

an excerpt from

*Untapped*

*Creating Value in Underserved Markets*

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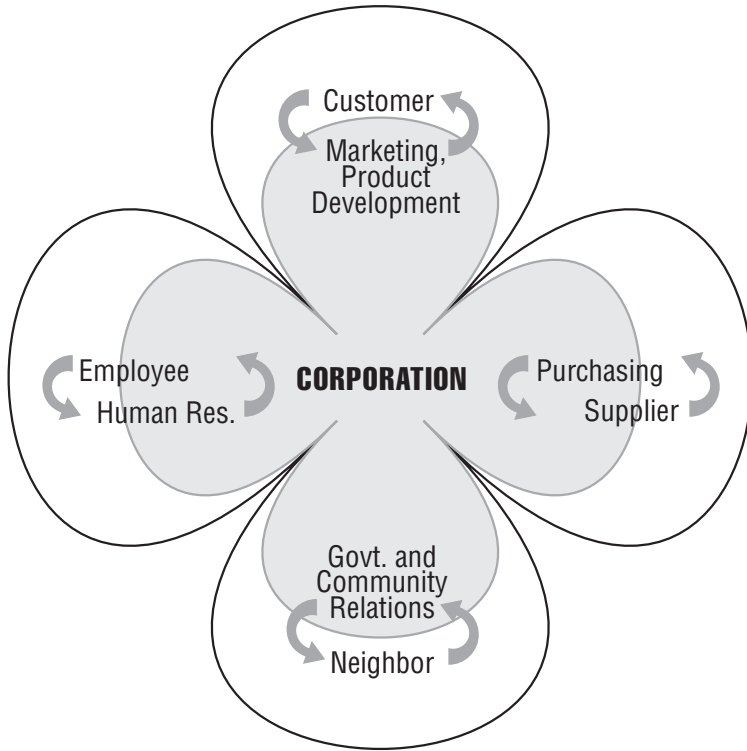
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# INTRODUCTION: FINDING THE OPPORTUNITIES

Domestic and international underserved markets represent a multi-trillion-dollar opportunity that is largely untapped. This market has some of the fastest-growing companies and fastest-growing business opportunities. It is also a market with the fastest-growing workforce and a rapidly expanding supplier base.

If you are interested in increasing your company's activities in these markets and want to know how to create business value and avoid business risks, this book is for you. We have distilled the experience of hundreds of companies operating in underserved markets in both developed and developing countries. By *underserved markets*, we mean communities in which there is a high percentage of low-income individuals, or a high percentage of ethnic minorities, or both. From the wealth of case studies we have reviewed, we have developed a set of five success factors that you can use to guide your company to profitable operations. We show you how to apply these success factors to each of four business disciplines: sales and marketing, human resources, purchasing, and product and process innovation. As the diagram below shows, individuals in underserved markets can have multiple potential relationships with business, including customer, employee, supplier, and neighbor. These business disciplines help show the span of ways that companies and communities can create mutually beneficial relationships. We pre-

## A Corporation's Relationship with the Community



sent many business examples that can help you understand how the success factors work in companies in a variety of industries and locations.

Are you somewhat skeptical that this approach might work well for your company? Consider the following four case studies of companies that created business value in these markets. The case studies cover both large and small companies, headquartered both inside as well as outside the United States. Consider also the following cautionary tale—an example of a foray into these markets that didn't succeed initially. The cases we describe not only will give you a more detailed understanding of the kind of success that is possible, but

also will signal what kinds of pitfalls to avoid. In addition, they illustrate the five success factors.

## **SALES: CITIBANK**

Citigroup is one of the largest financial services companies in the world. When Banamex, Mexico's leading bank, merged into the Citigroup family of financial companies in 2001, Citibank, the retail banking arm of Citigroup, began to explore ways to create a profitable product in the market for remittances—transfers from immigrants to relatives abroad. In April 2003, Citibank introduced Citibank Global Transfers, which offers U.S. bank customers convenient money transfers domestically or to Mexico for a flat \$5 fee—a significant discount from the fees of the major competitors. Citibank was able to offer this product profitably because it already had the infrastructure in place to move money inexpensively from customer accounts to ATMs anywhere in the world.

