

Developing BoP Business as the Principal Strategy in Emerging and Developing Economies (Volume 2)

**—Improving the Profitability of BoP Business in India
and South Africa—**

Shusuke WATANABE, Tokutaro HIRAMOTO and Naoya TSUZAKI

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In this paper, in consideration of the following two types of markets — (1) an enormous market that already exists (which involved 4.7 billion people and 5 trillion dollars as of 2005) and (2) an even more massive market that is projected to develop when the BoP segment becomes more affluent and moves into the MoP segment (which will consist of 5.5 billion people and be worth 70 trillion dollars by 2030), the authors selected countries that are considered well suited for the development of BoP business and classified these countries into three groups.

Specifically, we looked at Asian countries where many Japanese companies have already established a foothold, which makes it relatively easy for them to start BoP business in these countries. We also looked at African countries that have recently been attracting much attention worldwide because of their high economic growth. We classified these countries into three categories based on strength of economy, growth rate, population size, population dynamics and trends in the MoP market. The categories are: (1) mature, (2) rapidly growing and (3) showing signs of growth.

In this paper, by concentrating on a strategy that would take us to 2030, we have chosen India and South Africa as target countries for case studies from the “rapidly growing” category in the Asian and African regions.

Upon selecting these countries, we have discussed strategically important points in developing BoP business in India and South Africa. In specific terms, among the three elements of (1) impact, (2) insight and (3) dynamism that are needed to develop BoP business that will prosper, focus is given to “impact” that is necessary at the concept development stage. In order to identify the unique features of each target country, we took the approach of analyzing “who are the end customers,” “what challenges must be addressed” and “what methods should be used” to provide solutions.

I Each Country Has Its Own Unique BoP Market

The world has seen emerging and developing economies, particularly those in Asia and Africa, rise to become powerful forces driving the global economy, constituting a gigantic base of the economic pyramid (BoP) market. As of 2005, this market stood at 4.7 billion people and 5 trillion dollars (unless otherwise noted, this paper uses the international dollar, which reflects differences in price levels between countries). As such, the BoP market has been attracting considerable attention from businesses around the world.

Leading U.S. and European companies as well as some Japanese companies are engaged in BoP business by primarily pursuing either of the following two purposes.

- (1) Acquiring a share of the huge market that already exists; or
- (2) Acquiring a share of an even more massive market that is expected to develop when the incomes of people in the BoP segment increase and they come to fall in the middle of the economic pyramid (MoP) segment. This upcoming market is projected to consist of 5.5 billion people and be worth 70 trillion dollars by 2030

In considering the start-up of BoP business, a company must first select a country that fits into the company's mid- and long-term strategies including its overseas business strategy. Furthermore, any determination as to whether to actually launch BoP business in the target country must be based on the scale and growth rate of the country's economy as well as on forecasts for the country's future market. Another important factor is that as emerging and developing economies grow, their business environments also tend to change beyond all recog-

inition. Therefore, the way in which a company's BoP business is developed must be adjusted according to the stage to which the country's economy has progressed.

In this paper, in consideration of the following two types of markets, we selected countries that are considered well suited for the development of BoP business and classified these countries into three groups.

- (1) An enormous market that already exists, which involved 4.7 billion people and 5 trillion dollars as of 2005
- (2) An even more massive market that is projected to develop when the BoP segment becomes more affluent and moves into the MoP segment, which will consist of 5.5 billion people and be worth 70 trillion dollars by 2030

Specifically, we looked at Asian countries where many Japanese companies have already established a foothold, which makes it relatively easy for them to start BoP business there. We also looked at African countries that have recently been attracting much attention worldwide because of high economic growth. We classified these countries into three categories based on strength of economy, growth rate, population size, population dynamics and trends in the MoP market. The categories are: (1) mature, (2) rapidly growing and (3) showing signs of growth.

When considering whether it is easy for Japanese companies to enter specific markets, it will most likely require more time to develop BoP business in African countries than in countries in Asia. This perspective is reflected in Table 1, which lists countries falling under each category.

While many Japanese companies have already gained a foothold in Asia, very few of them have ventured into Africa. According to the 2011 extra issue (list of Japanese companies moving into overseas markets) of the Weekly Toyo Keizai economic magazine published by

Table 1. Categorization of target countries for the development of BoP business in Asia and Africa, and strategically important points in developing BoP business

Category of target country	Region	Target country for the development of BoP business	Positioning of BoP business	Strategically important points in developing BoP business
Mature	Asia	Indonesia, the Philippines, Thailand and Malaysia	• BoP business should be developed in consideration of the MoP market five to ten years from now	<ul style="list-style-type: none"> • Developing BoP business as part of a differentiation strategy in order to acquire a larger share of the existing MoP market • Expanding business that has been successful in the MoP market to the BoP market
	Africa	—		
Rapidly growing	Asia	India, Bangladesh, Vietnam and Iran	• BoP business should be developed in consideration of the MoP market ten to twenty years from now	• Developing business that meets demands of both MoP and BoP markets
	Africa	Egypt, Algeria, South Africa and Morocco		
Showing signs of growth	Asia	Pakistan	• BoP business should be developed in consideration of the MoP market more than twenty years from now	• Developing BoP business in order to create a new market
	Africa	Nigeria, Tanzania, Sudan, Kenya, Ghana and Mozambique		

Toyo Keizai Inc., the number of local subsidiaries that had been set up in Asian countries stood at 13,684, while only 119 had been established in African countries.

A possible reason for such limited participation in African markets is that the schemes for supporting the moves of Japanese companies into Africa are not yet sufficiently developed. For example, Japanese governmental agencies such as the Japan International Cooperation Agency (JICA) and the Japan External Trade Organization (JETRO) provide less support for Africa compared to Asia. In addition, because the levels of country risk are generally high, Japanese financial institutions are less likely to provide financial support to companies entering African markets. Given this situation, compared to Asia, Japanese companies appear to be very slow in making inroads into African markets. We assume that it will take some time before any significant number does so.

The target countries for the development of BoP business that were selected and classified in this paper have market characteristics that are common to each category. In other words, the size of the existing MoP market relative to the size of the potential MoP market that is expected differs from category to category. Therefore, the nature of the BoP business that should develop also differs considerably according to category.

For example, in the “showing signs of growth” category, because there is still relatively little MoP market activity, the market remains small. Therefore, an approach of promoting BoP business as a means of creating the basis for the development of the potential MoP market should be adopted for countries falling under this category.

In the “mature” category, the MoP market is already very active and obviously large. Therefore, an approach that should be adopted for countries falling under this category is to promote BoP business as a means of differentiating a company’s products and services from those of its competitors in order to acquire a share of the existing MoP market.

As discussed above, the nature of the BoP business that should be developed varies greatly depending on the category of the target country. The following sections summarize the types of BoP business that should be developed for each category.

(1) Countries in the “mature” category

In countries in the mature category, the MoP market is highly competitive and is already thriving on a large scale. Within the market, a full complement of products and services is already being offered.

However, phenomena that are unique to emerging and developing economies are seen in these countries. For example, the products and services offered in some regions are not available in other regions. The regionally segmented offering of products and services causes inefficiency from the perspective of the overall markets in these countries. Therefore, the products and services that are available in developed countries cannot be offered in these countries because of such inefficiency. Similarly, the value chain is not complete enough to create new value. For example, a manufacturer simply has its production functions and is not equipped with other functions such as marketing and research. Consequently, there are needs for businesses that can remedy such inefficiency and those that can complement and complete the existing value chain.

Because of these needs, from the very beginning, a company that plans to develop BoP business in countries in this category should consider the shared use of the company’s resources for BoP and MoP markets, thereby improving efficiency in each of the markets. Specifically, the company should deploy BoP business in the same field as that in which services/products are offered to the MoP market so that customers in the BoP market could remain as customers when they move up to the MoP market. Based on this strategy, a company must create BoP business that contributes to acquiring a larger share of the MoP market while being fully aware of the need to differentiate its products and services from those of its competitors. Another strategy that is likely to be successful in this category is to expand business that has been doing well in the MoP market to the BoP market, thereby increasing the company’s competitiveness in the MoP market.

(2) Countries in the “rapidly growing” category
Countries in the rapidly growing category have a significant potential for growth in the MoP market. Despite such growth potential, the market has yet to mature. Therefore, BoP business aimed at this category should accelerate the creation of the market. Because the transition from the BoP segment to the MoP segment occurs rapidly and is ongoing, the ideal strategy would be for a company to offer products and services in response to demand from both the MoP and BoP segments, while emphasizing the needs of the BoP segment.

