

REACHING THE BASE OF THE PYRAMID:
AN ANALYSIS OF BAKHRESA GRAIN MILLING MALAWI'S
INCLUSIVE BUSINESS MODEL

Master of Arts in Law and Diplomacy Capstone Project

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ABSTRACT

A growing number of business leaders aspire to raise the well-being of poor populations in the developing world, while also generating profits, by pursuing “inclusive” business models. This thesis offers a description of the inclusive business model pursued by Bakhresa Grain Milling (Malawi) Ltd., and provides an analysis of how this company’s outreach among microentrepreneurs (who sell wheat based snacks called mandasi) contributes to its own business success, and how it affects the lives of the entrepreneurs themselves. The research is based on interviews with company personnel, field interviews with microentrepreneurs selling various wheat based products, and secondary household survey data. This thesis suggests that even though the microentrepreneurs are two links in the value chain removed from direct dealings with the company, the company nonetheless recognizes that outreach among them increases the size of its market. While the outreach may increase profits for some microentrepreneurs, it also increases supply and drives down the price of mandasi. It may, therefore, leave some mandasi sellers worse off, while passing on benefits to mandasi consumers, many of whom are part of the base of the pyramid.

1. INTRODUCTION

“After the training on mandasi recipe on 30th June 2012...It has come to our notice that after collecting reports of 3 months [from every participant] ...There is more improvement now, those who use 5kg of flour has started 10kg bag and those who use 10kg has shift to 20kg bag, and this improvement has change the life too.”

-An excerpt from a letter sent by a participant of BGM Malawi’s workshop

It is increasingly becoming popular in the field of international development to use business approaches to tackle challenges faced by the world’s low-income populations. Unlike traditional development programs that are based primarily on grants, these “market-based” approaches ask people living under poverty to be responsible for their services by paying, however small the amount may be, for goods and services. Among the most studied examples are microfinance programs, which offer loans and other financial services to poor clients. In such programs, borrowers are expected to pay back loan principal and interest under the agreed terms and conditions, just as consumers in developed countries would do for mortgage loans. While microfinance is the most well-known type of a market-based approach to development, it is far from the only one. Entrepreneurs have applied business principles to serve other services and goods needed in developing countries. However, research on this emerging field is still limited and thus requires further scholarly attention.

This study analyzes the unique business model of Bakhresa Grain Milling (Malawi) Ltd. (BGM Malawi), a leading flour milling company based in Limbe, a town close to Blantyre, Malawi. BGM Malawi operates an inclusive business model, which combines a complex web of profit-driven distribution channels with workshops for its customers. The workshops are provided to players in the wheat flour value chain, including retailers and microentrepreneurs selling wheat

based products such as mandasi, a popular local snack made of fried dough. This company's inclusive business model ensures that it reaches customers in remote regions of the country and satisfies their needs. The quotes presented in the beginning of this section are taken from a letter of appreciation sent to the company by a member of a coalition of women living with HIV/AIDS who had participated in a mandasi making workshop organized by BGM Malawi in June 2012. As it is expressed in the letter, through the company's initiatives, microentrepreneurs engaged in the wheat flour value chain have been able to improve their businesses and their well-being.

This study primarily draws on the information collected during field research conducted in Malawi between December 29, 2012 and January 12, 2013. The fieldwork consisted of interviews with BGM Malawi's key employees as well as microentrepreneurs selling mandasi and other wheat based products in various markets. Interviews with microentrepreneurs were based on a questionnaire developed for this study, which is presented in Exhibit 7.1. Based on interviews with BGM Malawi employees and customers, this study first attempts to document the company's business model and how it supports the well-being of customers that are considered to be part of the "base of the pyramid." This research also explores the economic motivation behind the company's provision of services to its customers, seeking to understand how BGM Malawi's services that provide social benefits align with its profit motive.

1.1. Inclusive Business: A Market-based Approach to Development?

According to the International Finance Corporation, an inclusive business model is a "private sector approach to providing goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people at the base of the pyramid by making them part of the value

chain of companies' core business as suppliers, distributors, retailers, or customers.”¹ The concept of inclusive business emerged from the growing recognition by the private sector of the market opportunity in populations living on the margins of the global economy, and the awareness by development practitioners of the positive impact that market-based approaches can bring to these people.

C. K. Prahalad defines the base of the pyramid (BOP)² as the world's populations who live on less than US\$2 per day.³ It is estimated that there are about 2.4 billion people who constitute the base of the economic scale under this definition.⁴ Identification of the BOP markets was pivotal in changing the perceptions of poor populations as powerless individuals to “resilient entrepreneurs and value-conscious consumers.”⁵ His work demonstrates how multinational corporations can create business opportunities in BOP markets, which in turn brings benefits to BOP consumers by providing them with high quality services and products at affordable prices.

Inclusive business takes this concept one step further by not only focusing on the BOP as consumers, but also as vibrant actors in companies' value chains. By seeing people at the BOP as suppliers, distributors, and retailers, it expands the roles that BOP populations can play in economic activities. Inclusion of BOP populations in companies' value chains empowers them to

¹ International Finance Corporation, *Policy Note on the Business Environment for Inclusive Business Models* (IFC, 2012), 3.

² BOP is also referred to as the Bottom of the Pyramid. However, this study uses the term Base of the Pyramid instead, which is now considered as the preferred term by both academics and practitioners.

³ C. K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, 5th ed. (USA: Prentice Hall, 2010), 28.

⁴ The World Bank, "Poverty Overview," The World Bank, <http://www.worldbank.org/en/topic/poverty/overview> (accessed May 6, 2013).

⁵ Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, 27

take responsibility for improving their own lives without being dependent on handouts provided by aid organizations.

