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# Japanese Business in the BOP Market: Sources, High Potential and Some Issues

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**Abstract:** This paper seeks a source of BOP (Base of the Pyramid) business. As a result, I revealed that Japanese companies have a particular aptitude and strength for BOP business, and the time is ripe to break into this market. Japanese companies have five strengths that make it possible for them to succeed in BOP business: (1) a steadfast philosophy, (2) a strong sense of mission, (3) a long-term perspective, (4) a Gemba-oriented stance<sup>1</sup>, and (5) high-quality goods and services. Considering BOP success factors, it is clear that Japanese companies have much more of a base for BOP business than do Western companies. Building unconventional partnerships is the key to success in BOP business for Japanese companies.

**Keywords:** Sources of BOP business; Japanese companies' strength; Unconventional partnership

## Introduction

This paper examines inspiring ideas in which Japanese companies are finding innovative ways to tap into neglected BOP markets to increase their profit while simultaneously reducing poverty and contributing to BOP society. I have three objectives: (1) to clarify sources of BOP business through case analysis of Yakult Honsha Co., Ltd., (2) to discuss Japanese companies' aptitude and strength for BOP business, and (3) to assert that the time is ripe for Japanese companies to break into the BOP market.

The concept of the BOP was first articulated by Prahalad and Hart in 1998.<sup>2</sup> From the year 2000 on, United Nations Development Programme, United States Agency for International Development and other such public institutions began adding their support, and all at once BOP business expanded among Western companies. Finally, after a delay

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of nearly 10 years, the debate and discussion on BOP business has begun to intensify in Japan. It was in 2008 that interest in BOP finally began to rise, and full-scale efforts started in 2009. Japan has thus entered its first year of an era of BOP business.

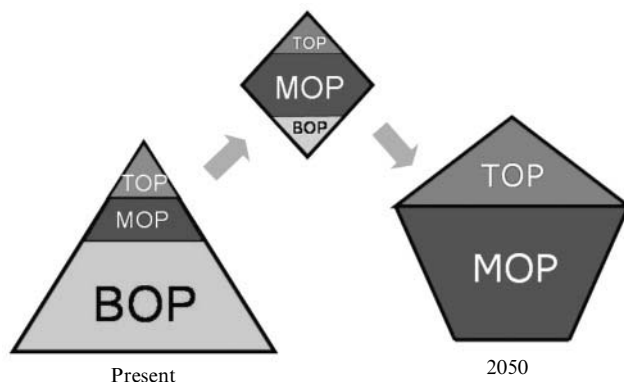
In keeping, there is a strong feeling that Japanese companies got a late start in BOP business compared with Western companies. Undoubtedly, Japan’s delay could be considered “the lost 10 years.” Owing to this delay in entering the BOP market, in which it is believed that predecessors will profit more, Japanese companies could be facing an uphill battle.

However, well before the BOP was conceived of, a Japanese company did succeed in entering slum areas to “simultaneously realize corporate profits and social profits” in a market comprised of the poor. That company was Yakult Honsha Co., Ltd. Analysis of the trajectory of its international business development reveals that Japanese companies are a source of BOP business and have a particular aptitude and affinity for it. Additionally, Nihon Poly-Glu Co., Ltd., the Japanese star of small and medium-sized companies involved in BOP business, revealed a high potential of Japanese companies for BOP business. The time is now right for Japanese companies to break into BOP business, and the possibilities are increasing for them to become a key player in the next stage.

### 1. Three essential elements to BOP business

BOP business involves discovering the unique needs of the poor and providing products and services that satisfy those needs with methods not conceived of in previously existing markets. Consequently, this business simultaneously boosts company profits and contributes to poverty reduction and the resolution of the social issues of the poor.

Figure 1: Transforming a poverty pyramid to a wealthy happy pentagon



Source: Author

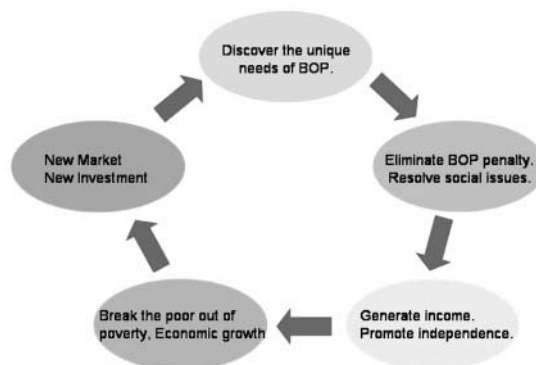
In other words, it is business through which companies and the poor can grow together. A company pursues its core business to produce profits and advantages for both the company and the poor society. This is BOP business, which ultimately aims to transform a poverty pyramid to a wealthy happy pentagon, as Figure 1 shows.

I found that there are three essential elements to BOP business. First, the needs that the poor have socially or individually must be met. However, this alone would amount to nothing more than regarding the poor as merely a market. To make it possible for people to break out of poverty, not only must their needs be met, but income must be generated for them and their independence should be stimulated. Examples of BOP business frequently cited are cases where products are divided into small lots so that they can be priced cheaper and made more readily available for purchase. However, this alone will bring about neither income nor independence for the poor. The three essential elements to BOP business are (1) meeting the needs of the poor, (2) generating income, and (3) stimulating independence. Figure 2 shows the happy spiral of BOP business to break the poor out of poverty and to ride on a wave of economic growth.