(2) Countries in the “rapidly growing” category

In addition, the significant growth potential of the market in this category has led to the appearance of many entrepreneurs. These entrepreneurs have introduced many new types of businesses. Because the governments of many countries provide support for these entrepreneurs, working in partnership with them will help accelerate market creation.

(3) Countries in the “showing signs of growth” category
In countries in the showing signs of growth category, because the existing MoP market is still small, it is essential to focus on the creation of a new market. Therefore, emphasis must be placed on social businesses in which earned profits are reinvested in another business and BoP business that aims to generate profits that

(3) Countries in the “showing signs of growth” category

In countries in the showing signs of growth category, because the existing MoP market is still small, it is essential to focus on the creation of a new market. Therefore, emphasis must be placed on social businesses in which earned profits are reinvested in another business and BoP business that aims to generate profits that

can only cover operating costs, as well as on corporate social responsibility (CSR) activities. In so doing, it is also important to create a mechanism whereby business can expand spontaneously so as to accelerate the process of creating a new market.

Countries in this category are characterized by the fact that their laws and regulations are still immature, and that there are still few competitors entering the market. Therefore, it is relatively easy for early entrants to participate in creating the rules of the market and in establishing business infrastructure. Because there is room for such initiative, a company planning to engage in BoP business in countries in this category will find it easy to implement a strategy facilitating the generation of the company's own profits. Furthermore, because dynamic changes continue to occur in the market environments of these countries, taking on BoP business in this category will provide a company with golden opportunities to improve the company's own organizational structure and to develop next-generation leaders who will be at the helm of business in the markets of emerging and developing countries.

In this paper, we are focusing on a strategy for the period up through 2030. Therefore, because countries in the rapidly growing category are those that are considered well suited for the development of BoP business by considering the MoP market ten to twenty years from now, we have chosen to examine India and South Africa from this category. This paper will discuss strategically important points in developing BoP business in both countries. India and South Africa are also countries that were selected by many member companies of the Japan Inclusive Business Support Center, which was established and operated by Nomura Research Institute (NRI) at the request of the Ministry of Economy, Trade and Industry in 2010 and 2011, as the markets in which they hope to develop BoP business. In future issues, we plan to discuss strategies for entering the BoP markets of other countries falling under the mature and showing signs of growth categories.

II Unique Features of Countries that Must be Considered When Creating BoP Business

1 First step in creating a hypothesis for BoP business

The first thing that is important for the creation of BoP business is to focus on the needs, daily activities and the living environment of the BoP segment. Based on such findings, a company should then come up with ideas for new products and services as well as for business models. It is essential that the ideas not be influenced by past

successes that have been achieved in developed countries.

To ascertain the needs of the BoP segment, a field survey becomes important in the first instance. However, a field survey should be conducted only after a hypothesis is created and after obtaining a reasonable amount of local information. Specifically, before conducting any field survey, the company should obtain cooperation from individuals or organizations that have a network with a local community, acquire knowledge about the characteristics of BoP business that is relatively easy to attain success in the target country, obtain experience in launching new businesses, or establish a hypothesis based on preliminary studies. Without these preparations, even if a field survey were conducted, it would be difficult for the company to become aware of the needs of the BoP segment. Such difficulty will further increase if the company intends to discover the needs of the BoP segment that will lead to a business that will grow in scale in the future, rather than a small business that will remain limited in small areas.

In other words, to create BoP business, the company should first create a hypothesis. However, the company should not doggedly stick to this hypothesis when conducting a field survey or developing a business. Rather, the company should be humble enough to be open minded and willing to modify its hypothesis in line with the needs of the BoP segment in the target country.

Based on the above-mentioned thinking, in this paper, we look at specific characteristics of different countries that must be understood to create a BoP business hypothesis. In Volume 1 (NRI Papers No. 172), we identified three elements that must be incorporated in the flow of new business development to create BoP business that will prosper. They are:

- (1) Impact
- (2) Insight
- (3) Dynamism

Of these three, we will concentrate on “impact” that can be analyzed at the country level.

Specifically, we concentrate on India and South Africa, as mentioned in Chapter 1, and spell out the unique features of each of these two countries. By understanding their characteristics, it will become easier for the company to formulate a BoP business hypothesis that will have sufficient impact to promote the growth of the target country. For refining such a hypothesis in the target country, or even for reviewing such hypothesis all over again from the beginning, we recommend that companies look at Chapter 4 of *BOP cho-kyodai shijo wo dou koryaku suruka* (BOP: Ways of approaching this gigantic market) written by Noritaka Kobayashi, Kotaro Takada, Tatsuro Yamashita and Kazuaki Ibe and edited by Nomura Research Institute (Nikkei Publishing Inc., 2011) to determine the survey items and the method to

apply when actually conducting a field survey. Furthermore, when refining the hypothesis, we also recommend that companies use the checklist provided in Chapter 2 of *BoP business senryaku—shinkoukoku/tojyoukoku shi-ryo de naniga okotteiruka* (BoP business strategy—What is occurring in emerging and developing economies) (Nomura Research Institute, Tokutaro Hiramoto, Mia Matsuo, Hiroko Kihara, Noritaka Kobayashi and Keita Kawagoe, Toyo Keizai Inc., 2010).

Of the three elements described above, we look at the remaining two, (2) insight and (3) dynamism, at the end of this chapter. These elements should be emphasized when developing products and planning and promoting business in the target country. At this stage, the elements that must be emphasized are not dependent on the country, but rather on the region or the community. Similarly, the elements to be emphasized vary with individual products, services and business models. Furthermore, to incorporate these elements into a company's overall business strategy, it is essential to enhance human resources development and reform the company's organizations. Therefore, in this paper we introduce a company-wide approach to enhancing human resources development and implementing organizational reform that is needed to incorporate insight and dynamism elements into a company's business strategies.

We would urge anyone who has any of the following feelings to read this paper: “we must first increase awareness within the company that attaining the company's sustainable growth is impossible if we remain engaged in only conventional business,” “we simply have to change our corporate culture,” or “we need some kind of concrete opportunity or external pressure” in order to develop and expand BoP business.

2 Features that should be identified for each country

Table 2 lists the features that should be identified for each country.

Table 2. Features that should be identified for each country

Features that should be identified for each country	Description	Typical analytical approaches
Target customers: Who are the end customers?	Consideration should be given to who will be supporting the MoP market in 2030 as well as to who will be influencing the growth of the country	<ul style="list-style-type: none"> • Population of each annual income level in the BoP segment • Geographical distribution of population • Changes occurring in BoP segments in each city and each rural area with an eye to projecting the situation in 2030 • Stakeholders who are likely to become a company's customers other than the end customers
Challenges to be addressed: What value does a company offer?	Consideration should be given to social issues facing the target country as well as to the areas in which people in the BoP segment have or are likely to have an interest	<ul style="list-style-type: none"> • Social issues facing the target country on a country level • BoP-related policies of local governments • Actual living conditions of people in the BoP segment • Current status of the development of business infrastructure
Methods to be used: What business model should be adopted?	Focus should be placed on “with whom” and “techniques to be adopted” in creating a value chain in the target country	<ul style="list-style-type: none"> • Current status of the development of the distribution network • Entrepreneurs who are undertaking businesses that are bringing about changes in local markets and their business development methods • Areas in which entrepreneurs are likely to be active

(1) Target customers: Who are the end customers?

To identify the target customers, consideration should be given to who will be supporting the MoP market in 2030 as well as to who will be influencing the growth of the country. If a “B2X2C” strategy is adopted, organizations that should be approached must also be identified. As explained in Volume 1 (NRI Papers No. 172), this strategy is designed for selling products and services to organizations (“X”) such as international organizations, local governments and agriculture related companies so that sales efficiency can be increased and profitability can be improved, with the BoP segment positioned as the end customers.

(2) Challenges to be addressed: What value does a company offer?

To identify the challenges to be addressed, consideration should be given to social issues facing the target country. The areas in which people in the BoP segment have or are likely to have an interest can be discovered based on their living conditions as well as the current status of business infrastructure available to people in the BoP segment. While BoP business opportunities can be found in all fields, in this paper, we have chosen to look at the areas that will have the greatest impact from among those indicated in *The Next 4 Billion* published by the World Resources Institute (WRI) and International Finance Corporation (IFC). These are food, housing, water, energy, household goods, health care, transportation, information and communications technology (ICT), education and financial services.

(3) Methods to be used: What business model should be adopted?

To identify the methods to be used, focus should be placed on “with whom” and “techniques to be adopted” in creating a value chain in the target country. In this paper, as elements that are essential to enhancing impact, we concentrate on distribution networks that are necessary to increase access to products and services as well

as on entrepreneurs who have a mechanism of expanding business.

