

HOW THE POOR CAN MAKE YOU RICH

Contrary to myths created by hopeful hip-hop artists, the road to mind-blowing riches is hardly ever glamorous. With a global low-income market of 4bn people, entrepreneurs with an eye on the big time can no longer afford to ignore this segment of the population. Understanding the complexities of conducting business in the low-income space requires much research, great insight and, most importantly, a product that customers can't live without. Get those right and the rewards could be extraordinary.

BY KRISTIA VAN HEERDEN

Tashmia Ismail is the head of the inclusive markets programme at the Gordon Institute of Business Science (GIBS) in Johannesburg.

The main focus of the programme is to help organisations expand into the low-income market by focusing on everything from market research to business strategies. She says that the spending patterns of the local low-income market in South Africa are not as clear-cut as in other countries due to the social grant system.

“Because housing, electricity and water are sponsored locally, I don't think that we fully comprehend the spending patterns of this market,” she says. “There is still this mentality to force-fit middle-income strategies for low-income groups, but there are different needs and price points. Most people assume that the biggest challenge



Kenya. “If you're the first company there, you get to set the ground rules.”

However, there is hope for those who want to expand their existing business model to capitalise on the opportunities in the low-income market. An existing business should take a two-pronged approach to accessing the low-income market, starting with a few internal mind shifts.

Ismail says that finding the right people to work on low-income strategies and products, learning how to reward and incentivise these people and protecting those working on low-income products from the rest of the business is an important first step.

The second part of a low-income business strategy should be thinking about the tools that you would use to understand fundamental business principles and gain insights into context, ecosystems, feedback loops from your product and the needs of the market.

“People [in low-income groups] spend money on products that they need and that add value. It has to be the starting point. Businesses always think the biggest challenge is price point, but it's not. You don't want to be pushing consumerism without adding value,” she says.

“You have to have leadership who believe in the potential of low-income groups. They need to create the culture and structures to service this market. A word we like to use is ambidexterity. You still keep your core revenue-generating customers, but your other arm should be exploring new markets. It is the future pipeline for growth. This is not the bottom of the pyramid. This is the market. You can't afford to ignore it.”

Laurent Marty is the chief strategic officer at Joe Public – a Johannesburg-based advertising agency that is often tasked with developing communication strategies in the low-income market. He says that one of the great challenges for brands that are looking at the low-income market lies in the nature of their offering.

“Lower-income groups look for affordable alternatives to upper-income products. From financial services to fast-moving

in a low-income market is the willingness to pay, and supplying a cheap product, but this is not always so. For instance, many of these consumers are brand loyal and will pay more for a given brand because they can't afford to make mistakes or because the aspirational value of that brand adds to their social capital.

“Low-income people are poor, not stupid. If they get burnt buying your inferior

product, your brand loses so much ground. Word of mouth is one of the most important marketing tools in this space, as well as social media and mobile. Building a strategy around low-price, low-quality products is dangerous. People in low-income groups have little money to spend, so they tend to spend it on good products.”

She says that starting a business that focuses exclusively on this market has

a definite advantage over existing businesses that hope to break into this market, citing the success of Capitec Bank. “This business understood the local low-income market and started with a low-income focus. They weren't bogged down by history, regulation and expensive old legacy systems. They could buy state-of-the-art equipment, which means that they could implement a retail model. It's about rela-

tionships and simplicity. This is why they've been able to overtake Nedbank in number of retail customers. If you do start in the low-income market, you have a leg up, because you can tailor frugal solutions.”

She says that another advantage in launching a product or a business in a low-income environment is a first mover advantage, as was the case with UAP providing rural smallholder insurance in

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consumer goods, the main challenge remains offering affordable products while making a profit. That is the basic equation that brands need to meet. For a long time, banking did not meet that equation, until Capitec showed the industry it could be done.”

He says the low-income market favours simplicity. “This market yearns for understandable products that aren’t clouded in complicated language, and that are easy to use. Once again, Capitec’s positioning around simplicity is a case in point.”

Marty says that one of the interesting features of the low-income market is its greater loyalty towards historical brands. He says that some brands have become so deeply entrenched in the lives of the low-income market that they have become synonymous with the category. In this context, it is very hard for new brands to make a dent. However, with the changing landscape, these established brands are also vulnerable.