Prahalad and proponents of inclusive business also draw a distinction between corporate social responsibility (CSR) initiatives and market-based approaches to development. They argue that it is critical for BOP markets to become integral part of firms' core businesses that contribute to success, and not just relegated as a side project. It is necessary for BOP populations to become fully integrated into companies' core operations in order to command serious attention of the senior management, and to ensure both operational and financial sustainability of their activities.⁶

1.1.1. Characteristics of BOP Markets

In conducting business with BOP populations, it is essential for companies to understand the characteristics and nature of their markets to be able to provide the most relevant products and services and to achieve financial sustainability. Prahalad provides a number of general observations about BOP populations.

First, low-income populations are value conscious customers who care about the quality of products and services as much as customers in the developed world. They are often limited in their abilities to purchase goods and thus tend to be cautious about their purchasing decision. Those who live in poverty expect to receive great quantity and quality at prices they can afford, and they cannot spend their limited financial resources on sub-standard products and services.⁷

⁶ Ibid., 30

⁷ Ibid., 38

Second, businesses often find innovative solutions to gain access to BOP customers through informal distribution networks. Businesses that are engaged in BOP markets are often challenged by a lack of physical infrastructure that prevents them from reaching their customers, particularly in rural communities. As is described in this study, it is common in these places for companies to leverage both formal and informal channels of distribution, which can function as a surprisingly effective means of reaching customers.⁸

Third, these products and services must be developed according to BOP customers' needs. It is critical for companies to observe the local context surrounding the customers before launching their businesses. One commonly cited example is the packaging for various consumer products sold in BOP markets. BOP customers tend to purchase consumer products in small quantities, reflecting their limited financial resources to buy goods in bulk quantities. Hence, many household items, such as shampoo and laundry detergent, are sold in small unit packages that are just enough for a single use. This also represents the nature of businesses in BOP markets as being low margin per unit and high volume.⁹

1.2. Overview of Malawian Economy

Malawi is a predominantly agriculture-based economy, with the agriculture sector contributing 28 percent of the country's gross domestic product (GDP). While the country's service sector contributes 33 percent of Malawi's GDP, many of these services are related to the agriculture sector.¹⁰

⁸ Ibid., 37

⁹ Ibid., 48

¹⁰ The World Bank, "Malawi Overview," The World Bank,

According to the Third Integrated Household Survey (IHS3) conducted by the National Statistical Office (NSO) of Malawi between 2010 and 2011, approximately 85 percent of the country's populations live in rural areas, while only 15 percent live in urban areas. In terms of Malawi's rural populations, the Southern Region has the highest percentage of the population (37.6 percent), followed by the Central Region (36.1 percent), and then the Northern Region (11.2 percent).¹¹

The IHS3 further provides a picture of poverty in Malawi. The poverty incidence is measured by poverty lines that identify poor and ultra-poor populations in the country. According to the IHS3, the population that has total consumption below 37,002 Malawi Kwacha (MK) (equivalent to US\$ 149)¹² is defined as poor and those with total consumption less than MK 22,956 (US\$ 92) are categorized as ultra-poor. People living in ultra-poor conditions are unable to afford to meet the minimum requirement for daily intake of food. The results of the IHS3 show that the national poverty rate measured by the percentage of the population deemed poor is 50.7 percent, while 24.5 percent of the country's people are considered ultra-poor.¹³ In terms of the locations of the country's poor populations, 48.6 percent of the country's poor live in the Southern Region, 37.4 percent live in the Central Region, and 14.0 percent live in the Northern Region. Furthermore, Malawi's rural areas accounts for 94.8 percent of the country's poor, while the urban areas are home to 5.2 percent of the poor.¹⁴

<http://www.worldbank.org/en/country/malawi/overview> (accessed April 26, 2013).

¹¹ National Statistical Office, *Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report* (Malawi: National Statistical Office, 2012), 10.

¹² In this study, U.S. dollar equivalent is calculated based on the 2012 official exchange rate of US\$1 = MK249

¹³ Ibid., 204

¹⁴ Ibid., 208

1.2.1. Mandasi Business and Other Non-Agricultural Enterprise in Malawi

Non-agricultural enterprises play an important role in Malawi's economy by providing income generating opportunities and off-farm employment to a significant number of households in the country.¹⁵ According to the IHS3, out of Malawi's 3 million households, 19.7 percent reported that they engaged in non-agricultural businesses. Trading is the most common type of non-agricultural businesses with a share of 58 percent, followed by manufacturing (31 percent), social services (6 percent), transportation (4 percent), and construction (1 percent).¹⁶

Table 1: Malawi's Households Engaged in Non-agricultural and Mandasi Business¹⁷

Type of non-agricultural business	Total number of households	% of all households	% of households with non-agricultural business
Wheat-using non-agricultural business	41,000	1.3%	6.8%
Mandasi	34,000	1.1%	5.6%
Other wheat products	7,000	0.2%	1.2%
Other non-agricultural business	565,000	18.4%	93.2%
All non-agricultural business	606,000	19.7%	100.0%
All households	3,073,000	100.0%	N/A

For many households engaged in non-agricultural enterprises in Malawi, wheat flour is an important input for their businesses. The survey results indicate that out of the 606,000 households operating non-agricultural businesses in the country, 6.8 percent use wheat flour as a means of earning income by selling products such as mandasi, samosa, and scones. It is important to note that mandasi business alone accounts for 5.6 percent of the country's households engaged in non-agricultural businesses, showing its unique position in Malawi's non-agricultural

¹⁵ Ibid., 65

¹⁶ Ibid., 65

¹⁷ Ibid.

household enterprises.¹⁸ This result indicates that BGM Malawi, as the largest supplier of wheat flour in the country, has an important role to play in improving the well-being of these households.

¹⁸ National Statistical Office, "Third Integrated Household Survey 2010-2011," The World Bank, <http://go.worldbank.org/BTS77UE9B0> (accessed April 2, 2013).

2. BGM MALAWI'S PRODUCTION MODEL

2.1. Overview of BGM Malawi

BGM Malawi is the leading flour milling company in Malawi, owning the largest market share of wheat flour in the country. The company estimates that it has a market share of approximately 90 percent in Malawi's Southern Region where it has its headquarters, 50 percent in the Central Region, and 75 percent in the Northern Region. Capital Foods Ltd., which is based in the country's Central Region, is BGM Malawi's main competitor in the domestic market.