While Table 2, which lists the representative analytical approaches for the above-mentioned three features for each country, targets the BoP segment, any attempts to consider the development of BoP business should include the MoP segment, and similar features should be identified from the perspective of the MoP segment. Doing so will contribute to the improved profitability of BoP business by enhancing impact and expanding the customer base.

III BoP Business in India

1 Country overview

India is currently the world's second most populous country. According to the State of World Population 2011, published by the United Nations Population Fund, it is projected that by 2021, India will overtake China, which has long held the distinction of being the country with the world's largest population.

From an economic point of view, the last ten years have seen an average annual increase of about 8 percent in gross domestic product (GDP). Although GDP per capita in 2010 was only 3,408 dollars (International Monetary Fund (IMF), World Economic Outlook Database, September 2011), which indicates that India's market is still immature, the country is undoubtedly growing rapidly.

At the beginning of 2000, information and communications technology (ICT) was driving the country's industries. Since then, low production costs and the

establishment of special economic zones have been bringing in the prosperity of the manufacturing industry such as automobiles and pharmaceuticals. In this way, the country has gained a reputation as the world's factory. In recent years, because of active consumption by people in the MoP segment, the image of India has begun to shift from the world's factory to the world's market.

According to NRI's forecast, India's MoP segment will consist of around 790 million people (roughly 52 percent of the total population of 1.52 billion people) by 2030, with total household spending of the segment reaching almost eight times the 2005 level, at 10.3 trillion dollars. Furthermore, it is expected that about 700 million people that were in the BoP segment in 2005 will migrate up into the MoP segment by 2030. That is to say, in 2030, around 89 percent of the MoP segment will be people who have moved up from the BoP segment by virtue of having increased their incomes (Figure 1).

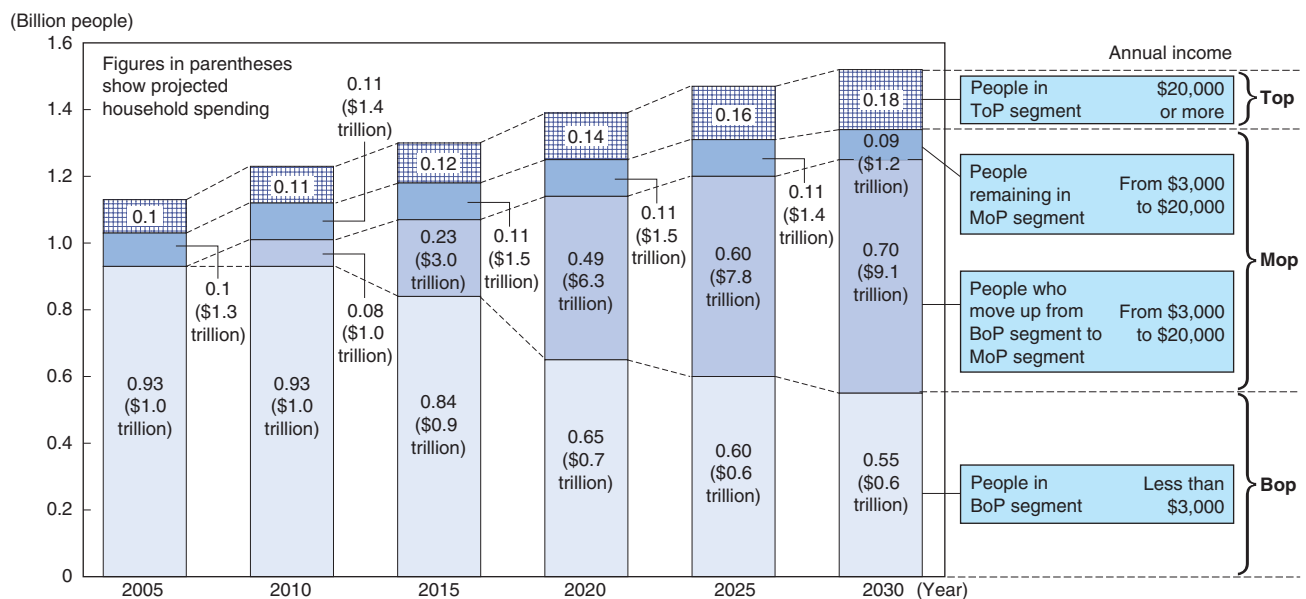
Having seen that the scale of the MoP market in India has been growing so rapidly in recent years, more and more Japanese companies have been directing their attention to the Indian market.

2 Strategically important points in developing BoP business

(1) Target customers: Who are the end customers?

When developing BoP business as part of the strategy aimed at India's 2030 MoP markets, it is important to concentrate on those people earning at least an annual income of between 1,000 and 1,500 dollars (BoP1500 as defined below) who live in the suburbs of Tier 2 and 3 cities, as well as in rural areas around cities.

Figure 1. NRI's forecast for population size and household spending for each annual income level in India for the period between 2005 and 2030



Notes: ToP = top of the economic pyramid, MoP = middle of the economic pyramid, BoP = base of the economic pyramid.
 Sources: Compiled based on United Nations, "World Population Prospects, the 2010 Revision," The World Bank, "World Development Indicators," Allen L. Hammond, William J. Kramer, Robert S. Katz, Julia T. Tran, Courtland Walker, "The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid" 2007, World Resources Institute, International Finance Corporation and other materials.

Note that, in this paper, cities are defined as follows:

- Tier 1: Cities with urban populations of 4 million or more
- Tier 2: Cities with urban populations between 1 million and 4 million
- Tier 3: Cities with urban populations between 500,000 and 1 million

Urban population refers to people living in the area where 75 percent or more of men of working age have regular jobs other than agriculture, the population density is 400 or more per square kilometer and the population per administrative unit is 5,000 or more.

In addition, the BoP segment is defined as follows based on annual income:

- BoP3000: Between 2,500 and 3,000 dollars
- BoP2500: Between 2,000 and 2,500 dollars
- BoP2000: Between 1,500 and 2,000 dollars
- BoP1500: Between 1,000 and 1,500 dollars
- BoP1000: Between 500 and 1,000 dollars
- BoP500: Less than 500 dollars

In India, given the above-mentioned changes in population and household spending, by 2030, around 53 percent of people in the BoP segment as of 2010 are expected to have migrated upwards into the MoP segment. In addition, if we look at population for each income level within the BoP segment as of 2010 (Table 3), we can assume that BoP2000 and higher income earners and around 80 percent of people falling under BoP1500 will have migrated up into the MoP segment. According to the percentage of population living in urban areas, about 80 percent of the BoP1500 segment live in rural areas. As such, these people will gradually come to reside in urban areas as their incomes increase.

When we consider the development stages of Indian cities, in Tier 1 cities such as Delhi and Mumbai, city centers have first been developed and, at the same time,

their suburbs have also been developed. Such development has had a positive effect on the surrounding rural areas. Therefore, in the case of rapidly growing Tier 2 and Tier 3 cities, we can assume that their suburbs and surrounding rural areas will be vitalized by the growth and expansion of these cities (Figure 2).

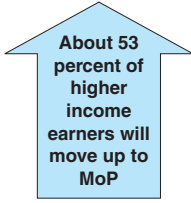
When we look at the actual number of cities, as of 2006, there were 7 Tier 1 cities, 69 Tier 2 cities and 87 Tier 3 cities—that is, there were more than 150 Tier 2 and Tier 3 cities. As is clear from the fact that between 2001 and 2006, 19 cities shifted from Tier 3 to Tier 2 status, these medium-scale cities have rapidly been increasing in number and scale. In fact, in recent years, the growth rate of both the urban population and annual household income of Tier 2 cities has been outstripping that of Tier 1 cities. (For details, see “Indo no toshi hatten ni tomonau shijyo kakudai ni taisuru gaishi kigyuu no senryaku (Strategies of foreign companies in response to the market expansion through the development of cities in India),” Mataka Takamasa and Hisao Nakajima, the February 2010 issue of *Chiteki Shisan Sozo (Knowledge Creation and Integration)*.)

Specifically, the end customers to which careful attention must be paid when developing BoP businesses will be those in the BoP and MoP segments who live in the suburbs and surrounding rural areas of Tier 2 cities such as Pune, Nagpur, Jaipur and Surat, as well as of Tier 3 cities such as Mathura and Pondicherry. In step with the growth of the cities, the income of the BoP segment in these areas will also increase, resulting in many people migrating from the BoP segment to the MoP segment. Developing BoP business targeting this part of the population will bring about a major impact on the increase of the income of the BoP segment as well as on the growth of the country as a whole.

