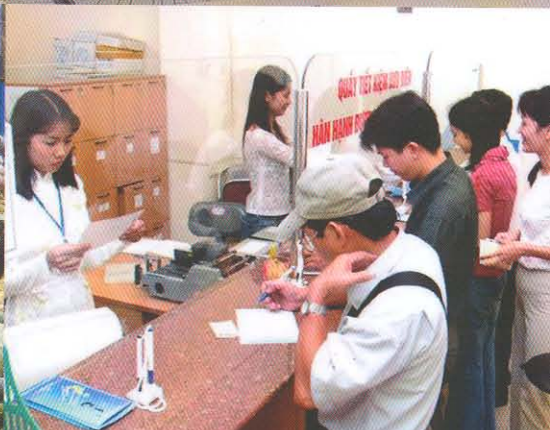
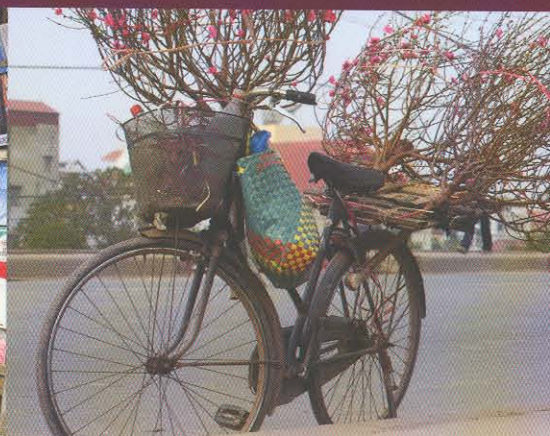




Making Markets Work Better for the Poor

## PROMOTING MARKET OPPORTUNITIES AT THE BASE OF PYRAMID (BOP)





Copyright: 2004 Asian Development Bank

All rights reserved.

The views expressed in this book are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank, or its Board of Governors or the governments they represent.

The Asian Development Bank does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequences of their use.

Use of the term “country” does not imply any judgment by the authors or the Asian Development Bank as to the legal or



**Making Markets Work Better for the Poor**

**PROMOTING MARKET OPPORTUNITIES  
AT THE BASE OF PYRAMID (BOP)**



# CONTENT

	<b>Page</b>
<b>MAKING MARKETS WORK BETTER AT THE BASE OF THE PYRAMID</b>	5
<b>PROMOTING MARKET OPPORTUNITIES AT THE BASE OF THE PYRAMID</b>	5
<b>International Experience Working with Base of the Pyramid Markets</b>	
Introduction	5
Defining BOP	6
Producers or Consumers	7
BOP Goals	9
BOP Actors	10
Convergence of the Business and Development Agendas	11
Collaboration and Cooperating	14
Selected Internet Resources	15
Selected Print Resources	16
<b>SELLING AND BUYING WITH BOP IN THE CONTEXT OF VIET NAM</b>	18
<b>Vietnam Chamber of Commerce and Industry</b>	
<b>Gtz Linking Small Scale Agricultural Producers to Global Value Chains</b>	26
<b>MPI – GTZ SME Development Programme</b>	
<b>ECOLINK SUPPORT TO TAN CUONG TEA PLANT</b>	43
Ecolink in Brief	43
Bio-Tea in Brief	43
Ecolink Success	44
Project Activities	44
Challenges	44
Recommendation	45
Ecolink Report by Nguyen Van Kim on creting Groups of Bio-Tea Farmers	45
<b>CREDITS FOR POOR RURAL WOMEN</b>	46
Saving for Lending Program(SLP) of the Viet Nam Women”s Union	46
Description of the SL Scheme	46
Irecommendation for Improving Poor Rural Women”s Credits	51



<b>POST LIFE INSURANCE</b>	54
New Service of Vietnam's Post	
 <b>ACSOFT HOME SOFTWARE FOR FAMILY BUSINESS</b>	62
Aims	62
Product Description	62
Extension	62
Sustainability	63
 <b>IKEA A SWEDISH HOME FURNISHING RETAILER</b>	64
 <b><i>P&amp;G</i> THE STORY IN VIETNAM</b>	75
Promoting Market Opportunities at the Base of the Pyramid	
 <b>VIETNAMESE TRADEMARK COMPUTER CMS</b>	86
 <b>IMPROVING HOUSEHOLD WATER TREATMENT</b>	96
<b>A Social Marketing Approach</b>	
<b>Social Marketing and Behavior Change Worldwide - BOP, TP HCM</b>	



## **MAKING MARKETS WORK BETTER AT THE BASE OF THE PYRAMID**

*Making markets work better for poor people can mean increasing their integration with national and global markets, both as consumers of goods and services and also as producers of inputs to industrial processes and value chains.*

*The new concept of Base of the Pyramid (BOP) shows that poor people can be integrated with markets in ways that enable them to access goods and services of high quality and also to become suppliers of good quality and reliable inputs. This bulletin examines the BOP concept, and gives some examples that are already being applied in Vietnam, in addition to discussing potential ways of increasing the effectiveness of selling to, and buying from, the Base of the Pyramid.*

### **Background Ideas**

BOP stands for the Base of the Pyramid. It refers to the 4 billion people who make up the base of the economic pyramid worldwide – primarily the world's poor – and the potential benefits of increasing the linkages of the base of the pyramid to markets. BOP has increased in popularity as a way of thinking, and as a business model since the first major article appeared on the topic in 2002<sup>1</sup>.

The main area of interest and concentration of research in BOP internationally has been on the BOP as a potential market for goods and services. However, the theory can be as easily applied to the BOP as a place to buy goods and services from.

On a macro scale this can be seen in the fact that industrialized countries see less developed countries as huge potential markets for goods and services, but at the same time also view less developed countries as a source of raw materials and intermediate inputs for industrial production processes.

On a more micro level, companies are increasingly producing a range of goods and services that are suitable for lower income consumers, in terms of price, availability and product characteristics. At the same time, companies are increasingly recognizing the advantages of outsourcing part of their production processes to smaller organizations, including households and producer groups.

In the Vietnamese context, whilst companies are aggressively targeting the rapidly growing middle to high income urban consumers with expensive electronic products, mobile phones and fashionable clothing, it is worth remembering that the majority of Vietnamese consumers live in rural areas (more than 75 percent) and that the incomes of these consumers are significantly lower than their urban counterparts.

In 2004, the national poverty rate was 19.5 percent; however, urban poverty was only 3.6 per cent while rural poverty was at 25 per cent.

### **Selling to the Base of the Pyramid**

The concept of developing a business strategy for providing goods and services to consumers at the base of the pyramid is based around a number of key ideas. First, whilst

---

<sup>1</sup> C. K. Prahalad and Stuart Hart, 2002. The Fortune at the Bottom of the Pyramid, Strategy+ Business, Issue 26, 2002.



consumers at the base of the pyramid have a lower level of disposable income than higher income consumers, they still represent a consumer group who are prepared to pay a reasonable price for goods and services that they require, as long as those goods and services are delivered in a form that is suitable for them.

Second, consumers at the base of the pyramid are brand aware, and are well linked and connected to information sources and networks that enable them to become as discerning a consumer group as the consumers at the top of the economic pyramid. In some cases – especially for daily necessities - consumers at the base of the pyramid may actually be more discerning, as the expenditure on these necessities occupies a far higher proportion of their expenditure than is the case for wealthier consumers.

Finally (and in many ways most importantly for the BOP business model), whilst the relatively lower prices for products targeted at the BOP market mean that the level of profit margin for each product is generally smaller than the margin on a product targeted at a wealthier market segment, the massive size of the market at the base of the pyramid means that the overall level of profits potentially able to be gained by companies is large. In other words, targeting the BOP is a business strategy that utilizes increased sales volumes to compensate for reduced per-sale margins.

The key to successfully targeting the market at the base of the pyramid is to “create the capacity to consume” – in other words to ensure that the poor consumers at the base of the pyramid are able and willing to purchase the goods or services provided by the company.

The method of ensuring that the poor are able to consume products has been described by Prahalad and Hart in terms of “Three A’s”<sup>2</sup>.

*Affordability.* Goods and services that target the BOP market should be affordable. BOP consumers have lower disposable incomes than consumers higher in the pyramid, and hence affordability of products is a key concern. In order to improve affordability without reducing quality, companies have adopted many strategies including smaller packaging sizes (such as single serve shampoo sachets), generic branding, and innovations in purchasing schemes.

*Access.* Distribution patterns for products and services must take into account where the poor live as well as their work patterns. Most BOP consumers must work the full day before they can have enough cash to purchase the necessities for that day. Access to goods and services means for these consumers means that they should be able to purchase at convenient times and in locations close to where they live.

*Availability.* According to Prahalad and Hart, the decision to buy for BOP consumers is often based on the cash they have on hand at a given point in time. They cannot defer buying decisions. Therefore, product availability is a critical factor in serving the BOP consumer.

### ***Examples from Viet Nam***

Whilst companies have produced goods and services aimed at the base of pyramid market in Viet Nam for a number of years, these have traditionally been very low quality products that have been distributed in an inefficient manner. Products with higher quality have generally targeted a more affluent market.

However, in recent years, a number of companies have started to produce goods and services of high quality that target the very large BOP market in Vietnam. These include soaps, shampoos and toothpaste in individual sachet sizes, low cost personal computers,

---

<sup>2</sup> These are also discussed extensively in MDB 9 “Collective Action” which is available at [www.markets4poor.org](http://www.markets4poor.org).



prepaid mobile telephone cards in small denominations and insurance products designed for lower income consumers.

Whilst international companies such as Procter & Gamble and Unilever have been at the forefront of targeting the BOP market in Vietnam, local companies are increasingly viewing the base of the pyramid as an attractive market and are designing products and distribution systems to increase affordability, availability and access to products. For example, Lix detergent powder is distributed through a network of small scale distributors and retailers (increasing access and availability), and is sold in small packet sizes (to increase affordability).

As marketing expenses and packaging make up a very large proportion of the cost of a product, many Vietnamese products targeted at the BOP market segment have relatively low cost packaging structure (for example dried herbs and mushrooms) and relatively low cost and localized promotional activities (for example, local specialities such as coconut candy in Ben Tre).

### **Buying from the Base of the Pyramid**

The underlying themes of the BOP concept can be modified to apply to the base of the pyramid as a market from which to buy goods and services, rather than as merely a market to sell goods and services to. This “reversed” BOP concept merges very easily with the research being undertaken into linking poor producers to value chains.

Most importantly, the “Three As” - key factors influencing the ability of the poor to participate in the market as consumers can also be applied to the ability of the poor to participate as suppliers.

*Affordability* - The poor are often at a disadvantage as suppliers of goods and services because poor economies of scale and low quality infrastructure mean that they are unable to compete with better-off suppliers in terms of affordability of the goods and services that they supply. By working together, rather than individually, productivity gains can be made and unit costs can be reduced.

*Access* - Access to higher value markets for poor producers is often limited because of geographical factors and also because of the relatively low quality and undifferentiated nature of goods and services provided by poor producers.

In countries like Vietnam, rural poverty and geographical isolation are extremely highly correlated with one another. The added time and difficult associated with the transport of goods, or supply of services from these relatively remote areas means that higher value markets are difficult to become involved in.

*Availability*- In addition to high quality, easily accessible and affordable goods and services, another prerequisite for linking to value chains is that products have to be of consistent quality and be available in a timely manner and in the quantity required.

Lack of certainty in production demand, and a low level of working capital often mean that the poor are unable to guarantee a reliable supply of goods and services as required by other actors in the value chain.

### **Examples from Viet Nam**

Compared with the concept of selling to the BOP, the concept of buying from the BOP through utilizing the poor as a source of supply of inputs to industrial processes is relatively more developed in Viet Nam. This is particularly the case for many agricultural products.



Almost uniquely, the history of land distribution in Vietnam has meant that there are very few large scale farms in the country. The agricultural sector is dominated by a vast number of small scale household level producers. This has meant that in order to develop value chains for agricultural products (both for export and for the domestic market), actors in the value chain have had to link with small scale poor producers of agricultural raw materials.

It is important to not only increase the level of participation of the poor as suppliers of inputs but also to ensure that the poor are participating in the value chain in ways that are beneficial to them. In order to increase the effective participation of the poor in value chains in Viet Nam, MARD has promoted contract farming as a means of empowering the poor as suppliers. This has been effective in the case of specialized products such as Japanese rice and baby corn. Whilst the effectiveness of contracts for more general quality commodities has been lower, there are some notable exceptions, such as that of the Lam Son Sugar Company in Thanh Hoa, which has developed a very effective and harmonious relationship between poor producers and the value chain.

A well organized system of linking with suppliers at the base of the pyramid is necessary, and is encouraged by government decision 80 on contract farming and in the Cooperative Law and the draft Law on Associations.

### **Importance of BOP**

The concept of making markets work at the base of the pyramid has a great deal of potential to have a major impact on the lives of the poor and to overturn traditional thinking in terms of business models and development models.

Traditional business models have assumed that the poor are not an important market segment, and therefore should “make do” with substandard products and inefficient distribution systems. The BOP business model shows that the poor are an extremely important market segment that demands and has the capacity to pay for goods and services that are of a decent standard.

Similarly, traditional business models have assumed that the poor are not an important or realistic part of value chains for higher value commodities, and therefore should not be considered as business partners or sources of supply for industry. The BOP business model shows that if businesses are willing to work together with BOP suppliers in order to overcome the difficulties of availability, affordability and access, then the poor can be very effective links in the value chain.

Traditional models of development have assumed that the interests of business (and in particular big business) and the interests of poor consumers and producers are generally not aligned. The BOP model shows that by business recognizing the potential of the poor as producers and consumers, effective development results can be delivered directly to the poor through the market mechanism.

### **Recommendations**

Two main recommendations for policymakers can be made in order to continue the positive development of BOP models in Viet Nam. These are (i) the recognition of the importance of quality, and (ii) developing trust and effective linkages.

*Recognizing the importance of quality* – Consumers at the base of the pyramid have increasing access to various sources of information – radio, television, newspapers, internet, social networks etc. As distribution networks improve, the poor have a greater range of



choices open to them. These factors mean that the poor are becoming increasingly demanding of higher quality products. If companies continue to supply products that are not of high quality, they will not be able to compete in this market segment.

Similarly, as the poor aim to integrate into value chains and become suppliers to industry, the issue of quality becomes paramount. It will be impossible to compete with larger scale producers, both in Viet Nam and overseas, without maintaining high quality levels. As the economy integrates further and domestic and international distribution channels open up further, the ability to compete on the basis of quality will become even more important.

In order to promote quality, there is an urgent need to develop a set of credible and enforceable standards for goods and services. These standards should adequately reflect the actual situation in Viet Nam and should be feasible for application in the Vietnamese context. In addition, the IPR legislation should be strongly enforced in order to increase general confidence in the quality and veracity of products.

*Building trust and linkages* – One of the most vital elements of any system of linking the poor with markets is the building of trust, both within each level of the value chain and also between levels of the value chain. Building trust within a level in the value chain is a prerequisite for all forms of collective action. This in turn is vital for the effective participation of the poor. If there is no trust between a group of farmers, then there is no way that they are going to be able to effectively work together to produce high quality inputs for industry.

Building trust between levels of the value chain means that each party to a linkage must trust that the other party will honor agreements made. In the case of contract farming, this means that processors must trust that farmers will supply goods at the price and specification indicated in the contract. Conversely farmers must have a level of trust that the processor will honor their commitments under the contract.

In the area of linkage of the poor to value chain, the ongoing evaluation and revision of Decision 80 on contract farming should take these factors into account and should explicitly include measures designed to promote the building of trust-based linkages.







# **PROMOTING MARKET OPPORTUNITIES AT THE BASE OF THE PYRAMID**

## **International Experience Working with Base of the Pyramid Markets**

James Grall  
Principal Development Specialist  
Development Alternatives, Inc.

---

### **1. INTRODUCTION**

*"We can not escape the fundamental question: Whom and what is business for? The answer once seemed clear, but no longer. The terms of business have changed."*  
– Charles Handy

*"Like the tip of an iceberg, the opportunity remains invisible to the corporate world."*

C.K. Prahalad and Stuart Hart

Since the introduction of the term "Base of the Pyramid" in 2002, development practitioners, private businesses, government, and civil society organizations have been examining and reevaluating how those who seek to reduce poverty of the world's poorest inhabitants do so in a way that brings benefit to both the poor and more developed nations. Few development practitioners or staff of multilateral development organizations likely thought that there would in fact emerge such debate, such proliferation of resources and materials, and in some cases, counterarguments to the idea of working at, and with, the poor people who fit into the category of "Base of the Pyramid," or BOP.

For many years involvement by multinational corporations (MNCs), largely those based in the developed West, focused on exploiting key resources in less developed countries and economies. The perception, whether true or not, was that many MNCs, with their vast resources, global recognition, and sheer size and power, could enter a developing country, extract natural and other resources, and sell those resources where it would make the corporation the most money. Firms purposely kept low corporate profiles, often making deals with government as needed to make business happen, and generally avoided extensive involvement with local institutions and societies.

