



Original Article

# Business strategies for the bottom of the pyramid: multiple case studies of large companies in the pacified communities of Rio de Janeiro

## *Estratégias de empresas para a base da pirâmide: estudo de casos múltiplos de grandes empresas nas comunidades pacificadas do Rio de Janeiro*

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Received 23 May 2016; accepted 28 March 2017

Available online 16 January 2018

Scientific Editor: Paula Sarita Bigio Schnaider

### Abstract

The state absence in low-income communities in Rio de Janeiro drove away companies for decades, as they encountered a hostile environment for developing business. However, in recent years, the communities have been undergoing a social and economic reorganization supported by the pacification public policy that aims to reduce social disorder and attract private investment focused on classes C, D and E, described in the literature by Prahalad (2004) as the bottom of the pyramid. In this article, the authors contribute to this literature by broadening and deepening the knowledge about the companies' strategies for the BOP, intending to analyze the strategies that large companies have been using to operate in these markets. The method was the multiple case studies covering five large companies: Light, L'Oréal, Banco do Brasil, Banco Santander and Sebrae, and the content analysis prescribed by Bardin (2008) guided the analysis using the *software* Atlas Ti 7.0. The results show that companies are offering new products and services, financial advice, banking services, access to microcredit, development and formalization of consumption and local entrepreneurs, and have been adapting their business models, contributing to the integration of these areas to the rest of the city formally established. However, it is observed that companies that have operated more generously have achieved better results and that initiatives are at an early stage of maturity, lacking more creativity, courage and independence of the state actions.

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**Keywords:** Business strategy; Bottom of the pyramid; Emerging markets

### Resumo

A ausência do Estado nas comunidades de baixa renda do Rio de Janeiro afastou as empresas por décadas, visto que encontravam um ambiente hostil para desenvolver negócios. No entanto, recentemente, estas vêm passando por uma reorganização social e econômica apoiada na política pública de pacificação que visa reduzir a desordem social e atrair o interesse das empresas para as classes C, D e E, descritas na literatura por Prahalad (2004) como de base da pirâmide (BOP). Neste artigo os autores contribuem para esta literatura ampliando e aprofundando o conhecimento sobre as estratégias de empresas para a BOP, tendo como objetivo analisar as estratégias que as grandes empresas vêm utilizando para atuar nestes mercados. O método de estudo de casos múltiplos foi utilizado com cinco grandes empresas: Light, L'Oréal, Banco do Brasil, Banco Santander e Sebrae, e a análise de conteúdo prescrita por Bardin (2008), com auxílio do *software* Atlas Ti 7.0, serviu para aprofundar a análise. Os resultados mostram que as empresas vêm disponibilizando novos produtos e serviços, orientação financeira, inclusão bancária, formalização do consumo e dos empreendedores locais, vem adaptando seus modelos de negócios e contribuindo para a integração destes territórios à sociedade formalmente

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Peer Review under the responsibility of Departamento de Administração, Faculdade de Economia, Administração e Contabilidade da Universidade de São Paulo – FEA/USP.

<https://doi.org/10.1016/j.rauspm.2017.12.003>

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estabelecida. No entanto, observa-se que as empresas que têm atuado de forma mais generosa tem alcançado melhores resultados e que as iniciativas se encontram em estágio inicial, carecendo de maior criatividade, coragem e independência das ações do Estado.

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*Palavras-chave:* Estratégia de empresas; Base da pirâmide; Mercados emergentes

## Introduction

Over the last 30 years, India, China and Latin America have been promoting social inclusion and income increase policies, generating a social and economic revolution and creating new business opportunities for companies wishing to expand their activities in the lower classes of these regions. In the case of Brazil, and especially in the case of low-income communities in Rio de Janeiro, the main obstacle is the parallel power represented by organized crime, violence and drug trafficking, contributing to the reduction of corporate investment for decades, once they used to find a hostile environment.

However, with the carrying out of the pacification policy adopted in the communities of Rio de Janeiro since 2008, the state has been seeking to revitalize these areas, and this pacification movement begins to attract the interest of large companies, which see in these interventions opportunities to trade their products and services to people of the less favored classes C, D and E, represented by [Prahalad \(2004\)](#) as *bottom of pyramid* (BOP).

When analyzing the international literature on corporate strategies in the BOP markets, it is noticed that [Prahalad and Hart \(2002\)](#) and [Prahalad and Hammond \(2002\)](#) advocate that low-income markets represent great opportunities for companies' business expansion, while [Prahalad and Ramaswamy \(2002\)](#) and [London and Hart \(2004\)](#) cite several strategies adopted by companies around the world. The list of authors is extensive and is consolidated in the Meta analysis performed by [Kolk, Rivera-Santos, and Rufin \(2014\)](#) who analyzed 104 published articles on the companies' performance at the bottom of the pyramid.

In Brazil, a much smaller number of researches has been published about the BOP markets, such as [Mattoso and Rocha \(2005\)](#), [Spers and Wright \(2006\)](#), [Parente, Barki, and Kato \(2007\)](#), [Sobral, Oliva, Yu, Almeida, and Ferreira \(2007\)](#), [Miotto and Parente \(2009\)](#), [Parente, Brandão, Miotto, and Plutarco \(2012\)](#), [Hemais, Casotti, and Rocha \(2013\)](#) and [Filardi, Trinta, and Carvalho \(2015\)](#), and a deeper analysis reveals that most of these studies deals with aspects related to marketing, consumer behavior and social issues.