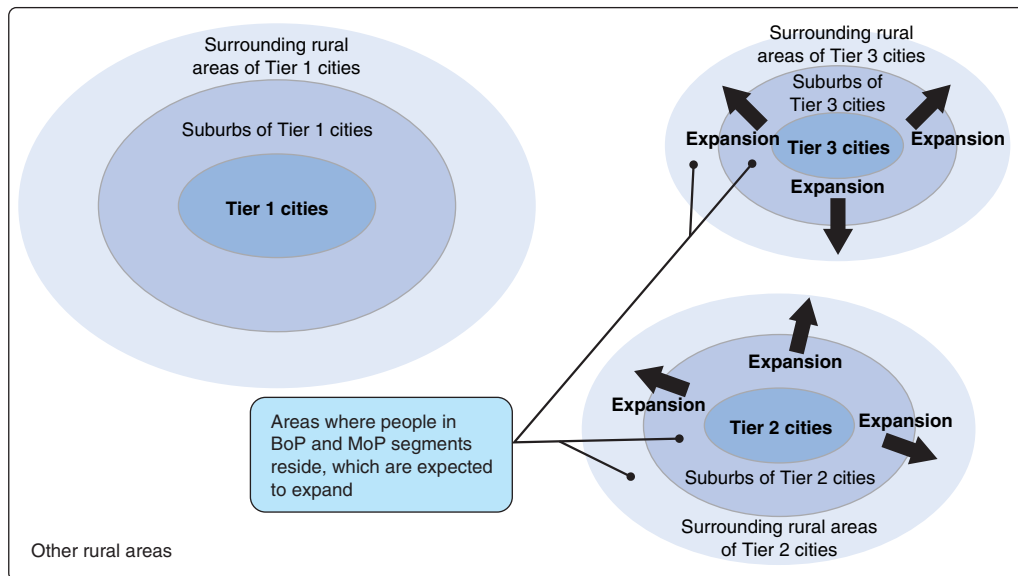
(2) Challenges to be addressed: What value does a company offer?

To elaborate upon the concepts of the values, products and services that a company offers, attention should be

Table 3. Population for each annual income level within the BoP segment in India as of 2010

		Population (million)	Percentage of each income level within the BoP segment	Percentage of urban population
	BoP3000	30.8927	3.3	69.9
	BoP2500	67.8996	7.3	55.2
	BoP2000	147.0420	15.9	38.7
	BoP1500	309.9529	33.5	20.5
	BoP1000	350.1777	37.9	8.5
	BoP500	18.6241	2.0	5.8
	BoP total	924.5890	100.0	23.3

Source: Compiled based on United Nations, “World Population Prospects, the 2010 Revision,” The World Bank, “World Development Indicators,” Allen L. Hammond, William J. Kramer, Robert S. Katz, Julia T. Tran, Courtland Walker, “The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid,” 2007, World Resources Institute, International Finance Corporation and other materials.

Figure 2. Regional characteristics in India from the perspective of BoP business

Notes: Tier 1: Cities with urban populations of 4 million or more. Tier 2: Cities with urban populations between 1 million and 4 million. Tier 3: Cities with urban populations between 500,000 and 1 million. For urban population, see Chapter III, Section 2.

given to the factors that greatly encourage or conversely suppress the growth of the country.

If we analyze these factors by using the analytical approaches introduced in Chapter II, the areas that will have a major impact on India's growth will be energy, household goods, health care, ICT, education and financial services. Table 4 spells out the details of these areas and the business opportunities that they present. In this paper, we discuss the areas, from among those mentioned above, that a field survey that the authors conducted identified as warranting special attention.

None of the United Nations Millennium Development Goals (MDGs) set for India are expected to be achieved by the target date of 2015 if the current situation continues as is, leaving many development tasks that have to be undertaken (Table 5). In particular, it is deemed difficult to reduce the infant mortality rate by 2015. Because India is so populous, if an index of any development goal can be improved there, such improvement will greatly influence the global index for the relevant goal. To encourage women to give birth in Primary Health Centers (PHCs), the Indian Government is providing subsidies to individuals. Because progress is being made in better understanding the current situation regarding the rural population and infant mortality, this area will become increasingly important in the future. Therefore, a company approaching the area of health and medical care will be able to expect support not only from local governments but also from international organizations and aid agencies.

In addition to the above-mentioned health and medical care, another area in which India is currently facing major problems and thereby anticipating huge future growth is energy. Cities or rural villages notwithstanding, India as a whole is facing major problems with ensuring

stable power supplies. Therefore, the Indian government has set a target of "Power for All by 2012," whereby an adequate supply of electricity will be ensured to every home. In parallel with this policy, the government has been promoting photovoltaic generation.

Given this situation, demand is rising for:

- (1) Businesses supporting the policy of increasing the rate of electrification
- (2) Products and services that are capable of coping with power outages and unstable voltage levels in the electrified areas
- (3) Renewable energy businesses
- (4) Products and services that do not depend on electricity

On the other hand, a factor that has had a major influence on India's growth over the last ten years is the rapid spread of mobile phones. The use of mobile phones has spread in both the cities and rural areas. In the farming villages in northeast India that the authors visited, there were actually some people who have more than one handset. Mobile phones are used not only for making voice calls, but also for the spread of content in the agriculture and education fields. Demand for the ICT services that can contribute to increasing the incomes of farmers and acquiring employment opportunities in non-agricultural fields has been growing.

(3) Methods to be used: What business model should be adopted?

Finally, when building a value chain in India, a company should identify the techniques to be adopted and the people with whom to work in order to bring about the greatest impact on the growth of the country.

Table 4. Areas that have a major impact on India's growth and related business opportunities

Area	Factors greatly encouraging or suppressing the country's growth	Projected customers	Example products and services
Energy	<ul style="list-style-type: none"> The country faces serious power shortages; planned outages and unplanned outages occur frequently 	<ul style="list-style-type: none"> Farmers who need electricity for farming such as irrigation Existing mini-grid operators 	<ul style="list-style-type: none"> Renewable energy businesses (photovoltaic generation, biomass generation) Energy management systems and equipment that efficiently use power generated by the above methods (distributors, batteries, converters, smart meters, etc.)
Household goods	<ul style="list-style-type: none"> Next to food and beverages, the percentage of household spending on entertainment such as music and services is large 	<ul style="list-style-type: none"> People who live in unelectrified areas or areas with unstable power supply Content creators 	<ul style="list-style-type: none"> Home electrical appliances that can be used even with unstable power supply (TVs, DVD players, etc.) Businesses distributing entertainment content that empowers people by using mobile phone networks and mobile terminals (music, sports, fortune telling, etc.) Businesses providing platforms that enable people to view content on mobile phone or tablets
Health and medical care	<ul style="list-style-type: none"> It is deemed difficult to attain the reduction of child mortality (one of MDGs) by 2015 	<ul style="list-style-type: none"> People living in rural areas with limited access to hospitals Municipalities that manage primary health centers 	<ul style="list-style-type: none"> Products contributing to reducing the infant mortality rate (vaccines, water purifying agents, water purifiers, mobile medical devices, etc.) Mobile health check and diagnostic services Telemedicine
Information and communications technology (ICT)	<ul style="list-style-type: none"> The household penetration rate of mobile phones was 91.9 percent as of 2010; in recent years, the rate has been increasing rapidly, indicating that mobile phones have now become part of day-to-day life tools 	<ul style="list-style-type: none"> Farmers Social entrepreneurs who launched new businesses in rural areas Municipalities that are making efforts to promote e-government services 	<ul style="list-style-type: none"> Businesses distributing agricultural content by using mobile phone networks and mobile terminals Systems enabling business process outsourcing (BPO) at low cost in rural areas Systems supporting distribution and business management as well as electronic commerce in rural areas Electronic application services such as for resident registration certificates and marriage reports
Education	<ul style="list-style-type: none"> Because only a limited number of public vocational training programs are available for the BoP segment, the areas in which people in the BoP segment can find employment opportunities are limited to agriculture and kirana operation While demand for education increases in parallel with rapid economic growth, there is a shortage of teachers and teaching materials 	<ul style="list-style-type: none"> People seeking IT jobs within industrial parks in rural areas The central government and state governments that operate national public schools for primary to higher education as well as private schools 	<ul style="list-style-type: none"> Life event support services using mobile phone networks and mobile terminals (distributing content for finding jobs, ceremonial occasions, etc.) Services providing both vocational training and job matching (e-learning system, job matching system, etc.) Systems dealing with insufficiency of teachers and teaching materials (distance education system, etc.)
Financial services	<ul style="list-style-type: none"> There are regulations for the opening of branches in order to spread and expand financial services to rural areas; therefore, banks entering the market are required to open branches in both cities and rural areas 	<ul style="list-style-type: none"> Migrant workers in Tier 2 and Tier 3 cities Social entrepreneurs who launched new businesses in rural areas Financial service providers including microfinance institutions 	<ul style="list-style-type: none"> Financial services and mobile terminal (ATM) systems to complement outreach activities Security services for the above-mentioned services

Notes: Kirana refers to mom and pop stores in India; MDGs = Millennium Development Goals, IT = information technology and ATM = automatic teller machine.