BGM Malawi was incorporated on December 22, 2003 by taking over the assets and operations of Grain & Milling Company Ltd., which was a government-owned enterprise. BGM Malawi is part of the Bakhresa Group of Companies, which is a leading multinational company founded by the Bakhresa family in Tanzania in the 1970s.¹⁹ The Bakhresa Group currently operates in Tanzania (including Zanzibar), Uganda, Kenya, Rwanda, Burundi, Zambia, Malawi, and Mozambique. The Bakhresa Group's core operation is food and agribusiness, but it also offers services in logistics and transportation businesses, among others.²⁰ Perhaps the Bakhresa Group is best known by its AZAM brand of products, which includes flour, water, juice, and bread, among others, which are sold in consumer markets in countries that it operates in east and southern Africa.

2.2. The Production Model: From Processing to Packaging

¹⁹ International Finance Corporation, *Accelerating Inclusive Business Opportunities: Business Models that make a Difference* (Washington, DC: IFC, 2011), 8.

²⁰ Bakhresa Group Ltd., "Azam Worldwide," Bakhresa Group Ltd., <http://bakhresa.com/about-us/azam-worldwide/> (accessed April 19, 2013).

The majority of wheat that BGM Malawi processes at its facility is imported from overseas, including the United States and Australia, as domestic wheat production is insufficient to satisfy internal demand. According to the Food and Agriculture Organization of the United Nations, Malawi's wheat production in 2010 was only 2,341 metric tons. In contrast, the country's import of wheat in 2010 recorded 176,822 metric tons. Malawi's import of wheat has seen a significant increase over the years, showing a compound annual growth rate of 24 percent since 2000.²¹

Since Malawi is a landlocked country, all of the imported wheat that the company uses is transported through a port in Nacala, Mozambique. Up to 70 percent of wheat is transported to BGM Malawi's headquarters by truck, while the remaining wheat is transported to Limbe by a railway that is directly connected to BGM Malawi's facility. The company's headquarters are equipped with grain silos for storage, wheat milling machines for processing flour, a laboratory for quality check, and a dispatch center for distribution. (Refer to Exhibit 7.2 for a picture of BGM Malawi's headquarters). The following is a description of BGM Malawi's wheat flour production.

Once the wheat is transported to the company's headquarters, it is first stored in the silos until it is processed at the milling plant. BGM Malawi currently has two modern milling machines, each of which has a milling capacity of 250 metric ton per day. At its maximum capacity, BGM Malawi is able to produce up to 400 metric ton of wheat flour per day. It ensures the quality of wheat flour is held to the highest standards by conducting regular inspection of processed wheat flour based on BGM Malawi's internal guideline. The company's laboratory technician manages

²¹ Food and Agriculture Organization of the United Nations, "FAOSTAT," FAO, <http://faostat3.fao.org/home/index.html> (accessed April 19, 2013).

the quality control process to ensure that every wheat package it sells passes tests that evaluate for wheat flour quality, such as moisture content, gluten content, etc. The laboratory technician works closely with the company’s milling department and notifies in the case that the lab tests show any negative results so that problems may be immediately addressed. It is important to note that BGM Malawi’s quality management standards are higher than local requirements set by Malawi Bureau of Standards; the company follows the same quality management procedure as its parent company in Tanzania, which has been certified by the International Organization for Standardization.

Once the wheat flour passes the quality checks, it is packaged in different branded bags for distribution to different customers. BGM Malawi currently sells its flour under the following brands: Azam SBF, Azam White Gold, Bakewell, Golden Bake, and Cake Flour. These brands are sold in different sizes according to customer preferences as summarized in the table below.

Table 2: BGM Malawi’s Wheat Flour Brands

Brands	Available Sizes	Distributors/Customers
Azam SBF	50kg	Commercial Bakeries
Cake Flour	50kg	Commercial Bakeries
Azam White Gold	10kg, 25kg, 50kg	Wholesalers
Golden Bake	10kg, 25kg, 50kg	Wholesalers
Bakewell	10kg	Supermarkets

Wheat flour packages sold to commercial bakeries are only available in 50kg bags to be used in bulk quantities, while those that are sold to wholesalers or supermarkets are available in smaller quantities to accommodate their customers’ needs. Furthermore, wheat flour packaged in different branded bags are mixed with different quantities of improvers to adjust for differences in expected length of time before consumption. For example, wheat flour packages distributed

through wholesale distributors tend to stay on the shelves for a longer period of time as compared to those sold to commercial bakeries, and hence contain a higher mix of improvers to maintain the effect. This reflects BGM Malawi's attention to the different needs of customers, making its products more attractive.

3. BGM MALAWI'S DISTRIBUTION MODEL

BGM Malawi's wheat flour packages are distributed through primary and secondary distribution channels. The primary distribution channel includes wholesale distributors, BGM's own branch locations, commercial bakeries, and supermarkets. The company's products are then further distributed to end consumers through the secondary distribution channel, which consists of individuals, small bakeries, and small retailers. The section below describes the business profiles of actors in primary and secondary distribution channels and explains how BGM Malawi's wheat flour is reaching the end consumers. (Refer to Exhibit 7.3 for a chart of BGM Malawi's distribution model.)

3.1. Primary Distributors of BGM Malawi's Products

3.1.1. Wholesale Distributors

Wholesale distributors currently account for the largest share of the company's distribution of wheat flour packages. In 2011, wholesale distributors sold 53.5 percent of BGM Malawi's wheat flour products. There are four major wholesale distributors that BGM Malawi sells its wheat flour. Rab Processors Ltd. is the company's largest trading partner, and it distributes approximately 40 percent of BGM Malawi's wheat flour production. Rab Processors currently operates 70 wholesale outlets throughout the country under the brand name of Kulima Gold²². Kulima Gold branches are typically located in local marketplaces and sell BGM Malawi's packaged wheat flour and other farming equipment and supplies, such as maize seeds, fertilizers, soaps, etc. (Refer to Exhibit 7.2 for a picture of a Kulima Gold branch). At present, BGM Malawi's bread

²² *Kulima* means "to plough" in Chichewa, a local language spoken in Malawi.

flour is Kulima Gold's number one sales product, of which 70 percent of its wheat flour sales is generated by retailers and end consumers. Furthermore, Rab Processors is one of BGM Malawi's key partners in conducting its capacity building workshops.

