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



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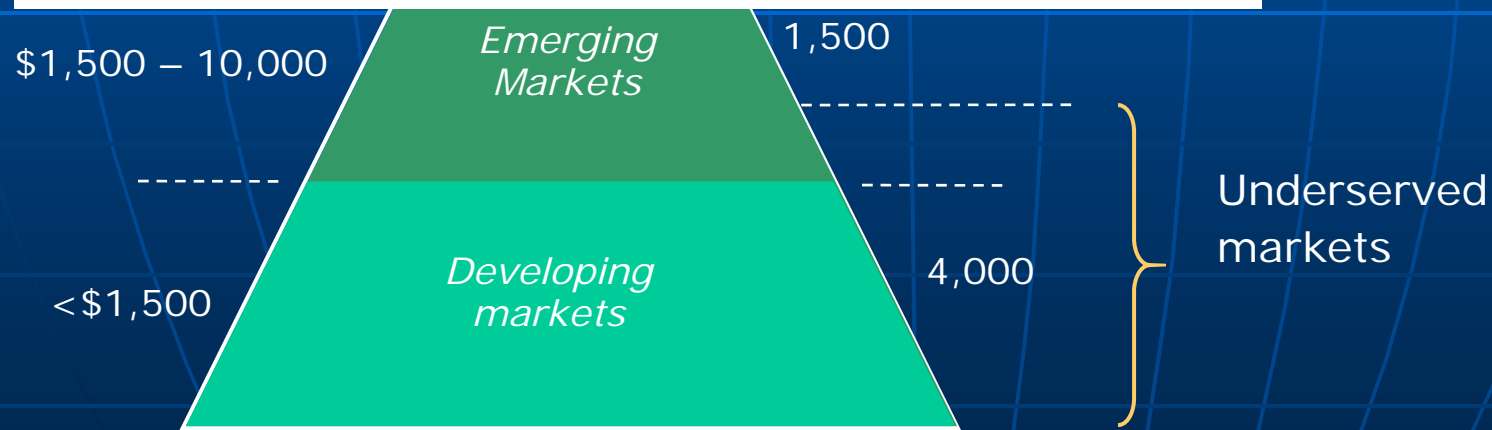
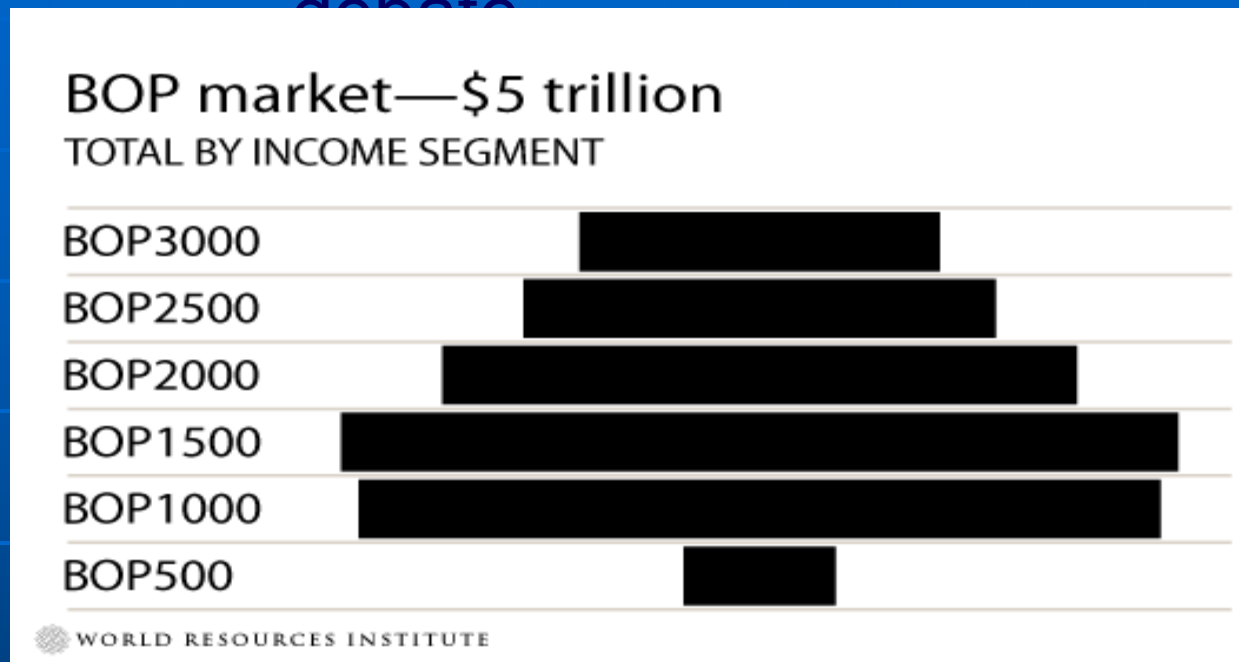
Globelics PhD Academy ,  
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- Role of private sector in development
  - Multinational Corporations (MNCs)
    - Philanthropic / Charity
    - Corporate Social Responsibility (CSR)
    - Market-based approach
      - Serving low-income communities
  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

# Corporate approach to development (cont.)

## Base of the Pyramid (BOP)



(Hart and Milstein, 1999, Prahalad and Hammond, 2002; Hart and Christensen, 2002; Prahalad and Hart, 2002; )

# Challenges of low-income markets

- **Purchasing Power**
  - Fluctuating income
  - Access to credit
- **Infrastructure**
  - Physical
  - Logistics
  - Education/Skill
- **Diversity**
  - locations
  - Culture
- **Institutions**
  - Different institutional structure
  - Weak legal enforcement
  - Intellectual property issues



# Potential role of Multinational Corporations

## ■ *Resources.*

- Handle resource- and management-intensive task of building a complex infrastructure.

