

# **NETWORKS AND BUYER BEHAVIOUR AT THE BASE OF THE PYRAMID (BOP)**

**BY**

**Tendai Chikweche and Richard Fletcher\***

**University of Western Sydney**

**\*corresponding author**

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## ABSTRACT

Networks traditionally have been studied in the context of areas such as industrial marketing in developed country markets and economics and sociology (focusing on livelihoods) in developing countries. There has been limited research on their influence on the decision making process of consumers as it applies to their engagement with firms that produce products at the BOP. This paper argues that among lower income groups in developing country markets – i.e. those at the base of the pyramid (BOP), networks are a powerful force in the decision making of consumers and networks facilitate understanding the behaviour of consumers and their interaction with firms. Unlike in ‘western’ environments where decision making tends to be by individuals, at the BOP the collective entity has a significant influence on what consumers buy and how they interact with manufacturers of products such as food, and personal hygiene items. This collectivism reduces perceived risk of transactions by embedding them in relationships that are both continuous and multipurpose. At the BOP sector, the resulting formal and informal networks take on a particular significance as a buffer against natural and policy induced risks. Such risks affect both firms and consumers and derive from political uncertainty, ethnic clustering and absence of the rule of law. In these networks, economic and non economic activities overlap and network ties of race, religion, marriage, education, friendship, work and information transfer, operate to influence decision making, consequent buying behaviour and interaction between consumers and firms. This is illustrated by research undertaken into consumer behaviour at the BOP in Zimbabwe.

## INTRODUCTION.

Traditionally, the network paradigm of the IMP Group has been based on networks in the business to business (B2B) context and not on networks in the business to consumer (B2C) context. In this paper the view is offered that in some situations, scope exists to extend the network paradigm from B2B to B2C. When firms wish to business in developing countries with those at the base of the pyramid, they will often be dealing with networks of consumers.

According to Simanis and Hart (2008), despite over US\$ 2 trillion having been spent on aid over the last five decades, much of the world still lives in poverty and in excess of 4 billion people live on less than US\$ 1,500 per year (Prahalad, 2005). This group is often referred to as the base of the pyramid (BOP). This group at the bottom of the pyramid (BOP) accounts for 65% of the world’s population and whilst in terms of aggregated purchasing they constitute a substantial market now, it is this group that is likely to generate the greatest increase in overall demand as income levels in developing countries increase in future years (Mahajan and Banga, 2006). Increasingly firms are endeavouring to tap this BOP market but for the most part they focus on changing their business models designed for ‘western’ markets to achieve price points and cost positions that they consider appropriate to the BOP group, but which do not take into account the perspective of the poor themselves and the unique circumstances in which they live (Simanis and Hart, 2008, p1). A different mindset will be necessary to tap this potential particularly in the short term. Although a standardised ‘western’ marketing mix offering may have prevailing impacts on highly western influenced metropolitans in developing economies it will not cut it with the BOP category of unsophisticated consumers whose circumstances will require a highly customised approach. There are a number of unique features operating at the BOP which need to be taken into account by firms entering this market such as a young age demographic, gender complexities, rural and urban fringe locations, degree of uncertainty and turbulence in the environment, nature and inadequacy of infrastructure and the extent of the informal economy. These factors have the potential to determine the success or failure of firms in tapping this segment.

Networks at this segment form a basis of how people relate amongst each other and how they relate to the environment outside their communities, where trust, creation and retention of long-term relationships are part of the social fabric of communities (Kuada and Sorenson, 2000). Communities live and operate in a variety of formal and informal networks that cover different aspects of their social and business life (Michailova and Worm 2003). Informal and formal networks take on a particular significance in the light of political uncertainty, ethnic clustering as well as the absence of the rule of law in countries such as Zimbabwe (Fletcher and Fang, 2006). These have an impact on the decision-making process of consumers which is set within a defined social hierarchy in the communities. Whilst previous research on the impact of networks has been largely confined to the field of livelihoods for poor consumers, not much research to our knowledge, has been undertaken in the field of marketing to investigate the influence of social networks on the decision making process of consumers - specifically at the BOP - and the subsequent interaction that occurs between them and firms. It is the objective of the paper to outline the influence and role of social networks on the decision making process of consumers specifically at the BOP in buying fast moving consumer goods (FMCG) such as food and personal hygiene products and the interaction that occurs between the consumers and the firms in

this engagement. Using research carried out in Zimbabwe - a typical BOP market exposed to policy and natural induced risks - the paper will provide insights into the influence of social networks from both a consumer and a firm perspective. The paper will propose a descriptive analytical framework that can be used to better understand both the impact of networks in consumer decision making and on interactions between consumers and firms at the BOP.

The first part of the paper will review the general literature on networks, provide a justification for focusing on Zimbabwe, and outline the methodology employed. The second part of the paper will provide details on the forms/types of formal and informal networks that exist at the BOP in Zimbabwe and discuss how they influence consumers in their decision making process to buy food and personal hygiene products. The third and final part of the paper will deal with the impact of networks on the interaction and engagement between the consumers and firms and propose a descriptive analytical framework which can be used to better understand the interaction of firms and consumers as mediated by social networks in a BOP market.

## LITERATURE REVIEW

The study of networks spans various academic disciplines such as anthropology, economics, sociology and industrial marketing. The study of networks is an example of an area in which the marketing discipline 'borrows' phenomena from other disciplines - in this case from anthropology, economics and sociology. In these disciplines, the study of networks is heavily embedded in the study of social capital of which social networks make up a key component as is evident from the definitions arising from research by Coleman, 1988 and Scoones, 1998. Marketing has gradually moved from the era of being short term transaction driven to becoming more long term relational oriented hence the increasing importance of business networks (Morgan and Hunt, 1994). Business networks have been defined as "sets of connected exchange relationships between actors controlling business activities (Cook and Emerson, 1984) They differ from social networks by virtue of their linkage to business activities which are interrelated and each activity is dependent on the performance of other activities. These activities are either performed by firms, business units, individuals or external partners. The interdependence of actors is facilitated by the exchange relationship and their needs and capabilities as motivated through the interaction that takes place in the relationship (Forsgren and Johanson, 1992). Business networks are broader than strategic networks such as franchising networks where one central actor contracts a number of franchisees to distribute products (Thorelli, 1986). Forsgren and Johanson (1992) argue that strategic networks are part of business networks since there is usually a formal contractual arrangement between the various actors. Relationships in networks are important and take different forms depending on the interaction that takes place among the actors and the time and resources that are invested in the relationships (Hallen, Johanson and Mohamed, 1987). Third parties such as middlemen and other networks have the potential to condition the different relationships that can occur among different actors.