The emergence of corporate social responsibility (CSR) started to change this perception. MNCs began operating in developing countries guided not only by their business models and strategies, but also by a philanthropic spirit, a desire to "do good" in the communities in which they worked, and in some cases, a strong desire to improve their corporate image. CSR activities have grown and deepened and development literature is full of examples of the good, the bad, and the in-between. Regardless of how these efforts are ultimately judged, even the best CSR projects often placed a priority on image-building for the MNC while not devoting enough time and energy to address sustainability issues of the work and whether or not the CSR work was even core to the main business of the corporation.



All of this began to change, or emerge, when C.K. Prahalad and Stuart Hart published a working paper entitled “The Fortune at the Bottom of the Pyramid<sup>3</sup>” in 2002, which was followed by a book of the same name by C.K. Prahalad. In the years since the introduction of the BOP concept, we have witnessed an explosion of research and publications on best practices, new thinking, and case studies of what works. There have been numerous organizations that have grown out of BOP-oriented work or that have developed specialty practices to focus on this market. In addition, in recent years there have even emerged a few dissenting voices that are calling into question the basic premises of BOP thinking. However, the BOP principles developed by Prahalad and Hart and further elaborated by some of the leading development and private sector thinkers over the last six years have helped frame the convergence of the vision and goals of poverty reduction and business. This framework has helped both the development and private sectors examine what they do, how they approach the BOP market, and what they hope to achieve by working in this market segment. While this framework has helped clarify the ideas and vision, working at the BOP is not that different, or far removed, from what development or business professionals currently do. It forces those working in this market segment to rethink their approaches and goals, and to be more creative and innovative in what they do. However, at the core, working at and with and in the BOP is about concurrently “doing business” and “doing good,” accruing mutual benefit to all parties involved.

## **2. DEFINING BOP**

Different names or terms have been used to describe the work of development professionals and to a growing extent, the business community, government, and civil society actors when it comes to working at the Base of the Pyramid. Among these are “Sustainable Livelihoods,” “Pro-Poor Business,” “Corporate Social Responsibility,” “Poverty Alleviation,” and “Making Markets work for the Poor.” Regardless of the term used or the theory behind individual approaches, a simple fact remains and is core to each of these ideas: there are some four billion people classified as poor in the world today, that number is growing, and those poor people are the focus of our work. But what does that mean in practice and what does the term “Base of the Pyramid” mean? Anyone working in the development field or working in the private sector with a business goal of working at the BOP has to recognize that four million people are not homogenous; there is a wide range of resources in poor communities, diverse cultural, political and geographical conditions that govern how one works there, and that while poor, this market has real financial and other resources and other assets that could be utilized to their benefit if framework conditions allowed<sup>4</sup>.

There exist in development literature a variety of definitions and terms to capture what the BOP is and in fact, there have even been counter arguments from some quarters about how one should define “BOP” or even the term “poor.” But the facts remain however: no matter how you define the terms we must accept that there are four million (and growing) people that remain outside of the global market system; that these four million represent not only individuals and families, but entrepreneurs, and micro, small and medium enterprises

---

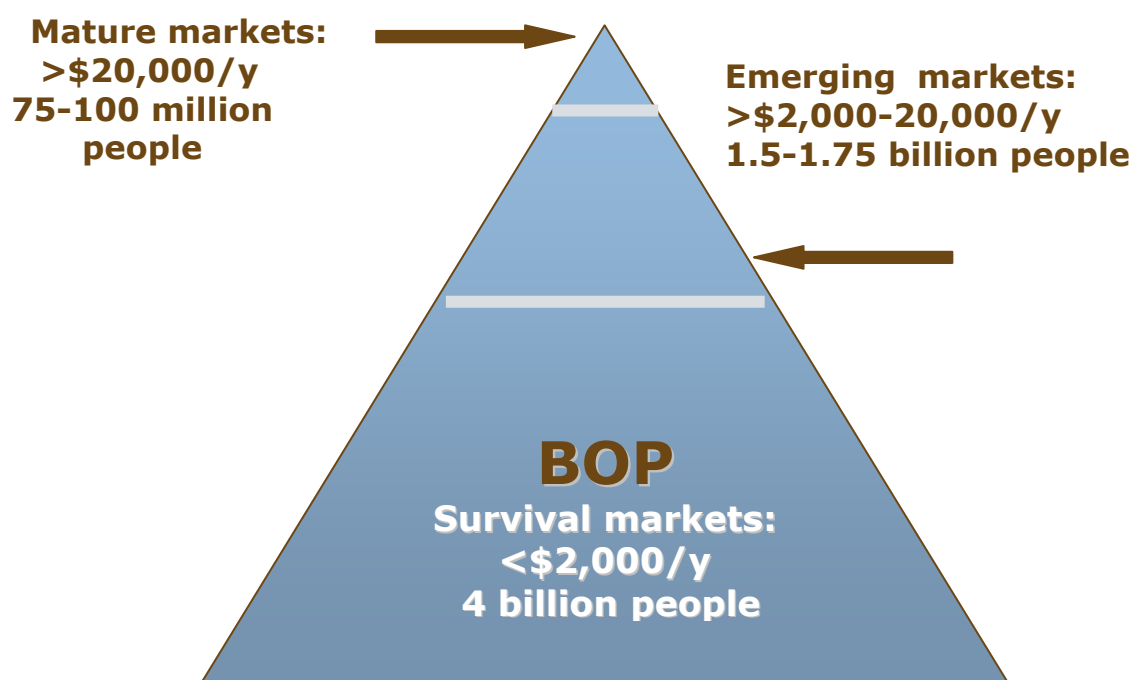
<sup>3</sup> C. K. Prahalad and Stuart Hart’s “The Fortune at the Bottom of the Pyramid” (Strategy + Business, Issue 26, Q1 2000), which is the most accessible and comprehensive treatment (<http://www.strategy-business.com/media/pdf/02106.pdf>).

<sup>4</sup> A classic example is the ability of a poor person to use their home or land or workshop as collateral to secure a loan. With poor framework conditions, such as the absence of deeds or records to show title, the poor can not use these resources that they own to further their economic growth.



(MSMEs); and that there is both a real need and an opportunity for those people and organizations that are not part of the BOP to explore this vast, multi-trillion dollar marketplace.

The following figure graphically represents the BOP.



Whether one uses purchasing parity power data or annual household income figures to determine who and how many people are in the BOP is largely irrelevant. The simple fact is that this is a huge portion of the world's population and a huge market. Recent data published by the World Resources Institute showed that more than eight million households in India fit into the BOP category and have annual household incomes of between \$1,000 and \$2,000.<sup>5</sup> Put another way, 75% of all households in India fit into the BOP category if we use the definition of annual household income of less than \$6,000.

### 3. PRODUCERS OR CONSUMERS

People and organizations concerned with the BOP have faced a key question in recent years: Is the BOP a market of consumers or a market of producers? This question has arisen because early literature on the topic often painted the BOP as simple a market into which MNCs could sell their products and services. After all, here are four million people with some income who have real needs for basic commodities and services, and if they are not available from local suppliers, there is a great opportunity for MNCs to step in and fill that gap. Increasingly however, we have started to realize that the BOP is also a market of producers. These are local entrepreneurs and enterprises that have resources, local knowledge, and skills that can not be overlooked. A few salient points that help to define whether the BOP is consumers or producers are summarized in the table below.

---

<sup>5</sup> Data provided by WRI in cooperation with Development Alternatives, Inc. for the joint development of BOP pilot projects.



CONSUMERS	PRODUCERS
<ul style="list-style-type: none"> <li>• The BOP represents huge purchasing power; private companies can make significant profit selling to the poor.</li> <li>• While rural or isolated, the poor are not far removed from world markets; they have desires and want many of the same innovative products and services the rest of the world enjoys.</li> <li>• By selling innovative products to the poor that improve lifestyles, make the costs of doing business less, or reduce waste, private companies can bring prosperity to poor communities and thus help reduce poverty.</li> <li>• Large MNCs can play a key role in the process of selling to the poor and collaborate with the development community for the greatest benefit.</li> </ul>	<ul style="list-style-type: none"> <li>• Selling to the poor is one sided; it ignores the need for the poor to have income generating opportunities by selling what they have or do best.</li> <li>• People living at the BOP are entrepreneurs and enterprises that are capable of making quality products that meet global market demand.</li> <li>• MNCs and others can buy from the poor, localize supply chain operations, and develop the capabilities of poor communities.</li> <li>• There is no shortage of entrepreneurial spirit among the BOP; much of the wealth in the BOP lies in the skills and talents of the people.</li> </ul>

One of the goals posited above is mutual gain for all working at the BOP. The only way for this type of mutual gain to accrue is when we view the BOP as a two-sided equation; the BOP represents both consumes and producers and to be successful in working at the BOP and reducing poverty, we need to fully exploit both sides of this equation. There is a good business case to be made for an MNC to source products from the BOP or to localize supply chain operations. This is particularly true in labor intensive industries, such as textiles or call center operations, or in agribusiness and agro processing. The challenge for MNCs in these instances is to build local capacity and skills to allow BOP enterprises to become reliable business partners that meet the standards of local companies and their supply chain operations. This invariably means that MNCs must invest both time and resources in their BOP partners.

There is a clear win-win situation when it comes to the knowledge base at the BOP. MNCs, with their resources and years of experience, can transfer knowledge to BOP partners, including skills, technical capacity, and managerial know-how. At the same time, local firms bring invaluable local knowledge and networks to an MNC looking to work in the BOP market. The market intelligence that a BOP firm can offer can not be underestimated. The new adage that may emerge to capture this may be something akin to “If you want to reach the four billion people at the BOP, you better listen to them!”

There are clear benefits for both businesses (MNCs) and communities (the BOP) in the development of business relationships that frame the relationship as a two way equation.

The BOP as Producers/Resource Pool		The BOP as Consumers	
Business Benefits	Community Benefits	Business Benefits	Community Benefits
<ul style="list-style-type: none"> <li>• Reduced labor costs</li> <li>• Shared risks</li> <li>• Local knowledge and capabilities</li> <li>• Best know markets, opportunities, and price points</li> <li>• Fair Trade branding</li> </ul>	<ul style="list-style-type: none"> <li>• Job creation</li> <li>• Capacity building for local MSMEs</li> <li>• Know-how and technology transfer</li> <li>• Improved business and investment climate</li> </ul>	<ul style="list-style-type: none"> <li>• New markets, revenue growth</li> <li>• Increase brand value, positioning to capture future growth market</li> <li>• Transfer product innovations to existing markets</li> </ul>	<ul style="list-style-type: none"> <li>• Greater access to quality products and services</li> <li>• Lower prices</li> <li>• Improved productivity</li> <li>• Improved quality of life</li> </ul>



There are of course more benefits than those listed here, and multiple combinations of win-win scenarios that will create the most gain for both the BOP and MNCs when working together. For example, if an MNC enters a BOP market with one goal being sourcing goods and services and strives to ensure their market entry helps to create jobs, and therefore income, they are contributing to the growing purchasing power of a market into which they are also seeking to sell their products and services.

#### **4. BOP GOALS**

The core goal of working at the Base of the Pyramid is harnessing business approaches and entrepreneurial energy for development, poverty alleviation, and income generation for the world's poorest people. Central to understanding this goal is remembering that the four million people we categorize as poor represent a market, a workforce, and source of innovation; these are millions of entrepreneurs and MSMEs that represent a huge market into which larger MNCs can sell and from which these same MNCs can source materials, finished products, and ideas that can have an impact on the global economy. This huge marketplace represents underutilized drivers of service delivery, job creation, and economic growth. The goals that those working at the BOP have are many; some are pure business oriented while others capture elements of corporate social responsibility and the desire to "do good" in these impoverished communities. Some of the key goals include:

- Poverty alleviation;
- Environmentally sustainable business;
- Socially and culturally appropriate business;
- Cooperation between top of the pyramid (developed markets) firms and communities at the BOP;
- Mutual gain;
- Inclusive capitalism;
- Business value creation; and
- Expansion of the development horizon of the world's poorest people and communities.

To achieve these goals, those working at the BOP must find ways to connect BOP communities and enterprises into the global marketplace. The reasons for this are many, but key among them is the fact that MSMEs in the BOP are uniquely able to serve BOP markets and can be a source of innovation for firms working at the top of the pyramid. Similarly, large enterprise and MNCs are increasingly turning to BOP markets as a source of products and services, in addition to viewing the BOP as a place into which to sell their products and services, and to achieve the highest level of mutual gain, MNCs need to engage and utilize local partners.

There are encouraging trends and drivers that hint at the fact that working at the BOP, despite the relatively recent nomenclature for this market segment, will continue to be at the forefront of the convergence of development work and business strategy.

Many MNCs are seeking ways to break out of their traditional market segments, realizing that the BOP represents a huge opportunity for them. However, one of the difficulties they face in entering the BOP market is lack of information and knowledge. There exists precious little information about the size of a particular market, what will sell and at what price points, and what consumers want, and need, two often different things.



Enterprises at the BOP are often short sighted in their own business goals. If you ask a small firm in a developing country what one of their goals is, they will invariably include the desire to export. There is a belief among these firms that the quickest way to get rich is to sell their products to the top of the pyramid markets. While this is sometimes true, particularly in the case of specialty products, BOP enterprises themselves often fail to recognize that this same, large, growing and captive market that MNCs are pursuing is right in front of them. They are in, and it is there for the taking, if they too figure out how best to capture this market segment. Local firms have the potential to grow their business, provide quality goods and services to their own markets, and potentially be the drivers of product innovation and design that will garner the attention of MNCs.

## **5. BOP ACTORS**

The BOP market represents a huge segment of the global economy with growing demand for products and services that meet demand and are of consistently high quality and standards. The BOP is comprised of individual and highly successful entrepreneurs who possess valuable knowledge, resources and capabilities. So who are the multitudes of actors that are working at, and with, the BOP? Those individuals and organizations working with the BOP are more than corporations or development institutions or groups. There is a diverse group of actors that share BOP goals and are working in different ways to help alleviate poverty and create opportunity at the BOP.

The core actors can be categorized into several groups.<sup>6</sup> Of course, all of these categories overlap in a dynamic system of collaboration and, increasing competition for funding, reputation, and mindshare. So the topography of this landscape is uneven, with some groups having more power and influence than others. One of the keys to success at the BOP is understanding that there is a vast and varied network of players and that some form of collaboration and cooperation will be key to ensuring the best results.

### **Corporate Pure Play Experiments**

These projects tend to be 100 percent for-profit businesses, or have the near-term intention of being so. They are the star cases in the BOP literature because they best stick within business managers' existing frame of reference.

### **Catalyst and Enablers**

This diverse group includes everything from academic institutions and think tanks to foundations and NGOs to niche financial organizations and consultancies. These organizations often perform a brokerage function, act as intermediaries, and are highly networked. As such, they are interested in being the bridge between the BOP and Corporate Pure Players to make BOP ideas work, such as new tools, processes, blueprints, and the hard and soft infrastructure for sustaining further marketplace creation. They tend to be small in size and flexible and opportunistic in nature. In terms of funding models, they run the gamut from for-profit to self-financing to nonprofit.

### **Social Entrepreneurs**

These are actors who are putting their ideas into action in the field and providing services to clients and customers. Most of these organizations are for-profit and have had some government funding and outside help, but often no more than any other for-profit startup.

---

<sup>6</sup> These terms come from a working paper by Nicole Boyer entitled "The Base of the Pyramid: Reperceiving Business from the Bottom Up," Global Business Network, 2003.



## **Multilateral Institutions and Development Agencies**

Donor organizations like the World Bank, the Asian Development Bank (ADB), UNDP, and others are also important enablers of social entrepreneurship and market creation; they fund many programs and activities that improve the business environment for economic activity. What distinguishes this group from the “catalysts and enablers” group is its slower pace and traditional public-sector approaches to development. Among some senior people, there is notable ambivalence and suspicion about BOP projects-some of which could be attributed to a concern that BOP project might replace the work of governments and development programs. But the biggest question for these institutions and agencies is: How do we make these programs work more effectively, legitimately, and in concert with other sectors and developments?

### **Advocates**

NGOs, social activists, and citizen and religious groups have historically been the strongest advocates for remedying the ills and injustices of the world’s poor. In many ways, this group is the most in touch with BOP issues; its members are intensely cause-oriented and mission-driven and thus have a strong normative agenda. Many in this group see business as part of the problem and not the solution, and so the positioning of business as a positive agent of change is often a difficult sell for these groups. Of course, many of these groups are also quite pragmatic, blur into the social entrepreneur category, and play a key role in making the BOP work. Developing processes to include these groups is increasingly critical.

### **Government**

Developing country governments have a critical role to play in facilitating investment at the BOP and providing the framework conditions for their own citizens and enterprises to grow. Close partnerships, whether they are public private partnerships or loosely structured agreements between the preceding categories and host-country governments are vital to sustainable development efforts at the BOP. Governments, whether national, provincial, or local, have a key role to play in providing the legal and regulatory reforms, enforcement of laws, as well as intellectual property rights protection and financial incentives for those seeking to make an impact at the BOP.

