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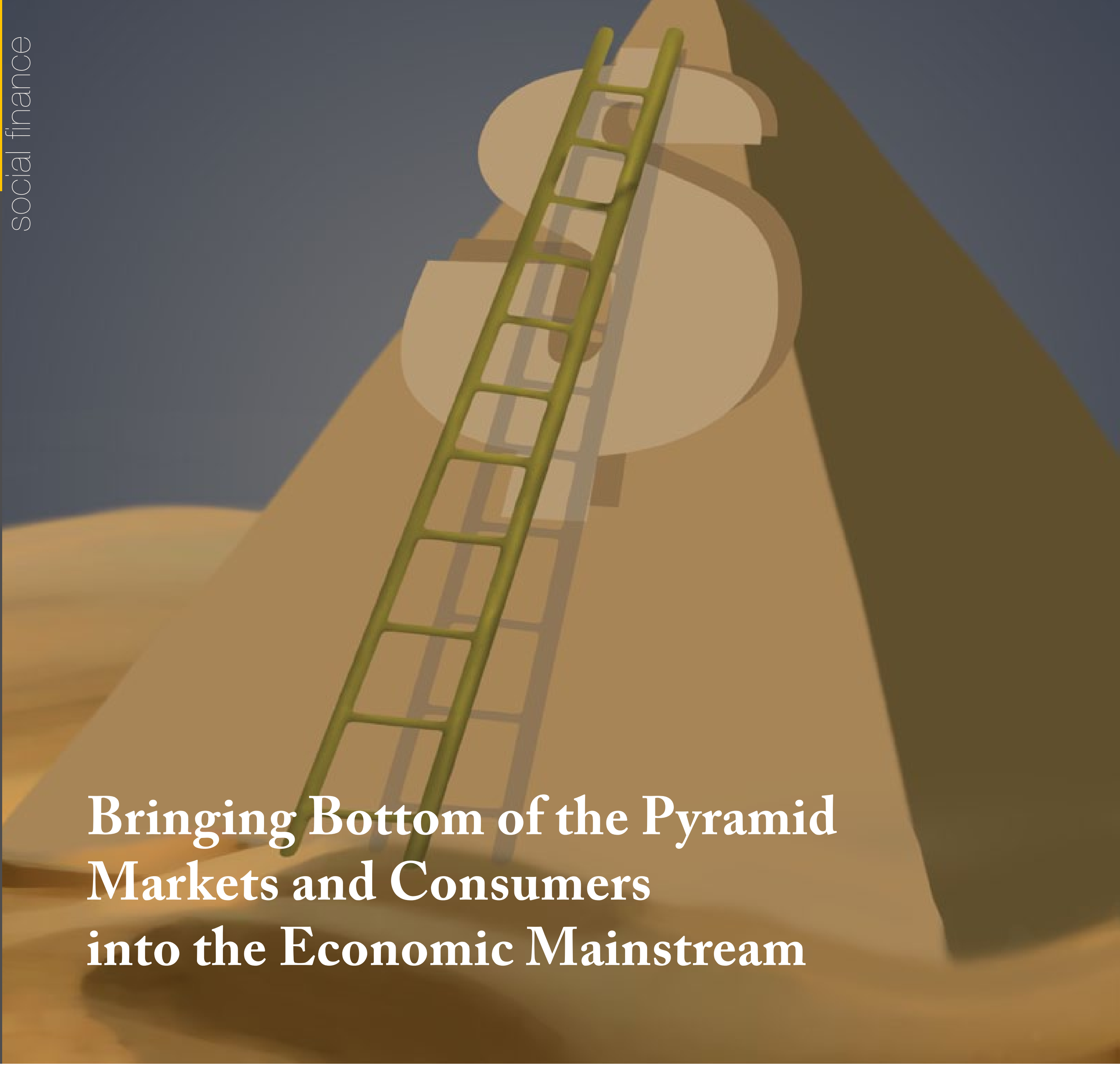

Bringing Bottom of the Pyramid Markets and Consumers into the Economic Mainstream

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Governments and markets have failed to adequately serve the four billion consumers at the bottom of the economic pyramid (BOP). **Al Hammond** explains why this is so and outlines strategies for how different players can harness the growth of the BOP market.

Mobile phone services, fast-moving consumer goods packed in single use sachets and microfinance (to a lesser extent) aside, the four billion people who constitute the base of the economic pyramid are still largely outside the economic mainstream. Both the supply chains and service providers that serve their needs and their incomes are still largely in the informal sector and, as such, these consumers lack both protections and opportunities (consumer choice) that the urban middle classes take for granted, not to mention the improved employment opportunities that mainstreaming would create. This situation is a failure of both governments and markets.