The focus of most past research on networks in marketing has been confined to the international business context of developed western markets. In this context, the importance of strategic networks such as franchising has been highlighted by Forsgren and Johanson (1992). This type of network can be applied to other markets such as the BOP. There is a research gap which is the study of the nature of relationships between the various actors (such as the firms) and social networks when investigating the exchange relationship that occurs and its potential impact on firms' performance. Since consumers can be key participants in the process of conditioning relationships in business networks, it is important at the BOP to investigate the impact of social networks on the decision making process of consumers and their subsequent interaction with firms. This gap in current research can be expanded to cover the subsequent interaction that occurs between consumers and firms. This is particularly relevant at the BOP where these interactions and forms of networks are not well documented. Barr, (2004) and Frankenberger and Garrett, (1998) have documented the formal and informal social networks that are likely to be found at the BOP. Wasserman and Faust (1994) proposed that a social network consists of a finite set or sets of actors and the relation or relations defined on them. Social networks are defined by them as a set of people or organizations connected by a set of relationships (such as friendship), working together or exchanging information to enhance their lives and interaction with other actors in the society. The concept of social networks emerged from studies of social capital in anthropology, from development activities, and from research in economics and sociology dating back to the 1940's and 1950's (Moser, 1998; Piselli, 2007; and Purvez, 2003). Frankenberger and Garrett (1998) categorised networks into two main groupings, namely formal and informal. The formal networks are made up of groups or organisations that have defined structures with set patterns of behaviour and membership, whilst informal networks are loosely structured, ill defined and usually based on family and kinship ties. Both formal and informal networks can further be sub-divided into those that are based on choice of social activities and those that are based on choice of economic activities (Barr, 2004; and Frankenberger and Garrett, 1998). Informal networks are made up of people who are connected by familial kinship ties where

resources are shared and there is reciprocity among members (Lyon, 2000). Examples of formal networks that they have identified are social networks such as kinship, cultural, religious and community groups whilst the economic networks that have been cited are micro-finance and self-help entrepreneurial networks. Discussion on these networks has been limited to the livelihoods research area, yet there is potential for them to be discussed not only in the context of B2B marketing but also in the context of B2C marketing.

Based on Forsgren and Johanson's 1992 argument that strategic networks are part of business networks, in the context of the BOP, the emergence of business networks such as franchises and buying clubs provides an opportunity to study how these networks enhance interaction between consumers and firms and between firms themselves. Buying clubs have been covered in literature on international retailing and on that aspect of the literature on industrial marketing dealing with alliances that retailers form to maximise their advantage when making bulk purchases (Robinson and Clarke-Hill, 1995). However the application of the concept is different at the BOP where buying clubs are an extension of community clubs and where women form groups based on their area of residence to pool their meagre financial resources and then approach companies to be allowed to buy in bulk, groceries at discounted prices (Adams, 2008; Dube, 2008). Franchises are often used as traditional distribution channels in marketing. These have been described as distribution systems which involve the processing of licensing rights and obligations to replicate a unique marketing positioning (Kaufmann and Eroglu, 1999; Spinelli and Birley, 1996). The study of franchising has been broadly covered in international marketing and industrial marketing as well as in the area of foreign market entry and networking among firms (Burton and Cross, 1995; Fletcher and Brown, 2008). In the context of the BOP there has been an emergence of franchise networks which are made up of community groups who become distribution agents for companies thereby forming a basis for interaction between the two and for potential interaction amongst firms that engage the BOP. Such franchise networks are used for distributing products to those at the BOP (Adams, 2008; Dube, 2008). This is an area that is not well documented in current literature but has the potential to explain the interaction between consumers and firms at the BOP and between firms that engage the BOP.

## JUSTIFICATION FOR FOCUSING ON ZIMBABWE

In exploring the gap in research of the application of networks in a B2C context at the BOP, Zimbabwe was selected as a location for field study. Zimbabwe is an example of the unique characteristics of BOP markets which have been subjected to policy and natural induced risks thereby putting consumers under strain and posing distinct operational challenges for firms conducting business in such markets. Also, research in Zimbabwe provides an opportunity to explore how social networks play an important role in shaping and determining the nature of social and economic relationships for both consumers and firms.

Natural and policy-induced risks such as ill health, weather shocks and economic policy changes are common facts for many households all over the developing world (Ersado, 2006). Zimbabwe presents a distinct example of households experiencing conditions of risk and uncertainty and coping with adverse shocks. It has been exposed to a combination of natural and policy induced shocks such as high unemployment and inflation which are common characteristics of the BOP (this is reflected in Table 1). The difficult environment challenges caused by policy and natural induced risks that have been highlighted above, pose distinct challenges for conducting research in such a market. Details of these challenges are provided in the section on the methodology.

**Table 1. Zimbabwe: Economic and Social indicators**

<b>Total Population</b>	13200000
<b>BOP/Low income group</b>	9900000
<b>GNI per capita(Atlas method, US\$)</b>	324
<b>Inflation</b>	265000%*
<b>Unemployment</b>	80%
<b>Informal sector contribution to GDP</b>	+20%
<b>Literacy rate</b>	65%

Source: World Bank and International Monetary Fund Country Reports

\*Unofficial estimates are higher

The persistent droughts since early 1990s, the land reform program, the economic structural adjustment programmes (ESAP) and the post ESAP policies in early 2000 resulted in significant changes in the income

patterns and lifestyles of both the rural and urban populations (Scoones, Chibudu and Chikura, 1996). It is estimated that at least 75% of Zimbabwe's population now lives on less than \$1 a day (Consumer Council of Zimbabwe), and the majority of them are self-employed. The large percentage of population falling into the BOP category provides an opportunity to use this market as a basis for research into the BOP segment. This is a market where collective decision making and use of formal and informal social networks are in evidence and where trust and commitment are likely to be key cornerstones for devising survival mechanisms. These circumstances are likely to influence the decision making processes that consumers apply, especially for food and personal hygiene products.

