

The fortune at the bottom of pyramid

[Sociology](#), [Poverty](#)



Lessons from the Field: Sales at the Bottom of the Pyramid By Heidi Krauel and Joel Montgomery, 2009 Acumen Fund Fellows April 2010 Summary Enterprises serving bottom of the pyramid (BoP) markets have tremendous opportunity to create commercial and social impact, but are often illequipped to do so. A particular question that needs to be studied is: how can we sell more effectively to BoP consumers? In this piece, Acumen Fund Fellows Heidi Krauel and Joel Montgomery draw on their field experiences and research to explain how we can build more effective sales organizations to serve the BoP.

Contents Summary Introduction The Survey + Profile of Companies + Overview of Findings + Performance Rating Methodology Step One: Recruit Ambassadors Step Two: Realize Potential Step Three: Reinforce Training + Data Collection + Compensation Conclusion References About the Authors 1 1 2 2 2 3 4 5 6 7 7 8 8 9 Introduction The business world has heard about "The Fortune at the Bottom of the Pyramid" for some time.

In his seminal work, CK Prahalad asserts that multinational corporations (MNCs) can stimulate commerce at the bottom of the economic pyramid to improve the lives of the four billion people in the world living in poverty and turn a healthy profit along the way. ⁱ This assertion is supported by various case studies, suggesting that the bottom of the pyramid (BoP) is a source of untapped profits for corporations that target local people as both producers and consumers and inspire innovation for new technologies and commercial activities. ⁱ A 2008 empirical study by Rodrigo Guesalaga and Pablo Marshall compares the buying power index (BPI) of the BoP market relative to the BPI of middle and high-income market segments and finds that “ relative to the

total market, the BoP sector accounts, on average, for more than 50 percent of the purchasing power in developing countries. iii” Large groups of poor consumers have the power to reject or accept what an MNC wants to sell, thereby forcing MNCs to overcome BoP market constraints and revise antiquated business models. v Since the BoP term was first coined, several MNCs and start-ups have introduced new products and services to the world’s poorest customers with mixed success. One leader in this movement is Acumen Fund, which invests in start-up social enterprises that employ market-based solutions to providing the poor with basic goods and services—water, healthcare, energy, agriculture, and housing. An underlying principle of Acumen’s work is that when poor consumers are given the dignity of choice, they are transformed from passive recipients of aid into customers with powerful voices that the business community cannot afford to ignore.

Addressing this voice in a sustainable, scalable way is no easy matter, especially for resource-constrained young businesses. Krauel & Montgomery, April 2010 · Copyright © 2010 Acumen Fund 1 Lessons from the Field: Sales at the Bottom of the Pyramid The tools that traditional companies in more affluent markets utilize to understand and reach customers—studies, mailing lists, online campaigns, chambers of commerce, YellowPages, mass media channels— don’t exist or can’t easily be applied in developing countries.

BoP-facing companies grapple with language and cultural barriers, infrastructure challenges, and capital constraints, regardless of whether they are an established multi-national corporation or a start-up trying to build a brand from scratch. While literature detailing the benefits of social enterprises is widespread, little attention is paid to the personnel

management and organization building of small- and medium-sized enterprises trying to operate in these markets.

After a ten-month field placement with two sales-focused Acumen Fund investees in India and Pakistan, Heidi Krauel and Joel Montgomery (2009 Acumen Fellows) were interested in exploring and uncovering common practices among small- and medium-sized enterprises that are successfully building sales organizations to serve the BoP. This executive summary presents the findings from a survey that Krauel and Montgomery conducted with organizations that target the poor through a variety of sales models.

Forty-two different organizations in Latin America, Africa, and Asia participated in the survey and contributed to the BoP Salesforce Lifecycle - a framework which identifies specific steps that social enterprises can take to accelerate their growth and development. Krauel and Montgomery suggest that this three-pronged model - Recruit, Realize, and Reinforce - may help BoP companies break through the barriers they face in building high-performing sales organizations to serve the poor. BOP SALESFORCE LIFECYCLE A three-pronged framework that identifies steps social enterprises can take to build an effective sales force

RECRUIT " ambassadors" with strong soft skills by leveraging low-cost company assets REALIZE potential using ongoing, experience-based training built upon " on-the-ground" realities REINFORCE by linking smart data collection to performance-based pay and perks The Survey Profile of Companies An online survey was conducted in July 2009 with the CEOs or Heads of Sales at small- and medium-sized enterprises serving low-income customers in developing countries. The majority of respondents (31 of 42)

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have fewer than 100 employees and 69% percent have less than \$1 million in annual revenues.