India's distribution network is still immature. Clearly, the creation of a distribution network that can cover a whole country as big as India will be a very difficult task. The vast land of the country is not the only issue. Regulations and tariffs vary from state to state, greatly influencing the construction and total cost of the distribution network. Therefore, in India, mom and pop stores known as kirana stores play a major role in selling goods to end customers. Kirana stores can be seen everywhere, both in cities and in rural areas, with many being family owned and operated. In other words, chain store operation is not yet well developed in India. To distribute products, therefore, a company is faced with the choice

of investing large amounts of time and money to develop its own sales channels or relying on distributors to provide its products to kirana and other small retailers in each state.

Given this situation, if a company is to create a distribution network that is stable enough to develop BoP business in India, establishing partnerships will be essential. Specifically, if a company can establish partnerships with organizations that already have sales networks and points of contact with end customers such as Tata, Mahindra, Birla, ITC (formerly the government-run tobacco company) and Drishtee, the company will be able to set up a wide-reaching distribution network.

Next, a company should look at social entrepreneurs who are actually engaged in BoP businesses in India so as to appreciate a business model that can have an impact on the growth of the country. In India, social entrepreneurs who are making sufficient profit while managing to grow the scale of their businesses are particularly prominent in the areas of education and vocational training, ICT and energy. There are many different cases in which these social entrepreneurs have been successful (Table 6). For example, they have been success-

ful in improving the added value of products and services by providing education and training in manufacturing in rural areas. Another example is the case that enabled the transactions of products and services at reasonable prices by providing information tailored to these areas.

One point that these social entrepreneurs all have in common is that they operate both profit-making organizations (commercial companies) to acquire markets and non-profit organizations (funding and educational

Table 5. Current status of achievement of the Millennium Development Goals in India

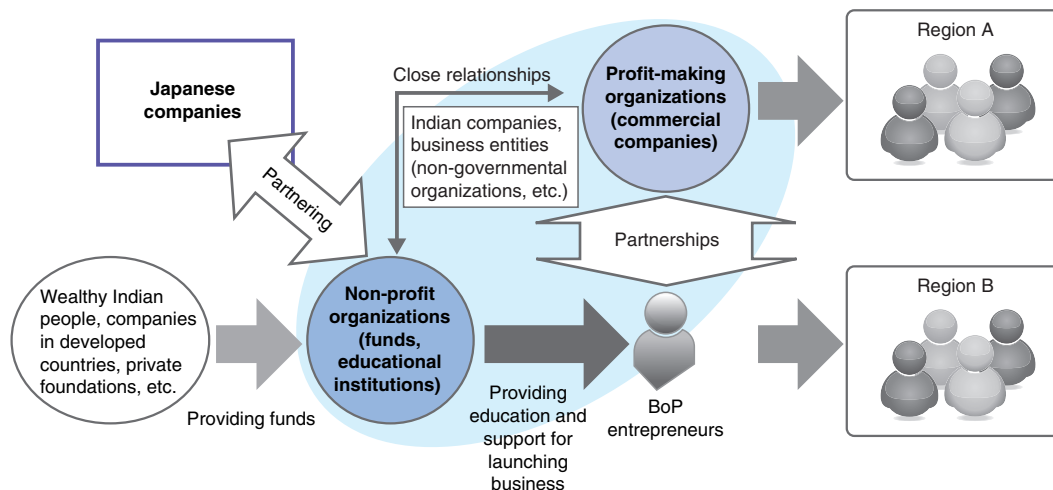
Goal		Current status
1	Eradicate extreme poverty and hunger	△
2	Achieve universal primary education	△
3	Promote gender equality and empower women	△
4	Reduce child mortality	×
5	Improve maternal health	△
6	Combat HIV/AIDS, malaria and other diseases	—
7	Ensure environmental sustainability	—
8	Develop a global partnership for development	—

Legend: ○ : Very likely to be achieved; on track. △: Possible to achieve if some changes are made. ×: Off track. — : Insufficient information.
 Source: Compiled based on MDGMONITOR's website (<http://www.mdgmonitor.org/index.cfm>).

Table 6. India's social entrepreneurs who are actually causing changes in rural areas

Social entrepreneurs (name of organization)	Field	Description
Industree Crafts	Education, vocational training	Provides education and vocational training in producing craft items such as bags by using materials (banana bark, etc.) that can be procured in rural areas
Drishtee	Information and communications, distribution, transportation	Deploys a network of Internet kiosks in rural areas; within a kiosk, education and information services are offered; also engaged in service to deliver materials to kiosks
Husk Power Systems	Energy	Offers biomass energy that uses discarded rice husks to generate electricity

Figure 3. Business model using both profit-making and non-profit businesses



organizations) to create markets. By providing the BoP segment with education and support, a non-profit organization fosters the stakeholders and business partners of a profit-making organization, whereby accelerating business expansion. Because a non-profit organization can draw on resources such as donations and grants, it can sustain itself without being a burden to the profit-making organization. This mechanism suggests that it is important to strengthen the value chain of business through non-profit activities by establishing an organization that can make use of external resources. Therefore, when Japanese companies enter the market, it will be important for them to partner with such companies and organizations. A company should start business in developed regions. When expanding the business, the company should begin by raising the awareness of its employees and, from the medium- to long-term perspective, create a mechanism that enables the development of entrepreneurs and engineers as well as the establishment of a distribution network (Figure 3).

IV BoP Business in South Africa

1 Country overview

Among all the 54 countries in Africa, South Africa is particularly prominent as being an economic power. Within sub-Saharan Africa (those countries in the African continent south of the Sahara Desert), the country has accomplished a remarkable level of economic growth that differentiates it from all the other countries in this region, with real GDP growing by an average of around 3 percent over the last 10 years. With per-capita GDP standing at 10,518 dollars in 2010 (IMF, “World Economic Outlook Database,” September 2011), the country is ranked at a level that qualifies it as a semi-advanced nation.

While the country has so far largely relied on being a production base chiefly for the automotive industry aimed at European markets, the country’s domestic market has recently become more important with the increase in the number of black people in the MoP segment, who are known as “black diamonds.” According to the University of Cape Town’s Unilever Institute, black diamonds are defined as those who earn a monthly income of at least 6,000 rands (a per-capita annual income of 4,858 dollars when converted based on 2005 purchasing power parity), have gone on to higher education, and have a strong presence in personal networking.

Within South Africa, the number of such black people in the MoP segment has been steadily increasing. NRI estimates that it will reach 30.1 million by 2030. In terms of market size, this will be a huge market, worth around 392 billion dollars. What is noteworthy about it is that around 60 percent of the people in this MoP segment were in the BoP segment in 2005. Because the

existing MoP segment is expected to exhibit relatively little growth, the growth in the South African market will come from increased incomes of those in the BoP segment, with the size of the market expected to more than double.

Given that South Africa’s MoP market has already started to grow in such a way and with an overall population reaching about 50 million as of 2010, the country is attracting the attention of companies from around the world as a promising African market. Japanese companies, too, have started to focus on this market, starting with the opportunities presented by the 2010 FIFA World Cup.

On the African continent, countries in each region have formed respective communities. South Africa is a member of the Southern African Development Community (SADC), which consists of 14 countries including South Africa. In 2008, SADC launched a free trade zone with plans to achieve all duty-free trade by 2012 and introduce a single currency by 2018. Furthermore, in June 2011, the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and SADC agreed to start negotiations to establish Africa’s largest free trade area, with a goal of achieving free trade among these three communities within three years.

As such, for Japanese companies, South Africa presents not only a burgeoning domestic market, but could also act as an important avenue and base for future expansion into the African market.