The policy induced and natural shocks in Zimbabwe have resulted in the deterioration of key infrastructure such as telecommunications and roads. This has required both consumers and firms to change the way they conduct their lives and their business operations. An important result of this process has been the emergence of an informal 'economic space' that is outside formally structured economic activities. This is the informal sector which is made up of largely unregistered market activities that function as survival mechanisms for individuals and families and operate also as profit maximising tools for firms (World Bank, 2005). In Zimbabwe the informal sector is made up of market activities such as buying and selling and also of small home industries consisting of self employed trades people such as carpenters, builders, welders, and cross border traders. A large number of the self employed are skilled and semi-skilled persons retrenched by downsizing companies who since retrenchment 'set up shop', either as individuals or groups or small enterprises, to produce cheaper alternative products (such as furniture) targeted at low income groups. Participation in these activities is by both men and women with women being dominant in the buying, selling and cross-border trading activities.

The informal sector is now regarded as the biggest employer in the country, in both rural and urban sectors. The majority of the of the population that is unemployed operate in the informal sector as a means of survival. This is a phenomenon that the International Labour Organisation notes is common in most BOP markets where the formal economic market activities have been affected by policy induced risks and natural shocks. This provides a challenge for firms who intend to engage the BOP in terms of how they can tap the potential that exists in this informal sector. The government and private sector have begun playing a critical role in providing structural support to informal small companies since these now constitute a key component of the economy (Kanyenze and Sibanda, 2005). The informal sector now accounts for an estimated 15-20% of total output in Zimbabwe (as measured by Gross Domestic Product).

In Zimbabwe the BOP is divided into four distinct groups namely the diluted urban BOP, urban BOP, rural BOP based in urban areas and the rural BOP based in the rural areas. The diluted urban BOP is made up of consumers who used to be part of the middle class such as teachers and civil servants whose income has since been heavily eroded now making them BOP consumers. The urban BOP is made up of consumers who reside permanently in the urban areas, are largely self employed and typically survive on less than \$1 a day. The rural BOP based in urban areas are rural BOP consumers who work in urban areas to support their families living in rural areas. They undertake either formal or informal employment but regularly visit their families based in the countryside. The fourth group, which are the rural BOP consumers, is made up of consumers permanently based in the rural areas where their main economic activity is in agriculture. The rural-urban divide which is typical of BOP markets is evident in Zimbabwe where the urban population has been experiencing faster growth than that in rural areas. The move to cities has largely been led by the younger demographic.

Although Zimbabwe has been experiencing negative economic growth, it still has a functional and structured economy, which compared to other African countries, has the potential to return to levels when it could again compete with South Africa (Ersado, 2006). The pillars of the economy have been agriculture, mining, and manufacturing. The informal sector of self-employed small enterprises has emerged as a key section of the economy and this has become a conduit for survival for BOP consumers (Kanyenze and Sibanda, 2005). The existence in the country of a functional economy together with the development of a self-sustainable informal sector with a large BOP segment, calls into question any hasty conclusion that destinations such as Zimbabwe are an impossible site for research. In this case, a narrow focus on formal macroeconomic and cross-sectional indicators may lead to potentially erroneous conclusions about the viability and vitality of the economy and the potential for business at the BOP. The use of food and personal hygiene products for this research is appropriate as these products constitute more than 70% of an average BOP family's monthly expenditure in Zimbabwe

## **METHODOLOGY**

The natural and policy induced environmental constraints prevalent in Zimbabwe posed research methodological challenges. These are extensively covered in a separate paper by Chikweche and Fletcher (2008). Information and data gathering challenges such as reliability of data, selection of respondents, gaining access and trust of respondents, credibility and characteristics of researchers, were all critical in conducting the research. Use of local researchers, the fact that the chief researcher was a Zimbabwean national, and reference to independent data sources helped mitigate these challenges. Operational challenges faced included cultural issues, local attitudes towards research, language and translation issues and weak infrastructure overall. These were largely addressed by researchers' familiarity with the research environment and effective planning to minimise the negative impact. The key method of addressing these challenges was by conducting the research using an ethnographic and emic as opposed to an etic approach, given the intra-country dynamics and challenges that operate at the BOP. In so doing, it proved possible to confirm in some instances and disconfirm in others, previous conceptual propositions highlighted by Craig and Douglas (2005). The research helped unearth real life practical issues that researchers are likely to face when conducting research at the BOP such as:

- the need to acknowledge the importance of changing social trends and attitudes such as managers having a more positive attitude towards academic research hence their willingness to participate in academic research
- the need for researchers to fully understand and utilise social networks in the conduct of their research at the BOP
- the demystifying the role of gender - in particular the general notion that it is difficult to access female respondents in all markets at the BOP.
- the importance of researcher nationality and credibility in the context of the BOP where nationality alone is not an advantage due to the complexities of the BOP.
- the influence of the changing age demographic on the collective versus individual perception of reality at the BOP - where traditionally decisions are assumed to be collectively made although the growing younger demographic is not necessarily tied to this perception due to influences of technology, gender and pressure for individual survival.

A mixed research method approach was used. In Zimbabwe this approach to collect empirical data comprised both semi-structured consumer interviews (a technique often referred to as 'qualitative', or 'unstructured', or 'ethnographic'), and case studies (Axinn and Pearce 2006). The research was conducted in two phases namely:-

*Phase 1* – collection of empirical data from BOP consumers using qualitative consumer interviews and ethnographic methods in order to establish the types of networks in which consumers are involved and whether these networks influence their decision making when buying products such as food and drink. The second objective is to establish the nature of interaction that takes place between BOP consumers and the firms that manufacture such products and obtain details of the drivers of this interaction. The researcher actively engaged with the consumers by living with them to experience their day to day lives, study their participation in social networks and observe how they shared information on decision making processes as far as buying food and personal hygiene products were concerned.

