

## How the World's 5 Billion Low-Income Consumers Decide What to Buy

As more companies look to developing markets for growth and profits, they continue to struggle to understand their targeted customers: How should we tailor products and services? What are our distribution strategies? Can we build brand loyalty without interpreting cultural attitudes? Lessons learned from a small Ugandan startup will help shine a light on what drives the purchasing decisions of the world's poorest consumers.

W<sup>e</sup>alth is a relative term. Most of us evaluate personal wealth based on the world we know, considering ourselves rich or poor in relation to neighbors, colleagues, friends and family. We learn about the purchasing habits

of various economic classes within our society through these interactions and comparisons. However, when we take a step outside societal norms or economic class and try to predict consumer behavior, the task becomes more



difficult. Not surprisingly then, firms that have built their success serving developed markets are often at a loss to grasp the purchasing attitudes and decisions of the world's more than 5 billion low-income consumers.

We discussed this topic and the economic trends in developing markets in our 2007 article, "Serving the Low-Income Consumer: How to Tackle This Mostly Ignored Market."<sup>1</sup> Today, our research findings and analysis from almost five years ago are more relevant than ever as years of near double-digit growth in China, India and other emerging markets underscore how quickly wealth can accumulate and change hands in the modern global economy. As companies vie for first-mover advantage, consumers have already begun forming loyalties to brands and shops—preferences that

will become more apparent as their purchases and expenditures increase.

Understanding low-income customers and their "purchase triggers" will become more important in the years ahead.

## Low-Income Consumer "Purchase Triggers"

Difficulty in serving the low-income consumer segment is common, especially as most multinational firms have designed their product development, marketing and supply chain functions to serve the "wealthy" consumers that constitute developed markets. Yet success in the developing world demands an understanding of, and adaptability to, certain purchase triggers that are peculiar to low-income

## An Introduction to AFRIpads

Much has been written about the importance of empowering women as a means of stimulating economic development. Good menstrual health and hygiene management play a major role, allowing girls to complete their education and women to find jobs and advance their careers. Hoping to build local entrepreneurial spirit and address development goals in Uganda, Canadian Paul Grinvalds and American Sophia Klumpp believed that a reusable menstrual pad could be manufactured locally. The pad could be made to last a year or more with only hand washing, and be affordable to almost all Ugandan girls and women.

Following a pilot project in early 2009, a Dutch private equity investor saw the business and social potential of the idea. The investor, along with several others, provided the necessary capital—and AFRIpads was born. A.T. Kearney has supported the startup on a pro bono basis ever since.

Today, the company operates two factories with a combined staff of 60 employees, mostly rural Ugandan women, and is in talks to ship products in bulk to major non-profit organizations, including World Vision, War Child Holland, United Nations International Children's Emergency Fund (UNICEF),

Rotary International and United Nations High Commissioner for Refugees (UNHCR). As AFRIpads grows, it plans to build its own distribution network and sell directly to consumers.

The demand for such a product in Africa and across the developing world is undeniable. A recent Credit Suisse economic study finds that 53 percent of the almost 700 million Indian women who earn less than \$1,000 per year are likely to spend more money on menstruation hygiene products in the next 12 months, and similar spending trends are expected in China, Egypt and Saudi Arabia.

<sup>1</sup> The article appeared in *Executive Agenda*, Volume X, Number 2, 2007.

It is available at <http://www.atkearney.com/index.php/Publications/serving-the-low-income-consumer.html>.

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consumers. In our experience, three triggers must be addressed:

- **Product relevance.** Products and services must be designed, distributed and presented in a format that meets the unique requirements of each customer demographic.
- **Proximity and exposure.** Appropriate distribution and media channels must be employed to connect effectively with a target market.
- **Perceived value.** Rather than concentrating solely on developing “low-cost” products to entice prospective low-income customers, successful firms will focus on maximizing the overall value proposition of their products.

