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GLOBAL BUSINESS

Lessons From the Developing World

It isn't easy operating amid poverty, isolation and lawlessness. But some companies have figured it out.

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By JAMIE ANDERSON, MARTIN KUPP And RONAN MOALIGOU

August 17, 2009

The developing world is home to some of the most challenging markets for any business: Urban slums. Rural backwaters. Lawless regions and battle zones.

But hundreds of millions of potential customers live in these places, and a few pioneering companies are thriving there. Their success offers lessons on how to tap these complex environments for profits and growth.

The Journal Report

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enforceable. Theft, vandalism and physical violence are common. Skilled workers are hard to find.

The widespread poverty in these areas makes it difficult for many people to afford whatever a company is selling. Marketing is challenging because conventional advertising media like television and radio don't reach many of the people in these environments, and more-direct approaches can be dangerous. And winning the acceptance of the people living in these communities, for companies and their products, is tricky because these societies are often a patchwork of religious, linguistic and cultural diversity.

Little wonder, then, that to succeed in the face of such challenges, companies first must recognize that traditional business strategies won't work. Instead, companies need to find local partners familiar with the terrain, and rely on those partners to help guide their operations and develop strategies unique to each market. And to sustain a business in these environments, companies need to assert their value to their employees, partners and the broader community by supporting their development.



Enlarge Image

Wesley Bedrosian

The Locals Know

In mid-2007, Celtel Nigeria was the second-largest mobile-telecommunications company in the Nigerian market, with a 28% market share and about eight million subscribers. The company—now known as Zain Nigeria after becoming part of Zain Group, which is owned by Kuwait's Mobile Telecommunications Co.—had done well serving Nigeria's cities and

All of these markets share certain challenges. They often lack functioning legal systems, so contracts are rarely

enforceable. Theft, vandalism and physical violence are common. Skilled workers are hard to find.

"It has to be a win-win for the company and for local people," says Lars Stork, formerly chief operating officer of Celtel Nigeria, one of several telecommunications companies that have been at the forefront of expansion into these areas. "If not, any results will be short term."

Here's a look at how Mr. Stork and others learned those lessons.

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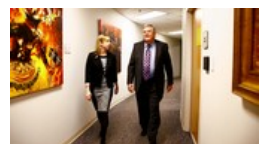
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larger towns, but had only recently shifted its attention to poorer consumers in rural areas.

Although roughly half of Nigeria's population lives in rural regions, the challenge of reaching them was daunting. For starters, village-level chiefs and religious leaders held significant power in many regions of Nigeria. Even after national authorities approved Celtel's plans for expanding its network, the company needed to win the approval of tribal leaders to install signal transmitters and other equipment and to send its employees to tribal areas to maintain the network.

Many areas of Nigeria weren't reached by television or radio signals, making the promotion of products and services particularly challenging. Some other traditional marketing approaches were also difficult: Billboards were quickly stolen and recycled for building materials or fencing, and it was dangerous in some regions for Celtel staff to travel for direct-marketing activities at markets and other rural gatherings.

Two-Way Street

Tips on how companies can succeed in the developing world

- | | | | |
|--|---|--|--|
| <ul style="list-style-type: none">■ Identify local partners who understand local customers and culture.■ Don't rely on existing partners from developed markets to have the skills necessary to succeed here.■ Identify local entrepreneurs | <ul style="list-style-type: none">with basic business acumen and a willingness to commit to long-term relationships.■ Build own insights, and learn from business partners.■ Take a ground-up approach, and be willing to experiment with new business processes. | <ul style="list-style-type: none">■ Don't enter into complex agreements with prescribed solutions.■ Provide relevant skills and capabilities to empower local partners for improved performance.■ Strive to build loyalty and | <ul style="list-style-type: none">trust through sustainable win-win partnerships.■ Internalize skills learned from local partners, and look for opportunities to use those lessons in new markets.■ Strive to achieve both economic and social good. |
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Source: Jamie Anderson, Martin Kupp and Ronan Moaligou

Security at base stations was a major concern. Vandalism and theft of equipment was common, even after Celtel posted armed guards, recruited from the community and elsewhere.

Mr. Stork realized that he was fighting a losing battle and needed to enlist the help of people in the communities Celtel aimed to serve. "Working with local people is the only way to succeed in rural Nigeria," he says. "They understand the local dynamics and know how to survive in what can be an extremely challenging environment."

Celtel initiated a franchising program, recruiting small-business owners to act as its exclusive representatives in their communities. The entrepreneurs are responsible for marketing and distributing Celtel products and services, and for basic maintenance and security at the base stations. Celtel recognized that its partners didn't need experience in the mobile-telecommunications industry. More important was basic commercial acumen, entrepreneurial spirit and a deep understanding of how to manage the local environment.

By the end of 2008, the Celtel network had grown to some 650 franchisees in the deep rural regions of Nigeria, and the average franchised site produced a 160% return on original investment within a year of launch. Sales by franchisees of recharge vouchers—a form of prepaid air time—exceeded the company's initial forecasts by more than 120%. Vandalism and theft have all but disappeared in regions with high levels of franchisee site supervision.

Other companies have discovered the importance of local partners in slums and conflict zones.