*Phase 2*- collection of empirical data from local Zimbabwean companies and the subsidiaries of MNC's in Zimbabwe, using case studies. Here the objective was to establish how they interact and engage the BOP consumers and establish the motivation for this interaction. The researcher also had the opportunity to observe the extent of promotion and market research activities by these companies directed to the BOP segment.

For the consumer interviews, the urban sample was drawn from Harare province, which has the majority of urban BOP consumers and is the location of the commercial capital. Diluted urban BOP, urban BOP and rural BOP based in urban areas were included in this sample. Respondents were drawn from the high-density residential areas of Mbare and Chitungwiza. These are areas where the majority of informal small businesses are located. The rural BOP sample was drawn from the Beatrice-Mhondoro area, which has a balance of original rural peasants and resettled peasants. The high levels of similarity in the profiles of the respondents' means there are fewer sub-groups of interest and this reduced the need for a very large sample. A total of 45 consumers were interviewed in the urban areas covering the first three categories, and 30 consumers in the rural areas covering the fourth.

For the company case studies, six companies in the food and personal hygiene sector were selected for in-depth case analysis. Four case studies were drawn from the locally owned companies and two from the subsidiaries of foreign owned multinationals. These were selected on the basis of theoretical sampling of both the locally owned companies and the multinationals. The number of case studies was largely determined by the issues that need to be investigated, the period of the study, the practicality of doing the study and the cost of the research (Patton, 1990). The total sample represents at least 70% of the current industry players in the FMCG category who collectively accounted for more than 80% of the market. The preliminary data collection phase, which covered all companies in the sector, enabled the researcher to identify for case study purposes, firms which had substantial information on the issues being researched.

The mixed methods research approach adopted allowed for synergistic value in the sense that the research benefits are more than summations of the benefits of the methods used (Remenyi et al, 1999 and Patton, 1990). The approach exposes researchers to opportunities to utilise multiple sources of information from multiple approaches in order to gain new insights so as to understand more about human and business phenomena (Axinn, Fricke and Thornton, 1991;Tesch, 1990). There has been an increase in calls for more use of mixed methods in international business research in order for the research to be more rigorous and thorough (Piekkari and Welch, 2004).

The sample was largely female due to the fact that women traditionally make the decisions on which food and personal hygiene products to buy. However, in both rural and urban areas there often was joint participation by males and females in some networks. There were variations in the urban areas where most of the rural-urban based consumers are male and in instances where single men and in cases where male participants in self-help groups were interviewed.

## RESULTS

### **NETWORKS AND CONSUMER DECISION MAKING AT THE BOP**

In order to establish the nature and role of networks in BOP consumer decision making, the following research issues/questions emanating from the gaps in the literature were explored:

- Identification of networks that were in the BOP community that they belonged to;
- The activities and services offered by these networks;
- The structure of the networks and guidelines for membership;
- Use of networks for information sharing and reference on product availability, choice and new product adoption.

The results will be discussed from the perspective of the networks focussing on the main actors in terms of (1) the content of the relationships - the spectrum of activities or benefits that participants in the network receive, (2) the nature and direction of relationships - the form that the interacting and information flow takes, (3) the strengths of the relations - the intensity of the relationships among the actors and the ties they have, and (4) the impact of relationships on BOP consumer decision making (Haythronthwaite,1996).

#### **General**

Table 2 is a summary of the types and forms of networks and the influence they have on the consumer decision making of consumers with regards to product choice and adoption of new products at the BOP in Zimbabwe. The results form the basis for the subsequent discussion

**Table 2**  
**Influence of networks on product availability and choice and new product adoption at the BOP.**

Network Types & Forms	RURAL N=30		DILUTED URBAN N=15		URBAN N=15		RURAL-URBAN N=15	
	%	Rank	%	Rank	%	Rank	%	Rank
<i>Informal</i>								
Familial	82	VERY SIGNIFICANT	25	INSIGNIFICANT	75	VERY SIGNIFICANT	80	VERY SIGNIFICANT

Friends	71	SIGNIFICANT	76	VERY SIGNIFICANT	67	SIGNIFICANT	67	SIGNIFICANT
Community/Village	67	SIGNIFICANT	43	INSIGNIFICANT	70	SIGNIFICANT	72	SIGNIFICANT
<b>Formal Social</b>								
Burial societies	65	SIGNIFICANT	33	INSIGNIFICANT	65	SIGNIFICANT	60	MODERATE
Community clubs			50	MODERATE	82	VERY SIGNIFICANT	57	MODERATE
NGOs	72	SIGNIFICANT						
Professional Associations			83	VERY SIGNIFICANT				
Religious groups	73	SIGNIFICANT	40	INSIGNIFICANT	67	SIGNIFICANT	33	INSIGNIFICANT
<b>Formal Economic</b>								
Buying Clubs			60	MODERATE	82	VERY SIGNIFICANT	57	MODERATE
Micro-finance	61	MODERATE	50	MODERATE	50	MODERATE	63	MODERATE
Professional associations			73	SIGNIFICANT				
Self-help groups	57	MODERATE	33	INSIGNIFICANT	66	SIGNIFICANT	50	MODERATE
Franchise					33	INSIGNIFICANT	25	INSIGNIFICANT

*NB: Interviewees have multiple membership of networks*

#### Rank Scale

Very Significant	75% and above
Significant	66-74%
Moderate	46-65%
Insignificant	-45%

### Network forms and content of their relationships

Table 2 provides a summary of the types and forms of networks that can be found at the BOP in Zimbabwe. The types of network can be classified as informal or formal. Within the formal networks, there are two forms - social and economic. Under each of these network categories there are a number of different forms of relationship as listed in Table 1. In general, there is multiple membership of networks by BOP consumers since these offer different services.

*Informal networks:* As far as network forms and the content of relationships are concerned in Zimbabwe, the research showed that informal networks at the BOP are made up of networks based on relationships connected by kinship ties. This confirms the findings of Frankenberger and Garrett (1998). The main actors in the informal bounded networks are families, friends and neighbours.