To continue, the features of BOP business can be summarized as the following three points. Unless a business satisfies all three, it cannot be considered a BOP business. First, BOP business should not be charitable work, but core business. It must be sustainable over the long term as a core business that earns profits. Second, it must use innovative, efficient and sustainable business means to solve the issues faced by the BOP tier; how to reduce poverty, improve the environment and ensure better lives. Third, as a partner of the local people, it must share their values.

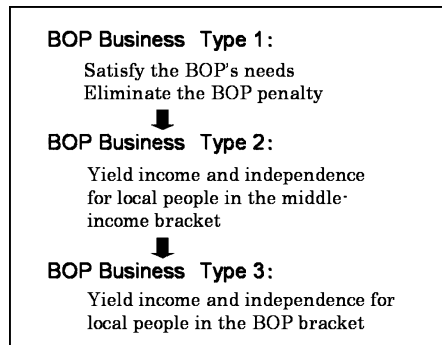
As shown in Figure 3, BOP business can be classified in terms of three types. Type

Figure 2: Happy Spiral of BOP Business



Source: Author

Figure 3: Three types of BOP business



Source: Author

1 involves the business of discovering the specific needs of the BOP, not previously regarded as a market, and fulfilling them. At this stage, the objective is to first satisfy the needs of the poor sector at fair prices, although income and independence are not generated for them. This leads to the elimination of the BOP penalty. For most of the BOP tier, payment for basic products and services takes the form of cash or mandatory labor, with higher prices paid than the amount paid by affluent consumers for the same product or service. Moreover, in most cases, it is believed that the BOP tier is receiving products and services of inferior quality. Such situations in which poor people are forced into paying higher costs are abundantly evident throughout the BOP, constituting a major reason why it is difficult for them to break out of poverty (Hammond et al., 2007).

Type 2 business aims to satisfy the BOP's needs and to eliminate the BOP penalty. In addition, it yields income and independence for the local people. However, at this stage, the local people, who are benefiting from BOP, are more frequently in the middle-income bracket than in the low-income bracket. There are some difficulties to conducting business with people in the low-income bracket as partners. The ability to do sums and to write is the most basic requirement, and it is the people in the middle-income bracket who are able to fulfill such requirements.

Type 3 is business that involves people in the low-income bracket as partners and produces income and independence. This is the type of BOP business that truly makes it possible for people to break out of poverty. However, it is difficult to arrive at this type of business in just a single step: rather, it requires the enrichment of education programs and deployment over time.

## 2. Japanese company revealed as a source of BOP business

A good example of recent BOP business frequently cited is the yogurt sales of Grameen Ladies working for Grameen Danone Foods, Ltd.<sup>3</sup> This joint venture, which involves Grameen Bank of Bangladesh and Danone, a French food multinational company, has been called the world's first multinational social business and is attracting attention. The prototype for the Grameen Lady, who plays a central role in this venture, was indeed the Yakult Lady system.

In 2004, HIRANO Hirokatsu, who was the Senior Managing Director, Head of International Business, Yakult Honsha Co., Ltd., took office as external director of the Danone Group. During his three-year term, he took many opportunities, beginning with, but not limited to, board of directors' meetings and global strategy meetings to frequently explain Yakult's founding philosophy and the Yakult Lady system to the Danone side.

It was thus that through Mr. Hirano, Danone came to understand that the Yakult Lady system was effective for entering markets in developing countries unequipped with modern distribution channels and for building up steady customers there. This led to Danone joining forces with Grameen Bank and establishing Grameen Danone Foods Ltd. in Bangladesh.

Hindustan Unilever Limited (HUL), which is India's largest fast moving consumer goods company, is also often cited as a prominent case of BOP business. This company employs a similar concept and system to the Yakult Lady system, although it is not clear whether HUL had recognized the Yakult Lady system or not.

The reason for citing Yakult as a source for BOP business in Japanese companies is its Yakult Lady System, which the company started in 1963. From the late 1970s and into the 80s, many Japanese companies achieved high quality owing to their substantial technical capabilities and product development capabilities. While working to capture markets in developed countries, Yakult Honsha Co., Ltd. turned toward developing countries with its own overseas strategy based on its founding philosophy.

At that time, the concept of corporate social responsibility, so popular at present, was lacking, as was the BOP business model. To globally actualize the philosophy "we contribute to the health and happiness of people around the world", the company embarked on overseas expansion. Based on such philosophy, expansion proceeded as follows<sup>4</sup>.

