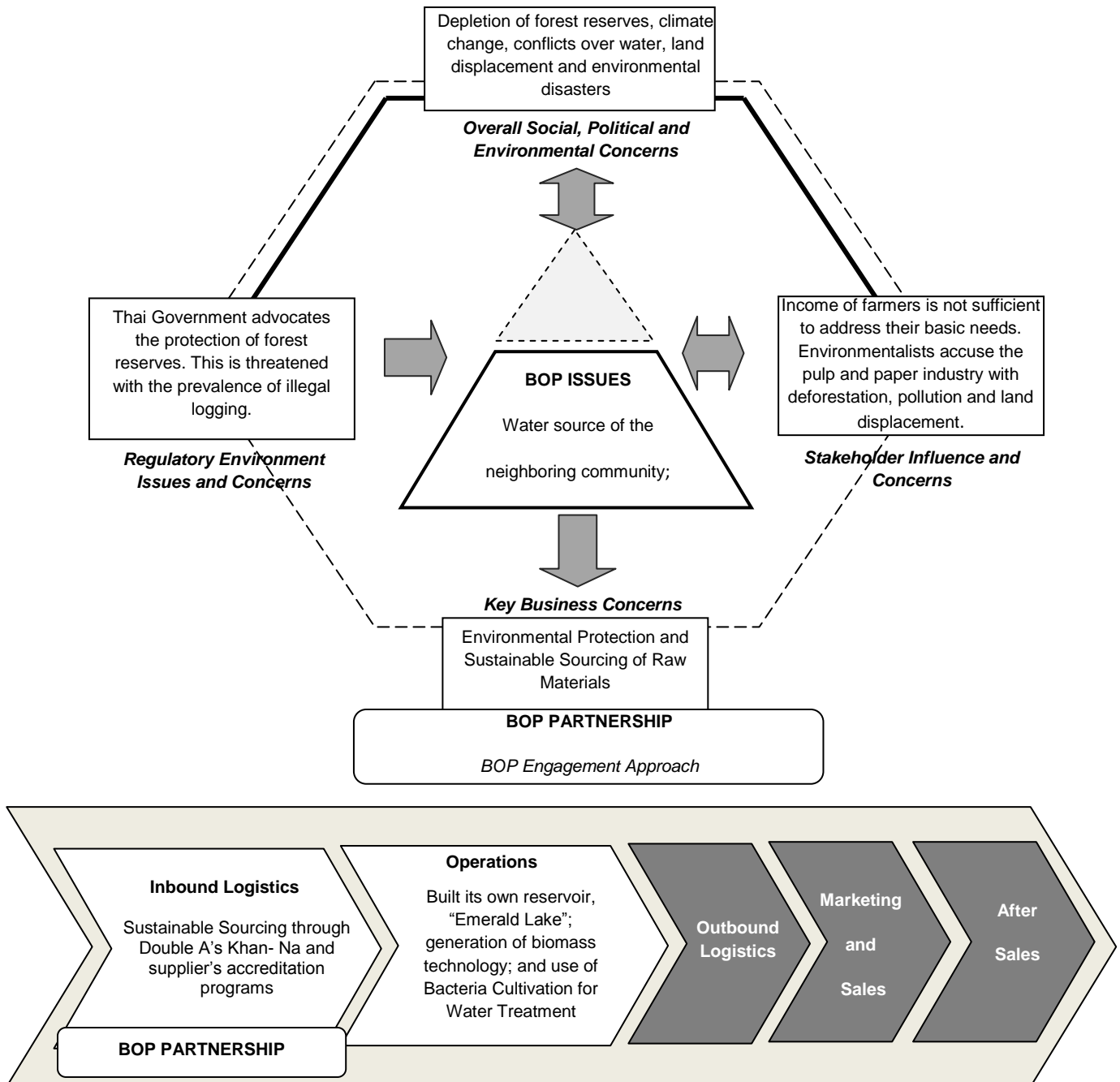
Figure 7: BOP Engagement Framework



EXAMPLE: DOUBLE A

Double A is a pulp and paper company in Thailand. The industry faces strong opposition from environmental groups due to its huge economic, environmental and social impact. Double A addresses these criticisms by implementing a holistic sustainability approach which includes environmental protection and the financial inclusion of poor farmers in Thailand.