Despite the relevance of this subject, few studies addressing company strategies for the BOP were found, and the work of [Silva and Zilber \(2009\)](#) reinforces this gap, since their findings point to strategies limited to costs reduction and to the use of brand power, leaving the field open on the subject and encouraging this research development. Seeking to deepen the knowledge on business strategies for the BOP markets in Brazil, the following research question arises: how are strategies being used by companies to operate in pacified communities of the Bottom of the Pyramid in Rio de Janeiro?

In this article, the contribution to the literature is given through the expansion of the market aspects mentioned in previous studies, also analyzing how the researched companies use the strategies to operate in the BOP markets. In this context, this research purpose is to identify and analyze the strategies that large companies have been using to operate in the bottom of the pyramid markets of the pacified communities in Rio de Janeiro, seeking to contribute to the expansion and deepening of knowledge about the subject.

## Literature review

According to the [World Business Council for Sustainable Development \(2006\)](#), the world's leading companies in 2020 will be those able to deliver products and services to new customers in order to address the world's major challenges, including poverty, climate changes and the resources depletion, globalization, and demographic changes. In this context, studies are presented on the companies' strategies in the bottom of the pyramid markets in the world and in Brazil, seeking to organize the identified experiences in blocks that will serve as a theoretical contribution to this research.

### *Studies on the bottom of the pyramid in the world*

By the late 1990s, [Arnold and Quelch \(1998\)](#) and [Prahalad and Lieberthal \(1998\)](#) had already shown that multinational companies faced saturated domestic markets, suggesting that they needed to break paradigms and take into account less developed countries as potential markets. However, the first work that presented the BOP concept was of [Prahalad and Hart \(2002\)](#) where the authors present the world economic pyramid extracts and point out the enormous market potential that the 4 billion people who earn less than US\$ 2.00/day represent.

In this paper we highlight the main beliefs that prevent companies from investing in BOP markets, including the belief that their consumers cannot either afford paying nor use products sold in developed countries, or that only developed markets appreciate and pay for new technology; or yet, that these consumers can use the previous generation of technology and that the bottom of the pyramid is not important to the business viability in the long run.

To refute these beliefs, [Prahalad and Hart \(2002\)](#) come up with examples of companies such as the Hindustan Lever Ltd. (HLL), which launched a detergent called Wheel in India adapting its formula to suit local needs, adopting decentralized production, marketing and distribution, through small stores,

adjusting the cost structure to reach more consumers at a lower price. Another example cited is the Grameen Bank, the micro-credit pioneer in Bangladesh, which adopted the strategy of lending small amounts of money to entrepreneurs charging interests below the market value, using interviews with neighbors and acquaintances as part of the process to grant credit, thereby reducing the need for guarantees.

In turn [Prahalad and Hammond \(2002\)](#) point out that potential consumers in the low-income classes of emerging markets account for 65% of the world's population and reveal that they pay more for services and products because of a number of factors such as the risk of trading in these regions, unnecessary intermediaries, bank exploitation and difficult distribution, which is seen as a real opportunity for companies with efficient production and distribution. They report the strategies used by the ITC company which has created a network of 970 kiosks in 5000 villages in India to support 600,000 farmers, helping them to increase their productivity through local partnerships, through the volume and scale gains, through the 'shopping together' model and through disseminating the best practices in agriculture, optimizing its production chain.

[Prahalad and Ramaswamy \(2002\)](#) list examples of companies that have developed business strategies for the bottom of the pyramid in India such as Hyundai that was successful with a car of US\$ 8000 with performance comparable to a car costing US\$ 11,000 in the US, making minor adjustments to the product and enhancing its price/performance ratio, and the Aravind Eye Hospital, which operates 200,000 patients/year being considered the largest in the world, where it is paid US\$ 10 for a surgery that in the US costs US\$ 1600 and through adapting its business model, it performs 60% of their surgeries free of charge, since the other 40% covers hospital costs.

In an effort to consolidate and disseminate successful business experiences in emerging markets, [Prahalad \(2004\)](#) launches the book *Wealth at the Bottom of the Pyramid*, where a number of cases are presented, including that of Cemex, a cement company from Mexico, which put engineers and architects available to the low-income population to help consumers design their homes by adopting a co-creation model, since they can't afford paying for a project. Cemex placed executives living in the communities so they could talk to consumers and based on these conversations they built the 'do-it-yourself' projects, and started providing credit for customers to build in groups of up to 3 families, providing the 'shopping together' model, and setting rules where on-time payments empowered the clients to get more loans.

The Grameen Phone is cited as an example by [London and Hart \(2004\)](#) as a strategy of combining banking and mobile services for rural areas of Bangladesh where the company has implemented the strategic action of teaching customers about the product importance and usefulness. The authors state that, due to the lack of funds in the communities and the inadequacy of capabilities developed for traditional markets, the partnerships with local entrepreneurs should be the alternative strategy for developing businesses in emerging markets, generating skills adapted to the culture, norms, habits, values, principles, consumer behavior and business models adapted to the bottom of the pyramid.