### Trigger #1: Product Relevance

Pretend that you are forced to take a “zero-based budgeting” approach to your personal budget, such that you have to justify every product you own, and weigh every constituent feature in order of importance, starting with nothing. Would you choose daily coffee over a basic cell phone call? What about toothpaste versus soap? Most of us, if pushed, would probably split the difference, choosing the cheaper, flavorless toothpaste along with the cheaper, basic bar of soap. While we in the developed world take these products for granted, and such either-or decisions rarely have to be made, for the large majority of the world's population, tough purchasing choices are the norm. And a lack of available products tailored to their needs exacerbates the dilemma.

Several years ago, Johnson & Johnson engineer Ram Vaidya tried to persuade top executives at the company's headquarters to develop low-cost medical devices for markets in India and Southeast Asia. For a time, no one was listening. From a financial perspective, the potential profits seemed too small to justify the investment, and Johnson & Johnson did not want to compromise quality by making and selling lower-cost devices. Then the design team made an important discovery: Nurses in rural settings had little need for added features such as the digital memory or PC-connectivity that come standard on blood glucose meters. In fact, they were quite happy to record all readings with a pencil and paper. Stripping away all features except the accurate reading of blood glucose, J&J redesigned the product and is now selling blood glucose meters in developing markets for one-third of the original cost. Perception of quality is dependent only on the end consumer's utility.

Product relevance also pertains to incomes. In the modern world, many people live paycheck to paycheck, relying on credit cards and lines of credit when needed, while struggling to put enough money away to buy a house or bolster retirement plans. People in emerging markets also live paycheck to paycheck, although they are often paid daily rather than bi-weekly or monthly, and have more trouble finding and responsibly using credit. Local jails in Africa are full of people who have repeatedly defaulted on loans. The result is that low-income consumers are unlikely to

save large sums of money—or at least not enough to purchase products in bulk. To address this, P&G, Colgate-Palmolive and Unilever have developed smaller packet sizes for their products to sell them for less. In addition, the microfinance movement, popularized by the Grameen Bank, is alleviating some of these financing difficulties and helping grow the real “wealth” of low-income consumers across the world.

### Trigger #2: Proximity and Exposure

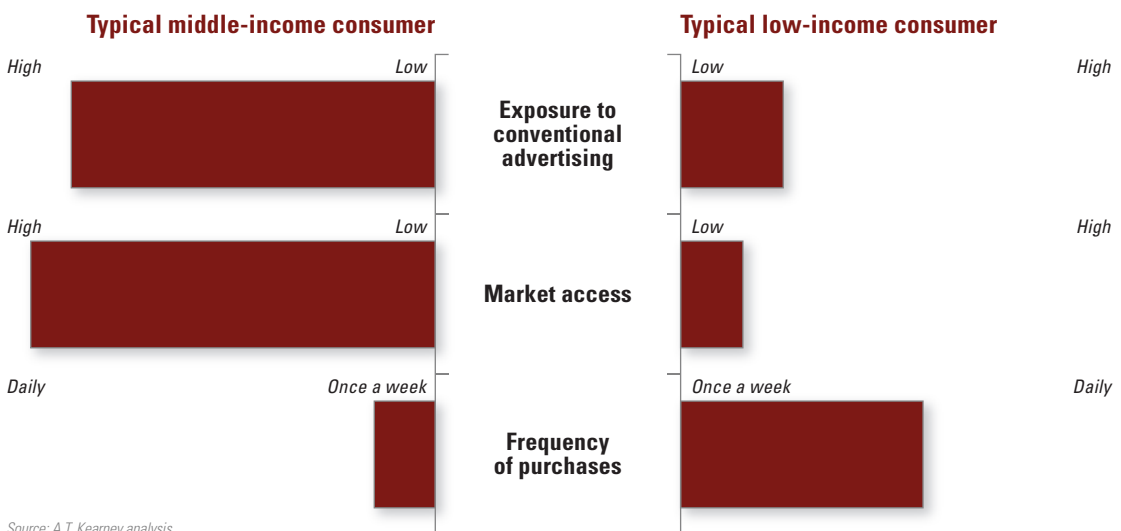
Low-income consumers in developing countries are spared the barrage of media advertising we in the modern world endure, but they are not completely isolated from it. Radio advertising is one of the most powerful means of messaging, with television and Internet advertising becoming increasingly effective, especially among wealthier low-income consumers.

