

# Distribution and consumption in the Base of the Pyramid (BOP) market: The case of Sari-Sari stores in the Philippines

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## I Introduction

The “Base of the Pyramid” (BOP) is an economic term that refers to low income earners in a society. Despite their potential for expansion, BOP markets in developing countries have largely been overlooked. However, they are currently beginning to attract the attention of multinationals in several developed countries. In response to the recent recognition of their significance, many researchers have examined BOP markets empirically. Unfortunately, the number of such studies is limited, and much more research is needed to understand fully the nature of BOP markets and their economic relevance.

In 1998, Prahalad and Hart introduced the BOP theory with their research report entitled, “The Strategies for the Bottom of the Pyramid.” The BOP theory is chiefly based on “the economic pyramid which constitutes an income bracket.” Specifically, the BOP theory stipulates that those stricken by poverty, such as the four billion or more people worldwide who live on less than two dollars per day, represent the bottom of a pyramid defined by income. Despite the size of this sector, individuals at the base of the pyramid are largely ignored by a traditional consumer society. Prahalad (2004), however, claimed that greater economic attention should be focused on “poverty alleviation” and “the poor.” Despite the argument that poverty-stricken individuals are charity cases who require assistance, rather

than customers who require innovative products or services, there is a growing perception that the BOP represents a significant potential market (see Hart, 2010). However, the advent of this new market comprised of the world's poorest populations presents an extraordinary managerial challenge for the world's wealthiest companies.

As a first step toward converting the BOP segment into potential customers for multinational companies (MNCs), this study examines distribution and consumption patterns in the BOP markets in the Philippines. In this examination, I will first illustrate the BOP market structure and consumption patterns, and then, explore the entry strategies employed by MNCs from advanced countries. After reviewing previous research related to distribution and consumption in the Philippines, I present the quantitative results of 162 interviews with shop owners, customers, and suppliers of sari-sari stores in Luzon, Leyte, and Samar Island. A sari-sari store is a small-scale store that provides daily necessities, food, and drinks, and is ubiquitous in the Philippines' urban areas and villages. Owners of sari-sari stores rely on the purchasing power of supply to conduct business and cater to the BOP segment successfully. The stores from which respondents were drawn were located in various Philippine geographic regions, including an urban slum, cities, and rural areas. I sampled respondents from multiple types of regions to compare each area's distribution and consumption patterns and to consider MNCs' entry strategies into the BOP market.

## **II Distribution and consumption in the Philippines' BOP market**

In this section, I summarize demographic data, distribution patterns, and consumption patterns within the Philippines as a means to facilitate an understanding of the BOP customer segment.

The income gap in the Philippines is large. Whereas overseas employees and corporate managers have high incomes, 41.5 % of the overall Philippine population (i.e., 40 million people ) earns two dollars or less per day.

In addition to being relatively poor, the majority of the growing Philippine population is also relatively young. According to the ARC (2010), 43 % of the population is comprised of individuals who are 19 years old or younger. This significant portion of the Philippine population represents the nation's future labor force, and it is expected to wield considerable consumption power. In addition, the largely youthful population continues to grow; the average

annual population growth rate from 2000 through 2007 was 2.04 % . Given the expansion of younger generations within the Philippine population (and their associated purchasing power), it is apparent that the Philippines represents a significant potential market for MNCs.

The Philippines' national economy is largely supported by personal consumption expenditures, which account for 80 % of the nation's gross domestic product. According to the Philippine National Statistics Office (2011), 36.5% of household income is spent on food consumption, 1.5%, on alcoholic beverages and cigarettes, and 3.8%, on personal care articles. Illustrating the extent to which personal consumption drives the economy of the Philippines, sari-sari stores, which provide these items, are scattered across the country (Nozawa, 2009).

Although the Philippine retail industry consists of large-scale modern stores (e.g., supermarkets, hypermarkets), mom-and-pop business operations (i.e., sari-sari stores) represent about 90% of the country's total number of entrepreneurial enterprises. JETRO (2012) estimated that in 2010, there were roughly 770,000 sari-sari stores in the Philippines. These stores account for about 70 percent of the country's sales of miscellaneous daily goods and food items (JETRO, 2011).

In 1993, the Philippine government allowed foreign investment into the retail industry (Digal, 2001). Although this decision affected large companies, small-and middle-scale retail trade remained protected by the Foreign Investment Law. As a result, the future of the sari-sari store as a staple of the Philippine economy appears secure. Given (a) their relative permanence, (b) their ubiquity, and (c) the degree to which they provide critical goods to consumers, it is clear that sari-sari stores play an important economic role in the Philippines.