## ■ *Leveraging.*

- knowledge transfer from one market to another and scale-up the solutions.

## ■ *Bridging.*

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



# Received literature

- Business & Management Literature
  - Focused on developed markets
  - Limited Generalizability (Busenitz et al., 2000).
- Emerging Markets' literature
  - Pre-occupied with strategies to overcome the lack of a Western-style business environment (Peng, 2001).
  - Targeting higher income customers
    - the vast majority of the people are on the outside looking in (de Soto, 2000)
- Appropriate Technology
  - Technology-centric
  - Scalability – diffusion ?

# Research approach

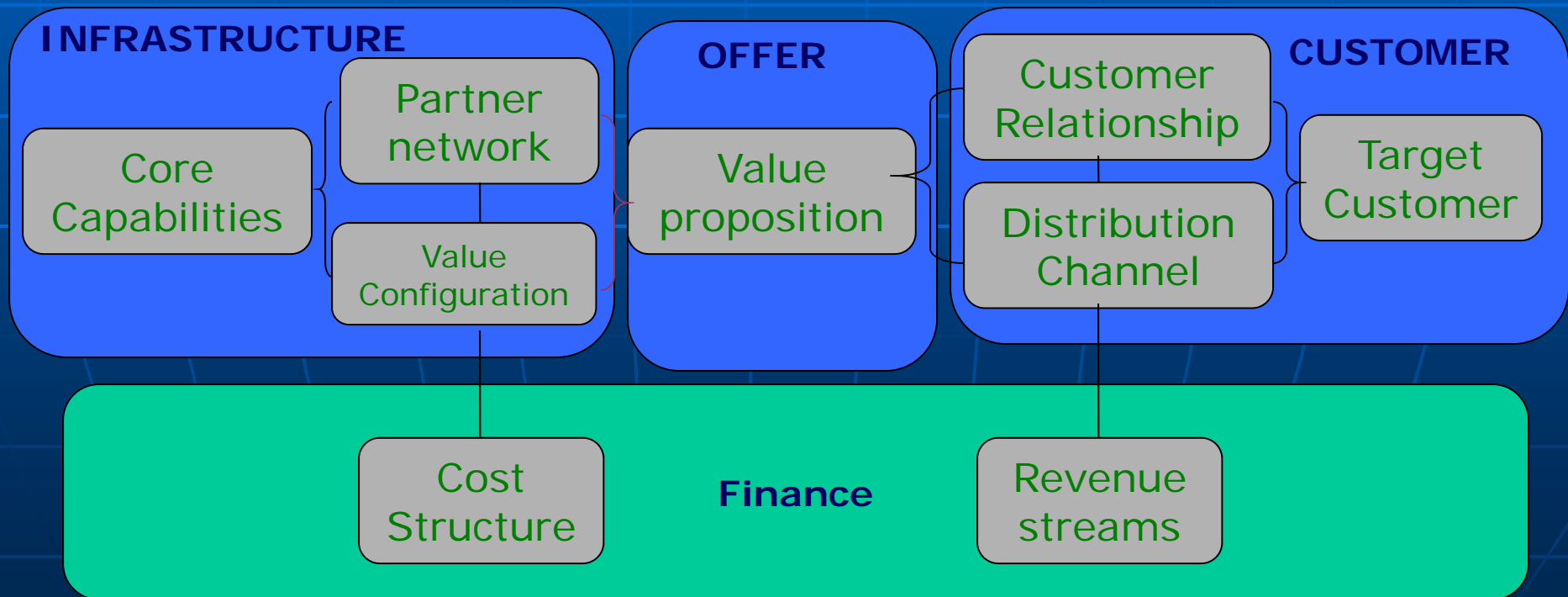
- Qualitative
  - Secondary data
    - Case studies, reports, etc
  - semi-structured interviews
    - MNCs' managers, NGOs, Multilateral Organizations
- Quantitative
  - Survey
    - Managers involved with projects for low-income markets



# Theoretical framework

## Business Model

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



Source: Chesbrough, H. and Rosenbloom, R. (2002) *The Role of the Business Model in Capturing Value*



## Effect of low-income markets' characteristic on MNC's strategies

	R&D	Production	Distribution/Promotion
<b>Purchasing power</b>	<ul style="list-style-type: none"> <li>•Focus on functionality</li> <li>•price/performance</li> </ul>	<ul style="list-style-type: none"> <li>•Small packages/sachets</li> <li>•Increased use of labor</li> </ul>	<ul style="list-style-type: none"> <li>• combining financial services with the product</li> <li>•collective payment option</li> </ul>
<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>•Acknowledge endogenous solutions</li> <li>•proper user interface</li> </ul>	<ul style="list-style-type: none"> <li>•Robust production to work in hostile environments</li> </ul>	<ul style="list-style-type: none"> <li>•Customer education</li> <li>•viral marketing</li> <li>• Creating dedicated distribution network</li> <li>•adapting to existing means of transport</li> </ul>
<b>Diversity</b>	<ul style="list-style-type: none"> <li>•Developing scalable solutions</li> <li>•User-innovation</li> </ul>	<ul style="list-style-type: none"> <li>•Using local production capacity</li> <li>•Modular design</li> </ul>	<ul style="list-style-type: none"> <li>•Partnership with civil communities, NGOs</li> </ul>
<b>Institutional</b>	<ul style="list-style-type: none"> <li>• local research lab</li> <li>•local entrepreneurs</li> </ul>	<ul style="list-style-type: none"> <li>•Partner with local producers</li> </ul>	<ul style="list-style-type: none"> <li>•Local immersion</li> </ul>

# Initial remarks

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

Q & A  
Thank You!



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