[Hart and London \(2005\)](#) point out a good example of a strategy based on innovative technology and alternative energy that is the *World Water*, a water and energy company present in 17 developing countries, including Somalia, Pakistan and the Philippines, which created a water pump powered only by solar energy. In Hart's view (2005), companies should seek to adapt themselves to the local context of emerging markets by seeking to understand how legislation works, the consumer behavior, the business practices, taking advantage of the native capabilities, enabling BOP people to be hired as manpower and involving local suppliers and NGOs with market experience and knowledge.

According to [Simanis and Hart \(2006\)](#) the role of business should be redefined, from no longer who diagnoses the disease and prescribes the medicine to the one who will be the business facilitator that guides its development, as in the case of KickStart that created an irrigation pump for farms in Kenya, focusing on specific project of product adaptation to use the human driving power rather than electric power.

[Seelos and Mair \(2007\)](#) present business models based on strategic alliances and *Resource-Based View* (RBV) to develop business at the bottom of the pyramid and reaffirm that the models must be built based on co-creation with the involvement of the company's team.

[Simanis and Hart \(2009\)](#) report an increase in the case of HLL which adopted as strategy the decentralized distribution involving community leaders, starting to count on a door to door sales force for toiletries and personal care, recruited by NGOs to facilitate the creation of small-scale businesses and serving as many people as possible by publicizing products through the internet and choosing local representatives to demonstrate the importance of personal hygiene in schools and public places, and the result of this endeavor has led to an expansion of 80,000 villages with a network of 30,000 representatives.

In the last decade, a number of studies have emerged especially in Latin America, such as that of [De Angoitia and Ramirez \(2009\)](#) on the case of mobile phones in Mexico where they found that low-income consumers were in a great pent-up demand and launched less expensive handsets, but which could receive calls and send messages at a low cost, and the study of [Gardetti and D'Andrea \(2010\)](#) on the experience of the Masisa timber company in Argentina, which began to incorporate new products and services by organizing meetings and programs for valuing carpenters' ideas who used to be only their customers, which confirms the interest and the growing relevance of consumer strategies at the bottom of the pyramid. Complementing these experiences, new studies have been published focusing on the broadening of the poverty concept beyond the lack of income, as well as for the lack of training and on the necessity to understand the real needs of consumers at the bottom of the pyramid ([Ansari, Munir, & Gregg, 2012](#); [Martin & Hill, 2012](#)).

Several articles have been published regarding the bottom of the pyramid between 2010 and 2016, according to a survey in the ProQuest and Ebsco databases, but most of them describe case studies where the strategies presented above have been

Table 1  
Works on the bottom of the pyramid between 2005 and 2016.

Author	Approach
Mattoso and Rocha (2005)	They sought to understand the purchasing behavior of low-income individuals. They investigated the nature of the financial problems.
Parente, Barki, and Kato (2005)	They investigated the stores motivators and formats selection of the retail food by the low-income consumers in the outskirts of São Paulo.
Sobral et al. (2007)	They studied the most important attributes in the purchase decision of low-income consumers and how companies organize themselves to serve this segment.
Spers and Wright (2006)	They present a comparative analysis of the companies' performance focused on the popular and high-income markets in growth, operation and profitability.
Parente et al. (2007)	They describe the characteristics of retail food stores that are able to adequately serve low-income consumers.
Silva and Parente (2007)	They analyze the low-income consumer profile and highlight differences in segmentation for low income.
Silva and Zilber (2009)	They investigated whether the marketing strategies of large companies in the Brazilian market, focused on classes A and B, can also serve the low-income market.
Miotto and Parente (2009)	They research the different formats of clothing stores for low-income consumers.
Mattoso (2010)	They list aspects of consumption in the BOP for discussing the need to create a classification scheme that meets the marketing needs.
Zilber and Silva (2010)	They investigated whether the multinational companies in the Brazilian market, previously focused on classes A and B, promoted innovation to serve the low income.
Parente et al. (2012)	They investigated the behavior of low-income consumers by comparing their preferences with regard to street retail centers and shopping malls.
Hemais Marcus et al. (2013)	They studied the incentive to consume in the poorest sections of the population and the insertion of poor people in the production process.
Filardi et al. (2015)	It analyzes characteristics of the beauty consumption at the bottom of the pyramid through the market participants' perception.

Source: Literature Review (2016).

implemented, reinforcing the literature review consolidation and the theoretical contribution of the research.

### *Studies on the bottom of the pyramid in Brazil*

Throughout the domestic literature review, few academic papers on BOP strategy have been found. In addition, it has been noticed that most of the studies deal with marketing, consumer behavior and social issues, according to Table 1. These studies complement the literature review carried out and are important to reinforce the research gap, besides helping to select the companies investigated.

### **Methodology**

To answer the research question, an exploratory study was developed through multiple case studies, which, for Yin (2005) and Eisenhardt (1989) are set up in the most adequate way to understand how and why certain phenomena occur. The shortage of research on the companies' strategies for the BOP in Brazil, and especially in the pacified communities of Rio de Janeiro, contributed greatly to the theme choice, justifying the exploratory nature of the research, because according to Collis and Hussey (2003) it is the most appropriate research when there are few previous studies in which we can seek information about a problem or issue.

