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Challenges and opportunities of the last mile for the base of the pyramid: The case of Brazil

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ABSTRACT. The last mile in distribution offers many challenges for organizations to access the Base of the Pyramid (BoP) market. This paper analyses how companies in Brazil are managing to effectively serve these markets. Small retailers located in these regions have developed very strong emotional bonds with their clients, becoming fierce competitors to large global retailers. We have identified that the companies which perform well in these markets, either small local enterprises or large global corporations, have developed business models incorporated the following 3 dimensions: efficient execution, close relationship with retailers and BoP communities, and an ingrained BoP DNA culture. Rethinking distribution is important not only to reduce BoP consumers' vulnerability with a decrease of the poverty penalty, but also to offer in a more efficient manner access to basic needs such as health, education and financial services.

KEYWORDS. base of the pyramid, distribution, marketing channels

1. INTRODUCTION

Since the 1940's decade there have been plenty of discussions about the poverty penalty, which means that besides being poor, this population usually pays more than wealthier people for the same products. There are several reasons that explain this phenomenon, such as the need of credit, the behavior of buying in smaller packages and the difficulty to access larger, more efficient and cheaper retailers. This last reason by itself demonstrates the importance of an effective distribution so as to reach the consumer with basic and important products and diminish his vulnerability.

The challenges to reach Base of the Pyramid (BoP) population are many. First of all, this market faces higher transaction costs. Usually the marketing channel is longer and for a product to reach its destination it must pass through many intermediaries. The infrastructure, such as roads and transportation is poor and costly. Moreover, BoP market has a larger capillarity and places in inter land are far and difficult to reach. On the other side, in the shanty towns of metropolitan regions, there is a lack of urban infrastructure and safety. All these factors make the distribution to BoP be more costly and challenging.

New strategies and business models were

developed in recent years to reach BoP in an efficient way. Performing well in the last mile is a challenge that might create in one side a competitive advantage and on the other side it can reduce vulnerability, improve well-being of the population diminishing the poverty penalty and offering access to basic products. This article aims to describe some Brazilian cases of organizations that were able to innovate and create alternatives to distribute products and services to BoP and to identify some success factors for an effective distribution in these markets. .

2. BEYOND LARGE RETAILERS

During many decades, small retailers were the only shopping alternatives located in BoP regions in Brazil. All the institutional voids and challenges aforementioned inhibited large retailers to open stores in BoP locations. Consequently, BoP consumers got used to buy their products in these small retailers that over time created some important competitive advantages, usually linked to emotional attributes, such as a good relationship with the community, empathy, trust and habit. Although small retailers are more expensive, these emotional attributes have developed high loyalty among customers, and have transformed the small stores into fierce competitors for large retailers that more recently

have been trying to enter BoP communities. To reach these small retailers, manufacturers have to create a capillary sales structure and work with several intermediaries as wholesalers and mini wholesalers.

Besides the significant role of small retailers, another important channel is door to door. In Brazil, more than 2.8 million people sell products door to door. Most of these salespeople are women selling cosmetics. Companies as Avon and Natura created a huge structure in Brazil to sell door to door and got an important competitive advantage through this marketing channel. However, lately, door to door has been also adopted by leading “fast moving consumer goods” companies, as a means to reach BoP consumers in a more direct way. One example is Nestlé that since 2006 has established a door to door program. In 2013 it counted with almost 8,000 salespeople that visited more than 250 thousand households every fortnight. For consumers, the main difference is having the opportunity to receive at home more than 800 Nestlé products, such as yoghurts, crackers, chocolate bars, and powder milk. Some of those products are not found in the small retailers of BoP regions. With a more innovative perspective, Nestle also created a floating supermarket, which sells more than 300 products from the company in a boat that visits many small towns through the Amazon region in Brazil.

3. SUCCESS FACTORS

In our researches, three basic success factors appear as crucial for an effective distribution for BoP: a BoP DNA, a good execution and relationship. Although basic and apparently similar to the distribution in any market, these three factors have important consequences at BoP.

The first point is linked to what we call BoP DNA. Drawing from the biology science, we have adopted the metaphor of BoP DNA to design fundamental aspects of the company culture, strategy and tactics which is deeply ingrained and permeates all levels of the organization, as a company which: 1) recognizes the market potential of the BoP and gives priority to sell and serve this market; 2) develops a deep knowledge about the needs and peculiarities of the market; 3) treats this market with the same respect as she treats upper income markets. 4) develops an empathic and two-way communication with the BoP players.