Figure 8: Double A: BOP Engagement Strategy



Double A's operations are highly influenced by its business landscape—regulatory guidelines set by the Thai government in protecting forest reserves, strong sentiments against the operations of pulp and paper companies, as well as the social condition of nearby communities where Double A's plant is located.

Based on the analysis of the business landscape, the BOP issues that emerge are: the need for a water source for the neighboring community, mitigating environmental impact (i.e. pollution, disposal of waste and by-products), and increasing the incomes of farmers.

The Key Business Concerns of Double A focus on environmental protection and sustainable sourcing of raw materials. These two components are key in addressing stakeholder needs and corporate interests.

Double A developed a BOP engagement approach focused on a BOP Partnership initiative called the “Double Khan-Na Program” where farmers plant paper trees on unused farm land. Double A also implemented a supplier accreditation program, where it certifies that its raw materials are sourced legally. In addition, Double A implemented environmental protection initiatives which include the construction of its own water reservoir called “Emerald Lake”, generation of biomass technology, and the use of bacteria cultivation for water treatment.

EXAMPLE: SMART PHILIPPINES

Smart Philippines is one of two leading telecommunications companies in the Philippines. Smart Philippines adopted two BOP engagement approaches that helped the company penetrate the low income class market as well as provide affordable and quality mobile services.

The marketing and sales strategy of Smart Philippines was based on the company’s assets and competencies as well as the business landscape—strong competition among telecommunication companies; a digital divide; as well as the limited access of the poor to telecommunication services and products.

Based on the business landscape, the BOP issues that emerged were: the high cost of mobile services and products, as well as the limited financial capacity of the BOP to avail of mobile products and services.

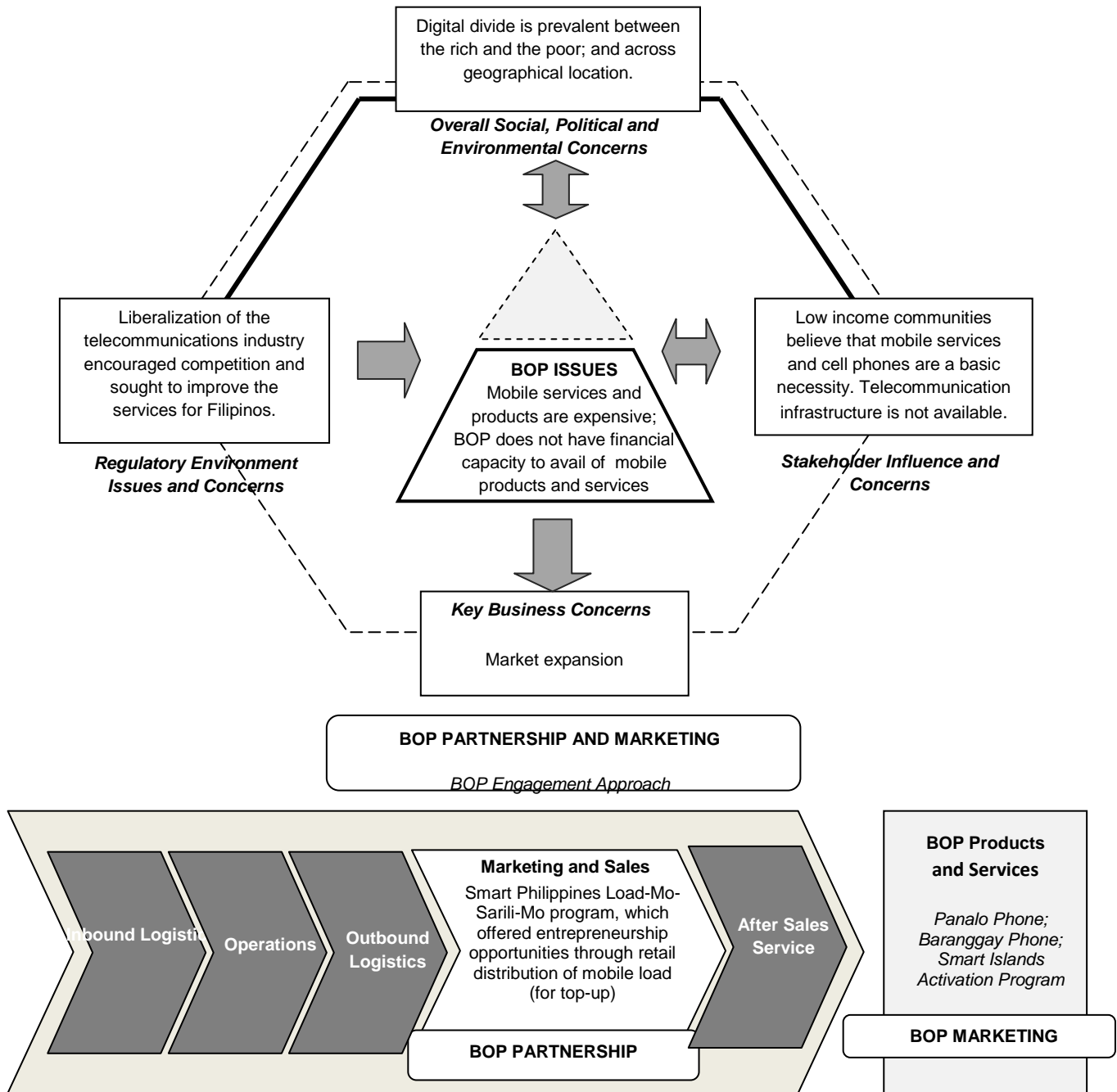
The Key Business Concern of Smart Philippines focused on market expansion that would allow the company to address the digital divide by providing affordable mobile service access to low-income communities.