*Formal networks:* The common networks based on social activities are religious groups, burial societies, and non-governmental organisations. In these cases, there is a broad range of actors such as ordinary BOP consumers, priests, civic leaders and employees of agencies like the NGOs. For example, membership of religious groups was generally high with the majority of the sample (86%) indicating that they belong to a religious group. At least 12 buying clubs were present in the urban areas under study with an average membership of 80 members per club. Overall, 51% of the urban interviewees were members of these clubs with fewer members coming from the diluted urban consumers who are still being integrated into such coping systems. Members of this network resell goods through their informal retail channels called 'tuckshops' set up at homesteads or in small industry markets. Some goods are sold at the general market stalls. This has become a key method of accessing products for the BOP consumers. There has also been the emergence of franchise networks in the urban areas although these are still at an early stage of development and consumers are learning how to participate in these networks. Hence their insignificant influence on the consumer decision making of consumers. Key actors in the networks are urban male and female unemployed BOP consumers and the relationships are based on mutual trust and respect between members of the network.



The economic networks in both rural and urban areas are dominated by self-help groups and micro-finance groups. Both sets of formal networks have male and female members although in rural areas women are more dominant in terms of ordinary membership of the networks whilst males largely take leadership roles. Women have their own leadership roles in self-help projects and micro-finance projects which they run exclusively.

The research confirmed the broad nature of activities covered by self-help groups in both the rural and urban areas as identified by Barr (2004). However, the self help groups in the urban areas are different in the sense that they are drawn from semi-skilled retrenched tradespeople and unemployed men and women. These activities now constitute the main source of livelihood for the majority of BOP consumers. They provide cheaper alternatives when obtaining food, personal hygiene products, furniture, building services and clothes for BOP consumers who can not afford such products available in the formal market.

### **Nature and direction of the network relationships**

The second of the factors impacting on consumer decision making in Zimbabwe is the nature and direction of network relationships. The nature of the relationships could be either asymmetrical (where there is a hierarchical flow of information among actors) or it could be undirected (where there is no set flow of information) with actors sharing resources or information in an unstructured manner.

*Informal networks:* The basis of relationships in informal networks in both rural and urban areas is long standing mutual trust and commitment that is created over a long period of time through familial and kinship ties (Rodrigues, 2007). On average, the rural BOP, rural-urban based BOP and urban BOP generally consider themselves members of these networks (80%) and place more importance on the familial links. This is unlike the diluted urban BOP who rely more on the friends in the informal network. The flow of information among members of the informal networks in both rural and urban areas is undirected as information flows freely among members although there might be occasions where the senior members of the networks assume a domineering role as per the cultural dictate and hierarchical norms in these communities.

*Formal networks:* In the formal networks, the nature of relationships is largely determined by the content and activities of the network. For example, the networks of religious groups are based on shared beliefs and norms where denominations have set guidelines on what is expected of members. This applies in both rural and urban areas. Relationships in micro-finance groups and self help project groups are also based on community links and kinship. Trust and mutual respect, created over a long period of time, is the cornerstone of these relationships which are similar to the situation that exists with informal network relationships. However, for professional associations in the urban areas, relationships are based on the profession (e.g. teaching and nursing). The flow of information in the formal networks in both rural and urban areas varies from being asymmetrical to being undirected. For example in NGOs and community clubs, facilitators provide mostly one way information to the members whilst the members share information freely among themselves. With religious groups, on the one hand the interaction between church elders/ priest and the rest of the members is asymmetrical, whereas on the other members interact in a free undirected manner among themselves. This is the same pattern that applies in self help project groups and micro-finance groups where the leaders have an asymmetric information relationship with members whilst members have an undirected relationship amongst themselves where they communicate and share information freely.

### **Impact on BOP consumer decision making**

An important issue explored as far as consumer decision making at the BOP in Zimbabwe is concerned is the impact of networks on decision making by consumers. Both informal and formal networks in rural and urban areas assume an important role in the decision making of BOP consumers due to extreme economic shocks either not allowing them direct access to products or resulting in their not being able to afford the products. Table 1 provides a summary of the influence of networks on each BOP classification. Information sharing on product choice becomes a critical shared resource among BOP consumers. By virtue of sharing products as and when they are available, consumers share information with regards to what is best to buy at what point in time. The influence is not limited to the product choice but extends to shared information on the availability of often scarce products and adoption of new products. For rural BOP consumers, rural-urban based BOP consumers and urban based BOP consumers, family, friends and neighbours are the first port of call for consumers to solicit food, or personal products in times of shortages or high prices. In the study, 75% to 82% of consumers indicated that such information was important in their choice of products and adoption of new products. For the undiluted BOP consumers, the choices and information on products provided by their friends is very significant in influencing their decision to buy products (76%), especially in an environment where they are adjusting their lifestyle by for example switching to cheaper brands of soap.

*Informal networks:* The rural to urban migration has created a rural-urban based BOP consumer who keeps close ties with their rural household, family and friends. In most cases these would be husbands who go to the cities to look for work leaving the rest of the family at their rural homestead. At least 65% of the male respondents who migrate to the urban areas indicated that they visit their families back in the rural areas at least once a month and they buy food and personal hygiene items for their families back in the rural areas. This group of consumers plays a very significant role in the informal network in rural areas with 88% of the sample acknowledging that their urban based informal familial networks influenced their choice of products and adoption of new products. Information from the rural-urban based consumers is passed onto their wives and relatives in the rural areas who in turn share it with other members of their networks. The informed housewives become expert referees on product choice and new product adaptation based on the information received from their husbands.

*Formal networks:* Formal social networks in rural areas such as burial societies and religious groups have a significant role (65% and 73% respectively) in influencing consumers' decisions to buy products and try new products. Consumers in the network also rely on information supplied by members with urban links who get information on product choice and new products from these links which they share with their rural counterparts. NGOs' have a different influence on the decision making of the consumers since they only distribute products that were manufactured by companies that originated from their home countries and this resulted in consumers being exposed to these companies' brands more than any other competitor. Meetings at NGO projects such as HIV programmes and self help projects enabled the consumers to share information on such products, resulting in significant influence (72%) on product choice and new product adoption. Formal economic networks in rural areas such as micro-finance and self-help groups have moderate influence (61% and 57%) on consumers' choice of products and adoption of new products compared to the formal social groups. This is due to the limited time in which interaction takes place since the projects are part time. In the urban areas, the formal social networks have varying influence on the consumers' decision making due to the three different classes of urban BOP consumers. For example burial societies and religious groups have an insignificant influence on the diluted urban BOP consumers because the consumers are not very active in these networks and where they are active, they do not play the same role as they do in rural areas. The diluted urban BOP are more influenced by members of their professional associations (e.g. teachers' associations) as to which product to choose or which new product to try in order to cope with the new environment they face. However, members of community clubs generally influence the consumers' choice of products and adoption of new products for all the three urban groups although this is more significant in the case of the urban BOP group. This is due to the fact that the urban group has more experience of being involved in community clubs unlike the diluted urban BOP group who are only beginning to participate in this network.