But there was a catch—this only worked if the sender was a Citibank customer and if the recipient had an ATM card. Many of the individuals sending remittances from the United States had no banking relationship at all, and many of the recipients did not have ATM cards. To reach this market segment, Citibank adapted its business model to develop a two-part solution. The most significant adaptation was the creation of the Citibank Access Account, a “checkless checking account” with features that made it attractive for immigrants to open an account with Citibank. The second adaptation was the Banamex Tricolor Card, which enabled recipients of the transferred funds in Mexico to access the funds through Banamex branches, ATMs, or debit card channels throughout the country, safely and efficiently.

By adapting its business model, Citibank has been able to successfully create a relationship that has value for both the bank and the community. The bank has tens of thousands of new, profitable customers. And immigrants in the United States, as well as their relatives in Mexico, have a lower-cost alternative for sending home funds safely and securely. As a testament to the attractiveness of this approach, consider the fact that in 2004, Citizens Bank and Sovereign Bank launched similar products (First Data, 2004).

## **HUMAN RESOURCES: MANPOWER**

Manpower is a worldwide leader in the staffing industry, with client firms that include 94 percent of the Fortune 500. In 1999, Manpower determined that it needed to develop a strategic national workforce development program to address long-term information technology (IT) employment needs in the United States by tapping the workforce in underserved communities. Despite the current downturn in demand for IT workers, the U.S. Bureau of Labor Statistics projects that IT employment will nearly double from 2.1 million jobs in 2000 to 3.9 million jobs by 2010 in the United States. Clearly, Manpower's business model succeeds or fails based on its ability to deliver qualified workers to client employer companies. A labor pool shortage like the one of the 1990s could hurt the company's profitability.

In response to this problem, Manpower initiated TechReach, a strategic workforce development program. The program is employer driven; participants are trained in specific skill sets required by employers in each program's local area, increasing the likelihood of program graduates' placement upon their completion of the program.

In May 2003, Manpower formed a National Business Partnership with the U.S. Department of Labor, which linked thousands of local Manpower offices with the local Department of Labor branches. By creating this partnership, Manpower was able to expand the level of activity and impact of the TechReach program. Manpower is now placing thousands of individuals per year into jobs through its TechReach program. Since Manpower earns its fees through placement of individuals into jobs, this has created new profit opportunities for Manpower in addition to new job opportunities for individuals from underserved communities (Center for Corporate Citizenship, 2003; Ford Foundation, 2005).

## **PURCHASING: GREEN MOUNTAIN COFFEE ROASTERS**

Green Mountain Coffee Roasters (GMCR) is a Vermont-based wholesale coffee company that roasts more than 75 high-quality ara-

bica coffees. It had sales of \$137 million in FY 2004 and has been recognized by *Forbes* magazine in the years 2002 to 2004 as one of the “200 Best Small Companies in America.”

In an effort to reach new customers, Green Mountain added “Fair Trade” certified coffees to its product line. Coffee that meets the Fair Trade standard is purchased under prices and terms that enable farmers in underserved markets to earn a sustainable livelihood and produce a high-quality bean. Coffee that is sold in the U.S. markets is certified to meet the standards by TransFair USA, an independent certification organization.

Green Mountain has been able to use the Fair Trade certified standard to differentiate its coffee from other coffees that are not Fair Trade certified. And even though Fair Trade coffee is more expensive to purchase, the company has been able to set a price that enables it to make a good profit.

The Fair Trade and Organic certified line is now Green Mountain’s fastest-growing product line, accounting for approximately 16 percent of its sales in FY 2004. And recently, Green Mountain Coffee announced its goal of having 35 percent of its coffee sales be Fair Trade and Organic certified by the end of FY 2008.

Fair Trade coffee has created business value for Green Mountain Coffee Roasters because it has enabled the company to expand profitably. And it has created value for small-farm coffee growers in underserved markets because it has helped ensure that their product is purchased on terms that let them earn a sustainable livelihood (Ford Foundation, 2005).