First, priority was given to developing countries, which are weak in medical care, over developed countries, which are strong in medical care. Second, in the countries to which Yakult Honsha Co., Ltd advanced, rather than giving priority to the upper class, already

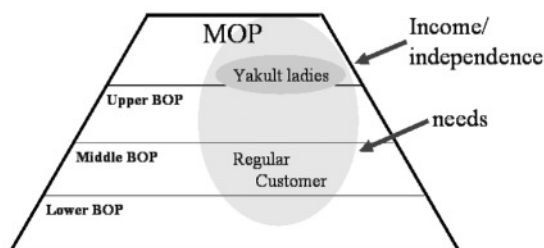
advantaged in terms of health, Yakult Honsha Co., Ltd. gave priority to those below the middle class, disadvantaged in terms of health. Those in the slums were made a top priority. Third, the purpose of drinking Yakult beverages, rather than featuring them merely as soft drinks for quenching thirst, had to be fully understood by the local people. For that purpose, it was indispensable that the correct explanation of Yakult product be provided and to do so, delivery by Yakult Ladies, who were trusted in their areas, proved to be most effective. Furthermore, Yakult Honsha Co., Ltd was able to provide employment opportunities in developing countries, where there were generally few opportunities for women to work.

Thus, the system of having Yakult Ladies make home deliveries, which started in Japan in 1963, came to contribute substantially to society in two ways: maintaining health and creating employment opportunities for women. As a core business, Yakult's pursuit of sales not only produced profits for the company, but advantages for society, as well. It can be said that it did nothing less than simultaneously achieve corporate and social profits. Although Yakult Honsha Co., Ltd did not develop its Yakult Lady delivery system based on an awareness of BOP business, Yakult Ladies, who date back 45 years from the present, can be considered one source of BOP business.

When viewed from the perspective which has already been mentioned as the three essential elements, how does the Yakult Lady system fare? The schema in Figure 4 clarifies the meeting of needs, generation of income and stimulation of independence. It is certainly a core business. Consequently, it both contributes to improving the health of the poor and establishing a partnership with the local women, who work as Yakult Ladies. Every individual who participates as a Yakult Lady becomes a proprietor who has a similar relationship with Yakult Honsha Co., Ltd. as the retail stores it entrusts with sales. In other words, Yakult Ladies are not part-timers or other such contract employees.

There are currently around 36,000 Yakult Ladies in 14 countries and/or regions around

Figure 4: Yakult Lady System as BOP business



Source: Author

the world, beginning with Taiwan in 1964.<sup>5</sup> After Taiwan, Yakult's trajectory headed toward full-fledged entry into the Philippines. Analysis of Yakult's battle to enter markets for the poor in the Philippines will clarify factors for success in the BOP market.<sup>6</sup>

In 1981, three years after Yakult Honsha Co., Ltd. first entered the Philippines in 1978, the number of bottles sold daily had fallen by roughly half, and the company faced the crisis of an early retreat. Many of the reasons for this could be attributed to the Japanese-side, including inadequate surveying of the local market and the imposition of Japanese methods without regard for the local situation. Thus, a reconstruction team was dispatched from Yakult Honsha with HIRANO Hirokatsu, then-Deputy General Manager, as its chief. The team tirelessly traversed the slums, made personal sacrifices and worked together, making grueling efforts for the purpose of reconstruction.

Consequently, the number of bottles sold gradually recovered, and Yakult started to get on track thereafter. In 1984, it went into the black for the fiscal year, and in 1987, it cleaned up its cumulative deficit.<sup>7</sup> In 2007, the number of bottles sold per day broke the one million mark. Over the course of 30 years, the number of bottles sold has grown to be 30 times what it was. At a time when distrust of the Philippines side against the Japanese staff had reached its peak in the Philippines and the salaries of employees working in Yakult's Philippines office could not even be paid, the reconstruction activities, which began by relying on the self-sacrifice and spirit of dedication of the Japanese employees, came to bear fruit in a major way.

As of 2008, 1.36 million bottles of Yakult are drunk daily in the Philippines, 40% (520,000 bottles) of which are delivered to each house by 2,400 Yakult Ladies (See figure 5).

Figure 5: Yakult Lady in Sebu, Philippines



Source: photo by author



On average, one Yakult Lady sells 250 bottles a day in the Manila area and 140 bottles a day in rural areas. In terms of total sales for the entire country, per day, this amounts to over 3.6 million pesos. In the area of Manila, the capital, there are many Yakult Ladies who sell over 1,000 bottles per day; even in the rural areas, many of them sell over 800 bottles per day. Concerning Yakult Lady's income, 11% of Yakult Ladies earn beyond 20,000 pesos, 42% of them earn between 10,000 pesos and 20,000 pesos, and 47% of them earn between 4,000 pesos and 10,000 pesos. These incomes are relatively high compared with 8,500 pesos of the graduate starting salary in Philippines.

Although Yakult is by no means inexpensive in terms of local prices, it is frequently drunk by the poor. In Tondo, a slum area in the northwest of Manila, there are 34 Yakult Ladies, and on average, 7,920 bottles a day are sold for the entire area (as of February 2009). There are even two Yakult Ladies working at Smokey Mountain, which is within this area, selling an average of 458 bottles a day.<sup>8</sup>

While beverages generally cost two or three pesos, Yakult, which costs seven pesos (16.8 yen)<sup>9</sup> a bottle, can by no means be considered inexpensive by the poor, so why has it become so popular to this extent? The first reason is that despite the poor being susceptible to diarrhea and dysentery owing to inferior hygienic conditions, the drugs that doctors prescribe are expensive and thus out of reach. Yakult is often drunk instead of medicine to prevent intestinal disease. It is cheaper to drink Yakult to prevent illness than it is to buy medicine. There are also many cases in which doctors prescribe Yakult, and many people believe in its efficacy.