Take India, for example. In rural Indian villages, grid power is intermittent and unreliable. This means refrigeration for food or other perishables is not available, and lighting for evening activities cannot be counted on. In rural communities, access to decent healthcare requires travel to the nearest city, especially since there are no diagnostic labs and mostly only informal pharmacies (where fake and expired medicines abound). Banking can be found in many small towns, but rural ATMs are scarce and mobile banking and money transfer are still a dream. Most major consumer goods—clothes, cookers, prepared foods—are found only in cities. Private schools abound in rural communities (the government schools are notoriously poorly funded), but they almost uniformly lack modern technology and teaching methods. In these communities, even wealthy landowners are poorly served (although they have cars and backup generators for power), and the great mass of people largely do without, despite a growing ability and willingness to pay for urban quality goods and services.

Yet, BOP market presents tremendous opportunities that could be harnessed with the right strategies.

Need for Innovation

Virtually every large consumer-oriented multinational company is looking at these BOP markets; they need corporate growth and have already saturated non-BOP markets. But with the exception of the sectors mentioned above, multinational corporations (MNCs) are not yet significant participants, especially in rural markets where the bulk of Asian BOP consumers are to be found.

To be fair, these are uniquely price sensitive markets and require truly radical innovation—something that MNCs often find very difficult, unless they can create innovation labs removed from quarterly revenue pressures and are explicitly licensed to experiment with or put capital into unproven models. Where, then, can innovation come from?

One rapidly growing source of innovation is the social entrepreneur community. Literally tens of thousands of innovative people are now tackling the social problems mentioned above, and more often than not, they are using market-based models to do so.

In the off-grid energy sector alone, Santa Clara University's Global Social Benefit Incubator[1] systematically screens more than 100 new social enterprises a year, and then picked about ten with obviously scalable potential to mentor in greater depth. Ashoka[2]—the world's largest network of social entrepreneurs—has over 600 carefully selected Fellows working in the health sector. In addition, there is significant entrepreneurial activity in low-income housing and in private education models, as well as in mobile phone apps intended for the BOP market.

This last category is significant given that mobile coverage is approaching 70-80%[3] in many developing countries and that, within a couple of years, virtually all mobile phone will be smart phones. That means the mobile phone will be a platform for accessing advice on crops and for selling harvest, for learning English or accounting while you ride a bus to reach your job, for many types of financial transactions, and for social networks that could empower BOP communities.

But BOP start-ups face significant barriers, including access to appropriate forms of capital. And often, they encounter unintended government barriers.

Barriers to Innovation

Social enterprises, like any new business, need patient capital to reach the stage where they can attract commercial financial backing. The impact investing community, a relatively new phenomenon, aims to provide such capital. However, while there are growing sums of money nominally looking for deals, in practice, the field is still quite disorganised, lacks agreement on norms, and can be quite disruptive of small entities in demanding a level of due diligence and documentation that's comparable to venture capital firms.

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Where, then, will early stage social ventures find funding that can help them prove their models and grow them to a self-sustaining stage? Perhaps the impact investment community needs to create shared-risk pools for early stage investing that explicitly set aside the venture capitalist mentality and operate more like angel investors—i.e., investing on the strength of the entrepreneurial team, not on the basis of a proven business model. Low-interest convertible debt has proven to be a useful investment mode in a number of circumstances.

Of course, capital is not the only constraint. Once a new venture moves beyond a concept pilot and starts to become a business, it needs mid-level staff—supply chain managers, accountants/analysts, marketing staff, human relations staff. This long list of people with specific skills and real experience somehow have to be persuaded to work in BOP conditions—rural villages, urban slums—for less than they could make at a big corporation.

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I think as many new ventures fail from lack of this mid-level talent as from lack of capital. And here it's not so clear what help outsiders can be. Volunteers are usually in abundance (though they may not speak the language of your customers), but beginners are not what is needed; seasoned talent is key.

Some social enterprises have found a way to boost their scarce senior talent by hiring young MBAs who are interested in the social sector, and rotating them through a demanding series of analytical and coordination assignments, with lots of feedback and the promise that if they succeed, they will become managers within a year. In this way, business schools could help to identify the students in their classes with the appropriate motivation and expose them to such opportunities.

Beyond capital and talent scarcity, however, government, international aid, and philanthropic activities often unwittingly create barriers to innovation.