The Power of Partners

- **The Opportunity:** Hundreds of millions of potential customers live in urban slums, isolated rural areas, lawless regions and battle zones in the developing world.
- **The Challenge:** These environments often lack functioning legal systems, theft and violence are common, skilled workers are hard to find, and poverty and distrust are among several factors that make marketing difficult.
- **The Key to Success:** Companies operating in these areas need to find local partners to help guide their operations and develop strategies unique to each market. To sustain success, companies need to support the development of their employees, partners and the broader community.

Vodafone Essar Ltd., an Indian unit of the U.K.'s [Vodafone Group](#) (VOD +1.03%) PLC, serves the slums of Mumbai, some of the most populous shantytowns in the world, with partners chosen from among the local businesspeople.

"The people we work with know the slum," says Naveen Chopra, Vodafone Essar's chief executive of Mumbai Circle. "They might be tailors or fancy-good shop owners or outlets selling day-to-day consumables. We cannot simply walk into the slum as Vodafone and start doing business, given

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the intricacies. But these local businesspeople already run businesses in this market, and we wanted to benefit from their wisdom."

Growing Together

Companies that have succeeded in these environments also realized that local partners were crucial not only in establishing their operations but also to building their business.

In Nigeria, the 25 entrepreneurs who became Celtel franchisees in the first phase of that program helped define the responsibilities of franchise holders and suggested ways they could fulfill their roles more effectively. For instance, at the suggestion of one pilot franchisee, Celtel provides four or five motorcycles to each franchised site to help franchisees deliver more-efficient servicing of surrounding villages. Many franchisees have also started to offer installment financing and barter deals for cellphones, an extension of established local commercial practices.

In Mumbai, Vodafone's partners helped Mr. Chopra solve a fundamental problem: the difficulty of beaming cellular signals into the inner reaches of the city's sprawling slums. The density of housing in the slums makes it impossible to erect the same sort of network of transmission towers used to serve other areas.

The company first tried beaming its service into the slums from surrounding buildings, but that failed to achieve coverage deep inside the slums. Then a large retailer interviewed as a possible distributor suggested a new approach: recruit large retail outlets around the slum to sell the company's products and services—and also to hoist mini-transmitters above their shops. The retailers would be responsible for the security and basic maintenance of the transmitters.

For Further Reading

See these related articles from MIT Sloan Management Review.

- **Strategic Innovation at the Base of the Pyramid**

By Jamie Anderson and Costas Markides (Fall 2007)

Innovation in developing markets has less to do with finding new customers than addressing issues of product acceptability, affordability, availability and awareness.
<http://sloanreview.mit.edu/x/49116>

- **The Great Leap: Driving Innovation From the Base of the Pyramid**

By Stuart L. Hart and Clayton M. Christensen (Fall 2002)

Billions of poor people aspire to join the world's economy. Disruptive innovation can pave the way, helping companies blend sustainable corporate growth with social responsibility.
<https://sloanreview.mit.edu/x/4415>

- **Is Your Innovation Process Global?**

By José Santos, Yves Doz and Peter Williamson (Summer 2004)

By sourcing and integrating knowledge from dispersed geographic locations, companies can generate more innovations of higher value and lower cost.
<http://sloanreview.mit.edu/x/45406>

The strategy was crucial to Vodafone's success in the Mumbai slums, where revenue has far exceeded the company's initial expectations. And not just because of the improved network coverage. The mini-transmitters brought the partnership between Vodafone and the retailers to a new level. Each retailer "becomes your ear to the ground to the local community," Mr. Chopra says. The retailer "tells you what opportunities there are, where you need to launch a particular tariff plan" to cater to the many different communities within the slum. "So he becomes a very integral part of the way you do the business."

Something for Everyone

Companies in these environments also have discovered the importance of establishing relationships that benefit their employees and business partners and the communities they work in.

"Once the economics are right, once you have a win-win" for the company and its partners, says Mr. Chopra, "you have a relationship that is resilient. It is about respecting the fact that your associate in the slum may do only a small turnover, but for that person a small turnover is a big amount, and you call him for the same meetings that you call your other urban distributors. He gets recognition and respect, and in turn this builds trust and loyalty."

Trust and loyalty can also be built by helping employees and business partners develop business skills. Celtel set up three-day workshops at regional company offices to train new franchisees in sales and marketing techniques, accounting and financial management, retail operations, basic maintenance of base stations, site security and human-resources management. And once in business, franchisees are provided with regular training events organized at the regional level.

In the chaos of Iraq after the fall of Saddam Hussein's regime, a newly formed Iraqi unit of Zain sent local engineers abroad for training in building and operating a mobile network, in effect becoming a corporate university that provided the education and skills required to run its business. The company also has provided training in other aspects of the business, including marketing and communications, distribution and customer care.

Companies also reached out beyond partners and employees, to weave themselves into the communities where they operate. Celtel shared a percentage of its franchise revenues with local communities, allocating the funds in cooperation with franchisees, village authority figures and sometimes non-governmental organizations.

Zain has helped many Iraqis find medical attention, both inside and outside the country; supported local sporting activities, the Iraqi national soccer team and the country's Olympic athletes; and helped reassemble the Iraqi symphony orchestra.

"Our message has been that we are part of Iraqi society, and we are dynamically tied to Iraq and its people," says Ali Al Dhawi, chief executive officer of Zain's Iraqi unit. "We suffer what Iraq suffers, and we enjoy what Iraq enjoys."

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