Formal economic networks such as buying clubs, micro-finance groups and self-help groups generally act as a key source of information on product choice and adoption of new products by BOP consumers and have a varying influence on decision making of the consumers. For example, they play a very significant role (82%) in influencing the urban based consumers whilst for the other two urban categories, the influence is moderate. The reason is that the urban based consumers started the concept of buying clubs, whilst the rural-urban based consumers participate mostly through their wives who come to the towns during off-season for agricultural production. The diluted urban BOP consumers are still being integrated into such coping systems and they rely more on their close knit professional associations (73%) and they are also not very active in self-help groups which are dominated by former semi-skilled industrial workers.

Multiple memberships of various networks, especially in urban areas, has resulted in a wider pool of information being shared among members for coping with hardships and has a very significant influence on decision making as to choice of products and adoption of new products. This is particularly applicable to rural BOP (83%); urban BOP (72%); and the rural-urban BOP (80%). Only the diluted urban BOP group exhibits moderate influence (48%) due to the slow integration of this group's members into other networks.

*General:* In both rural and urban areas, informal and formal networks were found to be of critical importance in consumers' rate of new product adaptation. New products were a key coping mechanism for the hardships. Reliance on and believability of referees and their information is high due to the high levels of mutual trust and respect among the network members. This makes networks a critical support system for access to and information about products. Examples cited included trying new meat alternatives such as soya mince and different cheaper versions of bathing, washing soap and toothpaste. Because of the limited disposable income available, most consumers indicated that they always wanted to get some form of assurance before buying new products in order to establish that these could meet their needs and last longer. This assurance they claimed they could reliably get from their informal network groups.

In addition, networks become particularly important in terms of giving these BOP consumers access to the informal economic space where trade now takes place between manufacturers and consumers, as opposed to the formal structured distribution channels. The informal distribution channels have become the key centre of trade and exchange in both rural and urban areas. In summary, both the informal and formal networks have a major impact on how consumers at the BOP in Zimbabwe make decisions to buy products such as food and personal hygiene items.

**INTERACTION BETWEEN FIRMS AND BOP CONSUMERS THROUGH NETWORKS**

Networks have a significant impact on the economic relationships between firms and consumers. They can play a key role in the success of the engagement between the two which can be of mutual benefit. It is evident from the foregoing discussion on Zimbabwe that both formal and informal networks in rural and urban areas are a key source of information and act as a distribution channel for products such as food and personal hygiene items in a BOP environment (Jackson and Wolinsky, 1996; Jackson and Watts, 2002). These risks in the BOP environment, result in firms and consumers creating an informal economic space away from the formal sector where goods and services can be exchanged. The difficulties of using the formal distribution infrastructure have resulted in manufacturers of food and drink products resorting to informal distribution channels such as the buying clubs in urban areas. However, it is important to study participation in the informal economic space by both firms and consumers, and by assessing the interaction processes in order to understand what motivates both parties to interact with each other. In order to establish or understand the nature and drivers of the interaction between the consumers and the firms as well as the role played by networks, case studies using semi structured personal interviews, observation and archival data were conducted to establish the following:

- Forms of networks that FMCG companies use to engage the BOP
- Nature of relationships and alliances between the firms and the BOP networks
- Drivers of the interaction between the firms and the BOP consumers:
- Output of this interaction
- Potential constraints to this interaction

**Results**

Case studies of four locally based and owned companies (conglomerate and small to medium size-SMEs) and two multi-nationals were conducted to investigate the above mentioned key research issues. Local conglomerates were defined as medium to large local companies with interests in various business areas and with at least 100 employees. SMEs were defined as local companies with sole interests in food or personal hygiene products with 1 to 99 employees. Data collected from the companies was analysed though explanation building in conjunction with data from the consumer interviews since the two have a dyadic relationship

**Table 3.**

**Summary of findings from case studies**

<i>Firm Type</i>	<i>Networks Used</i>	<i>Access to Products</i>	<i>Promotion Forms</i>	<i>Research Activities</i>	<i>Resources</i>
<b>Multinationals</b>	Community Clubs	Accounts	Road Shows	Test Marketing	Van Sales
		Van Sales	Demonstrations		Key Account
	Buying Clubs	Factory Shop			Counter Sales
		Accounts	Road Shows		Van Sales
		Van Sales	Demonstrations		Key Account

	Franchise	Factory Shop Accounts Van Sales			Counter Sales
Large Conglomerate	Community Clubs	Van Sales Factory Shop	Demonstrations	Test Marketing	Van Sales Counter Sales
	Buying Clubs	Van Sales Factory Shop			Van Sales Counter Sales
	Franchise	Van Sales			Van Sales
Local SME	Community Clubs	Factory Shop			Counter Sales
	Buying Clubs	Factory Shop			Counter Sales

Multi-nationals had a broader engagement with the networks than did the local companies. In the main this is due to their having a general long term orientation towards doing business which went beyond just making short term profits. Hence, they offer more options for accessing products for those at the BOP. They acknowledged the challenges of serving BOP, but realised also the potential the segment holds for them. Local companies by contrast have various constraints such as lack of sufficient resources to expand their alliance with BOP networks. With both local companies and multinationals, there is a general lack of allocation of specific marketing resources to serve the BOP. This limits the companies' use of the networks for marketing insights. Apart from the companies acknowledging the importance of the segment, they admit that they do not know how to best develop other marketing strategies to cater for it since they do not understand the consumer behaviour of this segment. As a consequence, there was limited use of marketing activities such as test marketing, demonstrations and road shows.