A classic example concerns an innovative social enterprise in Africa that developed and manufactured a bed net with a superior protective lifetime, while growing its market to the scale that it became a major employer in its home country. As the international community discovered this potential, its first instinct was to buy large numbers of bed nets and give them away free—thus undercutting and nearly destroying the market that the company had painstakingly pioneered.[4]

Another example concerns telemedicine—use of communication technologies to provide medical help over a distance—virtually the only way to bring competent medical expertise to many rural areas, given the chronic shortage of doctors and their reluctance to raise their families in rural conditions. But telemedicine is not legal anywhere, but neither is it precisely illegal in most developing countries—it exists and is growing rapidly in a kind of grey area. Social entrepreneurs are willing to risk investing in this field, but large international companies are usually not. Some rationalisation of the regulatory environment—for example, declaring that experimentation is permitted—would help.

Yet another example has recently arisen in India. In an effort to stem a tide of sex selection by ultrasound (illegal, but widely practiced), the government has banned ultrasound examinations except in government-approved facilities. Getting such approval for small social enterprises, however, is effectively impossible; government officials won't risk career-ending mistakes on unproven partners, and are actively sceptical of the motives of for-profit enterprises. Thus a pioneering effort, through health social enterprises, to transform maternal care in India will have to go without the benefit of ultrasound exams (the standard of care virtually everywhere) to identify at risk pregnancies.

Harnessing Growth of the BOP Market

It is tempting to suggest that international agencies and large foundations adopt a kind of Hippocratic Oath—"Do No Harm"—in assessing the potential market-destroying impact of their interventions. Even better would be explicit efforts to reach out to and engage social entrepreneurs in ways that could harness their innovation for development programmes, as a few aid programmes are attempting to do.

Governments that are willing to encourage experimentation and public-private partnerships with social enterprises might find that they have a comparative advantage in innovation and in keeping promising entrepreneurs at home rather than seeing them leave for the Silicon Valleys of the west.

Perhaps the most underexploited opportunity is the potential synergy between MNCs or large national companies and market-oriented social entrepreneurs. The latter are as motivated by the desire for social change and the success of their ideas as they are by money. Indeed, many might consider letting a large company learn how social entrepreneurs do what they do, in return for funding and technical assistance, as long as trust or legal arrangements were in place to prevent the large company from simply stealing the concept and running with it themselves. This kind of corporate theft happens more than you might think, but, often as not, the large companies have not really understood the approach well and fail.

Helping a social enterprise succeed on its own terms, however, teaches a much deeper set of lessons about operational challenges, engagement of rural communities, pricing, and flexibility. And then the MNC can do what such companies are good at—extend the model to multiple countries and expand its scope with related products and services.

Making it explicit and believable from the beginning that the entrepreneurs will benefit from both the partnership and the subsequent corporate scaling of the idea, as well as from the psychic reward of seeing the novel solution succeed, is critical. All too often, even far-sighted managers within a large company who would like to operate in this manner are constrained by legal counsel or investment committees or contracting procedures that are simply not workable for social enterprises.

These patterns suggest a role for academic research institutions. While there are business case studies of social enterprises, there are few on social enterprise/MNC interactions. There is ample scope for sector-specific analyses of both regulatory barriers and market disruptions caused by government policies, or even of how often "free" services can actually be delivered and the extent to which they tend to set market expectations.

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Attempts by international or bilateral agencies to work with, or support, social entrepreneurs are an equally rich emerging field of investigation. Engineering schools can find significant technology and learn engineering challenges to hone their students' skills. Arguably, solving technology challenges with a BOP context (such as the $1000 rural ATM; the $2000 "telepharmacy" machine that dispenses under the remote control of a pharmacist; and the $25 telemetry package to monitor remote operations) will be critical to large companies seeking to serve BOP markets—one of the few untapped growth markets of the future.

In summary, there are lots of reasons why BOP markets have been slow to develop, but there are also very dynamic developments in play. Large corporations, nascent pools of capital, governments, and academic institutions all could play a significant role in furthering that growth.

[1] Santa Clara University's Global Social Benefit Incubator, http://cms.scu.edu/socialbenefit/entrepreneurship/gsbi/.

[2] Ashoka, https://www.ashoka.org/fellows.

[3] Fully 70% of the population in developing nations is covered by the cellular network. See Ron Kopicki and Calvin Miller, "Mobile Banking," *Food and Agriculture Organization of the United Nations*, January 2008.

[4] The company did survive, but only after strenuous efforts to make itself the instrument—rather than the victim—of international philanthropy.