## **6. CONVERGENCE OF THE BUSINESS AND DEVELOPMENT AGENDAS**

*“The marketplace is a new creative way to achieve societal goals. Governments and development partners want the company to succeed because they see beyond the product or the service provided and recognize that delivering on these goals will serve their objectives.”*

George Carpenter, Procter & Gamble  
Director, Corporate Sustainable Development

More than any other time in the recent history of development, we are witnessing a convergence of traditional development goals and business agendas. Given the ever growing attention focused on the BOP, the increasing number of actors involved in the BOP space, and a growing BOP market, it is no wonder that so many different types of organizations and institutions are trying to make their mark at the BOP. Real success-poverty alleviation, income generation, integrated markets, and upstream and downstream business linkages-are dependent upon the development and business communities collaborating and cooperating to create benefit and value from the bottom to the top of the economic pyramid.



To frame this discussion, it is necessary to look at some of the key challenges faced by the private sector and the development sector as they seek the best ways to work at the BOP and to examine the perspectives each brings to the marketplace and development landscape. The BOP is a new market for many private sector actors who are entering into new territory, albeit a territory and landscape those development professionals know quite well. For development organizations, the BOP is their proverbial backyard, but they are being challenged to examine how to work with companies and organizations that are admittedly seeking to make a profit in a market that development organizations have traditionally sought to help, or even subsidize. The opportunities for innovation and creativity are great. However, both sides, and the BOP market actors they are seeking to serve and help, must be aware of pre-conceived notions of what working at the BOP means.

### **Challenges for Development Practitioners**

Development practitioners are ideal partners to help implement BOP strategies and programs. Whether these are contractors, NGOs, programs of multilateral institutions, or local non-profit entities, they are on the ground and know well the markets that BOP work is trying to address. Sometimes they are faced with the challenge of adapting business strategies and a business mindset to development work and social or poverty alleviation goals. They may also face a gap in skills and capabilities, or potential resistance from an organizational culture that is not comfortable generating profits from those they seek to serve.

These organizations, present in the BOP market and many with well established operations there, are in a unique position to be able to guide those seeking to enter the BOP market, create awareness among stakeholders, and create a bridge between indigenous groups (business, NGO, government) and the private sector or MNCs seeking to enter the market. They are well positioned to help create buying power on behalf of the BOP while at the same time partnering with MNCs and the private sector to leverage what is often limited funding they have available.

Development organizations can help to create buying power in several ways.

- **Extending Credit:** Extending credit to consumers and producers in the BOP increases earning potential and creates buying power. Extending credit to the poor is clearly not a new idea. Microfinance is the first mechanism for doing this that comes to mind, and the recent award of the 2006 Nobel Peace Prize to Mohammed Yunus of the Grameen Bank for his pioneering work with microcredit is an endorsement for the ability of credit to the poor to help alleviate poverty and contribute to social goals. Other methods may include forming cooperatives, farmer groups, or other collective means of creating buying power.
- **Shaping Aspirations:** Sustainable product innovations at the BOP will influence the choices and lives of people at the BOP and may ultimately affect how those at the top of the pyramid live. New innovations at the BOP today may replace unsustainable technologies currently used in developed countries 20 years from now. Key examples can be found in the area of energy and sustainability.
- **Improving Access:** BOP communities are often isolated and lack good distribution and communication systems. At the same time few MNCs have adjusted their systems to reach the BOP markets, resulting in the continued reliance of the poor on local products, services, and moneylenders. MNCs have an opportunity to adapt



their distribution models to both serve the BOP as well as create links for BOP producers into top of the pyramid markets. Telecommunications have also revolutionized the way we view the BOP market, and the literature is full of examples of developing village kiosk phone services, internet points, or wireless communications. For the first time in history, wherever phones and the internet reach there is an opportunity to create a single interconnected market.

- **Tailoring Local Solutions:** The greatest success at the BOP is going to evolve out of a need and a desire to marry local capabilities, local market knowledge, and global best practices. New business models have to adapt to local conditions, not disrupt them. Working at the BOP is not about replicating a western system. This is a key area where development professionals, with their on the ground knowledge, and local partners, can be of most value to MNCs.

### **Challenges for MNCs and the Private Sector**

The challenges for a private sector firm of any size, let alone a MNC, to entering a BOP market are many. Success will not be had in simply replicating their “western” models and systems and selling existing products into the BOP marketplace. First and foremost, most MNCs do not fully understand BOP markets. While information is increasing, there is little available to a product manager of an MNC tasked with pitching to his boss or board the launch of a new product or operations into a developing market. MNCs often do not understand what products and services are needed or demanded by BOP consumers, the product attributes that are going to make a product saleable at the BOP, or the price points that will make a market entry successful.

The existing cost structure and material intensity of most MNCs existing business models preclude their easy extension to BOP markets. MNCs have to understand that they too must compete, the sheer size of the BOP market is not a given that they will succeed there. At the core, MNCs need to reexamine the way they do business. Compared to wealthy markets, BOP markets are characterized by a completely different set of geographic (predominantly rural based), structural (absence of roads, telecom networks), institutional (absence of western property rights regimes), and cultural (different life aspirations) factors. These and other factors require innovation on behalf of a firm entering a BOP market and a radical change in how MNCs do business and how they view these markets. They need to find ways to bring products and services to the poor in an appropriate way while making reasonable profits to stay in business.

Entering a BOP market is a very resource intensive task. Significant research time is needed into the elements mentioned in the preceding paragraph. This provides an opportunity for an MNC to partner with or hire local firms to help provide some of this on-the-ground knowledge. The international home furnishings manufacturer and retailer IKEA was working in Vietnam for nearly 5 years before they started sourcing materials on a regular basis from Vietnamese producers. This time was spent researching the market, testing products and materials, and seeking out the best and most reliable partners. Local organizations, together with development partners in any BOP market, can serve as a bridge and help an MNC leverage their resources for maximum benefit. Utilizing local resources in this fashion also generates further income opportunities for the poor. A development organization in any given country can likely point to a handful of organizations, from think tanks to NGOs to associations, that can provide critical information to an MNC on everything ranging from intellectual property rights and business registration to distribution networks and consumption patterns on a village level.



## **7. COLLABORATION AND COOPERATING**

One key activity, more than any other, will help create success in BOP activities. This is collaboration and cooperation between and among the many players in the BOP market. While a firm may be able to “go it alone,” it is both easier and more beneficial to the firm and the BOP market, if there is a concerted effort to work together. Whether an MNC is seeking to sell into a BOP market or source from it, the producers and the consumers in that market are best served when other players—development professionals, organizations and local groups—help create a bridge between the players.

There is no readily available recipe for a successful BOP strategy. Development professionals are still working in this area and still finding new ways to approach their work while at the same time, MNCs are trying a variety of approaches to tap into BOP markets. Those working in the development community range in size from small non-profits to the World Bank, with an annual budget approaching \$30 billion. MNCs have vast resources with budgets that often far exceed budgets of entire segments of BOP markets. The development community has recognized that in many instances, foreign direct investment and private sector financing outstrip foreign assistance and foreign aid and that private firms can bring to the development context benefits—technology, jobs creation, and access to markets—that may not be their core competency of development organizations, but which clearly contribute to development goals.

Partnerships between BOP actors can help all players meet their individual goals, leverage resources, and build sustainability where previous efforts may have failed. Some key elements of collaborating for mutual benefit among all BOP players include:

### **Focus on core competencies**

Any organization that concentrates on its key strengths is better able to innovate around those strengths. This helps guarantee consistency between the organization’s portfolio of activities and the BOP business, and will make it easier to mainstream successful pro-poor business in the future. MNCs need to reexamine the product line or service they want to bring to the BOP and see how its characteristics and existing business models can be adopted to suit the distinctive requirements of lower market segments. Development organizations need to focus on what they do well and what local knowledge and resources they can bring to the table that would otherwise cost an MNC considerable time and resources to develop. All parties need to determine and build on complementary expertise, skills, and resources.

### **Partner across sectors**

Governments and NGOs are increasingly interested in working with business. By involving development organizations that share similar goals, companies can benefit from on-the-ground expertise and additional resources. Likewise, thinking across sectors might lead to innovative partnerships involving companies from different industries, addressing a bundle of needs holistically. It is important that partnerships are developed from the start. Everyone must recognize the value they have to one another, develop and set expectations of all parties early and clearly, and recognize the investment of time that will be required to establish a sustainable relationship. Partnerships can help offset potential risks for all partners. Organizations in the BOP can bring not only local knowledge but also can help generate political or community support that may be needed to develop a successful BOP strategy.



## **Localize the value creation**

Companies seeking to operate in developing countries often lack the usual infrastructure and support systems, including market intelligence, manufacturing capabilities, or distribution channels. So they have much to gain from tapping into local networks and local knowledge. MNCs need to be innovative in finding ways to harness local capabilities. Partnerships can be formal or informal but in any case, need to systematize a process of accessing local intelligence and resources. In terms of sourcing from the BOP, MNCs need to consider how local entrepreneurs and SMES can be made part of a company's value chain and how they can best contribute to value creation in the BOP, rather than just extracting resources and adding value somewhere else. Companies need to understand not only the differences in the market and societal structures, but also need to address, in partnership with others, the deficiencies in key components such as infrastructure, skills, and financial capacity.

## **Engage Government**

Where poor framework conditions prevail, such as opaque and corrupt legal systems, complex bureaucracy, and inadequate infrastructure, business is hampered. At an international level, terms of trade often work against poor nations and BOP markets. The importance of a sound business environment is recognized as key to attracting foreign investment and in enabling local enterprises to flourish and grow. MNCs, in partnership with local organizations and development practitioners need to engage national, provincial and/or local governments from the beginning of their efforts to find innovative ways to improve the business enabling environment.

## **Next Steps**

If you would like to learn more about approaches to the BOP, selected internet and print resources are set out below.

## **8. SELECTED INTERNET RESOURCES**

Base of the Pyramid Learning Lab... <http://www.bopnetwork.org>

Business and Economic Development Impacts... <http://www.economicfootprint.org>

Center for Sustainable Global Enterprise... <http://www.johnson.cornell.edu>

Development Alternatives, Inc.... <http://www.dai.com>

Ethical Corporation... <http://www.ethicalcorp.com>

Eradicating Poverty through Profit: Making Business Work for the Poor; Conference Proceedings . . . <http://www.nextbillion.net/sfconference>

Making Markets Work Better for the Poor . . . <http://www.markets4poor.org/m4p/index.htm>

Net Impact... <http://www.netimpact.org>

New Ventures... <http://www.new-ventures.org>

NexBillion.net... <http://www.nextbillion.net>

The Asian Development Bank... <http://www.adb.org>



Vietnam Chamber of Commerce and Industry... <http://www.vcci.com.vn>

World Business Council for Sustainable Development... <http://www.wbscd.org>

World Resources Institute... <http://www.wri.org>

## 9. SELECTED PRINT RESOURCES

Christensen, Clayton and Stuart Hart. "The Great Leap: Driving Innovation from the Base of the Pyramid." MIT Sloan Management Review, October 2002.

Christensen, Clayton, Stuart Hart, and Tom Craig. "The Great Disruption." Foreign Affairs, March/April 2001.

De Soto, Hernando. The Mystery of Capital: Why capitalism triumphs in the West and fails everywhere else. Basic Books, 2000.

De Soto, Hernando. The Other Path: The Invisible revolution in the Third World. HarperCollins, 1989.

"Discovering Hidden Assets: Financing the Base of the Pyramid." *Developing Alternatives*, Volume 10, Issue 1, Winter 2005.

Emerson, Jed. "The Blended Value Map: Tracking the intersects and opportunities of economic, social and environmental value creation." 2003.

Forstater, Maya, Jacqui MacDonald and Peter Raynard. "Business and Poverty: Bridging the gap." The Prince of Wales International Business Forum, 2002.

Handy, Charles. "What Is Business For?" Harvard Business Review, December 2002.

Hart, Stuart L. & Allen Hammond. "Serving the World's Poor, Profitably." Harvard Business Review Article, 2002.

Hart, Stuart. "Beyond Greening: Strategies for a Sustainable World." Harvard Business Review, Jan/Feb 1996.

Hart, Stuart. Capitalism at the Crossroads. Wharton School Publishing, 2005.

Henninger, Norbert and Mathilde Snel. "Where are the Poor? Experiences with the development and use of poverty maps." World Resources Institute Online Bookstore, 2002.

Holliday, Chad and John Pepper. "Sustainability Through the Markets: Seven keys to success." World Business Council for Sustainable Development, 2001.

Holliday, Chad, Stephan Schmidheiny and Sir Philip Watts. "Walking the Talk: The business case for sustainable development." Greenleaf Publishing, 2002.

Holme, Richard and Sir Philip Watts. "Corporate Social Responsibility: Making good business sense." World Business Council for Sustainable Development, 2000.

Nelson, Jane and Caroline Bergrem. "Values and Value: Communicating the strategic importance of corporate citizenship to investors." World Economic Forum & The Prince of Wales International Business Forum, 2004.



Nelson, Jane Dave Prescott. "Business and the Millennium Development Goals. A framework for action." The Prince of Wales International Business Forum, 2003.

Prahalad, C. K. "The Innovation Sandbox." " (Strategy + Business), ([http://www.strategy-business.com/media/file/sb44\\_06306.pdf](http://www.strategy-business.com/media/file/sb44_06306.pdf))

Prahalad, C.K. and Kenneth Lieberthal. "The End of Corporate Imperialism." Harvard Business Review, July-August 1998.

Prahalad, C.K. and Stuart Hart. "The Fortune at the Bottom of the Pyramid" (Strategy + Business, Issue 26, Q1 2000), (<http://www.strategy-business.com/media/pdf/02106.pdf>).

Prahalad, C.K. and Allen Hammond. "Serving the World's Poor, Profitably." Harvard Business Review, September 2002.

Wheeler, David and Kevin McKague. "The Role of Business in Development." <http://www.sustainablelivelihoods.ca/Resources/resources.htm>.

World Resources Institute, UNEP, and WBSCSD's Tomorrow's Markets Report, 2002 [http://www.wri.org/business/tomorrows\\_markets.html](http://www.wri.org/business/tomorrows_markets.html).



**SELLING AND BUYING WITH BOP  
in the context of Viet Nam**

**Dr. Pham Thi Thu Hang**

*Director, Enterprises Development Foundation*  
**Vietnam Chamber of Commerce and Industry**

**Sale with BOP model**

**“I am poor, but it does not mean that I  
don’t like luxury”**



**Nobel Peace Prize for the banker of the poor**  
**M. Shamsur Rabb Khan 10/15/2006**

- Grameen Bank received formal recognition as a private independent bank in 1983, and in 2004, it disbursed close to US \$5.0 billion in loans and four million borrowers, 96% of them women now operates through 1,092 branches in 36,000 rural Bangladesh villages
- His exemplary ideas, which coupled capitalism with social responsibility, have helped change the face of rural economic and social development in Bangladesh.
- "When tiny, tiny things start happening a million times, it becomes a large thing. It lays down the foundation of a strong economic base. With women participating in building this economic base, it becomes the foundation for better social and economic future..."

*The writer is Editor, Consumer Unity & Trust Society or CUTS, India*

**Kinh tế Sài Gòn** Thời báo

No 421, date 30 -10-1999

**A GOLDEN OPPORTUNITIES !**

**Local electronics producers have ignored the radio market, leaving the lucrative business to imports**

-----  
**By LUU QUANG DINH**

A large market . Today Radio, radios are no longer a luxury to the majority of the urban Vietnamese. However, to people in rural, remote regions and islands, who make up 80% of the population, the radio is necessity for their culture life, if not for their life such as in the case of offshore fishermen. Vietnam has only 5 million radios for more than 70 million people , approximately 17 million households, which, proportionally , is a very small number.....



## **Poor people haven't been poor as before**

- Viet Nam has population of 85 millions
- Poverty rate was reduced from 58,1% in 1993 to 19,5% in 2004
- Poverty line however increased. In 2005 new poverty line introduced increasing from 100.000 dong to 200.000 and 150.000 dong to 260.000 dong/per person /month , respectively to Rural and urban region. This high poverty line, equal to international poverty line - 2 USD /day
- With new poverty line the rate of poor households will increased to 22% (3.9 million household) .In 2005, with the old poverty line the rate of poor Households is 7,3% with 1.2 million households.
- The poverty line is much less than “ low income line in BOP model

## **How did the poor in Viet Nam spend on consumption**

- The gap between spending on consumption of 20% of poorest and 20% richest population has been almost unchanged in the last two years .
- In the year 2002, total consumption spending of 20% richest population was 6.03 time total consumption spending of 20% poorest. In the year 2004, this ratio is 6.27

***(Report by World Bank)***



## **Infrastructure supporting for the development of BOP**

- *80% of villages having basic infrastructure*
- *90% poor villages are linked with national electric network*
- *60% rural population having access to clean water.*

*(Estimated by World Bank 2006)*

## **Some issues in the selling with BOP in Vietnam**

### **Vietnamese enterprises**

- Having high “Social responsibility” to the poor through charity program, but haven’t paid attention on the poor as buyers
- The Size of Companies is too small therefore they do not have enough capacity to produce big volume and to expand their network to remote areas
- The capacity of market research is limited
- Lack of skill of marketing ( 4P- product, price, place, promotion) to develop product/service affordable to the poor
- Existing psychology : “Cheap money can not buy good products”.