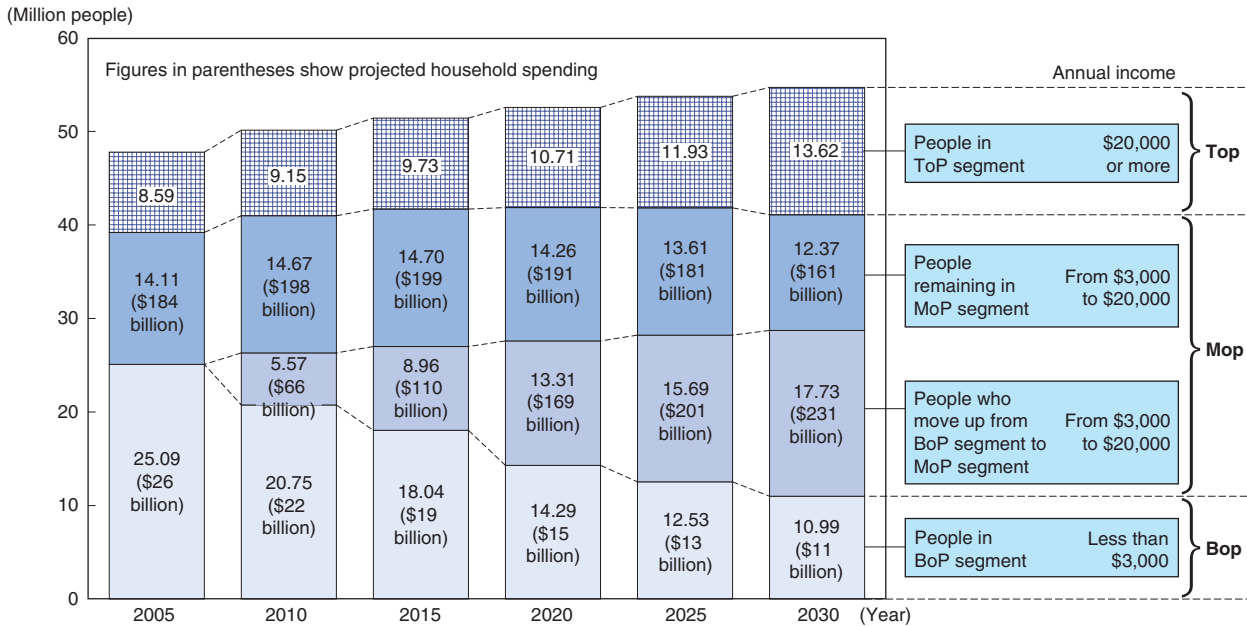
2 Strategically important points in developing BoP business

(1) Target customers: Who are the end customers?

When developing BoP business as part of a strategy aimed at the South African MoP market of 2030, it is important to note that the primary end customers will be people falling under BoP1000 and higher income earners who live in major cities such as Johannesburg and Cape Town. It is also important to find business partners from among entrepreneurs and organizations that have contact with these customers.

Based on the projected changes in population and household spending in South Africa (Figure 4), we infer that, by 2030, about 52 percent of people in the BoP segment as of 2010 will have migrated up into the MoP segment. In addition, if we look at the population for each annual income level within the BoP segment as of 2010 (Table 7), we can assume that some people falling under BoP1000 as well as BoP1500 and higher income earners will migrate to the MoP segment. Furthermore, according to the percentage of people living in urban areas, more than half of the people in the BoP1500 and higher segments live in cities and suburbs. We assume that the people living in rural areas are living in the rural areas around cities. As such, developing business with the aim

Figure 4. NRI's forecast for population size and household spending for each annual income level in South Africa for the period between 2005 and 2030



Sources: Compiled based on United Nations, "World Population Prospects, the 2010 Revision," The World Bank, "World Development Indicators," Allen L. Hammond, William J. Kramer, Robert S. Katz, Julia T. Tran, Courtland Walker, "The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid" 2007, World Resources Institute, International Finance Corporation and other materials.

Table 7. Population for each annual income level within the BoP segment in South Africa as of 2010

		Population (million)	Percentage of each income level within the BoP segment	Percentage of urban population
	BoP3000	0.9562	4.6	84.0
	BoP2500	1.6421	7.9	76.4
	BoP2000	2.6327	12.7	71.5
	BoP1500	4.3093	20.8	58.5
	BoP1000	7.0527	34.0	40.9
	BoP500	4.1568	20.0	21.7
	BoP total	20.7497	100.0	50.7

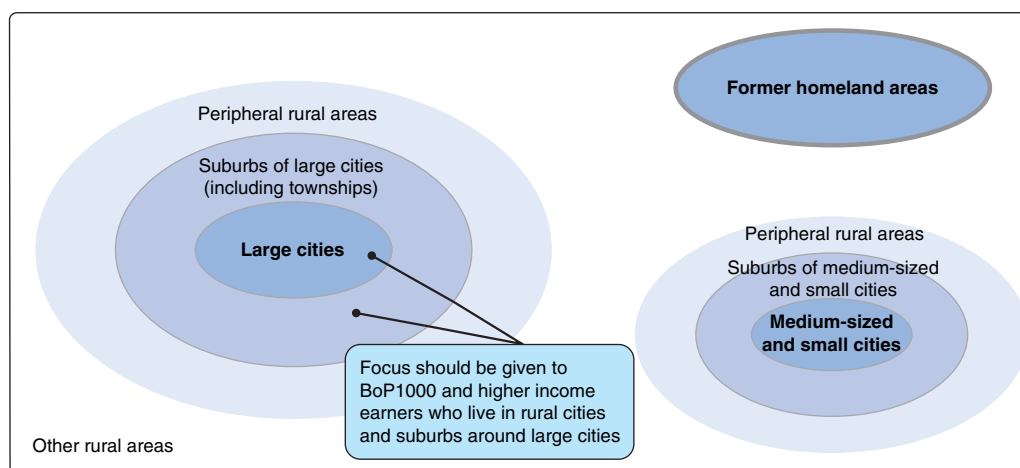
Source: Compiled based on United Nations, "World Population Prospects, the 2010 Revision," The World Bank, "World Development Indicators," Allen L. Hammond, William J. Kramer, Robert S. Katz, Julia T. Tran, Courtland Walker, "The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid," 2007, World Resources Institute, International Finance Corporation and other materials.

of establishing contact mainly with these BoP1500 and higher income earners who live in cities and suburbs, as well as with those in the MoP segment and those falling under BoP1000 will greatly enhance the possibility of attaining a company's competitive advantage in the future MoP market (Figure 5). Among urban areas, in particular, it will be best to target areas around major cities with populations in excess of one million such as Johannesburg, Cape Town, Ekurhuleni, Durban and Pretoria.

In the days when South Africa was ruled by apartheid, the areas in which people lived depended on their race. Even after apartheid was abolished, the remnants of this system are evident to this day. In this paper, we will look at the so-called "townships" and "homelands" in which

black people were forced to live under an apartheid system.

Townships were set up in the surroundings and suburbs of major cities such as Johannesburg as living areas reserved for black people. Some black people were forced to live in townships and were seen as a source of cheap labor in major cities. For this reason, there are still many slum areas in the periphery and suburbs of large cities. The homelands, on the other hand, were areas of barren land that were established under apartheid, in which black people from each tribe lived. Because some of these homelands became independent from South Africa, the people living there were no longer considered citizens of South Africa and were not covered by the country's social security system.

Figure 5. Regional characteristics in South Africa from the perspective of BoP business

Notes: Townships refer to the areas in the surroundings and suburbs of major cities such as Johannesburg as living areas reserved for black people. Homelands refer to the areas of barren land that were established under apartheid where black people lived.

After the abolition of apartheid, townships in the suburbs and surrounding areas of major cities began to become viable markets by virtue of their locations. Some townships have prospered very quickly and have even seen the construction of shopping malls. What is particularly noticeable is that the sense of community is very strong in townships in the suburbs and these townships are safer than cities. Therefore, an increasing number of people who moved into cities to improve their incomes have actually moved back to townships in search of stronger friendships and safer neighborhoods that were not as apparent in cities. These returnees are doing much to help the people of the townships financially such that there are many people who lead lives that are richer than their incomes would suggest.

These townships spread extensively from the center of a city to its outskirts. Their market stimulation is leading to economic growth, not only in the centers of the cities, but also in the surrounding rural areas. The homelands, on the other hand, suffer from low levels of education due to a lack of government support under apartheid. Because the land tends to be barren, there is no developed agriculture. Even after the abolition of apartheid, the incomes of the people in these areas have remained low. In South Africa, therefore, the effects of apartheid continue to have a major influence on the lifestyles of the BoP segment. A company must keep this fact in mind when selecting an area in which to develop business.

In addition, because of the country's policy of black economic empowerment (BEE) based on the Broad-Based Black Economic Empowerment Act, the market has been growing in both the centers of the cities and the areas around the cities. In these areas, it has become easier for people to take hold of opportunities to enhance their incomes. Under the BEE policy, it is easier for companies with black management to have business opportunities. Once those opportunities have

been obtained, people can improve their incomes on an ongoing basis. In these areas, therefore, income will surely increase over time, with many people moving from the BoP segment to the MoP and even to the ToP segments.