The qualitative approach was adopted in this study, since, for Flick (2009), it is possible to describe the complexity of a given phenomenon, to analyze the interaction between variables, and

to understand and classify dynamic processes experienced by the investigated social groups.

### *Selection of cases*

The selection of the companies to compose the research was carried out following the criterion of identification of investment plans of these companies in pacified communities in newspapers and business magazines of large circulation. The second criterion privileged the large companies, and the third, those companies that were already present in the pacified communities, making the investigation more reliable. Therefore, we started with a list of 38 companies made out of banks, utilities, energy, consumer goods, supermarkets, cable TV, food, beauty and business training.

Contacts were made with all these companies in the initial list, but many alleged unavailability, lack of interest and market secrecy of the information to not participate in the survey, and the total number of companies that volunteered to participate was 11, however after the first contact and the research content exposure, six companies declined and the final number remained of five companies that affirmed that they were already working in the Complexo do Alemão and Cidade de Deus communities, as shown in Table 2.

Nonetheless, a comprehensive final list of case studies was drawn up which included companies from various sectors of the economy, such as energy, beauty services, financial services, training and business guidance, and in the case of financial services it was possible to count on a public and a private bank, aiming at broadening the research scope results, being thus

Table 2  
Selection of companies and communities.

Initial companies	Final list of companies	Communities where they work
Banco Santander L'Oréal Light		
Net (cable TV) Lojas Americanas	Banco Santander L'Oréal	Complexo do Alemão Complexo do Alemão and Cidade de Deus
Banco do Brasil	Light	Complexo do Alemão and Cidade de Deus
Bradesco Beleza Natural	Banco do Brasil Sebrae	Complexo do Alemão Complexo do Alemão and Cidade de Deus
Restaurante Spoleto Correios Sebrae		

Source: Case selection phase.

selected the five cases investigated in this research, which are Light, L'Oréal, Banco do Brasil, Banco Santander and Sebrae.

### Selection and profile of respondents

Based on the companies and communities' definition, the interviewees were selected. The selected companies were asked to conduct in-depth interviews with professionals who met the following criteria: (a) hold a board or management position and (b) be linked to departments or business areas focused on the bottom of the pyramid communities. It was sent a priori to the companies the interview guide as well as the definition of who would be the respondents. All companies placed the limit of two interviewees, always being a director and a manager, making 10 respondents. Among the respondents, it was possible to identify that all of them work in the communities in which the companies operate, generating greater representativeness for the sample, and many of the survey participants were already working in the communities before the pacification.

### Structuring the research

Based on the literature review, it was sought to organize the companies' strategies for the BOP in groups of strategies in order to classify them, according to Table 3, so that they could serve as a theoretical framework for the research. The consolidation of each group occurred by observing the strategy nature and its connection with the four most frequent aspects that emerged in the literature review, which were strategies related to people, products and services, production chain and business model. After the division of the groups, we proceeded to the list of categories of strategies, which, according to Bardin (2008) represents the concept general form that brings together a set of recording units considering their importance and the regularity with which they appear. The recording units were called strategic actions (Table 3) and served as a focus for the transcribed interviews coding, performed through the Atlas Ti 7.0.

### Data collection and analysis

The primary data were collected through in-depth interviews that took place between October and December 2014. They were conducted upon on a semi-structured questionnaire which was based on the strategy groups identified in Table 3, that addressed the following topics: (a) Company's plans to develop a business model to operate in the Bottom of the Pyramid communities recently pacified; (b) Strategies already used; (c) Strategies to be used; (d) Business Strategies, Involvement Strategies, Product/Service Strategies, Production Chain Strategies and Strategies Linked to the Business Model; (e) Questions about the overall results.

Secondary data were obtained through documentary research in the annual sustainability reports and on the websites of the companies studied, ensuring the data triangulation through multiple sources of evidence (Flick, 2009; Yin, 2005).

After finishing the interviews transcriptions, data analysis was done through a detailed study of the content produced by the interviews, based on the four stages of analysis proposed by Bardin (2008), which are: (1) analysis organization (preparation and standardization of the data to be analyzed); (2) encoding (aggregation strategies in large homogeneous blocks); (3) categorization (conceptual and expressive grouping of data, also called data families); and (4) interpretation (analysis of the results according to the research objectives) using the features of Atlas Ti 7.0.

### Presentation and analysis of results

The presentation of the following results sought to reveal the extent to which each studied company had been using in the pacified communities of Rio de Janeiro, the strategic actions related to categories found in the literature which are strategies: (i) related to involving people, (ii) linked to the product or service, (iii) linked to the production chain and (iv) linked to the business model.

In the end, the analysis also aimed to reveal in the research findings the strategies that did not appear in the literature review, but which were cited by the respondents, thus generating a set of innovative strategies, given their peculiarity in the Brazilian context, more specifically of the pacified communities of Rio de Janeiro.