### 3. Japanese small and medium-sized companies having a high potential

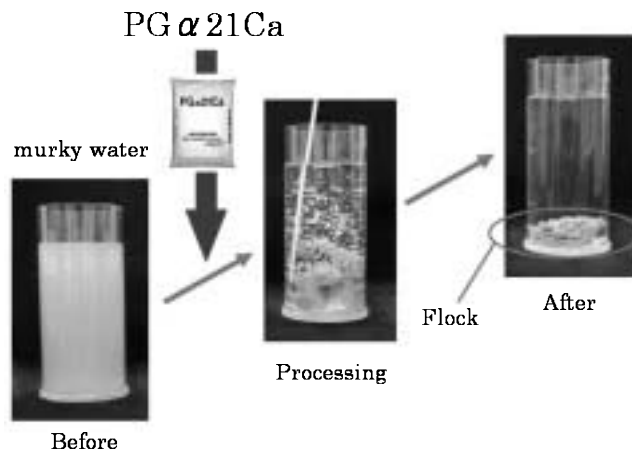
In terms of its presence in BOP business, Nihon Poly-Glu Co., Ltd. (head office: Osaka), manufacturer of flocculant, a water purification agent, can be considered a star among Japan's small and medium-sized companies. Upholding the ideal of making raw water safe and drinkable for people around the world, the company was established in 2002 and is currently in its seventh year. Now, although in small amounts, over 30 countries around the world have come to use its product, flocculant PG $\alpha$ 21Ca.

It was on January 18, 1995, the day after the Great Hanshin-Awaji Earthquake, with a magnitude of 7.2 and the dead amounted to 6,423, that ODA Kanetoshi, now the company's chairman, resolved to develop the product. With drinking water unavailable in the wake of that overwhelming disaster, Oda saw some murky pond water and thought how good it would be if it were drinkable. It was thus that he embarked on the development

of making impure water potable. Working alone over the course of six years, Oda finally completed his objective.

The name Nippon Poly-Glu has its origins in polyglutamic acid. Polyglutamic acid, the sticky component of *natto*, which is a popular soybean fermented food in Japan, has an outstanding water-holding property, holding 5,000 times its weight in water. With his eye on this property, Oda developed flocculant PG $\alpha$ 21Ca. With only 100 grams of PG $\alpha$ 21Ca, 1,000 liters of water can be changed into drinking water, as Figure 6 simply illustrates. Furthermore, it is extremely inexpensive: using PG $\alpha$ 21Ca, 1,000 liters of drinkable water can be obtained for merely 100 yen.

Figure 6: Treating impure water with PG $\alpha$ 21Ca



Source: Nippon Poly-Glu

While this technology is mainly used within Japan for purifying industrial drainage, in developing countries, the same technology can be applied to supplying safe drinking water. In 2002, Oda started Nippon Poly-Glu with just four employees. Now, seven years later, the company has 36 employees (including people from China, Bangladesh, the US, Mexico, Colombia, Singapore and Korea) and is expected to keep making great strides in the future.

Nihon Poly-Glu's first overseas expansion occurred in 2004, in Mexico. Thereafter, the company advanced into China, Thailand, and Bangladesh. Its first step in every country was taken not as a business presence, but in the form of a volunteerism. When the tsunami that followed the Sumatra earthquake of December 26, 2004, causing major damage to southern Thailand, for example, Nihon Poly-Glu provided PG $\alpha$ 21Ca at the

request of the government of Thailand. When Bangladesh was hit by Cyclone Sidr on November 28, 2007, Lions Club International of Dacca requested the donation of 100kg of PG $\alpha$ 21Ca (valued at 63,000 yen), and the company responded in kind. When the product was used locally, people were amazed by its power and subsequently, an offer was made for the purchase of 300kg of PG $\alpha$ 21Ca. It was in this way that the business developed.

Thereafter, parties affiliated with Lions Club International continued to make offers for transactions, but Oda was concerned that sales prices through those routes would be out of reach of the poor. Having seen for himself the state of the poor living on the Bay of Bengal coast, Oda strongly wanted those people to be able to use the product, but how could that desire be realized? The issue that he confronted was how to combine volunteerism and business.

The Poly-Glu Lady was an idea that emerged in the process. The idea was not Oda's but was instead set forth by the young employees who visited the Bengal area. PG $\alpha$ 21Ca, the company's flocculant, is an extremely safe coagulant that uses inorganic constituents as raw materials, beginning with biodegradable cross-linked polyglutamic acid and calcium. If used incorrectly, however, the desired results are sometimes not obtained (such as with the dangers accompanying raw water that contains toxicants). In keeping, face-to-face selling that included an explanation of how to use the product proved necessary, and it was concluded that selling would be the most effective if the local women were involved. Thus, in the summer of 2009, the method of sales performed by Poly-Glu Ladies was initiated (See Figure 7).