Yet a demonstrable gap exists between how urban and rural consumers become aware of products (*see figure 1*). Pepsi-Cola billboards featuring Argentina’s Lionel Messi, France’s Thierry Henry and other famous footballers lined the streets of African cities during the World Cup, but went unseen by rural Africans, many of whom never go to the city. Recognizing this gap, Unilever sent marketing teams to rural villages and schools to use the old-fashioned “town-crier” approach to promote hand-washing using its low-cost Lifebuoy soap.

How consumers make purchases is also different in cities compared to rural areas. While organized retail has made headway in even the poorest of cities, rural consumers are typically limited to whatever is sold from makeshift stands at the village trading post. P&G estimates that 80 percent of consumers in emerging markets shop exclusively at these closet-sized shops, unable to find better options within walking distance. Many of the major

FIGURE 1

A large gap exists between how urban and rural consumers become aware of products



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consumer packaged goods (CPG) companies have teamed with non-profits and micro-finance groups to develop networks of “door-to-door” salespeople, predominantly women. This increasingly popular strategy is akin to Avon and Amway—both companies have leveraged the entrepreneurial spirit and network synergies of a mobile, direct-contact sales force to become global retail players, each with annual revenues around \$10 billion.

This largely untapped desire of many women to participate in their local economies and garner a higher standard of living for themselves and their families did wonders for

economic growth and the empowerment of women in the western world (Avon’s CEO Andrea Jung and Amway China’s chairwoman Eva Cheng are on Forbes’ 100 Most Powerful Women list). Economists are predicting the same will occur in the developing world’s road to prosperity.

### Trigger #3: Perceived Value

In comparing shopping habits across economic classes in developed countries, you might assume low-income consumers are not very brand-conscious. The thinking is that poorer shoppers

## Developing the AFRIpad: Tailored to Meet Local Needs

Girls in rural Uganda have few choices when it comes to menstruation hygiene. The use of tampons has not gained widespread cultural acceptance and the most commonly available pad is Procter & Gamble’s disposable Always (the brand is so well known that Always has become the noun of choice for describing pads). The dilemma is that Always pads cost approximately \$2 per package and customers must get to a town or city to purchase them. Pads are therefore considered a luxury product, available only to wealthier low-income customers, with those in lower-income brackets resorting to cruder methods of menstruation management, which lead to school absenteeism and low test scores.

AFRIpads saw this problem

as an opportunity. While many manufacturers shifted toward developing smaller or single-use packages for the African market, AFRIpads developed an affordable, reusable menstruation pad kit that could be purchased once a year. Based on a “Lunapad,” an environmentally friendly and reusable product made in Canada, the design was customized for the Ugandan market by minimizing costs, conforming to consumer preferences and enabling local manufacturing.

In our work with AFRIpads, we found that tailoring product formats to meet local requirements can yield strong results. “It is a completely opposite mentality from Western women’s,” explains founder Paul Grinvalds. “In Africa, girls are look-