## **PRODUCT DEVELOPMENT: CEMEX**

The development of CEMEX’s Patrimonio Hoy product line is a good example of product development that has led to dramatically increased sales. In the mid-1990s, CEMEX, which is the world’s second-largest cement maker and one of Mexico’s largest companies, was hit hard by Mexico’s crippling currency devaluation. The buying power of the peso was cut almost in half, dramatically reducing the market for CEMEX’s products.

The company decided to pursue increased sales in the do-it-

yourself homebuilding market, which dominates the lower-income neighborhoods in Mexico. In order to create a new product offering, the company significantly changed its typical process for gathering information on customer needs, sending a team of managers to live in these neighborhoods for a year. This innovative approach led to the creation of the “Patrimonio Hoy” group purchasing program, which combined financing, architectural advice, and building materials into one package. CEMEX worked with the customers to form buying clubs. Each member of the club would pay a small portion of his or her earnings into the club each week, and then, on a regular basis, the pooled money would be used to make a purchase from Patrimonio Hoy. This approach enabled consumers to pay for building supplies from their weekly earnings and to get advice on how to use them most effectively.

The results from the experience of the first 1,000 families in the purchasing program were dramatic. Whereas an average homebuilder had traditionally built one room every four to seven years, members of CEMEX’s group purchasing program took an average of one and a half years, less than a third of the time. Not only was the speed of building (and therefore the sale of building materials) accelerated, but also as a result of the program 18 percent more families in the test region had begun building, and the average annual spending per family increased from \$240 to almost \$600. Families planned to build two to three more rooms than they had originally, and their constructions now contained 25 percent more cement per cubic meter. The families also used materials more efficiently because they were able to get the right amount of materials for the rooms that they planned, and they lost less material in wastage. The CEMEX program created value for communities because it helped families build housing more quickly, more efficiently, and more safely. And it has created business value for CEMEX by tapping into a market that the company couldn’t reach effectively before.

Based on this initial success, CEMEX expanded the program quickly, and it now has 70,000 Mexican families enrolled in the program. CEMEX is planning to expand the program to other countries as well (CEMEX, 2005; Sandoval, 2005; Vision, 2005).

## A CAUTIONARY TALE

The pathway to developing profitable opportunities in underserved markets is not always straight and easy to follow. There are numerous examples of companies that attempted to create businesses in underserved markets, only to have them collapse or be delayed for years. Pathmark's move into Harlem is a classic example. In the early 1990s, Pathmark saw a significant opportunity to open a major supermarket in Harlem. Its profitable experiences in other underserved neighborhoods helped it to see promise where others saw only problems. It worked together with several local community groups to develop a plan for putting a supermarket on a parcel of empty city-owned land on 125th Street, a major thoroughfare with good access to subway and bus transportation. Market studies showed that more than 60 percent of Harlem's retail spending occurred outside the neighborhood, suggesting a high level of untapped demand. And Pathmark had honed its product line for African American neighborhoods with stores in similar locations, such as Bedford-Stuyvesant.

But political resistance to the Pathmark store was organized by the owners of "bodegas"—small local convenience stores catering to the neighborhood residents—and by the major wholesaler who supplied those stores. Together, they were able to mount a campaign of political resistance that slowed the store development to a crawl for many years. They portrayed Pathmark as a greedy, uncaring corporation that was going to drive local business owners bankrupt. They also played on racial and ethnic tensions.

The deal was eventually approved by the city council, but only after Pathmark's community partners, particularly the Abyssinian Black Baptist Church, were able to show residents that the benefits to the community as a whole were considerable and the losses to merchants were likely to be small. Pathmark would reduce grocery costs significantly for residents and would create hundreds of well-paying jobs. And even though it would compete with local merchants, the majority of Harlem residents' grocery dollars were currently spent outside the neighborhood. Pathmark would really be competing with the bigger stores outside Harlem, not with the bodegas. After an extraordi-



narily tense 7–5 city council vote, the deal was approved. Construction was able to take place, and the store opened in 1999. The store is now profitable, and Pathmark has moved forward on several additional stores in New York City ethnic neighborhoods. In addition, development has taken off on 125th Street. The street now offers residents a major shopping mall including stores such as HMV, Modell, Old Navy, CVS, Disney, Costco, and Staples (Grunewald, 1999; Thomas, 2003; WinWinPartner.com, 2005).