The Farmers World Group operates two chains of wholesale distribution outlets in Malawi. BGM Malawi currently trades with one of them named Agora Limited, which operates 31 depots in the Southern Region of Malawi. BGM Malawi also distributes its wheat flour products through Right Price Wholesalers, which has eleven outlets in Malawi (nine outlets in the Southern Region, one in the Northern Region, and one in the Central Region) and Woolies, which operates two outlets in the town of Limbe.

3.1.2. BGM Malawi Branches

BGM Malawi's headquarters and its branch office accounted for distributing 9 percent of its produced wheat flour packages in 2011. The company sells its wheat flour directly to retailers and small bakeries at its headquarters in Limbe, and at its Mzuzu branch located in the Northern Region. Retailers represent approximately 70 percent of BGM Malawi's direct sales, while the small artisan bakeries account for the rest of its direct sales. Typically, the company's customers visit its office locations with their own vans to purchase and transport packaged wheat flour to their business locations.

3.1.3. Commercial Bakeries

Commercial bakeries purchased 36.5 percent of BGM Malawi's wheat flour packages in 2011. There are four commercial bakeries in Malawi: Mother's Pride Group, Baker's Pride Group,

Kachere Bakery Group, and PTC Bakery Group. Mother's Pride and Baker's Pride groups are the two major commercial bakeries in Malawi. Mother's Pride Group operates in the Southern Region and Baker's Pride Group operates in the Central and the Northern Regions. Commercial bakeries have their own distribution channels for their breads and baked goods, which reach consumers living in both urban and rural parts of the country. The description provided below is an example of a distribution model of Mother's Pride Group. (Refer to Exhibit 7.4 for a chart of commercial bakeries' distribution model).

Mother's Pride Group operates the following three chains of bakeries in the Southern Region of Malawi: Olympic bakery, Bakeland bakery, and Nyanja bakery. Breads and baked goods sold under each of these brands are produced in their respective bread factories. Each bakery chain has three different methods of distribution channels. One is through its own retail outlets, which are typically located in urban centers that cater to consumers living in cities. Another is through its wholesale counters that are located within its bread factory, where customers can directly purchase its products. Lastly, there is a network of van distributions that caters to customers who live in remote parts of the country. Typically, a bakery chain operates three to four different routes that are serviced by four to five vehicles each. Each of these vehicles runs one to three times a week, driving up to 150 kilometers per trip. These vans sell baked goods directly to the end consumers, which enable these bakeries to reach out to customers that cannot purchase their products otherwise. While retail outlets and wholesale counters sell breads, pastries, and cakes to cater to the tastes of the wealthier segment of the market, van sales focus on selling mandasi and other affordable products for rural households with limited disposable income.

3.1.4. Supermarkets

Supermarkets are the smallest distribution channel for BGM Malawi, accounting for just 1 percent of the company's total wheat flour production. An example of supermarkets includes the PTC Group, which also operates supermarket chains. The customers are mostly end consumers who purchase wheat flour for their own household consumption.

3.2. Secondary Distributors of BGM Malawi's Products

3.2.1. Retailers

Retailers are individuals that resell a variety of consumer products to individual business owners and end consumers. Retailers are important distributors for BGM Malawi, as they purchase approximately 90 percent of wheat flour that are sold by wholesale distributors and 20 percent of the flour sold directly by BGM Malawi. Typically, they have their retail stores in markets or by roadsides and sell groceries and other household supplies, including beans, instant coffee powder, baking powders, detergent, soap bars, maize flour, and wheat flour. As it is commonly observed in other BOP markets, these retailers sell their products in small quantities to accommodate limited cash available to majority of their customers. For example, instant coffee powders and baking powders are sold in small packets, and beans and wheat flour are sold per scoop. Customers of retail stores often make frequent visits to these retailers as they usually do not purchase a large quantity in a single visit.

One retailer interviewed for this study in Chazunda market near Blantyre has a business that is an example of a typical retail store in local markets. The store size is approximately three meters by

two meters and it has a tin roof. The owner sells various products including wheat and maize flour, beans and soap bars in small quantities in manners described above. The owner of the store usually purchases wheat flour from a nearby supermarket in Blantyre in bulk to sell it at her store by scoop. She manages her store with the help of her children, which also seems to be a common practice in these types of small businesses. (Refer to Exhibit 7.2 for a picture of a retailer).

3.2.2. Individuals

Individuals are microentrepreneurs selling homemade bread and fried dough products, including mandasi, samosas, and chapattis. Individuals' direct contribution to distributors' wheat flour sales is only 2 percent, reflecting their limited abilities to purchase wheat flour in large quantities. However, individuals are major actors in the wheat flour value chain as the majority of them purchase wheat flour from retailers. It is assumed that most of the wheat flour that is distributed through retailers is ultimately sold to individuals, who in turn use it for their own household consumption as end consumers or for making wheat based products, including mandasis, for sale.

Fourteen microentrepreneurs (thirteen females and one male) under this category were interviewed for this study. All of them were based in the Southern Region of Malawi, representing Blantyre, Chirazulu, and Thyolo districts. Interviews were conducted in the following four markets: Bvumbwe (Thyolo district), Chazunda (Blantyre district), Ndirande (Blantyre district), and Lunzu (Chirazulu district). BGM Malawi selected the interview locations and interviewees were chosen during the visit to each market. While the sample cannot be understood as representative of all mandasi sellers in Malawi, the interview results nonetheless provide a basic overview of their business and estimation of their profitability.