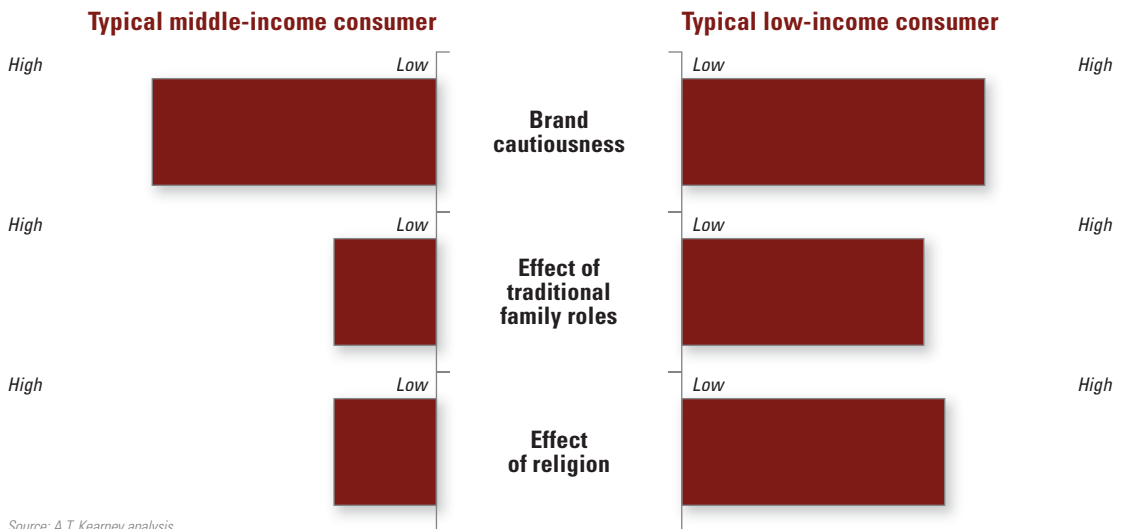
ing for the reassurance of a pad of substantial thickness, unlike the more discreet Western products such as tampons.” He adds that they are also willing to accept less absorption in favor of faster drying times after washing, and that the choice of colors is very important too. “Pink pads are very popular, followed by blue and green—the choice of color is perhaps the girls’ greatest source of delight. Giving them a choice when buying something is fairly groundbreaking in the villages.”

A recent survey found that 97 percent of girls consider AFRIpads a better product than Always, 68 percent cite reliability, comfort and dependability as their rationale for purchase, while only 23 percent cite low price.<sup>2</sup>

<sup>2</sup> Tracey Crofts, “Will They Cotton On? An Investigation into Schoolgirls’ Use of Low-Cost Sanitary Pads in Uganda.” Loughborough University Water, Engineering and Development Center, August 2010

FIGURE 2

Brand cautiousness, traditional family roles and religion play role in purchasing decisions



### How Does a Rural African Girl Come Across an AFRIpad?

Long school days, lengthy commutes on foot and the general hardships of rural life isolate most Ugandan schoolgirls from television and print advertising. Connecting with this market necessitates more traditional means of marketing. AFRIpads partners with World Vision, Rotary International, War Child Holland and the rural health saleswomen of the Bureau Régional de l’Afrique Centrale (BRAC) to ensure its product reaches all girls. School visits have bolstered direct sales, and the first radio commercials resulted in hundreds of phone calls in just a few days.

However, a recent AFRIpads survey found that 72 percent of target consumers did not use AFRIpads because the products were not readily available. Of those who did use them, 69 percent purchased the product from local shops or village stands, a distribution network difficult to penetrate or monitor.<sup>3</sup> “The biggest challenges are the informal systems,” says Grinvalds. “There is virtually no formal zoning or territorial delineation. We have to use people that know the areas. This is why we’re partnering with NGOs like BRAC, Plan International, and a local Ugandan organization known as

MIFUMI and its local networks of health product saleswomen who can navigate the villages better than anyone.”

This approach comes with its own challenges, however, as some saleswomen are more inclined to be motivated and entrepreneurial than others. “Cultural differences with regard to work ethic can be profound,” he explains. “Even within Uganda, sales performance can be completely different from north to south and east to west. Some women expect things to happen *to* them as they know only a charity culture, while others take real initiative,” he adds.

<sup>3</sup> Tracey Crofts, “Will They Cotton On? An Investigation into Schoolgirls’ Use of Low-Cost Sanitary Pads in Uganda.” Loughborough University Water, Engineering and Development Center, August 2010

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are more likely than wealthy shoppers to buy generic brands, usually from discount retailers. Our research demonstrates, however, that brand-conscious low-income consumers are even more reluctant than middle-class consumers to try unknown local brands. As “value buyers” with limited savings, low-income consumers require reliable quality at competitive prices. Indeed, international brands are valued more than domestic brands by 70 percent of low-income shoppers (see figure 2 on page 41).