## **SUCCESS FACTORS**

As the previous examples indicate, there is both opportunity and risk in underserved markets. How do you seize the opportunities without succumbing to the risks? Our research provides the answers. This book is drawn from seven years of research and market testing with trailblazing companies on how to successfully adapt to the specific conditions in underserved markets. This research—organized and supported by the Ford Foundation—sought to find ways to increase corporate engagement with underserved communities in ways that created economic benefits for both communities and business. The companies in our research sample were primarily large, and approximately three-quarters were headquartered in the United States. Clearly, our lessons are most applicable to similar companies. But the research also indicates that our lessons can be adapted, both to large corporations based outside the United States as well as to smaller businesses located in the United States (Ford Foundation, 2005).

If we had to put everything we have learned into a nutshell, we would say that the most important overarching success factor is to create value for the community at the same time as you create value for business. You must create a “win-win” relationship with the communities in which you do business. For companies, the win can take the form of increased sales, reduced costs, diversification of risk, or improvements in reputation. For communities, the win can take the form of access to needed goods and services, jobs, or entrepreneurial opportunities. If you only remember one thing from this book, remember this: *a win-win relationship is everything.*

This is evident in the case studies above. In each of the four successful cases, the company was able to find a way to create value for

itself *and* value for the consumers, suppliers, and residents of the community. In the cautionary tale, Pathmark's development was stalled because vocal elements of the community were able to paint its entry into the market as a "win-lose" relationship. Pathmark was only able to move forward when it created a win-win relationship with a key partner in the community.

In fact, more than two-thirds of the companies in our research that successfully tapped underserved markets had formed a partnership with an organization that brought new knowledge, skills, resources, or connections to their effort. These partnerships were with a wide range of organizations, including other businesses, government agencies, nonprofit organizations, and community groups. Frequently, these organizations were drawn to working with the companies because they were seeking to create community benefits rather than trying to make a profit themselves.

But you may still be feeling a little skeptical. Yes, of course, having a win-win relationship makes it a lot easier to establish an enduring profitable business in a community. That's true of every community, not just underserved ones. But how do you create a profitable and mutually beneficial relationship with these communities?

That's where the five success factors come in. We examined hundreds of case studies from companies in these markets, some of which did extraordinarily well and some much less so. We were able to distill five factors that distinguished superior performance from mediocre performance in underserved markets:

1. Mine and translate local market information.
2. Adapt business model to community realities.
3. Change internal incentives and challenge cultural assumptions.
4. Create partnerships and strategic alliances.
5. Improve the enabling environment.

## ■ 1. MINE AND TRANSLATE LOCAL MARKET INFORMATION

You already know that information, both about the market and about your company's performance, is critical to ensure your ability to identify opportunities, avoid pitfalls, and take corrective action

where necessary. What you may not know is that your company most likely will need to change some of the ways it “mines” information in underserved markets. It may need to collect different types of information, or collect information from nontraditional sources. It also is likely that your company will need to analyze the information in a somewhat different way for these markets than for mainstream markets. The same information, in two different markets, may carry different meanings. For example, government-reported statistics on household income can convey a quite different meaning in a low-income urban neighborhood than in a well-to-do suburban neighborhood. Analyzing it the same way can lead to flawed decisions. Your company must learn how to “translate” the information to carry out accurate analysis in these markets.

This is clearly evident in the CEMEX example. Instead of using its standard approaches to gathering and analyzing data for product development, the company sent managers to live in the communities to understand how individuals already planned and financed their “do-it-yourself” projects. This firsthand knowledge led to the development of an entirely new approach to selling cement to low-income households.