The average number of years selling mandasi and other wheat based products among the interviewees was 4.45 years, ranging from three months to fourteen years. The average household size was 6.71, ranging from three to thirteen. All but one individual sell their products at fixed locations in their small outlets, which are found in markets or by the roadside. One respondent sells his products by carrying them around in a market. These individual businesses do not have stores with physical structures and often sell their products simply in plastic buckets. Three respondents mentioned that they receive support of their family members in managing their businesses. Their daily work hours vary, but typically they spend about eleven hours purchasing ingredients, cooking, and selling products. For example, one respondent mentioned that she typically starts preparing her mandasi at 4am until 8am, after which she brings and sells her products at a market until around 6pm. She takes a break in between by asking her children to stand in the market. (Refer to Exhibit 7.2 for a picture of a mandasi seller).

3.2.3. Small Artisan Bakeries

Small artisan bakeries are those that bake and sell bread-like products that are commonly referred to as “scones” by the local people. They are typically found in the Central Region of the country where competition from commercial bakeries are low relative to the Northern and Southern Regions. These artisan bakeries are semi-professional businesses that are larger in scale compared to the mandasi makers and require more investment and skills in the baking process. Small artisan bakeries contribute about 5 percent toward distributors’ sales and 30 percent toward BGM Malawi’s direct sales.

The major difference between artisan bakeries and individual mandasi sellers is the requirement for a brick oven in the cooking process. While mandasi making is possible using only the basic cooking supplies typically available in a household, scone making needs a brick oven that requires a substantial upfront investment. For example, one artisan bakery interviewed in Mitundu (Lilongwe district) mentioned that he made an investment of MK 19,900 (US\$ 80) for building the oven, which involved three days of work by two workers.²³

Brick ovens are shaped in trapezoid forms with square bases, and they can be higher than human height. Scones are baked in the following steps: First, charcoals are placed inside the oven for preheating; second, charcoals are then taken out once the oven is adequately heated; third, round scone doughs are placed inside the oven using rectangular shaped trays until they are fully baked. According to the artisan bakery, one tray can hold about 48 doughs, and 24 trays can be placed in the oven at a time, enabling him to bake as many as 1,152 scones in one session. This baker will then sell his baked scones at markets by himself or through middlemen. (Refer to Exhibit 7.2 for a picture of a small artisan bakery).

3.2.4. End Consumers

End consumers are individuals who are at the end of the distribution model who either consume wheat flour at home or purchase wheat based products from individual vendors, small artisan bakeries, or commercial bakeries. It is assumed that there are only few end consumers who directly use wheat flour for their household consumption. According to BGM Malawi's observation, most of them consume wheat through wheat based products including mandasi and

²³ For details, refer to Exhibit 7.6.3

scones sold at markets.

4. BGM MALAWI'S WORKSHOPS

4.1. Descriptions of Workshops

BGM Malawi distinguishes itself in Malawi's wheat flour industry by engaging directly with BOP customers through conducting workshops to microentrepreneurs involved in the company's value chain. As it has been described in the previous section, the company does not sell its wheat flour packages directly to BOP customers as the company relies on sales channels of its primary and secondary distributors to reach the end consumers. This makes it particularly interesting to understand the underlying motivation for the company to build direct relationships with microentrepreneurs selling mandasi and other wheat based products in the country.

The company conducts the following two types of workshops: supply-side workshops that aim to assist with the marketing and sales efforts of BGM Malawi's distributors and retailers, and consumer-side workshops that aim to promote the correct use of wheat flour by individual mandasi sellers and small artisan bakeries. The company has a long history of providing both types of workshops throughout Malawi. However, it has increased its effort since 2006, holding approximately two to three workshops every month across the country.

4.1.1. Supply-side Workshops

The supply-side training is provided to distributors and retailers that sell BGM Malawi's wheat flour to individuals and end consumers. The training is focused on the merchandising of the company's products, including inventory management and product displays. Furthermore, training on bookkeeping is also provided to improve management practices.

BGM Malawi conducted these supply-side workshops in its early days of operations, when it was focusing on building its nation-wide distribution system. Since then, the company has reduced its number of supply-side workshops as most of its distributors and retailers have already been adequately trained. However, BGM Malawi makes sure its products are properly stored and marketed by distributors through making regular visits to different retail outlets to check the conditions of the wheat flour. If necessary, BGM Malawi staff will provide assistance to store managers to address any issues that they are facing.

4.1.2. Consumer-side Workshops

The consumer-side training is provided to small artisan bakeries, mandasi sellers, and other microentrepreneurs engaged in businesses selling wheat based products. The training focuses on technical aspects of baking and frying process of these products, and often involves on-site demonstration by BGM Malawi staff to show proper recipes and cooking process to these individuals. Furthermore, these workshops are used by BGM Malawi as channels to communicate its business update to its customers and answer any questions they have on the company's products.²⁴

4.1.3. Eligibility and Selection Criteria for Workshops

BGM Malawi's workshops are open to all of its customers and hence there are no eligibility criteria, other than being a purchaser of its wheat flour, to participate in one of their workshops. However, as many of these microentrepreneurs and small artisan bakeries are located in remote

²⁴ Details on this point is further illustrated in Section 4.1.5 "Observation of a Typical Workshop"

parts of the country, it is important to understand the company's strategy for reaching out to these customers to ensure their participation.

BGM Malawi's outreach to its customers is primarily conducted through market visits by two marketing and sales staff based in the company's headquarters in Limbe, and a branch manager based in Mzuzu. According to BGM Malawi, each staffer spends eight to twelve days every month visiting markets in the country. Exhibit 7.5 provides one example of a route used for a market visit in the Southern Region, with locations of major markets. Typically, one market visit will take two to three days, covering eight to ten locations. This route starts from Limbe, where the company headquarters is located, and on the first day the staffer travels north to Mangochi. On the way to Mangochi, the staffer makes stops at places such as Zomba and Liwonde. On the second day, he starts from Mangochi, and visits Monkey Bay, and returns to Liwonde through a different route making stops at Namwera, Ntaja and Nsanama. On the third day, he returns to Limbe.