#### The case of L'Oréal

L'Oréal is a French multinational company specialized in cosmetics, hair products, perfumes and dermatological products. It operates in 130 countries and is a global leader with revenues of € 22.5 billion in 2012. It has 290 subsidiaries, 42 factories and 72,600 employees. In Brazil, since the 1930s, it installed in 1959 a factory of 1200 m<sup>2</sup> and 16 employees. Today, the two factories in Rio de Janeiro and São Paulo and the distribution infrastructure, research and innovation, academies of hairdressers' professionalization and the broad sales force represent one of L'Oréal's largest industrial parks in the world.

Table 3  
Summary of the literature review, base of the theoretical contribution.

Strategy groups	Strategies categories	Strategic actions	Authors
People	BOP involvement for validation, release and sale of products/services	Talk to people in the community; Interview neighbors and acquaintances for granting credit; Involve community leaders; Establish a direct relationship with consumers, promoters and consultants; Search with consumers before the launch of the products.	Gardetti and D'Andrea (2010) Simanis and Hart (2009) Prahalad (2004) Prahalad and Ramaswamy (2002) Prahalad and Hart (2002)
	Training of the BOP workforce	To enable BOP people to hire them as workers.	Hart (2005)
Product	Technological innovation or adjustments to the product offered	Develop innovative technology; Adjust the product; Use alternative energy; Risk assessment and approval of simplified credit; Reduce collateral required for credit; Make credit available for consumers to buy products; Lending small amounts below market.	Ansari, Munir, and Gregg (2012) Martin and Hill (2012) Simanis and Hart (2009, 2006) Hart and London (2005) Prahalad and Ramaswamy (2002) Prahalad and Hart (2002)
	Operational efficiency	Have volume and scale gains; Leverage the price/performance ratio; Focus on specific projects.	Simanis and Hart (2006) Prahalad and Hammond (2002) Prahalad and Ramaswamy (2002) Prahalad and Hart (2002)
	BOP's involvement in the sale and after-sales of products/services	Teach customers about the importance and usefulness of the product; Allow customers to test the product in loco before buying; Allow customers to do projects of the kind: "Do it yourself".	London and Hart (2004) Prahalad (2004) Prahalad and Ramaswamy (2002)
Production Chain	Optimization of the production chain	Optimize the production chain.	Prahalad and Hammond (2002)
	Involvement of local partners in the production chain	Develop value chain, production process and distribution involving customers and local partners (co-creation); Establish partnerships with local suppliers; Establish partnerships with local NGOs.	Simanis and Hart (2009) and Hart (2005) Hart and London (2005) Prahalad and Ramaswamy (2002) Prahalad and Hart (2002)
Business Model	Co-creation of the business model	Have a business model based on co-creation.	Simanis and Hart (2009) Seelos and Mair (2007) Prahalad and Ramaswamy (2002)
	Distribution adequacy	Use small stores; Attend local stores; Make the 'shopping together' model available to customers.	Prahalad and Ramaswamy (2002) Prahalad and Hart (2002)
	Involvement of the company team	Have executives allocated or living in communities; Provide architects and engineers to help develop projects of clients from the bottom of the pyramid.	Seelos and Mair (2007) Prahalad (2004) Prahalad and Ramaswamy (2002)

Source: Prepared by the authors (2016).

According to the [L'Oréal Progress Report \(2014\)](#), its mission aims to broaden the consumer base while contributing to the social development of the regions where it operates; its strategy is to bring social and economic development opportunities to communities through training and access to professional products.

Concerning strategies related to people, the interviews analysis revealed the strong performance of L'Oréal in the recruitment, training and professionalization of hairdressers in partnership with Sebrae, with the provision of technical and

management training for them, who in the end received a diploma of ambassador of the brand in the community. The placement in the community has been inviting people who are interested in having their own business and who enjoy the beauty sector to take courses and participate in recruitment. In this context, the company has been making credit available to these new business partners in the communities, offering special conditions to pay the bills, since salons are being formalized, working with credit cards and buying directly.

Regarding the product suitability, it is noticed that L'Oréal has adopted the Matrix line, which seeks to offer quality at an affordable price, based on production volume and low profit margin, allowing the access of communities' consumers.

With regard to the supply chain, the evidence shows that the main challenge in the communities is the logistics, since infrastructure is precarious and many carriers refuse to make deliveries. This situation forced the company to innovate, creating a micro-distribution model based on partnerships with entrepreneurs from inside the communities that receive the products and make the internal distribution. This idea came up at an entrepreneurs' fair held by a local NGO, which sought to strengthen the relationship between the company and the entrepreneurs.

As for the business model, it is clear from the respondents' comments that, in addition to adopting micro-distribution rather than traditional distribution, L'Oréal has created a sales model where business partners are the hairdressers themselves. Enabling them to use the products increases the demand for their products in the community beauty salons. Strictly speaking, the company has been looking to readapt its business model, since it is estimated that 80% of the beauty market is in the C and D classes, and the company has been working for 50 years for the A and B market, according to L'Oréal (2011).

Still on the business model, because it is expanding its target audience to the C and D classes, the research findings demonstrate that internal adjustments and structural change are needed, where the company is adopting strategies to reduce bureaucracies and rules for the clients through the awareness of its employees that it is necessary to ease the logistics and credit actions in order to consolidate the company's performance in these areas.