The age distribution of survey responders is fairly even with 21% of companies in their first year of operations, 31% with two to five years operating history, 29% with six to ten years, and 19% with ten or more years. The survey set is dominated by for-profit companies (71%) and one-third of all respondents (36%) have received venture capital investment. Consumer Goods is the most common industry focus (33% of companies), followed by Business Services (24%), Consumer Services (17%), Agricultural or Industrial Products (12%), and Other products or services (14%).

The majority of companies target primarily low-income and/ or rural consumers: 81% of companies target low-income, 64%, rural. Fewer companies target the urban (36%) or middleincome (26%) consumer. Overview of Findings Challenges: Survey responders report common challenges in finding salespeople with the requisite skills and then extracting top performance in terms of meeting sales targets, effective Krauel & Montgomery, April 2010 · Copyright © 2010 Acumen Fund 2 Lessons from the Field: Sales at the Bottom of the Pyramid

Salesforce's Performance Ratings Based on End Customer type 100% % of companies surveyed 80% 60% 40% 20% 0% 36% 44% 33% Primarily Low-Income Primarily Rural Primarily Urban 26% ; gt; 10% Primarily Mid-Income 81% 64% % of Companies (n= 42) % High Perfomers 44% Performance Rating Methodology Companies were rated based on self-reported data on performance against company sales targets. Companies reporting meeting or beating at least 75% of their sales targets are High Performers, while <https://assignbuster.com/the-fortune-at-the-bottom-of-pyramid/>

companies whose sales teams meet or beat 50%-74% of targets are Medium Performers.

Low Performers tend to miss more than 50% of their sales targets. Having venture capital (VC) investors does not necessarily correlate with high performance, with 47% of VC-backed companies rated as High Performers compared to 48% of companies without VC backing. Similarly, non-profit or for-profit status has little impact on performance ratings, with 58% of all non-profits and 43% of all forprofit companies being High Performers. Nearly half of companies that target low-income customers are High Performers. ...

This is a promising finding for entrepreneurs aspiring to build successful companies aimed at eradicating the “ poverty penalty. ” Company Performance Based on Years in Operation Companies of all ages are High performers, but an inflection point emerges at five or more years of operating history. 20 Years in Operation: ; gt; 15 (n= 3) 10 to 15 (n= 5) 6 to 10 (n= 12) 12 10 2 to 5 (n= 13) 0 to 2 (n= 9) High Medium Lowtime management, and thoughtful prioritization of markets and customers. Advantages: Participating companies also report unique advantages that can be leveraged to break through these barriers.

Social missions act as powerful magnets to new salespeople and relatively high retention rates make investing in sales force development a viable option. Promising practices around soft-skills-based sales force recruitment and assessment, experiential and ongoing sales force training programs, and low-tech but rigorous data collection linked to appropriate compensation schemes emerged and are discussed in the sections below. Some of these

practices also corresponded with existing best practices and research in the field of Sales Force Development in small and medium enterprises (SMEs).

Interestingly, companies primarily focused on notoriously challenging rural and low-income markets do not seem to be paying a penalty when it comes to performance. Forty-four percent of companies focused on rural markets are High Performers, compared to 33% of companies focused on urban markets. Similarly, nearly half (15 of 34) of companies that target low-income customers are High Performers compared to less than 10% of companies that include middle-income consumers in their target market.

This is a promising finding for entrepreneurs aspiring to build successful companies aimed at eradicating the “poverty penalty.” An inflection point in company size and stage emerges from the survey responses, after which performance against targets significantly improves. Of the companies rated as High Performers, 80% have more than 20 employees and 65% have more than \$250,000 in annual revenue. This report hopes to highlight tangible steps that companies can take to not only improve performance in the near term, but also accelerate progress towards this inflection point and down the path towards size and scale.