On a typical day, a company staffer will visit at least 33 customers, including small retailers (fifteen to twenty), wholesale outlets (five to eight), commercial bakeries (three to four), and individual mandasi sellers (ten to twelve). Hence, based on a conservative estimate, one staffer is able to conduct 264 customer visits per month. As a company, BGM Malawi has the capacity to make 792 customer visits per month and 9,504 customer visits per year. Assuming that one customer represents a household in the IHS3 survey data presented earlier, it is estimated that the company is able to visit about 28 percent of Malawi's households selling mandasi per year.²⁵

²⁵ Note that these figures may be overstated as some of these customers are counted multiple times since BGM Malawi employees may visit them more than once.

Table 3: BGM Malawi’s Estimated Number of Customer Visits (per staffer)

	Day		Month		Year	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Small Retailers	15	20	120	240	1,440	2,880
Individuals	10	12	80	144	960	1,728
Wholesale Outlets	5	8	40	96	480	1,152
Commercial Bakeries	3	4	24	48	288	576
Total	33	44	264	528	3,168	6,336

During these visits, BGM Malawi staff receive direct feedback from the company’s various customers on its business and wheat flour. The company also looks for the source of problems that its customers may be facing. Through talking directly with customers, the company identifies potential locations for workshops to address specific issues faced in these places. In addition to its own outreach efforts, BGM Malawi also receives similar information from its distribution partners who report to the company with any issues. Furthermore, in some cases, external organizations reach out to the company to ask for its support to address certain issues. For example, a non-governmental organization that works with HIV-positive women in Malawi reached out to the company to ask for its support, to which BGM Malawi responded by holding a workshop for the group of women.

4.1.4. BGM Malawi’s Partnership with Distributors

Since BGM Malawi does not have its own distribution network in the country, it often leverages the networks of distribution partners to conduct workshops. In particular, its relationship with Rab Processors has been important to allowing BGM Malawi to hold workshops as the company can rely on Kulima Gold’s nation-wide network of retail outlets. Although the company relies on

its distributors' network to reach out to the customers, its workshops are always attended by at least one BGM Malawi employee to monitor the quality of the training offered.

4.1.5. Observation of a Typical Workshop

A consumer-side workshop was conducted by BGM Malawi on January 8, 2013 at Mitundu Primary School in Lilongwe district in the Central Region of Malawi. Unlike a typical workshop, demonstration of mandasi making or scone baking was not conducted due to shortage of time. However, the following description of the workshop illustrates an example of the company's effort (Refer to Exhibit 7.2 for a picture of the workshop).

The workshop started around 3:30pm, when participants from neighboring villages began to gather in a classroom at Mitundu Primary School. There were 41 participants in total, of which 37 were female and four were male. This number of participants was typical for a workshop, and participants were informed of the opportunity through the following two channels. First, the local Kulima Gold branch manager directly passed on the information to mandasi sellers and small artisan bakeries, who in turn shared this information within their respective communities. Second, the Kulima Gold branch manager passed on the information of the event to the local chairman of the market, who in turn spread the information within the community. The participants were either small artisan bakeries or individuals who sold wheat based products in local markets, such as mandasi, samosas and scones.

The workshop started with a greeting by a sales representative of Rab Processors followed by a short prayer. A BGM Malawi representative then explained to the participants the reason for the

shortage of wheat flour supplies, which was causing a problem for the participants of the workshop at the time. Once his explanation was over, the workshop moved on to a question and answer session.

There are three broad categories of questions that the customers raised during the meeting. First, the participants asked questions specific to methods of scone baking. One customer mentioned that his scones did not rise as they should, and another asked a question regarding the color of the scones after baking. Second, the participants commented on the quality and availability of BGM Malawi's wheat flour. One customer requested that the company add more improvers in the wheat flour, and another complained that wheat flour packages sold at the local Kulima Gold depot were all close to their expiration dates. Third, there were various comments and suggestions made to the company, ranging from appreciation of its business to requests to conduct more workshops. There was also one suggestion to build a group-based purchasing scheme of wheat flour to overcome limited financial capital available to the people, where a group would collectively purchase the flour in advance and pay Kulima Gold at a later date. Another participant mentioned that the limited financial resources were a major problem facing the people that prevented them from scaling their businesses.

After BGM Malawi and Kulima Gold addressed all questions, the workshop ended with another prayer, and participants were out of the classroom by 4:30pm.

5. ANALYSIS OF BGM MALAWI'S INCLUSIVE BUSINESS MODEL

Since the majority of microentrepreneurs are not direct customers of BGM Malawi, it is difficult to understand the motivation of the company to meet directly with those involved in the wheat flour value chain and provide free customer service to people whenever it is needed. Hence it is important to understand the underlying economic reasons for BGM Malawi's effort.

The end consumers of BGM Malawi have very low "switching cost." In other words, if they experience any problems with the company's flour, they can switch to wheat flour produced by Capital Foods, or use an alternative type of flour, such as maize, which is commonly available in the country. It is therefore important for the company to identify potential sources of problems and address them at early stages before it loses the market share.

Routine visits to different markets provide ways for the company to understand the most recent business environment, including the price at which its wheat flour is traded by retailers, and the quality and availability of wheat flour in distributors' outlets. Furthermore, by talking to the microentrepreneurs and end consumers, they are able to detect any issues that these customers may be facing, and depending on the magnitude of these issues, form a new strategy to address them.

BGM Malawi's workshops provide opportunities for the company to directly address issues experienced by end consumers. In the example of a workshop given previously, an artisan baker raised a question concerning the baking process of scones, which the company staffer was able to answer directly.