Individuals that comprise the BOP segment in the Philippines primarily lives in villages or city slums. They purchase goods from sari-sari stores, markets, stalls, or peddlers (Funahashi, 2011). For companies to garner profits through a strategic targeting of the BOP, they must ensure that they have effective means for product distribution and conditions for payment. Given this, sari-sari stores, which cater to poorer consumers, provide a useful means for accessing the BOP segment (Funahashi, 2012 ).

### **III About sari-sari stores**

Sari-sari stores, which are generally small in scale, have spread throughout the Philippines since the 12th century (Nozawa, 2009). Typically, a sari-sari store is a retailer in

which the owner focuses on the needs of women, operates the business, and manages the accounts. They are typically located in lower income areas and have contributed to society by maintaining storekeepers' economic independence, creating jobs (e.g., salesclerk, receipts-and-payments contractor), and perhaps most importantly, supplying a variety of customers with necessary goods. Given their provision of necessary goods to poor consumers, sari-sari stores are indispensable to the purchase activities of the BOP segment in all regions of the Philippines.

Business is generally conducted by selling individual parts, selling by measurements, and selling through loans (Funahashi, 2011). 90% or more of a sari-sari store's primary customers are women. Most owners of sari-sari stores are also women, and many of them have graduated from high school (indicating a relative tendency for educated women to operate sari-sari stores). Because startup costs are not substantial, sari-sari businesses are often launched as the first step of assistance of a household economy. Regardless of the area in which the initial sari-sari store is located, there are a number of options for branching and funding the business (Funahashi, 2012).

Some research has sought to illustrate the nature of sari-sari stores in detail (see Chen, 2007). Typically, sari-sari stores are run out of storekeepers' houses, and are located near a public building on a town's main street. On average, the store measures two meters by two meters and contains a showcase, a storehouse, and a workplace. Goods are supplied to customers through a large window. Some stores feature a picnic shelter place and a dining room for customers to use. Anderson and Billou (2007) found that on average, low-income Filipinos made four to five trips to their local sari-sari store per week.

Small-scale local stores carrying food and miscellaneous goods are prevalent in countries other than the Philippines as well. In many of these other countries, MNCs have been successful in integrating their products into the stores. For example, an Indian subsidiary of Unilever (i.e., Hindustan Unilever) sells its detergent (Wheel) through a detailed network of small-scale Indian stores known as "kirana store" (Simanis, 2011). By doing so, Unilever succeeded in entering the low-income detergent market in India.

As evidenced by this example, it is possible for large firms to sell their products through small-scale, mom-and-pop retailers. In addition, though limited, extant research on sari-sari stores has demonstrated their value for the Philippine people. However, the ways in which goods are distributed through sari-sari stores, consumer purchasing power,

the penetration of MNC goods into sari-sari stores, and the stores' connections with the BOP segment have gone relatively unexplored. To fill in this gap in the literature, I aim to investigate these underrepresented topics in this study.


#### IV Setup and examination method of research task

In this study, I explored the distribution of goods through sari-sari stores with an emphasis on the BOP market. In addition, I examined the purchasing power of supply and sales methods. Through a series of interviews with sari-sari storekeepers in Leyte and Samar Island, I was able to compare urban areas and villages, as well as the perceptions of the stores' managers, suppliers, and customers. These interviews provide information that can be used to inform business strategies for BOP market development.

Figure 1 outlines the nature of this investigation.

**Figure 1**

#### Investigation outline

1. Research purpose	To understand the distribution of goods through sari-sari stores To understand consumer purchasing power To evaluate the degree to which MNC goods can penetrate sari-sari retailers
2. Research method	Direct observation of the stores Interviews with owners, customers, and suppliers of sari-sari stores
3. Research date	1. September 14, 2011 – September 19, 2012 2. March 12, 2012 – March 24, 2012 3. August 7, 2012 – August 25, 2012
4. Research location	 <p>Tondo: Urban slum in Manila Porac: Agricultural area in Pampanga Cubao: Commercial district in Manila Tacloban: Commercial district in Leyte Ormoc: Agricultural area in Leyte Eastern Samar : Taft, Borongan: Agricultural place in Samar</p>
5. Sample	N = 162 (129 sari-sari owners, 24 customers, 9 suppliers)

## V Findings

Through the interviews, I came to several conclusions regarding product distribution through sari-sari stores and consumer purchasing power. Specifically, I generated findings related to distribution channels, supply and sales methods, the BOP segment's purchasing power, penetration of MNC goods, and entry strategies employed by MNCs. In this section, I will provide a detailed discussion of each of these findings in turn.

### a. Distribution channels

In his distribution model, Rangan (2006) offered four descriptions of how a product is distributed from the supplier to the customer (see Figure 2).