As described above, the number of people in the MoP segment is expected to increase in the suburbs and rural areas around large cities. Therefore, developing BoP businesses aimed at these people will have a major impact on improving the income of the BoP segment and developing the country as a whole.

In terms of direct customers, in addition to targeting such people who are now in the BoP segment as direct customers, a company could also consider local governments, the big four banks, communications companies, local entrepreneurs taking advantage of the BEE policy and community-based organizations (CBOs) as direct customers. Such stakeholders have considerable purchasing power themselves, as well as having well-developed points of contact with the BoP segment. By considering them as candidate customers or candidate business partners, a company would be able to establish a business model hypothesis and estimate the scale of business.

(2) Challenges to be addressed: What value does a company offer?

To refine its concept concerning the values, products and services that it can offer, a company should pay careful attention to the areas that will have a major impact on the growth of the country.

If we perform an analysis by using the approaches introduced in Chapter II, the areas that will have a major impact on South Africa's growth will be energy, household goods, health and medical care, transportation, ICT, education and financial services. Table 8 enumerates details of these areas and the business opportunities that they present.

Table 8. Areas that have a major impact on South Africa's growth and related business opportunities

Area	Factors greatly encouraging or suppressing the country's growth	Projected customers	Example products and services
Energy	<ul style="list-style-type: none"> To meet needs arising from rapid economic growth, the country faces power shortages The South African government plans to generate 17,800 megawatts from renewable sources such as solar power and wind power by 2030 	<ul style="list-style-type: none"> Electric power companies Municipalities responsible for power distribution Developers, real estate companies BEE companies and entrepreneurs in the BoP segment that deploy businesses for the above-mentioned entities as their customers 	<ul style="list-style-type: none"> Power generators for photovoltaic generation, solar thermal energy generation, wind power generation Energy management systems and equipment that use power efficiently (transformers, distributors, batteries, converters, smart meters, etc.)
Household goods	<ul style="list-style-type: none"> Even people in the BoP segment own TVs and radios and spend much on entertainment such as music Because the country is rich in coal and electric power is supplied at low cost, the electrification rate is 75 percent and electrical home appliances are widely used Because of preferential treatment for women under the BEE policy and an increasing number of female-headed households due to HIV, the status of women in society is improved 	<ul style="list-style-type: none"> People who are engaged in work or self-study to increase income Women who work and spend only limited time at home 	<ul style="list-style-type: none"> Entertainment that empowers people such as music Electric home appliances that help improve the efficiency of household chores Products that empower women such as cosmetics and hair care products for women
Health and medical care	<ul style="list-style-type: none"> From among MDGs, "reduce child mortality," "improve maternal health" and "combat HIV/AIDS, malaria and other diseases" are assessed as "possible to achieve if some changes are made" in the current status report 	<ul style="list-style-type: none"> Private sector companies that emphasize stable work of employees and training Employees of private sector companies and their families 	<ul style="list-style-type: none"> Medical services provided on a community basis (health check, health insurance, diagnostic pharmaceuticals, vaccine, etc.)
Distribution and transportation	<ul style="list-style-type: none"> Cars tend to be used more often than motorcycles; shared use of cars is seen in the BoP segment Local governments are considering the introduction of electronic fare collection for minibus taxis; smart cards for payments and electronic management systems to monitor taxi locations actually began to be introduced in some taxis 	<ul style="list-style-type: none"> Municipalities that promote electronic fare collection Private sector transportation companies such as minibus taxis Logistics companies Entrepreneurs in the BoP segment that deploy businesses for the above-mentioned entities as their customers 	<ul style="list-style-type: none"> Low-cost, high-quality compact cars Car insurance, GPS-based systems providing for security Minibus taxi reservation systems by using mobile phones
Information and communications technology (ICT)	<ul style="list-style-type: none"> The penetration rate of mobile phones was high at 94.1 percent as of 2010; mobile phones have now become part of basic tools for life and work 	<ul style="list-style-type: none"> Farmers Grocery store chains Entrepreneurs in the BoP segment 	<ul style="list-style-type: none"> Mobile phone content that facilitates transactions between organizations and between individuals Services that enable people to have multiple mobile phone numbers; services that enable the shared use of a mobile phone and the management of call charges by each user Application software that enables the collection and analysis of data on mobile phones
Education	<ul style="list-style-type: none"> Many people cannot fully benefit from the BEE policy 	<ul style="list-style-type: none"> People who do not fully benefit from the BEE policy 	<ul style="list-style-type: none"> Providing vocational training to help individuals get jobs Providing support to help individuals enter higher educational institutions
Financial services	<ul style="list-style-type: none"> While the country has extensive social security programs for socially disadvantaged groups (the aged, the disabled, children, etc.), the system for the payment of social security benefits is inefficient 	<ul style="list-style-type: none"> Socially disadvantaged groups (the aged, the disabled, children, etc.) and their families 	<ul style="list-style-type: none"> Helping people apply for and receive social security benefits by using mobile phones Communications and security businesses for the above-mentioned applications and payments
Remarks:	<ul style="list-style-type: none"> Because, under the BEE policy, many companies have already been entering into a wide range of activities for the promotion of the employment of black people, technology development and community development, many activities related to BoP businesses are already being undertaken Because South Africa's big four banks offer extensive services within the country including suburbs and rural areas, the penetration rate of financial services exceeds those of East Asia and South Asia. Therefore, it is easy to use a mechanism for monthly installment sales On the other hand, because strict financial regulations apply, the number of microfinance institutions that have more than a certain level of a customer network is very limited. Furthermore, their activities tend to focus on human resources development and the management of entrepreneurs 		

Notes: BEE policy refers to the policy of black economic empowerment; GPS = global positioning system.

In this paper, the authors touch on the areas, from among those mentioned above, that our field survey identified as warranting particular attention.

First, we highlight health and medical care, and education. The medical services and vocational training services provided to individuals, primarily to the employees of companies (including factory workers) can reduce the risks and costs that are normally incurred by companies operating in South Africa. Therefore, as the entire African market is stimulated, and as the role of South Africa as a base and stepping-stone to the African market increases, so too do the needs for health and medical care services, as well as for education. In particular, as the progress in the achievement of MDGs (Table 9) indicates, further efforts are required in the area of health and medical care. In the area of energy, because the rate of electrification is high in South Africa and reliance on electricity is commonplace, recent years have seen increased demand for renewable energy to help solve energy shortfalls. Such need is increasing much more rapidly than in other sub-Saharan nations.

In addition, because of the BEE policy, the number of cases in South Africa in which local entrepreneurs and large companies work together has been increasing. Community activities and social businesses that are supported by large companies have also begun to accelerate. Currently, these activities and businesses are being deployed in each region. In the future, the needs for networking and improving the efficiency of these individual activities and social businesses will further stimulate the market.

(3) Methods to be used: What business model should be adopted?

Finally, when building a value chain in South Africa, a company should identify the techniques to be adopted in order to bring about a major impact on the growth of the country.

First, for distribution networks, let's consider supermarkets, "Spaza shops" (kiosks next-door to homes) and

furniture stores. In South Africa, monthly salaries became common during the apartheid era, leading to people buying their necessities in bulk at regular intervals. As such, there are many supermarkets and similar stores with high levels of stock. When one actually goes to a supermarket that people in the BoP segment regularly use, rather than the small packages that are common in Asia, there are many products with long shelf lives that can be safely kept at room temperature such as long-life milk. As people's incomes improve and women come to play a greater role in society, the demand for such supermarkets is increasing.

Spaza shops, on the other hand, have been struggling to survive as they lose customers to the ever-growing supermarkets, and so have started to enter into marketing alliances with large corporations.

In South Africa, furthermore, furniture stores play an important role for the BoP segment, offering not only furniture and bedding, but also a wide range of products including mobile phones and electrical home products. These furniture stores have a strong connection with South Africa's four largest banks, and have established a mechanism whereby goods can be purchased using a three-year installment plan. Families actually spend about 10 percent of their monthly household income on buying goods. When developing BoP business in South Africa, therefore, not only should a company aim to provide products and services in cooperation with local entrepreneurs, but should also make use of these channels. By so doing, a company can establish extensive distribution networks by maintaining the ability to negotiate with each channel.

As the next step, a company should look to social entrepreneurs who are actually engaged in BoP businesses in South Africa in order to identify a business model that most readily has an impact on the growth of the economy. Among these social entrepreneurs, those who have been able to continue to generate sufficient profits and expand the scale of business tend to be found in the areas of education and vocational training, energy and intermediate support (Table 10).