“In the transitional upper part of the lower incomes, we see very interesting things happening. Some of these historical brands start to become less relevant, or at least less aspirational, because they are negatively associated with a life stage lower incomes wish to leave behind. New aspirational brands become a symbolical way to affirm one’s transition to a better life.”

He agrees with Ismail that an umbrella strategy that spans from higher-income markets to low-income markets is likely to fail and that there is a need to leave assumptions behind. He says that communicating with individuals in the low-income market is still rife with clichés and assumptions. “The truth of the matter is that individuals from lower-income groups are transitioning fast and it is key to work with people who can disrupt the clichés and be close to people who understand the ever-moving fault lines of language, nuances and insights among lower LSMs.”

Ismail agrees. “You can only figure out a market if you go there yourself. One of the biggest challenges is to get execs to abandon their own models and their air-conditioned offices in favour of in-field research.” ■

The importance of **spaza** shops

Spaza shops, informal grocery stores that are especially popular in townships, are hugely successful at conducting business in the low-income space. Understanding the spaza shop business model could provide some insights on how to conduct business in this environment.

Richard Wells is the CEO of Visual Fusion, a Capetonian below-the-line marketing agency with a strong focus on the low-income market. According to Wells, Visual Fusion has identified proximity, familiarity and flexibility as the three key factors when doing business in the low-income market. Spaza shops are therefore the perfect business model in this environment.

Due to the transportation challenges in low-income groups – where the majority of consumers rely on informal means of transport, such as minibus taxis – **proximity to the market is a major and self-explanatory advantage.**

Wells says that **the ability to be flexible plays a pivotal role in businesses that cater to the low-income market,** due to what he calls the ‘porous nature’ of households. Flexibility in terms of price, payment, portion size and operating hours give spaza shops a definite advantage over more formal businesses.

“Many households never know how many people will show up for dinner on any given day. The likelihood is that the number will swell or diminish, depending on who is around. The ability to stretch a meal becomes important. The opening hours of the spaza shops provide that flexibility. You have to work on the ability to respond very quickly to changing local environments.”

Trading hours are only the tip of the iceberg where flexibility is concerned. Spaza shops also have to be flexible in portion sizes. “A customer might need a

single Oxo cube instead of a whole box. In a spaza shop, you can buy only a part of a bar of Sunlight soap for much less than you would pay for the full bar. That flexibility is absolutely fundamental to success in the low-income group. These shops aren’t just about buying and selling, they’re also about financing. If you haven’t got money today, you can pay tomorrow. Similarly, if the shop doesn’t have change for you today, you can collect it tomorrow,” Wells says.

The third consideration in conducting business in a low-income environment is familiarity, which is why spaza shops are part of the fabric of the community.

“Most of the purchases happen around dusk during weekdays. A high proportion of midweek grocery shopping is undertaken by young students, and much of the cooking is also done by kids. Moms are responsible for household goods like detergents, but food is the responsibility of the younger people. It’s therefore very important to be comfortable and familiar with who you’re buying food from. It’s very much about familiarity and feeling comfortable. You can almost call it the ultimate loyalty. Formal grocery stores are starting to think more about loyalty, but the spaza shop has already evolved into that space,” Wells says.

Vegetables play a key role in cooking in low-income households, so vegetables become a drawcard for spaza shop owners. Wells says that a direct purchase relationship exists between many spaza shop buyers and farmers, giving these stores the ability to supply high-quality vegetables to shoppers at a lower price.

The time of the month also affects buying patterns. The big shopping occasions centre around grants, pensions, and payday, which happens on the 15th, 24th and at the end of the month. On these



occasions, low-income households shop at bigger stores as a way of managing the household budget. As the month progresses, spending becomes more localised and is driven by convenience. Like any other business environment, spaza shops are adapting to the needs of the environment. Wells says that these informal businesses are starting to offer product bundles and specials, providing attractive shopping options that bigger businesses can’t offer.

“Customer loyalty is achieved by the ability of spaza shops to offer specials and cater to real needs. Portion control, convenience and flexibility are key.”

While opening a spaza shop in a local low-income community is not a viable option for someone from outside the community, Wells says that there are opportunities for effective category management and training.

“The biggest challenge for small traders is understanding cash flow. Supporting and training local entrepreneurs in cash flow is almost a business obligation.”