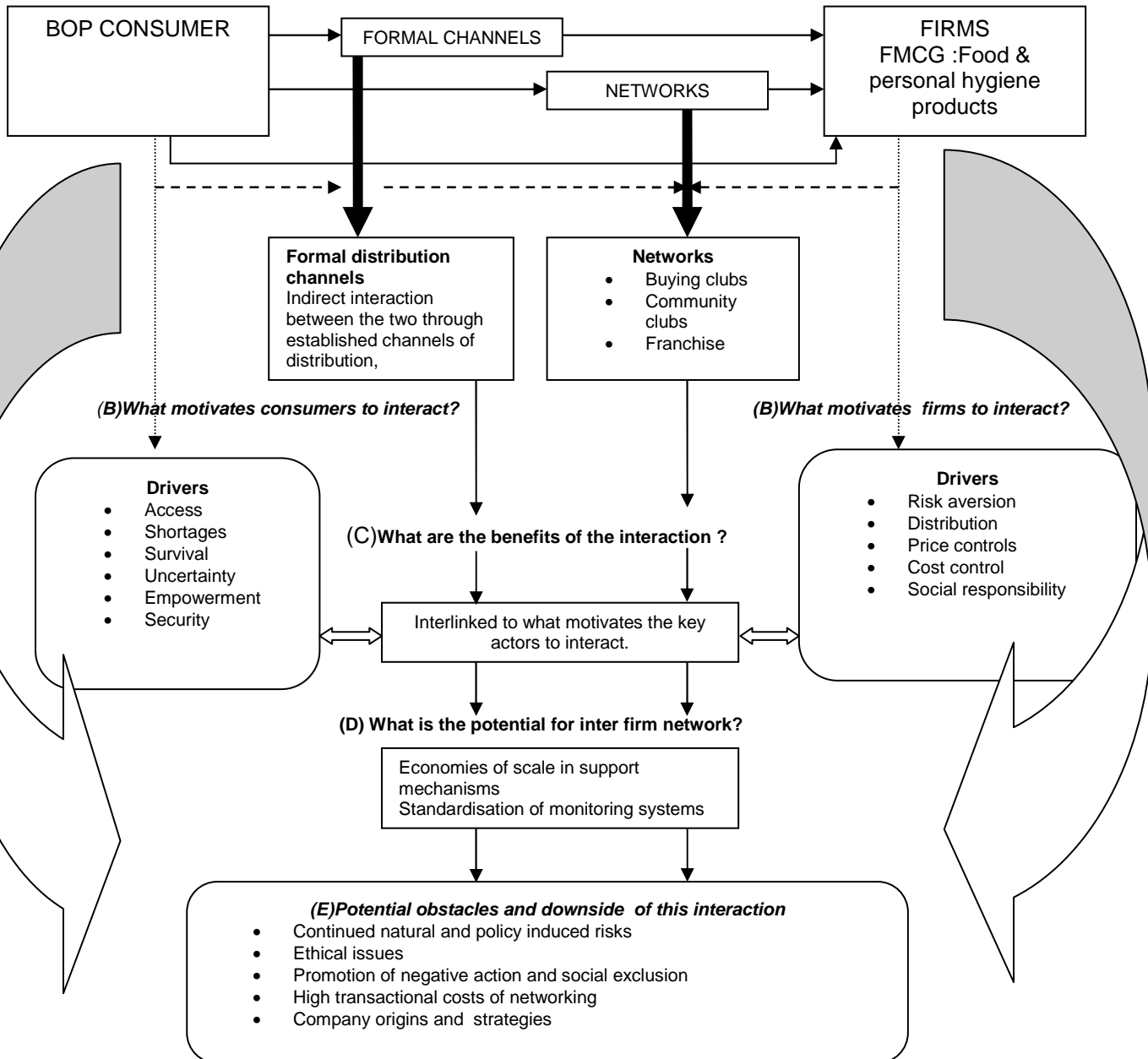
**INTERACTION BETWEEN BOP CONSUMERS AND FMCG FIRMS**

**General**

Based on the findings from the consumer interviews and case studies of companies that manufacture and supply food and personal hygiene products in Zimbabwe, a descriptive framework was prepared to illustrate the nature of interaction between the consumers and firms.

**Figure 1: A descriptive framework of the interaction between BOP consumers and firms**

**(A) In what form does the interaction occur?**



**Key**

- > Link to factors that motivate firms and consumers to interact through social networks.
- ↔ Illustrates benefits of interaction for both which are linked to the drivers for the interaction
- ↓ Illustrates the actual actors that make up the forms of interaction. eg. social networks

**What form does the interaction take?**

BOP consumers and firms that manufacture food and personal hygiene products in Zimbabwe, interact through two key routes. They interact directly via established channels of distribution such as retailers wholesalers. However environmental risks such as price controls and channel conflict with retailers have resulted in the manufacturers using the informal channels of distribution dominated by networks. The formal channels such as retailers are reluctant to stock products in large volume because of price controls whilst networks such as buying clubs are prepared to buy the products in volume since this ensures access to the products. All companies interviewed for the case studies acknowledged use of networks as a vehicle for interacting with BOP consumers. The key networks that are used are buying and community clubs and franchises as explained below. The MNCs and local conglomerates have more flexible options for access and pricing than the other local companies. However, the MNCs' options are better structured and more flexible than the other two groups because they have various scales of credit terms and discounts depending on the size of the

clubs. For example, they offer fifteen to thirty day credit to BOP women's buying and community clubs unlike the conglomerates and SMEs who only offer on-site limited discounts.

.Local conglomerates try to follow the MNCs' model but they are still at the development stage whilst the SMEs' interaction is very ad hoc in nature. One of the multi-nationals interviewed has started a franchise for distributing products to the BOP by agents who belong to BOP communities (Dube, 2008). The franchisees receive a commission on sales and are provided with tri-cycles bearing the manufacturer's brand and these are used to distribute culinary products such as soya mince (which has become the alternative to meat for BOP consumers). The project is still in its development stage in the urban areas but the agents are already breaking even. The same concept is also being used by a locally owned food processing conglomerate which has created a franchise of refrigerated carts for distributing cheap pork products. In both cases the franchise is organised around a community group (Adams, 2008). This interaction is different when it comes to rural BOP consumers whose networks (e.g. community clubs and buying clubs) are not as sophisticated as the urban ones. However, rural networks benefit from the interaction through the products that are brought to them by their urban based relatives. Some of the members of these rural clubs also go to the urban areas at least once a quarter, especially after the harvest season, when they get cash for their produce which they then use buy bulk groceries in the urban areas.