Table 9. Current status of achievement of the Millennium Development Goals in South Africa

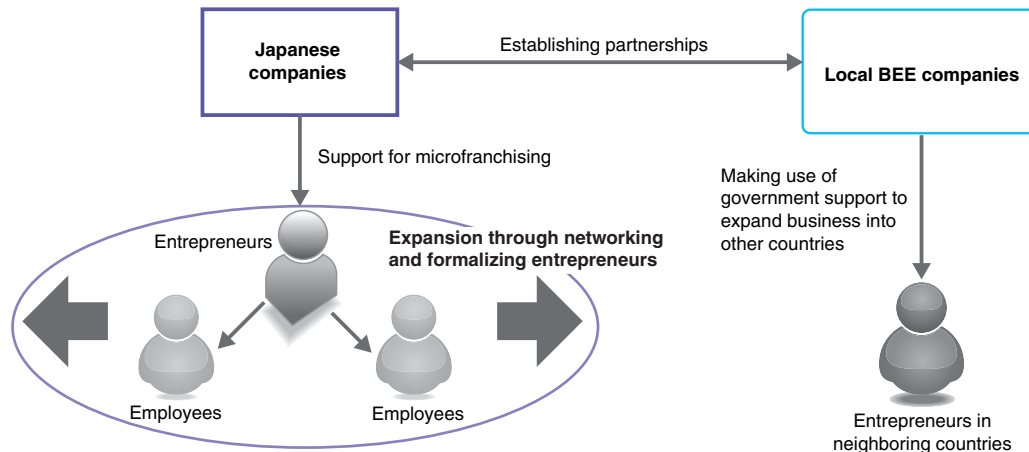
Goal		Current status
1	Eradicate extreme poverty and hunger	○
2	Achieve universal primary education	○
3	Promote gender equality and empower women	○
4	Reduce child mortality	△
5	Improve maternal health	△
6	Combat HIV/AIDS, malaria and other diseases	△
7	Ensure environmental sustainability	○
8	Develop a global partnership for development	○

Legend: ○: Very likely to be achieved; on track. △: Possible to achieve if some changes are made.

Table 10. South Africa’s social entrepreneurs who are actually causing changes in rural areas

Social entrepreneurs (name of organization)	Area	Description
Ikamva Youth	Education, vocational training	Focuses on the empowerment of youth through education and career guidance
Alternative Energy Development Corporation (AEDC)	Energy	Provides environmentally friendly energy to rural areas where no common electricity is available
Greater Good	Intermediate support	Establishes points of contact with NGOs working in South Africa and offers website platforms for online donations

Figure 6. Business model networking and formalizing entrepreneurs



These entrepreneurs have been able to grow their businesses at home and abroad by setting up their networks and formalizing themselves. Because of the influence of the BEE policy, there are many entrepreneurs in South Africa. With the spread of the mobile phone business, they are sensitive to business opportunities and are increasingly entering into alliances with major corporations. Another feature is that many entrepreneurs have hired employees and formed small organizations of their own.

When Japanese companies enter the market, it is important that they support the activities of these entrepreneurs by providing both manuals and training as if creating a micro-franchise. Doing so will enhance the existing entrepreneurs’ organizations, making it easier for them to grow. In addition, teaming up with local BEE companies will make it easy to expand into neighboring countries, enabling further upscaling (Figure 6).

V Incorporating Insight and Dynamism

In Chapters III and IV, we described the characteristics of India and South Africa with the aim of helping companies planning to take on BoP businesses to create the concepts of BoP businesses that will grow in these two countries. In the conclusion of this paper, we introduce methods for incorporating the “insight” and “dynamism”

elements that are necessary to refine the concepts that are theoretically created or to review such concepts from scratch locally into the strategy for new business development.

As a rule, the department responsible for developing BoP business must incorporate the elements of insight and dynamism in the process of verifying and promoting the company’s business through collaboration with international organizations and/or local partners. However, rather than doing so only by a BoP business department, it is more effective to receive cooperation from other related departments after they understand the unique characteristics of BoP business.

In many companies, issues faced by personnel responsible for BoP business include:

- It is difficult to develop and train personnel who can take an active role in the BoP market
- In addition to a business plan, social investment is required to develop the business environment and establish networks
- Because BoP business takes more time to produce results than conventional new business, it is difficult to evaluate performance if a company’s existing evaluation scheme is used

Given these characteristics, it is necessary for function-by-function departments at the head office to provide lateral support.

Specifically, lateral support from the following departments is indispensable:

- (1) A department of human resources development that is responsible for employee training, employee career development, etc.
- (2) A CSR (corporate social responsibility) department that is responsible for social contribution activities
- (3) A corporate planning department that manages investment in local companies and corporate venture projects

In this chapter, we introduce how these departments can best provide lateral support.

First, in order for company-wide departments to assimilate the elements of insight and dynamism, they all must have the general knowledge of the challenges that must be addressed on a global basis (global issues) and must have a finger on the pulse of actual situations in local sites that constitute the core of BoP business. In the following paragraphs, we introduce the methods for each department to acquire such knowledge.

In the case of a department of human resources development, a possible method would be to provide consecutive participatory workshops on a remote basis by improving the existing training system for developing next-generation leaders. For example, employees who participate in workshops learn from the officials of international organizations about the actual status of global issues such as progress in achieving MDGs, the points of discussion involved in determining the policies and a full picture of stakeholders. They can also learn from local social entrepreneurs about what is occurring in the areas where people in the BoP segment live and background factors behind such occurrences. In addition to connecting Japan and local sites through a video conferencing system to hear hands-on experience from speakers, it is important to share experience that is close to a face-to-face encounter by using videos and photos. The number of companies that employ this new type of employee training program has gradually been increasing among Japanese companies as well.

Possible activities for a CSR department include conducting social contribution activities jointly with international organizations and/or local social entrepreneurs, providing support to local social entrepreneurs as part of social investment and helping such activities on a pro-bono basis (volunteering activities using their professional skills and knowledge). Actually, Schneider Electric and Danone of France and Vodafone of the UK provide support to potential BoP business partners by means of social investment through foundations owned by respective companies as well as through social investment funds. Furthermore, they promote social contribution activities in collaboration with potential partners. In order to instill their employees with insight and

dynamism through pro-bono activities, U.S. companies such as IBM, Cisco Systems, Pfizer and Mars have all been promoting their own activities as part of international corporate volunteering (ICV) programs.

The most important point to consider in promoting such programs is to select organizations that have a large number of points of contact. In view of the fact that a company must eventually make use of such points of contact for its own business, rather than organizations undertaking only small-scale grassroots activities, a company should select organizations whose scale of business is more than a certain level and that continue to expand social achievements that are brought about by its business. For example, these organizations are those that receive investment from the BoP fund (the fund that invests in BoP business). In effect, it is essential to increase the number of points of contact not only with local partner candidates but also with organizations that are supporting organizations receiving such investment.

As the next step, to further enhance insight and dynamism elements, opportunities should be given to employees to publicize new ideas that come about through the above-mentioned knowledge-instilling activities and develop such new ideas as actual business. Practically, as the systems and programs that can offer such opportunities, we expect to see the departments with planning functions such as a corporate planning department improve the existing corporate venture system or set up a new corporate system to invite ideas for feasibility studies. Authority and funds should be vested in an employee whose idea was selected to conduct a feasibility study on site. In addition, an opportunity should also be given to such employee to refine his/her idea on site.

Rather than aiming these efforts only at employees in Japan, a company should aim to target its employees worldwide. If people working in overseas subsidiaries are unfamiliar with these kinds of activities, they should be encouraged to participate in these activities by providing them with courses teaching how to write proposals. By so doing, it will become possible to create BoP business that is more suitable in the local market without being tied to success in the Japanese market. Vital to these activities is the need to make the results of the project widely known outside the organization. Doing so would result in an increasing number of people approaching the company. Eventually, an idea that existed only within the company will be able to develop into one that is more suitable to take root in the local market.

By promoting these efforts, the company can enhance the abilities of its employees and departments to ensure insight and dynamism. It will also be possible for the company to cultivate its capabilities and networks to update the characteristics of the countries that were described in this paper because these characteristics change over time.

In this way, with the participation of various departments other than a department responsible for BoP

business such as a department of human resources development, a CSR department and a corporate planning department, it will become easier to incorporate the elements of impact, insight and dynamism into the company's business strategies, and the BoP business department will become less likely to balk at the work needed to develop BoP business. Consequently, rather than being seen as "special," BoP business will be accepted as the principal strategy for the markets of emerging and developing countries as part of a Japanese company's global business.

We sincerely hope that this paper proves useful to those people who aim to achieve both goals—contributing to achieving a sustainable society and improving profitability for everyone who is involved in BoP business.

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