As of December 2009, 20 women between the ages of 16 and 32 were working as

Figure 7: Poly-Glu Lady Demonstrating PG $\alpha$ 21Ca



Source: Nippon Poly-Glu

Poly-Glu Ladies. At present, interest in the Poly-Glu Lady position is overwhelming: around 60 people have expressed their desire to work in this capacity. The Poly-Glu Ladies stock up on PG $\alpha$ 21Ca and divide it into 10g and 20g containers to which they affix labels printed in Bengali. They then sell the 10g containers for 15 takas (22 yen) and the 20g containers for 25 takas (33 yen). About one-third of their sales become their own disposable income. In this way, they earn 3,000 takas (4,500 yen) a month, on average. In Bangladesh, women frequently marry at the same time they graduate from high school, owing to the lack of employment opportunities. For such women who have no income, Poly-Glu Lady will be a valuable presence in terms of creating work and providing the opportunity to achieve economic independence.

As Oda has said, "Volunteering alone will not eliminate the woes of the world. Instilling a sense of independence is important." Although initially involved with the poor as a volunteer, he recognized the limitations and came to evolve his efforts into a business venture. During that process, he claims that he had never heard of the term BOP business. With no particular awareness of the BOP, he grappled with the issues facing him and turned them into a business.

As a result, this led to both income and independence for the local people. This is truly a classic example of BOP business in which pursuit of a core business contributes to the poor segment of society. In the rural areas of Bangladesh, which has a population of around 170 million, water supply system coverage is below 30%. In the face of such existing conditions, it is expected that a market of 8 billion yen will be formed in about 10 years.

Oda states that he is very happy that his technology is useful to society and that it is his mission to see that this product will help the poor people in developing countries who are suffering due to lack of water. Owing to his strong sense of purpose, the company was able to overcome a major crisis. In 2008, a total of eight people - some board members and some employees - hatched a plot to take over the company. False order forms were generated and damages of 680 million yen were incurred. The company was close to being filed under the Corporate Reorganization Act, but Oda claims that what enabled the company to overcome the situation was his strong sense of mission.

From the fact that the eight people who hatched the plot had never once made field visits to developing countries, Oda resolved to make sure that all employees were to visit and see for themselves the actual locations, gamba, where PG $\alpha$ 21Ca will be used in the future.

At present, Oda continues to lead the company. Visits are frequently made to

developing countries, and  $^{21}\text{Ca}$  is demonstrated in each place, centering on schools and hospitals. Oda, who asserts that poverty is at the bottom of many tragedies, emphasizes that BOP business should be the mission of Japan's small and medium-sized companies. He also states that opportunities indeed exist within the BOP business.

#### 4. Japanese companies demonstrating a particular aptitude for BOP business

Yakult Honsha Co., Ltd. has five strengths that made it possible to secure the poor as a market and contribute to society through core business: (1) a steadfast founding philosophy and principles, (2) a strong sense of mission, (3) a long-term perspective, (4) a Gemba (workplace or actual location)-oriented stance, and (5) outstanding, scientifically backed products, Yakult products (Schaumburg, 2008). This is what can be called an ideal model for a BOP business that definitely solves social problems through core business.

These five strengths are not peculiar to Yakult Honsha Co., Ltd. When the concept behind Japanese-style corporate governance and the special nature of the characteristics that distinguish Japanese companies are considered in light of BOP success factors, it is clear that Japanese companies have much more of a base for BOP business than do Western companies, or at least British and American ones.

In terms of the concept behind British- and American-style governance, corporate goals are straightforward (Abegglen, 2006, Chapter 7). Specifically, they focus on value for shareholders - i. e. raising share prices to the maximum - and give the highest priority to shareholders' profits. The major participants are first, the shareholders; second, the management; and third, the board of directors. There is thus no room for employees and other stakeholders to come into the picture (Monks & Minow; 2008). The objective of British- and American-style companies - to boost profits in the short term and cause share prices to rise - is completely incompatible with BOP business success factors.

In contrast, in the way of thinking behind Japanese-style corporate governance, although corporate objectives naturally place importance on profits and shareholders, the greater emphasis is on maintaining business and having it prosper over the long term, ensuring that its existence as a collective will be long-lasting. Abegglen has criticized US companies, remarking, "The result of the US governance system, dedicated to maximizing share price, with the CEO largely free to pursue his own interests, is short-term share price maximization, selling off the corporation's future, the future of everyone in the company except top management, and the future of much of the community as well (Abegglen, 2006, p.139)." It thus can be said that Japanese companies, which emphasize the collective, the

consensus and long-term profits, clearly have far more possibilities and potential for BOP business.

There is some evidence of Japanese companies' aptitude for BOP Business. The 16<sup>th</sup> Corporate White Paper of the Japan Association of Corporate Executives re-evaluates the strengths of Japanese companies by comparing them with those of the West, and cites the following as the strengths of Japanese companies; a long-term perspective, reform and improvement capabilities, and a Gemba-oriented stance. All of these strengths can be considered outstanding attributes for engaging in BOP business.