### **For MNC**

- Adaptation of it business custom to Consumption culture of Vietnam



# Buying with BOP

Development of supply chain through medium, small and micro enterprises

## Vietnamese Enterprises

As 31 December, 2004

<i>Legal status</i>	<i>Under 10 employees</i>	<i>Under 50 employees</i>	<i>Under 300 employees</i>	<i>Total</i>	<i>Rate of Enterprises (%)</i>
<b>SOEs</b>	33	753	2959	4596	64%
<b>Cooperatives</b>	2500	4716	5279	5349	98%
<b>Enterprises according to Enterpr. Law</b>	41669	70302	77561	78654	98%
<b>Foreign Invested Enterprises</b>	234	1108	2423	3156	96%
<b>Total</b>	<b>44202</b>	<b>76879</b>	<b>88222</b>	<b>91755</b>	<b>96%</b>

**And about 3,000,000 non-agricultural Household Businesses**



## Vision of MNC

- Canon-Viet Nam : Supporting industry is a “rice” for foreign Investment in Vietnam (Mr. *Sachio Kageyama- Director General*)
- LG-Viet Nam : Our Investment is backbone . Vietnamese supporting industry is “blood” *Mr. Lee, Jae Sung-Director General*)
- BP Viet Nam : Concept “Local energy”
- Unilever Viet Nam : “Program of center of Linkage”



CHƯƠNG TRÌNH  
XÂY DỰNG NĂNG LỰC KINH DOANH HIỆU QUẢ CHO CÁC DNNVV VIỆT NAM  
**KHOÁ ĐÀO TẠO “QUẢN LÝ CHUỖI CUNG ỨNG HIỆU QUẢ”**

PROJECT ON  
CAPABILITY BUILDING FOR THE VIETNAMESE SMALL AND MEDIUM ENTERPRISES  
**TRAINING COURSE ON “SUPPLY CHAIN MANAGEMENT”**

*Hà Nội, 13 – 15/9/2006*



## Case of UNILEVER Viet Nam

- Started since 1995- setting strategy of cooperation with the best suppliers
- Joint venture with VINACHEM ( having asset +capital+network with local suppliers, services providers; distributors–SMEs )
- Best in term of: current supply status,experience;technical capability; and willingness to
- Started to work on the most basic needs of Quality, Reliability and Trust -Did not mention cost at this stage
- Once the best SME partners has been identified Unilever introduced experts in each of the material technologies employed to share knowledge and experience
- Today, more than 70% of the products were sell locally and export will be manufactured by the SME third parties in Vietnam

### **The benefits**

#### **Vietnamese partners would include**

- Technology Transfer
- Management processes
- Coaching and technical advice
- Access to finance to be made easier
- Improved competitiveness
- Improved standards
- Increase in sales revenue
- Guaranteed outlet of production



## **For MNC in the benefits would include**

- Quality improvement
- Increased Flexibility
- Lower asset base
- Lower cost
- Better use of resources
- Better business ethics
- SHE improvements in business and community
- Transparency of operations
- Compliance to contracts
- Productivity and capacity increase
- Confidentiality
- SME partners survival by being competitive in a post AFTA and WTO environment

## **Some issues in the buying with BOP in Vietnam**

- State Owned Enterprises (SOE) maintain the vertical self-supplied scheme
- The gap of product/services quality of Large and Small companies is too big
- SMEs and Buyers do not have information of each other
- The enforcement of Commercial contracts, especially with peasants has many problems.
- Industrial cluster and raw material cluster have been formulated spontaneously. They haven't been built on the base of competitive advantage of region and internal linkage within a cluster



# Linking Small Scale Agricultural Producers to Global Value Chains

**VCCI – ADB seminar**  
**“Promoting Market Opportunities at the Base of Pyramid”**

Pham Ngoc Tram  
MPI – GTZ SME Development Programme

Hanoi October 18 & HCMC October 20, 2006.

Slide 1

**Content:**

- Value Chain Approach
- Vietnamese Agro-producers
  - Status
  - Advantages
  - Disadvantages
- GTZ approach
  - Value Chain Development
  - PPP projects to link agro-producers with the Global Value Chains
- Case study
  - GTZ-MOT-METRO PPP project
  - Litchi case
- Summary

Hanoi October 18 & HCMC October 20, 2006.

Slide 2



## Value Chain, coordination and adding values

### Definition:

“Value Chain describes the full range of activities which are required to bring a product or service from conception, through the intermediary of production, delivery to final consumers, and final disposal after use”.

(Kaplinsky, 2000)

## Value Chain, coordination and adding values

Agro-product value chain can be simply illustrated as follows:



Among those, there are many other organizations and service providers :  
Research institutions – biotechnology/ input suppliers – labour – transporters  
– public and private organizations

Key question is how activities and actors of the chain are coordinated and value added.

It is important to identify the lead actor in a value chain, who will coordinate and pull the whole chain. In agro-product value chains big buyers or actors with large market share are usually in the lead.



## Vietnamese agro-producers:

Eighty percent of Vietnamese people are living in rural areas. The agricultural production, however, is still in low productivity.

- **Advantages** : favourable geo-ecological condition for production of tropical fruits and vegetables.
- **Disadvantages:**
  - weak management
  - lack of knowledge on production techniques
  - lack of facilities
  - limited access to markets
  - lack of market information
  - lack of investment capital

## Other factors:

- **Practices:**
  - a habit of selling agro-products before maturity. For example: selling “young rice” or “mango leaves” at very low price.
  - not strictly following safe production
  - not following a collective production practice
  - not having contacts with other actors of the chain
- **Product characteristics:** shelf-life of agro-products is usually very short so suppliers should take into account “time to market” and “time on shop-shelves”. For export markets products need special treatment:
  - Preservation techniques to prolong the shelf-life
  - Processing techniques for product diversification and adding value.



**Other factors:**

- **Problems:**
  - High percentage of loss
  - High production cost vs. low selling price
  - Inconsistent quality and delivery
  - Low awareness on product safety
  - Products less competitive in domestic and global markets
  - Lack of markets
- **Markets:**
  - number of producers and supplying countries has rapidly increased
  - buyers are global in the sense that they source products from producers all over the world
  - buyers are more and more complex, especially international buyers who need more information on the product itself and the production conditions (traceability)

**MPI – GTZ SME Development Programme**

- Under official Vietnamese-German Development Co-operation. Vietnamese political partner is MPI-ASMED. Other implementing partners are VCCI and IMS
- Objective: To improve the competitiveness of private small and medium enterprises\* in Vietnam  
(\* *SME include farmers and farmer groups considered as agro enterprises*)
- 4 closely integrated components:
  - SME Policy & Enabling Environment for Business
  - Local Economic Development
  - Competitiveness of selected Value Chains and Sub-sectors
  - Advanced Technical Service and BDS



## SMEDP's Value Chain Development

- **The way we work :**
  - Having proposals from provincial authorities on their prioritised development areas, with focus on Hung Yen, Quang Nam, Dak Lak and An Giang provinces.
  - Conduct value chain analysis to identify problems and recommend interventions
  - Present VCA's results to local stakeholders and agree on intervention plans
  - Implementation of interventions for improvement and adding value.
  - Lessons learnt, adaptation and replication
- **09 Value Chains selected** including litchi, longan, vegetable, rice, avocado, cashew, coffee and pangasius

Hanoi October 18 & HCMC October 20, 2006.

Slide 9

## GTZ's PPP approach

**GTZ uses a "Public Private Partnership" (PPP) approach to include international private businesses in the development of value chains all over Vietnam:**

- **Why international private businesses?**
  - to connect local agro-producers with international markets
  - to facilitate know-how transfer and advanced management techniques
  - to enforce standards in product quality, advanced packaging, marketing and brand-building
  - to use buyers' "power" to pull the whole chain work better together
- **On the other hand, international buyers gain from good quality, reliable and consistent supply of products**
- **Win-win solution**

Hanoi October 18 & HCMC October 20, 2006.

Slide 10



## GTZ's PPP approach

- **Who are our partners:**
  - **International buyers**
    - Metro Cash & Carry Limited (F&V supply chain)
    - Neumann Kaffee Group (Coffee VC)
    - Binca Seafood (Pangasius)
    - AnovaFood (Seafood)
  - **International service providers**
    - EDE Consulting (VCA)
    - Mai Asia Limited (marketing and brand building)
    - FreshStudio (VCA)
    - Other research institutions

Hanoi October 18 & HCMC October 20, 2006.

Slide 11

### Case 1:

#### GTZ-MOT-METRO Project

About the project  
Statement of Problems  
Initial interventions  
Next plan



## Case 1: GTZ - MOT - METRO project

- **Duration:** April 2005 – December 2007
- **Objective:** to qualify market players within the selected fruit and vegetable value chains through (1) training and capacity building for members of supply chains and (2) establishment of a modern regulatory and legislative framework.
- **Partners:**
  - Metro Cash & Carry
  - Ministry of Trade
  - GTZ SME Development Programme
- **Other coordinating partners**
  - Vinafruit
  - Institutions: Sofri, Viaep, Siaep, Rifav...



MOT gtz

Hanoi October 18 & HCMC October 20, 2006.

Slide 12



## Case 1:

### GTZ-MOT-METRO Project

About the project

Statement of Problems

Initial interventions

Next plan



## Project approach (I)

- **Training and advice to stakeholders of selected fruit and vegetable value chains**
- Participatory analysis of strengths and weaknesses of the selected value chains
- Training and consulting program for farmers, collectors, traders, retailers and wholesalers
- Support focusing on Eurepgap (Good Agricultural Practice) certification
- Support to upgrade facilities for processing and sorting stations



Hanoi October 18 & HCMC October 20, 2006.

Slide 13

## Case 1:

### GTZ-MOT-METRO Project

About the project

Statement of Problems

Initial interventions

Next plan



## Project approach (II)

- **Advice to Ministry of Trade to improve legislative and regulatory framework conditions**
- Study tour to Europe and neighboring countries to learn from the experiences when it comes to developing distribution networks and building up legislative framework conditions
- Technical advice to the MoT on laws and regulations to be submitted to the national assembly for approval
- Consultation process with the stakeholders to discuss the planned legislative and regulatory changes
- Training for staff of Ministry/Departments of Trade



Hanoi October 18 & HCMC October 20, 2006.

Slide 14



## Case 1:

### GTZ-MOT-METRO Project

About the project

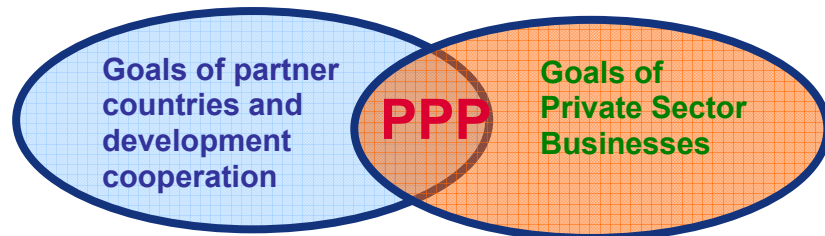
Statement of Problems

Initial interventions

Next plan



This project benefits all sides!



- ▶ *Increase the competitiveness of the agricultural sector*
- ▶ *Improve quality of product, reduce losses and thus increase income*
- ▶ *Create better framework conditions to attract further investment*

- ▶ *Improve quality and hygiene standards of products sourced in Vietnam*
- ▶ *Increase the efficiency and reliability of the supply chain*
- ▶ *Contribute to the development of the economy*

Hanoi October 18 & HCMC October 20, 2006.

Slide 15

## Case 1:

### GTZ-MOT-METRO Project

About the project

Statement of Problems

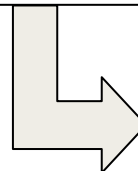
Initial interventions

Next step



#### Statement of problems:

- ✓ Many players in the supply chain
- ✓ Production is scattered, spontaneous and not organized
- ✓ Poor farming and post-harvesting techniques
- ✓ Lack of knowledge in business and chain management
- ✓ Quality is defined by each next player down the chain
- ✓ No packing standard
- ✓ Bad transportation conditions



**MOT** **gtz**

Hanoi October 18 & HCMC October 20, 2006.

Slide 16



## Case 1:

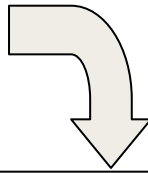
### GTZ-MOT-METRO Project

About the project

Statement of Problems

Initial interventions

Next step



- High cost
- Low price
- Inconsistent quality
- High loss (up to 40%)
- No committed and long-term relationships



MOT

gtz

Hanoi October 18 & HCMC October 20, 2006.

Slide 17

## Case 1:

### GTZ-MOT-METRO Project

About the project

Statement of Problems

Initial interventions

Next step



## ■ Pictures

### Harvesting



MOT

gtz

Hanoi October 18 & HCMC October 20, 2006.

Slide 18



## Case 1:

### GTZ-MOT-METRO Project

About the project

Statement of Problems

Initial interventions

Next step



## Packaging



Hanoi October 18 & HCMC October 20, 2006.

Slide 19

## Case 1:

### GTZ-MOT-METRO Project

About the project

Statement of Problems

Initial interventions

Next step



## Transportation



Hanoi October 18 & HCMC October 20, 2006.

Slide 20



## Case 1:

### GTZ-MOT-METRO Project

About the project

Statement of Problems

Initial interventions

Next step



Traditional trading



MOT gtz

Hanoi October 18 & HCMC October 20, 2006.

Slide 21

## Case 1:

### GTZ-MOT-METRO Project

About the project

Statement of Problems

Initial interventions

Next step



#### Initial interventions :

- **VCA & Baseline studies of 18 F&V supply chains**
  - Litchi, longan, dragon fruits, pomelo, king orange, vegetables...
- **17 training courses have been conducted**
  - 04 courses for 233 MOT/DOT officers
  - 13 courses for 908 farmers, collectors and traders of litchi, mango, dragon fruits, grape, vegetable... on production, harvesting and preservation techniques, basic marketing and brand building, value chain concept...
- **Upgrading preservation and processing facilities:**
  - Upgrading 01 cooling storage for litchi in Hai Duong
  - Upgrading 03 and investment in 05 new litchi pulp dryers



MOT gtz

Hanoi October 18 & HCMC October 20, 2006.

Slide 22



## Case 1: GTZ-MOT-METRO Project

About the project  
Statement of Problems  
Initial interventions  
Next step



- **Next step:**
  - **Continue with training for members of selected supply chains**
    - Farmer training
    - Training for wholesalers in Red river and Mekong river deltas
    - Study tours
  - **Capacity building for members of supply chains**
    - Upgrading sorting station for mango in Tien Giang province
    - Invest in new processing for longan in Hung Yen
    - Supporting achievement of EurepGap certification for vegetable in Hochiminh City and mango in Dong Thap province (land use, chemical and pesticide management, labour standards...)



**MOT** **gtz**

Hanoi October 18 & HCMC October 20, 2006.

Slide 23

## Case 2: Litchi in Hai Duong

About the project  
Intervention areas  
Initial results  
Plan 2007



## Case 2: Litchi in Hai Duong

- **Duration:** 2006 – 2007
- **Objective:** to increase competitiveness of litchi producers in Thanh Ha district, Hai Duong province and to preserve special «thieu» litchi variety
- **Partners:**
  - Vietnam Academy of Agricultural Science (VAAS)
  - Metro Cash & Carry
  - Mai Asia limited
  - Other Institutes: Viaep, Rifav

Hanoi October 18 & HCMC October 20, 2006.

Slide 24



## Case 2: Litchi in Hai Duong

About the project  
Intervention areas  
Initial results  
Plan 2007



- Intervention areas at different levels of the chain with **emphasis on Marketing and Brand-building**
  - Farm level
  - Processing
  - Marketing and branding
  - Distribution



Hanoi October 18 & HCMC October 20, 2006.

Slide 25

## Case 2: Litchi in Hai Duong

About the project  
Intervention areas  
Initial results  
Plan 2007



- **At farm level**
  - Cultivation techniques
  - Monitoring & book-keeping
  - TOT and Farmer training
  - Association capacity-building
- **Partner**
  - Center for Agrarian System Development, Vietnam Academy for Agricultural Science (CASRAD-VAAS)



Hanoi October 18 & HCMC October 20, 2006.

Slide 26



## Case 2: Litchi in Hai Duong

About the project  
Intervention areas  
Initial results  
Plan 2007



### ■ Processing

- Investment in cooling storage and dryers
- Testing new product range: syrup, jam
- Farmer trainings

### ■ Partners

- Metro Cash and Carry
- Institute of Agricultural Engineering and Post Harvest
- CASRAD - VAAS



**VAAS**

**METRO**  
Cash & Carry Vietnam Ltd.



Hanoi October 18 & HCMC October 20, 2006.

Slide 27

## Case 2: Litchi in Hai Duong

About the project  
Intervention areas  
Initial results  
Plan 2007



### ■ Marketing and brand-building

- Market surveys
- Design new logo for the Association
- Develop marketing materials
- Develop marketing strategy
- Modern packaging

### ■ Partners

- Mai Asia Limited

**mai  
ab**



Hanoi October 18 & HCMC October 20, 2006.