Figuring out how to reach traders in informal environments is where the opportunity lies in this market. He says that businesses that have a good route to market and enable the traders to buy at prices equivalent to larger retailers, such as the Unilever distribution programme, are well positioned to cash in on this market. Direct delivery ensures more competitive pricing, and Wells believes that there are explosive growth opportunities in this area.

Ismail supports Wells’ statements about the important role of spaza stores in the township economy but believes their full potential is far from realised. “Spazas are often expensive or out of stock because of poor inventory management. Often

they are not attractive places to shop, not enough attention is applied to building a particular spaza’s brand or in differentiating itself from the three other spaza shops up the road. There is an important role for big business to play in supporting this icon of township life by working with spazas to better their operating practice. At the same time, you ensure that your goods are available, priced right and not expired in this last mile to the consumer’s purse.”

He says that recognising the role that spazas will continue to play in local life is an important first step to understanding the market. SMS technology that allows spaza shop owners to do collective purchasing in order to receive the benefits of bulk buying is already underway. Education solutions for small business owners and providing security in low-income areas are also possible areas for growth. ■

Social responsibility

Conducting business in a low-income space comes with a built-in need for social responsibility.

“When something like Marikana happens, it’s a stark reminder that you can’t separate business and society. Business exists in society and your employees’ society is in your business. How do you operate in a society that is falling apart?” Ismail asks.

“It raises the cost of doing business and instability raises the cost of capital. If you operate in a way that creates economic traction and grows income and employment, your business can only get stronger because you create a healthy future market. In the short term, it’s easy to put your head in the sand, but if you don’t pay attention to these aspects, what are the long-term implications for your business?”

“There is a business argument to support this. If you are seen to contribute, build income and transfer skills, the brand loyalty that you build is irreplaceable. People in the low-income market are very aware that they are marginalised. If your company can prove to these people that they matter, the loyalty is amazing,” Ismail says.

Marty agrees that there is a need for ethically-minded brands in the low-income space. “A lot of new consumer desires are being created in the low-income space, but the ability to fulfil those desires remains limited. Wanting to sell higher-LSM products to lower-LSM audiences may sound like the natural logic of a consumerist society whose basic contract is essentially to create new desires in order to sell, but in the lower LSMs, it is key to be ethically-minded. I am referring here, for example, to the devastating effects of

irresponsible lending via unsecured personal loans to lower LSMs, which usually tends to keep people locked in the poverty trap. A brand like Nike is highly aspirational among lower LSMs, but buying a R1 000 pair of sneakers is particularly irresponsible, and yet often observed among lower LSMs,” he says.

He says brands that can come up with products and services that correspond to life-improving solutions are poised to build fruitful, long-term positive relationships with local communities.

“Working with Anglo American, we are particularly sensitive to this issue. Mining is too often under scrutiny for its negative impact, but we are trying to convince local communities that mining is also a formidable provider for communities, from job creation, to infrastructure development, to skills development.” ■



Tashmia Ismail

The mobile revolution

Gallo Images/Getty Images; Bloomberg



A street vendor who sells prepaid Vodacom airtime makes a call on his cellphone in Alexandra township. Almost two decades after Vodafone Group plc entered Africa, where most people earn less than \$2 a day and mobile phone towers run on diesel, is turning into one of the company’s biggest profit generators.

From basic communication to sophisticated cashless transactions, the low-income market in Africa is all about mobile. Vodacom understood this from the outset, which is why 84% of the network’s customer base is in the prepaid market, comprising almost 40% of the company’s service revenue.

“From Vodacom’s inception, our vision was to make communications accessible to all South Africans. It was precisely with this in mind that we introduced prepaid mobile to the world. Prior to this, the only people that could afford mobile communications were the relatively well-off, so this innovation really did make a difference for low-income consumers,” explains Richard Boorman, executive head of media relations and social media at Vodacom.

Providing affordable communication tools to the low-income market is where the real challenge lies. “There’s a balancing act between the cost and qual-

ity of mobile communications,” explains Boorman. “Rapid price cuts clearly benefit consumers, particularly low-income consumers, but this has to be balanced with network investment or congestion would very quickly render the service unusable for all consumers. Vodacom is investing in the region of R7bn per year in South Africa to keep up with the incredible growth in usage, particularly data traffic, while also giving us space to continue to reduce prices. It is considerably more expensive to provide coverage in the rural areas, which are typically also low-income areas. We’re pushing for access to additional spectrum to enable us to do more in rural areas,” he says.

