

# The Questions at the Bottom of the Pyramid

## Real Challenges of Global Intrapreneurs

Andrew squints at the silhouettes of the shacks ahead. The harsh heat of the day has subsided, leaving behind an escort of mosquitoes. A small smile spreads across his lips. He caught sight of what he had been looking for. Community meetings, convened in a circle on the clay floor of Anu's home in this slum in the center of Mumbai, were something he looked forward to. This encounter would be, to say the least, a little different from his last meeting.

Just 24 hours earlier, Andrew had been at JFK airport in New York. His head was still spinning from that afternoon's adrenaline and Diet Coke-fueled meeting with his company's management team. It had begun as expected, with the usual mix of PowerPoints, P&Ls and projections, ROIs and risk assessments. As the conversation progressed, the sentiments of his colleagues morphed from idealism and optimism to skepticism and criticism. The tone then swung to confusion and condescension.

“What on earth are we doing trying to build a business in a slum?” they demanded.

**In-tra-pre-neur** [in-truh-pruh-nur]

*noun*: a person in the pursuit of new solutions for the BoP on behalf of a company; modern day Indiana Jones: part academic, part businessman, part action hero; just as, if not more, comfortable sitting in mud hut, as talking business in a three piece suit

**The Quest for the Fortune**

Creating a sustainable and truly global economy is a noble aspiration. Many corporations, entrepreneurs, governments, academics and non-profits are pursuing this goal. Progress looks like a dark desert at night with a thousand fires burning. Some fires are burning brighter than others, but they have not yet fused together to form a torch that can change the world. Although all the stakeholders are doing their part, in this article, I will focus on those fires being lit by large corporations.

In 2002, *The Fortune at the Bottom of the Pyramid* ushered in a new level of consciousness in international business strategy. Although the idea of simultaneously making a profit and making a difference was already well established, the anecdotal case by C.K. Prahalad and Stuart Hart that the four billion people each living on less than US\$4 a day (the bottom of the economic pyramid or simply “BoP”) held the potential for immense profit captured popular imagination. Multi-national companies (MNCs) around the world launched initiatives to adapt and market their products and services to the world’s poor. Seven years after the publication of the original article, while the luster of *The Fortune at the Bottom of the Pyramid* remains bright for many, those charged with accessing this opportunity for their company and the poor communities in which they work, are still in search of an effective map to the treasure; many obstacles threaten to derail their progress. We interviewed these “global intrapreneurs”—those that walk the middle ground between creating social good and doing it on behalf of a mainstream business—and spoke to leading scholars and thought leaders to get a snapshot of the quest for *The Fortune*.

What does this fortune look like? The recent *Next Four Billion* report ([www.wri.org/thenext4billion](http://www.wri.org/thenext4billion)) estimates the purchasing power of the BoP at US\$5 trillion a year. But the real value goes beyond mere profit for large corporations. For example, Procter & Gamble’s Pur water purification product has saved thousands of lives over the last nine years. Several companies are testing the Cornell University-led “BoP Protocol,” a market-creation approach which emphasizes the importance of MNCs “becoming indigenous,” seeding an environment conducive for community wealth creation through entrepreneurship rather than just selling their products. Others, such as Nestle, provide microfinance for individuals to

buy a cart and offer a selection of products fortified to address local dietary shortcomings, for door-to-door sales and distribution. In doing so, they have essentially created thousands of poverty-alleviating micro-franchises in rural communities in Brazil and Cote d’Ivoire. The real fortune being sought is the simultaneous accomplishment of a trifecta of goals -corporate profit, relevant and sustainable social impact and local poverty alleviation.

**The Questions at the Bottom of the Pyramid**

To find out more about the roadblocks facing global intrapreneurs, we tracked some down in airports, in implementation sites, and in their offices. We wanted to find out what is working, and what isn’t. What are the challenges involved in reaching BoP customers? How are these challenges being addressed?

*I. Securing Internal Support: How can companies gather data affordably in order to make a compelling business case and develop accurate projections?*

If a company wished to launch a cleaning product in San Francisco, much of the necessary data would be readily available to analyze the business case. If the available data were inadequate, marketing research firms would be falling over themselves to secure a contract to fill the gap with focus groups and presentations. However, to gather equally relevant data from the different realities of the residents of Dharavi, the largest slum in Asia, is a different proposition, requiring different methods.

Executives have expectations about what information they will be given to make business decisions. According to Justin deKoszmovszky, Strategic Sustainability Manager of S.C. Johnson, publicly available data is often too high level to be useful. For a social intrapreneur, though, budgets often do not allow the pursuit of additional information. This lack of data limits the ability to make the case for further funding; it is a vicious cycle.