## ■ 2. ADAPT BUSINESS MODEL TO COMMUNITY REALITIES

The business model that is used to sell fine dining is different from the one used to sell fast food. In the same way, the business model your company uses currently for its sales and marketing, for hiring, and the like will need to be adapted and extended for underserved markets. Your company will likely need to adapt product features and benefits, distribution channels, marketing approaches, and price points. The Citibank example demonstrates this point—it needed to change the way that it bundled product features, and it had to adapt its distribution channels in order to develop a product offering that could reach new markets.

## ■ 3. CHANGE INTERNAL INCENTIVES AND CHALLENGE CULTURAL ASSUMPTIONS

Your company probably has developed a set of financial and social incentives that help to align the behaviors of all of its employees with

its strategic goals and objectives. These incentives may need to be adjusted in order to help generate the right behaviors in underserved markets. Incentives might have to shift, for example, from a focus on margins to a focus on total profits in order to encourage managers to spend time and energy building business in these markets that might be lower margin.

Employees of your company also have a tacit set of cultural assumptions, which are generated through their own personal experience and history. These assumptions may need to be challenged if they include inaccuracies or biases concerning underserved individuals and communities. For example, the introduction of Fair Trade coffee by Green Mountain Coffee Roasters occurred after a year of challenging internal debates over whether customers would truly value coffee purchased on a Fair Trade basis. The initial sales also required education of employees, distributors, and end-user customers. They needed to understand how Fair Trade coffee was different, and why that difference was worth paying more for. This understanding was developed through case examples, customer testimonies, focus groups, mailings, articles, and websites.

#### ■ 4. CREATE PARTNERSHIPS AND STRATEGIC ALLIANCES

In many of the markets in which it operates, your company probably has developed strategic alliances and partnerships with suppliers, customers, brokers, and other key market participants in order to leverage value and increase sales and profits. Underserved markets are no different. Our research shows that the development of partnerships and alliances with businesses, nonprofits, and governmental agencies is often critical to success in these markets. Such organizations can help your company reach customers, find workers, develop sources of supply, and create profitable new products and processes. For example, the strategic partnership between Manpower and the U.S. Department of Labor helped Manpower to identify potential individuals for job placement much more efficiently and quickly than it could using its traditional sources of supply.

## ■ 5. IMPROVE THE ENABLING ENVIRONMENT

The enabling environment—the laws, institutions, and infrastructure that support (or hinder) business activity in a market—often need to be improved in order to do business profitably in underserved markets. Businesses can and do often play an effective role in helping to improve this environment. Often, the most effective approach is to work in collaboration with other businesses and non-profit advocacy groups to identify key problems and develop the political will to make effective change. This is true whether the underserved market is an inner city in the United States or a rural community in a developing country. The web of laws and infrastructure often needs to be shaped in ways that permit a mutually beneficial relationship to be realized. While this was not a major theme in the case studies noted above, we will give many examples, such as the WINs case study near the end of Chapter 2, in the rest of the book.

The following chapters examine each of these five success factors in detail, showing you how to apply them in each of four business functions: sales and marketing, human resources, purchasing, and product and process innovation. These four business functions cover the range of relationships that people in underserved markets have with businesses: as consumers, employees, suppliers, and neighbors.

For each success factor and each business function, we consider what's different about underserved markets and how to apply the success factor to address the challenges created by these differences. We illustrate with many short case examples. At the end of each chapter on a business function, we provide a longer case study showing how one company used multiple success factors to create a profitable operation in an underserved market while creating benefits for the company as well. We also identify specific measures that can be used to track your success in the markets.

Because win-win partnerships are so important, we devote a whole chapter to the do's and don'ts of building and managing partnerships. Chapter 5 gives you an in-depth look at how to start a partnership, manage an ongoing partnership, and wind up a partnership that has achieved its objectives.

We end the book with a chapter that provides a summary and a synthesis showing how to use the five success factors in a versatile way across the different business units.

By the time you finish reading this book, you will know how to invest and partner with underserved communities to both create significant competitive advantages for your company and build vibrant communities in which to live, work, and do business. You will know how to create value for business and value for these communities as well.

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