Krauel ; Montgomery, April 2010 · Copyright © 2010 Acumen Fund 3 Lessons from the Field: Sales at the Bottom of the Pyramid Step One: Recruit Ambassadors Barrier Hiring skilled sales staff Breakthrough Recruit ambassadors with strong soft skills by leveraging low cost assets top Hiring Barriers by Percent of Companies (n= 42) *Note: respondents could choose more than one category Lack of necessary skills — Lack of necessary work

experience — Poor cultural fit — Ability to offer competitive wages —
 Unknown company brand — 19% 24% 36% 43% 40%

Nearly all companies (93%) report Other — 10% that hiring salespeople is somewhat challenging (45%), if not extremely Company location — 10% challenging (48%). Lack of core skills, Ability to offer competitive benefits — 10% direct experience, and cultural fit (with formalized and/or fast-paced startup environments) are consistently reported as the top hiring barriers, regardless of company size. Candidates with significant, direct experience are hard to find v or stage. Yet, only 10% of companies note retention as a serious in large numbers; survey findings suggest that BoP managers challenge.

This may be driven by the heavy use of personal should also target individuals that possess strong soft skills relationships in recruiting, but dedication to the social mission assets (local relationships, personal confidence, verbal is also reported as a top reason for why salespeople are joining communication, and community influence), and then test these these companies. Still, companies report that obtaining good skills in action as part of the interview process. performance from these committed sales teams is problematic.

The survey suggests ways that BoP managers can more High Performers consistently report integrating active effectively hire in uncertain environments and then use high demonstrations into their hiring processes. Sales force retention rates and mission alignment as rationale for investing interviewees are potential ambassadors for the company who - in the development of incoming sales staff. vi when given basic product

information - should be able to shine REASON'S SALES PEOPLE JOIN ("ASSETS"), SUCCESSFUL RECRUITING STRATEGIES ("TOOLS") (n= 42) Start-up ;
gt; 20 employees; n= 14) SMALL ENTERPRISE (20-100 employees; n= 17)
MEDIUM-LARGE ENTERPRISE (101-500+ employees; n= 11) Assets + Social
Mission (n= X, 93%) + Start-up Energy (n= X, 36%) + Social Mission (n= X,
67%) + Competitive + Professional Wages (n= X, 53%) + Social Mission (n=
X, 80%) + Competitive Wages (n= X, 53%) Development (47%) + Brand (n=
X, 40%) tools + Word-of-Mouth Referrals (n= X, 86%) + Word-of-Mouth
Referrals (n= X, 86%) + Word-of-Mouth Referrals (n= X, 62%) + Recruiting
Agency (n= X, 52%) Krauel ; Montgomery, April 2010 · Copyright © 2010
Acumen Fund Lessons from the Field: Sales at the Bottom of the Pyramid in
role-playing scenarios, trial product demonstrationsvii, or sales contests with
potential customers. Post-hire, companies can invest in comprehensive, hard
skills training reinforced by thoughtful performance assessment and
compensation schemes. This emphasis on recruiting first for soft skills, and
then augmenting with training, corresponds with research of Mayer and
Greenberg, who advocate for the hiring of employees with real sales ability
and talent, instead of mere experience. iii During the recruiting process, BoP
managers should keep in mind the unique assets that attract sales people to
the particular stage of their company. Start-ups (classified as fewer than 20
employees) can boast of the energy of a new venture and also tout their
social mission. Small Enterprises (20-100 employees), on the other hand, can
boast of more competitive wages and professional development
opportunities. With Medium - Large Organizations (101-500+ employees),
brand recognition becomes more important, though social mission

Recruit for "soft skills" not just years of experience salesperson interviewees should be able to shine in roleplaying scenarios and trial product demonstrations. and competitive wages also play an integral part in attracting sales people. Across the board, using word-of-mouth referrals is one of the most important recruiting tools. For Medium - Large Organizations, use of recruitment agencies becomes more common. Newspaper advertisements are another popular recruiting strategy, while little use is made of recruiting or company websites in the hiring process.