### *The case of light*

Light is a Canadian company created in 1897, that operates in the electric sector and has obtained concessions from various public services, including the generation and distribution of electricity. It is present in 31 municipalities of Rio de Janeiro and distributes energy to over 10 million people. Its Sustainability Report Light (2014) states that the company is aware of its commitment to the development of its concession area, maintaining partnerships with the state government and city hall, working in low-income communities and aiming to contribute to the transformation of communities through the formalization and change of habits, seeking a new relationship with customers.

When it comes to strategies aimed at people, it was possible to learn that the company has been working on large educational projects since the pacification beginning in 2008, carried out within the scope of the Energy Efficiency Program, highlighting the Efficient Community; this program focuses on Education for the rational consumption of energy and in the change of inefficient equipment, as well as the Light Recicla, which converts recyclable waste into credits in the electric energy bill, stimulating recycling in partnership with schools and universities around the communities that donate the credit of recycled garbage to health and education institutions in the region. In this category,

revelations were found in the respondents' words, demonstrating that Light has been seeking to transform consumers into allies in the business expansion and in the formalization of electrical connections, 96% clandestine ("*gatos*" = *installed devices to steal electricity*) by 2008, hiring 200 Call Center attendants and 700 electricians in the pacified communities generating employment and income; however, it was possible to perceive that formalization is a long process and that the company still faces the challenge of making consumers aware of the need to pay for electricity.

Concerning the strategic actions regarding the product, crossing the research revelations with the data found in the Sustainability Report of Light (2014), it is evident that the company has been adapting its services, changing the models of original light poles by fiber poles installed in the regions farthest from the communities where the trucks do not arrive, and the traditional electricity meters by new anti-theft and armored networks, allowing the electricity supply to be disconnect remotely from customers holding unpaid bills, implementing the social tariff and increasing the supply of electric energy, contributing to the sustainable development of the communities.

In the productive chain category, the findings of this study demonstrate that the approach with NGOs enabled the entry into communities dominated by trafficking, because with the support of these institutions the company was able to structure its actions and implement the necessary services. It was also revealed that interaction with partner institutions, such as Instituto Pereira Passos, assisted in the task of putting signs in the streets, helping the company to deliver the electricity bill to consumers in the communities, reinforcing their position as a citizen by the possibility of having a proof of residence.

With regard to the business model, it was possible to verify that the company chose to maintain only the service stations and does not have local stores, and uses the principles of co-creation since it conducts research in the communities aiming to adapt the services to the consumers' needs.

### *The case of Banco do Brasil*

Banco do Brasil (BB) is the largest Brazilian state financial institution, founded in 1808; it has 5000 branches and 110,000 employees in more than 21 countries. Currently it ranks first in assets in Brazil with R\$ 982 billion according to data from Banco do Brasil (2013) and its strategy in pacified communities follows the concept of Sustainable Regional Development (DRS) which aims to generate development by mobilizing economic, social and political agents, supporting environmentally viable productive activities, promoting the democratization of banking and credit.

With reference to people-related strategies, data triangulation shows that Banco do Brasil (2014) is opening agencies in communities, a work that has begun in 2010 in the Complexo do Alemão, which offers services to open current accounts and savings accounts, payment of bills, withdrawals and deposits, and where there are still no agencies, it has been providing customer service through mobile units. Still in relation to people, the respondents' testimonies revealed that the Bank hires people

preferentially from the community through outsourced companies since its nature does not allow hiring. The testimony also revealed that the strategy to engage with communities permeates all the work developed from meetings, lectures and financial guidelines, and that lending is individual, it is not necessary to join a group for loan as the bank relies on their informal statements and two personal references to reduce the chances of default by adapting the Grameen Bank methodology cited by [Prahalad and Hart \(2002\)](#).

Regarding the product, data analysis shows that the strategy to adapt the services has been the microcredit and the monitoring takes place through the financial educators who guide entrepreneurs to use the funds in a rational and productive way, which is revealed as innovative technology, as it has given to the communities the opportunities for development and social inclusion. As for economies of scale, the balance is given by the efficiency and volume of customers, since the loans individually are not advantageous, but they become attractive if they are considered in an aggregate way. Still on the product aspects, it is revealed that the bank has been only operating as financial advisor to the specific projects in the communities, since they lack formalization and documentation to the projects, making it difficult to operate as a financial agent.

Regarding the productive chain category, the analysis pointed out that the partnership with local NGOs has been a relationship that fosters initiatives to empower the low-income population and, among other actions, the bank has been assisting in the development of a cooperative of waste pickers through the guidance for the equipment purchase and the provision of credit focused on the production, which is part of the portfolio that covers the entire value chain of its financial system, financing the producer, the trader, and also the consumer.

Regarding the business model, respondents state that attending stores in the communities has served as an input to the managerial guidance strategies, and that making managers available to provide financial guidance to local entrepreneurs is already a practice, avoiding debt as well as strengthening the relationship with customers. Indeed, it is only after the pacification that the bank has been able to take these strategies to the agencies of the pacified communities aiming at social inclusion and banking.

#### *The case of Banco Santander*

Banco Santander is a multinational bank founded in 1857; it originated in Spain and is the largest in Eurozone, according to [Banco Santander \(2012\)](#). Currently the bank has 100 million customers, 14,400 branches, € 1388 billion of funds, 3.3 million shareholders and 187,000 employees. It expanded its presence in the world through mergers and acquisitions and in Brazil since 1957, it entered the market and continued to acquire banks throughout the 1990s and 2000s becoming the third largest private bank with total assets of R\$ 407 billion, 24 million customers and 3728 branches.