Slide 28



## Case 2: Litchi in Hai Duong

About the project  
Intervention areas  
Initial results  
Plan 2007



## Some examples of materials developed for 2006:



Hanoi October 18 & HCMC October 20, 2006.

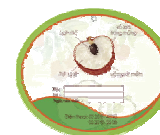
Slide 29

## Case 2: Litchi in Hai Duong

About the project  
Intervention areas  
Initial results  
Plan 2007



## Some examples of materials developed for 2007:



Hanoi October 18 & HCMC October 20, 2006.

Slide 30



**Case 2:**  
**Litchi in Hai Duong**

About the project  
Intervention areas  
Initial results  
Plan 2007



■ **Distribution**

- Assist in sales promotion
- Seminars, customers' conferences
- Link with local distributors
- Develop networks

■ **Partners**

- Phu Thai Group
- Hoa An Co.
- Metro Cash and Carry



Hanoi October 18 & HCMC October 20, 2006.

Slide 31

**Case 2:**  
**Litchi in Hai Duong**

About the project  
Intervention areas  
Initial results  
Plan 2007



■ **Initial results:**

- Improving quality and safety of litchi products
- Improving access of farmers to local markets and enhancing their bargaining power
- Strengthening linkage of all actors of the chain and get long-term commitment of partners
- Adding value
  - reduce losses (quicker delivery, better preservations...)
  - save labour, energy (lower cost for processed litchi pulps)
  - safer and cleaner products

Hanoi October 18 & HCMC October 20, 2006.

Slide 32



## Case 2: Litchi in Hai Duong

About the project  
Intervention areas  
Initial results  
Plan 2007



- **Plan 2007:**
  - Continuing with monitoring production techniques
  - Registration for Geographical Indication
  - Studying preservation techniques to prolong shelf-life of the produce while pursuing export markets
  - Strengthening linkages with local and international buyers

Hanoi October 18 & HCMC October 20, 2006.

Slide 33

## To sum up:

GTZ uses the value chain development and PPP approach to improve capacity of agro-producers and link them with the Global Value Chains and add value locally.

### Problems

- lack of markets
- high percentage of loss
- high cost, low price
- inconsistent quality and delivery
- low awareness on product safety
- products less competitive on the domestic and global markets

### Solutions

- international firms to coordinate and lead the value chain to:
  - link with the global market
  - transfer know-how and managerial skills
  - improve marketing and branding
  - upgrade facilities
  - improve export capabilities

### Results

- better and stable access to the global market
- better quality of produce
- better packaging and branding
- facilities upgraded
- lower production cost
- higher price
- traceability ensured

Hanoi October 18 & HCMC October 20, 2006.

Slide 34



# ECOLINK SUPPORT TO TAN CUONG TEA PLANT

- Ecolink in brief
- Bio-tea in brief
- Project activities
- Success
- Challenges
- Comments and recommendations
- ECOLINK report by Nguyen Van Kim on creating groups of bio-tea farmers

## I. ECOLINK IN BRIEF

Founded in 2003 by Hiep Thanh, a processing company, **with the aim to (i) sustainable development of green and clean environment for all, and (ii) enable remote communities to better integrate into post-industrialized society**

**Ecolink hopes to introduce special agricultural produces of different Vietnamese localities to customers.**

Our slogan: **Green and clean environment for all**

Experience in growing, processing, distributing and export trading agricultural produces help Ecolink choose bio-tea production and trading as a breakthrough in the market

## II. BIO-TEA IN BRIEF

### 1. What is biotea?

Bio-farm is free from chemical fertilizers, insecticides, or herbicides. Soil is fertilized with organic waste. Pests and weed are controlled by organic measures. Bio-farm ensure soil fertility, minerals, farming environment, as well as biological balance.

Tea cultivated in bio-farm is made into fresh green tea, which will then be dried in a dust-free and chemical-free process. The product is called bio-tea.

### 2. The differences between normal tea and bio-tea

With a love of nature and an in-depth knowledge of soil and tea farming, bio-tea farmers use organically incubated fertilizers to enrich soil, cut off branches or use extracts from trees to control pests.

Normal tea farmers use non-organics (chemical fertilizers, hi-grow substances, chemical pesticides,...) that may lead to biological imbalance in the soil environment.

In case of juxtaposition of bio-farms and normal farms, defensive measures must be exercised to prevent bio-farms from being infected by non-organic chemicals from the latter. Bio-farms is also given a worldwide recognized certificate, and bio-tea is only recognized after 18 months grown in bio-farms.

### 3. Value of bio-tea

Bio-tea is not only rich in nutrition but also free from chemical remnants. Observation reveals that bio-tea remains a high quality in storage, keeps fragrance when incubated with flower



essence, and gives water a pure color when made. These of bio-tea are similar to the original value in as early as the beginning of 20<sup>th</sup> century.

### III. ECOLINK SUCCESS

Ecolink is working closely with partners in Tan Cuong (Thai Nguyen province) Suoi Giang – Suoi Bu (Yen Bai), Bac Ha (Lao Cai). Our products are bio-green tea, lotus essenced and jasmine essenced tea, black tea.

Ecolink has been given certificates from international bio-products control agencies like ACET (Italy), ACT (Thailand) for its bio-tea process infrastructure.

Ecolink products have been exported to Germany, Italy, France, US, Belgium, Scotland. In Vietnam, our products can be found in Metropole hotel.

### IV. PROJECT ACTIVITIES

High quality products require highly qualified farmers. The combination of agriculture, industry and market is also necessary.

Farmers need to be working in groups and **given respect as partners in long lasting and mutual benefit cooperation** with Ecolink.

Fair Trade is a principle between Ecolink and farmer groups, which is recognized by International Fair Trade Organization.

Partnership takes times and efforts and partners have come to Ecolink by

Organizing Bio-tea favorite groups, bio-tea co-ops

- Offering advice to and poining in management groups/co-ops, then TOT to key farmers
- Fund raising, action plan for regular meetings and experience sharings, pilot and extension farming, and timely buying bio-tea harvested
- Developing brands for each types of bio-teas, in each locality.

### V. CHALLENGES

- Organic products meets customers' demand on high quality and food safety. However, Vietnam has not yet issued a regulation on this type of products nor a national agency recognized by international organizations to exercise control on organic products. Therefore, Vietnamese organic-products have to undergo high cost for international recognition, and the price is high accordingly.
- Organic cultivation process includes an internal quality control, independent inspection system and a well trained farmers on bio-farming. Currently, none of the above exists in Vietnam, therefore, Ecolink has to undertake all these at its own expense
- Annual fee for quality control charged by an international agency is very high. Waiting time (from the start of bio-farming to the recognition of organic-products) is 18 months
- Few local customers are aware of organic products and able to distinguish "safe" food from other kind of food they usually have.
- Grouping takes times and efforts, and training for key farmers and managers is not professional. A company like Ecolink itself can not undertake all the work as well as expected.



## **VI. RECOMMENDATION**

- Ecolink is seeking for cooperation and assistance in production and distribution of organic products
- Ecolink is seeking for VCCI and NGOs in developing a system of quality control for organic products, and in farmer grouping.

## **VII. ECOLINK REPORT BY NGUYEN VAN KIM ON CREATING GROUPS OF BIO-TEA FARMERS**

### **1. Bio Tea Club: Forming, Management and Success**

ECOLINK started in Thai Nguyen in 2003 with Chris May as manager. This project was welcome by all farmers in Song Cau Plantation and Tan Cuong Tea farming. A lot of farmers came to training but many left because their farms were badly attacked by pests and the output went down badly, too. The project was at its hard time with only 5 families. Thinking of the family health and the health of the community, we put aside the loss and spared no efforts to join Mr May's research. We told other people about the ways to get rid of pests, to improve cultivation methods, and the result was good enough. People were explained about the bad effects of chemical fertilizers and pesticides if used on soil. The evidence is obvious when looking at farms using chemical fertilizers 10 years ago now impoverished, farmers there are exhausted, water wells contaminated, ponds' fish died. Seeing the importance of bio-tea, many people came back and in 2004 was 12 households, early 2006 was 16.

We form Tan Cuong Tea Club in 2005 with 15 households. The club management was elected and so was an internal inspection group. The club works well now with meeting on the 20<sup>th</sup> day of a month, sharing experience in pest control, cultivation, processing and selling products.

Bio-tea in its early days hardly sells. Because it is drier and more bitter than the usual tea, its price is 3-5,000 VND/kg less than the other teas. Tea tree grow slowly because no nitrogenous or phosphate fertilizers were used, tea yield went down by 20 – 30 %. However, ECOLINK experience shows that that transitional period will be over if organic fertilizers are correctly used, and cultivation method are correctly practiced. Outcome will be tea with high quality that can be stored for longer time. Moreover, the aim of organic agriproduction is to give farmers a safer life, to ensure biological balance, to keep land, water and air free from pollutants, and the products are safe for users.

At meetings, we remind ourselves of the club mandate. And we grow with ECOLINK.

### **2. ECOLINK supports**

ECOLINK has been with us for 4 years, helping us with training, documenting, recommending us to buyers, introducing microbiologie yeasts of Hanoi Univeristy, and of Hanoi Organic Fertilizers Enterprise for fermentation of our own organic fertilizers. ECOLINK is also with us to test, check, inspect the whole growing and processing process. We also hire Thai Nguyen Plant Protection Agency as our consultant to help us through questions, queries, and difficulties for 2 years, 2005 and 2006, and people now believe in what we are doing.

Each sale is well recorded and profits go equally to tea growers and to the club. However, the quantity is low, the market is small, so the profit is not much.

That is what we have been doing over the last 4 years. With support from ECOLINK, we have gone through difficult time and now growing well.

We hope to receive attention from authorities and business community in this meeting. Your cooperation will help us and ECOLINK work better, go further in the market, our customers will be healthier, and the environment will be cleaner.



# CREDITS FOR POOR RURAL WOMEN

## I. SAVING FOR LENDING PROGRAMS (SLP) OF THE VIETNAM WOMEN'S UNION

Credit is an effective tool in Hunger Elimination and Poverty Reduction (HEPR). Since the late 1980s, especially after the National Women's Congress VIII (1997), the Executive Committee of the Vietnam Women's Union has instructed local unions to make full use of all credit sources: from mortgage loans, bank drafts, women's savings and international organizations' donations, to their own savings for eliminating hunger and poverty.

The Union's saving and lending scheme is a financial support for poor women to generate income, and to get rid of hunger and poverty. The scheme is usually worked within a group, managed by local unionists, and this is also an opportunity for group members to get more knowledge and to raise their own competence.

After more than 15 years, the SL scheme has been extended to all cities/provinces in Vietnam. In 2006, its 10,000 billion VND has provided support to more than 3 million women. This budget, administered by all levels of Women's Union, comes from:

- Social Policy Bank and mortgage loans from Bank for Agriculture and Rural Development.
- Contributions from the Union's campaigns in communities.
- Donations from International organizations, UNO, domestic and foreign NGOs; bilateral financing.

## II. DESCRIPTION OF THE SL SCHEME

### 1. Group budget

Mainly from members' savings, and the rest from public work. Lending can be made to both members and non-members of the Union. Basically, it is a credit that rotates among group members under the management of the union in communes/wards. The budget in December 2005 in provinces/cities was 651 billion VND (more than 6% of the Union's total sources).

#### ***\* The role of the Union in group's SL scheme***

In the guideline of the central Vietnam Women's Union, all local unions have formed SL groups to support women with credit from their own savings. Group leaders, also local union executive, manage the funds and savings, organize group work, and report the results to the commune's executive committees in weekly, monthly or quarterly review meetings. The unions in communes are responsible for forming groups, advising their leaders, monitoring the activities, and processing reports from those groups.

#### ***\* Group size***

In 1989, each group had 10-15 women. Now, 21 on average.

#### ***\* Deposits***

Vary as agreed by members. Each deposit is 10,000 VND at average (minimum 2,000 VND and 100,000 VND maximum). In some places, deposit is every month; every quarter, or once or twice a year. There are groups that make deposit even every day.



### **\* Lending**

Credit limit is decided after a group's open discussion on the total budget available and member's needs. In some places, like Go Cong, Tien Giang province, a 6-month or one-year credit limit may go up to 80% of member s' savings. Group members vote for the limit for each person after considering their difficulties and how urgent their needs are.

There are 2 forms of lending: lending without interest and lending with interest.

The fund for lending money without interest mainly comes from the voluntary support of group members and non-members with the thought "Women help women to develop household economy" and movements of HEPR started up by the Vietnam Women's Union.

Lending with interest will be decided after group discussion on interest rate, which is usually lower than, or may be equal to the interest rate of other lending sources in the area. Interest is often made payable every month or added to principal by the end of the lending period. This interest will be used to bookkeeping, group meetings, sharing experience, visiting sick people, awarding members' children for their excellent study record, giving presents to children on Mid-Autumn Festival or Children's Day... The use of profit from interest is decided and supervised by all group members.

### **\* 2 models of management**

- *Three-member board of management* consists of unionists at grassroot level: a chief leader is often a member of the executive committee of the communal women's union. The deputy is accountant and the secretary is cashier. Most groups follow this model.

- Two-member board of management consists of a chief leader as cashier, the deputy as accountant and secretary. They are both members of the executive committee.

### **\* Bookkeeping**

The book of account is designed with reference to the union's guide, the group's realistic needs and members' experience, ... The book covers:

- inflow cash and expenses
- interests of each member;
- meeting minutes and member list;
- updating members' work ...

### **\* Review on the group's SL scheme**

*Strengths:*

- The budget is from women's savings in the community. Those small but frequent savings are suitable for not only creating handy capital source for poor women in the spirit of care and share to develop household economy and HERP, but also avoid risks.
- Limits of deposit, lending, refunds, interests and using profit from interest are openly discussed and supervised. Saving is not long term and no risk.
- Thanks to activities conducted by the credit and savings groups, the Union tasks are conveniently handed down to members; poor women are facilitated to broaden their knowledge, share experiences, and assist one another's development; the organization of the Union as well as its movements are strengthened and made attractive to members.
- The Union staffs are enabled to get used to credit management tasks, therefore, their skills are improved.



- *Restrictions*
- As budget is not frequently accumulated, the growth of the budget is not high.
- Due to the variety in decisions of group members, even in the same community, regulations and reporting systems are not the same format, which management and supervision inconvenient.
- Group leaders are not well-trained in bookkeeping.
- Management work is on volunteer-basis.

## **2. Sources of capital owned and managed by the Women's Union**

The capital mostly comes from programs and projects funded by international organizations and directly managed by local unions. Those programs aim at supplying poor women with capital, and engaging them to activities that improve their knowledge and capacity. The fund in December 2005 was VND 363,525 million, (nearly 4% of the total sum under the Union's management and join-management)

### **\* *The role of the Women's Union***

Unions at all levels administer or own the project budget. Apart from lending, unions have to protect and increase the budget, ensuring that investments from budget are used effectively to reach their targets, etc. To make the programs effective, local unions have combine activities, to fulfill the tasks of the union in the area.

### **\* *Ranking of project management and the size of investment sources***

The management ranking bottoms up, highest at communes, then districts, provinces and the central. According to the 2005 survey in 30 provinces/cities, at communal management covers 233 programs&projects (44,8%); at district level – 224 programs&projects (40,2%); and at provincial level – 100 programs&projects (18%).

On the contrary, the size of investment tops down: communes are in charge of the smallest investment (only 17%), which was VND 41,379 million and VND 177 million/1 programs&project at average. Meanwhile, districts are responsible for VND 68,443 million (28%) and VND 277 million/1 programs&project at average. Provinces administer the largest investment (55%), equivalent to VND 134,385 million and VND 134,3 million at average. Moreover, there are differences in the size of investment for each region. For example:

- At communal level, the largest invested program has VND 1,153,791,000 (Napa project in Bao Ninh commune, Dong Hoi district, Quang Binh province); while the smallest one has VND 18,300,000 (the project for misled women in Kim Xuyen commune, Kim Thanh district, Hai Duong province).
- At district level, the largest invested program has VND 6,992,800,000 (the project on gender balance and development by the women's union in Ba Vi, Ha Tay); in the meantime, the smallest has only VND 10 million (the project on rotating credit in Son Dong district, Bac Giang province).
- At provincial level, the largest invested program has VND 7,537,027,000 (the project on upgrading houses in Hai Phong, funded by World Bank). The smallest one is VND 19,800,000 (the project against women and children trafficking of Nam Dinh province, funded by Action Aid).

### **\* *Members***

The total number of members who are now participating in projects owned and managed by the Union is 219,938 people, of which, 56,4% are poor women. This rate is recorded based on the old poverty line.



### **\* *The levels, period and interests of lending***

- The credit limit varies depending on the regulations of each program. While VND 1-5 million limit/person are most popular (more than 40%), the below VND 1 million is only about 3%. More than 20.9% programs allow lending ranging from VND 5-10 million. In fact, women want to expand their work so their needs for capitals are increasing.
- The lending periods vary: 6 months, 6 months to one year, and more than one year. Short-term lending, from 6 months to one year, accounts for 47,9%. This is due to the focus on small-scale agriculture production (livestock, planting, small trading, etc.) of most lending projects.
- Interest rates also vary, mostly set lower than the one-year interest rate of the Bank for Agriculture and Rural Development. There are mainly 3 levels: below 1%, 1% and above 1%, in which the proportion of projects with interest rate lower than 1% is the largest (nearly 50%), followed by that of 1% (more than 20%).