Lastly, companies of all sizes report keeping senior managers directly involved in hiring sales staff, with 79% overall indicating that the CEO or similar person is directly involved in sales force recruitment. RECRuit: Innovations from the Field—Quotes from survey responses “ We communicate this activity as a entrepreneurial opportunity...which would eventually help them in learning business practices in addition to serving their community. ” Indian consumer products company “ We try to rope in satisfied customers [as sales people]. Indian energy product company “ We identify [sales] people by analyzing if they have visited family in the countryside recently... because that is where they will work with us. ” Latin American energy products company “ Motivating staff to the social impact of our products.... Since the message is out and understood, our staff will go the extra mile. ” African food products company Step Two: Realize Potential Barrier Effectively training sales people in a way that is consistent with company strategy and priorities Breakthrough Realize potential using ongoing, experiential training based on ground realities As a manager from a Large European Consumer Goods Company states, “ Training is the key, it

takes time to develop [a] BoP sales force. " The value of sales training programs depends on the actual number of training hours along with the quality of the curriculum and instructors. Sixty-five percent of High performing companies conduct at least 10 hours of initial training during the first month of employment compared to only 30% of Medium and 33% of Low Performers. For most High

Krauel ; Montgomery, April 2010 · Copyright © 2010 Acumen Fund 5 Lessons from the Field: Sales at the Bottom of the Pyramid tRAInIng PRACTICES BY COMPAnY PERFORMAnCE RATIng (n= 42) HIgH (n= 20) Specialized sales training 10+ hours initial sales training Ongoing sales training Experiential sales training 85% 65% 85% 85% MEDlUM (n= 10) 60% 30% 70% 80% LOW (n= 12) 58% 33% 42% 62% Performers, the initial training is complemented by periodic refreshers. Eighty-five percent of High performing companies conduct ongoing training compared to 70% of Medium performing companies and 42% of Low performing companies.

Not surprisingly, High performing companies dedicate more time to training sales staff, but quantity alone is not sufficient. Many companies indicate that experiential training is the most effective method of training sales people. At least 80% of High and Medium Performers focus on experiential training (role plays, shadowing, etc.) as opposed to pure lecture form, compared to just 62% of Low Performers. This finding corresponds with the research of Galloix and Robinson x, which cites the importance of role-playing in training good salesmen.

Survey findings show a disconnect between the challenges sales staff face in the field and the sales training programs that companies offer. Market <https://assignbuster.com/the-fortune-at-the-bottom-of-pyramid/>

prioritization and time management are consistently rated as the top challenges managers face with salespeople, but fewer than half of participating companies provide training in these areas. While High Performers are generally more pleased with the quality of their training programs, only 40% indicate that sales staff have actually acquired the knowledge and skills necessary to be effective in the field, compared to just 20% of Medium performing companies and 0% of Low performing companies.

Recent research from the developed world suggests that highperforming SMEs successfully integrate R; D into customer outreach (sales and marketing). xi Perhaps, organizations selling to the BoP can benefit from making training a priority and ensuring that training programs are ongoing, consistent with company priorities, and relevant to the on-the-ground realities that sales people face. xii REALIzE: Innovations from the Field “ We gave a one-day training that included a morning full of lecture. The second half of the day, we dropped sales people off in random villages and asked them to sell a product in one hour. Pakistani agricultural product company “ We blend classroom training and demonstration camps.

This provides participants an opportunity to learn, apply theoretical learning in live camps and again come back to classroom for clarification about doubts/feedback. ” Indian consumer goods company “ We do our operational training in the field with a new customer in as public a place as possible to create a buzz while doing the training. ” African consumer services company

Step Three: Reinforce Training Barrier Poor performance of sales staff
Breakthrough Reinforce training and ompany strategy by linking smart data

collection with perks and performance-based compensation Krauel ; Montgomery, April 2010 · Copyright © 2010 Acumen Fund 6 Lessons from the Field: Sales at the Bottom of the Pyramid High Performers use rigorous data collection and innovative compensation schemes to reinforce company sales strategy and boost performance. xiii Data collection Nearly all companies (95%) collect basic sales data on a regular basis, and many High and Medium Performers collect sales data on a weekly or if not daily basis (63% vs. 33% of Low Performers).