Even where adequate external data has been secured, for some BoP social intrapreneurs it is unclear where the goal is. CJ Fonzi, who led the field team on an innovative DuPont BoP initiative in 2008, notes the challenge in measuring profitability for BoP projects in their early stages. “Do you calculate the financial bottom-line with US-based management support or without?” pondered Fonzi. “For many initiatives, profitability with all costs considered will not be achieved until large scale distribution has been coordinated and/or the product team has been localized.” Until that stage, the difference in corporate cost structure of England versus Ivory Coast is just too big a hurdle to overcome.

*II. Testing on a Budget: How can we run pilot programs at an affordable cost with low-margin business models?*

Clearly, four billion people spread over more than a hundred countries do not have identical needs or buying habits. Taking time to understand the local environment and co-create or customize products, services, business models and business processes is essential. Yet, how does a company do this on a tight budget? As Nestle seeks to grow its excellent door-to-door distribution network beyond 9,000 women in two countries, and S. C. Johnson takes its community cleaning programs beyond Kenya and into new markets, how can budgets be kept as lean as possible?

To some extent, some of us in the emerging BoP Industry may be guilty of a similar kind of impatience that we see in corporate culture itself. Erik Simanis reminded us that it took Muhammad Yunus seven years of trial, error and refinement on a small scale before it was deemed ready to accelerate the growth of the much-celebrated Grameen microcredit model. Once proof of concept is achieved, it is much easier to secure the necessary resources for expansion. In addition, there are opportunities for implementation partnerships to be formed to localize cost structures while benefiting from a greater understanding of local realities.

### *III. Patience: How can we balance corporate pressures for profitability with commitments for impact in the community?*

The budget squeezes inspired by the international financial crisis have driven the questions at the bottom of the pyramid toward the top of the CFO's agenda. Yet, success in engaging these new markets requires patience. The pioneering nature of the work means that estimating timelines can be very challenging. This ambiguity – and the lack of understanding within the mainstream business community – makes BoP business lines easy targets for corporate strategy divisions looking to cut costs.

The market of the poorest people in the world remains relatively untapped. Even in India's microcredit success story, access extends to just 10% of the 700 million eligible borrowers. Within this number, the poorest 5% are considered "Ultra Poor," falling outside the scope even of microfinance. Achieving scale in a meaningful way in markets of this size and complexity will necessitate the patience for innovation to blossom in products, services, business models and business processes – patience that is hard to find in the current tight budgetary environment.

The lack of patience may stem from an inappropriate paradigm, suggested Cornell University Professor Stuart Hart, whose research and work with Prahalad inspired *The Fortune of the Bottom of Pyramid*. "Companies pour millions of dollars into technological R&D every year and offer the supportive environment needed to make breakthroughs," Hart says. "But this understanding of the patience required seldom extends to innovating new business models and processes."

In fact, the mismatch between the patience required to pull off this kind of transformational market building and the fast, results-driven culture of large corporations was possibly the largest overarching theme running through our interviews.

There is another side to the story, however. It is true that some initiatives are losing the corporate battle and being canceled before reaching fruition. Yet, the biggest microfinance institutions report that they continue to be approached with partnership offers by several large companies each week, clearly lured by the seemingly ready-made demand-aggregation network of millions of potential customers. Therefore, while it would seem that individual programs are threatened, in principle at least, the quest for the Holy Grail at the bottom of the pyramid remains appealing.

### *IV. The challenge of growth: How can we scale while adapting the product composition and its delivery mechanisms to the needs of each local community?*

Ted London, Director of the BoP Initiative at The University of Michigan's William Davidson Institute and faculty member at the university's Ross School of Business, named 'achieving scale' as a top challenge facing the BoP field today. Tatiana Thieme, a BoP Business Anthropology consultant and Cambridge University PhD student studying this area, highlighted an important open question: "Just because products and services have been developed for a particular market and successfully piloted does not mean that it will translate equally well to another market where the infrastructure, community structures and local dynamics are different."

Examples of projects that have achieved profitability through scale are sadly few and far between. Professor Paul Hudnut of Colorado State University and Bainbridge Graduate Institute articulates the "4 Cs of BoP Scaled Products: Cigarettes, Coca Cola, Condoms and Cell phones." So, can scale consistently be achieved with products that create relevant social impact? A good place to start is in integrating appropriate impact assessment methods from Day One. As Ted London, whose new Impact Assessment framework will be published in the May 2009 edition of the *Harvard Business Review*, correctly noted, scaling without having a good estimation of the effect of your actions is both, irresponsible and counter-productive.

Hart suggests that, to some extent, swifter scaling is a question of timing. For situations where the market has been seeded and there is general acceptance of the product, more rapid growth through access points such as microfinance institutions or internet kiosks may be possible. In these situations, a new question arises: who can be an appropriate partner?