### **What motivates consumers to use their networks to interact with firms?**

The social and economic hardships that the BOP consumers are exposed to have resulted in them developing coping mechanisms which involve networks. As a consequence, at the BOP networks such as buying and community clubs actively interact with the manufacturers of products such as food and personal hygiene products in order to:

- gain access to basic products which are often in short supply in formal distribution channels due to price controls and restricted availability from manufacturers (often due to shortages of foreign exchange preventing imports of raw materials).
- survive the harsh economic environment they are exposed to
- gain some form of certainty and security for their food needs
- have some form of self-employment which in turn enhances their ability to be self-sufficient as far as their day to day needs are concerned.

### **What motivates the firms to use their networks to interact with the consumers?**

The business community in Zimbabwe has been faced with the challenge of responding to the changed operating environment which has been affected by the policy induced risks such as hyper-inflation and rule of law. A key challenge has been understanding and serving the BOP segment which by default has become the biggest market for firms in the food and personal hygiene sector. All six case studies indicated that on average, sales to the BOP, now made up on average 70% of their turnover (compared to 40% before Zimbabwe's economic crisis). All six case studies confirmed that interaction with the networks was motivated by the following drivers:

- Managing the risk of doing business with the BOP since they deal with established buying clubs or franchise holders as opposed to dealing with individual entities. Any risk is borne by the social networks rather than the firm
- 
- Effective cost control of distribution costs in view of stretched resources that these companies have access to..
- Managing and diluting the unfair balance of power that formal retail channels have in their relationship with the firms.
- A risk aversion mechanism of evading government price controls. Since this interaction takes place in the informal sector it is difficult for the authorities to monitor it.

### **What are the potential obstacles to this interaction?**

Whilst both the consumers and the firms have established a form of interaction through the networks, the interaction is inevitably affected by a number of variables. The key variables that are likely to affect this interaction are :

- Continued natural and policy induced risks such as hyper-inflation and droughts which result in less raw materials being available for manufacture of products. Continued government intervention via instruments such as price controls and poor rule of law is also an obstacle.

- The ethical issue of continued participation in the informal sector which might be viewed as fuelling illegal black market activities. The two multinationals indicated their concern re this issue which has caused them to become targets of government criticism and face threats of nationalisation.
- Too much deviation from companies long term strategies and policies can result in companies being reluctant to continually resort to using the informal sector as a key economic engagement space with customers. This was echoed by the four local companies, who unlike the multi-nationals, did not put as much emphasis on the long term orientation approach to dealing with the BOP.

## **MANAGERIAL IMPLICATIONS**

Strategic engagement and interaction with the BOP using their social networks has potential key implications for management which will enable them to do the following:

- Strategically structure their engagement with these networks. This will allow them to have a better understanding of this segment's needs and dynamics. Current engagement is largely by default due to the economic circumstances which have resulted in the BOP making up the majority portion of their customers. Managers in firms need to change their traditional orientation towards serving high income consumers who unfortunately have been diluted in numbers in Zimbabwe. It is evident that the networks provide a viable alternative distribution channel at the BOP where distribution is a key challenge for firms doing business in this market.
- Interaction with the networks will require management to be more pro-active in their approach to serving the BOP as opposed to their more traditional reactive approach as outlined above.
- Allocate resources to specifically serve this segment. This could take the form of dedicated marketing channel managers who co-ordinate activities such as market research and new product development aimed at the BOP segment. Resources to support networks that operate at the BOP should also be allocated.
- The interaction offers unique opportunities for increased use of direct marketing communication tools such as the road shows concept and wet sampling demonstrations which are ideal at the BOP where access to above the line media is limited.

## **DIRECTION FOR FUTURE RESEARCH**

Firms' engagement with networks to serve BOP consumers has often been criticised for creating artificial needs for these consumers and for creating unbalanced relationships since the firms have the balance of power. However, this argument assumes that the consumers do not have a need for basic food and personal hygiene products which is not true. As was evident from this research, consumers indicated that they do want companies to engage with them in developing new affordable products for their segment. However, there is need to expand the scope of research on the impact of networks at the BOP by investigating the following:

- Test for generalizability in Zimbabwe for other product categories
- Test for generalizability in other BOP markets in sub-Saharan Africa
- Establish how the networks formed between firms and BOP consumer groups impact on intra-firm
- Long term impact of this interaction between firms and BOP consumer groups on the firms' growth and market share
- Sustainability of the interaction and business model in face of increasing policy and natural induced risks such as those consumers and firms face at the BOP.

## **CONCLUSION**

The study of networks has been covered in a number of disciplines such as anthropology, economics and sociology where the focus has been on the models of formation of networks. In marketing, networks have been largely confined to the area of industrial marketing where networks have been used to understand the nature of interaction between organisations and how this can improve processes and efficiencies. There has been limited research on the influence of networks on the consumer decision making process of consumers in their interaction with firms that produce products supplied to the BOP. This is a gap which this paper has attempted to fill by arguing that among lower income groups in developing country markets – i.e. those at the base of the pyramid (BOP), networks are a powerful force in the decision making of consumers. This has been illustrated by the findings from research that was conducted in Zimbabwe on BOP consumers and manufacturers of food and personal hygiene products, where it was discovered that there were a variety of

networks at play that impacted on the decision making of consumers in both the rural and urban areas. These networks were based on both social and economic activities of the BOP consumers. The key overall observation was that the networks provide a source of information sharing and reference on availability of products, on which products to choose and on which new products to try, thereby influencing consumers in their decision making processes. The second part of the paper outlined the nature of the interaction between the firms and consumers by identifying networks as a key interaction vehicle, commenting on the forces or motivating factors for this interaction and resulting benefits and lastly on the potential constraints and downsides to this interaction. This has been contextualised in the form of a descriptive framework which covers all the key components outlined above. The framework constitutes a key contribution of this paper to the understanding of the interaction between BOP consumers and the firms through networks.

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