Smart Philippines adopted the BOP partnership and marketing engagement approaches which focuses on the BOP’s characteristics and needs.

- Smart's BOP partnership engagement is the Load-Mo-Sarili-Mo program, which offered entrepreneurship opportunities through the retail distribution of affordable prepaid mobile services (for top-up). Since it would be difficult and costly for Smart to establish retail stores all over the Philippines, the firm initially tapped micro-entrepreneurs in the BOP to help sell prepaid mobile access using inexpensive "load machines". Smart was also able to benefit from mobile retailers' existing networks (of family, friends, co-workers, and customers of "sari-sari" stores).
- Smart's BOP marketing engagement approach is implemented through its Talk 'n Text's Panalo Phone and Barangay Phone programs. Through these programs, Smart Philippines (mother company of Talk 'N Text) offer cheap "mobile packages" – inclusive of mobile phone, services, and entrepreneurship opportunities. The Smart Island's Activation Program is a mobile banking service where residents in remote areas and islands in the Philippines were "given access to mobile remittance services, e-load purchases, and bill and utility payments through the mobile phone."⁷

⁷ Perez, J. (June 2012). "Session 8: Islands Activation Program (Empowerment through Mobile Banking)." Presentation during the 2012 RBAP-MABS National Roundtable Conference, June 7-8 2012, Manila Philippines. Available HTTP: <<http://www.slideshare.net/MABSIV/the-smart-islands-activation-program-empowerment-through-mobile-banking>> (accessed 09 October 2012)

Figure 9: Smart Philippines: BOP Engagement Strategy



CONCLUSION

In developing an integrated and effective BOP engagement strategy, companies need to assess their footprint, stakeholders and macro-environment. Firms need to take into consideration their current environment as well as their corporate capabilities, as their unique circumstances may either enhance or complicate the adoption of BOP engagement initiatives.

An effective BOP engagement strategy must align business and stakeholder interests. For the program to be sustainable, it must be integrated into the business operations, it must be profitable for the firm, and it must deliver tangible benefits/services that improve the quality of life at the bottom of the pyramid.

Other key messages of this paper include:

- Ownership is key. Internal and external stakeholders must understand and support the initiative. The stakeholders involved in the BOP engagement initiatives must have ownership of the program because they are the key drivers and players.
- Innovation and creativity play an important role in integrating BOP engagement activities into the business strategy. Companies must learn how to adapt based on the existing dynamics and interactions between the company and its stakeholders, and among stakeholders.



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