### **\* *Savings***

Savings aims at creating the habit of having some money to avoid risks and increasing the program's sources of lending. Agreement says all members asking for a loan have to take part in the savings program, from VND 5,000 - 10,000 deposit/month, may be up to VND 50,000 in some places. Many programs set a certain limit for initial lending. Monthly group meetings are times to collect interest, deposits, and share experiences, child-rearing, as well as family organization...

There are 2 forms of savings: the compulsory and the voluntary. Surveys in some provinces reveal that the former is practiced in about 40% of communal programs and the latter is in 60%. The highest voluntary savings may go up as high as 49% of the initial budget. The project with both compulsory and voluntary savings up to 97% of initial budget is on Single Mother Project of Tan Minh commune, Soc Son district, Hanoi.

More than 90% of the savings is used for participants' borrowing. The interest rate equal to the bank rate in medium term is annually calculated and paid to participants at their withdrawal.

There are strict and detailed regulations on withdrawal. It is usually allowed after participants already pay back principals or in case of emergency.

### **\* *Book of account and reports***

As most projects are funded by international organizations, accounting reports are made relevant for audit, check and collation. Credit beneficiaries and cross check are openly discussed. The board of management plays an important role in these projects.

Most project reports are issued monthly, annually and at the end of the period. Reports are also submitted to donors and women's unions of higher levels. Their content generally covers updated information about capital management, cash inflow and outflow, savings and use of profit from interest, etc.

### **\* *Review on the credit and savings program owned and administered by all levels of the Women's Union***

#### ***Strengths:***

- The lending mechanism, returning principal, interests, and savings is transparent and suitable for poor women. All the groups have regular discussions.



- The management is well exercised, records on receipts and expenses are orderly filed. Reports are regularly submitted.
- Credit lending attached to savings and integrated into socio-economic programs in group work and training help broaden the knowledge and provide necessary skills for poor women.
- Participants are trained and enabled to engaged in the program, thus, their capacity is improved.
- Good results are achieved in HEPR and the union's development.
- *Restrictions*
- Capital growth is still slow, which has not met the women's various needs.
- Savings are still restricted within groups and projects.
- Qualifications and capacity of management are different; limited budget leads to limited training course whether regular or advanced.
- Revenues from programs are not enough for funding activities and cover management cost. Working facilities and conditions are poor. Allowances are small.
- There has not been a standard reporting system.

### **3. Capital from the Social Policy Bank**

By December 2005, cash balance was up to 6,300 bil VND, (98,971 saving books and lending made to 1,538,541 households)

#### **\* *The role of the union***

The mandating mechanism of the Social Policy Bank to the Women's Union is based on the integration between social policies with economic policy. On the one hand, it encourages members to abide the Party and State's policies. On the other hand, it helps expand production and improve members' living standards. The Women's Union forms groups and develops their working regulations.

#### **\* *Number of members in each group***

According to the decision 783/QĐ-HĐQT issued on July 29th, 2003 by the CEO of Vietnam Social Policy Bank, a savings group consists of at least 5 and at most 50 members living in the same hamlets, villages, communes, and wards. The management skills of members are improving. At average, there were 13 members in a group (2003), 14 (2004), and 15 (2005).

#### **\* *Group leaders***

- Groups of less than 15 members have no management boards but a chief leader. For groups of more than 15 members, a management board, of 2-3 people, is established. If 2 people, the chief leader will also be cashier and the deputy accountant. If 3 people, the chief leader will be in charge of general issues; the deputy will be accountant, and the cashier - secretary.

**\* *The levels, periods and interests of lending:*** as set in the bank's regulations.

**\* *Savings and savings period:*** as agreed by the groups.

#### **\* *Review on the Union's activities funded by Policy Bank***

*Strengths:*

- Thanks to the Women's Union and other organizations, the most rapid and effective capital channel for the poor and the beneficiaries of social welfare has been created, contributing to the socialization of banking.



- The Women's Union in cooperation with the Social Policy Bank usually organizes professional training courses for the union staffs as well as the savings and lending groups. At the same time, they transfer advanced technology to borrowers, which facilitates their producing and trading, and helps them return the principal and interests in time.
- The Women's Union creates many models, some of their members become examples in production and trading.
- The Union engages more women in activities. Implementing the mandated projects, the saving and lending groups enjoy commissions, and the Union can collect fees to add up to its fund.

#### *Limitations*

- Credit limit to households is still small, which affects producing and trading of the poor.
- The local unionists, especially in mountainous and remote areas, is not qualified, unskilled in statistics and unprepared for unexpected situations during and after lending money. In order to tackle such a problem, in some groups, make key leaders be in charge of groups. However, they can not do the supervising and checking tasks at the same time.

### **III. RECOMMENDATIONS FOR IMPROVING POOR RURAL WOMEN'S CREDITS**

- Mobilize different sources of capitals to develop a fund for women, especially the poor. Prioritize lending money to people who wants to expand their business that creates more jobs for women.
- Advise local unions on Human Resource Development, choosing and using qualified staffs with professional skills for savings and credit lending programs.
- Enhance the technological transfer, widen the knowledge of household economy and improve the management skills for women's small-scale enterprises.
- Cooperate with the Social Policy Bank, Bank for Agriculture and Rural Development to enhance unionists' capacity, as well as reinforce the supervising task in order to ensure the safety and effectiveness of savings and credits lending programs.



# POST LIFE INSURANCE

*New Service of Vietnam's Post*



## HOME CARE



**MONEY RAISED – LIFE INSURED**



**Savings  
Benefits**

+

**Insurance  
Benefits**



- **ONLY WITH 2.5 MILLION DONG.**
- **PAY PREMIUM ONCE IN 15 YEARS.**



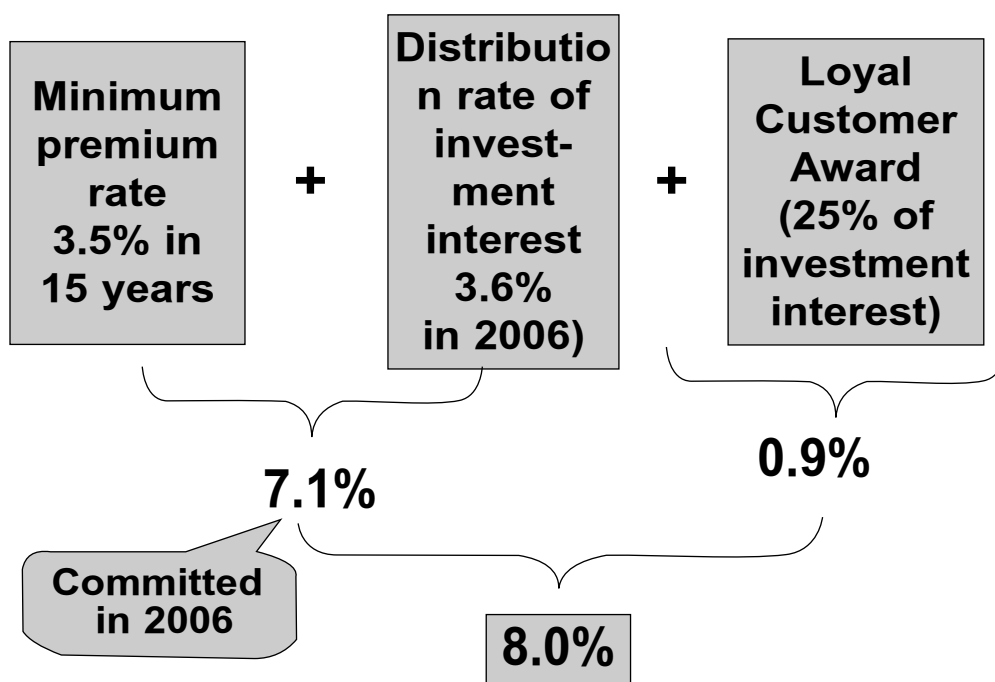
- **SUM INSURED IS UP TO 100 MILLION DONG/OCCURRENCE.**





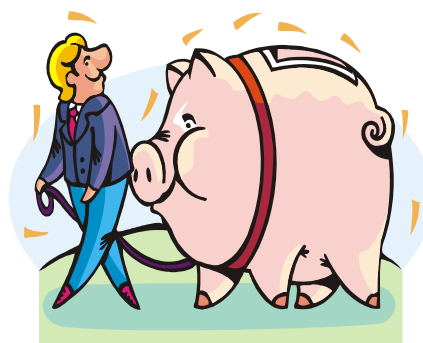
## 24/24 Personal Accident Insurance (death or permanent disablement due to an insured accide

Premium/year	Insurance Benefits
26,000 dong	20,000,000d
65,000 dong	50,000,000d
130,000 dong	100,000,000d





- **INTEREST RATE 7.1% /YEAR 2006.**
- **ESTIMATED 8% /YEAR  
AS FROM 11<sup>TH</sup> YEAR.**



- **INVEST SAVINGS INITIATIVELY.**
- **WITHDRAW AT ANYTIME (AFTER 1<sup>ST</sup>  
YEAR) WITHOUT LOSS.**





- **SERVE THROUGHOUT 7-DAY WEEK.**
- **AT POST OFFICES IN 64 PROVINCES, CITIES NATIONWIDE.**



- **WITHOUT HEALTH CHECK PROCEDURE.**
- **REGISTER SIMPLY AT POST RECEPTION COUNTERS.**







## Benefit Illustration



Năm	Số tiền tiết kiệm ban đầu	Phí quản lý Hợp đồng (5.5%)	Phí bảo hiểm tai nạn	Quyền lợi lãi chia đảm bảo		Quyền lợi lãi chia thêm minh họa			Giá trị giải ước của Hợp đồng vào cuối năm
				Lãi chia đảm bảo (3.5%)	Giá trị Hợp đồng đảm bảo	Lãi chia thêm minh họa (3.6%)	Thưởng khách hàng trung thành	Tổng lãi chia thêm minh họa	
1	2,500,000	137,500	26,000	81,778	2,418,278	84,114		84,114	2,502,392
2			26,000	86,674	2,563,063	89,130		89,130	2,632,215
3			26,000	91,918	2,718,133	94,544		94,544	2,812,677
4			26,000	97,534	2,884,210	100,320		100,320	2,984,531
5			26,000	103,549	3,062,079	106,307		106,307	3,168,586
6			26,000	109,991	3,252,577	113,133		113,133	3,365,710
7			26,000	116,890	3,456,600	120,230		120,230	3,576,829
8			26,000	124,279	3,675,108	127,830		127,830	3,802,938
9			26,000	132,193	3,909,131	135,970		135,970	4,045,101
10			26,000	140,669	4,159,769	144,688		144,688	4,304,457
11			26,000	149,746	4,428,203	154,024	38,306	192,331	4,620,734
12			26,000	160,816	4,755,549	165,410	41,353	206,763	4,962,312
13			26,000	172,771	5,109,083	177,707	44,427	222,134	5,331,217
14			26,000	185,683	5,490,900	190,988	47,747	238,735	5,729,635
15			26,000	199,627	5,903,262	205,331	51,333	256,664	6,159,925
	2,500,000	137,500	39,000	1,954,114	5,903,262	2,009,946	223,365	2,233,311	6,159,925



## Benefit Illustration



Năm	Số tiền tiết kiệm	Phí quản lý Hợp đồng (5.5%)	Phí bảo hiểm tai nạn	Quyền lợi lãi chia đảm bảo		Quyền lợi lãi chia thêm minh họa			Tổng quyền lợi lãi chia (Giá trị Hợp đồng vào cuối năm)
				Lãi chia đảm bảo (3.5%)	Giá trị Hợp đồng đảm bảo	Lãi chia thêm minh họa (3.6%)	Thưởng khách hàng trung thành	Tổng lãi chia thêm minh họa	
1	2,500,000	137,500	26,000	81,778	2,418,278	84,114		84,114	2,502,392
2	500,000	27,500	26,000	103,211	3,052,103	106,160		106,160	3,158,263
3	500,000	27,500	26,000	126,167	3,730,929	129,771		129,771	3,860,701
4	500,000	27,500	26,000	150,752	4,457,953	155,059		155,059	4,613,012
5	500,000	27,500	26,000	177,083	5,236,595	182,142		182,142	5,418,738
6	500,000	27,500	26,000	205,283	6,070,521	211,149		211,149	6,281,669
7	500,000	27,500	26,000	235,486	6,963,655	242,214		242,214	7,205,869
8	500,000	27,500	26,000	267,833	7,920,202	275,485		275,485	8,195,688
9	500,000	27,500	26,000	302,477	8,944,664	311,119		311,119	9,255,783
10	500,000	27,500	26,000	339,580	10,041,863	349,282		349,282	10,391,145
11	500,000	27,500	26,000	379,318	11,216,963	390,155	97,539	487,694	11,704,657
12	500,000	27,500	26,000	425,290	12,576,447	437,442	109,360	546,802	13,123,249
13	500,000	27,500	26,000	474,941	14,044,691	488,511	122,128	610,639	14,655,329
14	500,000	27,500	26,000	528,564	15,630,393	543,666	135,916	679,582	16,309,976
15	500,000	27,500	26,000	586,477	17,342,952	603,233	150,808	754,041	18,096,994
	9,500,000	522,500	390,000	4,384,239	17,342,952	4,509,503	615,752	5,125,255	18,096,994





**Give security to everyone, every family**

**Only with a small premium  
(a minimum of 50,000 d).**

**Customers are insured with high  
insurance benefits (a maximum of  
100 million dong)**





### INSURED for:

- Any risk
- Causing death
- Or permanent disablement.



PREMIUM (DONG/YEAR)	INSURANCE BENEFITS (DONG)	
	NOT DUE TO ACCIDENT	DUE TO ACCIDENT
50,000	2,000,000	20,000,000
125,000	5,000,000	50,000,000
250,000	10,000,000	100,000,000



- **SERVE THROUGHOUT 7-DAY WEEK.**
- **AT POST OFFICES IN 64 PROVINCES, CITIES NATIONWIDE.**



- **ANSWER JUST 6 QUESTIONS ABOUT HEALTH.**
- **REGISTER SIMPLY AT POST RECEPTION COUNTERS.**





## EDUCATIONAL SECURITY



## PENSION AIDS





# **ACSOFTHOME SOFTWARE FOR FAMILY BUSINESS**

## **1. AIMS**

ICT in business is a must in global economy and Vietnam is not exceptional. Managers use ICT to help them making decisions in business and investment. However, ICT has gone much into household business.

Statistics show that only 1-3% of household businesses use ICT and this is a good market for anyone who wish to invest in.

In 2006, VCCI and Intel, Microsoft and VNPT to work out an ICT assistant project for household business, the product of which is ACSOFTHOME. This project is to

- Provide a small business a software that can update flow of sales, stock, liabilities, payables, cost, price, loss and benefit of each item.
- Develop ICT support for household businesses.

## **2. PRODUCT DESCRIPTION**

- Can be adjust to real business situation
- Vietnamese interface
- User friendly
- Easily convert to excel
- Hot keys
- Separate accounting on each stock
- Relevant to Ministry of Finance and Tax department format
- Monitoring purchasing, sales & costs of each stock
- Flexible and in-detail management of stocks and liabilities
- Flexible reporting with selected sectors for sales management and administration
- Billing to be made on intake – output, receivables – expenses
- Rapid search for bills and easy update of data

## **Functions**

### **Management of cash flow and bank account**

- Monitoring and updating payables, liabilities and cash balance
- Monitoring payables, liabilities at different banks
- Monitoring transactions with clients, bills and other expenses
- Bills printable
- Stocktaking cash balance and bank accounts

### **Management of stock**

- Customized management of stocks
- Automatically stocktaking and informing stock balance at time of retrieval
- Stock in / out bills printable
- Stock logbook, statements of in/out/balance stock, stock code, inventory



### **Debt Management**

- Customer- / supplier- based monitoring of debts
- Accurately retrieval of debts for reference by management
- Log books and general log book of debts, book of debt crosscheck

### **Management of sales and expenses**

- Detailed update of expenses (bills of items purchased, products sales, transportation and advertisement costs, salaries,...
- By-period automatically re-evaluating capital
- Automatically accounting of cost and sales to make profit/loss statement on each item/stock
- Overall and detailed management of sales made on item/stock
- Reporting system of purchase, sales, revenue, cost, profit/loss made on each item/stock

### **Bar-code Management of sales**

- Bar-code reader in connection to PC can be used to monitor sales at every check-out and print bills

## **3. EXTENSION**

### **Phase 1**

Free-of-charge Acsoft to all household business via

- + Training workshop
- + Download from website
- + Community-based extension centres

Establishment of Customer-service centres offering ITC technical advice, like the one by VCCI & Intel in Ho Chi Minh City since September 28<sup>th</sup> 2006

Acsoft launch and training workshops to household businesses.

