Working Paper

Japanese Companies Revealed as a Source of BOP Business

- Do the Japanese Companies Have a High Potential? -

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Abstract: This paper seeks a source of BOP business. As a result, it can be revealed that the Japanese companies have a particular aptitude and strengths for BOP business, and the time is ripe to break into it. Japanese companies have five strengths that make them possible to succeed in BOP business: (1) steadfast philosophy, (2) a strong sense of mission, (3) a long-term perspective, (4) a Gemba-oriented stance1, and (5) high-quality goods and services. Considering 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. Building unconventional partnerships is the key to success in BOP business for the Japanese companies.

Keywords: source 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. There are three objectives: (1) clarify sources of BOP business through case analysis of Yakult, (2) discuss Japanese companies’ aptitude and strength for BOP business, and (3) assert that the time is ripe to break into it.

The concept of the BOP was first articulated by Prahalad and Hart, in 1998.2 From the year 2000 on, United Nations Development Programme (UNDP), United States Agency for International Development (USAID) and other such public institutions began adding their support, and all at once, BOP business expanded among Western companies. Finally, after a delay of nearly 10 years, the debate and discussion on BOP
business has begun to intensify in Japan. It was in 2008 that interest 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 “simultaneous realize corporate profits and social profits” in a market comprised of the poor. This company is 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. 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. Sources of BOP Business in Japan

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. 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 diamond, as Figure 1 shows.

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. The course of its growth is described next. 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.

First, priority was given to developing countries (countries weak in medical care) over developed countries (countries strong in medical care). Second, in the countries to which Yakult advanced, rather than giving priority to the upper class, already advantaged in terms of health, Yakult 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 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 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.

There are currently around 36,000 Yakult Ladies in 14 countries/regions and areas around the world, beginning with Taiwan in 1964. 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.
In 1981, three years after Yakult 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. 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 Japanese side 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 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. 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 comparing with 8,500 pesos of 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. 

Figure 3. Yakult Lady in Tondo, a slum area in Philippines

While beverages generally cost two or three pesos, Yakult, which costs seven pesos (16.8 yen) 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.

A good example of recent BOP business frequently cited is the yogurt sales of Grameen Ladies working for Grameen Danone Foods, Ltd. This joint venture, which involves Grameen Bank of Bangladesh and Danone, a French food 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 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 Yakult Lady system, although it cannot be clear whether HUL had recognized the Yakult Lady system or not.

2. Japanese Companies: Demonstrating a Particular Aptitude for BOP Business

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 readily available for purchase. However, this alone will not bring about income or 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 4. Yakult Lady as BOP business

![Figure 4. Yakult Lady as BOP business](source: Author)
When viewed from this perspective, how does the Yakult Lady system fare? The schema in Figure 4 clarifies the meeting of needs, generation of income and stimulation of independence.

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.

How does the Yakult Lady system fare in light of the above three points? It is certainly a core business. Consequently, it both contributes to improving the health of the poor and establishes 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 as the retail stores it entrusts with sales. In other words, Yakult Ladies are not part-timers or other such contract employees.

Yakult Honsha has five strengths that made it possible to secure the poor as a market and contribute to society through core business: (1) 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).¹⁰ 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. When the concept behind Japanese-style corporate governance and the special nature of 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.¹¹ 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.¹² 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.” 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 16th Corporate White Paper of the Japan Association of Corporate Executives reevaluates 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 never goes to gemba. Japanese management does not hesitate to go to slum area. In Japanese business, gemba refers to the place where value is created.

Here is another evidence. Protocol for BOP business have been already published by Cornell University’s team (Simanis, Erik, et al, 2005; Simanis and Hart, 2008). This protocol includes ten operating guidelines: (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 particularly strengths for three operating guidelines, (3) show respect and humility, (7) create mutual value, (9) be patient.

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.\(^{15}\)

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. Thus, it is highly possible that the next central key player in BOP business will be Japanese companies.

3. 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”.\(^{16}\) 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.”\(^{17}\)

However, for Japanese companies, this is definitely a weakness. For example, surveys on the emphases of the stakeholders by Japanese companies reveal that Japanese companies place little emphasis on NGOs/NPOs, comparing with Western companies, as Figure 5 shows (Japan Association of Corporate Executives, 2003).

Even the results of quantitative analysis of multinational corporations by author made it clear that compared with Western companies, Japanese companies do not have much of a stance concerning or awareness of 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 a growing process of BOP, there can be three stages. 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 have 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. 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.

Is there any more pressing problem than the reduction of poverty, 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 BOP market, which had not been given the notice it deserves up until now, 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 will emerge as a powerful option that remains.

It is frequently the case that new, 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.”

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1 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.
2 “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.”
3 Interview with Mr. Hirano on January 23rd, 2009.
4 14 countries/regions include Taiwan, Philippines, Thailand, Korea, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China, Brazil, Mexico, and Argentina.
5 Refer to SUGAWARA(2009) for detailed analysis.
6 Interview with Mr. Hirano on January 23rd, 2009.
7 Mr EGAMI Kenji, Yakult Philippines, Inc, provide the source on April 1st, 2009.
8 By the foreign exchange rate at the end of March, 2008.
9 According to a strict definition, Grameen Danone Foods is a kind of social business, not BOP business.
10 Schaumburg (2008)
12 Monks & Minow (2008)
13 Abegglen (2006), p139.
14 Simanis, Erik, et al, 2005, p48
17 Term ‘co-create’ is used in Brugmann and Prahalad (2007), and the term ‘co-invent’ is used in London and Hart (2004).
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