In this investigative survey, it was revealed that 94.3% of Japanese companies recognize the need of 'management from a long-term perspective', and 80.6% of Japanese companies recognize the importance of 'maintaining and strengthening the capacity for on-site (Gemba) process innovation.' Japanese management often goes to the front lines, gemba, to look for waste and opportunities to innovation while Western companies' management rarely goes to gemba. Japanese management does not hesitate to go to slum areas. In Japanese business, gemba refers to the place where value is created.

Here is further proof. Protocol for BOP business has already been published by Cornell University BOP team (Simanis, Erik, et al, 2005; Simanis and Hart, 2008). This protocol shows ten operating guidelines (Simanis, Erik, et al, 2005, p.48): (1) Suspend Disbelief - be willing to admit ignorance, (2) Put the Last First - seek out the voices seldom heard, (3) Show Respect and Humility - all parties have something important to contribute, (4) Accept and Respect Divergent Views - there is no one best way, (5) Recognize the Positive - people that live on \$1 per day must be doing something right, (6) Co-Develop Solutions - creating a new business takes mutual learning by all partners, (7) Create Mutual Value - all parties must benefit in terms important to them, (8) Start Small - begin with small pilot tests and scale out in modular fashion, (9) Be Patient - it takes time to grow the ecosystem and win trust before the business takes off, (10) Embrace Ambiguity - the greatest opportunities often arise from unplanned events and circumstances. Among these ten operating guidelines, the Japanese companies have particular strengths in three operating guidelines, (3) show respect and humility, (7) create mutual value, and (9) be patient, although they show strengths for the other seven guidelines, as well.

It is often said that large multinational companies have affluent business resources which can make them easily engage in BOP business. On the other hand, what then are the strengths of small and medium-sized companies as compared with large businesses? Small and medium-sized companies are able to maneuver more efficiently and adapt quickly to new circumstances so that they can modify specifications easily. In addition,

they are able to make decisions swiftly. Furthermore, the sense of compassion that extends consideration to those who are vulnerable is inherent to the Japanese as a people. These are the strengths of Japanese small and medium-sized companies that big companies lack; they are also traits that are suited to BOP business.

Oda cites the following as characteristics that are clearly shared by the many small- and medium-sized companies that have emerged in Ota-ku, Tokyo and Higashi-Osaka City, Osaka: (1) industriousness and devotion to work, including a willingness to work extremely hard, (2) the ability to exercise great patience, and (3) an absence of greed stemming from the joy of being able to work. These three traits are demonstrated as strengths in BOP business, with which big companies just cannot compete.

Also, small and medium-sized companies tend to depend more on the individual strength of top management than on the strength of the organization. This results in the qualities and attitudes of those at the top being called into question. From this perspective, it can be said that there are three keys to their success with BOP business: top management's (1) keen sense of mission, (2) extensive curiosity, and (3) staunch ability to act.

When Oda first succeeded in developing flocculant PGa21Ca, he thought that it would demonstrate its power in the treatment of industrial drainage and other sewage in Japan. Therefore he planned to distribute PGa21Ca to municipalities within Japan, but none of them were interested whatsoever. Opportunities in developing countries, however, did present themselves. There are many cases in which developing countries long for a certain technology, even when such technology has not seen the light of day within Japan. It is also the case that such kinds of technologies are possessed by Japan's small- and medium-sized companies. If the dormant technologies of Japan's small- and medium-sized companies can be used by BOP, two objectives can be simultaneously realized: contribution to the poor segment of society and the rejuvenation of small- and medium-sized companies.

It is precisely Japan's small- and medium-sized companies that can become the major player in BOP business. Currently, Nihon Poly-Glu and the chairman, ODA Kanetoshi, are ahead of the pack in this area, like a star to guide the aspirations of small- and medium-sized companies. Japanese companies, and specifically small- and medium-sized ones, will play a major role in undertaking the challenge of new frontiers and shouldering the mission of establishing what is to become the new common sense: that "the BOP is a business."

Concerning the strengths of Japanese companies, Paul Kennedy, a professor at Yale University, remarked that focusing on who invented something first is not really significant; what is important is not the invention itself but how it is worked with and brought

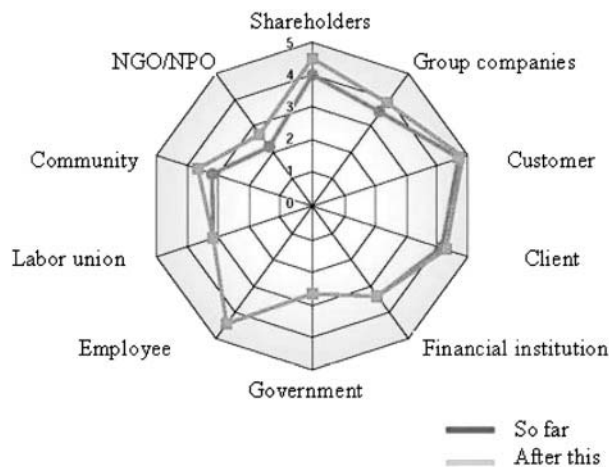
to the stage where application is possible - in other words, the improvement aspect (Nikkei Business, 2009, p.70).

If this idea is applied to the BOP business executed by Japanese companies, it could be said that focusing on who first conceived of the BOP is not really significant; what is important is how to work with it and bring it to a stage of high effectiveness - in other words, the improvement and popularization aspects.