### **Phase 2: Customer support**

This phase focuses on supporting customers using Acsoft with

- Technical assistance to develop a customized pattern of management relevant to households
- Survey and workshops training to household business accountants
- Hand-on training at Acsoft handover to businesses
- Maintenance to support customers when using acsoft
- Set-up modules relevant to household business

## **4. SUSTAINABILITY**

This is a project within the cooperation of VCCI, Intel, Microsoft and VNPT, to support household businesses with ICT service. Therefore users are entitled to software, training and technical advice

- Phase 1 gives users Acsoft free-of-charge and technical training workshop to an estimated 200,000 household businesses nationwide in the first 2 years
- Year 2 and year 3 will be further extension of Acsoft (with fee charged on maintenance, training) to estimated 300,000 household businesses
- As from year 3, 100% fee will be applied





- A Swedish home furnishing retailer
- Founded in 1943
- 237 stores in 34 countries
- Sales in 2006: 17.3 Billion Euros
- Employees: 104,000 people



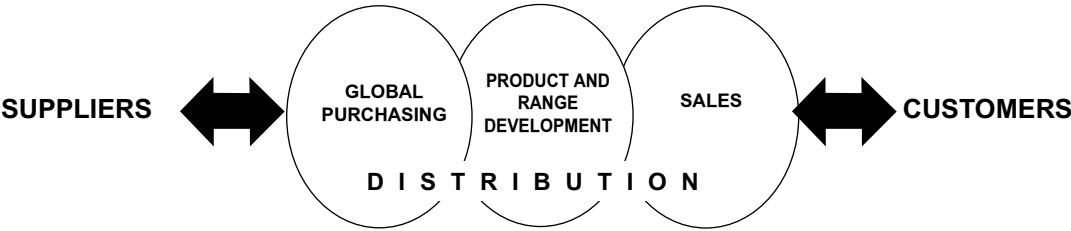
## The business idea

**We shall offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.**





# This is how IKEA works



# Trading Area South East Asia (TA SEA)

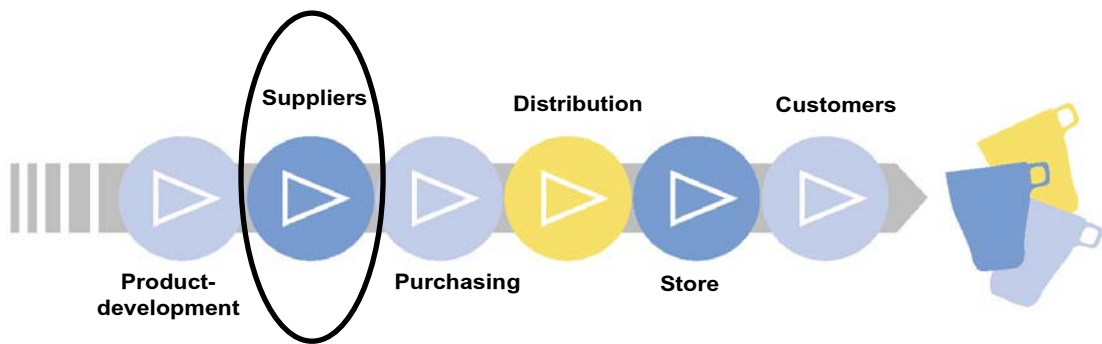




# Material based Organization



# How IKEA creates low prices





# Purchasing Philosophy

- Develop long-term relationships with suppliers.
- Buy supplier capabilities
- Find low-priced materials
- Rational production technology.



**Creates advantage over our competitors in the business.**



## The IKEA Way on Purchasing

IKEA has established its view on working environment, child labour and environmental issues





# The supplier benefits

- Contractual Trust
- Product Life Cycles
- Investment and Financing
- Focus on Profit
- Technical advice
- Logistics
- IT
- Management advice



Positively change the supplier's business mind-set



## Case Studies

- Ceramics: Never Ending Improvement (NEI) Program
- Natural Fibre: Bamboo Rolling Product – A process to secure quality
- Thanh Hoa Bamboo Supply Chain Development
- IWAY – How the working conditions and environment change at the supplier







# Case 1 - Ceramics

Never Ending Improvement (NEI) Program

Scenario: Being aware the supplier underdeveloped in production process control and thinking on simplified approach

Project's turnover: 3 Million USD  
Workers: 500 people

Purpose: NEI Program is to improve the total efficiency in lower cost, higher capacity and availability



# Case 1 - Ceramics

Never Ending Improvement (NEI) Program

Activities:

Kiln capacity -> Production Flow -> Reject and Rework -> Planning system

Results:

- Increase productivity -25%
- Reduce production cost – 12% (half of the savings for supplier)
- Improve production planning and control in the future





## Case 2 – Natural Fibre

HULTET - Bamboo Rolling Product – A process to secure quality

Scenario: with 1 supplier and 4 sub-suppliers involved, there is inconsistency in the process to secure quality and working methods among them

Project's turnover: 1.8 Million USD

Workers: 1500 people

Purpose: Find out the best way in production and quality control –  
Optimize the supplier's management efficiency

## Case 2 – Natural Fibre

Bamboo Rolling Product – A process to secure quality

Results:

- Local authority awarded the sub-suppliers for their contributions in terms of creating many jobs, income for local area, environment protection, improving the production management model
- Much room to expand their factories





## **Case 3 – Supply Chain Development**

Raw Material - Bamboo in Thanh Hoa

Scenario: Evaluate the shortfalls and ineffectively explore the raw material in the bamboo supply chain

Purpose: This project is to correct the shortfalls in the market and the bamboo supply chain

Project cost: 400,000 USD

Partners: IKEA, Asia Development Bank...



## **Case 3 – Supply Chain Development**

Raw Material - Bamboo in Thanh Hoa

Activities: Set pre-processing workshops (10) piloting with farmer groups/ farmer entrepreneurs to increase value added to farmers in the bamboo supply chain

The concept of pre-processing workshops involves with cutting and splitting the bamboo culms on site – optimizing the usage of material for more value added





## Case 3 – Supply Chain Development

Raw Material - Bamboo in Thanh Hoa

### Current Results

**Job creation - a total of about 540 workers**

**Number of farmers households directly related to the projects- estimated between 3,000 and 5,000**

**Added value on-the-spot**

**Price has increased significantly for farmers -20%**

**Increase selling power of farmers**

**Improve the material quality- slats for natural fibre suppliers**

**MORE.....**

## Case 4 – Ikea WAY

How the working conditions and environment have changed at the supplier



**Feb 2006: Messy waste storage area with waste, water and soil.**



**Sep 2006: Waste storage area was re-building and re-organized.**





# Case 4 – Ikea WAY

How the working conditions and environment have changed at the supplier



Feb 2006: Water in dark color, strong smell and contains waste go direct to the small channel outside factory

Sep 2006: Now water more clean, test result was met the Vietnam standard.



# Case 4 – Ikea WAY

How the working conditions and environment have changed at the supplier



Feb 2006: IWAY communicate to employees were blocked by goods.

Sep 2006: New, good looking, more detail





## Case 4 – Ikea WAY

How the working conditions and environment have changed at the supplier



**Feb 2006: Welding area with no air ventilation, no welding booth.**



**Sep 2006: Welding area with welding booths and air ventilation.**







## *The Story in Vietnam*

Promoting Market Opportunities  
at the Base of the Pyramid

**Vu Van Thang**

Finance & External Relations Manager

### **P&G** P&G at a glance ...

- Established in 1837
- Sell over 300 brands in 160 countries
- Have 16 billion-dollar brands
- Touch lives of consumers 2 billion times a day
- Gillette acquisition added additional 5 billion brands.

**P&G becomes world biggest consumer goods company**

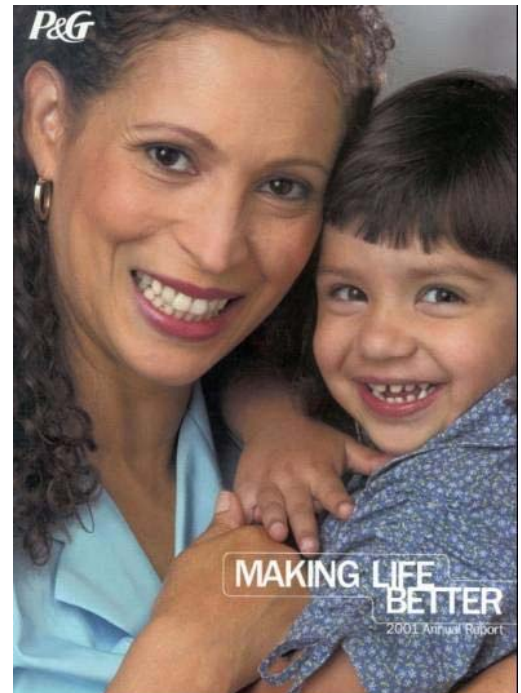




## **P&G** Our Purpose

**“** **W**e will provide branded products and services of superior quality and value that improve the lives of the world's consumers.

*As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders, and the communities in which we live and work to prosper.”*



## **P&G** P&G in Vietnam

- **Started operations in 1995 with a joint-venture**
- **Invested \$83 million**
- **1 plant, 2 contract facilities with full-fledged manufacturing lines**
- **Employment: 500 (direct), 2000 (indirect)**



## **P&G** Our Plant



## **P&G** Product categories

- Detergent
- Fabric conditioner
- Hair Care
- Personal Cleansing
- Feminine
- Baby Care





## P&G Product categories (for exports)



Ivory bar soap



Joy dish washing liquid



Swiffer floor cleaner



Febreze odor spray



Mr. Clean car washing liquid



Mr. Clean floor cleaning liquid



Pampers diaper



Febreze scented oil warmer

## P&G Our export destinations



Global quality standard products



## Our business

- **Business is growing at 30%-35% compounded annually**
- **Market shares are growing steadily**

Category	2000	2002	2004
Detergent	9.7	18.6	18.1
Hair Care	16.5	16.0	24.8
Fabric Conditioner	-	23.8	35.1
Baby Care	-	24.0	32.3

*Pampers share for only top 2 cities*

## Our Organization

- Number of expatriates are 6 (1% of total work force), was 16 in 7-8 years back (~ 9-10% of work force)
- Function heads of Finance, Marketing, Customer Service, HR are Vietnamese
- 13 Vietnamese employees are working for P&G outside Vietnam
- Huge investments in trainings and people development
  - Brought in best-in-class (BIC) corporate training courses
  - Sent people for BIC global corporate and functional programs
- BIC benefits and working conditions (eg. laptop computers, handhelds)



## **P&G** Our community activities

- In line with our global theme “Live, Learn and Thrive”
- Donation programs



***P&G Approach to “Base of the Pyramid” consumers***





## **P&G's Business Model for BOP**

- **Understand the “Who”**
- **Create business model that is financially viable to serve BOP consumers**
- **Strategy development – 4P's model**



## **Understand the Who**

- **Mainly mid to low income consumers (household income less than US\$300/year)**
- **Locate spread across country, not necessarily in rural areas**
- **Disposal income is relatively low**
- **Choosing products to support basic needs**
- **Family versus self oriented**
- **Shop primarily in traditional trade channel (PM, OT)**
- **Constraint with cash but willing to trade-up due to price sensitivity**





## **Create business model**

- Start with “what consumers need” in mind
- Think of long term and potential benefits
- Maximize partners for co-business growth (distributors, suppliers etc.,)
- No product quality trade-off for price
- Continuously work on cost reduction to pass on to consumers (price reductions, quality upgrade)
- Execute in phases



## **Strategy – the 4P’s marketing mix**

- Product availability at the stores
- Right price and price points
- Sufficient marketing and equity programs
- Quality products





## Product availability

- Weighted versus numeric distribution
- Quality of distribution
- In-store supporting activities
- Store profit
- How to distribute?
  - Via distributor network
  - Via Wholesalers (like Metro, traditional wholesales network)
  - Maximization of system



## Price & Price points

- Cheap or expensive not only perceived by price but also by quality of product – total value equation.
- Price comparison with key competitive products
- Price sensitivity
- Price points
  - Sweet price points
  - Large size discounts





## **Sufficient marketing & promotions**

- Brand equity focus
- Product education to consumers
- Promotions
  - Price discounts
  - Bundle packs, gifts
- Innovative marketing



## **Quality products**

- Never compromise product quality
- Focus product communications to basic needs
- Right sizes
- Innovative packaging (e.g. refilled, cup)





## **Business results in BOP so far**

- 50+% of business shipped outside key cities
- Key brands reach 90%+ weighted distribution
- Direct distribution coverage of ALL cities/town
- Shared “Most preferred suppliers” voted by stores / distributors



# VIETNAMESE TRADEMARK COMPUTER **CMS**

***THCMC, 2006***

Mr. Lê Quốc Thái  
PR Manager of CMS Co. Ltd

## **Content**

- 1. CMS Company at a glance***
- 2. CMS product***
- 3. CMS positioning***
- 4. Outstanding Advantages***

CMS máy tính thương hiệu số 1 Việt Nam



# 1. Overview of Vietnam hardware technology market

- General situation
  - ✓ Flourish
  - ✓ Crumble
  - ✓ Lack of serious investment

- Imported Computer (MNC)
- DIY Computer
- Vietnam Computer



CMS máy tính thương hiệu số 1 Việt Nam

## CMS CO. Ltd

- A member of CMC group
- Founded in May 1999
- Head office in Hanoi
- Branch in HCMC

CMS máy tính thương hiệu số 1 Việt Nam

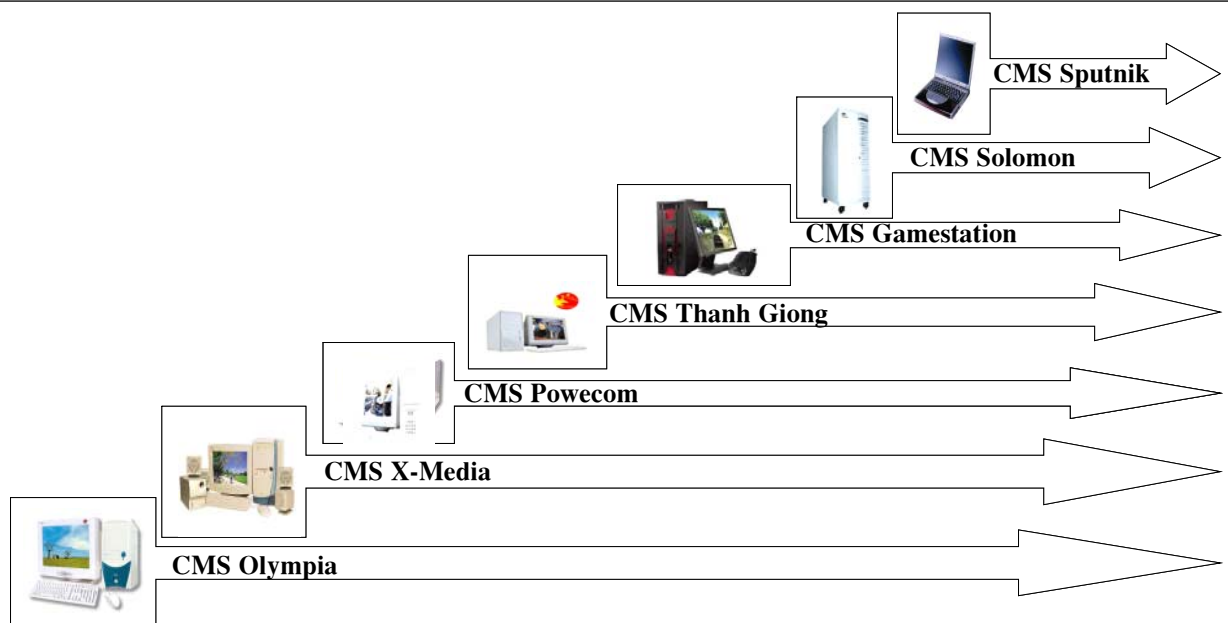


## CMS CO. Ltd

- IT Hardware Industry
  - Personal Computers
  - Laptops, Servers
- Services
- Software

CMS máy tính thương hiệu số 1 Việt Nam

## 2. CMS Products



CMS máy tính thương hiệu số 1 Việt Nam



### 3. CMS Positioning

- First-class Quality
- Competitive Price
- Perfect Service
- ➔ CMS Computer- Vietnam Number One Trademark

CMS máy tính thương hiệu số 1 Việt Nam

### 3. Extend Segmentation

- Current trend of consumers
- Significant breakthrough
- “ Open door to knowledge,  
Reach future”
- “ Thanh Giong CMS Computer”

CMS máy tính thương hiệu số 1 Việt Nam



### 3.Partners.

- CMS manufacturing partners
- Component-supplying partners: Intel, Seagates, LG, Samsung.

CMS máy tính thương hiệu số 1 Việt Nam

### 3. Other typical programs

- Under-10-million Laptop
- One Click Program



CMS máy tính thương hiệu số 1 Việt Nam



### 3. CMS - Optimizing

- Carried out on large-scale.
- Partners: Intel, Microsoft, Seagates, LG, Samsung.