For Procter & Gamble, a social marketing model in partnership with local NGOs such as health clinics or schools has

proven most effective until now. In addition, there are dozens of candidates among the ranks of microfinance institutions in many larger countries. But all of them are not equally equipped in terms of market reach, organizational culture, process and capacity to help reach potential clients quickly and effectively.

There are, however, no short cuts to the bottom of the pyramid. The identification and structuring of the right partnership or technological platform at the right time has the potential to accelerate the rate of return of simultaneous profit, local wealth generation and social impact. Until then, it will be more of the same - visiting communities, village-to-village, to assess their needs and buying patterns. Indeed, several companies and thought leaders we spoke with emphasized the importance of adapting product composition, size and cost structures to the needs of the local markets and the value that it brings to these communities. Our pioneers will be learning, innovating and customizing while continuing to make the business case to their corporate bosses.

## Looking Forward

In the final analysis, significant challenges clearly remain in a field that is still only starting to gain definition and order. Thousands of little fires are lit and continue to burn even in these times of economic difficulty. But building business models and processes to achieve simultaneous profit, social impact and poverty alleviation on a large scale will require skill, innovation and patience from pioneering global intrapreneurs and companies. For example, Procter & Gamble's PUR clean water initiative was struggling to find its way after four years as a for-profit venture, its track record characterized by relatively low penetration and large losses. A change of business structure to be non-profit opened gateways to additional funding streams and its reach grew dramatically. Five years later, Dr. Greg Allgood, Director of the Clean Water initiative at P&G, informed us that their progress has been such that if the company made a slight adjustment to the price point now, it could be a profitable business line. Procter & Gamble, however, is very clear that the total benefits of the program—employee motivation, stakeholder relationships and as a means to learn about BoP distribution strategies—far outweigh any profit that would be generated. Clearly, incubation takes time and dilemmas remain in identifying the most appropriate business models for each particular product, service and market.

Possibly the greatest hope for the future, therefore, may not lie with isolated initiatives. The best equipped may be corporations that embody a higher form of corporate responsibility. Unsurprisingly, those who have seemingly made the most progress in answering the questions at the bottom of the pyramid are those who have been trying for the longest time. They are also the companies that have most integrated business at the BoP into the heart of their companies and the mainstream

## Successful Partnerships at the BoP

### British Petroleum India Energy Ltd. Partners with Swayam Shikshan Prayog (SSP)

British Petroleum (BP) realized that solving the energy problem of rural India can be a profitable business proposition. It partnered with Bangalore-based Indian Institute of Science to develop a low-cost, smokeless cooking stove that runs on pellets made from agricultural waste. The stove, called Oorja, meaning 'energy' costs INR 675 and provides a low-cost, clean, fuel-efficient and safe solution to the energy needs of rural Indian kitchens. Oorja is sold through selected SSP clients (Jyotis) who first purchase the stove and pellets in bulk and retail it from their homes to the community. The BP pilot at SSP began in August 2006 and 15,000 stoves were sold by the end of the year, with a turnover of INR8m (US\$160,000).

### Danone Poland

Three years ago Danone Poland - established in 1992, part of Groupe Danone, a leader in the global food industry - developed a breakfast product that has high nutritional value for children and is affordable for low-income consumers. A milk porridge product based on semolina and milk, Milk Start is enriched with vitamins and minerals. The project team established partnerships with a state child health and nutrition organization, Poland's largest manufacturer of instant products and the country's largest food retailer. The partners committed to offering the lowest price possible with the highest nutritional quality. The collaboration brought many innovations, including economical packaging for single-serve sachets to drive down production costs and increase accessibility. Milk Start was launched in September 2006 and reached sales of more than 1.5 million sachets by the end of 2006, including about 33,000 households with children under the age of 15.

of their corporate strategies and philosophies, not as a side program or one-off initiative. Erik Simanis notes the varying importance of business-level, country-level and corporate level internal support on different kinds of BoP projects and their stages of implementation. Further, these projects need to be sustained and nurtured throughout their lifecycle. It is this degree of commitment that creates the environment and culture necessary to incubate patiently.

To a great extent, financially sustainable and integrated BoP business lines are the pinnacle of truly sustainable and strategic Corporate Social Responsibility. Answering the questions at the bottom of the pyramid may be the key to ushering in a new era of capitalism which generates profit, offers wealth-creation opportunities for the poor, spreads products to reduce sickness and spreads education around the world - welcoming billions of people to participate in a more inclusive, sustainable global economy. The thousands of little fires lit by corporations, entrepreneurs, academics, governments and non-profits may yet become an blaze that will change the world.

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