This is striking given how challenging data collection can be in developing countries that lack robust IT and communication infrastructure. This challenge is compounded for companies with sales staff that live and work in the underserved communities they are trying to reach (mainly low-income, rural). Companies are breaking through these infrastructure barriers by using a blend of SMS, verbal, email and paper-based methods to capture results from the field. These “ IT-light” practices don’t necessarily change as companies get larger, with 55% of companies with 100 or more employees reporting continued use of verbal reporting.

However, older companies (five or more years of operation) report increased use of email and mobile phones in data collection along with decreased use of paper and verbal methods. High Performers also report limited use of verbal reporting (only 30% compared to 60% of Medium and Low Performers). These findings suggest that BoP companies may be able to avoid investment in expensive ERP or CRM systems, but that there is significant value in adopting rigorous low-tech solutions that are easy to follow, consistently used, relatively scalable, and that limit errors. iv High

performing companies are also much more likely to dedicate training time specifically to data reporting. With “compliance with company policies” consistently ranked among the top two or three sales force priorities, frequent data collection integrated into training and compensation schemes may be a underutilized but promising practice.

xv REInFORCE—DATA: Innovations from the Field “Ensure data collection is seen as a specific skill.” Indian healthcare service provider “We give minor incentives to the top performers in each week's data metric.” African equipment company We issue discount coupons [in order to] capture data from customers.” India financial services company Compensation Surprisingly, survey responders did not report the inability to offer competitive wages as a significant barrier to growth. Fewer than one-in-four companies note wages as one of the top two challenges in hiring salespeople. However, what these BoP-facing companies might be gaining in sales force affordability, they may be losing in productivity and performance. Company responders are using creative compensation schemes to breakthrough the performance barrier.

High performing companies are less likely than Medium and Low Performers to offer variable compensation (35% vs. 70% and 50%, respectively), but those High Performers that offer bonuses and/or commissions, do so aggressively. For High Performers, variable compensation constitutes 46% of total compensation compared to 21% at Low Performers. High Performers are also more likely to complement pay packages with attractive perks and benefits, with 75% offering perks compared to 42% of Low Performers. This

raises the point as to how companies think about allocating employee-related expenditures.

Targeting rural, low-income clients often translates into long hours, extensive travel, and limited creature comforts for sales staff. BoP companies may benefit from capping overall sales wages at market-rates and investing remaining funds towards employee health insurance. Companies have other levers to pull when it comes to data collection. Forty-five percent of High Performers tie data reporting to compensation, compared to 33% of Low Performers. High performing companies are also much more likely to dedicate training time specifically to data reporting (71% compared to just 50% of Low and Medium Performers).

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Lessons from the Field: Sales at the Bottom of the Pyramid transportation, lodging, meals, mobile phones, or retirement plans - perks that can improve a salesperson's quality of life while also directly supporting sales-related activities. REInFORCE—COMPEnSAtION: Innovations from the Field + Eco-friendly paper salesmen are eligible for profit-sharing. + Rural energy salesman receive bonuses on a sliding scale, based on company performance. Conclusion

After 50 or more years of somewhat ineffectual international development efforts, there is a new awakening among practitioners and business leaders around a different way to approach the problems of poverty: through market-based approaches. At the heart of every market-based approach, there is a customer and a company. And, at the heart of every customer relationship, there is a sales force. In many ways, the <https://assignbuster.com/the-fortune-at-the-bottom-of-pyramid/>

success or failure of the BoP movement will hinge upon companies' and organizations' abilities to build and maintain high performing sales organizations.

Interestingly, our findings resonate with existing academic research on how to construct effective sales organizations, and perhaps BoP businesses can also learn from the best practices in sales force development for SMEs. The first step BoP-facing social enterprises can take to confront challenges with less developed labor markets is to clearly articulate their unique company assets (based on company stage) as they actively recruit sales staff with strong soft skills who can become true ambassadors and champions of the company.

Next, companies can realize sales force potential with ongoing and experience-based training programs, designed with on-the-ground realities in mind. Lastly, linking training topics to targeted data collection and compensation schemes can help to reinforce and institutionalize company priorities and sales strategies. + African salespeople receive live chickens as rewards during sales meetings. + Latin American rural logistics company provides funds for vacation travel. + Rural energy company follows "open book management" so sales team sees how their performance fits in. + Community water system company provides salesmen with equity shares.