“One of our major strategic priorities is to create a second revolution in mobile. **The first was making mobile communications accessible to all income groups; the second is making Internet connectivity available to all.** There’s a proven link between increased Internet access and

GDP growth, so this is something that will benefit the entire nation. This process entails making sure that we have 3G data capabilities everywhere. We currently have voice coverage, and so far we’ve managed to increase 3G coverage to 90% of the population. We’re also focusing on introducing lower cost smartphones and bringing down the cost of data, which, as per our most recent financial results, had come down 16% year on year. That’s in stark contrast to food, electricity and petrol prices,” explains Boorman.

While prepaid users spend on average R74 per month on prepaid airtime – compared to R393 spent by Vodacom contract holders – the ability to communicate and have increased access to information can have a life-altering effect on low-income users. Ismail explains that there is an opportunity cost involved in not being connected, even at the very bottom of the consumer pyramid.

“In Kenya people will forego eating meat in favour of buying airtime,” says Ismail. “This is not because they don’t understand the importance of nutrition, but there is a multiplier effect to having a communication tool. If you own a business, people wouldn’t be able to get hold of you without a phone. Com-

munication tools and airtime are the greatest economic gifts in this market. It’s not about spending on airtime for fun. It’s about being connected to the world, and to know what’s out there. There’s a definite shift among young people towards understanding the value of growing a personal brand and getting somewhere has to do with connection.”

Mobile technology is equally important for brands who hope to reach the low-income space. According to Marty, the greatest development of the last five years is the increasing use of mobile to reach lower LSMs. He says that companies are using mobile technology to interact with low-income audiences. “We predict this trend is likely to increase with the increasing penetration of smartphones in the lower LSMs.”

Not even spaza shops are immune to the life-changing reach of mobile technology. These informal stores are taking advantage of SMS communication to inform their customers of specials and product bundles. Despite the remarkable penetration of mobile technology into the low-income space, Wells believes that there is still a gap in the South African market where mobile banking solutions are concerned.

“I lived in Tanzania for two years. Many transactions are conducted there using mobile banking technology. I used to pay my domestic through mobile banking. There was no cash involved and I didn’t transfer money into bank accounts. South Africa is lagging far behind East Africa in that level of sophistication,” he says. ■



Richard Boorman

Business - *Blackanese style*

Hansa Pilsner



VUSI KUNENE'S 7 TIPS for entrepreneurs from humble beginnings.

The story of **Vusi Kunene**, known to his friends and patrons as 'The Blackanese', is fast becoming the stuff of legend. Kunene was forced to abandon his academic career in favour of a low-paying job as a car guard due to the passing of his mother.

"I was left in my grandmother's custody and as she was the sole breadwinner, there was not enough money. I was forced to abandon my studies and find work. I worked as a car guard at events, then moved to retail and eventually found my passion when I started working in restaurants," he said.

Today, Kunene is the owner of the highly successful **Blackanese Sushi and Wine Bar** in the ultra-hip Maboneng district in Johannesburg. With his restaurants bursting at the seams on most days, Kunene hopes the new year will bring more floor space and more business. While this extraordinary entrepreneur no longer services the low-income markets, he has great advice for entrepreneurs from humble beginnings.

1 GUIDANCE AND MENTORS: "I think we lack guidance as young entrepreneurs, so I would advise entrepreneurs to seek knowledge and guidance so that they know where to channel their efforts."

2 ATTENTION TO DETAIL: "Pay attention to the smallest things, because they can make a big impact. If you aren't used to paying attention, you risk losing out on opportunities that present themselves."

3 FINANCIAL BACKING: "As start-ups we tend to struggle a lot in terms of funding and capital. I have realised that there is a lot of funding

out there, but we need to ask ourselves three things. First, are we worth funding? Second, who are our funders and third, what are funders looking for?"

4 "Get as much **PR** as you can. That is the pillar of building your business."

5 The general always eats last. "**LOOK AFTER YOUR STAFF** and your business first and they will look after you."

6 "When you have a boss, **TREAT HIS BUSINESS AS IF IT WERE YOUR OWN.** If you don't, you can't expect the same from your staff when you have your own business."

7 "Never get into business for money alone. **YOU NEED TO LOVE IT AND HAVE PASSION** to carry on, even during hardship."