Cultural considerations may overshadow these trends, however, and brand cautiousness is likely to vary significantly among low-income consumers in different parts of the world—for example, between those in South America and China. In fact, cultural issues can be foremost in how low-income shoppers make their purchase decisions. Adherence to traditional family roles, public perceptions and religion play a big part in how these consumers spend their last dollar, whether on a school textbook

### What Are Ugandan Girls Willing to Pay?

Although the majority of school-outreach visits promoting AFRIpads produces promising results, the company’s promoters are occasionally kicked out after delivering their presentations to schoolgirls. Incensed teachers sometimes question the profit-driven motives of “Mzungu” or white-managed businesses. (The subsidized price offered directly to these schoolgirls for one package of AFRIpads, good for one year, is currently US\$1.70.) Such skepticism of business can thwart important economic growth, so companies

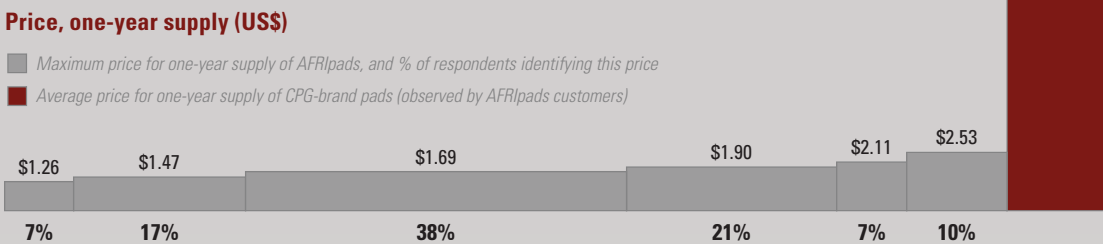
must develop creative approaches to ensure the trust of locals. P&G and Unilever, for example, have encountered similar resistance when trying to promote antibacterial soaps and other products to low-income consumers. As such, they have relied on partnerships with organizations such as UNICEF to seek the trust of their markets.

While low-income consumers place a premium on international brands, companies must not overestimate this premium when pricing their products. For example, a one-year supply of a global

brand of pads costs four times more than what rural consumers are willing to pay for a pack of AFRIpads (see figure). While all surveyed by AFRIpads said they would consider using CPG-brand pads, they were unanimous in their answer for why they did not buy these products: the high price.

Also, while AFRIpads are more affordable over the course of a year than other Ugandan products, the initial cash outlay can be prohibitive. Therefore, tailored-pricing and product-sizing strategies are often employed.

**FIGURE: A global brand costs four times more than what rural Ugandan consumers are willing to pay**



Source: A.T. Kearney analysis

*Unilever sent marketing teams to rural villages and schools to use **the old-fashioned “town-crier” approach** to promote hand-washing using its low-cost Lifebuoy soap.*

for their children, a pair of shoes or a bet on a football match.

It is unfortunate that low-income consumers rarely invest in products and services that could raise their real incomes (education, electricity or hygiene products, for example), expecting to get these for free; many do not think twice, however, when picking up non-essential items such as alcohol, tobacco, soft drinks or candy.

## An Iterative Approach, For Now

As cultures and behaviors vary across geographic and ethnic divides in the developing

world, we still cannot point to comprehensive theories or strategies to help predict purchase behaviors of low-income consumers. For now, our more familiar iterative processes of segmentation, product development and strategy will have to do. Nevertheless, our experience and research in working with low-income consumers around the world, including what we have learned from our partnership with AFRIPads, demonstrates common triggers that drive purchasing decisions. Companies that understand these triggers, and align their manufacturing and marketing strategies accordingly, will be best positioned to gain footholds in these rapidly growing markets. 🌐

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# *executive* **agenda**

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