CMS máy tính thương hiệu số 1 Việt Nam

### 4.Outstanding Advantages CMS – experience



CMS máy tính thương hiệu số 1 Việt Nam



## 4. Outstanding Advantages

### CMS – experience (2)



CMS máy tính thương hiệu số 1 Việt Nam

## 4. Outstanding Advantages

### CMS – experience (3)

- HDH in Vietnamese
  - ✓ Copyright
  - ✓ Source code
  - ✓ Vietnamese use
- 1 of 10 Outstanding Information Technology Events, Vietnam 2002

CMS máy tính thương hiệu số 1 Việt Nam



## 4. Outstanding Advantages

### CMS – experience (4)

➤ Nation-wide Warranty

### System

✓ Well- educated IT  
engineer

✓ Standard Services

➤ Services diversified



CMS máy tính thương hiệu số 1 Việt Nam

## 4. Outstanding Advantages

### CMS – experience (5)

### Production Capacity:

- 12/2000: 10.000 PC produced
- 5/2005: over 100.000 PC produced

CMS máy tính thương hiệu số 1 Việt Nam



## **4. Outstanding Advantages – Public Confidence**

- ADB project: 5.300 PC
- Local post office: 2.200 PC
- BR-VT Service of Education  
& Training: 1.300 PC
- Tens of other projects under  
500 PC

CMS máy tính thương hiệu số 1 Việt Nam

## **4. Outstanding Advantages Assessment from Government and Consumers**

- Honorably awarded  
Governmental Certificate  
of Merit in 1/2005
- Rank amongst Top 5 in 6  
years in succession
- Awarded the Vietnam  
trademark Cup in 2 years  
in succession.
- Awarded “Sao Vàng Đất  
Việt”, 2003 -2005

CMS máy tính thương hiệu số 1 Việt Nam



## 4. Outstanding Advantages Social Activities



CMS máy tính th-ơng hiệu số 1 Việt Nam

## 4. Our Guideline

**CMS always takes  
the lead**

CMS máy tính th-ơng hiệu số 1 Việt Nam



# CMS ALWAYS TAKES THE LEAD

CMS always takes the lead



**CMS always takes the lead**  
Social Marketing and Behavior Change Worldwide

BOP, TPHCM 20/10/ 2006

© 2006 PSI



**Population Services International**

**Measurable**  
**Health**

635,000  
HIV infections prevented

**Impact**  
**Drives**

5.4 million  
pregnancies averted

45.8 million  
malaria episodes thwarted

**Everything**  
**We Do**

7.4 million  
diarrhea cases avoided

15.9 million  
multivitamin pills marketed

© 2006 PSI



# Where is PSI in the World?



## Program Areas



- **Malaria**



- **Reproductive Health**



- **Child Survival**  
(Safe Water System)



- **HIV/AIDS**

© 2006 PSI



# Safe Water System in Vietnam

## According to Vietnam Health Report:

- Only 60% of Vietnamese Populations have access to safe water
- CDC estimates 9,000 die/year in VN due to diarrhea related disease
- 18.6% diarrhea rates in children under 5 in target regions.
- 35-40% of populations in Mekong Delta Region does not boil water before drinking



© 2006 PSI

## Unsafe water sources caused diseases



© 2006 PSI



# Social Marketing Approaches

- **Social Marketing is the promotion and delivery of essential health products and services:**

- To lower-income populations;
- At affordable prices;
- Using the existing, local commercial infrastructure and;
- Innovative communications campaigns



© 2006 PSI

## Product -SafeWat

- **Weak chlorine solution**
- **Developed by the US. CDC and WHO**
- **Simple technology to produce in country**
- **One bottle treats enough drinking water for a family of 6 for a month (1000 liters)**
- **When use correctly, kills most common germs causing diarrhea, typhoid and cholera in drinking water within 30 minutes**
- **Reduces Diarrhea by up to 50%**



SafeWat 150ml

© 2006 PSI



# User Friendly Product

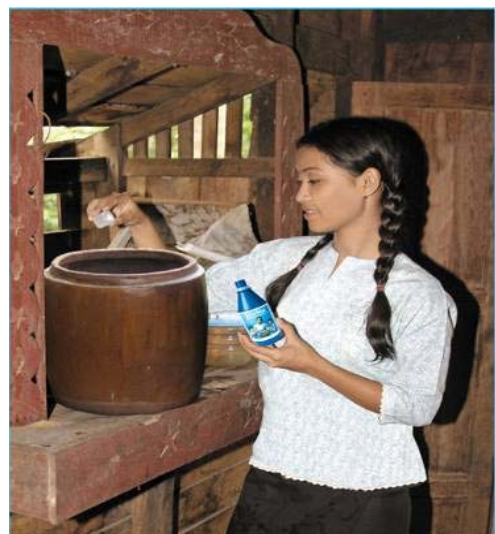


**SafeWat is very easy to use**

© 2006 PSI

## Product Barriers to use of SafeWat

- SafeWat is not effective against arsenic and Pollutants such as pesticides
- SafeWat does not make turbid water clear
- SafeWat has faint smell of chlorine



© 2006 PSI



# Pricing

- Retails at approximately 4,000 VND for 1 bottle of 150ml. (25 cent), affordable at most measures
- Daily cost to family of 6 is approximately 80 VND/day.
- •PSI can manufacture in Country at product Cost recovery

© 2006 PSI

## Pricing Structure: Creating an Affordable Product

- |                  |                  |
|------------------|------------------|
| • Washing Powder | 9,000 VND        |
| • Hand Soap      | 3-5,000 VND      |
| • Dishwater      | 3,000 VND        |
| • Shampoo        | 14,000 VND       |
| • Toothpaste     | 7,000 VND        |
| • <b>SafeWat</b> | <b>4,000 VND</b> |

© 2006 PSI



## Distribution Strategy: Product availability For the Poor

- PSI relies on regional Commercial distributors to make products available
- Priority outlets include Pharmacies and FMCG outlets



© 2006 PSI

## Distribution Strategy

- PSI employs team of Sales Representatives support distributors for initial 'buy in' and assure POS materials visible
- Strong Management of sales team critical to Program success
- strategies to promote retail trial include product promotion (10+1); promotional give-away.



© 2006 PSI



# Promotional - Strategy

- **Product Positioning:** For low income families, SafeWat is the most affordable and effective way to purify drinking water for your family.

*“Bringing safe water to every family”*



© 2006 PSI

## Communication Channels

Channel	Activity/Media	Objectives
Mass media TV	Television Commercial to be produced and aired in Mekong region	To increase product and brand awareness
Point of purchase	Vinyl banners, danglers, display cases.	To inform consumers on where to find the products
Outdoor Advertising	An outdoor ad developed, produced and placed	To increase product and brand awareness
Sponsoring/special events	Community Meetings (Working with Women's Union and/or others)	To instruct on product attributes and proper use
Other, Health care provider training & clinical based activities	Community events	Gain product credibility through demonstration, and invite for all to use...

© 2006 PSI



## Marketing Strategy: Interpersonal Communications

- Encourage consistent use to fight diarrhea
- Tackle perceptions of good water quality
- Brand Awareness and Trust
- Encourage Product Trial



© 2006 PSI

## Marketing Strategy: Point of Sale Material

- Reinforce Brand Awareness at Retail
- Key messages: Safe, affordable, easy to use



© 2006 PSI



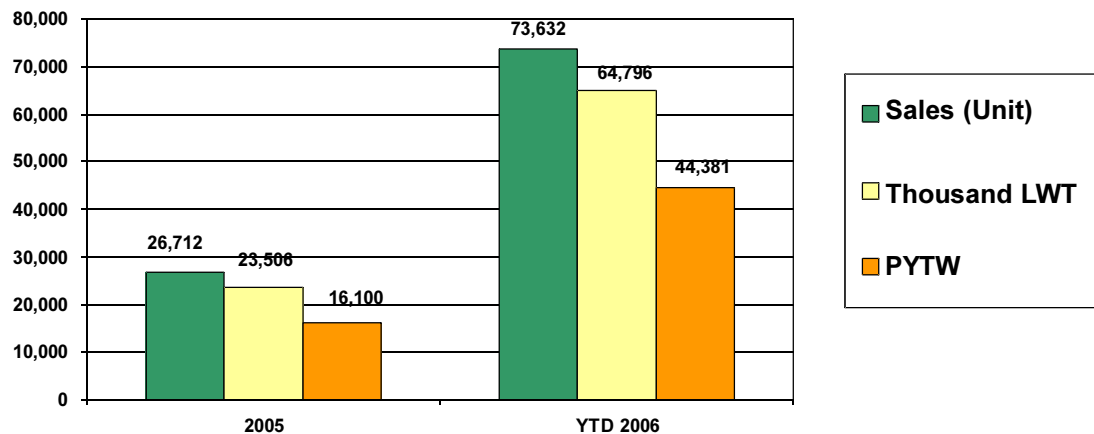
**Marketing Strategy: Mass Media: Increase Brand Awareness, Product Trust, Product Attributes, define ‘clean water’**



© 2006 PSI

# Sales of SafeWat in Vietnam

Vietnam SafeWat Sales 2005 –YTD 2006



PYTW (Person years of treated water) =  $\frac{\text{Litter of Water Treated} - 12\% \text{ (spillage, wastage, lack of need)}}{4 \text{ litters/day} \times 365 \text{ days} = 1460 \text{ litters/year}}$

© 2006 PSI



# Challenges

## 1. Behavior Change is Difficult!

- People perceive the water they've drunk since birth as 'clean enough'
- Selective use of using clean water

## 2. Product:

- New product –Trial requires big investment in marketing
- Water Turbidity –SafeWat does not make water clear
- Smell –Some people do not like the smell of chlorine

© 2006 PSI

# Challenges (Continued)

## 3. Distribution:

- Extremely competitive and fractured distribution network
- Large FMCG firms dominate (and heavily support) distribution, so difficult to get 'attention'
- Distributors have profit driven expectations:
  - expect immediate and big profits while the total sales amount / distributor is small and
  - SafeWat is relatively bulky product, heavy to carry.

© 2006 PSI



# M4P Publications

The Asian Development Bank-Vietnam Resident Mission is currently implementing a regional project covering Cambodia, Laos and Viet Nam entitled "Making Markets Work Better for the Poor" (MMW4P). The purposes of the project are to: (a) conduct analytical work on the functioning of markets and the extent to which the poor are able to benefit from them, and (b) to build capacity to support pro-poor market development through research activities, networking and the promotion of policy dialogue in the three project countries.

In order to make the results of the various research activities more widely available, the project produces the following types of regular publications. These are:

- The **Markets and Development Bulletin**, a bimonthly newsletter on topical market-related issues produced jointly with the Mekong Private Sector Development Facility (MPDF) and the Central Institute for Economic Management (CIEM).
- **M4P Briefing Papers** - Short, four page, summaries of research work aimed at a general non-technical audience
- **M4P Discussion Papers** - more in-depth 20-30 page reports on research projects covering methodologies, results and policy implications. These are aimed at practitioners and policy makers in the subject area of the research.
- **Other reports**



## MARKETS AND DEVELOPMENT BULLETIN (MDB)

- |        |   |
|--------|---|
| No. 1  | <b>Adding Values to Vietnam's rice industry and Improving the Incomes of the Poor</b>                         |
| No. 2  | <b>Linking farmers to Markets through Contract Farming</b>  |
| No. 3  | <b>Empowering the Poor by Strengthening Formal Rural Land Titles</b>  |
| No. 4  | <b>Pro-poor Branding Labeling and Trademarks for Agricultural Products</b>                                    |
| No. 5  | <b>Taking the next step: what influences the Decision of Household Businesses to Formalize into companies</b> |
| No. 6  | <b>Migrant &amp; Non-migrant workers: positions &amp; opportunities</b>                                       |
| No. 7  | <b>The Participation of the Poor in Supermarket and other Distribution Value Chains</b>                       |
| No. 8  | <b>Agricultural land conversion: competing interests of the poor</b>  |
| No. 9  | <b>Collective action: Make it Work Better for the Poor</b>  |
| No. 10 | <b>Public Private Partnerships to improve infrastructure services in Viet Nam</b>                             |
| No. 11 | <b>Making Markets Work Better at the Base of Pyramid (BOP)</b>  |
| No. 12 | <b>Rural Labor Market and Migration: Impacts and Solutions</b>  |
| No. 13 | <b>Street vending in Hanoi: Reconciling contradictory concerns</b>  |
| No. 14 | <b>Public Private Partnerships to promote handwashing with soap and the reduction of childhood diseases</b>   |



## **BRIEFINGS**

- No. 1 **Linking the Poor with Rice Value Chains,**
- No. 2 **Private Enterprises Formality and the Role of Local Government,**
- No. 3 **The impact of Land market process on the poor: Implementing De Soto,**
- No. 4 **The participation of the Poor in the Value Chain for Tea,**
- No. 5 **Efficiency and Effectiveness of Microfinance in Viet Nam – Evidence from NGO schemes in the North and South Regions**
- No. 6 **Issues of Contracts: Applications to Value Chains in Vietnam**
- No. 7 **Lessons of Transition for Understanding the Functioning of Markets**
- No. 8 **Functioning of Markets and the Livelihoods of the Poor**
- No. 9 **Strategies For State-Led Social Transformation: Rent Management, Technology acquisition and Long-Term Growth**
- No. 10 **Commercialization and Poverty Reduction**
- No. 11 **Participatory Livelihood and Market Assessment in Da Nang city**
- No. 12 **Labor Market Segmentation and Poverty**
- No. 13 **The Participation of the Poor in Supermarkets and other Distribution Value Chains Synthesis**
- No. 14 **Industrial and commercial markets and their impact on the Poor**
- No. 15 **Facilitating Market Integration of the Upland Poor into Bamboo Value Chains: Upgrading Strategies for Local Producer Groups**
- No. 16 **Rural labour markets and Migration**
- No. 17 **Participatory markets and poverty assessment in Daknong**

## **DISCUSSION PAPERS**

- No 1 **The Participation of the Poor in the Value Chain for Tea**
- No 2 **Private Enterprise Formality and the Role of Local Government**
- No 3 **The Impact of Land Market Processes on the Poor: Implementing De Soto**
- No 4 **Market Systems and Poor Communes**
- No 5 **Factor Markets in Viet Nam: Capital – Labor – Land**
- No 6 **Communication Strategy: Engaging and Connecting People**
- No 7 **Agricultural Commercialization, Value Chains, and Poverty Reduction**
- No 8 **Participatory Markets and Livelihood Assessment in Da Nang City**
- No. 9 **M4P - An introduction to the concept**
- No. 10 **Labor Market Segmentation and Poverty**
- No. 11 **The Participation of the Poor in Supermarkets and other Distribution Value Chains Synthesis**
- No. 12 **How can research-based development interventions be more effective at influencing policy and practice?**
- No. 13 **Vietnam: Towards Universal Social Protection: Private Mechanisms to Reach the Poor**  
**Policy Issues and Research Implications**
- No. 14 **Industrial and Commercial land markets and their impacts on the poor**
- No. 15 **Facilitating Market Integration of the Upland Poor into Bamboo Value Chains: Upgrading Strategies for Local Producer Groups**
- No. 16 **How Can Cohesive Networks of Exchange Help the Poor in An Giang Province?**
- No. 17 **Trends and Regional Variations in Household Consumption Patterns in Vietnam: Analysis of Vietnam Households Survey data**
- No. 18 **Rural labour markets and Migration**
- No. 19 **Participatory markets and poverty assessment in Daknong**



## OTHER PUBLICATIONS

- 1 Entrepreneur – Overcoming poverty through enterprise (15 cases)
- 2 Institution workshop: Which institutions are critical to sustain long term growth in Viet Nam?
- 3 Inception Workshop: Making Markets Work Better for the Poor, November 2003
- 4 Linking Farmers to Markets through Contract Farming
- 5 M4P week 2005 – workshop proceedings
- 6 Entrepreneurs: The road to success (30 cases)
- 7 Supermarkets and the Poor in Viet Nam
- 8 Entrepreneurs – successful links to markets
- 9 Collective Actions: Ideas and Opinions (download only)
- 10 Participatory Markets and Livelihoods Assessment (PMA) Handbook
- 11 Value Chain Handbook
- 12 Contract Farming – 30 case studies book
- 13 Public-Private Partnerships (PPPs) workshop proceedings
- 14 M4P week 2006
- 15 Base of Pyramid (BOP) workshop proceedings
- 16 Market and Development Bulletin book

[www.markets4poor.org](http://www.markets4poor.org)

Please visit our website regularly to get all soft copies of our publications and up-to-date information of M4P news, events, activities, and opportunities. We welcome your feedbacks and participation!



Most M4P publications are available in both English and Vietnamese. Hard copies can be collected at ADB Resource Centre (GF02, 23 Phan Chu Trinh, Hanoi). Soft copies are available for download at [www.markets4poor.org](http://www.markets4poor.org)

**For more information, please contact:**

Making Markets Work Better for the Poor (M4P)  
 Asian Development Bank  
 Vietnam Resident Mission  
 GF02, 23 Phan Chu Trinh Street, Hanoi  
 Tel: (844) 933 1374  
 Fax: (844) 933 1373  
 Email: [info@markets4poor.org](mailto:info@markets4poor.org)