**Figure 2**

**Rangan (2006) distribution model**

Model	Distribution path
A	Supplier → Supplier's own sales and distribution → End Customer
B	Supplier → Retailer → End Customer
C	Supplier → Agent → Retailer → End Customer
D	Supplier → Distributor/Wholesaler → Retailer → End Customer

Source: Rangan (2006)

Some of the aspects of Rangan's (2006) model for distribution were also borne out in our data. The eight types of distribution channel identified in Figure 3 were derived from interviews with storekeepers and suppliers of sari-sari stores. Although agricultural products are sold in the sari-sari stores, the channels outlined in Figure 3 relate only to the distribution of daily necessities, drinks, or food supplied by MNCs. Eight patterns of distribution through sari-sari stores exist for daily items, processed beverages, and foods.

**Figure 3**

**Distribution path through sari-sari stores (daily necessities, processing drink, and food)**

Model	Distribution path
A	Factories → Supplier's own sales and distribution → Retailers (sari-sari stores [large → small]) → End customers
B	Factories → Retailers (sari-sari stores [large → small]) → End customers
B'	Factories → Retailers (Supermarkets → Sari-sari stores [large → small]) → End customers
C	Factories → Agents → Retailers (sari-sari stores [large → small]) → End customers
C'	Factories → Agents → Retailers (supermarkets → sari-sari stores [large → small]) → end customers
D	Factories → Wholesalers/distributors → Retailers (sari-sari stores [large → small]) → end customers
D'	Factories → Wholesalers/distributors → Retailers (supermarkets → sari-sari stores ([large → small]) → end customers
D''	Factories → Wholesalers/distributors → Retailers (markets → sari-sari stores [large → small]) → end customers *factories (including imported items)

A comparison of Figures 2 and 3 illustrates the differences between Rangan's (2006) model and the forms of distribution in the Philippines through sari-sari stores. Interviews with sari-sari storekeepers revealed that most of them obtained items from a supermarket or larger sari-sari store, which in turn, received the goods from large-scale distributors. In this way, supermarkets play the role of wholesaler to sari-saris; they provide products in bulk (e.g., a dozen sachets of shampoos) to sari-sari stores, which then sell the products individually (e.g., a single sachet of shampoo). In essence, sari-sari stores serve as intermediaries between

large-scale retailers (e.g., direct-sale companies, supermarkets, markets) and their customers. Because poverty-stricken individuals are unable to buy volumes of items from these large-scale retailers, the sari-sari stores' provision of the items on an individual basis provides a vital service to their customers.

b. Supply and sales method

Methods for commercial distribution, supply, and sales are essentially similar in the geographic regions from which I collected data. However, city slums and villages differ greatly with respect to how much money is needed for supplies, the nature of their respective BOP segments, and the degree to which the district is characterized by the MOP (middle-class segments).

Figure 4 demonstrates some ways in which sari-sari stores pay for the goods they sell. As shown below, a consignment sale was held at a sari-sari store in a city slum to sell goods from a beverage manufacturer. A consignment sale was also held in the Manila business district, but in addition to the beverage manufacturer, food products and luxury goods were also procured. Our data further suggest that consignment sales or deferred payments are not prevalent in village areas.

**Figure 4**

**Method of payment to stock sari-sari stores**

Product	Location: Urban Slums	Location: Urban Commercial District	Location: Agricultural Areas
Drinks	Consignment sale	Consignment sale	Credit
Daily items, processed items	Cash	Cash, Credit	Credit, Cash

Because of the large degree of population turnover in large urban areas, cash settlements are common. In areas in which agriculture and fishing are economic cornerstones, storekeepers maintain a sense of security from having customers pay, even if the neighborhood is home to relatives of the storeowners. Additionally, because agricultural and fishing areas are characterized by a stable population (i.e., residents live there for long periods of time), deferred payments are common. Shopkeepers are also able to wait until



farmers harvest their crops or fishermen return home to collect payment for the goods they sell.

#### c. Purchasing power of the BOP segment

The purchasing power of consumers in the BOP segment of the population is largely dependent on the area in which the consumers live. The purchasing power of BOP consumers in city slums and villages (where there is a large number of poor individuals) differs greatly from the purchasing power of individuals in the Manila business district, which is characterized by a sizeable MOP segment (i.e., middle class consumers).

Similar to purchasing power differences at the region-level, sales made by sari-sari stores differs at the individual shop level. In Tondo (a city slum of Manila), sari-sari stores sold between PHP 5000 and PHP 10,000 worth of merchandise per day. In contrast, in Porack (a rural area), sales ranged from PHP 150 to PHP 3000 per day. In Cubao, of the Manila business district sales ranged from PHP 30 to PHP 10,000 per day. Relative to villages, sales were much higher in cities. In Tacloban, of the Leyte business district, sales were between PHP 100 and PHP 10,000 per day. In eastern Samar, sari-sari sales in Taft ranged from PHP 200 to PHP 10,000 per day. Finally, in Samar fishing village and Ormoc (which is a Leyte fishing village), sales were between PHP 300 and PHP 1000 per day. ( \* 1USD=PHP 40.50)

Although sales growth is largely a function of store size, the BOP segment was thought to have purchasing power if ten or more customers come to the store per day.