Most multinational Companies (MNCs) don't have a clear understanding of the characteristics and needs of BoP population. Due to that, they suffer and just create some adaptations to try to reach this market and have the local companies as fierce competitors. Owing to the difficulties and peculiarities of the market, a successful strategy to reach BoP is much more than some specific and sporadic adaptations, but is indeed a call for a change in the mindset of corporation's employees. Companies with a BoP DNA, that understand the peculiarities of the market and have an aligned strategy, have a higher propensity to have a strong willingness to operate at BoP and consequently to create a satisfactory distribution strategy. Because of that some MNCs in Brazil, like Nestle, Unilever and Coca-Cola created specific business units to better understand this field.

Moreover, the institutional voids of BoP market, such as

low level of professionalization, informality, unsafe routes, capillarity, distance and lack of infrastructure turn the execution into a central point in distribution. Whether execution is important for any market, our researches suggest that it has a higher level of complexity and demand in BoP market, since it is a market full of difficulties and also because consumers need to access affordable goods. As a consequence the cost structure analysis becomes more challenging.

Another reason for the relevance of execution is the need of constancy and flexibility. As small retailers are not, most of the times, professionals, they have a difficulty with cash flows, since the money from the business is mixed with the family needs and because of that, constant visits and the right offer of credit is quintessential. Likewise, the inventory management is hard for this retailer and flexibility in delivery is also important. Small manufacturers and some distributors might have a differentiation with a delivery in 24 hours.

Furthermore, as this market is characterized by low level of professionalization and still displays a high level of informality, relationship, although important in any market, has a higher degree of relevance at BoP. Friendlier relationship is essential in BoP markets. Manufactures are more likely to have a satisfactory distribution when they establish strong relationships in the marketing channel. Besides, small retailers have a perception of isolation from suppliers and are extremely receptive to a higher level of relationship.

Differently from large companies small local manufacturers have an intense relationship with those small retailers. They are not only suppliers, but many times are considered as friends by the retailers. They are integrated in the same social life and therefore have the preference to make business. To operate at BoP, relationship is not restricted to a personal contact. In this market, partnerships are a must. It is very difficult to access different regions with distinct motivations and behaviors without local partners. MNCs and large companies seek strong partners, including many times NGOs so as to succeed at BoP (Seelos & Mair, 2007; Brugmann & Prahalad, 2007).

One case that illustrates the relevance of these factors is the “Collective Platform” from Coca Cola, which has the main objective to provide and contribute to the improvement of life of the base of the pyramid, offering tools for income generation and education and training do develop working and job skills. Partnering with local ONGs, the project is innovative as it shows how a large company can be relevant to society and at the same time benefit from the positive impacts of the project using all their value chain to generate socio-economic benefits. So far the project has served more than 35,000 youth in 37 cities of Brazil. It is possible to notice the three success factors in this case:

- BoP DNA: The company had a strong perception that it should learn a lot about the BoP market. It created a business unit of Social Business and has developed several marketing researches to better understand the market and its needs. It was clear for the board the potential and pitfalls of the market.
- Execution: Coca-Cola accompanies the project closely with several business and social indicators.

As social indicators it is used the confidence in the future, in which this initiative was able to achieve a 20% increase. The second is related to job generation, where the company has an aggressive goal of employing 30% of the young people who pass through the program. As business indicators, it is measured the sales increase in the retail of the community. An increase on the overall sale has a positive impact on the Company's performance.

- Relationship: Collective Platform developed relationship in two different approaches. First of all, it established partnerships with NGOs. The Collective Platform was initially developed in partnership with two leading NGOs: CDI and World Vision. Currently the company works directly with local NGOs to facilitate the company's interaction with communities and also help identify local NGOs who can afford the project. Moreover it has developed partnership with other companies, such as McDonald's and Microsoft. In the second approach, Coca Cola organized a community mobilization. The program only works properly with the active participation of the community. Therefore, the project has to be relevant and focused on the need of the young to become financially independent. With this focus, the initiative gained in relevance and therefore increased the brand love and the relationship with the population.

In summary, Coca-Cola partners with NGOs and other companies to create a program that is relevant to the community. This allows a new form of company's relationship with the youth of the base of the pyramid as the program facilitates access to employment and the generation of income, which means more money circulating in the community. On the other hand, Coca-Cola benefits from access to a market more difficult to sell their products, building a stronger brand image and a bond closer to the consumer's heart. In areas where the Collective Platform was implemented, Coca-Cola makes an intense monitoring of sales in the local retail units, and develops a more committed and different relationship with this local retail.

The Collective Platform reveals how a large corporation can have an objective of social inclusion, promoting training and income generation and at the same time benefit from being more relevant to the community and improving the image of its brand. In business terms, this project is important for Coca-Cola that establishes a better relationship with the community, with local retailers and, ultimately, has more sales.

Interestingly, these success factors help to identify how the distribution strategies of small local companies make them fierce competitors of MNCs and large companies. Indeed, that is a recurrent complaint of large manufacturers who believe that small manufacturers have many competitive advantages as lower prices, good distribution (as they operate in a small region), strong brand image in the local region, better relationship and better credit offer.