The company also provided another example in which the workshops proved to be an effective means of dealing with customer concerns, in this case a group of women who were selling mandasi in Chazunda, Blantyre district. The company had learned that the mandasi sellers were raising concerns that its wheat flour was absorbing too much cooking oil during the frying process, which was driving their costs up significantly. BGM Malawi promptly responded to their concerns by organizing a workshop for the group of women, with a demonstration of mandasi making by its staff. During the workshop, the company identified that the group of women had been mixing wheat flour with maize flour. While the mixing of flour typically resulted in a larger size of mandasi, it absorbed more cooking oil during preparation, which was causing the problem.

Not only did the workshops provide technical training for the end consumers, they also functioned as a forum for the company to communicate important business updates. In the example above, the company gave an explanation of the recent situation regarding the wheat flour shortages that it was experiencing, which was impacting the participants' businesses. By providing an opportunity for the end consumers to directly ask questions to BGM Malawi staff, the company is able to effectively manage customer expectations and prevent the spreading of rumors based on false assumptions, which can potentially lead to a loss of customers.

5.1. Interview Results: The Faces of Microentrepreneurs

As described earlier, fourteen mandasi sellers, two small artisan bakeries and one retailer were interviewed for this study. The interviews aimed at understanding the major challenges they

faced in their businesses, and how BGM Malawi's outreach helped address these issues. The section below summarizes their responses.

5.1.1. The Revenue-Cost Analysis of Microentrepreneurs

The information of the revenue and cost was collected from the fourteen mandasi sellers to understand the profitability of their businesses. Based on the results of the interviews, a typical mandasi seller's business may look like the following.²⁶ On a typical day, the mandasi seller generates a revenue of MK 4,500 (equivalent to US\$ 18) per day while spending MK 2,580 (US\$ 10) to purchase necessary ingredients, including wheat flour, cooking oil, salt, sugar, and yeast. The mandasi seller's gross profit is MK1,300 (US\$ 5), achieving a gross margin of 38 percent. This gross profit is the actual amount of cash a mandasi seller receives after spending a day in the market. However, it is important to take the labor cost into consideration to estimate the opportunity cost for carrying out this business. It is typical for a mandasi seller to spend eleven hours a day working, often starting very early in the morning to prepare mandasi until late in the evening to sell them in the market. Based on an hourly wage of MK 50 (US 20 cents), which is typical for a Malawian domestic worker, it is estimated that a day's worth of labor costs a mandasi seller MK 600 (US\$ 2). As a result, a typical mandasi seller's profit per day is calculated at MK 700 (US\$ 3), achieving a 20 percent profit margin. This is a significant level of income in a country where the poverty line is defined at MK 37,002 (US\$ 149) per person, per year, which is equivalent to a daily wage of MK 101 (US 40 cents).²⁷

²⁶ The figures presented in this section are based on the median values of the interview results.

²⁷ National Statistical Office, *Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report*, 204

The scale of business increases significantly for small artisan bakeries. The average of the two artisan bakeries shows that they generate a revenue of MK 33,180 (US\$ 133) from one baking cycle. As these artisan bakeries typically bake scones up to three times a day, their revenue ranges between MK33,180 (US\$ 133) and MK99,540 (US\$ 400). Based on an assumption that these two bakeries bake twice a day, the average revenue of the two is MK66,360 (US\$ 267) per day, with an average profit of MK8,313 (US\$ 33) per day.

Details of each respondent's revenue and cost are further detailed in Exhibit 7.6. Although there is a range in the amount of cash that microentrepreneurs generate from their businesses, it is important to note that only one respondent is making a loss from her business. The respondent, who was a mandasi seller, was also the only one who mixed wheat flour with maize flour in her recipe, which could have been the reason for affecting her profitability.

5.1.2. The Challenges Facing Microentrepreneurs

During the interviews, six respondents out of the fourteen mandasi sellers mentioned the inability to sell all of their products as their primary concern in their business. The reason for having left over mandasi is not identified. However, out of the six individuals, two mentioned that there is an increased competition in the mandasi business in their neighborhoods, which might be a possible reason for the decrease in sales. Three respondents mentioned challenges related to their business management skills, including lack of means to store cash and inability to collect payments from customers that they gave their products in advance. Other concerns include those related to technical aspects of mandasi making, increased cost of ingredients, lack of financial capital to scale business and health concerns from the heat caused during the frying process.

5.1.3. Feedbacks on BGM Malawi's Workshops from Past Participants

Seven respondents out of the fourteen mandasi sellers had attended one of BGM Malawi's workshops on mandasi making. All of them learned about the workshops through the company's direct outreach, and responded that the workshops provided them with valuable information on the proper procedure of mandasi making. In particular, four of them noted that they were able to reduce the amount of cooking oil after the workshops, which helped them reduce costs. Furthermore, all of the seven respondents mentioned that they were satisfied with BGM Malawi's workshop programs.

All of them also expressed keen interests in receiving further training from the company. They were interested in learning new recipes to diversify their products. In particular, they were interested in learning how to make chapattis, samosas, scones, cakes, doughnuts, and yellow and white buns.

5.1.4. Interests in BGM Malawi's Workshops from Non Participants

Out of the seven mandasi sellers who had not attended any of BGM Malawi's workshops, only two were already familiar about the company's effort. However, when asked whether they would be interested in participating in the company's future workshops, all of them expressed their interests. Topics that they would be interested in learning more about included proper recipes and the cooking process for mandasis, samosas and pancakes.

5.1.5. Impact of Mandasi Business on the Lives of Microentrepreneurs²⁸

Seven out of the fourteen mandasi sellers mentioned that they were able to buy more household necessities, such as soaps, home utensils and food, from the income they generated by their businesses. Five respondents mentioned that they were able to send their children to school. Three respondents mentioned that they were able to buy livestock such as chicken, pigs and goats. Two mentioned that they were able to improve their housing by electrification and replacing their roof with a corrugated iron sheet. Finally, one respondent mentioned that her business provided her with a source of income, enabling her to become financially independent from her husband.