The bank has defined its actions for sustainability in pacified communities based on three themes: social and financial inclusion, education and social-environmental business management.

According to [Banco Santander \(2015a\)](#), the belief is that social investment should mobilize society around relevant causes, promote effective social changes, influence and strengthen public policies.

In the category of strategies for people, the findings indicate that Santander assumes people in communities are qualified and able to be hired because they know the local characteristics. In addition, a partnership relationship with customers is established, where transparency and trust are built through continuous dialog.

Regarding the product, the research reveals that the Bank goes beyond the service adequacy and, through microcredit it seeks to differentiate itself based on the clients' orientation toward the use of credit through relationship strategies, establishing a trust relationship that mitigates the debt risks to the bank. As to the agency, it adapted the *layout* making it smaller, but keeping the traditional services offered.

With regard to the production chain, it was possible to see that the Bank finds in the NGOs an ally to provide resources so that the youth in the community is able to meet the labor market challenges and then become potential clients, generating social inclusion.

With reference to the business model, it was possible to understand that Santander uses credit agents in direct relation with the communities' entrepreneurs where they identify the most demanded financial services. The findings also show that the bank believes that the solidarity microcredit is a form of "collective buying" once the system allows a person to get the credit that individually they would not have access.

Throughout the interviews analysis it was noticed, in a complementary way, that the bank has been seeking to invest in sustainable development through social and banking inclusion, focusing on the relationship and financial education, since the consumers of the communities do not have a banking culture and they see no value in self-service technology, but rather they rely on the guidance of employees about the best way to use the money. It became clear that the strategy based on relationship has been strengthened also through a mural made available to entrepreneurs to publicize their products and services, placing the bank branch as a reference and relationship center of the communities.

#### *The case of Sebrae*

The Brazilian Micro and Small Business Support Service (Sebrae) is a private non-profit organization created in 1972 and operates throughout Brazil to train and promote the development of small businesses, stimulating entrepreneurship, competitiveness and sustainability of these enterprises. It employs 5000 people and has 8000 consultants working with a focus on sustainable development and on the articulation of public policies that create a favorable legal environment.

The Management Report (2014) states that since 1996, Sebrae has been working in communities with a focus on guidance and formalization, expanding these functions through entrepreneurship programs in pacified areas, whose function is to promote, through the strengthening of small businesses,



the institutional and sustainable socioeconomic development of areas served by the pacification.

In the aspects related to people, the respondents assert that the Sebrae brand facilitates the relationship in the communities, and to do so, it adopts as a strategy the articulation and integration with the stakeholders, according to [Hart and London \(2005\)](#), for whom large companies must expand their corporate vision, incorporating into their business the discussion of strategies with community members, however, the education higher level requirement and the public nature of the institution limit the hiring.

Regarding the strategies related to the product, Sebrae's experience revealed through the analysis shows that the company has been seeking to adapt the existing services to meet the needs of entrepreneurs, identifying innovative solutions within the communities and helping in the structuring and formalization of these ideas to later replicate them in other locations.

With regard to the production chain, it was possible to perceive that the institution seeks local partnerships, including NGOs, which volunteer their physical space, thus becoming an "advanced office" of Sebrae in the community. With regard to production and distribution, it operates in the optimization of the entrepreneurs' production chain, fostering productivity and qualification. In addition, it creates strategic partnerships with companies, credit institutions and banks, making it a reference for having 20 years of experience in the communities and for guiding the newcomers on the social and business dynamics of the communities.

Finally, with reference to the business model, it is clear from the analysis results that Sebrae understands the need to develop cooperation with entrepreneurs to meet their demands and, to do so it has taken advantage of the co-creation logic and of the parties' collective work making them realize that joining is fundamental to articulate the trade between the communities' members. The strategy of making specialists available and allocating them to teach how to make the clients' projects is already part of the company's philosophy, since the conception phase up to the fundraising for the project. On the aspect of visiting stores, consultants run by communities knowing the business and strengthening the relationship.

It is also emphasized in the findings that the Sebrae business model takes advantage of the public policy and works to formalize and regularize the business environment in the communities through the bureaucratic and tax reduction. The most striking evolution in terms of structural changes is the creation of specific departments to elaborate specific models, standards and procedures for activities in the communities.

#### *Comparative analysis*

The comparative analysis ([Table 4](#)) shows that L'Oréal concentrates its strategies on the adequacy of products and services and on people engagement, in addition to focusing on the production chain, with emphasis on the micro-distribution innovation, which has contributed to good results of its operation. As for Light, the data shows focus on strategies connected with the production chain, associated with the people involvement

emphasizing the relationship with consumers' communities and the adequacy of the operation and technology.

Banco do Brasil's experience focuses on the strategies of involving people, products and services, seeking to develop an almost unexplored banking market, using financial guidance as an entry strategy. Santander's case focuses on the strategies linked to products, services and people, with special emphasis on financial guidance and management advisory services for clients, but with the differential of using credit agents who visit clients seeking to go beyond the guidance. Sebrae in turn focuses on the strategies linked to the customer's production chain, with emphasis on the formalization and boosting of the communities' economy, as well as the adequacy of its products and the services of entrepreneurs training.