## 5. Issues for Japanese companies, the next key player

For BOP business, partnership is the keyword. It is one of the success factors clarified by research on numerous BOP businesses already existing. For example, London and Hart (2004) extracted three success factors, one of which is “developing relationships with non-traditional partners”. In addition, Hammond, et al. (2007) discovered four basic strategies common to businesses that have succeeded in the “poor” market, one of which is “unconventional partnering with governments, NGOs, or groups of multiple stakeholders (Hammond, et al., 2007, p.10).” Building partnerships with local entrepreneurs and NGOs in this way is the key to success in BOP business. In addition, by involving the local people and providing products and services that are aligned with the needs inherent to the poor, new value will be created locally. This will improve income, making it possible for people to break out of poverty. This is the reason why it can be referred to as a “co-creative approach.”<sup>10</sup>

Figure 8: Emphases of the Stakeholders by Japanese Companies



Source: Japan Association of Corporate Executives (2003), p.168



Table 1: Relationship between business and civil society

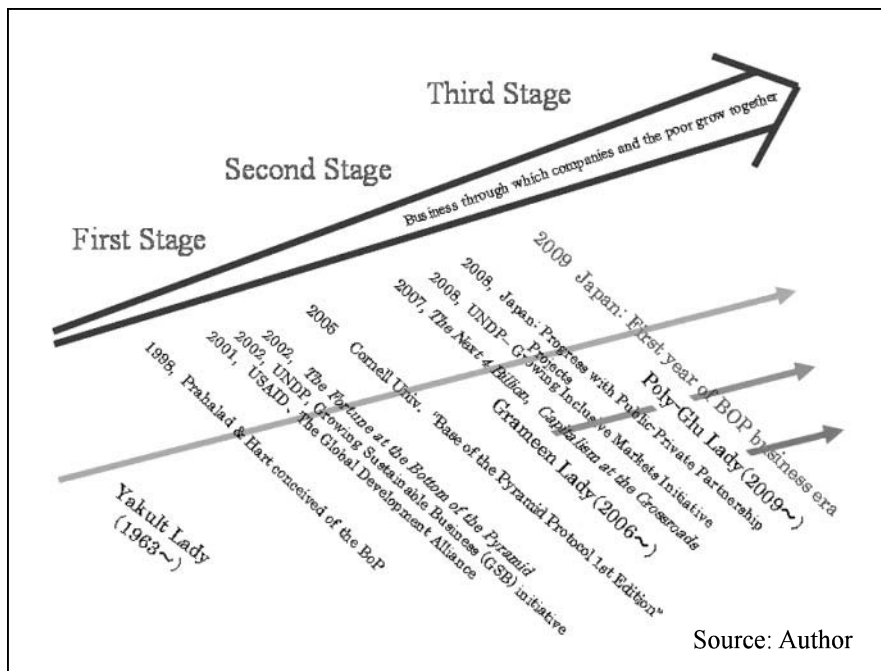
| Questions                                                                                                      | Japan        | US           | EU           |
|----------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| Your company has worked in cooperation with nonprofit organizations to resolve environmental issues.           | Agree<br>23% | Agree<br>69% | Agree<br>59% |
| The existences of nonprofit organizations are useful for accountability of your company's business activities. | Agree<br>46% | Agree<br>56% | Agree<br>60% |
| On the whole, your company takes civil society into consideration when it formulates strategy.                 | Agree<br>75% | Agree<br>98% | Agree<br>90% |
| Your company's overall stance concerning civil society is an active one?                                       | Agree<br>67% | Agree<br>80% | Agree<br>79% |

Source: Author

\* This investigative survey was conducted in 2005.

\* 350 multinational companies replied to this survey, which includes 65 Japanese companies, 72 North American companies, 138 European companies, and 75 Asian companies.

Figure 9: BOP Chronological Table



However, for Japanese companies, this is definitely a weakness. For example, surveys on the emphasis of the stakeholders by Japanese companies reveal that Japanese companies place little emphasis on NGOs, as Figure 8 shows (Japan Association of Corporate Executives, 2003).

Even the results of quantitative analysis of multinational corporations by the author made it clear that compared with Western companies, Japanese companies do not have much of a stance concerning or awareness of the civil society sector, as Table 1 shows (Sugawara and Kato, 2006). This survey aimed to find out how businesses recognize civil society and the extent to which they are influenced by it.

Considering the growing process of BOP, there can have been three stages as Figure 9 shows. The first stage was to let people become aware of the concept of the BOP. Companies at that time were not aware of being engaged in BOP business, *per se*, and the name “BOP” was added as nothing more significant than a postscript.