Furthermore, entrepreneurship often served for a microentrepreneur as a means to step up one's career. One of the most prominent examples is the story of Malawi's current president, Mrs. Joyce Banda, who had initially started her career as a mandasi seller before becoming a politician.²⁹ However, there are more examples in which BGM Malawi has witnessed such successful transitions of microentrepreneurs.

The retail shop owner interviewed for this study was featured in the country's national newspaper as a success story of a woman entrepreneur. Mrs. Grace Kika first started her career as a mandasi seller in 1989. Her mandasi business enabled her to accumulate enough financial capital to diversify her business through pig and chicken farming and eventually retailing. Despite the skeptical views from her neighbors and her husband, she was also able to build her family a new

²⁸ Note that respondents were allowed to provide multiple responses to this question.

²⁹ Raphael Tenthani, "Joyce Banda: Malawi's First Female President," BBC, <http://www.bbc.co.uk/news/world-africa-17662916> (accessed April 19, 2013).

house.³⁰

Another example is the small artisan bakery interviewed in Mitundu, Lilongwe. The woman who runs her small bakery also began her career in 1988 in a different village. When she moved to Mitundu, she initially rented a house for her family. As her business progressed, she was first able to buy her family a piece of land and then a new house. She was then able to send her children to school with the income she earned from her business. At the time of the interview, she had already bought another piece of land on which she planned to set up another bakery, which would be equipped with modern baking machines instead of the brick oven that she currently used.

³⁰ Ephraim Nyondo. "How Mandasi Transformed Lives." *NATION on Sunday*, May 13, 2012. 10

6. CONCLUSION

This study of BGM Malawi demonstrates important characteristics of businesses that engage with BOP markets. First, BGM Malawi's quality control procedures ensure that its customers receive high quality products that meet their expectations. They are aware of the subtle changes they see in the wheat flour that they purchase, which prompted questions for the company, as a number of mandasi sellers and other microentrepreneurs mentioned during the workshops and interviews. BGM Malawi can lose its market share if the company does not provide high quality products to its customers, which will have a direct impact on its business operations.

Second, BGM Malawi leverages both formal and informal distribution channels to reach customers that are based in remote parts of the country. As suggested by Prahalad, it is crucial for businesses to engage with existing distribution networks to reach BOP consumers who are often located in remote villages or sparsely populated areas. By taking advantage of existing distribution channels, companies can reach their customers cost effectively without the need to build their own branch networks. Since BGM Malawi only distributes its products directly to formal clients, the company relies heavily on their distribution networks and informal channels of individuals, small artisan bakeries, and retailers to reach BOP consumers. The networks of these primary distributors represent BGM Malawi's formal distribution channel, while those of the secondary distributors are mostly informal in nature, represented by small retail stores and vendors in markets. Most primary distributors do not distribute BGM Malawi's wheat flour packages directly to BOP consumers, as 90 percent of wholesale distributors' sales and 70 percent of BGM Malawi's direct sales from branches are generated by retailers who in turn resell the flour to individuals and end consumers. These informal networks of microenterprises span

remote areas of the country, which enable BOP consumers to gain access to the company's wheat flour. The only exception to this are the commercial bakeries, which have their own means for last-mile distribution strategies through van sales.

Third, the company's strategies for conducting workshops are a result of its needs to address problems and ensure satisfaction of BOP consumers in order to cultivate and maintain its customer base. BGM Malawi's workshops represent the company's strategy to build a win-win relationship with its BOP consumers. From the consumers' perspective, they are able to learn recommended recipes and methods for making wheat based products from the company. Furthermore, customers can communicate directly with BGM Malawi's staff to receive their business updates. From the company's perspective, workshops provide an opportunity to address concerns that BOP customers are experiencing that ultimately leads to an increased market share in the country.

Currently, the market for Malawi's mandasi sellers seems fairly competitive. Mandasi making is an established business in the country that has been practiced by local populations over generations, and currently the market appears to be saturated with microentrepreneurs selling mandasi. This study argues that BGM Malawi's direct engagement with BOP consumers provide the company with opportunities to understand market trends and help microentrepreneurs improve their businesses. However, the impact of the company's effort on the well-being of BOP populations needs further assessment. BGM Malawi's workshops and related services have the tendency to increase supply of mandasi in the market, which in turn likely to drive down the retail price of the product. While this provides a direct benefit to net consumers of mandasi, this may affect the income of mandasi sellers. Several mandasi sellers whom this study interviewed

also seem to support this view, as they mentioned that they have seen an increase in competition in their respective communities.

In light of this market analysis, it seems that there is an opportunity for BGM Malawi to expand the focus of workshops to include other types of wheat based products to encourage microentrepreneurs to diversity their sales items. Based on the interviews, mandasi sellers are also seem to be interested in learning new techniques to cook different wheat based products. Introducing new varieties of wheat products will expand microentrepreneurs' businesses and further deepens Malawi's wheat flour market, which will present BGM Malawi with an increased business opportunity in the country.

3. What are the biggest challenges that you are facing to run your business?

4. If you have attended the training, how did you first find out about the training services offered by BGM Malawi/distributors?
 - 4a. How did you first learn about the training?
 - 4b. What trainings did you find most helpful for improving your business, and why?
 - 4c. Do you feel you understand how to manage your business well after receiving your training?
 Yes _____ Need more training _____
 - 4d. If you need more training, in what area?
 - 4e. Overall, are you satisfied with BGM Malawi's training programs?
 Yes _____ No _____
 - 4f. Why or why not?

5. If you haven't attended the training, do you know about the training services offered by BGM Malawi/distributors?
 - 5a. If yes, how did you learn about the training?
 - 5b. Would you like to attend a training if it is offered close to where you have your business?
 - 5c. In what area would you like to receive your training?

6. Please let me know how did the mandasi business help improve your life?

7. Please let me know how did the workshops improve the way you do business?

7.2 Select Field Photos

BGM Malawi Headquarters



A Distributor's Outlet



A Mandasi Seller



A Retail Store



A Small Artisan Bakery



BGM Malawi's Workshop