#### d. Penetration of MNC goods

Regardless of the area in which the sari-sari stores were located, MNC goods were pervasive. The degree to which shop fronts contained these products indicated how deeply MNC goods permeated everyday life. Interviews with storekeepers revealed that they recognized the importance of MNC goods in customers' lives. Brands that can be found in the shop fronts of Philippine sari-sari stores include Nestle, Milo, Unilever Knorr, Lipton, Sunsilk, Cream Silk, Surf, P&G, Pantene, Tide, Ariel, Pampers, Marlboro, Coca-Cola, Pepsi, Mentos, and Ajinomoto.

#### e. Strategy for BOP market entry.

For an MNC to enter into the Philippine BOP market, the use of existing

distribution channels is indispensable. It is most critical for MNCs to deliver goods to the sari-sari stores through cooperative relationships with wholesalers and the distributors. In is additionally important for MNCs to recognize that conditions for payment differ for each area. As such, MNCs should allow local standards to dictate payment methods. Finally, to penetrate the Philippine BOP market effectively through sari-sari stores, MNCs should seek to provide goods that specifically cater to consumers in the BOP segment.

## **VI Conclusions**

In this study, I examined distribution and consumption patterns in Philippine BOP markets as a first step toward converting the BOP segment into potential customers for MNCs. To perform this evaluation, I conducted a comprehensive literature review and conducted interviews with 162 storekeepers, suppliers, and customers of sari-sari stores in Luzon, Leyte, and Samar Island. In addition, I examined the distribution of daily necessities, processed drinks, and food that are sold by sari-sari stores. Through these methods, I illustrated the purchasing power of the BOP segment and the sales methods that have been employed to target it.

I identified eight types of distribution channel that illustrate how goods that are sold at sari-sari stores reach the end consumer. These channels indicate that sari-sari stores serve as intermediaries between retailers and end users. Results of the interviews further reinforce the importance of sari-sari stores for Philippine consumers that was suggested by the stores' relative ubiquity throughout the country.

Generally, the methods by which goods were produced, delivered, distributed, supplied, and sold were essentially the same in the six different areas from which data was collected. However, the ways in which owners of the sari-sari stores provided payment to wholesalers and collected payment from customers varied. In urban areas, population turnover makes cash settlements common. In areas characterized by agriculture and fishing, shopkeepers are able to defer payment on the basis of their customers' respective incomes (e.g., when farmers harvest their crops). To penetrate the BOP market effectively, MNCs must allow each area to maintain its respective methods of payment.

In addition to having different payment methods, the purchasing power of consumers in the BOP segment also differs with respect to the area in which they live.

Whereas city slums and villages have a large contingent of individuals in the BOP segment, the Manila business district is largely characterized by middle-class consumers. Although sales growth varies with store size, a standard of purchasing power for the BOP segment was established if ten or more customers visited the sari-sari store per day.

Regardless of the area in which they operated, sari-sari shop fronts featured the same MNC goods. For other MNCs to penetrate the BOP market in the Philippines, the use of existing distribution channels (particularly through cooperation with wholesalers and distributors) is critical.

Ultimately, this research demonstrates that sari-sari stores are in a key position between distributors and end users, and as such, are central to the Philippine market. As described above, storekeepers make a number of purchases that are particularly useful for consumers in the BOP segment. In this way, even the poorest of consumers are able to get items from sari-sari stores. Therefore, to enter a BOP market effectively, MNCs should seek to partner with sari-sari stores to take advantage of their unique position as mediators between distributors and consumers. Moreover, upon entering the BOP market, MNCs should adhere to the distribution system that sari-sari stores use. Doing so will simultaneously preserve the efficiency of that distribution system and retain the usefulness of the people within it.

To implement a business model in the BOP market efficiently, it is important to address the specific needs and wants of the consumers that comprise it. Further, it is important to leverage sari-sari stores' respective familiarities with local customers to market the goods that fulfill those needs and wants. Collaboration of this nature between MNCs and local consumers will produce a mutually beneficial relationships; MNCs can enter into a previously untapped market and the lives of consumers in the BOP segment will be improved.

Although this study establishes the ways in which product distribution occurs through sari-sari stores, patterns of product consumption remain unclear. As such, the next step in this research is to elucidate these consumption patterns. Interviews with wholesalers would also be useful for identifying the criteria they use for selecting items to be sold in sari-sari stores.

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