#### **Final considerations**

The main contribution of this article is to broaden and deepen the knowledge about the strategies that large companies have been using to operate in the bottom of the pyramid markets at the pacified communities of Rio de Janeiro. The research results allowed us to evaluate the performance of the 5 companies studied in relation to the categories found in the literature, which are strategies: (i) related to involving people, (ii) linked to the product or service, (iii) linked to the production chain and (iv) linked to the business model.

Particularly, in the studied cases, it is generally noticed that, regarding strategies linked to people, the training has been contributing to strength the relationship with the community, generating jobs and income and helping to legitimize the entry into these areas. It is also observed that companies have been carrying out research to know the communities' consumption patterns in order to launch more suitable products, talking with residents, interviewing neighbors and acquaintances to grant credit and maintaining a direct relationship with consumers and promoters. Such strategies demonstrate that the companies have been using various means of collecting information on the habits, customs, needs and desires of consumers at the base of the pyramid. However, it was possible to verify that companies are still using strategies to train, research, talk, interview and engage people in a timid manner.

With regard to products and services, the revelations about the product suitability reinforces that it is essential, either through the adaptation of language, communication, physical structure, terms of payment, or the easing of bureaucratic requirements. Regarding teaching customers to use the product, encourage them to install them and allow testing before buying it is noticed that companies have had sheepish performance, thus losing the opportunity of validating the product suitability to the target audience in order to carry out some necessary refinement. It is noticed that volume and scale gains have been used by all companies as a way of entering the communities in search of demand acceleration. However, it is clear that they still need to find a balance between the products value added and the price charged.

With reference to the strategies linked to the production chain, it is observed the partnership with local suppliers in the micro-

Table 4  
Similarities and differences in the use of strategies by the companies.

	Strategic Actions	L'Oréal	Light	Banco do Brasil	Banco Santander	Sebrae
Involving People	1. Talk with community dwellers					
	2. Interview neighbors and acquaintances for credit					
	3. Involvement of Community Leaders					
	4. Direct relationship with consumers and promoters					
	5. Search with consumers to launch the product					
	6. Train people and hire them as employees					
Products/Services	7. Innovative technology					
	8. Product suitability					
	9. Teach customers about the importance and usefulness of the product					
	10. Volume and Scale Gains					
	11. Price / Performance					
	12. Allow customers to test "in loco" before buying					
	13. Focus on specific projects					
	14. Customers install product through the 'do-it-yourself' project					
	15. Use of Alternative Energy					
	16. Assess risk and simplified credit approval					
	17. Lend small amounts below market interests					
Production Chain	18. Value chain, process, production and distribution.					
	19. Optimization of the production chain					
	20. Make partnerships with local suppliers					
	21. Make partnerships with local NGOs					
Business Model	22. Business Model Based on Co-creation					
	23. Small Stores					
	24. Executives allocated / living in the communities					
	25. Attend local stores					
	26. Reduction of collateral required for credit					
	27. 'Shopping together' model					
	28. Architects and engineers available to assist in making the project					
	29. Credit for customers to purchase goods and services					

Source: Prepared by the authors with the aid of Atlas Ti 7.0.

distribution operations; however, it appears that there is still room for greater interaction through the training of new local suppliers, creating alternatives. On the other hand, the association with NGOs has been carried out through the experience that they aggregate due to the legitimacy generated and due to the security that this relationship generates for the companies, sharing the knowledge of the local culture.

Regarding the business model, it has been observed that companies have been developing the co-creation more as a result of practical application rather than as a preconceived idea, once the action started to be based on shared growth since the early results of the micro distribution implementation. It is also noticed that there is still room for companies to make more visits to customers, open stores instead of having only service stations and allocate more professionals to the communities' consumers aiming at strengthening the relationship. With regard to providing indirect credit and reducing guarantees to leverage consumption, it is seen that companies have sought to stimulate the economic and social development through the exchange of old household appliances and recycled waste in credits into account, and it should also be noticed that other initiatives must be carried out in this regard.

Finally, on sustainable development, it is observed that companies have implemented strategies aimed at citizenship creating social tariffs and providing proof of residence generating social inclusion. In addition, they have offered financial guidance, banking inclusion, access to microcredit and actions aimed at the development of entrepreneurs, but it is generally perceived that the relationship must be a win-win relationship, where companies must invest first and make a profit later, since the companies that have operated more generously have achieved better results. It is also noticed that the strategies adopted by the companies are in an initial stage of maturity, lacking more creativity, courage and independence of the State actions to operate in these areas.

It should be highlighted some limitations of the research, among them the social delimitation of the phenomenon to only two communities in Rio de Janeiro, the unavailability of most companies to participate in the research and the fact that there are only two interviews per company, all of it brings limitations to the comprehensiveness and depth and the change in the communities' situation occurred due to the instability in the economy. The suggestions for future researches are to investigate other companies that work in other low-income communities in Rio de Janeiro, pacified or not. Another suggestion

is to investigate companies that operate in communities in other regions of Brazil.

### Conflicts of interest

The authors declare no conflicts of interest.

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