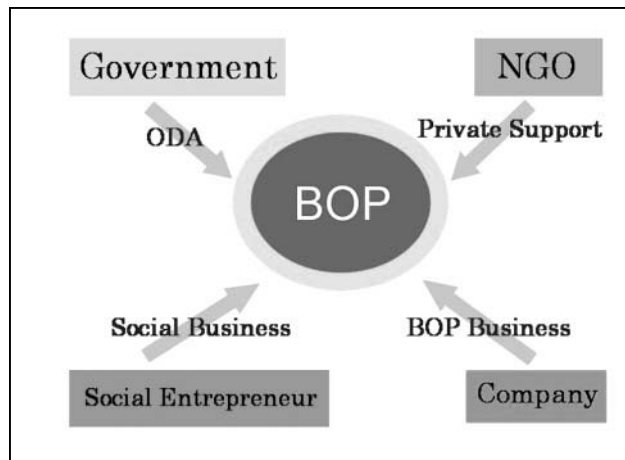
In the second stage, UNDP, USAID and other such public institutions began to focus on BOP and started to render active support. Private Western companies attempted to expand their operations with an awareness of BOP business. Protocol for BOP business has been already put out by Cornell University’s team (Simanis, Erik, et al, 2005; Simanis and Hart, 2008). Private companies also started to evaluate their own BOP businesses. There was movement to actively publish reports on BOP for society at large (Unilever, 2007; Kapstein, 2008; Nestlé 2008).

For about ten years during this time, no overall trend emerged in Japan, although there were a few cases involving Japanese companies. It was in 2008 that interest finally began to rise, and full-scale efforts began in 2009. Japan has thus entered its first year of an era of BOP business.

The Ministry of Economy and Industry of the Japanese government launched a new project which aims to promote BOP business by Japanese companies with a budget of 310 million yen in 2009, which triggered off the BOP business movement in Japan. This project mainly includes ‘Feasibility Studies on Business Activities Solving Social Issues in Developing Countries’, ‘Policy Studies Forum on BOP Business’ and ‘BOP Business Enlightening Seminars’.<sup>11</sup> Also Japan International Cooperation Agency will start a new project to promote a partnership between private companies and NGOs in the field of development in 2010. This Agency will provide fifty million yen at the maximum per BOP project. In this way, companies from Japan, Europe and the US are all present, marking the advent of the third stage, in which a global surge can begin.

In terms of poverty reduction, BOP business is neither an all-purpose cure nor the last resort. As shown in Figure 10, there are primarily four different conceivable approaches to the BOP. BOP business amounts to no more than one such approach, and how to combine it with the other approaches is the key to success in poverty reduction. In this regard, it will be possible for Japan to develop its own unique form of BOP business. This

Figure 10: Four Approaches to BOP



Source: Author

will likely be the specific direction for the “All Japan” approach that is often referred to in the development field.

BOP business is superior to other approaches in three ways: efficiency, innovativeness and sustainability. The extent to how the strong capabilities of BOP business, potentially possessed by Japan’s private companies, particularly small- and medium-sized ones, can be brought forth will be a future issue.

Is there any more pressing problem than poverty reduction, with which four billion people struggle? Japanese companies have abundant technology, capabilities and resources. Is it even remotely convincing for them not to use affluent resources for the people truly in need, but instead to increase variations of conventional products that they continue to sell to people whose lives are already overflowing with goods?

It has frequently been the case that issues that are dealt with negatively or in which there is no interest at first become core management issues later on. For example, CSR, which had merely been considered as part of philanthropic work, is now a core corporate management issue. Although environmental issues, as well, were also handled as if they were nuisances dragging down business, people are now aware that the challenge of confronting environmental problems itself leads to new growth.

Similar to these examples, it is no fantasy that the BOP market, which had not been given the notice it deserves up until the present time, is now coming into the spotlight as the next real market. The development of such methods and models is genuinely appealing, and when the history of past failures in development assistance is reflected upon, it is

certain that the market-based approach emerges as a powerful option that remains.

It is frequently the case that new and innovative ideas and approaches are viewed strictly and skeptically. But having reached the time for full-scale entry, it is now time for Japanese companies to engage in BOP business with the challenge of “building unconventional partnerships.” Thus, it is highly possible that the next central key player in BOP business will be Japanese companies.

### Notes

- <sup>1</sup> Gemba is a Japanese term meaning “the actual place” or “the real place”. The gemba walk, much like Management by Walking Around, is an activity that takes management to the front lines to look for waste and opportunities to process innovation.
- <sup>2</sup> “Base” would later come to be used in place of “bottom,” with Hammond et al (2007) calling the BOP the “base of the economic pyramid.”
- <sup>3</sup> According to a strict definition, Grameen Danone Foods is a kind of social business, not BOP business.
- <sup>4</sup> Interview with Mr. Hirano on January 23rd, 2009.
- <sup>5</sup> 14 countries/regions include Taiwan, Philippines, Thailand, Korea, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China, Brazil, Mexico, and Argentina.
- <sup>6</sup> Refer to Sugawara (2009) for detailed analysis.
- <sup>7</sup> Interview with Mr. Hirano on January 23rd, 2009.
- <sup>8</sup> Mr EGAMI Kenji, Yakult Philippines, Inc, provide the source on April 1<sup>st</sup>, 2009
- <sup>9</sup> By the foreign exchange rate at the end of March, 2008.
- <sup>10</sup> Term ‘co-create’ is used in Bruggmann and Prahalad (2007), and the term ‘co-invent’ is used in London and Hart (2004).
- <sup>11</sup> I joined two of these projects, and follow the current movement concerned with BOP business in Japan.

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