- BoP DNA: Even though, the strategy might be an emergent one and small companies have fewer options, they know the BoP market very well and are committed with it.
- Execution: These small companies have more flexibility, are more agile and operate in a small region, which give them the opportunity to have a lower cost and a good distribution.
- Relationship: Small manufacturers have valuable ties with retailers and create close relationships with them. Moreover, they are embedded in their community, which allows for a better relationship with consumers and even building strong local brands.

4. ACCESS TO HEALTH, EDUCATION AND FINANCIAL SERVICES

4.1 Health Service

Distribution is not just about delivering products. One of the main issues of poverty is the vulnerability of its population (Sen, 1999). The health service, despite being free for all the Brazilian population, doesn't have a high quality or is difficult to access or even sometimes people don't know how and where to access it, in a clear problem of gap of information.

One simple but very innovative organization that aims at diminishing this gap of information is Saútil. It is a service based on the internet that works as a searcher that primarily helps people find information on the public health system. Although this is a service that the Government should provide to the citizens, the fact is that the population doesn't know where to find specialized doctors or even free or cheap medicines. The website helps people find what they need and where is the nearest location for them.

Another example is Dr. Consulta, which is a popular health clinic that offers medical services with specialized doctors with very low prices. Besides the advantage of a cost effective, high quality service, Dr. Consulta is located just across one of the largest slums of São Paulo city. Since its inauguration in August 2011, the clinic has grown 40% per month and today performs 600 procedures every 30 days. For this clinic there was an investment of about US\$ 1 million in structure. The objective of the company is to have one clinic in every one of the 96 districts of the city.

In order to scale the offering of health services, Sorridents, which is a dental clinic, decided to grow through franchising. Founded in 1995, the company grew with their motto of offering a good service, using materials of the best quality and caring for the consumers. They have the same value proposition as Dr. Consulta, based on an affordable and good service. To gain scale, Sorridents created the franchising model, and in 2013 the company had almost 200 clinics in Brazil, which made them the largest dental clinic in Latin America.

4.2 Education

To offer access to education, at least two organizations in Brazil are developing innovative models through the internet. The first one is “Quadrado Mágico” (Magic Square) that is an online education platform, based on Khan Academy model, which offers video-lectures in mathematics, history, finance, physics, chemistry and biology covered in the curriculum of elementary and high school education. The organization aims to help solving the problem of low quality of education in Brazil. Its target audience is school-aged children without access to quality education or learning difficulties.

The second one is Geekie, which is the first adaptive learning platform in Brazil, developed to optimize the studies of each student in a personalized and interactive way. The student is constantly challenged according to their abilities in each subject, so that the learning is continuous.

4.3 Financial Services

A large population from BoP doesn't have access to financial services. Sometimes, distribution is also the barrier. Banks are not always available for BoP communities. In order to overcome this problem, the banking correspondent might be a solution in some places. In 2010 there were over 160,000 banking correspondents' agencies in Brazil. The banking correspondent is an intermediary agent that offers some bank services, like receiving and paying bills, investing and redemptions of investment funds, applications for loans and for credit cards.

One example of its importance is the case of Autazes¹ that is a small town by the Amazon River. Before the opening of a banking correspondent in the region, the population suffered with basic financial services, such as receiving money from retirement or paying bills. To make these basic transactions, the population had to travel around six hours by boat to reach the closest municipality with a bank. This trip was costly, exhausting and people could be robbed. With the correspondent banking, the transaction costs and vulnerability of the population were reduced.

These examples of business solutions to offer distribution services in health, education and financial services have implicitly highlighted the relevance of technology. Sautil, Quadrado Mágico, Geekie and banking correspondent use intensive technology in order to achieve their goals and access the market. Technology is central in their value proposition and is a means to overcome the barriers of reaching the low income the market.

5. FINAL CONSIDERATIONS

BoP presents many challenges in distribution that create higher transactions costs for the organizations. Owing to that, companies that seek to access this market have to develop new business models and innovative alternatives to reach these consumers.

The main challenges of this market are its capillarity, the channel length, informality and poor infrastructure. Some success factors to have an effective distribution are BoP DNA, a good execution and relationship. Although important in any market, these dimensions have a greater effect in BoP, due to the peculiarities and challenges organizations face. Technology might also be an important ally to distribute services and diminish the distance to BoP.

The impacts of an efficient distribution are threefold: it makes available for consumers to access products and services that otherwise would be difficult to reach, which is more relevant when we think about basic services, such as health, education and financial services. Secondly, an efficient distribution might diminish the poverty penalty and therefore the vulnerability of the population. Thirdly, it might be a meaningful source of competitive advantage of companies, both large and small.

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¹ http://www.youtube.com/watch?v=oggYsCiJ_Q0